

**IMPACT OF DIVIDEND POLICY ON STOCK PRICE OF  
JOINT VENTURE BANKS IN NEPAL:  
A STUDY OF SELECTED BANKS LISTED IN NEPAL STOCK  
EXCHANGE**

**A Dissertation**

**Submitted to the office of the Dean, Faculty of Management  
in partial fulfilment of the requirements for the Degree of  
Masters of Business Studies (M.B.S)**

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## **Certification of Authorship**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**IMPACT OF DIVIDEND POLICY ON STOCK PRICE OF JOINT VENTURE BANKS IN NEPAL: A STUDY OF SELECTED BANKS LISTED IN NEPAL STOCK EXCHANGE**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

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

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04-04-2023

## Report of Research Committee

Ms. UNISHA KARANJIT has defended the research proposal entitled “**IMPACT OF DIVIDEND POLICY ON STOCK PRICE OF JOINT VENTURE BANKS IN NEPAL: A STUDY OF SELECTED BANKS LISTED IN NEPAL STOCK EXCHANGE**” successfully. The research committee has registered the dissertation for further progress. It has recommended to carry out the work as per suggestions and guidance of supervisor Mr. Rajendra Raya and submit the thesis for evaluation and viva voce examination.

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04-04-2023

## Approval Sheet

We have examined the dissertation entitled **“IMPACT OF DIVIDEND POLICY ON STOCK PRICE OF JOINT VENTURE BANKS IN NEPAL: A STUDY OF SELECTED BANKS LISTED IN NEPAL STOCK EXCHANGE”**. presented by Ms. UNISHA KARANJIT for the Degree of Master’s in Business Studies (MBS). We hereby certify that the dissertation is acceptable for the award of degree.

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This research study on “**IMPACT OF DIVIDEND POLICY ON STOCK PRICE OF JOINT VENTURE BANKS IN NEPAL: A STUDY OF SELECTED BANKS LISTED IN NEPAL STOCK EXCHANGE**” has been prepared as the partial fulfilment of Master of Business Studies (MBS). The interest in the study arose from the group discussing with my colleagues by realizing that not many studies have been conducted in this sector in Nepal.

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## Table of Contents

|  |      |
|--|------|
| Certification of Authorship.....             | ii   |
| Report of Research Committee .....           | iii  |
| Approval Sheet.....                          | iv   |
| Acknowledgement.....                         | v    |
| Table of Contents.....                       | vii  |
| Table of Tables.....                         | viii |
| List of Figures.....                         | ix   |
| Abbreviations.....                           | x    |
| Abstratcts.....                              | xi   |
| <br>   |      |
| CHAPTER I : INTRODUCTION .....               | 1    |
| 1.1. Background of the Study .....           | 1    |
| 1.2. Problem Statement .....                 | 3    |
| 1.3. Objectives of the study.....            | 4    |
| 1.4. Research hypothesis.....                | 5    |
| 1.5. Significance of the Study .....         | 5    |
| 1. 6. Organization of the Study.....         | 6    |
| <br>   |      |
| CHAPTER II: REVIEW OF LITERATURE .....       | 7    |
| 2.1. Conceptual Review .....                 | 7    |
| 2.1.1 Forms of Dividend .....                | 8    |
| 2.1.2 Major Policies of Dividend Payout..... | 12   |
| 2.2 Theoretical Review .....                 | 14   |
| 2.2.1 Irrelevance of Dividend Theory.....    | 14   |
| 2.2.2 Relevance of Dividends Theory .....    | 18   |
| 2.2.3 Signaling theory .....                 | 20   |
| 2.2.4 Agency Theory.....                     | 21   |
| 2.2.5 Transaction Cost Theory.....           | 22   |
| 2.2.6 Catering Theory of Dividend .....      | 23   |
| 2.3. Empirical Review.....                   | 24   |
| 2.4. Research Gap.....                       | 32   |

|   |        |
|---|--------|
| CHAPTER III: RESEARCH METHODOLOGY .....     | 34     |
| 3.1. Research Design .....                  | 34     |
| 3.2. Population and Sample .....            | 34     |
| 3.2.1 Introduction of Sample Banks .....    | 35     |
| 3.3. Nature and Sources of Data .....       | 38     |
| 3.4. Data Collection Procedures .....       | 38     |
| 3.5. Data Analysis Tools .....              | 38     |
| 3.5.1. Financial Tools .....                | 38     |
| 3.5.2. Statistical Tools .....              | 39     |
| <br>CHAPTER-IV: RESULTS AND DISCUSSION..... | <br>46 |
| 4.1. Results.....                           | 46     |
| 4.2. Descriptive Analysis.....              | 51     |
| 4.3. Correlation Analysis.....              | 52     |
| 4.4. Regression.....                        | 53     |
| 4.5. Major Findings.....                    | 55     |
| 4.6. Discussion.....                        | 56     |
| <br>CHAPTER-V: SUMMARY AND CONCLUSION.....  | <br>58 |
| 5.1. Summary.....                           | 58     |
| 5.2 Conclusions.....                        | 59     |
| 5.3 Implications.....                       | 59     |

**REFERENCES**

**APPENDIX**

## List of Tables

| <b>Table No.</b> | <b>Title</b>   | <b>Page No.</b> |
|------------------|--|-----------------|
| Table 1 :        | EPS of Nepalese Joint Venture banks.....                     | 46              |
| Table 2 :        | DPS of Nepalese Joint Venture banks.....                     | 48              |
| Table 3 :        | DPR of Nepalese Joint Venture Banks.....                     | 49              |
| Table 4:         | Market Price per Share of Nepalese Joint Venture Banks ..... | 50              |
| Table 5 :        | Descriptive Statistics.....                                  | 52              |
| Table 6 :        | Correlation.....   | 52              |
| Table 7:         | Summary of Hypothesis.....                                   | 53              |
| Table 8:         | Model Summary.....   | 53              |
| Table 9:         | ANOVA.....   | 54              |
| Table 10:        | Coefficients.....  | 55              |

## List of Figures

| <b>Figure No.</b> | <b>Title</b>  | <b>Page No.</b> |
|-------------------|---|-----------------|
| Figure 1 :        | EPS of Nepalese Joint Venture banks.....                    | 47              |
| Figure 2 :        | DPS of Nepalese Joint Venture Banks .....                   | 48              |
| Figure 3 :        | DPR of Nepalese Joint Venture Banks.....                    | 50              |
| Figure 4 :        | Market Price per Share of Nepalese Joint Venture Banks..... | 51              |

## Abbreviations

|       |   |                          |
|-------|---|--------------------------|
| AGM   | : | Annual General Meeting   |
| CV    | : | Coefficient of Variation |
| DPR   | : | Dividend Payout Ratio    |
| DPS   | : | Dividend Per Share       |
| EBL   | : | Everest Bank Limited     |
| EPS   | : | Earning Per Share        |
| F.Y.  | : | Fiscal Year              |
| HBL   | : | Himalayan Bank Limited   |
| MPS   | : | Market Price Per Share   |
| NABIL | : | Nabil Bank Limited       |
| NEPSE | : | Nepal Stock Exchange     |
| NMB   | : | NMB Bank Limited         |
| NRB   | : | Nepal Rastra Bank        |
| NSBL  | : | Nepal SBI Bank Limited   |
| SEBON | : | Security Board of Nepal  |

## Abstracts

*This study has examined the impact of dividend policy on market price of share of Joint venture banks in Nepal. The research design of this study has been more descriptive and casual comparative research design have used. There are 26 commercial banks in Nepal (August, 2022). Out of them 5 joint venture banks taken sample. The data used in this study is secondary. The secondary data collected from, annual reports from Fiscal year 2012/13 to 2021/22. The study used descriptive and inferential analysis to analyze the impact of dividend policies on the market price of the share. There was a positive correlation between MPS and EPS, DPS, DPR. The MPS and EPS, DPS, DPR which was statistically significant at the 0.05 level (2-tailed). It means that independent variable explain by dependent variable is 73.60 percent. The EPS, DPS, DPR have positive effects on MPS. The MPS and EPS, DPS, are significance and MPS and DPR is insignificance.*

*Keywords: Dividend Per Share (DPS), Earning Per Share (EPS), Dividend Payout Ratio (DPR)*

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Dividend policy is one of the most important financial policies, not only from the viewpoint of the company, but also from that of the shareholders, the consumers, the workers, regulatory bodies and the Government. For a company, it is a pivotal policy around which other financial policies rotate. Value of the corporate securities depends to a great extent on dividend and, therefore, in deciding upon the financial structure of company, dividend has to be assigned due to consideration. Dividends are payments made by corporations to its shareholder members. It is the portion of corporate profits paid out to stockholders. When a corporation earns a profit or surplus, that money can be put to two uses: it can either be re-invested in the business (called retained earnings), or it can be paid to the shareholders as a dividend. Many corporations retain a portion of their earnings and pay the remainder as a dividend.

In general, dividend payment is not an expense to the firm but the sharing or distribution of profits to each of the firm's shareholders according to the ratio of their shareholding in the firm. Usually, a firm announces dividend on the corporate profits, decided by the board of directors of the firm during Annual General Meeting (AGM). The dividend can be distributed either in cash or by capitalization of profits as stock dividend. Miller and Modigliani (1961) have asserted that given firms' optimal investment policy, the firm's choice of dividend policy has no impact on shareholders wealth. However, Gordon (1963) argues that dividend policy does affect the value of firm and market price of shares. He asserts that shareholders prefer the early resolve on uncertainty, and willing to pay a higher price for a share which has a greater dividend payout ratio. The writer agrees that investors always prefer current income in the form of dividends over capital gains. In the context of Nepal, only few companies are paying dividend but many other companies are not paying stable dividend.

Dividend on share is an important indicator that shows the performance of banks and thereby attracting the investors. Investors examine the dividend policy of the banks before

they decide to invest on stock market but due to fluctuation on dividend policy of commercial banks of Nepal, investors are unable to forecast the future cash flow from cash dividend (Bhandari & Pokharel, 2012). It has been perceived that company which has grown their dividend generally experience an increase in its stock price and those companies which don't pay or lowers its dividend, leads to a fall in stock price trend. Hence, It shows dividend affects the stock price of the company but several researchers argue that it is the information on payment of dividend that affects the stock price. In fact, that dividend works as a simple sufficient signal of management's interpretation of the firm's current performance and its prospects.

As the relationship between dividend policy and the movement of stock prices is debatable, this paper aims at answering the question- What is the impact of dividend policy or dividend announcement, dividend payout ratio, earning per share, price-earnings ratio on the value of joint venture banks listed in the NEPSE? The main objective of this study is to determine the impact of dividend policy on market price per share with special reference to joint venture banks listed in NEPSE.

The main focus of the study is to examine the practice made by the Nepalese Joint venture banks in regards to the dividend policy. But for whole these purpose different other studies are going to be done i.e. comparison of earning per share (EPS), dividend per share (DPS), market price per share (MPS) and others as per the requirement with respect to the sample firm. The study will be more focusing on the dividend policy and MPS; however other qualitative discussion will be submitted including the Nepalese practices. The relationship between different variable(s) will be individually and combinedly analyzed in order to state the particular suggestion. In the same way, the study is focus in regard to dividend practices made in past five years by the sample firms.

Dividend is one of the major reasons for which public are interested to invest money on the shares of bank or other institution. It refers to the portion of earnings that is distributed to the shareholders in return to their investment in the shares. Normally, that business, which is running at profit, is capable to pay dividend. The amount which is distributed as dividend should be adequate to meet the normal expectations of shareholders. Dividend can be paid in cash, shares and securities or a composition of these. There is a reciprocal relationship

between retained earnings and cash dividend. So, cash dividend payout reduces the total amount of internal financing. In this section, we consider three issues. First, how do firms decide how much to pay in dividends, and how do those dividends actually get paid to the stockholders? The researcher then consider two widely used measures of how much a firm pays in dividends, the dividend payout ratio and the dividend yield. The researcher follow up by looking at some empirical evidence on firm behavior in setting and changing dividends.

In context of Nepal, most of the public enterprises are operating in loss. In such situation it is not possible to distribute dividend. Such enterprises mainly focus on minimizing their loss. There are few companies who pay dividend. But after the establishment of joint venture companies, there is a new trend of distributing dividend to shareholders that has brought new hopes for productive mobilization of funds. Dividend distribution trend has not only attracted the investors but has also made the management conscious about the policy regarding the payment of dividend.

## **1.2 Problem Statement**

Business entities are established and operated by owners to generate income above the expenditures which is known as profit. The dividend issue is widespread in corporate finance that deals with the distribution of such profit among shareholders of a firm. It involves the disposing of firms profit into payment to shareholders and re-utilizing in firm for exploiting the attractive investment opportunities. Thus, this decision calls for striking a balance between sharing profit with shareholders and retaining earnings for growth. The dividend issue has got considerable emphasis by researchers because it affects almost all major domains of financial management including cost of capital, investment and financing decisions. As the empirical studies are unable to establish a precise linkage of dividend policy on various functional areas of finance, therefore it is regarded as a most controversial and puzzling issue in corporate finance.

Thus, the present research attempts to analyze the dividend policy of banking sectors from less developed country like Nepal where there is very little evidence are provided by the previous literature. An investigation about the implications of a dividend payment on the

market value of shares is attempted by testing the MM 's irrelevant theory along with the Lintner's Dividend Adjustment Model. Further the study endeavors to discover the determinants of dividend payment of Nepalese banking firms. The research also seeks the perspective and attitude of managers on the factors that are considered when preparing a dividends policy. This study tries to plug the space by doing an empirical study on the determinants of the dividend payment of Nepalese banks listed on the Nepal Stock Exchange (NPSE) that is expected to contribute in identifying the factors that affect the dividend payout of the banks in Nepal and provide an insight to the management of the specific banks, and also help investors, policy makers and banks to understand about significant factors that determine the dividend payout decisions. Thus for the study, the following research problems have been raised:

1. What is the relationship between Dividend per Share and Market price per share of Joint venture banks in Nepal?
2. Does the relationship between Earning per Share and Market price per share of Joint venture banks in Nepal?
3. Is there relationship between Dividend Payout Ratio and market price of Joint venture banks in Nepal?

### **1.3 Objectives of the study**

The major objective of this study is to examine the impact of dividend policy on stock price of Nepalese Joint Venture Banks. This study attempts to analyze the impact of dividend policy on market share price with determinant variables of retained earnings per share, dividend per share, lag price earnings ratio and lag market price per share. The specific objectives are as follows:

1. To analyze the relationship between Dividend per Share and Market price per share of Joint venture banks in Nepal.
2. To analyze the relationship between Earning per Share and Market price per share of Joint venture banks in Nepal.
3. To examine the relationship between Dividend Payout Ratio and market price of Joint venture banks in Nepal.

## **1.4 Research Hypothesis**

Hypothesis is the statement that shows the inferred relationship among different variables. These relationships can be tested using numerous statistical techniques. As per the objectives of the study, the following hypothesis was developed for Testing:

*H1*: There is significant relationship between Dividend per Share and Market price per share.

*H2*: There is significant relationship between Earning per Share and Market price per share.

*H3*: There is significant relationship between Dividend Payout Ratio and Market price per share.

## **1.5 Significance of the Study**

Dividend policy decision is a controversial decision in corporate world yet. As such, there is yet no satisfactory dividend theory that could be equally applied to all corporate firms. There is no yet universally accepted answer to the question "Why dividend matters". So, the study of dividend policy has considerable importance to investors, corporate management and the economists, academicians.

In view of the significance role of dividend policy, the corporate firms should follow the appropriate dividend policy. Its practice has an important role in maximizing the shareholders' value of investment. Dividend policy is considered as one of the important and critical variables affecting the share price. It affects the choice of the investment portfolio by the prospective investors. Investors generally are desirous of investing their savings in such stocks, which is expected to pay promised rate of dividend in the prospectus while issued at the time of floating the shares in the primary market. If such corporate firms could not meet shareholders' expectation by setting out the optimal dividend policy, the share price may not rise as expected by them. It may dampen the growth of corporate firm by making difficult to raise the additional capital by issuing new share or right issue and the growth of stock market as well. Though there have been new and few studies on Nepalese stock market and dividend policy by research scholars, there is still gap in the

financial literature concerning the dividend policy and practices in Nepalese corporate sector.

It has been observed that the conclusions drawn from the research in different countries and different industrial units does not ties each other because of differences in rules, regulations, tax systems, financial market framework etc. These basic differences make it important for the dividend policy of Nepalese banks to be investigated that help to contribute significant knowledge on the subject.

### **1. 6 Organization of the Study**

This study has been organized into five chapters i.e. introduction of the study, review of literature, research methodology, analysis and interpretation of data, summary and conclusion respectively.

- The first chapter, introduction, deals with general introduction, focus of the study, statement of the problem, objectives of the study, significance of the study, organization under study and chapter plan of the study.
- The second chapter, literature review deals with different literatures, which are closely related to this study. It provides information about the various aspects of the dividend. The various practices done regarding the dividend policy in Nepal is also reviewed under this chapter.
- The third chapter, research methodology deals with the detail research methods that are planned for conducting this study and limitations of the study.
- The fourth chapter, presentation and analysis of data is concerned with the application of defined research method on the collected data and information. The generated results after the application of research method on data are analyzed and interpreted in this chapter.
- The fifth chapter, summary, conclusion and recommendation part deals with the summary and conclusion of the analysis. Brief conclusions from the analysis are drawn and necessary recommendations are made through this chapter.

