

DIVIDEND POLICY AND PRACTICE AND STOCK PRICE OF NEPALESE FINANCE COMPANY

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial
fulfillment of the requirements for the Master's Degree

by

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Dividend Policy and Practice and Stock Price of Nepalese Finance Company**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

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

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REPORT OF RESEARCH COMMITTEE

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled “**Dividend Policy and Practice and Stock Price of Nepalese Finance Company**” presented by Tika Aryal a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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This study entitled “**Dividend Policy and Practice and Stock Price of Nepalese Finance Company**” has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models involving the use of quantitative aspect of impact of dividend policy and practice and stock price of share of finance companies in Nepal.

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Tika Aryal

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ABBREVIATIONS

DPS	:	Dividend per Share
DY	:	Dividend Yield
EPS	:	Earnings per Share
GDP	:	Gross Domestic Products
GMFL	:	Guheswori Merchant Bank & Finance Limited
LSIZE	:	Natural Logarithm of Total Assets
Ltd.	:	Limited
MFIL	:	Manjushree Financial Institution Limited
MPS	:	Market Price per Share
NPL	:	Non – Performing Loan
NPLR	:	Non – Performing Loan Ratio
NRB	:	Nepal Rastra Bank
PER	:	Price Earnings Ratio
PFL	:	Pokhara Finance Limited
ROA	:	Return on Assets
ROE	:	Return on Equity
SD	:	Standard Deviation
SIFC	:	Shree Investment & Finance Company Limited
SIZE	:	Total Assets
TU	:	Tribhuvan University

ABSTRACT

This study investigates the effect of dividend on market price of stock in Nepalese finance companies. Secondary data was gathered from finance companies of Nepal for ten year periods from 2013/14-2022/23). This study used descriptive analysis, correlation analysis and multiple regression analysis. This study shows that finance companies are paying either cash or stock dividends to their shareholder and they have high market price share. However, a wide range market stock price is found. The correlation analysis reveals that dividend per share, earning per share and size of companies have significant positive relationship with market price of stock of sample finance companies. However, dividend yield has significant negative relationship with MPS. Moreover, price earning per share has insignificant positive relationship with market price of stock of finance companies in Nepal. The regression analysis found that dividend per share and size of companies have significant positive impact on market price of stock of the finance companies while earning per share and price earning ratio have insignificant negative impact on market price of stock of microfinance companies. Moreover, dividend yield has significant negative impact on market price of stock. Therefore, dividend policy has significant impact on stock price in Nepalese finance companies.

Keywords: Share price, dividend per share, earning per share, price earnings ratio and dividend yield.

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

A dividend is the outcome of a board of directors' free decision-making in a business. In addition to providing income, dividends are significant to investors since they serve as a guide when determining which banking sector investments to make. Establishing a robust dividend policy that attracts investors and increases the company's market value is the primary objective of contemporary corporate finance. In the market, companies that pay higher dividends are more valuable than those that pay smaller ones. To optimize value in an unstable market, the corporation must make sure investors receive the right amount of dividends (Sharma, 2016). A key element of dividend policy is deciding how much of the company's revenue will be retained internally and how much will be distributed to shareholders. Retained earnings are the primary source of finance for the company's growth.

Dividend policy is one of the finance sectors most extensively studied subjects, but whether it influences stock prices is still up for debate among investors, who view dividends as a source of income as well as a means of evaluating managers, regulators, and scholars over the long term. For lenders, managers, investors, and other stakeholders, dividend policy is crucial. Investors should take note of this as the corporations are significant from an investing standpoint. It is a method of determining whether or not the business could turn a profit. The dividend yield, which is determined by dividing the current share price by the yearly dividend income per share, is a metric that many investors find interesting. The amount of income received in relation to the share price is measured by the dividend yield. A company's low dividend yield relative to other companies in its industry may indicate one of two things: either the market believes the company has promising future prospects and isn't overly concerned about the dividend payments, or the company is having financial difficulties and won't be able to pay reasonable dividends. In the latter case, the share price of the company may be high. However, a high dividend yield may also indicate a troubled business with a decreasing share price (Bhattarai, 2016).

Buying equities shares is one of the primary investing alternatives that may yield substantial returns for investors. Additionally, it offers cash for enterprises' requirements. However, depending on how the particular stock performs and how the price of the stock moves, the returns from such equity investments might differ. Stock prices may fluctuate due to supply and demand, but there is no foolproof or ideal way to forecast these changes. There are three primary categories of factors that influence the supply and demand of stock prices: technical factors, fundamental factors, and market attitudes. However, understanding these variables and how they could affect share prices is quite valuable since it would empower businesses to increase their market value and assist investors in making informed investment decisions (Baral & Pradhan, 2018).

Regarding the dividend policy and stock price, there are two opposing points of view. Some who contend that dividends have a greater influence on share price contend that shareholders value present returns over future ones and that dividend distributions serve as a predictor of future earnings potential. The significance of retained profits is the basis of the opposing viewpoints. Retained earnings, they contend, are a sign of potential investment possibilities in the future. Retained earnings offer tax benefits to the shareholders. Retained money is not considered income for tax purposes until it is recognized (Adesina et al., 2017).

Only a small percentage of businesses in Nepal offer dividends, and the majority do not do so consistently. Certain firms have never distributed dividends to their shareholders. A key metric that demonstrates finance companies profitability and draws in investors is dividends on shares. Before making an investment in the stock market, investors review the finance companies' dividend policy. However, because Nepalese finance companies dividend policies fluctuate, investors are unable to predict the future cash flow from cash dividends (Bhandari & Pokharel, 2012). It is believed that firms with growing dividends often see a gain in stock price, whereas companies with declining or nonexistent dividends tend to see a decline in stock price trend. Thus, it demonstrates that a dividend has an impact on the company's stock price; yet, a number of studies contend that the information on dividend payments has

an impact on stock price. Actually, that dividend serves as a clear enough indicator of how management views the company's present situation and prospects for the future.

The management of finance companies, as well as other stakeholders including investors, staff, depositors, and borrowers, are all concerned about the share price of the finance company. The value of a company is frequently inferred from the stock price. In general, a rise in stock price will increase the wealth of investors. Over time, finance companies stock prices see significant fluctuations. It is necessary to reasonably forecast and prepare for changes in the future pricing of stocks. Bhattarai (2016) contend that apart from determining the appropriate portion of the company's earnings to allocate for investments, managers must also consider the impact of their decisions on share prices. An announcement to raise dividends could lead to unusually high stock returns, while an announcement to decrease dividends could lead to very poor stock returns. Therefore, share values may decrease if finance companies reduce the dividend payments they make to their shareholders.

The value of stock that a company can purchase from the market is known as the market price share. One of the factors that is impacted by the firm's profits per share and dividend per share is the market value of a share. In addition to having large earnings and dividends per share, each share will have a high market value. Share market prices might differ from book values by a large or little amount. MPS will be lower if a company's earning potential is less than its cost of capital. What drives MPS is the capital market. MPS and dividend policy have long been correlated. When a corporation offers a high dividend, MPS rises, or vice versa. However, occasionally, as a result of this interaction, the price may also drop or stay the same (Dhakal & Shah, 2015).

The finance company must carefully consider its options when choosing a dividend policy as the amount of dividends it pays to shareholders will determine how much freedom it has to spend in future initiatives. Less money will be available for investments in upcoming initiatives if the corporation pays out higher dividends. Lenders are particularly concerned about how much a firm reports as dividends since if a corporation pays out more, it will have less money available to pay down its debt.

Therefore, the purpose of the study is to ascertain how dividend policy affects share prices on the Nepal stock exchange. In contrast to many other members, this study focuses only on the dividend and its effect on the share price of finance companies in Nepal. Specifically, researchers look at four finance companies listed on the Nepal Stock Exchange to see if the dividend policy has any effect on the share price determinants of finance companies.

1.2 Problem Statement

The objective of equity capital investments made by shareholders is to increase their wealth. The type of returns that shareholders anticipate from their investment is known as a dividend. Nonetheless, choosing a payout is still a crucial and contentious aspect of management work. There have long been debates over the impact of dividend policies on share prices. However, there is currently no single, definitive finding about the connection between dividend payments and share market price. There is continuous discussion in the corporate finance literature on the relationship between share price, dividends, and retained earnings.

Abeyratna and Lonie (1996) argued that the abnormal returns of the relatively small group of companies in the dividend not change and earning increased category were caused by them. Their announcement of no dividend change was linked to positive abnormal returns that were even larger than those of the dividend increased and earning increased (DI-EI) category. Conversely, out of all the groups taken into consideration, the bad news businesses in the dividend decreased and earning dropped (DD-ED) group had the biggest negative anomalous returns.

Rashid and Rahman (2008) revealed that profits per share had a large positive impact on stock prices, whereas dividend yield and return on equity had a negative impact. Dhakal and Shah (2015) found that dividend yield and retention ratio had a significant negative impact on share price, although earnings per share had a significant positive influence. Bhattarai (2016) concluded that dividends had a significant positive impact on share price. Dongol (2016) found that the share price is significantly impacted by regular dividend announcements.

Adesina et al. (2017) found a strong positive link between market price and earnings per share. Velankar, Chandani, and Ahuja (2017) claim that the stock prices of a few Indian public sector banks are significantly influenced by EPS and DPS. Pardhan and Gautam (2017) found that while dividend distribution was negatively connected with share price, dividend yield and size had a significant positive influence on share price volatility. Similarly, Baral and Pradhan (2018) mentioned that earnings per share and price-earnings ratio had a significant positive impact on stock price.

Ghimire and Mishra (2018) found that the P-E ratio and DPS significantly boosted the stock price, whereas EPS had no effect at all. The results of Singh and Tandon (2019) show that dividend policies have a major effect on a company's stock price. Thapa (2019) found that although earnings per share and dividend per share showed a strong positive connection with share price, the price to earnings ratio showed a significant unfavorable link with share price. Tahtamouni (2020) found a significant positive relationship between stock price and dividends. Shrestha (2020) revealed that dividends had a major effect on stock prices. Kafley (2021) indicated that neither the dividend payment ratio nor the earnings per share had a substantial effect on the market price per share.

Kimani and Olweny (2021) concluded that both firm size and dividend payout ratio had a beneficial impact on stock price volatility. Agustina (2022) stated that dividend policy, earnings per share, and return on assets had no effect on stock returns. Bhatti, Patoli, and Kumar (2023) asserted that since dividend policy proxies had an impact on share prices, they were crucial in all financial decision-making. The results of empirical research on several markets showed that there is no clear correlation between dividends and stock market price. The objective of this research is to conduct an empirical investigation on the dividend policy and stock market price of finance companies in Nepal. Therefore, this study has raised the following research questions;

- What is the existing position of dividend and stock price of finance companies in Nepal?
- Is there any relationship between dividend (dividend per share, earning per share, dividend yield, price earning share and size of company) and stock price of Nepalese finance companies?

- Do dividend per share, earning per share, dividend yield, price earning share and size of company have impact on stock price of finance companies in Nepal?

1.3 Objectives of the Study

The major objective of this study is to examine the impact of dividend policy and practice on stock price of finance companies in Nepal. The other specific objectives are:

- To assess the position of dividend and stock price of finance companies in Nepal.
- To examine the relationship between dividend (dividend per share, earning per share, dividend yield, price earning share and size of company) stock price of finance companies in Nepal.
- To analyze the impact of dividend per share, earning per share, dividend yield, price earning share and size of company on stock price of finance companies in Nepal.

1.4 Research Hypotheses

The following hypotheses were developed to break down the above research questions. Therefore, this research work attempted to test the following hypotheses in the case of finance companies in Nepal.

1. H₁: Dividend per share has significant impact on stock price of finance companies in Nepal.
2. H₂: Earning per share has significant impact on stock price of finance companies in Nepal.
3. H₃: Dividend yield has significant impact on stock price of finance companies in Nepal.
4. H₄: Price earnings ratio has significant impact on stock price of finance companies in Nepal.
5. H₅: Size of companies has significant impact on stock price of finance companies in Nepal.

