

DIVIDEND POLICY AND PRACTICE OF JOINT
VENTURE BANKS IN NEPAL

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List of Abbreviations

| | | |
|-----------|---|----------------------------|
| B.S. | : | Bikram Sambat |
| BVPS | : | Book Value per Share |
| C.V. | : | Coefficient of Variation |
| DPR | : | Dividend Payout Ratio |
| DPS | : | Dividend per Share |
| DYR | : | Dividend Yield Ratio |
| EAT | : | Earnings after Tax |
| EBL | : | Everest Bank Limited |
| EPS | : | Earnings per Share |
| FY | : | Fiscal Year |
| HBL | : | Himalayan Bank Limited |
| GoN | : | Government of Nepal |
| i.e. | : | that is |
| JVBs | : | Joint Venture Banks |
| MPPS | : | Market Price per Share |
| N/A | : | Not Applicable |
| NABIL | : | Nabil Bank Limited |
| NP | : | Net Profit |
| NRB | : | Nepal Rastra Bank |
| NW | : | Net Worth |
| P.E. | : | Probable Error |
| P/E | : | Price Earnings |
| Pvt. Ltd. | : | Private Limited |
| Reg. | : | Regression |
| Rs. | : | Rupees |
| S.D. | : | Standard Deviation |
| NSBI | : | Nepal SBI Bank Limited |
| SEE | : | Standard Error of Estimate |
| T.U. | : | Tribhuvan University |

Chapter 1

INTRODUCTION

1.1 Background of the Study

1.1.1 History of the Financial Sector

The Nepalese financial sector is composed of banking and non-banking sectors. Banking Sector comprises commercial banks, the development banks, finance companies, micro-credit development banks, co-operative financial institutions, non-government organizations (NGOs) performing limited banking activities licensed by Nepal Rastra Bank as the central bank of Nepal. Thousands of cooperatives operate limited financial transactions within the nation locally but not covered by Nepal Rastra Bank(NRB). Non-banking sector includes other financial institutions comprising of insurance companies, Employees' Provident Fund, Citizen Investment Trust and Nepal Stock Exchange.

The incorporation of Nepal Bank Limited (NBL) in 1994 was the turning point of modern financial system of Nepal. It was established under Nepal Bank Act 1994. Prior to this, Tejarath Adda, which was established in 1937, used to disburse credit to people. It used to render commercial banking services such as the acceptance of deposits, delivery of credit facilities and other commercial banking services.

Nepal Bank Limited remained the only financial institution in Nepal until Nepal Rastra Bank, the central bank of Nepal was established in 2013 under the Nepal Rastra Bank Act, 2012. The second commercial bank, Rastriya Banijya Bank, was established in 2023 as per the Rastriya Banijaya Bank Act, 2023 under the full ownership of the Government. The main objective of establishing the second commercial bank was to supplement the banking services to the growing economy.

There is tremendous growth in the number of financial institutions in Nepal in the last two decades. Before 2037, when financial sector was not liberalized, there were only two commercial banks, and two development banks performing banking activities in Nepal. There were no micro-credit development banks, and only two development banks were performing banking activities in Nepal.

After the liberalization of the financial sector, financial sector has made a hall-mark progress both in terms of the number of financial institutions and beneficiaries of financial services. At present, NRB licensed bank and non-bank financial institutions totaled 273. Out of them, 31 are commercial banks, 83 development banks, 79 finance companies, 19 micro-credit development banks, 16 saving and credit cooperatives and 45 NGOs. But there are thousands of cooperatives operating locally without taking permission from NRB.

1.1.2 Central Bank

Nepal Rastra Bank is the central bank of Nepal with an authorized capital of Rs. Ten Million fully subscribed by the Government of Nepal (GoN). It was established under the Nepal Rastra Bank Act, 1994. It performs the central banking functions including licensing, supervision, inspection and regulation of banks and non-bank financial institutions. Its other responsibility is to manage the circulation of currency; provide foreign reserves to the country, and provide funds to the government to bridge the deficit in the budget.

1.1.3 The Commercial Banks

The proliferation of commercial banks in Nepal started after Nepal Rastra Bank (NRB) liberalized its policy. At present there are thirty one commercial banks, licensed by NRB, operating in Nepal. Previously they dominated the financial market with various types of deposits and credit products.

Out of the 31 commercial banks, some are joint ventures while others are fully Nepalese private sector owned. The list of commercial banks is given in Annexure 1.

1.1.4 Development Banks

In the initial stage of development, there was a provision of direct investment to industrial sector in Nepal Rastra Bank Act. As a result of that, Nepal Rastra Bank had provided direct financial assistance to establish Janakpur Cigarettes Factory and Birgunj Sugar Mill to create an environment for industrial development. Recognizing the necessity of a national level separate development bank, Nepal Industrial Development Corporation

(NIDC) was established in 1959. Since its establishment, Nepal Rastra Bank has not directly financed but started to assist industrial and development sector through Nepal Industrial Development Corporation & Agriculture Development Bank.

At present, there are 83 development banks providing development services in various districts of Nepal. Out of them, Nepal Industrial Development Corporation and Agriculture Development Bank were established under special acts such as the Nepal Industrial Development Corporation Act 2016 (now not in existence) and the Agriculture Development Bank Act 2024(now not in existence) respectively. Agriculture Development Bank Limited has now converted into commercial bank. All the commercial banks, development banks and the remaining financial institutions licensed by the central bank Nepal Rastra Bank operate under the Banks and Financial Institutions Act, 2063, also called as an umbrella act.

1.1.5 Finance Companies

Starting from the early 1990s, finance companies have been growing rapidly. The total number of finance companies which stood at 47 in mid-July 2000 reached to 79 till February 2011. However, majority of the finance companies are rendering their services in Kathmandu valley.

1.1.6 Micro Credit Development Banks

The numerical size of micro credit development banks has remained the same for about seven years. There were 13 micro credit development banks in 2010. Five of them are called Rural Development Banks (RDBs). RDBs were established with the initiation of NRB and GoN. These are established as one in each development regions. The first rural development bank was established in 1993 and the last one in 1996.

1.1.7 Co-operatives and NGOs

There are 16 co-operatives and 45 NGOs which are permitted for limited financial transactions by NRB to operate the micro credit programs.

1.1.8 Profile of the Selected Companies

Although 31 commercial banks are actively working in the nation out of them are 25 domestic commercial banks and only 6 of them are joint venture banks listed in Nepal Stock Exchange. All joint venture banks are taken as sample. These joint venture banks have already issued their common stock to public (initial public offerings) and are actively trading in Nepal Stock Exchange market. The sample banks are as follows:

a) Nabil Bank Limited

Then Nepal Arab Bank Ltd (NABIL) is the first joint-venture commercial bank in Nepal which was incorporated in 2042 B. S. (1984 A.D.). Dubai Bank Ltd was the initial foreign joint venture partner with 50% equity investment. The shares owned by Dubai Bank Ltd (DBL) were transferred to Emirates Bank International Ltd (EBIL) Dubai by virtue of its annexation with the later. Later on, EBIL, Dubai sold its entire 50% equity to National Bank Ltd, Bangladesh (NBLB). NBLB is managing the bank in accordance with the technical services agreement signed between NBLB and Nabil Bank Ltd on 2052 B.S. (June, 1995 A.D.). The main objectives of this bank are to collect deposits, provide loans and to provide modern banking services to the public. The paid-up capital of this bank is Rs. 2,028,773,600. Its par value is Rs. 100 per share. NABIL Bank was listed in the Nepal Stock Exchange in the year 1986 A.D. (2042 B.S.)

b) Himalayan Bank Limited

Himalayan Bank Ltd was established in 2049 B.S. (1992 A.D.), under Company Act 2063. It is joint venture bank with foreign partner, Habib Bank Ltd. of Pakistan. This is the first joint venture bank managed by Nepalese chief executive. The main activities of this bank are to provide modern banking services like tele-banking to the businessmen, industrial and other professionals and to provide loans in different sectors. The paid-up capital of this bank is Rs. RS. 2,000,000,000. Par value is Rs. 100 per share. Himalayan Bank limited was listed in the Nepal Stock Exchange in the year 2050 B.S. (1993A.D.). Its par value is Rs. 100 per share.

c) Nepal Bangladesh Bank Limited

Nepal Bangladesh Bank Limited was established in June 1994 with an authorized capital of Rs 240 million and paid up capital of Rs60 million as a joint venture bank with IFIC Bank Limited of Bangladesh. At present its paid up capital is Rs.1,860,315,000. Its head

office is situated at New Baneshwor, Bijuli Bazar, Kathmandu. Its par value is Rs. 100 per share

d) Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint-venture operation; initially it was Nepal Grindlays Bank Limited having 50% shares of ANZ Grindlays Group. The company was acquired by the Standard Chartered Group with 75% shares and 25% shares owned by the Nepalese public. Probably The Bank enjoys the status of one of the largest international bank currently operating in Nepal.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs almost 75,000 people, representing over 115 nationalities, worldwide. This diversity lies at the heart of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

With 18 points of representation, 23 ATMs across the country and with more than 350 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

Nepal Grindlays banks was established in 2042 as a second foreign joint venture bank under the company act, 2063. ANZ Grindlays Bank is the foreign joint venture bank with 50 percent equity investment. The paid-up capital of the bank is Rs. 1,608,256,140.

e) Everest Bank Limited

Everest bank limited stated its operation in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. It joined hands with Punjab National Bank (PNB) India as its joint venture bank in 1997.

The paid-up capital of the bank is Rs. 1,279,607,490. The bank is providing its services through a wide network of 35 branches. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches. Its par value is Rs. 100 per share.

f) Nepal SBI Bank Limited

Nepal SBI Bank Limited has started its operation with its joint venture partner State Bank of India on 8th July, 1993. The paid up capital of the bank is Rs. 1,861,324,239. It is providing its services through a wide network of 32 branches and a rich network of ATMs. The bank has been providing service through internet throughout the year. Its par value is Rs. 100 per share.

1.2 Focus of the Study

The success of any company depends upon the perception of investors in market. The financial performance and position is the key determinant of perception of investors. The profit earned by any company can be used in three forms:

- To pay out the shareholders as a reward for investment in the form of dividend.
- To pay the employee as a reward of intellectual and physical ability in the form of bonus.
- To keep meeting the future contingencies in the form of retained earnings.

Generally, the portion of earnings after tax, given to shareholders by companies against their investment is known as dividend. It may be either the form of cash or bonus share as stock dividend. There is conceptual conflict about the dividend payment policy whether it should be pay in cash or retain in company for the purpose of long term financing i.e. internal financing. Both the alternatives have their own impact while deciding dividend policy. Investors or the shareholders may wish to get cash dividend from the net profit or retained earnings, whereas management may desire to plough back for internal financing or corporate growth. This dividend will affect on long-term financing, net profit, market price of share, book value of share, earnings per share etc.

If a company decides to make payment a portion of its earning to shareholders in the form of dividend, the shareholders benefit directly, but if the company returns its earnings to invest in other profitable opportunities, the shareholders can benefit indirectly through future increase in the share price. Thus policy may vary from company to company.

Dividend policy is an important decision of financial management because it affects the financial structures, the flow of funds, corporate liquidity etc. It determines the amount of earnings to be distributed to shareholders and the amount to be retained in the firm.

Dividend policy (behavior) involves paying a portion of profit as a dividend and rest is invested in the firm to strengthen the financial position of the firm which is called Retained Earnings (R/E). Any change in the behavior (policy) of dividend distribution has both favorable and unfavorable impact on the firm's stock price. So the stock price largely depends on the dividend behavior of the firm. Higher dividend payment by the firms means good financial position of the investor and low growth rate of the firm. Higher dividend attracts more investors on the financial condition of the firm. Less dividend means more retained earnings in the company. But it attracts few or no investors, so dividend behavior (policy) should be such which may not badly affect neither the position of the institution nor the position of the investors. In a nutshell it should be favourable for both.

Retained Earnings are used by the firm as a financing purpose, which strengthens the position of the bank. There is a controversy regarding the distribution of the dividend as investors want more income in terms of dividend and management tries to pay fewer dividends as possible in order to keep more R/E and to keep the financial position of the bank sound. So dividend behavior has a great role to play in the position of the banks and financial institutions.

If one looks at the current situation of the public enterprises in Nepal, most of them are operating at loss by which it is quite impossible for these commercial banks to distribute dividend lavishly or as demanded by the investors. In the context of Nepal very few of them have been able to distribute dividend to their shareholders. The trend of distributing dividend has not only attracted more customers but it has also helped to curb the outflow to some extent. So banks in Nepal should attract or lure investors as much as possible, earning minimum profit in order to survive in the cut throat competition.

1.3 Statement of the Problem

Dividend is the most inspiring factor for the investment on share of the company and similar to joint venture banks. But Nepalese joint venture banks have not satisfactory result concerning dividend decision. The dividend behavior of commercial bank also

affected by government rules and regulations there is no limit to the identification of the problem about dividend behavior that is visible in commercial bank in Nepal.

This dividend decision however is still a crucial as well as controversial area of managerial finance. There is no consensus among the financial scholars on this subject matter and its relation with stock price.

Some financial scholars say that stock prices are least influenced by dividend per share while some others believe that its relevance to the stock price is quite significant. The idea of relevance is vague (unclear) as well. It is rather hard to define whether dividend per share has positive or negative impact on joint venture banks.

Dividend behavior of the joint venture banks is not matching with their earnings. On the other hand, there is no proper relationship between dividend and quoted market price of share in the stock exchange. Dividends are important factor for the attraction of the investors and identify healthy position of the company.

Joint venture banks in Nepal have not adopted consistent behavior (policy) on dividend decision. Statements of the problem are postulated as below:

- a. What are the prevailing behaviors of the joint venture banks regarding their dividends?
- b. What is the relationship of dividend with earning per share, stock price, net profit and net worth of different joint venture banks?
- c. Whether dividend decision affects the market price of shares differently in different joint venture banks or not?

1.4 Objectives of the Study

The study primarily focuses on the dividend behavior adopted by the sample banks with a view to provide workable suggestion which may be helpful to the formulation of optional dividend policy and maximize the stock price and to take some other appropriate dividend strategies. However, the specific objectives can be set as follows:

- i) To study and analyze the dividend behavior of Nepalese joint venture banks.
- ii) To analyze the relationship of dividend with earnings per share, stock price, net profit and net worth.

