

CHAPTER - I

INTRODUCTION

1.1 GENERAL BACKGROUND

The economic growth of Nepal is very low and poor, although it is rich in water resources, Himalayas, low cost manpower etc. The development of an economy of any country requires the productive activity, which in turn, is the result of investment venture in productive enterprises which needs a huge amount of funds and environment to establish these enterprises. The existing enterprises and companies need both the short term and long term capital investment for their existence, smooth growth, operation and development with in the economy to be the productive enterprises. Therefore, the required short term and long term capital for the productive enterprises can be procured mainly from security markets (either primary or secondary) and financial institutions

Dividend policy for business organization is a very important decision, which depends upon the long-term and short-term strategy of a firm. Dividend policy of a firm refers to dividing its net earning into two parts: the retained earnings and dividend (Pandey, I.M.: 1999, 770). Business firms use the retained earnings to provide funds to the firm for long-term growth; we call it as internal financing source also. Dividend is that portion of earning, which is paid to the common stock holders, is a return on their investment. By a dividend policy we mean some kind of consistent approaches to the distribution versus retention decision rather than making the decision on the purely adhoc basis from period to period (Hunt person, Veilliam Charlos and Donaldson, principle of Managerial finance, 1972, p. 405). Likewise, dividend policy must be considered in relation to the overall financing decision. In practice, net earnings always may not be appropriate measure of the ability of the firm to pay

dividend, that's why, what and how much it is desirable to pay dividend is always a controversial topic because shareholders expect higher dividend but companies ensure towards setting aside funds for maximizing the shareholders wealth.

When a company pays out a portion of it's earnings to the shareholders in the form of dividend, the shareholders are directly benefited. If company is hopeful to exploit other growth opportunities, the firm can avoid for paying cash dividends. In this condition, shareholders consider their future growth of their stock instead of getting cash dividend. On the other hand, the firm has to pay enough dividends to satisfy investors. If they are paid higher dividends, the market price of the stock also rises. This means of maximizing the shareholder's wealth. Thus shareholders' wealth can be increased through either dividends or capital gains. As the division and retention of net profit are considered as dividend policy, all aspects and questions related to the payment of dividends are contained in dividend policy.

Paul A. Samulson has quoted that the concept of the banking has been developed from the ancient history with an effort of ancient goldsmiths who developed the practice of storing people's gold and other valuables. Under such an arrangement, the depositors would leave their gold with goldsmiths for safekeeping. Whenever the receipts were presented, the depositors would get back their gold and other valuables after paying a small amount as interests (fee) for safekeeping and serving. (Paul A Samulson, Economics, 9th edition page-27).

Financial institutions have definitely contributed and played a gigantic role for domestic resource mobilization and economic development to build up the confidence of the businessmen for promoting their business and industrialists

for encouraging opening new business venture. It maintains confidence for various segments and extends credit to people.

The banking concepts and activities started in Nepal after the establishment of Nepal Bank Limited in 1937. A central bank (Nepal Rastra Bank) was established to regulate the banking activities and monetary policy of the nation. Than after, it was realized that the commercial bank has its own role and contribution in the economic development. It is the source of economic development; it maintains economic confidence of various segments and extends credit to people. So, another commercial bank, Rastriya Banijya Bank was established in 1966.

Capital market plays an important role in the economics development in nation. But, in Nepal, the capital market is very small and developing slowly with disorganized way. The Nepalese company can't generate profit that are established and operated on public sector. The government is unable to receive dividends from public enterprises for several years.

In the global perspective, joint ventures are the modes of trading through partnership among the nations and also a form of negotiation between various groups of industries and traders to achieve competitive advantages. Nepal's reform efforts in the financial sectors, begun in 1980's, when Nepal Rastra Bank eased entry restrictions and amendment of the Commercial Bank Act 1974. As a result, two banks namely, Nepal Arab Bank Ltd. and Standard Chartered Bank Nepal Ltd came into operation prior to 1990s. In 1992, Nepal Rastra Bank adopted liberal attitude in permitting commercial banks to open. Than after, the financial liberalization really took place.

Finance companies include captive financing subsidiaries of non financial corporation, general finance consumer and business finance companies, leasing companies, factors all of which are non depository financial institutions

involved primarily in extending credit to businesses and consumers. (Mark Carey, post Mitch and Steven A Sharpe" Does Corporate lending by banks and finance companies differ? (1998, P -848) The organization set up of financial company is new to Nepal. Finance companies are the effective investments for mobilizing public, private and external financial resources and canalizing them into productive areas of short-term loan and long term loan in different enterprising activities. The newly adopted liberal economic policy of government has given more emphasis to the private sector and institutional investors to invest in Nepal which has been considered as encouraging factor of sustainable growth under these facilities many finance companies have been established. Mainly they collect deposit and provide loans by mobilizing scattered saving of different sectors of the economy for the economic development.

Dividend practice in public corporations is still having problem for taking dividend policy. Thus, here neither corporation are able to generate sufficient earnings for dividend payment nor is the government expecting dividends, since it has been observed that dividend payment is practically a crucial problem of the public corporations. Corporation like Nepal Oil Corporation and Nepal Electricity Authority are not distributing earnings as dividend but total effort is focused on minimization of loss through better utilization of capital. Noticeable matter is that this shifting aim of public corporation is failed to minimize the losses.

The joint venture banks in Nepal have brought new hope for productive mobilization of funds according to their new trends of dividend distribution among foreign joint venture banks. For example, Nepal SBI Bank Ltd. has been able to pay a less dividend as comparing with other two (Standard Chartered Bank Nepal Ltd. and Nepal Arab Bank Ltd.).

Although, twenty three commercial banks are actively working in the nation; only fifteen commercial banks are listed in security board, on the Nepal Stock Exchange Out of which, only three commercial banks were taken as samples. They are as given below:

1. Standard Chartered Bank Nepal Ltd.
2. Nepal SBI Bank Ltd.
3. Nabil Bank Ltd. (Nepal Arab Bank Ltd.)

1.1.1 A Brief Introduction of Sample Commercial Banks and Finance Companies.

1. Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited, formerly known as Nepal Grind lays Bank Limited was incorporated in the year 1985 and has been in operation since 1987. On 31st July 2000, Standard Chartered Bank concluded the acquisition of ANZ Grindlays Bank form the Australia and New Zealand Banking Group Limited. With this acquisition, 50% shares of Nepal Grind lays Bank Ltd. (NGBL) previously owned by ANZ Grindlays are now owned by Standard Chartered (Grind lays Bank Ltd) leading to the name change of the Bank to Standard Chartered Bank Nepal Limited with effective from 16th July 2003. The equity composition of Standard Chartered Bank Nepal Ltd. is as follows:

1. Standard Chartered Grind lays Bank – 50%
2. Nepal Bank Limited - 33%

3. General Public - 17%

The Bank focuses mainly on corporate, consumer and commercial banking. It provides service for international firms, as well as embassies, aid agencies, airlines, hotels and government corporations.

The banking services range including full trade finance capabilities as well as working capital and medium term loan facilities, remittances, deposit services, credit card and ATM. For international firms, Standard Chartered Bank Nepal Limited has specialized in foreign trade, bonding, remittance services and foreign exchange. (<http://www.standardchartered.com/np>)

2. Nepal SBI Bank Limited

Nepal SBI Bank Ltd. (NSBL) is the first Nepal- Indo joint venture bank in the country. It is sponsored by three institutional promoters. They are State Bank of India, Karmachari Sanchaya Kosh (Employees Provident Fund) and Agricultural Development bank of Nepal (ADB/N). Nepal SBI Bank Limited became operational on the 8th July 1993.

The bank was registered on 2050/ 01/16 (28.04.1993) in the Department of Industry, Nepal Government (NG) under the Company Act 2021 and Commercial Bank Act 2031. The formal inauguration of Nepal SBI Bank Limited took place on 7th July 1993. It commenced its operations on 2050/03/24 (8th July, 1993). The equity composition of the Bank is as follows:

1. State Bank of India – 50%
2. Employee Provident Fund -15%
3. Agricultural Development Bank-5%

4. General Public -30%

The services provided by Nepal SBI Bank Limited include deposits, remittances, various types of loan facilities, letter of credit, bank guarantees, retail financing (house loans, vehicle loans and education loan), ATM facility, 365 days banking etc. (<http://www.nsbl.com.np>)

3. Nabil Bank Limited (Nepal Arab Bank Limited)

Nabil was incorporated in the year 1984. It commenced its operation on 12th July 1984 as the first joint venture bank in Nepal. It was listed in the Nepal Stock Exchange in the year 1986. (08/09/2042 B.S.). Dubai Bank Ltd. Dubai (Later acquired by Emirates Bank International Ltd. Dubai) was the first joint venture partner to Nabil currently, NB (International) Ltd., and Ireland is the foreign partner. Nabil Bank Limited had the official name Nepal Arab Bank Ltd. till 31st December 2001. The equity composition of Nabil is as follows:

1. NB (International) Ltd, Ireland – 50%
2. Nepal Industrial Development Corporation (NIDC)-10%
3. Rastriya Beema Sansthan -9.67%
4. Nepal Stock Exchange Limited-.33%
5. General Public-30%

NABIL Bank is the pioneer in introducing many innovative banking services and marketing concept in banking sector of Nepal. It operates its activities through 15 branches and 2 counters. It is the only bank having presence in the Tribhuvan International Airport. Some of the services provided by NABIL Bank Limited are accepting deposits, documentary credit, guarantees,

collections, credit cards, Tele- banking, safe deposit, fund transfer etc. (<http://www.nabilbank.com.np>).

Although, there are many finance companies actively running in the country (approx. 79), there are 55 finance companies, which are listed in the securities board as on mid December, and only few companies whose shares are traded actively in stock markets. Only three finance companies have been selected as samples. They are following

1. Everest Finance Company Ltd.
- 2 Siddhartha Finance Company Ltd
3. Butwal Finance Company Ltd.

A short description of these sample finance companies portray below.

1. Everest Finance Company Ltd.

It was established in 2058/3/18 under the company act 1964, with an objective of mobilizing scattered savings through various schemes and organizes them in different sectors of the economy for the economic development of the country. The company commences its operation on May 1993 in accordance with finance company act, 1985. Besides accepting deposits and providing loans and advance the company undertook the job of market making for listed corporate securities issue management under writing and other capital market activities as a market maker till December 1996. But in January 1997, the security dealers (primary market) gave up the market making functions. As on 2064/065 the total issued and paid up capital was Nrs. 95.04 Millions.

2. Siddhartha Finance Company Ltd.

Siddhartha Finance Company Ltd. was established in 2052 jstha11mmk under the company act 1964. The objective behind the establishment is to collect scattered savings and to deploy it in productive work through various schemes. The company was listed in the securities board in 1998. The head office of this finance company is situated at Birgunj. As on 2064/065 the total issued and paid up capital was Nrs. 60 Millions.

3. Butwal Finance Ltd.

BUtwal Finance Co. Ltd. was established in 2055/3/25

under the financial company act 1985. Now it has taken fourth position for developing superior experience of customer services in the field of financial sector. It has satisfied its customers by giving high interest rate and high customer oriented services. The main objective of this company is to collect money from its depositors and to provide low interest level loan to the customer. Its strategy itself replies that customers would not be satisfied unless their economical progresses are raised. This company has issued its share to the public by capitalizing their experiences and efficiencies. As on 2064/065 the total issued and paid up capital was Nrs. 42.17 Millions.

Its total capital has been divided 60 to 40 ratio bearing from founders and general public respectively. For the first starting year, it could success to gain high profit and has maintained same progress but it does not neglect to grab the opportunities of investing to other field. It provides remarkable dividend to its shareholders. Nepal Rastra Bank directly regulates its financial policy, besides this, it regulates itself by taking the crucial advices from its internal auditor and external experts viz Chartered Accountant. It claims itself the only one

financial institution outside the valley, which regularly publishes the internal report such as; balance sheet, income statement and profit and loss account to the national details.

Services provided by this company are:

-) To give high interest rate to its depositors.
-) To provide various loan programs such as home loan, industrial loan, and hair purchase loan, bushiness loan, educational loan, etc.
-) To guarantee to the public for govt. bid, performance bid and other type of guarantees.

1.2 STATEMENT OF THE PROBLEM

Commercial Banks in Nepal have not adopted consistent policy on dividend decision. Firstly, dividend distribution does not match with earnings of Commercial Banks Secondly; there is no proper relationship between dividend and quoted market price of shares. It is affected by the various government rules and regulation for the declaration and distribution of dividend in operation of banking transaction so there is no limitation for the identification of dividend policy in the banking sector specifically. Capital may be raised through debenture, which ultimately affects the risk of the firm. However, dividend is the most important factor, which reflects healthy position of the company.

Following are the major problems that have been identified for the purpose of the study:

- a) Are all Nepalese Commercial Banks and financing companies having uniform practice in dividend distribution?

- b) Is there any consistent relationship of dividend practices with other financial variables?

- c) Does the dividend policy affect the market price of commercial banks and finance companies?

- d) To test, whether or not Nepalese stock market is efficient or not?

1.3 OBJECTIVES OF THE STUDY

The study primarily focuses on the dividend practices of commercial banks & finance companies with a view to suggest maximize the shareholders return, i.e. value of their investment is maximized.

Followings are the specific objectives of the study:

- a) To analyze the dividend practices of selected Nepalese commercial banks & finance companies.

- b) To explore whether dividend practices affect the market price of shares differently in different banks & finance companies or not.

- c) To examine the relationship of dividend with other financial variables in order to arrive at a consistent conclusion for the selected commercial banks and finance companies.

- d) To provide necessary suggestions and recommendation on the basis of the above studies and findings.

1.4 Limitations of the study

The limitations of the study are as follows:

- a) Data are collected from primary and secondary sources. Therefore analysis and interpretation are dependent on the availability and accuracy of secondary data.
- b) This study covers five fiscal year period i.e. from 2003/4 2007/2008
- c) Limited time and resources are also constraints.
- d) Only three banks and three finance companies are taken for samples.
- e) Study is prepared in partial fulfillment for the requirement of Masters Of Business Studies(MBS).

1.5 SIGNIFICANCE OF THE STUDY

The study has been organized into five chapters, each devoted to some aspects of the study of corporate dividend practices in Nepal. The titles of each of these chapters are as follows:

Chapter One

Chapter one deals with the subject matters of the study. It consists of introduction, background of commercial Banks and Finance companies,

statement of the problem, objectives of the study, limitation of the study and significance of the study.

Chapter Two

It deals with review of literature. It includes a discussion on the conceptual framework on dividend. It also reviews the major studies relating with dividend decision of several authors and from the several books and journals.

Chapter Three

Explains the research methodology used to evaluate dividend practices of commercial bank and financial institutes in Nepal. It consists of introduction, research design, selection of sample, source of data collection, method of analysis financial tools and statistical tools.

Chapter Four

Chapter four fulfills the objective of the study by presenting data and analyzing them with the help of various statistical tools as per methodology.

Chapter Five

It states summary, conclusions and recommendation of the study.

CHAPTER - II

REVIEW OF LITERATURE

After selecting the topics of the research, researcher study different magazines, journals, and newspaper, book to collect the information about their subject matter. This process of studying different materials, which are concerned with the selected topics of the research, is known as review of literature. P.V. Young argues "Review of literature is useful in research because it provides the insight and general knowledge about the subject matter of research".

2.1 CONCEPTUAL FRAMEWORK

The dividend decision or dividend policy of a firm is one of the major decision making areas of financial management. Simply, the policy of a company and the division of its profit between dividend and retention are known as dividend policy. "While dividend policy refers to the guidelines that management uses in establishing portion of earning that is paid to the shareholders in the form of dividend". (*Mathea, 1979/297*). The firm will use the net profit for paying dividends to the shareholders, if the payment will lead to maximization of the wealth of the owners, if not, it is better to retain them for re-investment.