1.5 Rationale of the Study

The dividend strategy works effectively to draw in new capital, keep the ones you already have, and satisfy them. It also helps to keep the goodwill and desired control over the firm's management. People in Nepal are making random stock investments since they don't know enough about the market. Insufficient study has been done thus far to make things better. Therefore, it's critical to get a clear understanding of the return that comes with stock investments. This thesis will, in part, close this gap and is quite significant. Here are some reasons why the study is important:

- This study offers important insights into how dividends affect market pricing.
- This study offers recommendations and suggestions that will be beneficial for investors and other researchers.
- This study aids in the formulation of appropriate dividend policies by management and policy makers.
- The government may find this report helpful in regulating, overseeing, and monitoring policies.

1.6 Limitations of the Study

The study has some limitations. The main limitations of the study are as follows:

- There are 17 finance companies operating in Nepal so far, but only four finance companies Manjushree Financial Institution Limited (MFIL), Shree Investment & Finance Company Limited (SIFC), Pokhara Finance Limited (PFL) and Guheswori Merchant Bank & Finance Limited (GMFL) are taken for the proposed study.
- This study concentrates only impact of dividend on stock price of finance companies.
- This study covers past ten years from fiscal year 2013/14 to 2022/23.
- The study is basically based on secondary data, articles, publication and journals of the respective finance companies.
- This study used descriptive statistic, correlation analysis and multiple regression analysis to analyze the data.

CHAPTER - II

LITERATURE REVIEW

A crucial and essential step in every research project is the review of the literature. It entails going over research papers or other pertinent claims in the relevant field of study in order to become aware of all previous studies, their shortcomings, and their findings so that new research may be carried out. Examining and reviewing a few relevant books, articles, published and unpublished articles in various economic journals, magazines, newspapers, the yearly balance statement of the relevant finance companies, prior theses on related subjects, and subject-related online searches are all connected to this chapter. The theoretical review and the empirical review are the two sections that make up this chapter.

2.1 Theoretical Review

2.1.1 Theories of Dividend

Even though each company may have its own unique strategy, a review of the general theories of dividend might help to provide light on how finance companies really pay their dividends in this part. The following are the dividend theories:

2.1.1.1 Dividend Relevance Theory

The problem of dividend relevance theory is not new. It dates back to the early 1900s, when Williams (quoted in Manon et al., 2015) asserted that the selling price of a share and the present value of its future dividend define its worth. Graham and Dodd (1951), who underlined that earnings and dividends have an impact on a share price, have endorsed this assertion. Gordon (1959), referenced in Manon et al. (2015), who created a model based on the distribution of dividends to corporate share value, also backed the assertion. Dividend policy, therefore, plays a significant role in figuring out the firm's worth.

The dividend relevance theory posits that a thoughtful payout policy can have a favorable impact on a company's stock market standing. While lower payouts will have the opposite impact, higher dividends will raise the value of the company. A large dividend payout would cause the market price to rise, whereas a low payout

would cause it to fall. Therefore, it is possible to implement an ideal dividend policy that maximizes the firm's worth, however it is still up for debate how this may be done. The dividend relevance hypothesis, which contends that investors consider dividend policy a crucial component in determining the certainty of a company's profit and perceive dividend distribution as an indication of managerial prowess, is pertinent to the current investigation. Therefore, a firm with a high and regular dividend policy is probably going to do well. Consequently, a high dividend payout rate indicates the company's general financial stability.

2.1.1.2 Dividend Irrelevance Theory

Miller and Modigliani formulated this theory in 1961. As its name suggests, it turned out that the firm's dividend policy had no bearing on the firm's value. Put another way, a company's dividend policy has no bearing on its value, regardless of whether it pays out a high or low payout. These academics contend that a firm's earning potential alone determines its worth. Research on the relationship between dividends and stock price was done in order to test the MM irrelevance theory of dividends (Black & Scholes, 1974), but the results showed no such relationship. Finally, they came to the conclusion that business value is unaffected by dividend policy. Financial researchers and practitioners have disputed with the MM thesis, arguing that it is predicated on assumptions about the perfect capital market that do not exist in the real world of business, in contrast to irrelevance theory.

The way a company allocates its earnings between internal retentions and dividend payments to shareholders is irrelevant, according to M&M's irrelevancy argument. According to the dividend irrelevance argument, a company's cost of capital or market value are unaffected by its dividend policy. Miller and Modigliani (1961) proposed the dividend irrelevance thesis, which states that investors are in charge of their return on investment regardless of a stock's dividend. If the dividend surpassed the investor's expectations, they may use it to buy more stock. Because they can replicate a company's homemade dividend, investors are consequently uninterested in a company's dividend policy. Their hypothesis, which was based on the idea that capital structure was irrelevant, was based on similar underlying assumptions.

2.1.1.3 Pecking Order Theory

According to the pecking order idea, certain companies would rather announce dividends and use internal capital to find investment possibilities. Similarly, if a company generates less money internally, it will favor debt over outside equity. Nonetheless, a great deal of prior scholarly research has contended that there are two opposing viewpoints about the reasons why some firms choose the pecking order theory; Donaldson and Preston (1995) presented the first viewpoint. The authors contend that because businesses wish to avoid the expenses associated with debt and floatation, they choose internally generated money over debt. Furthermore, because debt has lower costs than external financing, some businesses choose to raise cash through debt rather than external equity. However, Myers and Majluf (1984) presented the other viewpoint. According to their own perspective, the advantages of debt financing in terms of financial crisis risk and tax shield outweigh the benefits of the expenses associated with debt and flotation. Additionally, they contend that businesses aim to increase the wealth of their present stockholders. Furthermore, they hold the opinion that certain businesses would rather raise money through debt than from outside sources. This is because it goes against the interests of present shareholders to sell new shares, which will have a detrimental impact on the price of existing shares. They also hold the alternative opinion that risk-free debt has no impact on shareholder value. According to Dittmar, Mahrt-Smith, and Servaes (2003), businesses with significant cash flows effectively distribute dividends. They might, nevertheless, be dependent on debt financing and maintaining a high degree of liquidity. Given their ease and considerable access to debt capital, it makes fair to assume that large firms have higher cash flows.

2.1.1.4 Bird in the Hand Theory

Gordon proposed the "bird in hand" idea in 1959. According to this theory, dividends have a substantial impact on and are connected to a company's value. The name of the notion may be easily found thanks to the aphorism "A bird in hand is worth more than two in the bush". However, because they are risk conservative, most investors would rather have cash on hand than potential financial gains. According to this theory, the bush symbolizes future financial riches and the bird in hand indicates monetary payouts. Additionally, Gordon (1959) argues that companies who pay dividends

appear to be making a lot of money, which makes it easier for them to access the capital markets. Additionally, paying dividends has an impact on a company's valuation. Miller and Modigliani (1961) disputed the idea, arguing that a company's operational cash flows rather than how it distributes its earnings determine its level of risk. For this reason, M & M called this line of thinking the "bird-in-the-hand fallacy."

2.1.1.5 Residual Theory of Dividend

The residual theory of dividends, according to one school of thinking, contends that a company's payout should be seen as the amount that remains after all reasonable investment possibilities have been taken advantage of. One way to think of a company's dividend policy is as an investing choice. This kind of behavior is indicative of a corporation believing in residual dividends. This theory holds that a corporation's dividend policy is an after-investment residue, and that the availability of investment opportunities determines whether a company pays dividends or not. The theory's premise is that, in cases where the return on reinvestment exceeds the investors' opportunity cost of funds, investors would rather see the company keep and reinvest earnings rather than distribute dividends. Under the residual dividend policy, new shares are sold to make up the shortfall for unpaid investments, and the dividend is equal to the amount remaining after investment. In the event that there are no investment opportunities, the shareholders receive a dividend equal to one-tenth of the earnings. Dividends are therefore only a residue, or the percentage that remains after all requirements for equity investments have been met (Rashid & Rahman, 2008).

2.1.1.6 Agency Theory

According to the agency cost hypothesis, agency costs resulting from ownership and control dispersion impact dividend policy. It is possible that managers will occasionally select for a dividend policy that optimizes their own gains above one that maximizes value for shareholders. DeAngelo, DeAngelo, and Stulz (2006) suggest that managers should prioritize maximizing shareholder wealth instead of spending money for personal gain by reducing free cash flows through dividend payments. Firms expose themselves to the scrutiny and discipline of these markets in an effort to draw in fresh equity.

Business managers are prone to operate in a non-value-maximizing (NVM) way, claims agency theory. Jensen and Meckling's (1976) argument states that the agency costs that NVM managers bear would lower the firm's value. However, if a manager's personal wealth was linked to the value of the company's common stock, these agency costs may be reduced. Thus, managerial ownership of shares, or insider holdings, may lower agency costs and increase the firm's worth.

2.1.1.7 Stability Theory of Dividend

The term "dividend stability" describes the dividend stream's consistency. Stated differently, dividend stability refers to the dividend being paid on a consistent basis, even while the exact amount varies annually. The majority of businesses' management see dividend stability as a good policy. Additionally, consistent dividends are often valued more highly by shareholders than fluctuating ones, and they support this approach. If all else remains the same, a consistent dividend could raise the share's market price (Pandey, 1995).

Maintaining the position of the company's dividend payments with respect to a trend line ideally an upward-sloping one is what we mean by stability. There are a few grounds for thinking that rising stock prices are a direct result of a consistent dividend policy. First, since variable dividends are riskier than stable ones, investors are typically expected to place a higher value on dividends they can be certain of getting. As a result, a bigger discount factor will probably be applied to the same average dividend amount received under a changing dividend policy than it will be for payouts under a stable dividend policy. This implies that compared to a firm whose dividend fluctuates, one with a steady dividend policy will have a lower necessary rate of return or cost of equity capital. Secondly, dividend income is a major source of income for many stockholders. These investors will pay more for a stock that has a comparatively certain minimum dollar payout since they are very inconvenient with variable payments. Third, from the perspective of the company and its investors, dividend stability is preferred in order to meet legal listing requirements. Dividend payment stability comes in three different kinds. They are low regular dividend plus extra dividend, consistent dividend payout ratio, and constant dividend per share.

2.1.1.8 Efficient Market Hypothesis Theory

The efficient market hypothesis (EMH), sometimes referred to as the efficient market theory, is a theory that holds that consistent alpha production is impossible and that share prices accurately represent all available information. On the other hand, this theory is called into question by observable market abnormalities.

(Fama, 2000) delivered a seminal study on the efficient market that concentrated on an in-depth analysis of the theory and went beyond it to empirical research. Market efficiency, according to the author, is simply described as a system in which prices consistently properly represent all available information. Fama identified three levels of nested information sets: historical pricing, information that is accessible to the general public, and all information, including private information. In terms of the availability of the three aforementioned information sets, efficient market hypothesis is classified into three stages: weak form, semi-strong form, and strong form.

According to Bodie et al. (2007), a weak version of efficiency asserts that the present stock prices already take into account all historical market data, including previous prices and trade volumes. The claim that the price varies independently over time is in line with the results of studies on the random walk hypothesis, which is the weak form of efficiency. According to the semi-strong form of efficiency, security prices should fully reflect all publicly available information, in addition to historical prices. This information includes fundamental data on the firm's product line, earnings forecast, dividend, stock split announcements, management quality, balance sheet composition, number of patents held, accounting practices, etc. Therefore, applying the markets semi-strongly efficient fundamental analysis will not yield higher profits. According to the strong form of efficiency, market prices take into account all available information, including past prices, publicly available information, and private information. Prices would always be reasonable in such a market, and no investor not even traders could outperform the market.

