

**IMPACT OF DIVIDEND ON EQUITY  
SHARE PRICING IN NEPAL**

**By**

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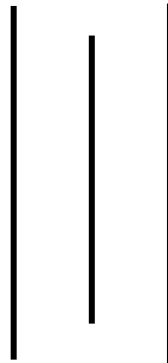
**2<sup>nd</sup> Year Exam Symbol No.: 4587**

**A Thesis Submitted to:**

**Office of the Dean**

**Faculty of Management**

**Tribhuvan University**



*In partial fulfillment of the requirement for the degree of  
Master of Business Studies (MBS)*

**Kathmandu, Nepal**

**July 2011**

# **RECOMMENDATION**

This is to certify that the thesis

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SHARE PRICING IN NEPAL**

*has been prepared as approved by this Department in the prescribed format of the  
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# VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

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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 requirement for the degree of*

**Master of Business Studies (MBS)**

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled “**Impact of Dividend on Equity Share Pricing in Nepal**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Asso. Prof. Ruchila Pandey** and **Pitri Raj Adhikari** of Shanker Dev Campus, T.U.

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## **ACKNOWLEDGEMENT**

I express my sincere gratitude to all the authors and learned personalities, whose writings have been cited in this study. I also express my sincere gratitude to those authors whose writings though are not cited but helped and inspired me in making my vision clear and reaching on conclusion.

I extend my deep sense of indebtedness to my respected supervisors Asso. Prof. Ruchila Pandey and Pitri Raj Adhikari for their precious guidelines, inspiration and suggestion thoroughly during the period of this research. Without their valuable insight, I would not think of accomplishment of this thesis.

I want to give thanks for the staff members of T.U. Central Library, Shanker Dev Campus Library who provided the reference and reading materials during the period of research.

Finally, I would like to express my sincere gratitude to all my family members, all my friends for their assistance, timely encouragement in every step.

Thank you.

**Kailash Khadka**

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## ABBREVIATIONS

|      |   |                             |
|------|---|-----------------------------|
| %    | : | Percentage                  |
| &    | : | And                         |
| A.D  | : | Anno Domini                 |
| A/C  | : | Account                     |
| B.S  | : | Bikram Sambat               |
| BVPS | : | Book Value Per Share        |
| C.V  | : | Correlation of Variation    |
| EBL  | : | Everest Bank Limited        |
| FY   | : | Fiscal Year                 |
| GON  | : | Government of Nepal         |
| HBL  | : | Himalayan Bank Limited      |
| i.e. | : | That is                     |
| Ltd. | : | Limited                     |
| MBS  | : | Master of Business Studies  |
| NGO  | : | Non Government Organization |
| NO.  | : | Number                      |
| NPAT | : | Net Profit After Tax        |
| NRB  | : | Nepal Rastra Bank           |
| P/ER | : | Price-Earning Ratio         |
| Pvt. | : | Private                     |
| T.U  | : | Tribhuvan University        |
| TPS  | : | Tax Per Share               |
| USA  | : | United States of America    |
| Vol. | : | Volume                      |

# **CHAPTER - I**

## **INTRODUCTION**

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

Investors in developing countries like Nepal mostly look at the profitability of the firm while purchasing equity shares from the secondary market. Since dividend paid to the shareholders is one of the best indicators of profitability, it is generally believed that dividend plays a crucial role in determining market price of the corporate share. Dividend is defined as that portion of the net earnings of the firm, which is distributed to the stockholders either in the form of cash or stock as per its dividend policy. A firm generally pays stock dividend if it plans to increase the capital so as to expand the business. The objective of dividend policy should be to maximize the shareholders return so that value of their investment is maximized. Dividend decision is one of the major decisions taken by the firm. The amount of dividend declared by a firm shows the actual position of the earnings of the firm. The firm issues equity shares to raise ownership capital and the investors buy them, with the expectation to receive a share of profit. The value of the firm is said to be high when the market price of the company's common stock is higher.

The wealth maximization principle also implies that fundamental objective of the firm should be to maximize the market price of the company's share. Firms that perform better than others have higher stock prices and can raise additional funds (both debt and equity) in more favorable terms. Therefore, it is important to identify the factors that determine the market price of equity shares of any organization. Financial institutions including the commercial banks, in Nepal are the institutions that mobilize resources in the society. Their survival and growth is very important for the growth of the nation. Thus, the study of the historical growth of capital market and the equity price behavior of commercial banks in Nepal is much relevant in the present context. The history of capital market in Nepal is not very long. Biratnagar Jute Mills Ltd. was the first company to issue share to general public in 1937. Institutional development of securities market in Nepal started when Securities Exchange Centre (SEC) was

established under the Companies Act in 1976. It was established with the joint capital contribution of Nepal Rastra Bank and Nepal Industrial Development Corporation. The objective of the establishment of Securities exchange Centre was to facilitate and promote the growth of capital market in Nepal. It was converted into Nepal Stock Exchange (NEPSE) in 1993, with the establishment of Securities Board. It is a non-profit making organization operating under Securities Exchange Act 1983. During 90's along with the economic liberalization in Nepal many joint venture banks established in private sector, which subscribed shares widely to the general public. Commercial banking appeared as the most profitable business and therefore in the beginning the price of shares of commercial banks continuously went up. However, the stock market had been much volatile in Nepal during the last decade because of internal conflict, political instability, insider trading and various other reasons.

The clue to stock dividend distributions may lie in their perceived substitution for relatively low cash dividends (Lakonishok and Lev, 1987: 913). The controversy centers on whether or not the positive association between common stock return and dividend yields reported in a number of empirical studies can be attributed entirely to information effects (Litzenberger and Ramaswamy, 1982: 429). It is said that when the firms need to retain a high percentage of earning, they issue stock dividends so that the shareholders of the firms are content. Managers strongly agree that stock dividends have a positive psychological impact on investors receiving them (Baker and Phillips, 1992: 19). Stock split is another aspect of dividend policy practitioners have long contended that the purpose of stock split is to move a firm's share price into an "optimal trading range" (McNichols and Dravid, 1990: 857). Specially, investors of small means are presumably penalized by high stock prices that deny them the economics of buying stock in round lots. An alternative form of dividend is share repurchase. If a firm has some surplus cash (or if it can borrow), it may choose to buy back some of its own shares. In the developed capital market corporations are allowed to buy back share better utilization of unused cash.

The issue of how much a company should pay its stockholders as dividends is one that has concerned managers for a long time. It has been often been pointed out that a company that raises its dividend often experiences an increase in its stock price and that a company that lowers its dividend has a falling stock price. This seems to suggest that dividends to matter, in that they affect stock price. But this causal relationship has been refuted by several researchers on the grounds that dividends per share do not affect stock prices; rather, it is the informational content of dividends that affect stock prices (Rao, 1992: 448). They provide a rationale for value maximizing firms paying positive dividends when the risk premiums per unit of dividend yield is positive in equilibrium. Ross proved that an increase in dividends paid out can represent an inimitable and unambiguous signal to the market place that a firm's prospects have improved (Weston and Copeland, 1989: 661). If this is an accurate picture of the way in which firms operate, then I follow that changes in dividend payments supply the market with information regarding management's assessment of the level of the firm's long run cash flows.

By issuing dividends, management is forced to go to the capital market for additional financing. Higher dividends can directly benefit shareholders because they reduce the free resources which managers can use sub optimally. Some economists believe that management decides to pay dividends in order to reduce agency costs (Easterbrook, 1984: 650-659). Each time it attempts to raise fresh capital, its operations are intensely scrutinized by investment bankers, accountants, and other market professionals because these parties have a comparative advantages over the bondholders in monitoring the firm's activities, dividend payments accompanied by subsequent new financing may lower monitoring costs and thereby increase firm value (Rao, 1992: 466).

There are reasons for the efficacy of dividends as signals. Dividend announcements are backed by hard, cold cash. The firm must generate this cash internally or convince the capital markets to supply it. Alternative communications may lack the credibility that comes from "saying it with cash." Investors may feel that financial statements

have been skillfully massaged by the financial staff. In addition, dividend decisions tend to be future oriented as opposed to accounting statements which document past performance (Asquith and David 1986, 35). Besides credibility, dividends also have the advantages of simplicity and visibility. Many others announcements are, at the same time, complex and detailed in focus.

The empirical evidence confirms that alternatives are not perfect substitutes for dividends. Dividends serve as a simple, comprehensive signal of management's interpretation of the firm's recent performance and its future prospects. The relationship between dividend and share price is not yet clear and it is still a controversial issue in the literature of finance. Theoretically speaking, continuous cross section techniques are the most appealing. The separate effects on price of all omitted variables should be aggregated to take into account the firm effect. The firm effects cannot be measured directly, as they are both additive and constant over time. Such firm effects include those related to investor assessment of both profit prospects and risk, some of which could alternatively be measured directly.

The improved corporate dividend practice is thus an essential means to solve the problems of asymmetric information between management of newly established Nepalese companies and Nepalese investors who have poured their funds there in. Viewed in this perspective, the study devoted to effects of dividend of common stock price in Nepal may help to develop capital market in one way or another.

## **1.2 Statement of the Problem**

The stock market reveals the situation of country's economy. When stock market is in the boom, the financial market of the country is good and in the case of decline of stock market, financial market of the country goes bad. In Nepalese economy, share price is highly determined by the market conditions. Without any significant economic ups and downs in the economy equity market sometimes becomes much volatile. With the result investors in bank equity suffer higher economic loss. Therefore, it is much important to identify the causes responsible for the fluctuations of equity share prices

in Nepal and suggest measures, which makes the share market stable. In this light, the relationship between dividend paid and the market price of equity shares needs to be analyzed with more focus. There are several studies that present the brief examination of the relationship between the dividend paid and the market price of the equity shares. The earlier studies lack a comprehensive study of the behavior of market price as a result of changes in dividends. There is a need to conduct a survey of financial exclusives in order to find out more qualitative facts on dividends which cannot be determined through the use of secondary data. To sum up, this study deals with the following issue.

- It is possible to increase the value of stock by changing dividend policy or payout?
- Do the companies paying larger dividends have a good financial position?
- What is the relationship between dividends and stock price?
- Does dividend payout affect the share prices of finance and non-finance sectors differently?
- Is there any effect of company's announcement of earnings on market price of a share?
- Are the companies with higher dividend yield has an improved financial ratios?
- Is there any consistency in EPS, DPS, MPS and DPR?
- What kind of dividend policy should be followed by Nepalese enterprises?

### **1.3 Objectives of the Study**

The main objective of the study is to examine the effect of dividend on pricing system of the equity shares. Following are the major objectives of the study:

- To explore the impact of dividend per share (DPS) in equity share price behavior
- To examine the relationship of Market price per share with other financial indicators such as Earnings Per Share and Dividend Payout Ratio.
- To conduct an empirical analysis in order to explore the impact of dividend on equity share pricing in Nepal.

#### **1.4 Significance of the Study**

This study helps to know the impact of dividend on the market price of equity share of some financial institutions. This study will be useful to the concerned people like shareholders, management and policy makers. This study will be useful to all of the sampled financial institutions taken in this study. Equity share traders will take advantage of this thesis while trading shares in the secondary market. This study will be very helpful for students for further research to find more details on the related topic.

#### **1.5 Limitation of the Study**

The study covers only the effect of dividend on equity share behavior of selected financial institutions only. It does not deal with market prices of other securities like preference shares and Government securities, bonds and debentures. This study does not cover the analysis of capital structures; the cost of capital and financial flows of capital in the market. The result of this study will be limited to the relationship between the dividend and the equity stock pricing behavior of commercial banks, financial institution and public limited companies. This study assumes that the individuals who respond to this survey are truthful. Since the data are mainly collected from the secondary source, the consistency of the findings is reliable upon the reliability of the secondary data and information. Only ten financial institutions have been taken into consideration for this study i.e. seven commercial banks, two finance companies and one development bank. This study covers the data of only five years i.e. 2004/05 to 2009/10.

#### **1.6 Organization of the Study**

The study will be divided into the following chapters:

##### **Chapter - I: Introduction**

The first chapter would include the general introduction, statement of problem, objectives, significance of the study and limitation of the study.

## **Chapter -II: Review of Literature**

The second chapter would deal with Review of Literatures, books, articles, Journals, reports and other relevant material.

## **Chapter -III: Research Methodology**

The third chapter would include Research Methodology. This chapter would include the methodology adopted for carrying out this research and sources of data and methods of data collection.

## **Chapter -IV: Data Presentation and Analysis**

The fourth chapter would contain presentation and analysis of Secondary as well as primary data. This chapter would be divided into two sections. The first section would attempt to analyze and evaluate data with the help of analytical tools and interpretation the results obtained. The second part would present the response of the individual share investors on the pricing behavior, their understanding of the market and other relevant aspects contain the presentation of primary data.

## **Chapter -V: Summary, Conclusion and Recommendations**

The last chapter will show the Summary, Conclusion and Recommendations of the study. This chapter would present the results obtained through the analysis and recommends some suggestions and lastly bibliography, appendix.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

This chapter reviews the literature related with the research topic, with more focus on the impact of dividend on equity share pricing. In this regard, an insight would be put on the theories, then on the researches conducted outside and inside the country. Furthermore, the theoretical underpinning of the concepts used during the analysis and the theories behind the share pricing would also be explained. While preparing this thesis, the researcher reviewed various magazines, journals, books, reports, etc and collected materials from different sources. The review of literature has been divided into three categories namely conceptual framework, theories related to the topic and review of articles, books and masters' level thesis.

#### **2.1 Conceptual Framework**

In this section, some of the basic literatures on dividend, dividend policy and stock price behaviour are reviewed. This section would broadly discuss the concepts related to the research topic. It includes following.

- Dividend
- Dividend Policy
- Equity Share

##### **2.1.1 Dividend**

After fulfilling the tax obligations, some part of the net earning of the firm is divided into retained earning for further investment and some part is distributed among its shareholders. Dividend is that portion of the firm's net earnings that is distributed to the shareholders. Dividend is distributed either in form of cash or in form of share. When the firm is heading towards expansion, it keeps the earning as retained earnings for expansion as cash is needed for the expansion of every business. When business has no more plan of expansion, it distributes its cash as a dividend to its shareholders.

## **A. Major forms of Dividend**

### **Cash Dividend**

When the company pays the dividend in form of cash, this is called cash dividend. This is the most common form of dividend and most preferred by the shareholders. When cash dividend is distributed, both total assets and net worth of the company decrease as cash and earnings decrease. The market price of the share drops in most cases as per the amount of the cash dividend distributed.

### **Stock Dividend**

Sometimes, when there is good investment opportunity for the company and the whole portion of the profit is needed for reinvestment, the company prefers to retain the whole portion of profit. But, in order to satisfy the shareholders the company should also pay the dividend. In such case, the company decides to pay the dividend in the form of stock. Such dividend is called stock dividend. When a firm pays stock dividend, the net worth of the share and total assets remains unaffected.

### **Interim Dividend**

Generally dividend is declared in the last of financial year. This is called regular dividend. Many times directors can declare the dividend before the end of the financial year. This is called interim dividend.

### **Bond Dividend**

Companies can give dividends in the form of bonds. These bonds can be long term bonds. These are given when the company is unable to take the burden of interest of loans.

### **Special Dividend**

When directors of the company do not want to change the dividend separately and when the companies have good cash and reserves. This dividend is given with the regular dividend but separately (Weston, 1987: 210).

## **B. Theories of Dividend**

### **i) Dividends as Residual**

As long as the firm has investment projects with returns exceeding those that are required, it will use retained earnings and the amount of senior securities that increase in equity base will support, to finance these projects. When we treat dividend policy as strictly a financing decision, the payment of cash dividends is a passive residual. The amount of dividend payout will fluctuate from period to period in keeping with fluctuations in the amount of acceptable investment opportunities available to the firm. If these opportunities abound, the percentage of dividend payout is likely to be zero.

On the other hand, if the firm is unable to find profitable investment opportunities, dividend payout will be 100 percent. For situations between these two extremes, the payout will be a fraction between zero and one. The treatment of dividend policy as a passive residual determined solely by the availability of acceptable investment proposals implies that dividends are irrelevant; the investor is indifferent between dividends and retention by the firm. A residual theory of dividend policy does not necessarily mean that dividends need fluctuate from period to period in keeping with fluctuations in investment opportunities. A firm may smooth out actual payments by saving some funds in surplus years, in anticipation of deficit years. If forecasting is relatively accurate, the firm can establish its dividend payment at a level at which the cumulative distribution over time corresponds to cumulative residual funds over the same period (Van Horne, 1997: 340).