- iii) To find out whether dividend behavior affects the market price of shares differently in different banks.
- iv) To provide recommendations regarding dividend behavior (policy) on the basis of research findings.

1.5 Importance of the Study

Most of financial theories have been developed on the assumption of dividend behavior. Moreover, dividend policy has implicated for the investment strategy that the investors may wish to pursue. Hence, the knowledge of level of dividend behavior (policy) helps investors to use theoretical models correctly and to choose the correct investment strategy for the investment decision.

In Nepal, there almost none of the companies (including banks) are adopting fair dividend behavior. So, the study of dividend behavior (policy) is of great importance.

Therefore, this study will be helpful to understand the dividend payment behavior of joint venture banks. It will also be helpful to shareholders, management and policy makers for their knowledge. It will be helpful to government in making policy, controlling, monitoring and supervising the commercial bank in Nepal.

Finally, it will also be useful literature for the future study about the relating topics.

1.6 Limitations of the Study

Dividend policy plays a vital role in management, so financial manager has to take several decisions from financial management area like liquidity management, capital structure management, investment decision, leverage, dividend policy and many more. Here only dividend policy has been taken as one of the decision factors which would try to interpret and analyze the dividend behavior of listed joint venture banks.

No study can be free from its own limitations. So, the present study has also some limitations. Reliability of statistical tools, lack of research experiences are the major limitations. So, following are the limitation factors for the study:

- a. Only sample joint venture banks were taken as the sample of study, which were already listed in Nepal Stock Exchange (NEPSE).

- b. Only secondary data will be used. So, the limitations of using secondary data exist.
- c. The major sources of data are financial statement of sample joint venture banks, which were available in Nepal Stock Exchange.
- d. The study covers 5 fiscal years data from FY 2004/2005 to 2008/2009.
- e. This study covers only cash dividend, excludes bonus/stock dividend.

1.7 Organization of the Study

The study has been organized into five chapters, each devoted to some aspects of the comparative study of dividend policies between joint venture banks of Nepal. The title of each chapter is as follows:

Chapter 1: This chapter deals with the subject matters of the study consisting introduction and background of commercial banks, statement of the problems, objectives of the study, importance of the study and limitations of the study.

Chapter 2: It deals with review of literature. It includes a discussion on the conceptual framework on dividend. It also reviews the major studies relating with dividend decision of several authors and from the several books and journals.

Chapter 3: Explain the research methodology used to evaluate dividend behavior of joint venture banks in Nepal. It consists of introduction, research design, selection of sample, sources of data collection, method of analysis with financial tools and statistical tools.

Chapter 4: Chapter four fulfills the objectives of the study by presenting data and analyzing them with the help of various statistical tools followed by methodology.

Chapter 5: It states summary, conclusion and recommendations of the study.

Chapter 2

REVIEW OF LITERATURE

The present research aims to analyze the dividend policy (behavior) of commercial banks especially six joint venture banks. For this purpose, it needs to review related literatures, in this concerned area which will help researcher to get a clear idea. The researcher studies different magazines, journals and newspaper, book to collect the information about their dividend behavior. This process of studying different materials, which are concerned with dividend behavior of the research, is known as review of literature.

2.1 Conceptual Framework

Dividend is a periodic payment made to the stockholders to compensate them for the use of and risk of their investment funds. In other words, it is that portion of their net earning dividend by their company among the shareholders as a return of their money invested. Dividend policy simply means the separating of net earnings between to shareholders as dividend and retention within the company to meet its further financial requirement. Dividends are generally paid in cash because of which the assets or cash balance of the firm is reduced. However, the firm also intends to have enough funds or cash available to finance its investment opportunities. Thus in order to strike a balance between paying dividend and retained earnings, it is necessary for the firm to adopt an effective and relevant dividend policy. The firm's directors periodically meet in order to decide whether to pay dividend and to determine the amount and form of dividend payment.

Dividend policy means some kind of consistent approach to the distribution versus retention decision. Dividend policy determines the amount of earnings to be retained and paid out by the firm. Various question related to the payment of dividend or retain the earnings are contained in the dividend policy. The dividend policy adopted by the firm should be such that it strikes the proper balance between financing decision and wealth maximizing decision. There is inverse relationship between the retained earnings and cash dividend. When the firm retains earning providing necessary equity, the amount of dividend decreases, which may affect market price of the stock adversely, this leads to the increase in future earnings per share. Thus dividend decision is one of the major decisions of managerial finance as it directly or indirectly determines and affects the maximization of the wealth of the owners or the shareholders.

Mostly interpreted in terms of leftover earnings after financing all acceptable investment opportunities and these are used for the payment of dividend. Any change in dividend policy has both favorable and unfavorable effects on the firm's stock price. Higher the dividend means higher the immediate cash flows to investors, which is good but lower future growth which is bad. The dividend policy should be optimal which balances the opposing forces and maximizes stock prices.

2.1.1 Major Forms of Dividend

Although most particular form of dividend is cash dividend, corporations need to follow different types of dividend in view of the objectives and policies which they implement. "The types of dividend that corporation follow is partly a matter of attitude of directors and partly a matter of the various circumstances and financial constraint that bound corporate plan and policies".⁷ (Shreshta: 1980, p.670).

According to the changing needs of corporation, dividend is being distributed in several forms like cash dividend, stock dividend etc.

I) 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. "The market price of the share drops in most cases by the amount of cash dividend distributed". (Hasting: 1966, p.370) For distribution cash dividend, firm has maintains adequate balance of cash otherwise company should be made to borrow fund; which is risky or difficult.

II) Stock Dividend

A stock dividend occurs when the board of directors authorizes a distribution of common stock to existing shareholders. Stock dividend increases the number of outstanding shares of the firm's stock. Although stock dividends do not 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 re-capitalization of the company, shareholders proportional ownership remains unchanged. (Van Horne: 1998, p. 334).

III) Bond Dividend

Bond dividend by its name is a dividend that is distributed to shareholders in the form of a bond. Those bonds can be long-term bonds. Bond dividend helps to postpone the payment of cash. In other words, company declares dividends in the form of its own bond with a view to avoid cash outflow is called bond dividend. In this study, the term dividend generally refers to cash dividend.

IV) Script Dividend

When earning 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 scripts. By applying this method of dividend, company issue and distributes to shareholders transferable promissory note which may be interest bearing or not. This dividend is justified only when the company has really earned profit and has only to wait for the conversion of others current assets into cash in the course of operation.

V) Interim Dividend

Generally dividend is declared at the end of financial year. This is called regular dividend also. Many times director can declare dividend before the end of financial year. This is called interim dividend.

2.1.2 Stability of Dividend

Stability or regularity of dividend is considered as a desirable policy by the management of company. Most of the stockholders prefer stable dividends because all other things being same, stable dividends have a positive impact on the market price of shares. The term dividend stability refers to consistency or lack of variability in the stream of dividend. In other words, it means that a certain minimum amount of dividend is paid out regularly.

There are three distinct forms of stability of dividend payment. They are given below:

- **Constant Dividend per Share**

Investors who have dividend as the only sources of their income prefer the constant dividend per share. Under this policy, dividend is paid in a fixed amount per share in each year without considering the fluctuation in the earning of the company. It is easy to follow

this policy where earnings are stable. However, if the earning pattern of a company shows wide fluctuations. It is difficult to maintain such a policy. When the company reaches new level of earning and expect to maintain it, the annual dividend per share may also be increased.

- **Constant Payout Ratio**

The Ratio of dividend to earning is known as payout ratio. When fixed percentage of earnings is paid as dividend in every period; the policy is called constant payout ratio. Since, earning fluctuate, following this policy necessarily means that the rupee amount of dividends will fluctuate. It ensures that dividends are paid when profit are earned, and avoided when it incurs losses.

- **Low Regular Dividend plus Extra**

The low regular dividend plus extra policy is combination of the first two. It gives the firm flexibility but it leaves investors somewhat uncertain about what their dividend income will be if a firms earnings are quite volatile however, this policy may be best choice. Under this policy, the small amount of dividend is fixed to reduce the possibility of over missing a dividend payment. By paying extra dividend in the period of good profit an attempt is made to prevent investors from expecting that the dividend represent an increase in the established dividend amount. The policy enables a company to pay constant amount of dividend regularly, without a default and allows a great deal of flexibility. If the firms earning is quite volatile, this policy may be the best policy.

2.1.3 Residual Theory of Dividend

"Residual dividend policy is based on the premise that investors refer to have a firm retain and reinvest earnings rather than pay them out in dividends if the rate of return of the firm can earn and reinvested earnings exceed the rate of return investors can obtain for themselves on other investments of comparable risk. Further, it is less expensive for the firm to use retained earnings than to issue new common stock." (Gautam and Thapa, 2003. p. 25)

"The residual theory of dividend suggests that dividend paid by a firm should be viewed as a residual amount or left after all acceptable investment opportunity have been undertaken." (Gitman, 2001. p. 7)

2.1.4 Factors Affecting Dividend Decision

The factors affecting dividend decision is one of the main focus of this study. Mostly public enterprises are operating at loss in Nepal. Therefore, the question of paying dividend does not arise. But some Nepalese commercial banks, private organization and joint venture company are operating in profit and they are trying to pay more or less dividend to their shareholders. In such commercial bank, dividend policy play main role in financial management decision. Although all of them are not protecting shareholders right, main factors which affecting dividend policy are given below:

2.1.5 Legal Consideration

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

- if the firm's liabilities exceed its assets,

- if the amount of the dividend exceeds the accumulated profit (retained earnings),

- if the dividend is being paid from capital invested in the firm.

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

2.1.6 Liquidity

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

2.1.7 Restrictions in Debt Contracts

Restrictions in debt contracts may specify that dividends may be paid only out of earnings generated after signing the loan agreement and only when net working capital is above a specific amount. Also, preferred dividend takes precedence to common stock dividends.

2.1.8 Stability Earnings

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

2.5.5 Need to Repay Debt

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

2.1.9 Ability to Borrow

A liquid position is not the only way to provide flexibility and to protect against uncertainty. If a firm is able to borrow on short notice, it may be flexible. The greater ability to borrow implies the greater the flexibility and greater its ability to pay a cash dividend from its operating profit.

2.1.10 Internal Financing Opportunity

Internal financing opportunity of a firm may affect its dividend behavior. If a firm has profitable investment opportunities, it retains large amount of earnings for investment activities and pays zero or low dividend, and vice-versa.

2.1.11 Control

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

2.1.12 Access to the Capital Markets

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

2.1.13 Profit Rate

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

2.1.14 Tax Position of Shareholders

The tax position of stockholders also affects dividend policy. Corporations owned by largely tax payer in high income tax brackets tend towards lower dividend payout where as corporations owned by small investors tend toward higher dividend payout.

2.1.15 Legal Provisions of Dividend Behavior

Company Act 2063 of Nepal makes some legal provisions for dividend payment in Nepalese firms/organizations. These provisions are as follows:

Section-1, Clause 2 (Q) states that “bonus share” means share issued in the form of additional share to shareholders by capitalizing the surplus from the profit or the reserve fund of a company and the term also denotes an increase in paid up of share capital."12 (Endi consultants Ktm p. 43)

Section 4, clause 61 and clause 62 have forbidden company to purchase (buy back) its own share or to supply loan against the security of its own share.

Section 21, clause 179, has stated regarding bonus share in sub-clause (1) that company can issue bonus shares to the shareholders out of the eligible amount for dividend distribution by passing special resolution by general meeting; and in sub-clause (2) company must inform the office before issuing bonus shares under sub-clause (1).

Section 21, clause 182 is regarding dividend and sub-clauses are as follows: 15 (Ibid pp 94-95)

Sub-clause (1): Dividend shall be distributed among the shareholders within 45 days from the date of decision to distribute them, except in the following circumstances:

- a, In case any law forbids the distribution of dividend,
- b, In case the rights to obtain dividend is under dispute,
- c, In case the dividend cannot be distributed within the time limit mentioned above owing to circumstance beyond anyone's control and without any fault on the part of company.

Sub-clause (2): Company partially or fully owned by Government of Nepal will be able to distribute dividend only with prior approval from the government and the government can direct company with necessary instructions.

Sub-clause (3): In case the dividend is not distributed within the time limit mentioned in sub-clause (1), this shall be done by adding interest at the prescribed rate.

Sub-clause (4): Only the person whose name stands registered in the register of existing shareholders or the lawful claimant of the person at the time of declaring the dividend shall be entitled to it.

Sub-clause (5): Company is restricted to pay or distribute dividend except from the separated fund for dividend distribution.

Sub-clause (6): Company shall deduct preliminary expenses, depreciation as per accounting standard, statutory provisioning requirements from profit, previous loss if any, prior to pay or distribute dividend from the profit of a fiscal year.

Sub-clause (7): Under the provisions prescribed by this clause, the board of directors of a company may distribute interim-dividend from the previous fiscal year profit in following conditions:

A, if provisioned in Article of Association about distribution of interim-dividend,

B, if the financial report of the fiscal year of which interim-dividend is to be distributed from the profit has been already certified by the auditor and passed by the board of directors.

Sub-clause (8): Company shall not pay or distribute any amount in any form, neither cash nor goods, to the shareholders except the dividend approved by the general meeting.

Sub-clause (9): If the dividend is not claimed by the shareholders for 5 years from the date of approval by the general meeting, the unclaimed dividend amount shall be deposited in 'shareholders security fund' established under clause 183 of company act 2063.

Sub-clause (10): Company shall inform to the shareholders for the unclaimed dividend through national level newspaper at least one month time by publishing notice prior to transfer to the 'shareholders security fund' established under clause 183 of company act 2063.

Sub-clause (11): According to this act company shall develop separate account for the fund to pay or distribute dividend within 45 days from the date of approval by the general meeting.

The above mentioned clauses and sub-clauses of Company Act 2063 indicate that the repurchase of own stock is not permitted to Nepalese company. This act is not enough regarding dividend policy.

The most relevant act to banks and financial institutions is 'Banks and Financial Institutions Act, 2063 (BAFIA)'. The previous following acts are cancelled with the emergence of BAFIA, being the existing and past works done under following acts considered as done under BAFIA:

- A) Agriculture Development Bank Act, 2024,
- B) Commercial Bank Act, 2031,
- C) Finance Company Act, 2042,
- D) Nepal Industrial Development Corporation Act, 2046 and
- E) Development Bank Act, 2052.