## **CHAPTER II REVIEW OF LITERATURE**

A literature review is a summary of formerly published works on a certain topic. It can be referred entire scholarly document or a piece of a scholarly work, such as a book or an article. The literature review for this specific study on the topic “A systematic review of dividend policy in relation to stock price volatility” comprises of the previously published scholarly articles. This section comprises of the discussion of underlying theories associated to the dividend policy, literature review matrix of the 8 selected articles and critical analysis based on the review of those articles.

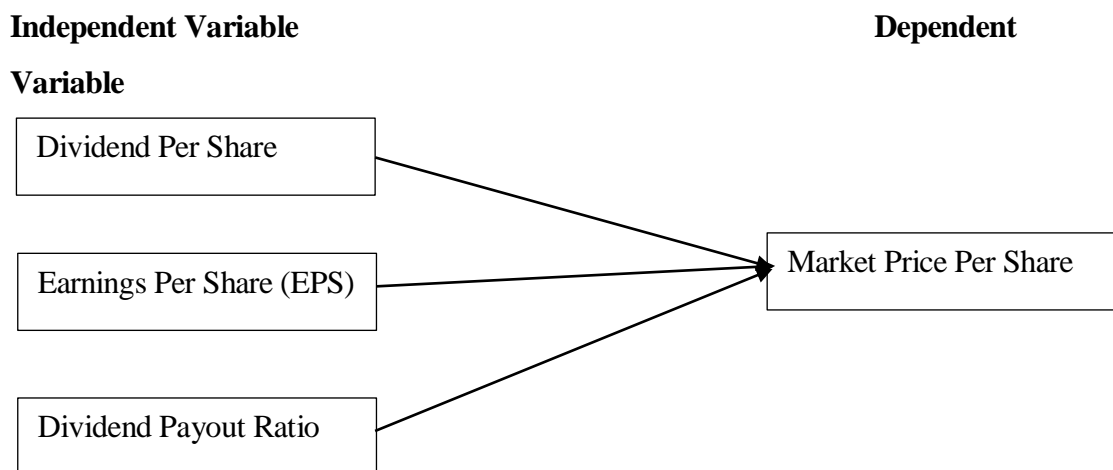
A theory is a set of concepts and propositional links that together give a logical, systematic, and cohesive explanation of a phenomena of interest, subject to certain hypotheses and boundary conditions. Some of the related theories discussed in this section comprises of dividend irrelevance theory, bird-in-the-hand theory, signaling theory, agency cost theory and clientele effect theory.

### **2.1. Conceptual Review**

Dividends refer to the portion of earnings made by the business organization, which distributed to shareholders as return of their investment in shares or dividend represents a distribution of surplus to the shareholder. In other words, it is the reward for bearing the risk of uncertainty. Distribution of dividend to the shareholders and plough back the remaining portion of earnings for opportunity investment is not only the aim of the financial management. What and how much it is desirable to pay dividend is always a controversial topic. Shareholders always expect higher dividend from corporation, but company ensures towards setting aside funds for maximizing wealth. In other words, the firm will use the net profit for paying of dividend to the shareholder, if the payment will lade to maximization of the wealth of the owners. If not, it is better to retain them to finance investment programs.

The relationship between dividend and value of the firm should, therefore, be the criteria for decision-making. Capital gain and cash dividend are two forms of return from the purchase of common stock. Over a time, shareholders definitely expect an increase in the

market value of the common stock. In some case, shareholders expect distribution of the firms earning in the form of a dividend from those companies, which image to be materialized and stable, investor expect regards dividends to be declared and common stock to be paid on. This conceptual framework mainly covers the concepts which form a prime basis for the entire research. It is an analytical tool with several variations and contexts used to make conceptual distinctions and organize ideas.



Noted. From Research Framework

Higher dividend payout reduces the retention amount which affects the internal financial, in other hand lower dividend payout affects market price of stock, The decision regarding dividend payment depends upon the objective of the firm.

### 2.1.1 Forms of Dividend

Depending upon the objectives and policies, they implement, the firm can give various type of dividend to the shareholders. Before adopting any dividend, the firm must ensure the smooth growth of the firm as well as satisfy the expectation of the shareholders. Dividends are given so as:

- a. To increase the faith of retail investors in the company.
- b. To send a signal to investors about companies' optimism towards future earnings.

While doing so, the company may choose different ways of paying out dividend. A company can also decide the frequency of paying out the dividend, meaning it can give it annually, monthly or quarterly. This is solely dependent of the dividend policy of the company. There should be consistency in dividend policy and financial plans, shareholders preference and attitude of the directors. The corporations in Nepal are in the early stage of

development due to which they need to pay extensive concentration in the dividend. The empirical observation in case of public limited companies in Nepal shows that only few corporations are paying dividend to the government due to suffering from regular losses and not having risk of ownership transfer Bhattarai (1996). Some of the major forms of dividends, which are adopted by corporations:

**a) Cash Dividend**

The portion of earning paid in form of cash to the investors in proportion to their share of the company is known as cash dividend. Cash dividend is the most popular form of dividend payout. In this, company issues the dividend to all shareholders where the money is deposited in the bank accounts of shareholders as per the holdings of the investors. Usually there is a predefined process for the dividend declaration. After the payment of dividend to the shareholders both the total assets and net worth of the company decreases by the amount equal to the cash dividend. For the payment of dividend, company should sustain adequate balance of cash. In case of insufficiency in cash balance for the payment of dividend, funds to be borrowed for this purpose are difficult. Thus, a company should regularly perform cash planning for maintaining a stable dividend policy. In context of Nepal, cash dividend is the most popular form of dividend and is mostly adopted by many companies/firms/financial institutions. However, it can be said that the volume of cash dividend depends on the earning of the organization, attitude of management, situation of the market, cost of external financing etc.

**b) Stock Dividend (Bonus Shares)**

A stock dividend is simply the issue of additional shares of stocks to existing stockholders in lieu of or in addition to the cash dividend. The effect of increasing the number of outstanding shares of the company is also said to be a stock dividend. The shares are distributed proportionately; thus, a shareholder retains his proportionate ownership of the company.

The declaration of the stock dividend will increase the equity share capital and reduces the reserves and retained earnings of the company. The total net worth is not affected by the stock dividend. The effects of a stock dividend can be summarized as increase in the number of outstanding stocks, transfer of retained earnings balance to capital

accounts, cause not any change in net worth and par value of the company along with not affecting the shareholders' proportional ownership.

### **c) Stock Repurchases**

Purchase of own share by the issuing company from the secondary market is known as stock repurchase. Stock repurchase is often viewed as an alternative for paying dividends. If some of the outstanding stock is repurchased, fewer shares will remain outstanding; and assuming that the repurchase does not adversely affect the firm's earnings, the earnings per share of the remaining shares will increase. This increment in earning per share may result in a higher market price per share, so capital gains will have been substituted for dividends. It is thus, stock repurchase is often taken as an alternative to paying dividends.

A corporation's repurchase of its own stock can serve as a tax advantageous substitute for dividend payout. Repurchase has the effect of raising share prices so that shareholders can be taxed at the capital gains rate instead of the ordinary dividend rate of cash dividends (Weston and Copeland, 1992). The effect of stock repurchase can be considered as reduces in the number of outstanding stock, increases in the proportional ownership of remaining shareholders along with increase in stock price as net worth per share increase. Nepalese Company has prohibited to company for purchasing its own shares. Furthermore, no company shall purchase its own shares or supply loans against the security of its own shares.

### **d) Property Dividend**

It is also known by the name of liquidating dividends. It involves a payment of assets/property in any form other than cash. Such form of dividend may be followed whenever there are assets that are no longer necessary in the operation of the business or in extra ordinary circumstances. Company's own products and the securities of subsidiaries are the example that have been paid as property dividend. Any company can issue any non-monetary dividend to its shareholders. The issued property dividend would be recorded against the current market price of the asset distributed. As the market price of the asset is expected to be either above or below the book value therefore it would either incur profit or loss and accordingly would be entered in the books. This interpretation of the distributed asset may force businesses to intentionally issue the property dividend to manipulate the

taxable income.

**e) Scrip Dividend**

These dividends are always known as liability profits and are distributed to shareholders in the form of a certificate instead of cash dividends. They provide an option for the shareholders to obtain profits at a later time or to obtain additional shares. Companies issue such profits when they don't have sufficient cash to pay cash dividends.

A practice of creating non-interest-bearing note payables by promising to pay dividend in certain date in future is called scrip dividend. This practice is applied when the company faces lack of adequate funds to pay dividend but desires to maintain uninterrupted dividend record. Periasamy stated that a scrip dividend is a substitute for cash and a short-term medium of stock dividend. This form of dividend payment is not practiced yet by Nepalese business organizations.

**f) Share Buybacks (Reverse Stock Splits)**

This policy is the inverse of the derivation of the number of its shares. As appears from its name, this policy is based on the same principle of the derivation process of shares but in an inverse way which leads to raising the nominal value of the share. Therefore, there is no change in the financial structure of the corporation except for the number of shares. The reverse derivation method is a policy to prevent the stock price from falling to low levels. Stock repurchases (treasury shares), as the corporation's buyback of its shares, is intended to use the surplus of cash in the corporation to buy its traded shares, which are called treasury shares. This policy thus leads to the creation of so-called shares cash and stock prices are mostly greater than the price prevailing in the market.

There is another method, which is called the repurchasing of the target shares through management corporation practices, such as negotiating with shareholders who have large proportions of shares, to thwart control over the corporation's shares. Corporations usually negotiate with some investors to the Foundation when the market share price is less than its true value. The stock repurchase policy has witnessed staggering growth in the United States and Europe.

### **2.1.2 Major Policies of Dividend Payout**

Dividend policy refers to the issue of how much of the total profit a firm should pay to its stockholders and how much to retain for investment so that the combined present and future benefits maximize the wealth of stockholders. The dividend policy, however, not only specifies the amount of dividend, but also form of dividend, payment procedure etc.

Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of fund for financing corporate group, but payout ratio obviously depends on the way earnings are measured for ease of exposition; we use account net earnings but assume that these earnings can form true economic earnings. In practice, net earnings may not conform and may not be an appropriate major of the ability of firm to pay dividends (Van Horne; 2000). But in Nepalese context most of the companies are paying cash and stock dividend or bonus shares. Dividend policy according to the application could be categorized as following: dividends constitute the cash flow that accrues to stockholders. The third major decision of the firm is its dividend policy, the percentage of earnings it pays in cash to its stockholders. Dividend payout, of course, reduces the amount of earnings retained in the firm and affect the total amount of internal financing.

#### **a) Stable Dividend Policy**

When a firm constantly pays a fix amount of dividend and maintains it for all times to come regardless of fluctuations in the level of its earnings, it is called a stable dividend policy. In this dividend policy, the dividend will be paid regularly. A consistent dividend policy is likely to enhance the share price by satisfying the firm's clientele and by providing consistently positive signal about future earnings prospects. This policy is applicable in the firm having regular and stable income. But this policy does not refer to fix income every year or periods. It can be changed proportionately with the change in companies earning.

### **b) No Immediate Dividend Policy**

If the company does not declare dividend unless the company earns large income is called no immediate dividend policy. In other words, if there is not any hurry about dividend payment and if it could be only when the company earns more profit is known as no immediate dividend policy. This policy is usually pursued the following circumstances:

- When the firm is new and rapidly growing concern, which needs tidy amount of funds to finance its expansion program.
- When the firm excess to capital market is difficult.
- When availability of funds is costlier.
- When stockholders have agreed to accept higher return in future

In fact, this policy should follow by issue of bonus shares.

### **c) Regular Stock Dividend Policy**

If the company regularly pays dividends to its shareholders in stock instead in cash, then it is called regular stock dividend policy. Regular stock dividend policy is also designated as bonus shares. Such policy should follow under the following circumstances:

1. When the firm needs cash generated by earnings to cover is modernization and expansion project,
2. When the firm is deficient in cash despite high earnings, this is particularly true when the firm's sale is affected through credit and tire sales proceeds are tied in receivables.

### **d) Irregular Pay Dividend Policy**

It is the policy in which, the firm does not pay any fixed amount of dividend every year or dividend varied in correspondence with change in level of earnings, i.e., higher earnings means higher dividend and vice-versa. The firm with un-stable earnings also adopts this policy, when there are investable opportunities, the company retains more and when there is not any investable opportunities, the company distributes the earning as dividend or there is not regularity of dividend payment. Therefore, it is the most used type of dividend policy in the Nepalese context at present.

### e) **The Residual Theory of Dividend Policy**

Dividends are therefore merely a residual remaining after all equity investment needs are fulfilled. Before dividend payments are determined automatically retained earnings are determined. One school of thought, the residual theory of dividends, suggests that the dividend paid by a firm should be viewed as a residual amount left after all acceptable investment opportunities have been undertaken. Thus, according to this theory, dividend policy is a residual from investment policy. It is a residue since shareholders get dividends only if there is balance of earning after paying fixed obligations and investing in profitable sector or expansion. If not, there will be no dividends due to flotation costs; it assumes that the internally generated funds are comparatively cheaper than the funds obtained from external sources.

Under this policy, dividend policy can be influenced by the company's investment opportunities and the availability of internally generated capital, where dividends are paid only after all acceptable investment opportunities have been financed. Hence, according to this concept, dividend policy is totally passive in nature. According to Van Horne (1981), "When we treat dividend policy as strictly a financing decision, the payment of cash dividend is a passive residual."

## **2.2 Theoretical Review**

This section deals with the review of major empirical studies relating to dividend, earnings, and stock price behavior. Some of the major studies are:

### **2.2.1 Irrelevance of Dividend Theory**

a) **Modigliani and Miller's model (1961)** has provided the foundation for much subsequent research on dividend policy. In favor of relevance of dividend policy many writers advocate that dividend policy does affect the value of a corporation. But Modigliani and Miller made a most comprehensive argument that dividend policy of a corporation is irrelevant since it has nothing to do with the wealth of the shareholders. Given the investment decision of a corporation the dividend payout ratio has nothing to do with stock price. The value of corporation in a large measure is determined by the earning power on corporation's assets as its investment policy and the way how earnings stream is split between dividends and retained earnings without affecting value. The MM approach is based on the following critical assumptions:

1. There exists perfect capital market in which all investors behaviorally to the extent they have free access to information and there is complete absence of transaction costs, flotation costs, bankruptcy costs and management costs of decision etc. Securities are infinitely divisible, and no investor is large enough to affect the market price of a share.
2. Taxes do not exist or corporations in a world of no taxes so that there are no differences in tax rates applicable to capital gains and dividends. It implies that investors value a rupee of dividend as much as a rupee of capital gains.
3. There is an absence of flotation costs on securities issued by the corporations.
4. Every investor expects perfect certainty as to future investments and profits of a corporation. Risk or uncertainty does not exist.

Modigliani and Miller provided the proof in support of their argument in the following manner:

### Step 1

In the beginning of a period the market price of a share of the firm is defined as equal to the present value of dividend paid at the end of the period plus present value of the market price at the end of the period.

Symbolically,

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

Where,

$P_0$  = Current market price per share

$K_e$  = Cost of equity capital

$D_1$  = Dividend per share to be received at the end of period.

$P_1$  = Market price of the share at the end of the period

### Step 2

Multiplying both sides of equations (I) by the number of shares outstanding (n), we obtain the total value of the firm if no new financing exists:

$$P_0 = \frac{(nD_1 + P_1)}{(1 + K_e)}$$

Where,

$n$  = Number of shares outstanding at the beginning period

### Step 3

If the firm's internal sources of financing, to finance its investment opportunities, fall short of the funds required, and  $\Delta n$  is the number of new shares issued at the end of year 1 at price  $P_1$  then,

$$nP_o = \frac{[D_1 + (n + \Delta n) P_1] - \Delta n P_1}{(1 + K_e)}$$

### Step 4

If the investment proposals of a firm, in a given period of time, can be financed either by retained earnings or by the issuance of new shares or by both, the amount of new issue will be:

$$\Delta n P_1 = I - (E - nD_1)$$

$$\text{or } \Delta n P_1 = I + E + nD_1$$

Where,

$I$  = Total new investments to be financed during period.

$E$  = Total earnings of the firm during the period.

$\Delta n P_1$  = The amount obtained from the sale of new shares to finance investment opportunities.

$E - nD_1$  = Retained earnings.

### Step 5

By substituting the value of  $\Delta n P_1$  from equation (IV) to equation (III) we get,

$$nP_o = \frac{D_1 + (n + \Delta n) P_1 - I + E - nD_1}{(1 + K_e)}$$

Since dividend does not seem directly in expression and  $E$ ,  $I$ ,  $(n + \Delta n) P_1$  and  $K_e$  are assumed to be independent of dividend, MM concluded that dividend policy has no effect in the value of the firm. Furthermore, MM argued that the value of the firm is determined by the earning power of the firm's assets and the manner in which the earnings stream is split between dividends and retained earnings doesn't not affect this value.

