

# **CHAPTER-I**

## **INTRODUCTION**

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

Dividend refers to the portion of net income paid out to shareholder or dividends are the divisions of the profits of a company, which are received by the shareholders. Dividend practice refers to the allocation of net income between dividend and retained earnings. The study of dividend practice helps to know how a firm divides its net earning into retained earnings and dividends. Retained earnings are the most significant internal sources of financing the growth of the firm. On the other hand, dividends may be considered favorable from shareholders point of view as they tend to increase their current return. Dividend policy is concerned with distribution of the profit to the shareholders so the firm, can choose among different forms of dividend policies based on their earnings and capital requirement. In practice, dividend policy varies from firm to firm and industry to industry. Some firms pay whole earnings as dividend and some retains more portions of the earnings and pay less as dividend. In beginning, firm pays more earnings as dividend to create better image and existence in the financial market but later they may change their policy and announced a certain percent earnings as dividend. Thus, the important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. Finance has three major parts. They are Collection of fund, utilization of fund, dividend policy so we can conclude the a dividend policy is one of the major part of finance, Determining the part of earnings to be distributed as dividends is a key decision that affects the value of firm's common stock in market place, similarly the retained earnings are considered to be the most convenient internal source available for financing corporate growth. Thus every corporate firm should establish and implement an optimal dividend policy

that strikes a balance between current dividends and future growth and maximize the firm's stock price.

The retained earning provides funds to finance the firm's long term growth of the firm. "A dividend policy that allows shareholders to get their share of the profit by always paying out a fixed percentage of earnings tends to be preferred over one that regularly pays stable or in increasing dividend."(Gitman; 1988: 602) Dividend payout of course reduces the total amount of internal financing. So, dividend is always a controversial topic because shareholders expect higher dividend But firms ensures towards setting aside funds for maximizing the shareholders wealth. "Dividends may be paid in cash, stock, or merchandise. Cash dividends are most common and merchandise dividends are least common. Shareholders are not promised a dividend, but he or she grows to expect certain payment on the historical dividend pattern of firm. Before dividends are paid to common stockholders the claims of all creditors, the government and preferred stockholders must be satisfied." (Gitman; 1988:609) Market price of the stock is the price in which the stock are traded in the organized stock exchange market. In context of Nepal, the market price per share (MPS) is the price coated for purchasing and selling under the Nepal stock exchange (NEPSE). Market price per share is that value of stock which can be obtained by a firm from the market. Market value of share is affected by the dividend of share and earnings per share of the firm. If the dividend per share and earnings per share is high, the market value of share will also be high. Market value of share may be high or low than the book value. If the firm is growing, market value of share will be higher than the book value. If the firm's capacity is lower than the cost of capital, Market value will also be lower. Market price of share is determined by capital market.

### **1.1.1 Meaning and Status of Commercial Bank**

The concept of the banking and its development has been closely attached with socioeconomic development. Banking sector as a monetary agent of

economic development plays important role to build up the confidence to businesspersons for promoting their business economic confidence of various segments and extends credit to people. Banks are playing major role in the money market generally the commercial bank are those banks which are established to accept money, grant loan to individual customer and industries with a view to earn profit. Actually there is not any specific definition of meaning of bank however we should express its meaning of following ways. “ A bank is an establishment for the custody of money received from on behalf of its customer, its essential duty is to pay their draft on it, its profit arise from its use of money left unemployed by them” according to shorter oxford English Dictionary. According to commercial bank act 2031 “Bank means a commercial bank established under this act”. Finally we can say that, bank is an organization that provides various financial services i.e. keeping or lending money for various developments proposes. The establishment of Nepal Bank Ltd in 1937 A.D. is the foundation stone of development of financing sector, particularly banking and the concept of finance companies are even new in Nepalese practices. To regulate the banking activities and monetary policy, Nepal Rastra Bank, the Central Bank has been established. The first commercial bank fully owned by government named 'Rastriya Banijaya Bank' was established in 1966. The commercial bank has its own role and contribution in the economic development. It has a source of economic development; it maintains economic confidence of various segments and extends credit to the people. In global perspective, Joint Ventures (JVs) are the modes of trading through partnership among nations and are also a form of negotiation between various groups of industrialists and traders to achieve mutual exchange of goods and services for sharing competitive advantages. A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation i.e. industries or commercial investment and production or trade. Following the economic liberalization, financial sector reform introduced in 80's by Nepal Rastra Bank, eased entry restrictions with an amendment to the Commercial Bank Act 1974. As a result, three banks namely Nabil Bank Limited (initially, it was registered as Nepal Arab Bank Limited) and

Standard Chartered Bank Ltd (initially, it was registered as Nepal Grindlays Bank Limited) come into operation prior to 1990s. In the same regard, in 1992, Himalayan Bank was established as a joint venture with Habib Bank Limited of Pakistan. The bank is the first joint venture bank managed by Nepali CEO. However, it was only in 1992, after Nepal Rastra Bank adopted a liberal attitude in permitting commercial banks to open, the financial liberalization really took place. Six new banks, all in joint ventures of foreign banks have come into operation making the total number of the commercial banks to eleven. In addition, letter of intent has been given to three more commercial banks to operate on regional basis and currently there are 31 commercial banks (including JVBs).

The capital market of Nepal is small and it is at early stage of growth. The establishment of joint venture banks has brought new hopes for productive mobilization of funds according to their new trends of dividend distribution among foreign joint venture banks. The appreciation in the market value of the share of the joint venture banks have without any doubt, provided adequate sense of protection to shareholders. Having given the overall dividend implications among companies and financial institution, this study is more specific in assessing the dividend practices of commercial banks of Nepal and their comparative study.

## **1.2 Statement of the Problem**

There are many empirical studies on dividend policy and its impact on stock prices in developed capital market. However, no simple and conclusive relationship exists between the amount paid out in dividend and market price of share. There is still a considerable controversy concerning the relation between dividends and common stock price. Dividend policies influence the managerial decision at various ways thus a firm's dividend payout ratio depends on many factor. For example it may be affected by the volatility in firm's cash flows and changing investment needs over the time. "Throughout the study of finance, the study has emphasized the goal of the maximization of wealth. Te maximization of the present value of the firm's common stock, the firm's earnings, dividends,

growth rate and psychological factors contribute to the value of its stock in the market price” 1 different firms adopt different approaches of dividend policy but there is question to all management decision maker which dividend theory (policy) is more correct and how dividend policy affects stock prices and capital cost. We can only find some hypothetical views regarding dividend policy; they are closer to reality but not exactly. Anyway, dividend policy decision is one of the major financial decisions which are depending upon market situation investment opportunities, cash flow position and management decision maker attitude etc.

There are various components to measure the stock price one of the major component is dividend policy which plays a vital role in capital market for corporate development. Nepalese investors in recent years have poured funds in newly established companies and banks encouragingly, this trends which is the corner-stone to the development of capital market would continue until investors are pouring fund in such companies and banks. The attractions of such funds are inspired by rate of return on their investment. ‘Solomon’ contains that dividend may offer tangible evidence of the firm’s ability to generate cash, and as a result, the dividend policy of the firm affects share price. Some scholars believe that dividend has no effect on stock price or the value of firm so dividend policy is irrelevant. In another hand some believe that in real world dividend policy affect the price of stock and value of firm so dividend policy is relevant. However the relationship is not yet clear and controversial issue in finance literature. Thus an empirical question Aries for the study so this study explores to shed some light on dividend practices of Nepalese firm and its impact on stock prices.

Since mid 1980s when the government adopted the economic liberalization policy, many joint venture banks have been established in Nepal. Many investors are curious to invest in these financial institutions to get dividend and maximize wealth. In Nepalese context Pradhan’s study (1993) states that

stocks paying higher dividend have higher liquidity, lower leverage, higher earnings, higher turnover and higher interest coverage. Similarly, Timilsena (1997) finds the positive relationship between dividend per share and stock price per share. However, a question arises that at what extent these findings are still relevant in the recent day context, although many changes have been taken places. This study tries to study on dividends practices of Nepalese Joint Venture Banks from different perspectives. The study mainly deals with the following issues:

1. What is the impact of dividend per share (DPS) on the market price of stock?
2. What are the determinants of dividend per share (DPS) and market price per share (MPS)?
3. Do the banks with higher dividend payout and earning have higher market value of shares?
4. Is there any uniformity in dividend distribution among the sample firms?

### **1.3 Objectives of the Study**

The major objective of the study is to examine the impact of dividend policy on stock price of Nepalese commercial banks. The specific objectives of the study are as follows:

1. To analyze the impact of dividend on stock price.
2. To identify the determinants of the dividend per share (DPS) and market price of stock (MPS)
3. To analyze the relationship of DPS with EPS, MPS and P/E Ratio.
4. To compare dividend practices of selected commercial banks.

## **1.4 Importance of the Study**

In Nepal, many investors are interested to invest in share capital for the purpose of getting more return as well as to maximize their wealth. In other hand management also try to generate more profit for satisfying their shareholders. Thus, the optimal dividend policy can help the manager to achieve their goal. Dividend per share (DPS) and market price per share (MPS) are the empirical phenomenon for all stakeholders, which is essential part of dividend policy. Firms are adopted various type of dividend policy but which one is popular in the context Nepalese commercial bank. Dividend is really affects its stock price? Thus these things are major points in the study; hence, this study may provide good information for decision maker, stakeholder investor and upcoming researcher.

Now a days, the whole world has been commercialized; so almost people are involved in mobilizing their fund by investing several area. Especially, general people are attracted to invest in share capital for obtaining higher return as dividend and capital gain. In this way the dividend policy has become an effective way to attract new investors. This study will be helpful to understand the dividend policy of commercial banks in Nepal for concerned parties like policy maker, investor, researchers and so on.

## **1.5 Limitations of the Study**

It is not comprehensive study. There are some limitations of this study due to lack of experience, time, limited budget, resource and information constraints. These limitations are presented below.

1. This study concentrates only on a very few determinants of dividend decision and market price of stock from a large number of these determinants.
2. This study covers only dividend policy and its impact on stock price of selected commercial banks.

3. This study relies on secondary data collected from Annual Reports of respective firm and the data available in NEPSE.
4. The study period covers only 5 years from 2005/06 to 2009/10.
5. The study covers only eight commercial banks as sample.
6. The sample taken for study may not represent the whole population.

## **1.6 Organization of the Study**

The study has been organized into five chapters, as prescribed by the university, as follows:

**Chapter One:** It is devoted to theoretical analysis and brief review of the study. This chapter includes general background of the study, statement of the problem, focus of the study, objectives of study, importance of the study, limitations of the study and organization of the study.

**Chapter Two:** It is devoted to theoretical analysis and brief review of related and it includes a discussion on the conceptual framework and review of the major empirical studies.

**Chapter Three:** It describes the research methodology employed in the study.

**Chapter Four:** It deals with presentation and analysis of relevant data and information through different statistical tools.

**Chapter Five:** It states summary, conclusion and recommendation of the study. This chapter states main findings, issues, and gaps and suggestive framework of study.

The bibliography appendices and annexes are incorporated at the end of the study.

# **CHAPTER - II**

## **REVIEW OF LITERATURE**

### **2.1 Conceptual Framework**

Dividend refers to the portion of net income paid out to shareholders. It is paid in cash and/or stock for making investment and bearing risk. Dividend decision affects shareholders wealth and value of the firm. The percentage of earnings paid out in form of cash dividend is known as dividend paid out ratio. A company may retain some portion of its earning to finance new investment. Dividend Policy is an integral part of the firm's financing decision as it provides internal financing. Dividend policy is concerned with determining the proportion of firm's earning to be distributed in the form of cash dividend and the proportion of earning to be retained. A firm has three alternatives regarding the payment of cash dividends distribute all earning as cash or retain all earning for reinvestment or some earning paid as dividend and rest for reinvestment purpose. Paudel, Baral, Gautam, Dahal & Rana (2064).

Dividend policy is a consistent approach to the distribution versus retention decision. Actually, it determines the division of earnings between payment to stockholders and reinvestment in the firm. Retaining earnings one of the most significant sources of funds for financing corporate growth. but dividend constitute the cash flow that occurs to the stockholders. Brigham ("Managerial finance" 7<sup>th</sup> edition)

The dividend policy decision adopted by the firm should be such that it strikes a proper balance between the financing decision and wealth maximization decision. There is a reciprocal relationship between the retained earning and cash dividend. If retained earning is kept more by the company less will be dividend and vice versa. The dividend policy should be optimal which balances the opposing forces and maximizes the stock price. Gautam and Thapa (2000)

## **2.1.1 Types of Dividend**

### **Cash Dividend**

Cash dividends refers to the portion of earnings paid to its shareholder as form of cash is called cash dividend. The cash amount and reserve a/c of a company reduce when the cash dividend is distributed. Generally dividend is declared in the last of financial year as regular dividend. But when directors declare dividend before the end of the financial year then it called interim dividend.

### **Composite and Optimal Dividend**

If dividend is paid partly in the form of cash and partly in the form of property, than it called composite dividend. In the other hand, instead of giving composite Dividend Company can give option to its shareholder to take the dividend in cash or in property.

### **Special Dividend**

When director of the company do not wants to change the separately, when the companies have good cash and reserves, this special dividend is given with the regular dividend but separately. Normally it is also said to be low regular dividend plus extras dividend will be cut when earning decline to normal level, the firm only pay minimum or normal regular dividend.

### **Stock and Stock Split**

A stock dividend is a payment in the form of additional shares of stock instead of cash. When a stock splits, shareholders are given a larger number of shares for the old shares they have already owned. In either case, each shareholder retains the same percentage of all outstanding stock that had been used before the stock dividends or split. "A stock dividend or split does not change the assets of the firm, since nothing is received by the firm for new shares issued. In spite of the fact that stock dividends and splits don't change the underlying assets, liabilities, or equity of the firm, there is some empirical evidence that the total

market value of a company's equity increase when the stock dividend or split occurs, roughly a 2 to 6 percentage increase” (Grin blatnetal, 1984 :124). Some of the joint-venture banks of Nepal have followed the practice of paying stock dividend along with cash dividend.

### **Property Dividend**

This type of dividend payment is very rarely found where the corporation gives its asset or property to her shareholder in the form of dividend other than cash. The corporation where there are the assets or properties that are no longer required in the operation of the business. Corporations own products follows such type of dividend distribution and securities of subsidiaries are examples that have been paid as property dividend.

### **Bond Dividend**

Bond dividend is a payment of dividend by the corporation in the form of bond to the shareholders with a view of avoiding cash out flows .Bond dividend does not change its liquidity position.

### **Script Dividend**

If the dividend is paid to the shareholders in the form of promissory notes promising to pay at a specified future date then such type of dividend is called the script dividend.

### **Corporate Share Repurchase**

Corporate share repurchase is often viewed as an alternative to paying dividends. If a firm has some surplus cash (or it can borrow), it may choose to buy back some of its own stock. It is instructive to see why share repurchases may be viewed as an alternative to paying dividends. By repurchasing stock, a company is reducing the number of shares outstanding. ”If the price earning (*P/E*) ratio does not change after the repurchases, the stock price must rise. If a firm has excess cash and insufficient profitable investment opportunities to justify the use of these funds, it is in the shareholder's interests to distribute the funds. The distribution can be accomplished either by the repurchase of stock or by paying the funds out

in increased dividends” (Van Horne, 2000:328). The company Act, 2063, Section 182 has made a new provision regarding the purchase of its own share which was prohibited by the company act 2053. Company act 2053 stated that no company shall purchase its own shares or supply loans against the security of its own shares (GON, 2053 B.S.).

### **2.1.2 Dividend Policy**

Deciding how much to pay to shareholders by way of dividend and how much to retain in the business is called dividend decision or dividend policy. Retain earning are one of the significant sources for financing corporate growth, but dividend refers to the cash flows that occurs to shareholders. Basically, dividend policy outlines the basis to determine the amount of dividend to be paid. But at the same time it also specifies the form of dividend payment procedures (Bhattarai, 2005).

### **2.1.3 The Residual Theory of Dividends**

The residual dividend policy states that the profit should be used first in all profitable projects which reflect equal or higher rate of return than investors opportunity rate of return, and only the balance of the profit that could not be utilized should be distributed as dividends. The residual policy says that dividend decisions should be such that (i) profits are reinvested to the optimum investment level that reflects maximum returns, (ii) reinvestment of profits help maintain optimal capital structure, and (iii) dividend are to be paid only if earnings are more then enough for investment plans. Thus the residual policy, in consistence with the basis objective of value maximization, places more importance to overall value maximization than present dividend to shareholders. Pradhan Surendra (2006)

### **2.1.4 The Information Content of Dividends**

“It has often been pointed out that a company that raises its dividends often experiences and increases in its stock price and that a company that lowers its dividends has a falling stock price, since management may have greater insight than the rest of the market as to the level of presents and future earning power, they may use dividend payments as the medium through which their expectations are conveyed” Pettit (1976:96). A number of writers have suggested that a considerable amount of information is conveyed by changes in dividends. In light of this, the management of a firm may use divided payments as a method of indicting their estimates of the firm's earning power and liquidity.

### **2.1.5 Common Factors Affecting Dividend Policy**

Dividend policy depends on various factors, which include the number of investment opportunities available, availability of cash, repayment of debt, control, restrictive covenants, bond indentures, taxes, legal rules, cost of selling new stocks, nature of investors etc.

#### **Investment opportunity**

The available profitable investment opportunities of firm affect the dividend decision. If the company has lost of such opportunities, it needs excess fund to finance. So, the company retains more profit paying less amount as dividend.

#### **Liquidity**

Dividend represents cash outflows, the more liquid a firm is, the more able it is to pay dividend. But a rapidly growing firm with many profitable investment opportunities find it difficult to maintain adequate liquidity and pay less dividends at the time.

## **Earning Stability**

A company with stable earnings pays more dividends in a prospect of continuity of the earnings in the future. But a company having fluctuating earnings pays less dividends to face its future financial difficulties.

## **Growth Prospects**

A rapidly growing firm usually has a substantial need of funds to finance the abundance of attractive investment opportunities. Instead of paying large dividends and then attempting to sell new shares to raise the equity investment capital it need. This type of firm usually retains larger portions of its earnings and avoids the expense and inconvenience of public stock offerings.

## **Legal Constraints**

Legal provisions of the respective countries affect the dividend decisions of the firm. For example, a firm's share capital can not be used to make dividend payments, dividends must be paid out of a firm's present and past net earnings, dividend can not be paid when the firm is insolvent, company can not borrow to pay dividend etc.

## **Restrictive Covenants**

Restrictive covenants contained in bond indentures, term loans, short-term borrowing agreements, lease contracts and preferred stock agreements affect the dividend decision. These restrictions limit the total amount of dividends a firm can pay.

## **Control**

The existing controlling group wanting to continue their position wants to retain more profit paying less dividends. If the company raises additional fund selling new common stock, the chances of diluting the control position will increase. Similarly, on the other sides, increasing loan amount also increase the risk of existing shareholders. Because of these, a company can retain more profit paying less as dividend.

## **Need to repay Debt**

If the company has to repay the debt in the current year, it needs more fund and retains more profit paying less amount as dividend.

## **Shareholders preference**

Wealthy shareholder in a high tax bracket may be interest in capital gain rather than current dividend. But in a large corporation whose shares are widely it is nearly impossible for a financial manager to take individual shareholder's preferences into account when setting dividend policy. Bhattarai R. (Capital Structure Mgmt 2009 5<sup>th</sup> edition)

## **2.2 Review of Empirical Works**

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

Lintner (1956), made an important study focusing on the "*Behavioral Aspect of Dividend Policy*" in the American context. He investigated a partial adjustment model as he tested the dividend patterns of 28 companies. He concluded that a major portion of the dividend of a firm could be expressed in the following way:

$$DIV_t = P \text{ EPS}_t$$

$$DIV_t - DIV_{t-1} = P \text{ EPS}_t - DIV_{t-1}$$

$$DIV_t - DIV_{t-1} = b (P \text{ EPS}_t - DIV_{t-1})$$

$$DIV_t - DIV_{t-1} = a + b (P \text{ EPS}_t - DIV_{t-1}) + e_t$$

$$DIV_t = a + bp \text{ EPSt} - b \text{ DIV}_{t-1} + \text{DIV}_{t-1} + e_t$$

$$DIV_t = a + bp \text{ EPSt} - b \text{ DIV}_{t-1} + \text{DIV}_{t-1} + e_t$$

$$DIV_t = a + b \text{ DIV}_{t-1} + (1-b)\text{DIV}_{t-1} + e_t$$

Where,

EPS t = earnings per share.

DIVt = Dividend in Time t

P= target payout ratio.

a = constant relating to dividend growth.

(1-b) = safety factor

e<sub>t</sub> = error term

b = the adjustment factor relating to the previous period's dividend and new desired level of dividends,

Where  $b < 1$ .

