IMPACT OF DIVIDEND ON MARKET PRICE OF STOCK OF DEVELOPMENT BANKS IN NEPAL

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By

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “Impact of Dividend on Market Price of Stock of Development Banks in Nepal”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

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

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Puja Rai
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This study entitled “Impact of Dividend on Market Price of Stock of Development Banks in Nepal” has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models involving the use of quantitative aspect of impact of dividend on market price of stock of development banks in Nepal.

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Thank you

Puja Rai

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ABBREVIATIONS

ATM	:	Automated Teller Machine
DB	:	Development Banks
DPR	:	Dividend Payout Ratio
DPS	:	Dividend Per Share
DY	:	Dividend Yield
EPS	:	Earnings Per Share
MNBBL	:	Muktinath Bikash Bank Limited
GBBL	:	Garima Bikash Bank Limited
MDBL	:	Miteri Development Bank limited
BS	:	Bank Size or Total Assets of Banks
Ltd.	:	Limited
MPS	:	Market Price Per Share
NRB	:	Nepal Rastra Bank
PER	:	Price Earnings Ratio
ROA	:	Return on Assets
ROE	:	Return on Equity
SD	:	Standard Deviation
CV	:	Coefficient Variation
TU	:	Tribhuvan University

ABSTRACT

This study investigates the impact of dividend on stock price in development banks of Nepal. The secondary data was gathered from development banks of Nepal for ten years periods (2013/14-2022/23). This study used descriptive and causal relationship research design to analyze the impact of dividend on market price of stock of development banks. This study has employed descriptive analysis, correlation analysis and multiple regression analysis. This study reveals that Nepalese development banks have distributed dividend to the shareholders but these banks have not been following stable dividend payout policy. A wide range of market stock price is found. However, the dividend yield is low percent with the less volatile position of development banks in Nepal. This study also shows that the correlation analysis earning per share, price earnings ratio, dividend payout ratio and return on assets have positive and significant relationship with market price of stock in Nepalese development banks. However, dividend yield has negative and significant relationship with MPS and bank size has insignificant negative relationship with MPS of the banks. The regression result reveals that earning per share and price earnings ratio have significant positive effect on MPS of development banks in Nepal. Dividend yield has insignificant negative impact on market price of stock. Then, return on assets (ROA) and bank size have insignificant positive effect on market price of stock. Hence, dividend payout ratio has positive insignificant impact of stock price of Nepalese development banks. The implication of the findings is that devoting adequate time in designing and disseminating a dividend policy are desired in improving the performance of listed companies and enhancing the stock price in the pre-emerging capital markets. As the paper addresses the gap in the extant literature, the findings could be useful for research scholars, financial analysts and investors.

Key words: *Market price per share, earning per share, price earnings ratio, dividend payout ratio, dividend yield, and bank size.*

CHAPTER-I
INTRODUCTION

1.1 Background of the study

Bank is such a financial institution that receive deposits and provide loans. Bank may also provide financial services, such as wealth management, currency exchange and safe deposit. It plays an important role in financial stability and the economy of a country, mobilizing of saving, balance regional development, raising standard of living, etc. Walter Leaf defined the bank, “A bank is a person or corporation which holds itself out to receive from the public, deposits payable on demand by cheque”. According to Horace White, “as a manufacture of credit and a machine for facilitating exchange”

In the banking sectors, there are two crucial parts: commercial and development banks. Development banks concentrate on providing long-term finance for infrastructure development and industrial projects, while commercial banks are largely involved in standard banking activities including deposit taking, lending, and transaction services. Development banks in Nepal are financial entities created to support economic growth by offering long-term funding for rural, industrial, and infrastructure projects. By raising money and offering specialized financial services, these banks significantly contribute to the nation's development goals. Development banks have a specific mandate to support areas that are underserved by commercial banks, which largely concentrate on traditional banking activities.

Section 49 of Bank and Financial Act, 2073 has categorized development banks as 'Kha' or class 'B' financial institution and operating banking services in Nepal. Depending upon the paid-up capital, the Development Banks in Nepal are categorized into working as of 2081/03/31, (15-07-2023) published by NRB, there are 17 development banks in Nepal. Development banks were established with the goal of speeding up industrialization. Due of their limitations, traditional financial institutions were unable to take on this issue. Banks were transformed into multipurpose institutions to aid in overall growth. In addition to financing, they were given promotional tasks like filling financial gaps, taking on an entrepreneur role, starting a commercial banking business, and joint financing (www.wikipedia.org).

A dividend is a payment made directly to shareholders that is often made in cash. Dividends are unquestionably a part of income. In general, management of corporate

firms only announces dividends when profits are produced following successful business operations, and the quantity distributed of dividends should be sufficient to meet the ordinary shareholder's normal expectations. Dividend also refers to the signal of the sustainable income of the corporate firms (Watts, 1973) and can be tangible evidence of the firm’s ability to generate liquidity (Martin et al, (1979). Dividend implies to the portion of retained earnings which is paid to the stock holders while dividend policy refers to the guidelines that corporate management uses in establishing portion of retained earnings that is paid to the stockholders in dividends (Mathur, 1979). Therefore, dividend policy should be able to provoke that dividend meet the average shareholders expectation.

In contrast to the numerous studies carried out in international competition, very few studies have been carried out in the Nepalese setting, and no firm conclusions have been reached. Pradhan. (2003), examined how dividend payments and retained earnings affect stock market price in Nepal. According to Pradhan, dividend payments have an impact on stock market pricing. The payout of dividends, according to Pradhan, is more significant than the company's retained earnings. According to Pradhan's analysis, a company's stock price may drop if it holds more retained earnings. Similar to this, Joshi. (2012), examined the effect of dividends on Nepal's banking and non-banking sectors' stock prices. Joshi used dividend per share, retained earnings per share, lagged price earnings ratio, and lagged market price per share as the independent variables, while the current market price of the company was used as the dependent variable. Using the multivariate regression analysis, Joshi came to conclusion that dividends have a greater impact on stock prices of Nepalese companies than retained earnings. Joshi also discovered that dividends significantly increase the value of stocks in Nepal's banking and non-banking industries.

Khan. (2009), discovered evidence for a dynamic relationship between market share price and dividends, retained earnings, and other variables. The study showed that the overall impact of dividends on stock prices is comparatively better that of retained earnings. The expected dividends play an important role in the determination of stock prices whatever determinants, like lagged price earnings ratio or lagged price are considered.

Dividend policy is crucial for management and stockholders since one group must deliberate and make arrangement for the distribution of dividends, while the other must

receive it as compensation for their investment. Dividends are a source of revenue for investors and a symbol of a company's success. A manager's and investor's first decision are choosing the right dividend policy. Shareholders enjoy receiving dividends and increases in earnings per share, which are only made possible by their investments of operating profit in the business. If a major portion of the profits earned is reinvested, the payment of a satisfactory level of dividend will not be possible. However, if a significant amount of a company's profits is dispersed as dividends, it will be impossible to reinvest profits at a fair level (Sharif et al, 2015).

Bhattarai. (2016), stated that dividend policy is one of the most widely researched topics in the field of finance but the question is whether dividend policy affects stock prices still remain debatable among managers, policy makers and researchers for many years. Dividend policy is important for investors, managers, lenders and for other stakeholders. It is important for investors because investors consider dividends not only the source of income but also a way to assess the firms from investment points of view. It is the way of assessing whether the company could generate cash or not. Many investors like to watch the dividend yield, which is calculated as the annual dividend income per share divided by the current share price. The dividend yield measures the amount of income received in proportion to the share price. If a company has a low dividend yield compared to other companies in its sector, it can mean two things such as the share price is high because the market reckons the company has impressive prospects and isn't overly worried about the company's dividend payments, or the company is in trouble and cannot afford to pay reasonable dividends. At the same time, however, High dividend yields may be an indication of a struggling business with a falling stock price.

Pradhan et al. (2017), conducted study focusing on 11 commercial banks and 8 development banks which provides valuable insights into the general dynamics of the dividend-stock price relationship in the Nepalese banking sector. The outcome demonstrates that size and profitability are the key factors affecting the distribution of dividends across commercial and development banks in Nepal. The factors that have the biggest positive effects on dividend per share are earnings per share, return on assets, return on equity, size, and liquidity. Leverage has been demonstrated to have a negative impact on cash dividend per share, but profitability, size, and liquidity have favorable substantial effects.

Dhakal & Shah. (2018), considered the value of the company and the value of the shares are determined by the share market price. The price at which shares are exchanged or the sum that a buyer pays a seller to acquire a share of a corporation is known as the market price. Share market prices differ from firm to company. The common share price is extremely volatile and sensitive to environmental conditions because it is owned by the company and has the lowest priority to claim in a liquidation. There are two different types of environments in an organization: internal and external. Internal environmental conditions are those that exist within an organization and which in some way influence it. In order to increase the share price on the stock market, the business strives to preserve a positive atmosphere. However, although being outside of the organization's control, external environment influences have a significant impact on share market prices. So, the firm tries to adjust themselves according to the changing environmental forces, and such adjustments are intended to maximize the share price or the value of the firm.

There is little specialized research on development banks in Nepal in the area of dividend policies and their effects on stock prices. Studies on the relationship between dividends and stock prices have mainly centered on commercial banks. To close this gap, the current study will assist to understand the effects of dividends on the market values of stocks of development banks in Nepal. The study aims to shed light on the relationship between dividends and stock prices in the development banking industry by taking into account the distinctive traits, goals, and regulatory frameworks that regulate these banks.

Baral & Pradhan. (2018), conducted that one of the major avenues of investment that has the potential of yielding considerable returns to investors is the investment in equity shares. It is also a source of finance for the capital requirements of firms. Returns from such equity investments are however subject to vary, depending upon the performance of the particular stock and movement in stock price. Fluctuation in stock prices may occur due to the supply and demand forces but there is no foolproof or perfect system that indicates the exact movement of stock prices. The factors behind the increase or decrease in the demand and supply of stock prices can be categorized into three main types: technical factors, fundamental factors and market sentiments. However, knowledge of such factors and their possible impact on share prices is highly appreciable as it would help investors make wise investment decisions and enable firms

to enhance their market value.

Understanding the dividend impact on the market prices of stocks in development banks is crucial for several reasons. Firstly, it provides valuable insights for investors who are interested in investing in the banking sector and seeking to optimize their investment decisions. Investors often consider dividends as an important factor in evaluating the attractiveness of bank stocks. The study will contribute to their understanding of how dividend policies in different types of banks can influence stock prices and guide their investment strategies accordingly. Secondly, the findings of the study can have implications for regulators and policymakers in shaping effective dividend policies for development banks. By examining the impact of dividends on stock prices in these banks, regulators can gain insights into how dividend policies can contribute to market stability, investor confidence, and the overall development of the banking sector in Nepal. Furthermore, the study can provide evidence to support the formulation of appropriate regulations and guidelines that align with the characteristics and objectives of development banks.

It is important to note that the Nepalese banking sector operates in a unique economic, social, and regulatory context. The country's banking system has undergone significant reforms and transformations in recent years, and the study will consider these contextual factors while examining the impact of dividends on stock prices. The study seeks to uncover potential variations in the dividend-stock price relationship of development banks. This approach considers the different characteristics, objectives, and regulatory frameworks that govern these banks.

1.1.1 Brief profile of sample bank

A. Muktinath Bikash Bank (MNBBL)

Muktinath Bikash Bank Limited (MNBBL) was established on 19th Poush 2063 B.S. (3rd Jan, 2007 A.D.), licensed by the Central Bank of Nepal to operate as a “B” Class. National level financial institution with its Central office at Kamaladi, Kathmandu, Nepal with the vision of fulfill all banking needs of common individuals and businesses. It operates banking business initially in three districts namely Syangja, Kaski and Tanahun of Western Development Region (currently Gandaki Province). WORLD COB awarded the bank and also bank's CEO, Mr. Pradyuman Pokharel with Business Excellence Certificate in July, 2022. The bank has a large footprint of 178 branches

with 22 ATMs. MNBBL is focused towards working with the target people of AF and its vision is also very focused towards giving support to the under privileged people and communities with low income in rural areas. (www.muktinathbank.com.np).