2.1.1.9 Free Cash Flow Theory

According to Jensen's (1986) proposal, companies often produce and hold onto large amounts of cash flows even in the absence of lucrative initiatives or expansion prospects. As a result, the management of these companies may abuse the surplus

cash by making excessive investments or investing in businesses that have a negative net present value, even when these actions are not in the best interests of the shareholders. This lowers the firm's worth and future profitability. Jensen (1986) argues that the management can lower the agency cost that comes with large levels of free cash flows by providing debt financing and dividend payouts. This argument goes on to say that rather than paying out dividends on extra cash, the management of these companies would want to maintain an excess level of cash flows in order to increase the quantity of liquid assets under their control.

Drobetz and Grüninger (2007) stated that management may have a large amount of cash on hand due to a variety of reasons, including a dislike of debt financing or a desire to avoid paying dividends, which indicates a correlation between retained earnings and cash reserves. This implies that in order to maintain a high amount of capital within the company, management may decide to reduce or eliminate the dividend distribution. Therefore, as this study looked at the impacts and validity of profitability and liquidity on dividend distribution, free cash flow theory is deemed important in this context. This theory explains how liquidity and profitability may help investors make informed investment decisions, which further improves the study variables.

2.1.1.10 Life Cycle Theory

Typically, businesses are founded by individuals who want to make money off of an inventive and enterprising idea. Businesses first devote all of their available funds to developing the novel concept. After starting off slowly, these businesses expand quickly, reach maturity, and finally begin to deteriorate (Bulan & Subramanian, 2009). Companies that successfully complete this shift start to pay dividends, indicating their maturity. Investment prospects often decrease as a company becomes older, while profitability typically rises. Additionally, cash resources often rise, enabling a company to start paying out or raise its present dividends. Positive empirical data supports the life cycle idea. Large, successful companies are often dividend payers, whereas smaller companies with more investment options are non-payers. DeAngelo, DeAngelo, and Stulz (2006) found that the contributed capital mix tended to be correlated with the dividend payment behavior as well. According to their research, dividend payers are often larger and more lucrative than non-payers.

2.1.1.11 Signaling Theory

The signaling theory was initially proposed by Brennan and Copeland in 1988, according to Aduda and Chemarum (2010). The idea states that changes in dividend payments usually correspond with changes in a company's stock price. The signaling notion states that when dividend payments are declared, new information is disclosed to the market. Ramiro and Agustin's (2017) research indicates that signals have the power to sensitize the market, which influences consumer preference indirectly. The authors assert that regular dividend payments made by a corporation to its shareholders over an extended period of time may have an effect on the share prices of that company. An increase in dividends indicates management's expectation of stronger cash flows in the future.

Azoff (1994) offered factual support for the signaling theory. According to the author, a rise in dividend payments typically results in an increase in shareholder wealth. Since the company will appear to be generating consistent positive earnings and income (even if this is untrue), many investors will be enticed to purchase company shares, increasing the stock price and the firm's final market value. Investors utilize dividends as a clue regarding the firm's prospects (Jackson, 2001). By looking at the displacement features of payouts, their study on the signaling hypothesis proved these conclusions.

2.1.2 Provisions Regarding Dividend Practice in Nepal

The Nepal Company Act of 2063, also known as NRB Circular 2063, lays forth the legal requirements for dividend payments to Nepalese companies. These provisions are as follows.

Section 2(m) states bonus shares are defined as shares that are capitalized of a company's reserve or excess earnings and awarded to shareholders as additional shares. The word also denotes an increase in capitalized excess or reserve funds.

Under Section 47, the corporation is not allowed to purchase its own shares. This provision prohibits a company from purchasing its own stock or utilizing the security deposits of its own stock as collateral for loans.

Section 137 is regarding bonus share and sub-section (1) states that the Company must inform the office before issuing bonus shares under sub section

(1) This may be done only by passing special resolution by the general meeting.

Sub-Section (1): Dividends are to be paid to shareholders within 45 days of the decision to distribute them, unless the following situations apply.

- a) In case any law forbids the distribution of dividends.
- b) In case the right to dividend is disputed.
- c) If, for reasons outside of anyone's control and without the company's fault, dividends are not able to be delivered within the previously specified time frame.

Sub Section (2): If the dividends are not disbursed by the deadline specified in sub-section (1), interest at the specified rate will be added.

Sub-section (3): The only individual to whom dividends are intended is the one whose name is on file with the register of current shareholders at the time of declaration.

The aforementioned clauses and subsections of the Company Act of 1997 make it clear that Nepalese companies are not allowed to repurchase their own shares. The sections solely cover concerns related to bonus shares. This Act is insufficient in terms of dividend policy. The government of Nepal made a decision about the government corporations' dividend payments.

2.2 Empirical Review

Bhatti et al. (2023) examined dividend policy and its impact on market price: An empirical study of chemical sector. This research examined the chemical industry's dividend policy and how it affected market pricing. Between 2013 and 2022, information was gathered from sixteen out of the twenty-six companies operating in Pakistan's chemical industry. Panel data have been used to study fixed effect models, which are subcategories of panel models. The study was conducted using the Eviews program. The dataset was subjected to homoscedasticity, Durbin Watson, Hausman, Wald, VIF, tolerance, and Levin Li Chu tests. Except for profit after taxes, all explanatory factors are shown to be significant. Dividend policy proxies are important in any financial decision-making because dividend policy affects share prices. As a result, companies need to base their dividend policy on the current market price. This study illustrates the innate inclination of stock buyers to be price-sensitive. It is evident from an empirical study of various businesses in Pakistan that dividend relevance is a widely acknowledged concept.

Agustina (2022) investigated the effect of fundamental factors, earning per share and exchange rate on stock returns with dividend policy as intervening variables. This study attempted to ascertain the impact of exchange rates, dividend policy, and fundamental reasons on earnings per share as intervening variables on stock returns. Financial ratios are used in this study to measure essential aspects. The welfare of the shareholders increases with the stock return. A rise in stock returns will influence prospective investors to put money into the business. The results of the research indicate that the exchange rate and other fundamental variables, which are represented by the debt to equity ratio (DER), have an impact on stock returns. Earnings per share and dividend policy, which are basic characteristics that are proxied by return on assets, have little bearing on stock returns. The link between the basic factor variables return on assets and the exchange rate to stock returns—and the dividend policy variable can be mediated. The link between the basic factor factors, which are proxied by the DER, and earnings per share to stock returns, however, cannot be mediated by the dividend policy variable.

Kafley (2021) investigated effects of dividend payout ratio and earning per share on market price per share: a study on micro finances of Nepal. This study examined the effects of profits per share and the dividend payment ratio on the stock market price of Nepal's microfinance using yearly data from fiscal years 2071/2072 to 2075/2076. This study used correlation analysis and regression modeling to look at this impact. The market price per share and earnings per share show a positive correlation with the dividend payment ratio, based on the test findings. The regression study's findings demonstrate that neither the dividend payment ratio nor the earnings per share have a statistically significant effect on the market price per share of microfinance in Nepal.

Kimani and Olweny (2021) investigated relationship between dividend policy and stock price volatility among listed commercial banks in Kenya. The study was aimed at determining the relationship between the dividend payout ratio and stock price volatility of Kenya's listed commercial banks, with the firm's size serving as a control variable. The signaling impact argument, which contends that dividends may have informational value even in an efficient market, is one of the theories underlying the study. The population of interest in the study consisted of Kenyan commercial banks that were listed between 2015 and 2019 (excluding those that were listed as a result of

mergers). The results indicated that the dividend payout ratio and stock price volatility are negatively correlated; among the Kenyan commercial banks that were chosen, a rise in the dividend payout ratio is associated with a decrease in stock price volatility. In a similar vein, there was no correlation between stock price and dividend yield. The dividend Pay-out Ratio tends to have a positive influence on the stock price volatility among the chosen commercial banks in Kenya when the firm size is high, and a negative influence when the firm size is small.

Tahtamouni (2020) examined the effect of dividends policy on the stock prices: the Jordanian listed commercial banks case. The purpose of this study was to examine at how the dividend policy affected the fair value of the Jordanian commercial banks' stock prices that were listed on the Amman Stock Exchange (ASE). 13 listed commercial banks were utilized by the publication between 2007 and 2017. The Jordanian Shareholding Banks Guide and the banks' annual reports served as the two sources of data used. The study made use of descriptive statistics and frequency distributions to make sense of the sample. According to the study, there is a positive and substantial correlation between stock price and dividends. This suggests that the dividend policy has an effect on the fair value of stock prices in commercial banks that are listed in Jordan. The study resulted to the conclusion that in order to boost stock market performance, Jordanian listed commercial banks should endeavor to increase shareholder wealth by gradually raising dividend payments.

Shrestha (2020) examined the effect of dividend on stock market price: a panel data approach. This research investigated at how dividends affected Nepalese companies' stock market prices. 33 dividend-paying firms that are listed on the NEPSE have been chosen as a sample for this purpose. Similarly, imbalance panel data for the years 2000/01–2018/19 were used in this analysis. The results of the Hausman test indicated that the Random Effect model is inappropriate for the data utilized in this study, while the Breusch and Pagan Lagrangian multiplier test revealed that the Pooled Regression model is inappropriate. Consequently, the Fixed Effect model was used in this study to examine how dividends affect stock market price. This study found that, after adjusting for return on equity, earnings per share, and return on equity, dividends have a considerable impact on the stock market price of Nepalese companies. The study's final conclusion was that the stock market price of Nepalese firms is significantly

impacted positively by stock dividends and significantly negatively by cash dividends.

Singh and Tandon (2019) examined the effect of dividend policy on stock price: Evidence from the Indian Market. The objective of the current study is to assess how dividend policies have affected Nifty 50 firms' market values for shares that have been listed on the National Stock Exchange (NSE) between 2008 and 2017. Multiple panel data regression methods, including pooled regression, fixed effect models, and random effect models, have been used to examine the data. The best regression model has been recommended using the Hausman test. The random effect model is more pertinent in explaining the relationship between the supplied variables, according to the Hausman test result. The results of the random effect regression model support the relevant dividend policy techniques. This study shows that EPS has a favorable impact on the MPS, DY, ROE, and PAT have negative effects, and DPS and RR have no effect at all. Accordingly, the study concluded that rather than the total dividend paid per share, shareholders are more interested in the DY that the stock offers. This is because a dividend payment pushes up the market price of the stock, hence lowering the dividend yield. Therefore, it can be concluded that dividend policies significantly affect the stock values of companies.

Thapa (2019) examined influencing factors of stock price in Nepal. This study explored the influencing factors of stock price in Nepal: with reference to Nepalese commercial banks) listed on the Nepal Stock Exchange Ltd. over the period of 2008 to 2018AD. A basic linear regression model was used to examine the data that was gathered from the financial statements and questionnaires of the relevant organizations. The work's conclusions showed that while interest rate (IR) and price to earnings ratio (PER) demonstrated a significant inverse association with share price, earning per share (EPS), dividend per share (DPS), effective rules and regulations, market whims and rumors, company profiles, and success depends on luck had a significant positive association with share price. In addition, the availability of liquidity and the application of technical and fundamental analysis boost the Nepalese stock market's performance. More importantly, it has been discovered that changes in interest rates and dividends have a big impact on the stock market.

Ghimire and Mishra (2018) investigated determinants of stock price in Nepalese market. The purpose of this study was to determine, for the years 2012 to 2017, the link between stock price and explanatory factors such as DPS, EPS, P-E ratio, BV, and Market to BV. This study looks into the factors influencing the stock price using descriptive statistics and simple and multiple regression analysis. The results show that the variables Market to BV and P-E ratio are the important predictors of stock price that directly affect the stock price, using a sample size of 11 financial and nonfinancial enterprises in Nepal. Similar to how EPS has the least impact on stock price, DPS and BV similarly significantly positively affect it.

