

Chapter -1

INTRODUCTION

1.1 Background of the study

Financial companies are essential factors for the process of economic development and to achieve economic growth and prosperity. Financial company offers prospects for the expansion of employment and income. More than that, it generates innovations and technological changes that bring about shifts in the production frontier, thereby accelerating growth and factor productivity. Development of financial sectors, among other sectors is equally essential for the rapid economic development of the country.

Economic liberalization policy of the government has encouraged the establishment and growth of finance companies in the country within a short span of time. In a situation when the existing financial institution, especially commercial banks are unable to supply credit timely and carry capital market activities, financial company have come timely to meet the individual credit needs, undertake merchant banking functions and other allied functions. The special features of finance companies are that they go to areas where commercial banks find difficult and not accessible to lend with risk. Most of the customers prefer finance companies with the notion that talking loan from finance companies although little bit costly is confident in getting the loan without passing too many procedures often that exist in commercial banks.

As per available data, by mid April, 2004 there had been 59 licensed finance companies. Finance companies have come into operation under the finance companies Act, 1986. There are registered as limited companies at the office of the registrar of companies according to the provisions made in the company Act, 1965. At present however, there is complete restructuring of the legal provision to extend that enactment of new ordinance 2063 has repeal the finance companies Acts and now it is regulated by the same umbrella Act. How far this Act is beneficial to the growth of finance companies and its operations is yet to see in future. More about this will be discussed latter on.

Finance companies borrow funds from different sources. The largest parts of their funds are collected from bank loans, commercial paper sales, and issues of both long term and short term debt in the capital market. But, commercial paper is absent in Nepal. Finance companies can accept time deposit of the maturity of minimum three months to maximum six years to a maximum limit of twelve times of the primary capital of the company. But there are allowed to accept deposits not exceeding 2.5 times of their primary capital. However even considering the attraction of deposits, finance companies are facing problems since most investors have not developed full confidence of putting money in fixed deposit certificate of various maturity and sizes. However finance companies are under full control and the monitoring of Nepal Rastra Bank, there is no little chance for them to escape from public accountability and responsibility to depositors and the client.

Generally, finance companies have centered their business on the lending to customers. Finance companies advance loans to individuals, companies or institutions. Such companies are allowed by the Act to undertake lease financing, offering credit for purchasing or construction of residential houses. They can also perform merchant banking activities with prior approval of NRB. These companies are popular among low income and medium class people for financing hire purchases, vehicles, machinery, tools equipments, durable household goods etc. As a consequence of the financial liberalization policy, finance companies are growing in the Katmandu valley whereas their presence is also gradually growing outside the valley due to Nepal Rastra Bank directives and incentives¹.

Government made a significant effort to regulate the finance company Act 1985. The aim of this Act was to guide the economy in right way. According to Nepal stock exchange there are only 28 listed finance companies have been issued license by the Nepal Rastra Bank till 200. After the political change in Nepal on 2047 B.S. the economic liberalization, privatization, globalization has been followed by government for the industrialization. This policy has given more emphasis to the private sector encouraging factor of sustainable economic growth. The new policy has already resulted in establishment of joint venture as well as private bank and finance companies.

¹ Shrestha M.K. and Bhandari, D.B. (2004) **Financial Markets and Institutions**, Asmita Publication, Kathmandu, pp 1-5

The policy of economic liberalization and globalization adopted by government of Nepal will continue to evoke response from the industrial financial and commercial sectors of the country of the course the legal foundation of finance company has started, since finance company Act 1985 come up to the practice. But companies were started only after 1992.

The development of finance system in Nepal is applicable. But still much more has to be done in making financial system as an effective intermediate for the mobilization of domestic savings in productive sectors. The formulation of an effective monetary strategy and reformation programmed of the financial system in the country can make an important contribution in mobilization of more domestic resources as well as to finance the required funds needed for economic expansion. Therefore, much more emphasis should be given to an efficient monetary arrangement and reformation of financial system which is conducive to the proper growth of the financial system in Nepal.

Dividend policy is an integral part of a firm's financing decision². The dividend policy of the firm is regarded as a tool to the determine the appropriate allocation of profits between dividend payments and retained earnings in the firms. Dividend is a portion of earnings of a firm which is distributed to its shareholders. Retained earnings are the most significant internal sources of financing for the growth of a firm.

Financial companies whereas they have to make pertinent decision of dividend to identify exactly how much dividend is needed to run smoothly. Dividend policy of the company of on division of its profits between dividend and retention is known as dividend policy. All aspect and question related to payment of dividend are contained in dividend policy. The dividend, which is distributed to shareholders, may be in cash, share (stock) and securities or a combination of these. Dividend paid on preference share is called "preference dividend" dividend paid on equity share is called "Equity dividend" and paid on stock is called "stock dividend". Dividends are distributed to shareholders out of corporate profits according to corporate plans and policies³.

² Jams C, Van Horn and John M., Wachowicz, and Jr., (1997) **Fundamental of Financial Management**, 9th Ed., Prentice Hall of India Private Limited, pp 494

³ Pradhan Surendra, (2000), **Basics of Financial Management**, 2nd Ed., Educational Enterprise, Kathmandu, Nepal, pp 475-476

Corporate profits are the after tax earned income of firms of firms for the past period. In view of maximizing the value of shareholders wealth, the firm needs to explore best ways to use profits.

Whether to distributed all of the profits as dividend, just a part of it or not at all is a matter of policy and managerial decision. Profits belong to investors however, for some operational needs. A part or all of the profit may be retained for reinvestment in the expansion of business, or for in new opportunities.

1.1.1 Concept

Conceptually speaking, finance companies are the non bank financial institutions operating in the overall financial system of the economy. In practice, however they serve as they Act as the borrowing and lending financial institutions with additional financial risk taking management. So, depending upon a wide variety of finance companies, they are grouped in the following ways:

1. They are solely and wholly deposit taking institutions to disburse loans to the perspective clients.
2. They are again considered to the most diverse non depository financial institutions that tend to meet various kinds of consumer credit needs.
3. In course of time, they are often developing as specialized financial institutions to meet specific needs like leasing, project financing, housing and other real estate financing.
4. Then, as distinct from a number of other financial institutions, finance companies were known to server as the architects or engineers or financial risk management.
5. Lastly, finance companies began to act as the merchant bankers in having a greater stake in the financial intermediary networks in the nation's financial system.

1.1.2 Nature and Function of Finance Companies

Basically, finance companies perform a wide variety of functions depending upon the extent and nature of their specialization. They obtain most of their funds in large quantities by borrowing directly from other financial institutions or by selling securities in capital market. They lend funds relatively in small amount especially in supporting consumer finance.

They do extend intermediate credit to individual and business firms as quickly and easily as possible. They perform to act as the main borrowing lending institutions. They loans also go for other purpose to accomplish lease financing, factoring accounts receivables, and other packages of merchant banking functions based on agreed terms and conditions of fee structure.

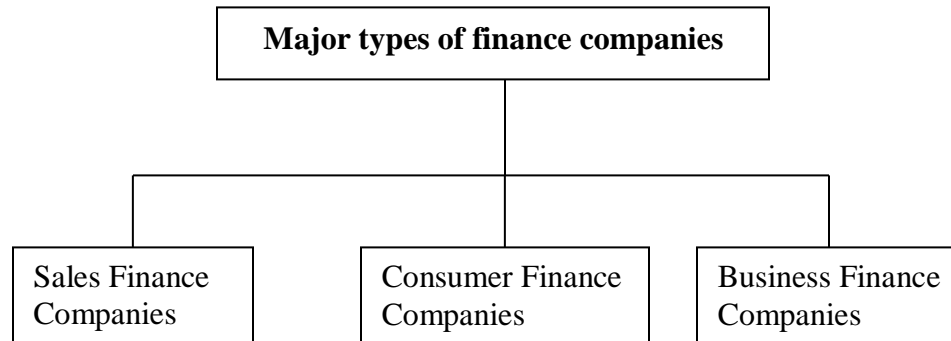
Because of the growing scope, specialization, coverage and functions of finance companies their business structure ranged from partnership to privately owned corporations and from publicly owned corporations to the wholly owned subsidiaries of manufactures, commercial bank holding companies, life insurance companies and any other corporate financial entities.

In practice, however, finance companies have undertaken a number of non fund based activities such as identifying promising potential venture capital projects prepare feasibility studies and services, arranging and negotiating for loan syndicating, assist investors in obtaining license, do precise capital restricting plans, give guidance on reorganization, amalgamation, merger, and acquisition plans, change in the legal status of companies from private to public limited companies and vice versa, etc. Moreover, the bulk of other functions consist of merchant banking function and serving as financial intermediaries in the process of fund transfer from those who have to those who need. Thus, the main strength of finance companies lies not in the provision of funds but in providing a whole range of inputs of innovative finance and non finance functions based on their managerial, technical and institutional expertise.

1.1.3 Types of Finance Companies

Finance companies is that types of financial institution which is company, non banking institution whose majors business is to receive the deposits

under any scheme and lending in any manner. It is small business organization. Finance companies offer short and middle term credit to customers. Finance companies can be classified as follows.



Sales Finance Companies: Sales finance companies concentrated on purchasing credit contracts from retailers and dealers. This type of companies provides facility for purchase of automobiles and other durable goods on installment plan. Sales finance companies often purchase retail credit contracts in order to gain new business.

Consumer Finance Companies: Consumer finance companies concentrated on direct loan to the customers. This type of loan is small. The customer uses the loan for household rather than business.

Business Finance Companies: Business or commercial finance companies concentrated on loans to business firms. This type of companies usually provided loans that could not be obtain from commercial banks because banks.

1.1.4 Problems of Finance Companies

Most of the problems of finance companies are regulatory in nature although regulators do have their own stand to justify for tough and tough regulation. At the same time, there are broader micro and macro economic issues relating to finance companies. These issues cover policy level structural issues, of these are addressed below:

Policy Level Structural Issue: At the policy level in every country whether developed or developing, importance has been given to the uniqueness of the commercial banks while non bank financial institutions including financial

companies are considered to be of little importance although in various policy statements the remarks is often made that the line of demarcation between the two is less distinct. Fund creating and utilization power needs to be properly addressed.

Regulatory Level Legal Issue: At the regulatory level various regulatory authorities taking from the central of the country to other regulatory bodies like income tax, company affairs registrar, Securities Exchange Board, etc are often found to discriminate the finance companies in the fair treatment of laws and regulation.

Managerial Level Institutional Issue: Finance companies themselves have unique problems of internal management efficiency and operational issues in view of the inadequate level of professionalism providing worldwide events and instances of few fake finance companies playing on the money of the investing public.

1.1.5 Growth of Finance Companies in Nepal

Economic liberalization policy of the government has encouraged the establishment and growth of finance companies in the country. In Eight plan (1992-1997), it has been clearly stated that "the vacuum in the present national financial system needs to be filled by institutional developed capital market institutions like investment companies, finance companies, leasing and housing finance on order to create a healthy, competitive financial sector". In Tenth plan (2002-2007), it has been described that, "Encouragement will be made to establish finance companies in development regions where they are not yet established. At the same time their scope of service delivery will be expanded, wherever possible." In situation when the existing financial institutions, especially commercial banks are unable to carry capital market activities and also not in a position to meet consumer needs for credit, it is timely to encourage the growth and operation of finance companies to meet individual credit needs, undertake fee based merchant banking function and to gradually curtail the Upahaar and Dhukuti programmes which were run unofficially.

In purpose to government's economic liberalization policy, NRB took some policy measures for the healthy and competitive development of commercial banks and finance companies and to dissuade them from concentrating in Kathmandu.

The approval and permission of NRB to encourage the establishment and growth of finance companies started in Nepal after the first amendment in finance company Act, 1985 (2042). Within a period of four years 1991-1995 as per available data, there had been 56 finance companies of various capital sizes registered in government company Register office.

But in the year 1994, the wave of establishing finance companies reached to the maximum number. All together 32 finance companies were registered as per official record in company register. Moreover, 4 additional finance companies were registered in 1995.

Out of 56 finance companies, 23 finance companies were started operations in 1995. These finance companies had authorized capitals that vary from Rs. 10 million to Rs. 240 million. The number of the finance companies reached to 45 in mid- January, which were 44 in mid-January 1999. In mid-January 1999, the total resources of finance companies amounted to Rs. 9,582 million. In mid January 2000, the total resources of finance companies reached to Rs. 12,245 million. By mid March 2003, the number of finance companies licensed under the finance companies Act, 2042 B.S., totaled 55. The numbers of finance companies reached 59 up to 15 July, 2005 and they are already in operations.

In view of the growing number of finance companies reregistered and applying for license with NRB, a high level Technical Committee has been constituted for more serious and detailed study and analysis of feasibility report submitted by finance companies under the management and leadership of NRB's deputy governor to accomplish the objective of operating a more competitive environment in the financial sector. Based on the recommendations of this high level committee, policy framework and guideline will be published to help and direct the establishment and regulation of finance companies in the country. The recommendations of this committee will also help to determine basic eligibility criteria to be applied while issuing license to new finance companies and also in monitoring to those already established and have started operations⁴.

⁴ Dr. Shrestha Manohar Krishna & Bhandari Dipak Bahadur (2004), **Financial Markets and Institutions**, Asmita Books Publishers & Distributors, Kathmandu Nepal, p.no. 325 - 330

1.2 Statement of the problems

Controversy relevance or irrelevance of the dividend decision arises from two different and somewhat incompatible approaches to the decision-making problem. Thus who argue for the relevance of dividend to the reinvestment of earnings the firms, while thus argue for the irrelevance of dividend policy point out at the investment decision need not be controlled by the firm's dividend policy, but may be financed equally well through the issuance. Dividend policy determines the division of earnings between payments to the stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financing corporate growth, but dividends constitute the cash flow that accrues to stockholders⁵. Capital market of company in Nepal is operating in an immature stage. There is not satisfactory result about dividend decision. The turnover of dividend is still very poor. It is partly due to the various government rules and regulations acting and reacting in the financing operations. But there is no limit to the identification of the problem about dividend policy that is visible in Nepalese finance companies. In connection to Nepalese public Enterprises Prof. Dr. M.K. Shrestha remarks that, dividend is still considered as unintended strategy or the non payable obligation at a time when Government is not a position to impose the public Limited companies to pay minimum rate of dividend on the equity capital contribution⁶.

Regarding the dividend policy, most of Finance Companies recognize that the market price per share depends upon the dividend per share. Shareholders have a desire to receive market price as the same ratio of dividend per share. But the company's decision regarding the amount of earnings to be distributed as dividends depends on the number of factors like legal restriction, liquidity, investment opportunity and inflation etc. So most of the companies could not able to maintain the market price as per the ratio dividend per share. However most of companies have to maintain the relationship in the same ratio.

⁵ Buckner A. Wallingford, **II Dividend Policy with Predetermined Investment**, A Financial Journal, Vol No XXVI p 693.

⁶ J. Fred, Weston, and Eugene F, Brigham, (1980) **Managerial Finance**, 7 th Ed, Holt-Saunders International Edition, The Dryden Press, Chicago, pp 673.

According to Walter's study, dividend policy almost always affects the value of the companies, where the investors demand the relationship between internal rate of return on investment regarding the dividend and market rate. Solomon concludes that dividend may offer tangible evidence of the firm's ability to generate cash, and as a result, the dividend policy of the firm affects the share price. Even if dividends do affect the value, there is not much that they do to increase the shareholders wealth. As per previous study, most of the companies are underrating the expectation of investors and there is resulting the low market ability of share on trading floor of stock exchange.

Dividend payment is not regular phenomenon in Nepalese listed companies⁷. There is not adequate legal rule for finding finance company to pay dividend distribution policy and practice in finance companies. In order to the problems, this study analysis the dividend portfolio, regarding dividends and examines the relationship between dividends and stock prices by taking sample.

- Does the market price per share of listed companies depend upon the dividend per share of the companies? What relationship there exists between MPS and DPS?
- Does the market price per share of listed finance companies depend upon the earnings per share of the companies? What is the relationship between MPS and EPS.
- What is the dependence of market price per share with the dividend payout ratio of listed finance companies? And what is the relationship between MPS and DPS.
- What is relationship between MPS and PER under the listed finance companies? Does the market price share depend upon the price earnings ratio in listed finance companies?

⁷ Shrestha M.K. (1985), **Dividend Policy in Selected Public Limited Companies**, The Management Review Vol. No. 1, Summer, Kathmandu, Nepal.

- Does the market price per share depend upon the dividend yield under the listed finance companies? What is relationship between two variables?
- Is there any dependency of market price per share on the return on net worth in the listed finance companies? What relationship between MPS and RONW?
- RONW? What is the relation among EPS, DPS, DPR, PER, MPS, DY and
- How is the financial position among of listed finance companies in terms of growth rate of the companies?
- Do the finance companies paying larger dividends have a good financial position?
- Is there uniformity in dividend distribution policy of listed finance company?

1.3 Objectives of the study

Dividend policy is one of the key instruments, which reflects the firm's ability of internal financing. Thus, this study primarily aims to analyze the dividend policy of Nepalese listed companies. Specific objectives of this study are:

- To analyze the impact of dividend per share and other variables regarding dividends on the market price per share.
- To analyze the relationship of dividend per share with other variables such as earnings per share, dividend payout, price earnings ratio, market price per share, dividend yield and return on net worth.
- To examine the dividend policy of listed finance companies.
- To asses the finance position of listed finance companies in terms of dividends and other variables regarding dividends.
- To provide valuable suggestions regarding dividend policy.

1.4 Significance of study

The objective behind investment in stock is to get greater dividend. Dividend policy is an effective way to attract new investors, to keep present investors happy and to maintain the good will of the company. When any new company issues the shares through capital market, many people apply to purchase the stock. It indicates people's expectation on higher return of investment in shares.

When investing in shares the investor foregoes opportunity income that he could have earned. The income of capital market is secured from two ways: firstly by means of dividend and secondly by capital gains i.e. appreciation in stock prices. Due to the lack of enough knowledge, people are investing hit or miss in shares. It is necessary to clear conceptions about the return that result from investing in securities. In Nepal, as a result, enough study is essential.

Therefore, considering all these facts, the study is undertaken which will help to meet the deficiency of the literature relating to dividend decision and factors affecting dividend policy. Lastly, it is also a useful literature for the study about the relating topics. Similarly, the company may also follow the suggestion of the study to make their policy. Thus, the study of dividend policy is significant.

1.5 Limitation of the study

- This study is simply a partial fulfillment of MBS programmed.
- Only secondary data have been analyzed to draw the result of this study.
- The related data are considered only cash dividend of the finance companies.
- The study period only covers some fiscal years.
- This study only takes some finance companies as sample whereas there are 34 finance companies listed in NEPSE Ltd.

1.6 Research methodology

Research methodology is the description of the methods used in a detailed study and investigation of a particular subject to discover new facts and to get additional information.

The following two types of data were belonging in this research.

a. Primary data:

Under this research method direct persona interview, and information from local correspondent has been used. For this purpose I have faced many problems like spending a lot of time not availability of relevant person etc.

b. secondary data;

I have taken this as main source of my research. Most of the data available in this research are based on it. The data as well as information presented in this report are taken from official publication, reference book of the course, newspaper and other thesis.

1.7 Organization of the study

This study has been organized in to five chapters each devoted to some aspects of the study of dividend practice of selected finance companies in Nepal. The titles of each chapter are as follows.

Chapter- 1	Introduction
Chapter- 2	Review of literature
Chapter- 3	Research methodology
Chapter- 4	Presentation and Analysis of data
Chapter- 5	Summary, conclusion and Recommendation

Chapter- 1

It contains the introductory part of the study. As already mentioned this chapter describes major issues to be investigated along with the objective and scope of the study.

Chapter- 2

It is directed towards the review of literature of related studies. It contains conceptual frame work, major studies in general and reviews of major studies in Nepal.

Chapter- 3

It describes the research methodology employed in the study. This chapter deals with the matter and sources of data, population and sample, statistical tools and financial tools.

Chapter- 4

It deals with presentation and analysis of relevant data and information through definite courses of research methodology.

Chapter- 5

It states summary, conclusion and recommendation of the study. This chapter sates main finding, issues, gaps and suggestive frame work of study.

CHAPTER -2

REVIEW OF LITERRATURE

2.1 The Conceptual Framework

Company's total net income can be divided into two parts: Earnings to be distributed to the equity shareholders and earnings to be kept in the organization. Earnings that are distributed to the shareholders are known as dividend and earnings which is kept in the organization is known as retained earnings. Dividend policy determines the division of earnings between payments to shareholders and reinvestment in the firm. Retained earnings are one of the most sources of funds for financing corporate growth, but dividends constitute the cash flows that accrue to shareholders.