B. Garima Bikash Bank (GBBL)

Garima Bikas Bank Limited, a national level development bank headquartered in Waling, Syangja, commenced its commercial operations on the 18th of Kartik, 2064 and the formal inauguration took place on the 7th of Marg, 2064 (November, 2007) with the vision of "Access to All". It had covered three districts: Syangja, Palpa, and Kaski as a regional level development bank. On the 20th of Chaitra, 2068, its business coverage area was expanded to 10 districts. The recent head office is located at Lazimpat, Kathmandu. Currently, this bank has 123 branches, 1 extension counter and 51 ATMs. This bank has contributed the nation for the economic development, serve financial access, maximize shareholders' wealth, provide excellent growth opportunities to the employees and meet the expectations (www.garimabank.com.np).

C. Miteri Development Bank (MDBL)

Miteri Development Bank Limited is registered at "Company Register Office" under Company act 2063 and is licensed by Nepal Rastra Bank under banking and financial act 2063 as 'B' class bikash bank. This started operation on 13th October, 2006. Its head office is located at Dharan, Sunsari and now has a working area of 5 districts. There are 17 branches of this bank. Tulsi Prasad Wosti is the CEO of this bank. The bank is promoted by a group of experienced and highly motivated individuals from all groups. The promoters include; businessman, professional bankers, doctors, entrepreneurs, educationalists and technocrats. Besides, more number of promoters includes from Dharan municipality. This bank has provided handsome dividend to the shareholders over the year (www.miteri.com.np).

D. Jyoti Bikash Bank (JBBL)

Jyoti Bikash Bank Limited is a national level development bank engaged in commercial banking activity with category "Kha" licensed from Nepal Rastra Bank. The bank started its operation from 9th Shrawan, 2065 with an initial paid-up capital of Rs. 259 million, established by a core group of promoters coming from the employees of Nepal Electricity authority among other businessmen, professionals and common citizens, the bank had an original focused vision of promoting hydropower sector through lending

credit facilities to potential hydro projects and further assessing the needs of the common citizens and economy of the country on the whole. The bank currently has 121 branches, 3 extension counters and 75 ATM machines (www.jbbl.com.np).

1.2 Problem statement

With the expectation of wealth maximization, shareholders make an investment. Dividend is one of earnings that shareholders expect from their investment. In the banking sectors of Nepal, choosing whether to pay dividends or not has been still an important and contentious administrative task for them. Arguments on how dividend policies affect share prices have persisted for a long time. So, there hasn't been conclusive result arrived till now regarding the relationship between the dividend policy and share market price.

Friend and Puckett. (1964), studied dividend and stock prices using cross section data to test the effect of dividend payout on share value using regression model. They concluded retained earnings effect is more than dividend effect given the investment opportunities. This study and some other later studies of Kumar and Mohan. (1975), concluded that the stock market has started recognizing the impact of retained earnings in Indian stock market. Chawla and Srinivasan. (1987), studied the relationship between dividend and share price in Indian context.

Ali and Hwang. (2000), explored the signaling theory of dividends by examining how the stock price responds to dividend announcements made on the Oslo Stock Exchange (OSE) and how this affects the firms' subsequent cash flows. The result shows significant abnormal stock returns are associated with announcements of dividend changes. When favorable dividend is announced and is followed by sustained growth in cash flow, the stock market's response is the strongest. Bali. (2003), investigated on the study of an empirical analysis of stock returns around dividend changes that shows how stock returns significantly fluctuated after reports of adjustments to cash dividend rates. The increase in dividends is demonstrated to be strongly auto correlated, particularly every fourth quarter. Prices continue to fluctuate in response to upcoming news as if the market is unaware of these autocorrelations.

Chhetri. (2008), high dividend-paying and low dividend-paying corporations have different financial positions. According to the study, retained earnings and dividend per share both considerably contribute to the variances in share price in the banking and

non-banking industries. Though the impact of the dividend is far greater than that of the retained earnings, dividends and retained earnings have a favorable correlation with share price in every situation.

Rashid & Rahman. (2008), conducted study is to investigate the connection between dividend policy and stock price volatility. This research finds that there is evidence of a positive, but insignificant association between stock price volatility and dividend yield using cross-sectional regression analysis after adjusting for earning volatility, payout ratio, debt, company size, and increase in assets. A key conclusion drawn from this study is that the share market response to earnings announcements differs from that of other developed nations. As a result, the managers cannot use the dividend policy to reduce the risk of their shares.

Chughtai et al. (2014), investigated on determining the impact of dividends, earnings, invested capital and retained earnings on stock prices in Pakistan. The findings indicate that dividend per share and earning per share possess positive and significant relationship with market prices, meaning by an increase in these variables tends to increase stock prices. However, capital employed and retained earnings are found to have statistically insignificant relationship with stock prices.

Mehmood et al. (2019), conducted a study on determinants of stock price volatility. This study's main goal is to examine the impact of dividend payout ratio on stock price volatility. According to the study, the dividend payout ratio and stock price volatility are positively correlated. The findings also indicate a negative link between stock price volatility and earnings volatility and leverage. A positive association between stock price volatility and other independent variables, such as asset growth and size, has persisted. Gunaratne et al. (2015), stated the effect that a company's dividend policy has on the volatility of stock market values. The results showed that the dividend yield of the current year has a negative impact on the volatility of the share price, whereas the dividend payout ratio of the current and prior years had a positive impact. Additionally, dividend yield has a negative impact on the company's market value, and this impact is also shown by the current year's dividend payout ratio.

Therefore, the statement of the problem can be summarized as follows:

i. What is the structure of dividend and market price of stock of development banks in Nepal?

ii. What is the impact of dividend factors on market price of stock of development banks in Nepal?
iii. Is there any relationship between dividend and market price of stock of development banks in Nepal?

1.3 Objectives of the study

The main objective of this study is to examine impact of dividend on stock price of development banks in Nepal. The other specific objectives are:

i. To examine the structure and market price of stock of the development banks in Nepal.
ii. To analyze the impact of dividend factors on market price of stock of development banks in Nepal.
iii. To evaluate the relationship between dividend and market price of stock of development banks in Nepal.

1.4 Research hypothesis

The following hypotheses were developed to break down the above research questions. Therefore, this research work attempted to test the following hypotheses in the case of development banks in Nepal.

H_1: Earnings per share has significant impact on stock price of development banks in Nepal.

Kumar. (2017), Mussa lamah & Isa. (2015), Cahyaningrum & Antikasari. (2017) concluded that earnings per share (EPS)v has a significant positive effects on the stock prices. Similarly, Safitri et. al. (2020), concluded that earnings per share has a positive and significant impact on the price of shares.

H_2: Price earnings ratio has significant impact on stock price of development banks in Nepal.

Herlina Wati & Ratna Sari. (2015), stated that price earnings ratio has a negative and significant effects on stock prices. The different results were also shown in the study of Kumar. (2017); Meric et al. (2017); Aletheari & Jati. (2016), that price earnings ratio has positive and significant effect on stock prices.

H_3: Dividend payout ratio has significant impact on stock price of development banks in Nepal.

Hunraj et al. (2014), the results of dividend payout ratio indicated that the dividend

payout ratio has significant positive impact on stock prices on the basis of this result. Nishat and Irfan. (2003), and Husainey and Mgbame. (2011), also found the similar result in their study. DPR has positive significant relation with the stock price. The results are same with Myer and Bacon. (2004), and Asghar et al. (2011).

H_4: Dividend yield has significant impact on stock price of development banks in Nepal.

Baskin. (1989), examined that 2344 U.S common stocks from the period of 1967 to 1986, and found the significant negative relationship between dividend yield and the stock price. Khan et al. (2011), studied the effect of dividend payment on stock prices. The results of their studies showed that dividend yield, earnings per share, return on equity and profit after tax were positively related to the stock prices. Like, Nazir et al. (2010), studied the effect of dividend policy on stock prices. Results of their study showed the that dividend payout ratio and dividend yield had significant effect on stock prices.

H_5: Return on assets has significant impact on stock price of development banks in Nepal.

Febriani's. (2016), research produces the combined effect of ROA, ROE, EPS, and CR on stock returns, partially ROA has no significant effect on stock return. In the Addition, Choiriyah et al. (2020), results showed that ROA has significant effect on the stock prices of banking companies. In contrast, Daniswara et al. (2020), stated return on assets has negative insignificant effect on stock return.

H_6: Bank size has significant impact on stock price of development banks in Nepal.

Kasimodou et al. (2006), results of their study concluded that small banks showed the higher performance in comparison to large one. Redmond et al. (2007), results of test showed that there is a negative significant relationships between profitability and volume of the assets. Spathes. (2002), had tested the financial markets through their study conducted to investigate Greek banks. The results of their study proved that large banks are more efficient than small ones.

1.5 Rationale of the study

In the Nepalese context, most of the investors are investing in the stock without adequate knowledge, performance, dividend policies and how the dividend affect the market value of stock of development banks.

The following points outline the rationale behind conducting this study.

i. This research helps to provide information about the impact of dividend on market price of stock.
ii. This study will help management and policy maker in setting and making a suitable dividend policy.
iii. This study will useful for researchers, students, investors and those who wants to do further study in details.
iv. This study may be useful to government for policy making, controlling, and monitoring.

1.6 Limitation of the study

Before presenting the results, it is important to note some limitations that may affect the interpretation and generalizability of the findings when performing this study on the effect of dividends on the market prices of stocks of development banks in Nepal. The several limitations of this study should be noted.

i. This study is limited to only four banks, namely Mukhtinath Bikash Bank, Garima Bikash Bank, Miteri Development Bank and Jyoti Bikash Bank among 17 development banks as of 2081/03/31 BS, (15-07-2023), which may not represent the whole banking industry of Nepal.
ii. The conclusions of this study only based on the information about Nepal's development banks. Generalizing the findings of the other nations or banking systems should therefore be done with caution.
iii. This study is only based on secondary sources of data, articles, publication, and journals of the respective banks.
iv. Investors behavior, economic condition, and market sentiments are the other factors that can affect the stock of the development banks.
v. This study covers ten years of data from fiscal year 2013/14 to 2022/2023.
vi. Simple random sampling methods is used.

CHAPTER-II
LITERATURE REVIEW

The literature review is a written overview of the major writings and other sources on a selected topic. Review of literature will be done to clarify the previous research of related study and will help to find out that how the similar concepts and methodology applied in the past. The researcher will develop a suitable structure for the report with the aid of the literature review. It also aids in developing an appropriate report structure. In order to review related research work and studies in the area of dividend and stock market value of development banks in Nepal; journals, articles, scholarly books were consulted.

2.1 Theoretical review

2.1.1 Theories of dividend policy

This paper reviews the dividend's irrelevance theory, residual theory of dividend, agency theory, stability theory of dividend and random walk efficient market theory.

i. Dividend's irrelevance theory

Dividend Irrelevance Theory is a financial theory that claims that the issuing of dividends does not increase a company's potential profitability or its stock price. It suggests that investors are not better off owning shares of companies that issue dividends than shares of those that do not. Miller and Modigliani first proposed the dividend irrelevance theory in 1961. According to them, dividend patterns have no effect on share values. Broadly, it suggests that if a dividend is cut now then the extra retained earnings reinvested will allow futures earnings and hence future dividends to grow. The present corporate finance system is based on this kind of theory. According to Miller and Modigliani's irrelevance argument, dividends have no bearing on a company's value and its value is determined by its current and future cash flows. It's significant that Miller and Modigliani. (1961); Black and Scholes. (1974), and Miller and Scholes. (1978), share the same viewpoint.

ii. Residual theory of dividend

This theory calculates dividends paid to shareholders, based on the amount of profits remaining after capital expenditures have been paid. Companies that pay residual dividends use cash flow to cover expenses first, then pay dividends to shareholders

from the amount that's left over. Under this theory, the residual dividend policy does not affect the company's market value since investors value dividends and capital gains equally.

