CHAPTER -I

INTRODUCTION

1.1 Background of the Study

Dividend is the earning or profit distributed to shareholders by a company. It may be in cash, shares and securities or a combination of these. Generally there are two types of shares; preference shares and equity shares. Dividend paid on preference share is called preference dividend which is generally fixed and payable before payment of equity dividend. There is no choice to management for the preference dividend. But there is full choice about the rate of equity dividend. The policy of a company on the division of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. The dividend should be paid; secondly it has to determine how much it should be. All aspects and questions related to payment of dividend are contained in a dividend policy. A dividend policy that allows stockholders to get their share of the profit by always paying out a fixed percentage of earning tend to be preferred by over one that regularly pays stable or increasing dividend (Gitman, 1988).

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

The firm issues equity shares to raise ownership capital and the investors buy them, with the expectation to receive a share of profit. The value of the firm is said to be high when the market price of the company's common stock is higher. The wealth maximization principle also implies that fundamental objective of the firm should be to maximize the market price of the company's share. Firms that perform better than others have higher stock prices and can raise additional funds (both debt and equity) in more favorable terms. Therefore, it is important to identify the factors that determine the market price of equity shares of any organization. Financial institutions including the commercial banks, in Nepal are the institutions that mobilize resources in the society. Their survival and growth is very important for the growth of the nation. Thus, the study of the historical growth of capital market and the equity price behavior of commercial banks in Nepal is much relevant in the present context.

The history of capital market in Nepal is not very long. Biratnagar Jute Mills Ltd. was the first company to issue share to general public in 1937. Institutional development of securities market in Nepal started when Securities Exchange Centre (SEC) was established under the Companies Act in 1976. It was established with the joint capital contribution of Nepal Rastra Bank and Nepal Industrial Development Corporation. The objective of the establishment of Securities exchange Centre was to facilitate and promote the growth of capital market in Nepal. It was converted into Nepal Stock Exchange (NEPSE) in 1993, with the establishment of Securities Board. It is a non-profit making organization operating under Securities Exchange Act 1983.

During 90's along with the economic liberalization in Nepal many joint venture banks established in private sector, which subscribed shares widely to the general public. Commercial banking appeared as the most profitable business and therefore in the beginning the price of shares of commercial banks continuously went up. However, the stock market had been much volatile in Nepal during the last decade because of internal conflict, political instability, insider trading and various other reasons.

1.2 Statement of the Problem

Dividend is the most inspiring factor for the investment on the shares of the company and similar to the commercial banks. Dividend policy is not straight forward and simple aspect of the corporate finance. It is more technical area of finance in the sense that is a complex one having numerous implications for the firm. Shareholders make investment in equity capital with the expectation of increasing their wealth. Dividend is a kind of earnings that the shareholders expect from their investment. But the dividend decision is will a fundamental as well as controversial area of managerial function. The affect of dividend policy on market price of share is a subject of long standing arguments. But, still there is no single conclusive result regarding the relationship between dividend payment and market price of the share. There is no controversy that when a firm gets much earning, when the shareholders would expect much dividend. But earnings are also treated as financing sources for the firm. If the firm retains the earnings, its repercussion can be seen in many factors such as decreased leverage ratio, expansion of activities and increase in profit in succeeding years whereas if the firm pays dividends, it may need to raise capital through capital market which may dilute the ownership control of existing shareholders. If the firm takes loan or raises debenture, it will affect on risk characteristics of the firm.

Dividend is most inspiring aspect for the investment in the shares of various companies for an investors, even if dividend affect the firm's value, unless management knows exactly how they affect value, there is not much that they can do to increase the shareholder's wealth. So it is necessary for the management to understand how the dividend policy affects the market value of the firm or market price of the stock or the wealth position of the shareholders.

There is no limit in identification of the problem about dividend practices that are visible in Nepalese companies. To sum up this study, the study deals with the following issues.

- What are the dividend practices adopted by Nepalese companies?

- What is the relationship of market price per share with other financial indicators such as Earnings Per Share, Dividend Payout Ratio and Net Worth per share.
- Is there any consistency in EPS, DPS, MPS, NWPS and DPR?

1.3 Objectives of the Study

The study primarily focused to examine the effect of dividend on pricing system of the equity shares. Following are the major objectives of the study:

1. To assess and analyze the prevailing dividend practices adopted by the Nepalese companies.
2. To examine the relationship of market price per share with other financial indicators such as Earnings Per Share, Dividend Payout Ratio and Net Worth per share.
3. To suggest and recommend the views for analysis.

1.4 Significance of the Study

The Nepalese economy is not at such state that where any one can feel proud by heart. As a matter of fact, the recent economic situation of Nepal has been influenced by the economic recession due to security problem and unstable political situation. Commercial Banks & Capital Market also is not able to get ride of such influences. The investment opportunities due to economic recession have put the Nepalese entrepreneurs in a great trouble. This may be the only reason that foreign and Nepalese investors are drawing back their hands from the investment sectors.

The study of "Dividend Practices by Nepalese Companies" becomes an indispensable subject matter in today's context because objective behind investment in stock is to grant greater dividend and attract new investors, to retain present investors and maintain goodwill of the company.

While investing in shares, the investor forgoes opportunity income that he could have earned. The income of capital market is secured from two types of gain (a) revenue gain i.e. dividend and (b) capital gain i.e. appreciation in stock price. The study is a matter of great concern to identify the difficulty relating to dividend decision and factors affecting dividend policy. Thus, the study of dividend policy of Commercial Banks is undertaken as a research purpose is important. Importance of the study is as follows:

- This study is useful to make clear conception towards dividend to related investors and company's management.
- This study must be useful to the government for policymaking, controlling, and supervisions & monitoring.
- This study helps to know the impact of dividend on the market price of equity share of some financial institutions.
- This study will be useful to the concerned people like shareholders, management and policy makers.
- This study will be useful to all of the sampled financial institutions taken in this study. Equity share traders will take advantage of this thesis while trading shares in the secondary market.
- This study will be very helpful for students for further research to find more details on the related topic.

1.5 Limitation of the Study

Today world is dynamic, everything existing here are of limited character. Every principle rule and formula and conditions are applied within the limitations likewise, this study cannot escape from limitations the study is confined only to dividend practices in Nepalese companies. Following factors have limited the scope of this study.

- The study covers only the effect of dividend on equity share behavior of selected financial institutions only.
- It does not deal with market prices of other securities like preference shares and Government securities, bonds and debentures.
- It does not deal with economical and other factors which affect the market price of equity share.
- This study does not cover the analysis of capital structures; the cost of capital and financial flows of capital in the market.
- The result of this study has been limited to the relationship between the dividend and the equity stock pricing behavior of commercial banks, finance companies, development banks, insurance company and hydropower companies.
- This study assumes that the individuals who respond to this survey are truthful. Since the data are mainly collected from the secondary source, the consistency of the findings is reliable upon the reliability of the secondary data and information.

1.6 Organization of the Study

This study has been categorized into five chapters as:

Chapter - I: Introduction

The first chapter is the introductory part which deals with background of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study

Chapter -II: Review of Literature

The second chapter deals with conceptual review as well as empirical review which have been done previously.

Chapter -III: Research Methodology

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

Chapter -IV: Data Presentation and Analysis

The fourth chapter would contain presentation and analysis of secondary data which would attempt to analyze and evaluate data with the help of analytical tools and interpretation the results obtained.

Chapter -V: Summary, Conclusion and Recommendations

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

At the end of the chapters bibliography and appendices have been incorporated.

CHAPTER-II

REVIEW OF LITERATURE

This chapter effort has been made to examine and review some of the related books, articles published in different economic journals, bulletins, dissertation papers, magazines, newspapers, and websites. The literature review shares the reader the results of other studies that are closely related to the study being reported and to the larger, outgoing dialogue in the literature about a topic, filling in gaps and extending prior studies. It also provides a framework for establishing the importance of the study, as well as a benchmark for comparing the results of a study with other findings.

The review of literature has been divided into three categories namely conceptual framework, theories related to the topic and review of articles, books and masters' level thesis.

2.1 Conceptual Framework

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

- Dividend
- Dividend Policy
- Equity Share

2.1.1 Dividend

Once companies make profit, they must decide on what to do with the profit. They could continue to retain the profit within the company or they could payout the profit to the owners of the firm in the form of dividend. “Once the company decides on whether to pay dividend, they may establish a somewhat permanent dividend policy, which may in turn impact on investors and perceptions of the company in the financial market. What they decide depends on the situation of the company now and in the

future. It also depends on the preferences of investors and potential investors" (www.studyfinance.com).

All aspects and questions, which are related to the payment of dividend, are contained in dividend policy. There is an inverse relationship between retained earnings and cash dividends. When retain earning increases then dividend will decrease and vice versa. Dividend decision is a major financial decision because it determines the amount of earnings to be distributed to shareholders and the amount to be reinvested within the organization

What and how much it is desirable to pay dividend is always a controversial topic because there are so many reasons to pay higher dividend and not paying higher dividends. Shareholders can be benefited from two types of return by investing in the stock i.e. dividend and capital gain. Shareholders expect higher dividend from the firm but firm ensures towards setting asides funds for maximizing the overall shareholders' wealth. It is therefore, a wise policy to maintain a balance between shareholders interest with that of corporate growth from internally generated funds. It is better to pay dividend when a firm couldn't profitably reinvest earnings.

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

A. Types of Dividend

According to the changing needs of corporations, dividend is being distributed in several forms such as cash dividend, stock dividend, bond dividend, scrip dividend etc. Although, cash dividend is most popular form of dividend, firms need to follow different types of dividend in view of the objective and policies, which they

implement. In Nepal and India, only cash dividend, stock dividend are declared and paid. “The type of dividend that corporation follows is partly of a matter of attitude of directors and partly a matter of the various circumstances and financial constraints that bound corporate plan and policies” (Thapa, 2064).

1) Cash Dividend

Cash dividend is the main form of dividend, which is distributed to the shareholders in cash from the earnings. A company may have earnings but might be shortage of cash in its bank account. A company should have enough cash before declaring cash dividend. Needed cash to pay dividend can be forecasted by preparing cash budget. The cash account, reserve account as well as total assets and the net worth of company decreases when cash dividend is distributed and the market price of stock also drop.

2) Stock Dividend (Bonus Share) & Stock Split

A stock dividend is the payment of existing shareholders of a dividend in the form of stock. When the stock dividend is paid the number of outstanding share increases. Stock dividend is beneficial for both to shareholders and the company. In such dividend, shareholders do not have to pay income tax and it will increase future gain in both i.e. dividend and capital gain. The bonus share is also beneficial to the company because it conserves the cash. It does not affect the proportion of ownership.

“A stock dividend simply is the payment of additional stock to shareholders nothing more than a recapitalization of the company; stockholders proportional ownership remains unchanged.”

Stock split is same as stock dividend. Shareholders retain the same percentages of all outstanding stock that s/he had before the stock dividend or split.

3) Reverse Spilt

A method that is used to raise the market price of a firm's stock by exchanging certain number of outstanding share for one new share of stock. The effect of Reverse Spilt is a decrease in the number of share outstanding and an increase in a par or stated value of the shares. The total net worth of the firm remains unchanged. The Reverse Spilt does not involve any cash payments only additional certificates representing new shares are issued.

4) Bond Dividend

Bond dividend is distributed to its shareholders in the form of bond. The bond dividend is issued to reserve the cash or the cash position of company is not good.

5) Scrip Dividend

When a company's cash position is weak and doesn't permit to pay cash as dividend but justifiable to pay dividend then it may declare dividend in the form of scrip. In this dividend, company issue and distribute promissory notes equivalent to dividend which may be interest bearing or not. Scrip dividend is declared only to wait for the conversion of other current assets into cash in the course of operation.

B. Theories of Dividend

i. Dividends as Residual

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

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

ii. Wealth Maximization Theory

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

2.1.2 Dividend Policy

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

Factors Influencing Dividend Policy

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

i. Legal Rule

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

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

ii. Liquidity Portion

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

iii. Need to Repay Debt

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

iv. Rate of Asset Expansion

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

v. Profit Rate

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

vi. Control

It is very important for every firm to maintain the control rate. These owners would prefer the use of debt and retained profits to finance new investments rather than issue new stock. As a result dividend payout will be reduced.