The major findings of this study suggested as follows:

- ) Most management sought to avoid making changes in their dividend rates.
- ) Major changes in earnings were the most important determinants of a company dividend decisions.
- ) Investment requirements generally had little effect on modifying the pattern of dividend behavior.
- ) Target payout is 50% of earning.

Modigliani and Miller (MM) (1961), MM's article on "Dividend policy, Growth and the valuation of shares" published in the journal of business for the first time in history of finance, advocates that dividend policy does not affect the value of firm i.e. dividend policy has no effect on the share price of the firm. They argue that the value of firm is determined by the earning of firm's assets or, its

investment policy and that manner in which the earnings stream is split between dividends and retain earnings does not affect this value. The MM argument is applicable under the following critical assumptions.

- ) Perfect capital market in which all investor are rational. Information available to all at no cost, no transactions cost, infinitely divisible securities and investor can not affect the market price of security.
- ) An absence of flotation costs on security issued by the firm.
- ) A world of no taxes.
- ) The firm has a fixed investment policy which is not subject to change.
- ) Risk of uncertainty does not exist.

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

Step 1: The market price of a share in the beginning of the period is equal to the present value of dividend paid at the end of the period plus the market price of the share at the end of the period.

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

Symbolically,

Where,

P<sub>0</sub> = Market price at the beginning or at the zero period.

K<sub>e</sub> = Cost of equity capital (assume constant)

D<sub>1</sub> = Dividend per share to be received at the end of the period

P<sub>1</sub> = Market price of the share at the end of the period

Step 2: Assuming that the firm does not resort to any external financing the market value of the firm can be computed as follows:

$$nP_0 = \frac{n(D_1 + P_1)}{1 + K_e}$$

Where, n = Number of equity shares at zero period

Step 3: if the firm's internal sources of financing is the investment opportunities fall short of the funds required, and n is the number of new shares issued at the end of year 1 at price p1, then the equation of step 2 can be written as:

$$np_0 = \frac{nD_1 + (n + Dn)p_1}{1 + K_e}$$

Where,

n = No. of shares at the beginning

n = No of equity shares issued at the end of the period

Step 4: If the firm were to finance all investment proposals, the total of new shares issued would be given by the following equation.

$$nP1 = I - (E - nD1)$$

$$\text{Or, } np1 = I - E + nD1$$

Where,

nP1 = the amount obtained from the sale of new shares to finance capital budget.

I = the total amount requirement of capital budget

E = Earnings of the form during the period

$E - nD = \text{Retained Earnings}$

Step 5: By substituting the value of  $nP_1$  from equation of step 4 to equation of step 3, the finding is:

Step 6: Conclusion: There is no role of dividend in above equation. So Modigliani and Miller concluded that dividend policy has no effect on the share price. In this way, according to Modigliani and Miller's study, it seems that under conditions of perfect capital markets, rational investors, absence of tax discrimination between dividend income and capital appreciation, given the firm's investment policy, its dividend policy may have no influence on the market price of the shares (*Modigliani and Miller's; 1961:345*). However, the view that dividend is irrelevant or not justified, once the assumption is modified to consider the realities of the world. In practice, every firm follows one kind of dividend policy or another. The selection of a certain dividend policy depends on the age and nature of the firm.

Gordon (1962), in his study concluded that "*Dividend Policy of a Firm Affects its Value*", in his model, he pleaded that investors are not indifferent between current dividends and retention of earnings. The conclusion of his study is that investors value the present dividend more than future capital gain. His argument insisted that an increase in dividend payout ratio leads to increase in the stock prices for the reason that investors consider the dividend yield ( $D_1/P_0$ ) is less risky than the expected capital gain.

Hence, investors required rate of return increases as the amount of dividend decreases. This shows that there exists a positive relationship between the amount of dividend and the stock prices.

His model is based on the following assumptions:

- i. The firm is an all-equity firm.
- ii. No external financing is available.
- iii. Internal rate of return,  $r$ , appropriate discount rate,  $k$ , are constant.
- iv. The firm and its stream of earnings are perpetual.
- v. The corporate taxes do not exist.
- vi. The retention ratio,  $b$ , once decided upon, is constant. Thus the growth rate,  $g = b \cdot r$ , is constant forever.
- vii. This discount rate is greater than growth rate,  $k > br = g$ .

Based on the above assumptions, Gordon provided the following formula, which is a simplified version of the original formula (Franc, 1972) to determine the market

Value of a share.

$$P = \frac{E(1-b)}{k-br}$$

Where,

$P$  = Price of share

$E$  = Earnings per share

$b$  = Retention ratio

$1-b$  = Percentage of earnings distributed as dividend

$E(1-b)$  = Dividend per share

$k$  = Capitalization rate or cost of capital

$br$  = Growth rate in  $r$ , i.e. rate of return on investment of an all equity firm.

According to his model, the following facts are revealed.

In the case of growth, share price tends to decline in corresponding to earnings with increase in payout ratio or decreases in retention ratio, i.e. high

dividend corresponding to earnings leads to decrease in share prices. Therefore, dividends and stock prices are negatively correlated in growth firm. In the case of normal firm, share value remains constant regardless of changes in dividend policies. It means dividend and stock prices are free from each other in normal firm, i.e.  $r$  is equals to  $k$  firm. In the case of declining firm, share prices tend to rise in correspondence with rise in dividend payout ratio, it means dividends and stock prices are positively correlated with each other in a decline firm.

Friend and Puckett (1964) conducted a study on “*Relationship between Dividends and Stock Prices*”, by running regression analysis on the data of 110 firms from five industries in the year 1956 and 1958. These five industries were chemical, electric utilities, electronics, food and steels. These industries were selected to permit a distinction made between the results for growth and non-growth industries and they also considered cyclical and non-cyclical industries that they covered. They used dividends, retained earnings and price earnings ratio as independent variables in their regression model of price function. They used supply function, i.e. dividend function also. In their dividend functions, earnings, last year's dividends and price-earnings ratio are independent variables. They quoted that the dividend supply function (*equation*) was developed by adding to the best type of relationship developed by Lintier.

Symbolically, their price function and dividend supply functions are,

$$\text{Price function: } P_t = a + b D_t + c R_t + d (E/P)_{t-1}$$

Where,

$P_t$  = Per-share price at time  $t$

$D_t$  = Dividends at time  $t$

$R_t$  = Retained earnings a time

$(E/P)_{t-1}$  = Lagged earnings price ratio

Dividend supply function:  $D_t = e + f E_t + g D_{t-1} + h (E/P)_{t-1}$

Where,

$E_t$  = Earnings per share at time  $t$

$D_{t-1}$  = Last year dividend

This study was based on the following assumptions:

- ) Dividend to react to year to year fluctuations in earnings.
- ) Price doesn't contain speculative components.
- ) Earnings fluctuations may not sum zero over the sample.

Their regression results based on the equation of  $P_t = a + b D_t + c R_t + d (E/P)_{t-1}$  showed the strong dividend and relatively weak retained earnings effects in three of the five industries, i.e., chemicals, foods and steels. Again they had tested other regression equations by adding lagged earnings price ratio to the above equation which resulted in the following equation:

$$P_t = a + b D_t + c R_t + d (E/P)_{t-1}.$$

They found the following results: they found that more than 80% of the variation in stock prices can be explained by three independent variables. They also calculated dividend supply equation, i.e.,  $D_t = e + f E_t + g D_{t-1} + h (E/P)_{t-1}$  and the derived price equation for four industry groups in 1985. In their derived price equation, it seems that there was no significant changes from those obtained from the single equation approach explained above. They argued that the stock prices or more accurately the price earnings ratios does not seem to have a significant effect on dividend payout. On the other hand, they noted that the retained earnings effect is increased relatively in three of the four cases tested.

Further, they used lagged price as a variable instead of lagged earnings price ratio and showed that more than 90% of variation in stock price can be explained by three independent variables and retained earnings received greater relative weight than dividends in the most of the cases. The only exception was steels and foods in 1958.

Finally, Friend and Puckett came into conclusion that it is possible that management might be able, at least in some measure, to increase stock prices in non-growth industries by raising dividends and in growth industries by greater retention, i.e. low dividends.

Walter (1966), on "*Dividend and Stock Price*", according to him, the dividend policy of a firm cannot be looked aside from investment policy. His argument is just the opposite of what Modigliani and Miller said. He argued that dividend policy affects the stock prices, i.e., dividend is relevant with stock prices. The relationship between firm's internal rate of return and cost of capital is determining factor to retain profits or distribute dividends. As long as the internal rate is greater than the cost of capital, the stock price will be enhanced by retention and will vary with dividend payout.

His model was based on number of assumptions as given below:

- ) Retained earnings constitute the exclusive source of financing. The firm does not resort to debt or equity financing.
- ) The firm's internal rate of return and its cost of capital are constant.
- ) The firm distributes its entire earnings or retains it for reinvestment immediately.
- ) There is no change in values of earnings per share and the dividend per share.
- ) The firm has perpetual life.

) Considering the above assumption, Walter's model to determine the market price per share is as follows:

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

Where,

P = Market price per share

Div = Dividend per share

EPS = Earnings per share

r = Internal rate of return

K = Cost of capital

Walter compares internal rate of return with cost of capital.

According to him the given firm may have three situations. They are:

A firm whose  $r > k$  is referred to as growth firm. A firm whose  $r < k$  is referred to as declining firm. A firm whose  $r = k$  is the matter of indifference.

To conclude, according to Walter, when the firm is in a growth stage, then dividends are negatively correlated with stock prices. In the declining firms, dividends are positively correlated between dividends and stock prices. In the normal firm, there is no relationship between dividends and stock prices, i.e., dividend are indifferent to variety in market price of shares.

Hankinson (1981), on "To pay or not pay dividend" In this study he was conducted on daily share price changes around the announcement of a dividend change and that have found that the result consist with a dividend announcement effect of the organization. It clearly shows that increase in dividend leading to

positive excess returns and decrease in dividend to negative excess return. Such effects seems to be more applied for these companies that previously over reinvested free cash flow in projects with return less than what the financial market requires. After long interruption of payment of dividend of the firm's, they were found to earn significant excess returns. The companies omitting dividends because of poor present earnings and future prospects suffer a decline share price. In such way the study concludes dividend effect on change of daily share prices.

Shrestha (1985), the major findings of this study presented as summery. Different models of dividend policy constitute one of the most critical issues of the public companies. The empirical is that many public companies are found to pay negligible dividend to the shareholder due to low earnings. Company's boards of directors are made dividend decision and shareholder have no legal right to demand dividend. Company pays dividends after meeting obligation as residual decision. Board of directors appointed form various ministries to make dividend decision strict, the corporations have both ownership and control vested to the government. Prorate distribution concept of dividend to be applied in Nepalese corporations mainly under-stood in cash dividend other than assets distribution. This study prefer the application of Walters and Gordon's dividend models in calculating the stock price of selected public limited companies reveals both acceptable and fantastic results. He also suggests that help guide in the determination and appropriate adoption of a suitable dividend policy in the public limited companies.

Pradhan (1993), entitled "*Stock Market Behavior in a Small Capital Market*", A case of Nepal was based on the data collected for 17 enterprises from 1986 through 1990. The objectives of his study were as follows:

- ) To examine assess the stock market behavior in Nepal
- ) To examine the relationship of market equity, market value to book value, price earnings, and dividends with liquidity, profitability, leverage, assets turnover, and interest coverage. The empirical model he used was as follows:

$$V = b_0 + b_1 \text{ LIQ} + b_2 \text{ LEV} + b_3 \text{ EARN} + b_4 \text{ TURN} + b_5 \text{ Cov} + U$$

Where,

V chosen for the study were Market equity (ME), Market Value of Equity to its book Value (MV/BV), Price-Earnings Ratio (PE), Dividend Per Share to market Price Per Share (DPS/MPS), and Dividend Per Share to Earnings Per Share (DPS/EPS).

) LIQ = Current ratio (CR) or Quick ratio (QR)

) LEV = Long term debt to total assets (LTD/TA) or long-term to total capitalization (LTD/TC)

) EARN = Return on assets, that is, earnings before tax to total assets (EBT/TA) or earnings before tax to net worth (EBT/BW)

) TURN = Fixed assets turnover, that is, sales to average fixed assets (S/TA), or total assets turnover, that is, sales to average total assets (S/TA)

) COV = Interest coverage ratio, that is earnings before tax to interest

) U = Error term

Some findings of his study, among others, were as follows:

Higher the earnings on stocks, larger the ratio of dividends per share to market price per share.

) Dividend per share and market price per share are positively correlated.

) Positive relationship between the ratios of dividend per share to market price per share and interest coverage.

) Positive relationship between dividend payout and liquidity.

) Negative relationship between dividend payout and leverage ratio.

) Positive relationship between dividend payout and profitability.

- ) Positive relationship between dividend payout and turnover ratios
- ) Liquidity and leverage ratios are more variable for the stock paying lower dividends.
- ) Earnings, assets turnover, and interest coverage are more variable for the stock Paying higher dividends.

### **2.3 Rules Governing Dividend Practices in Nepal**

There are some legal provisions in Company act of Nepal regarding the dividend payment. The responsibility to protect shareholder's interest is handed to stock exchange centre by the security exchange act 1983-1984 A.D. Only this is not enough to protect shareholders interest because the attitude of board of directors plays dominant role in public limited companies. In many cases, long-term debt, debentures and preferred stock agreements contain restrictions on the maximum common stock dividend that can be paid by a firm. Such covenants are designed to protect senior claim holders from executive withdrawals by real owners. Dividend is paid only out of certain earnings. In present situation, it is advisable to intact separate shareholders protection act safe guard shareholders right as and interests. Shareholders association of Nepal has been established for the purpose. The responsibilities to undertake required action to protect shareholders interests was given to SEC by security exchange act 1983-1984. Recently, Nepal government has issued company Act 2063. The Act marks some legal provision for dividend payments. Those provisions are as follow:

#### **Section 179**

Section 179 (subsection -1) states that the company can issue the bonus share from its portion of dividend after passing special resolution by the general meeting.

Subsection -2 of section 179 states that company should inform to the office before issuing the bonus share.

## **Section 182**

Subsection -1 of section 182 states that dividend should be distributed within 45 days from the decision dividend distribution except the following circumstances.

- ) In case of any law forbids the distribution of dividend.
- ) In case the right to dividend disputed. Incase dividend cannot be distributed within the time limit mentioned about owing to circumstances anyone's control and without any fault on the part of the company. The company can distribute the dividend after taking the prior consent if Nepal Government holds full or partial ownership of the company.
- ) Incase dividend are not distributed within the time limit mentioned in the subsection -1 dividend and extra interest should be distributed.

Only the person whose name stands shall be entitled to get dividend. In addition to this, the company Act 2063 makes other provision regarding dividend and interim dividend payments. The company Act -2063 has made a new provision regarding the purchase of its own share, which was prohibited by the previous company act-2053.

## **Section -61**

This section states that no company shall purchase its own shares or supply loans against the security of its own shares. In the following circumstances, the company can purchase its own shares from its retained earnings to be distributed as dividend.

- ) If all amount against shares issued by the company is paid.

- ) If issued share of public company is registered in security board.
- ) If there is provision regarding the purchase of own share in the article of association of respective company.
- ) If special resolution is passed by the general meeting of respective company regarding the purchase of its own shares.
- ) If loan amount of the company shall not be doubled by its capital and reserve funds after purchasing its own shares.
- ) If the purchased own share amount will not exceed by 20% of company's total paid-up capital and general reserve funds.
- ) The direction of the office issued by time will not be against.
- ) Regarding the purchase of own shares will not be against the directives of the office.
- ) Other provisions also have been made in the company Act 2063 regarding the purchase of its own share.

## 2.4 Reviews from Journals

Shiller (1981) published an article on “Do *Stock Prices Move Too Much to be Justified by Subsequent Changes in Dividends?*”. He used two set of data for standard and poor series and 30 stocks from Dow Jones Industrial Average. He used the simple efficient market model to justify that the change in dividend how far causes the movement of stock prices.

$$P_t = \sum_{k=0}^{\infty} \frac{r^{k+1}}{1+r} E_t D_{t+k} \quad 0 < r < 1$$

Where,

$t D$  = Real dividend paid at the end of time  $t$ .

$t E$  = Mathematical expectation conditional on information available at time  $t$ .

$R$  = Constant real discount factor.

$K$  = Discount factor

He has seen that measure of stock price volatility over the past century appear to be far too high five to thirteen times to be attributed to new information about future real dividend if, uncertainty about future dividends is measured by simple standard deviation of real dividends around their long run exponential growth path. He concluded that, since the market did not know in advance with certainty the growth path and distribution of dividends that was ultimately observed, however one cannot possible major events which did not occur such an explanation of volatility of stock price however is academic in that it relies fundamentally on unobservable and cannot be evaluated statistically.

Feldstein and Green (1983), published a paper work on "*Why do not Corporations Eliminate their Dividends and Increase their Retained Earnings*"? where they provide a simple model of market equilibrium to explain why firms that maximize the value of their shares pay dividends even though the funds would instead be retained and subsequently distributed to shareholders in a way that would allow them to be taxed more favorable as capital gain.

The each firm is subjectively unique, and that both high and low tax investors will want to invest in all firms. Both proportions and portfolio investors can also borrow and that corporations as well as investors can earn the risk free returns. This study indicated that existing tax treatment of dividend distorts corporate financial decisions and may cause a misallocation of total investment. It will be important to see whether these adverse effects remain in the more general analytic framework.

Baker, Farrelly and Elderman (1985) "*A survey of management views on Dividend policy*" (Page 78-84). On this study they made questions to corporate financial managers about what are the most considerable factor in determine their firm's dividend policy. These study objectives are:

- ) To compares the determinants of dividend policy to day with linter's behavioral model corporate dividend policy and to assess management's agreement with linter's findings.
- ) T examine management's perception of signaling and clientele effects; and
- ) To determine whether managers in different industries share similar views about the determinants of dividend policy.

They selected 562 firms for the study purposes which were listed at New York stock exchange (NYSE). They were taken 150 from utility sector, 309 from manufacturing sector and 103 from wholesale/ retail sector. They mailed questionnaire to each selected firm to obtained information of dividend policy. After analyzing the data they sent the final survey tools to the chief financial officers (CEOs) of the 562 firm followed by second complete mailing to improve the response rate and reduce potential non response bias.

Based on the dividends and earnings per share data provided by the respondents, they found that payout ratio of the responding utilities (70.3%) was considerably higher than for manufacturing (36.6%) and wholesale/ retail (36.10%). The results of their study on the aspect of determinate of dividend policy were as follow.

- ) The highly ranked determinants are first, the anticipated level of a firm's future earnings. The second is the pattern of past dividends. They found the high ranking of these two factors is consistent with linter's finding.
- ) The third important is determent of 'Dividend policy' is availability of cash.

- ) The fourth determinant is concerned about maintaining or increasing stock price. They found this factor is particularly strong among utilities that ranked this factor second in importance
- ) Similarly, the result of their survey on the aspect of attitudes on theoretical issue was as follows.
- ) Respondents from all three industry groups agreed relatively strongly that dividend payout affects common stock prices.
- ) The respondents from all three industry groups agreed on average, that dividend payout provides a "signaling device" of future company prospects and that the market uses dividend announcement as information for assessing security value.
- ) The respondents also demonstrated a high level of agreement that the reasons for dividend policy changes should be adequately disclosed to investors.
- ) And they also thought that investors have different perceptions of the relative riskiness of dividend and retained earnings and hence are not indifferent between dividend and capital gain returns.

Brook, Charlton, and Hendershott (1998), carried out a study on the topic of "Do firms use dividends to signal large future cash flow increases?" For this empirical research they used a sample of firms with a history of stable cash flow; they selected 101 companies soon to have permanently high cash flow, 45 companies poised to experience temporarily high cash flow, and 34 firms that will experience a continued period of flat cash flow.

They find that dividend decisions by firms about to enjoy large permanent cash flow increases differ from their other sample firms' dividend choices. Firms with permanently higher future cash flow earn significantly positive market-adjusted stock returns in the year before their cash flow jumps. In contrast, both other sample subgroups earn insignificant market-adjusted returns during their

imperial study. When they divide its permanently higher sample into firms with and without large dividend increases prior to the cash flow shock, but result are also consistent with dividend signaling. Firm that sharply increase their dividends earn a 28.10% market adjusted stock return during the year before cash flow jumps, while firms that do not sharply boost their dividend earn a 9.80% market adjusted return. The firm that sharply increase their dividend earn half of their abnormal return in the year before cash flow rises, while firm that do not sharply boost their dividend earn most of their abnormal return in the year cash flow actually jumps.

