

**DIVIDEND POLICY AND ITS IMPACT ON MARKET PRICE  
OF SHARE OF COMMERCIAL BANKS  
(With reference to EBL, HBL, NIBL, SCBNL and NABIL)**

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**A Thesis Submitted to:  
Office of the Dean  
Faculty of Management  
Tribhuvan University**



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

**Kathmandu, Nepal  
March 2011**

# **RECOMMENDATION**

This is to certify that the thesis

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Entitled:

**DIVIDEND POLICY AND ITS IMPACT ON MARKET PRICE OF  
SHARE OF COMMERCIAL BANKS**

**(With Reference to EBL, HBL, NIBL, SCBNL and NABIL)**

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### **DIVIDEND POLICY AND ITS IMPACT ON MARKET PRICE OF SHARE OF COMMERCIAL BANKS**

**(With Reference to EBL, HBL, NIBL, SCBNL and NABIL)**

*And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of*

**Master of Business Studies (MBS)**

#### Viva-Voce Committee

Head, Research Department .....

Member (Thesis Supervisor) .....

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## DECLARATION

I hereby declare that the work reported in this thesis entitled “**Dividend Policy and Its Impact on Market Price of Share of Commercial Banks (With reference to EBL, HBL, NIBL, SCBNL and NABIL)**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Associate Prof. Achyut Raj Bhattarai** of Shanker Dev Campus, T.U.

.....

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## **ACKNOWLEDGEMENT**

I would like to express my hearty gratitude and sincere thanks to my thesis supervisor Asso. Prof. Achyut Raj Bhattarai of Shanker Dev Campus for his intellectual guidance and supervision with valuable comments and kinds support to me all the way through this thesis.

I would also like to thank Librarians of Shanker Dev Campus for providing necessary information and material for this thesis.

I offer my deepest gratitude to my parents for their support and help. I also express my Thanks to all my friends, well wishers and those individual who helped me in many ways provided me precious feedback and suggestions while conducting this study.

Thanking you

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## ABBREVIATIONS

|            |   |                                       |
|------------|---|---------------------------------------|
| a          | : | Regression Constant                   |
| AGM        | : | Annual General Meeting                |
| $b_1, b_2$ | : | Regression Coefficients               |
| C.V        | : | Coefficient of Variation              |
| DPR        | : | Dividend Payout Ratio                 |
| DPS        | : | Dividend per Share                    |
| DY         | : | Dividend Yield                        |
| EBL        | : | Everest Bank Limited                  |
| EPS        | : | Earning per share                     |
| EY         | : | Earning Yield                         |
| HBL        | : | Himalayan Bank Limited                |
| MPS        | : | Market price per share                |
| NIBL       | : | Nepal Arab Bank Limited               |
| P/E ratio  | : | Price/Earning Ratio                   |
| REPS       | : | Retained Earning per Share            |
| Rs.        | : | Nepalese Rupee                        |
| $r_{xy}$   | : | Coefficient of Correlation            |
| SCBNL      | : | Standard Chartered Bank Nepal Limited |
| SEE        | : | Standard Error of Estimate            |

# CHAPTER I

## INTRODUCTION

### 1.1 General Background:

The Corporate sector is excessively important for Nepal. The corporate sector has been accorded high priority in the process of planned economic development in Nepal. It has been recognized as a leading sector because the development of these sectors will lead to the development of all sector. Bank constitutes an important segment of the financial infrastructure of every country. Generally bank does the business of money. It is a financial organization whose principal operation are concerned with the accumulation of the temporary ideal money from the general public by attracting them with sound interest rate in their deposits and utilizing those funds by providing loans to different sector, e.g. business house, industries, firms, agriculture etc. for the economic development bank plays vital role in the history of any country.

In the history of Nepal, the real banking system started from the year 1994 B.S. with the establishment of Nepal bank limited in Kartik 30<sup>th</sup> ,1194 B.S. this was the first footstep of modern banking in Nepal. The establishment on Nepal Rastra Bank in the year 2013, 24<sup>th</sup> Baishakh as the Central bank of the country embarked in the banking history on Nepal. On 10<sup>th</sup> Magh 2022 B.S., the establishment of another Commercial Bank, Rastriya banijya bank gave new heights in the banking of Nepal.

The universal policies of paying substantial dividends are the primary puzzle in the economics of corporate finance (Feldsteintise and Green: 1983, 220). It is argued that providing a rational explanation for the widely practiced policy of paying dividends is among the central tasks of modern corporate finance theory (Hansen, Kumar and Shome: 1994, 220.). Miller and Modigliani (1961, 220) suggest that dividend policy has no effect on the value of corporation in a world without taxes, transaction costs or other market imperfections. Friend and pucket 1964, 221 find the dividends appear to enhance value of growth. Pradhan and Adhikari, 2002, 221 in their empirical study find that dividends have positive impact on shares prices, i.e. paying more dividends can increase share prices.

Despite the fact that only few companies are paying dividend. There is also growing practice of paying stock dividend among some Nepalese company. The annual report of S.B.N, shows out of 62 companies holding AGM in the fiscal year (2003/04) 30 companies declared both dividend and bonus share. The range of dividend declaration is 5 % to 100% and bonus share declaration is 10%, 50% share capitalization declaration is 10 to 25 percentages. Nepalese companies Act, 2063 section 47 has prohibited company from purchasing its won shares. It states that no company shall purchase its won share or supply loans against the security of its own shares.

In the content of Nepal, Most of public enterprises are operating in loss. In such situation it is not possible to distribution dividend. Such enterprises mainly focus on maximizing their loss there are few company who pay dividend. But after establishment of joint venture companies, there is a new trend of distributing dividends. Dividend distribution trend has not only attached the investors but has also made the management conscious about the policy regarding the payment of dividend there are several studies in the field of dividend and stock prices in the context of development capital market, their applicability is yet to be verified in the context of under development capital market lie that of Nepal. The present study, therefore attempts to assess the relationship between dividend and stock prices in the Nepalese context

## **1.1 Introduction of the Commercial Banks**

### **1.1.1 Everest Bank Limited (EBL)**

Everest bank limited was established on 2049 B.S. (1993 A.D.). It was listed in NEPSE in 25/12/2052 B.S. It is also the Joint venture Bank and the joint venture partner of the bank is Punjab National Bank Limited of India. The authorized capital is 750,000,000, issued capital is 465,000,000, and paid up capital is Rs. 455,000,000. The face value of share is Rs. 100 and no. of shareholders is 24222 respectively.

### **1.1.2 Himalayan Bank Limited (HBL)**

Himalayan Bank Limited is First Joint Venture Bank managed by Nepalese chief executive. It was established in 2048 B.S. (1992 A.D.). It was listed in NEPSE in 12/03/2050 B.S. Joint venture partner of this bank is Habib Bank Ltd. of Pakistan. The Authorized capital is Rs.1, 000,000,000, issued Capital is Rs. 650,000,000 and paid up capital is 429,000,000. The face value of a share is s.100 and no. of shareholders is 7210 respectively.

### **1.1.3 Nepal Investment Bank Limited.(NIBL)**

Nepal Investment Bank Limited.(NIBL), previously Nepal Indosuez Bank Ltd. was established in 1986 as a joint venture between Nepalese and French Partners. The French Partner (holding 50% of the capital of NIBL) was credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. It was acquired on April, 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The Authorized capital is Rs.4, 000,000,000, Issued Capital is Rs. 2,409,907,700 and Paid up capital is 2,407,068,900. The face value of a share is Rs.100.

#### **1.1.4 Standard Chartered Bank Nepal Limited.(SCBNL)**

SCBNL is the first Joint Venture Bank of Nepal. It was established in 2042 B.S. (1985 A.D.). It was listed in NEPSE in 21/03/2045 B.S. Standard Chartered Bank, England is managing the bank under Joint venture and technical service agreement signed between bank and Nepalese Promoters .The Authorized capital is Rs.399,548,800, Issued Capital is Rs. 399,548,800 and paid up capital is 399,548,800. The face value of a share is s.100 and no. of shareholders is 5037 respectively.

#### **1.1.5 NABIL Bank Limited (NABIL)**

NABIL is the first joint venture bank of Nepal. It was established in 2041 B.S.(1984AD.). it was listed in NEPSE on 08/09/2042BS. In the initial stage; Dubai bank Ltd.(DBL) invested fifty percent of equity share of NABIL. These share owned by DBL were transferred to Emirates Bank International Ltd(EBIL),Dubai Later, National Bank Limited Bangladesh(NBLB) purchased the entire holding of EBIL. Now, NABIL is managing the bank in accordance with the technical service agreement singed between both banks on June 1995. The authorized capital is Rs. 500,000,000, Issued capital is Rs. 491,654,400 and the paid up capital is Rs.491,654,400. The face value of share is Rs.100 and no. of shareholders is 5076 respectively.

## **1.2 Introduction of Dividend policy and Market price of Stock**

**1.1.1** The payment of portion of the profit to the shareholders is known as dividend. Dividends are paid in either cash or stock. Management may decide retaining earning as opposed to paid out as dividends. The process of paying at “what’s left” to shareholder is called dividend policy. Dividend policy is concerned with determined the proportion of firm’s earnings to be distributed in the form of the cash dividends and the portion of earnings to be retained. Dividend policy decision is yet crucial area of financial management. There are two major Schools of thought (relevant and irrelevant theory) among

financials scholars regarding the effect of dividend policy has on firm's value. The underlying goals of this chapter are to examine these theories of dividend.

1.1.2

1.1.3 Market price of stock (MPS) is the trading price of the stock listed in authorized or legal stock exchanges. It is that value of stock which can be obtained by a firm from the market. MPS is one of the variables, which is affected by dividend per share (DPS) and earning per share (EPS) of the firm. If the EPS and DPS are high the MPS will also be high. Market value of the share may be high low than the book value. If the firm is a growing concern and its earning power is greater than the cost of capital the market value of the share will be higher than the book value and vice-versa. Therefore MPS is determined by the various factors of capital market, adequate information and other variable also causes of market prices of stock to fluctuate scheme of dividend payment is also one of those variables. So, dividend pay and MPS has a correlation. If company pays high dividend then the MPS will increase and vice-verse.

### **1.1.4 1.3 Focus of the Study**

1.1.5 Dividend decision involves a trade off between the retained earnings and issuing new shares. It is essential to separate the effect of dividend changes from the effect of investment and financing decisions. Do changes in dividend policy alone affect the value of firm? What factors are important in formulating a dividend policy in practice? No investors would invest in stock without having knowledge of the firm and its dividend policy. Therefore the focus of study is to examine the scheme of dividend payment of Nepalese companies and how other factors play a role in maximizing the value of the firm. Moreover the study also stresses on the determination of importance of payment of dividend from the retaining earning to the company in the context of Nepal.

## **1.4 Statement of the Problem**

Dividend decision is still a fundamental as well as controversial area of managerial finance. The effect of dividend policy on a corporation's market value (or market value of share) is a subject of long standing argument. But still there is no single conclusive result regarding the relationship between the dividend payment and market price of the share.

Many empirical studies have been carried out in developed capital market to analyze the relationship between dividend and stock prices. For example in the world with no taxes, Modigliani and Miller (1958) suggest that dividend has no effect on shareholders wealth. Gordon (1962) and Lintner (1962) argued that dividend policy affected stock price as well as required rate of return. Friend and Puckett (1964) concluded that management might be able to increase stock prices in non-growth industries by raising dividends and in growth industries by greater retention. Further more, Elton and Gruber (1970) argued that effect of dividend is complicated by clientele effects. The marginal tax brackets impact on security prices are negatively related to dividend yield. Black and Scholes (1974) tested for relationship between security dividend yield and they concluded that dividend yield had no effect on security returns. Desai (1965) estimated relationship among share price, dividend and retaining earning and found that the coefficient of retained earning was insignificant. Sarkar (1971) using time series data studied the share price behavior and concluded that the

retained earning had no effect on share price. Chawla and Srinivasan(1987) studied the impact of dividend and retention of share price of the Indian chemical industries and conducted that dividend and retained earnings significantly explained the variations in the stock prices. However, no simple and conclusive relationship exists between the amount paid out in dividend and the market price of share. There is still a considerable controversy concerning the relation between dividends and common stock prices.

There are these findings in the context of developed and big capital market. Then applicability is yet to be seen in the context of underdeveloped capital market. The study of dividend and stock prices high revealed that the relationship between dividend as per and stock price is positive and dividend per share affect the share price variedly in different sectors. However the question arises as to what extend there finding are still in the present context.

The capital market is an important part of corporate development of a country. Even if a capital market is in the early stage of development in Nepal. Dividend is the most inspiring aspect for the investment in the shares of various companies for an investor. If dividend affect the firms value unless management unknown exactly how they affect value there is not much that they can do to increase the shareholder's health. So, it is necessary for the management to understand how the dividend policy effects the market valuation of the firm or market price of the stock.

**The following issues are to be resolved in this study:**

1. Does dividend affect MPS of commercial banks?
2. What is the dividend policy used by the commercial banks?
3. What is the relationship between MPS with other indicators such as EPS, DPS, DPR, DY and EY?
4. What is the elasticity of dividends or retaining earning with respect to the market price per share?
5. Whether dividend or retained earnings are more attractive among?

### **1.5 Objective of the Study**

The major objective of the study is to obtain in-depth knowledge about the impact of dividend policy adopted by the firm to its market price of share as well as the overall valuation of the firm some of the important objectives of the study can be listed as follows:

- I. To see the effect of dividend in MPS of commercial banks.
- II. To see the dividend practice used by the commercial banks.
- III. To see the relationship between MPS with other financial variables such as EPS, DPS, DPR and DY.
- IV. To see whether dividends or retained earnings are more attractive among Nepalese stockholders.

### **1.6 Importance of the Study**

It is therefore, important to maintain a balance between shareholders interest with that of corporate growth from internally generated fund which is achieved by the study. Between dividends and value of stock there is still unresolved issue in their relationships. Appropriate relationships between them help all stockholders for the achieving their targets. By analyzing the scheme of dividend payment newly investors decide to choose whether they invest their capital for purchasing the share or not. The study is also useful for the management to take the decision that maximizes the value of the firms by analyzing the relationship between MPS and other financial indicators. The financial analyst or researcher will also have some idea from this study for further research. Finally, the study should also be helpful for the government especially in policy making, controlling supervisions monitoring.

### **1.7 Limitation of the study**

There are couple of limitations, which weaken the generalization e.g. in adequate coverage of industries, time period taken, reliability of statistical tools used and other variables, which are not included in the study, but still they have considerable, influence on the variation in stock prices. The present study has been following study.