This theory begins with the assumption that investors prefer to have the firm keep and reinvest earnings rather than issue dividends if the return on reinvestment is greater than the opportunity cost of money for the investors. Under the residual dividend policy, the dividend equals the amount left over from earnings after investment; no dividends are given, and new shares are sold to pay the deficit for uncovered investments. If there are no investment opportunities, the earnings are dispersed as a dividend to the shareholders. Dividends are thus essentially a residue, or the percentage remaining after all equity investment needs have been met (Rashid & Rahman, 2008).

iii. Agency theory

According to agency theory, company managers are prone to participate in Non-Value Maximizing (NVM) behavior. Jensen and Meckling. (1976), hypothesized that the agency costs experienced by NVM managers would reduce the firm's value. These agency expenses may be minimized if a manager's personal wealth was linked to the price of the firm's common equity. Thus, managerial ownership of shares (insider holdings) could act as a cost-cutting tool, improving the firm's value.

According to the agency cost hypothesis, dividend policy is decided by agency costs resulting from ownership and control divergence. Managers may not always choose a dividend policy that optimizes shareholder wealth, but rather one that maximizes their own private benefits. Making dividend payments that restrict the free cash flows available to managers ensures that managers maximize shareholder wealth rather than exploiting the funds for personal gain DeAngelo et al. (2006). Firms expose themselves to market scrutiny and discipline in the process of recruiting fresh equity.

iv. Stability theory of dividend

Dividend stability refers to the consistency of dividend payments. In other words, dividend stability refers to the regularity with which dividends are paid, even if the amount of the dividend varies from year to year. Most company executives believe that dividend stability is a desirable policy. Shareholders generally supports this policy and prefer consistent dividend to variable ones. All else being equal, a consistent dividend may have a favorable impact on the share's market price (Pandey, 1995).

By stability, we mean preserving the position of the firm's dividend payments in regard to a trend line, preferably an upward sloping one. There are various grounds to believe that a consistent dividend policy leads to greater stock values. First, because variable payouts are riskier than stable ones, investors are often expected to value them more highly. As a result, the same average amount of income received under a changing dividend policy is likely to have a higher discount factor applied to it than dividends received under a steady dividend policy. This means that a corporation with a consistent dividend policy will have a lower necessary rate of return or cost of equity capital than one whose dividend swing. Second, many owners rely on dividend income to make ends meet. These stockholders are irritated by fluctuating payouts and will pay a premium for a stock with a generally certain minimum cash distribution. Third, from the standpoint of both the corporation and its stockholders, dividend consistency is important for the legal listing requirement. There are three basic types of dividend payout stability. They are a stable dividend per share, a constant dividend payout ratio, and a modest regular dividend with an additional dividend.

v. Random walk efficient market theory

Random walk theory suggests that changes in stock prices have the same distribution and are independent of each other. Therefore, it assumes the past movement or trend of a stock price or market cannot be used to predict its future movement. In short, random walk theory proclaims that stocks take a random and unpredictable path that makes all methods of predicting stock prices futile in the long run (Basnet, 2007). Random walk has some assumption. They are:

i. Random walk theory suggests that changes in stock prices have the same distribution and are independent of each other.
ii. Random walk theory infers that the past movement or trend of a stock price or market cannot be used to predict its future movement.
iii. Random walk theory considers technical analysis undependable because it results in chartists only buying or selling a security after a move has occurred.
iv. Random walk theory considers fundamental analysis undependable due to the often-poor quality of information collected and its ability to be misinterpreted.

2.2 Empirical review

The size of the bank was a major component in the study that divided UK banks into two categories, large and small, based on the volume of their assets. They came to

conclusion from their analysis that small banks performed better than large ones. Additionally, it has been demonstrated that, in addition to other factors like liquidity, the size of the bank affects profitability. The goal of the current study was to determine how well a novel multi-criteria decision-aid approach could be used to assess the banking performance of both small and large UK banks. The goal of this investigation was to pinpoint the key elements that, in relation to bank size, distinguish small from large banks. The majority of characteristics of banking performance (profitability, liquidity, capital adequacy, and asset quality) were covered by the use of thirteen financial ratios, which are frequently used in banking research. In order to assess the multicriteria methodology's classification accuracy and produce reliable results on the significance of the ratios considered in the study, a 10-fold cross validation approach was used (Kasimodou et al, 2006).

Rashid and Rahman. (2008,) investigated how dividend policy and stock price volatility are related. This study uses cross-sectional regression analysis to show that there is evidence of a positive, but not statistically significant association between stock price volatility and dividend yield after adjusting for earning volatility, payout ratio, debt, firm size, and increase in assets. The key finding of this study is that the share price response to the earnings announcements differs from that of other industrialized nations.

Therefore, the managers cannot use the dividend policy to alter the risk associated with their stock. Due to Bangladesh's underdeveloped capital market, the impact of stock price risk through dividend may also be confusing. This study helps fill a research gap on dividend and stock to Bangladesh's underdeveloped capital market, the impact of stock price risk through dividends may also be confusing. This study helps fill a research gap on dividend and stock price volatility in the emerging economies.

Khan et al. (2011), examined on dividend decision effect with stock price. The purpose of this study is to determine the relationship between dividend policy and stock prices by selecting 55 dividend-paying businesses that were listed on the Karachi stock exchange between 2001 and 2010. Panel data are used to apply fix and random effect regression models to examine the relationship between dividend policy, stock prices, and the control variables profit after tax, earnings per share, and return on equity. The study's findings show that, in both scenarios of fixed and random effect, dividend yield and retention ratio are favorably and negatively connected to stock prices, respectively,

and that these relationships considerably account for changes in stock prices. This further explains why dividends are desired by investors as they signal the company's future potential. Earnings per share and profit after tax, the control variables, are correlated with stock prices in both models, whereas return on equity is inversely correlated with stock prices in the fixed effect model and positively correlated with stock prices in the random effect model. Although these findings are true and well-representative of emerging economics like Pakistan.

Hussainey et al. (2011), investigated the connection between stock price volatility and dividend policy (dividend yield and dividend payout). This was carried out from 1998 to 2007 over a ten-year period. It was based on data from a sample of UK public corporations. It also looked at how other factors, including size, growth, earning volatility, and debt, affect stock price volatility. According to the empirical results, there is a significant inverse association between a company's payout ratio and stock price volatility as well as an inverse relationship between dividend yield and stock price volatility. Overall results point to a correlation between a stock's price volatility and payout ratio, which is higher the higher. Additionally, they contend that the payout ratio is the primary factor in determining stock price volatility. The results showed that the two control factors having the strongest association to price volatility were size and debt. However, debt showed a significant positive relationship with price volatility, indicating that the more leveraged a firm is, the more volatile the stock price will be. This contrasts with the significant negative relationship between size and price volatility, which suggests that the larger the firm, the less volatile the stock price.

Hunraj et al. (2014), analyzed to determine how Pakistani stock prices were affected by dividend yield, dividend payout ratio, return on equity, earnings per share, and profit after tax. Four non-financial sectors sugar, chemicals, food and personal care, and energyhave been chosen for this purpose. For the years 2006 through 2011, a sample of 63 companies that were listed on the Karachi Stock Exchange were examined. On panel data, the ordinary least squares regression model has been used. According to the findings, the stock price is significantly impacted by dividend yield and dividend payout ratio, two indicators of dividend policy. These results go against the dividend irrelevance argument since dividend yield is inversely correlated with stock price while dividend payout ratio is positively correlated with stock price. When compared to other independent factors, profit after taxes and earnings per share have a notable positive

impact on stock price, while return on equity has a positive but negligible effect. This study offers fresh perspectives for decision-makers to enhance Karachi Stock Exchange performance.

Bilal and Jamil. (2015), analyzed the research that intends to investigate and analyze the impact of dividend policy on stock prices of 28 industrial sector businesses listed on Muscat Securities Market (MSM) in Oman, during the five-year period from 2009 to 2013.The impact of dividend policy on stock market prices has been examined and explained using a panel data approach employing five factors: dividend yield, retention ratio, earnings per share, return on shareholders' equity, and net profit after tax. The study's conclusion shows a strong correlation between stock price, return on equity, and earnings per share. The stock price is favorably correlated with the variables dividend yield and retention ratio, however these correlations are not statistically significant. The fifth factor, profit after tax, shows a negative relationship with stock price but has a negligible impact.

Labhane & Mahakud. (2016), examined the study on determinants of dividend policy of Indian companies. The study looks at the factors that affected the dividend payout ratio for Indian corporations from 1994–1995 to 2012–2013. To check the reliability of the findings, a period-by-period study was done. They discovered through the trend research that companies with higher dividend payout ratios are more successful and larger, whereas companies with lower dividend payout ratios have more investment prospects and higher levels of financial leverage. They discovered from the empirical analysis that factors like leverage ratio, life cycle, company size, profitability, and liquidity significantly affect the calculation of payout ratio both overall and for two sub-periods. Variables including leverage, business risk, firm size, and profitability have all been key factors in determining dividend yield. The outcomes differ depending on the time periods and dividend policy proxies. The empirical findings suggest that factors like life cycle, market capitalization, return on assets, and liquidity are positively affecting the dividend payout ratio and dividend yield while factors like market-to-book ratio, debt-to-capital ratio, tangibility of assets, business risk, and dividend distribution tax are negatively affecting them. This shows that enterprises with high investment opportunity, financial leverage, and business risk have lower dividend payout ratios than larger, more successful, more mature, and highly liquid firms. When they compared the results across the different dividend policy proxies and throughout the different time periods, they discovered just that three factors leverage ratio, firm size,

and profitability significantly influenced the decision of Indian companies to pay dividends.

Meric et al. (2017), analyzed the interaction among stock price and financial ratios. According to the study, the price of stocks, as well as the factors that influence that price, is one of the key factors for investors. Investors can value these products using a variety of indications and techniques, including fundamental and technical analysis. Financial ratios and fundamental analysis are instruments that are frequently utilized in the investment process. The success of the stock is predicted using standard financial ratios, particularly the price-earnings ratio and dividend yield ratio. Analysis of the correlations between the price, price-earnings ratio, and dividend yield ratio of the companies listed at BIST Banking sub-sector is the goal of this study in this context. In this context, the monthly price, price-earnings ratio, and dividend yield ratio of the stocks will be studied using the VAR approach. The findings demonstrate that the price-earnings and dividend yield ratios are cause of the changes in the stock price in general. This study investigated that price earnings ratio has a positive and significant effect on stock prices. Additionally, it concluded that the size and direction of the correlations between the aforementioned factors vary from bank to bank.

Sinaga & Hasanuh. (2020), investigated on the effect of return on assets and price earnings ratio toward stock prices. The purpose of this study is to ascertain how stock prices are impacted by Return on assets (ROA) and Price earnings ratio (PER). The construction and building-related enterprises listed on the Indonesia stock exchange (BEI) over the years 2014–2019 made up the study's population. Then, using the purposive sampling technique, 42 data were acquired from a sample of 7 companies. Multiple linear regression and hypothesis testing were employed in the data analysis technique. The findings demonstrated that Return on asset hardly little affects stock prices.

Choiriyah et al. (2020), examined on the effect of return on assets, return on equity, net profit margin, earning per share, and operating profit margin on stock prices of banking companies in Indonesia Stock Exchange The purpose of this research is to ascertain the impact of return on assets (ROA), return on equity (ROE), net profit margin (NPM), earning per share (EPS), and operating profit margin (OPM) on the stock prices of banking businesses listed on the Indonesia Stock Exchange. Associative research is this kind of study. Financial statements from banks serve as the study's secondary data

source. 32 banking firms made up the overall population used in the study, and the eight banking companies listed on BEI were the samples that were found to meet the research criteria. Multiple linear regression analysis served as the analytical framework for this study. According to the findings of the investigation, ROA, ROE, NPM, EPS, and OPM collectively have a considerable impact on the stock prices of banking companies listed on the Indonesia Stock Exchange. However, the Indonesia Stock Exchange (IDX) stock prices of banking companies are not significantly impacted by the coefficient of ROA, NPM, and OPM. The stock price of banking businesses on the Indonesia Stock Exchange (IDX), however, is heavily impacted by ROE and EPS.

