

**DIVIDEND POLICY AND ITS IMPACT ON SHARE PRICE:
A CASE OF NEPALESE COMMERCIAL BANKS**

A Thesis

By

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Dividend is a portion of a firm's current or retained earnings distributed to its shareholders. Generally, a firm announces dividend on the profit. Dividend policy is commonly defined as a policy implemented by the firm to decide how much dividend it will pay out to its shareholders. Dividend policy is defined as the policy of allocating the earning between the dividend and retention. In practical dividend is payable whenever the board of directors declares to pay whether it might be monthly, semiannually, or annually. In another word, dividend policy is regarding the separation of net earning between distribution to shareholders as dividend and retention within the firm to meet its further financial requirement. Dividend policy decision is a major decision of a firm, which determines the division of earning between payment to stockholders and reinvestment in the firm.

There is no uniformity in the distribution of dividend in Nepal. Firm may choose one of the many combinations between two extremes is, distribution of zero to hundred percent as cash dividend. Dividend policy has strong effect on the stock price of the firm. Thus, it is one of the major decisions that may contribute to maximize the value of the firm. There is conceptual conflict about whether cash dividend should be paid or retained in company for the purpose of internal financing. Both alternatives leave their own impact on the growth of a company. Retained earnings are the most significant internal source of financing the growth of the firm. On the other hand, dividends are desirable from shareholder's point of view, as it tends to increase their current wealth (Rao, 1992).

Dividend policy is a crucial area of financial management of a firm. The important aspect of dividend policy is to determine the amount of earning to be distributed to shareholders and the amount to be retained in the firm. There is inverse relationship between retained earnings and cash dividend. If more retained earning is made, the amount of dividend would be less and in the case of less retained the

investor would be able to enjoy more dividend. The objective of a dividend policy should be to maximize shareholder's return so that the value of his investment is maximized. Shareholder's return consists of two components, dividend and capital gains. Dividend policy has direct influence on these two components of return. If the firm adopts the policy of retained earning for the purpose of expansion of its business in the long run capital gain would be the result. Dividend payment to shareholders will obviously reduce the capital gain but it will increase their current wealth and plug them back into the business (Gitman, 1994).

Dividend policy is an integral part of the firm's financing decision. Dividend decision is however still a crucial as well as controversial area of managerial finances. The dividend policy of the firm is regarded as a tool to determine the appropriate allocation of profit between dividend payment and amount to be retained in the firm or plugging them back into business. Dividend is a portion of earning of a firm which is distributed to its shareholders. In a capital structure decision each and every firm can obtain additional funds by issuing new equity and retention of earning. So after measuring the firm's profit there is further problem of how much of this profit should be distributed in terms of dividend. It is a big financial decision because the firm has to choose between distributions of the profit to the shareholders of reinvesting them to finance the business. Different firms adopt different approaches to distribute dividend. To maximize the shareholder wealth, there should be used large amount of profit for payment of dividend. If the firm's objective is to expansion of business, the firm retains profit to refinance in investment program for the growth of the business (Pandey, 1999).

The civilization of human beings has taken a giant leap due to their ambitions to get more than what they have at their hand. Modern people being profit oriented, want to use their resources to earn more. In business the profit what they get from their investment in any firm, bank, industry as a stock holder share holders is known as dividend. To say technically Dividend is that portion of firm's net earnings, which is paid to the shareholders. It is the payment made to the common stockholder out of the firm's earning instead of their investment on equity share of

the firm. In other words, dividend refers to that form of return which is distributed to the stockholders after retaining firm's profit for its expansion. At the end of each year every publicly traded company has to decide whether to return cash to its stockholders and, if so, how much in the forms of dividend. A company decides to declare its dividend to its equity shareholder as a part of return on their investment only if the financial report of the company shows net profit during the financial year (Van Horne, 2000).

The popular forms of dividend are cash and stock dividend. How much cash and stock dividend is to be distributed to the common stockholders is decided by the board of directors. The common stockholders are real owners of the business but they are least in the priority of the disbursement of the profit. Before the distribution of the dividend to the common stockholder, interest to bondholder, preferred dividend to the preferred stockholder and revenue to the government must be paid. Dividend is the most inspiring aspect for the investment in the shares of various companies for an investor, so to attract the new investors, dividend should be paid to the shareholder in an effective way (Gitman, 1994).

After the adaptation of liberal economy policy by Nepalese Government, joint venture and national investors are encouraged to invest in different private sectors, which resulted in Nepalese capital market being under developing stage during the decade of nineties. People are attracted to invest in the organizational profitable securities. Scattered money is taking its shape into an organized capital market of Nepal though it is suffering from the numerous hurdles. This is human nature that he wants a smart return from his investment. When someone is considering to investing in any organization as the form of equity share his first attempt would be towards gathering information about firm's present position and profitability, which can be revealed through the dividend policy of the firm. So, the study of the dividend policy is very important as well as challenging task in the field of financial decision making. An optimum dividend policy is a major tool to attract a potential investor to invest for the expansion of the capital position and business operation of the firm (Khan & Jain, 1995).

This research work looks into all the relevant factors of dividend policy and this is more specific in assessing the Dividend policy of Commercial Banks in Nepal.

The payment of the corporate dividend is at the discretions of the Board of Directors. Most corporations pay dividend quarterly. Dividends may be paid in cash, stock or merchandise. Cash dividend is the most common; merchandise dividends are the least common. Stockholders are not promised a dividend, but he/she grows to expect certain payment on historical dividend pattern of the firm. Before dividend are paid to common stockholders the claims of creditors, the government and preferred stockholders must be satisfied” is the theory but in Nepalese company cash dividend is most popular and stock dividend is the new practice (Gitman, 1994).

According to law, dividend should be declared out of the net profit. Usually dividend is paid annually, semi annually, quarterly, or monthly. In Nepal, dividend is paid annually. Some company may pay whole earnings as dividend to create good image in the market at the beginning but later they may change their policy and announce certain percentage of dividend payout term but usually dividend payout ratio seems to be 40%, in Nepal (Pradhan, 1992).

This study is based upon the study of overall dividend policy analysis by using various relative measurement tools. It considered earning per share, dividend per share, dividend yield ratio, dividend payout ratio, correlation between DPS and EPS and trend analysis of different variables etc. Optimal dividend policy plays vital role in every organization. So, this study tries to evaluate the earnings per share and dividend by using various financial variables for the purpose of comparative evaluation. Hence the focus of this study mainly deals with dividend policy is followed by the commercial banks.

The main focus of the study is to examine the practice made by the Nepalese Joint venture banks in regards to the dividend policy. But for whole these purpose different other studies are going to be done i.e. comparison of earning per share (EPS), dividend per share (DPS), market price per share (MPS) and others as per the requirement with respect to the sample firm. The study will be more focusing on the

dividend policy and MPS; however other qualitative discussion will be submitted including the Nepalese practices. The relationship between different variable(s) will be individually and combinely analyzed in order to state the particular suggestion. In the same way, the study will focus in regards to dividend practices made in past five years by the sample firms.

1.2 Statement of the Problems

The dividend decision, however, is still a crucial as well as controversial area of managerial finance. There is no consensus among the financial scholars on this subject matter and its relation with stock price. Some financial scholars say that stock prices are least influenced by dividend per share while some others believe that its relevance to the stock prices is quite significant. The idea of relevance is vague as well. It is rather hard to define whether dividend per share has positive effect or its effect is negative one.