This study is based specially on secondary data like annual reports of the bonus under review, journals, unpublished as well as published thesis works, other published article and report and related material from various websites and primary data survey by distributing questionnaires related as objective

1. The study is based on the available of secondary data as well as primary data which is collected by distributing questionnaires.
2. This study only deals the factors relating to cash dividends and stock dividend is considered.
3. The study covers only the banking sector.
4. This study covers only the period ten years, i.e. FY 1999/2000 to 2008/2009 of EBL, HBL and NIBL but the study covers nine years of SCBNL and seven years of NABIL.

### **1.8 Organization of the Study**

This study has been organized into five chapters, each devoted to some aspect of the study of scheme of dividend payment and its impact on market price of stock in selected company. The titles of each of these chapters are as follows:

|               |   |
|---------------|---|
| Chapter one   | : Introduction                              |
| Chapter two   | : Literature Review                         |
| Chapter three | : Research methodology                      |
| Chapter four  | : Presentation and analysis of data         |
| Chapter five  | : Summary, conclusion and<br>Recommendation |

Chapter one: - Contains the introduction part of the study. As already mentioned this chapter describes the major issues to be investigated along with the objectives and scope of the study.

Chapter two: - Is devoted the theoretical analysis and brief review of related and pertinent literature on dividend policy and its impact on share price. It includes a discussion on the conceptual framework of dividend policy and review of related to well-developed capital market as well as Nepal.

Chapter three: - Describes the research methodology employed in the study. This chapter deals with the natures and source of data list of the selected companies, method of analysis and meaning of statistical tools and financial tools.

Chapter four: - Deals with presentation of analysis of secondary data to indicate quantitative and qualitative facts of impact of dividend policy on the market price of shares .

## **CHAPTER II**

### **REVIEW OF LITERATURE**

This chapter deals with theoretical aspect on “dividend policy and its impact on market price of share” in descriptive manner. Various books, journals, and articles, thesis of seniors, some research reports related with the topic have been reviewed in this chapter.

The study is divided into three parts:

1. conceptual review
2. Review from journals and
3. Review from thesis

#### **2.1 Conceptual Review**

Companies that earn profit can decide either of these ways: pay that profit out to shareholders; reinvest it in the business through expansion, debt reduction or share repurchase, or both. When a portion of the profit is paid out to the shareholders, the payment is known as dividend. Dividends are paid in either cash or stock. Dividend policy involves the decision to pay out earnings versus retaining them for reinvestment in the firm. Any change in the dividend policy has both favorable and unfavorable effects on firm's stock price. Higher dividends mean higher 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 price.

Management may decide retaining earning as opposed to paid out as dividends. The process of paying at “what is left” to shareholders is called dividend policy. The dividend decision is regarded as a financing decision since any cash dividend paid reduces the amount by the firm. Dividends are periodic cash payment by the company to its shareholders. The dividend on equity shares is payable at the discretion of the board of director of the company the shareholders have not right to declare more dividend than what has been recommended by the board of directors.

“Dividend policy is concerned with determining the proportion of firm’s earnings to be distributed in the form of cash dividend and the portion of earning to be retained”. (Paudel, Baral, Gautam, Rana : 2010 : 295)

“Dividend policy decision is yet crucial arda5ea of financial management. There are two major schools of thought (Relevant and irrelevant theory) among finance scholars regarding the effects of dividend policy has on a firm’s value. The underlying goal of this chapter is to examine these theories of dividend”.(Shrestha,Dhakal, Thapa, Koirala,Basnet:2010:7).

“Dividend Policy determines the division of earnings between payments to Stockholders and re-investment in the firm. Retained earnings are one of the most significant sources of the funds for financing c.orporate growth, but dividends constitute the cash flows the accrue to stockholders” (Weston and Copeland:657)

### **2.1.1 Factors affecting dividend policy**

Many considerations may affect a firm’s decision about its dividend, some of them are unique to that company, and some of more general considerations are given subsequently. They are as follows (gautam, 2009:337-338)

#### **1. Size of the earning**

A firm that has high level of earning will pay of large portions of its earning a dividend to shareholders\ and small size of earning will pay a smaller portion of its earnings of profit to shareholders.

#### **2. Liquidity position**

The cash or liquidity position of the firm influences is 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, company must have adequate cash dividend as well as retained earnings to pay dividend.

### **3. Legal rules**

Certain legal rules may limit the amount of dividends a firm may pay. These legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividend. The second type of legal restrictions is unique to each firm and a result from restrictions in debt and preferred stock contracts.

### **3. Desire of shareholders**

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

### **4. Need to repay debt**

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

### **5. 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 or only when net working capital is above a specified amount. Also preferred dividends take precedence to common stock dividends.

### **6. Rate of assets expansion**

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

## **7. 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.

## **8. Stability of earnings**

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

## **10. Tax position of shareholders**

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

## **11. Control**

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

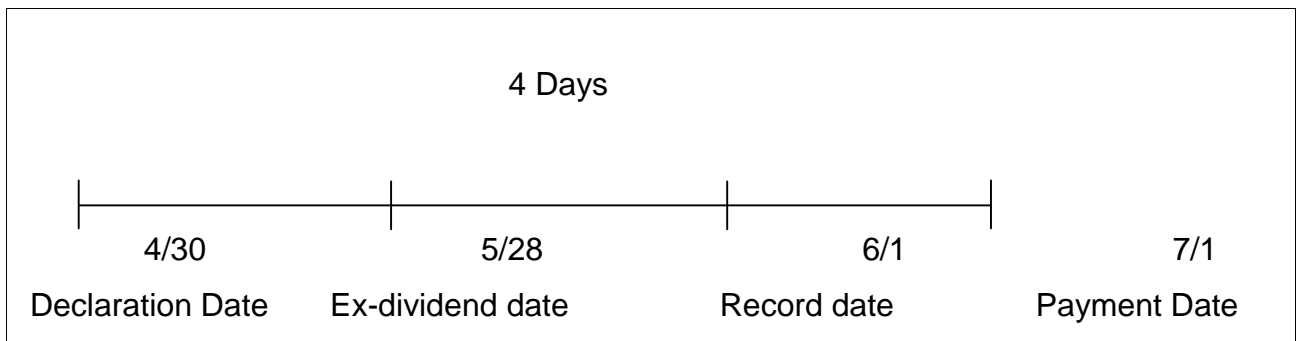
## **12. Access to the capital marker**

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

### **2.1.2 Payment Procedure**

The dividend payment procedures on behalf of a corporate firm can be given below

1. **Declaration Date:** This is the day on which the board of directors declares the dividend. At this time they set the amount of the dividend to be paid, the holder-of-record date, and the payment date. Generally, the dividend is announced as a percentage of the par value of the stock. However, in some cases, it can be the absolute amount of Rs.4 Dividend per share. For Example on April 30, 1999, ABC, declared its regular dividend of Rs. 0.50 per share, payable on July 1 to holders of record on June 1
  
2. **Holder of record date:** This is the date; the company opens the ownership books to determine who will receive the dividend. So, for example if ABC is notified before June 1 of the sale and transfer of ownership of some stock, the new owner will receive the dividend: otherwise, the old owner will receive it.
  
3. **Ex-dividend date:** This date is four days prior to the record date. Shares purchased after the ex-dividend date are not entitled to the dividend. In the case of ABC, the ex-dividend date is May 28 because June 1 is a Friday. Therefore, in order to receive the Rs. 0.50 dividend, a new investor must purchase the stock before May 28. On May 28, the stock is said to sell ex-dividend.



July 1, ABC's payment date, the firm mails out the dividend checks

|                    |                |                |                |
|--------------------|----------------|----------------|----------------|
| Thursday, April 30 | Monday, May 28 | Friday, June 1 | Friday, July 1 |
|--------------------|----------------|----------------|----------------|

Declaration date   Ex-dividend date   Holder-of-record   Payment date

1. **Declaration date:** ABC's board of Directors declares a dividend of Rs. 0.50 on April 30, 1999.
2. **Record date:** The dividend is paid to shareholders of record on June 1, 1999.
3. **Ex-dividend date:** The dividend is attached to the stock until the ex-dividend date May 28, 1999 (four business days before the holder-of-record date) after which date it stays with seller.
4. **Payment date:** On July 1, ABC mails dividend checks to its shareholders.

(Gautam : Thapa : 2008: 336-337)

### 2.1.3 Dividend payout schemes

Stability or regularity of dividends is considered as a also desirable policy by the management of companies. Most of the shareholders prefer stable dividends because all other things being the same, stable dividends have positive impact on the market price of the share. By stability, it maintains its position in relation to a trend line preferably one that is upward sloping. Three of the commonly used dividend policies are:

#### 1. **Constant dividend per share:**

Constant dividend per share is based on the payment of a fixed rupee dividend in each period. A number of companies follow the policy of paying fixed amount per share as dividend every period, without considering the fluctuation in the earnings of the company. This policy does not imply that the dividend per share or dividend rate will never be increased. When the company reaches new level of earnings and expects to maintain in the annual dividend per share may be increased. Investors who have dividends as the only source of their income prefer the constant dividend policy,

#### 2. **Constant Payout ratio**

The ratio of dividend to earning is known as Dividend payout ratio. When fixed percentage of earnings is paid as dividend in every period, the policy is called constant payout ratio. For e.g., if dividend payout ratio is 50 percent, firm

always pays 50 percent of its annual earnings as dividend. Since earnings fluctuate, following this policy necessarily means that the rupee amount of dividends will fluctuate. It ensures that dividends are paid when profits are earned, and avoided when it incurs losses.

### **3 Low Regular Dividend plus Extra**

The policy of paying a low regular dividend plus extras is a compromise between a stable dividend (or stable growth rate) and constant payout rate. Such a policy gives the firm flexibility, yet investors can count on receiving at least a minimum dividend. It is often followed by firms with relatively volatile earnings from year to year. The low regular dividend can usually be maintained even when earnings decline and extra dividend can be paid when excess funds are available.

(Gautam : Thapa : 2008: 338-340)

#### **2.1.4 Forms of dividend**

##### **1. Cash Dividend**

Cash dividend is the dividend, which is distributed to the shareholders in cash out of the earnings of the company. When cash dividend is distributed both total assets and net worth of the company decrease cash and earnings decrease. The market price of the share drops in the most cases by the amount of the cash dividend distributed. The market price after cash dividend is calculated as follows:

$$\begin{aligned} &\text{Market price per share after cash dividend} \\ &= \text{Market price per share before cash dividend} - \text{Dividend per share} \end{aligned}$$

##### **2. 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. Under stock dividend, stockholders receive additional shares of the company in lieu of cash dividends. Stock dividend

requires an the accounting entry transfer from the retained earnings account to the common stock and paid in capital accounts.

**Rupees transferred from retained earnings**

$$= \text{No. of the outstanding} \times \text{percentage of stock dividend} \times \text{Market price of stock}$$

Stock dividend increase the share held, but the proportion of the company each stockholder owns remains the same. In other words, if a stockholder has a two percent interest in the company before a stock dividend, he / she will continue to have a two percent interest after the stock dividend. Market price of share and earnings per share after stock dividend will decrease. Market price after stock dividend is calculated as follow:

**Market price per share after stock dividend**

$$= \frac{\text{Stock price before stock dividend}}{1 + \text{Stock dividend in fraction}}$$

A company may option for a number of reasons including inadequate cash on hand or a desire to lower the price of the stock on a per share basis to prompt more trading and increase liquidity (i.e. how fast an investor can turn his holdings into cash). Firms often use stock dividends in place of cash dividends if they are retaining money for growth. This sends positive information to investors.

(Gautam : Thapa : 2008: 341-342)

**3. Stock split**

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

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

Some companies believe that their stock should be inexpensive so some people can buy it. Thus creates a condition, where more of the company's stock is bought and sold (i.e. increased liquidity).

#### **4. Reverse split**

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

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

#### **5. Repurchase of stock**

When a company wants to pay cash to its stockholders, it usually declares a cash dividend. But an alternative method is for the firm to repurchase its own stock. In a stock repurchase, the company pays cash to repurchase shares from its shareholders. These shares are usually kept in the company's treasury and the resold if or when the company needs money.

Stock repurchase is a method, in which a firm buys back shares of its own stock, thereby decreasing shares outstanding increasing EPS, and often increasing the price of the stock. Stock repurchases are alternatives to cash dividends for transmitting cash to stockholders. Stock repurchase by the issuing firm is called treasury stock or acquire stock. Treasury stick does not

pay dividend and has no voting rights. Total treasury stock can not exceed five percent of total capitalization.

Firms also repurchase their stock if the stock price is low. The market often sees stock repurchases as a signal of future prosperity. Stock repurchases may be used for employee stock options. Stock repurchases reduces the possibility of being taken over by another firm. Stock repurchases also used to retire the stocks.

Stocks repurchases may tax benefit for certain shareholders sells the stock to the company, they receive capital gains and it is taxed at capital gain tax rate and capital gain tax rate is lower than the ordinary tax rate. Therefore, the shareholders who sell their shares would gain and the other who continues to hold would lose.

Repurchase price or equilibrium price is the price that brings capital gain equal to the cash dividend. Share price for repurchase or the equilibrium price is calculated from the following equation:

$$\text{Repurchase price (P}^*) = \frac{s^* pc}{s - n}$$

Where,

S = Total number of shares outstanding

Pc = Current market price per share

N = number of share to be purchased

Alternatively,

$$\text{Repurchase price (P}^*) = \frac{\text{Market price before stock repurchases}}{1 - \text{Stock repurchase in fraction}}$$

(Gautam : Thapa : 2008: 343-346)

## **2.1.5 Empirical Testing and Implication**

Most of empirical testing has concentrated on tax effect and on financial signaling (Van Horne). This is not to say that such things as flotation costs, transaction on the cost, institutional restrictions and preference for dividends have no effect. Empirical testing has taken several forms.

### **1. Ex-Dividend Days**

Investors buying the stock before the ex-dividend day are entitled to the dividend. In a non -taxable world, the stock should drop in value by the amount of the dividend on the ex-dividend day taxes should be paid. In contrast, buying the stock on ex-dividend day, investors should not pay taxes on dividend. Since there is no dividend and price movement presumably is subject only to capital gains tax.