Baral and Pradhan (2018) analyzed impact of dividend policy on share price of commercial bank in Nepal. The objective of this study was to find out how stock prices of Nepali commercial banks were impacted by dividend policy. The cross-sectional data sets from ten commercial banks together provided the study's base. The influence of these determinants on stock price was investigated using ANOVA, Wilcoxon Signed Rank Test, P/E ratio, DPR, and descriptive statistics. The authors concluded that EPS and P/E ratio showed positive connections with stock price, with the exception of DPR. P/E was the most important element affecting share price for commercial banks that were operating well; among other factors, EPS, P/E ratio, and DPR all had positive effects on stock price. DPR was the factor that affected share price the most for the bank that was losing the most money.

Pardhan and Gautam (2017) analyzed the dividend policy and share price volatility: a case of Nepalese commercial banks. This study evaluated at how Nepalese commercial banks' dividend policies affected the volatility of their share prices. To determine the significance and effect of dividend policy on the volatility of Nepalese commercial banks' share prices, regression models are estimated. According to the study, share price volatility (price volatility, change in MPS, and stock return volatility) is adversely correlated with dividend payout. It suggests that a rise in dividend payments causes share price volatility to decline. Nonetheless, there exists a positive correlation between earning volatility and share price volatility, meaning that elevated earning volatility corresponds to increased share price volatility. The outcome of the regression indicates that share price volatility is significantly

positively impacted by dividend yield and size. At the five percent significance level, the growth and dividend yield beta coefficients are noteworthy.

Velankar et al. (2017) investigated impact of EPS and DPS on stock price: a study of selected public sector banks of India. This study investigated at how EPS and DPS affected the stock prices of a few Indian public sector banks. For the study, time series data on several variables, including EPS, DPS, and stock price, were primarily obtained from the Money Control and NSE websites. The nine-year period from 2006–07 to 2014–15 is used to analyze the cause and effect relationship between EPS, DPS, and stock price. Regression testing was used to assess the stationarity of the model, verify the regression model's assumptions using the ARCH LM test, and determine how EPS and DPS affected stock price. After the hypothesis was tested, the following conclusions were drawn: EPS and DPS have a considerable impact on the stock price of a subset of public sector banks in India. The current study's findings can be especially useful for investors who are examining stock price volatility and fund managers who are forecasting future prices by keeping an eye out for these important variables.

Adesina et al. (2017) analyzed dividend policy and share price valuation in Nigerian banks. This study examined the value of share prices and dividend policies in Nigerian banks. Secondary data from public financial statements of four major Nigerian banks Access Bank, First Bank, United Bank for Africa, and Guarantee Trust Bank were used in the ten-year research. The data received was analyzed using the Ordinary Least Square (OLS) regression model in this study. The study's conclusions demonstrate a strong positive correlation between market price and earnings per share. The study concludes that banks may enhance their performance by putting into practice a strong and efficient dividend policy and making advantage of the newly introduced e-dividend payment scheme. The firm and Allied Matter Act (CAMA) 2004 as amended should be modified to mandate that any firm with a total asset worth over 10 billion be listed on the Nigerian capital market in order to attract more investors.

Dongol (2016) investigated the effect of dividend and earnings announcements on share prices in Nepal between 2000 and 2011. The study found that the dividend had an impact on the announcement effect either positively or negatively during the dividend announcement period. In a similar line, share prices benefit from the dividend announcement. The study also found that share price was significantly impacted by dividend announcements on a regular basis. A plausible rationale for this inclination could be that investors perceive "no change in the dividend" as positive. This result suggests that both dividend increases and cutbacks have a considerable impact on market information. The findings support the dividend signaling theory and reject the semi-strong form of market efficiency.

Bhattarai (2016) analyzed effect of dividend payment on stock prices of commercial banks in Nepal: Panel approach. The impact of dividend payments on the share prices of Nepali commercial banks has been examined in this study. For this study, a causal comparative research strategy has been used. Six commercial banks' panel data were gathered from their annual reports between 2010 and 2016, a span of seven years. The Fixed Effect Model, Random Effect Model, and Pooled OLS Model were used to analyze the data. Dividend per share was selected as the independent variable while share price was utilized as the dependent variable in the study. Furthermore, in the regression models, the size and profitability were added concurrently as control variables with dividend per share. The results of the calculated regression models show that the share price of a commercial bank is positively and statistically significantly impacted by dividends per share. Profitability and size, however, barely affect the price per share of a commercial bank. This analysis concludes that a higher dividend payout may raise the value of Nepal's commercial banks' stock.

Dhakal and Shah (2016) examined dividend policy, share price and future profitability: Case of commercial banks in Nepal. The study examined how the Nepalese commercial banks' dividend policies will affect their share prices and long-term profitability. Correlation and regression analysis are used in the study using panel secondary data from 13 commercial banks between 2001 and 2014. The first study looks at how dividend policy affects share price. It finds that while earning per share has a substantial positive influence on share price, dividend yield and retention

ratio have a considerable negative impact. Thus, the study validates the importance of dividends in the Nepalese capital market and goes on to examine if changes in dividends conveyed any unique information that would have an impact on the profitability of commercial banks in the two years after the dividend was declared. The analysis's conclusion shows that current year earnings fluctuations are significantly impacted by changes in the dividend. The impact of the dividend change is negligible for years to come.

Table 1

Summary of Empirical Review

S.N.	Author/ Date	Title	Objective	Methodology	Major Findings
1	Bhatti, Patoli & Kumar (2023)	Dividend policy and its impact on market price: An empirical study of chemical sector	This study investigated the dividend policy in the chemical industries and how it affects market prices	This study used fixed effect multiple regression analysis to analyze the data.	This study revealed that dividend yield and retention ratio had significant negative impact on market price. However, return on equity and earning per share have significant positive impact on market price. Finally, profit after tax has insignificant negative impact on market price.
2	Agustina, S. (2022).	The effect of fundamental factors, earning per share and exchange rate on stock returns with dividend policy as intervening variables. Keunis	The purpose of this study was to determine the effect of dividend policy on stock returns.	This study used correlation and multiple regression analysis were used.	This study found that The results of the research indicate that the exchange rate and other fundamental variables, which are represented by the debt to equity ratio (DER), have an impact on stock returns.
3	Kafley, S. (2021)	Effects of dividend payout ratio and earning per share on market price per share: A study on micro finances of Nepal. Global Scientific Journal	This study examined the effects of dividend payout ratio and earnings per share on stock market price of micro finances of Nepal	This study used correlation analysis and regression modeling to look at this impact.	The regression study's findings demonstrated that neither the dividend payment ratio nor the earnings per share have a statistically significant effect on the market price per share of microfinance in Nepal.

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| 4 | Kimani, M. S., & Olweny, T. (2021). | Relationship between dividend policy and stock price volatility among listed commercial banks in Kenya. International Journal of Social Sciences and Information Technology | Relationship between dividend policy and stock price volatility among listed commercial banks in Kenya. | The study used a multiple regression analysis to analyze the data. | The results indicated that the dividend payout ratio and stock price volatility are negatively correlated; among the Kenyan commercial banks that were chosen, a rise in the dividend payout ratio is associated with a decrease in stock price volatility. |
| 5 | Tahtamo uni, A. (2020). | The effect of dividends policy on the stock prices: the Jordanian listed commercial banks case. Global Business and Economics Review | This study aimed to investigate the effect of dividends policy on the fair value of stock prices of the Jordanian commercial banks | The study made use of descriptive statistics and frequency distributions to make sense of the sample. | This study found that there is a positive and substantial correlation between stock price and dividends. This suggests that the dividend policy has an effect on the fair value of stock prices in commercial banks that are listed in Jordan. |
| 6 | Shrestha, P. M. (2020). | Effect of dividend on stock market price: A panel data approach. Management Dynamics | This study has examined the impact of dividend on stock market price of Nepalese enterprises | This study adopted Fixed Effect model to analyze the impact of dividend on stock market price. | This study found that, after adjusting for return on equity, earnings per share, and return on equity, dividends have a considerable impact on the stock market price of Nepalese companies. The study's final conclusion was that the stock market price of Nepalese firms is significantly impacted positively by stock dividends and significantly negatively by cash dividends. |
| 7 | Thapa, K. B. (2019) | Influencing factors of stock price in Nepal. NCC Journal | This study explored the influencing factors of stock price in Nepal: with reference to Nepalese commercial banks. | The statistical tools of bivariate, multivariate, correlation and ANOVA testing were used. | This study revealed that earning per share (EPS), dividend per share (DPS) have the significant positive association with share price while interest rate (IR) and price to earnings ratio (PER), showed the significant inverse association with share price. |

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| 8 | Singh, N. P., & Tandon, A. (2019) | The effect of dividend policy on stock price: Evidence from the Indian Market. <i>Asia-Pacific Journal of Management Research and Innovation</i> | The present study has been undertaken to evaluate the effect of dividend policy on market prices of shares of Nifty 50 companies listed on the National Stock Exchange. | Multiple panel data regression methods, including pooled regression, fixed effect models, and random effect models, have been used to examine the data. | This study showed that EPS has a favorable impact on the MPS, DY, ROE, and PAT have negative effects, and DPS and RR have no effect at all. Accordingly, the study concluded that rather than the total dividend paid per share, shareholders are more interested in the DY that the stock offers. |
| 9 | Baral, R. K., & Pradhan, A. (2018). | Impact of dividend policy on share price of commercial bank in Nepal. <i>The International Research Journal of Management Science</i> | The purpose of this study was to examine the impact of dividend policy on the share price of commercial bank in Nepal. | The study was based on pooled cross sectional data of 10 commercial banks. Descriptive Statistics, Correlation and Regression, ANOVA and Wilcoxon Signed Rank Test. | This study found that EPS and P/E ratio showed positive connections with stock price, with the exception of DPR. P/E was the most important element affecting share price for commercial banks that were operating well; among other factors, EPS, P/E ratio, and DPR all had positive effects on stock price. DPR was the factor that affected share price the most for the bank that was losing the most money. |
| 10 | Ghimire, R. R., & Mishra, D. (2018) | Determinants of Stock Price in Nepalese Market. <i>The International Research Journal of Management Science</i> | The aim of this study was to determine the relationship between stock price and explanatory variables like: DPS, EPS, P-E ratio, BV, Market to BV for the period 2012 to 2017. | This study used descriptive statistic, correlation analysis and multiple regression analysis to analyze the data. | The results showed that the variables Market to BV and P-E ratio are the important predictors of stock price that directly affect the stock price, using a sample size of 11 financial and nonfinancial enterprises in Nepal. Similar to how EPS has the least impact on stock price, DPS and BV similarly significantly positively affect it. |
| 11 | Velankar, N., Chandani, A. & Ahuja, A. K. (2017). | Impact of EPS and DPS on stock price: a study of selected public sector banks of India. <i>Prestige International</i> | Impact of EPS and DPS on stock price: a study of selected public sector banks of India. | Stationarity test, regression model assumption was checked through ARCH LM test and to check the | This study found that there is a significant effect of EPS and DPS on Stock price of selected Public sector banks in India. |