Dividend policy decision seems to be independent from financing decision. Dividend refers to that portion of a firm's net earning which are paid out to the shareholders. Whether dividends have an influential on the value of the firm is the most critical question in dividend policy. If dividends are irrelevant, the firm should retain earnings only in keeping with its investment opportunities. It is relevant in all institutions that mobilize funds in terms of return and investment. It has been accepted as a distinct discipline in the earlier stage of 21st century. If there are not sufficient investment opportunities providing expected returns in excess of the required return, the unused funds should be paid out as dividends. However, Nepalese commercial bank has not been able to provide satisfactory result on dividend decision. Government policy is also partly responsible on the dividend decision. Commercial banks in Nepal have no consistency policy on dividend decision and dividend distribution does not match with the earning as well as there is no proper relationship between dividend and quoted market price of share. Procedure of dividend is also not well managed and declared in commercial bank. Top management declares the dividend haphazardly without following proper guideline. These commercial banks have no clear outline of the

payment procedure in the dividend policy so that market does not know how these banks declare dividend and how they pay (Pradhan, 1993).

We all know dividend is the most inspiring factor for the investment on shares of the corporation. It is an important aspect of financial management. Dividend policy determines the division of earnings between payment to shareholders and reinvestment in the firm. The opportunity to reinvest provides a business firm to exploit growth opportunities. It affects the firm. It also affects overall financial decision in the firm such as financial structure the flow of funds, corporate liquidity and investor's satisfaction.

However, the dividend decision has still been crucial area of managerial finance. It is controversial aspect as well. We find no consensus among the financial scholars on this subjects matter and its relation with stock price. Some financial scholars believe that stock price is minimally affected by dividend per share. Still some other scholars say that the reference of dividend per share to stock price is quite significant. On the other hand, the idea of relevance is vague and unclear as well. Defining whether dividend per share has affirmative influence or negative one is rather difficult job.

The above facts inspire to study what are the factors that affect the dividend decision and valuation of the shares. Earning is also treated as financing sources of the firm. When the firm retains it's earning, it will result in decreasing leverage ratio, expanding activities and increasing profit in succeeding year. Whereas if the firm pays dividend it may need to raise capital through capital market which adulterate ownership control. In the later case, the firm takes loan or raises debenture, which ultimately affect on risk characteristics of the firm. However dividend is a most for attraction of investors and it reflects firms healthy position in the market. The capital market of Nepal is just in the way of development stage, yet investors are investing in new companies with out having the perspective analysis of those companies. Stock price increases with the announcement of dividend although the firm-announcing dividend might be of under capitalized. Many researches have been made earlier in this concern. However, no other studies have been made to see the impact of dividend policy on the market price of the stock including the actual scenario of Nepalese

capital market. Moreover, the research question is to find out what sorts of limitation or gap have made a culture of stock price change. Thus for the study, the following research problems have been raised;

1. What is the pattern of dividend payment in selected Nepalese commercial banks?
2. What is the current status of EPS, DPS, DPR, and MPPS in selected Nepalese commercial banks?
3. What is the effect of EPS, DPS and DPR on share price in Nepalese commercial banks?

1.3 Purpose of the Study

The main objective of the study is to examine the effect of dividend policy on share price of Nepalese commercial banks. The specific objectives of the study are as follows:

1. To assess the dividend payment pattern of selected Nepalese commercial banks.
2. To analyze the current position of EPS, DPR, EPS and MPPS of selected Nepalese commercial banks.
3. To examine the impact of DPS, EPS and DPR on share price of selected Nepalese commercial banks.

1.4 Significance of the Study

Nowadays people are very much interested and attracted to invest in shares for getting higher returns. When any new company issues (floats) shares through capital markets, very big congregation gathers to apply for owner's certificate. It reveals that people have expectation on higher return for investing in shares. So the dividend decision is one of the most important decisions of financial management. It is an effective tool (way) to attract new investors, maintain present investors and controlling position of the firm.

Having lack of adequate knowledge, the people are haphazardly investing in shares. It shows that there is an extreme necessity to establish clear conception about the return that yields from investing in securities. In the Nepalese perspective, we find that there exist almost none of the companies adopting consistent dividend policy. There may be many reasons behind it. But there is not sufficient study conducted in this regard. Therefore, considering all these facts, the study is undertaken which will help to meet deficiency of the literature relating to dividend practice and price of stock. So this study is of considerable importance.

So many persons and parties such as shareholders, management of banks, financial institutions, general public (depositors, prospective customers, investors etc.) and other policy making bodies which are concerned with banking business will be benefited from this study. It is also believed that it will provide valuable inputs for future research scholars.

Dividend policy involves the decision to pay out earning versus retaining them for reinvestment in the firm. Any change in dividend policy has both favorable and unfavorable impact on the firm's stock price and company's whole profitability. This research report will help to make a decision about whether to change the dividend policy. Nepalese financial institutes have already experienced the practice of dividend distribution. As such, it is felt significant to study the policy regarding dividend concerned with financial institution.

Besides these, it will also be beneficial for the policy makers from the comparative study of dividend policy formulation. Dividend policy of the banks helps the customers, financial agencies, stockbrokers, interest person and scholars to find out appropriate dividend policy. It is believed that other banks will also be benefited from this study for policy implementation point of view.

1.5 Limitations of the Study

The major limitations of the study are as follows.

1. The study is focused only on dividend practice, earning and price of stock only and does not cover the other financial aspects.
2. Only five banks are taken as samples to fulfill the objectives of the study.
3. This study covers five fiscal year period only, i.e. from 2011/12 to 2016/17
4. Limited time and resources are also constraints.

1.6 Organization of the Study

This study has been organized into five chapters.

Chapter One: Introduction

This chapter deals with subject matters of the study consisting background of the study, statement of the problem, objective of the study and significance of the study.

Chapter Two: Review of literature

This chapter deals with review of the different literature of the study field. Therefore it includes conceptual framework along with the review of major books, research works and thesis.

Chapter Three: Methodology

This chapter deals with research methodology and it includes research design, population and sample, source and technique of data collection, data analysis tools and limitation of the methodology.

Chapter Four: Results

This chapter deals with analysis and interpretation of the data using financial and statistical tools described in chapter three. Similarly this chapter also includes the major finding of the study.

Chapter Five: Conclusions

This chapter deals with discussion, conclusion and implications.

CHAPTER TWO

REVIEW OF LITERATURE

This chapter is concerned with review of literature relevant to the dividend policy of commercial bank in Nepal. Every study is very much based on past knowledge. An argument in dividend decision is the major concern to the different companies. Specifically, the factors affecting dividend decision is a major argument among the companies. In an attempt to answer this argument, academics and practitioners developed a no of theories, which have been subjected to empirical test .The academic literature has been very helpful to provide clear guidance on practical issues and for the purpose literature review section is being carried out, which consist valid and authentic books & journals concerning past studies on dividend policy.

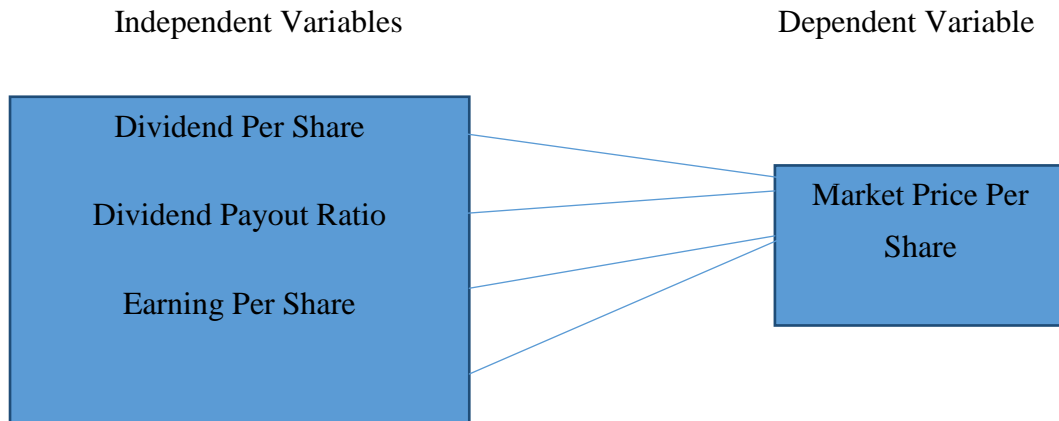
2.1 Conceptual Framework

Dividends refer to the portion of earnings made by the business organization, which distributed to shareholders as return of their investment in shares or dividend represents a distribution of surplus to the shareholder. In other words, it is the reward for bearing the risk of uncertainty. If any firm makes profit then firms have two alternatives, one is reinvest the earning in profitable sector or in the expansion of business and other is distribute it to own shareholders. Every firm wants to make balance between these two alternatives. For this firms retain certain percentage of profit in business and rest is distributed to stockholders. This distributed income is called dividend. It is very difficult to decide payout ratio because firm needs more fund for expansion. In other hand the firm should have to satisfy shareholders by providing return on their investment. So that it is necessary to adopt an effective dividend policy.