In a sample of companies, Elton and Goruber (1970) found that on average a stock declined by 0.78 of the dividends on the ex-dividend date. They interpreted this result as consistent with a clientele effect where investors in high tax bracket show preferences for capital gains over dividend and vice – versa. (Van Horne: 2002: 318)

### **2. Dividend Yield Approach**

A second approach is to study the relationship between dividend yield and stock returns, where other influences on returns are isolated. If higher dividend yielding stock provides higher return to investors, this would be constant with negative effect of dividends on value Overall, however there not evidences of significant relationship between stock return and dividend yield (Black and Scholes 1974). The main weakness of relationship is consistent with dividend neutrality. (Van Horne: 2002: 318)

### **3. Financing Signaling Studies**

One of the different methodologies to test for a financial signaling is an event study where daily share price changes relative to the market are analyzed around the announcement of a dividend change. A number of studies report finding consistent with a dividend announcement effect: increase in-dividend leading to positive excess returns (Aharony and Swary: 1980). The effect seems to be more pronounced for companies that previously over invested free cash flow in projects with returns less than what the financial market require. The signaling effect is particularly pronounced for companies that initiate dividends for the first time or after a long hiatus (positive share effect) and for companies that omit dividends (negative effects). (Van Horne: 2002: 318)

#### **2.1.6 Implication for Corporate Policy**

In recent years the evidence is largely consistent with dividend neutrality. No study of recent vintage supports a positive effect. Most empirical studies have suggested that dividend convey information and that is signaling effects. Almost everyone has agreed that if a company does not have sufficiently profitable investment opportunities, it would distribute any excess to its stockholders. For the firm to be justified in paying a dividend large than that predicated by the amount left over after profitable investment opportunities there must be a net preference for dividends on the market. It is difficult to reach the bottom line. There does appear to be some positive value associated with a modest dividend as opposed to none at all. This occurrence may be due to institutional restrictions and signaling effect. (Van Horne: 2002: 319)

#### **2.1.7 Legal Provision Regarding Dividend Practices in Nepal**

The security Exchange act 1983/1984 had empowered to the stock exchanges center to bear responsibility to take required action to protect shareholder's interest. Though, there was not any clear legal provision in Nepal company act regarding dividend policies in past days. The stock exchange center could not be able to protect the shareholders interest

because of the attitude of firm's board of directors play important roles in management to public limited companies. Nepal company Act-1997 has made some legal provisions that are presented as below:

1. Section 2(m): status that bonus shares means share issued in the form of additional shares of shareholders by capitalizing the surplus from the profits or reserve fund of a company. The term also denotes an increase capitalizing surplus or reserve funds.
2. Section 47: has prohibited company from purchasing its own share. This section states that no company shall purchases it own share or supply loan against the security of its own shares.
3. Section 137: Bonus share and sub-section 1 state that the company informs the office before issuing bonus shares under sub-section1. This may be done only according to a special resolution passed by the general meeting.
  - Subsection -1: Except in the following circumstances dividends shall be distributed among the shareholders within 45 days from the date of decision to distribute them.
    - a. Increase any low forbids the distributions of dividend.
    - b. Increase the right to dividend is disputed.
    - c. Increase dividends cannot be distributed with in time limit mentioned above owing to circumstances beyond anyone control and without any fault on part of company.
  - Subsection 2: Increased dividends are not distributed within the time limit mentioned in subsection-1. This shall be done by adding interest at the prescribed rate.

- Subsection 3: Only the person whose name stands registered in the registers of existing shareholders at the time of declaring the dividend shall be entitled to it.

The above indicates that Nepalese law prohibits repurchase of stock which is against the theory of finance. The reason for this kind of provision is not known yet. The above explanation of Nepalese company Act 1997 is not enough regarding dividend policy.

## 2.2 Review of Journals

This section is devoted to the review of the major studies in general concerning dividends and stock prices, management on stock dividend. This study draws heavily from there studies to carry it out.

### 2.2.1 Linter's study

John Linter (1956) made an important study on corporate dividend policy in the America context. He investigated a partial adjustment model as he tested the dividend patterns of 28 companies. According to J.Linter, dividend is function of earnings of that year, existing dividend rate target payout ratio and speed of adjustment. The following were the basic objectives of the study.

1. To identify occasions when a change in dividends might well have active considerations even through no change was made.
2. To determine the factors which existed most activity into dividend?

He concluded that a major portion of a firm's dividend could be expressed in the following manner.

$$DIV_1^* = EPS_1 \dots\dots\dots(1)$$

$$\text{And } DIV_t - DIV_{t-1} = a + b (DIV_t^* - DIV_{t-1}) + e_t \dots\dots\dots (2)$$

Adding  $DIV_{t-1}$  on both side of equation 2,

$$DIV_t = a + b DIV_t^* + (1-b) DIV_{t-1} + e_t \dots\dots\dots (3)$$

Where,

|           |   |
|-----------|---|
| $DIV_1^*$ | = Firm's desired payment  |
| $EPS_1$   | = Earnings  |
| a         | = Constant relation in dividend growth  |
| b         | = Adjustment factor relating in the previous period's<br>Dividend and new desired level of dividends where, $b < 1$ |

The major findings of this study were as follows:

1. Firms generally think in terms of proportion of earnings to be paid out.
2. Investments requirements are not considered for modifying the pattern of dividend behavior. Firms generally have target payout ratio in view while determining change in dividend per share (or dividend rate).

### 2.2.2 Modigliani and miller position (2002)

Miller and Modigliani have propounded the MM hypothesis to explain the irrelevance of a firm's dividend policy. This model was based on a few assumptions, sidelined the importance of the dividend policy and its effect on the share price of the firm. According to the model, it is only the firm's investment policy that will have an impact on the share value of the firm and hence should be given more importance. The assumptions of this model are:

- ❖ The essence of a perfect market is that all investors are rational. In perfect market condition there is easy access to information and the flotation and the transaction costs do not exist. The securities are infinitely divisible and hence no single investor is large enough to influence the share value.
- ❖ It is neither a constant dividend policy of the firm, which will not change risk complexion nor the rate of return even in cases where the investments are funded by the retained earnings.
- ❖ It is assumed that there are no taxes, implying that there are no differential tax rates for the dividend incomes and the capital gains.
- ❖ It was also assumed that the investors are able to forecast the future earnings. The dividends and share value of the firm with certainty. This assumption was however, dropped out the model.

### Dividend versus Terminal Value (2002)

Based on these assumptions and using the process of arbitrage Miller and Modigliani have explained the irrelevance of the dividend policy. The process of arbitrage balances or completely offsets two transactions, which are entered into simultaneously. Arbitrage can be applied to the investment function of the firm. As mentioned earlier, Firms have two options for utilizing its after tax profits (i) to retain the earnings and plough back for investment purposes (ii) distribute the earnings as cash dividends. If the firm selects the second option and declares dividend then it will have to raise capital for financing its investment decision by selling new shares. Here, the arbitrage will neutralize the increase in the share value due to the cash dividends by issue of additional shares. This makes the investor indifferent to the dividend earnings and the capital gains since the share value of the firm depends more on the future earnings of the firm, than on its dividend policy. Thus if there are two firms having similar risk and return profiles the market value of their shares will be similar in spite of different payout ratios.

In the first step the market price of the shares is equal to the sum of the present values of the dividend paid and the market price at the end of the period.

$$P_0 = \frac{1}{(1 + K_s)} (D_1 + P_1)$$

Where,

$P_0$  = current market price of the share

$P_1$  = market price of the share at the end of the period (t=1)

$D_1$  = Dividend to be paid at the end of the period (t=1)

$K_s$  = cost of equity capital.

Assume that n is the number of shares of record at the time 0 and that m is the number of new shares sold at time t at a price of  $P_1$ , the equation is 9.7 then can be rewritten as

$$nP_0 = \frac{1}{(1 + K_s)} [nD_1 + (n + m)p_1 - mp_1]$$

Where,

$n$  = number of shares outstanding and  $m$  is the number of new shares to be issued. If the firm finances its investment decisions by raising additional capitals issuing new shares  $n_1$  at the end of period  $(t-1)$ , then the capitalized value of the firm will be the sum of the dividends received at the end of the period and the value of the total outstanding shares at the end of the period less the value of the new shares, remains as it is. The total amount of new stock issued is

$$m P_1 = I - (X - n D_1)$$

Where,  $I$  is the total new investments during period 1 and  $X$  is the new profit of the firm for the period. (Gautam : Thapa : 2008 : 348-350)

### **Financing/ dividend forgone indifference:**

The total amount of financing by the sale of new stock is found by the amount of investment in period 1 not financed by the retained earnings. By substituting equation 9.9 into equation 9.8, MM finds that

$$nP_o = \frac{1}{(1 + K_s)} [(n + m)P_1 - I + X]$$

MM conclude that the current value of the firm is independent of its current dividend decision. The gain by stockholders in increased dividends is offset exactly by the decline in the terminal value of the stock. MM show that the  $nP_o$  is unaffected not only by current dividend decisions but by future dividend decision as well. Thus, the stockholders are indifferent between retention and the payment of dividends in all future periods and stockholders wealth is unaffected by current and future dividend decisions. (Gautam : Thapa : 2008 : 350)

### **2.2.3 Walter Model**

This approach was developed by James E. Walter in 1963. Similar to the traditional approach, the dividend policy given by the James E. Walter also considers that dividends are relevant and they do affect the share price. In this model he studied the relationship between the internal rate of return ( $r$ )

and the cost of capital of the firm ( $k$ ), to give a dividend policy that maximizes the shareholders wealth. The model studies the relevance of the dividend policy in three situations.

| Firms   | Nature  | Optimal Payout Ratio   |
|---------|---------|------------------------|
| Growth  | $r > k$ | 0%                     |
| Normal  | $r = k$ | DPR doesn't affect MPS |
| Decline | $r < k$ | 100%                   |

According to the Walter model, when the return on investment is more than the cost of equity capital, the firm can retain the earnings, since it has better and more profitable investment opportunities than the investors. It implies that the returns the investor gets when the company re-invests the earnings will be greater than what they earn by investing the dividend income.

Firms which have their  $r > k_e$  are the growth firms and the dividend policy that suits is the one which has a zero pay-out ratio. This policy will enhance the value of the firm.

In the second case, the return on investment is less than cost of equity capital and in such situation the investor will have a better opportunity than the firm. This suggests a dividend policy of 100% payout. This policy of the full payout ratio will maximize the value of the firm.

Finally, when the firm has a rate of return that is equal to the cost of equity capital, the firm's dividend policy will not affect the value of the firm. The optimum dividend policy for such firm will range between 0% to 100% payout ratios, since the value of the firm will remain constant in all the cases.

**Assumption:**

The relevance of the dividend policy as explained by the Walter's model is based on a few assumptions, which are as follows,

1. The company finances all its investments through retain earnings. It means there is no issue of debt or equity.
2. The company's rate of Return (r) and its cost of capital (k) will remain constant. Thus additional investments made by the firms will change its risk and return profiles.
3. Firm has an infinite life.
4. For a given value of a firm, the dividend per share and the earnings per share remain constant. According to Walter, the market price of share is taken as the sum of the present value of the future cash dividend and capital gains. His formula is based on the share valuation model and is arrived at in the following manner.
5. The company finances all its investments through retain earnings. It means there is no issue of debt of equity.
6. The company's rate of return ® and its cost of capital (k) will remain constant. Thus additional investments made by the firms will not change its risk and return profiles.
7. Firm has an infinite life.
8. For a given value of firm, the dividend per share and the earning per share remain constant.

According to welter, the market price of share is taken as the sum of the present value of the future cash dividend and capital gains. His formula is based on the share valuation model and arrived at in following manner

$$P_0 = \frac{DPS}{K_s - g}$$

$$K_s = \frac{DPS}{P_0} + g$$

Since,  $g = \frac{\Delta P}{P_0}$

We have,

$$K_s = \frac{DPS}{P_o} + \frac{\Delta P}{P_o}$$

$$\Delta P = \frac{r}{K_s}(EPS - DPS)$$

Substituting the value of  $\Delta P$ , we have,

$$K_s = \frac{DPS + \frac{r}{K_s}(EPS - DPS)}{P_o}$$

$$P_o = \frac{DPS + \frac{r}{K_s}(EPS - DPS)}{K_s}$$

Where,

$P_o$  = market price per share

DPS = Dividend per share

EPS = Earning per share

$r$  = Internal rate of return

$k_s$  = Cost of equity capital

$g$  = growth rate of earnings

### Limitations

Most of the limitations for this model arise due to the assumption made. They are:-

1. The first assumption of exclusive financing by retaining earnings makes the model suitable for all the equity firms.
2. Secondly, Walter assumes the return on investments to be constant. This again will not be true for firms making high investments.
3. Finally, Walter model on dividend policy ignores business risk of firm which has a direct impact on value of firm. Thus,  $k$  cannot be assumed to be constant. (Gautam : Thapa : 2008 : 352-354)

#### 2.2.4 Gordon's Model

This approach was developed by Myron Gordon in 1962. Gordon uses the dividend capitalization approach to study the effect of the firm's dividend policy on the stock price. This model is based on the number of assumption, mostly same as that of Walter's model.

##### **Assumption**

The following are the assumption based on which Gordon based the dividend policy model for the firms:

1. The firm will be as all-equity firms with the new investment proposals being financed solely by the retained earnings.
2. Return on investment( $r$ ) and the cost of capital equity ( $K_s$ ) remain constant.
3. Firm has an infinite life.
4. The retention ratio remains constant and hence the growth rate also is constant ( $g=br$ ).
5.  $K > br$ , i.e. the cost of capital is greater than the growth rate.

Gordon model assumes that the investors are rational and risk averse. They prefer certain returns to uncertain returns and thus put premium to the certain returns and discount the uncertain returns. Thus, investors would prefer current dividends and avoid risk. Retain earnings involve risk and so the investor discounts the future dividends. The risk will also affect the stock value.

Gordon explains this preference for current income by the bird-in-hand argument. Since the bird-in-hand is worth two in the bush, the investor would prefer the income that they earned currently to that income in future which may be or may not be available.

Thus, investors would prefer to pay a higher price for the stock which earn them current dividend income and would discount those stocks, which either postpones/rate (percentage of retain earnings) and the time.

According to Gordon's model, the price of share ( $P_0$ ) will be discounted value of infinite stream of dividends to be received by the shareholders.