### **ii) Wealth Maximization Theory**

Larger dividend is announced and distributed to shareholders under this theory in order to maximize their wealth. This theory is generally adopted by the newly established and declining companies to upkeep its image and retain the shareholder's positive attitude towards the company's stock.

### **2.1.2 Dividend Policy**

Dividend policy is one of the major decisions of the firm. The dividend payout ratio of the firm depends upon the way earnings are measured.

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

Company's firm's dividend policy is affected by various factors. Some of them are unique to that company, and some of the more general considerations are given below:

##### **i) Legal Rule**

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

- It the firms liabilities exceed its assets.
- If the amount of the dividend exceeds the accumulated profits or retained earnings.
- If the dividend is being paid from capital invested in the firm. The second type of legal restrictions is unique to each firm and results from restrictions in debt and preferred stock contracts.

##### **ii) Liquidity Portion**

The cash or liquidity portion 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 dividend.

##### **iii) Need to Repay Debt**

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

##### **iv) Rate of Asset Expansion**

Rate of asset expansion creates a need to retain funds rather than to pay dividends.

### **v) Profit Rate**

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

### **vi) Control**

It is very important for every firm to maintain the control rate. 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.

### **2.1.3 Equity Share**

Equity shares are normally called common stocks. They are issued by the firm to raise ownership capital and the investors buy them to with the expectation that they receive a share of profit periodically. The holders of common stocks, called shareholders or stockholders are the legal owners of a company. The equity shares are the permanent and vital source of capital residual claim, in the sense that creditors and preferred stock holders must be paid as scheduled before common stockholders can receive any payments.

### **Features of Equity Share**

**Claim on Income:** The common stockholders have claim to residual income, which is earnings available for ordinary shareholders. After paying expenses, interest charges, taxes and preference dividends and retained earnings, Dividends are immediate cash flow to shareholders, whereas retained earnings are reinvested in the business. A company is not under any obligation to distribute dividends out the available earnings.

**Claim to Assets:** The equity shareholders have a residual claim on the companies' asset.

Out of the realized value of assets, first the claims to debt-holder and then preference shareholders are satisfied, and the remaining balance, if any, is paid to the common stockholders.

**Right to Control:** The ordinary shareholders have the legal power to elect directors to the board, if the board fails to protect their interest, they can replace the directors. They are able to participate in the management of the company through their voting right and right to maintain proportionate ownership.

**Voting Right:** Common stockholders have the right to vote on stockholder matter, such as selection of board of directors, sale of fixed assets, merger of the company, amendment of corporate charter etc.

**Pre-emptive Right:** It does something before others. It is also a right of the stockholders. It gives holders of common stock the firstly option to purchase additional issues of common stock. The purpose of pre-emptive right is to protect the power of control of present stockholders.

**Limited Liability:** The common stock holders are the true owner of the company, but their liability is limited to the amount of their investment in shares. If a stockholder has already fully paid the issue price of shares purchased, he has nothing more to contribute in the event of financial distress or liquidation. The limited liability feature of share encourages unwillingly investors to invest their funds in the company which helps company to raise funds.

## **2.2 Theoretical Underpinnings**

**Modigliani and Miller's (1961)**, gave the most comprehensive argument for the irrelevant of dividend in their article. In the history of finance, firstly, they declared that dividend policy does not affect the value of the firm, i.e. dividend has no effect on the share price of the firm. They argued that the value of the firm depends on the firm's earnings, which depends on its investment policy. M.M.'s hypothesis of

irrelevance is based on the following assumption: The firm operates in perfect capital market in which all investors are rational, information is freely available, flotation costs do not exist, infinitely divisible securities and no investor is large enough to affect the market price (per share) of security.

- Taxes do not exist.
- The firm has a fixed investment policy of which is not subject to change
- Risk of uncertainty does not exist.
- They provided the proof in support of their argument in the following manner.

The market price of a share of the firm at the beginning of a period is defined as equal to the present value of dividend paid at the end of the period plus the market price at the end of the period, symbolically,

$$P_0 = \frac{D_1 + P_1}{1 + K_e} \dots \dots \dots (i)$$

Where,

$P_0$  = Current Market Price per Share

$K_e$  = Cost of Equity Capital (The rate is assumed to be constant through out the time

$d_1$  = Dividend per Share

$P_1$  = MPS (Market price of the share) at the end of the period

Assuming that the firm doesn't resort to any external financing the market value of the firm can be computed as follow: Multiplying both sides of eq-1 by the no. of shares outstanding (n), we obtain the total value of the firm if no new financing exists.

$$P_0 = \frac{D_1 + P_1}{1 + K_e} \dots \dots \dots (ii)$$

Where,

n= no. of equity shares at zero period.

If the firm's internal sources, financing its investment opportunities fall short of the funds required and  $\Delta n P_1$ . The value of the firm at time zero will be:

$$nP_o = \frac{n(D_1 + P_1) + \Delta n p_1 - \Delta n p_1}{1 + K_e}$$

$$nP_o = \frac{nD_1 + P_{1+(n+\Delta n)} - \Delta n p_1}{1 + K_e} \dots \dots \dots \text{(iii)}$$

Where,

n = no. of shares at the beginning

$\Delta n$  = no. of equity shares issued at the end of the period If the investment proposals of a firm, in a given period of time, can be financed either by retained earnings or the issuance of new shares or both. Thus the amount of new shares issued will be formed by the given equation:

$$\Delta n p_1 = I - (E - nD_1)$$

$$\text{or } \Delta n p_1 = I - E + nD_1 \dots \dots \dots \text{(iv)}$$

Where,

$\Delta n p_1$  = the amount obtained from the sale of new shares to finance capital budget.

I = the total amount required of capital budget

E = Earnings of the firm during the period

E - nD<sub>1</sub> = Retained earnings

By substituting the value of  $\Delta n p_1$  from equation (iv) to equation (iii) we get,

$$nP_o = \frac{nD_1 + P_{1+(n+\Delta n)} - I + E - nD_1}{1 + K_e}$$

$$nP_o = \frac{P_{1+(n+\Delta n)} - I + E}{1 + K_e}$$

Modigliani and Miller concluded that dividend policy has no effect on the share price. So, there is no role of dividend in above equation. [Since dividend doesn't appear directly in expansion and E, I, (n+ $\Delta n$ ) p<sub>1</sub> and k<sub>e</sub> are assumed to be independent of dividend, MM concludes that dividend policy has no effect in the value of the firm. In this way according to Modigliani and Miller's study: "It seems that under condition of perfect capital markets, rational investors, absence of tax discrimination between div

income and capital appreciation, given the firms investment policy its div policy may have no influence on the market price of the shares.

**Walter (1966)**, in study concluded that dividend policy almost always affects the value of enterprises. In his view, the investment policy of a firm is directly affected by dividend policy. Such concept is just opposite to Modigliani and Miler approach. He argues that the significant relationship between return of investment or internal rate of return and its cost of capital is the main argument of this model. They are the most important considering factor to retain profits and distribute dividend. As long as the internal rate is greater than the cost of capital, the stock price will be unchanged by retention and will vary inversely with dividend payout.

This model is based on the following certain assumptions in the determinants or firm's value.

- The firm has perpetual life
- The value of EPS (initial earnings) and DPS (dividend a) are assumed to exist no change forever in determining a given value.
- The firm's internal rate of return (r) cost of capital (k) is considered to remain constant.
- The firm distribution its entire earning or retains it for reinvestment immediately.
- The firm relies on internally generated funds to finance all investment opportunity that are debt or new equity is not issued for outside financing. Based on above assumption Walter's formula to determine the market price per share is as follows:

$$P = \frac{DPS}{K} + \frac{rk(EPS-DPS)}{K}$$

Where,

P= market price per share,

DPS = Dividend per share

EPS = Earning per share

$r$  = Internal rate of return

$k$  = cost of capital

Walter suggested different dividend policy for different nature of the firm. There are generally 3 natures.

### **Growth Firm ( $r > k$ )**

Growth firms are those firms which expand rapidly because of ample investment opportunity, cost of capital or expected rate of return of shareholders. Those firms will maximize the value per share if they follow a policy of retaining all earnings for investment. Thus correlation between dividend and stock price is negative. For such firm optimal dividend payout ratio is zero.

### **Growth Firm ( $r = k$ )**

The firm whose internal rate of return and cost of capital being equal is known to be normal firms. In such retention of earnings and distribution of dividend doesn't make change. The stock price does affect the share price.

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

If a firm has not profitable investment opportunities, the shareholders will be better off if earnings are paid out to them so as to enable them to earn a higher return by using the funds elsewhere. In other words, if firm's rate of return ( $r$ ) is less than cost of capital ( $k$ ) the relation between dividends and stock price is positive i.e. increasing in DPS fields increasing in market price per share? Thus optimum pay out for declining firm is 100 %.

**Gordon (1962)**, conducted a study which shows that the value of shares, even in a situation in which the revenue on investment is equal to the capitalization rate that is ( $r = k$ ). It is generally assumed that the investors preferred present dividend rather than the future capital gains. It specially stresses that an increase in dividend pay out ratio leads to increase in stock price for the reason that investors consider the dividend yield

(D1/P0) is less risky than the expected capital gain. Hence, investors required rate of return increases as the amount of dividends decreases. It is clear that there is a positive relationship between the amount of dividend and stock prices.

**Basic assumptions of this model are as follows:**

- The internal rate of return ( $r$ ) and the cost of capital ( $K_e$ ) are considered to remain constant.
- The firm as well as its stream of earnings is perpetual
- The company operates in the world of no taxes.
- The firm is assumed to be an all equity firm (i.e. no debt exists)
- No external financing is available so retained earnings should be used to meet funds required.
- The retention ratio ( $b$ ) once decided upon is constant thus growth rate  $g$  is the product of  $b$  and  $r$  is expected to remain unchanged
- ' $K_e$ ' must be greater than ' $g$ ' to get a meaningful value.

According to Gordon the market value of a share is equal to the present value of future streams of dividends. A simplified version of Gordon's model can be symbolically expressed as follows:

Gordon has provided the following formula, which is the simplified version of the original formulae to determine the market value of a share.

$$P = \frac{EPS(1 - b)}{k_e - br}$$

Where,

$p$  = price of a share

EPS = Earnings per share

$B$  = Retention Ratio

$(1-b)$  = Dividend pay out ratio

$K_e$  = capitalization rate or cost of capital

$b \times r$  = Growth rate

According to this model following facts are revealed.

**Growth Firm ( $r > K_e$ )**

Share price had to decline in correspondence with increase in payout ratio or decrease in retention ratio i.e. high dividends corresponding to earning leads to decrease in share price. Therefore, dividends and stock prices are negatively correlated in growth firm.

**Normal Firm ( $r = K_e$ )**

Share value remains constant regardless of change in dividend policies, which means dividends and stock prices are free from each other.

**Declining Firm ( $r < K_e$ )**

Share price deals to rise in correspondence with rise in dividend payout ratio. It means dividends and stock price are positively correlated which each other in declining firm. Both Walter's and Gordon's model are based on the assumption given and 'k' being constant. Thus, both the model's conclusion about dividend policy is similar.

**Van Horne and Mc Donald (1968)**, conducted a more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combine effect of dividend policy and new equity financing decision on the market value of the firm's common stock. They explored same basic aspects of conceptual framework, and empirical tests were performed during year-end 1968, for two industries, using a well- known valuation model, i.e. a cross section regression model. The required data were collected from 86 electric utility firms included on the COMPUSTAT utility data tape and 39 firms in the electronics and electronic component industries as listed on the Composted industrial data type.

They tested two regression models for the utilizing industry. From the study it was found that share value of electric firms in 1968 was adversely affected by new equity financing in the presence of cash dividends except for those firms in the highest new issue group and it made new equity financing in the presence of cash dividends except for those firms in the highest new issue group and it made new equity a more costly from financing that retention of earning. They also indicated that the payment of dividend through excessive equity financing reduces share prices (Van Horne et. al., 507-519).

## **2.3 Review of Related Studies**

### **2.3.1 Review of Journals / Articles and Research works**

In order to make this study more comprehensive some articles, researches and studies related to Impact of dividend on equity share pricing are reviewed hereunder.

**Pradhan (1986)**, studied on *Stock Market Behavior in a Small Capital Market: A case of Nepal* was based on the data collected for 17 enterprises from 1986 through 1990. The objectives of this study were to assess the stock market behaviour in Nepal and to examine the relationship of market equity, market value to book value, price earnings, and dividends with liquidity, profitability, leverage, assets, turnover, and interest coverage.

#### **Some findings of his study 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 per share are positively correlated
- Positive relationship between the ratio of dividend per share to market price per share and interest coverage
- Positive relationship between dividend payout and liquidity.
- Negative relationship between dividend payout and leverage ratio.
- 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 interest coverage are more variable for the stock paying higher dividends

**Ojha (2000)**, did a study on "*Financial Performance and Common Stock Pricing*". The main objectives of his research were to study and examine the difference of financial performance and stock prices, to examine the relationship of dividends and stock price and to explore the signaling effects in stock price.

**Major findings of this research are:**

Nepalese stock market is in infancy stage. In general it is very new and just started to develop. Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging. Corporate firm with long history have relatively stable profitability parameters that the firm established after the economic liberalization of 1990. Older firms have been issuing bonus share more times than the new one. Dividend per share is relatively more stable than the dividend payout ratio. That's why payout ratio and dividend yields have been highly fluctuating. Due to lack of proper investment opportunity most of the investors have directed their saving towards the secondary stock market. There is significant positive correlation between the dividends paid and stock prices of banking and manufacturing industries. All other have not a perfect correlation between the net worth per share and common stock price".

**Timilsina (2001)**, conducted a study on *Capital Market Development and Stock Price Behaviour in Nepal*. He published an article with a heading "Capital Market Development and Stock Price Behaviour in Nepal" in the Economic Review published by Nepal Rastra Bank in April 2001. The following is the main part of the study.

## Capitalization of Dividends

Investors are interested in return; therefore, the price they will be prepared to pay for the share will depend upon the size of dividends. According to the dividend valuation model future streams of cash dividends are to be valued and discounted by the cost of equity ( $K_e$ ). Hence the value of an equity share is the present value of all future streams of cash dividends an investor expects to receive. Since the company is a going concern and has an indefinite life, an investor has to assume a fixed period within which he wants to hold the share. Thus, the model is:

$$P_0 = \sum_{t=1}^{\infty} \frac{D_t}{(1 + K_e)^t}$$

Where,

$P_0$  = Present market value of an equity

$D_t$  = Expected future dividend at each future date  $t$

$K_e$  = The required rate of return

The required rate of return for equity which discounts the future dividend to a present value per share. This model considers dividend per share, not total dividends. The amount of dividend is dependent on company's pay out policy. The declared dividend may be only a small proportion of profits of the company available to equity shareholders. The part of profits retained in the company represents deferred income to the shareholders. This profit is available to the company for the financing of assets to produce more profits and dividends in future. On the other hand, dividends are sometimes declared in excess of earnings. Therefore, the argument raised against this model is that the method of valuing shares is misleading if the dividend income is not consistent. Since the dividend declared by the company is normally much less than the rate of earning, earning yield is frequently regarded as a better measure of valuing the share.

### 2.3.2 Zero Growth

If all future dividends are expected to remain constant i.e. there is no growth in the rate of dividend, the model becomes:

$$P_o = \sum_{t=1}^{\infty} \frac{D}{(1 + K_e)^t} = \frac{D}{K_e}$$

Here, the market value of share is the capitalized value of dividend per share at the normal rate of return or cost of equity. If only a part of the earning is paid out as dividends the market value of share under this method is much below than the value computed under the capitalization of earning method. Therefore, this model is suitable in cases where dividend pay out ratio is one hundred percent and there is no growth in the rate of earnings (Pandey, 1979: 97).