How much dividend should be retained in business, is not a simple question. Since dividends would be more attractive to shareholders, one might not hesitate to say that dividends weight more than retention in the perception of the shareholders. But one might equally pressure that gross dividend would be reduced some what with an increase in net after tax dividend still available to shareholders and an increase in retained earnings for the corporation. It would be wise policy to maintain balance between shareholders interest with that of corporate growth from initially generated fund. If the company cannot get

required rate of return by investing the funds in investment opportunities, it will be better to distribute funds so that the shareholders can invest in the more profitable project. This arguments of funds plugging back into the firms/companies in an analogy to the financial management's objective to increase the value of the shareholders wealth or well being and that well being can be measured by dividend received but more accurate measure is the market value of the stock (*William, 1973*).

Normally, dividends are paid in cash, which decrease the cash balance of firm. It affects the investor's attitude, financial structure, corporate liquidity and the flow of funds.

2.1.1. Forms of Dividend

In addition to the declaration of cash dividends, the firm has other options for distributing profits to shareholders (Hmapton 4th edition). Other option may be the payment of the bonus shares or stock dividend. In this section, stock split is also discussed. The stock split is not a form of dividend; but its effects are similar to the effects of the bonus share.

I) Cash Dividend

Cash is a major form of dividend. Most of companies pay dividend in cash. A company should have enough cash in its bank account when cash dividends are declared. To pay cash as a dividend, the company should have enough cash. If the company has not sufficient cash than the company should made arrangement to borrow funds. When the company follows a stable dividend policy, it should prepare a cash budget for coming period to indicate the necessary funds, which would be needed to meet the regular dividend payment of the company. The cash account and the reserve account of a company will

be reduced when the cash dividend is paid. Thus, both the total assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend is distributed.

II) Stock Dividend (Bonus shares) and share split

A stock dividend is simply the payment of additional shares of common stock to shareholders. It occurs when the board of directors authorizes a distribution of common stock to existing shareholders. This has the effect of increasing the number of outstanding shares of the firm's stock. The bonus shares do not affect the wealth of the shareholders. In practice, however it carries advantage both to shareholders and the company. For shareholders, one of the advantages for receiving the bonus shares is the beneficial treatment of such dividends with regard to income tax. Normally, it is also indication of higher future profits. The declaration of the bonus issue may have a favorable psychological effect on shareholders. The bonus share is also advantageous to the company because it conserves the cash and only means to pay dividend under financial difficulty and contractual restrictions.

A stock split is eventually the same, as stock splits. The shareholders are given more number of shares, for the old shares they already own. In either case, each shareholder retains the same percentage of all outstanding stock that he or she had before the stock dividends or splits.

III) Bond Dividend

Bond dividend distributed its shareholders in form of bonds. Bond dividend assists to postpone the payment of cash. In other words, company declares dividend in the form of its own bond with a view to avoid cash outflows.

IV) Scrip Dividend

When earning of the company justifies dividends but the company's cash position is temporarily weak and does not permit cash dividend, it may declare dividend in the form of scrip. In this method of dividend, company issues and distributes transferable promissory notes to shareholders, which may be interest bearing or not. Scrip dividend is justified only when the company has really earned profit and has only to wait for the conversion of others current assets into cash in the course of operation.

V) Property Dividend

This involves a payment of assets/ property in any form other than cash. This form of dividend may be used when there are assets that are no longer necessary in operation of the business or in extraordinary circumstances. Companies owned products and securities of subsidiaries are the examples that have been paid as property dividend.

2.1.2 Corporate Share Repurchase

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

the funds out in increased dividends" (*Horne: 10th edition. April 1997. P-331*). It is thus corporate share repurchase is often viewed as an alternative to pay dividends. A repurchase is a signal that manager, who posses an insider's knowledge of the firm, are convinced that their stock is worth more than its current price. In addition, their conviction is strong enough to lead them to pay a premium for the stock despite the risk of dilution if they are wrong. Nepalese Company Act 1997, section 47 has prohibited company from purchasing its own shares. It states that no company shall repurchase its own share or supply loans against the security of its won share.

James C. Van Horne quoted that eh equilibrium share repurchase price P^* , a company should offer is:

$$P^* = \frac{S | P_c}{S Z N}$$

Where,

S = Number of shares outstanding prior to the distribution.

P_c = Current market price per share prior to the distribution.

N = Number of share to be repurchased.

2.1.3 General Types of Dividend Policies

In general, the assumption behind the dividend policy being followed in the real world is that policy makers takes into account the factors that affect the values of the firm in whatever policies they make. But it is very difficult to say, which policy, among all those being adopted by firms, is correct and optimal. The dividend policy can be simply grouped into four general categories.

I) Stable Rupee Amount Policy

The stable rupee amount policy implies a steady change in dividend amount, which increases at a certain constant growth rate to compensate for inflationary effect (or remain constant or decreases at a stable decreasing rate depending on the trend of earnings) irrespective of short-term fluctuations in earnings.

II) Constant Payout Ratio

The policy to distribute a certain percentage of profit every period is called payout ratio. The payout ratio is the ratio of dividend to profit. There are many companies, which use a constant percentage of profit for dividend distribution? When a company uses a constant payout ratio, amount of dividend fluctuates as earning do.

III) Low Regular plus Extras

Those companies whose stockholders prefer at least a certain amount of regular dividend plus extra dividend based on company performance mostly follow this type of policy. Management fixed a minimum regular dividend to be paid in any case unless a long run trend of losses is expected. The amount of extra dividend depends on the level of earnings. Thus, a total dividend each stockholder receives is based on a fixed amount plus a certain percentage of profit.

IV) Residual Dividend Policy

There are many factors, each noted before, which influence dividend policy. However, among all earnings and investment opportunities are considered as determining factors in the residual dividend policy. It is the outcome of belief that investors are better off in reinvesting company profits and they prefer so. If

the expected return on the reinvestment is higher than what individual investors can realize on their own, it is to the shareholders advantage to first invest profits in those projects that promise higher profit and then distribute only the leftovers as dividends.

The residual dividend policy states that profit should be used first in all profitable investment plans, which reflect equal or higher rate of return than investor's opportunity rate of return. And if there is any profit left that could not be utilized, it should be distributed as dividends. The principle on which the theory is based is clear, that is, to maximize the benefits to shareholder be first undertaking investment plans and distributing dividends if there is any leftover.

The residual policy says that the dividends decisions should be such that (a) profits are reinvested to the optimum investment level that reflects maximum returns; (b) reinvestment of profits help maintain optimal capital structure; and (c) dividends are to be paid only if earnings are more than enough for investment plans. Thus, the residual policy is consistence with the basic objective of value maximization, places more importance to overall value maximization than present dividend to shareholders.

Although the residual theory of dividends appear to make further analysis of dividend policy unnecessary, it is indeed not clear that dividends are solely a means of disbursing excess funds. It would therefore be imprudent to conclude that there are no other implications of dividend policy, and so this study shall take a closer look at the relationship between dividend and value.

(Pradhan, 1st edition, 1992: P-377)

2.2 FACTORS AFFECTING DIVIDEND POLICY

Many considerations may affect a firm's decision about its dividends, some of them are unique to that company, and some of the more general considerations are given subsequently.

2.2.1 Legal Rules

Certain legal rules may limit the amount of dividends a firm may pay. These legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividends. Second specific limitations, which is vary by state. Generally a corporation may not pay a dividend at following condition.

- i. If the firm's liabilities exceed its assets.
- ii. If the amount of the dividend exceeds the accumulated profits (retained earnings)
- iii. If the dividends are being paid from capital invested in the firm.

The second type of legal restriction is unique to each firm and result from restriction in debt and preferred stock contracts.

2.2.2 Liquidity Position

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

2.2.3 Restrictions in Debt Contracts

Restrictions in debt contracts may specify that dividends may be paid only out of earnings generated after signing the loan agreement and only when net

working capital is above a specified amount. Also, preferred dividends take precedence to common stock dividends.

2.2.4 Desire of Shareholders

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

In a closely held company, management usually knows the desires of shareholders. So, they can easily adopt a dividend policy that satisfies all shareholders. But in a widely held company, number of shareholders is very large and they have diverse desire regarding dividends want cash dividends, while other prefers bonus share.

2.2.5 Rate of Asset Expansion

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

2.2.6 Profit Rate

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

2.2.7 Stability of Earnings

A firm that has a stable earnings trend will generally pay a larger portion of its earnings in dividends. If earnings fluctuate significantly, a larger amount of the

profits may be retained to ensure that enough money is available for investment projects when needed.

2.2.8 Tax Position of Shareholders

The tax position of stockholders also affects dividend policy. Corporation owned by largely taxpayers in high income tax brackets tend toward lower dividend payout where as corporations owned by small investors tend toward higher dividend payout.

2.2.9 Control

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

2.2.10 Access to the Capital Markets

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

2.3 Rules regarding Dividend practices in Nepal

Nothing had been explained about dividend practice in Company Act 2021 in Nepal but after the establishment of Security Exchange Act 1983, Nepal Stock Exchange Limited which safeguard the investor's interest. After that, in 1997 Nepal Company Act has amended which had made some legal provision for dividend payment. These provisions may be seen as under :(*Endi Consultants Research Group 1997/ 43*)

Section 2 (m) states that stock dividends (Bonus share) means share issued in the forms of additional shares to shareholders by capitalizing the surplus from

the profit or the reserve fund of the company. The term also denotes an increase in the paid up values of the shares after capitalizing surplus or reserve fund of a company. The term also denotes an increase in the paid up values of the shares after capitalizing surplus or reserve funds. (*Endi Consultants Research Group page 60*)

Section 47 has prevailed company from purchasing its own share. This section states that no company shall purchase its own shares or supply loans against the security of its own. (*Endi Consultants Research Group pp. 94*)

Section 137, Bonus shares & sub section (i) states that the company must inform the office before issuing bonus shares under sub section (i), this may be done only according to special resolution passed by the general meeting. (*Endi Consultants Research Group pp. 94-95*)

Section 140: Dividend and sub section of this section are as follows.

1. Except in the following circumstance, dividend shall be distributed among the shareholder with in 45 days from the date of decision to distribute them.

- a) In case any law forbids the distribution of dividends.
- b) In case the right to dividend is disputed.
- c) In case dividends can not be distributed with in the time limit, mentioned above owing to circumstances beyond anyone control and without any Fulton the part of the company.

Sub-section (2): In case dividends are not distributed with in the time- limit in sub- section (1), this shall be done by adding interest at the prescribed rate.

Sub- section (3): Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.

The above rules indicate that Nepalese law prohibits repurchase of stock, which is against the theory of finance. The reason for this kind of provision is not known.

2.4 Review of Major Studies in the Relevant Field

Here, we are going to review of the major studies concerning dividends, behavioral aspect of dividend policy, and its effect upon value of enterprises and dividend's effect on market price of share.

2.4.1 Walter's Study

James E. Walter in his study concluded that the choice of dividend policies almost always affects the value of enterprises. (*Walter, 1996/29- 44*). In his study he suggests that dividend practice of firm affects its stock price. Walter's specially highlight that, there is significant relationship between internal rate of return and cost of capital, which is the main determining factor to retain its earnings or to distribute dividend to shareholder.

His study was based on the following assumptions

- ❖ The firm finances all investment projects through retained earning.
- ❖ All earning are either distributed as dividend or reinvested internally.
- ❖ The firm's internal rate of return (r) and its cost of capital (K) remain constant.
- ❖ There is no change in value of earnings per share and dividend per share.
- ❖ The firms have perpetual life.

Based on these assumptions, Prof. Walter develops a model to determine the market price per share as follows:

$$P = \frac{DPS \left[\frac{1}{1+r/k} + \frac{1}{(1+r/k)^2} + \dots + \frac{1}{(1+r/k)^N} \right] + \frac{EPS}{k}}{K}$$

Where,

P= Market price per share

DPS= Dividend per share

EPS= Earnings per share

r= Internal rate of return

K= Cost of Capital

According to this study the given firm may have three probable conditions.

They are:

Growth First, $r > K$

If the firm's internal rate of return is more than cost of capital, the relation between dividend and stock price is negative, i.e., more dividend leads to low stock price and vice-versa. This kind of firm is referred to as growth firm. The zero dividend payout ratios would maximize the market value of stock for growth firm.

Normal Firms, $r = K$

If a firm has $r = K$, there is no relation between dividend and stock price, i.e., there is no role of dividend payout ratio for determining stock price. In this situation the firm is indifferent whether to retain its earnings or to pay dividends, such firms are called normal firm.

Declining Firms, $r < K$

If the firm's internal rate of return is less than the cost of capital, the relation between dividends and stock prices is positive, i.e., increase in payout ratio leads to increase in stock price. This type of firm referred to declining firm. Prof. Walter argues that 100% dividend payout would optimize the market price of share for such firm.

In this way, Walter's study conclude that dividends are negatively correlated with market value of stock for growth firm, positively correlated for declining firm and there is no relation between market value and dividend payout ratio for normal firm.

2.4.2. Gordon's Study

In 1962, Myron Gordon developed his theory. In his study he concluded that dividend policy of a firm affects its value. (*Gordon, 1962/ 57*).

A firm having greater investment opportunities tends to increase retention ration by keeping low dividend payout ratio. In his dividend model, he assumes that the firm in all equity financed and also making the firm to rely on retained earnings without external financing. According to him, market value of the share is equal to present value of an infinite stream of dividend to be received by the share.

Basically his model based on the following assumptions:

- a. No external financing is available i.e., only source is retained earning.
- b. The firm uses equity capital only.
- c. Internal rate of return (r) and cost of capital (K) of the firm remains constant.
- d. The firm has a perpetual life.

- e. There are no taxes on corporate income.
- f. The growth rate, $g = br$, is constant forever.
- g. Growth rate is always smaller than cost of capital [$g < k$].

From, his above assumption, Gordon develop following formula for finding out the market value per share,

$$P = \frac{E(1 - Zb)}{Ke - Zb.r}$$

Where,

P= Market value per share

E= Earning per share

b= Retention ratio

Ke= Cost of capital or capitalization rate

r= Interest rate of return

b. r= growth rate (g)

$1 - b$ = Dividend payout ratio i.e. percentage of earning distributed as dividend.

According to his study, following facts are revealed.

- In case of growth firm, share price tends to decline in corresponding with increase in payout ratio or decrease in retention ratio i.e. high dividend corresponding to earnings leads to decrease in share price. Therefore, dividend and stock price are negatively correlated in growth firm.
- In the normal firm, share price remain constant regardless of change in dividend policies. It means dividend and stock prices are free from each other in normal firm.

In the case of declining firm, share price tends to rise in correspondence with raise in dividend payout ratio. It means dividend & stock prices are positively correlated with each other in a decline firm.

2.4.3. Linter's Study

During 1956, Linter research an important study of the behavioral aspect of dividend policy in the American context. From the tested of 28 companies in America partial adjustment model was developed by him. From this he concluded that a major portion of the dividend of a firm could be expressed in the following way. (*Linter 1956/ 97-113*)

$$\text{Div}_t^* = P^{\text{EPS}}_t \quad \text{.....(i)}$$

$$\text{and } \text{Div}_t^* - \text{Div}_{t-1} = a + b (\text{Div}_t^* - \text{Div}_{t-1}) + e_t \quad \text{.....(ii)}$$

$$\text{or } \text{Div}_t = a + b \text{Div}_t^* + (1-b) \text{Div}_{t-1} + e_t \quad \text{.....(iii)}$$

Where,

Div_t^* = firm's desired payment

Eps_t = Earning per share

P = targeted payout ratio

a = Constant relating to dividend growth

b = Adjusted factors relating to previous period's dividend and new desired level of dividend whose $b < 1$.

The major findings of this study were.

-) Firms generally think in terms of proportion of earning to be paid out.
-) Investment requirements are not considered for modifying the pattern of dividend behavior.

) Firm generally have target payout ratio in view while determining change in dividend, or dividend rate.

2.4.4 Modigliani and Miller's Study

In 1961 Modigliani and Miller, for the first time in the history of finance argued that the dividend policy doesn't affect words. Divided has no effect on the stock price of the firm. In other words dividend has no effect on the stock price of the firm. They argued that the value of the firm depends upon the firm's earnings, which depends on its investment policy. That's why, MM theory; a firm's value is independent of dividend policy. (*Modigliani & Miller 1961/411-433*)

This study is based on the following assumption:

- ❖ The firm operates in perfect capital market.
- ❖ These are no taxes.
- ❖ The firm has a fixed investment policy, which is not subject to change.
- ❖ Risk of uncertainty does not exist.