2.1.3 Equity Share

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

Features of Equity Share

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

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

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

Right to control: The ordinary shareholders have the legal power to elect directors to the board, if the board fails to protect their interest, they can replace the directors.

They are able to participate in the management of the company through their voting right and right to maintain proportionate ownership.

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

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

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

2.2 Theoretical Underpinnings

Modigliani and Miller's (1961), gave the most comprehensive argument for the irrelevant of dividend in their article. In the history of finance, firstly, they declared that dividend policy does not affect the value of the firm, i.e. dividend has no effect on the share price of the firm. They argued that the value of the firm depends on the firm's earnings, which depends on its investment policy. M.M.'s hypothesis of irrelevance is based on the following assumption: The firm operates in perfect capital market in which all investors are rational, information is freely available, flotation costs do not exist, infinitely divisible securities and no investor is large enough to affect the market price (per share) of security.

1. Taxes do not exist.
2. The firm has a fixed investment policy of which is not subject to change
3. Risk of uncertainty does not exist.

4. They provided the proof in support of their argument in the following manner.

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

$$P_o = \frac{D_1 + P_1}{1 + K_e} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (i)$$

Where,

P0 = current market price per share

Ke = cost of equity capital (The rate is assumed to be constant through out the time

D1 = Dividend per share
P1 = MPS (Market price of the share) at the end of the period

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

If the firm's internal sources, financing its investment opportunities fall short of the funds required and ΔnP1. The value of the firm at time zero will be:

$$nP_o = \frac{n(D_1 + P_1) + \Delta np - \Delta np_1}{1 + K_e} \ldots\ldots\ldots (ii)$$

$$nP_o = \frac{nD_1 + P_{1+(n+\Delta n)-\Delta np_1}}{1 + K_e} \ldots\ldots\ldots\ldots\ldots (iii)$$

Where,

n = no. of shares at the beginning

Δn = no. of equity shares issued at the end of the period If the investment proposals of a firm, is a given period of time, can be financed either by retained earning or the issuance of new shares or both. Thus the amount of new issued will be formed by the given equation:

$$\Delta np_1 = I - (E - nD1)$$

or Δnp1 = 1-E+nD1 ..... (iv)

Where,

Δnp1 = the amount obtained from the sale of new shares to finance capital budget.

I = the total amount required of capital budget

E = Earning of the firm during the period

E-nD1 = Retained earnings

By substituting the value of Δnp1 from equation (iv) to equation (iii) we get,

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

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

Modigliani and Miller concluded that dividend policy has no effect on the share price. So, there is no role of dividend in above equation. [Since dividend doesn't appear directly in expansion and E, I, (n+Δn) p1 and k_e are assumed to be independent of dividend, MM concludes that dividend policy has no effect in the value of the firm. In this way according to Modigliani and Miller's study: "It seems that under condition of perfect capital markets, rational investors, absence of tax discrimination between div

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

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

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

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

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

Where,

P= market price per share,

DPS = Dividend per share

EPS = Earning per share

r= Internal rate of return

k= cost of capital

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

Growth firm (r>k)

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

Normal firm (r=k)

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

Declining Firm (r<k)

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

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

leads to increase in stock price for the reason that investors consider the dividend yield (D1/P0) is less risky than the expected capital gain. Hence, investors required rate of return increases as he amount of decreases. It is clear that there is positive relationship between the amount of dividend and stock prices.

Basic assumptions of this model are as follows:

1. The internal rate of return (r) and the cost of capital (ke) are considered to remain constant.
2. The firm as well as its stream of earnings is perpetual
3. The company operates in the world of no taxes.
4. The firm is assuming to be an all equity firm (i.e. not debt exists)
5. No external financing is available so retain earning should be used to meet funds required.
6. The retention ratio (b) once decided upon is constant thus growth rate g is the product of b and r is tend to remain unchanged
7. 'Ke' must be greater than 'g' to get meaningful value.

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

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

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

Where,

p= price of a share

EPS = Earning per share

b= Retention Ratio

(1-b) = Dividend pay out ratio

k e = capitalization rate or cost of capital

b x r = Growth rate

According to this model following facts are revealed.

Growth firm (r>ke)

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

Normal firm (r=ke): Share value remains constant regardless of change in dividend policies, which means dividends and stock prices are free from each other.

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

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

They tested two regression models for the utilizing industry. From the study it was found that share value of electric firms in 1968 was adversely affected by new equity financing in the presence of cash dividends except for those firms in the highest new

issue group and it made new equity financing in the presence of cash dividends except for those firms in the highest new issue group and it made new equity a more costly from financing that retention of earning. They also indicated that the payment of dividend through excessive equity financing reduces share prices (Van Horne; et. al; 507-519).

2.3 Review of Empirical Studies

In order to make this study comprehensive some articles, researches and studies related to impact of dividend on equity share pricing are reviewed here under.

Pradhan (2001), has published an article on *"Stock Market Behaviour in Nepal."* He conducted the study of stock market behaviour in Nepal in 2000 colleting the data form 17 enterprises covering the year between 1991 to 2000.

The main objective of his study are written as; To assess the stock market behaviour in Nepal and to examine the relationship to the market equity, market value to book value, price earning and dividend with liquidity, profitability, leverage assets turn over and interest coverage.

From his study the conclusion can be written as; Higher the earning on the stock leads the longer the ratio of dividend per share to the market price per share have higher liquidity, liquidity position of stock, paying lower dividend also more variable as compared to the stock paying higher dividend, stock with larger ratio of dividend per share to market price per share has higher liquidity and he also concluded that there was positive relationship between the ratio of DPS to MPS and interest coverage ratio, DPS and MPS, DPR and Profitability, DPR and turnover ratio, DPR and interest coverage.

Pradhan (2003) has published an article on *"Stock market behavior in a small capita market: a case of Nepal."* The overall study of his research suggests that profitability, liquidity, leverage, assets turnover and interest coverage are related to dividend payouts. The study is based on pooled cross sectional data of 17 enterprises whose stocks are listed in stock exchange center and traded in the stock market.

Pradhan (2004) has published an article on *"The efficient market hypothesis and the behavior of shares prices in Nepal."* The current market price of share in Nepal is useful to make buy and sell decision, to predict future average return, and to predict future prices. The main factor affecting share price as perceived by the respondents are dividends are dividends, retained earnings, bonus shares and right issue. The share prices have been found more volatile then expected dividends. Similarly, publicly available information is useful in identifying over or undervalued securities. Nepalese investors are not really indifferent towards makings or non makings of information public.

K.C and Joshi (2004), have published an article on *"These evidences of the study would question the efficiency of Nepal stock exchange."* However they are not necessarily embarrassments. This may be also due to market imperfections. The index used for this study encompasses companies, which trade during that particular day from the period (February 1, 1995 to January 31, 2004). Such a small sample period may mislead the findings of the study. In addition the effects of Maoist insurgency lasting for nine years that caused politically uncertainty and lack of confidence among the investors should be undertaken not only to conform the results of the present study but also to investigate microstructure and operational procedure of Nepal stock exchange. Another fruitful area of research is to investigate whether reported anomalies are valid for individual shares or not. Further whether a trading strategy based on these "seasonality's" is profitable out of transaction costs or not should also be investigated.

2.4 Review from Thesis

Ghimire (2003) has conducted a research work entitled *"Dividend Policy: A Comparative Study between Commercial Banks and Insurance Companies."* The data were collected from 1995/96 to 1999/2000 with three commercial banks and three insurance companies in 2002.

The main objectives of his study are written as; to examine the relationship between dividend and market price of stock, between dividend policy decision of banks and insurance companies and to identify the appropriate dividend policy followed by bank and insurance company.

Form his study, the conclusion can be written as follows. The average DPS and EPS of all concerned institution except NABIL seem to be satisfactory. There is largest fluctuation in EPS and DPS of the concerned institution and the DPR is not seem to constant in all institutions, it always fluctuating form year to year.

Bhatta (2006) has conducted a research work entitled *"Dividend Policy and Its Impact on Market Price of the Share."* He has selected seven commercial banks and collects the data from the year 1996/97 to 2002/2003.

The important objectives of his study are to highlight the dividend policy practices in Nepal, to identify of the variables that affect the dividend policy and to provide feedback to the policy makers and executives working in various commercial banks.

Form his study conclusion can be written as; the average EPS of the bank shows a positive result, but the EPS of the banks are not stable. Similarly, the DPS shows there is no regularity in payment of dividend. He conclude that the dividend per share is affected by EPS and retention ratio.

Rana (2007) has conducted a study on *"Dividend Behaviour of Joint Ventures Banks in Nepal."* His main objectives of the study are written as: to highlight the dividend behaviour of joint ventures banks. To analyze the relationship of dividend with EPS, MPS, Net profit and Net worth and to find whether dividend behaviour affect the MPS or not?

From his study, the conclusion can be written as; There is highest fluctuation in dividend of the banks. The average price earning ratio of JVB seems to be satisfactory and there is positive relationship between Dividend payout and profitability, dividend payout and turnover ratio, dividend payout and interest coverage.

Gurung (2008) has conducted a study on *"Dividend Pattern in Nepal of Listed Commercial Banks in NEPSE."* His objectives were to identify dividend policy practices in commercial banks and find out the policy is appropriate or not?, to test the relationship between EPS and DPS, EY and DY and EPS and MPS the another objective is to determine the impact of dividend on share price. From the study, he concluded that the average EPS and DPS of the banks are satisfactory, there is not consistency in dividend pay out ratio. The relationship between DPS and CR, earning yield and Dividend yield is significant in majority of the banks.

Bista (2009) has conducted a research on *"Impact of Dividend on Market Price of Shares of Selected Commercial Banks."* He has aimed to highlight the various aspects of dividend policies and practices in Nepal and to analyze the variable such as DPS, DPR, dividend yield and their relation with market value. Collecting the data from secondary source of few year from 1996/99 to 2005/06, she analyzed and made the study using financial and statistical tools.

The conclusion of her study is written as; average EPS, MPS and DPS of commercial banks are fluctuating year by year, there seems to be positive relationship between EPS, DPS, EPS and MPS, DPR and MPS in the sampled banks. There exists negative relationship between dividend yield and MPS. At last multiple regression analysis of MPS on EPS and DPS reveals the positive relation between MPS with EPS and MPS with DPS.

Khatiwada (2009), conducted his Master's research on *"Impact of Dividend and Earning Announcement on Shareholder's Return and Stock Price in Nepal."* His objectives were to analyze the affect of earning and dividend announcement on shareholders return, to identify the relationship between the return of individual securities, with market return and to identify the quality of systematic and unsystematic risk.

From his study the conclusion can be written in following manner. The announcement of earning and dividend do not affect the shareholder return in average and shareholders realized positive abnormal return from half of the sample banks.

2.5 Research Gap

This thesis work reflects the following research gap between the previous researches. None of the previous thesis analyses the impact of dividend on equity share pricing in Nepal. They have not used multiple regression analysis to make the research more convenient. Hence the researcher had attempted to fill this research gap taking fifteen companies listed in NEPSE. This research work is mainly focused on analyzing the impact of dividend on equity share price focusing multiple regression analysis. This thesis uses secondary data to analyze the impact of dividend in equity share pricing in Nepal.

CHAPTER-III

RESEARCH METHODOLOGY

Research Methodology is a diagnostic approach of research and is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It helps in studying the entire research work in easy manner and also in presenting report in an understandable way. It includes wide range of methods, including a quantitative technique for analysis of data and information collected. Therefore, research methodology refers to the methods and techniques used in collection, tabulation and analysis of data and information collected to achieve the objective of the study. The main objective of this research is to analyze, examine and interpret the data and information to come at appropriate decision by giving conclusions and suggestions.

3.1 Research Design

Research design is the specification of methods and procedures for acquiring the information needed. It is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. This research will follow analytical and descriptive research design.