### Constant Growth

In case, dividends of the company are expected to grow at a constant rate over time, the constantly growing dividend stream is to be evaluated using an appropriate compound growth factor:

$$D_t = D_0(1+g)^t$$

Where,

g=Periodic constant growth rate

The rate of dividend declared in the current year ( $D_t$ ) would become equal to the previous year's rate of Dividend ( $D_0$ ) plus growth rate during the year. Therefore, the present value (current market value of equity) of the growing dividend stream over n finite interval is: (Timilsina, 2001:102).

$$P_0 = \sum_{t=1}^{\infty} \frac{D_0(1+g)^t}{(1 + K_e)^t}$$

When g is less than  $K_e$ , the model can be presented as:

$$P_0 = \sum_{t=1}^{\infty} \frac{D_0(1+g)^t}{(K_e - g)^t} = \frac{D_1}{K_e - g}$$

### 2.3.3 Variable Growth

Not all firms are zero growth or constant growth firms. Most of the firms confirm to variable growth rate of dividends in future. However, it is very difficult to predict the future growth path of a company beyond a few years. Therefore, a particular rate of dividend is projected for each of the next few years (say, 3 years) and again another rate of dividend could be projected for further 3 years. Thus, the value of share (at  $t=0$ ) under this model is: Shrestha, 1999: 28)

$$P_o = \frac{D_o(1+G_1)^{t_1}}{(1+K_e)^{t_1}} + \dots + \frac{D_2(1+G_3)^{t_3}}{(1+K_e)^{t_3}} + \frac{D_3(1+G_4)^{t_4}}{(1+K_e)^{t_4}} + \dots + \frac{D_4(1+G_1)^{t_6}}{(1+K_e)^{t_6}}$$

$$P_o = \sum_{t=1}^{\infty} \frac{D_o(1+g_1)^t}{(1+K_e)^t} + \frac{1}{(1+K_e)^n} \left[ \frac{D_o(1+g_1)^n (1+g_2)}{K_e - g_2} \right]$$

$$P_o = \sum_{t=1}^{\infty} \frac{D_o(1+g_1)^t}{(1+K_e)^t} + \left[ \frac{1}{(1+K_e)^t} \right] P_n$$

**Poudel (2001)**, conducted a study on *Investing in Shares of Commercial Banks in Nepal; An assessment of Return and Risks Elements*". He published an article with a heading "Capital Market Development and Stock Price Behaviour in Nepal" in the Economic Review in April 2002. The following is the main part of the study.

This model states that the value of the share now is the sum of stream of future discounted dividends, plus the value of the share as and when sold in some future year. Therefore, the value of a share today is a function of the cash inflows expected by the investors and the risk associated with the cash inflows:

$$V_0 = V_o \frac{D_1}{1+(K)^1} + \frac{D_2}{(1+J)^2} + \frac{D_3}{(1+K)^3} + \frac{D_t}{(1+K)^n}$$

$$V_o \sum \frac{D_1}{(1+K)^t}$$

Where,

$V_0$  = Intrinsic or the theoretical value of stock today

$D_t$  = dividend expected in nth year

$K$  = firm's cost of equity capital

The equation stated above assumes that dividend will grow at a given rate and the amount of dividend will be different in different years. A zero growth stock is a stock from which the investor expects a constant amount of dividend each year and where the dividend is not expected to grow. In such case the price of the stock now,  $V_0$  is calculated by dividing the amount of dividend by the cost of equity.

$$V_0 = \frac{D}{k}$$

(Economic Review, April 2001:1-16)

## 2.4 Review of Thesis

**Timilsina (1997)**, had conducted the study on "*Dividend and Stock Prices: an Empirical Study*" by sample testing the data of 16 Enterprises using data from 1990 to 1994. The study was conducted to test the relationship between dividends per share and stock prices, to determine the impact of dividend policy on stock prices and to identify where it is possible to increase the market value of the stock by changing dividend policy or payout ratio. To explain price behaviour, the study used simultaneously equation model as developed by Friend and Puckett (1964). The findings of study were as follows:

- The relationship between dividend per share and stock prices is positive in the sample companies.
- Dividend per share affects the share prices variedly in different sectors
- Changing the dividend policy or dividend per share might help to increase the market price of share.
- The relationship between stock prices and retained earnings per share is not prominent.
- The relationship between stock prices and lagged earnings price ratio is negative

**Adhikari (1997)**, carried out a study on "*Corporate Dividend Practices in Nepal*" using primary as well as secondary data. The main objectives of study were to analyse the properties of portfolios formed on dividend, to examine the relationship between dividend and stock prices and to survey the opinions of financial executives on corporate dividend practices. Major findings of this study are:

- Financial position of high dividend paying companies is comparatively better than that of low dividend paying companies.
- Market price of stock of both finance and non finance and non finance sectors are affected by dividends.

- There is a positive relationship between dividend and stock price
- There is a negative relationship between dividend payout and earnings before tax to net worth.
- Stocks with larger ratio of DPS to book value per share have higher profitability.
- These profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.
- Companies paying higher are reluctant to employ higher degree of leverage in their capital structures
- The stocks with larger ratio of dividend per share to book value per share have also higher turnover ratio and higher interest coverage.

**Gautam (1997)**, carried out a study on *"Dividend Policy in Commercial Banks"* which focuses on the objectives to identify the type of dividend policy that is being adopted and to find out whether the policy is appropriate to examine the impact of dividend on share price, to identify the relationship between DPS and other financial indicators, to know if there is any uniformity among DPS, EPS and DPR sampled commercial Banks. The major findings of this study are there is the largest fluctuation in EPS and DPS, the relationship between DPS and EPS is positive; however it is not significant, there may be various other factors beside EPS to affects MPS and the growth rate of dividend is inconsistent. It concluded that no sampled commercial banks have followed distinctly defined dividend policy.

**Sharma (Rajopadhyaya) (2002)**, conducted a study on *"Dividend Policy with Respect to Insurance Companies in Nepal"* in July 2002. The objectives of this research were to identify the existing practice of dividend policy in insurance companies, to find out the impact of dividend per share of the market price of the stock, to examine whether there is significant different or not among DPS, EPS and DPR on the selected companies and to know if there is any relationship between market value per share (MVPS) on dividend policy and other financial indicator such as DPS, EPS, DPE, PE Ratio, Liquidity ratio

Some major Findings of the study is pointed out as the average DPS and EPS of NLGICO and NICO is satisfactory compared to ICO and UICO. Since, later insurance companies are new in dividend distribution. The analysis of coefficient of variation indicates largest fluctuation in PICO and UNICO, and the dividend yield analysis fluctuating in all sample insurance companies.

**Budhathoki (2006)**, carried on a study on *"The Study of Dividend Policy of the Commercial Banks in Nepal"* on May 2006. The main objectives of the study were to highlight the dividend practices of Commercial Banks, to compare the dividend policy followed by different commercial banks chosen, to provide the sample banks with some fruitful suggestion that can be implemented easily and possible guideline to overcome various issues and gaps based on the findings of the analysis. Some of the major findings of this study are: The average earning per share (EPS) of the banks under study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS.

- The average dividend per share (DPS) shows that there is no regularity in dividend payment.
- The analysis of DPR shows that the Dividend Payout Ratio (DPR) of the banks is not stable.
- The average market price shows that there is quite high level of fluctuation.

**Pandey (2008)**, conducted a study *"Pricing and Yield Behaviour of Equity Shares in Nepal: A Case of Commercial Banks"* on March 2008. The main objectives of the study are:

- To establish relationship between market prices of commercial bank's equity shares and their yield behaviour in Nepal.
- To see how effective is yield in determining the market price of the securities?
- If yield is not the sole determining factor then what could be other factors, which could affect the market prices of securities in Nepal.
- To identify problems of securities market in Nepal and suggest measures to correct the existing problems. Main findings of this research are:

- Market prices of the equity shares are overvalued when compared to the earnings per share, which is the primary indicator of the financial status of the concerned financial institution. This was mainly due to ignorance and improper access to financial health of the company.
- The result of simple regression analysis between the market price and yield indicators reflected that net worth per share explained the best of the market prices compared to other indicators. Dividend per share and earnings per share were equally explanatory, whereas dividend payout ratio was not a good indicator of stock pricing. The result showed that market price corresponds to the earning per share at a greater extent and then to dividend per share and then to earnings per share.

**Khatiwada (2009)**, conducted his master's research on "*Impact of Dividend and Earning Announcement on Shareholder's Return and Stock Prices in Nepal*". The main objectives of the study are:

- To analyze the impact of earning and dividend announcement on shareholders return.
- To identify the correlation between the return of individual securities with market return.
- To identify the quality of systematic and unsystematic risk.

**The major findings of the study are:**

- Announcement of dividend and earning do not affect the shareholders 'return in average.
- Other banks except Nepal SBI Bank having different dividend rates did not provide significant abnormal return to the shareholders.
- Shareholders realized positive abnormal return from half of the sample banks.

## **2.5 Research Gap**

This thesis work reflects the following research gap between the previous researches. None of the previous thesis analyses the impact of dividend on equity share pricing in

Nepal. Most of the masters level thesis work was done by analyzing secondary data. They do not have direct responses of the market. But this research work is mainly focused on analyzing the impact of dividend on equity share price. This thesis uses secondary data as well as primary data to analyze the impact of dividend in equity share pricing in Nepal. In the primary data presentation, Questionnaires were distributed among various secondary share traders working in various organizations and the response of the individuals who own shares on secondary market was considered.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

This chapter attempts to present a basic structure of the methodology in which the research will be conducted.

#### **3.1 Research Design**

A research design is a plan of the proposed research work. This research attempts to analyze the impact of Dividend on the stock price behavior of financial institution and commercial banks. For this, several tools have been employed to accomplish such targets. The analysis has been divided into two sections – based on secondary data and on primary responses. In the first part, this research would explicitly examine the relationship between Market Price per Share (MPS) and Dividend per Share (DPS). For this, five bank would be selected on judgmental basis, considering the years' of operation and listing in NEPSE, institution type, number of shareholders, and paid up capital among others. For the comparative purpose, the relationship of MPS with Dividend Payout Ratio (DPR), Net Worth per Share (NWPS) and Earning per Share (EPS) will also be calculated and presented. In the second part, which is an empirical analysis, the responses of primary respondent would be analyzed.

This study is designed as an exploratory as well as case study research so as to find out the impact on the market price of common stock of a company when dividend is paid to shareholders and also how the market price respond when dividend is not paid to the shareholders .In other words, the study is related to the dividend policy and its impact on the share-price and wealth position of the shareholders. In this study descriptive analytical research design has done.

#### **3.2 Population and Sample of the Study**

All the companies listed in NEPSE are considered to be the total population of the study. Out of them Commercial Banks, Development Bank, Finance Companies and Insurance Companies listed and doing share transaction in NEPSE were considered as

the sample of the study. The no. of listed companies reached 175 by the end of fiscal year 2009/10. For the purpose of this study, total commercial banks are considered as sample population only 5 banks. The sample of the study 16.67 percentage of the total population of commercial banks in Nepal. For the basis of selecting companies under study, the market share in NEPSE has been considered. The data for 2009/10 shows that, commercial bank groups' trading constituted 67 percent of the total trading in NEPSE. The names of the Sampled Financial Institutions are:

- Nabil Bank Limited
- Everest Bank Limited
- Himalayan Bank Limited
- Lumbini Bank Limited
- Nepal Investment Bank Limited

### **3.3 Sources of Data**

#### **3.3.1 Secondary Data**

Data have been collected from primary as well as secondary sources. In secondary data, concerned banks, Nepal Stock Exchange Ltd. and Security Board of Nepal are providers of the data. The researcher collected various data from SEBON and NEPSE in various dates in the month of September. The sample period covers 2004-2009 for examining the relationship as well as for using different indicators. The data obtained are:

- The year ended data sheet showing MPS, EPS, NWPS, DPS, DPR, Balance sheet, Profit and loss a/c of the company.
- Information that is relevant to the study available on various websites (i.e. websites of NEPSE, Security Board of Nepal. Nepal Rastra Bank and other related banks and finance companies)
- Relevant Books, Journals, Magazines, Reports, Bulletins etc.
- Previous Thesis and Studies

### 3.3.2 Primary Data

An Empirical finding has been carried out in order to obtain the impact of dividend on equity share pricing in Nepal. 50 observations have been taken to analyze the impact of dividend on an equity share price. The responses of the respondents of Nepal

Rastra Bank, Security Board of Nepal and various organizations have been collected by distributing the multiple choice questionnaire in the month of September in various dates.

### 3.4 Analysis of Data

#### Dividend per Share (DPS)

Dividend per share is the net distributed profit to the shareholders. It is the ratio of distributed profit to the number of ordinary shares. It is calculated as:

$$DPS = \frac{\text{Amount Distributed to Equity Shareholder}}{\text{Number of Equity Shareholder}}$$

Dividend per Share and the Dividend Payout Ratio depend upon the firms' dividend policy, which further depends on several internal factors such as fund needs of the firm, liquidity, ability to borrow, nature of shareholders, and market conditions.

#### Earnings per Share (EPS)

Earning per share measures the profit of equity shareholders in terms of per unit of shares

.i.e. the amount that they have earned on every share held. It is calculated as the ratio of available profit to the number of outstanding shares.

$$EPS = \frac{\text{Net Profit}}{\text{Number of Existing Equity Shares}}$$

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

This ratio shows the percentage of profit distribution to the shareholders in the form of dividend. It is the ratio between DPS and EPS

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

### **Net Worth per Share**

Net Worth per Share is a measurement of the net worth of the company for each share of stock that has been issued. If this value is negative, this indicates that company's liabilities exceed its ability to pay them. An increasing net worth per share is a positive signal that the company has reduced its liabilities. The company may also have gone through a stock buy-back plan, reducing the number of shares, essentially making the net worth for each share more valuable.

### **Standard Deviation (SD)**

The standard deviation is commonly used to measure the risk. It shows the deviation of actual mean with average mean. The standard deviation measures the absolute dispersion of variability of a distribution. The greater the variability or dispersion the greater would be the magnitude of the deviation of the value from their mean. The smaller the dispersion or variability, smaller would be the standard deviation. There would be high degree of uniformity in the observation and homogeneity in the series. Hence, the standard deviation is extremely useful in judging the representativeness of the mean we can find the Standard Deviation from the following formula.

$$D = \sqrt{\frac{\sum x^2}{n} + \left(\frac{\sum x}{n}\right)^2}$$

Where,

x = value of the variable

n = numbers of years.

Therefore, the standard deviation is used to analyze the stock position of finance company and commercial banks. The SD of seven companies are calculated and analyzed under the study.

### **Coefficient of Variance (CV)**

The corresponding relative measure of dispersion is known as the coefficient of variation. The series for which the coefficient of variation is greater is said to be more variable or conversely less consistent or less uniform. On the other hand the series for which coefficient of variation is less is said to be less variable or more consistent or more uniform. It is denoted by CV and obtained as follows: Coefficient of Variance

$$C.V = \frac{S.D (\sigma)}{\bar{X}} \times 100$$

Where

SD is the Standard Deviation and

$\bar{X}$  = Mean of the series defined as

$$\frac{\sum X}{n}$$

### **Karl Pearson's Coefficient of Correlation**

It is statistical tool for measuring the magnitude of linear relationship between the two variables. Karl Pearson's measure, known as Personian correlation coefficient between two variables series x and y, denoted by r(x,y) or rxy. r can be obtained as:

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}}$$

Where,

r = correlation coefficient

n = no. of years.

$\Sigma X$  = Sum of Series X

$\Sigma Y$  = Sum of Series Y

$\Sigma XY$  = Sum of the product of X and Y variables

$\Sigma X^2$  = Sum of squares of Series X

$\Sigma Y^2$  = Sum of squares of Series Y

The value of coefficient of correlation always lies between +1 & -1. When coefficient of correlation ( $r$ ) = +1, it means there is perfect positive correlation between the variables, when ( $r$ ) = -1, it means there is perfect negative correlation between the variables and ( $r$ ) = 0 refers that there is no relationship between the given variables. The coefficient of correlation finds not only the magnitude of correlation but also its direction. The closer the value of 'r' to 1 or -1, the stronger will be the relationship between variables and the closer the 'r' to 0, weaker will be the relationship (Shrestha and Manandhar, 1999: 234).

### **Regression Analysis**

Regression analysis helps the estimation or prediction of unknown variable on the basis of known value of other variable. It is used as a tool to determine the strength of relationship between two variables. Thus, it is a statistical device, with the help of which we can estimate or predict the value of one variable when the value of other variable when the other variable is known. The unknown variables which we have to predict are called dependent variable and the variable whose value is known is called independent variable. The analysis used to describe the average relationship between two variables is known as simple regression analysis (Bajracharya, 2060).