By establishing a direct link between positive cash flow shocks, dividend decision, and stock returns their results support the hypothesis that dividend increase are used to signal positive information about permanent future cash flow levels. However they do not imply that all, or even most dividend decision are made to signal future income changes. In fact their results suggest that corporate dividend policy is not primarily activated by the need to signal private information. Although firms poised on the threshold of future cash flow in increase boost their dividends before firm's income raise, these dividend increases tend to be relatively small as compared to both the sudden cash flow jump and subsequent dividend increase. This finding suggests that although dividends are used to signal, concerns other than signaling likely dominate corporate dividend decisions. [Source: - *Financial management, Vol 27, page 46-57*]

Shrestha (1998) published an article on "*A Study of Dividend Policy and Value of the Firm in Small Stock Market*". In this research article following model is used:

$$Y = f X_1, X_2, X_3, X_4, X_5,$$

Where,

Y=Value of a firm

$X_1$  =DPS

$X_2$  =EPS

$X_3$  =P/E Ratio

$X_4$  =Return on Equity (ROE)

$X_5$  =Dividend Yield (D/P)

This study aimed to identify some of significant financial variables, which are significant to the value of firm. It helps to understand the dividend policy of sample companies and their effect on market value of the firm as represented by market capitalization and thus misunderstanding the relevancy and irrelevancy of dividend policy on market capitalization in stock market in Nepal. The financial variables taken under study to understand the dividend policy followed is DPS, EPS, P/E Ratio, return on equity and Dividend yield. It is found that DPS, Return on equity and Dividend yield have the significant impact whereas EPS and P/E Ratio have found no significant impact on market value.

Pradhan and Adhikari (2004), published an article on "*Dividends and Stock Performance in Nepal*" where they ascertain cross sectional differences in performance of stocks in terms of underlying behavior of dividend per share to earnings per share. Pooled Cross-Sectional linear regression was computed by using a data set of 99-observation covering 33 listed companies. The findings revealed that performance of stocks paying higher dividends are comparatively better than that of stocks paying lower dividends. Findings also revealed that performance is more variable for the stocks paying higher dividends.

The results of the cross-sectional analysis shows that stocks with larger ratio of DPS to book value per share have higher liquidity, lower leverage, higher assets turnover and higher interest coverage. Similarly, stocks with higher ratio of DPS to EPS have higher liquidity, low earnings, higher assets turnover and higher interest coverage. It also indicated that liquidity; assets turnover, interest coverage, leverage and earnings are more variables for the stocks paying higher dividends.

Bhattarai (2005), published an article on "*Split Shares to Benefit Small Investors*". On his article he explained that a well performing company reflects the

performance in the market price, which is beating up. Those companies whose dividend is higher like Standard Chartered Bank, Nepal Bank Ltd, NABIL Bank have high market price. Although, their market price per share is higher, the investors are willing to purchase their share. But, small investors cannot afford to purchase the share because the prices of these shares are prohibited. Stock split may be a good solution to drop down the price of these shares, which is affordable to small investors.

## **2.5 Review of Thesis**

Gautam (1999), had conducted research work on "*Dividend Policy of Commercial Bank: A Comparative Study of NGBL, NIBL and NABIL*". The study is based on secondary data.

His objectives of the study were to identify the type of dividend followed by the banks; examine the impact of dividend on share price; identify the relationship between DPS and other financial indicators. He also specified one way to encourage risk-taking ability and preference is to have proper risk-return trade off by bank's management board in a way that higher return must be the investment rule for higher risk-takers that comprise bank's shareholders. He conducted this study also to know the uniformity among DPS, EPS and DPR of the sample companies.

His conclusions of the study had shown that, there was not clearly defined dividend policy was found followed by sample companies. He did not see the market price of the share to be more or less dependent to EPS or DPS. He did not find significant relationship between DPS and other financial indicators. He did not find uniformity EPS but prominent difference in DPS and DPR. .In the year 1992, the bank had paid 60% (40 % stock dividend and 20% cash dividend) of its profit as dividend to the shareholders to satisfy their needs and 40% of earnings was retained to retain to refinance for the internal growth of the bank. However, dividend growth rate is not equal to the growth rate of earnings.

Sadakhar (1999), carried out a research on topic "*Dividend and stock prices; an empirical study*" by using data for '16' enterprise from 1990 through 1994. The objectives of this study were as follows:-

- ) To test the relationship between dividend per share and stock price.
- ) To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratios.
- ) To determine the impact of dividend policy on stock prices.
- ) The study used simultaneous equation model as developed by 'Friend and Puckett' (1964), to explain the price behavior. The findings of this study were as follows.
- ) The relationship between dividend per share and stock prices is positive in the sample companies.
- ) Dividend per share affects the share prices variedly different sectors.
- ) Changing the dividend policy or DPS might help to increase in market price of share.
- ) The relationship between stock prices and retained earnings per share is not prominent.
- ) The relationship between stock prices and lagged earning price ratio is negative.

Adhikari (2003) had concluded a topic "*corporate dividend practices in Nepal*" by using the primary as well as secondary data. His objectives of the study were to analyze the properties of portfolio formed on dividends with opinions of financial executives on corporate dividend practices. He also examines the relation between dividends and stock prices.

After analyzing the data his major findings showed that many respondents made priority regarding factor affecting corporate dividend policy was earning of firm, availability of cash and past dividend trend. Paying cash dividends conveying information to shareholder about company's well performance and investor are not indifferent towards payment or nonpayment of dividend. Almost respondents feel that dividend decision is not residual decision and dividend decision affects the price of common stock. Firms always try to increase their stock prices through well dividend policy. There is some gap in his study like which dividend policy is popular in sample firms, shareholders are really interested for cash dividend them stock dividend to obtain more benefit, Is there any reason of uncertain of portfolio on dividends?

Parajuli (2004), carried out a research on the topic "*Dividend Policies and Practices of Joint Venture Banks in Nepal; a Comparative Study of Commercial Joint Venture Banks*".

His objectives of the study were to analyze dividend policy and practice of these banks, examine the relationship of dividend with various factors DPS, MPS, Net Worth, Net Earnings and Book value off Stock. He recommended possible future guideline and to suggest to the policy makers executive and investors to overcome various issues and gaps based on the findings of the analysis.

He included the four banks as samples. His conclusion had shown that banks declare high dividend return on paid up capital. He found relationship between DPS and net earnings was positive in these sample banks. He did not find uniformity in dividend policy. MPS had highly fluctuated and traded on high price. Change on DPS affects MPS.P/E ratio and dividend yield were in consistent. He did not find stable dividend policy adopted by these banks for a long period.

Dhungana (2005), conducted a study on "*Dividend Policy of Commercial Banks and Insurance Companies*" His objective was to highlight the aspects of dividend policies and practices of bank and insurance companies. He also analyzed the relationship of dividend with carious key such as Earning per Share

(EPS), Net Profit (NP), Net Worth (NW) and stock Price. Factors affecting dividend policy decision of Banks and Insurance companies were also analyzed. He had provided a workable suggestion and possible guidelines to overcome various issues and gaps based on the findings of the analysis.

He had conducted his research by taking 3 commercial banks and 3 insurance companies as sample. He used both primary and secondary data. His major findings and conclusion shows, EPS and DPS of all selected companies are satisfactory except Nepal Bangladesh Bank Ltd. and Nepal Industrial and Commercial Bank Ltd. The coefficient of variation showed that Nepal Bangladesh Bank Ltd had greater fluctuations in EPS & DPS where as the Himalayan Bank Ltd has consistent in EPS & DPS. EPS & DPS of Insurance companies were seen consistent. The co-relation between EPS and DPS is positive incase of Himalayan Bank Ltd. and Nepal Bangladesh Bank Ltd. (5% significant level). Coefficient of all the three insurance companies was positive with EPS and DPS (1% significant level). The analysis of correlation between current ratio and DPS were positive. MPS and Dividend of last year DPS(t-1) were positively correlated. EPS and MPS were negatively correlated. Corporation respondents gave the first priority to earnings, second to liquidity and third priority to past dividend.

Basnet (2006), conducted a study on "*Dividend Policy of Listed Companies in Nepal: A comparative study of Banking, Finance and Insurance Companies*". She conducted this study to assess the prevailing practice of Nepalese listing companies regarding dividend; to highlight the prevailing dividend policy adopted by the listed companies; to assess the impact of dividend on market price of share of the selected companies. She analyzed the relationship between dividend with EPS, net profit & net worth and provides a useful workable suggestion.

Her major findings showed that, there was not uniformity of dividend distributing policy and practices in selected companies. A change in DPS and payout ratio affects the share prices differently in different sector companies. The

relationship between DPS with EPS, net profit and net worth were positive in all sector companies.

She suggests and recommended that there must have clearly defined dividend policy, legal rules must be enacted. She suggested that Companies should have long-term vision and establish the organization to promote and to protect activities in favor of investors. Further, she recommended that choice should be given to shareholders whether they prefer stock dividend or cash dividend with using target rate of earnings i.e. profit planning and target payout rates. At last, she suggested that all activities and information regarding performance should be timely provided.

Dhungel's (2006) The study on "Impact of dividend policy on Market Price of Share" was carried out by Mr. Binod Kumar Dhungel on February 2006.

The specific objectives of this study were as follows:

- i. To identify the relationship between market price and other related financial indicator such as earning per share, dividend per share, net worth per share and dividend payout ratio.
- ii. To highlight the dividend practices carried out by the sampled joint venture commercial banks in Nepal.

The major findings drawn by the research study are as follows:

- i. The market price per share is affected by the dividend
- ii. There is no uniformity in dividend distribution policy and practices in the banks.

Adhikari (2007) Mr. Nawaraj Adhikari carried out study on 'Corporate Dividend Practices In Nepal' using primary as well as secondary data.

The objectives of the study are :

- i. To analyze the properties of portfolios formed of dividend.
- ii. To examine the relationship between dividend and stock prices.
- iii. To survey the opinions of financial executives on corporate dividend practices.

Major findings of the study are as follows:

- i. There are differences in financial position of high dividend paying and low dividend paying companies.
- ii. The stock 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 things remaining the same, financial position of high dividend paying companies are comparatively better than that of low dividend paying companies.
- iii. 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.

Subedi (2008) An MBS thesis entitled “Current Position Of Nepal Stock Exchange In Nepalese Capital Market” prepared by Mr. Subedi was carried by using secondary data from year 2004 to 2008.

The major findings of his study were as follows:

- i. To study the roles of Nepalese and sebo in Nepalese capital market
- ii. To examine the number of listed companies and annual turnover of Nepalese
- iii. To analyze the trend of market capitalization of Nepalese index.
- iv. To examine the quantity and number of total traded share.

Gautam (2009) Mr. R. Gautam analyzed the factor using various statistical and financial tools and concludes that:

- i. per share is too much unsatisfactory.

- ii. There is no consistency in dividend payment and its growth rate is not static as well.
- iii. There is no prominent difference in DPS and DP rate of both two banks ,however there is no uniformity of EPS.

R.R Gautam recommended as follows:

- i. To follow clearly defined dividend strategy as lack of its causes serious in convenience to many other sector of finance.
- ii. Banks should consider the interest and expectation of the investors while making dividend decisions.

Khatri (2010) Khatri carried out study on 'Stock prices movement of commercial bank prepared by using secondary data.

The major findings of his study were as follows:

- i. To study the trend of stock price movements with various financial indicators of sampled commercial banks in the market.
- ii. To exercise and evaluate the relationship of MPS with various financial indicators like EPS and DPS.
- iii. To evaluate return and risk proportion of investment on stock of sampled commercial bank.
- iv. To identify if the stock of sampled banks are overpriced, underpriced or equilibrium priced.
- v. This research will be helpful for the Nepalese Government for making policies it gives emphasis to invest in new concept in trader's age.

## **2.6 Research Gap**

Although, there are many studies in dividend policy with respect to stock price, similarly, many researchers developed various kinds of theories and philosophy regarding dividend policy in literature of finance; they are applied according to business environment, government rule and regulation, changeable market scenario, investment opportunities and so on. However, this study may add some information for all interested related person who directly or indirectly involve in the business. This study carry new thesis, journals and articles from different researchers which are related with dividend policy and its impact on stock price. This study help to know about dividend practice and its effect on financial indicator, relationship among them and shows a glance of actual dividend behavior in Nepal, In addition, include 5 year latest data of 8 commercial bank. With consideration of EPS, DPS, DPR, MPS etc and data are different from those of previous in terms of time and space. Thus this study may be different and good imperial evidence as compared to previous research and study.

# **CHAPTER – III**

## **RESEARCH METHODOLOGY**

The term research methodology is the combination of two words "Research" and "Methodology". Research refers to systematic and objective attempt, which use to study a problem for the purpose of driving general principle, in which the investigation has been guided by previously collected information and aims to add to the body of knowledge on the subject. Similarly, methodology means the various sequential steps that are adopted in research process. Thus research methodology is a systematic process adopted by researcher in studying a specific problem with certain objectives. It is one of the most important parts of every research.

This chapter has been divided into four sections. They are research design, nature and sources of data, population and sample, and method of analysis are explained respectively.

### **3.1 Research Design**

This study is carried out to get the empirical result of comparative analysis of "Dividend in the sample commercial banks and its impact on stock price". So this study attempts to analyze the relationship between DPS, EPS, and MPS which affects the dividend policy. In addition, D/P ratios, P/E ratio, Book value per share are also considered. This empirical and analytical study has followed both analytical and descriptive design.

### **3.2 Population and Sample**

There are various types of company in Nepal. Some are already listed in NEPSE and some in work in progress for listing. During this study, there are 200 companies listed in NEPSE. Out of them the no of commercial banks are 31, which is considered as population. Among the commercial banks listed in

NEPSE, only eight banks have been chosen by random selection. The number of commercial bank and their head office are presented below.

S. No.	Names	Head Office
1	Nepal Bank Limited	Kathmandu
2	Rastriya Banijya Bank	Kathmandu
3	Agriculture Development Bank Ltd.	Kathmandu
4	NABIL Bank Limited	Kathmandu
5	Nepal Investment Bank Limited	Kathmandu
6	Standard Chartered Bank Nepal Limited.	Kathmandu
7	Himalayan Bank Limited	Kathmandu
8	Nepal SBI Bank Limited	Kathmandu
9	Nepal Bangladesh Bank Limited	Kathmandu
10	Everest Bank Limited	Kathmandu
11	Bank of Kathmandu Limited	Kathmandu
12	Nepal Credit and Commerce Bank Limited	Siddharthanagar,Rupendehi
13	Lumbini Bank Limited	Narayangadh,Chitawan
14	Nepal Industrial & Commercial Bank Limited	Biaratnagar,Morang
15	Machhapuchhre Bank Limited	Pokhara, Kaski
16	Kumari Bank Limited	Kathmandu
17	Laxmi Bank Limited	Birgunj, Parsa
18	Siddhartha Bank Limited	Kathmandu
19	Global Bank Ltd.	Birgunj, Parsa
20	Citizens Bank International Ltd.	Kathmandu

21	Prime Commercial Bank Ltd	Kathmandu
22	Sunrise Bank Ltd.	Kathmandu
23	Bank of Asia Nepal Ltd.	Kathmandu
24	Development Credit Bank Ltd.	Kamaladi, Kathmandu
25	NMB Bank Ltd.	Babarmahal, Kathmandu
26	Kist Bank Ltd.	Kathmandu
27	Megha Bank Ltd.	Kathmandu
28	Commerze And Trust Bank Ltd.	Kathmandu
29	Civil Bank Ltd.	Kathmandu
30	Century Bank Ltd.	Kathmandu
31	Janta Bank Ltd.	Kathmandu

Now, the selected bank for this study is standard chartered bank ltd (SCBL), Nabil bank limited (NBL), Everest Bank ltd (EBL), Nepal Industrial & Commercial Bank Limited (NICBL), Kumari Bank ltd (KBL), Himalayan Bank limited (HBL), Nepal Investment Bank ltd (NIBL) and Bank of Kathmandu (BOKL) for the sample.

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

This study is based on overall key indicator of the respective sample banks which is listed in NEPSE. The other required data have been obtained from annual report and financial statements of firm's security Board of Nepal (SEBON) and NEPSE data base. Some relevant information are obtained form by checking E-mail, internet. Method of data collection is primary and secondary but this study has concern only secondary data. The study covers only for five years data since 2005/06 to 2009/10.

**Table no. 3.1**

**Sample Description**

Population(N)	Sample Ratio(n / N)
Listed commercial Bank 31	(8/31) = 30.77

**3.4 Method of Analysis**

Generally, analysis means given or available data has been change into an understandable and meaningful presentation by establishing rational relation with its effects. So analysis means to get answer logically of related questions. The analysis work is based on various variable of dividend policy like EPS, DPS, DP, DPR, P/E ratio, EY, DY, MPS, BVPS etc are analyze by applying well define financial and statistical tools. Needed financial and statistical tools for study topic are presented below.

**3.3.1 Financial Tools**

Ratio analysis is most popular tools to find financial position of company. Ratios are very easy to understand and evaluate the firm's financial performance. Thus different financial ratios were employed to drive in meaningful conclusion for this study.

**A) Earnings Per Share (EPS)**

This is the ratio of firm's earning after tax return on per share. It is calculated to evaluate the commercial banks ability to generate profit for its shareholder. EPS is calculated by dividing the net profit after tax by the total number of the common share outstanding.

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

## **B) Dividend per Share (DPS)**

Dividend is the portion of net income that paid out to shareholder as reward for bearing risk on their investment. So DPS refers to that distributed net income which is paid to common shareholders per share basis. Dividend per share is calculated by dividing the total dividend to equity (Common) shareholder by the total no. of share.

$$DPS = \frac{\text{Total dividend amount}}{\text{No. of outstanding shares}}$$

## **C) Market Price per Share (MPS)**

It is that price of share which is traded in market place. MPS generally determine by market demand and supply flow. Similarly it is also affected by firm's EPS and DPS. E.g. if the EPS and DPS are high, the MPS will also be high. In this study MPS can be obtained from capital market and it is the closing price of the share indicated in NEPSE index.

## **D) Dividend Payout Ratio (D/P Ratio)**

This ratio reflects the percentage of the net profit which is distributed as dividend and remaining percentage is retained as reserve and surplus for the growth of the related company or banks. D/P ratio is calculated by dividing DPS by EPS.

$$D / P \text{ Ratio} = \frac{DPS}{EPS}$$

## **E) Price Earnings Ratio (P/E Ratio)**

Price earnings ratio is simply the ratio between market price per share and earnings per share. It represents that amount which investors are willing to pay for each rupee of the firms earnings. The highest P/E ratio indicates the greater confidence of investor in the firm's future. It is calculated as:

$$P / E \text{ Ratio} = \frac{MPS}{EPS}$$

#### F) Market to book value Ratio (MTBR)

Book value per share is the intrinsic value of per share. It represents the net real value of share. So, Market to book value ratio is simply the ratio between market value per share to book value per share. It measures how the financial market has put the value to the firm's overall management and efficiency over the time. It is

calculated as

$$MPS = \frac{\text{Market to book value ratio}}{BVPS}$$

#### G) Dividend percent (DP)

Dividend percent is the ratio of dividend per share to the paid-up price per ordinary share. It can be calculated as:

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

#### H) Earning Yield (EY)

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

$$EY \text{ Ratio} = \frac{\text{Earning Per Share}}{\text{Market Price Per Share}}$$

## I) Dividend Yield (DY)

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

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

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

### 3.4.2 Statistical Tools

#### A) Arithmetic Mean ( $\bar{X}$ )

Arithmetic mean is the average return over periods. Arithmetic mean of a given set of observation is their sum divided by the number of observations. To illustrate it, let us suppose that  $X_1, X_2, \dots, X_n$  denote return of given 'n' number of securities and  $\bar{X}$  is the arithmetic mean return of the given observation. It is calculated by,

$$\bar{X} = \frac{\sum X}{n}$$

Where,

$\bar{X}$  = arithmetic mean return

n = number of observations

$\Sigma X$ = sum of given observation

For simplicity, Microsoft excel has been used to compute the mean.

### **B) Standard deviation ( $\sigma$ )**

It is the quantitative measure of total risk. It calculated the more information about the standard deviation of a distribution is the square root of the variance of the variance of return around the mean. It measures the absolute dispersion. This study covers the historical data only, so following formula is applied to calculate the standard error.

$$a) \sigma = \sqrt{\frac{\Sigma(x - \bar{x})^2}{n - 1}}$$

$$b) \sigma = \sqrt{\frac{\Sigma(x - \bar{x})^2}{n}}$$

Both formulas are usable to find deviation but 'a' formula is more relevant to remove sampling error for get closer estimation. These value are calculated by using scientific calculator model Fx-991MS 'CASIO'

### **C) Coefficient of variation (CV)**

Standard deviation measure as a whole risk, which cannot provide per unit level risk, so CV is measures the risk per unit of expected return. It should be used to compare the investments when both the standard deviation and expected values differ. CV is calculated by following ways.

$$CV = \frac{\text{Risk}}{\text{Return}} = \frac{\sigma}{\bar{X}}$$

## D) Correlation Coefficient (r)

Correlation coefficient measures the relation between two variables. The correlation coefficient measures the relationship between two variables. It is the statistical tools, which can be used to describe the degree to which one variable is linearly related to another and measures the directions of relationship between two set of figures. Correlation coefficient can be either positive or negative which range from +1 to -1. More precisely, if both variables are changing in the same direction, the correlation is said to be positive. On the other hand, if both variables are changing oppositely to each other, then correlation is known as negative, correlation can be seen between or among several variables.