The former Banks and Financial Institutions Ordinance, 2062 is also made inert and the works done under the ordinance are considered as done under BAFIA.

2.2 Review of Major Studies in the Relevant Field

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

2.2.1 Walter's Study

James E. Walter study concluded that the choice of dividend policies almost always affects the value of enterprises. (Walter: 1996, p.29-44).

In this study he suggests that dividend practice of firm affects its stock price. Walter's especially highlight that, there is significant relationship between internal rate of return and cost of capital, which is the main determining factor to retain its earnings or to distribute dividend to shareholder.

His study was based on the following assumptions

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

Based on these assumptions, Prof. Walter develops a model to determine the NSBI is as follows:

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

Where,

P = NSBI

DPS = Dividend per share

EPS = Earnings per share

R = Internal rate of return

K = Cost of Capital

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

1) Growth First, $r > K$

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

2) Normal Firms, $r = K$

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

3) Declining Firms, $r < K$

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

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

2.2.2 Gordon's Study

In 1962, Mayron Gordon developed his theory. In his study he concluded that dividend policy of a firm affects its value. (Gordon, 1962, P57)

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

Basically his model based on the following assumptions:

- a. No external financing is available i.e., only source is retained earnings.
- b. The firm uses equity capital only.
- c. Internal rate of return (r) and cost of capital (K) of the firm remains constant.
- d. The firm has a perpetual life.
- e. There are no taxes on corporate income.
- f. The growth rate, $g = br$, is constant forever.
- g. Growth rate is always smaller than cost of capital $G < K$.

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

P = Market value per share

E = Earnings per share

b = Retention ratio

K_e = Cost of capital or capitalization rate

r = Interest rate of return

br = growth rate

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

According to his study, following facts are revealed.

- ◆ In case of growth firm, share price tends to decline in corresponding with increase in payout ratio or decrease in retention ratio i.e. high dividend corresponding to earning leads to decrease in share price. Therefore, dividend and stock price are negatively correlated in growth firm.

- ◆ In the normal firm, share price remain constant regardless of change in dividend policies. It means dividend and stock prices are free from each other in normal firm.
- ◆ In the case of declining firm, share price tends to rise in correspondence with rise in dividend payout ratio. It means dividend and stock prices are positively correlated with each other in a decline firm.

2.2.3 Linter's Study

During, the period of 1956, Linter an important study of the behavioral aspect of dividend policy in the American context. Form the test of 28 companies in America partial adjustment model was developed by him. From that he concluded that a major portion of the dividend of a firm could be expressed in the following way. (Linter, 1956/57,P113)

$$\text{Div}_t^* = P^{\text{EPS}_t} \dots\dots\dots (i)$$

$$\text{And } \text{Div}_t^* - \text{Div}_{t-1} = a + b (\text{Div}_t^* - \text{Div}_{t-1}) + e_t \dots\dots\dots (ii)$$

$$\text{Or } \text{Div}_t = a + b \text{Div}_t^* + (1-b) \text{Div}_{t-1} + e_t \dots\dots\dots (iii)$$

Where,

Div_t^* = is firm's desired payment

EPS_t = Earnings per share

$P =$ targeted payout ratio

$a =$ Constant relating to dividend growth

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

The major findings of this study are:

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

2.2.4 Modigliani and Miller's Study

In 1961 Modigliani and Miller, for the first time in the history of finance argued that the dividend policy doesn't affect the stock price of the firm. They argued that the value of the firm depends upon the firm's earnings which depend on its investment policy. That is why, MM theory; a firm's value is independent of dividend policy. (Modigliani & Miller, 1961, pp. 411-433)

This study is based on the following assumption:

- ◆ The firm operates in perfect capital market.
- ◆ There are no taxes.
- ◆ The firm has a fixed investment policy, which does not change at all.
- ◆ Risk of uncertainty does not exist.

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

$$nP_0 = \left(\frac{(P_1(n + \Delta n) - I + E)}{1 + Ke} \right)$$

Where,

nP_0 = Value of firm

P_1 = Market price of the share at the end of year.

n = No. of additional share.

Δn = No. of new shares at the end of the period.

I = Total investment.

E = Total Earning of the firm.

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

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

2.2.5 Van Horn & Mc – Donald's Study

Van Horn and Mc Donald conducted a more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of

dividend policy and new equity financing decision on the market value of the firm's stocks. They explored some basic aspects of conceptual framework, and empirical tests were performed during year-end 1968, for two industries, using a well-known valuation modal. The required data were collected from 86 electric utility firms included on the COMPUSTAT utility data tape and 39 firms in the electrics and component industries as listed on the COMPUSTAT industry data tape. (Van Horne & McDonald 1971, P507-519) They tested two regression models for the utilities industries.

First model was,

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

Where,

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

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

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

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

U = Error term

The Second Model was,

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + a_4 (F_a) + a_5 (f_b) + a_6 (F_c) + a_7 (F_d) + U$$

Where,

F_a , F_b , F_c and F_d are dummy variables corresponding to new issue ratio (NIR) group A through D.

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

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

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

Where,

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

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

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

2.3 Review of Research Works in Nepalese Perspective

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

Pradhan's Study

It is desirable to put forth here the study of Radhe S. Pradhan. The study "A survey of Dividend Policy and Practices of Nepalese Enterprises" has been conducted based on views of 135 managers on dividend policy of large Nepalese enterprises. (Pradhan, 2003.)

A questionnaire was distributed to the financial executives of 50 large Nepalese enterprises as identified in the publication of securities boards, Nepal and Nepal Stock Exchange Ltd. out of 50 enterprises. They research on 36 finance sector and 14 on non-finance sector.

The main objective of that study is to examine management's view on various aspects of dividend policy and practices in Nepal.

The major finding of the study:

- In their ranks for the importance of major decision of finance, respondents give third priority to dividend decision.
- With respect to major motives for paying cash dividend that it is to convey information to shareholders that the company is doing well and is to draw attention from the investment community.
- Dividend decision is not a residual decision.

- Nepalese shareholders are not really indifferent to whether the company pays or does not dividend.
- The earnings announcement by the company would help to increase market price of share.
- In Nepal most of the companies do not want to pay dividend.
- Dividend policy is affected by earning availability stock price.

The major finding of this study is similar to the findings of the studies cared by the Linter (1956).

Shrestha's Study

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

Dr. Shrestha has highlighted the following issues in his article.

- GoN expects two things from the public enterprises:
 - i) They should be in a position to pay minimum dividend and
 - ii) The public enterprises should be self-supporting in financial matters in future years to come, but none of these two objectives are achieved by the public enterprises.
- One reason for this inefficiency is caused by excessive governmental interference in day-to-day affairs. On the other hand, high-ranking officials of GoN appointed on directors of Board do nothing but simply show their bureaucratic personalities. Bureaucracy has been the enemy of efficiency and thus led corporation to face losses. Losing corporations are, therefore, not in position to pay dividend to government.
- Another reason is the lack of self-criticism and self-consciousness. Esman has pointed out that the lack of favorable leaders is one of the biggest constraints to institution building. Moreover, corporate leadership come as managers of corporations have not been able to identify them regarding what they can contribute as managers of corporations. So, GoN must be in a position to develop a financial target in corporate investment by imposing financial obligation on corporation.
- The article point out the irony of government biasness that government has not all owed bands to follow an independent dividend policy and GON is focused to have

pressurized on dividend payment in case of Nepal Bank Ltd. regardless of profit. But, it has left off Rastriya Banijya Bank from dividend obligation in spite of considerable profit.

The improvements suggested by author are:

- a) Adopt a criteria-guided policy to drain resources from corporations through the medium of dividend payment.
- b) Realization by Managers about the cost of equity and dividend obligation.

If GoN wants to tap resources through dividend, the following criteria should be followed:

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

2.4 Review of Previous Thesis

Prior to this thesis, several theses have been written by students of MBS. Some of them are supposed to be relevant for these studies and are presented below:

Bishnu Hari Bhattarai (1990) in his thesis paper “Dividend Decision and its Impact on Stock Valuation” worked with the main objectives of testing the relationship of the dividend and the stock price, finding out the influence of dividend policy on stock price and checking if the dividend decision made by the company is in favour of the investors. He concludes that:

- There is positive relationship of dividend per share with cash flow and current profit. The degree of relationship is almost perfect. The payment of dividend is decided by the Nepalese companies under the consideration of net worth and cash balance maintenance with the current profit.
- There is no criterion to adopt payout ratio and it is observed that there is negative relationship between payout ratio and valuation of shares.
- In aggregate, there is no stable dividend paid by the companies over the years. Some companies have steadily increased dividend; it can be inferred that they adopted low regular plus extra dividend. Stable dividend influences considerable impact on valuation of shares if there are rational investors. However, Nepalese Company Managements have yet to realize this.
- Inflation rates in recent years were decreasing and the market price of shares are increasing. Nevertheless, the companies are not able to give required rate of return to the investors.
- There was negative relationship between market price of share and stockholders required rate of return. Shareholders have foregone opportunity income in hope of getting higher return, but companies have not been able to return even equal to risk free rate of return.

Anajani Raj Bhattarai (1990) carried out a thesis “Share Market in Nepal”. The main objectives of his study were as follows:

- To check the relationship between the dividend and the required rate of return from the investors’ view.
- To find out the behaviour of price-earnings ratio and the investors attraction so as to influence market price of share.
- To see the difference between calculated price of share and the market price of share.

He concluded as below:

Many companies were paying less than the expected cash dividend per share of the investors. Some of them were paying higher than the average cash dividend per share while some company were paying regular dividend with higher amount, in short period. Thus, taking as a whole most of the companies were undertaking the expectations of

investors and they were resulting to the low marketability of shares on the trading floor of stock exchange. Thus he inferred as below:

- Dividend declared by the majority of companies is less than the risk free rate of return plus risk premium.
- Majority of the companies, displaying lower price earnings ratio, indicated on the erosion of investors' believes on shares of listed companies. As a result, market price of the share was highly skewed.
- Calculated price of shares did not match with quoted price.

Sudakhar Timilsina (1992) in his thesis paper "Dividend and Stock Price, an Empirical Study" has studied the relationship between dividend and stock price. Though it was not very comprehensive, it was the 1st of its kind and able through some light in the Nepalese context.

The objectives of this study were as follows:

- To test the relationship between dividend per share and stock price.
- To determine the impact of dividend policy on stock price.
- To identify whether it is possible to increase the market value of stock by changing dividend policy or payout ratio.

He concluded:

- The relationship between dividend per share and stock price is positively related in the sample companies.
- Dividend per share affects the share price differently in different sectors.
- Changing the dividend policy or dividend per share might help to increase the market price of shares.

P. L. Rajbhandari (2001) worked out the thesis "Dividend Policy of Joint Venture Banks and Insurance Companies." This study took into consideration of data of only five years 1994/95 through 1998/99. The main objectives of this study were as below:

- To find out the tendency of earnings per share of the companies if satisfactory.
- To find out the relationship between dividend per share and earnings per share.
- To determine the influence of earnings per share on dividend per share.

The study concluded as follows:

- Average earnings per share seem satisfactory of all sample companies.

- There was positive relationship between dividend per share and earnings per share.
- The relationship between earning per share and market price per share was negative.
- The relationship of dividend payment is not consistent in all sample companies.
- The institutions do not seem to follow the optimal dividend policy of paying regular dividend as per shareholders expectation and interest.

At first, this study is based on secondary data of past five years 1994/1995 to 1998/1999. That may not represent the exact practice of dividend policy of joint venture banks and insurance companies based on secondary data only.

Second, she did not explain the existing capital market in Nepal. The dividend is in macro level but it is necessary to do comparative study and analysis of dividend policy in micro level for the assessment of joint venture banks and insurance companies as well.

Bishnu Hari Neupane (2002) conducted the study on “Dividend Policy of Financial Institutions” having following objectives:

- To identify and compare the dividend policies followed by joint venture banks and finance companies.
- To analyze the relationship of dividend with various important variables such as EPS, Net Worth and MPPS.
- To identify the major determinants of dividend policy.

For that purpose, he selected three joint venture banks and three financial institutions based on secondary data of past five years 1996 to 2000.

Analysis of the result of the sample companies helped him to conclude the following points:

- Dividend practices of all sample joint venture banks and finance companies were not stable.
- Relations between DPS with EPS and NP after tax are positive in all these sample financial institutions. Whereas there was mixed result of relationship between DPS with average stock price and net worth not showing any clear tendency.
- DPS affects MPPS in different banks differently.

Chapter 3

RESEARCH METHODOLOGY

3.1 Introduction

Background information regarding banking companies has already stream-lined in the previous literature of review chapter from where it provided lots of ideas, theories, findings of different study related to dividend policy and practices of banking and finance companies in Nepal and also to find out the factors that affect dividend policy of the joint venture companies. It also tries to find out the relationship between dividend with earnings per share, net profit after tax, market price of shares and net worth of the joint venture banks. To achieve those objectives the study follows the research methodology described in the chapter.

3.2 Research Design

The research design of the present thesis being carried out is of descriptive and analytical in nature. For the fulfillment of this study, data and information related to dividend policy of joint venture banks are collected. For the analytical purpose the annual reports of joint venture banks were collected for the concerned years.

3.3 Population and Sample

Now 31 commercial banks (including government owned, private and joint venture) are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. Therefore, sampling was done selecting from population. Out of 31 commercial banks only six are joint venture and listed in Nepal Stock Exchange. All the six joint venture banks have been selected for the study as the sample using convenience sampling method.

3.4 Sources of Data

This research is mainly based on the secondary data which may include the Annual Reports of the banks under study, Economic Report published by Nepal Rastra Bank, the stock price for the whole year listed in the Nepal Stock Exchange (NEPSE), Economic Survey published from GoN, Ministry of Finance, Financial Status report published from World Bank, Financial and other relevant data regarding the dividend policies and practices of the Banks. Besides this, the data are also collected from various newspapers,

magazines and journals published by the concerned agencies as well as website of Nepal Stock Exchange.