**b) Black and Scholes (1974)** examined the relationship between dividend yield and stock returns in order to identify the effect of dividend policy on stock prices. They constructed 25 portfolios of common stocks listed on the New York Stock Exchange (NYSE), extending the capital asset pricing model (CAPM) to test the long run estimate of dividend yield effects. The study employed the following regression model:

$$E(R_i) = y_0 + [E(R_m) - y_0] \beta_i + \gamma_1 (\delta_i - \delta_m) + \epsilon_i$$

Where,

$E(R_i)$  is the expected return on portfolio  $i$

$E(R_m)$  is the expected return on the market portfolio,

$y_0$  is an intercept to be compared with short-term risk-free rate  $R$ ,

$\beta_i$  is the systematic risk of portfolio  $i$

$\gamma_1$  is the impact of dividend policy,

$\delta_i$  is the dividend yield on portfolio  $i$ ,

$\delta_m$  is the dividend yield on the market, and  $\epsilon_i$  is the error term.

Black and Scholes (1974) used a long-term definition of dividend yield (previous year's dividends divided by the year-end share price). Their results showed that the dividend yield coefficient ( $\gamma_1$ ) is not significantly different from zero either for the entire period (1936-1966) or for any of shorter sub-periods. That is to say, the expected return either on high or low yield stocks is the same. Black and Scholes, therefore, concluded that, "we are unable to show that differences in yield lead to differences in stock prices". Stated another way, in their study neither high-yield nor low-yield payout policy of firms seemed to influence stock prices. Black and Scholes's conclusion lent important empirical support to M&M's dividend irrelevance argument. Other studies by leading financial economic researchers such as Miller and Scholes (1978, 1982), Hess (1982), Miller (1986), and more recently, Bernstein (1996) provided evidence in support of the dividend irrelevance hypothesis.

### 2.2.2 Relevance of Dividends Theory

a) **Gordon's (1962)** developed another popular and important model relating to the stock valuation using the dividend capitalization approach. Gordon concludes that dividend policy does affect the value of shares even when the return on investment and required rate of return are equal. The researcher explains that investors are not indifferent between current dividend and retention of earnings with the prospect of future dividends, capital gain and both. The conclusion of this is that investors have a strong preference for present dividends to future capital gains under the condition of uncertainty.

It is assumed that current dividend is less risky than the expected capital gain. "This argument insisted that an increase in dividend payout ratio leads to increase in stock prices for the reason that investors consider the dividend yield is less risky than the expected capital gain." (Pradhan, 1992:383) Gordon's model is also described as "a bird in hand argument." The researcher supports the argument, which is popularly known as a bird in hand is worth two in the bush. What is available at present is preferable than what may be available in the future. That is to say current dividends are considered certain and risk-less. So, it is preferred by rational investors as compared to deferred dividend in future. The future is uncertain. The investors would naturally like to avoid uncertainty. So, the current dividends are given more weight than expected future dividend by the investors. So, the value per share increases if dividend payout ratio increases. This means there is positive relationship between the amount of dividend and stock prices.

Gordon's model is based on the following assumptions:

- a. The firm uses equity capital only.
- b. Internal rate of return ( $r$ ) and cost of capital ( $k_e$ ) are constant.
- c. The firm and its stream of earnings are perpetual.
- d. There are no taxes on corporate income.
- e. The retention ratio ( $b$ ) once decided upon is constant. Thus, the growth rate, ( $g = br$ ) is constant forever.
- f. ' $k_e$ ' must be greater than  $g$  ( $br$ ) to get meaningful value.
- g. The source of financing for new investment is only retained earnings. No external financing is available.

Based on the above assumptions, Gordon's Dividend Capitalization Model propounded that the market value of a share is equal to the present value of an infinite stream of dividends to be received on share. The Gordon's model can be symbolically expressed as:

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

Where,

P = Price of a share

EPS = Earnings Per share

b = Retention ratio

1-b = Dividend payout ratio

$K_e$  = Capitalization rate or cost of capital

b = Growth rate

r = required rate of return

EPS (1-b) = Dividend per share

The market price of a share of the firm in the beginning the period is equal to the present value of dividends paid at the end of the period plus the market price of the share at the end of the period. Gordon's views on effect of dividends can be concluded as follows:

**In case of growth firm ( $r > k$ )**

Share price tends to decline in correspondence with increase in payout ratio i.e. dividends and stock price is negatively correlated with growth firm.

**In case of normal firm ( $r = k$ )**

The market value of the share is not affected by dividend policy.

**In case of declining firm ( $r < k$ )**

In such firms, share prices tends to raise in correspondence with rise in dividend payout ratio i.e., dividend and stock prices are positively correlated with each other in declining firm.

**b) Walter's (1963)** supports the relevancy of dividend policy that has to maximize the wealth position of stockholders. The model shows clearly the importance of the relationship between the firm's internal rate of return ( $r$ ) and its cost of capital ( $K$ ) in determining the dividend policy that will maximize the wealth of shareholders. The Walter model is based on number of assumptions as given below by Francis (1972). In Corporations finance, all investment through retained earnings can be considered as debt or new equity, which is not issued. Both the internal rate of return ( $r$ ) and the cost of capital ( $k$ ) are constant. Corporations distribute all earnings as dividends or reinvest all earnings internally and immediately. The corporate earnings at the beginning and the dividends are assumed to remain constant for any given values. Corporations are assumed to have a very long or infinite life. This study, considering the above assumptions since, corporations operate on the wealth maximization criterion; the appropriate dividend payout in determining market price per share is based on following formula:

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

Where,

MPS = Market Per Share

$r$  = Internal rate of return

$k$  = Cost of capital or capitalization rate

EPS = Earnings per share and

DPS = Dividend per share

The above formula suggests that market price per share depends upon the relationship between market capitalization rate and internal rate of return.

### **2.2.3 Signaling theory**

Signaling theory is related with the making use of dividends to perform like a message (signal) to convey information to the outside investors. This hypothesis is driven by the notion that executives have a higher level of information content about the fair and true worth of a corporation over the outside market participants. The executives, particularly of the undervalued firms, prone to transfer private information; hence there would be a difference in information content between the investor and managers. Accordingly,

managers utilize dividends to include relevant information on the existing situation and even the corporation's future aspirations to the outside market.

The signaling hypothesis illustrates how increasing dividend payouts send out positive signals towards the markets about a corporation's future earnings, resulting the upward share price movements and conversely. It implies that a corporation's announcement of increased dividend payouts portends better future possibilities (Fairchild et al., 2014). The asymmetric information issue, which gives relevance to the signaling theory, is one of the defects that is crucial to the growth of ideas connected to payout. It is also known as the dividend hypothesis' information content. According to this theory, dividend announcements are seen to contain information content, with management using cash dividend announcements to convey modifications in the expectations about the corporation's future prospects when markets are not perfect (Fairchild et al., 2014). The information content of a dividend announcement might induce shareholders to respond to the announcement and, as a result, affect the price of the stock price.

Initially developed by signaling theory is reliant on the hypotheses that dividend income is taxed more heavily over capital gain income, investors are less knowledgeable about profitability, and managers optimize shareholders' interests. Bhattacharya and Miller and Rock recommended that managers who are self-assured regarding the future prospect of the firm tend to pay higher dividend in order to convey positive signal to the investors. Fairchild asserted that the company is prone to receive positive or abnormal returns on dividend announcement hence a larger dividend payment releases a signal which may affect on investor 's attitude.

#### **2.2.4 Agency Theory**

Agency theory of dividend is predicated on confrontation of interest between shareholders and managers due to the separation of management and ownership. Although, assumed that managers and shareholders have identical objectives, but this is not correct in the real world. There is the difference between the interest and objectives of managers and shareholders. Managers may involve in those activities or operate the business in a manner which is not favorable for the shareholders, and this fuels a conflict between them. Managers have a tendency to capture the entire personal benefit at the cost of the

stockholders. Consequently, in many firms face conflict of interest due to the diverging concern in the same assets by managers and shareholders. The agency conflict hinders the wealth maximization objective in favor of shareholders therefore the actions of managers needed to be monitored. This gives birth of agency cost and according to agency costs includes cost of monitoring managers, bonding costs and residual loss arising from the investment of free cash flows in unprofitable and undesirable projects. Thus main proposition of agency theory is that an optimal dividend system lowers the amount of the agency cost by minimizing the free cash flow accessible in the firm for unwise investment. The larger the cash dividend lower will be the funds left with the manager and lower will be the agency conflict resulting lower agency cost. Further, the firm have to borrow from the financial markets to finance its investment project thereby managers' actions would be monitored by both shareholders as well as the lenders. Easterbrook asserted that higher cash dividends reduces the free cash flow that can be spend on managers' discretion and compels the firm to move toward the capital market with the aim of meeting the funding requirement for new projects. The managers' actions toward fulfilling the interest of shareholders is ensured by reducing the possibility of inferior investment and misuse of expensive external funds because of effective monitoring by both shareholders and the capital markets.

Karami et al. affirmed that the agency theory helps in developing a coherency in the interest of all stakeholders through dividend by reducing management disposable funds and agency costs. Thus, dividend payments are used as a mechanism of monitoring and bonding managers' performance and the goal of value maximization is fulfilled.

### **2.2.5 Transaction Cost Theory**

The cost of a transaction represents the expenses borne by the shareholders while buying and selling of shares as well as by the firm while raising external funds. The transaction cost theory initially investigated by, states that there is considerable effects of dividend payout behavior of management on the burden of transaction cost on shareholders and the firm. If the firm pays low or no dividend, then the shareholders seeking high or regular dividend for their livelihood are forced to sell part of their holdings for generation of cash. This would create a burden of transaction cost to these categories of shareholders 'therefore, to avoid such substantial transaction cost they will favor and give value to those firms that

pay larger dividends. Similarly, another category of shareholders who are suppose young professionals and wealthy do not prefer current larger dividend in order to escape from the transaction cost incurred while reinvestment of dividends in buying additional shares. Thus, according to firm should develop and adjust its dividend policy to meet the need of its shareholders as both categories of investors bear transaction cost in buying and selling of shares resulting from the firm's dividend policy.

Another explanation of transaction cost theory is related with the firm's financing and investment decisions. It is argued that the dividend payout has an impact on corporation's financing plus investment decisions because the payment of larger dividends results in the lower or even no internal financing compelling the firm either raise expensive external funds or forgo the attractive investment projects. In such case, due to the significant transaction cost of raising funds externally or sacrificing the profitable projects due to lack of internal funds, the corporation's cost of financing increases and the value of the corporation decreases. Bhattacharya defined this transaction cost as the cost of dividend in their models.

Thus, acceding to transaction cost theory, a firm should develop and design its dividend policy by finding the break point in dividend payment at which the transaction cost associated with external financing and the cost of foregoing profitable investment projects are minimum.

### **2.2.6 Catering Theory of Dividend**

Baker and Wurgler (2004) offered relatively new rationalization about the intensions of managers of paying dividend by relaxing the MM's assumption of market perfections. This theory is empirically supported by in UK context. They argued that the dividend payment propensity relies on dividend premium or discount in stock prices. Accordingly, dividend policy is not exclusively reliant on managers' attitude and decision, but also heavily depends on investors' demand for dividend payers. The catering theory of dividends states that investors have different inclinations and preferences toward dividends which, across time, may alter and thus, the firm's dividend payment decision is based on the investors' choice for dividends. Managers, therefore, become investor- friendly via declaring and paying dividends at the time when investors place a premium on firm's shares. In the same

way, managers decide to skip paying dividends when investors place high value to shares of firms not paying dividends. Moreover, another important proposition of the theory is that there is time-varying considerable linkage of dividend with the value of shares. Accordingly, managers react, distinguish and cater according to the change in investor 's requirement and preferences for dividend.

### **2.3 Empirical Review**

This part of the chapter presents an overview of the degree to which empirical investigations have been conducted in different economies, markets, and industries focusing on concepts and theories were developed, hypothesized, modeled and tested. The empirical literature review is presented categorically based on the objective of this study.

Manandhar (2000) found significance relationship between change in dividend policy in terms of dividend per share and change in lagged earnings. There is relationship between distributed lagged profit and dividend. The difference is found significant between overall proportion of change dividend and due to increase and decrease in EPS during the study period. In overall increase in EPS has resulted to increase in the dividend payment in 66.6% of the cases while decrease in EPS is resulted decrease in dividend payments come to 33.3% of the cases. It is found that Nepalese Corporate firms have followed the practice of maintaining constant dividend payment per share or increase it irrespective of change in EPS as reflected by total percentage of constant and increase dividend payout of 78.33% of the cases. In other words forms are reluctant to decrease dividend payment. In overall Nepalese corporate firms are found reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information contents and signaling effects of dividend relating to the firm's continued progress and performance, sound financial strength, favorable investment environment, lower risk, ability to maintain sustained dividend rate and finally to increase the market price of the stocks in the stock market.

Gautam (2000) concluded that average EPS and DPS of all commercial banks are satisfactory. Analysis indicates that there is large fluctuation in EPS and DPS, on the other hand, there is relatively more consistency dividend per share in all the sample banks. No

commercial bank seems to be guided by cleanly defined dividend strategy in spite of the good earnings and potentials. Shares of the financial institution are actively traded and market prices are increasing. Commercial banks represent a robust body of profit earning organization in comparison to the other sectors such as manufacturing, trading etc. One of the most striking findings of the study is that no commercial bank sample for this study has clearly defined dividend strategy. On the other hand, there is significant relationship perceives between earnings and dividend of expansion program.

Rijal (2004) concluded that the primary objectives of investors investing in stocks are to earn dividend. But the earning of shareholders can be dividend as dividend gain and capital gain. High payout satisfies the dividend need whereas increase in market price of stock increases capital gain. Therefore, the firms make a proper balance between dividend distribution and retention of EPS. In Nepal, only a few listed companies have been paying regular dividends to their shareholders. Further companies have not been following stable dividend payout policy. On the other hand, the dividend payout ratio of listed Companies in Nepal has not been able to distribute fair dividends. In this regards, however commercial banks are also no exception. This study rests to conclude that the cash dividend can't be said as a sole factor to affect price of share. But there are some other factors like earning power, bonus share, information value of dividend decision etc. that also cause the share price fluctuation. In an imperfect market mechanism like Nepalese Share Market, the security brokers, other market makers and the rumors they spread in the market have also significant role in share price fluctuation. Though there were above mentioned studies are related to dividend behavior in Nepalese context. It has now become necessary to find out whether their findings are still valid or not. In Nepalese context, many more changes have taken place in last few years. So, it is necessary to carry out a fresh study related to dividend pattern of Nepalese companies. In this study, it is tried to carry out by using the latest data for different companies for analyzing the dividend policies of Nepalese companies.

Bista (2006) focuses that the banks and manufacturing companies do not follow any specific dividend policy. DPR are fluctuating over the periods of those selected companies. MPS do not follow any specific trend, it fluctuates the future price. There is not any specific trend of EPS in the companies. There is great difference between market price per share and book value per share.

Adhikari (2007) concluded that there are differences in financial position of high dividend paying and low dividend paying companies. The stocks with longer ratio of dividend per share to book value per share have higher liquidity. It has more variable as compared to stock paying lower dividends. Other thing remaining the same, other thing remaining the same, financial position of high dividend paying companies are comparatively better than that of low dividend paying companies. Another interesting conclusion is that market price of stock is affected by dividend for finance and non finance sectors differently. There is positive relationship between dividend and stock price. There is negative relationship between dividend payout and earnings before than to net worth. Stocks with larger ratio of DPS to book value per share have higher profitability. With respect to major motives for paying cash dividend, the majority of the respondent feels that it is to convey information to shareholders that the company is doing good. Nepalese shareholders are not indifferent towards payout or nonpayment of dividend. One of the major findings is that earning announcement helps to increase the market price of share.

Jha (2007) highlighted dividend practice of the bank, insurance and financial companies. To analyze the relationship of dividend with various important variables. Major findings to the study are: Nepalese government NRB, SEBON, NEPSE should be conscious to discourage market imperfection. Companies should have long term policy regarding the adoption of suitable dividend policy. Even if not earning has been increasing, the dividend per share has widely fluctuated. Distribution of bonus share should be pre-evaluated. There needs a proper information discloser to the investor.

Bhattarai (2008) justified that the banks and manufacturing companies do not follow any specific dividend policy. DPR are fluctuating over the periods of those selected companies. MPS do not follow any specific trend, it fluctuates the future price. There is not any specific trend of EPS in the companies. There is great difference between market price per share and book value per share.

Gautam (2009) concluded that the average earning per share of both two banks is satisfactory and dividend per share is too much unsatisfactory. There is no consistency in dividend payment and its growth rate is not static as well. There is no prominent difference

in DPS and D/P rate of both two banks however; there is no uniformity in EPS. R.R Gautam recommends as follows: To follow clearly defined dividend strategy as lack of it causes serious inconvenience to many other sectors of finance. Banks should consider the interest and expectation of the investors while making dividend decisions.

Bhandari (2012) conducted research on “Corporate Dividend Policy: A Study of Commercial Banks of Nepal”. Thereafter, studies selected 8 listed companies, used their annual reports and calculated disclosure scores, which was followed by the use of various statistical tools like regression, correlations etc. to attain the mentioned objective. After the detailed analysis, the studies came to conclude that DPS has significant positive relationship with EPS and MPS. The studies have only done the calculation of average value of the related banks. The studies had only analyzed the data from 2007 to 2011 to conduct the study. And also, in the study, Bhandari analyses that when the banks declare higher dividend, it makes upward influence in the market value of share creating demands of share in the stock market. Bank's dividend practices also influence book net worth. The dividend per share positively influences the book net worth. However, dividend practices cannot fully explain changes in book net worth. The earnings per share, market value per share and lagged price earnings ratio in the model to estimate impact on dividend policy. The important finding of his research that payment of dividend to shareholders is the effective way to attract investors and retain current investors. Therefore, commercial banks have to respect investors' expectation and decide on dividend accordingly. The growing financial markets of Nepal have created an environment for establishment of new commercial banks.