### **Line of Regression**

If there exists a relationship between two variables X and Y, the dots in the scatter diagram will be concentrating around a certain curve and will be concentrating around a certain curve and if the curve is a straight line, it is said to be the line of regression and the relationship between two variables as the linear regression. A line of regression gives the best estimate (in the least square sense) of one variable for any

given value of other variable. So, there are two lines of regression referring as the line of regression of Y on X and the line of regression of X on Y respectively (Bajracharya, 2060).

### **Regression of Equation X on Y**

The regression equation is expressed as:

$$Y = a + bx$$

We shall get normal equations for estimating 'a' and 'b' as:

$$\Sigma Y = na + b\Sigma x$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2$$

Where,

Y = value of dependant variable

a = Y intercept

b = Slope of the trend line/coefficient of regression

X = Value of independent variable

### **Coefficient of Regression**

The coefficient 'b', which is the slope of line of regression of y on x is called the coefficient of regression of y on x. It represents the increment in the value of dependent y for a unit change in the value of independent variable x. In other words, it represents the rate of change. The convenient way to calculate the variable of 'b' is as:

$$b = \frac{n\Sigma xy - \Sigma x \Sigma y}{n\Sigma x^2 - (\Sigma x)^2}$$

Similarly the value of Y-intercept can be computed as:

$$a = \frac{\Sigma x^2 \Sigma y - \Sigma x \Sigma xy}{n\Sigma x^2 - (\Sigma x)^2}$$

## **Statistical Analysis**

In this part, we will see the relationship between market price of the equity shares with earning per share, dividend per share, dividend pay out ratio, and net worth per share.

Amongst these four indicators, the study would evaluate which will affect the equity share price. In the calculation used by excel.

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

In this chapter, the collected data are presented, analyzed and interpreted following the research methodology dealt in the third chapter. While analyzing, data gathered from various sources have been inserted in the tabular form in Annex. The basic objective of this chapter is to analyze and explain the collected data following the conversion of unprocessed data to an understandable presentation. Thus this chapter presents the analysis of Impact of dividend on Equity share price various financial institutions.

#### **4.1 Presentation and Analysis of Secondary Data**

For the Presentation of data analysis fro selected bank of Nepal. It is refer to highlight the present scenes of listed companies in NEPSE. The following table shows the numbers of listed companies from the FY 2004/05 to 2009/10.

##### **4.1.1 The Number of listed companies in Stock Exchange**

**Table 4.1**  
**Number of Listed Companies**

| <b>Fiscal Year</b> | <b>No. of Listed Company</b> | <b>Change in Number</b> |
|--------------------|------------------------------|-------------------------|
| 2004/05            | 135                          | 10                      |
| 2005/06            | 146                          | 11                      |
| 2006/07            | 155                          | 9                       |
| 2007/08            | 165                          | 10                      |
| 2008/09            | 169                          | 4                       |
| 2009/10            | 179                          | 6                       |

*Source: Annual Report, SEBON, 2009/10*

Among the total number of listed company in Nepal Stock Exchange Limited. 179 companies listed in NEPSE in 2009/10 Increasing by 6% from previous year. This study carries only five commercial banks are taken for this study.

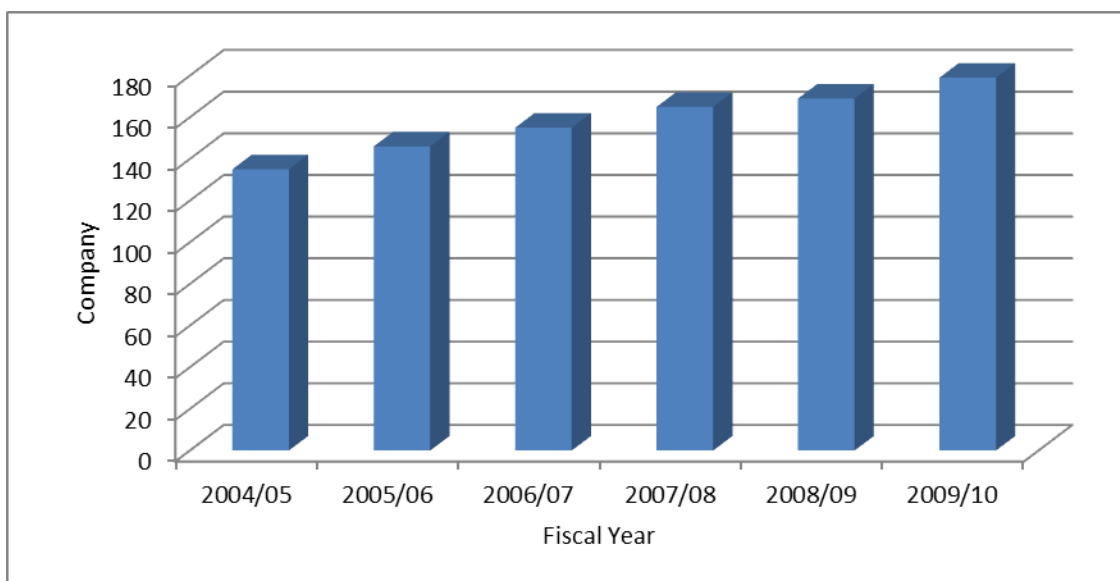
#### **Commercial Banks**

- Nabil Bank Ltd.
- Everest Bank Ltd.
- Himalayan Bank Ltd.

- Lumbini Bank Ltd.
- Nepal Investment Bank Ltd.

**Figure 4.1**

**Number of Listed Companies**



From the table 4.1 it is clear that the ratio of listing of the companies is increasing. In the year 2004/05 the total number of listed companies decreasing to 135 Afterwards, there was increment in the number of listed companies. In 2004/05, there were 135 companies listed and its is increasing by 10 from the total of 146 in 2005/06 Again, in the year 2007/08 the number of listed companies increasing by 10 and the number of total listed companies was 165. In 2008/09 there was an increment of only 4 companies as compared to the previous year and remain 169. In 2009/10 there was an increment of only 10 companies as compared to the previous year and remain 179.

#### **4.1.2 The Number of Listed Companies Under Different Sector in Stock Exchange**

**Table 4.2**

**Number of Listed Companies, Sector Wise**

| <b>Company</b>   | <b>No. of Listed Companies</b> | <b>% in Total</b> |
|------------------|--------------------------------|-------------------|
| Commercial Banks | 24                             | 13.61             |
| Development Bank | 45                             | 19.53             |

|                                      |            |            |
|--------------------------------------|------------|------------|
| Insurance Company                    | 20         | 11.24      |
| Financial Companies                  | 68         | 36.69      |
| Manufacturing & Processing Companies | 18         | 10.65      |
| Hotel                                | 4          | 2.37       |
| Trading Companies                    | 4          | 2.37       |
| Hydropower                           | 4          | 2.37       |
| Others                               | 2          | 1.18       |
| <b>Total</b>                         | <b>189</b> | <b>100</b> |

The table 4.2 shows the data of total companies listed under different sector in the Nepal Stock Exchange Ltd. 189 number of companies were listed till 2009/10. There are altogether 24 commercial banks, 45 development banks, 20 insurance companies, 68 finance companies, 18 Manufacturing & Processing Companies, 4 hotels, 4 Trading companies, Hydropower and 2 other companies. The percentage share of each sector is: 13.61, 19.53, 11.24, 36.69, 10.65, 2.37, 2.37, 2.37, 1.18 respectively.

#### **4.1.3 Introduction of the Financial Institutions under Study**

Among the total number of financial institutions listed in Nepal Stock Exchange Limited, this study carries only five financial institutions. Among them five commercial banks, are taken for this study.

#### **Commercial Banks**

- Nabil Bank Ltd.
- Everest Bank Ltd.
- Himalayan Bank Ltd.
- Lumbini Bank Ltd.
- Nepal Investment Bank Ltd.

#### 4.1.4 Analysis of Financial Indicator

##### a. Earnings per Share (EPS)

Earnings per share measures the profit of equity shareholders in terms of per unit of shares .i.e. the amount that they have earned on every share held. It is calculated as the ratio of available profit to the number of outstanding shares.

**Table 4.3**

##### **Analysis of Earning Per Share of the Banks**

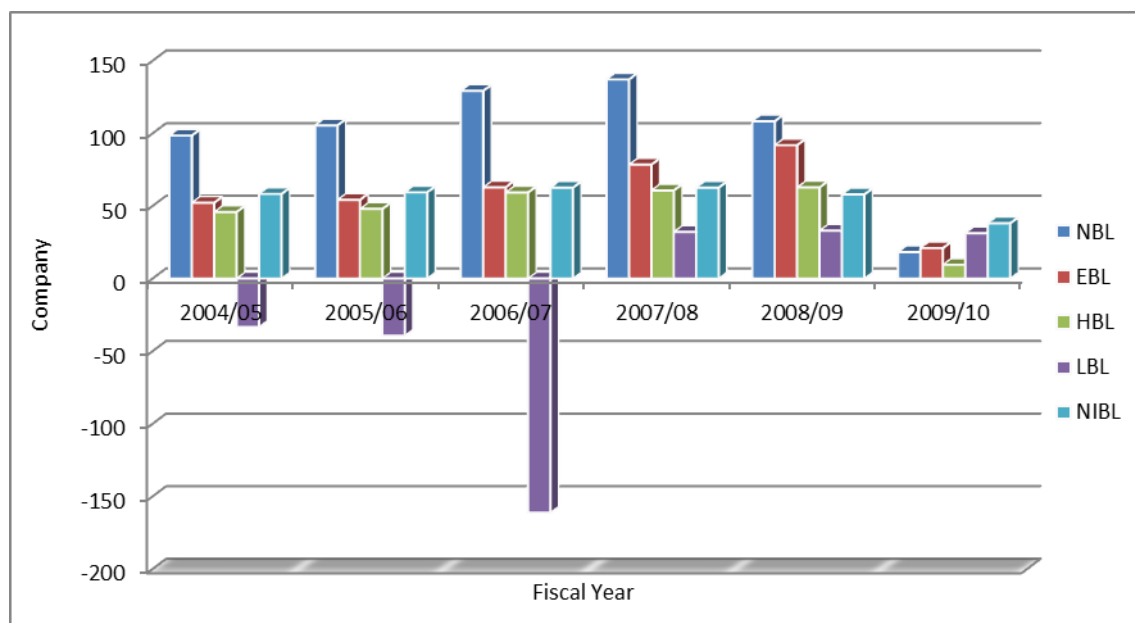
| <b>Fiscal Year</b> | <b>NBL</b>     | <b>EBL</b>      | <b>HBL</b>      | <b>LBL</b>      | <b>NIBL</b>    |
|--------------------|----------------|-----------------|-----------------|-----------------|----------------|
| 2004/05            | 98.45          | 52.2            | 45.82           | -33.32          | 58.25          |
| 2005/06            | 105.49         | 54.2            | 47.91           | -39.35          | 59.35          |
| 2006/07            | 129.21         | 62.8            | 59.24           | -161.21         | 62.57          |
| 2007/08            | 137.08         | 78.4            | 60.66           | 32.07           | 62.57          |
| 2008/09            | 108.31         | 91.82           | 62.74           | 32.91           | 57.87          |
| 2009/10            | 18.11          | 20.94           | 9.46            | 31.25           | 38.00          |
| <b>Mean</b>        | <b>99.4417</b> | <b>60.06</b>    | <b>47.63833</b> | <b>-22.9417</b> | <b>56.435</b>  |
| <b>SD</b>          | <b>42.5061</b> | <b>24.40924</b> | <b>19.96591</b> | <b>75.60093</b> | <b>9.26257</b> |
| <b>CV</b>          | <b>42.7448</b> | <b>40.64142</b> | <b>41.91144</b> | <b>-329.535</b> | <b>16.4128</b> |

*Source: Annex II*

The table 4.3 shows the Earning per share of all of the financial institutions taken in this study. The table also shows the standard deviation as well as the coefficient of variation of the EPS covering the period from FY 2004/05 to 2009/10. In this table, among the commercial banks, Nabil Bank Limited has the highest EPS throughout the study period. The average EPS of NBL is 99.44, SD is 42.50 and CV is 42.74, which shows that there is a low fluctuation in EPS of Nabil Bank Limited. Himalayan Bank has increasing EPS each year. EPS of Lumbini Bank negative till 2007/08. After this year EPS is positive and at last year decrease to 31.25.

**Figure 4.2**

**Analysis of Earning Per Share of the Banks**



**b. Market Price per Share (MPS)**

Market price per share (MPS) is a prevailing price of the equity share trading in the secondary market. The price listed in the stock exchange is the actual market price of equity shares. The analysis of the Market price of the equity shares of the financial institutions are presented below.

**Table 4.4**

**Analysis of Market Price per Share of the Banks**

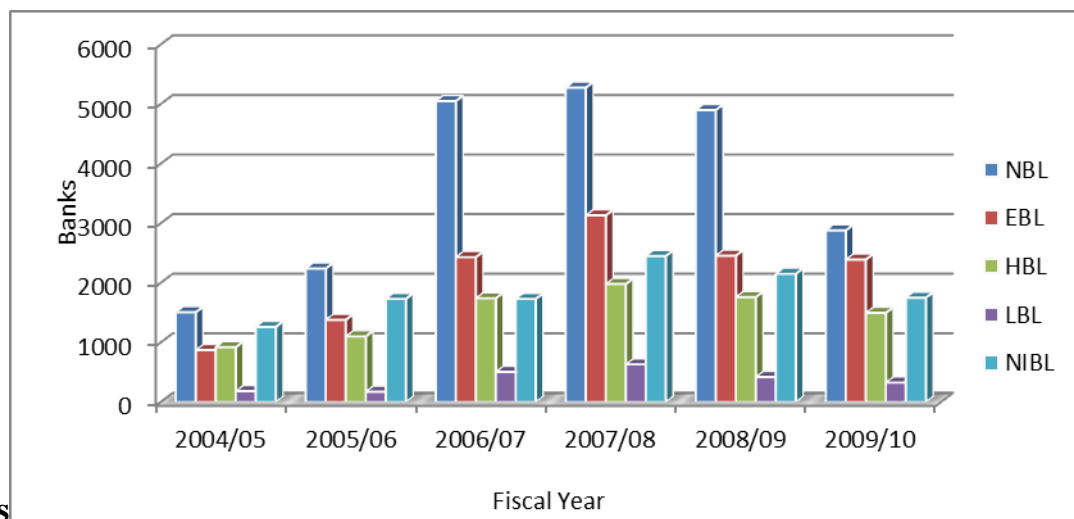
| <b>Fiscal Year</b> | <b>NBL</b>     | <b>EBL</b>      | <b>HBL</b>      | <b>LBL</b>      | <b>NIBL</b>    |
|--------------------|----------------|-----------------|-----------------|-----------------|----------------|
| 2004/05            | 1505           | 870             | 920             | 180             | 1260           |
| 2005/06            | 2240           | 1379            | 1100            | 172             | 1729           |
| 2006/07            | 5050           | 2430            | 1740            | 505             | 1729           |
| 2007/08            | 5275           | 3132            | 1980            | 631             | 2450           |
| 2008/09            | 4899           | 2455            | 1760            | 420             | 2150           |
| 2009/10            | 2880           | 2390            | 1495            | 325             | 1750           |
| <b>Mean</b>        | <b>3641.5</b>  | <b>2109.333</b> | <b>1499.167</b> | <b>372.1667</b> | <b>1844.67</b> |
| <b>SD</b>          | <b>1633.54</b> | <b>826.5915</b> | <b>412.8004</b> | <b>182.2892</b> | <b>409.197</b> |
| <b>CV</b>          | <b>44.8589</b> | <b>39.18733</b> | <b>27.53532</b> | <b>48.98054</b> | <b>22.1827</b> |

*Source: Annex III*

The table 4.4 shows the market price of equity shares of each of the financial institutions taken for this study. Among the commercial banks, the average Market price of NABIL Bank Limited is highest i.e. 3641.50. It has a standard deviation of 1633.54 and coefficient of variation is 44.85. LBL has lowest average MPS i.e. 372.16. The SD of LBL is 182.28 and C.V is 48.98. HBL Bank Ltd. has an average MPS of 1499.16 It has a 412.80 Standard Deviation and CV of 27.53. Which is more fluctuating than the two banks.