3.5 Data Analysis Method

The analysis of data has been carried out according to the pattern of data available. Basically two types of tools, specifically the financial and the statistical, have been used in this study which is given below:

3.5.1 Financial Tools Used for Analysis

a. Earnings per Share (EPS)

Earnings per share refer the rupee amount earned per share of common stock outstanding. It measures the profitability of the shareholders investment. The earnings per share show the profitability of the banks on a per share basis. The higher earnings indicate the better achievements in terms of profitability of the banks by mobilizing their funds and vice-versa. In other words, the earnings per share indicate the strength or weakness of the bank.

Earnings per Share are computed to know the earnings capacity and to make comparison between different banks. This ratio can be computed by dividing the earnings available to common shareholders by the total number of common stocks outstanding. Thus,

$$EPS = \frac{\text{Earnings Available to Common Stockholders}}{\text{Number of Common Stock Outstanding}}$$

b. Dividend per Share (DPS)

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

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

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

c. Dividend Percent (DP)

Dividend percent is the ratio of dividend per share to the paid-up price per ordinary share.

It can be calculated as:

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

d. Dividend Payout Ratio (DPR)

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

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

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

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

And, Retention Ratio = (1-Dividend payout ratio)

$$= (1-DPR)$$

e. Price Earnings Ratio (P/E Ratio)

Price-earnings ratio is also called the earnings multiplier. Price-earnings ratio is the ratio between market price per share and earnings per share. In other words, this represents the amount which investors are willing to pay for each rupee of the firm's earnings.

The P/E ratio measures investor's expectation and market appraisal of the performance of the firm. The higher P/E ratio implies the high market share price of a stock given the earning per share and the greater confidence of investor in the firm's future. This ratio is computed by dividing earning per share to market price. Thus,

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

f. Earning Yield (EY)

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

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

g. Dividend Yield (DY)

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

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

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

3.5.2 Statistical Tools used for Analysis

Besides the financial tools, various statistical tools, various statistical tools have been used to conduct this study. The result of analysis has been properly tabulated,

compared, analyzed and interpreted. In this study, the following statistical tools are used to analyze the relationship between dividend and other variables.

a. Arithmetic Mean or Average (\bar{X})

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

$$\text{Arithmetic Mean } (\bar{X}) = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N}$$

$$\text{Or, } \bar{X} = \frac{\sum X}{N}$$

Where,

$$\sum X = \text{Sum of the sizes of the items}$$

$$N = \text{Number of items}$$

b. Standard Deviation (σ)

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

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

$$N = \text{Number of items in the series.}$$

$$\bar{X} = \text{Mean}$$

$$X = \text{Variable}$$

c. Coefficient of Variation (C.V.)

It is the measurement of the relative dispersion by Karl Person. It is used to compare the variability of two or more series. The series with higher coefficient of variation is said to be more variable, less consistent and less uniform, less stable and less homogenous. On the contrary the series with less coefficient of variation is said to be less variable, more consistent, more uniform, more stable and more homogenous. It is denoted by C.V. and is obtained by dividing the standard deviation by arithmetic mean. Thus,

$$\text{Coefficient of Variation (C.V.)} = \frac{S.D \times 100}{\text{Mean}} \quad \text{or,} \quad \frac{\sigma \times 100}{\bar{X}}$$

Where,

σ = Standard Deviation

\bar{X} = Mean

d. Coefficient of Correlation (r)

The correlation analysis is the technique used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number, which indicates to what extent two variables are related with each other and to what extent variations in one leads to the variation in the other.

The value of coefficient of correlation always lies between ± 1 . A value of -1 indicates a perfect negative relationship between the variables and a value of +1 indicates a perfect positive relationship. A value of zero indicates that there is no relation between the variables. The zero correlation coefficient means the variables are uncorrelated. The closer is +1 or -1, the closer the relationship between the variables and closer r is to zero (0), the less close relationship. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables, whether direct or inverse, while the numerical value of the coefficient is concerned with the strength, or closeness of the relationship between two variables.

Thus, in this study, the degree of relationship between market price and other relevant financial indicators such as dividend per share earnings per share, dividend payout ratio etc. are measured by the correlation coefficient. The correlation coefficient can be calculated as

$$r = \frac{Cov(XY)}{\sigma_x \sigma_y}$$

$$r = \frac{\sum(X - \bar{X})(Y - \bar{Y})}{(N-1)\sigma_x \sigma_y}$$

or,

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

σ_x, σ_y Are the standard deviation of the distributions of X and Y values respectively.

Cov (X,Y) = Covariance of X, Y value

$$= \frac{\sum(X - \bar{X})(Y - \bar{Y})}{(N-1)}$$

Under this study, the correlations between the following variables are analyzed:

- a) Dividend per Share and Earning Per Share.
- b) Dividend per Share and Net profit.
- c) Dividend per Share and NSBI.
- d) Dividend per Share and Net Worth.
- e) Dividend Payout Ratio and Market Price per Share.

e. Coefficient of Determination (R^2)

The coefficient of determination is the primary way to measure the extent or strength, of the association that exists between two variables, x and y. It refers to a measure of the total variance in a dependent variable that is explained by its linear relationship to an independent variable. The coefficient of determination is denoted by R^2 and the value lies between zero and infinity. The closer to infinity means greater the explanatory power. A value or one can occur only if the unexplained diagram falls exactly on the regression line.

The R^2 is always a positive number. It can't tell whether the relationship between the two variables is positive or negative. The R^2 is defined as the ratio of explained variance to the total variance. Thus,

$$\text{Coefficient of Determination } (R^2) = \frac{\text{Explained Variance}}{\text{Total Variance}}$$

Or,

$$R^2 = \frac{1 - \text{Unexplained Variance}}{\text{Total Variance}}$$

f. Regression Analysis

Francis Galton was the first person to introduce the concept of regression. Regression refers to an analysis, which involves the fitting of an equation to a set of data points, generally by the method of least square. In other words the correlation analysis shows the direction of movement but it doesn't tell the relative movement in the variable under study. Regression analysis helps to know that relative movement in the variables. Simple regression analysis of following variables are calculated and interpreted in this study.

- **Dividend per Share on Earnings Per share**

For this following model is used.

$$Y = a + bx$$

Where,

Y = Dividend per share

a = Regression constant

b = Regression co-efficient

x = Earnings per share

This analysis enables to know whether EPS is influencing factor of dividend per share or not.

- **Dividend per Share on Net Profit.**

The model:

$$Y = a + bx$$

Where,

Y = Dividend per share

a = Regression constant

b = Regression co-efficient

x = Earnings per share

This model tests the dependency of DPS on Net profit.

▪ **Market Price per Share on Dividend per Share**

The Model:

$$Y = a + bx$$

Where,

Y = Market per share

a = Regression constant

b = Regression co-efficient

x = Dividend per share

This model tests the dependency of MPPS on DPS.

▪ **Net Worth on Dividend per Share**

The model:

$$Y = a + bx$$

Where,

Y = Net per share

a = Regression constant

b = Regression co-efficient

x = Dividend per share

These models test the dependency of Net Worth on dividend per share.

In correlation and regression analysis following statistics has been calculated and interpreted accordingly.

1. Co-efficient of Determination, R^2 : It measures the linear association between variables. It tells the explained variation due to independent variable. It is square of co-efficient of correlation (r).
2. Standard Error of Estimate (SEE): It is likely error in predicted values given by the model. Smaller SEE is desirable, since it denotes lower degree of error.
3. Regression Co-efficient (b): It describes as its changes in independent variables to affect the values of dependent variable's estimate.
4. Regression Constant (a): The regression constant (a) indicates the average effect on dependent variable, if all the independent variables omitted from the model.

Chapter 4

PRESENTATION AND ANALYSIS OF DATA

4.1 Presentation of Financial Variables

Under these heading, financial variables are used with financial tools and MS-Excel.

4.1.1 Earnings per Share (EPS)

Normally, the performance and achievement of business organization are measured in term of its capacity to generate earning. The higher earnings indicate the higher strength and lower earnings indicate the weakness of business organization that helps for its growth, expansion and diversification. The earning power of business organization is measured in terms of earnings per share (EPS).

The following table shows the EPS, and its mean, Standard deviation, co-efficient of variation of different joint venture banks.

Table 4.1 Earnings per Share of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | NSBI | EB |
|--------------------|----------|----------|----------|----------|----------|----------|
| 2004/2005 | 105.49 | 143.14 | 47.91 | NA | 13.29 | 54.2 |
| 2005/2006 | 129.21 | 175.84 | 59.24 | NA | 18.27 | 62.8 |
| 2006/2007 | 137.08 | 167.37 | 60.66 | NA | 39.35 | 78.4 |
| 2007/2008 | 108.31 | 131.92 | 62.74 | 80.16 | 28.33 | 91.82 |
| 2008/2009 | 106.76 | 109.99 | 61.9 | 116.01 | 36.18 | 99.99 |
| Mean | 117.37 | 145.652 | 58.49 | 98.085 | 27.084 | 77.442 |
| Std. Deviation | 14.70085 | 26.69102 | 6.060083 | 25.34978 | 11.21055 | 19.17443 |
| Coef. Variation | 0.125252 | 0.183252 | 0.103609 | 0.258447 | 0.413918 | 0.247597 |

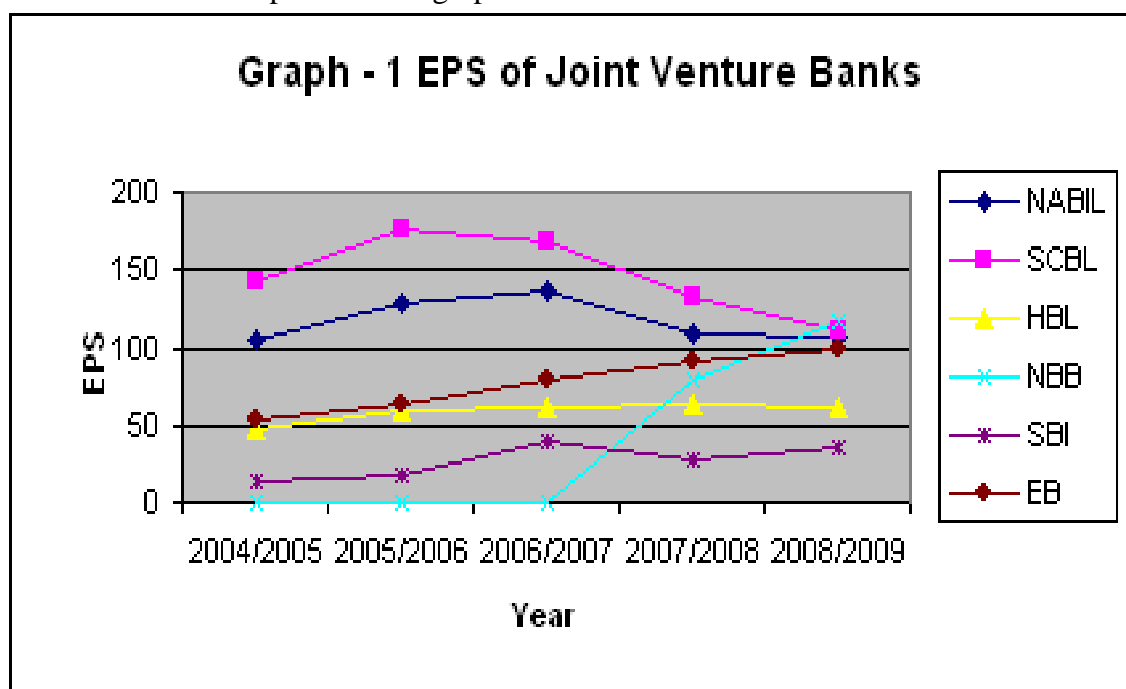
(source:<http://www.nepalstock.com>)

When analyzing the Earnings per Share of Joint Venture Banks, following facts have been found:

- SCBL has highest EPS with a mean of Rs 145.652 and NSBI has lowest EPS with a mean of Rs 27.084.
- The highest variation is found in EPS of NSBI and Lowest in HBL.

- In aggregate the average of EPS of Joint Venture Banks seems to be satisfactory.
- It is also observed that not any of Joint Venture Banks' EPS shows clear indication of growth rate. All the banks have some increasing and decreasing trend.

The table 4.1 can be presented in graph as below:



4.1.2 Dividend per Share (DPS)

Dividend per share indicates the proportion of earning distributed to owner (shareholder) on per share basis. Generally, the higher DPS creates positive attitude among the shareholders toward the bank, which accordingly helps to increase the market value of shares.

The following table and figure shows the dividend per share, and its mean, standard deviation and co-efficient of variation of different listed samples joint venture banks in Nepal.