Sari. (2021), examined on analysis of the effect of earnings per share, price earnings ratio and price to book value on the stock prices of state-owned enterprises. The objectives of this study is to ascertain the relationship of earnings per share, price-earnings ratio and price to book value with stock prices and to ascertain their simultaneous impact on stock prices. This study makes use of secondary data from the Indonesian stock exchange and data sources that were disclosed by businesses up to nine businesses throughout five years. The research period from August to October 2020, this study was carried out. Multiple linear regression analysis, the traditional assumption test, a partial test, a simultaneous test, and the coefficient of determination are the analyses used. The Statistical Product and Service Solution (SPSS) 23 software was used to analyze the data. According to the study's findings, (1) earnings per share positively and significantly affects stock prices, (2) price earnings ratio positively and significantly affects stock prices, (3) price to book value positively and significantly affects stock prices, and (4) earnings per share, price earnings ratio, debt to equity, and price to book value all simultaneously affect stock prices.

Syed, A. M., & AlSidrah, I. T. (2023), stated that dividend policies and stock volatility-empirical evidence from Middle Eastern stock markets. Despite years of empirical research, the linkage between dividend policy and stock price volatility (SPV) remains controversial among the researchers and scholars. This research endeavors to figure out the relationship between SPV and dividend policy of listed companies in Pakistan. A sample of 50 firms, based upon consistent dividend paying behavior, listed on Karachi Stock Exchange (KSE) has been selected from non-financial sectors, for the period of 2005-2012. Multiple regressions analyses have been carried on by applying random effect model on panel data i.e., for empirical estimation and robustness, panel estimated

generalized least squares methods is used for finding relationship between dividend policy (dividend payout [DP] and dividend yield [DY]) and SPV after controlling for firm size (FS), asset growth (AG), long-term debt (LD), earning volatility (EV) and earnings per share (EPS). The study has found significant negative relationship between SPV and dividend policy variables i.e., DP and DY. Study has also found significant positive relationship between control variables (AG, EV and EPS) and SPV in KSE. But in case of the remaining two control variables i.e., FS and LD, these were found to be negatively related to SPV. The findings of this research are expected to contribute to dividend policy literature by providing evidence from Pakistani stock market to prior studies done in developed and developing countries.

2.3 Summary table of empirical review

SN	Author	Title	Objective	Methodology	Findings
2	Rashid, A., and Rahman, A. (2008)	Dividend policy and stock price volatility.	To fill the research gaps on dividend and stock price volatility in the emerging economics.	Cross-sectional regression method used to examine the dividend policy and stock price volatility.	This study findings that the share price affects to the earnings differ from that of industrialized nation.
3	Khan, K. I., Nasir, A., & Khan, M. I. (2011)	Dividend decisions affect the stock prices.	To determine the relationship between dividend policy and stock prices.	Regression models are used to examine the relation between dividend and other variables.	Fixed and random effects, dividend yield and retention ratio are favorably and negatively connected to stock price.

4	*Hussainey, K., Mgbame, C.O., & Chijoke-Mgbame, A.M. (2011)*	Dividend policy and share price volatility.	To investigate the connection between stock price volatility and dividend policy (dividend yield and dividend payout).	Multiple regression analyses are used to explore the association between share price changes and both dividend yield and dividend payout ratio.	A positive relation is found between dividend yield and stock price changes, and a negative relation between dividend payout ratio and stock price changes.
5	Hunjra, A.I., Ijaz, M.S., Chiani, M.I., Hassan., S., & Mustafa, U. (2014)	Impact of dividend policy, earnings per share, price earnings ratio, return on equity, profit after tax on stock prices.	To determine how Pakistan stocks price were affected by dividend payout, earnings per share, price earnings ratio, return on equity, profit after tax.	Ordinary least square regression model has been applied on panel data.	Dividend yield is negatively related with stock price and dividend payout ratio is positively related with stock price which means that these results are against dividend irrelevance theory.

6	Bilal, Z.O., & Jamil, S.A. (2015)	Does Dividend policy impact stock market prices?	To investigate and analyze the impact of dividend policy on stock price of industrial sector listed security exchange in oman.	Market price has been examined using panel data approach methodology with fixed and random models, Descriptive statistics analysis and Pearson's correlation coefficient is used.	The findings show significant positive relationship between EPS, ROE and Stock price.
7	Labhane, N. B., & Mahakud. (2016)	Determine of dividend policy of Indian companies.	To check the reliability of the study.	Using empirical analysis and ratio analysis with the help of correlation approach to understand the variables and its effect on stock price.	Th leverage ratio, life cycle, company size, profitability, and liquidity significantly affect the payout ratio.

8	Meric, E., Kamışlı, M., & Temizel, F. (2017).	Interactions among Stock Price and Financial Ratios.	To understand the key factors for investors about the price of stocks, as well as the factors that influence that price.	Using fundamental analysis and ratio analysis with the help of correlation and VAR approach to understand the variables and its effect on stock price.	The finding demonstrates that the price-earnings and dividend yield ratios are cause of the changes in the stock price in general. This study investigated that Price earnings ratio has a positive and significant effect on stock prices.
9	Choiriyah, C., fatimah, F., agustina, S., & Ulfa, U. (2020)	The effect of return on assets, return on equity, profit margin, earning per share, and operating profit margin on stock prices of banking companies in	To ascertain the impact of return on assets, profit margin, return on equity, net profit margin, earning per share, and operating profit margin	Multiple linear regression analysis served as the analytical framework for this study.	Stock price impacted by ROE and EPS whereas stock prices of banking companies are not significantly impacted by the coefficient of ROA, NPM, and OPM.

		Indonesia stock exchange.	on the stock prices.		
10	Sari, R. (2021)	Analysis of the effect of earnings per share, price earnings ratio and price to book value on the stock prices of state-owned enterprises.	To ascertain the relationship of earnings per share, price-earnings ratio and price to book value with stock prices and to ascertain their simultaneous impact on stock prices.	Multiple linear regression analysis, the traditional assumption test, a partial test, a simultaneous test, and the coefficient of determination are the analyses used.	Earnings per share, price earnings ratio, debt to equity, and price to book value all simultaneously affect positive and significantly on stock prices.
12	Syed, A. M., Bawazir, H. S., & AlSidrah, I. T. (2023)	Review of Accounting and Finance.	To explore the relation between dividend policy of any company and its stock volatility.	Fixed effect and random effect panel data analysis is used to explore the association between stock volatility and the	A significant negative relation is between dividend payout and stock volatility, negative relation between stock and equity,

				dividend policies.	insignificant positive relation between asset growth and stock volatility.

2.4 Research gap

A research gap is a question or a problem that has not been answered by any of the existing studies or research within your field. Sometimes, a research gap exists when there is a concept or new idea that hasn't been studied at all. Sometimes you'll find a research gap if all the existing research is outdated and in need of new/updated research. The purpose of this study is to draw some ideas concerning to the dividend policy and to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation. In this context, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. The various financing decision are vital for the financial welfare of the company. Dividend decision is one of the major decision to be made for the company.

Despite the significance of development banks for Nepal's economic growth, the impact of dividends on the market values of stocks in this industry is not well understood. There is a study gap regarding the comparison of dividend policies and their effects on stock prices between commercial banks and development banks in Nepal because the majority of available studies focus primarily on commercial banks. The inability of politicians to create efficient laws and guidelines for dividend policies as well as investors' ability to make knowledgeable investment decisions is hampered by the lack of research that is primarily focused on the development banking industry.

The goals of this study and earlier investigations are very different. To begin, investigations on this topic of development banks were conducted at various times. As

a result, this study examined new data or a new time period. This study additionally examined four development banks that had not been examined in earlier investigations. This study also attempted to apply a regression model to determine the impact of dividend policy on the market stock price of development banks in Nepal. In this study, explanatory factors such as dividend per share, price earnings ratio, earnings per share, profitability bank size, and dividend yield of development banks are used to examine dividend policy and market stock price of development banks in Nepal that were not included. So, this study is fairly different to analyze in this area because it focuses on both technical and fundamental elements affecting the stock price.

CHAPTER-III
RESEARCH METHODOLOGY

Research methodology is the specific procedures, methods or techniques used to identify, select, process and analyze information about a topic. It explains how researcher intends to carry out their research to achieve goal. An appropriate methodology gives more accurate conclusions and findings which help to recommend practical solutions to their search problems.

3.1 Research design

Research design is a master plan specifying the methods and procedures for collecting and analyzing the required information. The impact of dividend policy on the market stock price of development banks in Nepal has been investigated using a descriptive and analytical interferential research design in order to meet the study's specific purpose. While analytical interferential strategy is used to assess the influence of dividend policy on the market stock price of development banks in Nepal, a descriptive research design is employed to examine the status of dividend and market stock price.

3.2 Population and sampling procedure

There are 17 development banks in Nepal as per 2081/03/31 B.S, (15-07-2023), which are assumed to be the population of the study but it is not possible to study all of these development banks within this study where only four development banks namely Muktinath Bikash Bank, Garima Bikash Bank, Miteri Bikash Bank and Jyoti Bikash bank can be taken on the basis of simple random sampling technique without replacement techniques using the entire number of development banks as the study's population.

3.3 Nature and sources of data collection

This study is mainly based on secondary data. Data can be taken through websites and yearly reports of related office like financial statement of a sample of banks, published sources, prior studies and associated bulletins, NRB reports, and regularly released by various government authorities. Research that is conducted with the proper data gathering tools increases the credibility and worth of research findings, according to trustworthy and consistent evidence. Data will be collected from audited financial statements (balance sheet and profit and loss account) of the each development banks

included in the sample and publications of NRB and various journals, etc.

3.4 Research framework

The researcher developed the following conceptual framework of the study based on review of the theoretical and empirical literature.

Independent variables

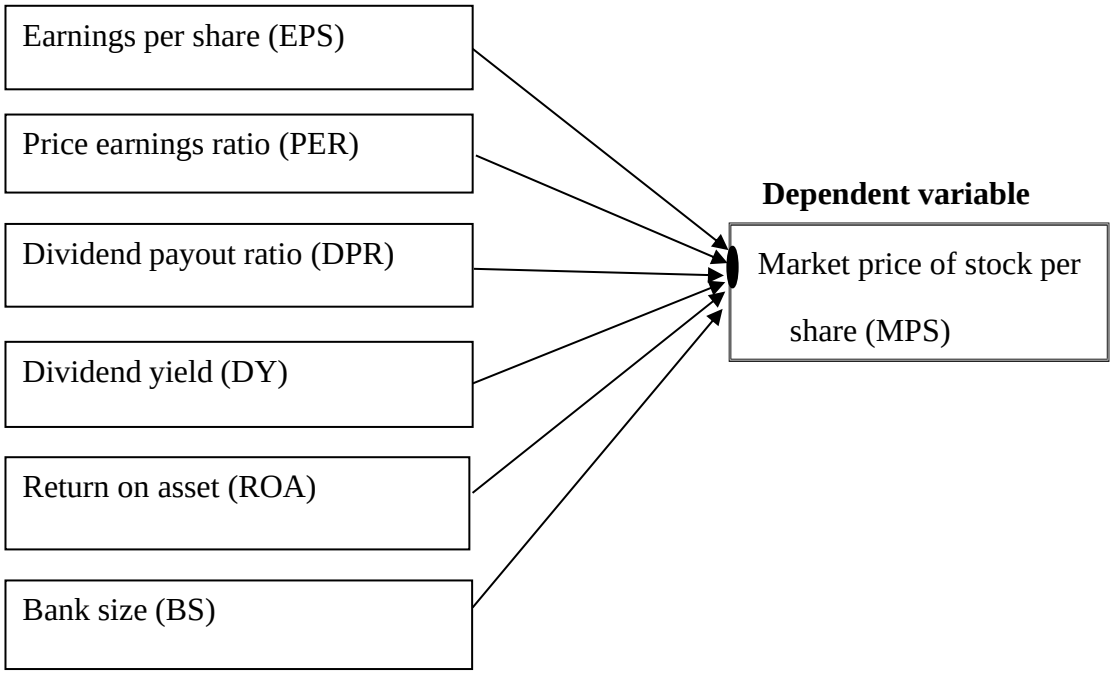

Figure:3.1 Research framework

Source: Bhattarai. (2016); Bilal and Jamil. (2015); Baral and Pradhan. (2018); Nazir et al. (2010).