Accordingly,

$$P_o = \frac{Do(1+g)^1}{(1+K_s)^1} + \frac{Do(1+g)^2}{(1+K_s)^2} + \dots + \frac{Do(1+g)^r}{(1+ks)^r} \dots\dots\dots(1)$$

Multiplying both sides of equation 9.15 by  $(1+ks)/(1+g)$ , we get

$$\frac{Po(1+Ks)}{(1+g)} = Do + \frac{Do(1+g)^1}{(1+K_s)^1} + \frac{Do(1+g)^2}{(1+K_s)^2} + \dots + \frac{Do(1+g)^{r-1}}{(1+ks)^{r-1}} \dots\dots\dots(2)$$

Subtracting the equation (1) from (2)

$$\frac{Po(1+Ks)}{(1+g)} - P_o = Do + \frac{Do(1+g)^r}{(1+ks)^r}$$

Since the  $K_s$  is assumed to be greater than  $g$ , the second term on the right side of equation approaches zero. Consequently,

$$\frac{Po(1+Ks)}{(1+g)} - P_o = Do$$

Or,  $Po \left[ \frac{(1+K_s)}{(1+g)} - 1 \right] = Do$

Or,  $Po \left[ \frac{(1+K_s) - (1+g)}{(1+g)} - 1 \right] = Do$

Or,  $Po(K_s - g) = Do(1+g)$

Or,  $Po = \frac{Do(1+g)}{(K_s - g)}$

Or,  $Po = \frac{D_1}{(K_s - g)}$

By substituting EPS,  $(1-b)$  for  $D_1$ ,  $br$  for  $g$ ,

$$P_o = \frac{EPS(1-b)}{(K_s - br)}$$

Where,

$P_o$  = Market price per share

Dps = dividend per share

Eps = earning per share

b = retention ratio

1-b= dividend payout ratio

K= cost of equity or cost of capital of the firm

br = g =growth rate(g) in the rate of return on investment

Therefore, Gordon correlated that the firm's share value is positive with the payout ratio when  $r > k_s$  and decrease with an increase in the payout ratio when  $r < k_s$ . Thus, firms with rate of return greater than cost of capital should have a higher retention ration and those firms, which have a rate of return less than cost of capital, should have a lower retention ration. The dividend policy of firms which have a rate of return equal to cost of capital will however not has any impact on its share price.

The Gordon's model suffers from same limitations as the Walter's Model because of similarities assumption. (Gautam : Thapa : 2002 : 354-355)

### **2.2.5 Van Horne and McDonald's Study:**

"Van Horne and McDonald (1971) conducted a more comprehensive study on dividend policy and new equity financing. The propose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the market value on the firm's common stocks." They explored some basis aspects of conceptual framework, and imperial tests were preformed during year end 1968, for two industries using the well know valuation mode, i.e. across – section regression model. The required data were collected from 86 electric utility firms included on the COHPUSTAT utility data tape and 39 firms in electronic component industries as listed on the COHPUSTAT industrial data tape.

They tested two regression models for the utilities industries.

First model was

$$P_o / E_o = a_0 + a_1 (g) + a_2 (D_o / E_o) + a_3 (Lev) + u$$

Where,

$P_o / E_o$  = Closing market price in dividend by average EPS for 1967 and 1968.

G = Expected growth rate, measured by annual compound annual  
' rate of growth is assets per share for 1960 through 1968.

$D_o / E_o$  = Dividend payout, measured by cash dividend in 1968 dividend by  
earning in 1968.

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

U = Error term

Second model was

$$P_o / E_o = a_0 + a_1 (g) + a_2 (D_o / E_o) + a_3 (Lev) + a_4 (F_a) + a_5 (F_b) + a_6 (F_c) + a_7 (F_d) + u$$

Where,

$F_a, F_b, F_c$  and  $F_d$  are dummy variables corresponding to "new issue rate"  
(NIR) groups A through D.

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

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

$$P_o / E_o = a_0 + a_1 (g) + a_2 (D_o / E_o) + a_3 (Lev) + a_4 (OR) + u$$

Where,

Lev = financial risk, measure by long –term debt plus preferred stock  
dividend by net worth as of the end of 1918.

OR = operating risk, measured by the standard error for the regression of  
operating earning per share on time for 1960 through 1968 and rest

are as in first model above. (Van Horne and McDonald 1971: 253 )

By using these models or methodologies, they compared the result obtained for the firms which both pay dividends and engaged in new equity financing with other firms in an industry sample.

They concluded that for electric utility firms in 1968, their 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 equity a more costly form of financing than the retention of earnings.

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.

### **2.2.6 Review of Major Studies in Nepal**

The review of studies regarding dividend policy can be broadly classified into two categories.

#### **Review of Books and Journals in Nepalese Perspective**

##### **1. Study of Radhe S. Pradhan and Nabaraj Adhikari (2002)**

An attempt to what extent the dividends paid by the companies influence the share prices in Nepal through the topic " *impact of dividends on share prices in Nepal*" by the Dr. Radhe S. Pradhan and Nabaraj Adhikari. They collected the data for dividend paying companies from publication of Nepal Stock Exchange Ltd. i.e. financial statement of listed companies Vol II, III and IV. The number of companies listed in Nepal Stock Exchange Limited has reached to 110. Considering the study period of financial year (FY) 1992/93 to FY 1997/98, they include 13 companies from financial sector, 9 companies from non-financial sector and total were 22 companies. They have taken sample size (n) 77 from total sector i.e. 47 from financial sector and 30 from non-financial sectors.

Then, model used by them is framed as under

$$P_t = F[D_t R_t (P/E)_{t-1}]$$

In equation,

$$P_t = a + b_1 D_t + b_2 R_t + b_3 (P/E)_{t-1} + v$$

Modifying the above equation for study would be

$$P_t = a + b_1 D_t + b_2 R_t + b_3 (P/E)_{t-1} + v$$

To determine, whether the variables of dividend per share, and retained earning per share are related to share prices, following regression model has been used.

$$P_t = a + b_1 D_t + b_2 R_t + v$$

Where,

$$F_1, F_2, F_3 > 0$$

$P_t$  = price of share in time t,

$D_t$  = dividend per share in time t

$R_t$  = Retained earning per share in time t

$(P/E)_{t-1}$  = price earning multiple in time t-1

$(E/P)_{t-1}$  = lagged earning price multiple

$V$  = error term

The regression analysis on finance non-finance sector and taking total sector. Dr.R.S Pradhan and manohar and Nabaraj Adhikari have reached following important conclusions.

1. Dividends have positive impact on share prices, i.e. paying more dividends can increase shares.
2. Dividends have comparatively more favorable impact on share prices of the non-finance sector than the price of finance sector.

There are few companies that have actively trade stock. One research in this field shows the most important reasons to retain earnings in traded on non-traded sectors is due to lower COM of fund (Pradhan:1994). This reason to retained earnings on traded sector is the reluctance to dilute control from selling stock to outsiders whereas in non-traded sectors there is difficult to convince outsiders about the probability of investments while raising capital.

## 2. Manohar Krishna Shrestha and K.D. Manandhar's Study.(2002)

Shrestha and Manandhar have carried out study on the topic of "*Bonus share issue practices in Nepalese corporate firms: empirical study, findings and suggestions*", based on the data collected from 1987 to 1998 for 12 corporate firms.

Major findings and suggestions of this study are as follows.

1. the most popular bonus ratio prevalent in Nepalese corporate practices are 1:2, 1:1, 1:0.5, and other than ratios specified above have been found negligible important that accounts for only 39% for remaining 12 bonus ratios.
2. The account of bonus issued showed increasing trend during the period under study. During the three sub periods, on an average, amount of bonus issue rose by 250% per sub period.
3. There is a trend to raise the additional equity capital by capitalization the reverses and net profits by issuing bonus shares and stock dividends. The average ratio of bonus shares issue to equity capital is found above 0.5.
4. The overall average of three bonus issues is made 5 times or more are found in two banks in number, NABIL and NIBL during study period.
5. No. consistency in bonus ratio is observed only 5% of the bonuses issuing corporate firms are found to follow the consistent policy of bonus issue are found to have made bonus shares out of 25 times in total in the time interval of one year, which accounted for 60% of the cases. Bonus shares occurred at irregular in interval and on widely very ratios in 50% of the bonus issued.
6. Large corporate firms are found to issue bonus shares more time than the small sized corporate firms. The overall average bonus ratios of the corporate firms which equity capital Rs. 50 and less than 100 million is found to as 0.78, which accounted for 10 times out of 36 times bonus issue.
7. Corporate firms over than 20 years are found to have issued bonus shares more times (19) compared to other corporate firms with lesser as which accounted 55% of the cases.
8. Corporate firms are suggested to have their bonus share issued plan towards the accomplishment of corporate goal.

Issue of bonus share must be in consistent with the growth and expansion scheme of the corporate firms, justified by increase earnings, and reduced risk in terms of investment and returns.

### **3. K.D Manandhar's Study**

Manandhar (2000) has carried out latest study on the topic of *"preliminary test of lagged structure of dividend: Empirical test. Cases of corporate firms in Nepal"* based on the data collected for 1987 of seven (7) commercial banks, five finance and insurance companies, two trading companies, two service oriented companies and one manufacturing company.

Major finding of his study are:

1. Significant relationship is found between change in dividend in terms of DPS and change in lagged earnings.
2. There is relationship between distribution in lagged profit and dividend.
3. The difference is found significant between overall proportion of change in dividend and due to increase, decrease in EPS during the study period.
4. In overall increase in EPS has resulted to increase in dividend payment in 66.7% of the cases while decrease in EPS resulted to decrease in dividend payment in 33% of the cases.
5. It is found that Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share or increase it irrespective of change in earning per share as reflected by the total percentage of constant and increased dividend payment of 78.33% of the sales.
6. In overall, Nepalese corporate firms are found reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information contents and signaling effects of dividend relating to the firms continued progress and performance, sound financial strength, favorable investment environment, lower risk, ability to maintain sustained dividend rate and finally to increase the market price of the share in the stock market.

### **4. Radhe Shyam Pradhan study(2003)**

In the book of *"Research in Nepalese Finance (Pradhan: 2003)"* by Dr. Radhe Shyam Pradhan, has carried out latest on the topic of *"Effects of Dividends on Common Stock Prices"*. The Nepalese Evidence, a study on the effects of

dividends payment and retained earnings on market price of share in the context of Nepal has been done.

The main objectives of this study were:

1. To find out dividends or retained earnings are more attractive among Nepalese stockholders.
2. To explain share price, dividend and retained earnings relationship in the context of Nepal.
3. To explain the effect of dividend payment and retained earnings on market price of share, whether there is customary strong dividend or retained earnings effect on MPS and if the Nepalese stock market has started recognizing the impact to the retained earnings .
4. To find out the elasticity of dividends and retained earnings with respect to the market per share.
5. To find out dividends or retained earnings increase by one percentage point, will market price per share increase by less than or more than unity.

The study required data have been taken from financial statement of listed companies, Vol. III published Nepal stock Exchange Ltd. The study is based on pooled cross section data of 29 companies from 1994 to 1999 with a total of 93 observations. The model employed was:

$$MPS_{it} = a + bDPS_{it} + CRE_{it} + e_{it}$$

Where,

$MPS_{it}$  = Market price per share

$DPS_{it}$  = Dividend per share

$RE_{it}$  = Retained earnings per share

The above model assumes the following reasonable a priori hypothesis.

$$DPS_{it} > 0$$

$$RE_{it} > 0$$

In the context of Nepal there is predominant influence of dividends and absence of retained earning effect on the share price dividends are found relatively more attractive among Nepalese stockholders. There is an indication that a some what higher investor valuation may be placed on dividends than on retained earnings. This study also suggested to conduct a similar study at increased over period of time. However the generalizations that can be made by the study are limited as tests were under taken for few companies (93 observations).

## **2.3 Review of previous study(Thesis)**

### **2.3.1 Nabaraj Adhikari's Study (1998)**

Adhikari has conducted a study on "*Corporate dividend practice in Nepal*". The study has covered the period from 1990 to 1998 with total observation of 47 in financial sector and 30 non-financial sectors. This study has used both primary and secondary data. The major objectives of this study were to assess corporate dividend practices in Nepal. The specific objectives were as follows:

1. To analyze the properties of portfolios formed on dividends.
2. To examine the relationship between dividend and stock prices.
3. To survey the opinions of financial executives on corporate dividend practices.

The major conclusion of this research study was as follows:

It is observed that there are difference in financial position of high dividend paying and low dividend paying companies. Other things remaining the same, financial position of high dividend paying companies is comparatively better than that of low dividend paying companies. Thus, dividend affect the market price of share is the major conclusion of this study.

Likewise, the other findings based on primary data are given below:

1. The price of common stock was induced by dividend payout ratio.
2. Nepalese shareholders were no really indifferent towards payment or non-payment of dividend.

3. The majority of the respondents feel that the major motives to pay cash dividend was to convey information to shareholders that the company is in the good position.
4. As regard dividend as a residual decision, the majority of the respondents feel that it was not a residual decision.

With respect to factors affecting corporate dividend policy, the majority of the respondents gave the first priority to “earnings” the second priority to availability of cash, the third priority to ‘past dividend’ and fourth priority to concern about maintaining or increasing stock price.

### **2.3.2 Yagya Bahadur Katwal’s Study (2001)**

Katuwal (2001) has made the research on the topic “*A comparative study of dividend policy in commercial banks*” by using secondary data mostly.

The main objectives of the study are:

1. To study current practices of dividend policy in commercial bonus.
2. To find out the impact of dividend on share prices.
3. To analyze the relationship of financial indicators such as DPS, EPS, DPR, PE ratio, Liquidity ratio and profitability ratio and market value per share (MVPS)
4. To examine uniformity among DPS, EBP and DPR if any, on the six sample jointly venture banks.

The main findings of his research are

1. Dividends per share of all concerned banks as satisfactory.
2. Average earnings per share are also satisfactory.
3. Relationship between DPS and MVPS is fairly positive. On the other hand, the relationship between EPS and MPS is also positive.
4. One of the most findings of this study is that no specific dividend payment strategy is being followed by these banks. Payment of cash and stock dividend are made without wise management decision, which is substantiated unstable and inadequate dividend and unequal payout ratio.

### **2.3.3 Gopi Krishna Subedi's Study (2002)**

This thesis was on *"Dividend and stock prices of an econometric analysis of Nepalese listed companies"* by Mr. Gopi Krishna having the following objectives (Subedi, 2002).

1. To test the applicability of the model developed by friend and pucket (1964) in the context of Nepal.
2. To test the relationship between DPS and MPS.
3. To analyse the impact of DPS on MPS.
4. To identify whether it is possible to increase the market value of the stock by changing dividend policy or payout ratio.

After an econometric analysis of such listed companies, the study concludes that the model developed by Friend and pucket in the developed capital market is not applicable in the Nepalese capital market to explain the variation of stock prices. Dividend per share affects the stock prices differently in different sectors and by changing the dividend policy or dividend per share might help to increase the stock prices in the most of the companies. Another interesting conclusion that can be drawn from the study is that the relationships between DPS and stocks prices are positive in banking, insurance and finance, manufacturing and processing and trading sector. But Negative in service center and the stock prices of service sector can increase by more retention. Lastly, the relationships between stock prices and retained earnings are not prominent however the relationship between stock prices and lagged price earnings ratio is negative.