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| | Journal of Management & IT-Sanchayan | | impact of EPS and DPS on stock price, regression test was applied. | |
| 12 | Pardhan, R. S., & Gautam, N. (2017).
Dividend policy and share price volatility: A case of Nepalese commercial banks. Nepalese Journal of Engineering Nepalese Journal of Management | This study examined the impact of dividend policy on share price volatility of Nepalese commercial banks. | The regression models are estimated to test the significance and impact of dividend policy on share price volatility of Nepalese commercial banks. | The study found that dividend payout has negative relationship with share price volatility while earning volatility has positive association with price volatility. The regression result also showed that dividend yield and size have significant positive impact on share price volatility. |
| 13 | Adesina, K., Uwuigb e, U., Uwuigb e, O. R., Asiriuw a, O, & Oriabe, S. (2017)
Dividend policy and share price valuation in Nigerian banks. Euro Economica | This study examined dividend policy and share price valuation in the Nigerian banks. | The study employed the Ordinary Least Square (OLS) regression model in the analyzing the data obtained. | This study found that a strong positive correlation between market price and earnings per share. The study concludes that banks may enhance their performance by putting into practice a strong and efficient dividend policy and making advantage of the newly introduced e-dividend payment scheme. |
| 14 | Dangol, J. (2016).
Effect of dividend and earnings announcement on share prices: Nepalese evidence. SSRG International Journal of Economics and Management Studies | The main objective of the study was to analyze the effect of dividend and earnings announcements on share prices. | This study used correlation and multiple regression analysis. | The study also found that share price was significantly impacted by dividend announcements on a regular basis. A plausible rationale for this inclination could be that investors perceive "no change in the dividend" as positive. |
| 15 | Bhattarai, Y. R. (2016)
Effect of dividend payment on stock prices of commercial banks in Nepal: Panel approach. Economic Journal of Development Issues | This study has investigated the effect of dividend payment on share prices of commercial banks in Nepal | The data were analyzed using Pooled OLS Model, Fixed Effect Model and Random Effect Model. | This study showed that the share price of a commercial bank is positively and statistically significantly impacted by dividends per share. Profitability and size, however, barely affect the price per share of a commercial bank. This analysis concludes that a |

16 Dhakal, N., & Shah, A. (2016)	Dividend policy, share price and future profitability: Case of commercial banks in Nepal. Journal of Business and Social Sciences Research	The study analyzed the impact of dividend policy on share price and future profitability of commercial banks in Nepal.	This study used correlation and multiple regression to analyze the data.	higher dividend payout may raise the value of Nepal's commercial banks' stock. This study found that dividend yield and retained ratio have significant negative impact on market share. However, PAT has insignificant negative impact on MP. EPS has significant positive impact on MP. Finally, ROE has insignificant positive.
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2.3 Research Gap

A number of studies on dividends and share price have been carried out by various professionals, researchers, and students. Between the current study and earlier studies conducted during the first fiscal years, or time period, there is a research gap. Additionally unique to this investigation are the sample finance companies. This study includes only four finance companies namely Manjushree Financial Institution Limited (MFIL), Shree Investment & Finance Company Limited (SIFC), Pokhara Finance Limited (PFL) and Guheswori Merchant Bank & Finance Limited (GMFL) which were not studied in previous studies. This study includes various tools like ratio analysis, correlation analysis and co-efficient of variation, t- statistics, regression analysis as specific tools which different tools were not used in previous research. In this study regression analysis has conducted to find out the impact of dividend and dividend practice related activities into share price of the finance companies and also the effort has been done for the effect of dividend per share, earning per share, dividend yield, price earning ratio and size of companies into the share price of the finance companies, which are not included in the previous studies on this topic. So, this study has fulfilled the gap.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology establishes the approach, protocols, and strategies employed in carrying out research. It is a roadmap for reaching the objective. It includes research design, population and sample, sampling design, nature and sources of data and data collection instruments, research framework and definition of variables and method of analysis.

3.1 Research Design

The process and methods for gathering the required data are specified in the research design. It addresses what data should be gathered, from where, and using what methods. A well-defined research design guarantees that data is gathered using impartial, cost-effective methods and is pertinent to the study topics. Descriptive and causal comparative research designs have been used in the study in order to meet its unique goal. Descriptive design is used to analyze the pattern and status of dividend and stock price. Causal comparative research design is used to measure the impact of dividend policy and practice on stock price of finance companies in Nepal.

3.2 Population and Sample, and Sampling Design

At present, there are 17 finance companies operating in Nepal. They constitute the population. However, not all finance companies are regularly paying cash dividend. Researchers, thus, applied purposive sampling technique while selecting sample finance companies. Among of them, only four finance companies are selected namely; Manjushree Financial Institution Limited (MFIL), Shree Investment & Finance Company Limited (SIFC), Pokhara Finance Limited (PFL) and Guheswori Merchant Bank & Finance Limited (GMFL) for the study of the dividend and stock price of finance companies. These finance companies are top gainer finance companies in Nepal at present context. Moreover, these finance companies have paying either cash dividends to their shareholder in every year and they have high market price share as compare to others finance companies.

3.3 Nature and Sources of Data, and Instruments of Data collection

Secondary data for this study were gathered from linked offices' webpages and annual reports. Therefore, published sources such as financial statements of finance companies that are representative of the sample, numerous prior studies and associated bulletins, NRB reports, and periodic publications from various government organizations are the main sources and types of data. Research conducted using adequate data collection equipment enhances the legitimacy and worth of research findings, according to consistent and reliable research. As a result, structured document review will be employed in this study to gather the necessary data that are pertinent to achieving the study's goals. Data is gathered from a variety of NRB periodicals and publications, as well as audited financial statements (profit and loss account and balance sheet) of all finance companies in the sample. Every year, all of the data were gathered, and the variables' numbers could be found on July 31 of that particular year. Panel data from four finance companies in Nepal with a combined ten-year banking service history, spanning from 2013/14 to 2022/23, is used in the study.

3.4 Method of Analysis

The researcher employs the following categories of analytical instruments in order to increase the study's specificity and dependability:

Mean (\bar{X})

The simple mean, or arithmetic mean, of a collection of data is calculated by dividing the total number of observations by the sum of all the observations. It will be utilized to determine the optimal value, which will indicate to the group as a whole what the arithmetic average of a variable is. It is computed as follows:

$$\text{Mean } (\bar{X}) = \frac{X_1 + X_2 + X_3 + X_4 \dots \dots \dots + X_n}{n} \text{ or, } \bar{X} = \frac{\Sigma X}{n}$$

Where,

\bar{X} = Arithmetic Mean return

$X_1, X_2, X_3, X_4 \dots \dots \dots X_n$ = Set of Observation

ΣX = Sum of given Observation

n = Total number of Observations

Standard Deviation

The standard deviation is defined as the square of the variance derived from the arithmetic mean, or the positive square root of the mean. The ranges and sizes of departures from the mean or center are shown. It measures the dispersion exactly. A higher standard deviation The variability will be higher and vice versa. The amount that the data vary from the center value is measured by dispersion. Stated differently, it is useful to assess the variability of the data to determine its quality. It is calculated in this way:

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n}}$$

Correlation Coefficient (r)

The relationship between an independent variable and another dependent variable is known as the correlation coefficient. It is a technique for ascertaining how these two variables are related to one another. A correlation coefficient is present when there is a strong relationship between the two variables, meaning that changes in the independent variable's value also affect the dependent variable's value. It is denoted by small 'r'.

$$\text{Correlation Coefficient (r)} = \frac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

Where,

r = coefficient of correlation

ΣXY = Sum of product of two series.

ΣX^2 = Sum of squared in X series

ΣY^2 = Sum of squared in Y series

n = number of years

This coefficient's value can never be less than -1 or greater than + 1. Therefore, the limits of this coefficient are + 1 and -1. Positive correlation between variables is indicated by a value of r = + 1, and vice versa. Zero indicated no association at all.

Coefficient of Correlation Determination (r^2)

The basic correlation square coefficient of determination is another name for coefficient. An even more helpful and superior metric for analyzing correlation coefficient values is the coefficient of determination. It calculates the percentage of the dependent variables' variation that the independent variable explains. Its value may fall between 0 and 1. The correlation coefficient squared is the coefficient of determination.

$$\text{Coefficient of Determination } (r^2) = r \times r$$

Multiple Regressions Analysis

Multiple linear regression seeks to forecast the relationship between two or more explanatory factors and a response variable by fitting a linear equation to observed data. Every value of the independent variable x corresponds to a value in the dependent variable y . Regression analysis will be used to look at the relationship between the explanatory factors and the dependent stock price. The explanatory variables are independent characteristics such as earnings per share, price-earnings ratio, dividend yield, dividend per share, and size of companies.

Model Specification

The model used in this study makes the assumption that certain variables affect the market price of stocks. As a result, the link and effect of the research variables have been examined using the model that follows.

$$MPS_{it} = \beta + \beta_1DPS_{it} + \beta_2EPS_{it} + \beta_3DY_{it} + \beta_4PER_{it} + \beta_5SIZE_{it} + e_{it}$$

Where:

MPS_{it} = Share price of finance company i^{th} for the time period t

DPS_{it} = Dividend per share of finance company i^{th} for the time period t

EPS_{it} = Earnings per share of finance company i^{th} for the time period t

DY_{it} = Dividend yield of finance company i^{th} for the time period t

PER_{it} = Price earnings ratio of finance company i^{th} for the time period t

$SIZE_{it}$ = Size of company or total assets of finance company of finance company i^{th}
for the time period t

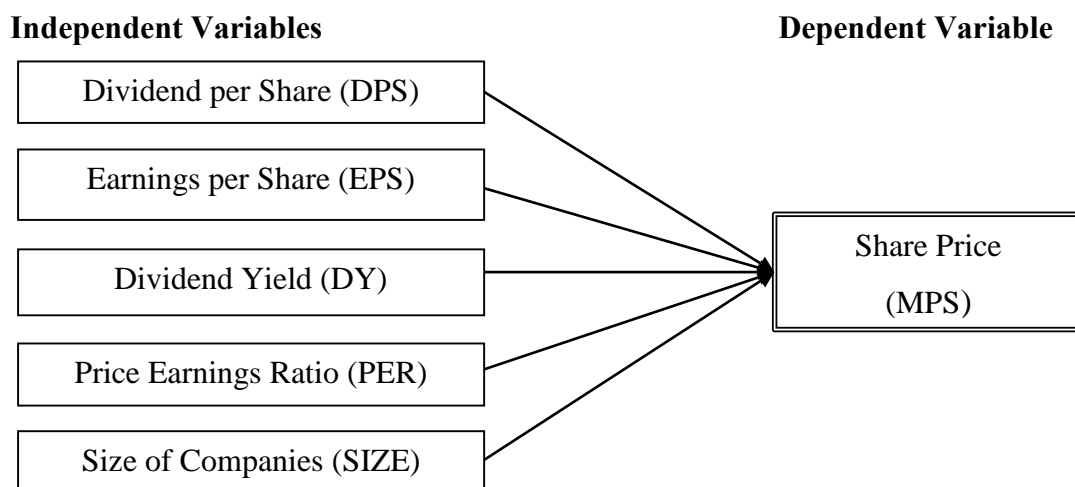
β_0 = The intercept (constant)

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ = The slope which represents the degree with which share price changes as the independent variables (dividend per share, dividend yield, EPS, price earnings ratio and size of company) changes by one unit variable.

e = error component

3.5 Research Framework and Definition of the Variables

The researcher develops the following conceptual framework for the study based on reviews of the theoretical and empirical literature.



Source: Dongol (2016); Bhattarai (2016); Adesina et al. (2017); Singh and Tandon (2019); Tahtamouni (2020)

Dependent Variable

Market Stock Price (MPS)

The objective of this research is to determine what factors affect financial businesses' stock values on the Nepalese stock market. Researchers like Bhattarai (2016) and Singh and Tandon (2019) have noted that shifts in buying and selling pressure can cause the stock price to fluctuate minute by minute. Selecting which market price to regress as a dependent variable measure becomes challenging as a result of these developments. The market price is represented in this study by using the closing price of the finance companies' shares at the conclusion of its fiscal year. In this study, the dependent variable is the market price. According to Gordon (1963), the dividend policy has an impact on the firm's worth and the market price of its shares, making it relevant. Numerous empirical research, like Pardhan and Gautam (2017), Shrestha

(2020), Tahtamouni (2020), and Agustina (2022), which found that dividend payments have an impact on share price, corroborate this relevancy argument. Furthermore, the signaling hypothesis of dividends was first supported by Lintner's (1956) research, which found that changes in dividend payments typically result in changes in the price of a company's shares.