3.5 Definition of variables

i. Market price of stock (MPS)

The market value per share is the price at which a share trades on the open market. It is also known as stock's market value. The market price is the result of the interaction of traders, investors, and dealers in the stock market. It displays the price that buyers and sellers are ready to exchange for a particular stock at a particular time. It may also refer to the market capitalization of a publicly traded company, calculated by multiplying the number of outstanding shares by the current share price. In the present study, closing price of stock at the end of the financial year of the bank has been taken to represent market price. The market price is used as dependent variable.

$$\text{Market price of stock} = \frac{\text{Market value of share}}{\text{Total number of share outstanding}}$$

ii. Earnings per share (EPS)

The investors frequently use earnings per share (EPS), a financial term that evaluate a firm's profitability that indicates how much profit each outstanding share of common stock has earned. It is determined by dividing the company's net income by the total number of outstanding common shares, after deducting any relevant preferred dividends. The higher firm's earnings per share, the greater the profit and value perceived by investors. According to Ball and Brown. (1968); Baskin. (1989); Malhotra and Tandon. (2013); Almumani. (2014), Jatoi, Shabir, Hamad, Iqbal and Muhammad. (2014), the earnings per share have a positive relationship with market price.

$$\text{Earnings per share} = \frac{\text{Net income after deducting preference dividend}}{\text{Common share outstanding}}$$

iii. Price earnings ratio (P/E Ratio)

Price earnings ratio is a way to value a company by comparing the price of the stock to its earning. It is calculated by dividing the stock's current market price per share by its earnings per share (EPS). When a company's P/E ratio is high, it generally means that investors have high hopes for its future growth and are prepared to pay a premium for its shares, whereas a low P/E ratio could mean that investors are undervaluing the stock or have less expectations for future growth. Price earnings ratio have a significant positive association with firm's stock price. Khan and Amanullah. (2012); Malhotra and Tandon. (2013), Almumani. (2014), also indicated that price earnings ratio has a significant positive association with firm's stock price.

$$\text{Price earnings ratio} = \frac{\text{Stock price of one share}}{\text{Earning per share}}$$

iv. Dividend yield (DY)

The financial ratio used to measure the proportion return received from the dividend relative to its market. It is computed by dividing the annual dividend per share by the current market price per share (MPS) and expressing the result as a percentage. An investor might anticipate a larger income stream compared to their investment with a higher dividend yield, which can be appealing to income-oriented investors. The dividend yield is taken as a vital variable that is used by Allen and Rachim. (1996); Rashid and Rahman. (2008); Nazir, Nawaz, Anwar and Ahmed. (2010); Hussainey, Mgbame and Chijoke-Mgbam. (2011), and it is significantly explaining the effect of dividend policy on market prices of stock and shows negative correlation with the market prices of stock.

$$\text{Dividend Yield} = \frac{\text{Annual dividend per share}}{\text{Current stock price pershare}}$$

v. Dividend payout ratio (DPR)

The percentage of earnings that a firm paid out to their shareholders in the form of the dividends is known as the dividend payout ratio. It is determined by dividing the company's total dividend payments by its net income. A greater payout ratio means that a larger portion of profits are being distributed as dividends, which may be appealing to income-focused investors but may leave less money available for business expansion and investment. In contrast, a less payout ratio may be opposite of it. It has positive significant relation with stock price.

$$\text{Dividend payout ratio} = \frac{\text{Dividend paid}}{\text{Net income}}$$

vi. Return on assets (ROA)

Return on assets (ROA) is a financial statement ratio that measures how a company uses its assets to generate profit. It is computed by dividing the business's net income by all of its assets, and it is frequently stated as a percentage. An increase in ROA shows that the business is more efficient at turning its assets into profits, which is generally good for investors and suggests high operational effectiveness. A decrease in ROA, can mean that the business is less effective. It shows return on assets have positive relationship to the stock price and simultaneously significantly affect stock prices. Naveed and Ramzan. (2013), have concluded insignificant relationship between return on assets and share price in banking sector in Pakistan. However, Idawati and Wahyudi. (2015), found that earnings per share and return on assets have positive relationship to the stock price and simultaneously significantly affect stock prices.

$$\text{Return on assets} = \frac{\text{Net income}}{\text{Total assets}} \times 100\%$$

vii. Bank size (BS)

Among all the variables, the impact of bank size on stock price can change. Larger banks typically have more varied activities and may have economies of scale, which can increase the value of their stock. Furthermore, investors may be drawn to the development potential and flexibility of smaller banks, which could result in attractive stock prices. In conclusion, the relationship between bank size and stock price is complicated and influenced by a variety of elements, such as market conditions, unique financial performance and business plan of the bank. It has significant positive

relationship with stock price. As per the study by Redmond et al. (2007); Kasimodou et al. (2006), concluded that bank size has negative and significant relationship with stock price. In contrast, Spathes. (2002), proved that bank size has significant positive relationship with stock price.

3.6 Method of analysis

In this study, descriptive analysis, correlation analysis and multiple regressions are applied to examine the impact of dividend payout as measured through dividend variables on market price of stock of development banks in Nepal.

3.6.1 Descriptive Analysis

i. Mean ($\bar{X}$)

The sum of total values to the number of observations in the sample is known as mean, average value or arithmetic mean. It represents the entire data which lies almost between the two extremes. For this reason, an average is frequently referred as a measure of central tendency. It is calculated as:

$$\text{Mean } (\bar{X}) = \frac{x_1 + x_2 + x_3 + \ldots\ldots\ldots x_n}{n} = \frac{\Sigma x}{n}$$

where,

$\bar{X}$ = arithmetic mean return

$\sum x$ = sum of all values of the variable 'x'

n = number of observations

x = variables involved

ii. Standard deviation (σ)

Standard deviation is a measure which shows how much variation (such as spread, dispersion, spread,) from the mean exists. The standard deviation indicates a "typical" deviation from the mean. It is a popular measure of variability because it returns to the original units of measure of the data set. Like the variance, if the data points are close to the mean, there is a small variation whereas the data points are highly spread out from the mean, then it has a high variance. Standard deviation calculates the extent to which the values differ from the average. Standard deviation is the most widely used measure of dispersion which is based on all values. Therefore, a change in even one value affects the value of standard deviation and lower standard deviation is better. It is independent of origin but not of scale.

It is also useful in certain advanced statistical problems.

It is calculated as:

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\Sigma(x_i - \mu)^2}{N}}$$

where,

σ = population standard deviation

N = size of the population

x_i = each value from the population

μ = population mean

iii. Coefficient of variation (CV)

The coefficient of variation (CV) is a statistical measure of the dispersion of data points in a data series around the mean. The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another, even if the means are drastically different from one another. It allows the investors to determine how much volatility or risk, is assumed in comparison to the amount of return expected from investments. The lower the ratio of the standard deviation to mean return, the better the risk-return tradeoff than the higher. So, the lower coefficient of variation has greater consistency. It is calculated as:

$$CV = \frac{\sigma}{\mu}$$

where,

σ = standard deviation

μ = mean

3. 6.2 Correlation analysis

According to the Pearson's coefficient of correlation, popularized by Karl Pearson used to evaluate the strength of the association between two variables. This is one of the mathematical techniques for measuring correlation. Two variables are said to be correlated when the value of one variable change along with the value of the other. As a result, it is calculated by using the formula below utilizing two variables. It is indicated by (r).

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

where,

r = coefficient of correlation

ΣXY = Sum of product of two series.

ΣX^2 = Sum of squared in X series

ΣY^2 = Sum of squared in Y series

n = number of years

The value of this coefficient can never be more than + 1 or less than -1. Thus, + 1 and -1 are the limit of this coefficient. The value of r = + 1 indicates the correlation between variables is positive and the value of r = -1 indicates the correlation between variables is negative. Zero denoted no correlation.

3.6.3 Multiple regressions analysis

Multiple linear regression used the model the relationship between two or more explanatory variables and a dependent variable by fitting a linear equation to the observed data. A value of the independent variable x associated with a value of the dependent variable y. The dependence of the stock price (dependent) on the explanatory factors will be examined in this regression analysis. The explanatory variables are independent factors such price earnings ratio, profitability, dividend payout ratio, dividend yield, return on assets, earnings per share and price earnings ratio.

A. Model specification

The model estimated in this study assumes that the stock price measures market stock price (MPS) depend on bank specific variables. Therefore, the following model has been employed for the study of relationship and effect of the study variables.

$MPS = \beta_0 + \beta_1 EPS + \beta_2 PER + \beta_3 DPR + + \beta_4 DY + + \beta_5 ROA + \beta_6 SIZE_t + e$

where:

MPS = Market price per share of bank

EPS = Earnings per share

PER = Price earnings ratio

DPR = Dividend payout ratio

DY = Dividend yield

ROA = Return on assets

SIZE = Total assets of bank

$\beta 0$ = The intercept (constant)

e = error component

β1, β2, β3, β4 β5 β6 = The slope which represents the degree with which market price per share changes as the independent variable changes by one-unit variable.

CHAPTER- IV
RESULTS AND DISCUSSION

As the researcher discussed in the previous chapters, to investigate the impact of dividend on market price of stock of development banks in Nepal is the main objective of this study. As a result, this chapter deals with the results and analysis of the findings and it contains three sections. The first section presented structure or position of dividend and market price of stock as well as descriptive and correlation analysis on variables of the study; the second section presented fulfillment of the linear regression model assumptions; the third section laid down the discussion. For further statistical analysis, the data analysis techniques for ratio scale measurement and the ratio of the required dependent and independent variables are determined.

4.1 Results

In this section, analysis of the effect of dividend on market price of stock of development banks of Nepal is carried out by using the statistical analytical tools such as descriptive statistic, correlations analysis and multiple regression analysis.

4.1.1 Structure of variables

On the basis of financial indicators, the performances of individual banks are analyzed. The bank which has highest market price, high earnings and high dividend paid are the indicators of successful bank. Here, dividend variables or indicators such as earning per share, price earnings ratio, dividend yield, dividend payout ratio, return on assets, bank size and market price of stock of development banks of Nepal are analyzed together.

A. Analysis of market price of share (MPS)

The market value per share (MPS) is the price at which a share trades on the open market. It is also known as stock's market value. The market price of stock is the result of the interaction of traders, investors, and dealers in the stock market. It displays the price that buyers and sellers are ready to exchange for a particular stock at a particular time. It may also refer to the market capitalization of a publicly traded company, calculated by multiplying the number of outstanding shares by the current share price. In the present study, closing price of stock at the end of the financial year of the bank has been taken to represent market price. The market price is used as dependent variable.

Table 4.1

Market price of share

Year	MNBBL	GBBL	MDBL	JBBL
2013/14	630	345	490	207
2014/15	564	305	500	164
2015/16	1307	356	861	169
2016/17	971	296	520	207
2017/18	378	218	288	141
2018/19	370	224	234	163
2019/20	312	223	307	166
2020/21	657	544	586	478
2021/22	439.9	387	347	302.2
2022/23	407	405	347	298
Mean	603.59	330.3	448	229.52
SD	314.61001	101.42326	185.87451	103.80513
CV	0.521231	0.30706	0.414898	0.4522705

Source: Appendix I

Table 4.1 shows the market price per share (MPS) of development banks in Nepal from 2013/14 to 2022/23 fiscal year. The highest market price of share of MNBBL is RS.1307 in the fiscal year 2015/16. The lowest market price per share of JBBL is Rs.141 in fiscal year 2017/18. The highest average market price per share of MNBBL is Rs.603.59. The lowest average market price per share of JBBL is Rs.229.52. In this study, by comparing with other banks, MNBBL has clearly performed better as the bank which has the greatest mean. The highest standard deviation of MNBBL is 314.61001. It indicates that it has higher risk than other sample banks. Similarly, GBBL has the lowest standard deviation 101.42326 of the sample banks, which indicates that it also has the lowest level of risk and less variation. It is also clear from the coefficient of variation that GBBL has demonstrated the greatest consistency, with a CV of only 0.30706 percent.