Dividend decision is the crucial area of financial management⁸. The main aspect of the dividend policy is to determine the amount of earnings to be distributed to the shareholders and the amount to be retained in the firm. Dividend is a portion of earnings, which is distributed to shareholders, in return of their investment in share capital and it is a most significant source of internal financing to growth the firm. Conceptually speaking the difference between dividend and dividend policy is only of degree but not of the kind itself. Dividend implies to the portion of earnings that is paid to the shareholders whereas dividend policy is only of degree but not of the kind itself. Dividend implies to the portion of earnings that is paid to the shareholders while dividend policy refers to the guidelines that management uses in establishing portion of retained earnings that is paid to the shareholders in the form of dividend. Dividend conveys pro rata distribution of earnings either in the form of direct cash or additional stock in accordance with his proportionate share holding. Nowadays, it is mostly interpreted in terms of left over earnings after financing all acceptable investment opportunities and these are used for the payment of dividend. In this way, dividend is just means of distributing unused fund of paying out whatever fund left after making all attractive investment.

⁸ Pandey I.M. (1988), **Financial Management**, Vikash Publishing House Pvt. Ltd., New Delhi, pp 302.

Further more, it is stated simply as the by product of the firm's capital budgeting decision and borrowing decision.

Dividend policy has effect in two parts, one is retained earnings and the other is dividend. The retained earnings provides funds to finance the firm's investments. It has been taken as a long term financing decision because it provides funds, which are needed, to the firm without issuing shares. It is preferable because unlike external equity they don't involve any floatation costs. It reduces the cost to be invested in to the new opportunity. So, earnings may remain undistributed as part of a long term financing decision. But dividends are generally paid in cash. The distribution of earnings uses the available cash of the firm. A firm which intends to pay dividends and also needs funds to finance its investment opportunities will have to use external sources of financing, such as the issue of debt or new common shares, which will be costly because of floatation cost⁹. Despite the fact that only few companies are paying dividends in Nepal. There is also growing practice of paying stock dividend among some Nepalese companies. The clue to stock dividend distributions may lie in there perceived substitution for relatively of earnings, they issue stock dividends so that the shareholders of the firms are content. Manager strongly agrees that stock dividend have a positive psychological impact on investors for receiving them¹⁰.

The question with respect to dividend distribution is how much to distributed and how to reinvest. In other words, what should be the dividend policy? A closer look into this matter calls for consideration of man related aspects including the availability of present and future opportunities, regulations, and shareholders expectation. The following figure presents the areas related to dividend management¹¹. Stock split is another aspect of dividend policy. Practitioners have long contended that the purpose of stock split is to move a firm's share price into an "Optimal trading range¹²" specifically investors of small means are presumably penalized by high stock prices that deny them the economics of buying stock in round lots.

⁹ Josef Lakonishok and Baruch Lev, (September 1987), **Stock Split and Stock Dividend; Why, Who and When**, The Journal of Finance, Vol XLH No. 4, pp 913

¹⁰ H. Kent Baker and Aaron L. Phillips, (Nov 20, 1992), **Management Views, on Stock Dividends, Working Paper Serious**, Jacksonville Florida, pp 19

¹¹ Pradhan Surendra, (2000), **Basic of Finance Management**, 2nd Ed., Educational Enterprises, Kathmandu, Nepal

¹² Mc Nichols Maureen and Ajay Dravid, (1990), **Stock Dividend, Stock Split and Signaling**, the journal of Finance, Vol., XLV, No. 3 p 857

Thus, stock split is the popular practice of developed capital market. An alternative form of dividend is share repurchase. If a firm has some surplus cash (or if it can borrow) it may choose to buy back some of its own share. In the developed capital market, corporations are allowed to buy back share and better utilize unused cash. However, Nepalese company Act, 1997, Section 47 has prohibited company from purchasing its own shares¹³. It states that no company shall purchase its own shares or supply loans against the security of its own shares. The issue of how much a company should pay its stockholders as dividends is one that raises its dividends often experiences an increase in its stock price and a company that lowers its dividends has a falling stock price. This seems to suggest that dividends do matter in that they affect stock price. But several researchers have refuted this causal relationship on the grounds that dividends per share do not affect stock prices rather; it is the informational content of dividend that affects stock prices¹⁴. Ross (1977) and Bhattacharya (1979) have argued that dividend policy could be viewed as a signaling mechanism whereby firms with profitable projects are able and willing to pay higher dividends in order to segregate themselves forms with less profitable projects¹⁵.

Dividend policy is set in consistence with the objective of maximizing the value of firm. Investors invest in the stocks with the objective of maximizing the value of firm. Investors invest in the stocks with the expectation of receiving at least risk adjusted rate of return on their investment. With respect to their investment, nothing would please them more than the corporate reporting increased profits, more dividends and higher stock price. As said before profits belongs to stockholders however, it is the managerial policy on dividends that decides how much of the total profit to distribute as dividends and how much to retain in the business. In a way it should not matter for stockholders how much profit is distributed and how much is retained. Because whether profits are distributed in the form of dividends or reinvested in the business, benefits go to shareholders directly or indirectly. If profits are distributed benefits are direct and are at present. If they are reinvested the benefits are indirect and come in at some future time period or as capital gain from expected stock prices. But the question is which one present dividend or future cash flows benefits more to stockholders?

¹³ Endi Consultants Research Group, Kathmandu, Nepal, **Nepalese Company Act 1997**, Nepal for Profitable Investment, Kathmandu Shree Star Printing Press, p 60.

¹⁴ R.K.S. Roa, **The Dividend Policy Decision, Financial Management Concepts and Applications**, 2nd Ed., New York, Macmillan Publishing Company, 1992, p. 448.

¹⁵ R.H, Litzenberger and K. Ramaswamy, (1980), **Dividend Short Selling Restrictions**, The Journal of Finance, Vol . XXXV, No. 2, p.470

2.2 Stability of dividends

Stability or regularity of dividends is considered a desirable policy by the management of most companies in practice. Shareholders also seem to favor this policy and value stable dividends higher than the fluctuating ones. All other things being the same, stable dividend may have a positive impact on the market price of share. Stability dividends sometimes means regularity in paying some dividend annually, even though the amount of dividend may fluctuate over years, and may not related with earnings. There are a number of companies which have records of paying dividend for a long unbroken period. More precisely, stability of dividends refers to the amounts paid out regularly¹⁶.

Three distinct forms of such stability may be distinguished:

- Constant dividend per share
- Constant payout ratio
- Constant dividend per share plus extra dividend

Constant dividend per share

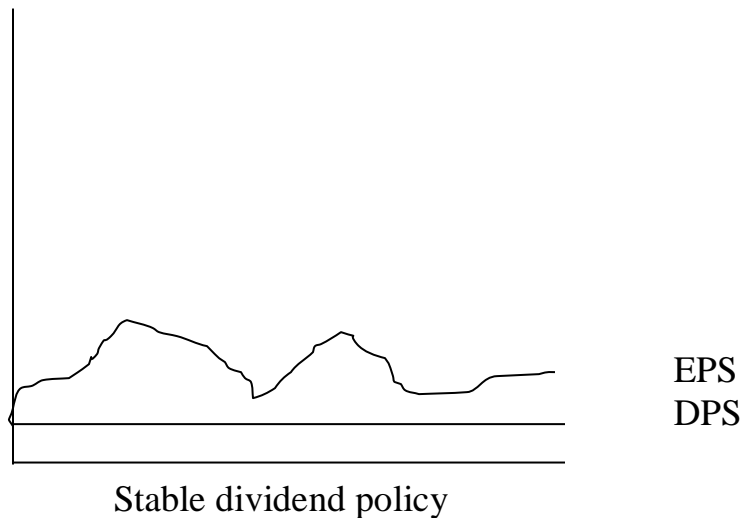
Dividend as the under this policy, dividend is paid in a fixed amount per share every year, irrespective of the fluctuations in the earnings. This policy is followed by most of the companies. It is easy to follow this policy when earnings are stable. If the earnings pattern of a company shows wide fluctuations, it is a difficult to maintain such a policy. Investors who gave only one source of income prefer this policy.

For the example, following is given earnings and dividend per share yearly under stable dividend per share method:

Year	EPS	DPS
20X4	15	10
20X5	25	10
20X6	12	10
20X7	22	10
20X8	25	10

¹⁶ Pandey I.M. (1999), **Financial Management**, Vikash Publishing House Pvt. Ltd., 8th Ed., New Delhi, p.no. 778.

The following figure represents the dividend pattern for the given earnings under this policy.



Constant payout ratio

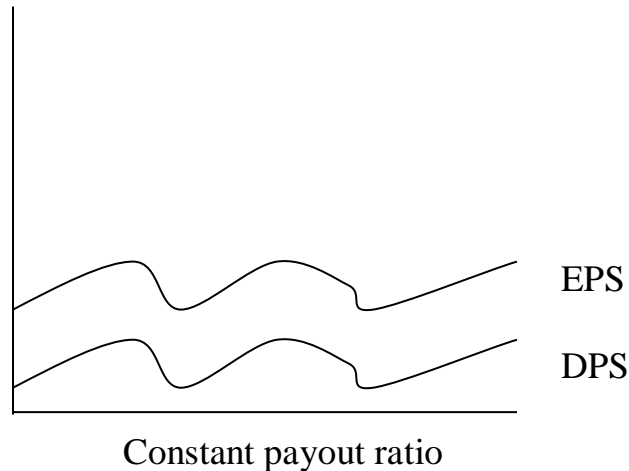
The policy to distribute a certain percentage of profit every period is called constant payout ratio. The payout ratio is the ratio of dividend to profit. There are many companies which use a constant percentage of profit for dividend distribution. When a company uses a constant payout ratio, amount of dividend increases or decreases proportionately with earnings.

The following example of earnings and dividend per share is given under constant payout policy.

If the dividend payout ratio has been fixed for 60%.

Year	EPS	DPS (d/p=60%)
20x4	20	12
20x5	15	9
20x6	10	6
20x7	16	9.6
20x8	14	8.4

The following figure represents the dividend pattern for the given under this policy:



Constant dividend per share plus extra dividend

The low regular dividend plus extras policy is a compromise between the first two. It gives the companies flexibility but it leaves investors some what uncertain about what their dividend income will be if a company's earnings are quite volatile, however, this policy may well be its best choice. Under this policy, the small amount of dividend is fixed to reduce the possibility of ever missing a dividend payment. By paying extra dividend in periods of good profits an attempt is made to prevent investors from expecting that the dividend represents an increase in the established dividend amount. This policy enables a company to pay constant amount of dividend regularly without a default and allows a great deal of flexibility¹⁷.

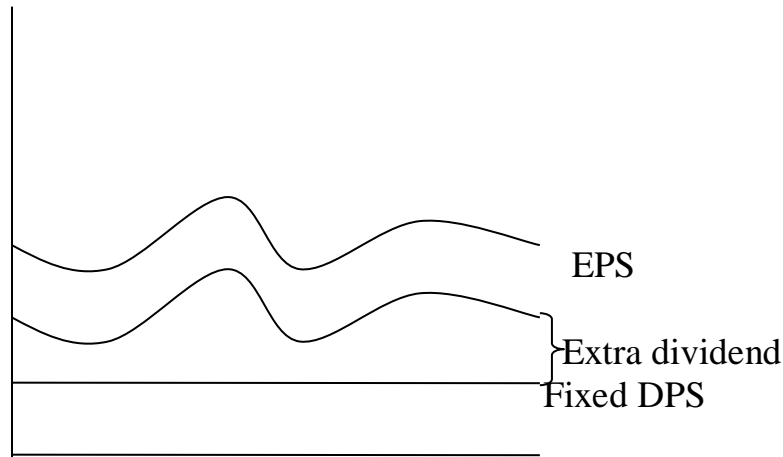
The following example is given of low regular plus extra dividend policy.

A regular dividend Rs. 4 and an extra dividend to bring to payout ratio to 60%. Thus the annual dividend are the as follows.

Year	20x4	20x5	20x6	20x7	20x8
EPS	5	6	10	12	15
DPS	4	4	6	7.2	9

The following figure represents the dividend pattern for the given under this policy.

¹⁷ Pandey I.M. (1999), **Financial Management**, Vikash Publishing House Pvt. Ltd., 8th Ed., New Delhi, p.no. 779 - 778.



2.3 Significance of Stability of Dividends

Stability of dividends has several advantages as discussed below:

- Resolution of investors' uncertainty
- Investors' desire for current income
- Institutional investors' requirement
- Raising additional finances.

Resolution of investors' uncertainty

When the company follows a policy of stable dividends, it will not change the amount of dividends if there are temporary changes in its earnings. Thus, when the earnings of the company fall and it continues to pay same amount of dividend as in the past, it conveys to investors that the future of the company is brighter than suggested by the drop in earnings. Similarly the amount of dividends is increased earnings level only when it is possible to maintain it in future. On the other hand, if a company follows a policy of changing dividends with cyclical changes in the earnings, shareholders would not be certain about the amount of dividends.

Investors' desire for current income

There are many investors, such as old and retired persons, women etc. who desire to receive regular periodic income. They invest their saving in the shares with a view to use dividends as a source of income to meet their living expenses. These investors, who desire to receive a regular dividend income, will prefer a company with stable dividend to the one with fluctuating dividends.

Institutional investors' requirements

Shares of the companies are not only purchased by individuals but also by the financial, educational and social institutions and unit trust. Every company is interested to have these financial institutional in the list of their investors. These institutional generally invest in the shares of those companies which have a record of paying regular dividends. A company which has a history of adopting an erratic dividend policy may not be preferred by these institutional investors. Thus to cater the requirement of institutional investors, a company prefer to follow a stable dividend policy.

Raising additional finances

A stable dividend policy is also advantageous to the company in its effort to raise external finances. Stable and regular dividend policy tends to make the shares of a company as quality investment rather than a speculation. Investors purchasing these shares intend to hold them for long period time. The loyalty and goodwill of shareholders towards a company increases with stable dividend policy. They would be more receptive to an offer by the company for the further issues of shares. A stable dividend policy also helps the sale of debentures and preference shares. The fact that the company has been paying dividend regularly in the past is a sufficient assurance to the purchasers of these securities that no default will be made by the company in paying their interest or preference dividend and returning the principle sum. The financial institutional are the largest purchasers of these securities. They purchase debentures and preference shares of those companies which have a history of paying stable dividends.

2.4 Danger of Stability of Dividend

The great danger in adopting a stable dividend policy is that once it is established, it can not be changed with out seriously affecting investors' attitude and the financial standing of the company. If a company, with a pattern of stable dividend misses dividend payment in a year, this break will have an effect on investors more severe than the failure to pay dividend by a company with unstable dividend policy. The companies with stable dividend policy create a clientele which depends on dividend income to meet their living and operating expanses. A cut in dividend is considered as a cut in 'salary'. Because of the serious depressing effect on investors due to a

dividend cut, directors have to maintain stability of dividends during lean years even though financial prudence would indicate elimination of dividends or a cut in it. Consequently, to be on the safe side, dividend rate should be fixed at a conservative figure so that it may be possible to maintain it even in lean periods of several years. To give the benefit of the company's prosperity, extra or interim dividend, can be declared. When a company fails to pay extra dividend, it does not have a depressing effect on investors as the failure to pay a regular dividend does¹⁸.

2.5 Payment procedure

The actual payment procedure is of some importance, and the following is an outline of the payment sequence.

1. Declaration date: The directors meet, say, on November 15 and declare the regular Dividend. On this date, they issue a statement similar to the following : " On November 15, 19X0, the directors of the XYZ company met and declared the regular quarterly dividend of 50 cents a share, plus an extra dividend of 75 cents a share, to holders of record on December 15, payment to be made on January 2, 19X1"

2. Holder of record date: On December 15, the holder record date, the company closes its stock transfer books and makes up a list of the shareholders as of that date. If XYZ Company is notified of the sale and transfer of some stock before December 16, the old stockholder gets the dividend.

3. Ex-dividend date: - Suppose Irma Jones buys 100 shares of stock from Robert Nobel on December 13. Will the company be notified of the transfer in time to list her as a new owner and pay her the dividend? To avoid conflict, the brokerage business has set up a convention of declaring that the right to the dividend remains with the stock until the four days prior to the holder of record date, on the fourth day before the date, the right to the dividend no longer goes with the shares.

¹⁸ Pandey I.M. (1999), **Financial Management**, Vikash Publishing House Pvt. Ltd., 8th Ed., New Delhi, p.no. 778 -780.

The date when the right to the dividend leaves the stock is called the ex dividend date. In this case, the ex dividend date is four days prior to

December 15, or December 11. Therefore, if Jones is to receive the dividend, she must buy the stock by December 10. If she buys it on December 11 or later, Noble will receive the dividend. The total dividend regular plus extra, amount to Rs. 1.25, so the ex dividend date is important. Barring fluctuations in the stock market, we would normally expect the price of a stock to drop by approximately the amount of the dividend on the se dividend date.

4. Payment date: - The Company actually mails the checks to the holders of record on the January 2, the payment date.

2.6.1 Residual dividend policy

The residual dividend policy suggests that dividend paid by a firm should be viewed as residual amount or left after all acceptable investment opportunities¹⁹. There are many factors, as noted before, which influence dividend policy. However, among all earnings and investment opportunities are considered as determining factors in the residual dividend policy. The residual dividend policy is the outcomes of the belief that investors are better off in reinvesting company profits and they prefer so. If expected return on the reinvestment is higher than what individual investors can realize on their own it is to the shareholders advantages to first invest profits in those projects that promise higher profit and then distribute only the leftover as dividends.

For the example, the approved capital investment and earnings after tax of a company for four different years are as follows:-

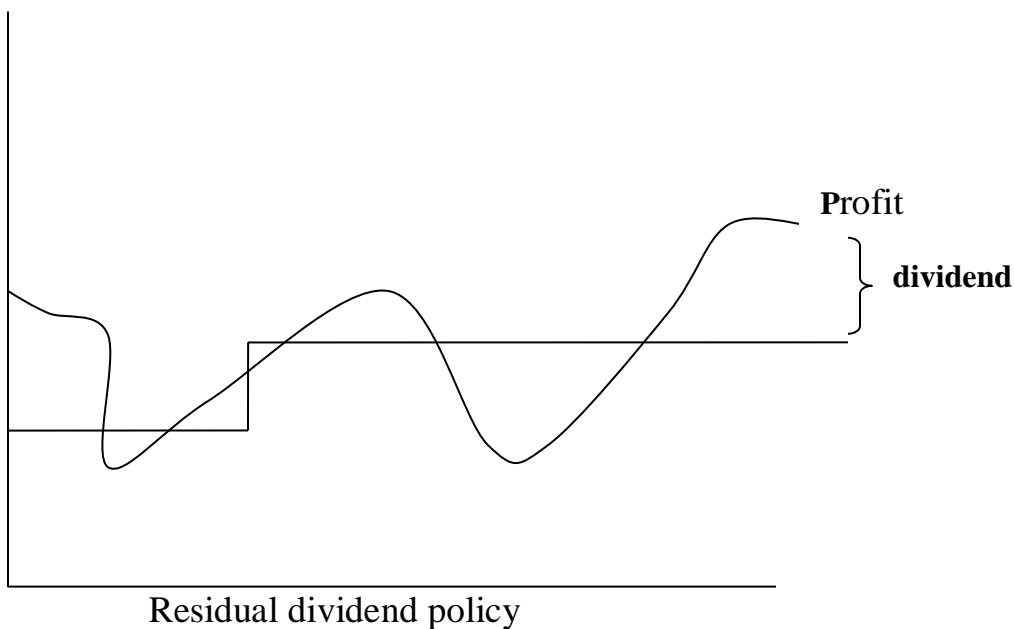
Year	Capital investment	Earnings after tax
1	Rs. 50000	Rs.15000
2	30000	20000
3	40000	20000
4	25000	15000

¹⁹ Lawarance J, Gitman, (1982), **Principle of Management**, 7th Ed. Harper Collaths Collage Publisher.

Year	Capital investment	Debt	Equity	EAT	Dividend	Common shares
1	Rs.50000	Rs.20000	Rs.30000	Rs.15000	-	15000
2	30000	12000	18000	20000	2000	-
3	40000	16000	24000	20000	-	4000
4	25000	10000	15000	15000	-	-

Debt financing for the company is 40%. The company paid dividend as follows pattern.

If EAT is not sufficient for equity financing common shares has to be issued. if EAT exceeds to equity finance, the dividend has to be distributed.