Dividend policy is one of the key decisions of financial management. Dividend affects the financial structure, corporate liquidity, the flow of funds and investors attitudes, it is related to overall financial decision. Dividend policy determines the ratio of earning to be retained and payout (Pandey, 1999).

This conceptual framework mainly covers the concepts which form a prime basis for the entire research. It is an analytical tool with several variations and contexts used to make conceptual distinctions and organize ideas.

Conceptual Framework:



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

Dividend would be effective to stockholder, one might think and that would be a tendency for corporation to increase distribution, But one might equally pressure that gross dividend would be reduced some what with an increase in net profit after tax dividend still available to shareholders and increase in retained earnings for the corporation (Weston and Bringham, 1989). Dividend is a good measure of sound company.

2.1.1 Earnings

Earning is the major objective of any business or the organization. It is the key success factors of the organization,- no corporate firm can completely wipe out the profit maximization objectives. Earning is the basic strategy in the modern firm to sustain and expansion and to meet the expectation of the actual owner. Profit concept, therefore occupies the main importance in the managerial decision-making. Because of uncertainty in the business entrepreneur hopes for earning or bearing of risk is compensated by means of earning. The profit resulted from favorable movements of

general price-led. Greater the degree of monopoly power, the greater the profit made by the entrepreneur.

In any way the people discussed about the earnings, there is no doubt that profits are residual income left after the payment of the contractual rewards to other factors of productions.

Forms of Earnings

Security analysis and the earnings are the integral part of study therefore; first there should be clear in the forms and concept of the earnings. Earnings broadly can be divided into two parts based on economist's and the accountant's views.

- Accounting earnings
- Economic earnings

i) Accounting Earnings

In corporation with management, the accountant produce on a quarterly basis, a set of financial statement for the firm that ends with a figure for the firm's accounting earnings that are known as reported earning. In other word, accounting earning denotes the difference between revenues and expenses, including none equity expenses (interest) such as debt. This difference is divided by number of equity shares outstanding to calculate earning per share (EPS). It may also be divided by the book value per share to calculate the return on equity (ROE).

A basic principle of accounting makes the break value of firm's equity at the end of the period equal to: Its value at the end of the previous period, plus; the portion of accounting earnings for the period i.e. retained by the firm, on the assumption that there has no change in the numbers of shares outstanding during the periods (Sharpe and Bailey, 2000).

Letting 'Bt' denotes the book value of the equity of the firm at the end of the period 't' 'Eq' denotes the accounting earnings for the period of 't' and 'Dt' denotes the dividend paid during the period 't', this relationship can be expressed algebraically as following:

$$Eq = B_{t-B_{t-1}} + D_t$$

ii) Economic Earnings

Symbolically, economic earning is represented by 'Et', which may be defined as the amount that would be obtained in the above equation if the change in the book value of the firm equaled the change in the economic value of the firm.

$$Et_a^e = V_t - V_{t-1} + D_t$$

Hence, the change in economic value of the firm during the period t, $V_t - V_{t-1}$ is defined as the change in the market - value of the firms' common stock assuming that there is no change in the market value of the firms' other securities. Economic value - can be pronounced~ as market value also. It is sometimes contended that the investors estimate the value of the firm's common stock by directly applying the formula to the firm's current and past accounting earnings. This is permissible since the generally accepted accounting principle set by the regulatory authorities allows a large amount of discretion in how certain items are accounted for.

As a result management may pressure accounts to use those principles that maximized the firms value or a level of reported earnings or that result in a high growth rate of reported earnings or that smooth earning by reducing the year to year variability of earnings around a growth rate. Some of these activities can be continued for the limited years whereas other for the long periods or unlimited periods. Permanent and transitory components of earnings:

- a) **Permanent components:** The permanent component is the component that is likely to be reported in the future.
- b) **Transitory component:** It is the component, which is not likely to be reported in the future.

It is said that intrinsic value of the stock depends on the firms future earning prospects. This suggests that change in stocks' intrinsic value and in turn its price, will be correlated with change in the permanent components of its earnings but not with changes in the transitory component. If the transitory component is positive, the price earning ratio would be relatively low due to a relatively large number in

dominator and vice versa. Considering the following relationships can prove the same thing:

Price - Earning Model

Price-earning Ratio = MPS/EPS

Reported earnings = Permanent component + Transitory component

The transitory component is negative, the earnings price per share relatively low, and as a result, price earnings ratio will be relatively large. The permanent components of earnings will change over time, which compels the investors to revise their forecast. This will lead to a change in firms' stock price, in turn, its price earnings ratio. But the transitory components of the earnings have greater impact on price earnings ratio because the value of transitory components may be positive or negative.

2.1.2 Dividend

Dividend is the periodic payment made to stockholders to compensate them for their wealth and investment funds. Dividends are pro-rata distributions to shareholders retained earnings. Dividends can be in the form of cash, stock or property. Generally, corporation can only declare dividends out of earnings, although some states laws and corporate agreements permit to declaration of dividends from sources other than earnings (Hawkins, 1997).

In fact, dividend is the portion of the net earnings, which is distributed to the shareholders by a company. After successfully completing the business activities of a company, if the financial statement of it shows the net profit, the Board of Directors (BOD) decides to declare dividend to stockholders. Therefore, the payment of corporate dividend is at the discretion of the BOD. There are two fundamental theories regarding to dividend:

- Residual theory
- Wealth maximization theory

(i) Residual Theory

Residual theory is that, in which the first priority is given to the profitable investment opportunities. If there are profitable opportunities, the firm invests in those and residual income (if any) is distributed to the stockholders.

Residual theory of dividends means, “A theory that suggests that the dividend paid by the firm should be the amount left over after all acceptable investment opportunities have been under taken (Gitman, 1994).” Using this approach the firm would treat the dividend decision in three steps as follows:

Step I

Determine the optimum level of capital expenditure which would be the level generated by the point of intersection of the investment opportunities schedule (IOS) and weighted managerial cost of capital (WMCC) function.

Step II

Using the optimal capital structure proportion, it would estimate the total amount of equity financing needed to support the expenditures generated in step I.

Step III

Because the cost of retained earnings K_r is less than the cost of new common stocks K_n , retained earnings would be used to meet the equity' requirement determined in step II. If retained earnings are inadequate to meet this needs, new common stock would be sold. If the available retained earnings are in excess to this needs, the surplus amount would be distributed as dividends.

(ii) Wealth Maximization Theory

Under wealth maximization theory, larger dividends is announced and distributed to - shareholders in order to (or in hope with) maximize the wealth of the stockholders. Basically, it is applicable for those companies, which are just established and to those companies it will be beneficial whose financial profits are in decreasing trends. The main purpose of the wealth maximization theory of dividend is to make assurance to

the stockholders that stockholders are interesting in the firm, which has not better market value.

Keeping these theories into considerations, dividend can be paid in different forms. Among them some are discuss below:

2.1.2.1 Cash Dividend

Cash dividend is simply the dividend paid in cash or the proportion of net earnings, which are distributed to shareholders, as cash in proportion to their shares of company is known as cash dividend. Actually, it is most popular and widely used form of dividend, all over the world.