Considering the above critical assumption MM provide the proof in support of their arguments.

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

Where,

nP_0 = Value of firm

P_1 = Market price of the share at the end of year.

n = No. of additional share

ζ_n = No. of new shares at the end of the period.

I = Total investment

E = Total Earning of the firm.

By taking the above equation, it is formed that there is no role of dividend in estimating the value of firm. So Modigliani & Miller concluded that dividend policy has no effect on the share price or value of the firm.

Hence, MM theory concluded that, it seems that under the conditions of perfect capital market, rational investors, absence of tax discrimination between dividend income and capital appreciation, given the firm's investment policy, its dividend policy may have no influence on the market price of the share. (*Modigliani & Miller 1966/ 345*)

2.4.5 Van Horn & Mc - Donald's Study

Van Horn and Mc Donald conducted a more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. They explored some basic aspects of conceptual framework, and empirical tests were performed during year-end 1968, for two industries, using a well-known valuation modal. The required data were collected from 86 electric utility firms included on the COMPUSTAT utility data tape and 39 firms in the electronics and component industries as listed on the Compute industry data tape. (*Van Horne & McDonald 1971/507-519*)

They tested two regression models for the utilities industries.

First model was,

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + U$$

Where,

P_0/E_0 = Closing market price in 1968 dividend by average EPS for 1967 and 1968

g = Expected growth rate, measured by the compound annual rate of growth in assets per share for 1960 through 1968.

D_0/E_0 = Dividend payout, measured by cash dividend in 1968 dividend by earnings in 1968.

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

u = Error term

The Second Model was,

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + a_4 (F_a) + a_5 (F_b) + a_6 (F_c) + a_7 (F_d) + U$$

Where,

F_0, F_b, F_c and F_d are dummy variables corresponding to new issue ratio (NIR) groups A through D.

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

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

$$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (Lev) + a_4 (OR) + U$$

Where,

Lev= Financial risk, measured by long-term debt plus preferred stock dividend by net worth as of the end of 1968.

OR= Operating risk, measured by the standard error for the regression of operating earnings per share on time of 1960 through 1968, and rest are as in first model above.

By using these models or methodology, they compared the result obtained for the firms, which both pay dividends and engage in new equity financing with other firms in and industry. They concluded that for electric utility firms in 1968, share value was not adversely affected by new equity financing in the presence of cash dividends, except for those in the highest new issue group and it made new a mostly costly form of financing than the retention of earning. They also indicated that the payment of dividends through excessive equity financing reduces share prices for electronics, electronic components industry, a significant relationship between new equity financing and value was not demonstrated.

2.4.6 R. Richardson Pettit's Study

In 1972 R. Richardson Pettit's developed a theory, which is most comprehensive that was "Dividend announcement security performance and capital market efficiency". The main objective of the study was to offer further evidence about the validity of efficient market's hypothesis by estimating the speed and accuracy with which market price rear to announcements of changes in the level of dividend payment. The objectives were to provide evidence on the hypothesis that changes in dividend levels convey important information to market participants. For the purpose of the study, they collected necessary data monthly and daily. In the context of monthly data, they collected 625 New York Stock Exchange (NYSE) firms for the period of Jan. 1964 through June

1968 from the wall street journal index whereas daily data were collected for 135 announcements made in the 1967- 1969. (*Pettit, 1972/ 993-1008*)

They employed well-known model, i.e. market model

$$R_{it} = R_{mt} + u_{it}.$$

Where,

R_{it} = The investment relative of the i^{th} security in time period t .

R_{mt} = The investment relative to the market.

u_{it} = A random error term incorporating the effect of the factors that affect only the i^{th} security.

measures the response of this security's return to factors that affects the return on all securities.

The result of this investigation clearly supports the proposition that the market makes uses of announcement of changes in dividend payment in assessing the value of security. Management's fear of reducing or omitting dividends seems well founded and leads to a desire to delay increasing dividend until a level of cash flows can be estimated with little uncertainty. They suggest at least two conclusions regarding rules and regulations of corporate disclosure.

2.4.7 Friend and Puckett's Study

Friend and Puckett had conducted a study on the relationship between dividend and stock prices based on 110 firms from five industries. There five industries were chemical, electronic, food, steel and electric utilities. The study prior covered a boom year for the economy when stock price leveled off after rise (1956 A. D) and a somewhat depressed year for the economy when stock

prices, however, rose strongly (i.e. 1958 A.D). (*Friend and Marshall, 1964/ 656- 682*)

They used dividends, retained earnings and price earning ratios as independent variables in their regression model of price function. They also used dividend (supply) function on which earnings, last year's dividends and price earnings ration are independent variables.

Their price function and dividend (supply) function can be presented as follows:

I) Price Function

$$P_t = a + bD_t + cR_t + d \frac{E}{P_{t-1}}$$

Where,

P_t = Price per share at time t.

D_t = Dividend at time t

R_t = Retained earning at time t.

$\frac{E}{P_{t-1}}$ = Lagged earnings price ratio.

II) Dividend (Supply) Function

$$D_t = e + fE_t + gD_{t-1} + h \frac{E}{P_{t-1}}$$

Where,

E_t = Earning per share at time t.

D_{t-1} = Last year dividend

This study was based on following assumption.

- a) Dividends do react to year-to-year fluctuation in earnings.
- b) Price doesn't contain speculative components.
- c) Earnings function may not sum zero over the sample.

The conclusion of Friend and Puckett's study was, 'it is possible to increase stock price in non growth industry by raising dividend, and in growth industry by greater retentions or low dividends.

2.4.8 Deepak Chawala and G. Srinivasan's Study

In India, Chawala and Srinivasan studied the impact of dividend and retention on share price. 18 Chemical and 13 sugar industries were selected for the study. *(Chawala, and Srinivasan, 1987/137-140)*

The objectives of their study were as follows:

-) To set a model to explain share price, dividend and retain earnings relationship.
-) To test the dividend, retained earnings hypothesis.
-) To examine the structural changes in the estimated relations over time.
-) To explain the price behavior, they used simultaneous equation model as developed by friend and Puckett (1964).

Price Faction

$$P_t = F [D_t, R_t, \frac{f^p}{E} A / \frac{f}{t} Z1A]$$

Dividend Supply Function

$$P_t = F [E_t, D_{t-1}, \frac{P}{E_s} \text{ / } \beta \text{ Z1A}]$$

Where,

P = Market Price per Share

D = Dividend per share

R = Retained per share

E = Earning per share

$\frac{P}{E^1}$ = Deviation from the sample average of price earning ratio

t = Superscript.

They used two stage least square techniques for estimation and in case of chemical industry they found the estimated coefficient had the correct sign and the coefficient of determination of all the equation were very high. It implies that the stock price and dividend supply variation can be explained by their independent variables. But in case of sugar industry, they found the sign for the retained earnings is negative. Finally, they concluded that dividend hypothesis holds well in chemical industry. Both dividend and retained earnings significantly explain the variation in share price in chemical industry. They also stressed that the impact of dividend is more pronounced than that of the retained earnings but the market has started shifting towards more weight for retained earnings.

2.5 Review of Research Works in Nepalese Perspective

In this regard, there are very few articles published in Nepal under this subsection, the two major studies are reviewed as follows:

2.5.1 Pradhan's Study

This study on “*Stock market behavior in a small capital market: A case study of Nepal*” was based on the data collected for 17 enterprises from 1986 through 1990. (Pradhan, 1993/ 23-49)

The following were the objectives of the study.

-) To assess the stock market behavior in Nepal.
-) To examine the relationship of market equity, market value to book value, price- earnings, and dividend with liquidity, profitability, leverage, assets turnover, and interest coverage.

The employed equation was:

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

Where,

The dependent variable V chosen for the study has been specified as under:

-) Market equity (ME) - Market value of equity to its book value $\frac{MV}{BV}$.
-) Price- earning ratio $\frac{P}{E}$.
-) Dividend per share to market price per share $\frac{DPS}{MPS}$.
-) Dividend per share to earning per share $\frac{DPS}{EPS}$.

LIQ= Current ratio (CR) or quick ratio (QR).

LEV= Long-term debt to total assets $\frac{LTD}{TA}$ or long-term debt to total capitalization $\frac{LTD}{TC}$.

EARN= Return on assets, that is earning before tax to total assets $\frac{EBT}{TA}$ or
earning before tax to net worth $\frac{EBT}{NW}$.

TURN = Fixed assets turnover, that is, sales to average fixed assets $\frac{S}{FA}$, or
total assets turnover, that is sales to average total assets $\frac{S}{TA}$.

COV = Interest coverage ratio, that is, earning before tax to interest.

U = Error term

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

-) Higher the earnings on stocks, larger the ratio of dividends per share to market price per share.
-) Dividend per share and market price per share was positively correlated.
-) Positive relationship between the ratio dividend per share to market price per share and interest coverage.
-) Positive relationship between dividend payout and liquidity.
-) Positive relationship between dividend payout and profitability.
-) Positive relationship between dividend payout and turnover ratios.
-) Positive relationship between dividend payout and interest coverage.
-) Liquidity and leverage ratios are more variable for the stock paying lower dividends.
-) Earnings, assets turnover, and coverage are more variable for the stock paying higher dividend.

2.5.2 Shrestha Study

One article, "Public Enterprises: Have they dividend paying ability"? Was published in 1981 by Prof. Dr. Manohar Krishna Shrestha, which gives short glimpse of the dividend performance of some public enterprise of that time in Nepal. (Shrestha, 1981\p.23)

Dr. Shrestha has highlighted following issues in his article.

- Nepal Government (NG) expects two things from the public enterprises:
 - i. They should be in a position to pay minimum dividend and
 - ii. The public enterprises should be self- supporting in financial matters in future years to come, but non of these two objectives are achieved by the public enterprises.
- Another reason is the lack of self-criticism and self-consciousness. Esman has pointed out that the lack of favorable leaders is one of the biggest constraints to institution building: Moreover, corporate leadership comes as managers of corporations have not been able to identify them regarding what they can contribute as managers of corporations. So, NG must be in a position to develop a financial target in corporate investment by imposing financial obligation on corporation.
- The article point out the irony of government biasness that government has not all owed bands to follow an independent dividend policy and NG is focused to have pressurized on dividend payment in case of Nepal Bank Ltd. regardless or profit. But, it has let off Rastriya Banijya Bank from dividend obligation is spite of considerable profit.

The improvements suggested by author are:

- ❖ Adopt a criteria-guided policy to drain resources from corporations through the medium of dividend payment.
- ❖ Realization by Managers about the cost of equity and dividend obligation.

If Nepal Government wants to tap resources through dividend, the following criteria should be followed.

- ❖ Proper evaluation of public enterprises in term of capability of paying dividend should be made through corporation co-ordination committee.
- ❖ Imposition of fixed rate of dividend by government to all the financially sound public enterprises.
- ❖ Circulating the information to all the public enterprises about the minimum rate of dividend.
- ❖ Specifying performance criteria such as profit target in terms of emphasis, priorities, timing and plans and developing a strategic plan that is not just a statement of corporate aspiration but must be done to convert the aspiration into reality.
- ❖ Identification of corporation objectives in corporation Act, Company Act or special charter so as to clarify the public enterprise managers regarding their financial obligation to pay dividend to NG.

2.6 Review of Previous Thesis

Prior to this thesis, some student has conducted several thesis works. Out of them, as are supposed to be relevant for this study have been reviewed in this section.

2.6.1 Bishnu Hari Bhattari's Study

Bishnu Hari Bhattari in his thesis paper, "Dividend Decision and its Impact on Stock Valuation". (*Bhattari, 1996*) Concludes that-

- a) There is positive relationship between cash flow and current profit and dividend percentage of shares. The degree of relationship is almost perfect. Noteworthy point in Nepalese companies is cash balance is maintained only when there is profit to pay dividend though where they're if both balance of cash and enough net profit only when the dividend is declared.
- b) There are no criteria to adopt payout ratio and it is observed that there is a negative relationship between payout ratio and valuation of shares.
- c) In aggregate, there is no stable dividend paid by the companies over the years. Some companies have steadily increased dividend; it can be inferred that they have adopted low regular plus extra dividend. If there are rational investors, stable dividend influences on valuation of shares. However, this is yet too realized by Nepalese company Management
- d) Inflation rate in recent year are decreasing and the market price of share are increasing. Nevertheless, the companies are not able to give required rate of return to the investors.
- e) There was negative relationship between market price of share and stockholders required rate of return. Shareholders have forgone opportunity income in hope of getting higher return, but the companies have not been able to return even equal to risk free rate of return.

2.6.2 P. L. Rajbhandari Study

This study takes into consideration of data of only five year 1994/95 through 1998/99. The researcher has taken six companies as sample. Her main finding are (*Rajbhandari: 2001*):

- ❖ Average earning per share seems satisfactory of all sample companies.
- ❖ The positive relationship between dividend per share and earning per share.
- ❖ The coefficient of correlation between Earning per share and market price to the negative.
- ❖ The relationship between market price per share and dividend is positive
Dividend payment is not consistency of all six sample companies.

The Institutions do not seem to follow the optimal dividend policy of paying regular dividend as per shareholders expectation and interest.

At first, her study is based on secondary data of past five year 1994/1995 to 1998/99. That may not represent the exact practice of dividend policy of Joint Venture Banks and Insurance Companies based on secondary data only.

Secondly, she did not explain the existing capital market in Nepal.

The dividend it in macro level but it is necessary to do comparative study and analysis of dividend policy in micro level for the as of joint ventures banks and insurance companies as well.

They have not calculated the test of hypotheses, especially ANOVA test therefore, whether the financial indicator such as EPS, DPS & DPR results obtained values are significant or not.

2.6.3 Sadakar Timilsena'a Study

Sadakar Tmilsena in his thesis paper "Dividend and stock price: And empirical study" (*Timilsena, 1997/1-80*) has studied the relationship between dividend and stock price of the sample companies by using the data from 1991 to 1994.

Though it was not very comprehensive, it was the 1st of its kind and able through some light in the Nepalese context.

The objectives of this study were as follows:

- To test the relationship between dividend per share and stock price.
- To determine the impact of dividend policy on stock price
- To identify whether it is possible to increase the market value of stock by changing dividend policy or payout ratio.

Analysis of the result of the sample companies helped him to conclude the following points.

1. The relationship between dividend per share and stock price is positive in the sample companies.
2. Dividend per share affects the share price differently in different sectors.
3. Changing the dividend policy or dividend per share might help to increase the market price of share.

2.6.4 Rishi Raj Gautam Study

This study on dividend policy: Comparative study of three joint ventures banks from 1992 through 1997 the main objective of his study are (*Gautam 1999*):

-) To identify the dividend policy follow by banks and its impact on MPPS.
-) To identify the relationship between DPS and other financial indicator.
-) To know the uniformly among DPS, EPS and DPR of the sample banks.

Following are the finding of his study.

-) No clearly defined dividend policy found followed by the sample banks.
-) No significant relationship between DPS and other financial indicators.

) No uniformly in EPS but prominent difference in DPS and DPR.

At first, number of samples selected for the study are small i.e. only three banks are selected, it would not be reasonable to quote dividend policy is bad or good by comparing three banks only.

Secondly, there are many factors, which affect the dividend policy. These are DPS, EPS, DPR, last year dividend paid, liquidity. Net worth but there were used only a few financial factors among them. Therefore, validity of this results not worthwhile.

2.6.5 Rabindra Paudel Study

A case study of 'Dividend Policy' of different listed finance companies conducted by Rabindra Paudel has concluded that (*Paudel, 2000*):

- ❖ Dividend practices of all the sample companies are neither stable nor constantly growing. Moreover, haphazard way is adopting but in growing trend.
- ❖ Relationship between DPS with EPS, NAPAT and NW are positive in all these finance companies. Whereas relationship between DPS with average stock price is in improving condition with compare to previous year.
- ❖ Change in DPS affects the MPS differently in different finance companies.

The situation of capital markets of Nepal is in improving condition. So the capital markets has mean efficient with compare to previous years. But a still capital market of Nepal is inefficient.