3.2 Population and Sample of the Study

All the companies listed in NEPSE are considered to be the total population of the study. Out of them Commercial Banks, Development Bank, Finance Companies, Insurance Companies, Hydropower companies and others companies listed and doing share transaction in NEPSE were considered as the sample of the study. The no. of listed companies reached 176 by the end of fiscal year 2009/10.

For the purpose of these study 23 commercial banks, 40 development banks, 19 insurance companies, 62 finance companies and 4 hydropower companies (i.e. total of 148) companies are considered as a sample population. The sample for this research would 15 financial institutions. For the basis of selecting companies under study, the market share in NEPSE has been considered. Among all companies listed in NEPSE

commercial banks, development banks and finance companies were cover the maximum part of trading.

The sample has been included 5 commercial banks, 4 financial companies, 3 development banks, 2 insurance companies and 1 hydropower company. The names of the Sampled Financial Institutions are:

Commercial banks

1. Nabil bank limited
2. Bank of Kathmandu
3. Everest bank limited
4. Nepal investment bank limited
5. Himalayan bank limited

Finance companies

1. Standard finance limited
2. Capital merchant banking and finance limited
3. Royal merchant banking and finance limited
4. Union finance limited.

Development banks

1. DCBL bank limited
2. ACE development bank ltd.
3. Siddhartha development bank ltd.

Insurance companies

1. Nepal insurance company limited
2. Sagarmatha insurance company limited

Hydropower Company

1. Butwal power company limited

3.3 Sources of Data

Data have been collected from secondary sources. In secondary data, concerned banks, finance company concerned institutions, Nepal Stock Exchange Ltd. and Security Board of Nepal are providers of the data. The researcher collected various data from concerned institutions, NEPSE and SEBON in various dates in the month of march . The sample period covers 2006-2010 for examining the relationship as well as for using different indicators. The data obtained are:

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

3.4 Analysis of Data

Dividend per Share (DPS)

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

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

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

Earnings per Share (EPS)

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

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

Dividend Payout Ratio (DPR)

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

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

Net Worth per Share (NWPS)

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

Standard Deviation (SD)

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

$$\text{S.D.} = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2}$$

Where,

x = value of the variable

n = numbers of years.

Therefore, the standard deviation is used to analyze the stock position of financial companies and institutions. The SD of fifteen companies are calculated and analyzed under the study.

Coefficient of Variance (CV)

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

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

Where SD is the Standard Deviation and

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

$$\frac{\Sigma X}{n}$$

Karl Pearson's Coefficient of Correlation

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

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

Where,

r = correlation coefficient

n = no. of years.

ΣX = Sum of Series X

Σ*Y* = Sum of Series Y

ΣXY = Sum of the product of X and Y variables

ΣX^2 = Sum of squares of Series X

ΣY^2 = Sum of squares of Series Y

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

Simple Regression Analysis

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

Line of Simple Regression

If there exists a relationship between two variables X and Y, the dots the scatter diagram will be concentrating around a certain curve and if the curve is a straight line, it is said to be the line of regression and the relationship between two variables as the linear regression. A line of regression gives the best estimate (in the least square sense) of one variable for any given value of other variable. So, there are two lines of regression referring as the line of regression of Y on X and the line of regression of X on Y respectively (B.C. Bajracharya, 2060:).

Simple Regression Equation of X on Y

The simple regression equation is expressed as:

$$Y = a + bx$$

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

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

$$\Sigma XY = a\Sigma X + b\Sigma x2$$

Where,

Y = value of dependant variable

a = Y intercept

b = Slope of the trend line/coefficient of regression

X = Value of independent variable

Coefficient of Simple Regression

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

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

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

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

Multiple Regression Analysis

Multiple regression analysis consists of the measurement of the relationship between the dependent variable and two or more independent variable. The procedure is similar to that for simple regression, with a different that other independent variables are added to the regression equation.

Multiple Regression Equation

The multiple regression equation is expressed as:

Multiple regression equation X1 on X2, X3, X4 and X5.

$X_1 = a + b_1x_2 + b_2x_3 + b_3x_4 + b_4x_5$……. (i)

The values of constants a, b1, b2, b3 and b4 are determined by solving simultaneously following 5 normal equations obtained by the method of least squares.

$\Sigma x_1 = na + b_1\Sigma x_2 + b_2\Sigma x_3 +| b_3\Sigma x_4 + b_4\Sigma x_5$ ……..…….... (ii)

$\Sigma x_1x_2 = a\Sigma x_2 + b_1\Sigma x_2^2 + b_2\Sigma x_2x_3 + b_3\Sigma x_2x_4 + b_4\Sigma x_2x_5$ …….. (iii)

$\Sigma x_1x_3 = a\Sigma x_3 + b_1\Sigma_2x_3 + b_2\Sigma x_3^2 + b_3\Sigma x_3x_4 + b_4\Sigma x_3x_5$ …… (iv)

$\Sigma x_1x_4 = a\Sigma x_4 + b_1\Sigma x_2x_4 + b_2\Sigma x_3\Sigma x_4 + b_3\Sigma x_4^2 + b_4\Sigma x_4x_5$……..…..….. (v)

$\Sigma x_1x_5 = a\Sigma x_5 + b_1\Sigma x_2x_5 + b_2\Sigma x_3x_5 + b_3\Sigma x_4x_5 + b_4\Sigma x_5^2$ ……..… (vi)

Where,

X_1 = value of dependent variable

X_2, x_3, x_4, x_5 = Independent variables

a = Point of intercept on y-axis

b_1, b_2, b_3, b_4 = Slope of trend line/coefficient of multiple regression

Statistical Analysis

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

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

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

In this section raw form of data collected from various sources are changed into an understandable presentation using financial as well as statistical tools as mentioned in the previous chapter. This chapter is the heart of the study as all the findings, conclusions and recommendations are going to be derived from the calculations and analysis done in this section.

4.1 Presentation and analysis of secondary data

4.1.1 Introduction of the financial institutions under study

Among the total number of financial institutions listed in Nepal stock exchange limited, this research carries only 15 financial institution .among them 5 commercial banks, 4 financial companies. 3 Development bank, 2 insurance companies and one hydropower company, are taken for this study.

Commercial banks

6. Nabil bank limited
7. Bank of Kathmandu
8. Everest bank limited
9. Nepal investment bank limited
10. Himalayan bank limited

Finance companies

5. Standard finance limited
6. Capital merchant banking and finance limited
7. Royal merchant banking and finance limited
8. Union finance limited.

Development banks

4. DCBL bank limited
5. ACE development bank ltd.
6. Siddhartha development bank ltd.

Insurance companies

3. Nepal insurance company limited
4. Sagarmatha insurance company limited

Hydropower Company

2. Butwal power company limited

4.1.2 Analysis of Financial Indicator

a. Earning per share (EPS)

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

Table 4.1

Analysis of earning per share of the financial institution

Institutions	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	SD	CV
Nabil bank	129.21	137.08	108.31	106.76	78.61	111.99	22.81	20.37
Bank of Kathmandu	43.67	43.50	59.94	54.68	43.08	48.97	7.84	16.002
Everest bank	62.78	78.42	91.82	99.99	100.16	86.63	16.006	17.196
Nepal investment bank	59.35	62.57	57.87	37.42	52.55	53.95	9.93	18.39
Himilayan bank	59.24	60.66	62.74	61.90	31.80	55.27	13.19	23.86
Standard finance ltd.	6.13	33.05	45.96	7.58	5.66	19.68	18.68	94.94
Capital merchant banking & finance ltd.	13.44	16.46	10.55	11.21	6.69	11.67	3.62	30.99
Royal merchant banking & finance ltd.	11.11	27.30	29.38	16.30	24.71	21.76	7.76	35.65
Union finance ltd.	(41.32)	18.38	63.14	12.12	9.53	12.37	37.09	299.89
DCBL bank ltd.	13.68	16.78	4.96	6.23	9.07	10.14	4.99	49.26
ACE development. bank ltd.	27.94	6.72	12.96	6.92	10.62	13.03	8.74	67.03
Siddhartha development bank ltd.	6.25	25 .50	15.79	5.46	7.54	12.11	8.55	70.59
Nepal insurance company ltd.	0.02	(66.49)	0.67	46.27	37.53	3.6	44.46	1234.94
Sagarmatha insurance ltd.	30.13	14.72	15.09	41.80	49.86	30.32	15.72	51.86

Butwal power company ltd.	34.37	30.13	42.18	34.75	24.29	33.14	6.58	19.85

Source: Annual reports of concerned companies.

The table 4.1 shows the earning per share of all of the financial institutions taken in this study. The table also shows the standard deviation as well as coefficient of variation of the EPS covering the period from FY 2005/06 to FY 2009/10.

In this table, among the commercial banks, Nabil bank has the highest EPS throughout the study period. The average EPS of Nabil is 111.99, SD is 22.81 and CV is 20.37 which show that there is a low degree of fluctuation in EPS of Nabil bank. There is very low fluctuation in EPS of bank of Kathmandu, which SD is 7.84 and CV is 16.002 EPS of Everest bank limited goes on increasing till 2009/10.

Among the finance companies, the average EPS of Royal merchant banking and finance ltd. is highest than others, which is 21.76. Capital merchant banking and finance ltd. has lowest EPS than others, but it has low degree of fluctuation in EPS than other finance companies. The EPS, SD and CV of capital merchant banking and finance are 11.67, 3.62, and 30.99 respectively. Union finance ltd has SD is 37.09 and CV is 299.89, which shows the very high degree of fluctuations in EPS of union finance than others.

Form the group of development banks, Ace development bank limited has highest EPS through out the study period, which is 13.03. In the EPS of DCBL bank has low fluctuation than Ace development bank and Siddhartha development bank.

Nepal insurance company limited has an average EPS is 3.6, SD is 44.46 and CV is 1234.94, which is one of the highest fluctuations of EPS among the financial institutions in the table. Sagarmatha insurance has average EPS is 30.32, SD is 15.72 and CV is 51.86.

Butwal Power Company limited has an average EPS is 33.14, SD is 6.58 and CV is 19.85, which shows it also lies in the group of low fluctuation in their EPS.

b. Market price per share (MPS)

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

Table 4.2

Analysis of market price per share of the financial institutions

Institution	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	SD	CV
Nabil bank	2240	5050	5275	4899	2384	3969.60	1519.90	38.29
Bank of Kathmandu	850	1375	2350	1825	840	1448	649.68	44.87
Everest bank	1379	2430	3132	2455	1630	2205.20	704.50	31.95
Nepal investment bank	1260	1729	2450	1388	705	1506.40	643.60	42.72
Himalayan bank	1100	1740	1980	1760	816	1479.20	495.30	33.48
Standard finance ltd.	111	243	930	340	178	360.40	329.44	91.41
Capital merchant banking & finance ltd.	98	175	1290	680	216	491.80	501.01	101.87
Royal merchant banking & finance ltd.	122	185	535	550	265	331.40	199.30	60.15
Union finance ltd.	105	175	805	520	451	411.20	281.98	68.57
DCBL bank ltd.	390	800	855	460	260	553	261.38	47.27
ACE development .bank ltd.	320	459	856	588	280	500.60	232.89	46.52
Siddhartha development bank ltd.	100	310	1525	253	193	476.20	591.43	124.19
Nepal insurance company ltd.	400	390	429	367	360	389.20	27.59	7.09
Sagarmatha insurance ltd.	210	227	306	252	311	261.2	45.72	17.51
Butwal power company ltd.	540	1000	1559	1270	1090	1091.80	375.15	34.36

Source: Annual reports of concerned companies.

The table 4.2 shows the market price of each of the financial institutions taken for this study. Among the commercial banks, the average market price of Nabil bank limited has highest i.e. Rs. 3969. It has a standard deviation is 1519.9 and coefficient of variation is 38.29. Bank of Kathmandu has a lowest average MPS i.e. 1448 and highest CV i.e. 44.87 which shows the highest fluctuation in the market price. Highest CV may be the cause of poor dividend policy. The MPS of Everest Bank Limited has 2205.20 and CV is 31.95, which shows lowest fluctuation in the market price, this may be the cause of sound dividend policy.