### **2.3.4 Sushila Dahal (2008)**

Dahal conducted the research on the titled of *"Dividend Policy of Commercial banks in Nepal with special reference to Everest Bank Ltd, Bank of Kathmandu Ltd. and Himalayan Bank Ltd."*

Major Objectives of the study were

1. To identify the type of dividend practices followed by the banks.

2. To highlights dividend polices of the banks in Nepal.
3. To analyse the relationships between dividend per share with various important variables such as earnings per share, net profit, net worth and stock prices.
4. To provide recommendation.

Main conclusions of the study are:

1. Dividend Practices of the sample companies show that there is not a stable dividend policy adopted by any of the companies.
2. According to this study, some banks do not pay dividend in many years. Therefore, the prices of share on which the dividend is not paid on upward trend.
3. There are no Legal rules binding those companies to pay dividend when they are running at profit. Companies do not have any clear policy towards dividend decision and there is no provision in company act as well.
4. These banks follow no specific dividend payment strategy. Payment of cash and stock dividends are made without managerial decision.
5. The Distribution of dividend has a positive impact on the market price of shares for all three commercials banks.
6. More than one economic parameter determines the economic indicators such as DPS and MPS. For example, DPS is affected by EPS and NP.

### **2.3.5 Keshab Dangol (2009)**

Keshab Dangol has prepared the thesis in the topic of *“Cash Dividend Policy of Joint Ventures commercials banks in Nepal”*, he has selected the four samples of joint venture bank by using past five years data from 2003/2004 to 2007/2008

The main objectives of this study were as follows:

1. To Evaluated the dividend payment procedures followed by joint venture Banks.
2. To examine the relationship of cash as dividend with various important variables.
3. To examine the relationship between Market price per share and cash distribution as dividend policy.

The researcher has arrived to the following conclusions:

1. Dividend payment is not regular and attractive phenomenon in Nepalese commercial Banks.
2. There is no uniformity in dividend distribution policy of joint venture banks in Nepal.
3. Change in Dividend per share and dividend payout ratio affects the market price.
4. The relationship between dividend per share and earning per share is positive in all joint venture banks. However, the relationship between dividends per share is found varying in different banks.

**Research gap:**

Review of related literature revealed that comprehensive studies of the relation between dividend and stock prices are very few in the underdeveloped capital market like Nepal, Few significant contributions have been made by some of the Nepalese researchers but those were related either only to certain sectors or few numbers of year's observations. There has been change in the dividend payment in recent year compared to the earlier stage viewed from this, There is needed to carry out a study on dividend and its impact on stock prices covering the long period the useful information for all the financial analysis, economists, planners and managers at both micro and macro levels.



# **CHAPTER III**

## **RESEARCH METHODOLOGY**

Research is a systematic Activity to achieve truth or finding solution to a problem and which consists of collecting data, analyzing data and findings the conclusions which help in decision making process. Research is thus, analysis and synthesis. Sometimes by research we simply mean to search again and again. Thus research is a scientific and pertinent search for knowledge or information on a specific topic. It is a systematic study. It requires concentration, hard labor and efforts. Its needs review of latest advancement on the topic. It requires expertise necessary to carry out investigation, search the related literature and to understand and analyze the data gathered. It involves gathering new data from primary or secondary and using them for a new purpose.

### **3.1 Research Design**

Research Design is the specification of procedure for collecting and analyzing the data necessary to help identify and opportunity such that the difference between the cost of obtaining various levels of accuracy and the expected value of the information associated with each level of accuracy is maximized. It is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances.

A research design basically focuses on

1. The sample Design: It deals with the method of selecting the subjects to be observed in a given study.
2. Observation design: It deals with the condition under which observations are to be made.
3. Statistical design: It deals with question or how many subjects to be observed and how many observations are to be analyzed

In this study, the research is based on recent historical data. It is a historical research, which covers the data from the fiscal year 1999/2000 to 2008/2009 A.D. The analytical as well as descriptive research design has been included in the study.

For analytical purpose, the annual reports and financials statements of related commercials banks are collected. For primary data analysis survey research design is used in this study.

### **3.2 Nature and sources of Data**

This study is mainly based on secondary data where as primary data is also used which is collected by distributing questionnaire. The data of different financial variable related with dividend have been collected basically from the financial statements of listed commercials banks. The supplementary data and information have been also obtained from the annual report published by concerned banks. Beside the data have been acquired from various sources like:

1. Annual Reports
2. Publications of the commercials banks
3. Nepal Stock Exchange
4. <http://www.nepalstock.com>
5. Newspapers and magazines
6. Security Board of Nepal

### **3.3 Population and Sample**

This study is concentrated in commercials banks. There are 30 commercials banks in Nepal. So, all the 30 commercials banks are the population for this study. Out of them, only five commercials banks are selected for the study.

### **3.4 Method of Data Analysis**

Various financial and statistical tools have been used in this study. The analysis of data will be done according to the pattern of data available. Mainly the analysis will be done of using financial tools, statistical tools. The relationship between different variables related to study topic will be drawn out using financial and statistical tools

are tabulated under different headings. Then they compared with each other to interpret the results.

### 3.4.1 Financial Tools

The analysis of this study is based on following financial tools:

#### a) Earning Per Share (EPS)

Earning per share is one of the most widely noted statistics when there is a discussion of a company's performance or stock prices. EPS calculation will be helpful to know whether the earning power on per share basis has changed over the period or not. EPS is calculated by dividing the net profit after taxes by the total number of the common shares outstanding.

$$\text{EPS} = \frac{\text{Net Profit after Taxes}}{\text{No of common share outstanding}}$$

#### 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 shareholder. DPS shows the portion of earning distribution to the shareholders on per share basis. Generally, the higher DPS creates a positive attitude of the shareholders toward the company stock, which consequently helps to increase the market value of the shares. And it also works as the indicators of better performance of the company management.

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

$$\text{DPS} = \frac{\text{Total amount of dividend paid to ordinary shareholders}}{\text{No. of Ordinary Shares outstanding}}$$

### **c) Market price of the Stock (MPS)**

It is that values stocks which can be obtained by affirm from the market or it is the trading price of stock listed authorized or legal stock exchange. It is one of the variables which affected by EPS and DPS.

### **d) Retained Earning of stock (REPS)**

REPS are the amount of retained to the firms after paying dividend to its shareholders.

$$\text{REPS} = \text{EPS} - \text{DPS}$$

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

This ratio reflects what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the given sample. The dividend payout ratio depends upon the earnings. Higher earnings enhance the ability to pay more dividends and vice versa.

There is an inverses relationship between dividends and retained earnings. The higher the dividend payout ratio, the lower will be the proportion of the retaining and vice versa. The capacity of internal financing of the firm is checked by the retention ratio. It has dividend. This ratio is calculated by dividing dividend per share by the earning per share. Thus

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

And Retention Ratio= (1-DPR)

### **f) Earning Yield(EY)**

Earning yield is the percentage of earning per share to market price per share in the stock market. In other word, it is a financial ratio relating to earning per share

to the market share price at a particular time. It measures the earnings the relation to market value of shares. 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:

$$\text{Earning Yield} = \frac{\text{Earning per share}}{\text{Market Price of Share}}$$

**g) Dividend Yield (DY)**

Dividend yield is a percentage of dividends per share on market per share. It measures the dividend in relation to market value of share. So, dividend yield is the dividend received by the investors as a percentage of market prices per share in the stock market. This ratio highly influence the market price per share because a small change in dividend per share can be effective changed in the market value of the share. The share with higher dividend yields is worth buying. Thus the price of higher dividend yields increase sharply in the market. This ratio is calculated by dividing dividend per share by market price of the stock. Thus

$$\text{Dividend Yield Ratio} = \frac{\text{Dividend per share}}{\text{Market Price of Share}}$$

**3.4.2 Statistical Tools**

Besides the financial tools, various statistical tools have been used to conduct this study. The result of analysis has been properly tabulated, compared, analyzed and interpreted. In this study, the following statistical tools are used to analyze the relationship between dividend and 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 some where in between the two extremes, i.e. the largest and 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,

$\sum x$  = Sum of the sizes of the items

N = Numbers of items

### **b) Standard Deviation (†)**

Karl Pearson first introduced the concept of standard deviation in 1893. Standard deviation is the positive square of the arithmetic average of the squares of all the deviation measured from the arithmetic average of the series.

The standard deviation measure the absolute dispersion of the 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

### **c) Coefficient of Variation (C.V)**

It is the measurement of the relative dispersion developed by Karl Pearson. 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, less uniform, less stable and less homogeneous. On the contrary the series with less coefficient of variation is said to be less variable, more consistent, more uniform, more stable and more homogeneous. It is denoted by C.V and is obtained by dividend the standard by arithmetic means. Thus,

$$\text{C.V} = \frac{\text{Standard Deviation}}{\text{Mean}}$$

#### **d) Coefficient of correlation ( $r_{xy}$ )**

The correlation analyzed 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 only the magnitude of correlation but also its direction. The value of coefficient of correlation always lies between +1 and -1. A value of -1 indicates a perfect positive relationship. A value of zero (0) indicates that there is no relation between the variables. In this study, the degree of relationship market price and other relevant financial indicators such as dividend per share, earning per share, dividend payout ratio etc. is measured by the correlation coefficient.

#### **e) Regression Constant (a)**

The value of the constant which is the intercept of the model indicates the average level of dependent variable when independent variables (s) is zero. In another way, it is better to understand that 'a' indicates the means or average effect on dependent variable of all the variables omitted from the model.

#### **f) Regression Coefficient ( $b_1, b_2...$ )**

The regression coefficient of each independent variable indicates the marginal relationship between that variable and value of dependent variable, holding constant the effect to all other independent variable in the regression model. The regression coefficients describe how changes in dependent variables affect the value of dependent variables estimate.

#### **g) Standard Error of Estimate (SEE)**

With the help of regression equation perfect prediction is practically impossible. Standard Error of Estimation is a measure of the reliability of the estimating equation, indicating the variability of the observed points around the regression line, that is the extent to which observed values differs from their predicted values on the regression line. The smaller the value of the SEE, the closer will be the dots to the regression line and the better the estimates based on the equation for

this time. If SEE is zero, then there is no variation about the line and the correlation will be perfect. Thus, with the help of SEE, it is possible for us to ascertain how good and representative the regression line is a description of the average relationship between two series.

#### **h) T-Test**

To test the validity of our assumption, if sample size is less than 30, T-Test is used for applying in the context of small sample. The 't' value is calculated first and compared with the critical value of 't' at the certain level of significance for given degree of freedom. (In this study, T values use calculated with the help of computer). If the calculated value of 't' exceeds the critical value (say to 0.05) we enter that the different is significant at 5% level but if 't' value is less than the concerning critical value of 't' the difference is not treated as significant.

# CHAPTER IV

## DATA PRESENTATION AND ANALYSIS

In this chapter, the available data and information on dividend policy of the selected commercial banks are presented and analyzed keeping in the mind of the objectives of the study, the analysis of the scheme of dividend payment of the selected commercial relationship among major variable and estimation of impact of dividend on stock prices with the simple and multiple regression have been undertaken under different section.

### 4.1 Analysis of Dividend payout scheme

Some of the commercial banks have carried out the same rate of dividend for a no. of years. Few banks pay by applying residual dividend policy, i.e. the amount of dividend payout fluctuates from period in keeping with fluctuations in the amount of acceptance investment opportunities available to the forms. Few of other pay dividend to its shareholders at a higher level. That means there is high earnings or normal or the firm does not need the excess earnings to financial growth, the dividend was made at very low level regularly and if earnings is rising in then the dividend paid to the stockholders in the ratio of earnings. The loss-making banks pay no dividend at all, even if they make profit later.

In order to know the scheme of dividend payment in Nepalese Commercial banks it is not possible to analyze the overall banks. Thus all sample banks are compared with EPS and DPS. EPS and DPS of EBL, HBL and NIBL are calculated under their 10 years data and EPS and DPS of SCBL and NABIL banks are calculated under their 9 and 7 years data respectively.

#### 4.1.1 Dividend per share and Earning per share of EBL

To analyze the scheme of dividend payment of EBL, its DPS and EPS are presented as follows:

Table 4.1

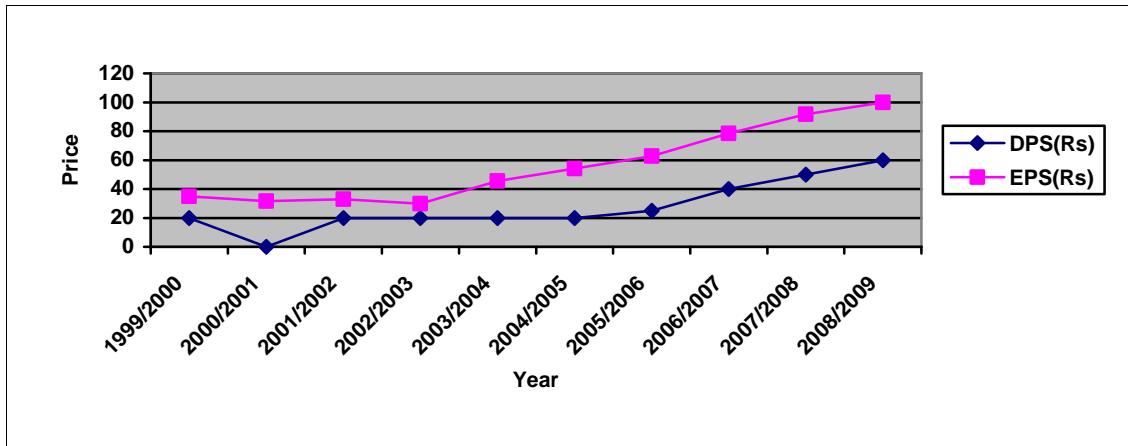
DPS and EPS of EBL

| Year      | DPS(Rs) | EPS(Rs) |
|-----------|---------|---------|
| 1999/2000 | 20      | 34.84   |
| 2000/2001 | 0       | 31.56   |
| 2001/2002 | 20      | 32.91   |
| 2002/2003 | 20      | 29.9    |
| 2003/2004 | 20      | 45.58   |
| 2004/2005 | 20      | 54.22   |
| 2005/2006 | 25      | 62.78   |
| 2006/2007 | 40      | 78.42   |
| 2007/2008 | 50      | 91.82   |
| 2008/2009 | 60      | 99.99   |
| Mean      | 27.5    |         |
| C.V       | 0.5505  |         |

Source: Appendix (A)

Figure 4.1

Year-wise movement of DPS and EPS



According to table 4.1 and figure 4.1, the average value of dividend is Rs 27.50 and C.V. is 0.5505 or 55.05%. The bank has not paid any dividend in the fiscal year 2000/2001 and paid constant DPS from fiscal year 2001/2002 to 2004/2005. Dividend is fluctuated as the change in the price of EPS, so the dividend EBL is highly dependent upon its earnings per share. Since the fiscal year 2006.2007, it is paying constant growth dividend till now.