While analyzing the data of five years regarding dividend per share, the following facts have been found:

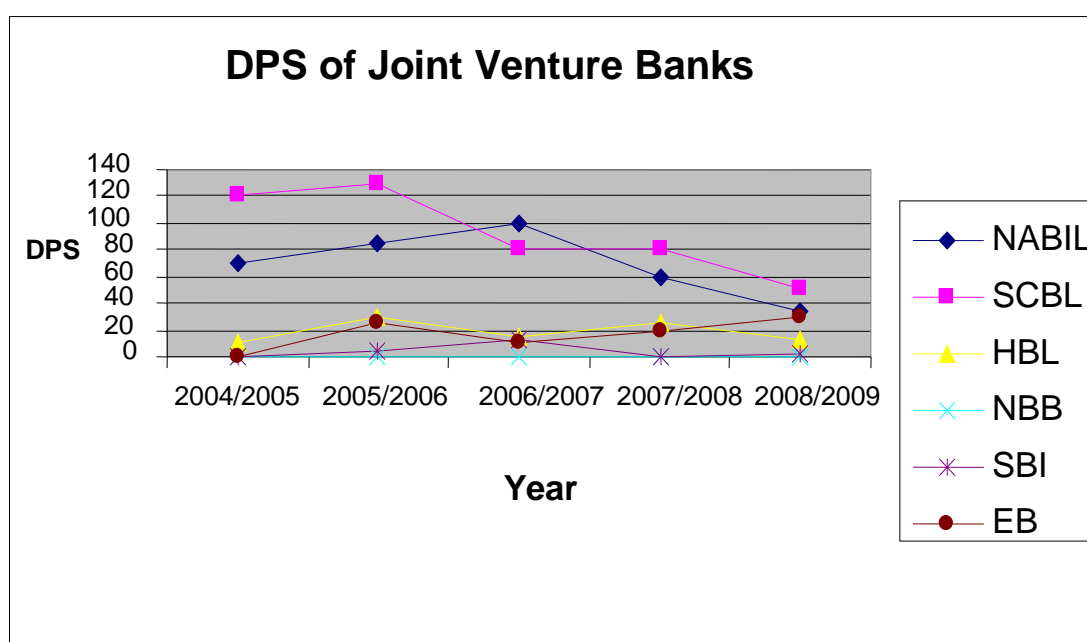
Table 4.2 Dividend per Share of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | NSBI | EB |
|-----------|-------|------|-------|-----|------|----|
| 2004/2005 | 70 | 120 | 11.58 | 0 | 0 | 0 |
| 2005/2006 | 85 | 130 | 30 | 0 | 5 | 25 |

| | | | | | | |
|--------------------|----------|----------|----------|---|----------|----------|
| 2006/2007 | 100 | 80 | 15 | 0 | 12.59 | 10 |
| 2007/2008 | 60 | 80 | 25 | 0 | 0 | 20 |
| 2008/2009 | 35 | 50 | 12 | 0 | 2.11 | 30 |
| Mean | 70 | 92 | 18.716 | 0 | 3.94 | 17 |
| Std. Deviation | 24.74874 | 32.71085 | 8.316446 | 0 | 5.252195 | 12.04159 |
| Coef. Variation | 0.353553 | 0.355553 | 0.44435 | 0 | 1.333044 | 0.708329 |

(Source: <http://www.nepalstock.com>)

The table 4.2 is represented in graph below:



- The SCBL has highest DPS with a mean of Rs 92 with least variation. It has also shown the decreasing trend of DPS.
- Another bank which pays dividend regularly with a mean of Rs 70 with C.V. of 0.353553 is NABIL. It is not paying dividend constantly and shows first increasing then decreasing trend.
- The NBB has zero dividend per share
- The NSBI has lowest DPS with a mean of Rs 3.94 with highest c.v. of 1.33304
- The HBL and EB have medium DPS with a mean of Rs.18.716 and Rs.17 respectively.

4.1.3 Dividend Payout Ratio

The ratio shows the amount of dividend as a percentage of earnings available for equity shares. It depends upon earnings of organization. The greater the earnings, the better ability to pay dividend is. The dividend payout ratio (DPR) of the bank's study is stated in the table and figure as follows.

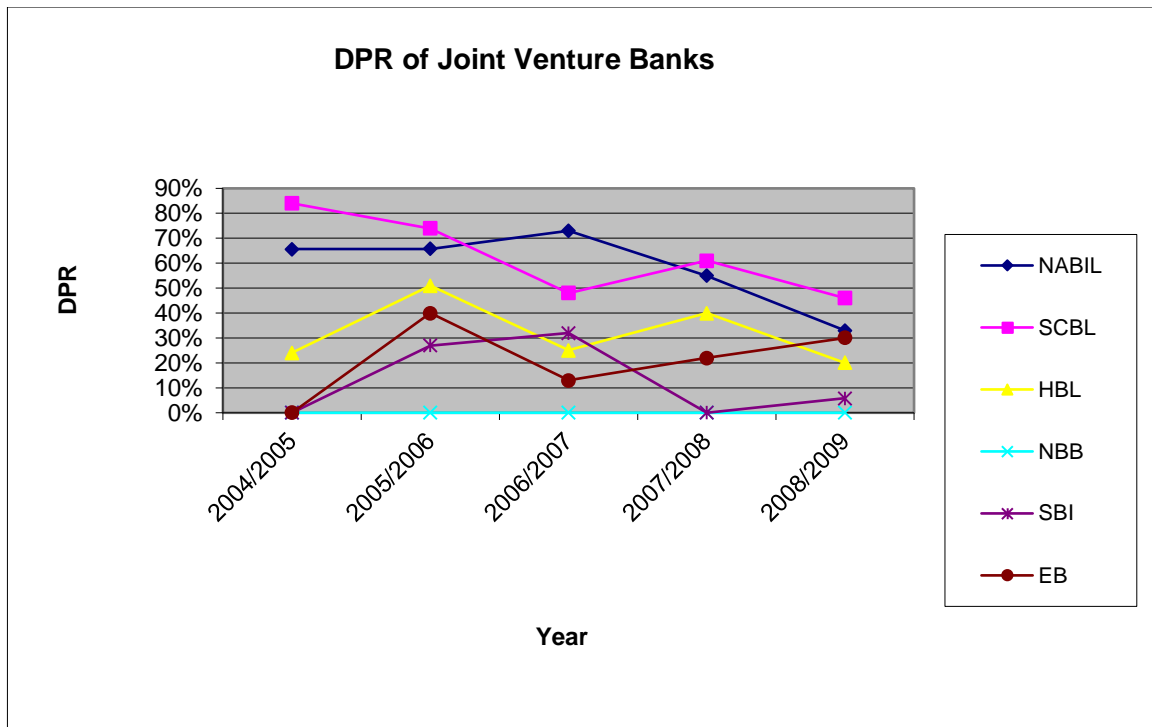
Table 4.3 Dividend Payout Ratio of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | NSBI | EB |
|-----------------|----------|----------|----------|-----|----------|----------|
| 2004/2005 | 66% | 84% | 24% | 0% | 0% | 0% |
| 2005/2006 | 66% | 74% | 51% | 0% | 27% | 40% |
| 2006/2007 | 73% | 48% | 25% | 0% | 32% | 13% |
| 2007/2008 | 55% | 61% | 40% | 0% | 0% | 22% |
| 2008/2009 | 33% | 46% | 20% | 0% | 6% | 30% |
| Mean | 0.584881 | 0.626 | 0.32 | 0 | 0.12966 | 0.21 |
| Std. Deviation | 0.156287 | 0.164256 | 0.130576 | 0 | 0.153818 | 0.153948 |
| Coef. Variation | 0.267212 | 0.26239 | 0.408049 | 0 | 1.186321 | 0.733086 |

(Source:<http://www.nepalstock.com>.)

While analyzing the dividend payout ratio, following facts have been found:

- SCBL has highest dividend payout ratio with the average of 62.6% with less C.V. of 0.26239.
- NABIL has also good dividend payout ratio with a mean of 54.48 % with less C.V. of 0.267212.
- HBL has shown great fluctuation in DPR with a mean of 32% with C.V. of 0.408049.
- NBB has shown worst result in dividend payout ratio with a mean of 0%.
-



4.1.4 Market Price per Share

Market price per shares (MPPS) is the value paid to a share of the firm by the investor in the stock market. Thus this price is fixed in the stock market on the basis of demand and supply position for specified share. Higher MPPS is more desirable.

The market prices per share of different joint venture banks are presented in the Table 4.4 and figure-4 respectively.

Analysis of MPPS of Joint Venture Banks reveals the following facts and figure:

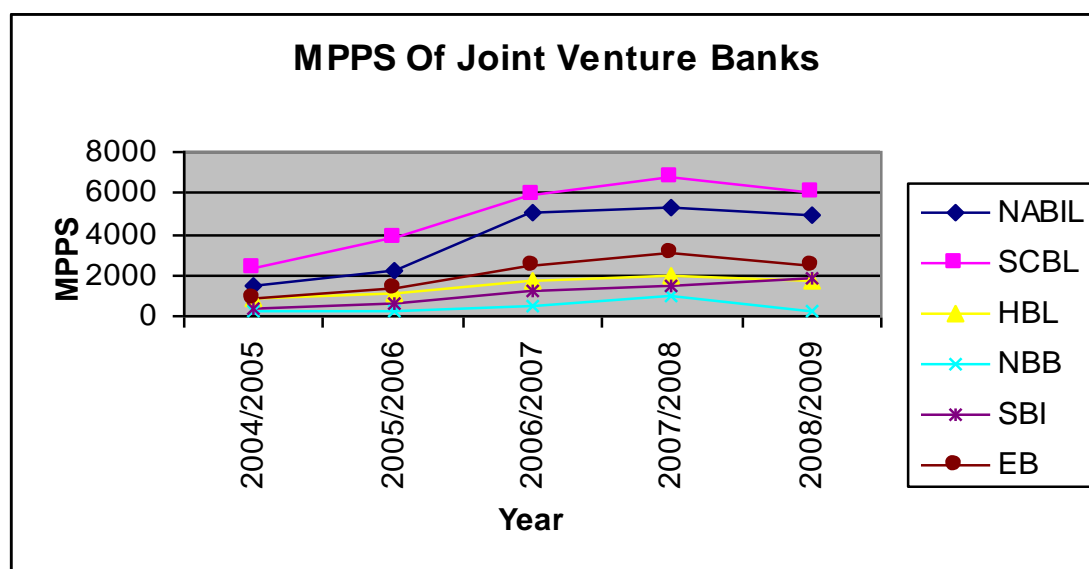
- The SCBL is market leader in MPPS with a mean of Rs 4972 with C.V. of 0.372555.
- The NABIL has market price with a mean of Rs 3793.8 with C.V. of 0.468682
- The HBL has market price with a mean of Rs 1500 with C.V. of 0.307679.
- EB has market price with a mean of Rs 2053.2 with C.V. of 0.443835
- NSBI has mean market price Rs 1106.8 with a C.V. of 0.578144.
- Although average market price of NBB is Rs 459, it seems to be unrealistic which is reflected by higher C.V. of 0.722019.

Table 4.4 Market Price per share of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | NSBI | EB |
|--------------------|----------|----------|----------|----------|----------|----------|
| 2004/2005 | 1505 | 2345 | 920 | 265 | 335 | 870 |
| 2005/2006 | 2240 | 3775 | 1100 | 199 | 612 | 1379 |
| 2006/2007 | 5050 | 5900 | 1740 | 550 | 1176 | 2430 |
| 2007/2008 | 5275 | 6830 | 1980 | 1001 | 1511 | 3132 |
| 2008/2009 | 4899 | 6010 | 1760 | 280 | 1900 | 2455 |
| Mean | 3793.8 | 4972 | 1500 | 459 | 1106.8 | 2053.2 |
| Std. Deviation | 1778.086 | 1852.345 | 461.5192 | 331.4068 | 639.8896 | 911.2819 |
| Coef. Variation | 0.468682 | 0.372555 | 0.307679 | 0.722019 | 0.578144 | 0.443835 |

(Source:<http://www.nepalstock.com>.)

The table 4.4 is presented in graph as below:



4.1.5 Price Earnings Ratio (P.E. Ratio)

Price Earnings ratio is the between market price per share and earnings per share. It is also called earning multiplier. The price earnings ratio of the banks under study is presented in table 4.5 and figure 5 below.

The average P/E ratio of NABIL, during the period of study is 32.608. It is within the range of 45.89 and 14.27. The standard deviation of price earnings ratio is 15.9895 whereas the coefficient of variation 0.490358 implies the fluctuating nature of P/E ratio in NABIL.

Table 4.5 Price Earnings Ratio of Joint Venture Banks

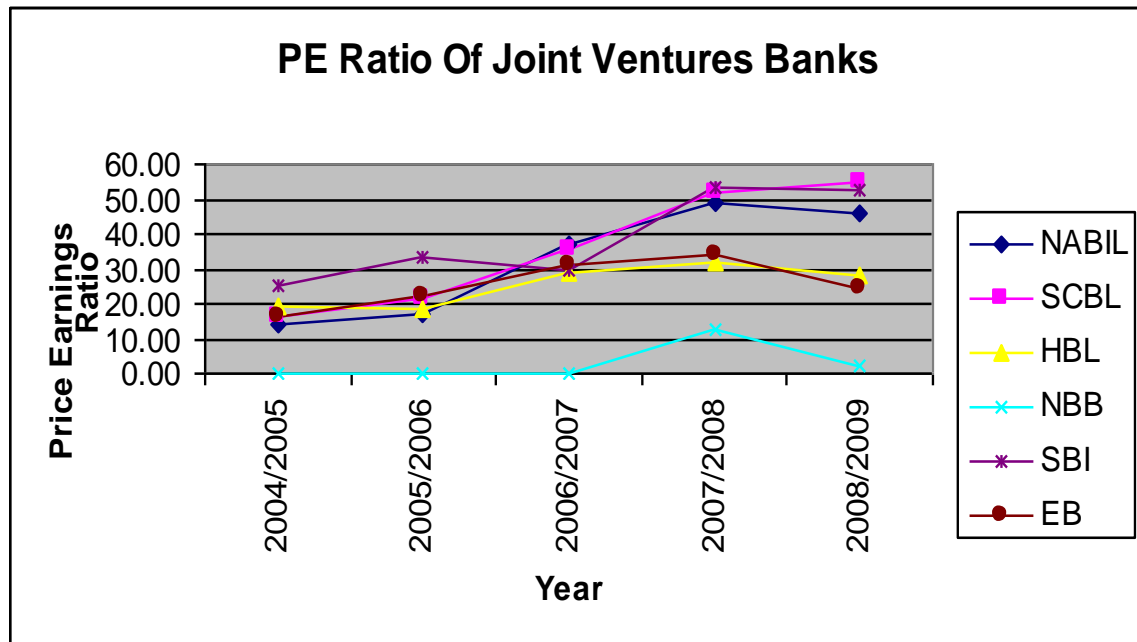
| Year | NABIL | SCBL | HBL | NBB | NSBI | EB |
|--------------------|----------|----------|----------|----------|----------|----------|
| 2004/2005 | 14.27 | 16.38 | 19.20 | 0.00 | 25.21 | 16.00 |
| 2005/2006 | 17.34 | 21.47 | 18.57 | 0.00 | 33.49 | 22.00 |
| 2006/2007 | 36.84 | 35.25 | 28.69 | 0.00 | 29.89 | 31.00 |
| 2007/2008 | 48.70 | 51.77 | 31.56 | 12.49 | 53.34 | 34.11 |
| 2008/2009 | 45.89 | 54.64 | 28.43 | 2.41 | 52.52 | 24.55 |
| Mean | 32.608 | 35.902 | 25.29 | 2.98 | 38.89 | 25.532 |
| Std. Deviation | 15.98959 | 17.26791 | 5.978691 | 5.417707 | 13.15182 | 7.207279 |
| Coef. Variation | 0.490358 | 0.480973 | 0.236405 | 1.818023 | 0.33818 | 0.282284 |

(Source: <http://www.nepalstock.com>)

The average P/E ratio of SCBL, during the period of study is 35.902. It is within the range of 54.64 and 16.38. The standard deviation of price earnings ratio is 17.2679 whereas the coefficient of variation 0.48097 implies the fluctuating nature of P/E ratio in SCBL.