Among finance companies, capital merchant banking & finance limited has higher average MPS is Rs. 491.8. But it has also higher CV i.e. 91.41 which shows the highest fluctuation in the market price. Royal merchant banking and finance limited has lowest average MPS i.e. 331.40, SD is 199.30 and CV is 60.15% than other finance companies, which shows the lowest fluctuation in the market price.

From the group of development banks DCBL Bank Limited has highest average MPS of 553, SD is 261.38 and CV is 47.27. The MPS of Ace Development Bank Limited has 500.60, S.D. is 232.89 and CV is 46.52, whereas MPS of Siddhartha Development Dank is 476.20, SD is 591.43 and CV is 124.19%, which shows the highest fluctuation in the MPS.

Nepal Insurance Company Limited has higher average MPS i.e. 389.20 than Sagarmatha Insurance Company i.e. 261.2. The SD and CV of NICL has 27.59 & 7.09 respectively, which shows the very low degree of fluctuation in MPS than Sagarmatha Insurance which are 45.72 and 17.51 respectively.

The average MPS of Butwal power company has 1091.8 SD of 375.15 and CV of 34.36.

c. Dividend per share (DPS)

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

Table 4.3

Analysis of Dividend per share of the financial institution

Institution	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	SD	CV
Nabil bank	85	140	100	85	70	96	26.79	27.90
Bank of Kathmandu	48	20	42.11	47.37	30	37.49	12.16	32.43
Everest bank	25	40	50	60	60	47	14.83	31.56
Nepal investment bank	55.46	30	40.83	20	25	34.23	14.14	41.28
Himilayan bank	35	40	45	43.56	36.84	40.08	4.26	10.63
Standard finance ltd.	10.53	10.53	31.58	0	0	10.53	12.89	122.46
Capital merchant banking & finance ltd.	10.53	15.83	8.42	8.42	5.26	9.69	3.91	40.38
Royal merchant banking & finance ltd.	15.79	10.53	12	10.53	15	12.77	2.49	19.47
Union finance ltd.	0	0	21.17	10	10.53	8.34	8.82	105.77
DCBL bank ltd.	12.63	12.63	0	5.26	10.53	8.21	5.49	66.87
ACE dev.bank ltd.	42.11	5.26	10.53	5.5	8.5	14.38	15.66	108.87
Siddhartha development bank ltd.	10	15.79	10	5	6	9.36	4.26	45.48
Nepal insurance company ltd.	0	0	0	0	5.26	1.052	2.35	223.6

Sagarmatha insurance ltd.	0	0	10.68	10.53	0	4.24	5.81	136.94
Butwal power company ltd	30	25	30	30	30	29	2.24	7.71

Source: Annual reports of concerned companies.

The table 4.3 shows the Dividend paid by the financial institutions during the year 2005 to 2010. The average Dividend paid by Nabil bank limited is the highest (96) among the financial institution listed in the above table .Everest bank has the second highest i.e. 47. Among commercial banks, the CV of Himalayan bank is lowest i.e. 10.63 which show a lowest fluctuation in DPS during the period of study.

Among finance companies standard finance limited & Union finance limited has highest CV i.e. 122.46, 105.77 respectively, which shows the highest fluctuation in dividend paid.

Siddhartha development bank limited has lowest CV (45.48) than DCBL bank (66.87) and Ace development bank (108.87).

The CV of Nepal insurance company limited (223.60) is the highest among all of the financial institution listed n the above table. It has not paid dividend for four years as a result the fluctuation is high. Sagarmatha Insurance Company also has a highest CV (136.94), which has not paid dividend for three years.

From the all of financial institutions Butwal power company has very lowest CV i.e. 7.71, which shows the very low degree of fluctuation in dividend per share during the study period.

d. Dividend payout ratio (DPR)

Dividend payout ratio shows the percentage of profit distributed to the share holder. It depends upon earning of organization. Greater the earning shows more ability to pay dividend. The dividend payout ratio (DPR) of the financial institutions is stated in the table as follows:

Table 4.4

Analysis of Dividend payout ratio of sampled financial institutions

Institution	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	SD	CV
Nabil bank	65.78	101.59	92.33	79.62	89.05	85.67	13.61	15.89
Bank of Kathmandu	109.92	45.98	70.25	86.63	69.64	76.48	23.65	30.92
Everest bank	39.82	51.01	54.45	60.01	59.9	53.04	8.31	15.68
Nepal investment bank	93.45	47.95	70.55	53.45	47.57	62.59	19.62	31.34
Himalayan bank	59.08	65.94	71.72	70.37	115.85	76.59	22.49	29.37
Standard finance ltd.	171.78	31.86	68.71	0	0	54.57	71.43	131.14
Capital merchant banking & finance ltd.	78.35	96.17	89.81	75.11	78.62	83.61	8.96	10.71
Royal merchant banking & finance ltd.	142.12	38.57	40.84	64.60	60.70	69.37	42.29	60.96
Union finance ltd.	0	0	33.53	82.51	110.49	45.31	49.69	109.68
DCBL bank ltd.	92.32	75.27	0	84.43	116.09	73.62	43.85	59.56
ACE development .bank ltd.	150.72	78.27	81.25	79.48	80.04	93.95	31.75	33.79
Siddhartha development bank ltd.	160	61.92	63.33	91.58	79.58	91.28	40.32	44.17
Nepal insurance company ltd.	0	0	0	0	14.02	2.80	6.27	223.61
Sagarmatha insurance ltd.	0	0	70.78	25.19	0	19.19	30.83	160.63
Butwal power company ltd	87.29	82.79	71.12	86.33	123.51	90.24	19.68	21.81

Source: Annual reports of concerned companies.

In the table 4.4 the average dividend payout ratio (DPR) of Nabil bank (85.67) is the highest from the group of commercial banks. It means that Nabil generally pays 85.67 % of its total earning as dividend to its shareholders. Everest bank limited has a lowest DPR of 53.04. The mean DPR of Everest Bank Limited is 53.04, S.D. is 8.31 and its coefficient of variation in the DPR is the lowest i.e. 15.68, which shows a lowest fluctuation in DPR, whereas mean DPR of Nepal Investment Bank Limited is 62.59 and S.D. is 19.62 and its CV is highest than other banks i.e. 31.34%.

Among financial companies, capital merchant banking and financial limited has a highest DPR of 83.61, where as union finance has a lowest i.e. 45.31. The CV of standard finance limited and union finance limited are 131.14, 109.68 respectively, which are highest than others. The DPR of Standard Finance Limited is 54.57 and its SD is 71.43, which is highest than others. The DPR of Capital Merchant Banking and Finance is 83.61 and its CV is only 10.71 which show the very low fluctuation in DPR.

The DCBL bank limited has 73.62 mean DPR, S.D. is 43.85 and CV of 59.56. It has not paid dividend for the year 2007/08. The mean DPR of Ace development bank & Siddhartha development bank are 93.95 and 91.28 respectively. Similarly, S.D. is 31.75, 40.31 and CV is 33.79 and 44.17 respectively.

Sagarmatha Insurance Company also has a highest CV of 160.63. It has not paid dividend for three years. The CV of Nepal Insurance company limited (223.61) is the highest among the financial institutions listed in the above table. They had not paid dividend for four years.

Butwal Power Company Limited has an average DPR of 90.24, SD of 19.68 and CV of 21.81.

d. Net worth per share (NWPS)

Net worth per share is a measurement of the Net worth of the company of each share of stock that has been issued. The Negative NWPS indicates that company‘s liabilities exceed its ability to pay them. An increasing net worth per share is a positive signal that company has reduced its liabilities. The analysis of NWPS of the financial institutions is presented below.

Table 4.5

Analysis of Net worth per share of sampled financial institutions

Institution	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	SD	CV
Nabil bank	381	418	354	324	265	348.40	58.07	16.67
Bank of Kathmandu	230.67	164.68	222.51	206.25	175.40	199.90	28.89	14.45
Everest bank	218	281	322	345	332	299.60	51.52	17.19
Nepal investment bank	240	234	223	162	190	209.80	32.97	15.72
Himalayan bank	228.72	204.74	264.74	256.52	226.79	244.94	16.79	6.85
Standard finance ltd.	125.06	145.97	177.30	128.14	104.85	136.26	27.19	19.95
Capital merchant banking & finance ltd.	122.19	120.93	112.89	107.34	104.64	113.59	7.87	6.92
Royal merchant banking & finance ltd.	107	129	119	125	126.80	121.36	8.85	7.28
Union finance ltd.	117.27	120.33	156.76	94.69	76.31	113.07	30.28	26.78
DCBL bank ltd.	126.68	129.25	110.33	112.94	116.37	119.11	8.41	7.06
ACE development .bank ltd.	201	112	122	108	110	130.60	39.72	30.41
Siddhartha development bank ltd.	105	115	113	103	104	108	5.57	5.16
Nepal insurance company ltd.	190.41	123.91	127.93	171.52	203.81	163.52	36.21	22.15
Sagarmatha insurance ltd.	260.64	171.11	159.16	189.95	211.02	198.38	39.97	20.15
Butwal power company ltd	207.85	224.29	237.41	269.83	253.64	238.60	24.26	10.17

Source: Annual reports of concerned companies.

The table 4.5 describes the Net worth per share of the financial institutions. Among the all, Nabil bank limited has the highest average NWPS i.e. 348.4. It is a positive signal that the bank has reduced its liabilities and the bank may also have gone through a stock buy back plan, reducing the number of shares, essentially making the net worth of each share more valuable. Everest bank, Himalayan bank also shows a positive position.

Standard Finance Ltd., Capital Merchant Banking and Finance Ltd., Royal merchant banking and finance ltd., Union finance ltd. has 136.26, 113.59, and 121.36 respectively.

DCBL bank ltd., Ace development bank ltd., Siddhartha development bank ltd. show a low NWPS i.e. 119.11, 130.60 and 108 respectively.

Among all financial institution, there is a highest fluctuation in the NWPS of Ace development bank than other companies, this may be the cause of poor dividend policy of the bank. But it is not a very high degree of fluctuation. Siddhartha development bank has a lowest variation in the NWPS i.e. 5.16. Himalayan bank limited, capital merchant banking and finance limited, Royal merchant banking & finance limited, DCBL bank limited Butwal Power Company limited have also low fluctuation in the NWPS.

The standard deviation of the Nabil bank limited is the highest i.e. 58. 07 than others, higher the standard deviation shows a high risky stock position. Capital merchant banking & finance, Royal merchant banking and finance, DCBL bank limited, Siddhartha development bank limited has a low risky position as their standard deviation is lower than others.

4.1.3 Analysis of correlation and regression coefficient

Correlation coefficient measures the degree of relationship between two variables where as the regression analysis is used to estimate the likely value on one variable from the known value of the other variable, i.e. in regression analysis we establish a kind of average irreversible functional relationship between two variables. The cause and effect relationship is clearly indicated through regression analysis than by correlation.

Interpretation of correlation coefficient

i. It lies always between +1 and -1
ii. Where r=+1, there is a perfect positive correlation.
iii. Where r=-1 , there is negative correlation
iv. Where r= 0 , there is no correlation
v. Where r lies between 0.7 to 0. 999 (-0.7 to – 0. 999), then a high degree of positive (or negative) correlation.
vi. Where r lies between 0. 5 to 0. 699 , there is mode rate degree of correlation
vii. Where r is less than o.5, there is a low degree of correlation.

Here, we present and analyze the relationship between market price per share and other financial indicators DPS, DPR, EPS and NWPS.