Generally, stockholders have great preference for cash dividend. Both the total assets and net worth of the company are reduced by same amount, when the cash dividend is announced -or distributed. Moreover, the share price will fall (or may not) after the cash dividend. Therefore, the need is that, the firm should have sufficient fund for the distribution of the cash dividend among shareholders or if the firm does not have sufficient fund for the distribution: it should borrow from any source. For the better cash dividend stability cash planning, budgeting and control mechanism are suggested or required. Cash dividend has the direct impact on the shareholders, it is one of the most interesting matters of the study, and the volume of the cash dividend depends upon earning of the firm and on the management attitude or policy.

Cash dividend has the psychological value for stockholders. Each and everyone like to collect their return in cash rather than non-cash means. So cash dividend is not only a way to earnings distribution but also a way of perception improvement of a company in the capital market. The objectives of the cash dividend are:

- To distributes the earnings to shareholders, as per their holding proportion in the stock.
- To build an image in the capital market so as to create favorable condition to raise the fund at the needs.
- To make distribution easy and to account easily.

2.1.2.2 Stock Dividend & Stock Split

It is the dividend in which the firm issues additional shares of its own stock to stockholders, in proportion to the numbers of the shares held in lieu of the cash dividend.

Stock dividend: A payment of additional shares of stock to share holders often used in place of or in addition to cash dividend (Van Horne, 2000).

Stock dividend is known as bonus shares too. An issue of bonus share represents a distribution of shares in addition to the cash dividend (known as stock dividend in U.S.A.) to the existing shareholders (Pandey, 1999).

The payment of stock dividend does not occur cash outflow and neither position of the firm nor ownership of the stockholders is changed. A stock dividend is paid in additional shares of the stock instead of in cash and simply involves a book keeping transfer from retain earning to stock accounts (Weston and Copeland, 1991).

The net effect of the stock dividend would be an increase in numbers of shares of current stockholders to represent the same interest as it was before using the stock dividend.

Practically, if the stock dividend is issued, the par value of the share remains constant. In case of stock split the par value of the share does not remain constant, therefore the common stock, paid-in-capital and retain earnings account also remain same. Except in accounting treatment the stock dividend and stock split are very similar. A stock split however is usually reversed for occasion when a company wishes to achieve a substantial reduction in the market price of the shares (Van Horne, 2000).

In any case, the concern of the management is the positive effect on the stock price.

An analysis of all the benefits and cost of stock dividends depicts the net effect on the value of stock, and provides a basis to issue or not to issue stock dividend. In stock split there is no change in the capital account: instead a large numbers of the shares of the common stock is issued. In two-for-one stock split, stockholders receive two

shares for each one previously held. The book value per share is cut in a half and par or stated, value per share is similarly changed (Pradhan, 1992).

Practically accepted behavior of the stock dividend and split holds some differences. The New York Stock Exchange considers any distribution of the stock totaling less than 25% of outstanding stock to be a stock dividend and any distribution of 25% or more a stock split. A stock split will have the following effects:

- A stock split increases the number of outstanding stocks.
- It decreases the par value and the market price of the stock.
- It does not change the proportional ownership of stockholders.
- It does not change the capital account nor the net worth of the company,
- Unless the total earning is increased, the stock split causes a dilution of EPS.

Decision regarding the stock split depends on the expected increase in the price/earning (P/E) ratio and the stock value. What matters is the increase in the stock price as the result of the decision (Pradhan, 1992).

The accounting treatment portrayed holds for what is known as small percentage. Stock dividend is usually a distribution of 20 percent or less of the number of common shares already outstanding. Because larger common stock dividends will materially reduce share price, the accounting authorities usually require that capitalization change be in terms of the par value of the additional share issued.

Practically if the stock dividend is issued, the par value remains constant. In case of Stock split the par value of the share does not remain constant, therefore the common stock, paid-in-capital and retain earnings account also remain same. Except in accounting treatment, the stock dividend and stock split are very similar. A stock split however is usually reversed for occasions when a company wishes to achieve a substantial - reduction in the market price per share.

A stock dividend pays additional stock to stockholders. Theoretically, it is not a thing of value to the stockholders unless cash dividends per share remain unchanged or are increased. Stock dividends may serve to keep the market price per share in a popular

trading range. A more effective device for reducing market price per share is- stock split. Both stock dividends and stock splits appear to have informational or signaling effect. When other things are held constant, share price tends to rise around the time of announcement, consistent with the positive signal (Van Horne, 2000).

The integral part of dividend policy of a firm is the use of bonus shares and the stock splits. Both involves issuing new shares on a pro-rata basis to the current share holders while the firms assets, its earning, the risk bearing assumed and the investors percentage ownership in the company remain unchanged. The only definite results from either bonus share or share split are the increase in the number of shares outstanding (Khan and Jain, 1995).

In practice, it is observed that the immediately after the announcement of bonus issue, the market price of the company changes depending on the investors' expectations. Sometimes a sharp decline in the share price may be observed if the bonus issue falls short of the investors' expectations.

It may be emphasized that the market value of share may improve as the result of bonus issue if it is followed by increased dividends in the immediate future. If the dividends do not increase, it is likely that the market price may fall.

2.1.3 Dividend Policy

Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Retain earnings are one of the most significant sources of fund for financing corporate group, but dividends constitute the cash flow that is paid to stockholders (Gupta, 1973).

The third major decision of the firm is its dividend policy; the percentage of earnings in cash to its stockholders. Dividend payout, of course, reduces the amount of earnings retain in the firm and affect the total amount of internal financing. The dividend payout ratio obviously depends on the way earnings are measured for ease of exposition, we use account net earnings but assume that these earnings can form true

economic earnings. In practice, net earning may not conform and may not be an appropriate major of the ability of firm to pay dividends (Van Horne, 2000).

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

In general, dividend policy is concerned with the following matters:

- Amount of dividend to be paid-the policy outlines the basis to determine the amount of dividend to be paid,
- Form of dividend- Cash dividend and/or stock dividend,
- Payment procedure
- Stock repurchase and stock splits (Pradhan, 1992)

Dividend policy according to the application could be categorized as following:

2.1.3.1 Stable Dividend Policy

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

a) Stable Dividend Per Share

When a firm pays a fix amount of dividend per 'share over the year and does not change- it with fluctuations in the level of its earnings, it is said to have persuade a

relatively stable dividend policy. The most popular kind of dividend policy is one that pays a regular steady dividend. This policy is completely rational policy and poses the strategic financial management; therefore, it is related to the company's ability to pay dividends.

b) Stable Payout Ratio

If the firms distribute a certain percentage of its profit as dividend in every year is known as stable -payout ratio. The ratio of dividend to earning is called payout ratio. If the firm simply applied the target payout rate to each year earnings, dividend could fluctuate widely (Barley and Myers, 1988).

c) Low Regular plus Extra Policy

If the company usually pays dividend constantly to stockholders at a fixed rate and do not change the payout ratio unless it is believed that the changes in earnings are permanent. When the earning of a firm is swelling, it may have decided to distribute a part of increased earnings as extra dividend. It is known as low regular plus extra policy. Extra dividend is declared only in the year which earnings exceed annual dividend requirement by some given amount and it will be skipped subsequently, when business earning will drop to normal level. It could be the better policy to that company whose stockholders prefer at least a certain amount of regular income or return.

2.1.3.2 No Immediate Dividend Policy

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

- When the firm is new and rapidly growing concern, which needs tidy amount of funds to finance its expansion program,
- When the firms excess to capital market is difficult,

- When availability of funds is costlier,
- When stockholders have agreed to accept higher return in future.

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

2.1.3.3 Stock Dividend Policy

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

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

2.1.4 Factors Affecting Dividend Policy

Every joint stock company after the financial performance declares the dividend payout. The typical dividend policy of most firms is to retain, (one third to half of the net earnings) and distributes the remaining amount to the shareholders (Van Horne, 2000).