2.6.2 The Residual Theory of Dividend

Dividend policy can be viewed as one of a firm's investment decisions. A firm that behaves in this manner is said to believe in the residual theory of dividends. According to this theory, dividend policy is a residual from investment policy. Whether or not a company pays dividends depends on its investment policy. It assumes that the externally generated funds are comparatively cheaper than the funds obtained from external sources. The theory is based on the premise that investors prefer to have the firm retain

and reinvest earnings rather than pay them out in dividends if the returns on reinvested earnings exceeds the rate of return the investor could, himself obtain on other investments of comparable risk. The dividend under the residual dividend policy equals the amount left over from earnings after equity investment. If the equity investment equals earnings, no dividends are paid. If equity investment is greater than earnings, then no dividends are paid and new shares are sold to cover any equity investment not covered by earnings. If there is no any investment opportunity, then cent percent earnings are distributed to shareholders. Dividend is therefore merely a residual remaining after all equity investment needs are fulfilled. Although the residual theory of dividends appears to make further analysis of dividend policy unnecessary, it is indeed not clear that dividends are solely a means of distributing excess funds²⁰. It would therefore be imprudent to conclude that there are no other implications of dividend policy, and so this study shall take a closer look at the relationship between dividends and value.

2.7 Review the provision of Dividend policy under the Nepalese Company Act

There is nothing stated in Nepal company Act 2021 regarding dividend policy. The responsibility to undertake required actions to protect shareholders interest is given to stock exchange center by then securities exchange Act 1983. However, this organization is not competent enough to protect shareholders interest since attitude of the board of director plays dominant role in management to public limited companies. In many cases, a firm can pay long term debt indentures and preferred stock agreements contain restrictions to protect senior claim holders from excessive with draws by residual owners. In Nepal regarding dividend policy, the Nepalese company Act 2053 with first correction 059/03/24 determined the following rules and regulation²¹. Company has to provide dividend to the shareholders. According to the rules under this company Act 2053, company has allowed to pay dividend against the amount, which is remaining to pay as a share price. According to the company Act 2053 section 42 (5), company could not pay dividend against the unlearned capital. If company is not cleared about dividend payment in the rules of company, company has to pay dividend in nominal value.

²⁰ R.K.S. Rao, (1992), **The Dividend Policy Decision, Financial Management Concepts and Application**, 2nd Ed. New York, Macmillan Publishing Company, p.no. 458.

²¹ **Nepalese Company Act 2063.**

According to this Act dividends have to pay in cash. This amount should pay by Cheque to shareholders within 45 days. Without special cause, company should not pay interest against the dividend. But if the company could not able to pay dividend until 45 days, since declaration date of dividend, company have to pay interest against the dividend.

- According to section 64 (4), dividend, which is declared by annual general meeting, should not more than declared by board of members committee.
- According to section 42 (5), generally company will not be forced to pay dividend until company could not able to earn more profit.
- Although, company based on any accounting procedure for account, account should be prepared under the section 82 (1) and 83 (2) of Nepalese company Act 2053.

2.8 Forms of dividend

Although most particular form of dividend is cash dividend, corporations need to follow different types of dividend in view of the objective and policies which they implement. The type of dividend that corporation follows is partly of a matter of attitude of directors and partly a matter of the various circumstances and financial constraints that bound corporate plan and policies²².

According to changing needs of corporations, dividend is being distributed in several forms like cash dividend, stock dividend, and scrip dividend. In Nepal and India, only cash dividend and stock dividend are declared and paid.

1. Cash dividend

Cash dividend is the dividend, which is distributed to the shareholders in cash out of the earnings of the company. When cash dividend is distributed both total assets and net worth of the company decrease as cash and earnings decrease. In a sample of companies, Elton and Gruber found that on average a stock declined by 0.78 of the dividend on the ex-dividend data.

²² Shrestha M.K., (1980), **Financial Management (Theory & Practice)**, Curriculum Development Centre, T.U. p. no. 670.

2. Stock dividend

A stock dividend is the payment of existing owners of a dividend in the form of stock. Although stock dividends don't have a real value, firms pay stock dividend as a replacement for a supplement to cash dividend. A stock dividend simply is the payment of additional stock to shareholders nothing more than a recapitalization of the company: a stock holder's proportional ownership remains unchanged²³.

This involves a payment of assets/property in any form other than cash. This form of dividend may be followed whenever there are assets that are no longer necessary in the operation of the business or in extra ordinary circumstances. Company owns products and the securities of subsidiaries are the example that has been paid as property dividend.

3. Bond dividend

Bond dividend by its name is dividend is distributed to shareholder in form of a bond. Bond dividend helps the payment of cash. In other words, company declares dividends in the form of its own with a view to avoid cash outflow.

4. Scrip dividend

When earnings of the company justify dividends but the company's cash position is temporarily weak and doesn't permit cash dividend, it may declare dividend in the form of scrips. In the method of dividend, company issues and distributes to shareholders transferable promissory notes which may be interest bearing or not. A scrip dividend is justified only when the company has really earned profit and has only to wait for the conversion of its current assets into cash in the course of operation.

2.9 Practical Considerations in dividend policy

The view that dividends are irrelevant is not entirely correct, once we modify the assumptions underlying this view to consider the realities of the world. In practice, every firm follows some kind of dividend policy. The typical dividend policy of most firms is to retain between one third to half of the net earnings and distribute the remaining amount to shareholders.

²³ Edwon J. Elton and Martin J. Gruber, (1970), **marginal Stockholder, Tax Rates and Clientele Effect**, Review of Economics and Stastics, p.no.68 – 74

The following questions relate to the dividend policy of a firm:

- What are the preferences of the shareholders: dividend income or capital gains?
- What are the financial needs of a company?
- What are the constraints on paying dividend?
- Should the company follow a stable dividend policy?
- What should be the form of dividends (i.e. cash or bonus shares)?

It is not easy to answer these questions. A number of factors will have to be evaluated to analyze each of these questions to evolve a long term dividend policy for the firm. Broadly speaking to develop a long term dividend policy, the directors should aim at bringing a balance between the desires of shareholders and the needs of the company. The factors which generally influence the dividend policy of the firm are as discussed below.

Shareholder's Expectations

Shareholders are the legal owners of the company, and directors, appointed by them, are their agents. Therefore, directors should give due importance to the expectations of shareholders in the matter of dividend decision. Shareholder' preference for dividends or capital gains may depend on their economic status and the effect of tax differential on dividends on capital gains. In most countries, dividend income is taxed at a rate higher than the capital gains. Wealthy shareholders, in a high income tax bracket, may be interested in capital gains than current dividends. On other hand, a retired person with small means, whose main source of income is dividend, would like to get regular dividend and may not be interested in capital gains.

Closely- Held Company

In the case of closely held company, the body of the shareholders is small and homogeneous and the expectations of shareholders are usually known to management. Therefore they can easily adopt a dividend policy which satisfies most shareholders. If most of the shareholders are in high tax brackets and have a preference for capital gains to current dividend incomes, the company can establish a dividend policy of paying less or no dividends and retaining the earnings within the company.

Widely – Held Company

It is a formidable task to ascertain the preference the preferences of shareholders in a widely held company. The number of shareholders is very large, and they may have diverse desires regarding dividends and capital gains. As a result, it is not possible in case of widely held company to follow a dividend policy which equally satisfies all shareholders. The firm may follow a dividend policy which serves the purpose of the dominating groups, but does not completely neglect the desires of others. Shareholders of a widely held company may be divided, for example in to four groups:

- Small shareholders
- Retired and old persons
- Wealthy investors
- Institutional investors

Small shareholders are not the frequent purchasers of the shares. They hold a small number of shares in a few companies with the purpose of receiving dividend income, or making capital gains. Thus, they do not have a definite investment policy. They purchase shares only when their savings permit. This group rarely proves to be dominating in the body of shareholders in a company, and it is not much concerned with the dividend policy of the company.

Retired and old person generally investment in shares to get a regular income. They use their saving or provident funds to purchase shares. These persons may, therefore, select shares of the companies which have a history of paying regular and liberal dividends. However, a retired person who has some source of income and is in a high tax bracket may be interested in capital gains.

Wealthy investors are very much concerned with the dividend policy followed by a company. They have a definite investment policy of increasing their wealth and minimizing taxes. These persons are in high tax brackets and the dividend received in cash by them would be taxed at high rate. Therefore, they generally prefer a dividend policy of retaining earnings and distributing bonus shares. They wealthy shareholders' group is quite dominating in many companies as they hold relatively large blocks of shares and able to influence the composition of the board of directors by

their majority voting rights. On the dividend policies of these companies, this group will have a considerable influence.

Institutional investors purchase large blocks of shares to hold them for relatively long periods of time. Institutional investors, unlike wealthy shareholders, are not concerned with personal income taxes but with profitable investments. Most institutional investors avoid speculatively issues, seek diversification in their investment portfolio and favor a policy of regular cash dividend payments²⁴.

2.10 Factors Affecting Dividend policy

The factors affecting dividend decision is one of the main focus of this study. Mostly government owned public limited companies are in less in there is no question of paying dividend rather than minimizes losses. However in case of joint venture companies and other privately owned enterprises management has somewhat understood the important of the dividend thought all of them are not protecting shareholders rights. Therefore, it is desirable to describe the factors recognized as active variable in determination of dividend in Nepalese companies.

Legal rules

Certain legal rules may limit the amount of dividend a firm may pay. These are :

1. The net profits rule: - The net profits rules provide that dividends can be paid from past earnings.
2. Capital impairment rule: - The capital impairment rule protects creditors by forbidding the payment of dividend from capital. (Paying dividends from capital would be distributing the investment in a company rather than earnings.)
3. The insolvency rule:- The insolvency rule provides that corporations cannot pay dividends while insolvent. (Insolvency is defined here, in the bankruptcy sense, as liabilities exceeding assets. To pay dividends under such conditions would mean giving stockholders funds that rightfully belong to creditors.)

²⁴ Pandey I.M. (1999), **Financial Management**, Vikash Publishing House Pvt. Ltd., 8th Ed., New Delhi, p.no. 772 -774.

Liquidity position

The cash or liquidity position of a firm influences its ability to pay dividends. A firm may have sufficient retained earnings, but if they are invested in physical assets cash may not be available to make dividend payments.

Need to repay debt

When a firm has issued debt to finance expansion or to substitute for other forms of financing, it is faced with two alternatives. It can refund the debt at maturity by replacing it with another form of security, or it can make provisions for paying off the debt. If the decision is to retire the debt this will generally require the retention of earnings.

Restrictions in debt contracts

Debt contracts, particularly when long term debt is involved, frequently restrict a firm's ability to pay cash dividends. Such restrictions, which are designed to protect the position of the lender, usually state that (1) future dividends can be paid only out of earnings generated after the signing of the loan agreement (that is, they cannot be paid out of past retained earnings) and (2) that dividends cannot be paid when net working capital (current assets minus current liabilities) is below a specified amount. Similarly, preferred stock agreements generally state that no cash dividends can be paid on the common stock until all accrued preferred dividends have been paid.

Rate of Assets Expansion

The more rapidly a firm is growing the greater its needs for financing assets expansion. The greater the future need for funds, the more likely the firm is to retain earnings rather than pay them out. If a firm seeks to raise funds externally, the sources are the present shareholders, who already know the company. But if earnings are paid out as dividends and subjected to high personal income tax rates, only a portion of them will be available for reinvestment.

Profit Rate

The expected rate of return on assets determines the relative attractiveness of paying out earnings in the form of dividends to stockholders or using them in the present enterprise.

Stability of Earnings

A firm that has relatively stable earnings is often able to predict approximately what its future earnings will be. Such firm is therefore more likely to pay out a higher percentage of its earnings than is a firm with fluctuating earnings. The unstable firm is not certain that in subsequent years the hoped for earnings will be realized, so it is likely to retain a high proportion of current earnings. A lower dividend will be easier to maintain if earnings fall off in the future.

Access to the Capital Market

A large well established firm with a record of profitability and stability of earnings has easy access to capital markets and other forms of external financing. A small new or venturesome firm however is riskier for potential investors. Its ability to raise equity or debt fund from capital markets is restricted, and it must retain more earnings to finance its operations. A well established firm is thus likely to have a higher dividend payout rate than is new or small firm.

Control

Another important variable is the effect of alternative sources of financing on the control situation of the firm. As a matter of policy, some corporations expand only to the extent of their internal earnings. This policy is defended on the ground that raising funds by selling additional common stock dilutes the control of the dominant group in that company. At the same time, selling debt increases the risks of fluctuation earnings to the present owners of the company.

Tax Position of Stockholders

The tax position of stockholders also affects dividend policy. For example corporations owned largely by taxpayers in high income tax brackets tend towards lower dividend payout because the tax rate applied to dividend. Corporations owned by small investors tend toward higher dividend payouts. Some time there may be a conflict between stockholders in high income tax brackets and stockholders in lower tax brackets²⁵.

²⁵ Timilsina Kabita, (2062), **Dividend Policy of Finance Companies**, Master's Degree Thesis, Central Department of Management, T,U., Kathmandu, p. no. 14 -16.

Tax Position of the Corporations

In addition the tax position of the corporations affects its dividend policies. Possible penalties for excess accumulation of retained earnings may induce higher payout ratios.

Review of Financial Journal

Walter's Study

Professor James E. Walter argues that the choice of dividend policies almost always affect the value of the firm. His model one of the earlier theoretical works clearly shows the importance of the relationship between the firm's rate of return, r , and its cost of capital, k , in determining the dividend policy that will maximize the wealth of shareholders. Walter's model is based on the following assumptions :

- The firm finances all investment through retain earnings, that is debt or new equity is not issued.
- The firm's rate of return, r and its cost of capital, k , are constant.
- All earnings are either distributed as dividend or reinvested internally immediately
- Beginning earnings and dividends never change. The values of the earnings per share, EPS, and the dividend per share, DIV, may be changed in the model to determine results, but any given values of EPS or DIV are assumed to remain constant forever in determining a given value.
- The firm has a very long or infinite life.

Walter's formula to determine the market price per share is as follows.

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

Or ,

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

Where,

P = market price per share

DPS = dividend per share

EPS = earnings per share

r = firm's rate of return (average)

K = firm's cost of capital or capitalization rate.

DIVIDEND POLICY AND THE VALUE OF THE SHARE (WALTER'S MODEL) :

Growth firm, $r > k$	Normal firm, $r = k$	Decline firm, $r < k$
<p>Basis Data $r = 0.15$ $k = 0.10$ EPS = Rs. 10</p>	<p>Basis Data $r = 0.10$ $k = 0.10$ EPS = Rs. 10</p>	<p>Basis Data $r = 0.08$ $k = 0.10$ EPS = Rs. 10</p>
<p>payout ratio 0% DIV = Re. 0 $P = 0 + (0.15/0.10)(10-0) / 0.10$ = Rs. 150</p>	<p>payout ratio 0% DIV = Re. 0 $P = 0 + (0.10/0.10)(10-0) / 0.10$ = Rs. 100</p>	<p>payout ratio 0% DIV = Re. 0 $P = 0 + (0.08/0.10)(10-0) / 0.10$ = Rs. 80</p>
<p>payout Ratio 40% DIV = Rs. 4 $P = 4 + (0.15/0.10)(10-4) / 0.10$ = Rs. 130</p>	<p>payout ratio 40% DIV = Rs. 4 $P = 4 + (0.10/0.10)(10-4) / 0.10$ = Rs. 100</p>	<p>payout ratio 40% DIV = Rs. 4 $P = 4 + (0.08/0.10)(10-4) / 0.10$ = Rs. 88</p>
<p>payout ratio 80% DIV = Rs. 8 $P = 8 + (0.15/0.10)(10-8) / 0.10$ = Rs. 110</p>	<p>payout ratio 80% DIV = Rs. 8 $P = 8 + (0.10/0.10)(10-8) / 0.10$ = Rs. 100</p>	<p>payout ratio 80% DIV = Rs. 8 $P = 8 + (0.08/0.10)(10-8) / 0.10$ = Rs. 96</p>
<p>payout ratio 100% DIV = Rs. 10 $P = 10 + (0.15/0.10)(10-10) / 0.10$ = Rs. 100</p>	<p>payout ratio 100% DIV = Rs. 10 $P = 10 + (0.10/0.10)(10-10) / 0.10$ = Rs. 100</p>	<p>payout ratio 100% DIV = Rs. 10 $P = 10 + (0.08/0.10)(10-10) / 0.10$ = Rs. 100</p>

Walter has suggested different dividend policy for different firms based on their growth.

They are:

Growth Firm

Growth firms are those firms which expand rapidly because of ample investment opportunities yielding returns higher than the opportunities cost of capital. The firms are able to reinvest earnings at a rate (r) which is higher than the rate of expected by shareholders (K). They will maximize the value per share if they follow a policy of retaining all earnings for internal investment. Thus the optimum pay out ratio for growth firms is zero. The market price per share increases as pay out ratio declines where $r > k$.

Normal Firms

When the firms do not have unlimited invest opportunities with $r > k$. After exploiting portable investment opportunities, these firms earn equal to the cost of capital and they have $r = k$. When firms are in this situation dividend policy does not have any effect on market value per share. Thus, there is not unique optimum pay out ratio for the normal firms.

When the firms do not have any profitable investment opportunity to invest, these are referred as declining firms. If these firms invest on unattractive investors. So, investing on these investments is worthless. Thus optimum pay out ratio for declining firm is 100 percent. The market value per share p , increases as pay out ratio increases²⁶.

Criticism of Walter's Approach

Walter's model is quite useful to show the effects of dividend policy on all equity firms under different assumptions about the rate of return. However, the simplified nature of the model can lead to conclusions which are not true in general, though true for the model. The following is a critical evaluation of the assumptions underlying the model :

1. No External Financing- Walter's approach assumes that retained earnings only and no external financing finance the investment opportunities of the firm. When such situation exists, either the firm's investment or its dividend policy or both will be sub optimum.

2. Constant Rate of Return r - Walter's model is based on the assumption that r is constant. In fact, r decreases as more and more investment is made. This reflects the assumption that the most profitable investments are made first and the poorer investments are made. The firm should stop at a point where $r = k$.

3. Constant Opportunity Cost of Capital, k - A firm cost of capital or discount rate k does not remain constant; it change directly with the firm's risk. Thus the present value of the firm's income moves inversely with the cost of capital. By assuming that the discount rate, k , is constant, Walter's model abstracts from the effect of risk on the value of the firm²⁶.

Gordon's Study

Myron Gordon has recommended the interest approach relating the market value of the firm to dividend policy. He holds that investors have a strong preference for present dividends to future capital gains under the condition of uncertainty. It is assumed that current dividend is less risky than the expected capital gain. According to him, market value of a share is equal to the present value of an infinite stream of dividends to be received by the share. Gordon's model is based on the following assumption:

- **All equity firm** The firm is an all equity firm, and it has no debt.
- **No external financing** No external financing is available. Consequently retained earnings would be used to finance any expansion. Thus just as Walter's model Gordon's model too confounds dividend and investment policies.
- **Constant return** The internal rate of return, r , of the firm is constant.
- **Constant cost of Capital** The appropriate discount rate of k for the firm remains constant. Thus, Gordon's model also ignores the effect of a change in the firm's risk class and its effect on k .
- **Perpetual earnings** The firm and its stream of earnings are perpetual.

²⁶ Pandey I.M. (1999), **Financial Management**, Vikash Publishing House Pvt. Ltd., 8th Ed., New Delhi, p.no. 746-750.

- **No taxes** Corporate taxes do not exist.
- **Constant retention** the retention ratio, b, once decided upon, is constant. Thus, the growth rate, $g = br$, is constant forever.
- **Cost of capital greater than growth rate** The discount rate is greater than growth rate, $k > g$. If this condition is not fulfilled, we can not get a meaningful value for the share.