Reviewing the available studies in Nepal, it is found that no one has conducted any studies of dividend practices especially commercial bank and finance companies in combination. Regarding dividend policy, dividend decision is one

of the major decisions of the company. It has direct effect on the market value of share and its trend is very important to attract rational investors.

Actually, Commercial banks are financial institutions provides services, which are different from other like development agriculture etc. So, in commercial bank there should be some unique policy and strategy. This study differs from the previous studies because it tries to analyze the capital market explaining whether the capital market is efficient or inefficient which is not cover by previous studies.

CHAPTER- III

RESEARCH METHODOLOGY

3.1 INTRODUCTION

Research methodology is a way to study systematically to solve the research problem. (C.R. Kothari: New Delhi, 1990). In other words, research methodology describes the methods and processes to be followed during the research. The basic objective of the study is to compare the dividend policy and practices of Nepalese Joint Venture banks and finance companies and the factors that affect it. It also tries to find out the relationship between dividend and earning per share, net profits after taxes, market price of shares and net worth of finance companies as well as Joint Venture banks taken as sample. It is given in another subtopic of this section. Basically secondary data will be used for analysis.

3.2 RESEARCH DESIGN

Research design is a plan, structure and strategy of investigation. It is conceived so as to obtain answers to research questions and to control variance. Research design helps in the analysis of data related to the study topic. It is a controlling media for the collection of data. It helps to collect the accurate information, which is related to dividend practices of the finance companies and JVBs. The research design of this study will be descriptive as well as analytical by using the variables related to the dividend policy of JVBs and Finance Companies. For the analytical purpose, the reports of relative finance companies and JVBs will be collected from the year 2061/ 62 to 2065/2066.

3.3 Populations and Sample

Since mid 1980s when NG (Nepal Government) adopted economic liberalization policy in Nepal, many Joint venture banks and finance companies has established within a short period of time. As a result, now a days, many Joint Venture Banks and finance companies are operating in the country.

There are many Joint Venture Banks whose share is traded actively in the stock market. It is not possible to study all of them regarding the study topic. Therefore sampling technique will be used for selecting sample from population. The list given below shows the listed commercial banks in the securities board.

Out of Twenty Three commercial banks that are operating their activities in Nepal, only fifteen are listed in Nepal Stock Exchange. This research work has selected three Commercial Banks for the study purpose. A list of listed finance companies in the Nepal Stock Exchange is shown in appendix. The samples selected for this study are as given below:

- 1) Standard Chartered Bank Nepal Ltd.
- 2) Nepal SBI Bank Ltd.
- 3) Nabil Bank Ltd.

Thus in our study,

Population Size : 23

Sample Size : 3

In this research study, the sample size is 13.04% of the population size.

Starting from the early 1990s, finance companies have been growing rapidly. The total number of finance company which stood to 47in mid- July 2000

reached to 79 in mid -December 2007. There are 55 finance companies which are listed in the securities board and only few companies whose shares are traded actively in stock markets. A list of listed finance companies in the Nepal Stock Exchange is shown in Appendix.

Hence, it is not possible to study all of them regarding the study topic. Thus, only three finance companies are to be taken as samples. These sample finance companies are different according to their working areas and their objectives. The sample represents 3.8% of total population. They are as follows:

1. National Finance Company Ltd.
2. Mahalaxmi Finance Company Ltd.
3. Narayani Finance Company Ltd.

3.4 Natures / Sources of Data

The study mainly conducted on the basis of secondary data. To analyze the study topic, the required data have been collected from annual reports of concerned joint venture banks and finance companies. Other supplementary data and information are obtained from Nepal Rastra Bank's reports. In addition to it, the other data are collected from financial statement published by Nepal Stock Exchanged Ltd., Ministry of Finance and National Planning Commission.

3.5 Method of Analysis

The analysis collected data of the joint venture banks and finance companies data will be conducted according to the pattern of data. Various financial and

statistical tools have been applied to analyze the variables regarding the study topic. The various calculated results have been obtained through financial and statistical tools. They are tabulated under different headings by using various financial and statistical tools.

3.6 Financial Tools

Financial tools are the tools which help to study the financial strength and weakness of the sample firms. As financial tools the ratio analysis is used in study are as follows:

3.6.1 Earning Per Share (EPS)

Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the profitability of the shareholders investment. The earning per share shows the profitability of the banks and finance companies. A higher earning indicates the better achievements in terms of profitability of the banks and finance companies by mobilizing their funds and vice-versa. In other words, the earning per share indicates the strength and weakness of the banks and finance company performance.

Earning per Share is computed to know the earning capacity and to make comparison between concerned banks and finance companies. This ratio can be computed by dividing the earning available to common shareholders by the total number of common stocks outstanding. Thus,

$$\text{EPS} = \frac{\text{Earning Available to Common Stockholders}}{\text{Number of Common Stock Outstanding}}$$

3.6.2 Dividend Per Share (DPS)

Dividend per share indicates the rupee earnings distributed to common stockholders per share out of earnings available. It measures the dividend distribution to each equity shareholdings. Dividend per share shows the portion of earning distribution to the shareholders on per share basis. Generally, the higher DPS creates positive attitude of the shareholders toward the banks and finance companies. Dividend per share helps to increase the market value to the share. It also works as the indicator for better performance of the bank management.

It is calculated by dividing the total dividend distributed to equity shareholder by the total number of equity shares outstanding. The equation of DPS is given below:

$$\text{DPS} = \frac{\text{Total Amount of Dividend Paid to Ordinary Shareholders}}{\text{Number of Ordinary Shareholders Outstanding}}$$

3.6.3 Dividend Payout Ratio (DPR)

It is the portion of earning paid in the form of dividend. This ratio shows what percentage of profit is distributed as dividend and what percentage is retained for the growth of the banks and finance companies. The dividend payout ratio of the banks and finance companies depends upon the earnings made by the banks and finance companies and the management decision to this effect. Higher earning enhances the ability to pay more dividend and vice-versa.

There is an inverse relationship between dividend and retained earning. The higher the dividend payout ratio, the lower will be the proportion of retained earning and vice versa. The capacity of internal financing of the firm is checked out by the retention ratio.

It is calculated as the percentage of the profit that is distributed as dividend. This ratio is calculated by dividing per share by the earning per share. Thus,

$$\text{DPR} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

$$\begin{aligned} \text{And, Retention Ratio} &= (1 - \text{Dividend payout ratio}) \\ &= (1 - \text{DPR}) \end{aligned}$$

3.6.4 Price Earning Ratio (P/E Ratio)/ Earning Multiplier

Price- earning ratio is also called the earnings multiplier. Price- earning ratio is the ratio of market price per share to earning per share. In other words, this represents the amount which the investors are willing to pay for each rupee of the firm's earnings.

The P/E ratio measures investor's expectation and market appraisal of the performance of the firm. The higher P/E ratio implies the high market share price of a stock. This ratio is computed by dividing Market per share by Earning per share. Thus,

$$\text{P/E Ratio} = \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

3.6.5 Earning Yield (EY)

Earning yield is the percentage of earning per share to market price per share in the stock market. In other words, it is a financial ratio relating to earning per share to the market share price at a particular time. It measures the earning in

relation to market value of the share. It gives some idea that of how much an investor is earning for his money. The share with higher earnings yield is worth buying. It is calculated as:

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

3.6.6 Dividend Yield (DY)

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

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

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

3.6.7 Market Price per Share (MPPS) to Book Value per Share (BVPS)

MPPS is the price of share on which shares are traded in the secondary market. Thus, this price is fixed in the stock market on the basis of demand and supply position for a specified share. Higher MPPS is more desirable.

This ratio measures the market situation per share in the competitive open market with the respect to book value per share of the joint venture banks and finance companies. This ratio indicates the price that the market is paying for the share that is reported from the net worth of the banks and finance companies.

This is important to compare the market share prices of different stocks on the basis of the book value per share. It shows the market share price of a stock as a percentage of book value per share and the effect of later on the former. The higher ratios help to conclude that the better performance of joint venture banks in terms of market price per share to book value per share. This ratio can be derived by dividing market price per share by book value per share. Thus,

$$\text{MPS to BVPS Ratio} = \frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$$

3.6.8 Net Worth Per Share

Net worth per share is a rupee value per share. It is calculated dividing Book Value of Net Worth (Net Worth) by total numbers of share outstanding. Thus,

$$\text{Net Worth Per Share} = \frac{\text{Net Worth}}{\text{No. of Shares}}$$

3.7 Statistical Tools

Besides the financial tools, various statistical tools have been used to conduct this study. The result of analysis has been properly tabulated, compared,

analyzed and interpreted. In this study, the following statistical tools are used to analyze the relationship between dividend and other variables.

3.7.1 Arithmetic Mean or Average ($\bar{\epsilon}$)

An average represents a group of values. It depicts the characteristic of the whole group. It is an envoy of the entire mass of homogeneous data. Generally, the average value lies somewhere in between the two extremes i.e. the largest and the smallest items. It is calculated as follows:

$$\text{Arithmetic Mean } \bar{\epsilon} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N}$$

$$\text{Or, } \bar{\epsilon} = \frac{X}{N}$$

Where,

X = Sum of the sizes of the items

N = Number of items

3.7.2 Standard Deviation (†)

Karl Pearson first introduced the concept of standard deviation in 1983. Standard deviation is the positive square root of the arithmetic average of the squares of all the deviation measured from the arithmetic average of the series. The standard deviation measures the absolute dispersion of a distribution. Greater the amount of dispersion the greater the standard derivation i.e. greater will be the magnitude of the deviation of the values from their mean. A small

standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series. Standard Deviation is denoted by a Greek letter 'σ' (Sigma) and is calculated as follows.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum f_x Z_x^2}{N}}$$

Where,

N = Number of items in the series.

\bar{x} = Mean

X = Variable

3.7.3 Coefficient of Variation (C. V)

It is the measurement of the relative dispersion by Karl Pearson. It is used to compare the variability of two or more series. The series with higher coefficient of variation is said to be more variable, less consistent, less uniform, less stable and less homogenous. On the contrary the series with less coefficient of variation is said to be less variable, more consistent, more uniform, more stable and more homogenous. It is denoted by C.V. and is obtained by dividing the standard deviation by arithmetic mean.

Thus,

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{S. D.}}{\text{Mean}} \times 100 \quad \text{or} \quad \frac{\sigma}{\bar{x}} \times 100$$

Where,

\exists = Standard Deviation

$\bar{\varepsilon}$ = Mean

3.7.4 Coefficient of Correlation (r)

The correlation analysis is a technique used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number which indicates to what extent two variables are related with each other. Similarly, what extent variations in one lead to the variation in the other?

The value of coefficient of correlation always lies between ± 1 . A value of -1 indicates a perfect negative relationship between the variables and a value of +1 indicates a perfect positive relationship. A value of zero indicates that there is no relation between the variables. The zero correlation coefficient means that the variables are uncorrelated. The closer r is +1 or -1, the closer the relationship between the variables and closer r is to zero (0), the less close relationship. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables. It may be direct or inverse.

Thus, in this study, the degree of relationship between the dividend per share and other relevant financial indicators such as, market price per share, earning per share and net worth per share are measured by the correlation coefficient. The correlation coefficient can be calculated as;

$$r = \frac{Covf_{XYA}}{\sigma_x \sigma_y}$$

$$r = \frac{\sum_{i=1}^n (Z_{\epsilon} - \bar{Z}_{\epsilon})(Z_{\psi} - \bar{Z}_{\psi})}{\sqrt{\sum_{i=1}^n (Z_{\epsilon} - \bar{Z}_{\epsilon})^2} \sqrt{\sum_{i=1}^n (Z_{\psi} - \bar{Z}_{\psi})^2}}$$

or ,

$$r = \frac{\rho \phi_{\epsilon} \psi \sum_{i=1}^n (Z_{\epsilon} - \bar{Z}_{\epsilon})(Z_{\psi} - \bar{Z}_{\psi})}{\sqrt{\rho \phi_{\epsilon}^2 \sum_{i=1}^n (Z_{\epsilon} - \bar{Z}_{\epsilon})^2} \sqrt{\rho \phi_{\psi}^2 \sum_{i=1}^n (Z_{\psi} - \bar{Z}_{\psi})^2}}$$

Where,

Σ_x, Σ_y are the standard deviation of the distributions of X and Y values respectively.

Cov (X, Y) = Co variation of X, Y value

$$= \frac{\sum_{i=1}^n (Z_{\epsilon} - \bar{Z}_{\epsilon})(Z_{\psi} - \bar{Z}_{\psi})}{\sum_{i=1}^n (Z_{\epsilon} - \bar{Z}_{\epsilon})^2}$$

Under this study, the correlation between the following variables is analyzed:

- a) Dividend per Share and Earning Per Share.
- b) Dividend per Share and Market price per share.
- c) Dividend per Share and Net Worth per share.

3.7.5 Coefficient of Determination (R^2)

The coefficient of determination is a primary way to measure the extent and strength of the association that exists between two variables, x and y. It refers to a measure of the total variation in a dependent variable that is explained by its linear relationship to an independent variable. The coefficient of determination is denoted by R^2 and the value lies between zero and unity. The

closer unity is greater the explanatory power. A value of one can occur only if the unexplained diagram falls exactly on the regression line. The R^2 is always a positive number. It can't tell whether the relationship between the two variables is positive or negative. The R^2 is defined as the ratio of explained variation to the total variation. Thus,

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

Or,

$$R^2 = \frac{1 - \text{Unexplained Variation}}{\text{Total Variation}}$$

3.7.6 Regression Analysis

Francis Galeton was the first person to introduce the concept of regression. Regression refers to an analysis, which involves the fitting of an equation to a set of data points. Generally it is shown by the method of least square. In other words the correlation analysis shows the direction of movement but it doesn't tell the relative movement in the variable under study. Regression analysis helps to know the relative movement in the variables. Simple regression analysis of the following variables are calculated and interpreted in this study.

A. Dividend per Share on Earning Per Share

For this, following model is used.

$$Y = a + bx$$

Where,

$Y = \text{Dividend per share}$

$a = \text{Regression constant}$

$b = \text{Regression co-efficient}$

$x = \text{Earning per share}$

This analysis enables to know whether EPS is influencing factor of dividend per share or not.

B. Dividend per Share on Market Price per Share

The Model:

$$Y = a + bx$$

Where,

$Y = \text{Market per share}$

$a = \text{Regression constant}$

$b = \text{Regression co-efficient}$

$x = \text{Dividend per Share}$

This model tests the dependency of DPS on MPPS.

C. Dividend per Share on Net Worth

The model:

$$Y = a + bx$$

Where,

$Y = \text{Net worth}$

$a = \text{Regression constant}$

$b = \text{Regression co-efficient}$

$x = \text{Dividend per Share}$

This model tests the dependency of dividend per share on Net worth.

In correlation and regression analysis following statistics has been calculated and interpreted accordingly.

1. **R^2** : It is the co-efficient of determination. It measures the linear association between variables. It tells the explained variation due to independent variable. It is square of co-efficient of co-relation.
2. **Regression Co-efficient (b)**: It describes how the changes in independent variables affect the values of dependent variable's estimate.
3. **Regression Constant (a)**: The regression constant (a) indicates the average effect on dependent variable, if all the independent variables are omitted from the model.