In fact earning and dividend has positive correlation (most of the times) therefore when earnings increase the dividend is also become so and vice versa. But the challenge of the financial manners is to bring balance between company's fund requirement (need) and stockholders expectations (desires).

There are many practical factors, which are vital in dividend decisions. To maintain the balance between both, company's need as well as expectation, the following matters and circumstances are to be considered:

i) Shareholders' Expectations

Shareholders may have different expectations as per their economic status and the effect of tax differential on dividend and capital gain. A retire shareholder may require regular dividend while a wealthy shareholder may -prefer the capital gain benefit.

ii) Closely Held Companies

In case of closely held companies; the body of shareholders is small and homogeneous and management usually knows the expectations of the shareholders. Therefore shareholders can easily adopt a dividend policy, which satisfies most shareholders. If most of the shareholders are in high tax bracket and have the preference for capital gains to current dividend income, the company can establish a dividend policy of paying less or no dividend and retaining the earnings within the company.

iii) Widely Held Company

It is a formidable task to ascertain the preference of shareholders in a widely held company. The numbers of shareholders is very large and may have diverse desires regarding dividends and capital gains. Shareholders of widely held company may be divided in four groups:

a) Small Shareholders

These types of shareholders are in small numbers investing in few companies with the hope of dividend regularly or making capital gain. Small shareholders purchase share only when their saving permits, therefore small shareholders do not have the definite investment policy. The company having small shareholders should make the policy of high dividend payment.

b) Retired and Old Person

These persons generally invest in shares to get regular income. They use their savings or provident or pension funds to purchase shares. These persons may, therefore, select shares of companies, which have history of paying regular and liberal dividends.

c) Wealthy Investors

Wealthy investors are very much concerned with the dividend policy followed by a company. Wealthy investors have a definite investment policy of increasing their wealth and minimizing the taxes. These persons are in high tax brackets and the dividend received in cash by them would be taxed at high rate. The wealthy shareholders' group is quite dominating in many companies as they hold relatively large blocks of shares and are able to influence the composition of the board of directors by their majority voting rights. On the dividend policies of these companies, this group will have a considerable influence.

d) Institutional Investors

Such investor purchases the large blocks of shares to hold them for relatively long periods of time. Institutional investor, unlike wealthy shareholders, are not concerned with personal income tax but with profitable investment. Most institutional investor avoids speculative issues, seek diversification in their investment portfolio and favor a policy of regular cash dividend payment.

iv) Financial Need of the Company

The financial need of the company may conflict with the desires of the shareholders. Management requires giving more weightage to the financial need of the company. However, retain earnings should be used as profitable investment opportunities. If shareholders themselves have better investment opportunities the earnings should be distributed to them so that investors may be able to maximize their wealth. When company has internal rate of return greater than required by the shareholders; it would

be the advantage of shareholders to allow the re-investment of earnings by the company.

When the company does not have profitable opportunities and earns a rate on investment, which is lower than, the rate required the shareholders; it is not proper to retain earnings.

v) Dividend Paying Constraints

Most companies recognized that the shareholders have desire to receive dividend, although shareholders are also interested in capital gain. How much dividend should a company pay? As it is the critical question, the companies' decision regarding to amount of earnings to be distributed as dividend depends upon a number of factors; described as follows:

Liquidity

The liquidity of a company is prime -consideration in much dividend decision. Because dividend represent a cash outflow, the greater the cash position and overall liquidity position of the company, the greater its ability to pay a dividend. A company that is growing and profitable may not be liquid because its funds may go into the fixed assets and permanent working capital. Because the management of such a company usually desired to maintain some liquidity cushion to give its financial flexibility and protection against the uncertainty, it may be reluctant to jeopardize this position to pay a large dividend.

Ability to Borrow

A liquid position is not only to provide for the financial flexibility and thereby protect against uncertainty. If a firm has the ability to borrow on comparatively short notice, it may be relatively financial flexible. The greater the ability of the firm to borrow, the greater its financial flexibility, and the greater its ability to pay the cash dividend with ready access to debt fund, management should be less concerned with the effect that cash dividend has on it liquidity.

Access to tire Capital Market

A company having the ability to liquidate can still pay dividend if it is able to raise debt or equity in the capital markets. It also provides flexibility in the financial position .of the firm, which in fact could meet the desires of the stockholders (dividend) as well as the firm's obligations. Capital market reputation of a firm- always make easy to raise funds and funds availability helps to meet both requirement as mentioned before.

Restriction in Loan Agreement

Lender may put restriction on dividend payment to protect their interest when the firm is experiencing low liquidity or low profitability. As such the firm agrees as a part of a contract with a lender to restrict the dividend payment. Therefore when the restriction of this type is put, the company is forced to retain the earning and have low payout ratio. The newcomer firms and the firm having low liquidity and inefficient funds basically apply it.

Control

External financing, unless it is through a right issue, involves dilution of control. If external finance is raised through a public issue of equity capital, the existing shareholders will have to share control with new shareholders. Internal financing by the way of retained earnings, on the other hand, lends to no dilution of control. Hence, if the shareholders and the management of a company are averse to dilution of control, the firm should rely' more on retain earnings.

Taxes

As mentioned earlier dividend income be taxed with high percent rate. Similarly the divided income is added in the ordinary income and ordinary incomes are taxed in the higher rate than capital gain tax. Therefore if the principal shareholders of the firm are of high taxpayer, the form may retain more and vice-versa.

Investment Opportunities

A growing firm gives precedence to the retention of the earnings over the payment of dividend in order to finance its expansion activities. When the investment opportunities are occur infrequently, the company may not be justified in retaining the earnings at least during the periods when such opportunities exist. If the company retain earning during such periods the retain funds would either be re-invested in short-term securities yielding nominal return or remain ideal. This will have a impact of reducing the wealth of the shareholders. Thus the better course in such a case is to follow a policy of paying dividend and raises the external funds when investment opportunities occur. Two things have to-be considered:

- If the firm typically has large numbers of profitable investment opportunities, this will tend to produce a low target payout ratio and vice versa.
- The ability to accelerate or to postpone projects will permit a firm to adhere more closely it suitable dividend policy.

Inflation

Some company may have followed the policy of paying the high dividend with the time of inflation in order to protect the shareholders from the erosion of the real value of dividend. But the company with falling result cannot follow this policy. This policy not only tries to suite the inflation but also in the lower economic growth it helps to create the capital market for the investment opportunities.

Difference in the Cost of External Equity or Retained Earning

The cost of external equity excepting that, which rose by the way of right issue, is higher than the cost of retain earning. Two factors cause these differences:

- Issuing cost
- Earnings

The price at which the additional equity is offered to the public is lower than the prevailing market price. The magnitude of the cost differential between the external

equity and retain earnings has the relative proportions of equity and retain earnings used by the firm and hence on its dividend policy.

Dividend Stability

The financial manager must be concerned with the stability of dividend to investor by stability mean maintaining a position in relation to a dividend trend line, preferably one that is upward sloping. It would appear that investors value stability. The stable dividend may convey the management's view that the future of the company is better than the drop in earnings suggests.

2.2 Review of Related Studies

2.2.1 Review of Major Studies

As mentioned earlier, there have been so many studies made by the different persons and institutions for dividend policy and stock price. There are two opinions regarding to dividend payout and market price/value of shares. One point of view is that dividends are irrelevant and the amount of dividend payout does not affect the market value of the share. The other is dividends are relevant and the amount of dividend paid affect the market price/value of the shares.