#### 4.1.2 Dividend per share and Earning per share of HBL

To analyze the scheme of dividend payment of HBL, its DPS and EPS are presented as follows:

Table 4.2

DPS and EPS of HBL

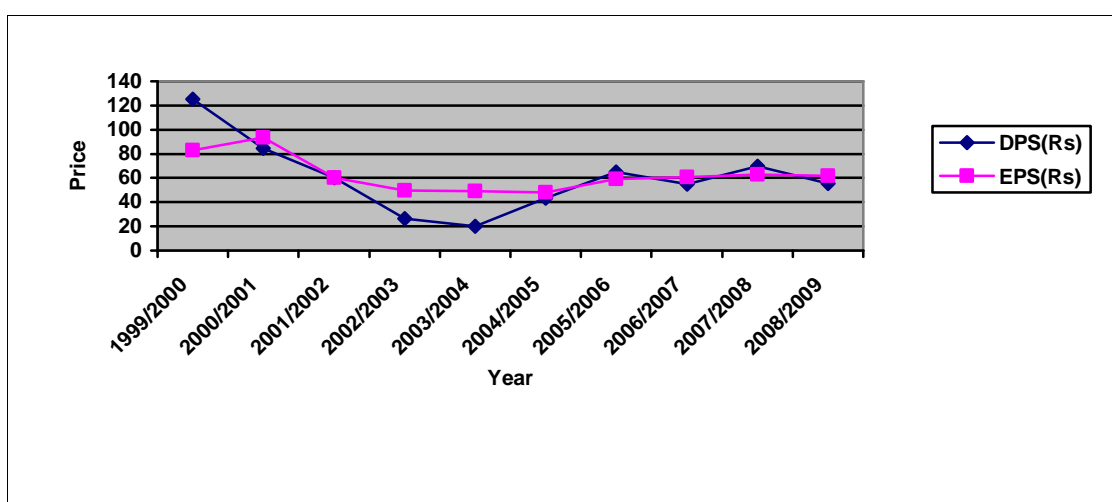
| Year | DPS(Rs) | EPS(Rs) |
|------|---------|---------|
|------|---------|---------|

|           |        |       |
|-----------|--------|-------|
| 1999/2000 | 125    | 83.08 |
| 2000/2001 | 84.5   | 93.57 |
| 2001/2002 | 60     | 60.26 |
| 2002/2003 | 26.32  | 49.45 |
| 2003/2004 | 20     | 49.05 |
| 2004/2005 | 43.16  | 47.91 |
| 2005/2006 | 65     | 59.24 |
| 2006/2007 | 55     | 60.66 |
| 2007/2008 | 70     | 62.74 |
| 2008/2009 | 55.56  | 61.9  |
| Mean      | 60.45  |       |
| C.V       | 0.4933 |       |

Source: Appendix (A)

Figure 4.2

Year-wise movement of DPS and EPS



According to table 4.2 and figure 4.2, the average value of dividend is Rs. 65.45 and C.V. is 0.4933 or 49.33%. Dividend of HBL is fluctuated with the earnings and dividend is paid at a lower rate. It has not paid cash dividend but paid stock dividend in the fiscal year 2003/2004 to its shareholders.

#### 4.1.3 Dividend per share and Earning per share of NIBL

The below table and fig. demonstrates the DPS and EPS of NIBL for describing the dividend payout scheme.

Table 4.3

DPS and EPS of NIBL

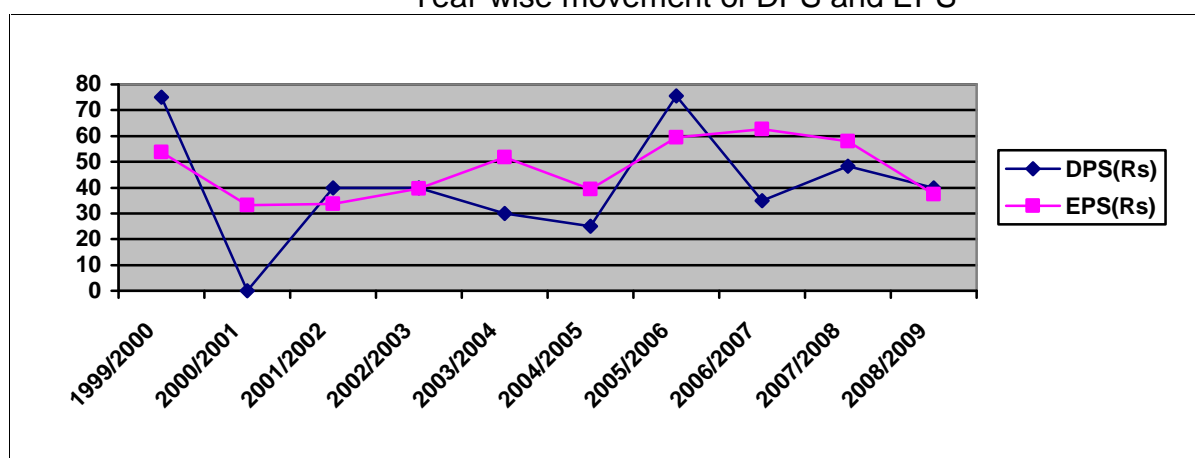
| Year      | DPS(Rs) | EPS(Rs) |
|-----------|---------|---------|
| 1999/2000 | 75      | 53.68   |
| 2000/2001 | 0       | 33.18   |
| 2001/2002 | 40      | 33.59   |

|           |        |       |
|-----------|--------|-------|
| 2002/2003 | 40     | 39.56 |
| 2003/2004 | 30     | 51.7  |
| 2004/2005 | 25     | 39.5  |
| 2005/2006 | 75.46  | 59.35 |
| 2006/2007 | 35     | 62.57 |
| 2007/2008 | 48.33  | 57.87 |
| 2008/2009 | 40     | 37.42 |
| Mean      | 40.88  |       |
| C.V       | 0.4332 |       |

Source: Appendix (A)

Figure 4.3

Year-wise movement of DPS and EPS



According to table 4.3 and figure 4.3, EPS of NIBL is less fluctuated. The average value of dividend is Rs. 40.88 and C.V is 0.4332 or 43.33%. The bank has not paid any dividend in the fiscal year 2000/2001. It is maintaining regular dividend to its shareholders from the fiscal year 2001/2002 to 2008/2009.

#### 4.1.4 Dividend per share and Earning per share of SCBNL

The below table and fig. demonstrates the DPS and EPS of SCBNL, for describing the dividend payout scheme.

Table 4.4

DPS and EPS of SCBNL

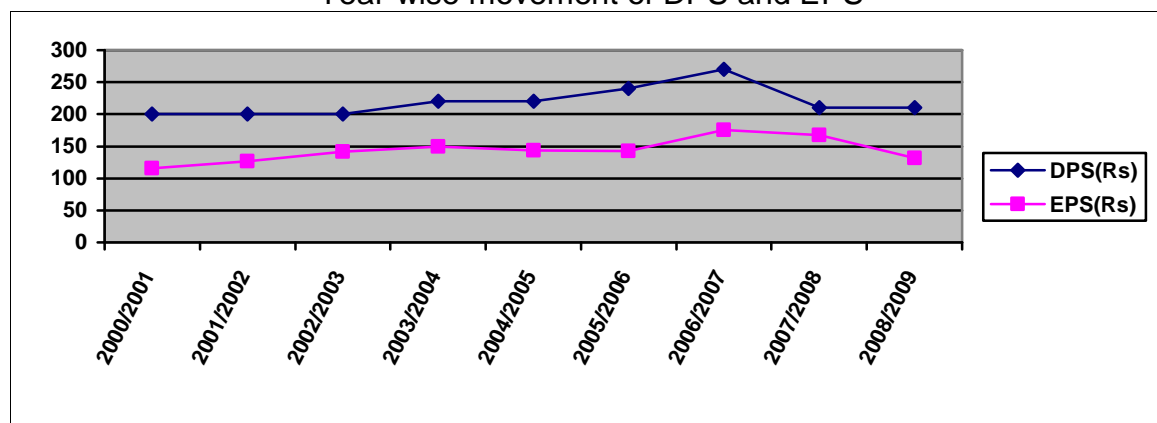
| Year      | DPS(Rs) | EPS(Rs) |
|-----------|---------|---------|
| 2000/2001 | 200     | 115.62  |
| 2001/2002 | 200     | 126.88  |
| 2002/2003 | 200     | 141.13  |
| 2003/2004 | 220     | 149.3   |
| 2004/2005 | 220     | 143.55  |
| 2005/2006 | 240     | 143.14  |

|           |        |        |
|-----------|--------|--------|
| 2006/2007 | 270    | 175.84 |
| 2007/2008 | 210    | 167.37 |
| 2008/2009 | 210    | 131.92 |
| Mean      | 218    |        |
| C.V       | 0.1063 |        |

Source: Appendix (A)

Figure 4.4

Year-wise movement of DPS and EPS



According to table 4.4 and figure 4.4, SCBL has paid constant regular dividend from 1999/2000 at Rs. 200 and it is continuously paying regular dividend as price is fluctuated in EPS. The average value of dividend is Rs. 218 and C.V is 0.1063or 10.63%. The bank has paid highest dividend in the fiscal year 2005/2006 i.e. Rs. 270.

#### 4.1.5 Dividend per share and Earning per share of NABIL

To analyze the scheme of dividend payment of NABIL, its DPS and EPS are presented as follows:

Table 4.4

DPS and EPS of NABIL

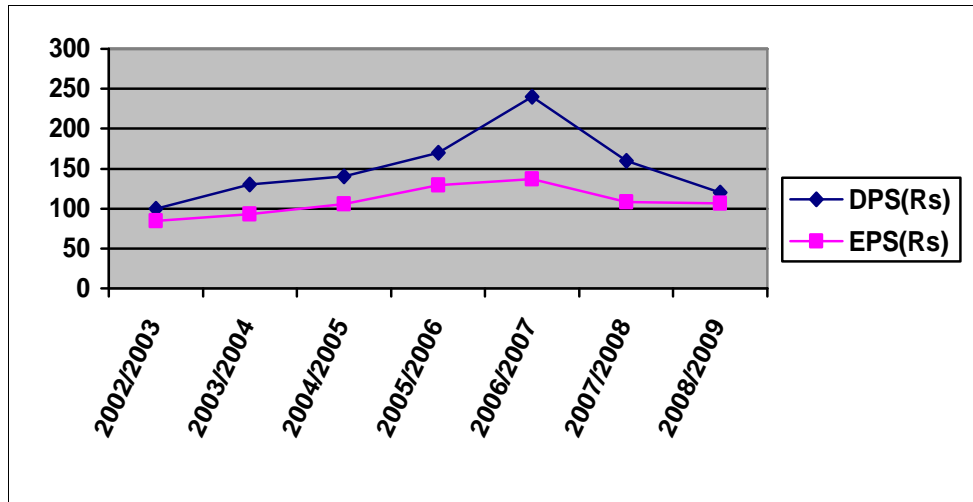
| Year      | DPS(Rs) | EPS(Rs) |
|-----------|---------|---------|
| 2002/2003 | 100     | 84.66   |
| 2003/2004 | 130     | 92.61   |
| 2004/2005 | 140     | 105.49  |
| 2005/2006 | 170     | 129.21  |
| 2006/2007 | 240     | 137.08  |
| 2007/2008 | 160     | 108.31  |
| 2008/2009 | 120     | 106.76  |
| Mean      | 151.43  |         |

|     |        |
|-----|--------|
| C.V | 0.2976 |
|-----|--------|

Source: Appendix (A)

Figure 4.5

Year-wise movement of DPS and EPS



According to table 4.5 and figure 4.5, the average value of dividend is Rs. 151.43 and C.V is 0.2976 or 29.76%. The EPS of NABIL bank was highest in the fiscal year 2006/2007 i.e. 137.08 and the bank has paid highest dividend is Rs. 240. Then the bank is continuously paying regular dividend till now.

From the above analysis among five banks, it can be concluded that the banks do not follow a single policy for the payment of dividend. Few of them try to maintain constant forever but not succeed. The dividend is highly dependent upon earning of the banks.

## 4.2 Simple Correlation Analysis

In addition to the financial tools are also used to describe the relationship among the various variables to make the analysis more research oriented. For the purpose, same financial data are used to determine how one variable is related to another variable. The main implication of correlation analysis is to find out a positive or a negative relationship exist and relationship significant or insignificant. So, in the section, an attempt has been made to describe the degree of relationship among the variables such as MPS, EPS, DPR, DY and EY.

The MPS was cross-tabulated with each of the independent variable (EPS, DPS, DY, and EY). Similarly, each of the independent variable was cross tabulated with one other, bank-wise Karl Pearson's correlation matrix of the five variables was calculated through computer.

#### **4.2.1 Correlation analysis of EBL**

Correlation analysis is made to analyze the relationship between MPS with other variable such as EPS, DPS, DPR, DY and EY. The result of correlation analysis of EBS is presented in 4.6.

**Table 4.6**

**Correlation of EBL**

|     | MPS        | DPS       | EPS       | DPR       | DY   | FY |
|-----|------------|-----------|-----------|-----------|------|----|
| MPS | 1          |           |           |           |      |    |
| DPS | .476       | 1         |           |           |      |    |
| EPS | .936 (**)  | .601      | 1         |           |      |    |
| DPR | -.006      | .779 (**) | .076      | 1         |      |    |
| DY  | -.206      | .664 (*)  | -.131     | .966 (**) | 1    |    |
| EY  | -.841 (**) | -.187     | -.690 (*) | .214      | .385 | 1  |

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

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

\* Calculation is done from SPSS software (Statistical package for social science)

Source: Appendix (A)

As indicated by the data presented in the table 4.6 many of the variables are related to one another. For example, DPS is directly correlation with EPS, DPR and EY and negatively correlated with DY. The relationship between EPS and MPS has positive relationship, which is significant at 0.01 levels. The correlation between MPS and DPS stand on 0.476, which indicates that increase in DPS increases the stock price.

The correlation coefficient between MPS and DPR is -0.006, MPS and DY is -0.206 and MPS and EY is -0.841 which means that there is no any relationship between DPR, DY and EY.

From the above result, it can be concluded that for the increment in MPS, EPS and DPS should increase.

#### 4.2.2 Correlation Analysis of HBL

Correlation analysis is made to analyze the relationship between MPS with other variable such as EPS, DPS, DPR, DY and EY. The degree of relationship is presented in table 4.7.