Bhattarai (2013) conducted that there is the largest fluctuation in EPS and DPS, the relationship between DPS and EPS is positive; however, it is not significant. There may be various other factors besides EPS to affect MPS and the growth rate of dividend is inconsistent. It concluded that no sampled commercial banks have followed distinctly defined dividend policy. Bhattarai, (2014), conducted that the trend of volume of stock traded was in fluctuating manner. Dividend & earning played the important role to fluctuate the share price. Signaling factors played major while determining stock price. Used secondary as well as primary data. Statistical tools such as correlation analysis, regression analysis, coefficient of determinants, test static were used. To examine the trend of

securities market and volume of stock traded on the secondary market, To analyze the investors view regarding the decision on stock investment. To analyze the behavior of stock price of secondary market in Nepal. To measure composition of sector and their market capitalization of listed companies on NEPSE.

Dhungel (2013) concluded that Dividend is the distribution of a portion of a company's earnings, decided by its board of directors, to a class of its shareholders. Dividend payments are usually the part of a company's strategic policy to return a portion of its profits to its shareholders. Investors in underdeveloped countries like Nepal 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. The relationship between dividend and share price is not yet clear in the literature of finance and it is still a controversial issue in underdeveloped countries like Nepal. This research attempts to analyze the impact of dividend on the stock price movement of Nepalese banks and financial institutions. For that the research basically focuses on secondary data obtained from websites and published material of selected five commercial banks to examine the relationship of Market Price per Share (MPPS) with other financial indicators such as Earnings per Share (EPS) and Dividend per Share (DPS). Primary data were also obtained from the individuals who own equity shares using a self-designed questionnaire. The questionnaires were distributed to 100 shareholders and staff of the banks. The questionnaire focused on the behavior of the investors while purchasing the equity shares in the secondary market. Only 40 samples responded to the call for survey and send back the questionnaire after filling it. Data were analyzed using SPSS software. The findings from this study indicate that there is no significant impact of dividend on share pricing in most of the banks. There is significant correlation between MPPS and EPS as well as MPPS and DPS<sub>BS</sub> in case of only one commercial bank but there was no significant correlation among these variables in other four banks. However positive but insignificant correlation was seen in most of the cases. The results could not be generalized at this moment due to small sample size and there is a need for extensive research on this issue in Nepal.

Paudel (2014) highlighted the research on the basic objective of the study are to examine whether MPS of listed companies, especially for selected companies under the study and to what extent the risk is involved in the investment of common stocks of those. There is no uniformity in the relationship of MPS with various financial indicators of the sampled companies. If considered on the basis of the average data for the past 5 years, MPS of 6 financial institutions has higher positive correlation with major financial indicators such as EPS, NWPS and DPS and such relationship is significant. The Nepalese stock markets are not efficient enough to determine MPS in accordance with respective financial performance. The market price of share in Nepal is not indicative of a company's financial performance in stock market. Value of share price is to be determined by the future financial indicators, unfortunately, the stock market does not run based on proper information about the company.

Pokharel (2016) in thesis paper entitled "Dividends and stock prices: An empirical study". The study used multiple regression model of three independent variables. Besides this the study also tried to highlight the relationship between stock price and other independent variables setting separate simple linear regression equations. The sectors chosen for the study were manufacturing and trading sector and banking and insurance sector. The major findings of the study were: The relationship between dividend per share and stock price is positive. Dividend per share affects the stock price variedly in different sectors. Changing the dividend policy or dividend per share might help to increase the market price of the share. The relationship between stock price and retained earnings per share is not prominent. The relationship between stock prices and lagged earnings prices ratio is negative.

Rajbhandari (2017) study on entitled "Dividend policy: Comparative study of three joint ventures banks" from 2011 through 2016. The study was found there are many factors, which affect the dividend policy. These are DPS, EPS, MPS, DPR, last year dividend paid, liquidity, Net worth but the used only a few financial factors among them therefore, validity of the result is not worthwhile. Average earning per share seems satisfactory of all sample companies. The positive relationship between dividend per share and earning per share. The co-efficient of correlation between Earning per share and market price is negative. The relationship between market price per share and dividend is positive. Dividend

payment is not consistency of all six sample companies. The institution does not seem to follow the optimal dividend policy of paying regular dividend as per shareholders expectation and interest.

Baral and Pradhan (2018) has highlighted on the purpose of this study is to examine the impact of dividend policy on the share price of commercial bank in Nepal. The study is based on pooled cross-sectional data of 10 commercial banks. Banks were selected on the basis of their performance on stock market of Nepal, i.e. top gainers and top losers and data are collected from Nepalese commercial banks listed in NEPSE from the F/Y 2012/13 to F/Y 2016/17. The paper investigates the relationship between dividend announcement, EPS, P/E ratio, DPR, on stock price by using Descriptive Statistics, Correlation and Regression, ANOVA and Wilcoxon Signed Rank Test. The articles conclude that except DPR, the other factors like EPS, P/E ratio have positive relationship with stock price among them P/E is the strongest factor that affects the share price in case of top gainer commercial banks whereas EPS, P/E ratio and DPR have positive influence on stock price among them DPR is the strongest factor that affects the share price in case of top loser bank.

Shah (2018) has highlighted on the study which analyzes the impact of dividend policy on share price and future profitability of commercial banks in Nepal. Using panel secondary data of 13 commercial banks from year 2001 to 2014, correlation and regression analysis are applied for the study. The impact of dividend policy on share price is analyzed first and the findings of initial analysis suggests that dividend yield and retention ratio have significant negative impact, whereas earning per share has significant positive impact on share price. The study, thus, supports the dividend relevance in Nepalese capital market, and it is further extended to analyze whether dividend changes carried any special information influencing future profitability of commercial banks in two subsequent year of dividend declaration. The conclusion from the analysis indicates that the current year dividend change has significant impact on current year earning changes. For subsequent years, the impact of dividend change is insignificant. Thus, dividend change does not carry information regarding changes in earning in subsequent years of dividend declaration and does not support signaling hypothesis in Nepalese capital market.

Thapa (2018) has conducted research on “Influencing Factors of Stock Price in Nepal”. studies research study began selecting ten sub-indexes such as Banking, Hotels, Development Banks, Finance, Non- life Insurance, Hydro Powers, Manufacturing and Production Companies, Micro- finance, Life insurance Companies and other for calculating financial tools and statistical tools such as correlation. The studies analyze that the behavioral aspect of investors in the research work it can be concluded that the majority of respondents prefer to buy the stock from primary. As well as it is used secondary market even though there is not proper stock priced in Nepal. The studies only calculate the correlation of selected companies so the study of the Thapa is not clear. The results revealed that earning per share (EPS), dividend per share (DPS), market whims and rumors and company profiles have the significant positive association with share price while interest rate (IR) and price to earnings ratio (PER) showed the significant inverse association with share price. It means the stock market of Nepal is sensitive to the country's financial system, dividend and short-term interest rate has been one of the major determinants of the stock market. Thus, the studies’ concluded that dividend and short-term interest rate could be the most important predictors of the stock prices in the secondary market of Nepal.

Neupane (2020) highlighted on the main purpose of this study is to analyze the impact of EPS, DPS, BPS, and P/E ratio on the stock price of manufacturing firms listed in NEPSE from 2072 to 2076. In this study, the data of four manufacturing firms listed in NEPSE have been studied. The descriptive and causal-comparative research designs were used to analyze the impact of EPS, DPS, BPS, and P/E ratio on MPS. The DPS and BPS negative significant impact on the stock price of the market and the EPS and P/E ratios are insignificant so they cannot predict the stock price of the market. The study also revealed that the valuable stock is UNI-Lever and the more risky firm is SHIVM cement on the study of manufacturing firms, listed in NEPSE.

Shrestha (2020) concluded Dividend policy is major concern for investor, managers and policy makers. Proper dividend policy helps to achieve the wealth maximization goal of the firm. This study has examined the impact of dividend on stock market price of Nepalese enterprises. For this purpose 33 dividend paying companies listed on NEPSE has been selected as sample. Likewise, this study used unbalance panel data for the period of 2000/01 to 2018/19. Breusch and Pagan Lagrangian multiplier test concluded that Pooled regression

model is not appropriate and Hausman test concluded that Random Effect model is not appropriate for the data used in this study. Thus, this study adopted Fixed Effect model to analyze the impact of dividend on stock market price. This study concluded that there is significant impact of dividend on stock market price of Nepalese enterprises after controlling return on equity, earnings per share and return on equity. Finally, this study concluded that cash dividend has significant negative and stock dividend has significant positive impact on stock market price of Nepalese enterprises.

Dulal (2021) concluded When it comes to determining a dividend policy that would maximize shareholder value, focusing merely on how much of the firm's profit is necessary for dividend distribution and reinvestment is insufficient. It is critical to analyze the impact of their dividend choice on the stock price. The purpose of this study is to scrutinize the impact of dividend policy on stock price volatility. The report investigated the relationship between the dividend policy and stock price volatility taking 8 articles between 2010 to 2020. Likewise, following a systematic literature review method, the study critically analyzed the selected articles based on their strengths and weaknesses. The findings suggest that, in most of the cases demonstrated by authors, dividend policy has a significant negative relationship with the stock price volatility. The stock's price volatility often decreases after the declaration of dividend payout ratio and dividend yield. Based on the results of this study, it can be implied that, managers of manufacturing companies and banks, those listed in the stock exchange, may be able to reduce the price volatility of their stock by increasing dividend payout and dividend yield. Since the study is limited to 4 databases, further studies could include some more articles from top-rated databases that signify dividend policy in diverse sectors to derive even more accurate results.

### **2.3. Research Gap**

Many studies and research on the dividend policy and share price commercial banks are carried out on the apparent approach by considering the most common indicators. During the review of previous thesis, it is found that no researcher has been conducted by taking these sample banks, which the researcher has selected in this research.

Most of the above-stated studies use technical and statistical methods like regression analysis, correlation coefficient etc. for analysis. Only few of studies use fundamental

analysis tools for the research work. More than that, some few studies are concerned about financial indicators like EPS, DPS and DPR, which are the most influencing factors for the MPS. So, this study tries to analyze the relationship of these factors along with influencing factor on market price of the share. Many studies documented that dividend is one of the most influencing factors in share price formation. The fundamental analysts say that the price of stock is the present value of the future cash flows and the price of stock must be equal to this value.

## **CHAPTER III RESEARCH METHODOLOGY**

Research methodology is the way in which the data are collected for research purposes. It refers to various sequential steps to be adopted by a researcher in studying a problem with a certain objective on view. It describes the method and process of getting to the solution process applied in the entire subject of the study. It is a way to systematically solve a research problem. It embraces different dependent and independent variables, types of research design, research questions and hypothesis, sample, data collection activities, technique of analysis etc. Thus, research methodology is the process of arriving at the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures (Kothari, 1999).

### **3.1 Research Design**

Research design is a plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variance. The research design of this study has been more descriptive as well as analytical using the various phenomena related and influencing the dividend decision and market price of stock. For this purpose, secondary data and information are obtained from different reliable sources. This study is carried out by using quantitative analysis method. To achieve the research objective descriptive and casual comparative research design have used.

### **3.2. Population and Sample**

There are 26 commercial banks in Nepal (August 2022). Among them 6 joint venture banks in Nepal. Out of them 5 joint venture banks taken sample based on minimum 35% shares owned by the Nepalese public. Cluster sampling method has used in this study.

- Nabil Bank Limited (NABIL)
- Everest Bank Limited (EBL)
- Himalayan Bank Limited (HBL)
- NMB Bank Limited (NMB)
- Nepal SBI Bank Limited (NSBL)

### **3.2.1 Introduction of Sample Banks**

#### **A) Nabil Bank Limited**

Nabil Bank Limited is the nation's first private sector bank, commencing its business since July 1984. Nabil, the first foreign joint venture bank of Nepal, started operations in July 7, 1984. Nabil has incorporated with the objective of extending international standard modern banking services to various sectors of the society. Nabil provides a range of commercial banking services through its 51 points of representation across the country and over 170 correspondent banks across the globe. It has earlier known as Nepal Arab Bank Ltd. It has its head office located at Nabil Center, Durbar Marg, which is also a premium location of the capital. It has the largest staff among private commercial banks of Nepal. Nabil has incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 74 points of representation. In addition to this, Nabil has presence through over 1500 Nabil Remit agents throughout the nation.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Bank is fully equipped with modern technology which includes international standard banking software that supports the E-channels and E-transactions.

#### **B) Everest Bank Limited**

Everest Bank Limited is the Commercial Bank of Nepal. Catering to more than 10 lacks customers, Everest Bank Limited (EBL) is a name you can depend on for professionalized & efficient banking services. Founded in 1994, the Bank has been one of the leading banks of the country and has been catering its services to various segments of the society. With clients from all walks of life, the Bank has helped develop the nation corporately, agriculturally & industrially. Which is joint venture of Punjab National Bank, India. Punjab National Bank holds 20% equity shares of Bank. Punjab National Bank (PNB), our joint venture partner (holding 20% equity) is the largest nationalized bank in India having presence virtually in all important centers. Owing to its performance during the year 2012-13, the Bank earned many laurels & accolades in recognition to its service & overall performance. Recently, PNB was awarded with "IDRBT Banking Technology Excellence

Award" under Customer Management & Intelligence Initiatives. The Bank also bagged "Golden Peacock Business Excellence Award 2013" by Institute of Directors. Similarly, the Bank was recognized as 'Best Public Sector Bank' by CNBC TV 18. The bank has now more than 6,635 branches and 8622 (as on 30th sept 2015) ATMs spread all across the India. As a joint-venture partner, PNB has been providing top management support to EBL under Technical Service Agreement.

Everest Bank Limited (EBL) provides customer-friendly services through its wide Network connected through ABBS system, which enables customers for operational transactions from any branches. The bank has 89 Branches, 115 ATM Counters, 7 extension counter & 28 Revenue Collection Counters across the country making it a very efficient and accessible bank for its customers, anytime, anywhere.

### **C) Himalyan Bank Limited**

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the tough competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

### **D) Nepal SBI Bank Limited**

Nepal SBI Bank Ltd. (NSBL) is a subsidiary of State Bank of India (SBI) having 55 percent of ownership. The local partner viz. Employee Provident Fund holds 15% equity and General Public 30%. In terms of the Technical Services Agreement between SBI and the

NSBL, the former provides management support to the bank through its expatriate officers including Managing Director who is also the CEO of the Bank. Central Management Committee (CENMAC), consisting of the Managing Director & CEO, Dy. CEO & Chief Financial Officer, Chief Operating Officer and two Vertical Heads as decided by Managing Director of the Bank, exercises overall control functions with the help of controlling offices, and oversee the overall operations of the Bank. NSBL was established in July 1993 and has emerged as one of the leading banks of Nepal, with 899 skilled and dedicated Nepalese employees (as on Ashwin end 2079) working in a total of 131 outlets that include 91 full-fledged branches, 22 extension counters, 7 Province offices, 10 Branchless Banking Outlets and Corporate Office . With presence in 51 districts in Nepal, the Bank is providing value added services to its customers through its wide network of 130 ATMs (4 CDMs), internet banking, mobile wallet, SMS banking, IRCTC Ticket Online Booking facility, etc. NSBL is one of the fastest growing Commercial Banks of Nepal with more than 1.10 million satisfied deposit customers and over 0.80 million ATM/Debit cardholders. The Bank enjoys leading position in the country in terms of penetration of technology products, viz. Mobile Banking, Internet Banking and Card Services. The Bank is moving ahead in the Nepalese Banking Industry with significant growth in Net Profit with very nominal NPA. As of 31st Ashad, 2079, the Bank has deposits of Rs. 121.63 billion and advances (including staff loan) of Rs. 111.55 billion, besides investment portfolio (including investment on subsidiary) of Rs. 22.78 billion. State Bank of India (SBI), with a more than 217-year history, is the largest commercial Bank in India in terms of assets, deposits, profits, branches, customers and employees. The Government of India is the majority stakeholder and has controlling stake in SBI, a “Fortune 500” entity.

#### **E) NMB Bank Limited**

NMB Bank Limited licensed as “A” class financial institution by Nepal Rastra Bank in May 2008 has been operating in the Nepalese Financial market for over twenty years and is one of the leading commercial banks in the banking industry. The Bank has a Joint Venture Agreement with Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), wherein FMO holds 13.69% of the Bank’s shares and is the largest shareholder of the Bank. In September 2016, the Bank signed a Joint Venture Agreement with Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (FMO), the Dutch development bank following which FMO became the single largest

shareholder of the Bank. The alliance with FMO positions NMB Bank in becoming the market leader in managing environmental & social risks and the leading player in renewable energy and agribusiness.

### **3.3 Nature and Sources of Data**

The data used in this study is secondary. The secondary data collected from, annual reports from Fiscal year 2012/13 to 2021/22, magazines and bulletins of the companies under study, relevant information and data from the publication of SEBON, NEPSE, NRB, and web pages of the selected companies, various newspapers, previous studies, thesis and dissertation related to this field etc. Beside 46 that the indirect and informal talks, interviews with some professors, teachers and persons of related field etc. have also been made.