Based on above assumption, the formula advance by him is as follows:

$$P_0 = \frac{EPS_1 (1 - b)}{K - g}$$

Where,

P ₀	=	Price per share
EPS ₁	=	Expected Earnings per share
b	=	Retention Ratio
K	=	Capitalization rate
g	=	Growth rate
1-b	=	Dividend payout ratio

DIVIDEND POLICY AND THE VALUE OF THE FIRM (GORDON'S MODEL

Growth form, $r > k$	Normal firm, $r = k$	Decline firm, $r < k$
Basis Data $r = 0.15$ $k = 0.10$ $EPS = Rs. 10$	Basis Data $r = 0.10$ $k = 0.10$ $EPS = Rs. 10$	Basis Data $r = 0.08$ $k = 0.10$ $EPS = Rs. 10$
payout ratio 0% $DIV = Re. 0$ $P = 0 + (0.15/0.10) (10-0) / 0.10$ $= Rs. 150$	payout ratio 0% $DIV = Re. 0$ $P = 0 + (0.10/0.10) (10-0) / 0.10$ $= Rs. 100$	payout ratio 0% $DIV = Re. 0$ $P = 0 + (0.08/0.10) (10-0) / 0.10$ $= Rs. 80$
payout Ratio 40% $DIV = Rs. 4$	payout ratio 40% $DIV = Rs. 4$	payout ratio 40% $DIV = Rs. 4$

$P=4+(0.15/0.10) (10-4) /0.10$ $=Rs.130$ <p>payout ratio 80% DIV = Rs.8 $P=8+(0.15/0.10) (10-8) /0.10$ $=Rs.110$</p> <p>payout ratio 100% DIV = Rs.10 $P=10+(0.15/0.10) (10-10)/0.10$ $= Rs.100$</p>	$P=4+(0.10/0.10) (10-4) /0.10$ $= Rs. 100$ <p>payout ratio 80% DIV = Rs.8 $P=8+(0.10/0.10) (10-8) /0.10$ $= Rs.100$</p> <p>payout ratio 100% DIV = Rs. 10 $P=10+(0.10/0.10)(10-10) /0.10$ $= Rs. 100$</p>	$P=4+(0.08/0.10) (10-4) /0.10$ $=Rs. 88$ <p>payout ratio 80% DIV= Rs.8 $P=8+(0.08/0.10) (10-8) /0.10$ $=Rs. 96$</p> <p>payout ratio 100% DIV = Rs. 10 $P=10+(0.08/0.10)(10-10) /0.10$ $=Rs.100$</p>
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It is relevant that under Gordon's model:

- The market value of the share, P, increases with the retention ratio, b , for firms with growth opportunities, i.e.when $r > k$.
- The market value of the share, P, increases with the payout ratio, $(1 - b)$, for declining firms with $r < k$.
- The market value of the share is not affected by dividend policy when $r = K$.
- Cost of Capital is greater than Growth Rate.

Gordon's model's value of share is not affected by dividend policy are similar to that of Walter's model. This similarity is due to the similarities of assumptions which underlie both the models. Thus the Gordon's model suffers the same limitations as the Walter model²⁷.

Modigliani and Miller's Study

According to Modigliani and Miller (M-M) under a perfect market situation, the dividend policy of a firm is irrelevant as it does not affect the value of the firm. They argue that the value of the firm depends on the firm's earnings which result from its investment policy.

²⁷ Pandey I.M. (1999), **Financial Management**, Vikash Publishing House Pvt. Ltd., 8th Ed., New Delhi, p.no. 751-754.

Thus when investment decision of the firm is given dividend decision the split of earnings between dividends and retained earnings is of no significance in determining the value of the firm.

A firm operating in perfect capital market conditions may face one of the following three situations regarding the payment of dividends:

- The firm has sufficient cash to pay dividends.
- The firm does not have sufficient cash to pay dividends, and therefore it issues new share to finance the pay of dividends.
- The firm does not pay dividends, but a shareholder needs cash.
- The Firm does not paid tax.
- Transaction cost does not exist.

In the first situation, when the firm pays dividends, shareholders get cash in their hands, but the firm's assets reduce (its cash balance declines). What shareholders gain in the form of cash dividends they lose in the form of their claims in the (reduced) assets? Thus, there is a transfer of wealth from shareholder's one pocket to another pocket. There is no get gain or loss. Since it is a fair transaction under perfect capital market conditions, the value of the firm will remain unaffected.

In second situation, when the firm issues new shares to finance the payment of dividends, two transactions take place. First existing shareholders get cash in the form of dividend but they suffer an equal amount of capital loss since the value of their claim on assets reduces. Thus the wealth of shareholders does not change. Second the new shareholders part with their cash to the company in exchange for new shares at fair price per share. The fair price per share is share price before the payment of dividends less dividend per share to existing shareholders. The existing shareholders transfer a part of their claim (in the form of new share) to the new shareholders in exchange for cash. There is no get gain or loss. But transactions are fair, and thus the value of the firm will remain unaltered after these transactions.

In third situation, if the firm does not pay any dividend a shareholder can create a “ home made dividend “ by selling a part of his/ her shares at the market (fair) price in the capital market for obtaining cash. The shareholder will have less number of shares. He or she has exchanged a part of the his claim on the firm of to a new shareholder for a cash. The net affect is the same a sin the case of the second situation. The transaction is a fair transaction and no one loses or gains. The value of the firm remains the same, before or after these transactions.

M-M’s hypothesis of irrelevance is based on the following assumptions:

- **Perfect capital markets** the firm operates in perfect capital market where investors behave rationally, information is freely available to all and transactions and flotation costs do not exist. Perfect capital markets also imply that no investor is larger enough to affect the market price per share.
- **No taxes** Taxes do not exist or there is no difference in the tax rates applicable to capital gains and dividends. This means that investors value a rupee of dividends as much a rupee of capital gains.
- **Investment policy given** The firm has a fixed investment policy.
- **No risk** Risk of uncertainty does not exist. That is investors are able to forecast future prices and dividends with certainty and one discount rate is appropriate for all securities and all time periods. Thus, $r = k$, for all t .

Under the M-M assumptions, r will equal to the discount rate, k and identical for all shares. As a result, the price of each share must adjust so that the rate of return, which is composed of the rate of dividends and capital gains, on every share will be equal to the discount rate and be identical for all shares. Thus, the rate of return for a share held for one year may be calculated as follows:

$$r == \frac{\text{Dividends} + \text{Capital gain(Loss)}}{\text{Purchase Price}}$$

or

$$r == \frac{D + P}{I + r}$$

Where,

P0 = Market or purchase price per share at time 0

P1 = Market price per share at time 1

D1= Dividend per share at time 1

As hypothesized by M-M, r should be equal for all shares. If it is not so, the low return yielding shares will be sold by investors who will purchase the high return yielding shares. This process will tend to reduce the price of the low return shares and increase the prices of the high return shares. This switching or arbitrage will continue until the differentials in rates are eliminated. The discount rate will also be equal for all firms under the M-M assumptions since there are no risk differences.

From M-M's fundamental principle of valuation described by following formula, we can derive their valuation model as follows:

$$P_0 = \frac{D_1 + P_1}{1 + k}$$

Since $r = k$ in the assumed world of certainty and perfect market. Multiplying both sides of above formula by number of shares outstanding, n , we obtain the total value of the firm if no new financing exists:

$$V = nP_0$$

or

$$V = \frac{n(D_1 + P_1)}{1 + K}$$

If the firm sells m number of new shares at 1 at a price P_1 , the value of the firm at time 0 will be:

$$V = \frac{n(D_1 + P_1) + mP_1 - mP_1}{1 + K}$$

or

$$= \frac{nD_1 + nP_1 - mP_1}{1 + K}$$

or

$$= \frac{nD_1 + (n + m)P_1 - mP_1}{1 + K}$$

The investment programs of a firm in a given period of time can be financed either by retained earnings or the issue of new shares or both. Thus, the amount of new shares issued will be:

$$\begin{aligned} mP1 &= I1 - (X1 - N\text{div}1) \\ &= I1 - X1 + n\text{DIV}1 \end{aligned}$$

Where,

I1 = The total amount of investment during first period

X1 = Total net profit of the firm during first period

By substituting above formula, M-M showed that the value of the firm is unaffected by its dividend policy, thus,

$$\begin{aligned} nP0 &= \frac{n\text{DIV}1 + (n+m)P1 - mP1}{1+K} \\ &= \frac{n\text{DIV}1 + (n+m)P1 - (I1 - X1 + n\text{DIV}1)}{1+K} \\ &= \frac{(n+m)P1 - I1 + X1}{1+K} \end{aligned}$$

A firm which pays dividends will have to raise funds externally to finance its investment plans. M-M's argument, that dividend policy does not affect the wealth of the shareholders, implies that when the firm pays dividend, its advantage is offset by external financing. This means that the terminal value of the share (say, price of the share at first period if the holding period is one year) declines when dividends are paid. Thus, the wealth of the shareholders—dividend plus terminal price—remains unchanged. As a result, the present value per share after dividends and external financing is equal to the present value per share before the payment of dividends²⁸.

Thus the share holders are indifferent between payment of dividends and retention of earnings.

²⁸ Pandey I.M. (1999), **Financial Management**, Vikash Publishing House Pvt. Ltd., 8th Ed., New Delhi, p.no. 756-760.

For example

Number of share outstanding (n) = 100000
Current Market price per share (P0) = Rs 100
Net profit of a firm (X) = Rs 1000000
New investment (I) = Rs 2000000
End of the year dividend (DIV1) = Rs 5
Cost of capital (k) = 10%

The price of the share at the end of current fiscal year is determined as follows:

$$P_0 = \frac{DIV_1 + P_1}{1+K}$$

$$P_1 = P_0 (1+K) - DIV_1$$

The value of P1 when dividend is not paid is:

$$\begin{aligned} P_1 &= Rs 100 (1.1) - 0 \\ &= Rs 110 \end{aligned}$$

When dividend is paid it is:

$$\begin{aligned} P_1 &= Rs 100 (1.1) - Rs 5 \\ &= Rs 105 \end{aligned}$$

It can be observed that whether dividend is paid or not the wealth of shareholders remains the same. When the dividend is paid the shareholder will get Rs 110 by way of the price per share at the end of the current fiscal year. On other hand, when dividend is paid, the shareholder will realized Rs 105 by of the price per share at the end of the current fiscal year plus Rs 5 as dividend.

The number of new shares to be issued by the company to finance its investments is determined as follows:

$$\begin{aligned} mP_1 &= I - (X - nDIV_1) \\ 105m &= 2000000 - (1000000 - 500000) \\ 105m &= 1500000 \\ m &= 1500000/105 \\ &= 14285 \text{ shares.} \end{aligned}$$

Value of the Firm, if dividend is paid.

$$\begin{aligned} \text{Value of Firm} &= \frac{(n+m) p_1 - I + E}{1+K} \\ &= \frac{(10000 + 14285) 105 - 2000000 + 1000000}{1+0.1} \\ &= \text{Rs. 11818113} \end{aligned}$$

Value of the Firm, if dividend is not paid.

$$\begin{aligned} \text{No of new shares to be issued} &= \\ mP_1 &= I - (X - n\text{DIV}_1) \\ 110m &= 2000000 - (1000000 - 0) \\ m &= 2000000/110 \\ &= 9091 \text{ shares.} \end{aligned}$$

$$\begin{aligned} \text{Value of the firm} &= \frac{(n+m) p_1 - I + E}{1+K} \\ &= \frac{(10000 + 9091) 110 - 2000000 + 1000000}{1+0.1} \\ &= \text{Rs. 11818113} \end{aligned}$$

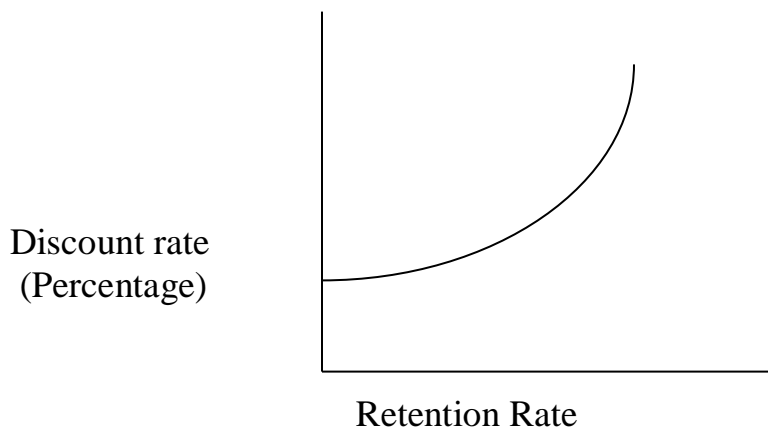
Whether, dividend is paid or not, the value of the firm is same in both conditions.

THE BIRD IN THE HAND ARGUMENT

According to Gordon's model dividend policy is irrelevant where $r = k$, when all other assumptions are held valid. But when the simplifying assumptions are modified to conform more closely with reality, Gordon concludes that dividend policy does affect the value of a share even when $r = K$. This view is based on the assumption that under conditions of uncertainty, investors tend to discount distant dividends (capital gain) at a higher rate than they discount near dividends. Investors behaving rationally, are risk averse and therefore have a preference for near dividends to future dividends. The logic underlying the dividend effect on the share value can be described as the bird in the hand argument. The bird in the hand argument was put forward first of all by Krishnan in the following words:

Of two stocks with identical earnings record, and the prospects but the one paying a large dividend that the other, the former will undoubtedly command a higher price merely because stockholders prefer present to future values. Myopic vision plays a part in the price making process. Stockholders often act upon the principle that a bird in the hand is worth two in the bush and for this reason are willing to pay a premium for the stock with the higher dividend rate just as they one with the lower rate.

The bird in the hand argument has been expressed more convincingly and in the formal terms by Gordon. According to him uncertainty increases with futurity; that is the future one looks into future the more uncertain dividends become. Accordingly, when dividend policy is considered in the context of uncertainty the appropriate discount rate k can not be assumed to be constant. In a fact it increases with uncertainty investors prefer to avoid uncertainty and would willing to pay higher price for the share that pays the greater current dividend all other things held constant. In other words, the appropriate discount rate would increase with the retention rate as shown in given figure . Thus the distance dividends would be discounted at a higher rate than near dividends. Symbolically, $K_t > K_{t-1}$ for $t = 1,2,3,\dots$ because of increasing uncertainty in the future. As the discount rate increases with the length of the time, a low dividend payment in the beginning will tend to lower the value of share in future.



When the discount rate is assumed to be increasing, we can get following formula:

$$P_0 = \frac{DIV_1}{(1+k)} + \frac{DIV_2}{(1+k)} + \frac{DIV_3}{(1+k)} + \dots + \frac{DIV_t}{(1+k)}$$

Here P_0 is the price of the share when the retention rate, b , is zero and $K_t > K_{t-1}$. If the firm is assumed to retain a fraction b of earnings, dividend per share will be equal to $(1-b)$ EPS1 in the first year. Thus the dividend per share is expected to grow at rate $g = br$, when retain earnings are reinvested at r rate of return. The dividend in the second year will be $DIV_0 (1+g)$

Thus incorporating uncertainty into his model, Gordon concludes that dividend policy affects the values of the share. His reformulation of the model justifies the behaviour of investors who value a rupee of dividend income more than rupee of capital gains income. These investors prefer dividend above capital gains because dividends are easier to predict, are less uncertain and less risky, and therefore discounted with a lower discount rate. However all do not agree with this view²⁹.

Van Horne and McDonald's Study

Van Horne and McDonald provide a more comprehensive study on dividend policy and new equity financing.

The basis objective of the study was highlight the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stock. For the purpose of study two industries have 86 firms in the electronics and their electric component industries listed on the computed industrial data tape in 1968 were selected. The employed two regressions for electric utilities and one regression model for electronics components industry. From the study it was found that share electronics components industry. From the study it was found that where value of electric first in 1968 was adversely affected by new equity financing in the presence of cash dividends except for those forms in the highest new issue group and it made new equity a more costly from financing then retention of earnings. They also indicated that the payment of dividend through excessive equity financing reduces share prices³⁰.

²⁹ Pandey I.M. (1999), **Financial Management**, Vikash Publishing House Pvt. Ltd., 8th Ed., New Delhi, p.no. 746-750.

³⁰ James C. Van Horne and John G., Macdonald, (1971), **Dividend Policy and New Equity Financing**, Journal of Finance, p. no. 519.

Chawala and Srivasan's Study

Chawala and Srivasan conducted a study on impact of dividend and retention on share prices. 18 chemical and 13 sugar industries were selected for study. Their basic objectives of the study were:

- To set a model to explain share price dividend and retained earnings relationship.
- To test the dividend, retained earnings hypothesis.
- To examine the structural changes in estimated relations overtime.

Simultaneous equation model as developed by Friend and Puckett in 1964 was employed.

Price function

$F [D_t, R_t/P/E (t-1)]$

Dividend supply function

$F [E_t, D (t-1), P/E (t-1)]$

Where,

P = Market price per share

D = Dividend per share

R = Retained earnings per share

E = Earnings per share

P/E = Dividend from the sample, Average of price earnings ratio

T = Subscript for time

They used to least square technique for estimation and in case of chemical industry they found the estimated coefficients had the correct sign and coefficients of determination of all the equations were very high.

It implies that the stock price and dividend supply variation can be explained by their independent variables. But in the case sugar industry they found that

the sign for retained earnings is negative. Finally they concluded that dividend hypothesis holds well in the chemical industry. Both dividend and retained earnings significantly explain the variation in the share price in the chemical industry³¹.

Dr. Shrestha's Study

Dr. Shrestha has conducted a study to deal with policies and financing performance of some companies in Nepal. A book entitled 'Shareholder's democracy and Annual General Meeting Feedback' contains a paper, presented by Dr. Shrestha on the occasion of Fifth Annual Meeting of Nepal Arab Bank. On this, Dr. Shrestha has raised the following issues:

- The cost push inflation at an exorbitant rate has made the shareholder expect higher return from their investment.
- Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequence of it.
- Erosion in the purchasing power of people has made it clear that dividend payment must be directed to enhance shareholder's purchasing power by raising dividend payout ratio on the basis of both earnings and cost theory.
- Indo Nepal trade and transit deadlock has become a sort of economic warfare putting rise in the cost of living index to a considerable extent. This has caused the shareholders to expect higher dividend.
- The waiting of five years with peanuts with peanuts dividend in previous year is equally a strong enforceable reason of the bank's shareholders to expect handsome dividend already assured and committed in various reports of earlier Annual General Meeting.
- One way to encourage risk taking and reference is to have proper risk return trade off by Bank Management in a way that higher return must be the investment rule for higher risk takers that compromise bank's shareholders.

³¹ Chawala Deepak and G. Srivasan, (1978), **Impact of Dividend and Retention Share Price**, An Economic Study & Decision, p. no. 137-140.

In the prevalence of these conditions, Shrestha suggested bank management to rethink the matters related to payment of dividend³².

Pradhan's Study

Pradhan conducted a comprehensive study on stock market behavior in a small capital market. The study was based on pooled cross sectional data of 17 enterprises whose stocks are listed in stock exchange centre and traced in stock market. The results revealed by the study are as follows.

- Stock with larger Market value to book value have larger P/E ratios and lower dividends. Price earnings ratios are more variable for stock with larger MV to BV ratios dividend ratios are more variable for stock with smaller MV to BV.
- Stock with larger MV to BV ratios have lower liquidity, higher leverage lower earnings lower turnover and lower interest coverage, however liquidity and leverage are more variable for stocks with larger MV to BV ratios while earnings assets turnover and interest coverage are more variable for stocks with smaller MV to BV.
- Stock with larger P/E ratios has larger MV to BV of equity and smaller dividend ratios. But these ratios of MV to BV and dividends are more variable for smaller stocks than for larger stocks.
- Stock with larger P/E ratio have lower liquidity, higher leverage, lower profitability, lower assets turn over and lower interest coverage. However liquidity leverage earnings, turn over and interest coverage's are more variable for stock with smaller P/E ratios.
- Stocks paying higher dividends have higher liquidity, leverage, higher earnings, higher turnover, and higher coverage's. However liquidity and leverage ratios are more variable for stocks paying lower dividends while earnings, assets turnover and interest coverage are more variables for the stocks paying higher dividends³³.

³² Shrestha M. K., (1992), **Shareholder's Democracy and Annual General Meeting Feedback**, Kathmandu, Portfolio Analysis, Nepal Publication p. no. 55

Review of previous Thesis

There are very few theses have been written by some student regarding the study topic. Some of them are supposed to be relevant for the study, which are summarized as below.

Chandra Kanta Bhandari's Study

“ A case study of Nepalese listed companies “ written by Chandra Kanta Bhandari in 1996. According to him:

According to this study dividend policy is major decision of the firm under which it is determined that what percentage of the earnings is retained in the firm is distributed to its shareholders and what percentage of the earnings is retained in the firm which is desirous for the growth of the firm

Dividend policy being of crucial importance and purely a policy matter is to be formulated with consistent approach instead of making decision of moment basis. Retention of earnings is desirous for the growth of the firm whereas as shareholders are interested to get some sport of return in the firm of dividend. Thus this study aims to focus on prevailing practice and policies of some Nepalese listed companies regarding dividend payments. Nepalese finance companies are not seen so serious regarding dividend decision. Most of them don't have any consistent and clear dividend policy on dividend distributed. This study is covering different areas of business like banking, manufacturing, trading, and insurance sectors.

The main problems of the study are, what is the prevailing practice of the Nepalese listed companies regarding their dividend policy? Whether or not the prevailing dividend policy affects corporate liquidity and stock prices of selected companies? What is the relationship of dividend with earnings per share, net profit, net worth and market price of the stock?

³³ Pradhan, R.S., (1999), **Stock Market Behavior in a Small Capital Market in Case of Nepal**, The Nepalese Management Review, Vol. IX, Summer, p. no. 23-49.

The basis objectives are of the study is to assess the prevailing practice of the Nepalese listed companies regarding dividend and to test whether or not dividend decision is influencing factors of financial structure, the flow of funds, corporate liquidity, stock prices and investors satisfaction and to test the relationship between dividend with earnings per share net profit net worth and market price of the stock. In this study the data is analyzed by using secondary whereas statistical as well as financial tools.