**Figure 4.3**

**Analysis of Market Price Per Share of the**



### C. Dividend per Share (DPS)

Dividend per share indicates the proportion of earning distributed to the shareholders on per share basis. Generally, higher DPS creates positive attitude among the shareholders towards the bank, which accordingly helps to increase the market value of shares. The dividends per share of the financial institutions under study are stated in the following table.

**Table 4.5**

**Analysis of Dividend per Share of the Banks**

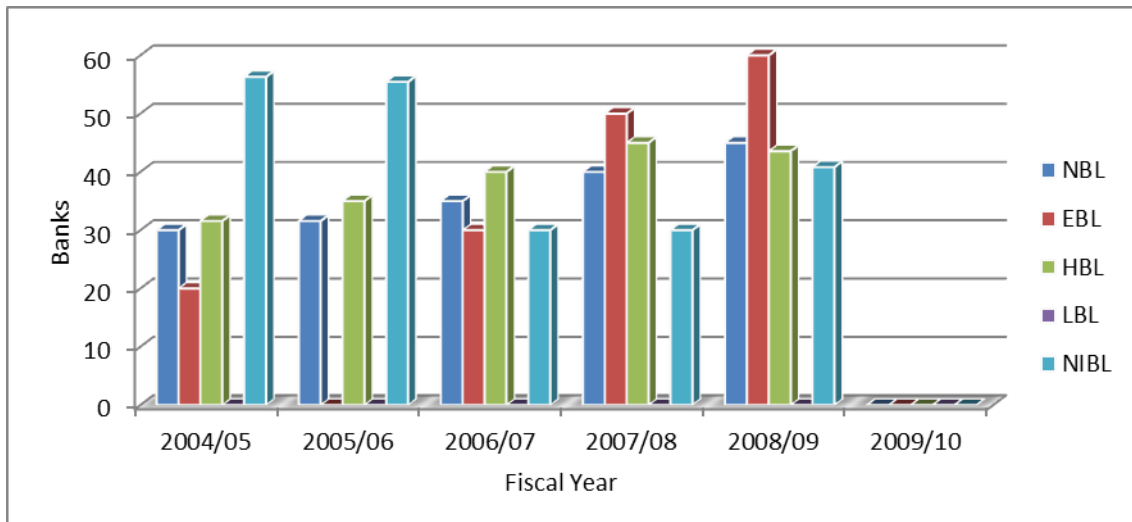
| Fiscal Year | NBL   | EBL | HBL   | LBL | NIBL  |
|-------------|-------|-----|-------|-----|-------|
| 2004/05     | 30    | 20  | 31.58 | 0   | 56.3  |
| 2005/06     | 31.58 | 0   | 35    | 0   | 55.46 |
| 2006/07     | 35    | 30  | 40    | 0   | 30    |
| 2007/08     | 40    | 50  | 45    | 0   | 30    |
| 2008/09     | 45    | 60  | 43.56 | 0   | 40.83 |
| 2009/10     | 0     | 0   | 0     | 0   | 0     |

|             |                 |                 |                 |          |                 |
|-------------|-----------------|-----------------|-----------------|----------|-----------------|
| <b>Mean</b> | <b>36.316</b>   | <b>32</b>       | <b>39.028</b>   | <b>0</b> | <b>42.518</b>   |
| <b>SD</b>   | <b>6.185409</b> | <b>23.87467</b> | <b>5.675519</b> | <b>0</b> | <b>12.97776</b> |
| <b>CV</b>   | <b>17.03219</b> | <b>74.60835</b> | <b>14.54217</b> | <b>0</b> | <b>30.52298</b> |

Source: Annex IV

The table 4.5 shows Dividend paid by the financial institutions during the year 2004/05 to 2009/10. The average of NIBL bank ltd. is the highest i.e. 42.51. HBL has the second highest i.e. 39.02. The CV of EBL is the highest i.e. 74.60 which shows a highest fluctuation in DPS during the period of study. It has not paid dividend for four years. LBL Bank has not paid dividend for several years HBL Bank paid an average dividend i.e. 39.02 it has a Standard deviation of 5.67 and C.V is 14.54 LBL Bank Limited has a lowest DPR. It has not paid dividend for six years.

**Figure 4.4**  
**Analysis of Dividend Per Share of the Banks**



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

Dividend Payout Ratio shows the percentage of profit distributed to the share holders. It depends upon earnings of organization. Greater the earnings, more ability to pay dividend. The DPR of the financial institutions' under study are stated in the table as follows. For the 3<sup>rd</sup> objective too DPR of financial sectors, this tables shows the DPR

& DPS which makes the performance of Banks and impact of DPS on financial institutions also shows effect on EPS and price.

**Table 4.6**  
**Analysis of Dividend Payout Ratio of Sampled of the Banks**

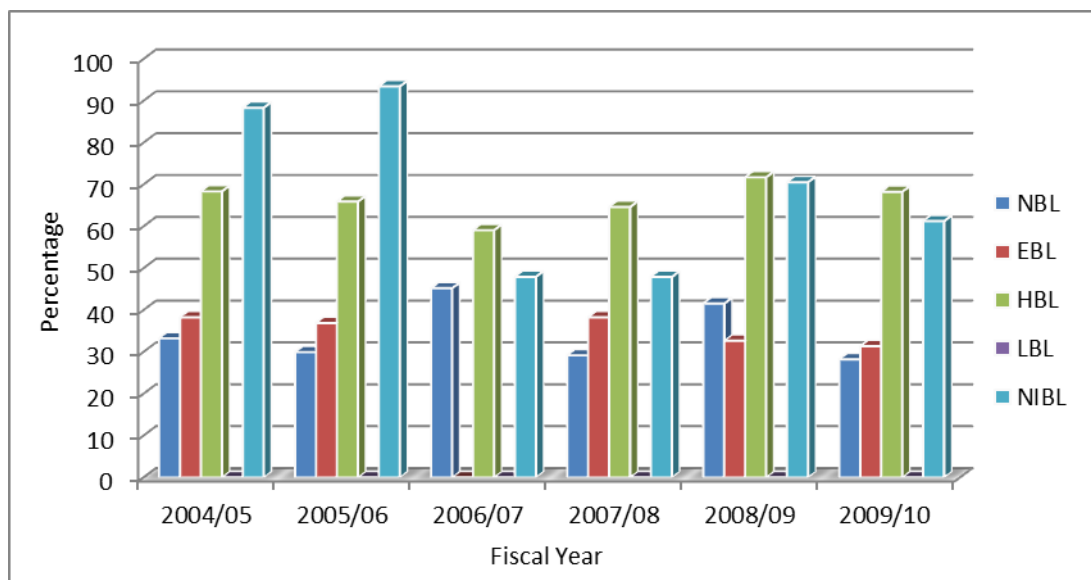
| <b>Fiscal Year</b> | <b>NBL%</b>     | <b>EBL %</b>    | <b>HBL %</b>    | <b>LBL %</b> | <b>NIBL %</b>   |
|--------------------|-----------------|-----------------|-----------------|--------------|-----------------|
| 2004/05            | 33.25           | 38.25           | 68.35           | 0            | 88.35           |
| 2005/06            | 29.94           | 36.90           | 65.91           | 0            | 93.44           |
| 2006/07            | 45.22           | 0               | 59.08           | 0            | 47.95           |
| 2007/08            | 29.18           | 38.25           | 64.62           | 0            | 47.95           |
| 2008/09            | 41.56           | 32.67           | 71.72           | 0            | 70.55           |
| 2009/10            | 28.22           | 31.35           | 68.25           | 0            | 61.24           |
| <b>Mean</b>        | <b>35.83</b>    | <b>29.214</b>   | <b>65.936</b>   | <b>0</b>     | <b>69.648</b>   |
| <b>SD</b>          | <b>7.186376</b> | <b>16.49072</b> | <b>4.690931</b> | <b>0</b>     | <b>21.55368</b> |
| <b>CV</b>          | <b>20.05687</b> | <b>56.44799</b> | <b>7.114369</b> | <b>0</b>     | <b>30.94659</b> |

*Source: Annex V*

In the table 4.6, the average DPR of NIBL 69.64 which is the highest DPR. It means that NIBL generally pays 69.64 % of its total earning as dividend to its shareholders. LBL Bank has a lowest DPR or zero DPR. It has not paid dividend for six years.

The coefficient of variation in the DPR of HBL bank is the lowest i.e.7.11 which shows a very low fluctuation. NBL, EBL, NIBL bank has also low fluctuation in the DPR. There is a maximum fluctuation in the DPR of NBL, EBL, NIBL and LBL has not paid dividend for five years.

**Figure 4.5**  
**Analysis of Dividend Payout Ratio of Sampled of the Banks**



#### 4.1.5 Correlation Coefficient Analysis

The following tables are presented to analyze the relationship between Market Price per share and other financial indicators DPS, DPR, EPS and NWPS by correlation coefficient. The correlation coefficient helps to determine whether there exists any relationship among different variables.

Interpretation of Correlation Coefficient:

It lies always between +1 and -1.

Where,

$r = +1$ , there is perfect positive correlation

$r = -1$ , there is perfect negative correlation

$r = 0$ , there is no correlation

Where,  $r$  lies between 0.7 to 0.999 (-0.7 to -0.999) then a high degree of positive (or negative) correlation.

Where,  $r$  lies between 0.5 to 0.699, there is a moderate degree of correlation

Where,  $r$  is less than, 0.5, there is low degree of correlation.

**Table 4.7**

#### **Correlation Coefficient Analysis between MPS and DPS of the Banks**

| <b>S. No.</b> | <b>Name of the Bank</b> | <b>Correlation Coefficient<br/><i>R<sub>DPS</sub></i></b> |
|---------------|-------------------------|---|
| 1             | Nabil Bank              | 0.50  |
| 2             | Everest Bank            | 0.43  |
| 3             | Himalayan Bank          | 0.30  |
| 4             | Nepal Investment Bank   | -0.04   |
| 5             | Lumbini Bank            | 0   |

*Source: Annex VI, VII, VIII, IX, X*

The table 4.7 clearly shows the degree of relationship between MPS and DPS. The degree of relationship between MPS and DPS seems to be significant in all of the above listed institutions except in the case of NIBL. Where, correlation coefficient

recorded as  $NIBL = - 0.04$  besides these Bank, HBL has a low degree of correlation i.e. 0.30 and the Lumbini Bank have a no relation between MPS and DPS.

**Table 4.8**

**Correlation Coefficient Analysis between MPS and EPS of the Banks**

| <b>S. No.</b> | <b>Name of the Bank</b> | <b>Correlation Coefficient (<math>R_{DPS}</math>)</b> |
|---------------|-------------------------|---|
| 1             | Nabil Bank              | 0.22  |
| 2             | Everest Bank            | 0.655   |
| 3             | Himalayan Bank          | 0.39  |
| 4             | Nepal Investment Bank   | 0.22  |
| 5             | Lumbini Bank            | 0.74  |

*Source: Annex VI, VII, VIII, IX, X*

The table 4.8 shows the degree of relationship between MPS and EPS. The degree of relationship between MPS and RPS seems to be highly positive in Nabil Bank, Himalayan Bank, In NIBL, EBL, LBL, the correlation coefficient between MPS and EPS is comparatively.

**Table 4.9**

**Correlation Coefficient Analysis between MPS and DPR of the Banks**

| <b>S. No.</b> | <b>Name of the Bank</b> | <b>Correlation Coefficient (<math>R_{DPS}</math>)</b> |
|---------------|-------------------------|---|
| 1             | Nabil Bank              | 0.495   |
| 2             | Everest Bank            | -0.325  |
| 3             | Himalayan Bank          | 0.542   |
| 4             | Nepal Investment Bank   | -0.298  |
| 5             | Lumbini Bank            | 0   |

*Source: Annex VI, VII, VIII, IX, X*

The table 4.9 shows the degree of relationship between MPS and DPR. In positive correlation, if independent variable increases then it causes to increase dependent variable by 100 % and vice-versa. Here, MPS is dependent variable and DRP is independent variable.

The degree of relationship between MPS and DPR of Lumbini Bank Ltd. is highly positive. Everest Bank, Nepal Investment Bank has negative correction. Such a situation is not a healthy financial environment for the bank and financial institutions in Nepal.

**Table 4.10**  
**Regression Analysis between MPS and DPS**

| S.No. | Name of the Bank      | Regression Coefficient |              | Equation (y= a+bx) |
|-------|-----------------------|------------------------|--------------|--------------------|
|       |                       | Constant (a)           | Constant (b) |                    |
| 1     | Nabil Bank            | 27.6                   | 0.021        | MPS=27.6+0.021DPS  |
| 2     | Everest Bank          | 14.1                   | 0.006        | MPS=14.1+0.006DPS  |
| 3     | Himalayan Bank        | -12.1                  | 0.055        | MPS=-12.1+0.055DPS |
| 4     | Nepal Investment Bank | 23.2                   | -0.325       | MPS=-23.2-0.325DPS |
| 5     | Lumbini Bank          | 71.2                   | 0.003        | MPS=71.2+0.003DPS  |

*Source: Annex VI, VII, VIII, IX, X*

The table 4.10 depicts the major output of simple regression between Market Price and Dividend Per share of the sampled Banks. The regression coefficient (b) of Nabil Bank, Everest Bank, Himalayan Bank, Lumbini Bank is positive of 0.021, 0.006, 0.055, and 0.003 respectively. They indicate there exists positive relationship between market price and DPS. But the value of b is negative in Nepal Investment Bank i.e., -0.325. Which means, if DPS decreases by 32.50% then it leads to increase MPS by 100% and vice versa? In case of slope, if one variable increases then other variable decreases.

#### 4.1.6 Regression Equation of MPS and EPS

**Table 4.11**  
**Regression Equation of MPS and EPS**

| S. N. | Name of the Financial Institutions | Regression Coefficient |           | Equation (y = a+b)   |
|-------|------------------------------------|------------------------|-----------|----------------------|
|       |                                    | Constant (a)           | Slope (b) |                      |
| 1     | Nabil Bank                         | 42.56                  | 0.033     | MPS=42.56+0.0383 EPS |
| 2     | Everest Bank                       | 27.86                  | 0.014     | MPS=27.86+0.014 EPS  |
| 3     | Himalayan Bank                     | 10.51                  | 0.045     | MPS=10.51+0.045 EPS  |
| 4     | Nepal Investment Bank              | 35.28                  | 0.031     | MPS=35.28+0.031EPS   |
| 5     | Lumbini Bank                       | 29.24                  | 0.013     | MPS=29.24+0.013EPS   |

*Source: Annex VI, VII, VIII, IX, X*

The table 4.11 shows the regression equation drawn between MPS and EPS of the 10 sampled institutions. Here, EPS is independent variable and MPS is the dependent variable. With the help of these indicators, we can obtain the slope (b) and the intercept (a) of the equation y= a+bx. Here, Y is MPS. In the above table, we can see that regression coefficient (b) is positive in Nabil Bank, Himalayan Bank, Everest

Bank, Nepal Investment Bank and Lumbini Bank i.e. 0.033, 0.014, 0.045, 0.031 and 0.013 respectively. They indicate that there exists positive relationship between market price and EPS. If EPS increases by 3.3 %, 1.4%, 4.5%, 1.3%, MPS increases 100% and vice versa.

#### 4.1.7 Regression Equation of MPS and DPR

**Table 4.12**

##### **Regression Analysis between MPS and DPR**

| S. N | Name of the financial Institutions | Regression Coefficient |           | Equation (y= a+bx) |
|------|------------------------------------|------------------------|-----------|--------------------|
|      |                                    | Constant (a)           | Slope (b) |                    |
| 1    | Nabil Bank                         | 55.32                  | 0.005     | MPS=55.32+0.005DPR |
| 2    | Everest Bank                       | 62.35                  | -0.009    | MPS=62.35+0.009DPR |
| 3    | Himalayan Bank                     | 13.62                  | 0.044     | MPS=13.6+0.044DPR  |
| 4    | NepalInvestment Bank               | 65.21                  | -0.008    | MPS=65.25-0.008DPR |
| 5    | Lumbini Bank                       | 53.23                  | 0.013     | MPS=53.27+0.013DPR |

*Source: Annex VI, VII, VIII, IX, X*

The table 4.12 shows the regression equation drawn between MPS and DPR of the 5 sampled institutions. Here, DPR is independent variable and MPS is the dependent variable. With the help of these indicators, we can obtain the slope (b) and the intercept (a) of the equation  $y= a+bx$ . Here, Y is MPS. In the above table, we can see that regression coefficient (b) is positive in Nabil Bank, Himalayan Bank, Lumbini Bank i.e. 0.005, 0.044, and 0.013 respectively. They indicate that there exists positive relationship between market price and DPR. If DPR increases by 0.5 %, 4.4%, and 1.3% MPS increases 100% and vice versa. The slope (b) of Everest Bank, Nepal Investment Bank is negative. i.e., -0.009, -0.008, which means that there exist negative relationship between MPS and DPR which demonstrate that it DPR (independent variable) decreases by 0.9 % and 0.8 % it leads to increase MPS by 100% and vice versa.