### **3.4 Analysis of Data**

The analysis of data has been done according to the pattern of data available. Wide varieties of methodology have been applied according to the reliability and consistency of data. Firstly, the collected data are presented in proper forms, grouped in various tables and charts according to their nature. Then various financial and statistical tools have been applied. And then interpretations and explanations are made wherever necessary with the help of various statistical analysis.

### **3.5. Tools of Analysis**

Various financial and statistical tools have been used in the study. The analysis of data will be done according to the pattern of data. Financial tools and simple regression analysis, multiple regression analysis and Hypothetical test will mainly be the tools, of analysis. The relationship between different variable related to study topic would be drawn out using financial and statistical tools. The main, financial indicator EPS, DPS, MPS and DPR. DPR has been calculated in this research, likewise statistical tools arithmetic mean, simple regression analysis, standard deviation and coefficient of correlation in the research.

#### **3.5.1. Financial Tools**

A brief explanation of financial tools used in this study is as follows:

### 1. Earnings Per Share (EPS)

Earnings per share is one of the factors that affect the dividend policy and stock price of a firm. EPS calculation will be helpful to know whether the firm's earning power on per share basis. If EPS is greater the dividend will be larger and so is the market price. So, it is assuming as independent variable to determine the dividend and market price of stock. It is calculated by dividing the earning available to the common shareholder by the total number of common shares outstanding.

Symbolically,

$$\text{EPS} = \frac{\text{Earnings Available to Common Shareholders}}{\text{No. of Common Stock Outstanding}}$$

### 2. Dividend per Share (DPS)

The earning distributed to the shareholders out of EPS is known as DPS. It also affects the market price of stock. If EPS is greater, DPS will be greater. It is calculated by dividing total dividend to equity shareholders by the total number of the equity shares.

Symbolically,

$$\text{DPS} = \frac{\text{Total Dividend to ordinary shareholders}}{\text{No. of Common Stock Outstanding}}$$

### 3. Dividend Payout Ratio (DPR)

DPR reflect what percentage of profit is distributed as dividend and what percentage is retained ns reserve and surplus for the growth of the company. It is calculated by dividing the DPS by the EPS.

Symbolically,

$$\text{DPR} = \frac{\text{Dividend Per Share (DPS)}}{\text{Earnings Per Share (EPS)}}$$

#### 3.5.2. Statistical Tools

A brief explanation of statistical tools used in this study is as follows:

### 1. Arithmetic Mean ( $\bar{X}$ )

An average is a single value related from a group of values to represent them in some way, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, Simple & Weighted), geometric mean, harmonic mean are the major types of averages. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Symbolically,

$$\text{Mean } (\bar{X}) = \frac{\text{Sum of the total Values } (\sum X)}{\text{No. of Values}(N)}$$

### 2. Standard Deviation ( $\sigma$ )

The measurement of scatternets of the data of figure in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The greater amount of dispersion reflects the high standard deviation. A small standard deviation means a high degree of uniformity of observation as well as homogeneity of a series and vice-versa.

Symbolically,

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

### 3. Coefficient of Variation (CV)

The standard deviation is absolute measures of dispersion, whereas the coefficient of variation (CV) is a relative measure.

To compare the variability between two or more series, CV is more appropriate statistical tool.

Symbolically,

$$CV = \frac{\sigma}{\bar{x}} \times 100\%$$

The coefficient of variation is the relative measure and is independent of units. The coefficient of variation is applicable for the comparisons of variability of two or more distributions. The greater the value of the coefficient of variation, the less will be the

uniformity (or consistency, stability, etc.) and the smaller the value of coefficient of variation, the more will be the uniformity (or less will be the variability).

#### 4. Correlation Analysis

Correlation analysis is the statistical tools that can be used to describe the degree to which one variable is linearly related to another. In the study both single and multiple correlations have been used. Correlation co-efficient between the following financial variables have been calculated and interpreted. Simple correlation coefficient.

- Between dividend per share and earnings per share
- Between earning per share of last year and current market price per share.
- Between dividend per share of last year and current market price per share.

#### Multiple Correlation Coefficients

Between earning per share of last year, dividend per share of last year and current market price of share.

#### 5. Probable Error (PE)

The probable error of the coefficient of correlation helps in interpreting its value. It helps to determine the reliability of the value of coefficient. To cross check the validity of the result, we can take the help of following formula.

Symbolically,

$$PE(r) = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

Where,

PE(r) = Probable Error of 'r'

r = Correlation coefficient between x and y

There are three condition to know the degree of correlation between x and y.

1. if the value of "r" is less than 6 times the probable error [i.e.,  $r < 6 \times PE(r)$ ], there is no significant relationship between x and y.
2. if the value of "r" is more than 6 times the probable error [ i.e.,  $r > 6 \times PE(r)$ ], there is most significant relationship between x and y.

3. if  $PE(r) < r < 6 PE(r)$ , there is moderate relation between x and y.

In the study, probable error has been calculated to determine the reliability of the value of coefficient of EPS and DPS, DPS and Net Profit and DPS and Net Worth.

## 6. Regression Analysis

Correlation analysis tells the direction of movement, but it does not tell the relative movement in the variables under study. Regression analysis helps us to know the relative movement in the variables, Regression analysis of the following variables have been calculated and interpreted. The coefficient of determination is the primary way we can measure the extent, or strength, of the association that exists between two variables. In other word, it is measure of degree of linear association or correlation between two variables, one of which happen to be independent and other being dependent variable. It measures the percentage total variation in dependent variable explained by independent variables. The coefficient of determination value can have ranging from 0 to +1. If the regression line is perfect estimator  $r^2 = +1$ . Thus the value of  $r^2 = 0$  when there is no correlation. In this study, coefficient of determination is calculated to know the degree of correlation of dividend per share with earning per share and market price per share with earning per share.

## 7. Multiple Regression

Analysis Market price of share on earning per share of last year and dividend per share of last year.

Symbolically,

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3$$

Where,

y = Market Price per Share

a = Regression constant

b<sub>1</sub> = Regression coefficient of EPS variable

b<sub>2</sub> = Regression coefficient DPS variable

b<sub>3</sub> = Regression coefficient DPR variable

X<sub>1</sub> = Earnings per share

$X_2$  = Dividend per share

$X_3$  = Dividend Pay Out Ratio

This model helps to predict in what extent EPS and DPS affect market price of share. In Correlation and regression analysis, following statistics have been calculated and interpreted accordingly.

### **8. Coefficient of Correlation(r)**

Correlation Analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. (Levin, et. Al. 1997:613). Coefficient of correlation is the measurement of the degree of relationship between two casually related sets of figures whether positive or negative. Its value lies somewhere ranging between -1 to +1, if both variables are constantly changing in the similar direction, the value of coefficient will be +1 indicative of perfectly positive correlation, when the coefficient will be -1 two variables take place in opposite direction. The correlation is said to be perfectly negative. In this study, simple coefficient of correlation is used to examine the relationship of different factors with dividend and other variables. The data regarding dividend over different years are tabulated and their relationship with each other are drawn out.

#### **A) Coefficient of Determination ( $r^2$ )**

The coefficient of determination is the primary way we can measure the extent, or strength, of the association that exists between two variables. In other word, it is measure of degree of linear association or correlation between two variables, one of which happen to be independent and other being dependent variable. It measures the percentage total variation in dependent variable explained by independent variables. The coefficient of determination value can have ranging from 0 to +1. If the regression line is perfect estimator  $r^2 = +1$ . Thus the value of  $r^2 = 0$  when there is no correlation. In this study, coefficient of determination is calculated to know the degree of correlation of dividend per share with earning per share and market price per share with earning per share.

#### **B) Regression Constant (a)**

The value of constant, which is the intercept of the model, indicated the average level of dependent variable when independent variable is zero. In another words, it is better to

understand that 'a' (constant) indicates the mean or average effect on dependent variable of all the variables omitted from the model.

### **C) Regression Coefficient (b)**

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

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

With the help of regression equations perfect prediction is practically impossible. The standard error of the estimate measures the accuracy of the estimated figures. It also measures the dispersion about an average line. If standard error of estimate is zero, then the estimating equation to be 'perfect' estimator of the dependent variable. It indicates that the smaller value of SE estimates the closer will be the dots to the regression line. Thus, with the help of standard error of estimate, it is possible for us to ascertain how good and representative the regression time is as a description of the average relationship between two series. In this research work, standard error of estimate is calculated for the selected dependent and independent variables specified on the model.

## **9. T-test**

A t-test measures the difference in group means divided by the pooled standard error of the two group means. In this way, it calculates a number (the t-value) illustrating the magnitude of the difference between the two group means being compared, and estimates the likelihood that this difference exists purely by chance (p-value).

Symbolically,

$$t = (\bar{x} - \mu) / (s / \sqrt{n})$$

Where,

$\bar{x}$  = Observed Mean of the Sample

$\mu$  = Theoretical Mean of the Population

s = Standard Deviation of the Sample

n = Sample Size

## 10. ANOVA Test

ANOVA is statistical tool analysts use to find the difference between the means of two independent groups. One finds it by dividing the mean sum of squares between the groups from the mean squares of errors. ANOVA (Analysis of Variance) is a collection of statistical models used to assess the differences between the means of two independent groups by separating the variability into systematic and random factors. It helps to determine the effect of the independent variable on the dependent variable.

Symbolically,

$$\text{ANOVA coefficient (F)} = \frac{\text{Mean sum of squares between the groups (MSB)}}{\text{Mean squares of errors (MSE)}}$$

Therefore,  $F = \text{MSB}/\text{MSE}$

Where,

$$\text{Mean squares between groups, MSB} = \text{SSB} / (k - 1)$$

$$\text{Mean squares of errors, MSE} = \text{SSE} / (N - k)$$

## CHAPTER-IV RESULTS AND DISCUSSION

This chapter provides a mechanism for meeting the basic objectives as stated earlier in the first chapter of the study. The study has followed the methodology as described in third chapters in order to attain the objectives. Data collected for the analysis have presented in the form of tabular and diagrammatic form and have analyzed with the help of widely accepted tools of financial ratios. Moreover, statistical tools such as trend analysis, coefficient of correlation and regression analysis have used to analyze the data.

### 4.1. Results

The basic objective of this study is to analyze the factors determining the share price Joint venture banks in Nepal. The presentation and analysis of data in this study has done through the help of financial statements of the year from FY 2012/13 to FY 2021/22.

#### 4.1.1 Earnings Per Share

The profitability and ability of common stockholder's investment can be measured in many other ways. The income of per share is calculated by dividing the earning available to common shareholders by the total number of common stock outstanding. The higher earning indicates the better achievements in turns of profitability of the bank by mobilizing their funds and vice versa.

Table 1

EPS of Nepalese Joint venture banks

| <b>Fiscal Year</b> | <b>NABIL</b> | <b>EBL</b>   | <b>HBL</b>   | <b>NSBI</b>  | <b>NMB</b>   |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| 2012/13            | 95.14        | 91.88        | 34.19        | 32.75        | 18.02        |
| 2013/14            | 83.68        | 86.04        | 33.1         | 34.83        | 20.5         |
| 2014/15            | 57.24        | 78.04        | 33.37        | 34.84        | 25.05        |
| 2015/16            | 59.27        | 65.97        | 43.03        | 34.29        | 27.78        |
| 2016/17            | 59.86        | 44.32        | 33.55        | 30.61        | 26.88        |
| 2017/18            | 49.51        | 32.48        | 23.11        | 25.16        | 21.86        |
| 2018/19            | 50.57        | 32.78        | 32.44        | 27.13        | 18.79        |
| 2019/20            | 36.16        | 38.05        | 27.6         | 17.23        | 11.18        |
| 2020/21            | 33.57        | 29.71        | 28.07        | 10.15        | 14.76        |
| 2021/22            | 18.64        | 19.91        | 18.26        | 16.67        | 17.62        |
| <b>Mean</b>        | <b>54.36</b> | <b>51.92</b> | <b>30.67</b> | <b>26.37</b> | <b>20.24</b> |

|      |       |       |       |       |       |
|------|-------|-------|-------|-------|-------|
| S.D. | 21.59 | 24.81 | 6.46  | 8.41  | 5.03  |
| C.V  | 39.72 | 47.78 | 21.06 | 31.90 | 24.84 |

**Note.** From Annual Reports of NABIL, EBL, HBL, NSBI, & NMB F.Y. 2012/13 to 2021/22

Table 1 shows that the average Earning per Share (EPS) of the NABIL, EBL, HBL, NSBI, and NMB are 54.36, 51.92, 30.67, 26.37, and 20.24 respectively. The average Earning per share (EPS) of NABIL is greater than other sample banks. It means that NABIL is better EPS then other banks. The reason of this low EPS was because the earning declined sharply in the year and there was a declaration of bonus shares.

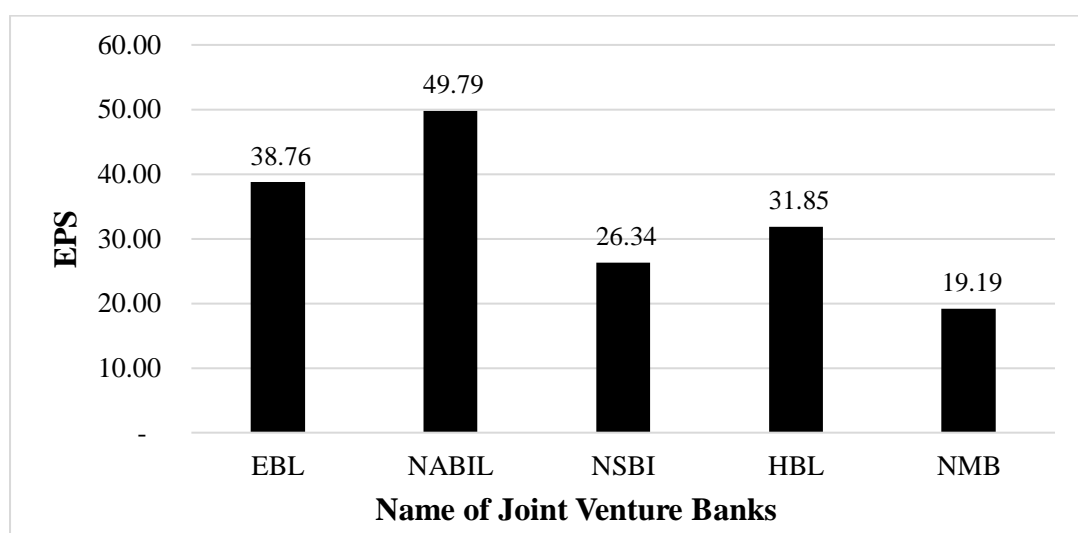


Figure 1. EPS of Nepalese Joint venture banks

The figure 1 shows that the EPS of NABIL, EBL, HBL, NSBI, and NMB for the fiscal year of 2012/13 to 2021/22. The EPS of NABIL is 54.36, which is higher than other sample banks. The EPS of NMB has 20.24, which is lower than other sample banks. It means that NABIL is better EPS than other sample banks. The higher level of EPS will generally increase the market price of stock.

#### 4.1.2 Dividend Per Share (DPS)

Dividend per share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding. The figure has calculated by dividing the total dividends paid by a business, including interim dividends, over a period by the number of outstanding ordinary shares issued.

Table 2

## DPS of Nepalese Joint venture banks

| <b>Fiscal Year</b> | <b>NABIL</b> | <b>EBL</b> | <b>HBL</b> | <b>NSBI</b> | <b>NMB</b> |
|--------------------|--------------|------------|------------|-------------|------------|
| 2012/13            | 65.00        | 10.00      | 15.00      | 20.00       | 0.00       |
| 2013/14            | 65.00        | 12.00      | 21.05      | 22.07       | 21.05      |
| 2014/15            | 36.84        | 30.00      | 42.11      | 28.42       | 8.42       |
| 2015/16            | 45.00        | 70.00      | 31.58      | 29.53       | 20.00      |
| 2016/17            | 48.00        | 33.00      | 26.32      | 16.34       | 15.79      |
| 2017/18            | 34.00        | 33.00      | 15.79      | 15.79       | 30.00      |
| 2018/19            | 34.00        | 0.00       | 22.00      | 16.84       | 35.00      |
| 2019/20            | 35.26        | 5.00       | 20.00      | 9.47        | 16.20      |
| 2020/21            | 38.00        | 5.00       | 26.00      | 5.31        | 15.80      |
| 2021/22            | 30.00        | 6.00       | 19.11      | 10.53       | 8.25       |
| Mean               | 43.11        | 20.40      | 23.90      | 17.43       | 17.05      |
| S.D.               | 12.04        | 20.36      | 7.72       | 7.47        | 9.80       |
| C.V                | 27.94        | 99.82      | 32.30      | 42.83       | 57.50      |

**Note.** From Annual Reports of NABIL, EBL, HBL, NSBI, & NMB F.Y. 2012/13 to 2021/22

Table 2 shows that the average Dividend per Share (DPS) of the NABIL, EBL, HBL, NSBI, and NMB are 43.11, 20.40, 23.90, 17.43, and 17.05 respectively. The average Dividend per Share (DPS) of NABIL is less than other sample banks. The Coefficient of Variation of NABIL is 27.94. It indicates that NABIL is less variation of DPS in the 10 fiscal year.