Always a critical and confused question has arose, whether dividend policy affect the market value of the shares or not. To put light in these matter different studies made by different international scholars and researcher should be overviewed. Therefore some of the main researches are going to be discussed below:

Chawla and Srinivasan (2007) studied the impact of dividend and retention on share price. Researchers took 18 chemicals and 13 sugar companies and estimated cross section relationship for the year 2002 and 2005. The required data were collected from the official directory of Bombay Stock Exchange. The basic objectives were:

- To estimate a model to explain share price, dividend and retained earning relationship.
- To test the dividend, retained earning hypothesis.
- To examine to the structural changes in the estimated relations overtime.

Achieve these objectives, they used simultaneous equation model as developed by Friend and Puckett in 1964 (Chawla and Srinivasan, 2007). The model in its unspecified form was as follows.

1. Price Function

$$P_t = [D_t, R_t, (P/E)_{t-1}]$$

2. Dividend Supply Function

$$D_t = [E_t, D_{t-1}, (P/E)_{t-1}]$$

3. Identity

$$E_t = D_t + R_t$$

Where,

P = Market price per share.

D = Dividend per share.

R = Retained earnings per share.

E = Earning per share.

$(P/E)_t$ = Deviation from the sample average of price Earning's ratio.

t = Subscript for time.

As per the financial theories they expected the efficient of both dividend and retained earnings to be positive in the price equation. Similarly in the dividend supply function also expected a positive sign for current earnings and previous dividend.

Researchers took 18 Chemicals and 13 Sugar companies and estimated cross-sectional relationship for the years 1996 and 1999. The required data were collected from the official directory of Bombay stock exchange. Researchers used two stage least square techniques for estimation. Researchers also used lagged earnings price ratio instead of lagged price earnings ratio, i. e. (P/E) .

From the result of their two stage least square estimation, they found that in the case of chemical industry the estimation coefficients had the correct sign and the coefficient of determination of all equation were very high. It implies that the stock price and dividend supply variation can be explained by independent variables.

But in case of sugar industry researchers found that the sign for retained earning is the negative in both years. So they left sugar industry for further analysis.

For chemical industry, researchers observed that the coefficient of dividend was very high as compared to retained earnings. Researchers also found that coefficient of dividend was significant at one percent level in both years, whereas coefficient of retained earning was significant at ten percent level in 1996 and at one percent level in 1999.

Finally, researchers included that the dividend hypothesis holds well in the chemical industry, both dividend and retained earning significantly explain the variations in share price in chemical industry. Researchers also stressed that the impact of dividend is more pronounced than that of the retained earning but the market has started shifting towards more weight for retained earning.

Walter (2008) study the relevant theory of dividend and argued that the dividend policy of the firm affects the value of the shares. So, the dividend is relevant. In those cases where firm announced an increase in their dividend, there is a significant positive reaction in their stock prices. Conversely, in those cases when the firm announced the decrease in their dividend, there is the significant negative reaction in their stock prices.

Walter's study is also based on relevant theory. James E. Walter, by his article, 'dividend policies and common stock prices' in journal of finance, advocated that the choice of appropriate dividend policy almost always affect the value of the enterprises i.e. share value/price. Walter's study is also based on some assumptions:

- The return on the firms' investment (R) and the cost of capital (Ke) are constant.
- All earnings are either distributed as dividend or re-invested internally,
- The value of the EPS and DPS remain unchanged,
- The firm has an infinite life.

Value of the stock according to Walter can be calculated by the following equation:

$$P = \{D + R/k_e (E - D)\}/k_e$$

Where: P market price of an equity share

D = DPS

E = EPS

R = the rate of return on the firm's investment

K_e = market capitalization rate or cost of capital

Walter's focus is in internal rate of return (R) and the cost of capital (K_e) in determining the dividend policy with these two variables; Researcher had tried to conclude some decisions. Researcher therefore, had expected three conditions probably exist:

Condition 1(R>K)

When internal rate of return is greater than cost of capital, it will be better to retain all net profits. R exceeding K shows the firm's better performances to earn more than the shareholders are paid in their reinvestment (or hoped by them). The market value per share increases by decreasing the dividend in such situation. Moreover, the market value per share will be highest at zero dividends.

Condition 2(R <K)

When internal rate of return (R) is less than cost of capital (K); it advocates that the shareholders can earn a higher return by investing elsewhere. Increasing the dividend in this condition increases the market price per share. It is happened in the declining firm, generally. By distributing entire earning as dividend, the value of the shares will be at optimum level. The dividend payout ratio of 100 would be the optimum dividend policy.

Condition 3 (R = K)

If the internal rate of return equals to the cost of capital, the dividend payout does not affect the market value of the share. In this condition the market value of the share remains constant for the entire dividend payout ratio (even from zero to hundred).

This kind of firm is called normal firm. Therefore, there is no any optimum dividend policy for such firm.

Conclusion

($R > k$) = Dividends are negatively correlated with stock price

($R < k$) = Dividends are positively correlated with stock price

($R = k$) = Dividend is indifferent to variation in the market price of the share.

2.2.2 Review of Nepalese Studies

Many studies made in context of Nepal with regards to dividend and stock prices, because of information lack and lack of experts, the studies is limited in this regards. Even though, some studies are made which are going to be reviewed here.

Pradhan (1993) studied in “*stock market behavior in Nepal*”. The main objective of the study is to examine the stock market behavior Nepalese corporate firms. The data were collected from 17 enterprises covering the year of 1986-1990. The study used simple statistical tools. Following findings were observed in connection with dividend behavior:

Higher the earnings on the stock leads the larger the ratio of dividend per share. Stocks with larger ratio of dividend per share to the market price per share have higher liquidity, liquidity position of the stock, paying lower dividend is also more variable as compared to the stock paying higher dividend. Stock with larger ratio of dividend per share to market price per share has higher liquidity. There was positive relationship between the ratio of dividend per share to market price per share and interest coverage ratio. Dividend per share and market price per share was positively correlated. There were positive relationship between dividend payout and liquidity, positive relationship between dividend payout and profitability, positive relationship between dividend payout and turnover ratio and positive relationship between dividend payout and -interest coverage.

Manandhar, (2000) study on entitled “*Preliminary test of lagged structure of dividend empirical test case of corporate firm in Nepal*”. The main objective of the study is to set test whether Nepalese corporate firms consider the lagged earnings and dividend

paid to pay the dividend in current year. To test this problem the study had considered 17 corporate companies as samples and set different hypothesis. The study used simple statistical tools. The findings of the study were as follows:

There is significant relationship between the change in dividend policy in terms of DPS and change in lagged earnings. In overall there is positive relationship between change in lagged consecutive earnings and dividend per share. There is relationship between distributed lag profits and dividend, when change in lagged consecutive earnings is greater than zero, in 65% the case change in dividend per share. Overall increase in EPS (t) has resulted to increase in the dividend payment in 66.6% of the cases while decrease in EPS resulted decrease in dividend payment. Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share. Corporate firm do not take into account one year or two year lagged earnings

K.C (2009) study entitled “*Dividend Policy of Joint Venture Bank in Nepal*”. The study had covered the period of 2002/2003 to 2007/08 with the following objectives of a) to provide conceptual framework of dividend models, b) to analyze the financial variables affecting the stock value and interpret the dividend paying implication under dividend valuation model and c) to provide suggestions, which would give vision for determination and espousal of dividend policy of joint venture banks. The study used simple statistical tools. The findings of the study were as follows:

The earnings per share of all joint venture banks were raised satisfactorily. There was correlation between EPS and DPS. Amount of cash dividend had been increasing each year. The P/E ratio, earning yield, dividend yield percentage exposed cyclical behaviour. P/E ratio was fluctuated in smaller proportion. The market value per share of joint venture banks stocks in security exchange center were significantly fluctuated and trading on high price. Joint venture banks in Nepal were seen as growth banks because actual capitalization rate (r) is higher than the normal capitalization rate (k) which is $r > k$. Under CAPM the Beta Risk of joint venture banks were less riskier. Cash dividend per share (CDPS) of joint venture banks were significantly increasing in each year. The annual average growth rate in CDPS of NABIL and NSBIBL and SCBNL were recorded as 35.0 %, 5 1.7% and 100.0% respectively.