In finally the dividend per share and earnings per share of the Nepalese listed companies are positively correlated. Market price per share of the listed companies is higher than net worth per share. The market price per share and dividend pay out ration are inversely correlated which seems ridiculous. The dividend per share and investment are positively correlated which means higher the investment, higher the dividend per share³⁴.

Nabaraj Adhikari

Thesis titles “Corporate Dividend Practices in Nepal “written by Nabaraj Adhikari in April 1999. According to this study dividend has a number of unique advantages over alternative managerial communications. The empirical evidence conforms that alternatives are not perfect substitutes for dividends. Dividends serve as a simple, comprehensive signal of management’s interpretation of the firm’s recent performance and its future prospects. The improved corporate dividend practice is thus an essential means to solve the problem of asymmetric information between management of newly established Nepalese companies and Nepalese investors who have poured their funds there in dividend decision however still a crucial as well as controversial area of managerial finance is. Only a few companies are paying dividend there is also growing practice of paying stock dividend among some Nepalese companies.

The problems of the study are, do the companies paying larger dividends have a good financial position. Are the companies with higher dividend yield having improved financial ratios?

³⁴ Bhandari, Chandra Kanta, (1996), **A Case Study of Dividend Policy of Nepalese Listed Companies**, Unpublished Master's Degree Thesis, Central Department of Management, T.U., Kathmandu, p. no. 25.

What relationship between dividends and stock price? Where legal restriction on share repurchases should continue to prevail? What kind of dividend policy should be followed by Nepalese enterprises?

The major objectives of this study are to assess corporate dividend practice in Nepal. The specific objectives are to analyze to properties of portfolios formed on dividends. To examine the relationship between dividends and stock prices and to survey the opinions of financial executives on corporate dividend practices. In this study the data is analyzed by using statistical as well as financial tools under primary and secondary data.

The major finding of secondary data is stocks with larger ratio of dividend per share to book value per share have higher liquidity. However, liquidity position of stocks paying higher dividends is also more variable as compared to stocks paying lower dividends. Positive relationship is observed between the ratio of dividend per share to book value per share and turnover ratios. There is positive relationship between the ratio of dividend per share, book value per share and interest coverage. Negative relationship between dividend payout and earnings before tax to net worth. The result from primary data is among the major decisions of finance, the majority of the respondents fell that investment decisions are more important. Financing decisions got second importance and dividend decisions got third and last importance. It indicates that dividend decisions are relatively less important. As regards dividend as residual decision the majority of the respondents fell that it is not a residual decision. Nepalese shareholders are not really indifferent towards payment or not payment of dividends³⁵.

³⁵ Adhikari Nabaraj, (1999), **Corporate Dividend Practice in Nepal**, Unpublished Master's Degree Thesis, Central Department of Management, T.U., Kathmandu, p. no. 19.

Krishna Prasad Upadhyas Study

“ Dividend Policy, practice : A comparative study of Nepal Bank Ltd, and Nepal Arab Bank Ltd,”Written by Krishna Prasad Upadhyas 1999. According to this study dividend key factor for the investment on the company’s shares is desirable from the stockholder’s point of view. But commercial bank in Nepal have not adopted consistent policy on dividend decision. Firstly, dividend distribution does not match with the earnings of the commercial banks. Secondly, there is not proper relationship between dividend and quoted market price of shares. Similar commercial banks with lower returns record stable share price and vice versa. Thus return of the banks does not reflect the market price of shares. Ownership patterns attitude of management forms of management, government rules and regulations may be the partial causes of such a situation The obvious problems of these banks regarding dividend policy is the problem of appropriate relationship of dividend with earnings per share, market price per share, book value per share. ent banks. The problem of relevance of the possibility of increasing the market price of stock by changing dividend pay out ratio. Net profit and net worth of the bank relative consistency problem of dividend policy and practice of the commercial banks. The problem of relevancy of dividend decision to affect the market price per shares issued by different banks.

The study primary focuses on the dividend policy and practice of commercial banks with a view to suggests some appropriate dividend strategy. In this regard, specific objectives of this study are to highlight the various aspects of dividend policies and practices of NBL and NABIL. To analysis the relationship of dividend with various keys variables such as earnings per share, net profit, net worth and stock price. To recommend the policy markets and executives to overcome various issues and gaps based on the finding of the analysis. In order to accomplish the objectives of the study, various financial and statistical tools have been used. The result of analysis has been properly tabulated, compared analyzed and interpreted. In this study simply regression technique has used to analyze the influence of independence variables on variables.

The finding of the study is the net profit and dividend per share are positively correlated in both the banks with means dividend decision of these banks depend upon net profit earned. So an increase in meet profit results in a increase in dividend per share and vice versa. But these banks have followed growth rates of dividend per share. This indicates that both banks

have adopted the stable dividend policy. Moreover, different financial indicators of both the banks show that average EPS of NBL is higher than of NABIL but the average DPS of NABIL is higher than of NBL. So it is obvious that NBL is earnings more profit but paying lower portion of its earnings as dividend to shareholder as compared to NABIL. However, in case of both the banks, there is no stable growth rate of DPS. But NABIL'S dividend pay out ratio is higher than that of NBL. A change in DPS affects the share prices differently in different banks. There is not uniformity of dividend distribution policy and practices in both the banks³⁶.

Buddhi Sagar Timilsina's Study

“ Dividend Policy, comparative study between Nepal Grindlays Bank Ltd, and Nepal Indosuez Bank Ltd.” Written by Buddhi Sagar Timilsina 2000. The policy of the company on the division of its profit between distributed to shareholders as dividend and retention for its investment is known as dividend policy. All aspect and question related to payment of dividend are contained in a dividend policy. There is a reciprocal relation between retained earnings and cash dividend. Dividend decision is one of the major decisions of managerial finance. The major problems that have been identified for the purpose of this study are the problem is not ability to pay dividend but the attitude to pay dividend. What is the relationship of dividend with earnings per share, market price of share, book value of share net profit and net worth of companies? Does the dividend policy affects to the market price of share of different companies? Is it possible to increase the value of stock by changing dividend policy or pay out ratio? The overall objective of the study are to highlight dividend practices of the banks to analyze the relationship of dividend with various important variables such as earnings per share, stock price, net profit and net worth.

The major finding of the study are dividend pay out ratio is higher than earnings as dividend, dividend per share is positive correlated with earnings per share, net profit, market price per share and net worth, market price per share is considerable higher than actual net worth. In some case market price of shares is three times higher than net worth. This clearly shows that investors do not have adequate knowledge about to evaluate value of shares before investing on it.

³⁶ Upadhyay, Krish Prasad, (1999), **Dividend Policy and Practice, a comparative study of Nepal Bank and Nepal Arab Bank Ltd**, Unpublished Master's Degree Thesis, Central Department of Management, T.U., Kathmandu, p. no. 27.

The pattern of dividend payout ratio of both the banks shows the conservative dividend policy followed by the banks. Relationship of earnings and dividend payment is matching with growth and expansion program of the banks. Practices of low dividend payout without having growth and diversification schemes lead to hammer on maximization of the share holders' wealth³⁷.

Rabindra kumar poudel's study

“ Dividend Policy “ A case study of different listed finance companies written in 2000. According to this study dividend is the return distributed dividend is the return distributed by the firm in term of cash, share and other form of the earnings to its shareholders for their investment in share capital. Dividend policy has a direct influence on these two companies of return. So dividend policy of the firm is yet another crucial area of financial management. The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm.

The main problem of the study is, there is no any proper relationship between dividend and quoted market price per share exists. Distribution of dividend is not matching with the earnings of the finance companies. Do the finance companies have uniformity in dividend distribution policy? Does the dividend policy affect the market price of the share differently of different companies? Is there relationship between financial tools? The ability to pay dividend is not a problem but the attitude to pay the dividend is the problem of the companies.

The objective of this study is dividend decision should be maximize the shareholders return, so that value of their investment is maximized. Objective of the study focus to analyze the relationship of dividend with earnings per share, net profit after tax, net worth, average stock price, and percentage retained earnings. To highlight dividend practices of the finance companies. To provide a workable suggestion and possible guidelines to overcome various and gaps based on the findings of the analysis. To find out whether the capital market are efficient or inefficient. In this study the data is analyzed by using secondary whereas statistical as well as financial tools.

³⁷ Timilsina, Buddhi Sagar, (2000), **Dividend Policy, Comparative study between Nepal Grindlays Bank Ltd. and Nepal Arab Indowuez Bank Ltd**, Unpublished Master's Degree Thesis, Central Department of Management, T.U., Kathmandu, p. no. 23.

The finding of the study is the relationship between NPAT and DPS were positively correlated. Higher the P/E ratio, it is the better for the owners. There is no adequate legal rule for binding finance companies to pay dividend when they are in profit position. There is the fluctuating trend of average market price in all finance company, all these happens due to the slackness in capital market, price per share of all these finance companies reached peak at one time began to drop considerably at present. Again they are quite able to improve their market value per share³⁸.

Tirtha Raj Ghimire's study

“Dividend policy : Comparative analysis of Nepalese listed companies “ written by Tirtha Raj Ghimire in 2001. according to this study dividend policy is one of the important topics in financial management. But few student conducted research on dividend policy based on some sector. The data analyzed by using secondary data taking financial as well as statistical tools.

Major finding of the study is there are differences in financial position of high dividend paying and low dividend paying companies, other things remaining the some financial position of high dividend paying companies in comparatively better than that of low dividend paying companies. Another interesting conclusion is that market price of share is affected by dividends. Dividend pay out is not regular in Nepalese listed companies.

There is not uniformity of dividend distribution policy and practice in selected companies. Change in dividend per share and payment ratio affects the share price of different sector companies. The relationship between dividend per share with net profit and net worth are positive in all sectors companies³⁹.

³⁸ Poudel, Rabindra Kumar, (2001), **Dividend Policy, A Case Study of Different Listed Finance Companies**, Unpublished Master's Degree Thesis, Central Department of Management, T.U., Kathmandu, p. no. 21.

³⁹ Ghimire, Tirtha Raj, (2001), **Dividend Policy Comparative Analysis of Nepalese Listed Companies**, Unpublished Master's Degree Thesis, Central Department of Management, T.U., Kathmandu, p. no. 37.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the description of the method used a detailed study and investigation of a particular subject to discover new facts and to get additional information. It is a process of systematic and in depth study of particular subject or topic, backed by collection, competition, presentation and interpretation of relevant data.

3.2 Research Design

The research design includes specification of the method of the purposed study and detail plan for carrying out the study with various empirical data for the analysis of the problem. The present study is mainly based on two types of research design i.e. descriptive and analytical. Descriptive research design describes the general pattern of the Nepalese investors, business structure, problem of finance companies etc. The analytical research design makes analysis of the gathered facts and information and makes a critical evaluation of it. The research design is followed to analyze the 'Dividend policy' of finance companies. For the analytical purpose, the actual reports of relative finance companies and financial statement of finance companies were collected for the year 2063/064 to 2067/2068.

3.3 Nature and Source of Data

To analyze the study topic, require secondary data have been collected from different financial companies as well as financial institutions, which are related with dividend. It is not possible to involve the primary data regarding the study topic so only secondary data is basis of the study topic for the year 2063/2064 to 2067/2068.

The required data is collected from mentioned below.

- Annual reports
- Security Board of Nepal
- Nepal Stock Exchange Limited
- Books Journals and Articles

3.4 **Selection of Sample**

Economics liberalization policy of the government has encouraged the establishment and growth of finance companies in the country within a short span of time. In a situation when existing financial institution, especially commercial banks are unable to supply credit timely and carry capital market activities, financial company have come timely to meet the individual credit needs. As a available data, by August 2012 there had been 79 licensed finance companies. So there are many finance companies operating in the country but only few companies that their shares have traded actively on stock market. Hence it is not possible to study all the finance companies regarding study topic. So this study will cover altogether 6 companies. Therefore sampling will be done selecting from population. The samples are as follows:

1. Mahalaxmi Finance Limited
2. Ace Finance Limited
3. United Finance Limited
4. National Finance Limited
5. Siddhartha Finance Limited
6. World Merchant Banking & Finance Limited

In the context of Nepal, data problem is acute. Even the financial statements of the companies published by them are not readily available since they are treated as confidential. Nepal stock Exchange Ltd. Publishes financial

statements of some of the listed companies to avail and ease information regarding capital market. For the research purpose we need sufficient data of several years regarding the study topic. So newly established finance companies do not have sufficient data even though they are listed in Nepal stock exchange market. Only those companies are included in samples, which have sufficient data from several years. Only those companies are included whose shares are actively traded in stock market and make some contribution towards the financial markets.

3.5 Method of Analysis

The analysis of the finance companies data will be done according to pattern of data available. Various financial and statistical tools have been used to analyze the variables regarding the study topic. Mainly the analysis will be done by using financial tools, correlation. The various calculated result have been obtaining through financial and statistical tools are tabulated under different headings. By using various financial and statistical tools, the relationship between different variables dividend will be drawn out. Then results are compared with each other to interpret.

Financial Tools

Earnings per a Share (EPS)

Net earnings means after tax profit which are calculated after deducting reserve etc to shareholders. Calculating of earnings per share over the years indicates that whether the finance companies earnings power on per share basis have changed over the period or not. Earnings per share would be calculated by dividing net earnings by the total number of outstanding share.

$$\text{EPS} = \frac{\text{Net Profit after tax}}{\text{No of Common shares outstanding}}$$

Divided per Share (DPS)

The whole amount of earnings may or may not be distributed to shareholders by a company. How much per share the dividend is distributed to common shareholders can be known this form this ratio. Dividend per share is calculated by dividing the total dividend to equity share holders by the total no. of shares.

$$\text{DPS} = \frac{\text{Net profit after interest and preference dividend}}{\text{No of ordinary shares outstanding}}$$

or

$$= \frac{\text{Earnings to shares holders}}{\text{No of share outstanding}}$$

Dividend pay out ratio (DPR)

The purpose of calculating this ratio is known the portion of dividend distributed out of total earnings. This ratio shows the relation between the returns belonging to equity shareholders and the dividend paid to them.

$$\text{DPR} = \frac{\text{Dividend per share}}{\text{Earnings per share}}$$

or

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

Dividend yield ratio (DYR)

Market value per share is highly influenced by the dividend yield ratio because a change in DPS can bring effective change in the MPS. It is calculated by dividing the dividend per share by market price per share.

$$\text{DYR} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

or

$$= \frac{\text{DPS}}{\text{MV}}$$

Price earnings ratio (PER)

Price earnings ratio reflects the price, which is currently paid by the market for each rupees of currently, reported earnings per share. The price earnings ratio could be calculated by dividing the market value per share by earnings per share.

$$\text{PER} = \frac{\text{Market value per share}}{\text{EPS}}$$

$$\text{Earnings per share}$$

or

$$\frac{MV}{EPS}$$

Return to net worth (RONW)

It refers to the owner's claim in the assets of finance companies. This can be found by subtracting total liabilities from total assets and also this is the indicator of company's good financial performance that means it indicates how well the finance companies have used the resources of the investors. It is calculated by dividing net profit after taxes by net worth. The formula used is as follows.

$$\text{RONW} = \frac{\text{Net profit after tax}}{\text{Net worth}}$$

Simple Coefficient of Correlation between Variables (r_{xy})

The coefficient of correlation measures the degree of relationship between two sets of figures. Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. So, on the basis of correlation theory we can the cause, effect relationship between two or more set of variables. Thus to determine the relationship between two factors with market price per share to other variables (EPS,DPS, DPR, PER, DY, ROWN).

The simple correlation coefficients are as follows:

1. Market price per share and Earnings per share
2. Market price per share and Dividend per share
3. Market price per share and Dividend pay out Ratio
4. Market price per share and Price earnings ratio
5. Market price per share and Dividend yield
6. Market price per share and Return on net worth

Simple Arithmetic Mean (\bar{X})

The most popular and widely used measure of representation the entire data by one variable is the arithmetic mean. The number of items obtained by adding together all items and by dividing this total its value Mean values of different variable represent the average value of for the study period.

In generally if X_1, X_2, \dots, X_n are the given 'n' observations then their arithmetic mean.

Standard Deviation

The standard deviation measures the absolute dispersion. Dispersion can be defined as the measurement of the scatter ness of the mass of figures in a series about an average in known as dispersion. The greater amount of dispersion indicates the greater standard deviation. A large standard deviation means a low degree of uniformity of the observation as well as homogeneity of a series a small means a high degree of uniformity of the observation as well as homogeneity of a series. Standard deviation is calculated that for selecting dependent and independent variables specified in the models presented above regarding this study.

Standard deviation is usually denoted by small sigma. It is defined as positive square root of the arithmetic mean of the square of the deviation from their arithmetic mean. It is measured an absolute term of dispersion depending upon unit of measurements.

Coefficient of Variation

The coefficient of variation is the relative measure of dispersion. The greater the value of coefficient of variation, the less will be the uniformity (or consistency, stability etc) and the smaller the value of coefficient of variation the more will be the uniformity⁴⁰ (or less will be the variability).

⁴⁰ Pandey I.M. (1988), **Financial Management**, Vikash Publishing House Pvt. Ltd., New Delhi, pp 302. - 306

Chapter – 4

PRESENTATION AND ANALYSIS OF DATA

Dividend policy is an important function of due to its decision impact upon value of the firm. In this context, this section of the study attempts to analyze the secondary data regarding dividend policy of the finance companies. The analysis includes financial and statistical indicators as well as the attitude of management towards the optimum dividend decision. In order to achieve the objectives of the study, this analysis is highly supported by the practices of dividend distribution of finance companies. Presentation and interpretation of financial statement are done here to determine the meaning of the financial data. Some graphic and diagram presentation is used to highlight the company's performance.

This study mainly based upon the Walter's study, whereas dividend policy almost always affects to the market value of the enterprise. So it is analyzed to dividend per share with market price per share. Hence it is tried to analyze data regarding dividend, by taking the market price per share as a dependent variables and dividend per share and other related variables (EPS, DPR, PER, DY, and RONW) in the terms of dividend are taken as an independent variables. Without this, here is tried to analyze the data between variables through coefficient of correlation matrix and other tools.

4.1 Analysis of Financial Tools

4.1.1 Earnings per Share (EPS)

Earnings per share is calculated by dividing the net profit after taxes by the total number of the common share outstanding. Higher EPS of the companies indicates its good performance in financial markets whereas lower EPS of the companies indicates its weak performance in financial markets. So the achievement of the companies and organizations are measured with the help of its capacity to generate higher earnings per share. Therefore higher EPS is the important financial tools (factors) of business organization to achieve its goals and objectives.

EPS calculations made over years indicate where or not the firm's earnings power on per share basis has changed over that period. The EPS of the company should be compared with industry average and the earnings per share of other firms. EPS simply shows the profitability of the firm on a per share basis; it does not reflect how much is paid as dividend and how much is retained in the business. But as a profitability index, it is a valuable and widely used ratio.

The following table of the finance company shows all the details regarding to its EPS.

Table No. 4.1 Earnings per share (EPS)

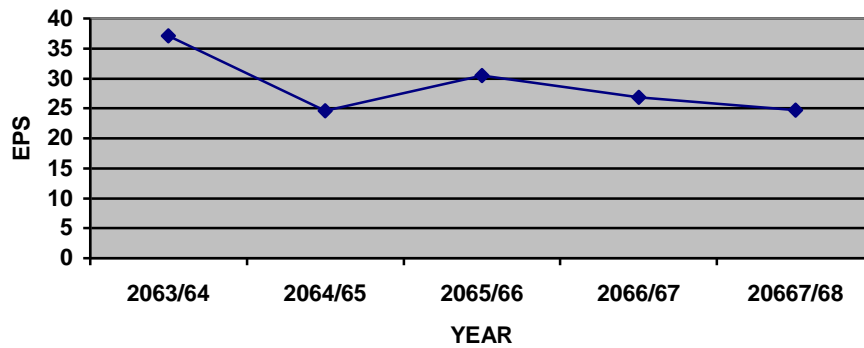
YEAR Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	37.13	24.6	30.44	26.83	24.66
AFCL	9.00	26.00	26.00	18.00	27.94
UFL	0.67	1.14	4.65	13.4	21.18
NFL	55.70	35.75	42.15	69.12	17.37
SFL	20.52	28.24	32.31	17.54	26.04
WMB&FL	2.52	11.27	31.73	22.27	25.82

Source: Appendix-1

Mahalaxmi Finance Limited (Bittiya Sanstha)

The average earnings per share of Mahalaxmi Finance Limited is Rs. 28.732. The company limited has maintained its average earnings per share only fiscal year 2063/064 and 2065/066. The company could not maintained average EPS in fiscal year 2064/065, 2066/067 and 2067/068. The highest earnings per share is during the five year period 2063/064 and lower earnings per share is 2064/065. According to the table the earnings per share is fluctuating during the five year period.