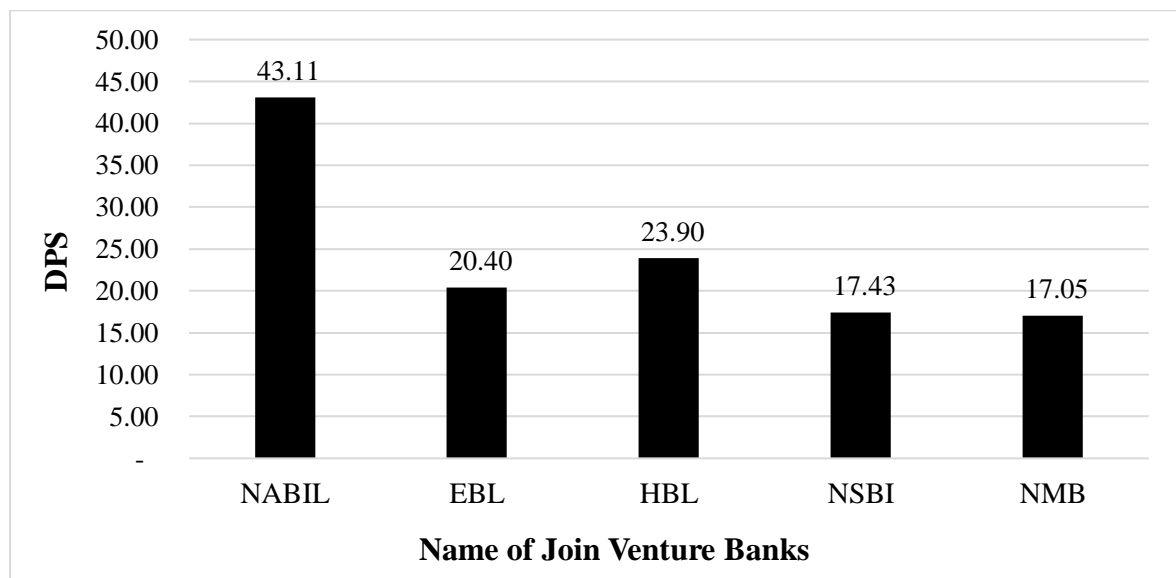


Figure 2. DPS of Nepalese Joint venture banks

The figure 2 shows that the DPS of NABIL, EBL, HBL, NSBI, and NMB for the fiscal year of 2012/13 to 2021/22. The DPS of NABIL is 43.11, which is higher than other sample banks. The DPS of NMB has 17.05, which is lower than other sample banks. It means that NABIL is better DPS then other sample banks.

#### 4.1.3 Dividend Payout Ratio (DPR)

The dividend payout ratio is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company. It is the percentage of earnings paid to shareholders via dividends. The amount that is not paid to shareholders is retained by the company to pay off debt or to reinvest in core operations. It is sometimes simply referred to as simply the payout ratio.

Table 3

DPR of Nepalese Joint venture Banks

| <b>Fiscal Year</b> | <b>NABIL</b> | <b>EBL</b> | <b>HBL</b> | <b>NSBI</b> | <b>NMB</b> |
|--------------------|--------------|------------|------------|-------------|------------|
| 2012/13            | 71.80        | 918.80     | 227.93     | 163.75      | -          |
| 2013/14            | 68.32        | 717.00     | 157.24     | 157.82      | 97.39      |
| 2014/15            | 77.68        | 260.13     | 79.24      | 122.59      | 297.51     |
| 2015/16            | 75.93        | 94.24      | 136.26     | 116.12      | 138.90     |
| 2016/17            | 80.19        | 134.30     | 127.47     | 187.33      | 170.23     |
| 2017/18            | 68.68        | 98.42      | 146.36     | 159.34      | 72.87      |
| 2018/19            | 67.24        | -          | 147.45     | 161.10      | 53.69      |
| 2019/20            | 97.51        | 761.00     | 138.00     | 181.94      | 69.01      |
| 2020/21            | 113.18       | 594.20     | 107.96     | 191.15      | 93.42      |
| 2021/22            | 160.95       | 331.83     | 95.55      | 158.31      | 213.58     |
| Mean               | 88.15        | 390.99     | 136.35     | 159.95      | 120.66     |
| S.D.               | 27.95        | 312.43     | 38.55      | 23.55       | 82.45      |
| C.V                | 31.71        | 79.91      | 28.27      | 14.73       | 68.33      |

**Note.** From Annual Reports of NABIL, EBL, HBL, NSBI, & NMB F.Y. 2012/13 to 2021/22

Table 3 shows that the average Dividend payout ratio (DPR) of the NABIL, EBL, HBL, NSBI, and NMB are 88.15, 390.99, 136.35, 159.95, and 120.66 respectively. The average Dividend payout ratio (DPR) of NABIL is less than other sample banks. The Coefficient of Variation of NABIL is 27.94. It indicates that NSBI is less variation of DPR in the 10 fiscal year.

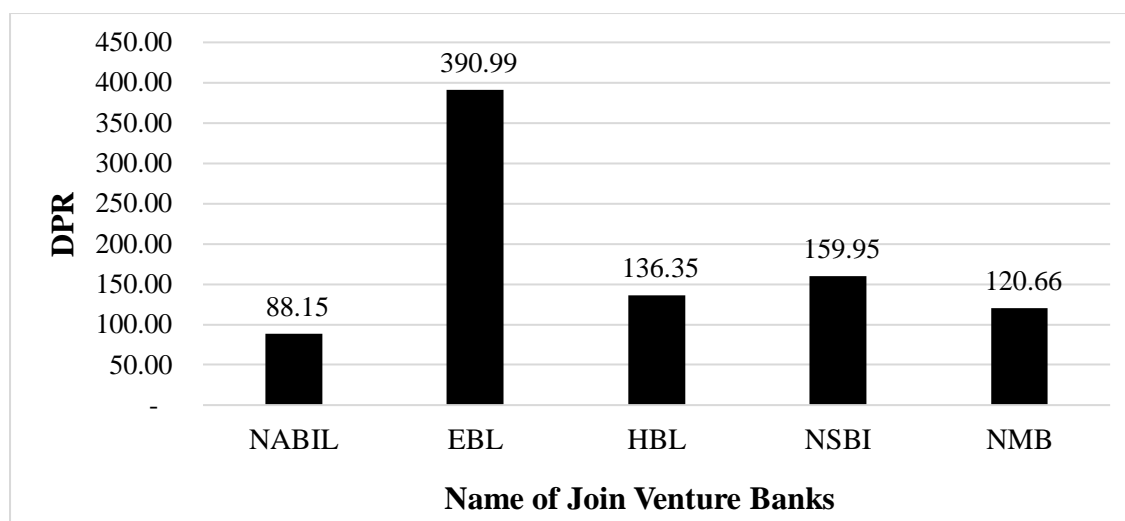


Figure 3. DPR of Nepalese Joint venture Banks

#### 4.1.4 Market Price Per Share (MPS)

The Market price of share is very important for all stakeholders. Generally, good market price per share is the face of a company. If the market price will high, the investors perceive it very positively disregarding the other factors. The market price of share is the most important factor from the view of investor, who firstly looks for the higher market price rather than other indicators.

Table 4

Market Price per Share of Nepalese Joint venture banks

| Fiscal Year | NABIL    | EBL      | HBL    | NSBI   | NMB    |
|-------------|----------|----------|--------|--------|--------|
| 2012/13     | 1815     | 1591     | 700    | 850    | 251    |
| 2013/14     | 2535     | 2631     | 941    | 1280   | 515    |
| 2014/15     | 1910     | 2120     | 813    | 887    | 507    |
| 2015/16     | 2344     | 3385     | 1500   | 1875   | 810    |
| 2016/17     | 1523     | 1353     | 886    | 925    | 545    |
| 2017/18     | 921      | 1353     | 551    | 499    | 358    |
| 2018/19     | 800      | 663      | 552    | 469    | 382    |
| 2019/20     | 765      | 666      | 540    | 435    | 397    |
| 2020/21     | 1359     | 675      | 484    | 409    | 440    |
| 2021/22     | 824      | 738      | 299.2  | 282.3  | 261    |
| Mean        | 1,479.60 | 1,517.50 | 726.62 | 791.13 | 446.60 |
| S.D.        | 623.66   | 890.09   | 318.65 | 465.32 | 154.05 |
| C.V         | 42.15    | 58.66    | 43.85  | 58.82  | 34.49  |

**Note.** From Annual Reports of NABIL, EBL, HBL, NSBI, & NMB F.Y. 2012/13 to 2021/22

Table 4 shows that the average Market price of share (MPS) of the NABIL, EBL, HBL, NSBI, and NMB are 1479.60, 1517.50, 726.62, 791.13, and 446.60 respectively. The average Market price of share of EBL is greater than other sample banks. The Coefficient of Variation of NMB is 34.49. It indicates that NMB is less variation of Market price of share in the 10 fiscal year.

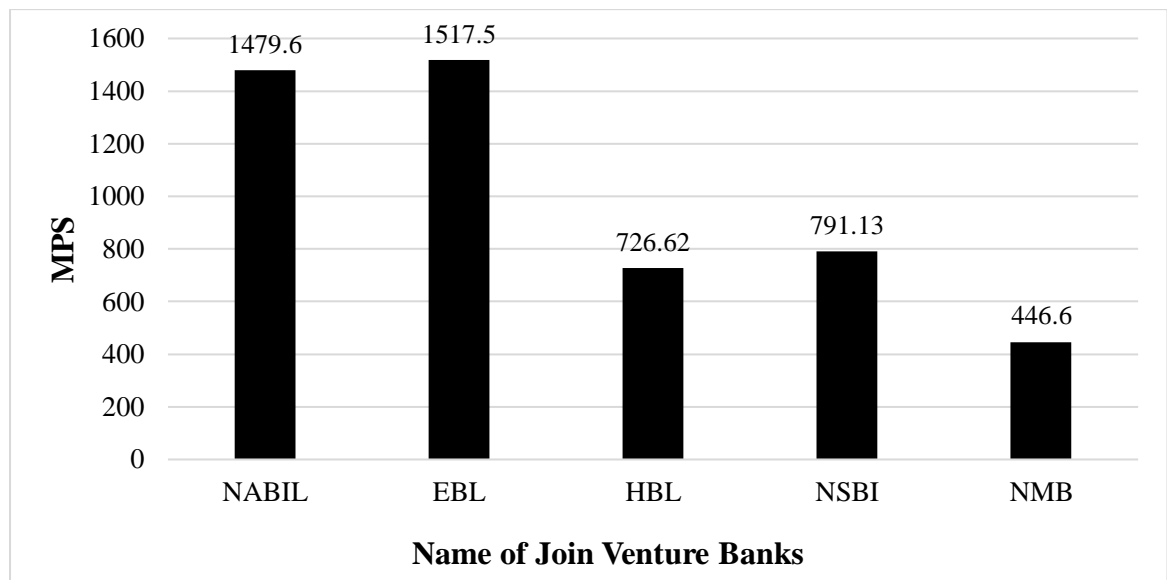


Figure 4. Market Price per Share of Nepalese Joint venture Banks

The figure 4 shows that the average Market price of share (MPS) of NABIL, EBL, HBL, NSBI, and NMB for the fiscal year of 2012/13 to 2021/22. The Market price of share (MPS) of EBL is 1517.50, which is higher than other sample banks. The Market price of share (MPS) of NMB has 446.60, which is lower than other sample banks. It means that EBL is better Market price of share (MPS) then other sample banks.

#### 4.2. Descriptive Analysis

Descriptive statistics is the term given to the analysis of data that helps describe, show or summarize data in a meaningful way such that patterns might emerge from the data.

Table 5  
Descriptive Statistics

|     | Mini. | Maxi. | Mean   | S.D.   | C.V    | N  |
|-----|-------|-------|--------|--------|--------|----|
| EPS | 10.15 | 95.14 | 36.71  | 21.08  | 57.41  | 50 |
| DPS | 0.00  | 70.00 | 24.38  | 15.91  | 65.26  | 50 |
| DPR | 0.00  | 918.8 | 179.22 | 184.06 | 102.70 | 50 |
| MPS | 251.0 | 3385  | 992.29 | 706.41 | 71.19  | 50 |

The table 5 shows that the total number of observations is 50 as denoted by the symbol 'N'. The average EPS is Rs. 36.71. The minimum and maximum value of EPS are Rs. 10.15 and Rs. 95.14 respectively. The average value of DPS is Rs. 24.38. The minimum and maximum value of DPS is 0.00 and Rs. 70.00 in overall sample banks among the 10 fiscal years. Similarly, the average value of DPR is 179.22. The minimum and maximum value of DPR is 0.00 and 918.80 respectively. The average value of MPS is 992.29. The minimum and maximum value of MPS are 251.00 and 3385.00 overall sample banks in the 10 fiscal years.

#### 4.3. Correlation Analysis

Asuero et al. (2006) defined a scale for strength of correlation. Little correlation coefficients are 0.00 to 0.29, low correlation coefficients are 0.30 to 0.49, moderate correlation coefficients are 0.50 to 0.69, high correlation coefficients are 0.70 to 0.89 and very high correlation coefficients are 0.90 to 1.00.

Table 6  
Correlation

|     |                     | MPS     | EPS     | DPS      | DPR |
|-----|---------------------|---------|---------|----------|-----|
| MPS | Pearson Correlation | 1       |         |          |     |
| EPS | Pearson Correlation | 0.820** | 1       |          |     |
| DPS | Pearson Correlation | 0.660** | 0.558** | 1        |     |
| DPR | Pearson Correlation | 0.337*  | 0.312*  | -0.404** | 1   |
| N   |                     | 50      | 50      | 50       | 50  |

A correlation coefficient between MPS and EPS, DPS, DPR are 0.820, 0.660 and 0.337 respectively. There was a positive correlation between MPS and EPS, DPS, DPR. The MPS and EPS, DPS, DPR which was statistically significant at the 0.05 level (2-tailed) ( $r = 0.820, 0.660 \text{ \& } 0.337, n = 50, p < 0.05$ ).

Table 7

## Summary of Hypothesis

| Correlation | MPS   | t-value | P-value | Results                             |
|-------------|-------|---------|---------|-------------------------------------|
| EPS         | 0.820 | 4.505   | 0.000   | High correlation & Significance     |
| DPS         | 0.660 | 2.777   | 0.000   | Moderate correlation & Significance |
| DPR         | 0.337 | 0.813   | 0.041   | Low correlation & Significance      |
| N           | 50    |         |         |                                     |

There was a positive correlation between MPS and EPS, DPS, DPR. The MPS and EPS, DPS, DPR which was statistically significant at the 0.05 level (2-tailed).

#### 4.4. Regression

Regression analysis is a set of statistical methods used for the estimation of relationships between a dependent variable and one or more independent variables. It can be utilized to assess the strength of the relationship between variables and for modeling the future relationship between them.

Table 8

## Model Summary

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1     | .858a | 0.736    | 0.719             | 374.6219                   |

a. Predictors: (Constant), DPR, EPS, DPS

The table 8 shows the relationship between MPS and EPS, DPS, DPR of commercial banks.  $R^2$  has a value of about 0.736. It means that independent variable explain by dependent variable is 73.60%.

Table 9

## ANOVA

| Model |            | Sum of Squares | df | Mean Square | F      | P-value |
|-------|------------|----------------|----|-------------|--------|---------|
| 1     | Regression | 17995760.01    | 3  | 5998586.67  | 42.743 | .000    |
|       | Residual   | 6455710.714    | 46 | 140341.537  |        |         |
|       | Total      | 24451470.73    | 49 |             |        |         |

a. Dependent Variable: MPS

b. Predictors: (Constant), DPR, EPS, DPS

Table 9 shows the significance of EPS, DPS, DPR influencing the Market price per share of sample banks. The P-value is 0.000, which is less than 0.01. There is a significant relationship between MPS and EPS, DPS, DPR with a 99% confidence interval. The ANOVA table indicates that the fitted model or R square is highly significant (F (3, 46) = 42.743, p = 0.000). It means that the model is fit.

Table 10

## Coefficients

| Model | Unstandardized Coefficients |            | Standardized Coefficients | t     | P-value |       |
|-------|-----------------------------|------------|---------------------------|-------|---------|-------|
|       | B                           | Std. Error | Beta                      |       |         |       |
| 1     | (Constant)                  | -193.647   | 135.491                   | -     | 0.16    |       |
|       | EPS                         | 19.522     | 4.334                     | 0.582 | 4.505   | 0.000 |
|       | DPS                         | 16.558     | 5.962                     | 0.373 | 2.777   | 0.008 |
|       | DPR                         | 0.366      | 0.45                      | 0.095 | 0.813   | 0.420 |
|       |                             |            |                           |       | 1.429   |       |

a. Dependent Variable: MPS

From table 10, the estimated equation can be explained by taking the values from the model-1:

$$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e_i$$

Therefore,

$$\hat{Y} = -193.647 - 19.522X_1 + 16.558X_2 + 0.366X_3 + e_i$$

Table 10 shows that EPS, DPS, DPR have positive effects on MPS. The MPS and EPS, DPS, are significance and MPS and DPR is insignificance.