The average P/E ratio of HBL, during the period of study is 25.29. It is within the range of 31.56 and 18.57. The standard deviation of price earnings ratio is 5.978691 whereas the coefficient of variation 0.236405 implies the stable nature of P/E ratio in HBL.

The average P/E ratio of NBB, during the period of study is 2.98. It is within the range of 12.49 and 2.41. The standard deviation of price earnings ratio is 5.417707 whereas the coefficient of variation 1.818023 implies the higher fluctuation of P/E ratio in NBB.



The average P/E ratio of NSBI, during the period of study is 38.89. It is within the range of 53.34 and 25.21. The standard deviation of price earnings ratio is 13.15182 whereas the coefficient of variation 0.33818 implies the fluctuating nature of P/E ratio in NSBI.

The average P/E ratio of EB, during the period of study is 25.532. It is within the range of 31 and 16. The standard deviation of price earnings ratio is 7.207279 whereas the coefficient of variation 0.282284 implies the fluctuating nature of P/E ratio in EB.

4.1.6 Dividend Yield

It is the percentage of dividend per share on market price per share. It shows that how much is the dividend per share on Market price per share. It is the dividend received by the investors as a percentage of market prices per share in the stock market. This ratio highly influences the market price per share because a small change in dividend per share can bring effective change in the market value of the share.

The dividend yield of different joint venture banks are presented in the table 4.6 and figure 6 below.

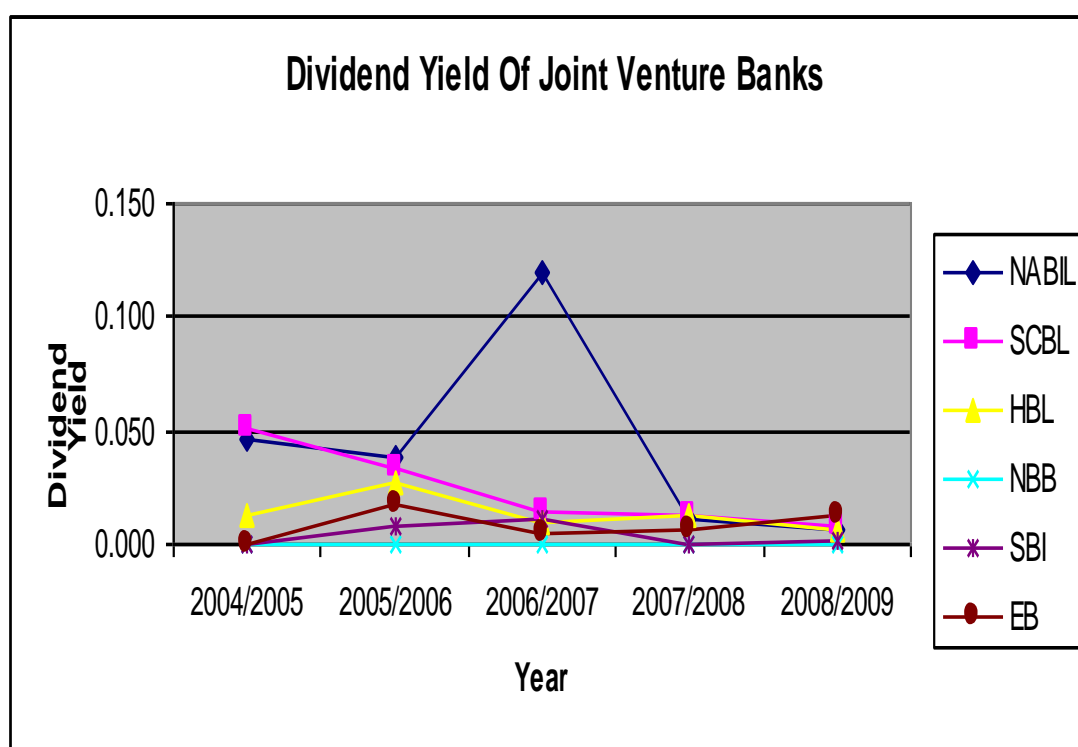
Table 4.6 Dividend Yield of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | NSBI | EB |
|-----------------|----------|----------|----------|-------|----------|----------|
| 2004/2005 | 0.047 | 0.051 | 0.013 | 0.000 | 0.000 | 0.000 |
| 2005/2006 | 0.038 | 0.034 | 0.027 | 0.000 | 0.008 | 0.018 |
| 2006/2007 | 0.120 | 0.014 | 0.009 | 0.000 | 0.011 | 0.004 |
| 2007/2008 | 0.011 | 0.012 | 0.013 | 0.000 | 0.000 | 0.006 |
| 2008/2009 | 0.007 | 0.008 | 0.007 | 0.000 | 0.001 | 0.012 |
| Mean | 0.0446 | 0.0238 | 0.0138 | 0 | 0.004 | 0.008 |
| Std. Deviation | 0.04549 | 0.018226 | 0.007823 | 0 | 0.005148 | 0.007071 |
| Coef. Variation | 1.019945 | 0.765813 | 0.566887 | 0 | 1.286954 | 0.883883 |

(Source: <http://www.nepalstock.com>)

While analyzing the Dividend Yield the following facts and figures are found:

- The NABIL has highest dividend yield with mean of 0.0446 with CV of 1.019945.
- The least dividend is found in NBB almost zero.
- The rest of the banks have reasonable dividend yield with higher variability.



- It shows that Joint Venture Banks have not paid enough amounts to cover up current market price of share.

4.1.7 Earnings Yield (EY)

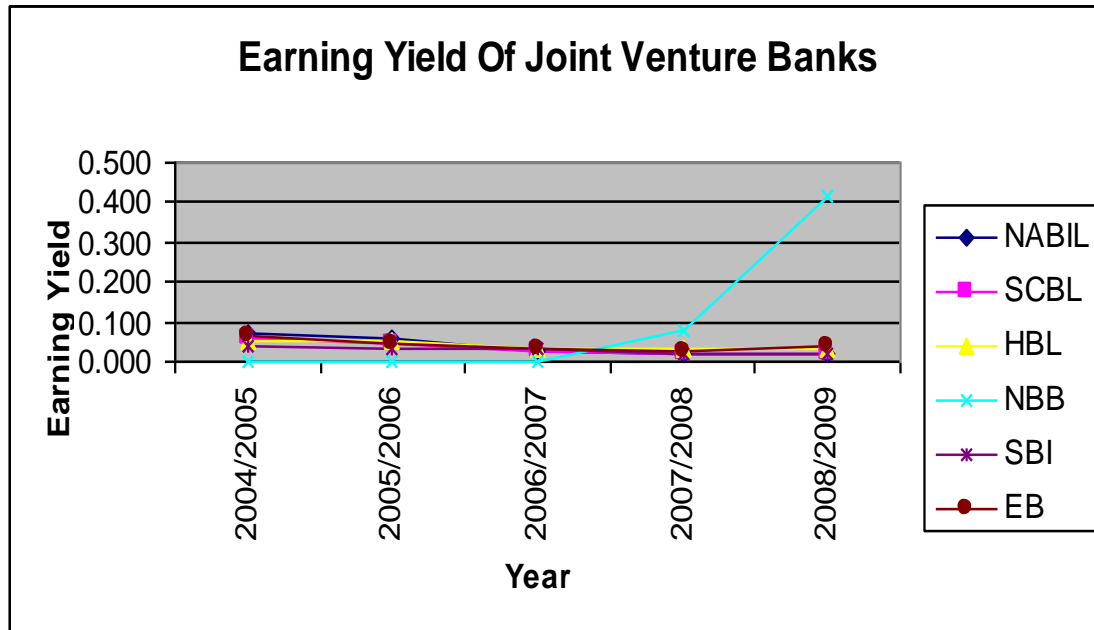
An earnings per share as the percentage of market price per share in the stock market is called the earnings yield (EY). In other words, it is a financial ratio relating to earnings per share to the market share price at a particular time. It measures the earnings in relation to market value of share. It gives some idea of how much an investor may get for his money. The share with higher earnings yield is worth buying. Earnings yield is informative to compare the market share prices of stocks in the secondary market. The table 4.7 and graph is presented below:

Table 4.7 Earnings Yield of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | NSBI | EB |
|--------------------|----------|----------|----------|----------|----------|----------|
| 2004/2005 | 0.070 | 0.061 | 0.052 | 0.000 | 0.040 | 0.062 |
| 2005/2006 | 0.058 | 0.047 | 0.054 | 0.000 | 0.030 | 0.046 |
| 2006/2007 | 0.027 | 0.028 | 0.035 | 0.000 | 0.033 | 0.032 |
| 2007/2008 | 0.021 | 0.019 | 0.032 | 0.080 | 0.019 | 0.029 |
| 2008/2009 | 0.022 | 0.018 | 0.035 | 0.414 | 0.019 | 0.041 |
| Mean | 0.0396 | 0.0346 | 0.0416 | 0.0988 | 0.0282 | 0.042 |
| Std. Deviation | 0.022788 | 0.018796 | 0.010502 | 0.179575 | 0.009149 | 0.013096 |
| Coef. of Variation | 0.575458 | 0.543245 | 0.252461 | 1.817561 | 0.324424 | 0.311805 |

(Source: <http://www.nepalstock.com>)

Table 4.7 and its graph have clearly shown the trends of earnings yield of Joint Ventures Banks with different tendencies. NBB has highest earnings yield with the mean of 0.0988 with CV of 1.817561, which indicates higher variability in its earning yield. NSBI has lowest earning yield with the mean of 0.0282 with CV of 0.32442. NABIL and SCBL has moderated mean of earning yield 0.0396 and 0.0346 with CV of 0.57545 and 0.543245 respectively. HBL and EBL also have moderate mean of earnings yield 0.0416 and 0.042 with CV of 0.252461 and 0.311805 respectively.



4.2 Statistical Analysis

4.2.1 Correlation Analysis

Correlation analysis is the statistical tool we can use to describe the degree to which one variable is linearly related to another. It exists between -1 to +1. All the variables either positive or negative correlated with each other. Here I try to find out the relationship between DPS with EPS, MPPS, NP and NW and DPR with MPPS.

The correlations between DPS of NABIL with all variables i.e. EPS and NW are positive. MPPS and NP are negative. Similarly the correlation of DPR with MPPS is also negative. It indicates that when DPS is fluctuating all the variables also fluctuate.

The correlation between DPS of SCBL with all variables i.e. EPS, and NW are positive, MPPS and NP are negative. Similarly the correlation of DPR with MPPS is also negative. It indicates that when DPS is decreased all the variables also decreased.

The correlation between DPS of HBL with all variables i.e. EPS, MPPS and NP are positive. But NW and the correlation of DPR with MPPS is negative. It indicates that when DPS is fluctuating in nature all the variables also fluctuate.

Table 4.8 Correlation between financial variables

| Banks | Variables | Correlation with | | | |
|-------|-----------|------------------|----------|----------|----------|
| | | EPS | MPPS | NP | NW |
| NABIL | DPS | 0.845765 | -0.22222 | -0.72665 | 0.908992 |
| | DPR | | -0.38538 | | |
| SCBL | DPS | 0.709775 | -0.80898 | -0.87029 | 0.536158 |
| | DPR | | -0.85138 | | |
| HBL | DPS | 0.395368 | 0.000234 | 0.013014 | -0.59161 |
| | DPR | | -0.16262 | | |
| NBB | DPS | 0.00 | 0.00 | 0.00 | 0.00 |
| | DPR | | 0.00 | | |
| NSBI | DPS | 0.550066 | 0.005273 | 0.242916 | 0.229459 |
| | DPR | | -0.16563 | | |
| EB | DPS | 0.657811 | 0.468023 | 0.727763 | 0.407803 |
| | DPR | | 0.244458 | | |

(Source:<http://www.nepalstock.com> & Annual Reports)

The correlation between DPS of NBB with all variables i.e. EPS, MPPS, NP and NW are zero. Similarly the correlation of DPR with MPPS is also zero. It indicates that when DPS is zero all the variables also zero.

The correlation between DPS of NSBI with all variables i.e. EPS, MPPS, NP and NW are positive. But the correlation of DPR with MPPS is negative. It indicates that when DPS is fluctuating all the variables also fluctuate.

The correlation between DPS of EB with all variables i.e. EPS, MPPS, NP and NW are positive. Similarly the correlation of DPR with MPPS is also positive. It indicates that when DPS is increased all the variables also increased.

Above analysis clearly suggests that the correlation between DPS with EPS is positive for all joint venture banks. But MPPS and NP are negative for all joint venture banks. It means when DPS is fluctuating in nature, all other variables will also fluctuate. However, the degree of correlation is different for all banks. The correlation of DPS with EPS is highly positively correlated for all joint venture banks except NBB. The correlation of DPS with EPS, MPPS, NP and NW are zero correlated for NBB. The highly negatively correlated variables DPR with MPPS are SCBL. Similarly, the highly positively correlated variables DPR with MPPS are EB. The correlation of DPS with NW is positive of NABIL, SCBL, NSBI and EB.

4.2.2 Regression Analysis

Regression analysis helps us to know the relative movement in the variables. The regression results of dividend per share on earning per share, dividend per share on net profit, market price per share on dividend per share and dividend per share on net worth are presented in the following different tables.

a. Regression Analysis of DPS on EPS

Table 4.9 below shows the linear relationship between dividend per share (DPS) and earnings per share (EPS). All joint venture banks have positive regression co-efficient “b”. The regression coefficient indicates that one rupee increase in EPS leads to certain increase in DPS. For NABIL, one rupee increase in EPS leads to average Rs 1.4238 increase in DPS. For SCBL, one rupee increase in EPS lead to average Rs 0.8698 increase in DPS. For HBL, one rupee increase in EPS leads to average Rs 0.542576 increase in DPS. For NBB, zero EPS leads no increase in DPS which is lowest among the joint venture banks. For NSBI, one rupee increase in EPS leads to increase in DPS by Rs 0.257709. Similarly one rupee increase in EPS for EB leads to increase in DPS by Rs 0.413107.