**Table 4.7**

**Correlation of HBL**

|     | MPS        | DPS       | EPS   | DPR       | DY   | FY |
|-----|------------|-----------|-------|-----------|------|----|
| MPS | 1          |           |       |           |      |    |
| DPS | .482       | 1         |       |           |      |    |
| EPS | .553       | .732 (*)  | 1     |           |      |    |
| DPR | .426       | .950 (**) | .0527 | 1         |      |    |
| DY  | .157       | .866 (**) | .550  | .897 (**) | 1    |    |
| EY  | -.775 (**) | -.114     | .040  | -.225     | .118 | 1  |

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

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

\* Calculation is done from SPSS software (Statistical package for social science).

Source: Appendix (A)

From the result of table 4.7 many of the variables are related to one another. The correlation between MPS and EPS has a positive relationship which indicates that if EPS increases, then MPS will be also increased. In this way, the relationship between MPS with DPR and DY has positive relationship. There is inverse relationship between MPS and EY i.e. if EY rises the MPS falls. The correlation between MPS and EY is negative. So, it is not correlated with each other.

The above explanation suggests that, for raising share price EPS and DPS should be increased and should be decreased in the value of EY and DY.

### 4.2.3 Correlation Analysis of NIBL

The correlation analysis of this bank is made to find the degree of relationship between MPS with other variables such as EPS, DPS, DPR, DY and EY which are shown in table 4.8

**Table 4.8**  
**Correlation of NIBL**

|     | MPS       | DPS       | EPS  | DPR       | DY       | FY |
|-----|-----------|-----------|------|-----------|----------|----|
| MPS | 1         |           |      |           |          |    |
| DPS | -.81      | 1         |      |           |          |    |
| EPS | .630      | .251      | 1    |           |          |    |
| DPR | -.177     | .950 (**) | .025 | 1         |          |    |
| DY  | -.492     | .818 (**) | .021 | .814 (**) | 1        |    |
| EY  | -.704 (*) | .362      | .071 | .315      | .719 (*) | 1  |

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

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

\* Calculation is done from SPSS software (Statistical package for social science).

Source: Appendix (A)

The relationship between MPS and EPS is positive which means increase in EPS leads increase in MPS. The relationship between MPS and DPS is negative which indicates that increase in dividend decreases the stock price. The correlation between MPS and DPR has negatively correlated i. e. -0.177 which means change of market price of share due to change in DPR. The relationship which means increase in DY and EY decreases the share price.

The above analysis shows that MPS is positively correlated with EPS and negative correlated with DPS, DPR, DY and EY.

#### 4.2.4 Correlation analysis of SCBNL

The correlation analysis is made to determine the degree of relationship among the variables like MPS, EPS, DPS, DPR, DY and EY. The result of this bank is presented in 4.9.

Table 4.9  
Correlation of SCBNL

|     | MPS        | DPS     | EPS   | DPR      | DY        | FY |
|-----|------------|---------|-------|----------|-----------|----|
| MPS | 1          |         |       |          |           |    |
| DPS | -.587      | 1       |       |          |           |    |
| EPS | .295       | .306    | 1     |          |           |    |
| DPR | -.784 (*)  | .670(*) | -.494 | 1        |           |    |
| DY  | -.965 (**) | .519    | -.312 | .719 (*) | 1         |    |
| EY  | -.921 (**) | .492    | -.128 | .549     | .960 (**) | 1  |

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

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

\* Calculation is done from SPSS software (Statistical package for social science).

Source: Appendix (A)

From the table 4.9, it has clearly shown the relationship between MPS with other variables such as EPS, DPS, and DPR. There is positive relationship between MPS and EPS which indicates increase in EPS leads increase in MPS. There is inverse relationship between MPS with DPS, DPR, DY and EY i.e. -0.587, -0.784, -0.965 and 0.921 respectively which means increase in these variables decreases MPS.

The correlation of DPR is significant at 0.05 levels and the correlation of DY and EY is significant at 0.01 levels.

#### 4.2.5 Correlation Analysis of NABIL

The correlation analysis of this bank is made to find the degree of relationship between MPS with other variables such as EPS, DPS, DPR, DY and EY which are shown in table 4.10

**Table 4.10**  
**Correlation of NABIL**

|     | MPS        | DPS       | EPS   | DPR   | DY        | FY |
|-----|------------|-----------|-------|-------|-----------|----|
| MPS | 1          |           |       |       |           |    |
| DPS | .809       | 1         |       |       |           |    |
| EPS | .570       | .850 (*)  | 1     |       |           |    |
| DPR | .890 (**)  | .925 (**) | .603  | 1     |           |    |
| DY  | -.941 (**) | -.709     | -.621 | .726  | 1         |    |
| EY  | -.963 (**) | -.766 (*) | -.623 | -.811 | .980 (**) | 1  |

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

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

\* Calculation is done from SPSS software (Statistical package for social science).

Source: Appendix (A)

From the table 4.10, the relationship between MPS and EPS is highly positively i.e. correlated at 0.570 which demonstrates that if shareholders earn more then the market value per share is also more. The Pearson correlation between MPS and DPS are highly correlated i.e. 0.809, the value is significant at 0.05 level. It means that if DPS is more, the value per share definitely more. The Pearson correlation between MPS and DY and DY is -0.941 and -0.963 which is negative and significant at 0.01 levels.

The relationship between MPS and DPR is significant as can be seen from Pearson correlation Matrix. MPS and DPR are positively correlated. Thus the variables like EPS, DPS, and DPR are directly correlated with MPS i.e. if all dependent variables increase then MPS also increases.

### 4.3 Simple Regression Analysis

In this past, an attempt has been made to determine the statistical relationship between two variables and to make estimation of one variable on basis of other variable.

#### 4.3.1 Simple Regression Analysis of MPS and DPS

Simple regression analysis of MPS and DPS is made to analyze the relationship between MPS and DPS and find out of effect in MPS by variation in DPS. The result is presented in table 4.11.

Table 4.11

Simple Regression table of MPS on DPS

| Model |            | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig   |
|-------|------------|-----------------------------|------------|---------------------------|--------|-------|
|       |            | B                           | Std. Error |                           |        |       |
| EBL   | (Constant) | 853.481                     | 430.498    |                           | 1.983  | 0.083 |
|       | DPS        | 39.25                       | 25.613     | 0.476                     | 1.532  | 0.164 |
| HBL   | (Constant) | 1056.56                     | 222.22     |                           | 4.754  | 0.001 |
|       | DPS        | 14.24                       | 9.14       | 0.482                     | 1.558  | 0.158 |
| NIBL  | (Constant) | 1326.05                     | 310.729    |                           | 4.268  | 0.003 |
|       | DPS        | -4.7                        | 20.545     | -0.081                    | -0.229 | 0.825 |
| SCBNL | (Constant) | 10324.98                    | 3811.796   |                           | 2.709  | 0.03  |
|       | DPS        | -69.877                     | 36.473     | -0.587                    | -1.916 | 0.097 |
| NABIL | (Constant) | -1848.338                   | 1636.246   |                           | -1.13  | 0.31  |
|       | DPS        | 56.549                      | 18.347     | 0.809                     | 3.082  | 0.027 |

A Dependent Variable: MPS

\* Calculation is done from SPSS software (Statistical package for social science)

Source: Appendix (A)

From the table 4.11, it shows that MPS is the dependent variable and DPS is independent variable. The value of constant 'a' of EBL is 430.498 and DPS is of 39.250. The regression coefficient of DPS is 25.613 which indicate that one rupee

increase in dividend causes Rs. 25.613 increase in stock price. The regression coefficient does not give statistically significant, on the basis of calculated t-value. The constant value of HBL is Rs. 222.22 and DPS is Rs. 14.24 and regression coefficient of DPS of HBL is 9.14 which indicate that one rupee increase in dividend increases market price of stock by Rs. 9.14.

The value of constant of NIBL and SCBNL are 310.729 and 3811.796 and DPS are Rs. -4.7 and -69.877 respectively. The regression coefficient of DPS of NIBL and SCBNL are 20.545 and 36.473 respectively which indicates that one rupee increase in dividend of both banks cause Rs. 20.545 and Rs. 63.473 decrease in MPS respectively.

The constant value of NABIL is 1632.246 and DPS is 56.549. The regression coefficient is 18.347 which mean one rupee increase in dividend increases market price by Rs. 18.347. It is clearly viewed from the table that value of constant 'a' demonstrates that if the DPS is 0, then MPS will be same as value of constant, a.

As regarded the regression model  $MPS = a + b \text{ DPS}$  and above explanation the inference drawn are that coefficient of DPS are higher in SCBNL as compared to other commercial banks. The effects of dividends on MPS have been found different in different commercial banks. The effect of dividends on MPS impacts positively in EBL, HBL and NABIL bank and negatively in NIBL and SCBL.

#### **4.4 Multiple Regression Analysis**

The multiple regression analysis is used to determine the statistical relationship between more variables and to make prediction of one variable on the basis of other. The regression analysis can be multiple when we take two or more independent variables and predict the value of dependent variable through the appropriate regression time then the analysis is known as multiple regression analysis.

##### **4.4.1 Multiple Regression Analysis of MPS on DPS and REPS**

Multiple regression analysis of MPS on DPS and REPS is made analysis the relationship between MPS with DPS and REPS and to estimate the effect in MPS by

changing DPS and REPS. this model was developed by Friend and Puckett in 1964. The regression result of MPS on DPS and REPS are shown below.

**Table 4.12**  
**Multiple Regression table of MPS on DPS and REPS**

| Model |            | Unstandardized coefficients |            | Standardized Coefficients | t      | Sig   |
|-------|------------|-----------------------------|------------|---------------------------|--------|-------|
|       |            | B                           | Std. Error |                           |        |       |
| EBL   | (Constant) | -654.158                    | 291.928    |                           | -2.241 | 0.060 |
|       | DPS        | 26.844                      | 10.573     | 0.326                     | 2.539  | 0.039 |
|       | REPS       | 38.046                      | 5.902      | 0.827                     | 6.447  | 0.000 |
|       |            |                             |            |                           |        |       |
| HBL   | (Constant) | 433.796                     | 698.937    |                           | 0.621  | 0.554 |
|       | DPS        | 17.785                      | 9.949      | 0.603                     | 1.788  | 0.117 |
|       | REPS       | 12.840                      | 13.653     | 0.317                     | 0.940  | 0.378 |
|       |            |                             |            |                           |        |       |
| NIBL  | (Constant) | -49.374                     | 620.407    |                           | -0.080 | 0.939 |
|       | DPS        | 17.221                      | 18.594     | 0.295                     | 0.926  | 0.385 |
|       | REPS       | 32.072                      | 13.287     | 0.770                     | 2.414  | 0.047 |
|       |            |                             |            |                           |        |       |
| SCBNL | (Constant) | 4406.382                    | 4488.840   |                           | 0.982  | 0.364 |
|       | DPS        | -34.107                     | 36.280     | -0.286                    | -0.940 | 0.383 |
|       | REPS       | 54.835                      | 28.715     | 0.581                     | 1.910  | 0.105 |
|       |            |                             |            |                           |        |       |
| NABIL | (Constant) | 1109.405                    | 3937.347   |                           | 0.282  | 0.792 |
|       | DPS        | 35.086                      | 32.014     | 0.502                     | 1.096  | 0.335 |
|       | REPS       | -46.907                     | 56.406     | -0.381                    | -0.832 | 0.452 |

A Dependent Variable: MPS

\* Calculation is done from SPSS software (Statistical package for social science)

Source: Appendix (A)

The table 4.12 shows that there is positive impact on independent variables (i.e. and REPS) upon a single dependent variable (MPS) in EBL, HBL, and NIBL. There is inverse relationship between MPS and DPS of SCBNL. The change in DPS causes changes in the MPS. There is a negative impact of REPS with n respect to MPS in NABIL .The t-value of coefficient of REPS of NABIL is significant at 5 percent level.

As regarded the regression model,  $MPS = a + b_1DPS + b_2REPS$  and above explanation, conclusion is drawn the MPS is dependent variable and DPS and REPS are independent variable. There is positive impact in DPS and REPS with respect to market price of stock in EBL .HBL and NIBL whereas there is

negative impact on REPS but positive impact on DPS but positive impact with respect to MPS in SCBNL. The coefficient of retained earning is very high as compared to coefficient of dividend per share indicates that REPS has predominant impact on stock and vice verse.

#### **4.5 Major Finding of the Study**

- 1.** Dividend payment is not regular phenomenon in Nepalese commercial banks. Despite the realization of important of dividend policy, most of the commercial banks have neither followed dividend policy nor realized the need for determining the target payout ratio. All five commercial banks are not able maintain a regular dividend in the form of regular cash or constant payout ratio.
- 2.** The correlation matrix shows the association between dependent variable and independent variable. In the EBL, the relationship between MPS and the variable like EPS and DPS have positive relationship and negative relationship with DPR, DY and EY. There is positive relationship between MPS with DPS, EPS, DPR and DY and negative relationship with EY in HBL. In NIBL, MPS is positively correlated with EPS and negatively correlated with DPS, DPR, DY and EY. In SCBNL, MPS is positively correlated with EPS and negatively correlated DPS, DPR, DY and EY. In NABIL, the variables like EPS, DPS and DPR are directly correlated with MPS, DY and EY are indirectly correlated with MPS.
- 3.** With respect impact of dividends on market price of share, a positive relationship has been found in EBL, HBL and NABIL with significant result and dividends have strong impact on market price of share in those banks. There is negative impact of dividend on MPS in NIBL and SCBNL.
- 4.** The multiple regression analysis of MPS and DPS and REPS revealed that, there is positive impact on DPS and REPS with respect to MPS in EBL, HBL and NIBL. The coefficients of dividends are very high as compared to the coefficients of retained earnings in HBL and NABIL. It means that dividend payment is more important than retained earnings in these banks but retained earning is more important in EBL, NIBL and SCBNL because coefficient of

retained earning is more than coefficient of dividend. The REPS has negative impact on MPS in NABIL and DPS has negative impact of MPS in SCBNL.

# CHAPTER V

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Summary

The concept of dividend policy is not simple enough to understand by a large segment of the financial community because many factors influence it. Fundamental theory of finance argues that the dividend policy is irrelevant to shareholders. Besides, some of other theories consider dividend decision to be an active variable influence the value of the firm, i.e., market price of stock. Due to this, the present study helps to resolve the contradiction between them in the literature of finance and especially in the Nepalese context. The study is also going to devote the suitability of model developed by earlier researcher in a big capital market in our context. So, this study may be the better solution in present situation for those who are very much interested to know about dividend and market price of share.

The study is based on primary and secondary data of 5 commercial banks listed in NEPSE covering 10 years long period for examining relationship between dividend and valuation of the banks whose shares are actively traded in the Nepalese stock market. Using pooled cross- section data to determine the relative the relative importance of dividend and retained earnings in determining the market value of shares. The main objectives of this study is to analyze the scheme of dividend payment of selected 5 commercial banks, to determine the relationship between MPS and other major financial indicators, to examine the impact of EPS, DPS and REPS and market price of share (MPS).