Independent Variables

Dividend per Share (DPS)

A financial metric called net income is used to calculate dividends per share. It is computed by dividing the total number of outstanding common shares by the net income available to common stockholders. If the firm pays more cash dividends, the market value of its shares will rise even in the absence of the customer effect. Similarly, Singh and Tandon (2019) found a favorable correlation between dividends per share and no influence on stock market price. Nonetheless, Usman, Lestari, and Sofyan (2020) revealed that share prices are positively impacted by dividends per share. Tahtamouni (2020) most likely found that payout ratio, plowback ratio, and dividend per share all significantly boost stock price. The dividend relevance idea states that dividends have a favorable impact on a company's stock market standing. In addition to this, the bird in hand idea claimed that dividends are connected to and significantly impact a firm's value. The market price of stock is positively impacted by dividends per share, as supported by both theoretical perspectives and empirical data.

Earnings per Share (EPS)

The profitability of a company is shown by its earnings per share. A high market price is typically the outcome of rising earnings per share. Shrestha (2020) found that earnings per share (EPS) has significant positive relation with market price per share of the finance companies. Likewise, Baral and Pradhan (2018) concluded that an earnings per share (EPS) has significant positive relation with market price of stock. From the view point of literature review, earning per share has significant positive relationship with market price of stock.

Price Earnings Ratio (PER)

It has to deal with the disparity between profits per share and market value. The price-to-earnings ratio indicates the extent to which the price of a share covers its earnings. It shows if the share price of a firm is fairly valued, overpriced, or undervalued. A high P/E frequently suggests that investors are expecting more earnings growth in the future when compared to finance companies with a lower P/E. In the same token, Baral and Pradhan (2018) indicated that price-earnings ratio have a significant positive impact on market price of stock. Ghimire and Mishra (2018) found that P-E ratio had the significant positive impact on stock price. From the view point of literature review, price earning ratio has significant positive impact on market price of stock.

Dividend Yield (DY)

An equity's dividend yield shows how much a corporation distributes as a percentage of its stock price. It is determined as a percentage of the company's yearly dividends on stock price. According to Adesina et al. (2017), Singh and Tandon (2019), and Rashid and Rahman (2008), dividend yield is regarded as a major variable that is utilized to explain the effect of dividend policy on stock market prices. Every one of these specialists found that the dividend yield and stock price had a positive relationship. The dividend relevance theory predicts that equities with higher dividends will be more valuable. Furthermore, signaling theory has demonstrated that a company's stock price usually reacts to changes in dividend payments. Theoretical theories and empirical evidence both support the notion that dividend yield increases stock market value.

Size of companies (SIZE)

The natural logarithm of the total asset is used to assess one of the control variables, which is size (Bhattacharai, 2016). Previous empirical data has confirmed that a firm's size may have an impact on its share price. Size of company was shown to have a considerable beneficial influence on share price volatility by Pardhan and Gautam (2017). Bhattacharai (2016), however, came to the conclusion that there was a negative correlation between size and share price. These empirical data support the expectation that size and share price will positively correlate.

CHAPTER - IV

RESULTS AND DISCUSSION

As the researcher discussed in the previous chapters the major objective of this study is to investigate the impact of impact of dividend policy and practice on stock price of Nepalese finance company. Since, this chapter, which is divided into three sections, deals with the findings and their analysis. The study's variables were analyzed descriptively and by correlation in the first portion, which also included the dividend structure and stock price. The second section demonstrated the fulfillment of the assumptions made by the linear regression model, and the third piece outlined the discussion. For additional statistical analysis, the ratio of the designated dependent and independent variables as well as the ratio scale measurement were computed using data analysis techniques.

4.1 Results

This section use statistical analytical methods, including multiple regression analysis, correlation analysis, and descriptive statistics, to analyze the impact of dividends on the sock prices of finance companies.

4.1.1 Position of Dividend and Stock Price of Sample Companies

Financial indicators are used to analyze the performances of particular finance companies. A finance company that performs well has the highest market value, highest earnings, and highest dividend disbursed. In addition to the stock price of finance companies in Nepal, dividend variables or indicators such as dividend per share, earning per share, price earnings ratio, dividend yield, and bank size are examined here.

4.1.1.1 Dividend per Share

The amount paid as a dividend to the holder of one share of stock is known as the dividend, which is the fraction of the profit that is ready to be distributed to shareholders. It is computed by dividing the total number of outstanding shares by the total dividend paid to common shareholders. The dividend per share of the sample finance companies is displayed in table 2.

Table 2*Dividend per Share*

(In Rs.)

Year	PFL	MFIL	SIFC	GMFL
2013/14	16.00	7.50	12.63	25.00
2014/15	51.05	12.00	12.22	15.79
2015/16	14.21	14.74	11.05	18.95
2016/17	8.70	6.32	26.57	15.80
2017/18	13.68	9.00	10.00	5.26
2018/19	7.20	11.55	13.00	6.50
2019/20	5.26	23.50	10.53	11.40
2020/21	8.08	46.00	11.00	10.53
2021/22	4.00	0.00	7.60	6.84
2022/23	0.00	5.26	5.05	0.00
Mean	12.82	13.59	11.97	11.61
SD	14.32	13.00	5.67	7.40
CV	111.69	95.70	47.40	63.79

Source: Appendix-I

Table 2 shows that the dividend per share of finance companies in Nepal during the study period. The highest dividend per share of PFL is Rs.51.05 percent in the fiscal year 2014/15 and there is no dividend paid by PFL and GMFL in final year as well as MFIL in fiscal year 2021/22. The highest average DPS of MFIL is Rs.13.59 percent, while the lowest average DPS of GMFL is Rs.11.61 percent. These figures suggest that MFIL appears to be earning the highest and consistent dividends to shareholders; a growing DPS per share may indicate that management of the company believes that growth can be sustained. Also, SIFC has the lowest standard deviation among the sample finance companies, indicating that SIFC carries the lowest risk. Based on the ratios, SIFC has shown to be the most consistent, having the lowest coefficient of variation (CV) of 47.40 percent.

4.1.1.2 Analysis of EPS

Profits per share is equivalent to any profitability or ratio related to market prospects. In general, a higher ratio of earnings to shares indicates that the company is more prosperous and can afford to pay out more profits to its shareholders. An increase in a company's stock price is frequently correlated with a higher earnings per share ratio, even if many investors don't give it much thought. Given the multitude of variables that might affect this ratio, investors typically consider it but do not allow it to

significantly impact their choices. The sample finance companies' earnings per share are displayed in Table 3.

Table 3

Earning Per Share

(In Rs.)				
Year	PFL	MFIL	SIFC	GMFL
2013/14	20.81	5.67	15.80	28.15
2014/15	47.27	8.86	17.15	20.12
2015/16	17.90	13.14	13.76	23.91
2016/17	15.96	7.07	37.81	27.54
2017/18	11.14	11.36	11.47	7.60
2018/19	11.94	9.52	16.04	11.40
2019/20	8.02	34.28	13.50	7.85
2020/21	12.20	51.51	12.80	12.93
2021/22	8.73	8.09	9.48	6.42
2022/23	2.20	18.28	7.64	6.40
Mean	15.62	16.78	15.55	15.23
SD	12.31	14.78	8.36	8.86
CV	78.85	88.09	53.80	58.14

Source: Appendix-I

Table 3 shows that the earning per share of finance companies in Nepal. MFIL has highest earnings per share for the fiscal year 2020/21 is Rs.51.51 and PFL has lowest earnings per share is Rs.2.20 in the fiscal year 2022/23. The highest average earnings per share of MFIL is Rs.16.78. GMFL has the lowest average earnings per share, at Rs.15.23. It suggests that the finance firm has the greatest earnings to give its shareholders and that GMFL is the most profitable. SIFC has the lowest standard deviation of all the sample finance businesses, indicating that it carries the least amount of risk. Based on the ratios' coefficient of variation, it can be concluded that SIFC has demonstrated the highest degree of consistency, with the lowest CV of 53.80 percent.

4.1.1.3 Dividend Yield

A financial ratio known as the dividend yield compares the amount of cash dividends paid to common shareholders to the share's market value. Investors use the dividend yield to demonstrate how their stock investment is producing cash flows in the form of dividends or improvements in asset value due to stock appreciation.

Table 4*Dividend Yield*

(In percent)

Year	PFL	MFIL	SIFC	GMFL
2013/14	6.67	5.60	2.66	8.59
2014/15	15.10	6.38	3.74	6.78
2015/16	4.03	3.83	3.55	5.12
2016/17	3.64	4.03	6.94	5.92
2017/18	10.13	7.69	2.61	4.08
2018/19	5.22	9.02	8.28	5.00
2019/20	3.44	7.63	6.62	8.44
2020/21	1.21	3.59	2.25	2.03
2021/22	1.13	0.00	2.54	2.23
2022/23	0.00	0.96	1.35	0.00
Mean	5.06	4.87	4.05	4.82
SD	4.60	2.95	2.36	2.80
CV	91.08	60.46	58.16	58.20

Source: Appendix-I

Table 4 shows that the dividend yields of finance companies in Nepal during the study period. PFL has the highest dividend yield of 15.10 in fiscal year 2014/15 while there is no dividend yield by PFL and GMFL in final year as well as MFIL in fiscal year 2021/22. In average, the highest average dividend yield is 5.06 of PFL and the lowest average DY is 4.05 of SIFC. It indicates that PFL has been the company that pays out the largest cash dividends to its common shareholders. Out of all the sample financial companies, SIFC has the lowest standard deviation, meaning that it is the least risky. Based on the coefficient of variation of the ratios, SIFC has demonstrated the highest degree of consistency with the lowest percentage (58.16 percent).

4.1.1.4 Price Earnings Ratio

The relationship between a company's stock price and earnings per share (EPS) is known as the price earnings ratio, or P/E ratio. It is a well-liked ratio that helps investors understand the finance companies' worth. The price you must pay per unit of current earnings (or future earnings, as the case may be) is represented by the P/E ratio, which displays market expectations. Because investors want to know how lucrative a finance company is and will be in the future, earnings play a significant role in valuing a finance company's shares. Furthermore, the P/E may be seen as the number of years it will take the finance company to recoup the money paid for each share assuming it doesn't grow and its present level of profits stays the same.

Table 5*Price Earning Ratio*

(In percent)

Year	PFL	MFIL	SIFC	GMFL
2013/14	12.00	23.63	30.06	10.34
2014/15	7.15	21.23	19.06	11.58
2015/16	19.72	29.30	22.60	15.48
2016/17	14.97	22.22	10.13	9.69
2017/18	12.12	10.30	33.39	16.98
2018/19	14.20	13.45	9.79	11.40
2019/20	19.07	8.98	11.78	17.47
2020/21	54.93	21.91	38.03	40.05
2021/22	40.56	55.25	31.53	44.73
2022/23	135.22	30.10	49.07	61.99
Mean	32.99	23.64	25.54	23.97
SD	38.85	13.25	13.14	18.26
CV	117.74	56.06	51.43	76.16

Source: Appendix-I

Table 5 shows that the price earnings ratio of finance companies in Nepal during the study period. The maximum price-earnings ratio (PFL) for the fiscal year 2022/23 is Rs.135.12. With a price-earnings ratio of Rs.7.15, PFL had the lowest in the fiscal year 2014/15. The MFIL's highest average PER is Rs.32.99. The MFIL average with the lowest PER is Rs.23.64. The MFILs that have the highest price-to-earnings ratio are frequently regarded as growth companies. This suggests that MFIL will do well going forward, and investors will be prepared to pay more for future profits growth. SIFC has the lowest sample risk among the financial businesses, as indicated by its lowest standard deviation. Based on the ratios' coefficient of variation, it can be inferred that SIFC has demonstrated the highest degree of consistency, having the lowest CV of 51.43 percent.