3.7.7 Multiple Regression Analysis

When we take two or more independent variable and predict the value of dependent variable through the appropriate regression time than the analysis is known as multiple regression analysis. It is the correlation coefficient between observed values and values given by the model. The values close to 1 is preferable, since it indicates that the values are closely related. An attempt has done to examine the relationship of market price per share with other key

variables. The results of simple regression analysis eliminate all the limitation of single regression analysis. The key variables are Dividend per Share and Earning per Share. Multiple regression analysis of the following variables is calculated and interpreted in this study are as:

MPPS on DPS and EPS Regression Equation is:

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

$$\text{Or MPPS} = a + b_1 \cdot \text{DPS} + b_2 \cdot \text{EPS}$$

It can also be calculated by another method given below:

$$X_1 - \bar{\epsilon}_1 = \frac{\exists_1 (r_{12} - r_{23} * r_{13}) * (X_2 - \bar{\epsilon}_2)}{\exists_2 (1 - r_{23}^2)} + \frac{\exists_1 (r_{13} - r_{23} * r_{12}) * (X_3 - \bar{\epsilon}_3)}{\exists_3 (1 - r_{23}^2)}$$

Where,

X_1 = Market Price per Share

X_2 = Dividend per Share

X_3 = Earning per Share

b_1 = Regression Coefficient of Dividend per Share

b_2 = Regression Coefficient of Earning per Share

$\bar{\epsilon}_1$ = Mean of Market Price per Share

$\bar{\epsilon}_2$ = Mean of Dividend per Share

$\bar{\epsilon}_3$ = Mean of Earning per Share

\exists_1 = Standard deviation of Market price per Share

\exists_2 = Standard deviation of Dividend per Share

Ξ_3 = Standard deviation of Earning per Share

r_{12} = Correlation between MPPS and DPS

r_{23} = Correlation between DPS and EPS

r_{13} = Correlation between MPPS and EPS

3. 8. The Analysis of Variance Test (ANOVA)

The analysis of variance is a powerful statistical tool for test of significance. The test of significance based on t - distribution is an adequate procedure only for testing the significance of the difference between two sample means. In a situation when we have three or more samples to consider at a time, an alternative procedure needed for testing the hypothesis that all sample are drawn from the population are drawn from the population with the same mean.

By this technique the total variance in the sample data is expressed as the sum of it non-negative component where each of these components is a major of the variation due to some specific independent source or factor or causes. The ANOVA consists in the estimation of the amount of a variation due to each of the independent factor separately and than comparing this estimate due to assignable factor with the estimate due to change factor, the latter being known as implemental error.

Assumption for ANOVA test:

- I. The observations are independent
- II. Parent populations from which observations are taken are normal

III. Various treatment environmental effect are additive in nature

Here one way ANOVA method is used to examine the equality between sample variance.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

Dividend policy is a major decision of the firm due to its decision of dividing net earnings into two parts: the retained earnings and dividends and its impact upon value of the firm. The study contains different objectives, which have already mentioned in the previous chapter. In order to fulfill these objectives, the study attempts to analyze the secondary data regarding dividend policy of joint venture Banks (JV Bs) and finance companies. The analysis includes several tools and techniques such as statistical and financial indicators as well as the attitude of management towards the optimum decision. This analysis is highly supported by the practice of dividend distribution by JVBs and finance companies. Presentation and interpretation of financial statement are done here to serve the objective of this research. Some graphs and diagrams are also used to highlight the company's DPS, EPS and NPAT trend over the five years period.

4.1 Analysis of the Financial tools (Indicators)

4.1.1 Earning Per Share (EPS) - Nrs

Normally, the performance and achievement of a business organization are measured in terms of their capacity for generating earnings. Higher earning indicates the strength and lower earning denotes the weakness of business organization. Earning per share is calculated by dividing the net profit after taxes (NPAT) by the total number of common shares outstanding. EPS is the measurement of good and bad performance of institutions. For instance, higher EPS shows the good performance and lower EPS shows the weak performance. As a result, EPS, the achievement of the institutions are measured with the help

of its capacity to generate higher earning per share. So, higher EPS is the important financial performance indicators of business organization to achieve its goals and objectives. The earning per share of the banks under study is tabulated as follows:

Bank	03/04	04/05	05/06	06/07	07/08	Mean	Std.dev.	C.V.
SCBL	141.13	149.3	143.55	143.14	175.84	150.59	12.91	8.57
NSBL	9.61	11.47	14.26	13.29	18.27	13.38	2.92	21.82
NABIL	55.25	84.66	92.61	105.49	129.21	93.44	24.33	26.04

Table 4.1.1: Earning Per Share of Banks under Study of Financial Indicators.

The EPS of Standard Chartered Bank Nepal Ltd. (SCBNL) ranges between Rs. 175.84 and Rs. 141.13 during the period of the study. In this period the average EPS or mean is Rs. 150.59. The Standard Deviation of the EPS under the period of the study is 12.91. The Co-efficient of variation (C. V) of SCBL is 8.57% on EPS. It indicates that there is 8.57% fluctuation in EPS among the given 5 years period.

During the period of study, Nepal SBI Bank Ltd. (NSBL) has an average EPS of Rs. 13.38 with a standard deviation of 2.92 The EPS ranges between 9.61 and 18.27. The Coefficient of variation 21.82%, which shows that, there is highly fluctuated in EPS of this Bank.

The average EPS of NABIL Bank Ltd, during this period of study, is Rs. 93.44. It stays within the range of Rs. 55.25 to 129.21. The standard deviation of EPS is 24.33 where as the co-efficient of variation 26.04. The CV indicates a moderate fluctuation in the EPS of the Bank as compare to others.

Finally, EPS of commercial banks in Nepal seems to be positive. The average EPS of SCBNL is highest and that of NSBL has lowest value. The EPS range of the banks under study during this period is between Rs. 175.84 to 9.61. Similarly, the standard deviation of NSBL is the highest and SCBNL is the lowest. The coefficient of variation of these banks shows that there is fluctuation in the EPS. If we compare all the banks selected, SCBL has the most consistent EPS among all the sample banks.

The following table shows all the details regarding earning per share, mean, standard deviation and C. V. of sample finance companies.

FC	2003/04	04/05	05/06	06/07	07/08	Mean	St. Dev	C.F.
EFC	55.70	35.75	42.15	69.12	17.37	44.0	30.05	68.30
SFC	37.13	24.6	30.44	26.83	24.66	28.73	4.71	16.39
BFC	24.99	29.88	33.89	33.33	31.83	30.8	3.20	10.43

Table 4.1.1: EPS of Finance Companies under Study of Financial Indicators.

During the period of study, the EPS of EFC ranges between Rs. 17.37 to Rs. 69.12. In this period the average EPS or mean is Rs. 44. The standard deviation of EFC is 30.05, its C.V is 68.30% on EPS. It indicates that there is less consistent in EPS among the selected finance companies. s s

During the period of study, SFC has an average EPS of Rs. 28.73 with the standard deviation of 4.71. The EPS ranges between 37.13 and 24.60. The C.V. 16.39% indicates a moderate fluctuation in the EPS of the finance company.

The earning per share of BFC ranges between Rs. 33.89to 24.99. The mean EPS is Rs. 30.80. Its standard deviation and C.V are 3.20 and 10.43 percent. The C.V of this finance company indicates that there is more consistent in EPS.

4.1.2 Dividend per Share (DPS)

Dividend per share indicates the proportion of earning distributed to owner (shareholder) on per share basis. Generally, the higher DPS creates positive attitude among the shareholders toward the bank, which accordingly helps to increase the market value of shares. The dividends per share of the banks under study are stated in the table below.

Bank	2003/04	04/05	05/06	06/07	07/08	Mean	St.Dev.	C.V.
SCBL	100	120	110	120	140	118	13.27	11.25
NSBL	-	8	-	-	5	2.6	3.32	127.70
NABIL	30	50	65	70	85	60	18.71	31.18

Table 4.1.2: Dividend per Share of Banks under Study of Financial Indicators

The mean DPS of Standard Chartered Bank Nepal Ltd. (SCBL) is Rs 118 with the standard deviation of 13.27. The highest and lowest DPS are Rs. 140 and

100 respectively. The coefficient of variation is 11.25%, this indicates that there is more uniform in the DPS of SCBL during the period of the study.

Nepal SBI Bank Ltd. (NSBL) has an average DPS or Rs. 2.6. The highest DPS is Rs. 8 whereas it has not paid dividend in the year 2003/04, 05/06 and 07/08. The standard deviation is 3.32 and coefficient of variation is 127.69. The CV indicates that the DPS of NSBL is less homogeneous in its DPS.

During this period of study, the average DPS of NABIL is Rs.60. It is within the ranges from Rs. 85 to 30. The standard deviation of DPS is 18.71 whereas the coefficient of variation of 31.18% indicates there is quite fluctuation in DPS.

From the above calculation, SCBL has the highest average DPS and NSBL has the lowest. The C. V. indicates that among the banks under study during period, SCBL has the highest consistency in paying dividend whereas DPS of NSBL is less uniform.

The following table shows all the details regarding Dividend per Share, mean, standard deviation and C. V. of sample finance companies.

FC	03/04	04/05	05/06	06/07	07/08	Mean	St. Dev	C.F.
EFC	20	20	20	10	10	16	4.90	30.63
SFC	25	20	10	30	20	21	6.63	31.57
BFC	20	20	20	20	20	20	0	0

Table 4.1.2: Dividend per Share of Finance Companies under Study of Financial Indicators
EFC has an average DPS of Rs. 16, ranging between Rs. 20 and Rs. 10. The standard deviation is Rs. 4.90 and fluctuations of 30.63 percent in the DPS are seen during this period.

The DPS of SFC ranges between Rs. 25 to Rs. 10, where as the highest DPS in year 2003/ 2004 and the lowest DPS year 2004/05. The mean is 21 and standard deviation is 6.63. The coefficient of variation is 31.57%, which is less stable in is DPS.

The DPS of BFC has remained constant at during the period. This means there is no growth in its dividend. The mean average of DPS is Rs. 20 and standard deviation and C.V is 0 which indicates stability occurs in its dividend.

4.1.3 Dividend Payout Ratio (DPR)

This Ratio shows the amount of dividend as a percentage of earning available for equity share. It depends upon earnings of organization. Greater the earning is the more ability to pay dividend. The DPR of the banks under study are stated in the table as follows.

Bank	2003/04	04/05	05/06	06/07	07/08	Mean	St.Dev.	C.V.
SCBL	70.9	80.4	76.6	83.8	79.6	78.26	4.34	5.55
NSBL	-	69.75	-	-	27.37	19.42	27.3	14.06
NABIL	54.3	59.06	70.19	66.36	65.78	63.14	5.69	9.01

Table 4.1.3: DPR of Banks under the Study of Financial Indicators.

The average DPR of Standard Chartered Bank Nepal Ltd. (SCBNL) is 78.26. It means that SCBNL generally pays 78.26% of its total earning as dividend to its shareholders. The standard deviation of DPR is 4.34. The coefficient of

variation is 5.55%, which indicates that there is more variable in its DPR over the years.

An average DPR of 19.42% of NSBL indicates that it generally pays out 19.42% of its earning as dividend. The standard deviation is 27.30 and coefficient of variation is 14.06%. The C. V. indicates that the DPR of NSBL highly fluctuated during the period of study.

NABIL Bank Ltd. has an average DPR of 63.14% during this period of study. It means that it generally pays 63.14% of its earning to its shareholders in form of dividend. The standard deviation of DPR was 5.69 whereas the coefficient of variation of 9.01% indicates the moderate fluctuating nature of DPS.

The above calculation shows that SCBL has a firm DPR and it also has the lowest CV on DPR among all banks under the study. It shows that SCBNL has the more uniform dividend payments. On the other hand the CV of the remaining banks, except NABIL are high which indicates less homogenous in their DPR.

If analysis is done taking the mean DPR of the sample banks, the highest average dividend payout ratio of the sample banks comes out to 78.26 with a standard deviation of 4.34 and CV of 5.55%. It indicates that, in average, out of the total earnings made 78.26% is distributed as dividend to the shareholders with fluctuation of 5.55%.

The following table shows all the details regarding Dividend Pay out ratio, mean, standard deviation and C. V. of sample finance companies.

FC	03/04	04/05	05/06	06/07	07/08	Mean	St. Dev	C.F.
EFC	35.9	55.94	47.45	14.47	57.57	42.27	15.88	37.57
SFC	67.33	81.30	32.85	111.82	81.10	74.88	25.57	34.15
BFC	80	66.93	59	60	62.83	65.75	7.64	11.62

Table 4.1.3: DPR of Finance Company under the Study of Financial Indicators.

An average DPR of 42.27% is noted during the study period for EFC. The standard deviation of the DPR is 15.88. The C.V. of 37.57% indicates more stable in its dividend payout ratio.

SFC has an average of 74.88%. It means that EFC is generally paying 74.88 of its earning as dividend to its shareholders the standard deviation of DPR is 25.57. The C.V. of 034.15% points toward the assistance in dividend payment behavior.

During the period of study, Everest Finance has an average DPR of 65.75%. The standard deviation of the DPR is 7.64. The C.V. of 11.62% has shown a less consistent behavior of dividend payment by Everest .

The above calculation shows that SFC has highest average of DPR and EFC is lower C.V. on DPR among all finance companies under study.

If analysis is done taking the mean DPR of the sample finance companies, the highest average payout ratio of the sample finance companies comes out to 74.88% with a standard deviation of 25.57 and C.V. of 37.57%. It indicates that in average out of the total earning made a maximum of 74.88% was distributed as dividend to the shareholders.

4.1.4 Price Earning Ratio (P/E Ratio)

Price-earning ratio is the between market price per share and the earning per share. It is also known as earning multiplier. The price- earning ratio of the banks is presented in table below.

Bank	03/04	04/05	05/06	06/07	07/08	Mean	Std.dev.	C.V.
SCBL	11.16	10.98	12.16	16.38	21.47	14.43	4.03	27.93
NSBL	41.72	22.24	21.54	25.21	33.49	28.84	7.71	26.73
NABIL	12.67	8.74	10.8	14.27	17.34	12.76	2.94	23.04

Table 4.1.4: Price Earning Ratio of Banks under Study of Financial Indicators.

The average P/E Ratio of SCBL, during this period of study, is 14.43. It is within the range of 21.47 and 10.98. The standard deviation of P/E Ratio is 4.03 whereas the coefficient of variation of 27.93% which indicates the fluctuating nature P/E Ratio for SCBL.

Nepal SBI Bank Ltd. (NSBL) has an average P/E ratio of 28.84, ranging between 33.49 and 21.54 during the period of study. The standard deviation of 7.71 and the fluctuation of 26.73% in the P/E ratio are seen during this period which is considered to be less uniform.

NABIL Bank Ltd has an average P/E ratio of 12.76. The standard deviation is 2.94 and coefficient of variation is 23.04%. The CV indicates that P/E ratio of NABIL Bank Ltd is more homogeneous.

From the above calculation, NSBL has the highest average P/E Ratio and SCBNL has the lowest. The C.V indicates that among the banks under study during the period. SCBL has the less consistency in P/E ratio whereas the P/E ratio of NSBL is more stable.

FC	03/04	04/05	05/06	06/07	07/08	Mean	St. Dev	C.V.
EFC	9.78	12.73	8.54	4.27	15.14	10.10	3.71	36.73
SFC	11	10	9	10	11	10.20	0.75	7.35
BFC	10.86	11.49	15.41	12.82	13.54	12.82	1.60	12.48

The following table shows all the details regarding Price Earning ratio indicating mean, standard deviation and C. V. of sample finance companies.

Table 4.1.4: P/E Ratio of Finance Companies under Study of Financial Indicators.

EFC has mean average of 10.10 with the standard deviation of 3.71. The coefficient of variation is 36.73% which indicates that it has less uniform in P/E Ratio of EFC.

An average P/E Ratio of 10.20 has been noted during the period of study. The standard deviation of the P/E Ratio is 0.75. The C.V of 7.35% indicates that there is more consistent in the P/E Ratio of SFC.

Everest Finance has an average P/E ratio 12.82. The S. D. is 1.60 and C.V. is 12.48%, which indicates that the finance companies have the moderate fluctuation in P/E ratio among the finance companies under the period of study.

From the above calculation, Everest Finance Company has the highest average P/E ratio and EFC has the lowest. The C.V. indicates that among the finance companies EFC has less consistency in P/E ratio where as the P/E ratio of SFC is more stable.

4.1.5 Earning Yield (EY)

Earning yield is the percentage of earning per share to market price per share in the secondary market. It gives an idea of how much an investor might get for his money. The share with higher earnings yield is worth buying. Earning yield of the banks under the study is presented in the table below.