Table 4.6

Analysis of Correlation coefficient and Regression coefficient between MPS and DPS of the sampled financial institutions

S. No	Financial institution	Correlation coefficient (r)	Regression Coefficient	
			Constant(a)	Slope(b)
1	Nabil bank	0.631	51.85	0.011
2	Bank of Kathmandu	0.235	31.12	0.004
3	Everest bank	0.363	30.17	0.008
4	Nepal investment bank	0.251	25.95	0.006
5	Himalayan bank	0.888	28.78	0.008
6	Standard finance ltd.	0.831	-1.19	0.119
7	Capital merchant banking & finance ltd.	-0.294	10.82	-0.002
8	Royal merchant banking & finance ltd.	-0.554	15.06	-0.007
9	Union finance ltd.	0.989	-4.39	0.031
10	DCBL bank ltd.	-0.438	13.29	-0.009
11	Ace development .bank ltd.	-0.375	27.01	-0.025
12	Siddhartha development bank ltd.	0.128	8.92	0.0009
13	Nepal insurance company ltd.	-0.591	20.67	-0.050
14	Sagarmatha insurance company ltd.	0.359	-7.68	0.046
15	Butwal power company ltd	0.137	28.11	0.0008

Source: See annex I.

The table 4.6 clearly shows the degree of relationship between MPS and DPS. The degree of relationship between MPS and DPS seems to be significant except some institutions, i.e. Capital Merchant banking & Finance , Royal merchant banking & finance ,DCBL bank ltd., Ace development bank ltd & Nepal insurance company limited. Where correlation coefficient recorded as, capital merchant = -0.294, Royal merchant = -0.554, DCBl bank = - 0.438, Ace development bank = - 0.375 and Nepal insurance company = - 0.591 .Besides these institutions Bank of Kathmandu = 0.235, Everest bank = 0.363, NIBL = 0.251, Siddhartha development bank = 0.128, Sagarmatha insurance = 0.359, Butwal power company =0.137 has a low degree of positive correlation. Nabil bank has (0.631) moderate degree of correlation. Himalayan an bank, Standard finance, Union finance has high degree of positive correlation between MPS and DPS.

The above table also depicts the major output of simple regression between MPS and DPS of sampled companies. The regression equation of Nabil bank i.e. MPS = 51.86 + 0.011DPS implies that when DPS become zero MPS would be equal to Rs. 51.86. If DPS is increased by Rs. 1 MPS will increase by Rs. 0.011. Similarly, when DPS increased by Rs. 1 in bank of Kathmandu, Everest Bank, Nepal Investment Bank, Himalayan Bank, Standard Finance Ltd., Union Finance Ltd., Siddhartha Development Bank, Sagarmatha Insurance Companies and Butwal Power Company it leads to increase in MPS by Rs. 0.004, 0.008, 0.006, 0.119, 0.031, 0.0009, 0.046 and 0.0008 respectively. In the same way, if DPS increases by Rs. 1 in capital Merchant banking and Finance, Royal Merchant Baking and Finance, DCBL Bank and Nepal Insurance Company, it leads to decrease in MPS by Rs. 0.002, 0.007, 0.009, 0.025 and 0.050 respectively and vice-versa.

Table 4.7

Analysis of Correlation coefficient and Regression coefficient between MPS and EPS of the financial institutions

S. No.	Financial institution	Correlation coefficient	Regression Coefficient	
			Constant(a)	Slope(b)
1	Nabil bank	0.293	92.71	0.004
2	Bank of Kathmandu	0.943	32.51	0.011
3	Everest bank	0.404	66.39	0.009
4	Nepal investment bank	0.288	47.25	0.004
5	Himalayan bank	0.807	23.51	0.021
6	Standard finance ltd.	0.795	3.42	0.045
7	Capital merchant banking & finance ltd.	-0.251	12.56	-0.002
8	Royal merchant banking & finance ltd.	0.256	18.46	0.009
9	Union finance ltd.	0.833	-32.72	0.109
10	DCBL bank ltd.	0.034	9.79	0.001
11	ACE development .bank ltd.	-0.302	18.70	-0.011
12	Siddhartha development bank ltd.	0.327	9.86	0.005
13	Nepal insurance company ltd.	-0.438	278.16	-0.705
14	Sagarmatha insurance ltd.	0.253	7.57	0.087
15	Butwal power company ltd	0.418	25.15	0.007

Source: See annex II.

The table 4.7 shows the degree of relationship between MPS and EPS. The degree of relationship between MPS and EPS seems to be highly positive in Bank of Kathmandu, Himalayan bank limited, Standard finance limited and Union finance limited. In capital Merchant banking and finance, Ace development bank, Nepal insurance company limited it is Negative. Besides this Nabil bank limited, Everest bank limited, Nepal investment bank limited, Royal merchant banking & finance ltd., DCBL bank limited, Siddhartha development bank limited , Sagarmatha insurance and Butwal power company it is positive correlation between MPS and EPS.

The above table also shows the regression equation drawn between MPS and EPS of the 15 sampled institutions. Here EPS is independent variable and MPS is the dependent variable. With the help of these indicators, we can obtain the slope (b) and intercept (a) of the equation y = a + bx. Here y is MPS. The regression equation of Nabil bank, Bank of Kathmandu, Everest Bank, Nepal Investment Bank, Himalayan Bank, Standard Finance, Royal Merchant Banking and Finance, Union Finance, DCBL bank, Siddhartha Development Bank, Sagarmatha Insurance Limited and Butwal Power Company Limited implies that when EPS increases by Re. 1, it leads to increase in MPS by Rs. 0.004, 0.011, 0.009, 0.004, 0.021, 0.045, 0.009, 0.109, 0.001, 0.005, 0.087 and 0.007 respectively. In the same way, If EPS of Capital Merchant Banking and Finance, Ace Development Bank and Nepal Insurance Company increases by Re. 1, it leads to decrease in MPS by Rs. 0.002, 0.011 and 0.705 respectively and vice-versa.

Table 4.8

Analysis of Correlation coefficient and Regression coefficient between MPS & DPR of the sampled financial institutions

S. No.	Financial institution	Correlation coefficient	Regression Coefficient	
			Constant(a)	Slope(b)
1	Nabil bank	0.596	64.49	0.005
2	Bank of Kathmandu	-0.251	89.69	-0.009
3	Everest bank	0.408	42.41	0.005
4	Nepal investment bank	0.193	53.71	0.006
5	Himalayan bank	-0.591	116.33	-0.027
6	Standard finance ltd.	-0.079	60.65	-0.017
7	Capital merchant banking & finance ltd.	0.157	82.23	0.003
8	Royal merchant banking & finance ltd.	-0.504	104.82	-0.107
9	Union finance ltd.	0.474	10.94	0.084
10	DCBL bank ltd.	-0.835	151.17	-0.140
11	ACE development .bank ltd.	-0.416	122.36	-0.057
12	Siddhartha development bank ltd.	-0.493	107.29	-0.034
13	Nepal insurance company ltd.	-0.591	55.09	-0.134
14	Sagarmatha insurance ltd.	0.521	-72.61	0.351
15	Butwal power company ltd	-0.250	104.58	-0.013

Source: See annex III.

The table 4.8 shows the degree of relationship between MPS and DPR. In positive correlation, if independent variable increases then it causes to increase dependent variable by 100% and vice-versa.

The degree of relationship between MPS and DPR of Nabil bank limited is moderate. Bank of Kathmandu , Himalayan bank limited, standard finance limited, Royal merchant banking &finance limited , DCBL bank limited, Ace development bank limited, Siddhartha development bank limited, Nepal Insurance company limited and Butwal power company limited have negative correlation . Such a situation is not a healthy financial environment for the bank and financial institutions in Nepal.

The above table also shows the regression equation drawn between MPS and DPR of the sampled financial institutions. Here, DPR is independent variable and MPS is the dependent variable. With the help of these indicator, we can obtain the slope (b) and the intercept (a) of the equation y=a+bx. Here y is MPS.

The regression equation of Nabil bank, Everest bank, Nepal Investment Bank, Capital Merchant Banking and Finance, Union Finance and Sagarmatha Insurance Company indicate that when DPR increases by Rs. 1, MPS will be increase by Rs. 0.005, 0.006, 0.003, 0.084 and 0.351 respectively. Similarly, if DPR decreases by Re. 1 in Bank of Kathmandu, Himalayan Bank, Standard Finance, Royal Merchant Banking and Finance, DCBL Bank, Ace Development Bank, Siddhartha Development Bank, Nepal Insurance Company and Butwal Power Company, it leads to decrease in MPS by Rs. 0.009, 0.027, 0.017, 0.107, 0.140, 0.057, 0.034, 0.0134 and 0.013 respectively and vice-versa.

Table 4.9

Analysis of Correlation coefficient and Regression coefficient between MPS and NWPS of the sampled financial institution

S.No	Financial institution	Correlation coefficient	Regression Coefficient	
			Constant(a)	Slope(b)
1	Nabil bank	0.384	290.11	0.015
2	Bank of Kathmandu	0.291	181.16	0.013
3	Everest bank	0.528	214.41	0.039
4	Nepal investment bank	0.376	180.77	0.019
5	Himalayan bank	0.845	202.57	0.029
6	Standard finance ltd.	0.863	110.59	0.071
7	Capital merchant banking & finance ltd.	-0.316	116.04	-0.005
8	Royal merchant banking & finance ltd.	0.261	117.52	0.012
9	Union finance ltd.	0.314	99.18	0.034
10	DCBL bank ltd.	-0.00048	119.12	-0.000016
11	ACE dev.bank ltd.	-0.336	159.28	-0.057
12	Siddhartha development bank ltd.	0.566	105.46	0.005
13	Nepal insurance company ltd.	-0.628	484.38	-0.824
14	Sagarmatha insurance ltd.	-0.452	301.61	-0.395
15	Butwal power company ltd	0.639	193.49	0.041

Source: See annex IV.

The above table 4.9 depicts the major output of correlation between MPS and NWPS of the sampled companies. There is a high degree of positive correlation between MPS and NWPS of Himalayan bank limited and standard finance limited. All of the commercial banks have positive correlation. Among finance companies capital merchant banking and finance limited has negative correlation. From the development

banks Ace development bank & DCBL bank limited have negative correlation except Siddhartha development bank. From the group of insurance companies, Nepal insurance company has negative correlation & Sagarmatha insurance company has positive correlation. Butwal power company limited has a moderate degree of positive correlation i.e. 0.639.

The above table also presents the regression equation drawn between MPS and NWPS, of the 15 sampled institutions. Here NWPS is independent variable and MPS is the dependent variable. The regression equation of Nabil Bank, Bank of Kathmandu, Everest Bank, Nepal Investment Bank, Himalayan Bank, Standard Finance, Royal Merchant Banking and Finance, Union Finance, Siddhartha Development Bank and Butwal Power Company, deficit that when NWPS increases by Re. 1, the MPS will be increases by Rs. 0.015, 0.013, 0.039, 0.019, 0.029, 0.071, 0.012, 0.034 and 0.005 respectively. In the same way, if NWPS of Capital Merchant Banking and Finance, DCBL Bank, Ace Development Bank, Nepal Insurance Company and Sagarmatha Insurance Company decreases by Re. 1. It leads to increase in MPS by Rs. 0.005, 0.000016, 0.057, 0.824 and 0.395 respectively and vice-versa.

4.1.4 Analysis of Multiple Regression

Multiple regression analysis of x1(MPS) on x2 (DPS) , x3 (NWPS),x4 (EPS), x5 (DPR)

Table 4.10

Multiple regression equation $x_1 = a + b_1x_2 + b_2x_3 + b_3x_4 + b_4x_5$

S.N.	Financial institution	Regression coefficient				
		Constant(a)	b1	b2	b3	b4
1	Nabil bank	331972.64	51.13	17.67	-56.65	-36.06
2	Bank of Kathmandu	-9851.64	-4.68	1.07	2.39	2.77
3	Everest bank	-10020.75	-5.69	4.68	1.19	0.27
4	Nepal investment bank	-112418	-80.63	-3.52	33.18	67.19
5	Himalayan bank	-2731.91	0.65	0.24	66.20	-0.34
6	Standard finance ltd.	-615.47	1.54	0.72	-1.22	-0.82
7	Capital merchant banking & finance ltd.	-1834.26	-6.01	-1.03	5.47	1.79
8	Royal merchant banking & finance ltd.	8473.93	1.04	-2.03	-3.15	-5.77
9	Union finance ltd.	-5882.89	-3.31	5.43	-0.19	5.75
10	DCBL bank ltd.	4359.16	-2.26	-1.27	3.23	0.12
11	ACE development .bank ltd.	132.55	-113.03	6.41	-0.42	-6.38
12	Siddhartha development bank ltd.	-30147.59	-1.09	2.89	-1.42	0.07
13	Nepal insurance company ltd.	445.83	0	-0.42	-0.004	-0.33
14	Sagarmatha insurance ltd.	307.21	-1.38	-0.65	1.11	1.76
15	Butwal power company ltd	-5697.59	-1.69	0.74	3.68	3.10

Source: See annex V.