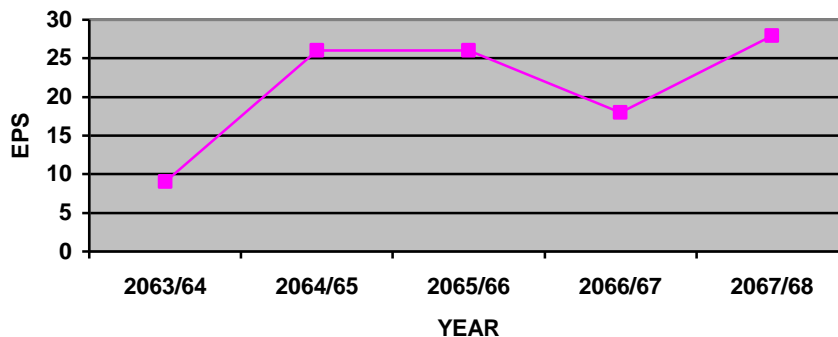
The following figure represents of earnings per share of Mahalaxmi Finance Limited.



Ace Finance Company Limited (Bittiya Sanstha)

The average earnings per share of Ace Finance Company Limited is Rs.21.39. The company has maintained average earnings per share is only during the fiscal year 2063/064, 2064/66 and 2067/68. The higher earnings per share is fiscal year 2065/66 and lower earnings per share is fiscal year 2063/64. In fiscal year 2064/65 and 2065/66 earnings per share is same. We can feel that the company is improving its earnings per share smoothly.

The following figure represents the earnings per share of Ace Finance Company Limited.

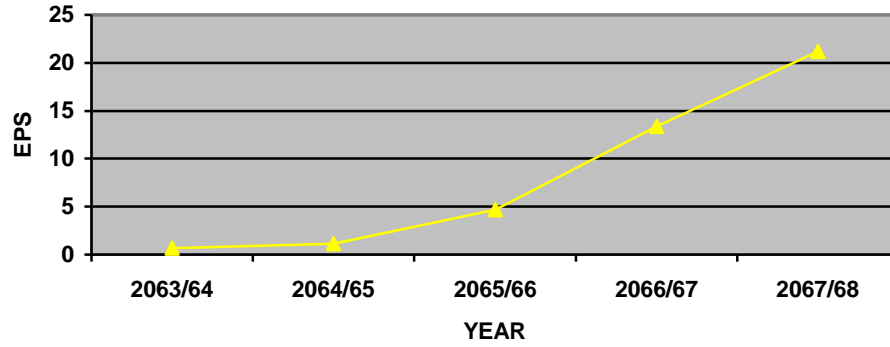


United Finance Limited (Bittiya Sanstha)

In above table we see the average earnings per share of United Finance Limited is Rs. is 8.22. The company has maintained average earnings per share only during fiscal year 2066/067 and 2067/068. The higher earnings per share is the fiscal year 2067/068 and lower earnings per share is

2063/064. According to the above table we feel that earnings per share of United Finance Limited is improving smoothly.

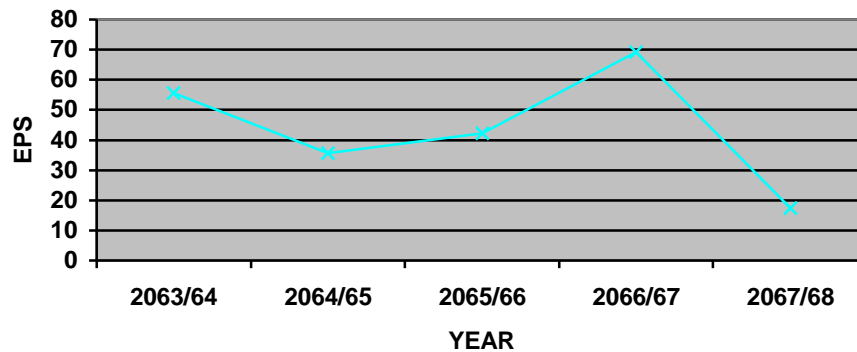
The following figure represents of earnings per share of United Finance Limited.



National Finance Limited (Bittiya Sanstha)

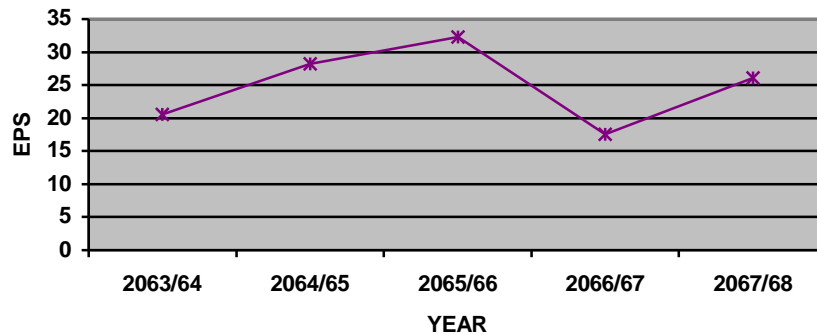
Average earnings per share of National Finance Limited is Rs 44.02. The company has maintained average earnings per share only fiscal year 2063/64 and 2066/67. In fiscal year 2064/65, 2065/66 and 2067/68, earnings per share of the company has less than average earnings per share. The highest earnings per share is in fiscal year 2066/67 and lower earnings per share is in fiscal year 2067/68. In above table we see that earnings per share of National Finance Limited is fluctuating for the every year.

The following figure represents EPS of National Finance Limited.



Siddhartha Finance Limited

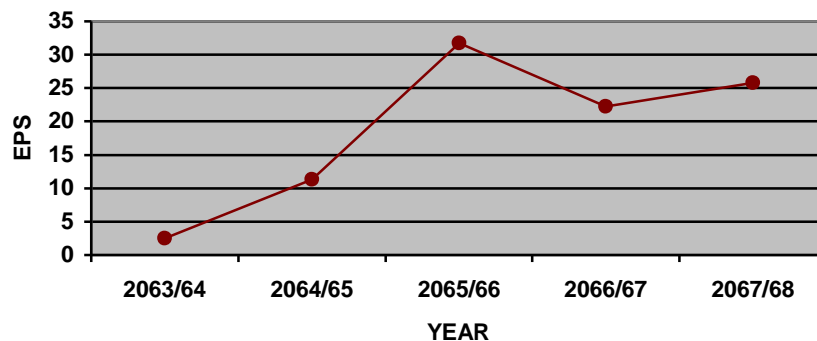
The average earnings per share of Siddhartha Finance Limited is Rs. 24.93. The company has maintained average earnings per share in only fiscal year 2064/65, 2065/66 and 2067/68. The EPS has less than average EPS in fiscal year 2063/64 and 2066/67. We feel that the company is improving its earnings per share smoothly.



World Merchant Banking & Finance Limited (WMB&FL)

In above table we see that the average earnings per share of World Merchant Banking and Finance Limited is Rs. 18.72. The company has maintained average earnings per share in only fiscal year 2065/66, 2066/67 and 2067/68. The company could not maintain average earnings per share in fiscal year 2063/64 and 2064/65. The higher earnings per share is in fiscal year 2065/66 and lower earnings per share is in fiscal year 2063/64.

The following figure represents EPS of WMB&FL.



4.1.2 Dividend per Share

The net profits after taxes belong to shareholders. But the income which they really receive in the amount of earnings distributed as cash dividends. Therefore, a large number of present and potential investors may be interested in DPS, rather than EPS. DPS is the earnings distributed to ordinary shareholders divided by the number of ordinary shares outstanding.

Table No. 4.2: Dividend per share

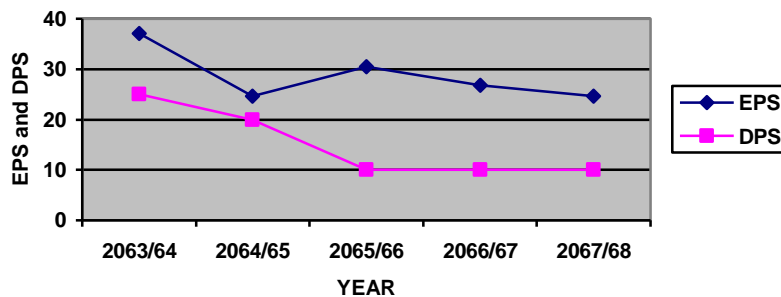
Year Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	25	20	10	10	10
Ace FCL	5.00	15.00	20.00	0.00	2.11
UFL	0.00	5.00	5.00	7.50	10.00
NFL	20.00	0.00	1.05	0.53	0.53
SFL	15.00	15.00	10.00	1.58	10.00
WMB&FL	0	0	0	10.00	12.00

Source- Appendix-2

Mahalaxmi Finance Limited

Mahalaxmi Finance Limited has paid different amount in fiscal year 2063/64 and 2064/65 after that year dividend amount is constant. Average dividend per share of the company is Rs. 15. The company has been distributed more than average dividend per share in fiscal year 2063/64 and 2064/65. Rest year the company has able to pay less than average dividend per share but constant amount.

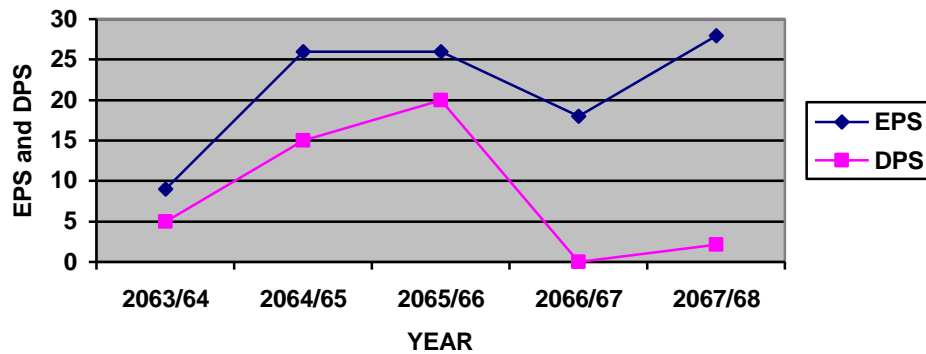
The following figure represents EPS and DPS of Mahalaxmi Finance



Ace Finance Company Limited

Ace Finance has not distributed regular dividend. The company has not paid any dividend in fiscal year 2066/67. Average dividend per share of Ace finance company is Rs. 8.42. In fiscal year 2064/65 and 2065/66, the company has paid more than average dividend but in fiscal year 2063/64 and 2067/68 has paid lower dividend. In above table, Ace Finance Company limited is paying fluctuated dividend per share with in the five years period.

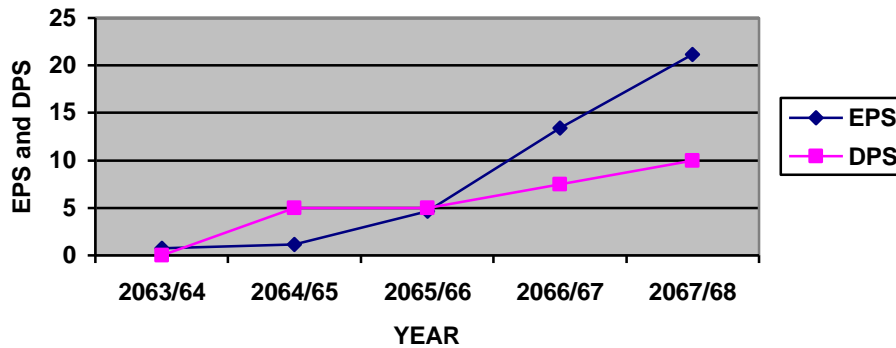
The following figure represents EPS and DPS of Ace Finance Company.



United Finance Limited

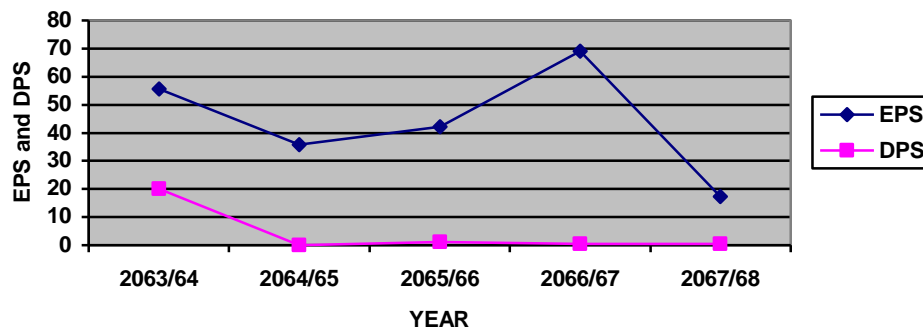
United Finance Company has not paid dividend in fiscal year 2063/64. The company has paid same amount of dividend in fiscal year 2064/65 and 2065/66. In the above table we see dividend per share of united finance company is increasing condition every year. Average dividend per share of the company is Rs. 5.5. The Company has maintained average dividend per share. In fiscal year 2067/68 the company has paid highest dividend.

The following figure represents EPS and DPS of United Finance



National Finance Limited

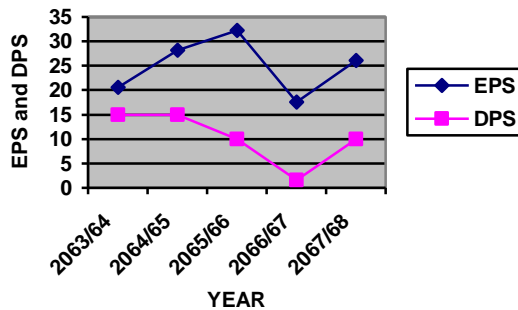
In above table, National Finance Limited is paying fluctuated dividend within five years. The average dividend per share is Rs. 4.422. The company could not maintained average dividend per share excluding fiscal year 2063/64. In fiscal year 2065/66, 2066/67 and 2067/68, the company has paid bonus share so, in that years company' dividend per share is less than average dividend per share.



Siddhartha Finance Limited

Siddhartha Finance limited has distributed regular dividend since 2063/64 to 2067/68. The company has paid same amount of dividend in fiscal year 2063/64 and 2064/65. The average dividend per share is Rs. 10.32. The company has maintained average dividend per share excluding fiscal year 2066/67. We can feel that the company is improving performance in every year.

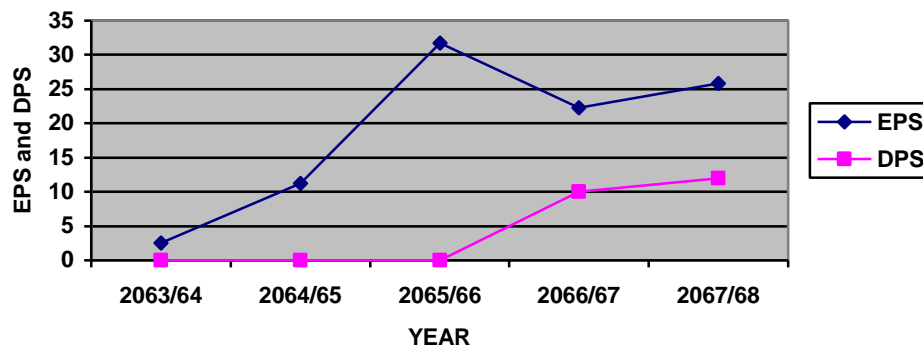
The following figure represents EPS and DPS of Siddhartha Finance Limited.



World Merchant Banking & Finance Limited

In starting three years the company was not able to pay dividend, after then the company has paid dividend. Dividend per share is increasing order. According to above table we feel that the company has retained all earnings in fiscal year 2063/64, 2064/65 and 2065/66.

The following figure represents EPS and DPS of WMB&FL.



4.1.3 Dividend Pay out Ratio

The portion of earnings of the finance companies determines the amount to be paid as dividend to the shareholders. So greater earnings indicate more performance of the finance companies to pay out as dividend to its common stock holders. So this ratio determines the amount of dividend as a percentage of earnings available for common shares after tax of the company. Dividend pay out ratio is calculated by dividend per share by earnings per share.

Table No. 4.3 Dividend pay out ratio (Percentage)

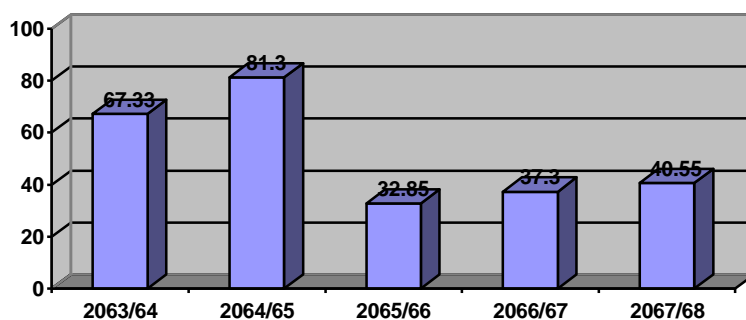
Year Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	67.33	81.3	32.85	37.3	40.55
A FCL	55.55	57.7	76.9	0	7.55
UFL	0	438.6	107.53	56	47.21
NFL	35.90	0.00	2.5	0.76	3.05
SFL	73.1	53.11	30.95	9.00	38.42
WMB&FL	0.00	0.00	0.0	44.9	46.5

Source: Appendix-3

Mahalaxmi Finance Limited

Dividend pay out ratio of Mahalaxmi Finance Limited is more fluctuated since start to end. The company has paid regular dividend which shown well performance. The average dividend payout ratio is 51.87%. The company has maintained average dividend payout ratio only fiscal year 2063/64 and 2064/65. The company has paid in fiscal year 2065/66, 2066/67 and 2067/68 lower dividend payout ratio.

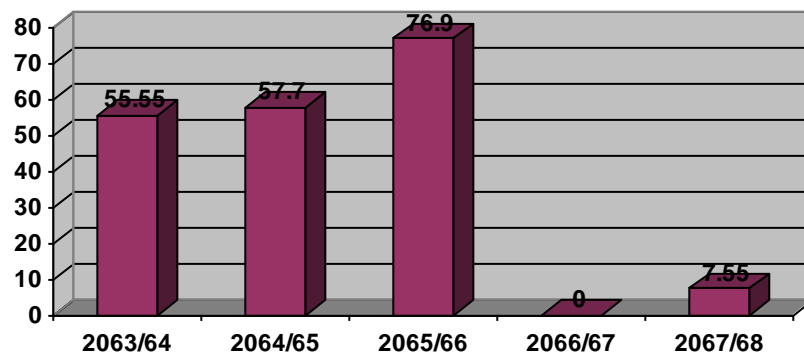
The following Figure represent dividend payout ratio of Mahalaxmi Finance Limited



Ace Finance Company Limited

In above table we see that, dividend payout ratio of Ace Finance Company Limited was increasing condition in first three years. In fiscal year 2066/67 the company could not paid any dividend. In this year company has retained all earnings. The average dividend pay out ratio of Ace Finance Company is 39.5%. In fiscal year 2063/64, 2064/65 and 2065/66, dividend payout ratio has more than average dividend payout ratio.

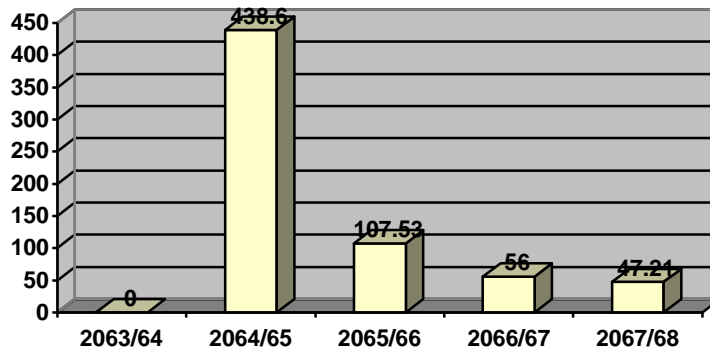
The following figure represents the dividend payout ratio



United Finance Limited

The dividend pay out ratio of United Finance Limited excluding the fiscal year 2063/64 was regular. In fiscal year 2064/65 and 2065/66, the dividend pay out ratio was more than 100%. In this year dividend per share was more than earnings per share. In above table we see that dividend payout ratio is fluctuated during the five years period.