B. Analysis of earning per share (EPS)

Table 4. 2

Earning per share

Year	MNBBL	GBBL	MDBL	JBBL
2013/14	41.32	17.82	36.25	7.94
2014/15	35.99	20.32	39.54	12.16
2015/16	43.1	26.02	46.07	16.45
2016/17	32.09	15.83	31.61	10.73
2017/18	22.2	17.43	22.86	13.34
2018/19	27.94	21.32	25.17	17.14
2019/20	16.56	17.82	25.84	13.97
2020/21	24.03	22.75	18.84	17.27
2021/22	23.72	22.49	16.37	15.7
2022/23	19.44	24.38	15.85	6.87
Mean	28.639	20.618	27.84	13.157
SD	9.15173	3.34517	10.2546	3.71803
CV	0.31955	0.16225	0.36834	0.28259

Source: Appendix I

Table 4.2 depicts the earnings per share (EPS) of development banks in Nepal from the fiscal year 2013/14 to 2022/23. The highest earnings per share of MDBL is RS.46.07 in fiscal year 2015/16. The lowest earnings per share of JBBL is Rs. 6.87 in fiscal year 2022/23. The highest average earnings per share of MNBBL is Rs.28.639. The lowest average earnings per share is Rs. 13.157 of JBBL. By comparing to the other sample banks, MNBBL has clearly performed better as the bank which has the greatest mean. The highest standard deviation is 10.2546 of MDBL. It indicates that it has higher level of risk than the other sample banks. Similarly, GBBL has the lowest standard deviation 3.34517 of the sample banks, which indicates that it also has the lowest level of risk. It is clear from the coefficient of variation that GBBL it has demonstrated the greatest consistency, with a CV of only 0.16225 percent.

C. Analysis of price earnings ratio (P/E Ratio)

Table 4. 3

Price earnings ratio

Year	MNBBL	GBBL	MDBL	JBBL
2013/14	15.25	12.42	13.52	26.07
2014/15	15.67	15	12.65	13.49
2015/16	30.32	13.68	18.69	10.27
2016/17	30.26	18.71	16.45	19.29
2017/18	18.48	12.51	12.6	10.57
2018/19	13.24	10.51	9.3	9.51
2019/20	18.84	12.51	11.88	11.88
2020/21	27.34	23.91	32.07	27.68
2021/22	18.55	17.21	21.2	19.25
2022/23	20.94	16.61	25.59	43.4
Mean	20.889	15.307	17.395	19.141
SD	6.2485	3.95313	7.11828	10.7446
CV	0.29913	0.25826	0.40921	0.56134

Source: Appendix I

Table 4.3 represents the price earnings ratio (P/E ratio) of development banks in Nepal from 2013/14 to 2022/23 fiscal year. The JBBL has the highest price earnings ratio of Rs. 43.4 times in the fiscal year 2022/23. The bank has also the lowest price earnings ratio of Rs 9.3 times in the fiscal year 2018/19. The highest average price earnings ratio of MNBBL is Rs. 20.889 times. The lowest average price earnings ratio of GBBL is Rs.15.307 times. In this study, by comparing with other with other sample banks, MNBBL has better performance as the bank has the greatest mean. The highest standard deviation is 10.7446 of JBBL. It indicates that it has higher risk than the other sample banks. On the other hand, GBBL has the lowest standard deviation of the sample banks, which indicates that it has the lowest level of risk. It is also clear from the coefficient of variation that GBBL has demonstrated the greatest consistency, with a CV of only 0.25826 percent.

D. Analysis of dividend yield (DY)

Table 4.4

Dividend yield

Year	MNBBL	GBBL	MDBL	JBBL
2013/14	0.0603	0.061	0.0564	0.0338
2014/15	0.0553	0.0657	0.0663	0.0549
2015/16	0.0173	0.0584	0.0385	0.0692
2016/17	0.0206	0.0507	0.0669	0.0501
2017/18	0.0508	0.0459	0.0652	0.0596
2018/19	0.0601	0.0759	0.08344	0.0782
2019/20	0.0479	0.0637	0.0514	0.0602
2020/21	0.0282	0.031	0.0239	0.0324
2021/22	0.0323	0.0376	0.0375	0.0225
2022/23	0.0154	0.0273	0.0143	0.0000
Mean	0.03882	0.05172	0.05038	0.04609
SD	0.01798	0.01604	0.02157	0.02371
CV	0.46325	0.31005	0.42805	0.51444

Source: Appendix I

Table 4.4 depicts the dividend yield (DY) of development banks in Nepal from 2013/14 to 2022/23 fiscal year. The MDBL has the highest dividend yield of 0.08344 percent in the fiscal year 2018/19. The JBBL has lowest dividend yield of 0.0000 in the fiscal year 2022/23. The highest average dividend yield of GBBL is 0.05172 percent. The lowest average dividend yield of MNBBL is 0.03882 percent. By comparing with other banks, GBBL has better performance as the bank has the greatest mean. JBBL has the highest standard deviation is 0.2371. It indicates that it has higher level of risk than the other sample banks. On the other hand, GBBL has the lowest standard deviation i.e 0.01604 of the sample banks, which indicates that it also has the lowest level of risk. It is also clear from the coefficient of variation that the same bank GBBL has demonstrated the greatest consistency with a CV of only 0.31005 percent.

E. Analysis of dividend payout ratio (DPR)

Table 4. 5

Dividend payout ratio

Year	MNBBL	GBBL	MDBL	JBBL
2013/14	40	21.05	27.64	7
2014/15	32.63	20	33.16	9
2015/16	34	20	33.16	11.7
2016/17	21.05	15	34.79	10
2017/18	19.21	13.75	18.78	8.4
2018/19	17.6	17	19.51	12.75
2019/20	15.51	14.21	15.79	10
2020/21	18.5	16	14	15.5
2021/22	14.21	14.5	13	6.8
2022/23	10.26	10	10	0
Mean	22.297	16.151	21.983	9.115
SD	9.78118	3.42849	9.36076	4.15893
CV	0.43868	0.21228	0.42582	0.45627

Source: Appendix I

Table 4.5 shows the dividend payout ratio (DPR) of development banks in Nepal. It represents dividend payout ratio from 2013/14 to 2022/23 fiscal year. The MNBBL has the highest dividend payout ratio of 40 percent in the fiscal year 2013/14. The JBBL has lowest dividend payout ratio of 0 percent in the fiscal year 2022/23. The highest average dividend payout ratio of MNBBL is 22.297 percent. The lowest average dividend payout ratio of JBBL is 9.115 percent. In this study, by comparing with the other banks, MNBBL has better performance as the bank has the greatest mean. The MNBBL has the highest standard deviation with 9.78118. It indicates that it has higher level of risk than other sample banks. On the other hand, GBBL has the lowest standard deviation of the sample banks, which indicates that it also has the lowest level of risk. It is clear from the coefficient of variation that GBBL has demonstrated the greatest consistency with a CV of only 0.21228 percent.

F. Analysis of return on assets (ROA)

Table 4. 6

Return on assets

Year	MNBBL	GBBL	MDBL	JBBL
2013/14	2.5184	2.26	2.88	1.0149
2014/15	2.4181	1.94	3.15	1.3847
2015/16	2.79	2.1	3.61	1.703
2016/17	2.485	1.98	3.41	1.73
2017/18	1.6667	1.86	2.49	1.479
2018/19	1.6467	1.53	2.56	1.4573
2019/20	1.066	1.15	2.72	1.1531
2020/21	1.1434	1.15	2.17	1.1086
2021/22	1.1082	1.29	1.97	0.9457
2022/23	0.9482	1.42	1.986	0.414
Mean	1.77907	1.668	2.6946	1.23903
SD	0.71168	0.40898	0.57296	0.39779
CV	0.40003	0.24519	0.21263	0.32105

Source: Appendix I

Table 4.6 shows the return on assets (ROA) of development banks in Nepal. It represents return on assets from 2013/14 to 2022/23 fiscal year. The highest return on assets of MDBL is 3.61 percent in fiscal year 2015/16. The lowest return on assets of JBBL is 0.414 percent in fiscal year 2022/23. The highest average return on assets of MDBL is 2.6946 percent. The lowest average return on assets of JBBL is Rs. 1.23903 percent. By comparing to the other banks in the study, MDBL has clearly performed better as the bank has the greatest mean. The highest standard deviation of MNBBL is 0.71168. It indicates that it has higher level of risk than other sample banks. Similarly, JBBL has the lowest standard deviation is 0.39779 of the sample banks, which indicates that it also has the lowest level of risk. It is clear from the coefficient of variation that MDBL has demonstrated the greatest consistency, with a CV of only 0.21263 percent.

G. Analysis of bank size (BS)

Table 4. 7

Bank size

Year	MNBBL	GBBL	MDBL	JBBL
2013/14	6029.44	4612.39	1638.3	6194.76
2014/15	9000.47	7452.36	2041.57	7423.09
2015/16	12936.8	10578.8	2700.5	8917.85
2016/17	19592.3	17662.1	3525.01	13188.4
2017/18	34649.3	25286.5	4576.76	23346.8
2018/19	51991.4	38749.1	5759.98	36459.9
2019/20	66348.1	50293.7	6580.21	42361.1
2020/21	101127	72957.5	6705.12	59879
2021/22	121083	80030.5	7519.99	70841.7
2022/23	131611	89162.8	8098.198	72786
Mean	55436.9	39678.6	4914.5638	34139.9
SD	47669.1	31806.4	2346.4871	26378.3
CV	0.85988	0.8016	0.477456	0.77265

Source: Appedix I

Table 4.7 depicts the bank size or total assets (Rs. in million) of development banks in Nepal from the fiscal year 2013/14 to 2022/23. The MNBBL has largest size with total assets of Rs 131611 million in fiscal year 2022/23. The MDBL has lowest size with total assets of Rs.1638.3 million in the fiscal year 2013/14. The highest average bank size of MNBBL with total assets of Rs.55436.9 million. The lowest average bank size of MDBL is Rs.4914.5638 million. By compared to the other sample banks, MNBBL can raise large capital at lower cost due to economies of scale in production. The highest standard deviation of MNBBL is 47669.1. It indicates that it has higher level of risk among other sample banks. Similarly, MDBL has the lowest standard deviation is 2346.4871 than the other sample banks, which indicates that it has the lowest level of risk. It is clear from the coefficient of variation that MDBL has demonstrated the greatest consistency, with a CV of only 0.477456 percent.

4.1.2 Descriptive statistics of variables

The descriptive statistics of dependent and independent variables in this study are presented in table 4.8 which is based on panel data set organized by four development banks in the Nepalese banking sector during the period from 2013/14 to 2022/23. Generally, it indicates a wide variability exist in the indicators of dividend and stock price of development banks.

Table 4. 8

Descriptive statistics of variables of sample banks

Variables	N	Minimum	Maximum	Mean	Std. Deviation
MPS	40	141	1307	404.28	235.586
EPS	40	6.87	46.07	22.798	9.4767
P/E ratio	40	9.3	43.4	18.183	7.43936
DY	40	0.0000	0.08344	0.04675	0.01992
DPR	40	0.00	40	17.3865	8.86215
ROA	40	0.4146	3.61	1.84526	0.74567
BS	40	1638.3	131611	38613	36419.9

Source: Appendix II

Table 4.8 shows that the descriptive statistics of four sample of development banks listed on NEPSE from 2013/14 to 2022/23. The minimum and maximum value of market prices per share ranges from Rs. 141 to Rs. 1307. Likely, the average MPS is Rs. 404.28 with standard deviation of Rs. 235.586. The mean value of EPS is Rs. 22.798 with standard deviation of 9.4767 and ranges from Rs. 6.87 to Rs. 46.07. This implies that value of EPS can vary on both sides by Rs. 9.4767. The mean of the P/E is 18.183 times with standard deviation of 7.43936 and ranges from 9.3 to 43.4. The average dividend yield is 0.04675 percent and ranged from 0.000 to 0.08344 percent with the low standard deviation i.e. 0.01992 that indicates the low volatile position of development banks in Nepal. Similarly, DPR has mean value of 17.3865 percent and standard deviation of 8.86215 ranging from 0.00 to 40 which means the value can be deviated by 8.86215. The ROA is 1.84526 percent with standard deviation of 0.74567 and ranges from 0.4146 to 3.61 percent. The bank size defined in terms of the total assets ranges from Rs. 1638.3 million to Rs. 131611 millions leading to the average of 38613 million and 36419.9 of standard deviation.