The table 4.10 presents the multiple regression equation of MPS on DPS, NWPS, EPS and DPR of 15 sampled companies. Here, MPS is dependent variable and DPS, NWPS, EPS and DPR are independent variables.

The multiple regression equation MPS of Nabil bank limited on DPS, NWPS,EPS and DPR is represent by the folowing equation.

MPS= 331972.64+51.13 DPS +17.67 NWPS – 56.65 EPS -36.06 DPR

The above equation gives the result on MPS due to joint effect on DPS,NWPS, EPS and DPR . MPS intercept i.e. multiple regression constant as shown in the equation equals to 331972.64. It implies that when DPS, NWPS,EPS and DPR become zero, MPS would be equal to Rs. 331972.64. The constant for DPS is 51.13 meaning that when DPS increases by Rs. 1 MPS will increases by RS. 51.13 keeping NWPS,EPS and DPR constant. In the same way if DPS, EPS and DPR holds constant and NWPS increases by Re.1, MPS will increase by Rs. 17.67.

Constant for EPS is -56.65 which mean that when EPS decreases by Re.1, MPS will increases by Rs. 56.65 keeping DPS, NWPS and DPR constant .The constant for DPR is -36.06 meaning that when DPR decreases by Re.1 , MPS will increases by 36.06 keeping DPS, NWPS, and EPS as constant and vice-versa.

The multiple equation of Bank of Kathmandu is:

MPS=-9851.64-4.68DPS + 1.07NWPS + 2.39EPS +2.77 DPR

From the above equation we can say that when DPS, NWPS, EPS and DPR become zero , MPS would be equal to Rs. – 9851.64. The constant for DPS is -4.68 meaning that when DPS increases by Re. 1, MPS will decreases by Rs. 4.68 keeping NWPS, EPS & DPR as constant . In the same way, if NWPS increases by Re. 1, MPS will increases by Rs. 1.07 keeping other variables constant . The constant for EPS is 2.39 means that if EPS increases by Re.1, MPS will be increases by Rs. 2.39 keeping DPS, NWPS and DPR constant. Similarly, constant for DPR equals to 2.77 means if DPS, NWPS and EPS holding constant and DPR increases by Re. 1, MPS will increases by Rs. 2.77.

The multiple regression equation of Everest bank limited is as follows;

MPS = - 10020.75 -5.69 DPS +4.68 NWPS +1.19 EPS +0.27 DPR

The above equation gives the result of MPS due to the joint effect on DPS, NWPS, EPS and DPR. MPS intercept i.e. multiple regression constants shown in the equation equals to – 10020.75. It implies that when MPS, NWPS, EPS and DPR become zero, MPS would be equal to – 10020.75. The constant for DPS is – 5.69 means that when DPS decreases by Re1. MPS will be increase by Rs. 5.69 keeping other variables as constant. Similarly if NWPS increases by re. 1, MPS will increases by Rs. 4.68 keeping DPS, EPS and DPR constant. In the same way when EPS increases by Re. 1, MPS increases by Rs. 1.19 keeping DPS, NWPS and DPR constant. If, DPS, NWPS and EPS holding constant and DPR increases by Re.1, MPS will increases by Rs. O.27.

The multiple regression equation of Nepal investment bank limited is drawn as follows;

MPS = - 112418 -80.63DPS -3.52 NWPS +33.18 EPS +67.19 DPR.

From the equation, MPS intercept is equal to -112418, implies that when DPS, NWPS, EPS and DPR become zero MPS would be equal to -112418. The constant for DPS is – 80.63 indicate that when DPS decreases by Re.1, MPS will increases by Rs. 80.63 and vice- versa holding NWPS, EPS and DPR constant. The constant for NWPS is equal to – 3.52, meaning that when NWPS decreases by Re.1, MPS will increase by Rs. 3.52 and vice versa keeping DPS, EPS and DPR constant. If DPS, NWPS and DPR remain constant and EPS increases by Re.1, MPS will increase by Rs. 33.18. In the same way, the constant for DPR equal to 67.19 means if DPS, NWPS and EPS holding constant and DPR increases by Re.1, MPS will increases by Rs. 67.19

The multiple regression equation for Himalayan bank limited is drawn as:

MPS = -2731.91+ 0.65 DPS+ 0.24 NWPS + 66.20EPS -0.34 DPR

In the above equation MPS intercept i.e. multiple regression constant is equal to -2731.91.It indicate that when DPS, NWPS, EPS and DPR become zero, MPS would be equal to Rs. -2731.91.The constant for DPS is 0.65 means that when DPS increase by Re. 1, MPS will increases by Rs. 0.65 keeping other variables as constant. In the same way, the constant for NWPS equal to 0.24 means if DPS , EPS and DPR holding constant and NWPS increases by Re. 1 ,MPS will increases by Rs. 0.24. Similarly, the constant for EPS is 66.20 meaning that when EPS increase by Re.1, MPS will increases by Rs. 66.20 keeping DPS, NWPS, and DPR constant.

If, DPS, NWPS and EPS remain constant and DPR decreases by Re1, MPS will increases by Rs. 0.34 and vice –versa.

The multiple regression equation of Standard Finance Limited is:

MPS= -615.47+1.54 DPS +0.72 NWPS – 1.22EPS -0.82 DPR

The above equation depicts the result on MPS due to the joint effect on DPS, NWPS, EPS and DPR. MPS intercept i.e. multiple regressions constant as shown in the equation equals to – 615.47. It implies that when DPS, NWPS, EPS and DPR become zero, MPS would be equal to – 615.47. The constant for DPS is 1.54 indicate that when DPS increase by Re.1, MPS will increases by Rs. 1.54. Similarly ,the constant for NWPS is 0.72, which means that when NWPS increases by Re.1, it leads to increases in MPS by Rs. 0.72 holding rest variables constant. In the same way the constant for EPS is – 1.22 say that when EPS is decreases by Re.1, MPS will increases by Rs. 1.22 and vice versa keeping DPS, NWPS and DPR constant. If, DPS, NWPS and EPS remain constant and DPR decreases by Re. 1, MPS will increase by Rs. 0.82 and vice- versa.

The multiple regression equation for another company Capital merchant banking and finance is drawn as:

MPS = - 1834.26 – 6.01 DPS – 1.03 NWPS +5.47 EPS +1.79 DPR.

The above equation gives the result on MPS due of the joint effect on DPS, NWPS, EPS and DPR. MPS intercept i.e. multiple regressions constant as shown in the equation equals to – 1834.26. It implies that when DPS, NWPS EPS and DPR become zero, MPS would be Rs. – 1834.26. The constant for DPS is – 6.01 means the when DPS decreases by Re.1, MPS will increases by Rs. 6.01 and vice- versa holding rest variables NWPS, EPS and DPR constant. Similarly, the constant for NWPS is – 1.03, indicate that when NWPS decreases by Re.1, the MPS will increases by Rs. 1.03 and vice-versa keeping DPS,EPS and DPR consant.In the same way the constant for EPS is 5.47, which means that if EPS increases by Re.1, it leads of increase in MPS by Rs. 5.47 keeping DPS, NWPS and DPR constant. If DPS, NWPS and EPS remain constant and DPR increases by Rs. 1, it leads to increase in MPS by Rs. 1.79.

The multiple regression equation for Royal merchant banking and finance is drawn as:

MPS = 8473.93 + 1.04DPS -2.03 NWPS -3.15 EPS -5.77 DPR

The above equation gives the result on MPS due to joint effect on variables DPS, NWPS, EPS and DPR. MPS intercept as shown in the equation equals to 8473.93. It indicates that when DPS, NWPS, EPS and DPR become zero, MPS would be equal to 8473.93 . The constant for DPS is 1.04 means that when DPS increases by Re. 1, MPS will increases by Rs. 1.04 keeping NWPS, EPS and DPR as constant. In the same way, the constant for NWPS is –2.03, which indicates that when NWPS decrease by Re.1, it leads to increase in MPS by Rs. 2.03 and vice – versa holding DPS , EPS and DPR constant . Similarly, the constant for EPS is – 3.15, which means that if EPS decreases by Re.1, MPS increases by Rs. 3.15 and vice versa , keeping MPS,NWPS and DPR constant. The constant for DPR equal to – 5.77 means if DPS, NWPS and EPS holding constant and DPR decreases by Re.1, MPS will increases by 5.77 and vice versa.

The multiple regression equation of Union finance limited is drawn as;

MPS = - 5882.89 – 3.31 DPS +5.43 NWPS – 0.19 EPS + 5.75 DPR

The above equation depicts the result on MPS due to joint effect on variables DPS, NWPS, EPS and DPR. MPS intercept (a) as shown in the equation is equal to – 5882.89. It implies that when DPS, NWPS, EPS and DPR becomes zero, MPS would be equal to – 5852.89.The constant for DPS is – 3.31, meaning that when DPS decreases by Rs. 1, MPS increases by Rs. 3.31 and vice- versa holding other variables constant. Similarly, the constant for NWPS is 5.43, which indicates that when NWPS increases by Re.1, it leads to increase in MPS by 5.43 keeping DPS, EPS and DPR constant. In the same way , the constant for EPS equals to – 0.19 means if DPS , NWPS and DPR holding constant and EPS decreases by Re.1,MPS will increases by Rs. 0.19 and vice- versa. If, DPS, NWPS and EPS remain constant and DPR increases by Re.1, it leads to increase in MPS by Rs. 5.75.

The multiple regression equation for DCBL bank limited is;

MPS = 4359.16- 2.26 DPS – 1.27 NWPS + 3.23 EPS + 0.12 DPR.

The above multiple regression equation gives the result on MPS due to the joint effect on DPS, NWPS, EPS and DPR.MPS intercept (a) as shown in the equation equals to 4359.16, which implies that when DPS, NWPS, EPS and DPR becomes zero, MPS would be equal to Rs. 4359.16. The constant for DPS is equal to – 2.26, which means that if DPS decreases by Re. 1. It leads to increase in MPS by Rs. 2.26 and vice- versa keeping NWPS, EPS and DPR constant. In the same way the constant for NWPS is – 1.27 , indicates that when NWPS decreases by Re.1, MPS will increases by Rs. 1.27 and vice- versa keeping DPS, EPS and DPS constant. similarly, if DPS , NWPS and DPR remain constant and EPS increases by Re. 1, MPS will increases by Rs. 3.23 .The constant for DPR equals to 0.12 means if DPR, NWPS and EPS holding constant and DPR increases by Re.1, it leads to increase in MPS by Rs. 0.12.

The multiple regression equation of Ace development bank limited is;

MPS = 132.55- 113.03 DPS +6.41 NWPS – 0.42 EPS – 6.38 DPR

The above equation gives the result on MPS due to joint effect on variables DPS, NWPS, EPS & DPR. MPS intercept i.e. multiple regression constant as drawn in the equation equals to 132.55. It implies that when DPS, NWPS, EPS and DPR become

zero, MPS would be equal to Rs. 132.55. Here, the constant for DPS is – 113.03 meaning that when DPS decreases by Re1, MPS increases by 113.03 and vice- versa keeping the variables NWPS , EPS and DPR as constant. Similarly , the constant for NWPS is 6.41, which means that if NWPS increases by Re. 1, it leads to increase in MPS by 6.41 keeping rest variables constant. In the same way, the constant for EPS equals to -0.42 means if DPS, NWPS and DPR holding constant and EPS increases by Re.1, MPS will decreases by RS. 0.42 and vice versa. If DPS, NWPS and EPS remain constant and DPR decreases by Re. 1, it leads to increase in MPS by Rs. 6.38 and vice-versa.