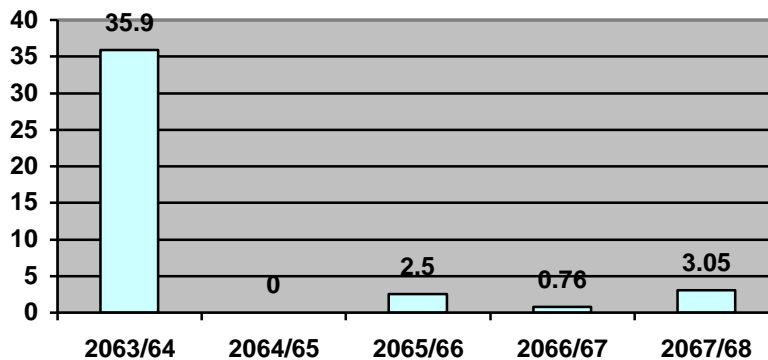
The following figure represents dividend payout ratio of United Finance Limited



National Finance Limited

The company could not maintain average regular dividend payout ratio. Dividend payout ratio of National Finance Limited has fluctuated since start to end. In fiscal year 2064/65 the company has not pay dividend so dividend payout ratio was seem zero in that year.

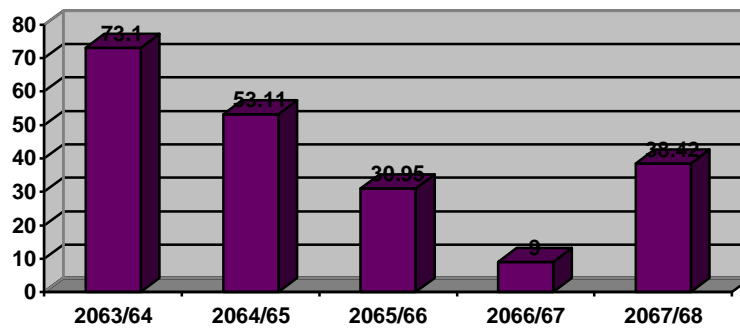
The following figure represents dividend payout ratio of National finance Limited



Siddhartha Finance Limited

The condition of dividend payout ratio of Siddhartha Finance Limited during the five year was regular because EPS and DPS. Average dividend payout ratio of Siddhartha Finance Limited is 40.9%. Dividend payout ratio excluding 2063/64 and 2064/65, in fiscal years 2065/66, 2066/67 and 2067/68, dividend payout ratio could not maintain more than average dividend payout ratio.

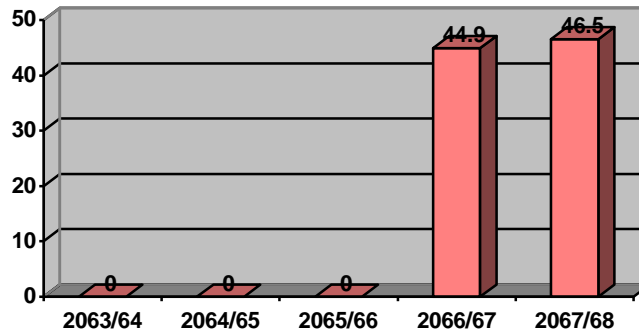
The following figure represents dividend payout ratio of Siddhartha Finance Limited



World Merchant Banking & Finance Limited

The dividend pay out ratio excluding the fiscal year 2066/67 and 2067/68 was regular. In fiscal year 2063/64, 2064/65 and 2065/66, dividend payout ratio seemed zero due to these year the company would not pay dividend.

The following figure represents dividend payout ratio of Word Merchant Banking & Finance Limited



4.1.4 Market Price Per Share

Market Price per share evaluates the net present value of shares in the market.

Table No. 4.4: Market Price per share

Year Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	415.00	245.00	270.00	264.00	260.00
AFL	230.00	240.00	173.00	251.00	320.00

UFL	0.00	105.00	115.00	125.00	154.00
NFL	545.00	455.00	360.00	295.00	263.00
SFL	145.00	151.00	120.00	158.00	158.00
WMB&FL	102.00	111.00	131.00	122.00	125.00

Source –Appendix-4

Mahalaxmi Finance Limited

Market price per share of Mahalaxmi Finance Limited has been decreasing since 2063/64 to 2064/65. During the fiscal year 2063/64 the market price per share is higher than other period. In fiscal year 2067/68, the market price per share is lower than other period.

Ace Finance Limited

During the fiscal year 2067/68 the market price per share of Ace Finance Limited is higher than other period. During the fiscal year 2065/66 the market price of the company is less than other period. In above table we see that more deviation in market price per share in during the five year period.

United Finance Limited

During the fiscal year 2063/64 the company could not declare market price per share. In fiscal year 2067/68 market price per share is higher than other period and in fiscal year 2064/65 the market price per share is lower than other period.

National Finance Limited

In above table we see that the market price per share of National Finance Limited has been decreasing from 2063/64. In fiscal year 2063/64 the market price per share is higher than other period, and in fiscal year 2067/68 the market price per share is lower than other period.

Siddhartha Finance Limited

The market price per share of Siddhartha Finance Limited is not more fluctuated during the five year period. In fiscal year 2066/67 and 2067/68 the market price per share is same both year. In fiscal year 2065/66, market price per share is lower than other period.

World Merchant Banking & Finance Limited

Market price per share of World Merchant Banking and Finance Limited is regular in every year. During the fiscal year 2065/66 the market price per share is higher than other period and in fiscal year 2063/64 the market price per share is lower than other period.

4.1.5 Price earnings ratio

The price earnings ratio is widely used by the security analysts to value the firm's performance as expected by investors. It indicates investors 'judgment or expectations about the firm' performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the price earnings ratio declines. Price earnings ratio is calculated market price per share dividing by earnings per share.

Table No. 4.5: Price earnings ratio (Ratio)

Year Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	11	10	9	10	11
AFL	41.11	8.86	7.36	12.46	10.83
UFL	0	92.11	24.73	9.33	7.27
NFL	9.78	12.73	8.54	4.27	15.14
SFL	7.06	5.35	3.71	9.01	6.07
WMB&FL	4.87	5.49	4.15	9.88	40.67

Source –Appendix-5

Mahalaxmi Finance Limited

The average price earnings ratio of the company is 10.2 times. Out of the five year, in fiscal year 2063/64 and 2067/68 the price earnings ratio was better than average price earnings ratio. In fiscal year 2065/66 the price earnings ratio is lower than other fiscal years.

Ace Finance Limited

The price earnings ratio of Ace Finance Limited was fluctuated since star to end. The average price earnings ratio is 16.12 times. The company would not maintained average price earnings excluding fiscal year 2063/64. The higher price earnings ratio is in fiscal year 2063/64.

United Finance Limited

During the fiscal year 2063/64 the price earnings ratio was zero. Due to the fiscal year 2063/64 the company would not declare the price per share. The highest price earnings ratio was in fiscal year 2064/65 and lower price earnings ratio was 2067/68.

National Finance Limited

The average price earnings ratio of National Finance Limited is 10 times. The company could maintain average price earnings ratio only in fiscal year 2064/65 and 2067/68. The lowest price earnings ratio was in fiscal year 2066/67.

Siddhartha Finance Limited

The average price earnings ratio of Siddhartha Finance Limited is 6.24 times. The highest price earnings ratio was in fiscal year 2066/67 and lowest price earnings ratio was in fiscal year 2065/66. During the fiscal year 2063/64 and 2066/67 the price earnings ratio was greater than average price earnings ratio.

World Merchant Banking & Finance Limited

The price earnings ratio was regular during the five year. The average price earnings ratio was 13.1 times. The highest price earnings ratio was in fiscal year 2064/65 and lowest price earnings ratio was in fiscal year 2065/66.

4.1.6 Dividend Yield

Market value per share is affected by dividend per share. Due to this reason dividend yield ratio highly influences with the market value per share.

Table No. 4.6: Dividend Yield Ratio (%)

Year Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	6.02	8.16	3.70	3.8	3.85
AFL	2.17	6.25	11.56	0.00	0.66
UFL	0.00	4.76	4.34	6.00	6.5
NFL	3.67	0.00	0.29	0.17	0.20
SFL	10.34	9.93	8.33	1.00	6.33
WMB&FL	0.00	0.00	0.00	8.18	9.54

Source: Appendix-6

Mahalaxmi Finance Limited

The average dividend yield ratio of the company is 5.11. The company has maintained average dividend yield fiscal year 2063/64 and 2064/65. In fiscal year 2065/66, 2066/67 and 2067/68, the dividend yield ratio is less than average dividend yield.

Ace Finance Limited

The average dividend yield of the Ace Finance Limited is 4.13. In fiscal year 2064/65 and 2065/66 the dividend yield is greater than average dividend yield and remaining fiscal year dividend yield is less than average dividend yield.

United Finance Limited

The average dividend yield is 4.32. In fiscal year 2064/65, 2065/66, 2066/67 and 2067/68 the dividend yield is more than average dividend yield. It means the company has maintained average dividend yield.

National Finance Limited

The average dividend yield ratio of the National Finance Limited is 0.86. This ratio shows less than one due to the company would not pay more dividend.

Siddhartha Finance Limited

The average dividend yield ratio is 7.19. In fiscal year 2063/64, 2064/65 and 2065/66 the dividend yield is more than average dividend yield. In fiscal year 2066/67 and 2067/6 the dividend yield is less than average dividend yield.

World Mercant Banking & Finance Limited

The average dividend yield ratio of World Merchant Banking & Finance Limited is 8.86. The company would not pay any dividend in fiscal year 2063/64, 2064/65 and 2065/66 so dividend yield Ratio of these years show zero.

4.1.7 Return on Net Worth

Return on Equity indicates how well the firm has used the resources of owners. In fact, this ratio is one of the most important relationships in financial analysis. The earnings of a satisfactory return is the most desirable objectives of a firm. The ratio of net profit to owner' equity reflects the extent to which this objective has been accomplished. This ratio is thus, of greater interest to the present as well as the prospective shareholders and also of great concern to management, which has the responsibility of maximizing the owners' welfare.

Table No 4.7 Return on Net Equity (Percentage)

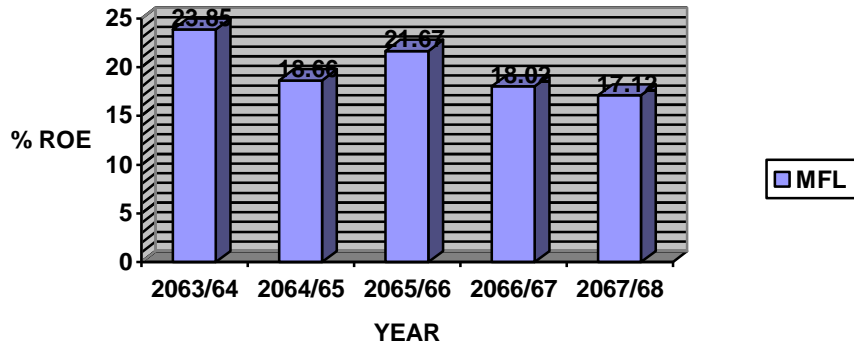
Year Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	23.85	18.66	21.67	18.02	17.12
AFL	5.88	16.05	15.76	10.05	13.90
UFL	0.59	1.04	4.28	11.70	16.85
NFL	19.1	11.62	16.67	25.42	9.41
SFL	18.04	22.24	27.04	14.40	19.61
WMB&FL	2.51	10.12	13.74	18.21	20.52

Source: Appendix -7

Mahalaxmi Finance Limited

The average return on equity of Mahalaxmi Finance Limited is 19.86%. During the fiscal year 2063/64 and 2065/66 the company has maintained the average return on equity. In fiscal year 2067/68 return on equity was lower than other fiscal year.

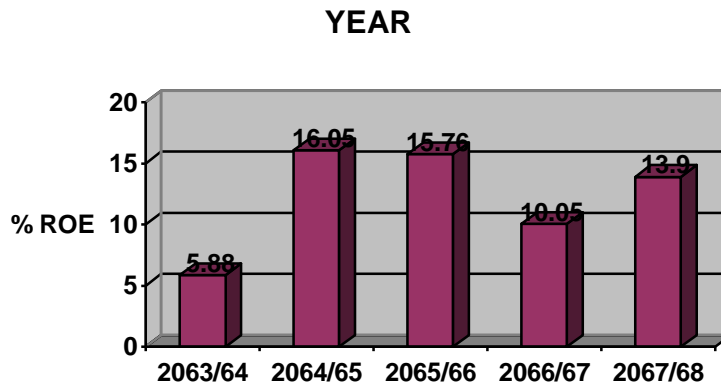
The following graph represent of ROE of MFL



Ace Finance Limited

The average return on equity of Ace Finance Limited is 12.33. The company has maintained average return on equity in only fiscal year 2064/65, 2065/66 and 2067/68. The highest return on equity was in fiscal year 2064/65 and lowest return on equity was shown in fiscal year 2063/64.

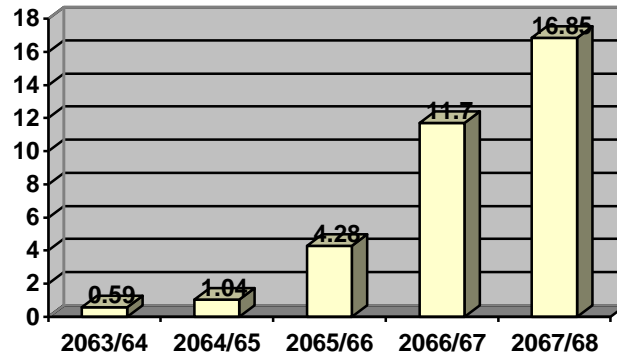
The following figure represents return on equity of AFL



United Finance Limited

Return on equity of United Finance Limited is going up ward from fiscal year 2063/64 to 2067/68. We can see that the company is improving the return on equity. The average return on equity of the company is 6.9%. Last two years the ROE is greater than average ROE.

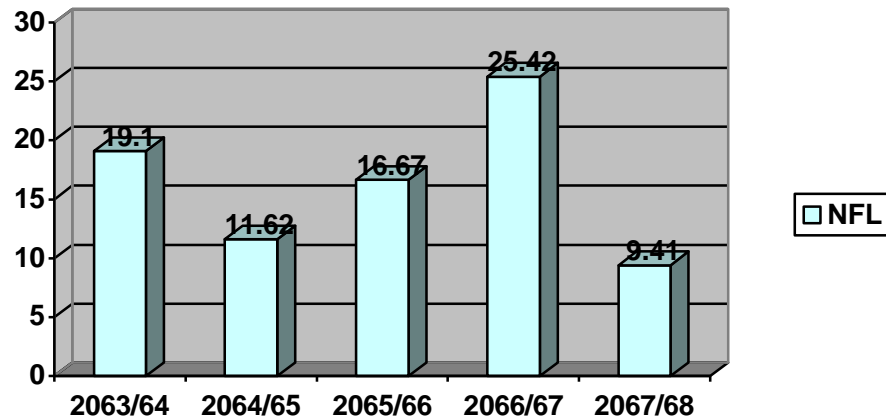
The following figure represents ROE of UFL



National finance Limited

The average return on equity is 16.44%. During the fiscal year 2063/64, 2065/66 and 2066/67 the return on equity was higher than average return on equity. During the fiscal year 2064/65 and 2067/68 the return on equity was less than average return on equity.

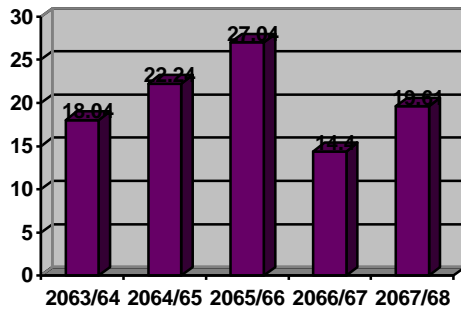
The following figure represents ROE of NFL



Siddhartha Finance Limited

The average return on equity of Siddhartha Finance Limited is 20.27%. The company has maintained average return on equity in fiscal year 2064/65 and 2065/66. In fiscal year 2063/64, 2066/67 and 2067/68 the return on equity was less than average return on equity.

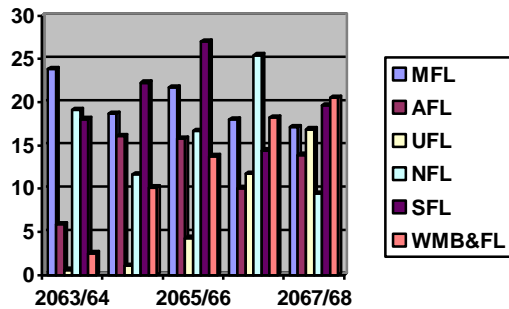
The following figure represents ROE of SFL



World Merchant Banking & Finance Limited

The average return on equity of the company is 13.02%. During the fiscal year 2064/65, 2065/66 and 2067/68 the company has maintained average return on equity. During the fiscal year 2063/64 and 2064/65 the return on equity was less than average return on equity.

The following figure represents the ROE of WMB&FL



4.2 Statistical Tools

4.2.1 Correlation Coefficient

Table No.4.7: Correlation Coefficient of market price per share with other variables of Mahalaxmi Finance Limited.

Variables	Correlation of Coefficient
MPS and EPS	0.931
MPS and DPS	0.709
MPS and PER	0.487
MPS and DY	0.139
MPS and RONW	0.822

Source: Appendix-8

Among the variables, MPS of MFL is positively correlation with EPS, DPS, PER, DY and RONE. Out of them RONE and EPS have high degree of correlation and the relation ship between MPS and PER is low degree of correlation.

Table No.4.8: Correlation Coefficient of market price per share with other variables of Ace Finance Limited.

Variables	Correlation of Coefficient
MPS and EPS	0.181
MPS and DPS	-0.735
MPS and PER	-0.0426
MPS and DY	-0.791
MPS and RONW	-0.0711

Source: Appendix-9

The correlation coefficient of Ace Finance Limited between Market price and other variables like DPS, PER, DY and RONE have negative correlation. There is positive correlation between MPS and EPS. MPS and PER, MPS and RONE have very low degree of negative correlation.

Table NO. 4.9: Correlation Coefficient of Market price per share with other variables of United Finance Limited.

Variables	Correlation of Coefficient
MPS and EPS	0.716
MPS and DPS	0.956
MPS and PER	0.167
MPS and DY	0.726
DPSand RONW	0.728

Source:Appendix-10

Correlation between market price per share and other variables, all they are positive correlation. The relation ship between MPS and DPS is very high degree of positive correlation. The relation ship between MPS and EPS and MPS and RONW are high degree of positive correlation. The relation ship between MPS and PER is very low degree of positive correlation.

Table NO. 4.10: Correlation Coefficient of Market price per share with other variables of National Finance Limited.

Variables	Correlation of Coefficient
MPS and EPS	0.254
MPS and DPS	0.762
MPS and PER	0.0168
MPS and DY	0.747
MPS and RONW	0.0447

Source: Appendix-11

Among the variables Market price per share of National Finance Limited is positively related with EPS, DPS, PER and RONW. Out of them the relation ship between MPS and DPS is high degree of positive correlation. There is low degree of positive correlation between MPS with other variables like wise EPS, PER and RONW.

Table NO. 4.11: Correlation Coefficient of Market price per share with other variables of Siddhartha Finance Limited.

Variables	Correlation of Coefficient
MPS and EPS	0.66
MPS and DPS	-0.26
MPS and PER	0.739
MPS and DY	0.435
MPS and RONW	-0.803

Source:Appendix-12

The relationship between MPS and EPS is high degree of positive correlation. The relationship between MPS and DPS is low degree of

negative correlation and the relation between MPS and RONW is very high degree of negative correlation.

Table NO. 4.12: Correlation Coefficient of Market price per share with other variables of World Merchant Banking & Finance Limited.

Variables	Correlation of Coefficient
MPS and EPS	1
MPS and DPS	0.423
MPS and PER	-0.852
MPS and DY	0.424
MPS and RONW	0.817

Source: Appendix-13

There is positively perfect correlation between MPS and EPS. The relationship between MPS and DPS is low degree of positively correlation and the relationship between MPS and RONW is very high degree of positive correlation. There is high degree of negative correlation between of MPS and PER.

4.2.2 Mean, Standard Deviation and Coefficient of Variance

Table No. 4.13 Mean, Standard Deviation and Coefficient of Variance of Mahalaxmi Finance Limited.

Variables	Mean	S.D	C.V
EPS	28.732	5.261	0.1831
DPS	15	7.071	0.471
DPR	51.872	21.267	0.409
MPS	290.8	70.040	0.240
PER	10.2	0.837	0.0820
DY	5.106	1.963	0.384
RONW	19.864	2.807	0.141

Source: Appendix-14

Table No. 4.14 Mean, Standard Deviation and Coefficient of Variance of Ace Finance Limited.

Variables	Mean	S.D	C.V
EPS	21.388	7.912	0.369
DPS	8.422	8.657	1.027
DPR	39.54	33.79	0.854
MPS	242.8	52.60	0.216
PER	16.124	14.10	0.874
DY	4.128	4.81	1.165
RONW	12.328	4.33	0.350

Source:Appendix-15

Table No. 4.15 Mean, Standard Deviation and Coefficient of Variance of United Finance Limited.