4.1.3 Correlation analysis

This study tried to figure out the fundamental relationship between dependent and independent variables. Here, earning per share, dividend payout ratio, dividend yield, price earnings ratio, return on assets, and bank size are independent variables and market price per share is dependent variable. Pearson's correlation coefficient is used to know how the variables are related to each other. Correlation coefficient between two variables ranges +1 (i.e perfect positive relationship) to -1 (i.e perfect negative relationship) and if it's zero, it indicates no linear relationship. Correlation matrix is shown in the following table 4.9.

Table 4. 9

Pearson correlation coefficients of study variables

Variables	MPS	EPS	P/E ratio	DY	DPR	ROA	BS
MPS	1						
EPS	.734**	1					
	0.000						
P/E ratio	.486**	-0.137	1				
	0.001	0.400					
DY	-.444**	0.132	-.859**	1			
	0.004	0.418	0.000				
DPR	.632**	.920**	-0.184	0.304	1		
	0.000	0.000	0.256	0.057			
ROA	.469**	.769**	-0.247	.327*	.799**	1	
	0.002	0.000	0.124	0.040	0.000		
BS	-0.170	-.393*	0.196	-.389*	-.523**	-.771**	1
	0.293	0.012	0.226	0.013	0.001	0.000	

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

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

Source: Appendix III

Table 4.9 shows the correlation test between both dependent and independent variables using correlation coefficient matrix. The correlation test shows that earnings per share (EPS) has significant positive relation with market price per share (MPS) in 1 percent level of significance with correlation coefficients of .734. This implies that there is

positive correlation between EPS and MPS. Similarly, there is significant positive correlation between PER and MPS with coefficient .486 and there is negative significant correlation between dividend yield and MPS with correlation coefficient of -.444. The correlation matrix also shows that dividend payout ratio (DPR) has significant positive correlation with MPS. The correlation between return on assets (ROA) and MPS is significant positive correlations. At last, bank size (BS) has negative insignificant correlation with MPS at 1 percent level of significance.

4.1.4 Results of regression analysis

Under this study, many techniques are uses for modeling and analyzing several variables, when our focus is on the relationship between a dependent variable (MPS) and independent variables earnings per share, dividend payout ratio, dividend yield, price earnings ratio, return on assets, and bank size).

Table 4.10

Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.947[a]	0.897	0.878	82.3469

Predictors: (Constant), EPS, P/E ratio, ROA, DY, DPR, BS

Source: Appendix IV

In table 4.10, R statistics is 0.947 which indicates that there is high correlation between these variables. It penalizes the inclusion of additional predictors that do not significantly improve the model's explanatory power. The R-Square is 89.7 percent which is also a measure of the overall fitness of the model indicates that the model is capable of explaining the variability in the share prices of development banks. The coefficient of determination, commonly referred to as R square (R^2), is a statistical measure that represents the proportion of the variance in the dependent variable (the outcome or response variable) that is explained by the independent variables (predictor variables). R adjusted value is 0.878 in the models denote that 87.8 percent of the observed variability in stock price can be explained by the differences in the independent variables. The remaining 12.2 (100-87.8) percent of the variance in preference is related to other variables which did not explain, as they are not shows in the model. The variability or dispersion of the observed data points around the

regression line in a linear regression model is measured by the standard error of the estimate. The standard error of the estimate is 82.3469 which denotes the typical or average error or residual in the predictions generated by the regression model.

Table 4.11

Regression coefficient of independent variables with MPS

	Unstandardized Coefficients		Standardized Coefficients		
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-213.880	194.867		-1.098	0.280
EPS	16.994	4.916	0.684	3.456	0.002
P/E ratio	13.801	4.301	0.436	3.209	0.003
DY	-2346.945	1811.821	-0.198	-1.295	0.204
DPR	3.541	5.268	0.133	0.672	0.506
ROA	10.824	46.709	0.034	0.232	0.818
BS	0.000	0.001	0.032	0.295	0.770

Dependent variable: MPS

Source: Appendix IV

Table 4.11 shows the regression coefficient of independent variables such as earning per share, dividend payout ratio, dividend yield, price earnings ratio, return on assets and bank size of sample banks and the intercept value of dependent variable MPS. In a regression model, a standardized beta coefficient represents the change in the dependent variable due to the change in the independent variable while holding all other variables constant. The results of regression model indicated that the relationship between earnings per share (EPS) has a positive relationship with MPS by a coefficient estimate of 0.684. It means when one unit increases in EPS, as a result it increases MPS of the banks by 0.684 units when other variables are constant. The p value is 0.000 which is less than 0.05 discloses that it is statistically significant at 5 percent level of significance. So, the alternative hypothesis is accepted. Earnings per share (EPS) has significant impact on market price of stock of sample banks.

The price earnings ratio (P/E ratio) has a positive relationship with MPS by a coefficient estimate of 0.436. This means the holding other independent variables constant, when

one percent increases in PER, consequently it also increases MPS of the banks by 0.436 percent and the p value of P/E ratio is 0.003. It reveals that it is statistically significant at 5 percent level of significance. So, hypothesis accepted that P/E ratio has significant impact on market price of sample banks.

According to the regression result, dividend yield (DY) has a negative relationship with MPS by a coefficient estimate of -0.198. This means that holding other independent variables constant, when one percent increases in dividend yield (DY), consequently it decreases MPS of the banks by 0.198 percent. The p value of DY is 0.204 reveals that it is statistically insignificant at 5 percent level of significance. Accordingly, the result accepts null hypothesis that dividend yield has statistically insignificant effect on MPS of sample banks.

The dividend payout ratio (DPR) has a positive relationship with MPS by a coefficient estimate of 0.133. It means that holding other independent variables constant, when one percent increases in DPR, as a result it increases MPS of sample banks by 0.133 percent. The p value of DPR is 0.506. Testing in the 5 percent significance level p-value is more than 0.05 so, it accepts null hypothesis concluding that dividend payout ratio does not have statistically significant influence on the MPS of sample banks.

The return on assets (ROA) has a positive relationship with MPS by a coefficient estimate of 0.034. It means that holding other independent variables constant, when one percent increases in ROA, as a result it increases MPS of sample banks by 0.034 percent. The p value of ROA is 0.818. Testing in the 5 percent significance level p-value is higher. So, null hypothesis is accepted concluding that ROA has statistically insignificant influence on the MPS of sample banks.

The results of regression model indicated that the bank size has a positive relationship with MPS by a coefficient estimate of 0.032. It means that holding other independent variables constant, when one unit increases in bank size, it increases MPS of the banks by 0.032 units. The p value of bank size is 0.770 that it is statistically insignificant at 5 percent level of significance. Hence, it accepts null hypothesis.

4.2 Discussion

The main purpose of the study is to know the impact of dividend and also to analyze that how dividend effect on stock price in development banking sector. The correlation analysis presents that earning per share (EPS) has significant positive relation with

market price per share (MPS) in 1 percent level of significance which is consistent with the findings of prior empirical studies of Pradhan et al. (2017); Chughtai et al. (2014); and contradicts the findings of Mehmood et al. (2019). Similarly, there is positive significant correlation between price earnings ratio (P/E ratio) and MPS which supports the findings of Kumar. (2017), and negative relationship between dividend yield (DY) and MPS which is similar with the results of Khan at el. (2011); Hunraj et al. (2014); and different than the findings of Rashid and Rahman. (2008); Bilal and Jamil, (2015).

The correlation matrix also reveals that dividend payout ratio (DPR) has significant positive correlation with MPS. This was inconsistent with the findings of prior empirical study of Hussainey et al. (2011); Hunraj et al. (2014); and similar with Mehmood et al. (2019); Gunaratne et al. (2015), that DPR is positively correlated with MPS. Then, correlation between return on assets (ROA) and MPS is significant positive correlations. This is consistent with Pradhan et al. (2017) and inconsistent with the findings of Sinaga & Hasanuh. (2020); Febriani's. (2016). Moreover, bank size has negative insignificant relation with MPS which is consistent with the findings of Redmond et al. (2007) but different with the findings of Hussainey et al. (2011); Aladwan. (2015); Spathes. (2002).

The results of regression found that the relationship between earnings per share (EPS) has a positive relationship with MPS and the p value is 0.002 that it is statistically significant at 5 percent level of significance. The finding is consistent with the results of Bustain et al. (2021); Sari. (2021); Safitari et al. (2020); Bilal and Jamil, (2015). This means EPS has significant impact on MPS of sample banks and accepts alternate hypothesis.

As per the regression result, price earnings ratio (P/E ratio) has a positive relationship with MPS by a coefficient estimate of 0.436. This indicates that keeping other independent variables constant, when one percent increases in P/E ratio, it also increases MPS of the banks by 0.436 percent. The p value of P/E ratio is 0.003 that it is statistically significant at 5 percent level of significance. Meric et al. (2017); Kumar. (2017); Sari. (2021); Aletheari and Jati. (2016). The result supports alternate hypothesis that price earnings ratio has positive significant effect on MPS of sample banks.

In the same way, dividend yield (DY) has a negative relationship with MPS with the coefficient of 0.198. The p value of DY is 0.204 which is statistically insignificant at 5

percent level of significance. So, the result accepts null hypothesis. The dividend yield (DY) is negative insignificant impact on MPS of sample banks. the findings of Khan et al. (2011); and Hussiney et al. (2011), explains about the relationship of dividend yield with MPS but the finding of Bilal and Jamil. (2015) is different that dividend yield is positive but insignificantly related with MPS.

The dividend payout ratio (DPR) has a positive relationship with MPS with the coefficient estimate of 0.133. The p value of DPR is 0.506. Testing in the 5 percent significance level p-value is more than 0.05. So, null hypothesis is accepted concluding that dividend payout ratio does not have statistically significant influence on the MPS of sample banks. This was consistent with the findings of Nazir et al. (2010); Bustani et al. (2021); and Hunraj et al. (2014). The DPR is positive insignificantly related with MPS.

The return on assets (ROA) has a positive relationship with MPS by a coefficient estimate of 0.034 and the p value of ROA is 0.818. Testing in the 5 percent significance level p-value is higher and null hypothesis is accepted concluding that ROA has statistically insignificant influence on the MPS of sample banks. This is consistent with the findings of Choiriyah et al. (2020). However, it contradicts with the findings of Daniswara et al. (2020), which observed that ROA has insignificant negative impact on market price of stock of development banks in Nepal.

The relationship between bank size (BS) has also a positive relationship with MPS by a coefficient estimate of 0.032 and the p value of bank size is 0.770 discloses that it is not statistically significant at 5 percent level of significance. So, the bank size accepts null hypothesis concluding that bank size (BS) has statistically positive but insignificant influence on the MPS of sample banks. Spathes et al. (2002) had also found that large banks are more effective than small banks and have positive impact on MPS but Kasimodou et al. (2006), explains differently about the performance of banking sectors related to this bank size.