The multiple regression equation of Siddhartha development bank is drawn as;

MPS= - 30147.59 -1.09 DPS +2.89 NWPS -1.42 EPS + 0.07 DPR.

The above equation gives the result on MPS due to joint effect on DPS, NWPS EPS and DPR. It implies that when DPS, NWPS, EPS and DPR become zero, MPS would be Rs. – 30147.59. The constant for DPS is – 1.09 meaning that when DPS increases by Re.1, MPS will decreases by Rs. 1.09 and vice- versa holding the variables NWPS, EPS& DPR constant. In the same way, the constant for NWPS equals to 2.89, which means If DPS , EPS and DPR holding constant and NWPS increases by Re.1, it leads to increase in MPS by Rs. 2.89 . Similarly, if DPS, NWPS and DPR remain constant and EPS is decrease by Re. 1, then it leads to increase in MPS by Rs. 1.42 and vice versa. Again , the constant for DPR is equal to 0.07 which meaning that when DPR increases by Re.1, MPS will increases by Rs. 0.07 keeping DPS, NWPS and EPS constant.

The multiple regression equation for Nepal insurance company limited is drawn as;

MPS = 445.83+0 DPS -0.42 NWPS -0.004 EPS -0.33 DPR

From the above equation we can say that when DPS, NWPS, EPS and DPR becomes zero, MPS would be Rs. 445.83. There is no effect of DPS on the MPS in the above

equation due to the constant of DPS is zero. The constant for NWPS is equal to - -0.42, which means when NWPS decreases by Re.1, MPS will increases 0.42 and vice-versa keeping EPS and DPR consant. In the same way, the constant of EPS is – 0.004 which indicates that if EPS decreases by Rs.1, it leads to increase in MPS by Rs. 0.004 and vice- versa holding NWPS and DPR constant. Similarly, if NWPS and EPS remain constant, and DPR decreases by Re.1, MPS will increase by Rs. 0.33 and vice versa.

The multiple regression equation for Sagarmatha insurance company limited is;

MSP = 307.21 -1.38 DPS -0.65 NWPS +1.11 EPS +1.76 DPR.

The above equation gives the result on MPS due to the joint effect on DPS, NWPS, EPS and DPR. MPS intercept i.e. multiple regressions constant as shown in the equation equals to 307.21. It implies that when DPS, NWPS, EPS and DPR become zero, MPS would be equal to Rs. 307.21. The constant for DPS is – 1.38, that means when DPS decreases by Re.1, MPS will increases by Rs. 1.38 and vice- versa keeping NWPS,EPS and DPR consant.In the same way the consant for NWPS is – 0.65,which indicates that if NWPS decreases by Re.1, it leads to increase in MPS by 0.65 and vice- versa holding the variables DPS, EPS and DPR constant. Similarly, if DPS,NWPS and DPR remain constant and EPS increases by Re.1, MPS will increases by Rs.1.11. The constant for DPR equals to 1.76 means if DPS, NWPS and EPS holding constant and DPR increases by Re. 1 it leads to increase in MPS by Rs. 1.76.

At last the multiple regression equation for Butwal Power Company limited is shown as follows;

MPS =- 5697.59 -1.69 DPS +0.74 NWPS + 3.68 EPS +3.10 DPR.

The above equation gives the result on MPS due to joint effect on DPS, NWPS, EPS and DPR. MPS intercept (a) as shown in the above equation is equal to – 5697.59, which implies that when DPS, NWPS, EPS and DPR become zero, MPS would be

equal to Rs. -5697.59.The constant for DPS is – 1.69 meaning that when DPS decreases by Re.1, MPS will increases by Rs. 1.69 and vice-versa keeping NWPS, EPS and DPR constant. Similarly, the constant for NWPS is 0.74 which indicates that if NWPS increases by Re.1, it leads to increase in MPS by Rs. 0.74 holding DPS, EPS and DPR constant. In the same way, the constant for EPS equals to 3.68 means if DPS, NWPS and DPR holding constant and EPS increases by Re.1, MPS will increases by Rs. 3.68. If, DPS, NWPS and EPS remain constant and the DPR increases by Re.1, it leads to increase in MPS by Rs. 3.10.

4.2 Major Finding of the Study

1. Among the commercial banks Nabil bank limited has the highest EPS throughout the study period. The average EPS of Nabil bank is 111.99, SD is 22.81 and CV is 20.37, which shows that there is low fluctuations in EPS of Nabil bank limited.
2. Among the finance companies, the average EPS of Royal merchant banking and finance is highest i.e. 21.76 with the SD and CV of 7.76, 35.65 respectively. Higher EPS shows better condition of the company.
3. Among the all of institutions listed in our study, Nepal insurance company limited has lowest EPS i.e. 3.6 with SD and CV of 44.64 and 1234.94 respectively. Which shows very high fluctuation in EPS of the company.
4. Among the all of institutions, the average market price of Nabil bank limited is highest i.e. 3969.60 with standard deviation of 1519 .9 and coefficient of variation of 38.29. Where as Sagarmatha Insurance Company has lowest average MPS of 261.2 with SD and CV of 45.72 and 17.51 respectively. There is very low fluctuation in the MPS of Nepal insurance company limited.
5. The average dividend paid by Nabil bank limited is highest i.e. 96, among the all financial institutions listed in the above table. Everest bank limited has the second highest.
6. Average DPR of Ace development bank is 93.95, which is the highest DPR from the sampled institutions. It means that Ace development bank generally

pays 93.95% of its total earning as dividend to its shareholders. Nepal insurance company has lowest DPR of 2.80.

7. Among the all, Nabil bank limited has the highest average NWPS. Everest bank, Himalayan bank, Butwal power company, Nepal investment bank also shows a very positive position. Although some others show a low NWPS , all of their position is good as the average NWPS is positive.
8. The degree of relationship between MPS and DPS seems to be significant in all of the above listed institutions except in case of Capital merchant banking and finance, Royal merchant banking and finance, DCBL bank limited, Ace development bank limited and Nepal insurance company limited,where correlation coefficient recorded as – 0.294, -0.554, -0.438, -0.375 and -0.591 respectively.
9. The simple regression equation of Nabil bank , bank of Kathmandu , Everest bank, Himalayan bank, standard finance, Union finance, Siddhartha development bank, Sagarmatha insurance company and Butwal power company indicate that if DPS increases by Re. 1, MPS will be increases by Rs. 0.011, 0.004, 0.008, 0.006, 0.008, 0.119, 0.031, 0.0009 0.046 and 0.0008 respectively. Whereas the regression equation of Capital Merchant Banking and Finance, Royal merchant banking & finance, DCBL bank limited, Ace development bank limited and Nepal insurance company limited implies that if DPS decreases by Re. 1, it leads to increase in MPS by Rs. 0.002, 0.007, 0.009, 0.025 and 0.050 respectively and vice-versa.
10. The degree of relationship between MPS and EPS seems to be highly positive in Bank of Kathmandu, Himalayan bank limited, Standard finance limited and Union finance limited. In capital merchant banking and finance, Ace development bank and Nepal insurance company limited it is negative. There is positive correlation between MPS and EPS in Nabil bank, Everest bank, Nepal investment bank , Royal merchant banking and finance, DCBL bank, Siddhartha development bank, Sagarmatha insurance company and Butwal power company limited.

11. The simple regression equation of Nabil bank, Bank of Kathmandu, Everest bank, Standard finance, Royal merchant banking & finance, Union finance limited, DCBL bank limited,Siddhartha development bank, Sagarmatha insurance company and Butwal power company limited depicts that if EPS increases by Re. 1 it leads to increase in MPS by 0.004, 0.011, 0.009, 0.004, 0.021, 0.045, 0.009, 0.09, 0.001, 0.005, 0.087 and 0.007 respectively. Beside these the regression equation of Capital merchant banking & finance, Ace development bank and Nepal insurance company limited indicate that if EPS increases by Re. 1, the MPS will be increases by Rs. 0.002, 0.011 and 0.705 respectively and vice-versa.
12. Among all of the institutions, the correlation coefficient between MPS and DPR of Bank of Kathmandu, Himalayan bank ltd., Standard finance ltd., DCBL bank ltd., Ace development bank ltd., Siddhartha development bank, Nepal insurance company and Butwal power company is negative. Which indicate that there exists negative relationship between MPS and DPR. Such type of situation is not a healthy financial environment for the banks and financial institutions.
13. The simple regression equation of Nabil bank, Everest bank, Nepal investment bank, Capital merchant banking and finance, Union finance and Sagarmatha insurance company indicate that when DPR increases by Re. 1, the MPS will be increase by Rs. 0.005, 0.005, 0..006, 0.003, 0.084 and 0.351 respectively. But regression equation of Bank of Kathmandu, Himalayan bank limited, Standard finance ltd., Royal merchant banking and finance, DCBL bank, Ace development bank, Siddhartha development bank , Nepal insurance company and Butwal power company implies that if DPR decreases by Rs. 1, it leads to increase in MPS by Rs. 0.009, 0.027, 0.017, 0.107, 0.140, 0.057, 0.034, 0.134 and 0.013 respectively and vice-versa.
14. There is high degree of positive correlation between MPS and NWPS of Himalayan bank limited and Standard finance limited. The relationship between MPS and NWPS for Everest bank, Butwal Power Company and

Siddhartha development bank is moderate. There is low degree of positive correlation between MPS and NWPS in Nabil bank, Bank of Kathmandu, Nepal investment bank, Royal merchant banking and finance and Union finance limited. There also negative correlation in Capital merchant banking and finance, DCBl bank limited, Ace development bank ltd. ,Nepal insurance company and Sagarmatha insurance company limited.

15. The simple regression equation of Nabil bank, Bank of Kathmandu , Everest bank, Nepal investment bank, Himalayan bank, Standard finance, Royal merchant banking and finance and Butwal power company limited shows that if NWPS increases by Re. 1 it leads increase in MPS by Rs. 0.015, 0.013, 0.039, 0.019, 0.029, 0.071, 0.012, 0.034, 0.005 and 0.041 respectively. Similarly, the regression equation of Capital merchant banking and finance, DCBL bank limited, Ace development bank limited, Nepal insurance company limited and Sagarmatha insurance company limited indicate that when NWPS increases by Re. 1, the MPS will be decreases by Rs. 0.005, 0.000016, 0.057, 0.824 and 0.395 respectively and vice-versa.
16. Multiple regression analysis gives the result on MPS due to the joint effect on variables DPS, NWPS, EPS and DPR. It reflected that NWPS and DPR explained the equally best of the market price compared to other variables DPS and EPS . DPS seems to more volatile than other variable. it seems not a good indicator of stock price.

CHAPERR-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

The market price of equity shares is affected by various financial indicators like dividend per share, earning per share, net worth per share and dividend payout ratio. Therefore this study mainly examines the relationship between market price of the equity share with dividend per share, earning per share, and net worth per share and dividend payout ratio. This study is mainly focused on whether dividend per share of the company affects market price of share or not?

It has been noticed that there is a significant fluctuations in prices of corporate shares even without significant exchanges in profitability situation of the company. Amongst the listed companies in the Nepal stock exchange, Commercial Banks always hold a big position in overall trading. The trading in terms of volume and amount of the commercial banks make up to 60 percent of total transactions. Development banks and finance companies hold second and third share in the trading in volume as well in the amount. Manufacturing and Hydropower Company also hold some share in the market. Here, there fore study of 15 Financial Institutions was expected to reflect the overall stock market in Nepal. This research encloses 5 Commercial banks, 4 Finance

companies, 3 development banks, 2 Insurance companies and 1 Hydropower company.