4.1.1.5 Size of Companies

The natural logarithm of total assets is the size of company. Because it affects the companies' performance, size of companies has been included as a specific internal independent variable in this study. Performance has a good or negative relationship. If managing a finance company becomes more challenging as its size increases. On the other hand, because of the economies of scale that come with size, it has been determined that larger company can raise capital more cheaply. It is therefore one of the key markers of the performance of finance companies.

Table 6
Size of Companies

(Rs. in million)

Year	PFL	MFIL	SIFC	GMFL
2013/14	2920	1624	1945	1440
2014/15	3398	2481	1960	1794
2015/16	3805	3015	2190	2421
2016/17	4604	4694	4157	3286
2017/18	5748	7076	4953	4147
2018/19	7758	9849	4875	4765
2019/20	8949	9251	6523	6006
2020/21	10865	13711	7902	8195
2021/22	13409	15925	9053	8900
2022/23	13877	16863	8866	9238
Mean	7533.30	8448.90	5242.40	5019.20
SD	4109.24	5624.24	2763.36	2938.46
CV	54.55	66.57	52.71	58.54

Source: Appendix –I

Table 6 represents that the size of sample finance companies in Nepal. The highest amount of companies or total assets of GMFL in the fiscal year 2022/23 is Rs.16863 million. The GMFL companies with the smallest sizes for the 2013/14 fiscal year were Rs.1440. The average size of MFIL companies is the largest, at Rs.8448.90 million. The lowest average company size of is the smallest. It demonstrates that, over the course of the study, Nepal had the greatest average size of GFCL firms. This leads to economies of scale, which could allow the company to reduce costs. Bigger companies can also raise capital more affordably. Among the companies with the lowest standard deviation and lowest sample size, SIFC is the least risky. The data indicates that SIFC has exhibited the highest level of consistency in the ratios, with the lowest coefficient of variation (CV) of 52.71 percent.

4.1.1.6 Market Price per Share

The value of stock that a company or equity holders may purchase by selling it on the capital market is known as the share price. The MPS is set by the stock market. The closing market price of the sample finance companies NEPSE Index is represented by MPS in this research. The market price of stock (MPS) of the sample finance companies is displayed in table 7.

Table 7*Market Price per Share*

(In Rs.)				
Year	PFL	MFIL	SIFC	GMFL
2013/14	240	134	475	291
2014/15	338	188	327	233
2015/16	353	385	311	370
2016/17	239	157	383	267
2017/18	135	117	383	129
2018/19	138	128	157	130
2019/20	153	308	159	135
2020/21	670	1280	489	518
2021/22	354	447	299	307
2022/23	298	550	375	397
Mean	291.80	369.40	335.80	277.70
SD	158.39	353.91	112.60	128.21
CV	54.28	95.81	33.53	46.17

Source: Appendix-I

Table 7 shows that the market price per share of finance companies in Nepal. The maximum market price per share (MPS) of MFIL for the fiscal year 2020/21 is Rs.1280, while the lowest MPS for the fiscal year 2017/18 is Rs.117. At its peak average market price, the MFIL share price is Rs.369.40. With a market price per share of Rs.277.70, GMFL has the lowest average. This suggests that during this period, MFIL has performed better than the other financial companies. SIFC has the lowest standard deviation of all the sample finance businesses, indicating that it carries the least amount of risk. Based on the coefficient of variation of the ratios, it can be deduced that SIFC has demonstrated the highest degree of consistency, having the lowest CV of 33.53 percent.

4.1.2 Descriptive Statistics of Variables

Table 8 shows the descriptive statistics for the explanatory and explained factors in this investigation. Its foundation is a panel data set compiled from five finance companies that were active in Nepalese finance companies during 2013/14 and 2022/22. When examining them, the statistics show that there is a great deal of variation in the finance companies' stock price and dividend indicators.

Table 8*Descriptive Statistics of Variable of Sample finance companies*

Variables	N	Minimum	Maximum	Mean	Std. Deviation
DPS	40	.00	51.05	12.4943	10.34389
EPS	40	2.20	51.51	15.7930	10.95409
DY	40	.00	15.10	4.7008	3.18408
PER	40	7.15	135.22	26.5365	22.80964
LSIZE	40	3.16	4.23	3.7259	.29602
MPS	40	117.00	1280.00	318.6750	206.79352

Source: Appendix - II

Table 8 shows that the descriptive statistics of five sample finance companies listed on NEPSE from 2013/14 to 2022/23. The dividend per share has a mean value of 12.4943 and a standard deviation of 10.34389, with values ranging from 0.00 to 51.05. It also shows that the EPS has a mean of 15.7930 and a standard deviation of 10.95409, and it ranges from Rs.2.20 to Rs.51.51. This study also that the average dividend yield is 3.18408, which ranged from 0.00 to 15.10 percent, and that the dividend yield can fluctuate by 3.18408 on any side. The low standard deviation (3.18408 percent) indicates a less volatile environment for the Nepalese finance companies. The P/E has a mean of 26.5365 and a standard deviation of 22.80964. Its range is 7.15 to 135.22, meaning that the value of PER may vary by 22.80964 on either side. The average size of companies, as measured by total assets, is 3.7259, with a range of 3.16 to 4.23. Lastly, the market prices per share have a minimum of Rs.117.00 and a maximum of Rs.1280.00. The market price per share is probably average at Rs.318.6750, with a standard deviation of 206.79352.

4.1.3 Correlation Analysis

This study aimed to determine the fundamental relationship between the dependent variable, the “stock price,” and the independent variables, which include dividend per share, dividend yield, EPS, price earnings ratio, and company size. The many variables listed above were examined and noted. A correlation value of 0 signifies the absence of a linear relationship between the two variables. The correlation coefficient between two variables goes from +1, which represents a perfect positive link, to -1, which represents a perfect negative relationship. In Table 9, the correlation matrix is presented as follows.

Table 9*Pearson Correlation Coefficients of Study Variables*

	DPS	EPS	DY	PER	LSIZE	MPS
DPS	1					
EPS	.929**	1				
DY	.627**	.468**	1			
PER	-.445**	-.426**	-.674**	1		
LSIZE	-.263	-.168	-.423**	.469**	1	
MPS	.412**	.499**	-.387*	.248	.317*	1

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

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

Source: Appendix - III

Table 9 reveals the correlation test between both dependent and independent variables using correlation coefficient matrix. The correlation test shows that dividend per share (DPS) has significant positive correlation with MPS at 1 percent level of significance. Similarly, earnings per share (EPS) has significant positive relation with market price per share in 1 percent level of significance with correlation coefficients 0.499. However, there is significant negative correlation between dividend yield (DY) and MPS i.e. -0.387 at 5 percent level of significance. Then, correlation between price earning ratio (PER) and MPS is insignificant positive correlations at 5 percent level of significance. Moreover, size of companies has significant positive relation with MPS at 5 percent level of significance.

4.1.4 Results of Regression Analysis

A range of modeling and analysis techniques are used when the relationship between a dependent variable (MPS) and independent variables (dividend per share, dividend yield, EPS, price earnings ratio, and size of enterprises) is the main emphasis.

Table 10*Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.942 ^a	.888	.871	74.17907

a. Predictors: (Constant), LSIZE, PER, EPS, DY, DPS

Source: Appendix-IV

The R square is 0.888. The implication therefore is that, 88.80 percent of the variation in the dependent variable (MPS) is explained by the independent variables

(LSIZE, PER, EPS, DY, DPS). In this study, the R statistic is 0.942, indicated that there is strong relationship between study variables. This implies that the MPS was highly influenced by its independent variables. Standard error of estimate is flawlessly associated with regression analysis.

Table 11

Analysis of Variance (ANOVA)

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1480692.585	5	296138.517	53.819	.000 ^b
	Residual	187086.190	34	5502.535		
	Total	1667778.775	39			

a. Dependent Variable: MPS

b. Predictors: (Constant), LSIZE, PER, EPS, DY, DPS

Source: Appendix-IV

ANOVA The overall fitness of the regression model for the data is shown in Table 11. With a p-value of 0.000, less than 0.05 this shows that the model is significant.

Table 12

Regression Coefficient of Independent Variables with Market Price of Stock

Variables	Coefficients	t-statistics	Sig. value
(Constant)	-140.212	-.801	.429
DPS	24.883	6.026	.000
EPS	-3.041	-.870	.391
DY	-68.572	-10.135	.000
PER	-.682	-.855	.399
LSIZE	143.979	3.059	.004

Source: Appendix-IV

Dependent Variable: MPS

Table 12 presents the regression coefficient of independent variables such as dividend per share, dividend yield, EPS, price earnings ratio and size of companies of sample finance companies and the intercept value of dependent variable market price of stock (MPS).

It shows a positive correlation between MPS and dividend per share (DPS) is indicated by a coefficient estimate of 24.883. This shows that a one percent increase in DPS results in a 24.883 percent increase in the MPS of the sample finance companies, holding all independent variables constant. The p value of DPS is 0.000.

Testing in the 5 percent significance level p-value is higher concluding that dividend per share has statistically significant positive influence on the MPS of sample finance companies.

The findings of the regression model indicated a negative correlation between MPS and profits per share (EPS), with a coefficient estimate of -3.041. This means that a one-unit increase in EPS could result into a -3.041 unit decrease in the MPS of the finance companies, providing all other variable remain same. Additionally, at the five percent significance level, EPS has a statistically insignificant negative influence on MPS, as indicated by a p-value of 0.391.

The dividend yield (DY) and MPS have a negative association, according to the dividend yield regression result, with a coefficient estimate of -68.572. This indicates that, when other independent variables are held constant, a one percent increase in dividend yield (DY) results in a -68.572 percent decrease in the financial companies' MPS. The DY's p value of 0.000 indicates that this effect is statistically insignificant at the five percent significance level. It suggests that the MPS of the sample finance companies is negatively impacted by dividend yield in a statistically significant way.

Price-earnings ratio (PER) and MPS have a negative relationship, according to the regression result, with a coefficient estimate of -0.682. This indicates that when PER increases by one unit while keeping other independent variables fixed, the finance companies' MPS decline by -0.682 percent and the p value of PER is 0.399 reveal that PER has statistically insignificant negative influence on MPS at 5 percent level of significance.

The regression model's results showed that, with a coefficient estimate of 143.979, the link between the size of the firms (LSIZE) and MPS is positive. Accordingly, when one unit increases in a company's size, the MPS of the finance companies increases by 143.979 units, holding other independent variables constant. The p value for company size, which is 0.004, indicates that a company's size has a statistically significant positive impact on MPS at the five percent significance level.

4.2 Discussion

The primary objective of the study is to evaluate the impact of dividend practice and also to analyze that how dividend effect on market price in finance companies in Nepal. To comply with the objectives of the study, only five bank specific variables/factors are used. The bank specific variables include; dividend per share, dividend yield, EPS, price earnings ratio and bank size. The study is used panel data for the sample of four finance companies Nepal which has ten years of operating service over the period 2013/14 to 2022/23. The specific data are mainly collected from annual audited financial reports of the respective sample finance companies.

The correlation analysis shows that dividend per share has significant positive relationship with stock price (MPS). This is consistent with the study of Bhattarai (2016); Singh and Tandon (2019).

Similarly, earnings per share (EPS) have significant positive association with market price per share in 1 percent level of significance which is consistent with the findings of prior empirical studies of Shrestha (2020); Baral and Pradhan (2018).

However, there is significant negative correlation between dividend yield (DY) and MPS which supports the findings of Dhakal and Shah (2018) and insignificant positive relationship between price earning ratio and stock price (MPS) of finance companies in Nepal. This is consistent with the findings of Baral and Pradhan (2018).

Moreover, Size has significant positive relation with MPS which is consistent with the findings of Bhattarai (2016) but opposite to the previous study of Nodeh, Anuar, Ramakrishnan, and Raftnia (2016).