Subedi (2012) study entitled “*Corporate dividend practices in Nepal*” in study had covered the period of 2004-2008 with the total observation of 47 firms in financial sector & 30 in non-financial sector. The basic objectives of the study were, a) to analyze the properties of portfolio forms on dividends, b) to examine the relationship between dividend and stock price and c) to survey the opinion of financial executives on corporate dividend practices. The study used financial and simple statistical tools. The findings of the study were as follows:

Stocks with larger ratio of dividend per share to book value per share have higher liquidity. Stocks with larger ratio of dividend per share to book value per share have higher profitability. Positive relationship is there between the ratio of dividend per share to book value per share and turnover ratio. There is positive relationship between the ratio of dividend per share to the book value per share and interest coverage ratio. There is positive relationship between dividend payout ratio and current ratio whereas the negative relationship between dividend payout and quick ratio. There negative relationship between dividend payout and the earnings before tax to net worth. There is positive relationship between dividend payout and interest coverage ratio. The stocks with larger ratio of divided per share to market price per share have higher liquidity. The stocks with larger ratio of divided per share to market price per share have lower leverage ratio. The stocks with larger ratio of divided per share to market price per share have higher earnings. The study used the primary data focused on earning announcement helps to increase the market price per share.

Khanal (2015) conducted a thesis on “*Share market in Nepal*” The study had covered the period of 2006/2007 to 2011/12 with the following objectives of a) to study the dividend practice of sample companies, b) to analyze the financial variables affecting the dividend policy and c) interpret the dividend paying implication under dividend valuation model. The study used financial and simple statistical tools. The findings of the study were as follows:

Many companies were paying less than the expected cash dividend per share of the investors. Most companies were under rating the expectation of investors and had the low marketability of shares on trading floor of the stock exchange. There were miss match between calculated price and quoted price of the share observed only one

calculated price of share was near the actual price of share. It clearly signals over pricing of the share and market price were guided by technical factors. Most of the companies displaying the lower price earning ratio. Wide gap was recorded in the percentage of cash dividend paid by the listed public listed ltd. Companies. The expected percentage of dividend of investors was not matching with the actual percentage. So, majority of the companies declaring less percentage than the risk free of return plus risk premium are unable to maintain investor's psychology in marketing.

Pokharel (2016) in thesis paper entitled "*Dividends and stock prices: An empirical study*". The study had covered the period of 2010/2011 to 2014/15 with the following objectives of a) to study the stock prices behavior of sample companies, b) to analyze the financial variables affecting the dividend policy and c) to determine the dividend payout ratio of sample companies. The study used multiple regression model of three independent variables. Besides this the study also tried to highlight the relationship between stock price and other independent variables setting separate simple linear regression equations. The sectors chosen for the study were manufacturing and trading sector and banking and insurance sector. The major findings of the study were as follows:

The relationship between dividend per share and stock price is positive. Dividend per share affect the stock price variedly in different sectors. Changing the dividend policy or dividend per share might help to increase the market price of the share. The relationship between stock price and retained earnings per share is not prominent. The relationship between stock prices and lagged earnings prices ratio is negative.

Kafle (2017) in thesis entitled "*Dividend Policy of Joint Venture Bank in Nepal*" had covered the period of 2010/11 to 2015/16 with the objectives: a) to provide conceptual framework of dividend models and b) to analyze the financial variables affecting the stock value and interpret the dividend paying implication under dividend valuation model. The study used financial and simple statistical tools. The findings of the study were as follows:

The earnings per share of all joint venture banks were raised satisfactorily. There was correlation between EPS and DPS. Amount of cash dividend had been raising each year. The P/E ratio, earning yield, dividend yield percentage exposed cyclical behaviour. P/E ratio was fluctuated in smaller proportion. The market value per share of joint venture banks stocks in security exchange center were significantly fluctuated and trading on high price. Joint venture banks in Nepal were seen as growth banks because actual capitalization rate (r) is higher than the normal capitalization rate (k) which is $r > k$. Under CAPM the Beta Risk of joint venture banks were less riskier. Cash dividend per share (CDPS) of joint venture banks were significantly increasing in each year. The annual average growth rate in CDPS of NABIL and NSBIL and NGBL were recorded as 35.0 %, 5 1.7% and 100.0% respectively.

Sharma (2017) in thesis entitled “*Dividends and stock prices: An empirical study*”, The study had covered the period of 2011/2012 to 2015/16 with the following objectives of a) to examine the relationship between dividend and stock price, b) to survey the opinion of financial executives on corporate dividend practices and c) to study the relationship between stock price and other independent variables. The study used multiple regression model of three independent variables. The study used multiple regression model of three independent variables. Besides this the study also tried to highlight the relationship between stock price and other independent variables setting separate simple linear regression equations. The sectors chosen for the study were manufacturing and trading sector and banking and insurance sector. The major findings of the study were as follows:

The relationship between dividend per share and stock price is positive. Dividend per share affect the stock price variedly in different sectors. Changing the dividend policy or dividend per share might help to increase the market price of the share. The relationship between stock price and retained earnings per share is not prominent. The relationship between stock prices and lagged earnings prices ratio is negative.

Rajbhandari (2017) study on entitled “*dividend policy: Comparative study of three joint ventures banks*” from 2011 thorough 2016. The main objectives of study were; a) to identify the type of dividend followed by banks, b) to examine the impact of

dividend on stock price, c) to identify the relationship between DPS and other financial indicator and d) to know the uniformly among DPS, EPS and DPR of the sample banks. The study used multiple regression model of three independent variables. Following are the finding of his study.

No clearly defined dividend policy was 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, MPS, DPR, last year dividend paid, liquidity, Net worth but the used only a few financial factors among then therefore, validity of the result is not worthwhile. Average earning per share seems satisfactory of all sample companies. The positive relationship between dividend per share and earning per share. The co-efficient of correlation between Earning per share and market price 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 institution does not seem to follow the optimal dividend policy of paying regular dividend as per shareholders expectation and interest.

Aryal (2017) has conducted a research work on "*Dividend policy: comparative study between NABIL bank and Standard Chartered Bank Nepal Limited*". The study analyzed the data of the two banks for the year 2010/11 to the year 2015/16. The objectives of this study were, a) to test the relationship between dividend per share and stock prices, b) to determine the impact of dividend policy on stock prices, c) to identify whether it is possible to increase the market value of the stock changing dividend policy and d) to identify the relationship between DPS and other financial indicator. The study used multiple regression model of three independent variables. Following were the findings of the study:

The relationship between dividend per share with Earning per share, net profit, net worth and stock prices are positive. Market price per share is affected by dividend decision, if change in Dividend per share. There is not uniform dividend policy in

both the banks. The relationship between dividend per share and stock price is positive in the sample companies. Dividend per share affects the share prices. Change in dividend policy or DPS might help to increase the market prices of shares. The relationship between stock prices and lagged carryings price ratio is negative. The relationship between stock prices and retained earning per share is not prominent

2.3 Research Gap

Many national and international studies in the field of dividend policy have reported a certain kind of relationship model to explain the relation between price and dividend. The concepts and practices prevailed on the then period when study were made are not exactly same as of today's concepts and practices. Hence, conducting a recent study on dividend policy based on the previously developed model is the main aim of reviewing literature in the dividend policy.

These research works were somewhat different by means of scope, objectives and sample firms than the present research work as well as time frame of the research conducted. Due to the long time frame, past research samples does not represent the contemporary population. So, present research work performed may be taken, as a further step in the chosen field is the hope of researcher. The finding of this research work has been included in related chapter later. From the above all studies conducted by various researcher, it seems that all joint venture banks are in developed stage and banks are facing various challenges. Further more it also shows that there are very few research works conducted about the dividend policy. This study is based on different variable, tools and newly data (2012/13 to 2016/17). Researcher focuses only the dividend policy and its effect on market price of share of selected banks. This study will be fruitful to those interested person, researchers, students, teachers, businessmen and government for academically as well as policy perspectives.