Table 4.9 Regression Results of DPS on EPS

| Banks | Variables | b. | SEE | T. Value | R ² |
|-------|--------------|----------|----------|----------|----------------|
| NABIL | EPS | 1.423837 | 15.24762 | 5.485 | 0.715318 |
| | Constant (a) | -97.1158 | | -0.917 | |
| SCBL | EPS | 0.869856 | 26.60713 | 1.065 | 0.503781 |
| | Constant (a) | -34.6963 | | 0.084 | |
| HBL | EPS | 0.542576 | 8.820579 | 2.443 | 0.156316 |
| | Constant (a) | -13.0193 | | 1.684 | |
| NBB | EPS | 0.00 | 0.00 | 0.00 | 0.00 |
| | Constant (a) | 0.00 | | 0.00 | |
| NSBI | EPS | 0.257709 | 5.06477 | 0.532 | 0.302573 |
| | Constant (a) | -3.03978 | | 1.356 | |
| EB | EPS | 0.413107 | 10.47258 | -0.528 | 0.432715 |
| | Constant (a) | -14.9918 | | 2.384 | |

The standard error of estimate (SEE) of NABIL, SCBL, HBL, NBB, NSBI and EB are 15.24762, 26.60713, 8.820579, 0.000, 5.06477 & 10.47258 respectively which indicates the likely errors or predicated value of respective banks.

However, the value of co-efficient of multiple determinations (R²) indicates how much variation can be explained by concerned variable. NBB's R² is zero; HBL is lowest (0.1563) among all joint venture banks. This indicates that only 15.6 percent in dividend variable is explained by earnings variable (i.e. 15.6 %) variation is explained in DPS due to change in the value of EPS of this bank. NABIL's R² is 0.715318, which indicates that 71.5 percent variation is explained in DPS due to change in value of EPS. Similarly, the value of R² is, 0.503781, 0.00, 0.302573 & 0.432715 for SCBL, NBB, NSBI and EB respectively, which indicates that 50.37 percent, 0.00 percent, 30.25 percent and 43.27 percent variation is explained in DPS.

4.2.2 b. Regression Analysis of DPS on MPPS

Table 4.10 Regression Results of DPS on MPPS

| Banks | Variables | b | SEE | T. Value | R ² |
|-------|--------------|-----------|----------|----------|----------------|
| NABIL | MPPS | -0.00309 | 27.86287 | 1.036 | 0.04938 |
| | Constant(a) | 81.73417 | | 2.288 | |
| SCBL | MPPS | -0.01429 | 22.20334 | 0.817 | 0.654447 |
| | Constant (a) | 163.0295 | | 0.731 | |
| HBL | MPPS | 4.22535 | 9.603004 | -0.921 | 5.49832 |
| | Constant (a) | 18.70966 | | 4.895 | |
| NBB | MPPS | 0.00 | 0.00 | 0.00 | 0.00 |
| | Constant(a) | 0.00 | | 0.00 | |
| NSBI | MPPS | 4.32766 | 6.064627 | -0.621 | 2.77994 |
| | Constant(a) | 3.8921014 | | 22.925 | |
| EB | MPPS | 0.0061844 | 12.28757 | 0.869 | 0.2190455 |
| | Constant (a) | 4.302166 | | 21.348 | |

Table 4.10 above shows the linear relationship between dividend per share (DPS) and market price per share (MPPS). All joint venture banks have positive regression coefficient “b” except NABIL and SCBL. The regression coefficient indicates that one rupee increase in MPPS lead to certain increase in DPS. For NABIL, one rupee increase in MPPS lead to average Rs -0.00309 decrease in DPS. For SCBL, one rupee increase in MPPS lead to average Rs -0.01429 decrease in DPS. For HBL, one rupee increase in MPPS leads to average Rs 4.22535 increase in DPS. For NBB, there is no increase in DPS. For NSBI, one rupee increase in MPPS leads to increase in DPS by Rs 4.32766. Similarly one rupee increase in MPPS for EB leads to increase in DPS by Rs 0.006184.

The standard error of estimate (SEE) of NABIL, SCBL, HBL, NBB, NSBI and EB are 27.86287, 22.20334, 9.603004, 0.00, 6.064627, and 12.28757, respectively which indicates the likely errors or predicated value of respective banks.

However, the value of co-efficient of multiple determinations (R^2) indicates how much variation can be explained by concerned variable. NABIL is lowest (0.04938), then other joint venture banks. This indicates that only 4.93 percent in dividend variable is explained by market price per share (i.e. 4.93 %), variation is explained in DPS due to change in the value of MPPS of this bank. SCBL's R^2 is 0.654447, which indicates that 65.44 percent variation is explained in DPS due to change in value of MPPS. Similarly, the value of R^2 is, 5.49832, 0.00, 2.77994 & 0.219045 for HBL, NBB, NSBI and EB respectively.

4.2.2 c. Regression Analysis of DPS on Net Profit

Table 4.11 below shows the linear relationship between dividend per share (DPS) and Net Profit. All joint venture banks have positive regression co-efficient “b” except NABIL and SCBL .The regression coefficient indicates that one rupee increase in net profit lead to certain increase in DPS. For NABIL, one rupee increase in net profit lead to average Rs - 0.0937 decrease in DPS. For SCBL, one rupee increase in net profit lead to average Rs - 0.1534 decrease in DPS. For HBL, one rupee increase in net profit leads to average Rs 0.000634 increase in DPS. For NBB, there is no increase in net profit. For NSBI, one rupee increase in net profit leads to increase in DPS by Rs 0.011889. Similarly one rupee increase in net profit for EB leads to increase in DPS by Rs 0.0061844.

The standard error of estimate (SEE) of NABIL, SCBL, HBL, NBB, NSBI and EB are 19.63278, 18.60381, 9.60219, 0.00, 5.88305 and 12.28757 respectively which indicates the likely errors or predicated value of respective banks.

However, the value of co-efficient of multiple determinations (R^2) indicates how much variation can be explained by concerned variable.HBL is lowest (0.000169), then other joint venture banks. This indicates that only 0.0169 percent in dividend variable is explained by net profit (i.e. 0.0169 %) variation is explained in DPS due to change in the net profit of this bank. NABIL's R^2 is 0.528025, which indicates that 52.80 percent variation is explained in DPS due to change in net profit. Similarly, the value of R^2 is, 0.757405, 0.00, 0.059008 & 0.21904 for SCBL, NBB, NSBI and EB respectively, which

indicates that 75.74 percent, 0.00 percent, 5.90 percent and 21.90 percent variation is explained in DPS.

Table 4.11 Regression Result of DPS on Net profit

| Banks | Variables | b. | SEE | T. Value | R ² |
|-------|--------------|----------|----------|----------|----------------|
| NABIL | NP | -0.09372 | 19.63278 | 2.772 | 0.528025 |
| | Constant (a) | 137.5814 | | -0.142 | |
| SCBL | NP | -0.1534 | 18.60381 | -0.175 | 0.757405 |
| | Constant (a) | 206.4613 | | 1.049 | |
| HBL | NP | 0.000634 | 9.60219 | -0.005 | 0.000169 |
| | Constant (a) | 18.3807 | | 0.842 | |
| NBB | NP | 0.00 | 0.00 | 0.00 | 0.00 |
| | Constant(a) | 0.00 | | 0.00 | |
| NSBI | NP | 0.011889 | 5.88305 | 0.581 | 0.059008 |
| | Constant(a) | 1.57782 | | 0.017 | |
| EB | NP | 0.006184 | 12.28757 | 1.235 | 0.219045 |
| | Constant(a) | 4.302166 | | 0.142 | |

4.2.2 d. Regression Analysis of DPS on Net Worth

Table 4.12 shows the linear relationship between dividend per share (DPS) and Net Worth. All joint venture banks have positive regression co-efficient 'b' except HBL. The regression coefficient indicates that one rupee increase in net worth lead to certain increase in DPS. For NABIL, one rupee increase in net worth lead to average Rs 0.5998 increase in DPS. For SCBL, one rupee increase in net worth lead to average Rs 0.25114 increase in DPS. For HBL, one rupee increase in net worth leads to average Rs -0.3492 decreases in DPS. For NBB, there is no increase in net worth. For NSBI, one rupee increase in net worth leads to increase in DPS by Rs

0.06963. Similarly one rupee increase in net worth for EB leads to increase in DPS by Rs 0.09675.

Table 4.12 Regression Result of DPS on Net Worth

| Banks | Variables | b. | SEE | T. Value | R ² |
|-------|--------------|----------|----------|----------|----------------|
| NABIL | NW | 0.599808 | 11.91145 | 2.772 | 0.826266 |
| | Constant (a) | -147.61 | | -0.142 | |
| SCBL | NW | 0.25114 | 31.88338 | -0.175 | 0.287465 |
| | Constant (a) | -15.0746 | | 1.049 | |
| HBL | NW | -0.34921 | 7.74219 | -0.005 | 0.35 |
| | Constant (a) | 105.1458 | | 0.842 | |
| NBB | NW | 0.00 | 0.00 | 0.00 | 0.00 |
| | Constant(a) | 0.00 | | 0.00 | |
| NSBI | NW | 0.069631 | 5.902895 | 0.581 | 0.052652 |
| | Constant(a) | -7.82227 | | 0.017 | |
| EB | NW | 0.096751 | 12.69572 | 1.235 | 0.166303 |
| | Constant(a) | -9.42655 | | 0.142 | |

The standard error of estimate (SEE) of NABIL, SCBL, HBL, NBB, NSBI and EB are 11.91145, 31.88338, 7.74219, 0.0000, 5.90289 and 12.69572 respectively which indicates the likely errors or predicated value of respective banks.

However, the value of co-efficient of multiple determinations (R²) indicates how much variation can be explained by concerned variable. NSBI is lowest (0.0526), then other joint venture banks. This indicates that only 5.26 percent in dividend variable is explained by net worth (i.e. 5.26%) variation is explained in DPS due to change in the net worth of this bank. NABIL's R² is 0.826266, which indicates that 82.62 percent variation is explained in DPS due to change in net worth. Similarly, the value of R² is, 0.28746, 0.35, 0.00 and 0.1663 for SCBL, HBL, NBB and EB respectively, which indicates that 28.74 percent, 35 percent and 16.63 percent variation is explained in DPS.

4.3 Major Findings

The major findings of research work are summarized below.

- The average earnings per share of the joint venture banks under study shows a positive result but coefficient of variation indicates that there is no consistency in EPS of joint venture banks. The coefficient of variation ranges from 10% to 41%. The highest mean of EPS Rs. 145.65 and lowest coefficient of variation is 10%.
- The average dividend per share shows that there is no regularity in dividend payment. SCBL has highest average of DPS Rs 92 with least coefficient of variation 35%. NSBI has lowest average of DPS with great variability.
- The analysis of dividend payout ratio also shows that DPR of banks are not stable. Among the joint venture banks, SCBL has highest dividend payout ratio i.e. 62% with least variation i.e. 26%. NSBI has lowest mean of dividend payout ratio around 12%.
- The average market price per share shows that there is quite high level of fluctuation. SCBL has higher average market price of share than other joint venture banks. MPPS of all joint venture banks seems positive trend.
- The average price earnings ratio of joint venture banks seems to be satisfactory. NSBI has higher P.E. ratio and NBB is lowest. It indicates that investors perceive that investment in NSBI is more worthy.
- The average earning yield of joint venture banks under study indicates that NBB has highest earning yield with great fluctuation where SCBL has moderate dividend yield with moderate variation.
- The average dividend yield of the joint venture banks under study indicates that NABIL has highest dividend yield with high variability.
- The DPS of NABIL is negatively correlated with MPPS and NP. Similarly DPR is negatively correlated with MPPS. DPS is highly correlated with EPS and NW.
- The DPS of SCBL is negatively correlated with MPPS and NP. Similarly DPR is negatively correlated with MPPS. DPS is highly correlated with EPS and NW.
- The DPS of HBL is positively correlated with EPS, MPPS and NP. But NW is negatively correlated. Similarly DPR is negatively related with MPPS.
- The DPS of NBB is none correlated with EPS, MPPS, NP. Similarly DPR is none correlated with MPPS. NBB has zero DPS.

- The DPS of NSBI is positively correlated with EPS, MPPS, NP and NW. But DPR is negatively correlated with MPPS.
- The DPS of EB is positively correlated with EPS, MPPS, NP and NW. Similarly DPR is positively related with MPPS.
- The regression analysis of DPS on EPS shows that regression coefficient 'b' is positive for joint venture banks.
- The regression analysis of DPS on MPPS shows that regression coefficient 'b' is positive for all joint venture banks except NABIL and SCBL.
- The regression analysis of DPS on NP shows that regression coefficient 'b' is positive for all joint venture banks except NABIL and SCBL.

Chapter 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

Paying dividend is taken as an important tool to attract new investors. Besides this dividend paying ability reflects the financial position of the organization in the market. Due to the division of earnings between dividend payout and retention ratio the market price of the share may also be affected which is also crucial for the organization. So, the funds that could not be used due to the lack of investment opportunities would be distributed as dividend since shareholders have investment opportunities elsewhere.

Dividend paying banks have been analyzed to show the implication of dividend behavior they have adopted in their market price per share. Now, in Nepal, only the banks that have made profit have paid dividend. Instability of dividend and inconsistent dividend payout ratio is the most applied phenomenon of joint venture banks in Nepal. But, only the banks promoted by foreigners are paying dividend more attractively than the banks promoted by indigenous promoters. However, dividend behavior is taking its path, slowly in Nepalese environment.

In analyzing the problem with the stated objectives in mind, this study has been of more descriptive nature. The study covers six joint venture banks (i.e. NABIL, HBL, SCBL, NBB, NSBI & EB) and only for the last five fiscal years from 2004/2005 to 2008/2009. The available secondary data has been analyzed using various financial and statistical

tools. So, the reliability of conclusion of this study is determined on the accuracy of secondary data.