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

$$r = \frac{\text{Cov}(X, Y)}{\Xi_x \Xi_y}$$

or,

$$r = \frac{(\sum (X - \bar{X})(Y - \bar{Y}))}{N \Xi_x \Xi_y}$$

or,

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

Where,

$\Xi_x, \Xi_y$  are the standard deviation of the distributions of X and Y values respectively.

$$\begin{aligned} \text{Cov}(X, Y) &= \text{covariance of X, Y value} \\ &= \frac{(\sum (X - \bar{X})(Y - \bar{Y}))}{N} \end{aligned}$$

$$\Xi_x = \sqrt{\frac{1}{N} \sum (X - \bar{X})^2} \quad , \quad \Xi_y = \sqrt{\frac{1}{N} \sum (Y - \bar{Y})^2}$$

**(e) Coefficient of Determination ( $R^2$ )**

The coefficient of determination is the primary way to measure the extent, or strength, of the association that exists between two variables, X and Y. "Coefficient of determination measures only the strength of a linear relationship between two variables."(Ibid) It refers to a measure of the total variance in a dependent variable that is explained by its linear relationship to an independent variable. The coefficient of determination is denoted by  $R^2$  and the value lies between zero and unity. The closer to unity, the greater the explanatory power. A value of one can occur only if the unexplained variation is zero, which simply means that all the data points in the scatter diagram fall exactly on the regression line. The  $R^2$  is always a positive number. It can't tell whether the relationship between the two variables is positive or negative. The  $R^2$  is defined as the ratio of explained variance to the total variance. Thus,

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

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

**(f) Regression Analysis**

Francis Galton was the first person to introduce the concept of regression. Regression refers to an analysis, which is involving the fitting of an equation to a set of data points, generally by the method of least square. In other words the regression is a statistical method for determining relationships between the variables by the establishment of an approximate functional relationship between them. It is used to determine that whether the dependent variable is influenced by the given independent variable or not. It is considered as a useful tool for determining the strength of relationship between two (Simple Regression) or

more (Multiple Regression) variables. It is also used to predict value of one variable given the value of other variables.

Simple linear regression analysis is used to find the relationship between two variables. In this study, the following simple regressions have been analyzed.

**i) Market Price Per Share on Earning Per Share**

$$Y = a + bX$$

Where,

Y = Market Price Per Share

a = Regression Constant

b = Regression Coefficient

X = Earning Per share

This model has been constructed to examine the relationship between market price per share (dependent variable) and earning per share (independent variable).

**ii) Market Price Per Share on Dividend Per Share**

$$Y = a + bX$$

Where,

Y = Market Price Per Share

a = Regression Constant

b = Regression Coefficient

X = Dividend Per share

This model has been constructed to examine the relationship between market price per share (dependent variable) and dividend per share (independent variable).

**iii) Market Price Per Share on Dividend Payout Ratio**

$$Y = a + bX$$

Where,

Y = Market Price Per Share

a = Regression Constant

b = Regression Coefficient

X = Dividend Payout Ratio

This model has been constructed to examine the relationship between market price per share (dependent variable) and dividend payout ratio (independent variable).

This model has been constructed to examine the relationship between dividend per share (dependent variable) and net worth per share (independent variable).

In order to obtain the value of a and b, we have the following two normal equations.

$$\phi Y = na + bX$$

$$\phi XY = a\phi X + b\phi X^2$$

Where,

'a' and 'b' are unknown.

n = number of observation in the sample

#### **i) Regression Constant (a)**

The value of constant is the intercept of the model, when the independent variable is zero; it indicates the average level of dependent variable. In other word, it is better to understand that 'a' (constant) indicates the mean or average effect on dependent variable if all the variables omitted from the model.

$$a = \frac{(\sum X^2)(\sum Y) - (\sum X)(\sum XY)}{n \sum X^2 - (\sum X)^2}$$

## ii) Regression Coefficients (b)

The regression coefficient of each independent variable shows the relationship between that variable and value of dependent variable, holding the effects of all other independent variables of the regression model constant. In other words, these coefficients explain how changes in independent variables affect the values of dependent variables estimate.

$$b_X = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

## iii) Standard Error of Estimate (S.E.E.)

Practically, the perfect prediction is not possible with the help of regression equation. Standard Error of Estimate is used to measure the reliability of the estimating equation. It measures the variability or scatter of the observed values around the regression line. It also measures the reliability of the estimating equation, indicating the variability of the observed values differ from their predicted values on the regression line.

The larger the value of S.E.E., the greater the scattering or dispersion of points around the regression line, conversely, if S.E.E. is equals to zero, then, there is no variation about the line and the correlation will be perfect. So, we expect the estimating equation to be a 'perfect' estimator of the dependent variable. In that case, all the data points would lie directly on the regression line and no points would be scattered around it. Similarly, the smaller the S.E.E., the closer will be the dots to the regression line and the better the estimates based on the equation for this line. Thus, with the help of standard error of estimate, it is possible for ascertaining how well and representative the regression line is as a description of the average relationship between two series.

$$\text{S.E. of Estimate} = \frac{(\sum Y^2) - a(\sum Y) - b(\sum XY)}{N - 2}$$

$$\text{S.E. of coefficient (b)} = \frac{\text{S.E. of Estimate}}{\sqrt{(\sum X^2) - N(\bar{X})^2}}$$

#### iv) Multiple Regression

In multiple regression analysis two or more independent variable are used to estimate the values of a dependent variable where as in simple or linear regression analysis a single independent variable is used to estimate the values of a dependent variable. The general objectives of multiple regression are:

To derive an equation that provides estimates of the dependent variable from values of the two or more independent variables.

To obtain the measure of error involved in using this regression equation as a basis for estimation.

To obtain the measure of proportion of variance in the dependent variable accounted for or explained by the independent variables.

The Multiple Regression Equation of MPS on  $DPS_{t-1}$ , PE Ratio $_{t-1}$  and EPS (MPS =  $a + b_1 DPS_{t-1} + b_2 PE Ratio_{t-1} + b_3 EPS$ )

#### ELEMENTS OF A MULTIPLE REGRESSION EQUATION

$$Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3$$

**Y** is the value of the Dependent variable (Y), what is being predicted or explained

**a** (Alpha) is the Constant or intercept

**b<sub>1</sub>** is the Slope (Beta coefficient) for  $X_1$

**X<sub>1</sub>** First independent variable that is explaining the variance in Y

b<sub>2</sub> is the Slope (Beta coefficient) for X<sub>2</sub>

**X<sub>2</sub>** Second independent variable that is explaining the variance in Y

b<sub>3</sub> is the Slope (Beta coefficient) for X<sub>3</sub>

**X<sub>3</sub>** Third independent variable that is explaining the variance in Y

**s.e.b<sub>1</sub>** standard error of coefficient b<sub>1</sub>

**s.e.b<sub>2</sub>** standard error of coefficient b<sub>2</sub>

**s.e.b<sub>3</sub>** standard error of coefficient b<sub>3</sub>

**v) t-statistics**

The branch of statistics that helps in arriving at the criterion for avoiding the risk of taking wrong decisions is known as testing of hypothesis. (*Gupta, 1999:1116-1117*)

The t-distribution, commonly called the student's t-distribution, is used when sample size is equal to or less than 30 (termed small sample), the parent population from which the sample is drawn is normal, the population standard deviation is unknown, and the given sample is drawn by normal sampling method. In order to test the significance of an observed sample correlation coefficient, the following procedure is applied.

**Null hypothesis:** H<sub>0</sub>: r = 0, i.e. the variables are not correlated in the population the static.

**Alternate hypothesis:** H<sub>1</sub>: r ≠ 0, i. e. the variables are correlated in the population the static. (*Joshi, 2001:178-185*)

$$t = \frac{r}{\sqrt{\frac{1-r^2}{n-2}}} \sim t_{n-2}$$

### **3.6 Data Calculation Method**

I already describe that accounting data of sample banks are obtained from NEPSE and internet search. Thus I would like to express that given statistical and financial tools will be used from computer SPSS programmed and some will be calculated by scientific calculator. For example: - scientific calculator will be use for mean, standard deviation, coefficient of variation and hypothesis test. Remaining analysis tools are use and calculated through computer SPSS programmed, which is presented in appendix section. The evaluation criteria for analysis are presented in respective calculated table for related statistical and financial indicator.

## **CHAPTER-IV**

### **PRESENTATION AND ANALYSIS OF DATA**

The secondary raw data collected from various sources have been organized and processed by using various financial and statistical tools as discussed under research methodology. The collected information is presented and analyzed in this unit in order to achieve the objective of this study the study mainly focus on following areas ; Analysis of financial indicators impact of dividend on stock overall management and effective over the time ; determinants of dividend per share and market price per share and relationship of MPS with \DPS and EPS

#### **A) Analysis of financial Indicator**

Financial analysis deals with fundamental tools associated to evaluation of firm's financial performance. It is the process of analyzing relative strengths and weakness of firm's financial position. This chapter deals with various financial specific indicators which is related in dividend before observing the impact of different financial indicators and variables on dividend as well as Value of the firm we need to present and analyze them systematically. for this purpose EPS, DPS, DP, DPR, EY, DY, MPS, BVPS and PE ratio have been selected as an affecting variables .however these variables show the dividend status of the banks as well as their strength ,consequently helps to identify the help position regarding dividend payout , these variables have been presented by the help of table diagram and analyzed by using statistical tools as specified in chapter three.

#### 4.1 Earnings Per Share [EPS]:

EPS measures the earning capacity of firm and it is expressed as per share basis .it is before adjustment earning which is obtained from net income divided by no of outstanding share .it help to show the earning availability to each shareholder.

**Table 4.1**  
**EPS of Sample Banks**

Year	SCBNL	NABIL	HBL	EBL	NICBL	KBL	NIBL	BOK
2005/06	175.84	129.21	59.24	62.8	16.09	16.59	59.35	43.67
2006/07	167.46	137.08	60.66	78.4	24.1	22.7	62.57	43.5
2007/08	131.1	108.1	62.74	91.82	25.75	16.86	57.87	59.94
2008/09	109.99	106.76	61.9	99.99	27.83	22.04	37.42	54.68
2009/10	77.65	78.61	31.8	100.16	34.3	24.24	52.55	43.08
Mean	132.41	111.95	55.27	86.63	25.61	20.49	53.95	48.97
SD	36.38	20.41	11.79	14.31	5.89	3.15	8.88	7
CV	27.48	18.23	21.34	16.52	22.99	15.38	16.45	14.29

*Source: Appendix 'A'*

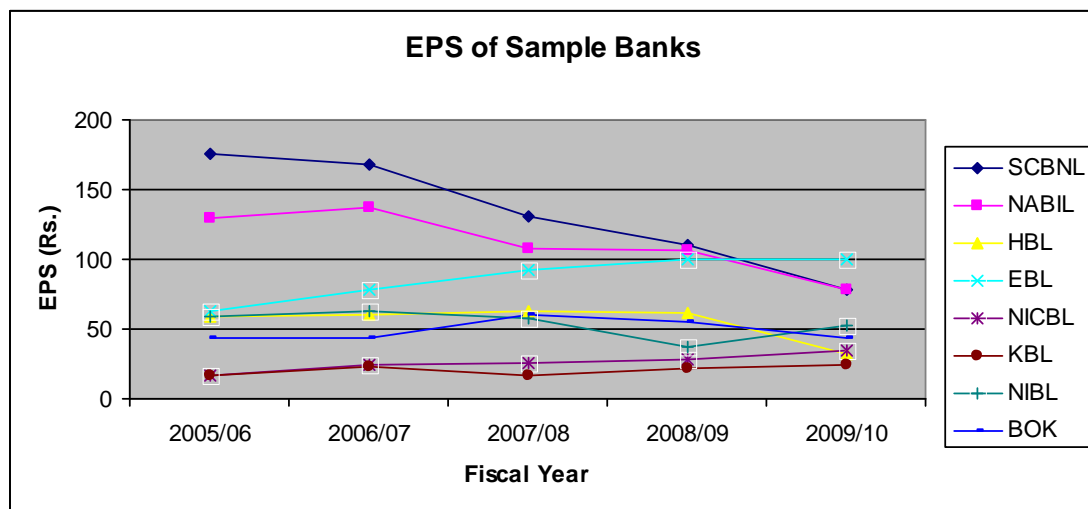
Above table shows the EPS of the selected banks from the year 2005/06 to 2009/10. In 4.1 tables, mean, standard deviation and coefficient of variation respectively have been presented.

When we observe the mean of EPS, SCBL is in 1<sup>st</sup> position with Rs132.41. similarly NBIL, EBL, HBL, NIBL, BOKL, NICBL and KBL are in 2<sup>nd</sup> ,3<sup>rd</sup> ,4<sup>th</sup> ,5<sup>th</sup> ,6<sup>th</sup> ,7<sup>th</sup> ,8<sup>th</sup> position of EPS with Rs111.95 rs86.63, rs55.27, rs53.95, rs48.97, rs25.61 and rs20.49 respectively . in the table 1<sup>st</sup> and top line presents the earning trend of SCBL ,which is decreasing trend up to year 2010, but SCBL has higher earnings rather than other banks . The second top earning bank is NBIL, its earning trends is increasing up to 2006/07 then decreasing. According to earnings EBL has come into 3<sup>rd</sup> position ,which earning trend is increasingly out of all

sample banks .all banks earning are up down except EBL & NICBL at the sample period .

In the table 4.1 standard deviation also presented but it is not absolute measure. So CV has been chosen for the relative measurement of risk. Lower CV indicates smaller volatility or risk and vice versa. When we take the CV criterion, we can say that BOK is success to maintain better for its constant earning which CV has 14.29%. According to investment theory "more risk more return and less risk less return " but 4.1 table shows that practically that statement is fail because EBL and NIBL has nearly same CV .however EBL earning is higher than NIBL . On the basis of CV measurement the less volatility earning position of banks BOK, KBL, NIBL, EBL, NABIL, HBL, NICBL and SCBNL are in 1<sup>st</sup> ,2<sup>nd</sup> ,3<sup>rd</sup> ,4<sup>th</sup> ,5<sup>th</sup> ,6<sup>th</sup> ,7<sup>th</sup> ,8<sup>th</sup> position respectively. SCBNL earning has higher volatility among the sample bank.

**Figure 4.1**



*Source: Appendix 'A'*

## 4.2 Dividend Per Share [DPS]

Dividend is the part of s firms earning which is paid to equity shareholders. It is that earning which is paid after deducting all types of company expenses' and tax .It can be shown in per share basis, which indicates what exactly the equity shareholder received in his own share invested.

**Table 4.2**  
**DPS of Sample Banks**

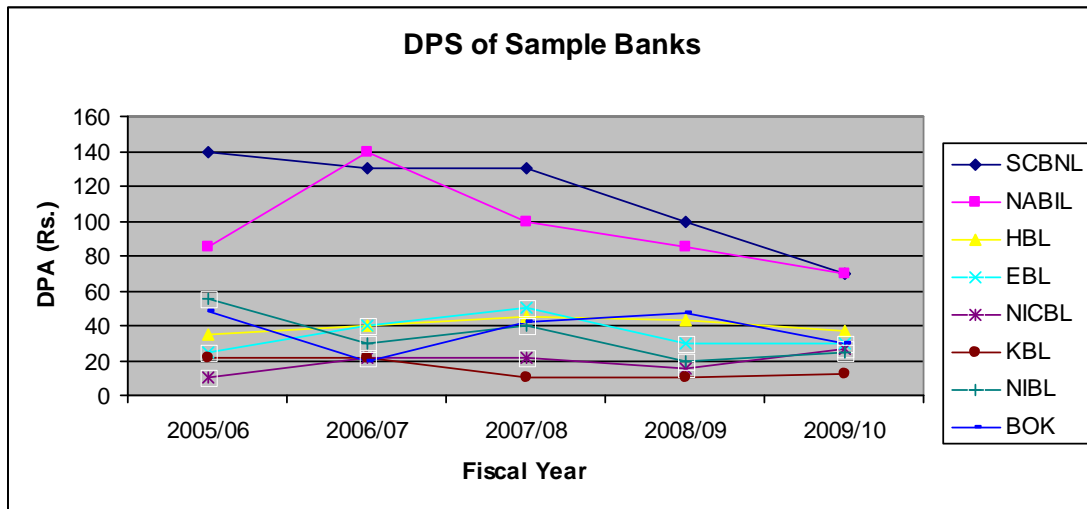
Year	SCBNL	NABIL	HBL	EBL	NICBL	KBL	NIBL	BOK
2005/06	140	85	35	25	10.53	21.05	55.46	48
2006/07	130	140	40	40	21.05	21.05	30	20
2007/08	130	100	45	50	21.05	10.53	40.33	42.11
2008/09	100	85	43.56	30	15.79	10.58	20	47.37
2009/10	70	70	36.84	30	26.32	12	25	30
Mean	114	90	40	35	18.95	15.04	34.16	37.49
SD	25.77	22.67	3.82	8.94	5.37	4.93	12.59	10.88
CV	22.6	23.62	9.55	25.56	28.32	32.8	36.88	29.01

*Source: Appendix 'A'*

Table 4.2 shows the DPS of the selected banks from the year 2005/06 to 2009/10. In above table mean, standard deviation and coefficient of variation are calculated .while observing the mean DPS, SCBL is in 1<sup>st</sup> position with rs114. Similarly NABIL, HBL, BOK, EBL, NIBL, NICBL, and KBL are in 2<sup>nd</sup>, 3<sup>rd</sup> 4<sup>th</sup> 5<sup>th</sup> 6<sup>th</sup> 7<sup>th</sup> & 8<sup>th</sup> with mean DPS Rs.90, Rs.40, Rs.37.49, Rs.35, Rs.34.16, Rs.18.95, and Rs.15.04 respectively. This result indicates that SCBL is better than that of other bank with respect to dividend per share. all sample banks dividend amount is in up down position. KBL has low DPS among other banks at the time of study.

By using CV criterion, we can say that consistency in DPS of HBL is higher than other bank. CV of HBL is lowest than other bank [i.e. 9.55] which indicates that it has less volatile or stable dividend policy in comparison others policy. According to CV criterion, the less volatility and more stability in dividend payment policy such sample banks HBL, SCBNL, NABIL, EBL, NICBL, BOK, KBL and NIBL are in 1<sup>st</sup> ,2<sup>nd</sup> ,3<sup>rd</sup> , 4<sup>th</sup> ,5<sup>th</sup> ,6<sup>th</sup> ,7<sup>th</sup> ,8<sup>th</sup> position respectively , which bank has 1<sup>st</sup> position that indicates more stability in dividend payments and vice versa.

**Figure 4.2**



*Source: Appendix 'A'*

Above figure also clearly shows that HBL is more consistency in dividend payment rather than others bank and KBL has less DPS among the sample banks. Through investor's view NIBL, KBL, BOK, are riskier than other sample banks and SCBNL is less risky among the banks.

### **4.3 Market Price Per Share (MPS):**

MPS is that price which the investor can purchase. In another word when equity share are sold on market that monetary value of share is called market value of share. MPS is determined by trading the securities. Trading means buying and selling the securities. Here it is the closing price of common stock of sample banks which is listing on NEPSE during the study period. MPS and its calculated value of mean, S.D., and C.V. of selected banks have been shown in table 4.3.

**Table 4.3**  
**MPS of Sample Banks**

Year	SCBNL	NABIL	HBL	EBL	NICBL	KBL	NIBL	BOK
2005/06	3775	2240	1100	1379	496	443	1260	850
2006/07	5900	5050	1740	2430	950	830	1729	1375
2007/08	6830	5275	1,980	3132	1300	1005	2450	2350
2008/09	6010	4899	1760	2455	1126	700	1388	1825
2009/10	3279	2384	816	1630	626	468	705	840
Mean	5,158.80	3,969.60	1,479.20	2,205.20	899.6	689.2	1,506.40	1,448.00
SD	1,379.52	1,359.47	443.01	630.14	300.62	214.11	575.71	558.63
CV	26.74	34.25	29.95	28.57	33.42	31.07	38.22	38.58

**Source: Appendix 'A'**

Table 4.3 shows the MPS of selected banks during the study period. As per the table, highest mean MPS is Rs.5158.80 for SCBNL and lowest is Rs.689.20 for KBL. When we ranked the sample banks MPS then results of banks SCBNL, NABIL, EBL, NIBL, HBL, BOKL, NICBL and KBL are 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup>, 8<sup>th</sup> positions respectively. The all banks MPS are in increasing trend up to the fiscal year 2005/06 to 2007/08, but in the year 2008/09, the MPSs are decreased. When we observe the table 4.3, SCBL is best than other banks in terms of mean value of MPS.