## **4.2 Presentation and Analysis of Primary Data**

### **4.2.1 Empirical Study: Response of Individuals**

An empirical study was carried out to receive a response of the individuals who own equity shares. A questionnaire was used to collect the view of the shareholders. The questionnaire was distributed to 40 persons representing several sectors like NRB, SEBON, NEPSE, etc. which are shareholders and staff of the banks. The responses of only 40 responses were used for the purpose of analysis as these respondents had purchased equity shares from the secondary market. Others had purchased shares from the primary market. The questionnaire focused on the behavior of the investors while purchasing the equity shares in the secondary market. The questionnaire examines if the investor analyses financial health of the institution or not, if the investor cares the overall market or not and several other aspects that a good investor is supposed to look at. The number of respondents is shown in the table below.

**Table 4.13**  
**Composition of Respondents**

| <b>S. No.</b> | <b>Descriptions</b>                 | <b>Number</b> | <b>Percentage</b> |
|---------------|-------------------------------------|---------------|-------------------|
| <b>1.</b>     | <b>Respondents by sex</b>           | <b>40</b>     | <b>100</b>        |
|               | Male Respondent                     | 32            | 80                |
|               | Female Respondent                   | 8             | 20                |
| <b>2.</b>     | <b>Respondents by Age</b>           | <b>40</b>     | <b>100</b>        |
|               | 13 Age less than 25                 | 6             | 15                |
|               | Male respondent                     | 6             |                   |
|               | Female respondent                   | -             |                   |
|               | Age 25 to 50                        | 25            | 62.5              |
|               | Male respondent                     | 25            |                   |
|               | Female respond                      | -             |                   |
|               | Age above 50                        | 9             |                   |
|               | Male respondent                     | 9             | 22.5              |
|               | Female respond                      |               |                   |
| <b>3.</b>     | <b>Respondents by owning shares</b> | <b>40</b>     | <b>100</b>        |
|               | In only one financial institution   | 8             | 20                |
|               | In multiple Financial institutions  | 32            | 80                |

*Source: Field Survey*

The table 4.13 describes the respondents by their sex and age. We can see that the investors are mostly male investors. Investors of age more than 50 are those who are very experienced in trading of the equity shares and those who want to invest their retirement fund all the way through the equity share investment. Most of the investors turn out to be holding the shares of more than one financial institution. The investor, who is aware of investing in equity share, goes on searching the prospect to invest more in shares. The above table shows that there are more respondents who invest in multiple financial institutions rather than only one institution. The responses of the questionnaire given by equity share investors are analyzed below.

The first question was “**What inspired you to invest in the equity shares in Secondary Market?**” The response is shown in the following table.

**Table 4.14**

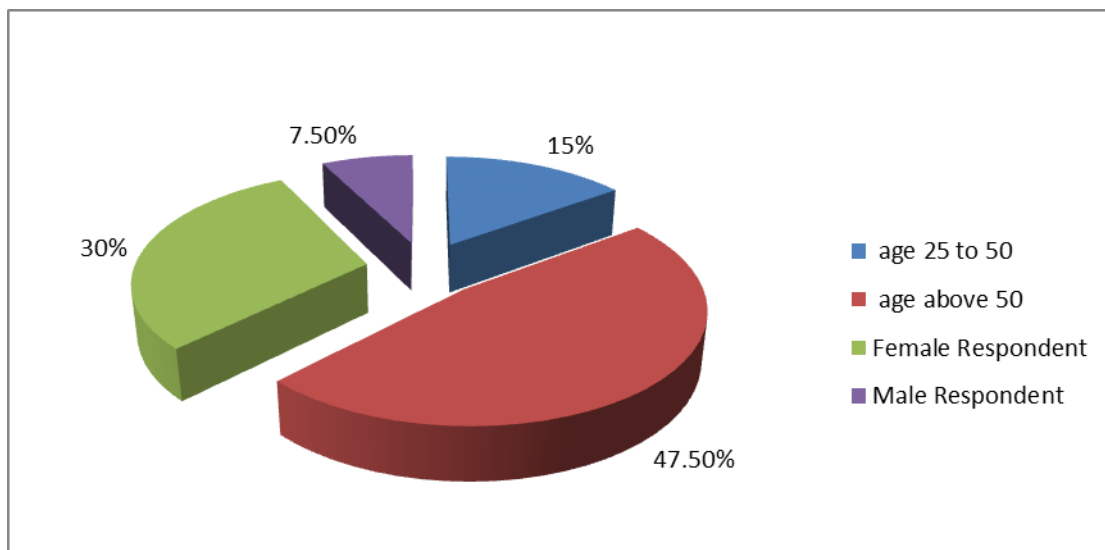
**What inspired you to invest in the equity shares in Secondary Market**

| <b>Options</b>                                | <b>Description</b> | <b>No. of Responses</b> | <b>Percentage</b> |
|---|--------------------|-------------------------|-------------------|
| a. Lack of alternative Investment             | By age 25 to 50    | 6                       | 15                |
| b. Prospects of higher share prices in future | By age above 50    | 19                      | 47.5              |
| c. Future benefits from the institutions      | Female Respondent  | 12                      | 30                |
| d. Prevailing share prices                    | Male Respondent    | 3                       | 7.5               |
| <b>Total</b>                                  |                    | <b>40</b>               | <b>100</b>        |

Source: Field Survey

**Figure 4.6**

**What inspired you to invest in the equity shares in Secondary Market**



Most of the responses were on behalf of prospects of higher share price in future. This shows that these people were looking for capital gains from equity shares. Such responded counted at 47.5 percent of the total respondent. Furthermore, 7.5 percent of the respondents quoted prevailing market price of the equity shares as major reason for purchasing equity shares. Out of total respondents, 15 percent of the respondent said they purchased shares due to lack of alternative investment in the country and the remaining 30 percent said that they purchased shares with a hope that they can gain benefits from the banks in the form of bonus shares, right shares and cash dividends.

The second question dealt on the fact if the investors care for the financial health of the company or not. The question reads, “**While investing, were you aware of the financial health of the institution?**” The response is shown in the following table.

**Table 4.15**

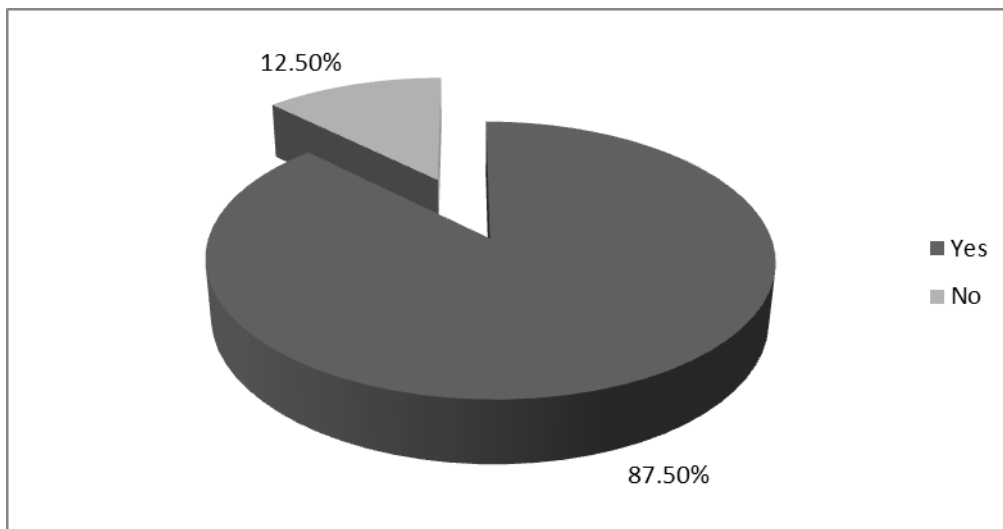
**While investing, were you aware of the Financial Health of the Institution**

| <b>Options</b> | <b>No. of Respondents</b> | <b>% of Total</b> |
|----------------|---------------------------|-------------------|
| Yes            | 35                        | 87.5              |
| No             | 5                         | 12.5              |
| <b>Total</b>   | <b>40</b>                 | <b>100</b>        |

*Source: Field Survey*

**Figure 4.7**

**While investing, were you aware of the Financial Health of the Institution**



Of the total respondents 87.5 percent said that they care for the financial health of the company. When asked “What you see on the financial health amongst profits, earning per share, dividend per share, net worth per share, dividend payout ratio and others if any”, the response was as: options No. of respondents % of total

37.5 percent of the respondents said they would look at the profitability of the company as financial health. Amongst them 30 percent said, they would also care for dividend per share, 15 percent said they would care for earning per share 7.5 percent would care for net worth per share and 5 percent would see the dividend payout ratio 5 percent of the respondents point out other financial indicators that include the

management of the company and etc. Another question was further asked with the same topic.

Question number 3 was, “**What factor amongst the financial health inspired you to purchase the equity shares in the Secondary Market?**” The response to this question was shown as following. Options No of Responses % of total

**Table 4.16**

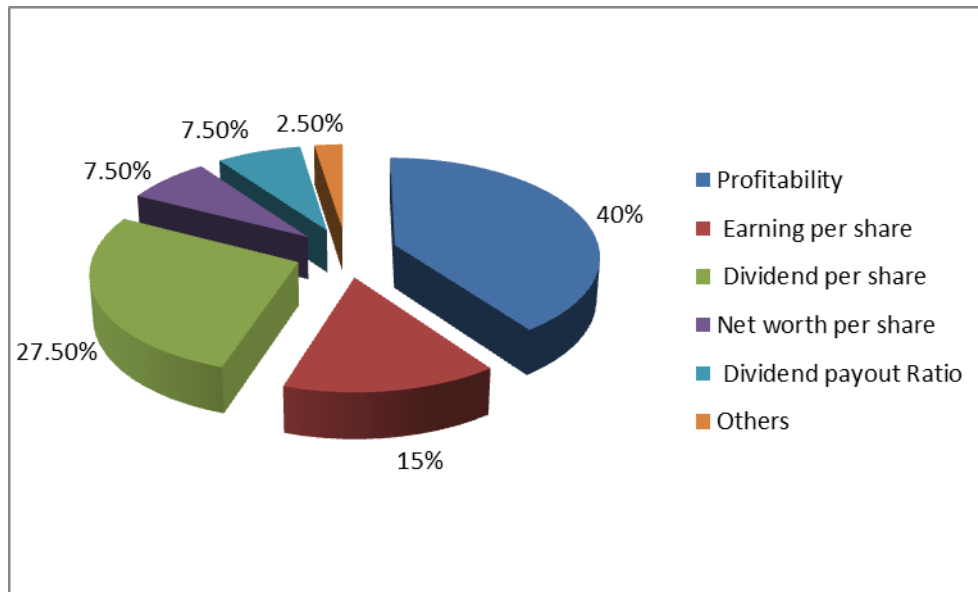
**What factor amongst the financial health inspired you to purchase the equity shares in the Secondary Market**

| <b>Options</b>          | <b>No. of Responses</b> | <b>% of Total</b> |
|-------------------------|-------------------------|-------------------|
| a Profitability         | 16                      | 40                |
| b Earning per share     | 6                       | 15                |
| c Dividend per share    | 11                      | 27.5              |
| d Net worth per share   | 3                       | 7.5               |
| e Dividend payout Ratio | 3                       | 7.5               |
| f Others (Specify)..... | 1                       | 2.5               |
| <b>Total</b>            | <b>40</b>               | <b>100</b>        |

*Source: Field Survey*

**Figure 4.8**

**What factor amongst the financial health inspired you to purchase the equity shares in the Secondary Market**



40 percent of the respondents quoted the profitability behind their motive to buy equity share in the secondary market and 27.5 percent of the respondents said they are interested in dividend per share. They expressed their hope verbally that the bank would offer bonus shares in the future. All those who said they look at net worth per share, dividend payout ratio and other factors such as management and future growth while seeing financial health of the bank said that each of these factors were also the motives for the purchase of the equity shares. Amongst those who said they do not care for financial health while purchasing equity shares in the secondary market, there was one supporting question in **question number 4**, which read as, “**If you were not aware of the financial health of the institution, why did you invest in the equity shares in Secondary Markets?** [Respond if your answer to Q2 is no]” The response of 5 respondents who say no to question no. 2 While investing, were you aware of the financial health of the institution?

**Table 4.17**

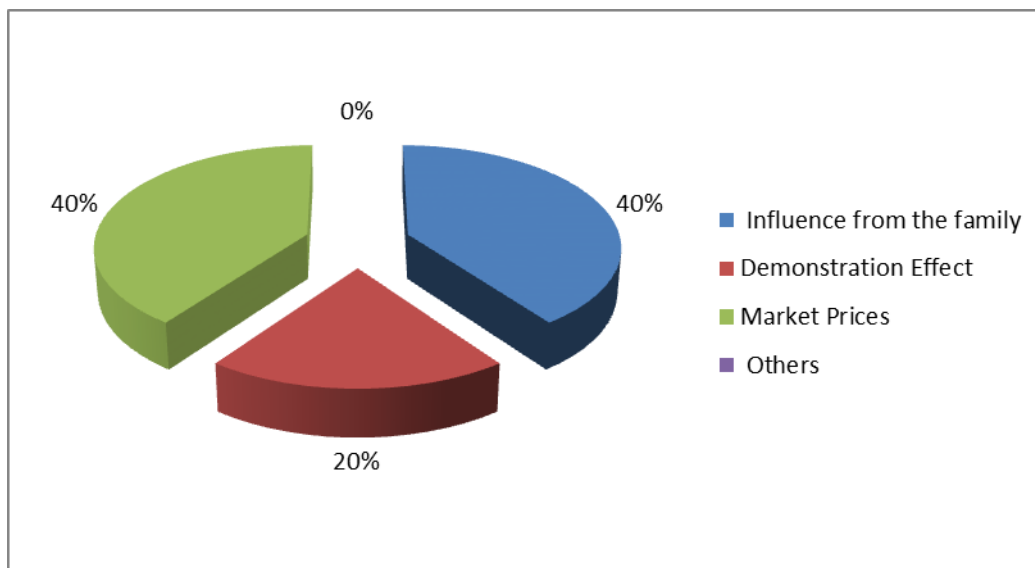
**If you were not aware of the financial health of the institution, why did you invest in the equity shares in Secondary Markets**

| <b>Options</b>               | <b>No of Responses</b> | <b>% of Total</b> |
|------------------------------|------------------------|-------------------|
| a. Influence from the family | 2                      | 40                |
| b. Demonstration Effect      | 1                      | 20                |
| c. Market Prices             | 2                      | 40                |
| d. Others                    | 0                      | -                 |
| <b>Total</b>                 | <b>5</b>               | <b>100</b>        |

*Source: Field Survey*

**Figure 4.9**

**If you were not aware of the financial health of the institution, why did you invest in the equity shares in Secondary Markets**



Among those respondents who did not care the financial health, 40 % said that the market price of the bank and influence from the family were equal factors that made them invest in the equity shares. 30 percent of the respondents bought equity shares from the secondary market due to the demonstration effect – their friends and close relatives were purchasing equity shares quite regularly.

Question number 5 asked “**If the investor were aware of other financial indicators such as NEPSE index, share market growth and others**”. Most of the responses are yes. There is a total of 70 percent (28 responses) positive response. 30 percent (12

responses) of the response is no, indicating that these group of respondents are not bothered with the other financial indicators in the share market. Amongst those who cared for other financial indicators the following are the indicators that they look into.