Bank	2003/04	04/05	05/06	06/07	07/08	Mean	St. Dev	C.V.
SCBL	8.96	9.1	8.23	6.1	4.66	7.41	1.74	23.48
NSBL	2.40	4.50	4.64	3.97	2.99	3.70	0.87	23.51
NABIL	7.89	11.44	9.26	7.01	5.77	2.71	1.95	23.58

Table 4.1.5: Earning Yield of Banks under Study of Financial Indicators

The average of EY of 7.41% with the standard deviation of 1.74 is seen for Standard Chartered Bank Ltd. (SCBL). The highest and the lowest EY are 9.10% and 4.66% respectively. The coefficient of variation is 23.48% during the period of study.

The average EY of Nepal SBI Bank Ltd is 3.70%. The standard deviation is 0.87 and coefficient of variation is 23.51%. The C.V indicates that the EY of NSBL is less homogeneous.

The average EY of NABIL during the period of study is 8.27%. It is within the range of 11.44 and 5.77. The standard deviation of EY is 1.95

whereas the coefficient of variation is 23.58%. The coefficient of variation in EY of NABIL indicates that it has less consistent.

From the above calculations, NABIL has the highest average EY and NSBL has the lowest. The C.V indicates that among the banks, during the period of study, NABIL has the less consistency in its earning yield among the selected banks. The following table shows all the details regarding Earning Yield indicating mean standard deviation and C. V. of sample finance companies

FC	03/04	04/05	05/06	06/07	07/08	Mean	St. Dev	C.V.
EFC	10.22	7.86	11.71	23.43	6.6	11.96	6	50.17
SFC	9	10	11.30	10.20	9.50	10	0.77	7.7
BFC	10.9	11.5	15.40	12.80	13.50	12.82	1.60	12.48

Table 4.1.5: EY of Finance Companies under Study of Financial Indicators

The average EY of EFC is 11.96% noted during the period of study. The standard deviation of the EY is 6.0. The C.V of 50.17% indicating that there is a less consistent in the EY of EFC.

SFC has an average EY of 10.0% ranging between 11.30% and 9.0%, during the period of study. The standard deviation is 0.77 and the fluctuation is 7.70%. The coefficient of variation in EY of EFC indicates that it has the highest among the financial companies under the period of study and more stable in its earning yield.

Everest Finance has an average 12.82%. The standard deviation is 1.60 and coefficient of variation is 12.48%. The C. V indicates that there is moderate fluctuation during this period. From the above calculation, EFC has the highest

average EY and SFC has the lowest. The C.V. indicates that among the finance companies, EFC have the less consistency in its earning yield where as the earning yield of SFC has more homogeneous.

4.1.6 Dividend Yield (DY)

Dividend yield is the percentage of DPS on MPPS. It measures the dividend in relation to market value of share. It is the dividend received by the investors as a percentage of market prices per share in the stock market. This ratio highly influences the market price per share because a small change in dividend per share can bring effective change in the market value of the share. The dividend yields of the banks, under the period of the study, are presented in the table given below.

Bank	03/04	04/05	05/06	06/07	07/08	Mean	St. Dev	C.V.
SCBL	6.35	7.32	6.3	5.12	3.71	5.76	1.24	21.53
NSBL	-	3.14	-	-	0.82	0.79	1.22	154.43
NABIL	4.3	6.75	6.5	4.65	3.8	5.2	1.19	22.88

Table 4.1.6: Dividend Yield of Banks under the Study of Financial Indicators.

The DY of Standard Chartered Bank Nepal Ltd. (SCBL) ranges between 7.32% and 3.71% during the period of study. During this period, the average DY is 5.76%. The standard deviation DY of SCBNL under the period of study is 1.24. The C.V. of 21.53% indicates that the fluctuation of in DY of SCBL is the more stable.

During the period of study, Nepal SBI Bank Ltd. (NSBL) has an average DY of 0.79% with a standard deviation of 1.22. The DY ranges between 3.14% and

00.82%. The coefficient of variation shows that there is a fluctuation of 154.43% in DY of NSBL.

The average DY of NABIL Bank Ltd, during this period of study, is 5.20%. It stays within the range of 6.75% and 3.80%. The Standard deviation of DY is 1.19 whereas the coefficient of variation is 22.88%. The C.V indicates a moderate fluctuation in the DY of the bank.

From the above data and calculation, it can be said that the average DY of SCBL is the highest and that of NSBL is the lowest. The DY range of the banks, during the period a study, is between 7.32% and 0%. Similarly, the standard deviation of SCBL is the highest and NABIL is the lowest. The coefficient of variation of these banks shows a high level of fluctuation in the DY. In comparison, NSBL has the less consistent DY among the selected banks.

The following table shows all the details regarding Dividend Yield indicating mean, standard deviation and C. V. of sample finance companies.

FC	03/04	04/05	05/06	06/07	07/08	Mean	St. Dev	C.V.
EFC	3.7	4.4	5.56	3.39	3.8	4.3	3.4	79.07
SFC	6.02	8.16	3.7	11.36	7.7	7.39	2.53	34.23
BFC	8.7	7.7	9.1	7.7	8.5	8.34	0.56	6.7

Table 4.1.6: Dividend Yield of Finance Companies under the Study of Financial Indicators.

EFC has the DY range between 5.56% and 3.7% during the period of study. An average DY of 4.3% is noted during this period. The standard deviation of the DY is 3.4. The C.V. of 79.07% indicates that there is a fluctuation of 79.07% in the DY of EFC during the period of study.

SFC within the period of study has an average DY of 7.39% ranging between 11.36% and 3.70%. The standard deviation is 2.53 and the fluctuation of 34.23% in the DY, shown by the coefficient of variation.

Everest finance has an average DY of 11.12% with standard deviation 4.76. The DY ranges between 17.41% and 5.2%. The coefficient of variation shows that there is a fluctuation of 0.43% in DY of Everest finance.

From the above data and calculation, it can be said that the average DY of Everest finance is the highest and that of EFC is the lowest.. Similarly, the standard deviation of EFC is the lowest and EFC is the highest. The co-efficient of variation of these finance companies shown fluctuation in the DY. In comparison, EFC has less consistence of DY among the selected finance companies.

4.1.7 Market Price per Share (MPPS)

MPPS is the price of share on which shares are traded in the secondary market. Thus, this price is fixed in the stock market on the basis of demand and supply position for a specified share. Higher MPPS is more desirable. The average market price shares of the banks under study are presented in table as follows.

Bank	2003/04	04/05	05/06	06/07	07/08	Mean	St. Dev	C.V.
SCBL	1575	1640	1745	2345	3775	2216	826.03	37.28
NSBL	401	255	307	335	612	382	124.28	32.53
NABIL	70	740	1000	1505	2240	1237	577.82	46.71

Table 4.1.7: Market Price per Share of Banks under Study of Financial Indicators.

The average of closing MPPS of Standard Chartered Bank Nepal Ltd. (SCBL) during the period of study is Rs. 2216 with a standard deviation of 826.03 and a coefficient of variation of 37.28% under study.

During the period of study, Nepal SBI Bank Ltd. (NSBL) has an average closing MPPS of Rs. 382 with a standard deviation of 124.28. The coefficient of variation shows that there is a fluctuation of 32.53% in closing MPPS of NSBL.

The average of closing MPPS of NABIL Bank Ltd., during this period of study, is Rs. 1237. It stays within the range of Rs.2240 and Rs. 700. The standard deviation of closing MPPS is 577.82 whereas the coefficient of variation is 46.71%.

Finally, the average MPPS of SCBL is higher than other banks. So this bank is in good position but the average MPPS of all sample commercial bank being considered to be encouraging. Almost all banks MPPS is in increasing trend for succeeding years. There is less fluctuation in the MPPS of SCBL and NSBL they have lower coefficient of variation. The MPPS of sample bank has fluctuated in range of 46.71% to 32.53% as indicated by respective C.V of the different sample banks.

The following table shows all the details regarding Market Price per Share indicating mean, standard deviation and C. V. of sample finance companies.

FC	03/04	04/05	05/06	06/07	07/08	Mean	St. Dev	C.V.
EFC	545	455	360	295	263	383.60	104	27.1
SFC	415	245	270	264	260	290.80	62.65	21.54
BFC	230	260	220	260	235	241	16.25	6.74

Table 4.1.7: Market Price per Share of Finance Companies under Study of Financial Indicators.

EFC has the closing MPPS range between Rs. 545 and Rs. 263 within the period of study. An average closing MPPS of Rs. 383.60 is noted during this period. The standard deviation of the closing MPPS is 104. The C.V of 27.10% indicates that there is a fluctuation of 27.10% in the closing MPPS of EFC during the period of study, which is less stable.

SFC, within the period of study, has an average closing MPPS of Rs. 290.80 ranges between Rs.415 and Rs. 245. The standard deviation is 62.65 and the fluctuation of 21.54% in the closing MPPS is seen during this period. Everest Finance has average closing MPPS of Rs. 241 ranging between Rs. 260 to 220. The standard deviation is 16.25 and the fluctuation is 6.74% in the closing MPPS of Everest Finance during the period of study which is more stable. Finally, the average MPPS of EFC is higher than other selected finance companies. So this finance company is in good position but the average MPPS of all selected financial companies being considered to be encouraging. Almost all financial companies MPPS is in increasing trend for succeeding years. There is less fluctuation in the MPPS of EFC due to higher coefficient of variation. The MPPS of sample financial companies has fluctuated in range of 27.10% to

6.74% as indicated by respective C.V of the different sample financial companies.

4.1.8 Net Worth per Share (Nrs.)

Net worth per share (NWPS) is a rupee value per share. It is calculated dividing Book Value of Net Worth (or Net Worth) by total numbers of share outstanding. The dividend yields of the banks, under the period of the study, are presented in the table given below.

Bank	03/04	04/05	05/06	06/07	07/08	Mean	St. Dev	C.V.
SCBL	363.86	403.15	399.25	422.38	468.22	411.37	34.13	8.3
NSBL	131.88	134.03	146.8	159.54	151.78	144.84	10.52	7.26
NABIL	233	267	301	337	381	303.8	51.84	17.06

Table 4.1.8: Net Worth per Share of Banks under Study of Financial Indicators.

The average of NWPS Rs.411.347 with the standard deviation of 34.13 is seen for SCBL. The highest and the lowest NWPS are Rs. 468.22 and 363.86 respectively. The coefficient of variation is 8.30% during the period of study.

The average NWPS of Nepal SBI Bank Ltd is Rs. 144.84. The standard deviation is 10.52% and coefficient of variation is 7.26%. The C.V indicates that the EY of NSBL is more standardized.

The average NWPS of NABIL during this period of study is Rs. 303.8. It is within the range of Rs. 381 and 233. The standard deviation of NWPS is 51.84 whereas the coefficient of variation is 17.06%. The coefficient of variation in

NWPS of NABIL indicates that it has also the less variation than NSBL and SCBL.

From the above calculations, SCBL has the highest average NWPS and NSBL has the lowest. The C.V indicates that among the banks, during the period of study, NABIL has the less consistency in its NWPS among the selected Banks.

The following table shows all the details regarding Net Worth per Share mean standard deviation and C. V. of sample finance companies.

FC	03/04	04/05	05/06	06/07	07/08	Mean	St. Dev	C.V.
EFC	291.79	307.51	252.83	271.94	184.65	261.74	42.72	16.32
SFC	150.90	131.80	140.40	148.90	144.10	143.22	6.79	4.75
BFC	130.80	140.50	148.30	158.20	156.90	146.82	10.48	7.14

Table 4.1.8: Net Worth per Share of Finance Companies under Study of Financial indicators.

EFC has the NWPS range between Rs. 307.51 and Rs. 184.65 within the period of study. An average NWPS of Rs. 261.74 is noted during this period. The standard deviation of the NWPS is 42.72. The C.V of 16.32% indicates that there is a fluctuation of 16.32% in the NWPS of EFC during the period of study, which is higher than others.

SFC, within the period of study, has an average NWPS of Rs. 143.22 ranges between Rs. 150.9 and Rs.131.80. The standard deviation is 6.79 and the fluctuation of 4.75% in the NWPS is seen during this period, which is low.

Everest Finance has an average NWPS of Rs. 146.82 ranging between Rs. 158.20 to 130.80. The standard deviation is 10.48 and the fluctuation is 7.14% in the closing MPPS of Everest Finance during the period of study.

Finally, the average NWPS of EFC is higher than other finance companies. So this finance company is in good position but the average NWPS of all samples financial company is considered to be encouraging. Almost all financial companies NWPS is in increasing trend for succeeding years except Siddhartha Finance Company. There is less consistent in the NWPS of SFC due to lower coefficient of variation. The NWPS of sample financial companies has fluctuated in range of 16.32% to 4.75% as indicated by respective C.V of the different sample financial companies.

4.2. Company wise analysis

4.2.1 Standard Chartered Bank Nepal Ltd. (SCBL)

Variables	Mean	Max.	Min.	C.V. (%)
EPS	150.59	175.84	141.13	8.57
DPS	118	140	100	11.25
DPR	78.26	83.80	70.90	5.55
P/E Ratio	14.43	21.47	10.98	27.93
EY	7.41	9.1	4.66	23.48
DY	5.76	7.32	3.71	21.53
MPPS	2216	3775	1575	37.28
NWPS	411.37	468.22	363.86	8.30

Table 4.2.1: Financial Variables of SCBL

EPS and DPS of SCBL have ranged between Rs. 175.84 to 141.13 and Rs. 140 to Rs. 100 respectively. The mean average EPS and DPS of SCBL is Rs. 150.59 and Rs. 118 respectively. Average DY of the SCBL is 5.76% and its C.V is 17.06%, which indicate that the dividend yield of this bank is slightly low. The average DPR shows that this bank distributed 78.26% of its profit to shareholder and remaining are retained and its coefficient of variation is 5.55% over the years. The average MPPS and NWPS are Rs. 2216 and 411.37 respectively. Their coefficients of variation are accordingly 37.28 and 8.30.

4.2.2 Nepal SBI Bank Ltd. (NSBL)

Variables	Mean	Max.	Min.	C.V. (%)
EPS	13.38	18.27	9.61	21.82
DPS	2.6	8	5	127.7
DPR	19.42	69.75	27.37	14.06
P/E Ratio	28.84	41.72	21.54	26.73
EY	3.70	4.64	2.40	23.51
DY	0.79	30.14	0.82	154.43
MPPS	382	612	255	32.53
NWPS	144.81	159.54	131.88	7.26

Table 4.2.2 Financial Variables of NSBL

DPS of NSBL has ranged from Rs. 8 to Rs.5 and average DPS is Rs. 2.60. The C.V. of its DPS is 127.7%, which indicates 127.7% fluctuation in its average

value. The average DPR is 19.42 and its C. V. is 14.06 which is seen very low fluctuation. The average dividend yield is 0.79% and its C. V. indicates 154.43% fluctuation. The bank's average EPS is Rs. 13.38 and its C. V. is 21.82%. The MPPS of the bank has ranged from Rs. 612 to 255 and average is Rs. 382 and its C. V. is relatively high.

4.2.3 Nepal Arab Bank Limited (NABIL)

Variables	Mean	Max.	Min.	C.V. (%)
EPS	93.44	129.21	55.25	26.04
DPS	60	85	30	31.18
DPR	63.14	70.19	54.30	9.01
P/E Ratio	12.76	17.34	8.76	23.04
EY	8.27	11.44	5.77	23.58
DY	5.20	6.75	3.80	22.88
MPPS	1237	2240	700	46.71
NWPS	303.8	381	233	17.06

Table 4.2.3 Financial Variable of NABIL

NABIL has mean EPS of Rs. 93.44 ranged between Rs. 129.21 to Rs. 55.25 and its coefficient of variation is 26.04%. Banks average DPS, DPR, P/E Ratio and EY are Rs. 60, 63.14, 12.76% & 8.27% respectively. Its DPR shows that the bank has distributed 63.14% of its profit to the stockholders on an average over the years and remaining portion of profit is retained in the bank to meet

other financial requirement. The DY of this bank indicates that the earning yield of this bank is moderate fluctuating of 22.88 %. The average MPPS and NWPS of the bank are Rs. 1237, 303.80 respectively and its coefficients of variation are 46.71, 17.06. The over all financial performance of this bank can be taken as satisfactorily during the study period.