If we consider C.V. criterion, consistency in MPS of SCBNL is higher due to lowest C.V. (i.e. 26.74%). Similarly, C.V. for SCBNL, EBL, HBL, KBL, NICBL, NABIL, NIBL and BOK are 26.74%, 28.57%, 29.95%, 31.07%, 33.42%, 34.25%, 38.22% and 38.58% respectively.

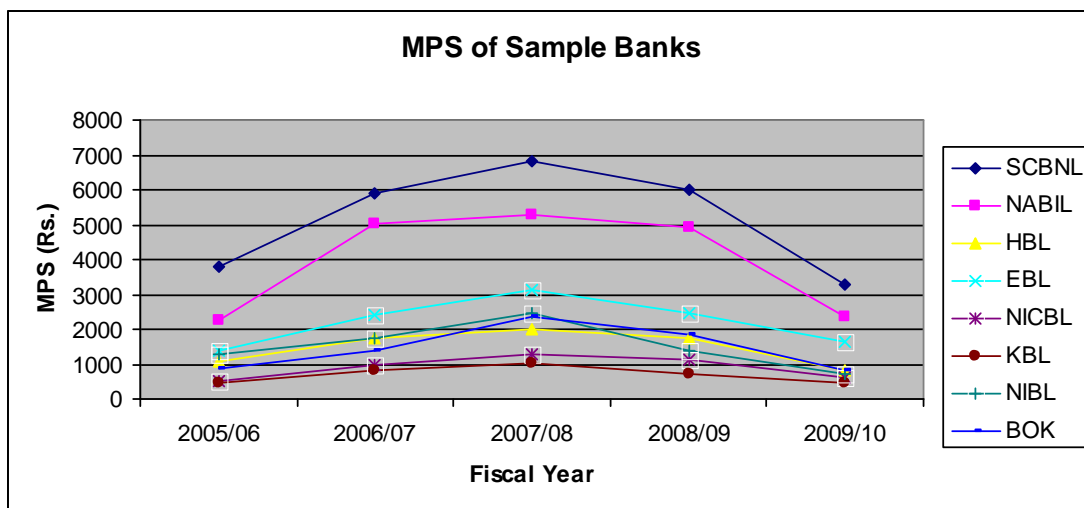


Figure 4.3 also shows the increasing trend up to 2007/08 and then decrease in fiscal year 2008/09. The highest position of MPS is secured by SCBNL and lowest mean MPS is of KBL.

#### 4.4 Dividend Payout Ratio (D/P Ratio):

Simply D/P ratio is percentage of earnings paid out in the form of cash dividend. Dividend payout ratio shows what percentage of actual earnings of a firm has been distributed to equity shareholders as dividend against their investment. D/P ratio of selected banks has been presented below in Table 4.4.

Table 4.4

D/P Ratio of Sample Banks

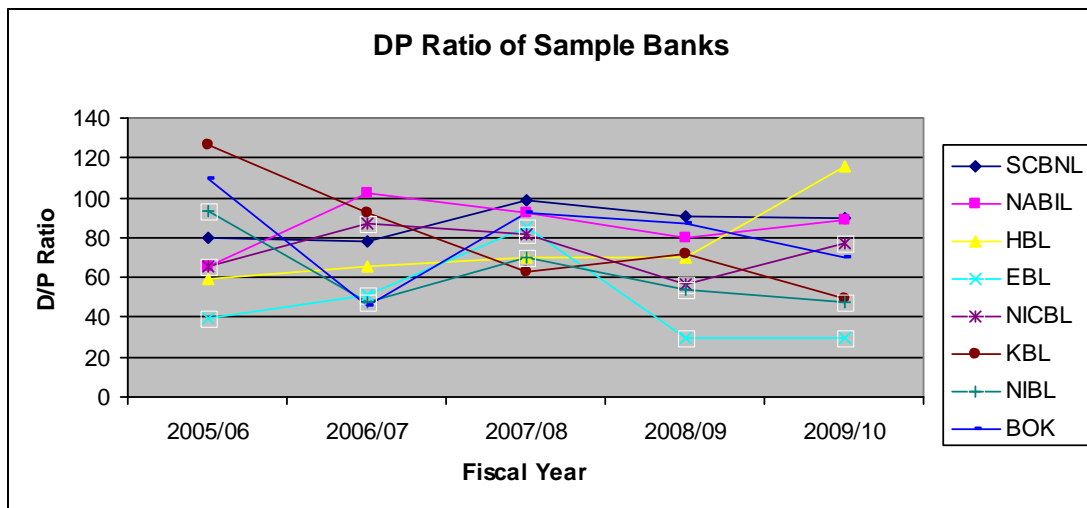
Year	SCBNL	NABIL	HBL	EBL	NICBL	KBL	NIBL	BOK
2005/06	79.62	65.78	59.08	39.81	65.4	126.88	93.45	109.83
2006/07	77.67	102.13	65.94	51.02	87.34	92.73	47.95	45.98
2007/08	99.16	92.15	69.69	85.7	81.75	62.47	69.69	92.11
2008/09	90.92	79.62	70.37	30	56.74	71.64	53.45	86.63
2009/10	90.15	89.05	115.85	29.95	76.74	49.51	47.57	69.64
Mean	87.5	85.75	76.19	47.3	73.59	80.65	62.42	80.84
SD	7.92	12.3	20.23	20.71	11.1	27.07	17.47	21.64
CV	9.05	14.35	26.56	43.79	15.09	33.57	27.99	26.77

Source: Appendix 'A'

When we see in the table 4.4 then we find that the mean D/P ratio of SCBNL (i.e. 87.50%) is highest during the study period, whereas, EBL is in

lowest position with 47.30%. Similarly, SCBNL is able to keep much consistency in DPR due to its lower C.V. Whereas more volatility in DPR is EBL due to its higher C.V. (i.e.43.79) . Higher CV indicates the high risk of securities for investment and vice-versa.

**Figure no. 4.4**



#### 4.5 Price Earnings Ratio (P/E Ratio)

The ratio between market price per share and earning price per share reflects the amount which investor are willing to pay for each rupee of the firms earning. The higher P/E Ratio indicates the greater confidence of investor in the firm's future. It is presented below.

**Table 4.5**

**P/E Ratio of Sample Banks**

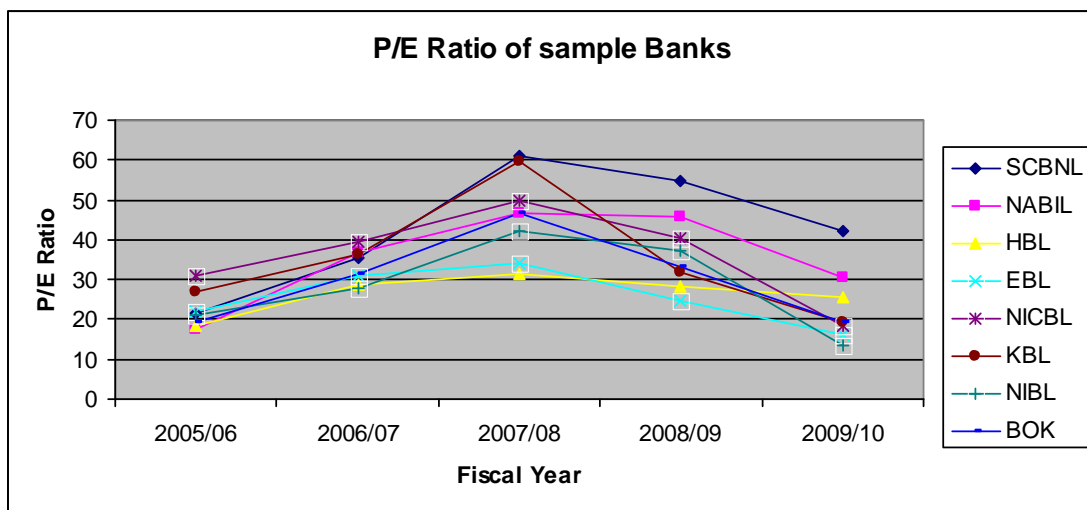
Year	SCBNL	NABIL	HBL	EBL	NICBL	KBL	NIBL	BOK
2005/06	21.46	17.33	18.56	21.95	30.81	26.7	21.22	19.46
2006/07	35.25	36.83	28.69	30.99	39.42	36.56	27.63	31.61
2007/08	61.02	46.716	31.56	34.11	49.81	59.62	42.33	46.72
2008/09	54.64	45.89	28.43	24.55	40.46	31.76	37.1	33.37
2009/10	42.23	30.33	25.66	16.27	18.25	19.31	13.42	19.5
Mean	42.92	35.42	26.58	25.57	35.75	34.79	28.34	30.13
SD	14.05	10.88	4.42	6.37	10.62	13.67	10.45	10.15
CV	32.73	30.73	16.64	24.91	29.71	39.28	36.88	33.67

*Source: Appendix 'A'*

P/E ratio of selected banks has been presented in table 4.5, it is clear from the table that means P/E ratio of SCBNL (i.e. 42.92) is in highest position throughout the study period . whereas EBL is in lowest position with the mean value of P/E ratio 25.57% . Similarly, NICBL, NABIL, KBL, BOK, NIBL, and HBL are in 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> position with 35.75, 35.42, 34.79, 30.13, 28.34, and 26.58 times respectively. P/E ratio of all sample banks is in increasing trend up to the year 2007/08. In the fiscal year 2008/09, all banks P/E ratio is decrease. This result may arise due to global financial crisis.

According to C.V. criterion HBL has been able to make consistency in its P/E ratio with lowest C.V. (i.e. 16.64). Whereas C.V. of KBL is 39.28 a time which is very higher among the other selected banks. Such higher P/E ratio 39.28 indicates the more volatility in P/E ratio. Similarly EBL, NICBL, NABIL, SCBNL, BOK, and NIBL are in 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, and 7<sup>th</sup> position with P/E ratio 24.91, 29.71, 30.73, 32.73, 33.67, and 36.88 times respectively.

**Figure 4.5**



#### 4.6 Market to Book Value Ratio (MTBR):

The market to book ratio is simply the ratio between market price per share it book value per share. Where book value per share is the real value of security or stocks (BVPS=Total equity/ number of outstanding share of common

stock) It measures how the financial market has put the value to the firms overall management and efficiency over the time. It is presented below.

**Table 4.6**  
**Market to Book Value Ratio (MTBR) of Sample Banks**

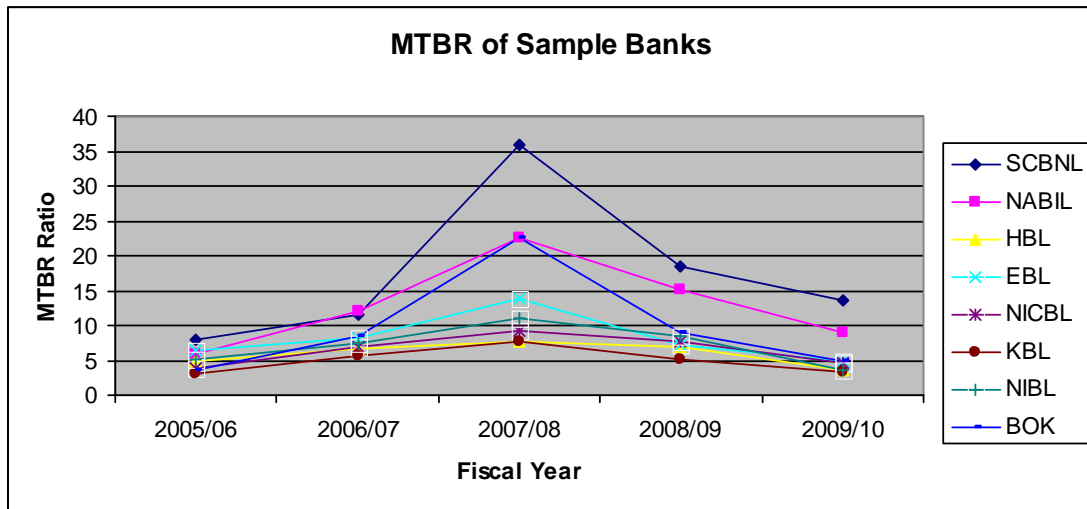
<b>Year</b>	<b>SCBNL</b>	<b>NABIL</b>	<b>HBL</b>	<b>EBL</b>	<b>NICBL</b>	<b>KBL</b>	<b>NIBL</b>	<b>BOK</b>
<b>2005/06</b>	8.06	5.87	4.81	6.33	3.88	2.96	5.25	3.68
<b>2006/07</b>	11.52	12.08	6.57	8.3	6.83	5.58	7.38	8.44
<b>2007/08</b>	35.84	22.63	7.7	13.91	9.3	7.81	10.97	22.62
<b>2008/09</b>	18.35	15.12	6.86	7.11	7.73	5.11	8.57	8.85
<b>2009/10</b>	13.61	9	3.59	4.91	4.65	3.42	3.71	4.79
<b>Mean</b>	17.48	12.94	5.91	8.11	6.48	4.98	7.18	9.68
<b>SD</b>	9.77	5.74	1.49	3.1	1.98	1.73	2.53	6.78
<b>CV</b>	55.89	44.38	25.27	38.23	30.68	34.69	35.31	70.03

*Source: Appendix 'A'*

Above table 4.6 shows the market to book ratio of the sample bank. When we see the table the SCBNL is in 1<sup>st</sup> position with mean value of MTBR 17.48 times. The higher market to book ratio generally indicates that the firms overall activities have been able to enhance the value of firm and vice versa. The lowest ratio is 4.98 times which is belongs to KBL; it indicates KBL's overall management efficiency is not good in comparison with other sample banks. Thus, NABIL, BOK, EBL, NIBL, NICBL and HBL are in 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup> position with 12.94, 9.68, 8.11, 7.18, 6.48, and 5.91 times respectively .

When we consider CV criterion, HBL has lower CV which indicates its common stock is less risky as comparison to others. The highest risky stock is BOKL's stock with high CV (i.e.70.03) times. Similarly , when we rank the banks with respect to less volatility then the banks name ; HBL, NICBL, KBL, NIBL, EBL, NABIL, SCBNL and BOK are 1<sup>ST</sup> , 2<sup>nd</sup> ,3<sup>rd</sup> ,4<sup>th</sup> ,5<sup>th</sup> ,6<sup>th</sup> ,7<sup>th</sup> and 8<sup>th</sup> position respectively.

**Figure 4.6**



All banks market to bank ratio has in increasing trend up to fiscal year 2007/08 then it decrease in fiscal year 2008/09. This decreasing figure may arise due to global financial crisis. Downward line in the figure shows the some effect of financial crisis because all sample banks have decreasing ratio in fiscal year 2008/09.

#### 4.7 Dividend Percent (DP)

Dividend percent is the ratio of DPS to the Paid up capital per Share. It is measured in percentage. The dividend percent during the period of study are presented in the table below.

**Table 4.7**

**Dividend Percent of Sample Banks**

BANKS	SCBNL	NABIL	HBL	EBL	NICBL	KBL	NIBL	BOK
2005/06	140	85	35	25	10.53	21.05	55.46	48
2006/07	130	140	40	40	21.05	21.05	30	20
2007/08	130	100	45	50	21.05	10.53	40.33	42.11
2008/09	100	85	43.56	30	15.79	10.58	20	47.37
2009/10	70	70	36.84	30	26.32	12	25	30
Mean	114	90	40	35	18.95	15.04	34.16	37.49
SD	25.77	22.67	3.82	8.94	5.37	4.93	12.59	10.88
CV	22.6	23.62	9.55	25.56	28.32	32.8	36.88	29.01

*Source: Appendix 'A'*

## Trend Line of Dividend Percentage

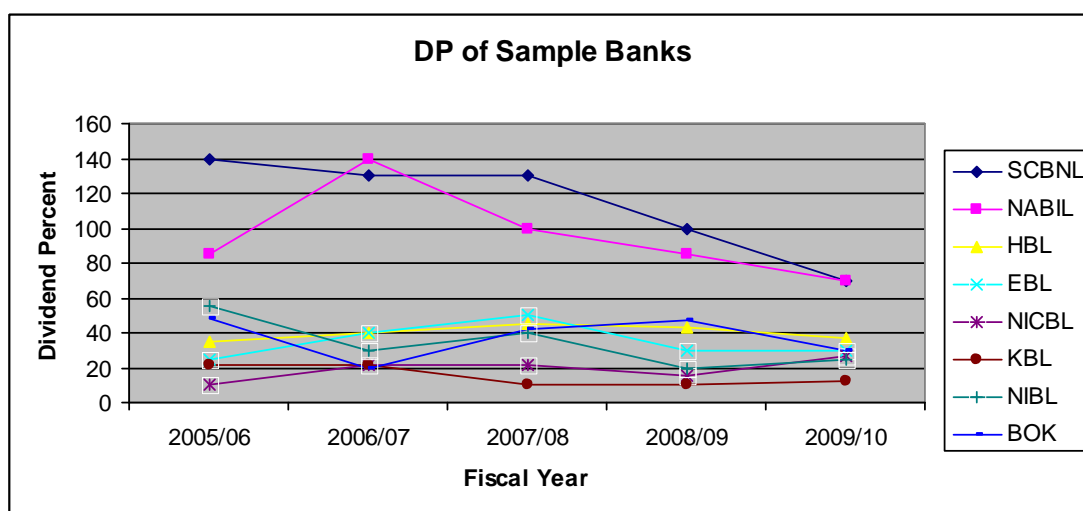


Fig. no. 4.3

All the banks under study have the same paid up price of NPR 100 per share but the DPS is different. From the above data, SCBNL pays the highest dividend on the face value of share and KBL the lowest. The CV indicates that among the banks under study during the period, HBL has the highest consistency in dividend percent whereas the dividend percent of NIBL is least.

## 4.8 Earning Yield (EY)

Earning yield of the banks under study is presented in the table below.

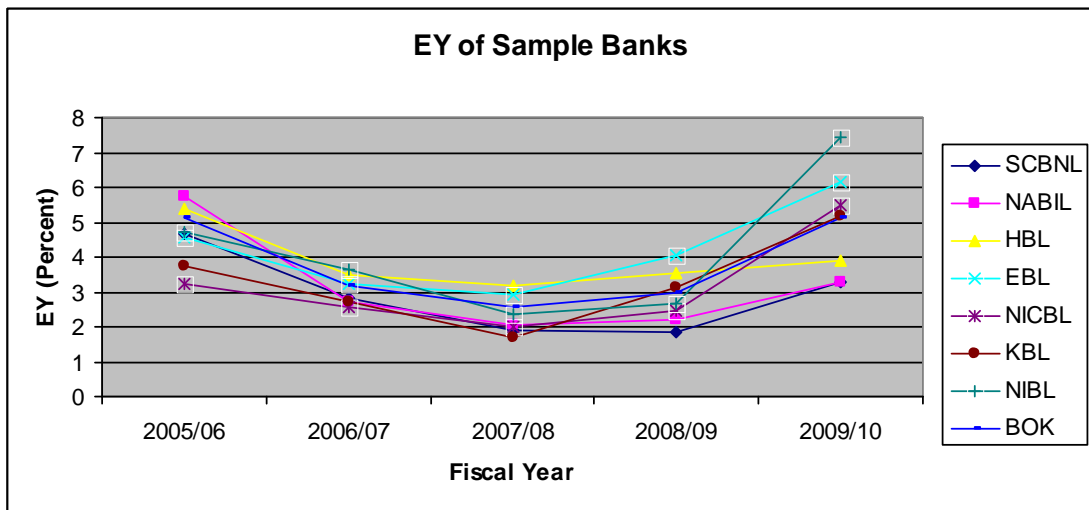
**Table 4.8**

### Earning Yield of Sample Banks

Year	SCBNL	NABIL	HBL	EBL	NICBL	KBL	NIBL	BOK
<b>2005/06</b>	4.66	5.76	5.39	4.55	3.25	3.74	4.71	5.14
<b>2006/07</b>	2.84	2.71	3.49	3.23	2.54	2.73	3.62	3.16
<b>2007/08</b>	1.92	2.05	3.17	2.93	2.01	1.67	2.36	2.55
<b>2008/09</b>	1.83	2.18	3.52	4.07	2.47	3.15	2.69	2.99
<b>2009/10</b>	3.26	3.29	3.89	6.14	5.48	5.18	7.45	5.13
<b>Mean</b>	2.9	3.2	3.89	3.98	3.15	3.29	4.17	3.79
<b>SD</b>	1.03	1.36	7.83	1.15	1.23	1.16	4.1	1.25
<b>CV</b>	35.59	42.48	20.12	28.95	39.07	35.26	98.29	32.88

*Source: Appendix 'A'*

## Trend Line of Earning Yield of Sample Banks



**Figure 4.8**

EY of SCBNL had a decreasing trend in previous four years ranged between 4.66 to 1.83 and increase in last year. The average mean value of EY of SCBNL was 2.9. There was a SD of 1.03 and CV of 35.59 of EYs by SCBNL for last 5 years.