4.3 Major findings

From this study, we find out various major points in order to analyze the impact of dividend on market price of stock of development banks of Nepal. They are;

i. The result found that dividend and market price of stock of development banks are in fluctuating trend. Among all the sample banks, MNBBL has the highest dividend

payout ratio and the highest market price of stock.

ii. As per correlation analysis, it shows that earnings per share (EPS) is 0.734, price earnings ratio (P/E ratio) is 0.486, dividend payout ratio (DPR) is 0.632, return on assets (ROA) is 0.496. These all variables have significant positive relation with market price per share (MPS) at 1 percent level of significance. Similarly, dividend yield is -0.444, there is significant negative correlation between dividend yield (DY) with market price of stock. The bank size is -0.170. There is negative insignificant relationship with 1 percent level of significant.

iii. The results of regression found that earnings per share (EPS) and price earnings ratio (P/E ratio) have significant positive effect on MPS with the coefficient estimate of 0.684 and 0.436. However, dividend yield (DY) has insignificant negative effect on MPS with -0.198 of coefficient. Then, the dividend payout ratio (DPR) is 0.133, return on assets (ROA) is 0.034, banks size (BS) is 0.032. There is positive relationship with MPS of development banks in Nepal.

iv. The regression coefficient also shows that earning per share (EPS) and P/E ratio have p value of 0.002 and 0.003 so, it is statistically significant positive relationship with MPS. But dividend yield (DY) has 0.204 of p value which shows insignificant relationship with MPS. Similarly, dividend payout ratio (DPR), return on assets (ROA), and bank size (BS) also have insignificant relation with MPS with the p value of 0.506, 0.818, and 0.770.

v. At last, the study found that there is a considerable impact of dividends on the market price of stock of development banks in Nepal. The finding would provide guidance to the bankers to concentrate on changing the dividend distribution rate for the future profitability of development banks in desired direction.

CHAPTER -V
SUMMARY AND CONCLUSION

5.1 Summary

The dividend on share is one of the important indicator which demonstrated performance of banks and attracts most of the investors in the business. The dividend policy plays an important role. So, the investors carefully analyze the bank's dividend policy before making an investment decision in the stock. It has been observed and evaluated that companies with growing earnings and dividend generally see an increase in stock price, while declining dividends or no dividends tend to see a fall in stock price. Therefore, it is clear that dividends have an impact on a stock price of the companies. However, some researchers contend that it is actually information about dividend payments that affects the stock price. In fact, dividend helps to maximization of shareholder's wealth and also grows the performance of the firm.

The major objective of this study is to examine impact of dividend payout on stock price of development banks in Nepal while other specific objectives are to examine the structure of dividend and market price of stock of development banks in Nepal, to evaluate the relationship between dividend and market price of stock of development banks in Nepal and to analyze the impact of dividend factors on market price of stock of development banks in Nepal. Descriptive and causal research design has been carried out to achieve the specific objective of the study, in terms of dividend and stock price of development banks in Nepal. Descriptive research design is used for analyzing status and structure of dividend and market stock price whereas causal research design is followed to measure the impact of dividend policy on market price of stock of development banks in Nepal. There are 17 development banks operating in Nepal, which are assumed to be the population of the study but only four of them, namely Muktinath Bikash Bank, Garima Bikash Bank, Miteri Development Bank and Jyoti Bikash Bank have been taken as sample on the basis of simple random sampling method. Generally, secondary data are taken from annual reports of related office and their websites for this study. Data is collected from audited financial statements (balance sheet and profit and loss account) of each development banks included in the sample and various journals and publications of NRB etc. All data were collected on annual base covering ten years periods from the fiscal year 2013/14 to 2022/23. The

study used descriptive statistics, correlation and multiple regression analysis by using IBM SPSS software programmer.

The study found that Nepalese development banks have distributed dividend to the shareholders but these banks have not been following stable dividend payout policy. A wide range of market stock price is found. However, the dividend yield is low of all sample banks. The correlation analysis of earnings per share, price earnings ratio, dividend payout ratio and return on assets have positive and significant relationship with market price of stock but dividend yield has negative but significant relationship with the market share of Nepalese development banks. However, bank size has negative insignificant relationship with MPS. The regression result shows that earning per share and price earnings ratio have positive significant effect on MPS of development banks in Nepal. Dividend yield has negative insignificant impact on market price of stock. Similarly, dividend payout ratio, return on assets, and bank size also have positive insignificant effect on market price of stock of development banks.

5.2 Conclusion

During the study period, some conclusions are made from the findings. A wide range of market stock price is found. This study concludes that the earnings of banks said to be satisfactory in Nepalese context. But there is less consistency found in dividend distribution in all sample banks. However, the results of the study depicts that there are several considerations made prior to issuing dividends to the shareholders. It also reveals that the average assets size of development banks in Nepal during the study period is bigger as total assets is in increasing trend each year.

As per correlation analysis, it shows that earnings per share (EPS) is positive significant relationship with market price per share (MPS). Similarly, there is negative significant correlation between dividend yield (DY) with market price of stock and significant positive relationship between PER and MPS. The correlation matrix also shows that dividend payout ratio (DPR) has significant positive correlation with MPS. In the same way, correlation between return on assets (ROA) and MPS is significant positive correlations. The relation with bank size is insignificant negative correlation. The results of regression found that earnings per share (EPS) and price earnings ratio (P/E ratio) have a significant positive effect on MPS. However, dividend yield has insignificant negative effect on MPS of development banks in Nepal and dividend

payout ratio, return on assets, and banks size have positive but insignificant impact on MPS of Nepalese development banks.

5.3 Implication

On the basis of above summary and conclusion, the following implications are made in the banking sectors of Nepal;

i. This study figured out that the stock price of banks is significantly positively affected by earnings per share. In this regard, the findings of this study are expected to give the stakeholders additional and useful information about the effect of dividends on the stock price of development banks in Nepal. Finally, from the presented data and findings of the study, it would be very fruitful to the managers as internal users, regulatory agencies and other external users to make decisions considering the impact of dividend on bank stock prices.
ii. This study also find out the various relationship between stock price and variables. The dividend yield is significantly negatively with the stock market price of Nepalese development banks. It shows that lower stock price would result from a higher dividend yield. Accordingly, to increase the firm's value and stock market price, the firm’s management should try to raise stock dividend.
iii. From the findings of the study, there is positive insignificant relationship between bank size and market price per share. The implication of this study suggests a rational investor’s need to consider firm size, profitability and money supply before making investment decision along with signaling and asymmetric information in context of imperfect stock market like Nepal.
iv. Overally, this study shows that there is a considerable impact of dividends on the stock price of development banks in Nepal. The finding would provide guidance to the bankers to concentrate on changing the dividend distribution rate to impact the changes in the corresponding year's earnings. However, in the subsequent years, the changes in dividend distribution would not be useful. Thus, they need to focus on other variables except dividend policy to influence the future profitability of development banks in desired direction.
v. This study makes implications that are beneficial for investors and other researchers. The finding and conclusion serves as a great source for further researchers.

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www.muktinathbank.com.np

www.miteribank.com.np

www.garimabank.com.np

www.jbbl.com.np

APPENDICES

Appendix-I

Banks	Year	MPS	EPS	P/E ratio	DY	DPR	ROA	BS
Muktinath	2013/14	630	41.32	15.25	0.0603	40	2.5184	6029.44
	2014/15	564	35.99	15.67	0.0553	32.63	2.4181	9000.47
	2015/16	1307	43.1	30.32	0.0173	34	2.79	12936.8
	2016/17	971	32.09	30.26	0.0206	21.05	2.485	19592.3
	2017/18	378	22.2	18.48	0.0508	19.21	1.6667	34649.3
	2018/19	370	27.94	13.24	0.0601	17.6	1.6467	51991.4
	2019/20	312	16.56	18.84	0.0479	15.51	1.066	66348.1
	2020/21	657	24.03	27.34	0.0282	18.5	1.1434	101127
	2021/22	439.9	23.72	18.55	0.0323	14.21	1.1082	121083
	2022/23	407	19.44	20.94	0.0154	10.26	0.95	131611
Garima	2013/14	345	27.77	12.42	0.061	21.05	2.26	4612.39
	2014/15	305	20.32	15	0.0657	20	1.94	7452.36
	2015/16	356	26.02	13.68	0.0584	20	2.1	10578.8
	2016/17	296	15.83	18.71	0.0507	15	1.98	17662.1
	2017/18	218	17.43	12.51	0.0459	13.75	1.86	25286.5
	2018/19	224	21.32	10.51	0.0759	17	1.53	38749.1
	2019/20	223	17.82	12.51	0.0637	14.21	1.15	50293.7
	2020/21	544	22.75	23.91	0.031	16	1.15	72957.5
	2021/22	387	22.49	17.21	0.0376	14.5	1.29	80030.5
	2022/23	405	24.38	16.61	0.0273	10	1.42	89162.81
Miteri	2013/14	490	36.25	13.52	0.0564	27.64	2.88	1638.3
	2014/15	500	39.54	12.65	0.0663	33.16	3.15	2041.57
	2015/16	861	46.07	18.69	0.0385	33.16	3.61	2700.5
	2016/17	520	31.61	16.45	0.0669	34.79	3.41	3525.01
	2017/18	288	22.86	12.6	0.0652	18.78	2.49	4576.76
	2018/19	234	25.17	9.3	0.08344	19.51	2.56	5759.98
	2019/20	307	25.84	11.88	0.0514	15.79	2.72	6580.21
	2020/21	586	18.27	32.07	0.0239	14	2.17	6705.12
	2021/22	347	16.37	21.2	0.0375	13	1.97	7519.99
	2022/23	404.1	15.85	25.59	0.0143	10	1.987	8098.197
Jyoti	2013/14	207	7.94	26.07	0.0338	7	1.0149	6194.76
	2014/15	164	12.16	13.49	0.0549	9	1.3847	7423.09
	2015/16	169	16.45	10.27	0.0692	11.7	1.703	8917.85
	2016/17	207	10.73	19.29	0.0501	10	1.73	13188.4
	2017/18	141	13.34	10.57	0.0596	8.4	1.479	23346.8
	2018/19	163	17.14	9.51	0.0782	12.75	1.4573	36459.9
	2019/20	166	13.97	11.88	0.0602	10	1.1531	42361.1
	2020/21	478	17.27	27.68	0.0324	15.5	1.1086	59879
	2021/22	302.2	15.7	19.25	0.0225	6.8	0.9457	70841.7
	2022/23	298	6.87	43.4	0.0000	0	0.4146	72786

Sources: Annual report of sample banks

Appendix-II

Descriptive statistics of variables of sample banks					
Variables	N	Minimum	Maximum	Mean	Std. Deviation
MPS	40	141.0	1307.0	404.280	235.5864
EPS	40	6.87	46.07	22.7980	9.47670
P/E ratio	40	9.30	43.40	18.1830	7.43936
DY	40	0.00000	0.08344	0.0467535	0.01992494
DPR	40	0.00	40.00	17.3865	8.86215
ROA	40	0.4146	3.6100	1.845260	0.7456655
BS	40	1638.300	131611.000	38612.99518	36419.894726

Source: IBM SPSS Statistics (version 29.0.2.0 (20))

Appendix-III

Pearson correlation coefficients

Pearson correlation coefficient of study variables							
variables	MPS	EPS	P/E ratio	DY	DPR	ROA	BS
MPS	1						
EPS	.734**	1					
	0.000						
P/E ratio	.486**	-0.137	1				
	0.001	0.400					
DY	-.444**	0.132	-.859**	1			
	0.004	0.418	0.000				
DPR	.632**	.920**	-0.184	0.304	1		
	0.000	0.000	0.256	0.057			
ROA	.469**	.769**	-0.247	.327*	.799**	1	
	0.002	0.000	0.124	0.040	0.000		
BS	-0.170	-.393*	0.196	-.389*	-.523**	-.771**	1
	0.293	0.012	0.226	0.013	0.001	0.000	
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

Source: IBM SPSS Statistics (version 29.0.2.0 (20))

Appendix-IV

Multiple regression analysis of sample banks

Model summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.947[a]	0.897	0.878	82.3469

Predictors: (Constant), EPS, P/E ratio, ROA, DY, DPR, BS

Source: IBM SPSS Statistics (version 29.0.2.0 (20))

Regression coefficient of independent variables with MPS

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-213.880	194.867		-1.098	0.280
EPS	16.994	4.916	0.684	3.456	0.002
P/E ratio	13.801	4.301	0.436	3.209	0.003
DY	-2346.945	1811.821	-0.198	-1.295	0.204
DPR	3.541	5.268	0.133	0.672	0.506
ROA	10.824	46.709	0.034	0.232	0.818
BS	0.000	0.001	0.032	0.295	0.770

Dependent variable: MPS

Source: IBM SPSS Statistics (version 29.0.2.0 (20))