4.2.4 Everest Finance Company Ltd. (EFC)

Variables	Mean	Max.	Min.	C.V. (%)
EPS	44	69.12	35.75	68.3
DPS	16	20	10	30.63
DPR	42.27	57.57	14.47	37.57
P/E Ratio	10.10	15.14	4.27	36.73
EY	11.96	23.43	6.6	50.17
DY	4.30	5.56	3.39	79.07
MPPS	383.6	545	263	27.10
NWPS	261.74	307.51	184.65	16.32

Table 4.2.4 Financial Variables of EFC

DPS of EFC has ranged from Rs. 20 to Rs. 10 and average DPS is Rs. 16. The C.V. of its DPS is 30.63%, which indicates 16% fluctuation in its average value. The average DPR is 42.27, its C. V. is 37.57%. The average NWPS is 2261.74 and its C.V is 16.32%. The average dividend yield is 4.30% and its C. V. indicates 79.07% fluctuation. The EFC average EPS is Rs. 44 and its C. V. is 68.30%. The MPPS of the EFC has ranged from Rs. 545 to 263 and average is Rs.383.6 and its C. V. is 27.10%.

4.2.5 Siddhartha Finance Company Ltd. (SFC)

Variables	Mean	Max.	Min.	C.V. (%)
EPS	28.73	37.13	24.6	16.39
DPS	21	25	10	31.57
DPR	74.88	111.82	32.85	34.15
P/E Ratio	10.2	11	9	7.35
EY	10	11.30	9	7.70
DY	7.39	11.36	3.70	34.23
MPPS	290.8	415	245	21.54
NWPS	143.22	150.9	131.8	4.75

Table 4.2.5 Financial Variables of SFC

SFC has mean EPS of Rs. 28.73 ranges between Rs. 37.13 to Rs. 24.6 and its coefficient of variation is 16.39%. Its average DPS, DPR and P/E Ratio are Rs. 21, 74.88% and 10.20% respectively. Its DPR shows that the finance company has distributed 74.88% of its profit to the stockholders on an average over the years and remaining portion of profit is retained in the finance company to meet other financial requirement. The average NWPS of this bank is 143.22 and its C.V. is 4.75%. The DY of this bank indicates that the dividend yield of this bank is moderate fluctuating of 34.23%. The average MPPS and EY of the finance company are Rs. 230.8 and 10% times respectively. Their coefficients of variation are 21.54% and 7.70%. The over all financial performance of this finance company can be taken as satisfactory during the period of study.

4.2.6 Butwal Finance Company Ltd. (BFC)

Variables	Mean	Max.	Min.	C.V. (%)
EPS	30.8	33.89	24.99	10.43
DPS	20	20	20	0
DPR	65.75	80	59	11.62
P/E Ratio	12.82	15.41	10.86	12.48
EY	12.82	15.40	10.90	12.35
DY	8.34	9.10	7.70	34.23
MPPS	241	260	235	6.74
NWPS	146.82	158.20	130.80	7.14

Table 4.2.6 Financial Variables of BFC

The average DPS of BFC is Rs. 20. Its DPS ranges equal in all over the year of Rs. 20 that's why it's C.V is 0% fluctuation. In this finance company, average DPR is 65.75%. Average DY has ranged from 9.10% to 7.70% and its fluctuation is 34.23%. The average EPS of BFC is Rs. 30.8 and its C.V is 10.43%. Earning yield of BFC has ranged from 15.4% to 10.9% and the average is 12.82%, Its C. V. indicates 12.35% fluctuation. The average MPPS of the bank is Rs. 241 and its coefficient of variation indicates 6.74% fluctuation. Its C.V appears to be quite low which indicates low degree of fluctuation.

4.3.1 Correlation Analysis of Banks and Finance Companies

The correlation analysis is a technique used to measure the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number which indicates to what extent two variables

are related with each other. Similarly, what extent variations in one lead to the variation in the other?

The correlation coefficient measures the relationship between the two variables. It also measures the extent to which one variable affects the other one. The correlation coefficient lies between +1 and -1. The +1 coefficient indicates that the correlation between DPS and all variables of Banks is positive except DPS with NWPS of NSBL. This indicates that if EPS is increased DPS may also be increased for this Bank.

Banks	Variables	Correlation (r)			Correlation (r)			Correlation (r)		
		EPS	Relation ship	Coefficient of Determination (r ²)	MPPS	Relation ship	Coefficient of Determination (r ²)	NWPS	Relation ship	Coefficient of Determination (r ²)
SCBL	DPS	0.89	Positive	0.79	0.89	Positive	0.79	0.98	Positive	0.95
NSBL	DPS	0.24	Positive	0.058	0.08	Positive	0.0064	-0.37	Negative	0.14
NABIL	DPS	0.99	Positive	0.98	0.88	Positive	0.78	0.98	Positive	0.96
Finance Companies	Variables	Correlation (r)			Correlation (r)			Correlation (r)		
		EPS	Relation ship	Coefficient of Determination (r ²)	MPPS	Relation ship	Coefficient of Determination (r ²)	NWPS	Relation ship	Coefficient of Determination (r ²)
EFC	DPS	0.02	Positive	0.0004	0.82	Positive	0.67	0.64	Positive	0.41
SFC	DPS	0.4	Positive	0.0016	0.27	Positive	0.073	0.55	Positive	0.3025
BFC	DPS	0	No	0	0	No	0	0	No	0

Table 4.3.1: Correlation analysis of Banks and Finance Companies

Here NABIL and SCBL have positive relation between DPS and all variables. This indicates that DPS is increased, EPS increases and MPPS and NWPS are also increased.

NSBL Dividend per Share is positively correlated with EPS and MPPS. The relationship between DPS with NWPS is negative. If DPS of NSBL will increase, the EPS and MPPS will also increase. But DPS of this Bank has negative relation with NWPS, due to such relationship between variables. If DPS increased NWPS of the Bank will decrease.

EFC has positive relation between DPS and all variables. This indicates that if DPS is increased, EPS increases and MPPS and NWPS are also increased.

The correlation of SFC on DPS shows the positive relationship with all variables. If DPS is increased, EPS increases and MPPS and NWPS will also increase.

Similarly, BFC has no relation between DPS and all variables. This indicates that if DPS is increased, EPS, MPPS and NW remain constant.

At last, the above table shows that the relationships between DPS and EPS for all sample banks and finance companies are positive except BFC which has zero correlation. It clarifies that if EPS increases, the DPS also increase for all selected banks and finance companies. Similarly, the relationship between DPS and Net Worth per Share (NWPS) for all sample banks and finance companies are also positive except BFC and NSBL. By this, it is clear that if NWPS is increases, it cause of increasing in DPS of all sample banks and finance companies except in NSBL and BFC. In all sample banks and finance companies, DPS has positive relationship with MPPS except BFC. It clarifies that for these banks and finance companies, if DPS is increased, it causes to increase in the market price per share. Similarly, the relationship between NWPS and DPS for NABIL, SCBL EFC and SFC are positive and for NSBL is negative and for SFC it has zero correlation with all variables.

4.4 Regression Analysis

4.4.1 Regression Analysis: DPS on EPS

Correlation analysis tells the direction of movement but it does not tell the relative movement in the variables under the study. Regression analysis helps us to know the relative movement in the variables. The regression results of dividend per share or earning per share, dividend per share or net profit, net worth or dividend per share are presented in the following tables.

Banks	Observation	Constant (a)	Regression Coefficient (b)	R ²
SCBL	5	-19.04	0.91	0.79
NSBL	5	-1.01	0.27	0.058
NABIL	5	-54.45	0.76	0.98
Finance Companies				
EFC	5	15.85	0.0034	0.0004
SFC	5	19.39	0.06	0.0016
BFC	5	20	0	0

Table 4.4.1: Regression analysis: DPS on EPS under study.

The regression analysis between DPS and EPS shows a positive relation with Finance Companies and negative relationship with Banks. It means if there is one rupee increased in EPS leads to average Rs 0.91 increase in DPS. Likewise, in case of NSBL regression coefficient shows that increase of one rupee in EPS leads to Rs 0.27 where as increase in its DPS remains other variable constant.

In case of NABIL, EFC, SFC and BFC if other variables remain constant regression coefficient indicates that one rupee's increases in EPS leads to average about Rs 0.76, Rs 0.0034, Rs 0.06, and Rs 0.0 increase in DPS respectively.

The coefficient of multiple determinations (R^2) is lowest for NSBL (0.058), due to change in value of EPS of the bank. The value of R^2 of SCBL, NABIL, EFC, SFC and BFC are 0.79, 0.98, 0.0004, 0.0016, 0.82 and 0 respectively, which indicates that 79 %, 98%, 0.04 %, 0.16 %, and 0 % variation in the DPS of these banks and finance companies are explained due to the change in EPS of the Nepalese banks and finance companies.

4.4.2 Regression Analysis: MPPS on DPS

Banks	Observation	Constant (a)	Regression Coefficient (b)	R^2
SCBL	5	-4321.28	55.4	0.79
NSBL	5	374.23	2.99	0.0064
NABIL	5	-393.8	27.18	0.78
Finance Companies				
EFC	5	105.2	17.4	0.67
SFC	5	237.25	2.55	0.073
BFC	5	241	0	0

Table 4.4.2: Regression analysis: MPPS on DPS under study.

The regression analysis between MPPS and DPS shows a positive relation with Finance Companies and negative relation to Banks. Among all banks except NSBL regression relation between MPPS and DPS of NSBL indicates that with an increase of Rs 1 in DPS, the MPPS will increase by Rs 2.99, assuming that other variables held constant. There will be increase in MPPS of SCBL, NABIL, EFC, SFC and BFC by Rs 55.4, 27.18, 17.4, 2.55 and 0 respectively with an increase in DPS by Rs 1 remaining other variables constant.

The coefficient of multiple determination (R^2) is low for NSBL (0.0064) which indicates that only 0.64 % in MPPS explained by DPS i.e. 0.64% variation in MPPS of the Bank. The value of multiple determinations (R^2) of SCBL, NABIL, EFC, SFC and BFC are 0.79, 0.78, 0.67, 0.073, and 0 respectively which indicates that 79%, 78%, 67%, 7.3% and 0% variation in the MPPS of these banks and finance companies are explained due to the change in DPS of the respective banks and finance companies.

4.4.3 Regression Analysis: MPPS on DPS

Banks	Observation	Constant (a)	Regression Coefficient (b)	R^2
SCBL	5	114	2.52	0.95
NSBL	5	147.85	-1.17	0.14
NABIL	5	141.2	3.38	0.96
Finance Companies				
EFC	5	172.46	5.58	0.41
SFC	5	131.46	0.56	0.3025
BFC	5	146.82	0	0

Table 4.4.3: Regression analysis: NWPS on DPS under study.

The above table of regression results of net worth per share (NWPS) on dividend per share (DPS) is concerned, regression co-efficient (b) is positive in all the banks and finance companies except NSBL which has the negative regression coefficient and BFC have the zero regression coefficient. SCBL, NABIL, EFC, and SFC, On the other hand one rupee increase in DPS leads to the average about Rs 2.52, 3.38, 5.58 and 0.56 increases in net worth of the SCBNL, NABIL, EFC, and SFC only if other variables remain constant.

From this analysis, we can conclude that increase in DPS by one rupee in all sample banks and finance companies results increase in net worth of EFC only if higher than of others.

The value of multiple determination (R^2) is the lowest in BFC (0%), which indicates that variation in NW of the finance company is explained due to the change in value of DPS of the finance company. The value of R^2 of SCBL, NSBL, NABIL, EFC and SFC are 0.95, 0.14, 0.96, 0.41 and 0.3025 respectively. This indicates that 95%, 14%, 96%, 41% and 30.25% of NWPS can be explained by DPS of the respective banks and finance companies.

4.5 Multiple Regression Analysis of Banks and Finance Companies

When we take two or more independent variable and predict the value of dependent variable through the appropriate regression time than the analysis is known as multiple regression analysis. An attempt has been done to examine the relationship of market price per share with other key variables. The results of simple regression analysis eliminate all the limitation of single regression analysis. The key variables are Dividend per Share and Earning per Share.

4.5.1 Multiple Regression Analysis of MPPS on DPS and EPS

Regression Equation is:

$$\text{MPPS} = a + b_1 \cdot \text{DPS} + b_2 \cdot \text{EPS}$$

Banks/Finance Companies	No. of observation	Constant (a)	Regression Coefficient	
			(b ₁)	(b ₂)
SCBL	5	-6382.04	29.14	34.26
NSBL	5	-8.72	-3.3	29.84
NABIL	5	-1144.41	-32.43	46.31
EFC	5	85.49	17.36	0.46
SFC	5	261.74	2.86	-1.08
BFC	5	241	0	0

Table 4.5.1: Multiple Regression analysis: MPPS on DPS and EPS under study.

From the above table b_1 of SCBL is 29.14 which indicate one rupee increase of DPS causes Rs. 29.14 increase in MPPS holding other variable constant. b_1 of NSBL is -3.30, means one rupee increase in DPS causes Rs. 3.30 decrease in MPPS holding other variable constant. b_2 of SFC is -1.08 indicate one rupee increase in EPS causes Rs. 1.08 decrease in MPPS holding other variable constant.

4.6 The Analysis of Variance Test (ANOVA)

The analysis of variance is a powerful statistical tool for test of significance. The test of significance based on t - distribution is an adequate procedure only

for testing the significance of the difference between two sample means. In a situation when we have three or more samples to consider at a time, an alternative procedure needed for testing the hypothesis that all sample are drawn from the population with the same mean.

By this technique the total variance in the sample data is expressed as the sum of it non-negative component where each of these components is a major of the variation due to some specific independent source or factor or causes. The ANOVA consists in the estimation of the amount of a variation due to each of the independent factor separately and than comparing this estimate due to assignable factor with the estimate due to change factor, the latter being known as implemental error.

Null Hypothesis (H_0) = There is no significant relation between DPS and EPS
i.e. DPS=EPS or they are equally effective

Alternate Hypothesis (H_1) = There is significant relation between DPS and EPS
i.e. DPS EPS or they are different

The ANOVA Test of the banks under study is presented in the table given below.

SCBL	NSBL	NABIL	F - Test
29.14	-3.3	-32.43	0.62
34.26	29.84	46.31	

Table 4.6.1: ANOVA Test analysis under study selected banks and finance companies.

The above table shows that all the independent variables taken from the multiple regression coefficients of MPPS on DPS and EPS i.e. (b_1) and (b_2)

.applying the technique of this sample data is expressed as the sum of negative where each of these components is a major of the variation due to some specific independence factor and obtaining the various classes like sum of square between sample, sum of square with in samples. Than place out sum of square in the one way ANOVA table that result the calculated F value and compare with degree of freedom i.e. tabulated value of F. The tabulated (critical) value of F for degree of freedom ($v_1=2, v_2=2$) d.f at 5% level of significance is 9.55. Since the calculated $F = 0.62$ is less than the critical value 9.55, it is not significant. Hence we fail to reject null Hypothesis. Here testing the data of selected banks, the conclusion appears that the three Banks are equally effective.

The ANOVA Test of the finance companies under the study is presented in the table given below.

Null Hypothesis (H_0) = There is no significant relation between DPS and EPS
i.e. $DPS=EPS$ or they are equally effective

Alternate Hypothesis (H_1) = There is significant relation between DPS and EPS
i.e. $DPS \neq EPS$ or they are different

EFC	SFC	BFC	F - Test
17.36	2.86	0	0.88
0.46	-1.08	0	

Table 4.6.2: ANOVA test analysis under study

The table mentioned above shows that we derive this sample data on testing whether the finance companies are significant or not. To know it we calculate

the value of F and tally with the critical value i.e. tabulated value. If the calculated value appears greater than the critical value it means the finance companies are not effective. Here The tabulated (critical) value of F for degree of freedom ($v_1=2, v_2=2$) d.f at 5% level of significance is 9.55. Since the calculated $F = 0.62$ is less than the critical value 9.55, it is not significant. Hence we accept null Hypothesis. On this test F is 0.88 which is less than the tabulated value which indicates there is no any significant difference between DPS and EPS of selected finance companies.