#### 4.5. Major Findings

- Table 1 shows that the average Earning per Share (EPS) of the NABIL, EBL, HBL, NSBI, and NMB are 54.36, 51.92, 30.67, 26.37, and 20.24 respectively. The average Earning per share (EPS) of NABIL is greater than other sample banks. It means that NABIL is better EPS then other banks.
- Table 2 shows that the average Dividend per Share (DPS) of the NABIL, EBL, HBL, NSBI, and NMB are 43.11, 20.40, 23.90, 17.43, and 17.05 respectively. The average Dividend per Share (DPS) of NABIL is less than other sample banks. The Coefficient of Variation of NABIL is 27.94. It indicates that NABIL is less variation of DPS in the 10 fiscal year.
- Table 3 shows that the average Dividend payout ratio (DPR) of the NABIL, EBL, HBL, NSBI, and NMB are 88.15, 390.99, 136.35, 159.95, and 120.66 respectively. The average Dividend payout ratio (DPR) of NABIL is less than other sample banks. The Coefficient of Variation of NABIL is 27.94. It indicates that NSBI is less variation of DPR in the 10 fiscal year.
- Table 4 shows that the average Market price of share (MPS) of the NABIL, EBL, HBL, NSBI, and NMB are 1479.60, 1517.50, 726.62, 791.13, and 446.60 respectively. The average Market price of share of EBL is greater than other sample banks.
- The table 5 shows that the total number of observations is 50 as denoted by the symbol 'N'. The average EPS is Rs. 36.71. The minimum and maximum value of MPS are Rs. 10.15 and Rs. 95.14 respectively. The average value of DPS is Rs. 24.38. The minimum and maximum value of DPS is 0.00 and Rs. 70.00 in overall sample banks among the 10 fiscal years. Similarly, the average value of DPR is 179.22. The minimum and maximum value of DPR is 0.00 and 918.80 respectively. The average value of MPS is 992.29. The minimum and maximum value of MPS are 251.00 and 3385.00 overall sample banks in the 10 fiscal years.
- A correlation coefficient between MPS and EPS, DPS, DPR are 0.820, 0.660 and 0.337 respectively. There was a positive correlation between MPS and EPS, DPS,

DPR. The MPS and EPS, DPS, DPR which was statistically significant at the 0.05 level (2-tailed) ( $r = 0.820, 0.660 \& 0.337, n = 50, p < 0.05$ ).

- The table 8 shows the relationship between MPS and EPS, DPS, DPR of commercial banks.  $R^2$  has a value of about 0.736. It means that independent variable explain by dependent variable is 73.60%.
- Table 9 shows the significance of EPS, DPS, DPR influencing the Market price per share of sample banks. The P-value is 0.000, which is less than 0.01. There is a significant relationship between MPS and EPS, DPS, DPR with a 99% confidence interval. The ANOVA table indicates that the fitted model or R square is highly significant ( $F(3, 46) = 42.743, p = 0.000$ ). It means that the model is fit.
- Table 10 shows that EPS, DPS, DPR have positive effects on MPS. The MPS and EPS, DPS, are significance and MPS and DPR is insignificance.

#### **4.6. Discussion**

Many studies have been undertaken to study on factors affecting the share price in development countries. This study investigates the relationship between share price, bank specific and microeconomic variables of selected Nepalese Joint venture banks. The stock price in the market is not static rather it changes every day. The most obvious factor that influence are demand and supply factors. The price of any commodity is affected by both micro-economic and macro-economic factors.

Sharma (2011) observed that earning per share is positively significant to market price per share. Size has a positive significant relationship with the share price while the other variables Dividend yield, Asset growth, return on assets have insignificant relationship (Ramzan, 2013). Masum (2014) investigated the relationship between dividend policy and its impact on market performance of the share in the Dhaka stock exchange which shows positive and significant impact on the stock price. Prabath (2014) concluded that the internal factors, firm specific factors such as dividend per share (DPS), earnings per share (EPS) and book value per share (BVPS) affect positively and significant impact on the stock price. Stephen & Okoro (2014) the results suggest that earnings per share, book value per share and dividend have positive impact on determining stock prices.

This study aims at examining the relationship between bank specific variables and MPS in Nepal's banking sector. It determines the effect of earnings per share, dividend per share, price earnings ratio, book value per share, return on assets, return on equity and bank size on MPS. The study is based on pooled cross-sectional analysis of secondary data of 5 Joint venture banks for the period 2012/13-2021/22. As first approximation to the theory, this study hypothesizes that the MPS depends on several bank specific variables such as Earning per share, dividend per share, and dividend payout ratio.

A correlation coefficient between MPS and EPS, DPS, DPR are 0.820, 0.660 and 0.337 respectively. There was a positive correlation between MPS and EPS, DPS, DPR. The MPS and EPS, DPS, DPR which was statistically significant at the 0.05 level (2-tailed) ( $r = 0.820, 0.660 \text{ \& } 0.337, n = 50, p < 0.05$ ).

## **CHAPTER-V**

### **SUMMARY AND CONCLUSION**

The first chapter of this study already includes a brief introduction. The review of the literature, as well as potential reviews of concepts, hypotheses, and research findings, are offered in the second chapter. Moreover, research methodology is described in third chapter relating to dividend decision. The purpose of this chapter to present an overview of the study in the summarized form along with major findings and the conclusion of the study. Accordingly, it is organized in three sections: The first one summarizes the study and general overview about research findings. The second section derives the conclusion of the study and the third one suggests few recommendations.

#### **5.1 Summary**

The main objective of the research study is to analyze the factors affecting the share price of Joint venture banks in Nepal. To answer this question, several literatures with the subject of dividend policy and dividend variables have been discussed. One of the three key choices made by financial management is the dividend policy. The part of the company's net earnings that is distributed to shareholders as compensation for their investments is referred to as the dividend. The organization's operation and prosperity are impacted by the dividend decision. Dividends can be an efficient instrument for luring new investors and retaining current ones. Others contend that the uncertainty element in dividend policy does have an impact on value. Many factors affect the dividend payment depending upon the investors' need and preference on one hand and the financing need of the financial institution to the potential investment on the other hand. The dividend decision, in one hand affects the company's structure. On the other side, it is valuable to investors in terms of information. The choice of a dividend affects the share price.

The primary focus of this study is the standard dividend distribution procedures used by publicly traded firms. The major goal of the study is to learn more about the dividend policies of various microfinance institutions. The most typical practice among Nepalese corporations is the instability of the dividend and the haphazard payment ratio. The study of relationship between the dividend and stock price have been accomplished by collecting and calculating the earning per share, price earnings ratio, cash dividend per share, bonus

dividend per share, dividend payout ratio, book value per share and market price per share. To make the research reliable, any more analysis are conducted to find out appropriate relationship between market price and other variables, which affects the share price. The relationship also statically tested at 5% level of significance.

The study has been primarily focused to evaluate the resultant impact of dividend on market stock price. The study is mainly based on the secondary data of five joint venture banks which are listed in NEPSE. The last ten years data from years 2012/13 to 2021/22 are taken for research study. The reliability of conclusions made in this study depends upon the accuracy of secondary data.

## **5.2 Conclusions**

The study concludes that market price per share is not influenced by the single financial indicator. One financial indicator that has significant role in the fixation of MPS for one company is not significant for another company. On the basis of the findings from the data analysis, the following conclusions have been drawn in line with the study objectives and comparisons have been made studies whenever relevant.

The purpose of the study is to determine how dividend policy affects stock prices. Results of the random effect shows that among the given variables only price earnings ratio, bonus dividend per share and dividend payout ratio have statistically significant relationship with stock market price. There was a positive correlation between MPS and EPS, DPS, DPR. The MPS and EPS, DPS, DPR which was statistically significant at the 0.05 level (2-tailed). There is a significant relationship between MPS and EPS, DPS, DPR with a 99% confidence interval. The ANOVA table indicates that the fitted model or R square is highly significant. It means that the model is fit.

## **5.3 Implications**

It is proposed that corporations follow the regular dividend distribution policy based on the findings of this study. Prices on the stock market will rise as a result. However, businesses that keep their profits will see a drop in the value of stock market prices. Although there is positive relationship between MPS and EPS, DPS, DPR, this is significant. The worldwide studies conclude a varying influence of dividend policy even in financially and

economically high growth and stable countries (Garrett & Priestley, 2000). The financial sector is still infancy and growing slowly in our country, and predicting dividend policy of microfinance is difficult and uncertain. It is also difficult to assume that the shareholders decide rationally after looking at different indicators of the company they are investing in. However, the growing financial sector in recent years with the increasing number of financial institutions, the scope of examining dividend policy and contributing to recommend policy agenda that can help to improve the financial sectors. Investors are also required to go thoroughly through available data on the companies for their investment to be secure and provide lucrative returns.

Owners and managers may each receive counsel regarding the factors that affect stock market prices and factors that investors deem important when making investment decisions as they are interested in changes in stock market price. Besides, this study also pinpoints key elements for directors in framing dividend policy. This reading has several restrictions. The limitations of this work may open up opportunities for future, more advanced research in the same field.

As this study is based solely on secondary data and has not considered the external factors such as investment climate, economic growth, growth of the financial system and other variables, it is recommended that a detailed study is carried out to observe the market price behavior in Nepal. It is possible to employ more advanced statistical tools to increase the validity and reliability of results across various business sectors. Therefore, in order to reach more critical mass, there is a huge scope of the study and future studies.

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## APPENDIX

| <b>Nabil Bank</b>  |            |            |            |            |
|--------------------|------------|------------|------------|------------|
| <b>Fiscal Year</b> | <b>EPS</b> | <b>DPS</b> | <b>DPR</b> | <b>MPS</b> |
| 2012/13            | 95.14      | 65         | 71.8       | 1815       |
| 2013/14            | 83.68      | 65         | 68.32      | 2535       |
| 2014/15            | 57.24      | 36.84      | 77.68      | 1910       |
| 2015/16            | 59.27      | 45         | 75.93      | 2344       |
| 2016/17            | 59.86      | 48         | 80.19      | 1523       |
| 2017/18            | 49.51      | 34         | 68.68      | 921        |
| 2018/19            | 50.57      | 34         | 67.24      | 800        |
| 2019/20            | 36.16      | 35.26      | 97.51      | 765        |
| 2020/21            | 33.57      | 38         | 113.18     | 1359       |
| 2021/22            | 18.64      | 30         | 160.95     | 824        |

| <b>Everest Bank</b> |            |            |             |            |
|---------------------|------------|------------|-------------|------------|
| <b>Fiscal Year</b>  | <b>EPS</b> | <b>DPS</b> | <b>DPR</b>  | <b>MPS</b> |
| 2012/13             | 91.88      | 10         | 918.8       | 1591       |
| 2013/14             | 86.04      | 12         | 717         | 2631       |
| 2014/15             | 78.04      | 30         | 260.1333333 | 2120       |
| 2015/16             | 65.97      | 70         | 94.24285714 | 3385       |
| 2016/17             | 44.32      | 33         | 134.3030303 | 1353       |
| 2017/18             | 32.48      | 33         | 98.42424242 | 1353       |
| 2018/19             | 32.78      | 0          | 0           | 663        |
| 2019/20             | 38.05      | 5          | 761         | 666        |
| 2020/21             | 29.71      | 5          | 594.2       | 675        |
| 2021/22             | 19.91      | 6          | 331.8333333 | 738        |

| <b>Himalayan Bank</b> |            |            |             |            |
|-----------------------|------------|------------|-------------|------------|
| <b>Fiscal Year</b>    | <b>EPS</b> | <b>DPS</b> | <b>DPR</b>  | <b>MPS</b> |
| 2012/13               | 34.19      | 15         | 227.9333333 | 700        |
| 2013/14               | 33.1       | 21.05      | 157.2446556 | 941        |
| 2014/15               | 33.37      | 42.11      | 79.24483496 | 813        |
| 2015/16               | 43.03      | 31.58      | 136.2571248 | 1500       |
| 2016/17               | 33.55      | 26.32      | 127.4696049 | 886        |
| 2017/18               | 23.11      | 15.79      | 146.3584547 | 551        |
| 2018/19               | 32.44      | 22         | 147.4545455 | 552        |
| 2019/20               | 27.6       | 20         | 138         | 540        |
| 2020/21               | 28.07      | 26         | 107.9615385 | 484        |
| 2021/22               | 18.26      | 19.11      | 95.55206698 | 299.2      |

| <b>Nepal SBI Bank</b> |            |            |             |            |
|-----------------------|------------|------------|-------------|------------|
| <b>Fiscal Year</b>    | <b>EPS</b> | <b>DPS</b> | <b>DPR</b>  | <b>MPS</b> |
| 2012/13               | 32.75      | 20         | 163.75      | 850        |
| 2013/14               | 34.83      | 22.07      | 157.8160399 | 1280       |
| 2014/15               | 34.84      | 28.42      | 122.5897255 | 887        |
| 2015/16               | 34.29      | 29.53      | 116.1192008 | 1875       |
| 2016/17               | 30.61      | 16.34      | 187.3317013 | 925        |
| 2017/18               | 25.16      | 15.79      | 159.3413553 | 499        |
| 2018/19               | 27.13      | 16.84      | 161.1045131 | 469        |
| 2019/20               | 17.23      | 9.47       | 181.9429778 | 435        |
| 2020/21               | 10.15      | 5.31       | 191.1487759 | 409        |
| 2021/22               | 16.67      | 10.53      | 158.3095916 | 282.3      |

| <b>NMB Bank</b>    |            |            |             |            |
|--------------------|------------|------------|-------------|------------|
| <b>Fiscal Year</b> | <b>EPS</b> | <b>DPS</b> | <b>DPR</b>  | <b>MPS</b> |
| 2012/13            | 18.02      | 0          | 0           | 251        |
| 2013/14            | 20.5       | 21.05      | 97.3871734  | 515        |
| 2014/15            | 25.05      | 8.42       | 297.5059382 | 507        |
| 2015/16            | 27.78      | 20         | 138.9       | 810        |
| 2016/17            | 26.88      | 15.79      | 170.2343255 | 545        |
| 2017/18            | 21.86      | 30         | 72.86666667 | 358        |
| 2018/19            | 18.79      | 35         | 53.68571429 | 382        |
| 2019/20            | 11.18      | 16.2       | 69.01234568 | 397        |
| 2020/21            | 14.76      | 15.8       | 93.41772152 | 440        |
| 2021/22            | 17.62      | 8.25       | 213.5757576 | 261        |

**IMPACT OF DIVIDEND POLICY ON STOCK PRICE OF  
JOINT VENTURE BANKS IN NEPAL:  
A STUDY OF SELECTED BANKS LISTED IN NEPAL STOCK  
EXCHANGE**

**A Dissertation Proposal**

**Submitted to the office of the Dean, Faculty of Management  
in partial fulfilment of the requirements for the Degree of  
Masters of Business Studies (M.B.S)**

**By**

**Submitted By  
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**Kathmandu, Nepal  
April 2023**

## **Table of Contents**

|  |    |
|--|----|
| CHAPTER - I : INTRODUCTION .....                     | 1  |
| 1.1 Background of the Study .....                    | 1  |
| 1.2 Statement of the Problem .....                   | 2  |
| 1.3 Objective of the Study .....                     | 2  |
| 1.4 Significance of the Study.....                   | 2  |
| CHAPTER - II : REVIEW OF LITERATURE.....             | 4  |
| 2.1 Conceptual Review .....                          | 4  |
| 2.2 Review of Related Study .....                    | 5  |
| 2.3 Review of Empirical Literature .....             | 6  |
| CHAPTER - III : PROPOSAL AND RESEARCH FRAMEWORK..... | 8  |
| 3.1 Proposal and Research Framework.....             | 8  |
| CHAPTER - IV: RESEARCH METHODOLOGY .....             | 9  |
| 4.1 Research Design.....                             | 9  |
| 4.2 Population and Sample .....                      | 9  |
| 4.3 Nature and Source of Data.....                   | 10 |
| 4.4 Method of Analysis .....                         | 10 |
| 4.5 Limitation of Study.....                         | 14 |
| CHAPTER - V: ORGANIZATION OF STUDY .....             | 15 |
| 5.1 Organization of Study.....                       | 15 |
| REFERENCES   |    |

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the Study**

In general, dividend payment is not an expense to the firm but the sharing or distribution of profits to each of the firm's shareholders according to the ratio of their shareholding in the firm. Usually, a firm announces dividend on the corporate profits, decided by the board of directors of the firm during Annual General Meeting (AGM). The dividend can be distributed either in cash or by capitalization of profits as stock dividend. Miller and Modigliani (1961) have asserted that given firms' optimal investment policy, the firm's choice of dividend policy has no impact on shareholders wealth. However, Gordon (1963) argues that dividend policy does affect the value of firm and market price of shares. The asserts that shareholders prefer the early resolve on uncertainty, and willing to pay a higher price for a share which has a greater dividend payout ratio. The writer agrees that investors always prefer current income in the form of dividends over capital gains. In the context of Nepal, only few companies are paying dividend but many other companies are not paying stable dividend.

### **1.2 Statement of the Problem**

Business entities are established and operated by owners to generate income above the expenditures which is known as profit. The dividend issue is widespread in corporate finance that deals with the distribution of such profit among shareholders of a firm. It involves the disposing of firms profit into payment to shareholders and re-utilizing in firm for exploiting the attractive investment opportunities. Thus, this decision calls for striking a balance between sharing profit with shareholders and retaining earnings for growth. The dividend issue has got considerable emphasis by researchers because it affects almost all major domains of financial management including cost of capital, investment and financing decisions. As the empirical studies are unable to establish a precise linkage of dividend policy on various functional areas of finance, therefore it is regarded as a most controversial and puzzling issue in corporate finance.