**Table 4.18**

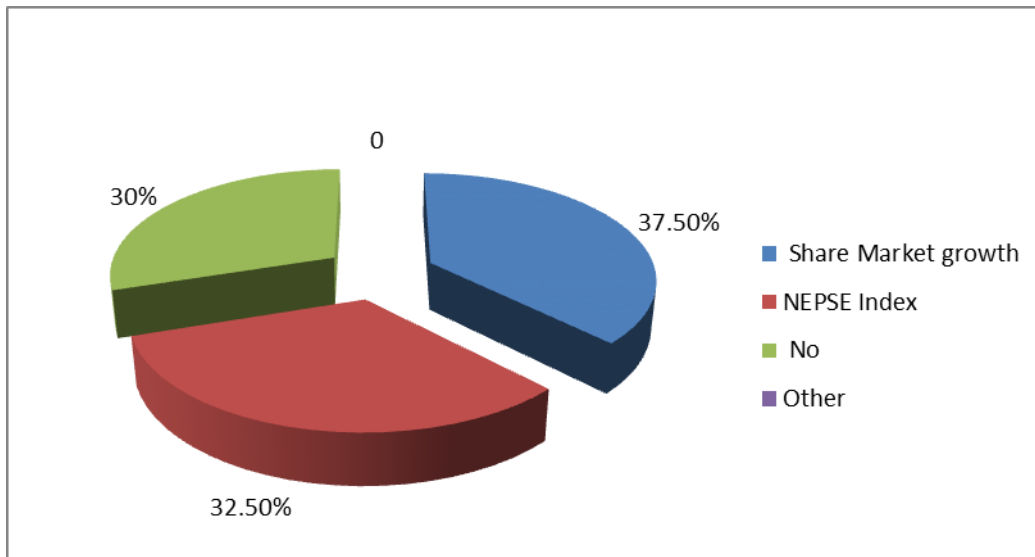
**If the investor were aware of other Financial Indicators such as NEPSE Index, Share Market Growth and Others**

| Options                | No. of Respondents | % of Total |
|------------------------|--------------------|------------|
| a. Share Market growth | 15                 | 37.5       |
| b. NEPSE Index         | 13                 | 32.5       |
| c. Other               | 0                  | -          |
| d. No                  | 12                 | 30         |
| Total                  | 40                 | 100        |

*Source: Field Survey*

**Figure 4.10**

**If the investor were aware of other Financial Indicators such as NEPSE Index, Share Market Growth and Others**



32.5 percent of the respondents said they look at the NEPSE index and 37.5 percent said that they look for the share market growth. Question number 6 was on the share investors' perception regarding the prices of the equity shares. This question was intended to see if the investors think that the share price that they are paying is just right or not. The response showed that a total of 62.5 percent (25 respondents) thought that the share prices were not just right and thus does not correspond to the financial health of the institution. Among these respondents 60 percent said the market price is

overvalued, 24 percent said it is undervalued and 16 percent said they cannot answer this. The questions and their responses are shown in the following table.

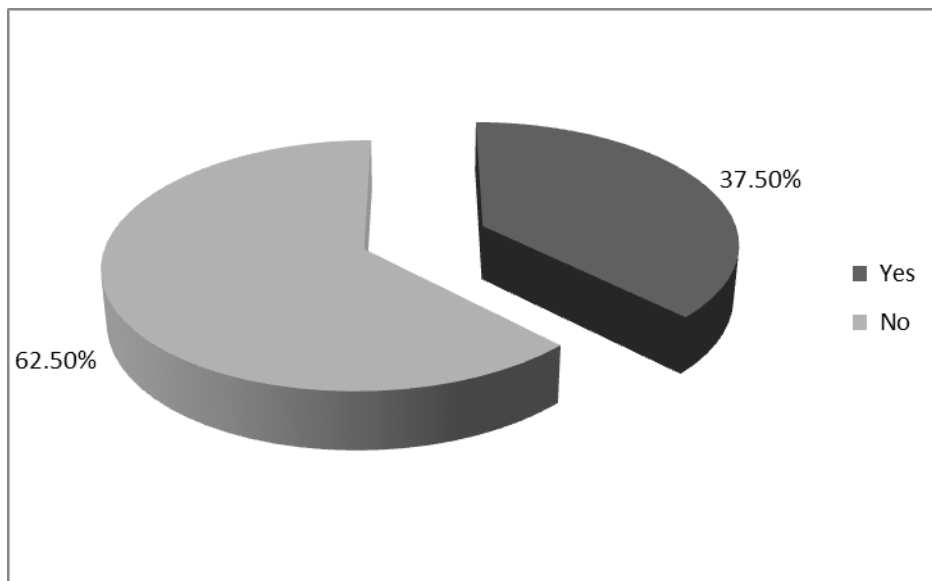
**Que. 6 Do you think the price that you pay correspond the financial health of the institution?** [Respond if your answer to Q2 is yes.]

**Table 4.19**  
**Do you think the Price that you pay correspond the**  
**Financial Health of the Institution**

| <b>Options</b> | <b>No. of Responses</b> | <b>% of Total</b> |
|----------------|-------------------------|-------------------|
| a. Yes         | 15                      | 37.5              |
| b. No          | 25                      | 62.5              |
| Total          | 40                      | 100               |

*Source: Field Survey*

**Figure 4.11**  
**Do you think the price that you pay correspond the**  
**Financial Health of the Institution**



For those respondents who chose Option 'No' to Question 6 : Que.7 You think that the market price is No. of Responses % of total

This question was on the awareness of the share investors on all the directives issued by the Nepal Rastra Bank, securities board, Nepal Stock Exchange and relevant institutions. The question asked, “Are you aware of the notice, information and directives issued by the Securities Board, Nepal Stock Exchange and Nepal Rastra Bank?” the response showed that 70 percent were aware of these things and 30 percent were not aware of this information. The last question was on **“How share investors rated the risk-factor in the share market”**. The response is shown in the following table. Options No of Responses % of total

**Table 4.20**

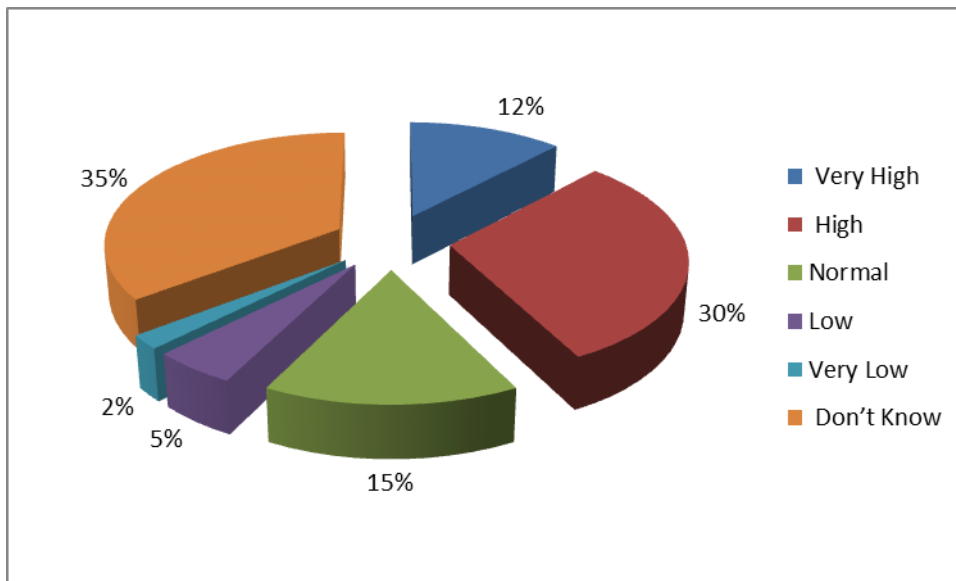
**How Share Investors Rated the Risk-Factor in the Share Market**

| <b>Options</b> | <b>No. of Responses</b> | <b>% of Total</b> |
|----------------|-------------------------|-------------------|
| a. Very High   | 5                       | 12                |
| b. High        | 12                      | 30                |
| c. Normal      | 6                       | 15                |
| d. Low         | 2                       | 5                 |
| e. Very Low    | 1                       | 2                 |
| f. Don't Know  | 14                      | 35                |
| <b>Total</b>   | <b>40</b>               | <b>100</b>        |

*Source: Field Survey*

**Figure 4.12**

**How Share Investors Rated the Risk-Factor in the Share Market**



35% of the respondents were unaware of the risk-factor in the share investment. Their response simply turned out to be I don't know. There was a mixed answer to this question. Most of the respondents who said they had some idea on the associated risk responded that the risk factor is higher (12 percent + 30 percent=42 percent). 15 percent of the responses were in favor of normal risk. Only seven percent of the responded said the risk is lower.

### 4.3 Major Findings of the Study

The main findings of the research work are summarized below:

- Among the commercial banks, NBL Limited has the highest EPS throughout the study period. The average EPS of NBL is 117.37, SD is 13.14 and CV is 11.19, which shows that there is a very low fluctuation in EPS of Standard Chartered bank.
- Among the commercial banks, the average Market price of Nabil Bank Limited is highest i.e. Rs. 3793.80. It has a standard deviation of 1590.36 and coefficient of variation is 41.91.
- The average dividend paid by Standard Chartered bank ltd. is the highest 37.43 among the financial institutions listed in the above table. Nepal Investment Bank has the second highest i.e. 35.25.
- Average DPR of Himalayan bank is 66.34 which are the highest DPR. It means that HBL generally pays 144.89 % of its total earning as dividend to its shareholders. Everest Bank has a lowest DPR of 16.01. And Lumbini Bank has not paid dividend five year.
- The degree of relationship between MPS and DPS seems to be significant in all of the above listed Banks except in the case of Nepal Investment Bank. Where, correlation coefficient recorded as Nepal Investment Bank = -0.721
- The degree of relationship between MPS and EPS seems to be highly positive in Nabil Bank, Himalayan Bank, Everest Bank, and Nepal Investment Bank. In Lumbini Bank the correlation coefficient between MPS and EPS is low.
- The regression coefficients (b) of Nabil Bank, Everest Bank, Himalayan Bank, Lumbini Bank are positive of 0.028, 0.065, 0.005, 0.049, and 0.002 respectively. They indicate there exists positive relationship between market price and DPS. But the value of b is negative in Nepal Investment Bank i.e. -0.234
- Regression coefficient (b) is positive in Nabil Bank, Himalayan Bank, Everest Bank, Nepal Investment Bank and Lumbini Bank i.e. 0.038, 0.014, 0.045, 0.031, and 0.013 respectively. They indicate that there exists positive relationship between market price and EPS.

- The regression coefficient (b) is positive in Nabil Bank, Standard Chartered Bank, Himalayan Bank, Lumbini Bank i.e. 0.005, 0.044, and 0.013 respectively. They indicate that there exists positive relationship between market price and DPR.
- Among the total respondents, 87 percent of the share investors cared on the financial health of the company before purchasing equity shares from the secondary market. Amongst the financial health all investors cared for the profitability of the institution. It was found that 75 percent of the respondents care for dividend per share.

# **CHAPTER - V**

## **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary**

Every firm is established to earn profit. Among the total net profit earned each firm divides its net earning into retained earnings and dividend. Dividend is defined as that portion of the net earnings of the firm, which is distributed to the stockholders either in the form of cash or stock as per its dividend policy. General public invest in equity share with an expectation of good returns in future in the form of capital gains, dividends or growth in terms of share holding. The financial performance of the institution and other economical and financial factors mostly affects the decision to invest in equity shares. Other factors like market imperfection, lack of awareness of the investor, lack of skills to analyze the financial health and unhealthy market competition may lead to fake decision while purchasing equity shares.

The Market price of equity shares is affected by various financial indicators like Dividend per share, earning per share, and net worth per share and dividend payout ratio. Therefore this study mainly examines relationship between market price of the equity share with Dividend per share, earning per share, net worth per share and dividend payout ratio. This study is mainly focused on whether dividend per share of the company affects market price of share or not? It has been noticed that there is a significant fluctuations in prices of corporate shares even without significant changes in profitability situation of the company. Amongst the listed companies in the Nepal Stock Exchange, commercial banks always hold a big position in overall trading. The trading - in terms of volume and amount - of the commercial banks make up to 80 percent of total transactions Finance companies and development banks hold second and third share in the trading in volume as well as in the amount. Therefore, study of 5 Banks was expected to reflect the overall stock market in Nepal.

This research encloses seven commercial banks (Nabil Bank, Himalayan Bank, Everest Bank, Nepal Investment Bank and Lumbini Bank), both empirical analysis

and statistical observations had been performed to carrying out this study. The secondary data was collected primarily from the annual reports of the Securities Board Nepal. The data was studied in order to obtain various financial performances, annual meetings, MPS, DPS, EPS, DPR, of the sampled Banks. The analysis of MPS, DPR, DPS, EPS was done which showed that Nabil Bank Limited has the highest MPS and EPS throughout the study period. Nepal Housing and Merchant Finance have higher average MPS than Lumbini Bank.

The average dividend paid by Himalayan bank ltd. is the highest (37.43). Among the Banks, Nepal Investment Bank second highest dividend paid per share. The average DPR of NIBL is 62.67 which is the highest DPR. Among the all, Nabil Bank and Himalayan Bank also show a very positive position. For the purpose of statistical analysis of the entire sample banks, Simple correlation and regression analysis is used to interpret the results. The data obtained were analyzed to run the separate set of regression analysis taking market price as the dependant variable and earnings per share, dividend per share, net worth per share and dividend payout ratio has been taken as independent variable. Simple regression analysis between the market price and other financial indicators (DPS, EPS, and DPR) reflected that net worth per share explained the best of the market prices compared to other indicators. Dividend per share and earnings per share were equally explanatory, whereas dividend payout ratio was not a good indicator of stock pricing. The result showed that market price corresponds to the earning per share at a greater extent and then to dividend per share and then to earnings per share.

When carrying out individual analysis of the commercial banks, the result drawn was that market prices of different banks correspond to different financial indicators. While market price of equity shares of some of the commercial banks was high with dividend per share, some had high correlation coefficient between market price and net worth per share. Correlation coefficient was significant between dividend payout ratio and market price in some of the cases. The empirical analysis was carried out on the basis of the responses of 40 share investors. The result of which is shown as

follows. Most of the respondents were male respondents investing in more than one financial institution. They invest with an expectation of gaining more in future. They were more concerned with the purchase and sale of shares rather than holding for a longer period of time expecting dividend and bonus share returns. Among the total respondents, 87 percent of the share investors cared on the financial health of the company before purchasing equity shares from the secondary market. Amongst the financial health all investors cared for the profitability of the institution. It was found that 75 percent of the respondents care for dividend per share. 13 percent of the respondents who did not care for financial health of the company were mainly due to ignorance, rather than due to high knowledge. This group of people bought shares mainly because those in the close circles were purchasing shares. They had little knowledge but were investing in the shares mainly as a result of demonstration effect. There was little concern on other financial indicators, risk factors and the directives issued by the central bank, Nepal stock exchange, securities board and concerned commercial banks.

## **5.2 Conclusion**

From this study, it has been concluded that there is not a single financial indicator that has a dominated role to determine MPS. One financial indicator that has significant role fixation in MPS for one company is not significant for another company. Dividend practices of all sample financial institutions are neither stable nor constantly growing. Haphazard way of distribution in growing trend is seemed in practice.

## **5.3 Recommendations**

The findings of the study reveals that market prices of the equity shares are overvalued when compared to the earnings per share, which is the primary indicator of the financial status of the concerned financial institution.

- This was mainly due to ignorance and improper access to financial health of the company. It is recommended that the investors should be conscious while purchasing equity shares.

- Regulatory bodies should play greater role to disclose the financial status of the company on a regular basis. This can help the investors for proper judgment of the situation and for the calculation of expected market prices. As the empirical study revealed that there are significant numbers of share investors who do not know about the functioning of the securities market and are unaware of the market price setting mechanism, an intensive program to aware this group of share investors must be carried out by Nepal Stock Exchange and Securities Board Nepal.
- The present efforts to educate share investors have remained at low level. Since the access to internet in Nepal is quite low,
- It is recommended that Nepal Stock Exchange and Securities Board take on other measures such as printing leaflets and other information brochures to educate the share investors. The presence of rating agencies and disclosing the ratings of financial institutions on a regular basis can also help strengthen the equity market, as the market prices for high rated institutions would increased when compared to those having low level of ratings.

As this study has not considered the external factors such as investment climate, economic growth, growth of the financial system and others, it is recommended that a detailed study is carried out to observe the market price behavior in Nepal. This study can help identify the real factors that affect market price of equity shares, other than the financial health of the company itself.