The main statement of problem is that whether dividend is dependent upon net profit, Earnings per Share and Market Price per Share. In the light of financial analysis, following figures have been brought into picture:

- SCBL has highest mean of EPS i.e. Rs 145.65 whereas the NSBI has lowest mean of EPS i.e. Rs 27.084
- SCBL is market leader in paying the dividend to its investor with a mean of Rs 92 where as the NSBI has lowest dividend payer in this industry with a mean of 3.94.
- SCBL is paying most of its earnings as dividend i.e. 62.6%. It indicates in one hand that they have sound financial position on another hand they might not have enough good investment opportunities which can maximize shareholders wealth. NSBI is just paying 12.9% of earnings as a dividend.
- The SCBL is a market leader in banking industries with an average of Rs 4972 and least mean price is Rs. 459 for the NBB. NSBI share price average is Rs 1106.8, it shows increasing trend in recent years.
- SCBL has highest price earnings ratio indicating that investors want to pay more for its earnings where as NBB has lowest.
- NABIL has highest earnings yield as well as dividend yield.

From the statistical analysis, following facts are brought into picture:

- The regression coefficient of DPS on EPS is positive for all joint venture banks.
- The regression coefficient of DPS on MPPS is positive for all joint venture banks except NABIL and SCBL.
- The regression coefficient of DPS on NP is positive except NABIL and SCBL.
- The regression coefficient of DPS on NW is positive except HBL.

5.2 Conclusion

By the analysis of financial activities, it is noticed that only few joint venture banks have aggressive financing strategy with compared to conservative strategy of most of the commercial banks. In spite of this, there is no doubt that joint venture banks are the foundation of a national economy that banks are running at profit and providing dividend to shareholders according to their earnings. They also achieved the trust of common people, which is the great success of their performance. Yet much more is to be done than

this for the satisfaction of shareholders as well as overall growth of the national economy. To make the market efficient, Nepalese company should concentrate on paying cash dividend rather than issuing bonus or right shares. This will attract more individuals to invest in capital market as a result the capital market will become stronger.

Based on the major findings of the study, following results are drawn out:

- No consistent behavior of paying dividend is seen in all the joint venture banks, but the dividend is paid only when the profit is made. It is found that all the sample banks have paid dividends except NBB in the analysis period. No long-term dividend paying strategy or policy has been adopted by the sample banks.
- The dividend has increased with increase in earnings per share. Increase in market price per share of the sample banks has affected to have increase in dividend except NABIL and SCBL. The dividend of sample banks has increased with increase in net profit except NABIL and SCBL. The dividend has increased with increase in net worth except HBL.
- The relation between MPPS and DPS has produced mixed results. So, the dividend decision has no consistent impact on stock price of the sample banks.

5.3 Recommendations

Considering the major findings and conclusion of this study some recommendations are presented. It is hoped that these recommendations will certainly be proved as milestone to overcome existing issues in this field.

- There is no clear legal provision concerning dividend payment by joint venture banks. So, through appropriate legal provision, the government and Nepal Rastra Bank should compel the profit earning joint venture banks to distribute certain portion of their profit as dividend.
- Joint venture banks should have long-term vision regarding earnings and dividend payout ratio, which helps to cope with challenging competitive situation of present world. Banks should define their vision clearly considering their future plans, expansion of business and future economy of country. Considering various internal

and external factors, banks should choose whether to adopt stable dividend policy or constant payout ratio or leaving dividend as residual.

- There is inconsistency in dividend payment. The dividend is neither static nor growing. This may relate misconception about the organization regarding its financial position. Due to high degree of risk and uncertainly, the NSBI may be adversely affected. So the joint venture banks should follow either static or growing dividend payment policy.

- Issue of stock dividend decreases market value per share and earnings per share. But issue of cash dividend increases market value per share and earnings per share. So due to this reason common share holders should be given a choice whether they preferred stock dividend or cash dividend. Therefore, all the joint venture banks are suggested to take care regarding the interest of shareholders.

- While making dividend decision, a minor mistake may lead the bank to serious crisis. Due to this reason it is advised to adopt optimum dividend decision based on the following criteria:
 - Optimum retention for excellent expansion and modernization of bank.
 - Optimum dividend so as to maximize shareholders wealth through increase in net worth i.e. net present value of shareholders.
 - Stability or consistency in the dividend payout ratio.

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Annexure 1: Names of the Commercial Banks

1. Nepal Bank Limited
2. Rastriya Banijya Bank
3. Nabil Bank Limited
4. Nepal Investment Bank Limited
5. Standard Chartered Bank Nepal Limited
6. Himalayan Bank Limited
7. Nepal SBI Bank Limited
8. Nepal Bangladesh Bank Limited
9. Everest Bank Limited
10. Bank of Kathmandu Limited
11. Nepal Credit & Commerce Bank Limited
12. Lumbini Bank Limited
13. Nepal Industrial & Commercial Bank Limited
14. Machhapuchhre Bank Limited
15. Kumari Bank Limited
16. Laxmi Bank Limited
17. Siddhartha Bank Limited
18. Agriculture Development Bank Limited
19. Global Bank Limited
20. Citizens Bank International Limited
21. Prime Commercial Bank Limited
22. Bank of Asia Nepal Limited
23. Sunrise Bank Limited
24. DCBL Bank Limited
25. NMB Bank Limited
26. Kist Bank Limited
27. Janata Bank Nepal Limited
28. Mega Bank Nepal Limited
29. Commerce and Trust Bank Limited
30. Civil Bank Limited
31. Century Commercial Bank Limited

Annexure 2: Calculation Tables of Mean, Standard Deviation, Coefficient of Variance

Table-1 Earnings per Share of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | SBI | EB |
|-----------------|----------|----------|----------|----------|----------|----------|
| 2004/2005 | 105.49 | 143.14 | 47.91 | NA | 13.29 | 54.2 |
| 2005/2006 | 129.21 | 175.84 | 59.24 | NA | 18.27 | 62.8 |
| 2006/2007 | 137.08 | 167.37 | 60.66 | NA | 39.35 | 78.4 |
| 2007/2008 | 108.31 | 131.92 | 62.74 | 80.16 | 28.33 | 91.82 |
| 2008/2009 | 106.76 | 109.99 | 61.9 | 116.01 | 36.18 | 99.99 |
| Mean | 117.37 | 145.652 | 58.49 | 98.085 | 27.084 | 77.442 |
| Std. Deviation | 14.70085 | 26.69102 | 6.060083 | 25.34978 | 11.21055 | 19.17443 |
| Coef. Variation | 0.125252 | 0.183252 | 0.103609 | 0.258447 | 0.413918 | 0.247597 |

Table-2 Dividend per Share of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | SBI | EB |
|-----------------|----------|----------|----------|-----|----------|----------|
| 2004/2005 | 70 | 120 | 11.58 | 0 | 0 | 0 |
| 2005/2006 | 85 | 130 | 30 | 0 | 5 | 25 |
| 2006/2007 | 100 | 80 | 15 | 0 | 12.59 | 10 |
| 2007/2008 | 60 | 80 | 25 | 0 | 0 | 20 |
| 2008/2009 | 35 | 50 | 12 | 0 | 2.11 | 30 |
| Mean | 70 | 92 | 18.716 | 0 | 3.94 | 17 |
| Std. Deviation | 24.74874 | 32.71085 | 8.316446 | 0 | 5.252195 | 12.04159 |
| Coef. Variation | 0.353553 | 0.355553 | 0.44435 | 0 | 1.333044 | 0.708329 |

Table-3 Market Price per Share of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | SBI | EB |
|-----------------|----------|----------|----------|----------|----------|----------|
| 2004/2005 | 1505 | 2345 | 920 | 265 | 335 | 870 |
| 2005/2006 | 2240 | 3775 | 1100 | 199 | 612 | 1379 |
| 2006/2007 | 5050 | 5900 | 1740 | 550 | 1176 | 2430 |
| 2007/2008 | 5275 | 6830 | 1980 | 1001 | 1511 | 3132 |
| 2008/2009 | 4899 | 6010 | 1760 | 280 | 1900 | 2455 |
| Mean | 3793.8 | 4972 | 1500 | 459 | 1106.8 | 2053.2 |
| Std. Deviation | 1778.086 | 1852.345 | 461.5192 | 331.4068 | 639.8896 | 911.2819 |
| Coef. Variation | 0.468682 | 0.372555 | 0.307679 | 0.722019 | 0.578144 | 0.443835 |

Table-4 Dividend Payout Ratio of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | SBI | EB |
|-----------------|----------|----------|----------|-----|----------|----------|
| 2004/2005 | 66% | 84% | 24% | 0% | 0% | 0% |
| 2005/2006 | 66% | 74% | 51% | 0% | 27% | 40% |
| 2006/2007 | 73% | 48% | 25% | 0% | 32% | 13% |
| 2007/2008 | 55% | 61% | 40% | 0% | 0% | 22% |
| 2008/2009 | 33% | 46% | 20% | 0% | 6% | 30% |
| Mean | 0.584881 | 0.626 | 0.32 | 0 | 0.12966 | 0.21 |
| Std. Deviation | 0.156287 | 0.164256 | 0.130576 | 0 | 0.153818 | 0.153948 |
| Coef. Variation | 0.267212 | 0.26239 | 0.408049 | 0 | 1.186321 | 0.733086 |

Table-5 Net Income of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | SBI | EB |
|-----------------|----------|----------|----------|----------|----------|----------|
| 2004/2005 | 518.65 | 536.26 | 308.30 | 0.00 | 57.40 | 170.73 |
| 2005/2006 | 635.27 | 658.77 | 457.45 | 0.00 | 116.97 | 237.38 |
| 2006/2007 | 673.96 | 691.67 | 491.84 | 0.00 | 254.91 | 296.35 |
| 2007/2008 | 746.49 | 818.94 | 635.88 | 596.47 | 247.75 | 451.20 |
| 2008/2009 | 1031.03 | 1025.07 | 752.84 | 2158.13 | 316.40 | 638.76 |
| Mean | 721.08 | 746.142 | 529.262 | 550.92 | 198.686 | 358.884 |
| Std. Deviation | 191.8829 | 185.5747 | 170.8333 | 934.8445 | 107.3129 | 187.7022 |
| Coef. Variation | 0.266105 | 0.248712 | 0.322776 | 1.696879 | 0.540113 | 0.523016 |
| | | | | | | |

Table-6 Price Earnings Ratio of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | SBI | EB |
|-----------------|----------|----------|----------|----------|----------|----------|
| 2004/2005 | 14.27 | 16.38 | 19.20 | 0.00 | 25.21 | 16.00 |
| 2005/2006 | 17.34 | 21.47 | 18.57 | 0.00 | 33.49 | 22.00 |
| 2006/2007 | 36.84 | 35.25 | 28.69 | 0.00 | 29.89 | 31.00 |
| 2007/2008 | 48.70 | 51.77 | 31.56 | 12.49 | 53.34 | 34.11 |
| 2008/2009 | 45.89 | 54.64 | 28.43 | 2.41 | 52.52 | 24.55 |
| Mean | 32.608 | 35.902 | 25.29 | 2.98 | 38.89 | 25.532 |
| Std. Deviation | 15.98959 | 17.26791 | 5.978691 | 5.417707 | 13.15182 | 7.207279 |
| Coef. Variation | 0.490358 | 0.480973 | 0.236405 | 1.818023 | 0.33818 | 0.282284 |
| | | | | | | |

Table-7 Dividend Yield of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | SBI | EB |
|-----------------|----------|----------|----------|-------|----------|----------|
| 2004/2005 | 0.047 | 0.051 | 0.013 | 0.000 | 0.000 | 0.000 |
| 2005/2006 | 0.038 | 0.034 | 0.027 | 0.000 | 0.008 | 0.018 |
| 2006/2007 | 0.120 | 0.014 | 0.009 | 0.000 | 0.011 | 0.004 |
| 2007/2008 | 0.011 | 0.012 | 0.013 | 0.000 | 0.000 | 0.006 |
| 2008/2009 | 0.007 | 0.008 | 0.007 | 0.000 | 0.001 | 0.012 |
| Mean | 0.0446 | 0.0238 | 0.0138 | 0 | 0.004 | 0.008 |
| Std. Deviation | 0.04549 | 0.018226 | 0.007823 | 0 | 0.005148 | 0.007071 |
| Coef. Variation | 1.019945 | 0.765813 | 0.566887 | 0 | 1.286954 | 0.883883 |
| | | | | | | |

Table-8 Earnings Yield of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | SBI | EB |
|-----------------|----------|----------|----------|----------|----------|----------|
| 2004/2005 | 0.070 | 0.061 | 0.052 | 0.000 | 0.040 | 0.062 |
| 2005/2006 | 0.058 | 0.047 | 0.054 | 0.000 | 0.030 | 0.046 |
| 2006/2007 | 0.027 | 0.028 | 0.035 | 0.000 | 0.033 | 0.032 |
| 2007/2008 | 0.021 | 0.019 | 0.032 | 0.080 | 0.019 | 0.029 |
| 2008/2009 | 0.022 | 0.018 | 0.035 | 0.414 | 0.019 | 0.041 |
| Mean | 0.0396 | 0.0346 | 0.0416 | 0.0988 | 0.0282 | 0.042 |
| Std. Deviation | 0.022788 | 0.018796 | 0.010502 | 0.179575 | 0.009149 | 0.013096 |
| Coef. Variation | 0.575458 | 0.543245 | 0.252461 | 1.817561 | 0.324424 | 0.311805 |

Table -9 Net Worth of Joint Venture Banks

| Year | NABIL | SCBL | HBL | NBB | SBI | EB |
|-----------------|----------|----------|----------|----------|----------|----------|
| 2004/2005 | 337 | 422.38 | 239.59 | 32.52 | 159.54 | 219.87 |
| 2005/2006 | 381 | 468.22 | 228.72 | -217.03 | 151.78 | 217.67 |
| 2006/2007 | 418 | 512.12 | 264.74 | -364.47 | 178.04 | 292.75 |
| 2007/2008 | 354 | 401.52 | 247.95 | -294.51 | 160.57 | 321.77 |
| 2008/2009 | 324 | 327.53 | 256.52 | 59.79 | 194.68 | 313.64 |
| Mean | 362.8 | 426.354 | 247.504 | -156.74 | 168.922 | 273.14 |
| Std. Deviation | 37.506 | 69.83422 | 14.08933 | 192.6602 | 17.30779 | 50.75503 |
| Coef. Variation | 0.103379 | 0.163794 | 0.056926 | -1.22917 | 0.10246 | 0.185821 |