However, the dividend is considered as the most popular weapon for the attraction of investors and to reflect the firm's healthy position in the capital market. Under the prevalence of these situations, mainly this study attempts to deal with the following issues

1. What is the relationship between Dividend per Share and Market price per share of Joint venture banks in Nepal?
2. Does the relationship between Earning per Share and Market price per share of Joint venture banks in Nepal?
3. Is there relationship between Dividend Payout Ratio and market price of Joint venture banks in Nepal?

### **1.3 Objective of the Study**

The major objective of this study is to examine the impact of dividend policy on stock price of Nepalese Joint Venture Banks. This study attempts to analyze the impact of dividend policy on market share price with determinant variables of retained earnings per share, dividend per share, lag price earnings ratio and lag market price per share. The specific objectives are as follows:

1. To analyze the relationship between Dividend per Share and Market price per share of Joint venture banks in Nepal.
2. To analyze the relationship between Earning per Share and Market price per share of Joint venture banks in Nepal.
3. To examine the relationship between Dividend Payout Ratio and market price of Joint venture banks in Nepal.

### **1.4 Significance of the Study**

Dividend policy decision is a controversial decision in corporate world yet. As such, there is yet no satisfactory dividend theory that could be equally applied to all corporate firms. There is no yet universally accepted answer to the question "Why dividend matters". So, the study of dividend policy has considerable importance to investors, corporate management and the economists, academicians.

In view of the significance role of dividend policy, the corporate firms should follow the appropriate dividend policy. Its practice has an important role in maximizing the

shareholders' value of investment. Dividend policy is considered as one of the important and critical variables affecting the share price. It affects the choice of the investment portfolio by the prospective investors. Investors generally are desirous of investing their savings in such stocks, which is expected to pay promised rate of dividend in the prospectus while issued at the time of floating the shares in the primary market. If such corporate firms could not meet shareholders' expectation by setting out the optimal dividend policy, the share price may not rise as expected by them. It may dampen the growth of corporate firm by making difficult to raise the additional capital by issuing new share or right issue and the growth of stock market as well. Though there have been new and few studies on Nepalese stock market and dividend policy by research scholars, there is still gap in the financial literature concerning the dividend policy and practices in Nepalese corporate sector.

## **CHAPTER –II**

### **REVIEW OF LITERATURE**

Review of literature deals with the conceptual/ theoretical review of Financial Statement, Financial Performance, scenario of commercial bank and review of related studies with all the available published books and booklets, periodicals browser, thesis done by previous year student and articles and report of related studies.

#### **2.1 Conceptual Review**

Dividend refers to that portion of a firm's net earnings, which are distributed to the shareholders in return of their investments in share capital. In other words dividend is a periodic payment made to the stockholders to compensate them for the use of and risk to the invested funds. A major decision of financial management is the dividend decision in the sense that the firm has to choose between distributing the profits to the shareholders and plugging them back into the business. Dividend decision must consider the overall financing decision of the firm.

Dividend policy determines the policy of earnings between payment to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financing corporate growth, but dividends constitute the cash flows that accrue to stockholders. Thus, dividend policy analyzes the factors that influence the allocation of earnings to dividends or retained earnings. It also shows the relationship between dividend payouts and share prices. Expected cash dividends are the key return variable from which owners and investors determine share value. They represent a source of cash flow to stockholders and provide information about the firm's current and future performance. Because retained earnings not distributed, as dividends are a form of internal financing, the dividend decision can significantly affects the firm's external financial requirements. In other words, if the firm needs financing, the larger the cash dividend paid, the greater the amount of financing that must be raised externally through borrowing or through the sale of common or preferred stock.

## **2.2 Review of Related Study**

### **2.1.1 Review of Journal and Articles**

**Modigliani and Miller's (1961)** article is the most comprehensive argument for the irrelevance of dividend i.e. dividend policy has no effect on the share price of the firm. They argue that the value to the firm depends on the firms' earning which result from its investment policy. Thus, when investment declining of the firm is given dividend decision, the split of earnings between dividends and retaining earning has no significance in determining the value of the firm. Modigliani & Miller's (MM's) hypothesis of irrelevancy is based on following assumption.

**Gordon's (1962)** developed another popular and important model relating to the stock valuation using the dividend capitalization approach. Gordon concludes that dividend policy does affect the value of shares even when the return on investment and required rate of return are equal. The researcher explains that investors are not indifferent between current dividend and retention of earnings with the prospect of future dividends, capital gain and both. The conclusion of this is that investors have a strong preference for present dividends to future capital gains under the condition of uncertainly.

**Walter's (1963)** supports the relevancy of dividend policy that has to maximize the wealth position of stockholders. The model shows clearly the importance of the relationship between the firm's internal rate of return ( $r$ ) and its cost of capital ( $K$ ) in determining the dividend policy that will maximize the wealth of shareholders. The Walter model is based on number of assumptions as given below by Francis (1972).

In Corporations finance, all investment through retained earnings can be considered as debt or new equity, which is not issued. Both the internal rate of return ( $r$ ) and the cost of capital ( $k$ ) are constant. Corporations distribute all earnings as dividends or reinvest all earnings internally and immediately. The corporate earnings at the beginning and the dividends are assumed to remain constant for any given values. Corporations are assumed to have a very long or infinite life.

### **2.3 Review of Empirical Literature**

Manandhar (2000) found significance relationship between change in dividend policy in terms of dividend per share and change in lagged earnings. There is relationship between distributed lagged profit and dividend. The difference is found significant between overall proportion of change dividend and due to increase and decrease in EPS during the study period. In overall increase in EPS has resulted to increase in the dividend payment in 66.6% of the cases while decrease in EPS is resulted decrease in dividend payments come to 33.3% of the cases. It is found that Nepalese Corporate firms have followed the practice of maintaining constant dividend payment per share or increase it irrespective of change in EPS as reflected by total percentage of constant and increase dividend payout of 78.33% of the cases. In other words forms are reluctant to decrease dividend payment. In overall Nepalese corporate firms are found reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information contents and signaling effects of dividend relating to the firm's continued progress and performance, sound financial strength, favorable investment environment, lower risk, ability to maintain sustained dividend rate and finally to increase the market price of the stocks in the stock market.

Bhandari (2012) conducted research on “Corporate Dividend Policy: A Study of Commercial Banks of Nepal”. Thereafter, studies selected 8 listed companies, used their annual reports and calculated disclosure scores, which was followed by the use of various statistical tools like regression, correlations etc. to attain the mentioned objective. After the detailed analysis, the studies came to conclude that DPS has significant positive relationship with EPS and MPS. The studies have only done the calculation of average value of the related banks. The studies had only analyzed the data from 2007 to 2011 to conduct the study. And also, in the study, Bhandari analyses that when the banks declare higher dividend, it makes upward influence in the market value of share creating demands of share in the stock market. Bank's dividend practices also influence book net worth. The dividend per share positively influences the book net worth. However, dividend practices cannot fully explain changes in book net worth. The earnings per share, market value per share and lagged price earnings ratio in the model to estimate impact on dividend policy. The important finding of his research that payment of dividend to shareholders is the effective way

to attract investors and retain current investors. Therefore, commercial banks have to respect investors' expectation and decide on dividend accordingly. The growing financial markets of Nepal have created an environment for establishment of new commercial banks.

# CHAPTER III

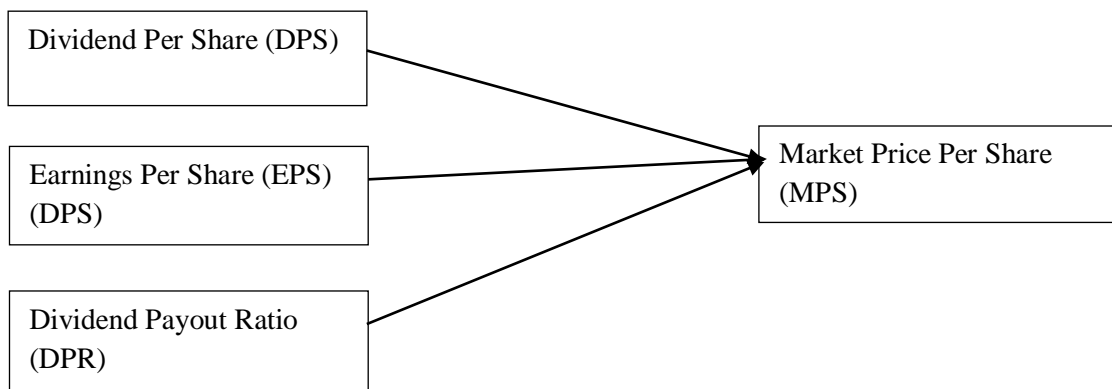
## PROPOSAL AND RESEARCH FRAMEWORK

Dividends refer to the portion of earnings made by the business organization, which distributed to shareholders as return of their investment in shares or dividend represents a distribution of surplus to the shareholder. In other words, it is the reward for bearing the risk of uncertainty. The relationship between dividend and value of the firm should, therefore, be the criteria for decision-making. Capital gain and cash dividend are two forms of return from the purchase of common stock. Over a time, shareholders definitely expect an increase in the market value of the common stock. In some case, shareholders expect distribution of the firms earning in the form of a dividend from those companies, which image to be materialized and stable, investor expect regards dividends to be declared and common stock to be paid on. This conceptual framework mainly covers the concepts which form a prime basis for the entire research. It is an analytical tool with several variations and contexts used to make conceptual distinctions and organize ideas.

### Theoretical Framework

#### Independent Variable

#### Dependent Variable



Higher dividend payout reduces the retention amount which affects the internal financial, in other hand lower dividend payout affects market price of stock, The decision regarding dividend payment depends upon the objective of the firm.

## **CHAPTER-IV**

### **RESEARCH METHODOLOGY**

Research methodology is way to systematically solve the research problem. Research methodology describes the method and process applied in the entire aspect of the study. The major objective of the study is to find out 'model of good fit' to explain the dividend policy on the sample joint venture commercial banks. This chapter highlights about the methodology adopted in the process of present study. It also focuses about sources and limitations of the data, which are used in the present study. 'Research Methodology' is a way for systematically solving the research problem. In other words, research methodology indicates the methods and processes employed in the entire aspects of the study.

#### **4.1 Research Design**

Research design is a plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variance. The research design of this study has been more descriptive as well as analytical using the various phenomena related and influencing the dividend decision and market price of stock. For this purpose, secondary data and information are obtained from different reliable sources. This study is carried out by using quantitative analysis method. To achieve the research objective descriptive and casual comparative research design have used.

#### **4.2 Population and Sample**

There are 26 commercial banks in Nepal (August 2022). Among them 6 joint venture banks in Nepal. Out of them 5 joint venture banks taken sample based on minimum 35% shares owned by the Nepalese public. Cluster sampling method has used in this study.

- Nabil Bank Limited (NABIL)
- Everest Bank Limited (EBL)
- Himalayan Bank Limited (HBL)
- NMB Bank Limited (NMB)

- Nepal SBI Bank Limited (NSBL)

### **4.3 Nature and Sources of Data**

The data used in this study is secondary. The secondary data collected from, annual reports from Fiscal year 2012/13 to 2021/22, magazines and bulletins of the companies under study, relevant information and data from the publication of SEBON, NEPSE, NRB, and web pages of the selected companies, various newspapers, previous studies, thesis and dissertation related to this field etc. Beside 46 that the indirect and informal talks, interviews with some professors, teachers and persons of related field etc. have also been made.

### **4.4 Methods of Analysis**

#### **4.4.1 Financial Tools**

A brief explanation of financial tools used in this study is as follows:

##### **1. Earnings Per Share (EPS)**

Earnings per share is one of the factors that affect the dividend policy and stock price of a firm. EPS calculation will be helpful to know whether the firm's earning power on per share basis. If EPS is greater the dividend will be larger and so is the market price. So, it is assuming as independent variable to determine the dividend and market price of stock. It is calculated by dividing the earning available to the common shareholder by the total number of common shares outstanding.

Symbolically,

$$\text{EPS} = \frac{\text{Earnings Available to Common Shareholders}}{\text{No. of Common Stock Outstanding}}$$

##### **2. Dividend per Share (DPS)**

The earning distributed to the shareholders out of EPS is known as DPS. It also affects the market price of stock. If EPS is greater, DPS will be greater. It is calculated by dividing total dividend to equity shareholders by the total number of the equity shares.

Symbolically,

$$\text{DPS} = \frac{\text{Total Dividend to ordinary shareholders}}{\text{No. of Common Stock Outstanding}}$$

### 3. Dividend Payout Ratio (DPR)

DPR reflect what percentage of profit is distributed as dividend and what percentage is retained ns reserve and surplus for the growth of the company. It is calculated by dividing the DPS by the EPS.

Symbolically,

$$\text{DPR} = \frac{\text{Dividend Per Share (DPS)}}{\text{Earnings Per Share (EPS)}}$$

#### 4.4.2 Statistical Tools

Statistics (as used in sense of data) are numerical statement of facts capable of analysis and interpretation and the science of statistics is a study of the principals and methods used in the collection, presentation, analysis and interpretation of numerical data in any sphere of inquiry (Elhance, 1994). To conduct the study following statistical tools are being used:

#### Arithmetic mean ( $\bar{X}$ )

Arithmetic mean is the most popular and widely user measured of representing the entire data by one value called average. Arithmetic means has been used to compute the company wise and individual average calculation for various variables and ratios. Its value can be obtained by adding together all the items and by dividing this total by the number of items.

Symbolically,

Arithmetic Mean

$$\text{Mean ( } \bar{X} ) = \frac{\sum X}{n}$$

n = Number of Year

$\sum X$  = Sum of X series

### **Standard Deviation (S.D.)**

The standard deviation concept was introduced by Karl Pearson in 1895. It is by far the most important and widely used measure of studying dispersion. Standard deviation is the positive square root of the mean of the square deviation from the arithmetic mean. The standard deviation measures the absolute dispersion or variability of a distribution. The high amount of dispersion reflects high standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite.

Symbolically,

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(X-\bar{X})^2}{n-1}}$$

### **Coefficient of variation (C.V.)**

The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviation is known as coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as C.V. It is used for comparing variability of two distributions. Lower value of coefficient of variation is preferable since it denotes the lower degree of dispersion.

Symbolically,

$$\text{Coefficient of Variance (CV)} = \frac{\sigma}{\bar{X}}$$

### **Correlation of coefficient (r)**

Correlation is a statistical device, which helps to analyze the covariance of two or more variables. "Correlation is the relationship between (or among) two or more variables (i.e., only one variable dependent and one or more variables independent)" (Shrestha, 2019). Correlation analysis is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. So, on the basis of

correlation theory we can study the cause, affect relationship between two or more set of variables.

### **T-test**

A t-test measures the difference in group means divided by the pooled standard error of the two group means. In this way, it calculates a number (the t-value) illustrating the magnitude of the difference between the two group means being compared, and estimates the likelihood that this difference exists purely by chance (p-value).

Symbolically,

$$t = (\bar{x} - \mu) / (s / \sqrt{n})$$

**Where,**

$\bar{x}$  = Observed Mean of the Sample

$\mu$  = Theoretical Mean of the Population

s = Standard Deviation of the Sample

n = Sample Size

### **ANOVA Test**

ANOVA is statistical tool analysts use to find the difference between the means of two independent groups. One finds it by dividing the mean sum of squares between the groups from the mean squares of errors. ANOVA (Analysis of Variance) is a collection of statistical models used to assess the differences between the means of two independent groups by separating the variability into systematic and random factors. It helps to determine the effect of the independent variable on the dependent variable.

Symbolically,

ANOVA coefficient (F) = Mean sum of squares between the groups (MSB)

---

Mean squares of errors (MSE)

Therefore,  $F = MSB/MSE$

Where,

Mean squares between groups,  $MSB = SSB / (k - 1)$

Mean squares of errors,  $MSE = SSE / (N - k)$

#### **4.5 Limitation of Study**

No study can be free from its own limitations. So, the present study has also some limitations. Reliability of statistical tools used and lack of research experience are the major limitations and some other limitations can be enlisted follows:

- The data has been taken of ten years from 2012/13 to 2021/22
- Only 5 joint venture banks are taken as sample.
- Data related to cash dividend are analyzed and interpreted. are taken as sample.

## **CHAPTER V**

### **ORGANIZATION OF STUDY**

#### **5.1 Chapter Plan for Thesis**

This study has been organized into five chapters i.e. introduction of the study, review of literature, research methodology, analysis and interpretation of data, summary and conclusion respectively.

- The first chapter, introduction, deals with general introduction, focus of the study, statement of the problem, objectives of the study, significance of the study, organization under study and chapter plan of the study.
- The second chapter, literature review deals with different literatures, which are closely related to this study. It provides information about the various aspects of the dividend. The various practices done regarding the dividend policy in Nepal is also reviewed under this chapter.
- The third chapter, research methodology deals with the detail research methods that are planned for conducting this study and limitations of the study.
- The fourth chapter, presentation and analysis of data is concerned with the application of defined research method on the collected data and information. The generated results after the application of research method on data are analyzed and interpreted in this chapter.
- The fifth chapter, result and discussion part deals with the summary and conclusion of the analysis. Brief conclusions from the analysis are drawn and necessary recommendations are made through this chapter.

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