As comparing both finance companies and banks, it resulted that the outcomes of F in banks is 0.62 and the testing with finance companies F resulted 0.88. It means the banks are more effective than the finance companies

4.7 Main Findings

The main findings of this research work are summarized in numeric order given below:

- 1) The average earning per share (EPS) for the banks and financial companies under the study is positive. But the coefficient of variation indicates that NABIL has less consistency of EPS. The C.V ranges between 26.04% and 8.57% for all the banks and finance companies. Among the sample banks and financial companies SCBL has the highest average EPS and NSBL has the least degree of fluctuation in its average EPS.
- 2) The average dividend per share (DPS) shows that there is no regularity in dividend payment on NSBL stock. The SCBL has the highest average DPS and the higher degree of regularity in paying dividend to its shareholders but for all banks and finance companies DPS also fluctuating. The C.V. of DPS ranges 11.25% to 127.7% for all sample banks and finance companies.

NSBL has the lowest average DPS and also the less stable among the sample banks and finance companies. Since it has not pay dividend regularly, although it has paid dividend in the year 03/04 and 06/07, the dividend percentages are significantly lower as compare to other sample banks and finance companies.

- 3) The analysis of DPR also shows that the DPR of the banks and finance companies are not stable. Among the banks and finance companies under the study, SCBL has the highest average DPR and NSBL has the least average DPR. The result also shows that SCBL has the lowest C.V indicates more uniformity on DPR and EFC has the highest C.V indicates less uniform on DPR. The C.V ranges between 37.57% & 5.55% of all banks and finance companies.
- 4) The average price-earning ratio (P/E) of NSBL among all the banks and finance companies under the study is the highest. The ratio of remaining banks and financial companies are satisfactory and quite stable.
- 5) The average earning yield of banks and financial companies, under the study, indicates that the earning yield of BFC is higher than other banks and financial companies. The mean EY of different banks ranges form 12.82% to 3.7%.
- 6) The average dividend yield of the banks and financial companies indicates that the dividend yield is quite low ranging 8.34% to 0.79%. Among the banks and finance companies, NSBL has the highest dividend yield and BFC has the lowest in its C.V. There is high fluctuation in the dividend ranging between 154.43% and 6.7% in C.V.

- 7) The average market price per share (MPPS) shows that there is quite high level of fluctuation. SCBL has higher average MPPS than other banks and finance companies. So, this bank is in good position in the market but average MPPS of all commercial banks and finance companies being considered to be encouraging. BFC has the lowest closing MPPS and BFC has the less value of C.V of MPPS which indicates more stability on MPPS.
- 8) The analysis of net worth per share (NWPS) also shows that the banks and finance companies have stable. NWPS among the banks and finance companies under the study, SCBL has the highest average NWPS and SFC has least average NWPS. The result also shows that SFC has the lowest C.V of NWPS and NABIL has the highest. The fluctuation ranges from C.V 4.75% to 17.06%.
- 9) The DPS of SCBL is positively correlated with EPS, MPPS and NWPS. This correlation results indicate that DPS increase, when the EPS increases. Similarly MPPS increases when DPS increases along with the NWPS.
- 10) The relationships between DPS of NSBL with EPS and MPPS are positively correlated, except with NWPS. The correlation results indicate that when DPS increase, the EPS and MPPS increase but NWPS decrease and vice-versa.
- 11) The relationship between DPS and all other variables of NABIL positive correlated.
- 12) In case of EFC, the DPS is positively correlated with EPS, MPPS, and NWPS while it has low value of 0.02 correlations between DPS & EPS, as

it paid constantly DPS at higher rate for first three years than for last two years.

- 13) The DPS of SFC has positive correlation with EPS, MPPS, and NWPS. On the other hand, it means that when DPS increase, the all variables also increase and vice-versa.
- 14) For BFC, the DPS has zero correlation with EPS, MPS and NWPS. It indicates there is no any growth made in its dividend i.e. the same rate of dividend has been paid from 2003/2004-2007/2008
- 15) The regression analysis of DPS on EPS shows that regression coefficient (b) is positive among all the sample banks as well as intercepts term (a).
- 16) As far the regression results of MPPS on DPS are concerned, regressions coefficient (b) are positive in all samples banks as well as finance companies.
- 17) The regression analysis between NWPS and DPS indicates that the regression coefficient (b) is positive for SCBNL, NABIL, EFC, and SFC but negative for NSBL.
- 18) The multiple regression analysis of MPPS on DPS and EPS shows that regression coefficient (b_1) is positive for all selected banks and finance companies except NABIL and NSBL. Similarly the second regression coefficient (b_2) has come to be for SFC and positive outcomes for all remaining banks and finance companies.

19) To know whether the MPPS is affected by other variable, ANOVA test has done, for that first separate in two groups i.e. banks groups and finance groups and calculate the variance ratio (F).It shows that all the sample banks and finance companies MPPS are equally effective with other independent variable.

CHAPTER – V

Summary, Conclusions and Recommendations

A brief description regarding dividend practice and stock price volatility of Joint Venture Banks (JVBs) and finance companies has been already presented in the previous chapters. A brief introduction of the study has been presented in the first chapter. Besides, the review of literature with possible review of ideas, theories and research findings has also been presented in the second chapter. Research methodology has been described in the third chapter where all the available data's are presented and analyzed in the fourth chapter as well as findings are also drawn related to dividend policy in these sample JVBs and finance companies.

Therefore, in this chapter, summary and conclusion regarding the study topic are presented. These findings regarding dividend policy certainly have shown necessity for the improvement of existing condition of the JVBs and Finance Companies of Nepal. So, the analysis of dividend, carried out from many dimension has provided some substantial feedback for the further improvement of the performance of the financial institution.

5.1 Summary

Dividend policy decision is one of the major decisions of financial management. The dividend policy decision affects on the operation and prosperity of the organization because it has the power to influence other two decisions of the organization i.e. capital structure decision and investment decision. An investor expects two types of return namely capital gain and dividend gain by investing in equity capital or ordinary share. So, payment of dividend to shareholders is an effective way to attract new investors and maintain present investors. It is important to have clearly defined and to

practice on effectively managed dividend policy so as to fulfill the shareholders expectations and corporate growth.

Dividend paying banks and financial companies have been analyzed to show the implication of dividend practice that they have adopted in their market price per share. Now in Nepal, those banks and financial companies have earned profit on only those paid dividend. Instability of dividend and inconsistent dividend payout ratio are the most applied phenomena of commercial banks and financial companies in Nepal. But, only the banks and finance companies operating under Joint Venture are paying dividend more attractively than the banks and finance companies promoted by indigenous promoters. However, dividend policy is taking its path, slowly in Nepalese Commercial Environment.

In analyzing the problem with the stated objectives, this study has been in more descriptive and analytical nature. The study covers three joint venture banks and finance companies as well as it cover for the past five fiscal years from 2003/04 to 2007/08. The available data has been analyzed using various financial and statistical tools.

The theoretical statement of this study is that dividend decision should depend upon NWPS, EPS and DPS of the sample companies and banks. Among Sample Banks, dividend payout ratio of SCBL is higher than other. Similarly, according to EPS, among sample banks, SCBL is more successful than other where as NABIL is the lowest. On the basis of P/ E ratio, among sample banks, NABIL has less variability in EPS than others; it means NABIL has the better performance enhancing the wealth of shareholders rather than other banks. On the basis of DPS, SCBL is paying higher value of dividend among sample banks. Moreover, on the basis of market price per share, SCBL has higher closing MPPS than others.

Similarly, in the finance companies, dividend payout ratio of EFC is higher than other. According to EPS, in sample companies, EFC has highest EPS than others finance companies where as BFC has the lowest C.V on EPS. On the basis of P/E ratio, among sample finance companies EFC has highest C.V than other. It means EFC has the less consistent performing enhancing the wealth of shareholders rather than others. On the basis of DPS, SFC has highest paying capacity than other. On the basis of MPPS, EFC has highest closing MPPS than others.

For the purpose of statistical analysis of the entire sample banks and financial companies, simple correlation and regression analysis are used to find out the results. According to regression analysis of DPS on EPS, regression coefficient (b) is positive in all sample banks and finance companies. It indicates that among others DPS increases with increase in EPS for all. As far as coefficient (b) is concerned, the relation between NWPS on DPS is positive in all sample banks and finance companies except NSBL. The positive coefficient indicates that NWPS increase with higher DPS in all whereas negative coefficient (b) indicates the increase in NWPS result in decrease in DPS. Similarly, for the regression analysis of MPPS on DPS, regression coefficient (b) is positive for all banks and finance companies. The positive coefficient (b) indicates that increase in dividend per share result in increase in MPPS.

As per the Multiple Regression analysis of MPPS on DPS and EPS of all Banks and Finance Companies, regression coefficient (b_1) is positive in all selected banks and finance companies except NABIL and NSBL. The regression coefficient (b_2) has been negative for SFC and positive outcomes for remaining banks and finance companies.

For the test market, efficient or inefficient of the well-known ANOVA test has been used. From it, it is found that there is no significant difference in variables at all the Banks and Finance Companies i.e. MPPS = DPS = EPS or they are equally effective.

From the analyzing of financial, statistical and ANOVA test analysis of all sample banks and finance companies, following results are drawn out:

- ❖ There is not consistence relationship between financial variable i.e. EPS, MPPS, DPS, DPR, P/E ration, EY & DY.
- ❖ Dividend practices of all sample banks and finance companies are neither stable nor consistent. Inconsistent practice of distributing trend is observed.
- ❖ Changing in DPS affects the market price per share differently in different banks and finance companies.

The situation of capital market of Nepal is improving day by day. As a result, the capital market is progressing as compare to past year. Though, in '**weak**' market where share price movement is random. This means share price movement does not follow any trends. In such market cash dividend will be more effective than other forms dividends like bonus and right.

5.2 Conclusions

In conclusion, uncontrollable growth in number of financial institutions within a short span of time has raised reasonable doubts to the common people. By the analysis of investment activities, it is noticed that only few institutions have aggressive investment strategy with compare to conservative strategy among most of the financial institutions. Despite this, there is no doubt that financial institutions are the pillars of a nation's economy. The overall growth

of the nation's economy is linked with the development of financial institutions. In these days, some financial institutions are running successfully and providing dividend to the shareholders according to their capacity. Also, they achieve the trust of common people which is the great success of their performance. On the whole, over this period, the scale of operation has expanded many times which makes more earnings every year. The financial institutions are able to distribute dividend and able to expand their activities with good earnings. But, it is yet to be done for the satisfaction of shareholders as well as overall growth of nation's economy. On the basis of major findings of study, general conclusions are presented below:

1. There is not a single financial indicator that has dominant role to determine MPPS. The same financial indicator that has significant role in the fixation of MPPS for one company is not significant for another company. The degree of interrelationship of MPPS with different indicators varies from one company to another company. There is uniformity in the relationship of MPPS with various financial indicators like EPS (P/E Ratio) of selected banks and finance companies.
2. On the basis of average data of five years MPPS, EPS and DPS of sampled banks and finance companies are fluctuating, it means that the investors/ shareholders always invest their saving according to the DPS, EPS and MPPS of the concerned companies because these factor directly affect the demand and supply of shares which determine the stock price volatility.
3. Generally, changes in variables affect the market price of the stock, it means about the rational behavior of investors. In Nepalese context, the investors are investing money in securities randomly without analyzing the

companies financial and investment policies. The significantly varying price earning ratio of the sample companies prove the above statement. The research shows that none of those banks and finance companies has well defined and appropriate practice regarding dividend policy. The significant relationship between DPS and other financial indicators indicates that the practice on dividend policy of sample banks and finance companies are not uniform.

4. Most of the companies do not seem to follow the optimum practice on dividend policy of paying at least regular dividends as per shareholders expectation. It might cause uncertainty among stockholders.
5. The major findings have also leads to conclude that the companies neglecting the major factors like earning position of firm liquidity position needs of the shareholders while paying dividend.
6. Based on ratio related to MPPS the sampled banks are uniform except finance companies. So, the investors prefer to invest in banks rather than finance companies.
7. Based on correlation analysis related to MPPS with DPS of all banks and finance companies have positive correlation except BFC, which has a zero correlation. This is due to the payment of a constant (i.e. 20% each year) dividend payment.
8. Making decision on dividend practice and its policy is certainly one of the three major decisions of financial management. It is right to say that dividend policy decision affects on the operation and prosperity of financial institutions because it has a power to influence other two decisions namely

capital structure decision and investment decision. An investor expects two types of returns namely capital gain and dividend income by investing in equity capital. So, that payment of dividend to shareholders is an effective way to attract new investors and maintain present investor to invest in shares.

Hence it is justified to hold that more practices and clearly effective managed dividend policy is required for all financial institutions to fulfill the shareholders expectation with that of corporate growth from internally generated funds. So the funds which could not be used due to lack of investment opportunities would be better as divided, since shareholders have investment opportunities in financial institution

5.3 Recommendations

Based on the findings, the suggestions for future guidelines are presented here. There is no doubt that these measures are helpful to improve the existing condition of financial institutions as well as other organizations of Nepal. These suggestions are as follows.

1. Socially acceptable distribution of income:

Payment of dividend is neither static nor constantly growing. It is highly fluctuating. Such way of paying dividend could not impress the market positively. So, these financial institutions are advised to follow either static or constantly growing dividend payment policy. It would be better to fix the amount of dividend in the general annual meeting. This is important not only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of financial institutions, efficient management and socially acceptable distribution of income. Ability to maintain linkage of the adequate earning power with the

adequate dividend return provides the benchmark for dynamic growth stability.

2. Investors freedom choice between stock and cash dividend

Issue of stock dividend decreases market value per share and earning per share given all other thing constant. And distribution of cash dividend also reduces market value per share but doesn't effect earning per share holding all other thing constant. So, due to this reason common shareholders should be given a choice whether they prefer stock dividend or cash dividend. Therefore, all the financial institutions are suggested to take care regarding the interest of shareholders.

3. Consideration of investment policy of companies

Investors are those who provide capital resources to the companies. They want to maximize earnings of their investment in capital market therefore the investors should be aware to investment policy which will be helpful to determine the price volatility of share through EPS, DPS and demand & supply characteristics. Finally it can be said that investment should based on MPPS and DPS for their expected return and based on EPS for risk of the company. Select the company with higher risk adjustment factor of company than the market.

4. Adaptation of precise dividend strategy

The banks and finance companies should define a clear dividend strategy whether the financial institution is gong to adopt stable dividend policy, constant payout ration or low regular plus extra dividends. The clearly

defined policy can win the confidence of the investors than those which do not have. The banks and finance companies should follow them strictly in normal condition. If there is lack of clearly defined dividend strategy, so many problems or inconveniences occur to the investors and organizations itself.

5. Focus on dividend distribution

Most of the investors are expecting a quick return of their investment rather than holding them for a long term due to high risk which increases as the investment period increases. So, the distribution of dividend as much as the firm can should be a prime concern.

6. Government policy to improve the efficiency of financial institutions

As financial institutions are assisting to promote the capital market and improve the economic condition of nation through collecting the scattered resources and utilizing them into productive ways. The government should provide facilities to improve the efficiency of the financial institutions and reduce the interference in their daily affair. Similarly, the management should be careful about their duties and responsibilities for the operation of the financial institutions towards the interest of the shareholders as well as the improvement of nation's economy.

7. Encourage the institutional investors

Based on the findings and conclusions present research recommend to few concerned authorities like practitioners, regulatory bodies, investors/ shareholders, brokers etc. it is necessary to make a better information

disclosure system in Nepalese capital market. The concerned authorities should have best mechanism of supervision and control of artificial market price and price fluctuation on market. To prevent these factors concerned authorities should make more effective for healthy practices of price in Nepalese capital market.

8. Agency relationship between shareholders and managers

The managers should be able to perform their duties and responsibilities to protect shareholders interest. They mustn't show their desire to operate the companies in their own way. The managers must fulfill the shareholders wealth by maximization of shareholders wealth. Maximizing the shareholders wealth can maximize the value of firm, which is measured by the market price of the firm's common stock. So, manager's action to maximize shareholders wealth should be accordingly EPS, P/E ratio, use of debt and doing practice on dividend policy.

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