Both Empirical analysis and statistical observation had been performed to carryout this study. The secondary data was collected primarily from the annual reports of securities Board Nepal. The data was studied in order to obtain various financial performances, annual meetings, MPS, DPS, NWPS, EPS, and DPR of the sampled financial institutions. The analysis of MPS, NWPS, DPR, DPS, and EPS was done which showed that Nabil bank limited has the highest EPS, MPS and DPS through out the study period. From the group of finance companies capital merchant banking and finance company has the highest MPS. Butwal Power Company limited has the average MPS of 1091.80. Nepal insurance company limited has very lowest DPS of 1.052, which has not paid dividend for first four years.

Sagarmatha insurance company has also not paid dividend for 3 years. Among the all institutions, Ace development bank has highest DPR. Siddhartha development bank and Butwal Power Company have second and third highest DPR. From all, Nabil bank limited has the highest NWPS. Everest bank and Himalayan bank also show a very positive position. For the purpose of statistical analysis of the entire sample banks, simple correlation and regression analysis and multiple regression is used to interpret the results. The data obtained were analyzed to run the separate set of regression analysis taking market price as the dependent variable and EPS, DPS NWPS and DPR has been taken as independent variable.

Simple regression analysis between the market price and other financial indicators (DPS, EPS, NWPS and DPR) reflected that net worth per share explained the best of the market prices compared to other indicators. dividend per share and earning per share were equally explanatory, where as dividend pay out ratio was not a good indicator of stock pricing. The result showed that market price corresponds to the earning per share at a greater extent and then to dividend per share and net worth per share.

Multiple regression analysis between the market price and other financial indicators (MPS on DPS, NWPS, EPS and DPR) reflected that NWPS and DPR explained the best of the market price compared to other indicators, DPS and EPS. DPS seems not a good indicator of stock price.

When carrying out individual analysis of the commercial banks, the result drawn was that market prices of different banks correspond to different financial indicators. While market price of equity shares of some of the commercial banks was high with dividend per share, some had high correlation coefficient between market price and net worth per share. Correlation coefficient was significant between dividend pay out ratio and market price in some of the cases. The result of which is shown as follows. Most of the respondents were male respondents investing in more than one financial institution. They invest with an expectation of gaining more on future. They were more concerned with the purchase and sale of shares rather than holding for a longer period of time expecting dividend and bonus share returns.

5.2 Conclusion

From the study, it has been concluded that there is not a single financial indicator that has a dominated role to determine MPS. One financial indicator that has significant for one company is not significant for another company. Dividend practices of all financial institutions are neither stable nor constantly growing. Dividend practices also seen a important indicators in determining market price somehow. Haphazard way of distribution in growing trend is seemed in practice.

5.3 Recommendation

1. The findings of the study reveals that market prices of the equity shares are overvalued when compared to the earning per share, which is the primary indicator of the financial status of the concerned financial institution. This was mainly due to ignorance and improper access to financial health of the company. It is recommended that the investors should be conscious while purchasing equity shares. Then regulatory bodies should play greater role to disclose the financial status of the company on a regular basis. This can help to

investors for proper judgment of the situation and for the calculation of expected market prices.

2. As a empirical study revealed that there are significant number of share investors who do not know about the functioning of the securities market and are unaware of the market price setting mechanism, an intensive program to aware this group of share investors must be carried out by Nepal stock exchange and securities board Nepal. The present efforts to educate share investors have remained at low level. Since the access to internet in Nepal is quite low, it is recommended that Nepal stock exchange and securities board take on other measure such as printing leaflets and other information brochures to educate the share investors.

3. The presence of rating agencies and disclosing the ratings to financial institutions on a regular basis can also help strengthen the equity market, as the market prices for high rated institutions would increases when compared to those having low level of ratings. As this study has not considered the external factors such as investment climate, economic growth, growth of financial system and others, it is recommended that a detailed study be carried out to observe the market price behavior in Nepal. This study can help identify the real factors that affect market price of equity shares, other than the financial health of the company itself.

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ANNEX-I

CORRELATION COEFFICIENT AND REGRESSION COEFFICIENT ANALYSIS BETWEEN MPS AND DPS

Nabil Bank

Year	MPS (x)	DPS (y)	x^2	xy	y^2
2005/06	2240	85	5017600	190400	7225
2006/07	5050	140	25502500	707000	19600
2007/08	5275	100	27825625	527500	10000
2008/09	4899	85	24000201	416415	7225
2009/10	2384	70	5683456	166880	4900
n = 5	19848	480	88029382	2008195	48950

$r_{xy} = 0.631$

a = 51.845

b = 0.01112

The value of r, a and b are calculated using the following formula:

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

$$= \frac{5\times 2008195 - 19848\times 480}{\sqrt{5\times 88029382 - (19848)^2}\sqrt{5\times 48950 - (480)^2}}$$

$= 0.631$

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

$$= \frac{88029382\times 480 - 19848\times 2008195}{5\times 88029382 - (19848)^2}$$

$= 51.845$

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

$$= \frac{5\times 2008195 - 19848\times 480}{5\times 8802938 - (19848)^2}$$

$= 0.011123$

All the calculation have been made as calculated above.

APPENDIX-II

CORRELATION COEFFICIENT AND REGRESSION COEFFICIENT ANALYSIS BETWEEN MPS AND EPS

Standard Finance Ltd.

Year	MPS (x)	EPS (y)	x^2	y^2	xy
2005/06	111	6.13	12321	37.577	680.43
2006/07	243	33.05	59049	1092.303	8031.15
2007/08	930	45.96	864900	2112.322	42742.8
2008/09	340	7.58	115600	57.456	2577.2
2009/10	178	5.66	31684	32.036	1007.48
n = 5	1802	98.38	1083554	3331.694	55039.06

$r_{xy} = 0.795$

a = 3.42

b = 0.045

The value of r, a and b are calculated using the following formula:

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

$$= \frac{5\times 55039.06 - 1802\times 98.38}{\sqrt{5\times 1083554 - (1802)^2}\sqrt{5\times 3331.694 - (98.38)^2}}$$

$= 0.795$

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

$$= \frac{1083554\times 98.38 - 1802\times 55039.06}{5\times 1083554 - (1802)^2}$$

$= 3.418$

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

$$= \frac{5\times 55039.06 - 1802\times 98.38}{5\times 1083554 - (1802)^2}$$

$= 0.0451$

All the calculation have been made as above calculation.

APPENDIX-III

CORRELATION COEFFICIENT AND REGRESSION COEFFICIENT

ANALYSIS BETWEEN MPS AND DPR

DCBL Bank

Year	MPS (x)	DPR (y)	x^2	y^2	xy
2005/06	390	92.32	152100	8522.98	36004.8
2006/07	800	75.27	640000	5665.573	60216
2007/08	855	0	731025	0	0
2008/09	460	84.43	211600	7128.425	38837.8
2009/10	260	116.09	67600	13476.888	30183.4
n = 5	2765	368.11	1802325	34793.866	165242

r_{xy} = -0.835

a = 151.17

b = -0.14

The value of r, a and b are calculated using the following formula:

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

$$= \frac{5\times 165242 - 2765\times 368.11}{\sqrt{5\times 1802325 - (2765)^2}\sqrt{5\times 34793.866 - (368.11)^2}}$$

= -0.835

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

$$= \frac{1802325\times 368.11 - 2765\times 165242}{5\times 1802325 - (2765)^2}$$

= 151.17

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

$$= \frac{5\times 165242 - 2765\times 368.11}{5\times 1802325 - (2765)^2}$$

= -0.14

All the calculation have been made as above calculation.

APPENDIX-IV

CORRELATION COEFFICIENT AND REGRESSION COEFFICIENT ANALYSIS BETWEEN MPS AND NWPS

Nepal Insurance Company Ltd.

Year	MPS (x)	NWPS (y)	x^2	y^2	xy
2005/06	400	190.41	160000	36255.97	76164
2006/07	390	123.91	152100	15353.69	48324.9
2007/08	429	127.93	184041	16366.08	54881.97
2008/09	367	171.52	134689	29419.11	62947.84
2009/10	360	203.81	129600	41538.52	73371.6
n = 5	1946	817.58	760430	138933.37	315690.31

r_{xy} = -0.628

a = 484.38

b = -0.824

The value of r, a and b are calculated using the following formula:

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

$$= \frac{5\times 315690.31 - 1946\times 817.58}{\sqrt{5\times 760430 - (1946)^2}\sqrt{5\times 138933.37 - (817.58)^2}}$$

= -0.628 ~ -0.63

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

$$= \frac{760430\times 817.58 - 1946\times 315690.31}{5\times 760430 - (1946)^2}$$

= 484.38

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

$$= \frac{5\times 315690.31 - 1946\times 817.58}{5\times 760430 - (1946)^2}$$

= -0.824

All the calculation have been made as above calculation.

APPENDIX-V

MULTIPLE REGRESSION ANALYSIS

NABIL Bank

x_1	x_2	x_3	x_4	x_5	x_1x_2	x_1x_3	x_1x_4	x_1x_5	x_2x_3	x_2x_4	x_2x_5	x_3x_4	x_3x_5	x_4x_5	x_2^2	x_3^2	x_4^2	x_5^2
2240	85	381	129.21	65.78	190400	853440	289430.4	147347.2	32385	10952.85	5591.3	49229.01	25062.18	8499.43	7225	145161	16695.22	4327
5050	140	418	137.08	101.59	707000	2110900	692254	513029.5	58520	19191.2	14222.6	57299.44	42464.62	13925.96	19600	174724	18790.93	10320.53
5275	100	354	108.31	92.33	527500	18673510	571335.25	487040.75	35400	10831	9233	38341.74	32776.86	10000.26	10000	125316	11731.06	8524.83
4899	85	324	106.76	79.62	416415	1587276	523017.24	390058.38	27540	9074.6	6767.7	34590.024	25796.88	8500.23	7225	104976	11397.7	6339.34
2384	70	265	78.61	89.05	166880	631760	187406.24	212295.2	18550	5502.7	6233.5	20831.65	23598.25	7000.22	4900	70225	6179.53	7929.9
19848	480	1742	559.97	428.37	2008195	7050726	2263443.13	1749771.03	172395	55582.35	42048.1	200291.86	149698.79	47926.1	48950	620402	64794.44	37441.6

$\Sigma x_1 = na + b_1\Sigma x_2 + b_2\Sigma x_3 + b_3\Sigma x_4 + b_4\Sigma x_5$ …… (i)

$19848 = 5a + 480b_1 + 1742b_2 + 559b_3 + 428.37b_4$

$\Sigma x_1x_2 = a\Sigma x_2 + b_1\Sigma x_2^2 + b_2\Sigma x_2x_3 + b_3\Sigma_2x_4 + b_4\Sigma x_2x_5$…. (ii)

$208195 = 480a + 48950b_1 + 172395b_2 + 55582.35b_3 + 42048.1b_4$

$\Sigma x_1x_3 = a\Sigma x_3 + b_1\Sigma x_2x_3 + b_2\Sigma x_3^2 + b_3\Sigma x_3x_4 + b_4\Sigma x_3x_5$ …….. (iii)

$7050726 = 1742a + 172395b_1 + 620402b_2 + 200291.86b_3 + 149698b_4$

$\Sigma x_1x_4 = a\Sigma x_4 + b_1\Sigma x_2x_4 + b_2\Sigma x_3x_4 + b_3\Sigma x_4^2 + b_4\Sigma x_4x_5$ …… (iv)

$2263443.13 = 559.97a + 555582.35b_1 + 200291.86b_2 + 64794.44b_3 + 47926.1b_4$

$\Sigma x_1x_5 = a\Sigma x_5 + b_1\Sigma x_2x_5 + b_2\Sigma x_3x_4x_5 + b_4\Sigma x_5^2$ ……. (v)

$1749771.03 = 428a + 42048.1b_1 + 149698.79b_2 + 47926.1b_3 + 37441.6\ b_4$

Where, X_1 = MPS, x_2 = DPS, x_3 = NWPS, x_4 = EPS and x_5 = DPR.

MPS = 331972.64 + 51.13DPS + 17.67NWPS – 56.65 EPS – 36.06 DPR

All the calculations have been made accordingly.