The multiple regression analysis shows that the dividend per share (DPS) has significant positive impact on the stock price (MPS) of sample finance companies. This is consistent with the findings of Singh and Tandon (2019). This is also consistent with the prior study of Bhattarai (2016); Dongol (2016). However, it contradicts with the finding of Shrestha (2020) concluded that dividend per share has negative impact on market price of stock.

However, earnings per share (EPS) have an insignificant negative impact on MPS at 5 percent level of significance. This result is consistent with the prior study of Baral and Pradhan (2018). However, it contradicts with the finding of Shrestha (2020); Adesina et al. (2017); Singh and Tandon (2019) and.

At the same time, dividend yield (DY) has significant negative on MPS of sample finance companies. This result is consistent with the findings of Dhakal and Shah (2018); Adesina et al. (2017); Singh and Tandon (2019).

Further, price earnings ratio (PER) has an insignificant negative impact on MPS of sample finance companies which is consistent with the finding with Baral and Pradhan (2018) but opposite to the finding of Bhattarai (2016).

Finally, the results of regression model indicated that size of companies (LSIZE) has significant positive impact on MPS of Nepalese finance companies. This is consistent with the finding of Maswadeh (2018) concluded that size of companies had positive impact on stock price. However, it contradicts with the finding of Bhattarai (2016).

CHAPTER - V

SUMMARY AND CONCLUSION

5.1 Summary

Dividends per share are a crucial indicator of a financial organization's performance that attracts investors. Investors examine the dividend policies of the financing businesses prior to making any stock investments. It's common knowledge that corporations with increasing dividends have rising stock prices, whereas those with decreasing or nonexistent payouts are thought to have declining stock prices. This indicates that a dividend has an impact on the company's stock price; yet, other research suggests that stock price is influenced by information on dividend disbursements. In fact, that dividend is a rather transparent indication of management's outlook for the company's current state and future prospects.

The major objective of this study is to examine the impact of dividend policy and practice on stock price of finance companies in Nepal. The other specific objectives are to examine the position of dividend and stock price of finance companies in Nepal, to evaluate the relationship between dividend (dividend per share, earning per share, dividend yield, price earning share and size of company) stock price of finance companies in Nepal and to analyze the impact of dividend per share, earning per share, dividend yield, price earning share and size of company on stock price of finance companies in Nepal. To achieve the specific objective of the study, descriptive and causal comparative research design has been carried out in terms of dividend and stock price of finance companies in Nepal. Descriptive research design is used for analyzing current position of dividend and market stock price whereas causal comparative research design is followed to measure the impact of dividend practice on market stock price of finance companies in Nepal. There are 17 finance companies operating in Nepal. They constitute the population. Among of them, only four finance companies are selected namely; Manjushree Financial Institution Limited (MFIL), Shree Investment & Finance Company Limited (SIFC), Pokhara Finance Limited (PFL) and Guheswori Merchant Bank & Finance Limited (GMFL) for the study of the dividend and stock price of finance companies. These finance companies are top gainer finance companies in Nepal at present context.

Moreover, these finance companies have paying either cash dividends to their shareholder in every year and they have high market price share as compare to others finance companies. For this study, secondary data are taken from annual reports of related office and their websites. Data is collected from audited financial statements (balance sheet and profit and loss account) of each finance companies included in the sample and various journals and publications of NRB etc. All data were collected on annual base covering ten year periods, i.e. from the fiscal year 2013/14 to 2022/23. The study used descriptive statistics, correlation and multiple regression analysis by using SPSS version 26.

This study found that finance companies are paying either cash or stock dividends to their shareholder and they have high market price share. However, a wide range market stock price is found. The correlation analysis reveals that dividend per share, earning per share and size of companies have significant positive relationship with market price of stock of sample finance companies. However, dividend yield has significant negative relationship with MPS. Moreover, price earning per share has insignificant positive relationship with market price of stock of finance companies in Nepal. The regression analysis found that dividend per share and size of companies have significant positive impact on market price of stock of the finance companies while earning per share and price earning ratio have insignificant negative impact on market price of stock of microfinance companies. Moreover, dividend yield has significant negative impact on market price of stock. Therefore, dividend policy has significant impact on stock price in Nepalese finance companies.

5.2 Conclusion

This study concluded that MFIL has the highest and consistent dividends to shareholders; a growing DPS per share may indicate that management of the company believes that growth can be sustained while GMFL is the most profitable. Then, PFL has been the company that pays out the largest cash dividends to its common shareholders due to highest dividend yield. According to price-to-earnings ratio, this suggests that MFIL do well going forward, and investors will be prepared to pay more for future profits growth. Further, GFCL has the greatest average size. MFIL has the highest market price per share which suggests that MFIL has performed better than the other financial companies.

The correlation analysis reveals that dividend per share, earning per share and size of companies have significant positive relationship with market price of stock of sample finance companies. However, dividend yield has significant negative relationship with MPS. Moreover, price earning per share has insignificant positive relationship with market price of stock of finance companies in Nepal.

The regression analysis found that dividend per share has significant positive impact on market price of stock of the finance companies. However, earning per share and price earning ratio have insignificant negative impact on market price of stock of microfinance companies. Then, dividend yield has significant negative impact on market price of stock. Further, size of companies has significant positive impact on MPS of finance companies in Nepal. Hence, dividend per share, dividend yield and size of companies are the key factors of market price of stock of the finance companies in Nepal.

5.3 Implications

On the basis of above summary and conclusion, following implications are made;

- This study found that dividend per share, dividend yield and size of companies has significant positive impact on stock price of finance companies. In this regard the outcomes of this study are expected to provide additional and valuable information regarding the impact of dividend on stock price of finance companies in Nepal and its impact to the stakeholders. Lastly, depending on the data provided or the study's findings, managers who are internal users as well as regulatory agencies and other external users would find it highly useful to make decisions on how dividends affect the stock prices of finance companies.
- This study also showed that dividend yield has a slight negative impact on the stock price of Nepalese financial companies. It illustrates how a higher dividend yield might be consistent with a lower stock price. Instead of increasing cash dividends, management should focus on increasing stock dividends in order to increase the company's value and stock market price.
- The results would advise bankers to concentrate on adjusting the dividend distribution rate in order to affect changes in the corresponding year's

earnings. The adjustments to the dividend distribution would not, however, be helpful in the ensuing years. Therefore, aside from dividend policy, other factors must be prioritized if finance companies are to have the intended impact on their future profitability.

- The results of the research are useful for prospective researchers and investors. This effort will be a valuable resource for researchers in the future.

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APPENDICES
APPENDIX – I
Raw Data of Sample Banks

Co.	Year	DPS	EPS	MPS	PER	DY	SIZE
PFL	2013/14	16.00	20.81	240	12.00	6.67	2920
	2014/15	51.05	47.27	338	7.15	15.10	3398
	2015/16	14.21	17.90	353	19.72	4.03	3805
	2016/17	8.70	15.96	239	14.97	3.64	4604
	2017/18	13.68	11.14	135	12.12	10.13	5748
	2018/19	7.20	11.94	138	14.20	5.22	7758
	2019/20	5.26	8.02	153	19.07	3.44	8949
	2020/21	8.08	12.20	670	54.93	1.21	10865
	2021/22	4.00	8.73	354	40.56	1.13	13409
	2022/23	0.00	2.20	298	135.22	0.00	13877
MFIL	2013/14	7.50	5.67	134	23.63	5.60	1624
	2014/15	12.00	8.86	188	21.23	6.38	2481
	2015/16	14.74	13.14	385	29.30	3.83	3015
	2016/17	6.32	7.07	157	22.22	4.03	4694
	2017/18	9.00	11.36	117	10.30	7.69	7076
	2018/19	11.55	9.52	128	13.45	9.02	9849
	2019/20	23.50	34.28	308	8.98	7.63	9251
	2020/21	46.00	51.51	1280	21.91	3.59	13711
	2021/22	0.00	8.09	447	55.25	0.00	15925
	2022/23	5.26	18.28	550	30.10	0.96	16863
SIFC	2013/14	12.63	15.80	475	30.06	2.66	1945
	2014/15	12.22	17.15	327	19.06	3.74	1960
	2015/16	11.05	13.76	311	22.60	3.55	2190
	2016/17	26.57	37.81	383	10.13	6.94	4157
	2017/18	10.00	11.47	383	33.39	2.61	4953
	2018/19	13.00	16.04	157	9.79	8.28	4875
	2019/20	10.53	13.50	159	11.78	6.62	6523
	2020/21	11.00	12.80	489	38.03	2.25	7902
	2021/22	7.60	9.48	299	31.53	2.54	9053
	2022/23	5.05	7.64	375	49.07	1.35	8866
GMFL	2013/14	25.00	28.15	291	10.34	8.59	1440273
	2014/15	15.79	20.12	233	11.58	6.78	1794420
	2015/16	18.95	23.91	370	15.48	5.12	2420534
	2016/17	15.80	27.54	267	9.69	5.92	3286007
	2017/18	5.26	7.60	129	16.98	4.08	4147244
	2018/19	6.50	11.40	130	11.40	5.00	4764879
	2019/20	11.40	7.85	135	17.47	8.44	6006410
	2020/21	10.53	12.93	518	40.05	2.03	8195016
	2021/22	6.84	6.42	307	44.73	2.23	8900327
	2022/23	0.00	6.40	397	61.99	0.00	9238425

Source: Annual report of sample finance companies

APPENDIX –II
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DPS	40	.00	51.05	12.4943	10.34389
EPS	40	2.20	51.51	15.7930	10.95409
DY	40	.00	15.10	4.7008	3.18408
PER	40	7.15	135.22	26.5365	22.80964
LSIZE	40	3.16	4.23	3.7259	.29602
MPS	40	117.00	1280.00	318.6750	206.79352
Valid N (listwise)	40				

Source: SPSS version 26

APPENDIX -III
Pearson Correlation Coefficients

	DPS	EPS	DY	PER	LSIZE	MPS
DPS Pearson Correlation	1	.929**	.627**	-.445**	-.263	.412**
Sig. (2-tailed)		.000	.000	.004	.101	.008
N	40	40	40	40	40	40
EPS Pearson Correlation	.929**	1	.468**	-.426**	-.168	.499**
Sig. (2-tailed)	.000		.002	.006	.299	.001
N	40	40	40	40	40	40
DY Pearson Correlation	.627**	.468**	1	-.674**	-.423**	-.387*
Sig. (2-tailed)	.000	.002		.000	.007	.014
N	40	40	40	40	40	40
PER Pearson Correlation	-.445**	-.426**	-.674**	1	.469**	.248
Sig. (2-tailed)	.004	.006	.000		.002	.123
N	40	40	40	40	40	40
LSIZE Pearson Correlation	-.263	-.168	-.423**	.469**	1	.317*
Sig. (2-tailed)	.101	.299	.007	.002		.046
N	40	40	40	40	40	40
MPS Pearson Correlation	.412**	.499**	-.387*	.248	.317*	1
Sig. (2-tailed)	.008	.001	.014	.123	.046	
N	40	40	40	40	40	40

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

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

Source: SPSS version 26

APPENDIX -IV
Multiple Regression Analysis of Sample Banks

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.942 ^a	.888	.871	74.17907

a. Predictors: (Constant), LSIZE, EPS, DY, PER, DPS

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1480692.585	5	296138.517	53.819	.000 ^b
	Residual	187086.190	34	5502.535		
	Total	1667778.775	39			

a. Dependent Variable: MPS

b. Predictors: (Constant), LSIZE, EPS, DY, PER, DPS

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-140.212	175.057		-.801	.429
	DPS	24.883	4.129	1.245	6.026	.000
	EPS	-3.041	3.497	-.161	-.870	.391
	DY	-68.572	6.766	-1.056	-10.135	.000
	PER	-.682	.797	-.075	-.855	.399
	LSIZE	143.979	47.064	.206	3.059	.004

a. Dependent Variable: MPS

a. Dependent Variable: MPS

Source: SPSS version 26

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