Similarly EY of all sample banks except SCBNL had a decreasing trend in previous three years and increase in last two year.

As per EY we can rank the sample banks as NIBL, EBL, HBL, BOK, KBL, NABIL, NICBL, and SCBNL in 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup>, position with the mean EY of 4.17, 3.98, 3.89, 3.79, 3.29, 3.2, 3.15, and 2.9 percent respectively.

### 4.9 Dividend Yield (DY)

The dividend yield of the banks under study is presented in the table as below.

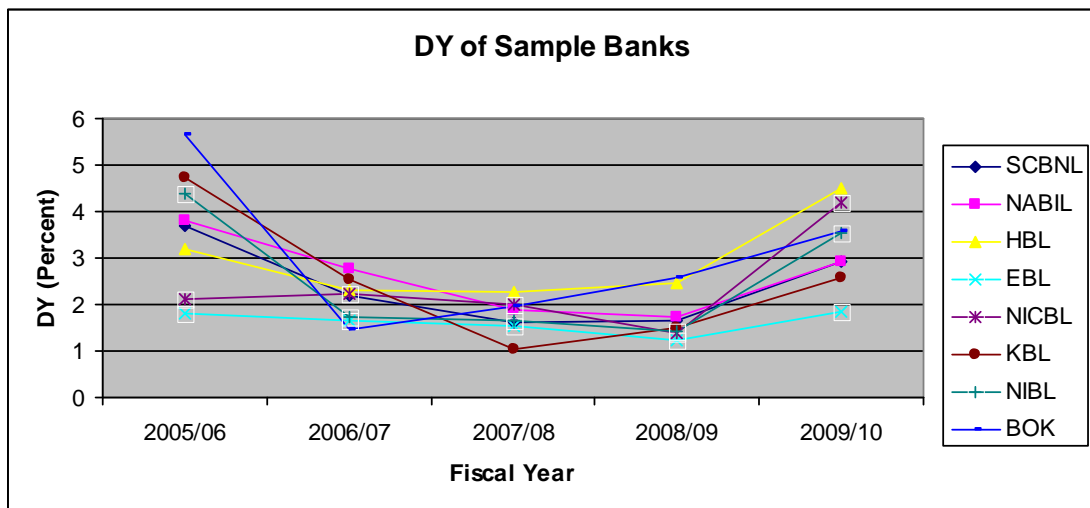
**Table 4.9**

**Dividend Yield of Banks under Study**

Year	SCBNL	NABIL	HBL	EBL	NICBL	KBL	NIBL	BOK
2005/06	3.71	3.79	3.18	1.81	2.12	4.75	4.4	5.65
2006/07	2.2	2.77	2.3	1.65	2.22	2.54	1.74	1.45
2007/08	1.63	1.9	2.27	1.55	2.01	1.05	1.65	1.98
2008/09	1.66	1.74	2.48	1.22	1.4	1.51	1.44	2.59
2009/10	2.94	2.94	4.51	1.84	4.2	2.56	3.55	3.57
Mean	2.43	2.63	2.99	1.61	2.39	2.48	2.56	3.05
SD	7.98	7.46	8.48	2.24	9.49	1.28	1.19	1.48
CV	32.87	28.41	28.75	13.86	39.7	51.48	46.69	48.55

Source: Appendix 'A'

Trend Line of Dividend Yield of Sample Banks



Fi

Figure 4.9

DY of all sample banks had a decreasing trend in 2<sup>nd</sup> year, stable in 3<sup>rd</sup> & 4<sup>th</sup> year and increase in last year.

As per DY we can rank the sample banks as BOK, HBL, NABIL, NIBL, KBL, SVBNL, NICBL, and EBL in 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup>, position with the mean DY of 3.05, 2.99, 2.63, 2.56, 2.48, 2.43, 2.39 and 1.61 percent respectively.

When we rank the banks with respect to less volatility then the banks name EBL, NABIL, HBL, SCBNL, NICBL, NIBL, BOK and KBL are 1<sup>ST</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> position respectively.

## 4.10 Net Worth Per Share (NWPS)

The Net Worth Per Share of the banks under study are stated in the table as follows:

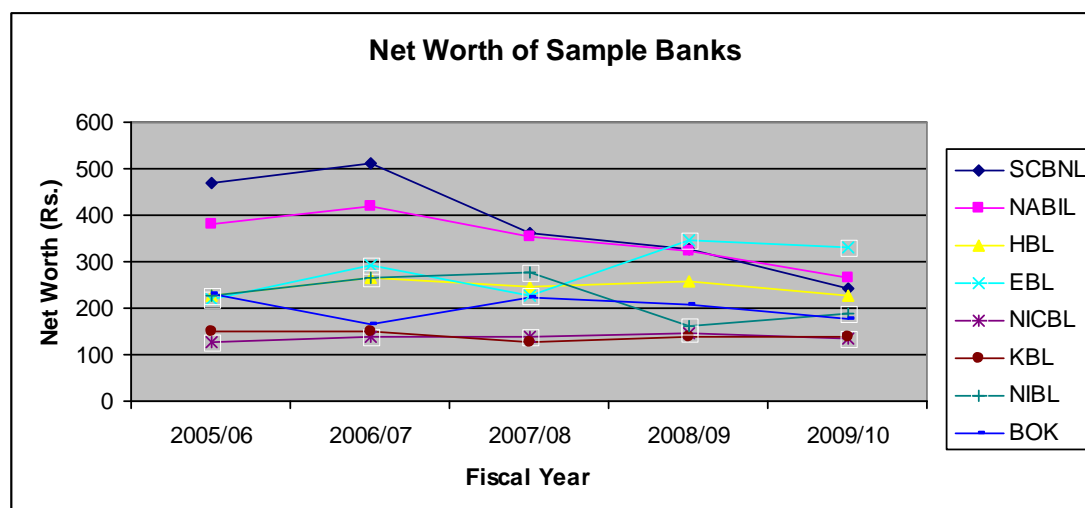
**Table 4.10**

**Net Worth Per Share of Sample Banks**

Year	SCBNL	NABIL	HBL	EBL	NICBL	KBL	NIBL	BOK
2005/06	468.22	381	228.72	217.67	127.74	149.22	228.72	230.67
2006/07	512.12	418	264.74	292.75	139.09	148.69	264.74	164.68
2007/08	359.98	354	247.95	225.19	138.09	128.6	276.57	222.51
2008/09	327.53	325	256.52	345.23	145.58	137	162	206.25
2009/10	240.95	265	226.79	332	134.57	136.73	190	175.4
Mean	381.76	348.6	244.94	282.57	117.01	140.05	223.21	199.9
SD	97.68	51.85	15.02	52.87	20.84	7.88	43.41	25.84
CV	25.59	14.87	6.13	18.71	17.81	5.63	19.45	12.93

Source: Appendix 'A'

Net Worth Per Share of Banks



**Figure 4.10**

The NWPS of SCBNL range between NPR 240.95 to NPR 512.12 in last 5 years with an average NWPS of NPR 381.76, standard deviation of 97.68 and CV of 25.59. The NWPS of SCBNL showed the fluctuating trend.

As per NWPS we can rank the sample banks as SVBNL, NABIL, EBL, HBL, NIBL, BOK, KBL, and NICBL in 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup>, position with the mean NWPS of 381.76, 348.60, 282.57, 244.94, 223.21, 199.90, 140.05, and 117.01 respectively.

When we rank the banks with respect to less volatility then the banks name KBL, HBL, BOK, NABIL, NICBL, EBL, NIBL and SCBNL are 1<sup>ST</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> position respectively.

Based on above analysis, it can be concluded that average NWPS of SCBNL is the highest and that of NICBL is the lowest.

## **B) Statistical Analysis**

### **4.11 Correlation Analysis**

The correlation coefficient measures the relation between two or more variables. It also measures the extent to which one variable effects the other one. The correlation coefficient lies between +1 and -1. The +1 coefficient indicates that the variables are perfectly positively correlated and -1 coefficient indicates that the variables are perfectly negatively correlated. And if the correlation coefficient is 0, it means that the variables are not related to each other. The negative correlation indicates that increase in value of one variable leads to decrease in the value of the other and positive correlation indicates that increase in value of one variable leads to increase in the value of the other variable also. The numbers indicate the degree of correlation between the variables.

The table given below shows the correlation coefficient (r) between the financial variables. The data used for calculation can be seen in Appendix – B.

## Standard Chartered Bank Ltd (SCBL)

**Table 4.11.1**

### Correlation Coefficient of Standard Chartered Bank Ltd (SCBL)

VARIABLES	EPS	DPS	DP	DPR	PER	EY	DY	MPS/BVPS	NWPS
MPS	0.19	0.41	0.41	0.39	0.68	-0.80	-0.89	0.70	0.24
EPS		0.94		-0.64					
DPS				0.70					0.87
EY							0.98		

*Source: Appendix 'B'*

From the above table it is found that the MPS of SCBL has very low positive correlation between its EPS which is 0.19. However very moderate correlation exists between MPS with its DPS, DPR and strong correlation is found with PER, MPS/BVPS. But MPS of SCBL is highly negative with EY and DY. Similarly EPS has moderate negative correlation of -0.64 with DPR. In the other hand the relationship between DPS with DPR and NWPS has very highly positive correlation.. Also the EY is highly positively correlated with the DY of 0.98 which may be due to high earning is followed by high dividend payout.

## Nabil Bank Limited (NABIL)

**Table 4.11.2**

### Correlation Coefficient of Nabil Bank Ltd (NABIL)

VARIABLES	EPS	DPS	DP	DPR	PER	EY	DY	MPS/BVPS	NWPS
MPS	0.29	0.67	0.67	0.59	0.91	-0.82	-0.47	0.83	0.39
EPS		0.79		-0.02					
DPS				0.68					0.62
EY							0.67		

*Source: Appendix 'B'*

The above table depicts that the MPS of NABIL has a strong positive correlation with its DPS, DP, DPR, PER, and MPS/BVPS which are 0.67, 0.67, 0.59, 0.91 and 0.83. It suggests that MPS is highly influenced by DPS, DP, DPR, and PER and MPS/BVPS. Low degree of correlation of 0.29 is found with MPS and EPS.

But the relationship of MPS with EY showed high degree of negative correlation. MPS with DY showed moderate negative correlation. The association of EPS with DPS is high degree of positive correlation and DPR has low degree of negative correlation. Further correlation between DPS with DPR and NWPS showed high degree of correlation with 0.68 and 0.62. And the correlation between EY and DY is 0.67 which is positive.

**Himalayan Bank Ltd (HBL)**

**Table 4.11.3**

**Correlation Coefficient of Himalayan Bank Ltd (HBL)**

VARIABLES	EPS	DPS	DP	DPR	PER	EY	DY	MPS/BVPS	NWPS
MPS	0.75	0.89	0.89	0.39	0.74	-0.66	-0.94	1.00	0.85
EPS		0.51		-0.96					
DPS				0.23					0.68
EY							0.39		

*Source: Appendix 'B'*

The above table depicts that the MPS of HBL has a strong positive correlation with its EPS, DPS, DP, PER, and MPS/BCPS which are 0.75, 0.89, 0.89, 0.74, 1.00 and 0.85. It suggests that MPS is highly influenced by EPS, DPS, PER and MPS/BVPS. MPS and DPR are moderate positively correlated. But the relationship of MPS with EY and DY showed high degree of negative correlation. The association of EPS with DPS shows moderate positive correlation whereas EPS with DPR is highly negatively correlated. Further correlation between DPS with NWPS is highly positively correlated. DPS with DPR has moderate positive correlated and the correlation between EY and DY is 0.39 which is moderate positive.

## Everest Bank Limited (EBL)

**Table 4.11.4**

### Correlation Coefficient of Everest Bank Limited (EBL)

VARIABLES	EPS	DPS	DP	DPR	PER	EY	DY	MPS/BVPS	NWPS
MPS	0.40	0.88	0.88	0.37	0.86	-0.60	-0.63	0.92	-0.06
EPS		0.35		-0.08					
DPS				0.91					-0.31
EY							0.24		

*Source: Appendix 'B'*

From the above table it is found that high degree of positive correlation exists between MPS of EBL with its DPS, DP, PER, MPS/BVPS which are 0.88, 0.88, 0.86 and 0.92 respectively. and a negative correlation with NWPS. But the association of MPS with EY and DY is found to be strong negative correlation and EPS is moderately positive correlated. Also EPS has moderate positive correlation with DPS and negative correlation with DPR. Also the relationships between DPS with DPR has high positive correlation but NWPS is negatively correlated with DPS. Similarly EY is positively correlated with the DY of 0.24.

## Nepal Industrial & Commercial Bank Ltd (NICBL)

**Table 4.11.5**

### Correlation Coefficient of Nepal Industrial & Commercial Bank Ltd (NICBL)

VARIABLES	EPS	DPS	DP	DPR	PER	EY	DY	MPS/BVPS	NWPS
MPS	0.22	0.20	0.20	0.15	0.86	-0.71	-0.54	1.00	0.22
EPS		0.94		0.15					
DPS				0.64					0.07
EY							0.92		

*Source: Appendix 'B'*

The above table reveals that the MPS of NICBL has a low positive correlation with EPS, DPS, DPR, and NWPS which are 0.22, 0.20 and 0.22 respectively but

negative correlation exists between MPS to EY and DY. Whereas MPS with MPS/ and PER are highly positively correlated. The EPS has high degree of positive correlation with both of its DPS and low degree positive correlation with DPR. DPS with DPR is also strongly correlated and low positive correlated with NWPS. Also the EY has higher positive correlation with DY of the bank.

**Kumari Bank Ltd (KBL)**

**Table 4.11.6**  
**Correlation Coefficient of KBL**

VARIABLES	EPS	DPS	DP	DPR	PER	EY	DY	MPS/BVPS	NWPS
MPS	-0.20	-0.27	-0.27	-0.30	0.92	-0.90	0.75	0.99	-0.47
EPS		-0.16		-0.51					
DPS				0.85					0.94
EY							0.73		

*Source: Appendix 'B'*

The above table indicates that the MPS of KBL is -0.20,-0.27, -0.30,-0.90 and -0.47. Correlation between MPS with PER, MPS/BVPS is highly positive. EPS is negatively correlated with DP and DPR. Further the relationship of DPS with DPR and NWPS are highly positively correlated. Similarly DPS has a strong correlation of 0.85 with DPR and similar correlation with NWPS of 0.94. Also EY and DY have a relatively high positive correlation of 0.73.

**Nepal Investment Bank Limited (NIBL)**

**Table 4.11.7**  
**Correlation Coefficient of Nepal Investment Bank Ltd (NIBL)**

VARIABLES	EPS	DPS	DP	DPR	PER	EY	DY	MPS/BVPS	NWPS
MPS	0.02	0.24	0.24	0.18	0.85	0.84	-0.63	0.92	0.74
EPS		0.63		0.31					
DPS				0.94					0.53
EY							0.92		

*Source: Appendix 'B'*

The above table indicates that the MPS of NIBL is high degree of positive correlation with its PER , MPS/BVPS and NWPS which are 0.85 and 0.85 and 0.74 respectively. But MPS has the negative relationship with EY and DY. However the relationship of EPS with DPS has strong positive correlation and DPR is moderately positively correlated. Similarly DPS has a strong correlation of 0.94 with DPR and moderate correlation of 0.53 with NWPS. Also EY and DY have a higher positive correlation of 0.94.

**Bank of Kathmandu (BOK)**

**Table 4.11.8**

**Correlation Coefficient of Bank of Kathmandu (BOK)**

	EPS	DPS	DP	DPR	PER	EY	DY	MPS/BVPS	NWPS
MPS	0.61	-0.05	-0.05	0.00	0.56	-0.39	-0.55	0.64	0.11
EPS		0.50		0.34					
DPS				0.94					0.92
EY							0.75		

*Source: Appendix ‘B’*

The above table indicates that the MPS of BOK is strongly positively correlated with its EPS, PER and MPS/BVPS which are 0.61, 0.56 and 0.64 respectively. But MPS had the negative correlation of with DPS, DP, EY and with DY. However the relationship of EPS with DPS is moderate positively correlated. Whereas DPS with DPR and NWPS are strongly positively correlated. EY is highly positively correlated with DY.

**4.12 Regression Analysis**

Regression analysis is known as a useful device to determine the strength of relationship between independent and dependent variables. It is considered to be an important statistical device that helps to predict or forecast the value of dependent variable when the value of independent variable is already known. As this study focuses on the determinants of share price (MPS), MPS may be dependent upon various financial indicators. That is why, it is attempted here to

analyze and evaluate the influence of various financial indicators on MPS separately.

#### 4.12.1 MPS on EPS

The Regression Equation of MPS on EPS : (MPS = a + b EPS)

**Table 4.12.1**  
**Regression Analysis of MPS on EPS**

Name of Banks	Regression Coefficient		SE of b	T value	Tabulated t value	r <sup>2</sup>
	Constant (a)	Slope (b)				
SCBNL	4207.51	7.19	21.48	1.8	3.182	0.10
NABIL	1785	19.51	36.8	0.17	3.182	0.08
HBL	-171.34	29.86	13.2	2.32	3.182	0.64
EBL	660.12	17.84	23.23	0.75	3.182	0.16
NICBL	611.91	11.23	28.67	0.39	3.182	0.05
KBL	972.45	27.36	-19.25	0.31	3.182	0.16
NIBL	1137.18	6.84	-15.09	0.44	3.182	0.06
BOK	-2379.36	78.15	15.92	0.77	3.182	0.14

*Source: Appendix 'C'*

The above table depicts the major output of simple regression analysis between MPS and EPS of the sampled banks. The regression coefficients (b) of SCBNL, NABIL, HBL, EBL, NICBL, KBL, NIBL, and BOK are 7.19, 19.51, 29.86, 17.84, 11.23, 27.36, 6.84, and 78.54 respectively and are positive. It indicates that one rupee increase/decrease in EPS increases/decreases the MPS by rupees 7.19, 19.51, 29.86, 17.84, 11.23, 27.36, 6.84, and 78.54 in respect of SCBNL, NABIL, HBL, EBL, NICBL, KBL, NIBL, and BOK respectively, however, this estimate may vary by rupees 21.48, 36.80, 13.20, 23.23, 28.67, -19.25, -15.09, and 15.92 respectively, as shown by standard error of slope (b). This prediction of MPS is strong for HBL, and very weak for NABIL, SCBN, NIBL, EBL, BOK, NICBL, and KBL because the respective coefficients of determination (r<sup>2</sup>) are

0.64, 0.08, 0.10, 0.06, 0.16, 0.14, 0.05, and 0.16 respectively. This implies that the variations in MPS is due to influence of the EPS are 8, 10, 6, 64, 16, 14, 5, and 16 percent in respect of NABIL, SCBNL, NIBL, HBL, EBL, BOK, NICBL and KBL respectively, and the remaining variation is explained by other variables or factors.

The t values for all the banks NABIL, SCBN, NIBL, HBL, EBL, BOK, NICBL, and KBL are 0.08, 0.01, 0.06, 0.64, 0.16, 0.14, 0.05 and 0.16 respectively which are below tabulated t value at 5% significance for two tailed i.e. 3.182. So null hypothesis of there is no significant relation between MPS and EPS for above mentioned banks is accepted.

Note: A slope is never downwards up, thus the negative value is worthless.