Variables	Mean	S.D	C.V
EPS	8.218	8.858	1.077
DPS	5.5	3.708	0.674
DPR	129.868	176.754	1.361
MPS	99.8	58.717	0.588
PER	26.688	37.66	1.411
DY	4.32	2.57	0.595
RONW	6.892	7.125	1.033

Source: Appendix-16

Table No. 4.16 Mean, Standard Deviation and Coefficient of Variance of National Finance Limited.

Variables	Mean	S.D	C.V
EPS	44.018	19.675	0.446
DPS	4.422	8.716	1.971
DPR	23.49	32.869	1.399
MPS	383.6	116.296	0303
PER	10.092	4.418	0.411
DY	0.866	1.570	1.181
RONW	16.444	6.332	0.385

Source: Appendix-17

Table No. 4.17 Mean, Standard Deviation and Coefficient of Variance of Siddhartha Finance Limited.

Variables	Mean	S.D	C.V
EPS	24.93	5.931	0.237
DPS	10.316	5.486	0.531
DPR	40.916	24.024	0.587
MPS	145.4	15.725	0.107
PER	6.24	1.972	0.316
DY	7.186	3.80	0.528
A RONW	20.266	4.732	0.233

A

Source: Appendix-18

Table No. 4.18 Mean, Standard Deviation and Coefficient of Variance of World Merchant Banking & Finance Limited.

Variables	Mean	S.D	C.V
EPS	18.72	11.728	0.626
DPS	4.4	6.0663	1.378
DPR	18.198	24.928	1.369
MPS	118.722	11.728	.0988
PER	13.012	15.621	1.200
DY	3.544	4.876	1.376
RONW	13.02	7.116	0.546

Source: Appendix-19

Average earnings per share of National Finance Company is more than of other companies. Coefficient of variation of mean EPS of Mahalaxmi Finance Limited is lower than other companies. Mean dividend per share of Mahalaxmi Finance Limited is greater than other Finance limited but Dividend pay out ratio of United Finance Limited is more than other Finance Limited. C.V of dividend payout ratio of World Merchant Banking & Finance Limited is greater than one. C.V. of DPR, DPS and PER of World Merchant Banking & Finance Limited is greater than one. Return on net worth of Siddhartha Finance Limited is greater than other companies. Average price earnings ratio of United Finance Limited is better than other companies.

4.2.3 Analysis of Growth Rate

Table No. 4.19: Growth Rate of selected Finance Companies for the period of 2063/64 to 2067/68.

YEAR Companies	2063/64	2064/65	2065/66	2066/67	2067/68	Average
MFL	7.8	3.48	14.55	11.3	10.18	9.46
AFL	2.61	6.8	3.64	10.05	12.85	7.19
UFL	0.59	-3.52	-0.322	5.14	8.9	2.16
NFL	12.24	11.62	6.25	6.10	9.12	11.06
SFL	4.85	10.43	18.67	13.10	12.08	11.83
WMB&FL	2.51	10.12	13.74	10.03	10.98	9.48

Source; Appendix-20

Among the selected companies, during the fiscal year 2063/64, the growth rate of National Finance Limited is highest and the growth rate of United Finance Limited is lowest. This means the financial condition of National Finance Limited is better than other companies. Similarly, in Fiscal year 2064/65, the growth rate of National finance Limited is better than other companies and in fiscal year 2065/66 the growth rate of Siddhartha finance Limited is better than other companies. In average growth rate during the five years period, the growth rate of Siddhartha Finance Limited is better than other selected companies. This means the financial condition of Siddhartha Finance Limited is better than other companies and average growth rate of United Finance Limited is lowest. Better positions in selected companies are Siddhartha Finance Limited, National Finance Limited, World Merchant Banking & finance Limited, Mahalaxmi Finance Limited, Ace Finance Limited and United Finance Limited respectively.

4. Major Finding of the Study

- A strong role is played by earnings per share, dividend per share and return on net worth to determine the market price per share of Mahalaxmi Finance Limited. Market price per share of Mahalaxmi Finance Limited is decreasing condition. The positively relation between market price per share with earnings per share, dividend per share, dividend yield, price earnings ratio and return on equity.

- The relation of market price per share with earnings per share is positively and dividend per share, dividend yield, price earnings ratio and return on net worth is negative in Ace Finance Limited.
- The relation of market price per share with price earnings ratio and return on net worth are low degree of negatively correlation of Ace finance Limited.
- The market price share is positively related to earnings per share, dividend per share, dividend yield, price earnings ratio and return on net worth and earnings per share has played significant role to determine the market price per share.
- In National finance Limited Earnings per share, price earnings ratio, dividend yield and return on equity have positive roles to determine the market price per share.
- The relation market price per share with all variables (EPS, DPS, PER, DY and RONW) are positively correlation of National Finance Limited.
- Among the variables of Siddhartha Finance Limited, the earnings per share, price earnings ratio, dividend pay out ratio, are positive relation with market price per share while dividend per share and return on net worth are negative relation with market price per share.
- In World Merchant Banking & Finance Limited, earnings per share, dividend per share, dividend yield, and return on equity are positive relation with market price but the relation market price and price earnings ratio is negative.
- Average earnings per share of National Finance Limited is higher than other companies.
- Average dividend per share of Mahalaxmi Finance Limited is higher than other selected companies and coefficient of variation of dividend per share of Mahalaxmi Finance Limited is lower than other companies. It means that dividend per share is more consistent.
- Dividend payout ratio of United Finance Limited is higher than other companies and standard deviation, coefficient of variation is also higher.

- Market price per share of National Finance Limited is higher than other companies.
- Average price earnings ratio of United Finance Limited is higher than other companies and coefficient of variance is also greater than one.
- Average return on net worth of Siddhartha Finance Limited is greater than other companies.
- The correlation between market price per share and earnings per share of World Merchant Banking & Finance Limited is equal to one. This means the market price per share is change same ratio of earnings per share.
- Average growth rate of Siddhartha Finance Limited is higher than other selected finance companies. It means the position of the Siddhartha Finance Limited is better than other selected companies.
- Standard deviation of dividend payout ratio of United Finance Limited is higher than other companies. It represents higher risk.
- The result drawn from dividend per share indicates that the policies of dividend payout ratio and dividend yield are same which are explained above.
- Return on net worth of these selected companies is regular. This means the policy of the company about return on net worth is good.
- Among the selected companies, no one is able to keep the perfect relationship, regarding dividend between variables.
- Generally, dividend has distributed to shareholders as per earnings, but in this study could not find the distributed of dividend as per earnings.
- Comparatively, good financial position companies are paying large dividend than other poor financial companies.

CHAPTER -5

5 SUMMARY, CONCLUSIONS AND RECOMENDATIONS

5.1 Summary

Dividend refers to that portion of a firm's net earnings, which are distributed to the shareholders according to corporate plans and policies. Dividend policy of financial companies is regarded as tools to determine the appropriate allocation of profits between dividend payments and retained earnings in the firms. Dividend policy of a company on division of its profits between dividend and retention is known as dividend policy. The dividend, which is distributed to shareholders, may be in cash, share and securities or a combination of these. Dividend policy has effect in two parts, one is retained earnings and the other is dividend. The retained earnings provides funds to finance the firm's investment.

The manor objectives of the study are:

1. To analyze dividend per share and other variables regarding dividends and their impacts on the market price per share.
2. To analyze relations of dividend per share with other variables such as earnings per share, dividend payout ratio, price earnings ratio, market price per share, dividend yield and return on net worth.
3. To identify financial performance of the listed finance companies regarding dividends.

This study mainly covers almost all listed finance companies of Nepal, which has paid dividends. The study is based on secondary data collected from secondary sources. The study covers the period form 2063/64 to 2067/68 of selected companies. The companies selected as sample for the study are Mahalaxmi Finance Limited, Ace Finance Limited, United Finance Limited, National Finance Limited, Siddhartha Finance Limited and World Merchant Banking & Finance Limited. This study has analyzed EPS, DPS, DPR, PER, MPS, DY and RONW with the help of correlation coefficient, mean, Standard deviation and coefficient of variation.

Conclusions

1. In the conclusion of the study regarding dividend policy, the position of finance companies cannot see neither better or nor bad. The relationship of between market price per share and other variables like earnings per share, dividend per share, dividend payout ratio, price earnings ratio, dividend yield and return on net worth is not perfect correlated. Among the six selected companies the market price per share of Mahalaxmi Finance Limited is more fluctuated during the five years. Market price per share of United Finance Limited is increasing condition.
2. According to the theory of dividend policy, dividend per share and market price per share have to positive relationship, but the analysis of data, the relationship between variables of Mahalaxmi Finance Limited, United Finance Limited, National Finance Limited, World Merchant Banking & Finance Limited have positive as well as Ace Finance Limited and Siddhartha Finance Limited have negative relationship. Under the growth rate Siddhartha Finance Limited is better than other companies. It means the Siddhartha Finance Limited is better performance of all companies.
3. There is perfect positive correlation between market price per share and earnings per share of World Merchant Banking & Finance Limited. It means both variables fluctuates same direction. Earnings capacity of National Finance Limited is good but in the term of standard deviation of market price is more than other companies.
4. Analyzing dependent and independent variables of market price per share, the changes in earnings per share, dividend per share, dividend yield, and return on net worth have significant impact in market price. These independent variables are powerful predicted of price per share. The significant relationship between variables are showing by Mahalaxmi Finance Limited, Ace Finance Limited, United Finance Limited, National Finance Limited, Siddhartha Finance Limited and World Merchant Banking & Finance Limited is not showing the significant relationship between variables.
5. Regarding the selected companies, no one company has followed a particular dividend policy in every year. It also shows the weakness of finance company. The relationship between market price per share and return on net worth shows the positive relationship of every company

excluding Ace Finance Limited and Siddhartha Finance Limited. It can take in the well position of finance company. Among the six selected companies Mahalaxmi Finance Limited, United Finance Limited and National Finance Limited are highly appropriated because there is not any negative relationship and impact between variables. But the relationship between a few variables of other selected companies has negative impact and relationship.

Recommendations

1. Among the Finance Company, Mahalaxmi Finance Company should try to minimize the dividend payout ratio and dividend yield in order to determine market price per share.
2. The result of Ace Finance Limited with dividend per share, dividend payout ratio, price earnings ratio, dividend yield, and return on net worth is negative and earnings per share are positive. So company should try to minimize the negative value and maximize the positive value.
3. United Finance Limited should try to improve the earnings per share, price earnings ratio and return on net worth and try to maximize the value of per share.
4. The impact in market price per share with other variables like earnings per share, dividend per share, dividend payout ratio, price earnings ratio and return on net worth of National Finance Limited is positive. So the company should try to maximize the value of variables.
5. The result of Siddhartha Finance Limited with dividend per share and return on net worth is negative and earnings per share, price earnings ratio and dividend yield is positive. So the company should try to minimize the negative value and maximize the positive value.
6. World Merchant Banking & Finance Limited should try to improve the value of earnings per share, dividend per share, return on net worth and price earnings ratio.

7. Finance company should clearly define dividend policy. Without adopting any appropriate policy should not declare dividend because it effect to investor's evaluation about the company.
8. Earnings per share, dividend per share and price earnings ratio have positive impact in the market capitalization. Thus, this sort of parameters should maintain regularly to reduce negative in market value of the company.
9. Dividend payment practices of the existing companies are inconsistent and irregular. According to annual report of Nepal Stock exchange limited, beside a few companies, there is not any company, which is adopting a particular dividend policy. So company should clear define the dividend policy and should adopt any appropriate policy.
10. Finance companies are showing high standard deviation and coefficient of variance because there is not uniformity in dividend. So the finance company should try to minimize the standard deviation and coefficient of variance.
11. No any company is able to keep the perfect relationship between the variables. It indicates that the performance in relationship variables of the finance company is not better. So finance company should try to keep perfect relationship between the variables.
12. The investor who prefers short term investment opportunities are profit oriented investors. In stock market, the demand of share has increase by regularity in dividend, higher earnings, distribution of bonus share etc. So companies should timely announced dividend, short term reward, right share to attract short term profit oriented investors.
13. The management should improve regularities in operation, monitoring in stock market, professional in management, timely update the rules and regulation etc.
14. It seems to be very necessary that existing laws and regulations should be revised to rationalize and simplify the regulatory system, which ultimately pay in increasing a sound capital market. So if there

a genuine wish to have clear cut rule and regulation within which the financial sector can work for a liberalize and open market development.

- 15.** To promote the competition among market practitioners on level of paying field, transparent regulation and timely dissemination of market information seem the primary requisite along with ensuring high professional standards from market participants, the market may be quite dynamic by a large participating of investors and higher liquidity.

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Appendices

Appendix 1

Earnings per share (EPS)

YEAR Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	37.13	24.6	30.44	26.83	24.66
AFCL	9.00	26.00	26.00	18.00	27.94
UFL	0.67	1.14	4.65	13.4	21.18
NFL	55.70	35.75	42.15	69.12	17.37
SFL	20.52	28.24	32.31	17.54	26.04
WMB&FL	2.52	11.27	31.73	22.27	25.82

Source – Annual report of Finance Companies

Appendix 2

Dividend per share (DPS)

Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	25	20	10	10	10
Ace FCL	5.00	15.00	20.00	0.00	2.11
UFL	0.00	5.00	5.00	7.50	10.00
NFL	20.00	0.00	1.05	0.53	0.53
SFL	15.00	15.00	10.00	1.58	10.00
WMB&FL	0	0	0	10.00	12.00

Source: Annual report of finance Companies

Appendix 3

Dividend pay out ratio

Company Year	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	67.33	81.3	32.85	37.3	40.55
A FCL	55.55	57.7	76.9	0	7.55
UFL	0	438.6	107.53	56	47.21
NFL	35.90	0.00	2.5	0.76	3.05
SFL	73.1	53.11	30.95	9.00	38.42
WMB&FL	0.00	0.00	0.0	44.9	46.5

Source: Annual report of finance Companies

Appendix 4

Market Price Per Share

Year Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	415.00	245.00	270.00	264.00	260.00
AFL	230.00	240.00	173.00	251.00	320.00
UFL	0.00	105.00	115.00	125.00	154.00
NFL	545.00	455.00	360.00	295.00	263.00
SFL	145.00	151.00	120.00	158.00	158.00
WMB&FL	102.00	111.00	131.00	122.00	125.00

Source: Annual report of finance Companies

Appendix 5

Price Earnings Ratio

Year Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	11	10	9	10	11
AFL	41.11	8.86	7.36	12.46	10.83
UFL	0	92.11	24.73	9.33	7.27
NFL	9.78	12.73	8.54	4.27	15.14
SFL	7.06	5.35	3.71	9.01	6.07
WMB&FL	4.87	5.49	4.15	9.88	40.67

Source: Annual report of finance Companies

Appendix 6

Dividend Yield Ratio

Year Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	6.02	8.16	3.70	3.8	3.85
AFL	2.17	6.25	11.56	0.00	0.66
UFL	0.00	4.76	4.34	6.00	6.5
NFL	3.67	0.00	0.29	0.17	0.20
SFL	10.34	9.93	8.33	1.00	6.33
WMB&FL	0.00	0.00	0.00	8.18	9.54

Source: Annual report of finance Companies

Appendix 7

Return on Net worth

Year Company	2063/64	2064/65	2065/66	2066/67	2067/68
MFL	23.85	18.66	21.67	18.02	17.12
AFL	5.88	16.05	15.76	10.05	13.90
UFL	0.59	1.04	4.28	11.70	16.85
NFL	19.1	11.62	16.67	25.42	9.41
SFL	18.04	22.24	27.04	14.40	19.61
WMB&FL	2.51	10.12	13.74	18.21	20.52

Source: Annual report of finance Companies

Appendix 8

Correlation Coefficient of market price per share with other variables of Mahalaxmi Finance Limited.

Variables	Correlation of Coefficient
MPS and EPS	0.931
MPS and DPS	0.709
MPS and PER	0.487
MPS and DY	0.139
MPS and RONW	0.822

Source: Annual report of finance Companies

Appendix 9

Correlation Coefficient of market price per share with other variables of Ace Finance Limited.

Variables	Correlation of Coefficient
MPS and EPS	0.181
MPS and DPS	-0.735
MPS and PER	-0.0426
MPS and DY	-0.791
MPS and RONW	-0.0711

Source: Annual report of finance Companies

Appendix 10

Correlation Coefficient of Market price per share with other variables of United Finance Limited.

Variables	Correlation of Coefficient
MPS and EPS	0.716
MPS and DPS	0.956
MPS and PER	0.167
MPS and DY	0.726
DPS and RONW	0.728

Source: Annual report of finance Companies

Appendix 11

Correlation Coefficient of Market price per share with other variables of National Finance Limited.

Variables	Correlation of Coefficient
MPS and EPS	0.254
MPS and DPS	0.762
MPS and PER	0.0168
MPS and DY	0.747
MPS and RONW	0.0447

Source: Annual report of finance Companies

Appendix 12

Correlation Coefficient of Market price per share with other variables of Sidharth Finance Limited.

Variables	Correlation of Coefficient
MPS and EPS	0.66
MPS and DPS	-0.26
MPS and PER	0.739
MPS and DY	0.435
MPS and RONW	-0.803

Source: Annual report of finance Companies

Appendix- 13

Correlation Coefficient of Market price per share with other variables of World Merchant Banking & Finance Limited.

Variables	Correlation of Coefficient
MPS and EPS	1
MPS and DPS	0.423
MPS and PER	-0.852
MPS and DY	0.424
MPS and RONW	0.817

Source: Annual report of finance Companies

Appendix-14

Mean Standard Deviation and Coefficient of Variance of Mahalaxmi Finance Limited.

Variables	Mean	S.D	C.V
EPS	28.732	5.261	0.1831
DPS	15	7.071	0.471
DPR	51.872	21.267	0.409
MPS	290.8	70.040	0.240
PER	10.2	0.837	0.0820
DY	5.106	1.963	0.384
RONW	19.864	2.807	0.141

Source: Annual report of finance Companies

Appendix- 15

Mean Standard Deviation and Coefficient of Variance of Ace Finance Limited.

Variables	Mean	S.D	C.V
EPS	21.388	7.912	0.369
PS	8.422	8.657	1.027
DPR	39.54	33.79	0.854
MPS	242.8	52.60	0.216
PER	16.124	14.10	0.874
DY	4.128	4.81	1.165
RONW	12.328	4.33	0.350

Source: Annual report of finance Companies.

Appendix- 16

Mean Standard Deviation and Coefficient of Variance of United Finance Limited.

Variables	Mean	S.D	C.V
EPS	8.218	8.858	1.077
PS	5.5	3.708	0.674
DPR	129.868	176.754	1.361
MPS	99.8	58.717	0.588
PER	26.688	37.66	1.411
DY	4.32	2.57	0.595
RONW	6.892	7.125	1.033

Source: Annual report of finance Companies.

Appendix-17

Mean, Standard Deviation and Coefficient of Variance of National Finance Limited.

Variables	Mean	S.D	C.V
EPS	44.018	19.675	0.446
DPS	4.422	8.716	1.971
DPR	23.49	32.869	1.399
MPS	383.6	116.296	0303
PER	10.092	4.418	0.411
DY	0.866	1.570	1.181
RONW	16.444	6.332	0.385

Source: Annual report of finance Companies

Appendix- 18

Mean Standard Deviation and Coefficient of Variance of Sidharth Finance Limited.

Variables	Mean	S.D	C.V
EPS	24.93	5.931	0.237
DPS	10.316	5.486	0.531
DPR	40.916	24.024	0.587
MPS	145.4	15.725	0.107
PER	6.24	1.972	0.316
DY	7.186	3.80	0.528
RONW	20.266	4.732	0.233

Source: Annual report of finance Companies

Appendix – 19

Mean Standard Deviation and Coefficient of Variance of World Merchant Banking & Finance Limited.

Variables	Mean	S.D	C.V
EPS	18.72	11.728	0.626
DPS	4.4	6.0663	1.378
DPR	18.198	24.928	1.369
MPS	118.722	11.728	.0988
PER	13.012	15.621	1.200
DY	3.544	4.876	1.376
RONW	13.02	7.116	0.546

Source: Annual report of finance Companies

APPENDIX-20

Growth Rate of selected Finance Companies for the period of 2063/64 to 2067/68.

YEAR/ Companies	2063/64	2064/65	2065/66	2066/67	2067/68	Average
MFL	7.8	3.48	14.55	11.3	10.18	9.46
AFL	2.61	6.8	3.64	10.05	12.85	7.19
UFL	0.59	-3.52	-0.322	5.14	8.9	2.16
NFL	12.24	11.62	6.25	6.10	9.12	11.06
SFL	4.85	10.43	18.67	13.10	12.08	11.83
WMB&FL	2.51	10.12	13.74	10.03	10.98	9.48

Source: Annual report of finance Companies.