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[www.nibl.com.np](http://www.nibl.com.np)

# ANNEXURE

## Annex - I Questionnaire

1. What inspired you to invest in the equity shares in secondary market?
  - a) Lack of alternative investment
  - b) Prospects of higher share prices in future
  - c) Future benefits from the institution
  - d) Prevailing Prices
  
2. While investing, were you aware of the financial health of the institution?
  - a) Yes
  - b) No
  
3. What factor amongst the financial health inspired you to purchase the equity shares in the secondary market?
  - a) Profitability
  - b) Earnings per Share
  - c) Dividend per Share
  - d) Net Worth per Share
  - e) Dividend Payout Ratio
  - f) Others (Specify) .....
  
4. If you were not aware of the financial health of the institution, why did you invest in the equity shares in Secondary Markets? [Respond if yours answer to q<sub>2</sub> is no]
  - a) Influence from the family
  - b) Demonstration effect  
(purchase of shares in the close circles)
  - c) Market Prices
  - d) Others
  
5. If the investors were aware of other financial indicators such as NEPSE index, share market growth and others?
  - a) Yes
  - b) NEPSE Index
  - c) Others
  - d) No
  
6. If the share investor's perception regarding the prices of the equity shares. This question was intended to see if the investors think that the share price that they are paying is just right or not?

a) Yes                      b) No

7. Do you think the price that you pay correspond the financial health of the institution? [Respond if your answer to Q2 is yes].

a) Yes                      b) No

8. How share investors rated the risk-factor in the share market?

a) Very High              b) High                      c) Normal                      d) Low

e) Very Low              f) Don't Know

## Annex-II

### Earning Per Share of the Banks

| Fiscal Year                                 | NBL     | EBL      | HBL      | LBL      | NIBL    |
|---|---------|----------|----------|----------|---------|
| 2004/05                                     | 105.49  | 54.2     | 47.91    | -39.35   | 59.35   |
| 2005/06                                     | 129.21  | 62.8     | 59.24    | -161.21  | 62.57   |
| 2006/07                                     | 137.08  | 78.4     | 60.66    | 32.07    | 62.57   |
| 2007/08                                     | 108.31  | 91.82    | 62.74    | 32.91    | 57.87   |
| 2008/09                                     | 106.76  | 99.99    | 61.9     | 30.31    | 37.42   |
| 2009/10                                     | 18.11   | 20.94    | 9.46     | 31.25    | 38.00   |
| Mean( $\bar{X}$ ) = $\frac{\sum EPS}{N}$    | 99.4417 | 60.06    | 47.63833 | -22.9417 | 56.435  |
| SD = $\sqrt{\frac{\sum (EPS - MEAN)^2}{N}}$ | 42.5061 | 24.40924 | 19.96591 | 75.60093 | 9.26257 |

## Annex-III

### Market Price Per Share of the Banks

| Fiscal Year                                 | NBL     | EBL      | HBL      | LBL      | NIBL    |
|---|---------|----------|----------|----------|---------|
| 2004/05                                     | 1505    | 870      | 920      | 180      | 1260    |
| 2005/06                                     | 2240    | 1379     | 1100     | 172      | 1729    |
| 2006/07                                     | 5050    | 2430     | 1740     | 505      | 1729    |
| 2007/08                                     | 5275    | 3132     | 1980     | 631      | 2450    |
| 2008/09                                     | 4899    | 2455     | 1760     | 435      | 1388    |
| 2009/10                                     | 2880    | 2390     | 1495     | 325      | 1750    |
| Mean( $\bar{X}$ ) = $\frac{\sum MPS}{N}$    | 3641.5  | 2109.333 | 1499.167 | 372.1667 | 1844.67 |
| SD = $\sqrt{\frac{\sum (MPS - MEAN)^2}{N}}$ | 1633.54 | 826.5915 | 412.8004 | 182.2892 | 409.197 |
| CV = $\frac{SD}{\text{Mean}(\bar{X})}$      | 44.8589 | 39.18733 | 27.53532 | 48.98054 | 22.1827 |

## Annex-IV

### Dividend Per Share of the Banks

| Fiscal Year  | NBL      | EBL      | HBL      | LBL | NIBL     |
|--|----------|----------|----------|-----|----------|
| 2004/05  | 31.58    | 20       | 31.58    | N/A | 55.46    |
| 2005/06  | 35       | 0        | 35       | N/A | 30       |
| 2006/07  | 40       | 30       | 40       | N/A | 30       |
| 2007/08  | 45       | 30       | 45       | N/A | 40.83    |
| 2008/09  | 43.56    | 30       | 43.56    | N/A | 20       |
| 2009/10  | 0        | 0        | 0        | 0   | 0        |
| $\text{Mean}(\bar{X}) = \frac{\sum \text{DPS}}{N}$               | 36.316   | 32       | 39.028   | 0   | 42.518   |
| $\text{SD} = \sqrt{\frac{\sum (\text{DPS} - \text{MEAN})^2}{N}}$ | 6.185409 | 23.87467 | 5.675519 | 0   | 12.97776 |
| $\text{CV} = \frac{\text{SD}}{\text{Mean}(\bar{X})}$             | 17.03219 | 74.60835 | 14.54217 | 0   | 30.52298 |

## Annex-V

### Dividend Payout Ratio of Sampled of the Banks

| Fiscal Year  | NBL      | EBL      | HBL      | LBL | NIBL     |
|--|----------|----------|----------|-----|----------|
| 2004/05  | 29.94    | 36.90    | 65.91    | N/A | 93.44    |
| 2005/06  | 45.22    | 0        | 59.08    | N/A | 47.95    |
| 2006/07  | 29.18    | 38.25    | 64.62    | N/A | 47.95    |
| 2007/08  | 41.56    | 32.67    | 71.72    | N/A | 70.55    |
| 2008/09  | 40.81    | 30.00    | 70.37    | N/A | 53.45    |
| 2009/10  | 28.22    | 31.35    | 68.25    | N/A | 61.24    |
| $\text{Mean}(\bar{X}) = \frac{\sum \text{DPR}}{N}$               | 35.83    | 29.214   | 65.936   | N/A | 69.648   |
| $\text{SD} = \sqrt{\frac{\sum (\text{DPR} - \text{MEAN})^2}{N}}$ | 7.186376 | 16.49072 | 4.690931 | N/A | 21.55368 |
| $\text{CV} = \frac{\text{SD}}{\text{Mean}(\bar{X})}$             | 20.05687 | 56.44799 | 7.114369 | N/A | 30.94659 |

## Annex – VI

### Simple Correlation and Regression Analysis between MPS & DPS

#### NABIL Bank Limited

| Fiscal Year  | MPS (X)           | DPS (Y)            | XY                 | X <sup>2</sup>                | Y <sup>2</sup>                 |
|--------------|-------------------|--------------------|--------------------|-------------------------------|--------------------------------|
| 2004/05      | 1505              | 31.58              | 3331.37            | 11128.14                      | 997.29                         |
| 2005/06      | 2240              | 35                 | 4522.35            | 16695.22                      | 1225                           |
| 2006/07      | 5050              | 40                 | 5483.2             | 18790.92                      | 1600                           |
| 2007/08      | 5275              | 45                 | 4873.95            | 11731.05                      | 2025                           |
| 2008/09      | 4899              | 43.56              | 4650.46            | 11397.69                      | 1893.11                        |
| 2009/10      | 2880              | 0                  | 0                  | 327.9721                      | 0                              |
| <b>N = 6</b> | <b>ΣX = 21849</b> | <b>ΣY = 195.14</b> | <b>ΣXY = 22861</b> | <b>ΣX<sup>2</sup> = 70071</b> | <b>ΣY<sup>2</sup> = 7740.4</b> |

$$\text{Mean } \bar{X} = \frac{\Sigma X}{N} = 3641.50$$

$$\text{Mean } \bar{Y} = \frac{\Sigma Y}{N} = 36.316$$

$$\text{Coefficient of Correlation } r = \frac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}} = 0.50$$

Regression Equation of Y on X is

$$Y = a + bx$$

Where,

A = Regression Constant

B = Regression coefficient (slope of the regression line)

According to the principle of least squares two normal equation for estimating two numerical constant a & b are given by

$$\Sigma Y = na + b\Sigma X$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2$$

Solving these two normal equations we get,

$$B = \frac{n\Sigma xy - \Sigma x \Sigma y}{n\Sigma x^2 - (\Sigma x)^2} = 0.021$$

$$A = \bar{y} - b\bar{x}$$

$$= 27.6$$

## Annex – VII

### Simple Correlation and Regression Analysis between MPS & DPS

#### Everest Bank Limited

| Fiscal Year  | MPS (X)          | DPS (Y)         | XY                 | X <sup>2</sup>     | Y <sup>2</sup>                |
|--------------|------------------|-----------------|--------------------|--------------------|-------------------------------|
| 2004/05      | 870              | 20              | 1084               | 29376.4            | 400                           |
| 2005/06      | 1379             | 0               | 0                  | 3943.84            | 0                             |
| 2006/07      | 2430             | 30              | 2352               | 6146.56            | 900                           |
| 2007/08      | 3132             | 30              | 2754.6             | 8430.92            | 900                           |
| 2008/09      | 2455             | 30              | 2999.7             | 9998.00            | 900                           |
| 2009/10      | 2390             | 0               |                    | 438.4836           | 0                             |
| <b>N = 6</b> | <b>ΣX= 12656</b> | <b>ΣY = 110</b> | <b>ΣXY=9190.30</b> | <b>ΣX=58334.20</b> | <b>Σ Y<sup>2</sup> = 3100</b> |

$$\text{Mean } \bar{X} = \frac{\sum X}{N} = 2109.333$$

$$\text{Mean } \bar{Y} = \frac{\sum y}{N} = 18.33$$

$$\begin{aligned} \text{Coefficient of Correlation } r &= \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2} \sqrt{n\sum Y^2 - (\sum Y)^2}} \\ &= 0.43 \end{aligned}$$

Regression Equation of Y on X is

$$Y = a + bx$$

Where,

A = Regression Constant

B= Regression coefficient (slope of the regression line)

According to the principle of least squares two normal equation for estimating two numerical constant a & b are given by

$$\sum Y = na + b\sum X$$

$$\sum XY = a\sum X + b\sum X^2$$

Solving these two normal equations we get,

$$B = \frac{n\sum xy - \sum x \sum y}{n\sum x^2 - (\sum x)^2} = 0.006$$

$$A = \bar{y} - b\bar{x}$$

$$= 14.10$$

## Annex – VIII

### Simple Correlation and Regression Analysis between MPS & DPS

#### Himalayan Bank Limited

| Fiscal Year  | MPS (X)         | DPS (Y)          | XY                 | X <sup>2</sup>                 | Y <sup>2</sup>                |
|--------------|-----------------|------------------|--------------------|--------------------------------|-------------------------------|
| 2004/05      | 920             | 31.58            | 1512.99            | 2295.36                        | 997.29                        |
| 2005/06      | 1100            | 35               | 207.34             | 3509.37                        | 1225                          |
| 2006/07      | 1740            | 40               | 2426.4             | 3679.63                        | 1600                          |
| 2007/08      | 1980            | 45               | 2823.3             | 3936.30                        | 2025                          |
| 2008/09      | 1760            | 43.56            | 2696.36            | 3831.61                        | 1897.47                       |
| 2009/10      | 1495            | 0                | 0                  | 89.4916                        | 0                             |
| <b>N = 6</b> | <b>ΣX= 8995</b> | <b>ΣY=195.14</b> | <b>ΣXY=9666.40</b> | <b>ΣX<sup>2</sup>=17341.80</b> | <b>ΣY<sup>2</sup>=7744.80</b> |

$$\text{Mean } \bar{X} = \frac{\Sigma X}{N} = 1499.167$$

$$\text{Mean } \bar{Y} = \frac{\Sigma y}{N} = 39.028$$

$$\text{Coefficient of Correlation } r = \frac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}} = 0.30$$

Regression Equation of Y on X is

$$Y = a + bx$$

Where,

A = Regression Constant

B = Regression coefficient (slope of the regression line)

According to the principle of least squares two normal equation for estimating two numerical constant a & b are given by

$$\Sigma Y = na + b\Sigma X$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2$$

Solving these two normal equations we get,

$$B = \frac{n\Sigma xy - \Sigma x \Sigma y}{n\Sigma x^2 - (\Sigma x)^2} = 0.055$$

$$A = \bar{y} - b\bar{x}$$

$$= -12.1$$

## Annex – IX

### Simple Correlation and Regression Analysis between MPS & DPS

#### Nepal Investment Bank Limited

| Fiscal Year  | MPS (X)           | DPS (Y)            | XY                 | X <sup>2</sup>                  | Y <sup>2</sup>                 |
|--------------|-------------------|--------------------|--------------------|---------------------------------|--------------------------------|
| 2004/05      | 1260              | 56.3               | 3291.55            | 3522.42                         | 3075.81                        |
| 2005/06      | 1729              | 55.46              | 1877.1             | 3915.00                         | 900                            |
| 2006/07      | 1729              | 30                 | 1877.1             | 3915.00                         | 900                            |
| 2007/08      | 2450              | 30                 | 2362.83            | 3348.93                         | 1667.08                        |
| 2008/09      | 1388              | 40.83              | 748.4              | 1400.25                         | 400                            |
| 2009/10      | 1750              | 0                  | 0                  | 1444.00                         | 0                              |
| <b>N = 6</b> | <b>ΣX = 10306</b> | <b>ΣY = 212.59</b> | <b>ΣXY = 10157</b> | <b>ΣX<sup>2</sup> = 17545.6</b> | <b>ΣY<sup>2</sup> = 6942.9</b> |

$$\text{Mean } \bar{X} = \frac{\Sigma X}{N} = 1844.67$$

$$\text{Mean } \bar{Y} = \frac{\Sigma Y}{N} = 42.518$$

$$\text{Coefficient of Correlation } r = \frac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}} = -0.04$$

Regression Equation of Y on X is

$$Y = a + bx$$

Where,

A = Regression Constant

B = Regression coefficient (slope of the regression line)

According to the principle of least squares two normal equation for estimating two numerical constant a & b are given by

$$\Sigma Y = na + b\Sigma X$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2$$

Solving these two normal equations we get,

$$B = \frac{n\Sigma xy - \Sigma x \Sigma y}{n\Sigma x^2 - (\Sigma x)^2} = -0.325$$

$$A = \bar{y} - b\bar{x} = 23.2$$

## Annex – X

### Simple Correlation and Regression Analysis between MPS & DPS

#### Lumbini Bank Limited

| Fiscal Year  | MPS (X)          | DPS (Y)       | XY             | X <sup>2</sup>                  | Y <sup>2</sup>            |
|--------------|------------------|---------------|----------------|---------------------------------|---------------------------|
| 2004/05      | 180              | 0             | 0              | 1548.42                         | 0                         |
| 2005/06      | 172              | 0             | 0              | 25988.66                        | 0                         |
| 2006/07      | 505              | 0             | 0              | 1028.48                         | 0                         |
| 2007/08      | 631              | 0             | 0              | 1083.06                         | 0                         |
| 2008/09      | 435              | 0             | 0              | 918.69                          | 0                         |
| 2009/10      | 325              | 0             | 0              | 976.56                          | 0                         |
| <b>N = 6</b> | <b>ΣX = 2248</b> | <b>ΣY = 0</b> | <b>ΣXY = 0</b> | <b>ΣX<sup>2</sup> = 1010020</b> | <b>ΣY<sup>2</sup> = 0</b> |

$$\text{Mean } \bar{X} = \frac{\Sigma X}{N} = 325$$

$$\text{Mean } \bar{Y} = \frac{\Sigma Y}{N} = 0$$

$$\begin{aligned} \text{Coefficient of Correlation } r &= \frac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}} \\ &= 0 \end{aligned}$$

Regression Equation of Y on X is

$$Y = a + bx$$

Where,

A = Regression Constant

B = Regression coefficient (slope of the regression line)

According to the principle of least squares two normal equation for estimating two numerical constant a & b are given by

$$\Sigma Y = na + b\Sigma X$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2$$

Solving these two normal equations we get,

$$B = \frac{n\Sigma xy - \Sigma x \Sigma y}{n\Sigma x^2 - (\Sigma x)^2}$$

$$= 0.003$$

$$A = \bar{y} - b\bar{x}$$

$$= 71.2$$