#### 4.12.2 MPS on DPS

The Regression Equation of MPS on DPS:  $(MPS = a + b DPS)$

**Table 4.12.2**

#### Regression Analysis of MPS on DPS

Name of Banks	Regression Coefficient		SE of b	T value	Tabulated t value	r <sup>2</sup>
	Constant (a)	Slope (b)				
SCBN	4199.03	8.42	-18.44	0.47	3.182	0.07
NABIL	531.43	35.81	25.43	1.41	3.182	0.40
HBL	-2657.14	10.32	30.93	-0.49	3.182	0.07
EBL	25.14	62.29	18.98	3.25	3.182	0.78
NICBL	687.37	11.2	15.66	0.35	3.182	0.04
KBL	866.35	-11.78	24.08	0.49	3.182	0.07
NIBL	1133.38	10.92	25.63	0.43	3.182	0.06
BOK	976.45	12.58	30.01	0.43	3.182	0.06

*Source: Appendix 'C'*

The above table depicts the major output of simple regression analysis between MPS and DPS of the sampled banks. The regression coefficients (b) of all banks NABIL, SCBN, NIBL, HBL, EBL, BOK, NICBL and KBL are 35.81, 8.42, 10.92, 10.32, 62.29, 12.58, 11.20 and -11.78 respectively and are all positive

except KBL. It indicates that one rupee increase/decrease in DPS increases/decreases the MPS by rupees 35.81, 8.42, 10.92, 10.32, 62.29, 12.58, 11.20 and -11.78 respectively for above mentioned banks, however, this estimate may vary by rupees 25.43, -18.44, 25.63, 30.93, 18.98, 30.01, 15.66 and 24.08 respectively, as shown by standard error of slope (b). This prediction of MPS is strong for EBL only; moderate for NABIL and very weak for SCBN, NIBL, HBL, BOK, NICBL, and KBL because the respective coefficients of determination ( $r^2$ ) are 0.78, 0.40, 0.07, 0.06, 0.07, 0.06, 0.04 and 0.07 respectively. This also implies that the variations in MPS is due to influence of the DPS are 40, 7, 6, 7, 78, 6, 4 and 7 percent in respect of HBL, EBL, NABIL, SCBN, NIBL, BOK, NICBL and KBL respectively, and the remaining variation is explained by other variables or factors.

The t values for NABIL, SCBN, NIBL, HBL, BOK, NICBL and KBL are 1.41, 0.47, 0.43, 0.49, 0.43, 0.35 and 0.49 respectively which are below tabulated t value at 5% significance for two tailed i.e. 3.182. So null hypothesis of there is no significant relation between MPS and DPS for above mentioned banks is accepted. But for the bank like EBL t values is 3.25 therefore null hypothesis is rejected and alternative hypothesis of there is a significant relation between MPS and DPS is accepted.

#### **4.12.3 MPS ON DPR**

The Regression Equation of MPS on Dividend Payout Ratio: (MPS = a + b Dividend Payout Ratio)

**Table 4.12.3****Regression Analysis of MPS on DPR**

Name of Banks	Regression Coefficient		SE of b	T value	Tabulated t value	r <sup>2</sup>
	Constant (a)	Slope (b)				
SCBN	713.94	67.11	173.82	0.74	3.182	0.15
NABIL	5208.74	-14.14	39.56	0.24	3.182	0.02
HBL	2498.2	-13.38	45.93	1.34	3.182	0.37
EBL	1319.06	18.74	13.26	1.41	3.182	0.4
NICBL	590.57	4.2	15.4	0.28	3.182	0.02
KBL	879.15	-2.36	4.37	-0.55	3.182	0.09
NIBL	1140.07	5.87	18.71	0.02	3.182	0
BOK	1304.86	1.77	15.51	0.12	3.182	0

*Source: Appendix 'C'*

The above table depicts the major output of simple regression analysis between MPS and DPR of the sampled banks. The regression coefficients (b) of all banks NABIL, SCBN, NIBL, HBL, EBL, BOK, NICBL and KBL are 14.14, 67.11, 5.87, -13.38, 18.74, 1.77, 4.2 and -2.36 respectively and . It indicates that one percent increase/decrease in DPR increases/decreases the MPS by rupees -14.14, 67.11, 5.87, -13.38, 18.74, 1.77, 4.2 and -2.36 respectively for above mentioned banks, however, this estimate may vary by rupees 39.56, 173.82, 18.71, 45.93, 13.26, 15.51, 15.40 and 4.37 respectively, as shown by standard error of slope (b). This prediction of MPS is strong for KBL; weak for NABIL, SCBN, NIBL, HBL, EBL, BOK and NICBL as the respective coefficients of determination (r<sup>2</sup>) are 0.02, 0.15, 0.00, 0.37, 0.40, 0.00, 0.02 and 0.09 respectively. This also implies that the variations in MPS is due to influence of the DPR are 85, 93, 78, 82, 21, 46, 23 and 8 percent respectively for above mentioned banks, and the remaining variation is explained by other variables or factors.

The t values for NABIL, SCBN, NIBL, HBL, EBL, BOK, NICBL, and KBL are 0.24, 0.74, 0.02, 1.34, 1.41, 0.12, 0.28 and 0.55 respectively which are below tabulated t value at 5% significance for two tailed i.e. 3.182. So null hypothesis of

there is no significant relation between MPS and DPR for above mentioned banks is accepted.

#### 4.12.4 The Multiple Regression Equation of MPS on $DPS_{t-1}$ , PE Ratio $_{t-1}$ and EPS ( $MPS = a + b_1 DPS_{t-1} + b_2 PE Ratio_{t-1} + b_3 EPS$ )

**Table 4.12.4**

#### **Multiple Regression Equation of MPS on $DPS_{t-1}$ , PE Ratio $_{t-1}$ and EPS**

Banks	Description	a	B1	b2	b3	r2	SEE	F - Ratio	Sig.
SCBNL	Coefficient	-4597.74	137.97	-41.394	-43.722	0.901	968.819	3.046	0.393
	Std. Error	6179.077	53.766	80.466	46.523				
NABIL	Coefficient	-11838.3	29.504	99.847	87.44	0.903	944.331	3.121	0.389
	Std. Error	6669.907	20.77	74.084	45.673				
HBL	Coefficient	-2781.63	78.31	-37.855	39.115	0.84	396.835	1.744	0.496
	Std. Error	2874.834	117.332	105.852	17.842				
EBL	Coefficient	754.157	-170.719	439.763	-47.815	0.998	56.715	205.406	0.051
	Std. Error	173.394	12.068	23.204	3.463				
NICBL	Coefficient	1415.068	-17.702	36.758	-57.2	0.759	330.321	1.047	0.599
	Std. Error	1265.113	28.971	21.954	48.32				
KBL	Coefficient	880.801	25.51	4.114	-32.137	0.987	54.264	25.615	0.144
	Std. Error	160.924	3.17	1.897	8.135				
NIBL	Coefficient	1811.67	14.984	-24.565	-0.445	0.277	1094.184	0.128	0.932
	Std. Error	7388.138	41.643	103.064	48.005				
BOK	Coefficient	-4296.241	21.085	-28.898	119.603	0.998	78.487	91.024	0.077
	Std. Error	432.25	4.038	5.849	9.262				

*Source: Appendix 'D'*

Table 4.12.4 shows the regression analysis of MPS on  $DPS_{t-1}$ , PE Ratio $_{t-1}$  and EPS of 8 sampled banks. The major results of the analysis have been interpreted briefly as follows:

#### **Standard Chatered Bank Limited (SCBNL)**

The slope of regression line of  $DPS_{t-1}$  is 137.970 which shows that when other variables are constant, a one rupee increase in  $DPS_{t-1}$  leads to a increase in MPS by 137.970.

The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and  $EPS$  are zero, the minimum value of  $MPS$  will be  $-4597.740$  which is practically not possible. The prediction of a, b1, b2, and b3 may deviate by  $6179.077$ ,  $53.766$ ,  $80.466$  and  $46.523$  rupees respectively as suggested by standard error. In the mean time, the slope of regression line of  $PE\ Ratio_{t-1}$  is  $-41.394$ , which indicates that an increase of one rupee in  $PE\ Ratio_{t-1}$  also decreases  $MPS$  by  $-41.394$  rupees if other variables remain constant. Similarly, slope of regression line of  $EPS$  is  $NPR -43.722$  which shows that an increase of one rupee in  $EPS$  will decrease  $MPS$  by  $NPR -43.722$  assuming other variables remain constant. Similarly, the coefficient of determination which shows  $0.901$  percent changes in  $MPS$  is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and  $EPS$ , and the remaining portion may be due to other factors/variables. The estimated value of  $MPS$  obtained by this model may give the deviation of  $968.819$ . The F-statistics for multiple regressions of  $MPS$  on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and  $EPS$  is  $3.046$  which is statistically not significant at  $5$  percent level. NIBL does not show significant relation.

### **NABIL**

The slope of regression line of  $DPS_{t-1}$  is  $29.504$  which shows that when other variables are constant, a one rupee increase in  $DPS_{t-1}$  leads to a increase in  $MPS$  by  $29.504$  rupees. In the mean time, the slope of regression line of  $PE\ Ratio_{t-1}$  is  $87.440$ , which indicates that an increase of one rupee in  $PE\ Ratio_{t-1}$  also increases  $MPS$  by  $87.440$  rupees if other variables remain constant. Similarly, slope of regression line of  $EPS$  is  $NPR 87.440$  which shows that an increase of one rupee in  $EPS$  will increase  $MPS$  by  $NPR 87.440$  assuming other variables remain constant.

The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and  $EPS$  are zero, the minimum value of  $MPS$  will be  $-11838.3$ , which is practically not possible. The prediction of a, b1, b2, and b3 may deviate by  $6669.907$ ,  $20.77$ ,  $74.084$  and respectively as suggested by standard errors. Similarly, the coefficient of determination which shows  $0.903$  percent changes in  $MPS$  is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and  $EPS$ , and the remaining portion may be due to other

factors/variables. The estimated value of MPS obtained by this model may give the deviation of 944.331. The F-statistics for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 3.121 which is statistically not significant at 5 percent level. Thus the relation is not significant .

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

The slope of regression line of  $DPS_{t-1}$  is 78.310 which shows that when other variables are constant, a one rupee increase in  $DPS_{t-1}$  leads to a increase in MPS by 78.310 rupees. In the mean time, the slope of regression line of  $PE\ Ratio_{t-1}$  is -37.855, which indicates that an increase of one percent in  $PE\ Ratio_{t-1}$  also decreases MPS by -37.855 rupees if other variables remain constant. Similarly, slope of regression line of EPS is NPR 39.115 which shows that an increase of one rupee in EPS will increase MPS by NPR 39.115 assuming other variables remain constant.

The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be -2781.630, which is practically not possible. The prediction of a, b1, b2, and b3 may deviate by 2874.834, 117.332, 105.852 and 17.842 respectively as suggested by standard errors. Similarly, the coefficient of determination which shows 0.840 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS, and the remaining portion may be due to other factors/variables. The estimated value of MPS obtained by this model may give the deviation of 396.835. The F-statistics for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 1.744 which is statistically not significant at 5 percent level. HBL does not represent significant relation.

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

The slope of regression line of  $DPS_{t-1}$  is -170.719 which shows that when other variables are constant, a one rupee increase in  $DPS_{t-1}$  leads to a decrease in MPS by -170.719 rupees. In the mean time, the slope of regression line of  $PE\ Ratio_{t-1}$  is 439.763, which indicates that an increase of one rupee in  $PE\ Ratio_{t-1}$  also

increases MPS by 439.763 rupees if other variables remain constant. Similarly, slope of regression line of EPS is NPR -47.815 which shows that an increase of one rupee in EPS will decrease MPS by NPR -47.815 assuming other variables remain constant.

The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be 754.157. The prediction of a, b1, b2, and b3 may deviate by 173.394, 12.068, 23.204 and 3.463 respectively as suggested by standard errors. Similarly, the coefficient of determination is 1 which shows 100 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS. The estimated value of MPS obtained by this model may give the deviation of 56.715. The F-statistics for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 205.406 which is statistically significant at 5 percent level. The 0.051 significance reveals that EBL represents significant relation.

### **Nepal Industrial & commercial Bank Limited (NICBL)**

The slope of regression line of  $DPS_{t-1}$  is -17.702 which shows that when other variables are constant, a one rupee increase in  $DPS_{t-1}$  leads to decrease in MPS by -17.702 rupees. In the mean time, the slope of regression line of  $PE\ Ratio_{t-1}$  is 36.758, which indicates that an increase of one rupee in  $PE\ Ratio_{t-1}$  also increases MPS by 36.758 rupees if other variables remain constant. Similarly, slope of regression line of EPS is NPR -57.200 which shows that an increase of one rupee in EPS will decrease MPS by NPR -57.200 assuming other variables remain constant.

The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be 1415.068, which is practically not possible. The prediction of a, b1, b2, and b3 may deviate by 1265.113, 28.971, 21.954 and 48.320 respectively as suggested by standard errors. Similarly, the coefficient of determination is 0.759 which shows 75 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS. The estimated value of MPS obtained by this model may give the deviation of 330.321. The F-statistics for multiple regressions of

MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 1.047 which is statistically significant at 5 percent level. NICBL does not represent significant relation.

### **Kumari Bank Limited (KBL)**

The slope of regression line of  $DPS_{t-1}$  is 25.510 which shows that when other variables are constant, a one rupee increase in  $DPS_{t-1}$  leads to a increase in MPS by 25.510 rupees. In the mean time, the slope of regression line of  $PE\ Ratio_{t-1}$  is 4.114, which indicates that an increase of one rupee in  $PE\ Ratio_{t-1}$  also increases MPS by 4.114 rupees if other variables remain constant. Similarly, slope of regression line of EPS is NPR -32.137 which shows that an increase of one rupee in EPS will decrease MPS by NPR -32.137 assuming other variables remain constant.

The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be 880.801, which is practically not possible. The prediction of a, b1, b2, and b3 may deviate by 160.924, 3.170, 1.897 and 8.135 respectively as suggested by standard errors. Similarly, the coefficient of determination is 0.987 which shows 0.98 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS, and the remaining portion may be due to other factors/variables. The estimated value of MPS obtained by this model may give the deviation of 54.264. The F-statistics for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 25.615 which is statistically not significant at 5 percent level. KBL does not represent significant relation.

### **Nepal Investment Bank Limited (NIBL):**

The slope of regression line of  $DPS_{t-1}$  is 14.984 which shows that when other variables are constant, a one rupee increase in  $DPS_{t-1}$  leads to a increase in MPS by 14.984 rupees. In the mean time, the slope of regression line of  $PE\ Ratio_{t-1}$  is -24.565, which indicates that an increase of one rupee in  $PE\ Ratio_{t-1}$  decrease MPS by -24.565 rupees if other variables remain constant. Similarly, slope of regression line of EPS is NPR -0.445 which shows that an increase of one rupee

in EPS will decrease MPS by NPR -0.445 assuming other variables remain constant.

The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be -2509.541, which is practically not possible. The prediction of a, b1, b2, and b3 may deviate by 89.298, 8.569, 39.082, and 18.051 respectively as suggested by standard errors. Similarly, the coefficient of determination which shows 96.70 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS, and the remaining portion may be due to other factors/variables. The estimated value of MPS obtained by this model may give the deviation of 244.238. The F-statistics for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 9.7 which is statistically not significant at 5 percent level.

### **Bank of Kathmandu (BOK)**

The slope of regression line of  $DPS_{t-1}$  is 21.085 which shows that when other variables are constant, a one rupee increase in  $DPS_{t-1}$  leads to a increase in MPS by 21.085 rupees. In the mean time, the slope of regression line of  $PE\ Ratio_{t-1}$  is -28.898, which indicates that an increase of one rupee in  $PE\ Ratio_{t-1}$  also decreases MPS by -28.898 rupees if other variables remain constant. Similarly, slope of regression line of EPS is NPR 119.603 which shows that an increase of one rupee in EPS will increase MPS by NPR 119.603 assuming other variables remain constant.

The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be -4296.241, which is practically not possible. The prediction of a, b1, b2, and b3 may deviate by 432.250, 4.038, 5.849 and 9.262 respectively as suggested by standard errors. Similarly, the coefficient of determination is 0.998 which shows 99 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS. The estimated value of MPS obtained by this model may give the deviation of 78.487. The F-statistics for multiple regressions of

MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 91.024. BOK has the significant value of 0.077 which represents significant relation.

### 4.3 Major Findings

1. Table 4.1 shows that the mean, SD and CV of EPS is highest in SCBNL during study period. The mean, SD and CV of EPS is lowest in KBL during study period. The mean is 132.41, SD is 36.38 and CV is 27.48 in SCBNL. The mean is 20.49, SD is 3.15 and CV is 15.38 in KBL.
2. As per Table 4.2, The DPS of SCBNL highest which is 114, highest SD of DPS has come for 25.77 in SCBNL and highest of CV came for NIBL with 36.88. The lowest mean of DPS came with 15.04 for KBL, the lowest SD is 3.82 for HBL and CV is lowest for HBL with 9.55.
3. As per Table 4.7, The DP of SCBNL highest which is 114, highest SD of DP has come for 25.77 in SCBNL and highest of CV came for NIBL with 36.88. The lowest mean of DP came with 15.04 for KBL, the lowest SD is 3.82 for HBL and CV is lowest for HBL with 9.55.
4. Table 4.4 shows the highest DPR mean for SCBNL which is 87.50, the highest SD of DPR is 27.07 for KBL and the highest CV of DPRS is 43.79 for EBL. The lowest mean of DPR is 47.30 for EBL, the lowest SD and CV are 7.92 and 9.05 respectively for SCBNL during study period.
5. As per Table 4.3, The MPS of SCBNL highest which is 5158.80, highest SD of MPS has come for 1379.52 in SCBNL and highest of CV came for BOK with 38.58. The lowest mean of MPS came with 689.20 for KBL, the lowest SD is 214.11 for KBL and CV is lowest for SCBNL with 26.74.
6. Table 4.5 shows the highest P/E Ratio mean for SCBNL which is 42.92, the highest SD of P/E Ratio is 14.05 for SCBNL and the highest CV of P/E Ratio is 39.28 for KBL. The lowest mean of P/E Ratio is 25.57 for EBL, the lowest SD and CV are 4.42 and 16.64 respectively for HBL during study period.

7. Table 4.8 shows that the mean and CV of EY is highest in NIBL and SD of EY is highest in HBL with 4.17, 98.29 and 7.83 respectively in study period. Accordingly lowest mean, SD and CV of EY is 2.90, 1.03 and 20.12 respectively for SCBNL, SCBNL and HBL during study period.
8. Table 4.9 shows that the mean, SD and CV of DY is highest in BOK, NICBL and KBL with 3.05, 9.49 and 51.48 respectively in study period. Accordingly lowest mean and CV of DY is 1.61 and 13.86 respectively for EBL and lowest SD for DY is 1.19 for NIBL in the study period.
9. Table 4.6 shows that the mean and SD of MTBR is highest in SCBNL with 17.48 & 9.77 respectively and CV is highest in BOK with 70.03 in the study period for MPS/BVPS. Likewise, the lowest mean is 4.98 of KBL and SD & CV is 1.49 & 25.27 of HBL in the study period for MPS/BVPS.
10. Table 4.10 shows that the mean, SD and CV of NWPS is highest in SCBNL with 381.76, 97.68 and 25.59 respectively during study period. The mean is lowest with 117.01 of NICBL and the lowest SD and CV of NWPS with 7.88 and 5.63 respectively of KBL in the study period.
11. Table 4.11.1 shows the correlation coefficient of SCBNL which found that the MPS of SCBL has very low positive correlation between its EPS which is 0.19. EPS has moderate negative correlation of -0.64 with DPR. EY is highly positively correlated with the DY of 0.98 which may be due to high earning is followed by high dividend payout.
12. Table 4.11.2 depicts the correlation coefficient of Nabil Bank Ltd. It shows that the MPS of NABIL has a strong positive correlation with its DPS, DP, DPR, PER, and MPS/BVPS which are 0.67, 0.67, 0.59, 0.91 and 0.83.. Low degree of correlation of 0.29 is found with MPS and EPS. Further correlation between DPS with DPR and NWPS showed high degree of correlation with 0.68 and 0.62. And the correlation between EY and DY is 0.67 which is positive.
13. Table 4.11.3 shows the correlation coefficient of Himalayan Bank Ltd. and it depicts that the MPS of HBL has a strong positive correlation with its EPS, DPS, DP, PER, and MPS/BCPS which are 0.75, 0.89, 0.89, 0.74, 1.00

and 0.85. The correlation between EY and DY is 0.39 which is moderate positive.