From the analysis of financial and statistical tools of all the sample banks, different findings are drawn that are scheme of dividend payment is not uniformity in nature in a way to achieve the objective of shareholder's value maximization. Most of the banks have paid the dividend due at lower rate even if capable of increasing the DPR. The positive relationship exists between MPS with EPS, DPR, DY and EY in commercial banks. The customary strong dividend and relatively weak retained

earnings effect on stock prices and dividend payment is more attractive as compared to retained earnings in Nepal.

## **5.2 Conclusion**

In the study, the major issues related to dividend and other relevant factors found while analyzing the variables are concluded. Dividend payment is not a regular phenomenon in Nepalese commercial banks out of 5 banks. Only two banks such as SCBNL and NABIL Bank paid a regular dividend to its shareholders over the nine and seven year's period. Similarly, no other banks have implemented a single or unique policy of dividend to its shareholders. They neither follow a constant DPS, nor low regular dividend plus extras. The trend of DPS also fluctuated over the study period even they paid dividend at a lower rate.

Most of the banks paid dividend on the basis of their earnings. Higher the earnings makes higher the dividend and vice-versa. Few of them are suffering from loss so they invest their earning in profitable sector.

There is a lack of legal rules and regulations that bind banks to pay dividend every year not only government has any clear policy but also the banks have specified policy towards the dividend. There is no provision in any act regarding dividend payment.

In the most of the commercial banks, the relationship between earning per share and share value is positively correlated to each other. It is because of the positive attitude of stockholders towards the firm with high earnings capacity. The dividend policy affects positively on market price per share. The relationship between DPS and MPS is positive in EBL, HBL and NABIL but negative relationship has found in NIBL and SCBNL. The shareholders of common stock give more emphasis on dividend payment rather than retained earnings.

According to the survey result, all the respondents are found to be the common shareholders of the bank and believed that dividend affects market price per share of

banks and companies. They also thought there is relationship between MPS with DPS and EPS. The respondents preferred constant dividend payout ratio than other types of dividend payout schemes and also thought that there is positive impact on dividend and retained earning with respect with market price of share

### **5.3 Recommendations**

Although, this study was concerned with dividend and stock prices, it may be appropriate to provide a package of suggestions in the light of major findings and conclusions. Based on the findings of the study the following recommendations are forwarded.

- **Dividend Payment**

Management needs to maintain regularity in dividend payment. They require to follows a stable dividend policy in terms of DPS by considering the dividend payment as an entrusted obligation towards the shareholders. They should not increase the dividend unless earnings are found to be permanent only with the sustainable increase in earnings. Banks should gradually increase the dividend payment to the shareholders. They should not lower the dividend rate and most increase dividend with sustained increase in earnings.

- **Dividend Payout Ratio**

Commercial banks should minimize the wide fluctuation in dividend payout ratio. Consistency in the DPR over the period helps in gaining the shareholders confidence and thus maximizing the share price. Management should have a long range profit planning strategy and decision must be in the direction to change DPR to extend only so as to maintain stability in dividend per share.

- **Increase in Earnings**

Increasing in earnings is an important factor to increase dividend. Management should define the dividend policy in such a manner that when there is increasing in earnings banks are willing to at least maintain the past dividend rate or increase DPR.

- **Lack of legal rules for Dividend Policy**

There is lack of rules binding's banks to pay dividend. The legal rules for the treatment of dividend policy are most for the smooth growth of national economy. There must be regularity reform for promoting and protecting the interest of shareholders and investors.

- **Factors Affecting Dividend Policy**

Dividend Policy is an important as well as relevant factor in affecting stock prices. So, banks should avoid any irregularities in dividend payment. It should change dividend policy if required that helps increase in market price, but if the banks have inadequate cash in spite of having sufficient reserve.

- **Issue of Cash Dividend**

Issue of Cash Dividend increases market value per share and earning per share whereas issue of stock dividend decreases market value per share and earning per share. Due to this, Shareholder should be given an option to choose between stock dividend and cash dividend. For this, management should positively undertaken shareholder's suggestion, implementation of shareholder's constructive comments and suggestions may help in better improvement of bank's performance. There all are possible only when shareholders are encouraged to participate in AGM of the banks.

- **Nepal Stockholder's Attitudes towards Dividend**

Desire of most Nepalese stockholders was positive towards dividends rather than retained earnings. Investors invest capital for the dividend in one hand and on the other hand earnings accumulation enables firms to exploit given opportunities of expansion without financial constant. Management is required to maintain a balance between dividend and retained earnings. In case of need, firm can use retained earnings in financing the expansion already planned and also to maintain stable dividend case of temporary decline in earning in any year. Retained earnings should be used as a substitute of long – term financing requirement. But if the firm do not

find additional opportunities of reinvestment, it is better to distribute in the form of cash dividend.

At the end, the study has concluded with in the various limitations and short comings. These are served avenues for future research in the area of dividend and stock prices in Nepal. The motive of this research study is to find out the dividend policy followed by the selected commercial banks and its impact on market price of share of those banks by using primary data and secondary data.

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## Unpublished Research (Thesis)

| Banks | Year | MPS<br>(Rs) | DPS<br>(Rs) | EPS<br>(Rs) | DPR | DY | EY | PE<br>Ratio | REPS |
|-------|------|-------------|-------------|-------------|-----|----|----|-------------|------|
|-------|------|-------------|-------------|-------------|-----|----|----|-------------|------|

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|                        | 1999/2000 | 995         | 20          | 34.84       | 0.00  | 0.00 | 0.04 | 28.56       | 14.84 |      |       |       |        |
|------------------------|-----------|-------------|-------------|-------------|-------|------|------|-------------|-------|------|-------|-------|--------|
| Banks                  | 2000/2001 | MPS<br>(Rs) | DPS<br>(Rs) | EPS<br>(Rs) | DPR   | DY   | EY   | PE<br>Ratio | REPS  |      |       |       |        |
|                        | Year      |             |             |             |       |      |      |             |       |      |       |       |        |
| Bank                   | 1999/2000 | 1405        | 75          | 53.68       | 32.91 | 0.47 | 0.00 | 0.02        | 0.04  | 0.08 | 26.10 | 12.31 | -21.32 |
| Everest Bank Limited   | 2002/2003 | 445         | 20          | 29.9        | 0.67  | 0.04 | 0.07 | 14.88       | 9.9   |      |       |       |        |
|                        | 2003/2004 | 680         | 20          | 45.58       | 0.44  | 0.03 | 0.07 | 14.93       | 25.58 |      |       |       |        |
|                        | 2004/2005 | 870         | 20          | 54.22       | 0.00  | 0.00 | 0.06 | 16.04       | 34.22 |      |       |       |        |
|                        | 2005/2006 | 1379        | 25          | 62.78       | 0.40  | 0.02 | 0.05 | 21.97       | 37.78 |      |       |       |        |
|                        | 2006/2007 | 2430        | 40          | 78.42       | 0.13  | 0.00 | 0.03 | 30.99       | 38.42 |      |       |       |        |
|                        | 2007/2008 | 3132        | 50          | 91.82       | 0.22  | 0.01 | 0.03 | 34.11       | 41.82 |      |       |       |        |
|                        | 2008/2009 | 2455        | 60          | 99.99       | 0.30  | 0.01 | 0.04 | 24.55       | 39.99 |      |       |       |        |
| Himalayan Bank Limited | 1999/2000 | 1700        | 125         | 83.08       | 0.60  | 0.03 | 0.05 | 20.46       | 41.92 |      |       |       |        |
|                        | 2000/2001 | 1500        | 84.5        | 93.57       | 0.29  | 0.02 | 0.06 | 16.03       | 9.07  |      |       |       |        |
|                        | 2001/2002 | 1000        | 60          | 60.26       | 0.41  | 0.03 | 0.06 | 16.59       | 0.26  |      |       |       |        |
|                        | 2002/2003 | 836         | 26.32       | 49.45       | 0.03  | 0.00 | 0.06 | 16.91       | 23.13 |      |       |       |        |
|                        | 2003/2004 | 840         | 20          | 49.05       | 0.00  | 0.00 | 0.06 | 17.12       | 29.05 |      |       |       |        |
|                        | 2004/2005 | 920         | 43.16       | 47.91       | 0.24  | 0.01 | 0.05 | 19.20       | 4.75  |      |       |       |        |
|                        | 2005/2006 | 1100        | 65          | 59.24       | 0.51  | 0.03 | 0.05 | 18.57       | 5.76  |      |       |       |        |
|                        | 2006/2007 | 1740        | 55          | 60.66       | 0.25  | 0.01 | 0.03 | 28.69       | 5.66  |      |       |       |        |
|                        | 2007/2008 | 1980        | 70          | 62.74       | 0.40  | 0.01 | 0.03 | 31.56       | 7.26  |      |       |       |        |
|                        | 2008/2009 | 1760        | 55.56       | 61.9        | 0.19  | 0.01 | 0.04 | 20.43       | 6.34  |      |       |       |        |

**Appendix (A)**

|                                   |           |      |       |        |      |      |      |       |         |
|-----------------------------------|-----------|------|-------|--------|------|------|------|-------|---------|
|                                   | 2000/2001 | 1150 | 0     | 33.18  | 0.00 | 0.00 | 0.03 | 34.65 | 33.18   |
|                                   | 2001/2002 | 760  | 40    | 33.59  | 0.00 | 0.00 | 0.04 | 22.62 | -6.41   |
|                                   | 2002/2003 | 795  | 40    | 39.56  | 0.51 | 0.03 | 0.05 | 20.1  | -0.44   |
|                                   | 2003/2004 | 940  | 30    | 51.7   | 0.29 | 0.02 | 0.06 | 18.18 | 21.7    |
|                                   | 2004/2005 | 800  | 25    | 39.5   | 0.32 | 0.02 | 0.05 | 20.25 | 14.50   |
|                                   | 2005/2006 | 1260 | 75.46 | 59.35  | 0.34 | 0.02 | 0.05 | 21.23 | -16.11  |
|                                   | 2006/2007 | 1729 | 35    | 62.57  | 0.08 | 0.00 | 0.04 | 27.63 | 27.57   |
|                                   | 2007/2008 | 2450 | 48.33 | 57.87  | 0.13 | 0.00 | 0.02 | 42.33 | 9.54    |
|                                   | 2008/2009 | 1388 | 40    | 37.42  | 0.53 | 0.01 | 0.03 | 37.10 | -2.58   |
| Standard Chartered Bank Nepal Ltd | 1999/2000 | 1985 | 200   | 115.62 | 0.86 | 0.05 | 0.06 | 17.17 | -84.38  |
|                                   | 2000/2001 | 2144 | 200   | 126.88 | 0.79 | 0.05 | 0.06 | 16.90 | -73.12  |
|                                   | 2001/2002 | 1575 | 200   | 141.13 | 0.71 | 0.06 | 0.09 | 11.16 | -58.87  |
|                                   | 2002/2003 | 1640 | 220   | 149.3  | 0.74 | 0.07 | 0.09 | 10.98 | -70.70  |
|                                   | 2003/2004 | 1745 | 220   | 143.55 | 0.77 | 0.06 | 0.08 | 12.16 | -76.45  |
|                                   | 2004/2005 | 2345 | 240   | 143.14 | 0.84 | 0.05 | 0.06 | 16.36 | -96.86  |
|                                   | 2005/2006 | 3775 | 270   | 175.84 | 0.74 | 0.03 | 0.05 | 21.47 | -94.16  |
|                                   | 2006/2007 | 5900 | 210   | 167.37 | 0.48 | 0.01 | 0.03 | 35.25 | -42.63  |
|                                   | 2007/2008 | 6830 | 210   | 131.92 | 0.61 | 0.01 | 0.02 | 51.77 | -78.08  |
| NABIL Bank Limited                | 2002/2003 | 740  | 100   | 84.66  | 0.59 | 0.07 | 0.11 | 8.74  | -15.34  |
|                                   | 2003/2004 | 1000 | 130   | 92.61  | 0.70 | 0.07 | 0.09 | 10.80 | -37.39  |
|                                   | 2004/2005 | 1505 | 140   | 105.49 | 0.66 | 0.05 | 0.07 | 14.27 | -34.51  |
|                                   | 2005/2006 | 2240 | 170   | 129.21 | 0.66 | 0.04 | 0.06 | 17.34 | -40.79  |
|                                   | 2006/2007 | 5050 | 240   | 137.08 | 1.02 | 0.03 | 0.03 | 36.84 | -102.92 |
|                                   | 2007/2008 | 5275 | 160   | 108.31 | 0.92 | 0.02 | 0.02 | 48.70 | -51.69  |
|                                   | 2008/2009 | 4899 | 120   | 106.76 | 0.80 | 0.02 | 0.02 | 45.89 | -13.24  |

With most respectively, I would like to request you to fulfill your answer in this answer sheet.

1. Respondent Profile

|                   |   |
|-------------------|---|
| a. Name           | : |
| b. Address        | : |
| c. Age            | : |
| d. Sex            | : |
| e. Occupation     | : |
| F. Office Name    | : |
| g. Post in Office | : |
| h. Telephone No   | : |
| i. Mobile No      | : |

2. Basic information (Please tick the answer.)

Q.N.1) Have you hold any share of banks or companies?

- a) Yes                      b) No

Q.N.2) what kind of shares has you hold?

- a) Preferred stock   b) Common Stocks   c) Both   d) None

Q.N.3) what do you think which of these stocks is the best?

- a) Preferred stock   b) Common Stocks   c) No idea

Q.N.4) Do you think dividend effects market price of share of any banks or companies?

- a) Yes   b) No   c) No idea

Q.N.5) which kind of dividend payout schemes are used by the banks or companies that you have share of?

- a) Constant dividend per share   b) Constant payout ratio   c) Low regular   d) Others

Q.N.6) which kind of dividend payout schemes you prefer the most?

- a) Constant dividend per share   b) Constant payout ratio   c) Low regular   d) Others

Q.N.7) Do you think is there any relation between the following?

i) MPS and DPS

- a) Yes   b) No   c) No idea

ii) EPS and DPS

- a) Yes   b) No   c) No idea

i) MPS and EPS

- a) Yes   b) No   c) No idea

Q.N.8) Is there is any impact on dividend and retained earnings with respect to market price of share?

- a) Yes   b) No   c) No idea

Q.N.9) Do you prefer banks or companies which pays higher dividend or which has higher growth?

- a) Higher dividend   b) higher growth   c) no idea

\_\_\_\_\_  
Signature