14. Table 4.11.4 indicates the correlation coefficient of EBL which found that high degree of positive correlation exists between MPS of EBL with its DPS, DP, PER, MPS/BVPS which are 0.88, 0.88, 0.86 and 0.92 respectively. EY is positively correlated with the DY of 0.24.
15. Table 4.11.5 shows the correlation coefficient of NICBL and it reveals that the MPS of NICBL has a low positive correlation with EPS, DPS, DPR, and NWPS which are 0.22, 0.20 and 0.22 respectively but negative correlation exists between MPS to EY and DY. DPS with DPR is also strongly correlated and low positive correlated with NWPS. Also the EY has higher positive correlation with DY of the bank.
16. Table 4.11.6 shows the correlation coefficient of KBL and it indicates that the MPS of KBL is -0.20, -0.27, -0.30, -0.90 and -0.47. Correlation between MPS with PER, MPS/BVPS is highly positive. EPS is negatively correlated with DP and DPR. DPS has a strong correlation of 0.85 with DPR and similar correlation with NWPS of 0.94. Also EY and DY have a relatively high positive correlation of 0.73.
17. Table 4.11.7 shows the correlation coefficient of NIBL which indicates that the MPS of NIBL is high degree of positive correlation with its PER, MPS/BVPS and NWPS which are 0.85 and 0.85 and 0.74 respectively. Similarly DPS has a strong correlation of 0.94 with DPR and moderate correlation of 0.53 with NWPS. Also EY and DY have a higher positive correlation of 0.94.
18. The correlation coefficient of BOK is depicted by Table 4.11.8 which indicates that the MPS of BOK is strongly positively correlated with its EPS, PER and MPS/BVPS which are 0.61, 0.56 and 0.64 respectively. But MPS had the negative correlation of with DPS, DP, EY and with DY. However the relationship of EPS with DPS is moderate positively correlated. Whereas DPS with DPR and NWPS are strongly positively correlated.

19. Table 4.12.1 shows the Regression Analysis of MPS on EPS and it depicts the regression coefficients (b) of NABIL, SCBN, NIBL, HBL, BOK, NICBL and KBL are 19.51, 7.19, 6.84, 29.86, 17.84, 78.15, 11.23, 27.36 respectively and are positive. however, this estimate may vary by rupees 36.80, 21.48, -15.09, 13.20, 23.23, 15.92, 28.67 and -19.25 respectively, as shown by standard error of slope (b). This prediction of MPS is strong for HBL, and very weak for NABIL, SCBN, NIBL, EBL, BOK, NICBL and KBL because the respective coefficients of determination ( $r^2$ ) are 0.64, 0.08, 0.01, 0.06, 0.16, 0.14, 0.05 and 0.16 respectively.
20. The t values for all the banks NABIL, SCBN, NIBL, HBL, EBL, BOK, NICBL and KBL are 0.17, 1.80, 0.44, 2.32, 0.75, 0.77, 0.39 and 0.31 respectively which are below tabulated t value at 5% significance for two tailed i.e. 3.182. So null hypothesis is accepted.
21. Table 4.12.2 shows regression analysis of MPS on DPS. The table depicts the regression coefficients (b) of all banks NABIL, SCBN, NIBL, HBL, EBL, BOK, NICBL and KBL are 35.81, 8.42, 10.92, 10.32, 62.29, 12.58, 11.20 and -11.78 respectively and are all positive except KBL. This estimate may vary by rupees 25.43, -18.44, 25.63, 30.93, 18.98, 30.01, 15.66 and 24.08 respectively, as shown by standard error of slope (b). This prediction of MPS is strong for EBL only; moderate for NABIL and very weak for SCBN, NIBL, HBL, BOK, NICBL, and KBL because the respective coefficients of determination ( $r^2$ ) are 0.78, 0.40, 0.07, 0.06, 0.07, 0.06, 0.04 and 0.07 respectively.
22. The t values for NABIL, SCBN, NIBL, HBL, BOK, NICBL and KBL are 1.41, 0.47, 0.43, 0.49, 0.43, 0.35 and 0.49 respectively which are below tabulated t value at 5% significance for two tailed i.e. 3.182. So null hypothesis for above mentioned banks is accepted. But for the banks like EBL t values is 3.25 therefore alternative hypothesis is accepted.
23. Table 4.12.3 shows regression analysis of MPS on DPR. The table depicts the regression coefficients (b) of all banks NABIL, SCBN, NIBL, HBL, EBL, BOK, NICBL and KBL are -14.14, 67.11, 5.87, -13.38, 18.74, 1.77,

4.2 and -2.36 respectively however, this estimate may vary by rupees 39.56, 173.82, 18.71, 45.93, 13.26, 15.51, 15.40 and 4.37 respectively, as shown by standard error of slope (b). This prediction of MPS is strong for EBL; weak for NABIL, SCBN, NIBL, HBL, EBL, BOK, NICBL and KBL as the respective coefficients of determination ( $r^2$ ) are 0.40, 0.02, 0.15, 0.00, 0.37, 0.00, 0.02 and 0.09 respectively.

24. The t values for NABIL, SCBN, NIBL, HBL, EBL, BOK, NICBL, and KBL are 0.24, 0.74, 0.02, 1.34, 1.41, 0.12, 0.28 and 0.55 respectively which are below tabulated t value at 5% significance for two tailed i.e. 3.182. So null hypothesis is accepted.

25. Table 4.12.4 shows the regression analysis of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS of 8 sampled banks. The major results of the analysis have been interpreted briefly as follows:

26. The slope of regression line of  $DPS_{t-1}$  is 137.970. The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be -4597.740 which is practically not possible. The prediction of a, b1, b2, and b3 may deviate by 6179.077, 53.766, 80.466 and 46.523 rupees respectively as suggested by standard error. The slope of regression line of  $PE\ Ratio_{t-1}$  is -41.394. The slope of regression line of EPS is NPR -43.722. The coefficient of determination which shows 0.901 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS, and the remaining portion may be due to other factors/variables. The estimated value of MPS obtained by this model may give the deviation of 968.819. The F-statistics for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 3.046 which is statistically not significant at 5 percent level.

27. The slope of regression line of  $DPS_{t-1}$  is 29.504. In the mean time, the slope of regression line of  $PE\ Ratio_{t-1}$  is 87.440. Similarly, slope of regression line of EPS is NPR 87.440 assuming other variables remain constant. The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be -11838.3, which is practically not possible. The prediction of a, b1, b2, and b3 may deviate by 6669.907,

20.77, 74.084 and respectively as suggested by standard errors. Similarly, the coefficient of determination which shows 0.903 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS, and the remaining portion may be due to other factors/variables. The estimated value of MPS obtained by this model may give the deviation of 944.331. The F-statistics for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 3.121 which is statistically not significant at 5 percent level. Thus the relation is not significant.

28. The slope of regression line of  $DPS_{t-1}$  is 78.310 The slope of regression line of  $PE\ Ratio_{t-1}$  is -37.855. The slope of regression line of EPS is NPR 39.115. The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be -2781.630, which is practically not possible. The prediction of a, b1, b2, and b3 may deviate by 2874.834, 117.332, 105.852 and 17.842 respectively as suggested by standard errors. The coefficient of determination which shows 0.840 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS, and the remaining portion may be due to other factors/variables. The estimated value of MPS obtained by this model may give the deviation of 396.835. The F-statistics for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 1.744 which is statistically not significant at 5 percent level.

29. The slope of regression line of  $DPS_{t-1}$  is -170. The slope of regression line of  $PE\ Ratio_{t-1}$  is 439.763. The slope of regression line of EPS is NPR -47.815 which shows that an increase of one rupee in EPS will decrease MPS by NPR -47.815. The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be 754.157. The prediction of a, b1, b2, and b3 may deviate by 173.394, 12.068, 23.204 and 3.463 respectively as suggested by standard errors. Similarly, the coefficient of determination is 1 which shows 100 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS The estimated value of MPS obtained by this model may give the deviation of 56.715. The F-statistics

for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 205.406 which is statistically significant at 5 percent level.

30. The slope of regression line of  $DPS_{t-1}$  is -17.702. The slope of regression line of  $PE\ Ratio_{t-1}$  is 36.758. The slope of regression line of EPS is NPR -57.200. The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be 1415.068. The prediction of a, b1, b2, and b3 may deviate by 1265.113, 28.971, 21.954 and 48.320 respectively as suggested by standard errors. The coefficient of determination is 0.759 which shows 75 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS. The estimated value of MPS obtained by this model may give the deviation of 330.321. The F-statistics for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 1.047 which is statistically significant at 5 percent level. NICBL does not represent significant relation.
31. The slope of regression line of  $DPS_{t-1}$  is 25.510. The slope of regression line of  $PE\ Ratio_{t-1}$  is 4.114. The slope of regression line of EPS is NPR -32.137. The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be 880.801. The prediction of a, b1, b2, and b3 may deviate by 160.924, 3.170, 1.897 and 8.135 respectively as suggested by standard errors. The coefficient of determination is 0.987 which shows 0.98 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS, and the remaining portion may be due to other factors/variables. The estimated value of MPS obtained by this model may give the deviation of 54.264. The F-statistics for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 25.615 which is statistically not significant at 5 percent level.
32. The slope of regression line of  $DPS_{t-1}$  is 14.984. The slope of regression line of  $PE\ Ratio_{t-1}$  is -24.565, slope of regression line of EPS is NPR -0.445. The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be -2509.541, which is practically not possible. The prediction of a, b1, b2, and b3 may deviate by 89.298, 8.569,

39.082, and 18.051 respectively as suggested by standard errors. Similarly, the coefficient of determination which shows 96.70 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS. The estimated value of MPS obtained by this model may give the deviation of 244.238. The F-statistics for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 9.7 which is statistically not significant at 5 percent level.

33. The slope of regression line of  $DPS_{t-1}$  is 21.085. The slope of regression line of  $PE\ Ratio_{t-1}$  is -28.898. The slope of regression line of EPS is NPR 119.603. The regression constant (a) indicates that if  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS are zero, the minimum value of MPS will be -4296.241, which is practically not possible. The prediction of a, b1, b2, and b3 may deviate by 432.250, 4.038, 5.849 and 9.262 respectively as suggested by standard errors. The coefficient of determination is 0.998 which shows 99 percent changes in MPS is influenced by  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS. The estimated value of MPS obtained by this model may give the deviation of 78.487. The F-statistics for multiple regressions of MPS on  $DPS_{t-1}$ ,  $PE\ Ratio_{t-1}$  and EPS is 91.024. BOK has the significant value of 0.077 which represents significant relation.

## **CHAPTER V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

From the chapter four, after analyzing the data through various financial tools and statistical tools, it can be summarized as follows:-

The study was conducted with objective to analyze the dividend practices and its impact on market price of stock of Nepalese commercial bank during the study period 2005/06 to 2009/10. The sample for the study comprised of 8 commercial banks listed in Nepal Stock Exchange. This study had descriptive and analytical research design by taking needed secondary data of sample banks. Dividend policy decision is the major financial decision of the firm, which determines the market price of the share. For this purpose, descriptive cum analytical research design was adopted.

The major objectives are To analyze the impact of dividend on stock price, To identify the determinants of the dividend per share (DPS) and market price of stock (MPS), To analyze the relationship of DPS with EPS, MPS, and P/E Ratio, To compare dividend practices of selected commercial banks, and Provide suggestions and feedbacks based on findings of analysis.

Today there are 31 commercial banks (including government owned, private and joint venture) are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. Therefore, random sampling had been done to select from population. The research is highly based on the secondary data which may include the Annual Reports of the banks under study, Economic Report published from Nepal Rastra Bank, the stock price for the whole year listed in the Nepal Stock Exchange (NEPSE), Economic Survey published from HMG Ministry of Finance, Financial Status Report published from World Bank, Financial Reports published from Nepal Stock Exchange and Securities Exchange Board, various kinds of website which are related on

dividend policies and financial and other relevant data regarding the dividend policies and practices of the Banks which are published on Newspapers and Magazines.

The study is based on five years financial data of the banks under study from 2005/06-2009/10. The financial tools of EPS, DPS, DP, DPR, PE Ratio, EY, MPS, MPS/BVPS and NWPS were used. The Statistical tools like arithmetic mean, standard deviation, CV, coefficient of correlation, coefficient of determination, Simple regression analysis, Standard error of estimates and Multiple regression analysis were used to analyze the data. By using these tools, major findings are collected which were related to the objective of the study. This study mainly aimed at ascertaining the impact of dividends in Market Price of Share of 8 commercial banks traded in the Nepalese Stock Market by using secondary data from 2006 to 2010. The findings indicate that share value is affected by dividend payments as relation between MPS and DPS showed a weak coefficient of determinant ( $r^2$ ), 1 banks have greater than 0.75 , moderately for 1 banks and lowly for 6 bank. The average P/E ratios of all the sampled banks showed high level of P/E ratio which were above from 25.57 suggesting that stock market of Nepal was mostly in bullish trend in last 5 years.

## **5.2 Conclusion**

- The mean, SD and CV of EPS is highest in SCBNL during study period. The mean, SD of EPS is lowest in KBL and CV of EPS is lowest in BOK during study period.
- The mean & SD of DPS of SCBNL highest and the highest of CV came for NIBL. The lowest mean of DPS came for KBL, the lowest SD for HBL and CV is lowest for HBL.
- The mean & SD of DP of SCBNL highest and the highest of CV came for NIBL. The lowest mean of DPS came for KBL, the lowest SD for HBL and CV is lowest for HBL.

- The highest DPR mean for SCBNL, the highest SD of DPR is for KBL and the highest CV of DPRS is for EBL. The lowest mean of DPR is for EBL, the lowest SD and CV are for SCBNL.
- The MPS of SCBNL highest , the highest SD of MPS has come for SCBNL and highest of CV came for BOK. The lowest mean of MPS came for KBL, the lowest SD is for KBL and CV is lowest for SCBNL .
- The highest P/E Ratio mean came for SCBNL, the highest SD of P/E Ratio is for SCBNL and the highest CV of P/E Ratio is for KBL. The lowest mean of P/E Ratio is for EBL, the lowest SD and CV are for HBL.
- The mean and CV of EY is highest in NIBL and SD of EY is highest in HBL. Accordingly lowest mean, SD and CV of EY is for SCBNL, SCBNL and HBL.
- The mean, SD and CV of DY is highest in BOK, NICBL and KBL respectively. Accordingly lowest mean and CV of DY is for EBL and the lowest SD for DY is for NIBL.
- The mean and SD is highest in SCBNL and CV is highest in BOK for MPS/BVPS. Likewise, the lowest mean is for KBL and SD & CV is for HBL for MPS/BVPS.
- The mean, SD and CV of NWPS is highest in SCBNL. The mean is lowest with NICBL and the lowest SD and CV of NWPS of KBL.
- The relationship between MPS and EPS among 8 banks of the study demonstrated 2 banks have high degree of correlation, 1 banks have moderate correlation and 5 bank each have lower correlation and lower negative correlation. Himalayan Bank has highest correlation (0.75) with MPS and EPS with correlation and Kumari Bank Ltd. has the lower negative correlation of -0.20.
- Similarly the association between MPS and DPS showed; 3 banks have strong correlation, 1 banks have moderate correlation and 4 banks have lower degree of correlation. Here too Himalayan Bank had the highest correlation of 0.89 while Kumari Bank Ltd. maintained low correlation of -0.27.

- Again, the association between MPS and DP showed; 3 banks have strong correlation, 1 banks have moderate correlation and 4 banks have lower degree of correlation. Here too Himalayan Bank had the highest correlation of 0.89 while Kumari Bank Ltd. maintained low correlation of -0.27.
- The study of association of MPS with PE ratio and MPS/BVPS showed very strong correlation for all the banks. And in contrast, relationship of MPS with EY showed high degree of negative correlation with seven banks.
- The association of MPS and NWPS underlined that 2 banks have strong correlation, 4 banks have lower degree of correlation and 2 banks showed relatively lower negative correlations. Here Himalayan Bank Limited showed the highest degree of correlation with 0.85 in the relationship between MPS and NWPS.
- Similarly the relationship between EPS and DPS showed; 4 banks have strong correlation, 2 banks with moderate correlation and 2 with lower degree of correlation. SCBNL and NICBL Bank showed the highest degree of correlation with 0.94.
- The relationship between DPS and DPR showed strong positive correlation in 7 banks except HBL which shows low degree of correlation with 0.23.
- Likewise, in correlation of MPS on DY only 1 banks showed significant relation
- While considering the simple regression model for MPS on EPS the calculated t values None of the banks have shown significant relationship between MPS and EPS. For regression equation of MPS on DPS; only EBL has higher t values which suggest a significant relation between MPS on DPS.
- Further the regression equation of MPS on Dividend Payout Ratio showed non of the bank have significant relationship between MPS and DPR.

- *The multiple regression equation figures out that only 2 banks have significant relation.*
- The t-test for all the banks shows that a lot of the statistics are not significant to base any firm conclusion on relationships between different financial indicators.
- Very limited generalizations can be made from the findings of the study, as only 8 banks were considered. Moreover the study was made with 5 years secondary data. Even so, the study shows dividend and earning per share have positive signals in the market as most banks established relatively high positive correlation with market price of share.
- Theoretically determination of MPS of any company should be in accordance with their financial performance i.e. the key financial indicators like EPS, DPS, DP, DPR, PER, EY, DY, MPS/BVPS, and NWPS should have major influence in the fixation of MPS. But due to the imperfection in Nepalese Capital Market there is no single financial indicator that showed a clear effect in determination of MPS. The degree of interrelationship of MPS with different financial indicators varies from one bank to another and no uniformity in the relationship of MPS with various financial indicators of the sampled banks was established.
- Hence, we can conclude that the Nepalese stock market is not efficient enough to determine MPS in accordance with the respective financial performance during the study period. The market price of share in Nepal is not analytic of company's financial performance in Stock market. Due to the market imperfections and dominance of Market in Nepal, the theoretical doctrines might have deviated to the extent.

### **5.3 Recommendations**

The recommendations based on this study are as follows:

1. The commercial Banks should have their long-term/ strategies regarding the adoption of suitable dividend policy and these policies have to be published in their AGM report at least for next five years.
2. The Nepal Stock Market & Security Board of Nepal should take necessary effective initiatives to control random fluctuation of MPS and establish the system of regular monitoring and evaluation of stock market.
3. In Nepal Stock Market, the trading of stocks is done only for three hours on weekdays which is a short period of time for investors to make transactions. So it needs to increase the trading hours to facilitate the investors; giving them time to make proper decision. Further it also gives time to circulate the market information to different investors during trading hours.
4. There is a necessity of impartial body to analyze strengths and weaknesses of public companies traded in Nepal Stock Exchange, it should publish the journal, magazines regularly which should disclose correct information and suggestions to public investors. This will supplement the investors to take proper investment decision.
5. Investors should be allowed to place their order through internet.
6. Regulator authorities' staff should not be allowed to invest in secondary market because they will get prior information from the particular company which can be used for manipulation. Although Nepal Rastra Bank has already imposed their staffs not to invest in the secondary market of Financial Sector. Nepal Security Board & Beema Samitee should also have to restrict their staffs not to invest in secondary Market.
7. Nepal Stock Exchange has to decentralize their service by open their outlets in major developed cities of the nation.

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<i>www.nabilbankltd.com.np</i>	NABIL Bank Ltd.
<i>www.nepalstock.com.np</i>	Nepal Stock Exchange
<i>www.nrb.org.np</i>	Nepal Rastra Bank
<i>www.sebonp.com</i>	Securities Board Nepal
<i>www.bok.com.np</i>	Bank of Kathmandu
<i>www.himalayanbankcom</i>	Himalayan Bank Limited
<i>www.everestbankltd.com</i>	Everest Bank Limited
<i>www.nicbank.com.np</i>	Nepal Industrial & Commercial Bank Limited
<i>www.kumaribank.com</i>	Kumari Bank Limited

## Multiple Regression Equation

**Table 4.12.4**  
**Multiple Regression Equation of MPS on  $DPS_{t-1}$ , PE Ratio $_{t-1}$  and EPS**  
**( $MPS = a + b1 DPSt-1 + b2 PE Ratiot-1+ b3 EPS$ )**

Banks	Description	a	B1	b2	b3	r2	SEE	F -Ratio	Sig.
SCBNL	Coefficient	-4597.74	137.97	-41.394	-43.722	0.901	968.819	3.046	0.393
	Std. Error	6179.077	53.766	80.466	46.523				
NABIL	Coefficient	-11838.3	29.504	99.847	87.44	0.903	944.331	3.121	0.389
	Std. Error	6669.907	20.77	74.084	45.673				
HBL	Coefficient	-2781.63	78.31	-37.855	39.115	0.84	396.835	1.744	0.496
	Std. Error	2874.834	117.332	105.852	17.842				
EBL	Coefficient	754.157	-170.719	439.763	-47.815	0.998	56.715	205.406	0.051
	Std. Error	173.394	12.068	23.204	3.463				
NICBL	Coefficient	1415.068	-17.702	36.758	-57.2	0.759	330.321	1.047	0.599
	Std. Error	1265.113	28.971	21.954	48.32				
KBL	Coefficient	880.801	25.51	4.114	-32.137	0.987	54.264	25.615	0.144
	Std. Error	160.924	3.17	1.897	8.135				
NIBL	Coefficient	1811.67	14.984	-24.565	-0.445	0.277	1094.184	0.128	0.932
	Std. Error	7388.138	41.643	103.064	48.005				
BOK	Coefficient	-4296.241	21.085	-28.898	119.603	0.998	78.487	91.024	0.077
	Std. Error	432.25	4.038	5.849	9.262				