CHAPTER THREE

METHODOLOGY

Research methodology is a way to study systematically to solve the research problem (Kothari, 1990). In other words, research methodology describes the methods and process applied in the entire aspect of the study. The basic objective of the study is to compare the dividend policy and practices of Nepalese Commercial Banks and the factors that affect it. It also tries to find out the relationship between dividend per share and earnings per share, and dividend per share and market price per share of Commercial Banks taken as sample for data analysis purpose. It is given in another sub-topic of this section. Basically secondary data will be used for analysis.

3.1 Research Design

Research design refers to a series of stage in conducting study. It 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 commercial bank. This study is based on descriptive research design. For the analytical purpose, the reports of relative commercial banks have been collected from the year 2011/12 to 2016/17

3.2 Population and Samples

There are 28 commercial banks operating in Nepal whose shares are traded actively in stock exchange; hence, it is not possible to study all of them regarding the study topics. Therefore sampling was done selecting from population. The samples are based judgement sampling method on commercial banks in the early 1980's and after 1990's. The samples to be selected are as follows.

- a) Nabil Bank Ltd.(NABIL)
- b) Standard Chartered Bank Nepal Limited (SCBNL)
- c) Investment Bank Limited (NIBL)

- d) Nepal SBI Bank Ltd.(SBI)
- e) Everest Bank Ltd.(EBL)

3.3 Source of Data

All the analysis is based on secondary data. In this study data are collected from different sources: Nepal stock Exchange, website plus the respective banks' central office. From these organizations, annual reports are collected and some related information is taken from Economic Survey and relevant to the study. For the purpose of analysis of data six years were taken as sample from 2011/12 to 2016/17.

3.4 Data Analysis Tools

For the purpose of analysis, two tools/techniques are used. Which are given below:

- Financial tools
- Statistical tools

(A) Financial Tools

Financial tools are those, which help to study the financial strength and weakness of the sample firms. The financial tools used in this study are briefly presented below:

i) Earning Per Share (EPS)

EPS is calculated to know the earning capacity of firms or company. EPS defined as the result received by dividing net profit after taxes by number of common stock outstanding. In equation:

$$\text{EPS} = \frac{\text{Net Profit After Tax}}{\text{No. of Common Stock Outstanding}}$$

ii) Dividend Per Share (DPS)

DPS indicate the part of earning distributed to the shareholders on per share basis and calculated by dividing the total dividend to equity shareholders by the total no of equity shares.

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

iii) Dividend Payout Ratio (D/P ratio or Dividend Yield)

D/P ratio is calculated to indicate percentage of the profit on share that is distributed as dividend. The following equation is solved to calculate the D/P ratio:

$$\text{D/P ratio} = \frac{\text{Dividend Per Share (DPS)}}{\text{Earning Per Share (EPS)}}$$

iv) Market Price Per Share (MPS)

MPS is that value of stock, which can be obtained by a firm from the market. MPS is one of the variables, which is affected by DPS of the firm. If the earning per share and dividend per share are high, the market value of the share will also be high. The capital market determines MPS. In this study the market price of share means the closing price of the share indicated in the NEPSE Index. The market price per share is a financial metric that investors use to determine whether or not to purchase a stock.

$$\text{MPS} = \frac{\text{Total Market Capitalization}}{\text{Number of Common Shares}}$$

1. Statistical Tools

I. Arithmetic Mean

Arithmetic mean of a given set of observation is their sum divided by the number of observation. In general X_1, X_2, \dots, X_n are the given “n” observations, than their arithmetic mean, usually denoted by \bar{X} is given by:

$$\bar{X} = \frac{(X_1 + X_2 + \dots + X_n)}{n}$$

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

Where \bar{X} denotes mean. X_1, X_2 and X_n are given set of observations and n denotes number of items observed.

II. The Coefficient of Variation (CV)

The coefficient of variation is the relative measure of dispersion, comparable across, which is defined as the ratios of the standard deviation to the mean expressed in percent.

In Symbol

$$CV = \frac{S.D.}{\bar{X}} \times 100$$

Where: S.D. Standard Deviation

$$\bar{X} = \text{Mean average}$$

The higher CV denotes to the higher variability of variable and vice- versa.

III. Standard Deviation (S.D.)

The measurement of the scatterness of the mass of figures in a series about an average is known as dispersion. The standard deviation means the absolute dispersion. The greater amount of dispersion greater the standard deviation will be. A small standard deviation means high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just opposite.

In Symbol

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

IV. Coefficient of Correlation (r)

Correlation analysis is the statistical tools that can be used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the direction of relationship between two sets of figures. It is the square root of the coefficient of determination. Correlation coefficient can either be positive or it can be negative. If both variables are changing in the same direction, the correlation is said to be positive but when the variations in the two variables take place in opposite direction, the correlation is termed as negative. In this study, coefficient of correlation is calculated between stock prices and dividends, stock prices and retained earnings, stock prices and lagged earning.

In symbol,

$$r = \frac{n \sum XY - (\sum X)(\sum Y)}{\sqrt{[n \sum X^2 - (\sum X)^2] \times [n \sum Y^2 - (\sum Y)^2]}}$$

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

V. Coefficient of (Multiple) Determination (R²)

The coefficient of determination is a measure of degree (extent or strength) of linear association or correlation between two variable, one of which happens to be independent and other being dependent variable(s). In other words, R² measures the percentage total variation in dependent variable being explained by independent variable. The coefficient of determination can have value ranging from zero to one. Value of one can occur only if the unexplained variation is zero, which simply means that all the data points in the scatter diagram fall exactly on the regression line. In this study; R² is calculated as the requirement of model.

$$R^2 = \frac{\text{Explained variation}}{\text{Total variation}}$$

$$R^2 = \frac{a \sum Y + b \sum XY - N\bar{Y}^2}{\sum Y^2 - N\bar{Y}^2}$$

VI. Regression Equation

Regression analysis is concerned with the study of the relationship between one variable called the explained or dependent variable and one or more other variables called independent or explanatory, variables. There are two types of regression analysis. One is called simple linear regression analysis, which is concerned with the study of the relationship between one variable called the dependent or explained variable and one other variable called independent or explanatory variable. Other is called multiple linear regression analysis, which is concerned with the study of the relationship between one variable called the dependent or explained variable and more than one other variable called independent or explanatory variable.

The regression model under this study is depicted as under.

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + e_t$$

Where, Y = Market price per share

x_1 = Dividend per share

x_2 = Dividend payout ratio

x_3 = Earning price per share

e_t = regression error term at time

where b_1, b_2, b_3 and b_4 are beta coefficients

This value is calculated by using SPSS Version 18.0 while calculating the value of this variables.

(i) Regression Equation no 1: $D_t = a + b_1 E_t + b_2 D_{(t-1)}$

Where: D_t = DPS at time t

E_t = EPS at time t

$D_{(t-1)}$ = Lagged DPS

a, b_1 & b_2 are constants

(ii) Regression Equation no. 2: $P_t = a + b_1 D_t + b_2 E_t$

Where: P_t = MPS at time t

D_t = DPS at time t

E_t = Price earning ratio at time t

a, b_1 & b_2 are constants

(iii) Regression Constant (a)

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

(iv) Regression Coefficient (b)

The regression Coefficient of each independent variable indicates the marginal relationship between that variable and value of dependent variable, holding constant the effect of all other independent variable in the regression model. In other words, the coefficients describe how changes in independent variables affect the values of dependent variable's estimate.

The regression analysis submits the following two concepts:

VII. Standard Error of Estimate (SEE)

With the helps of regression equations perfect prediction is practically impossible. Standard error of estimate is a measure of reliability of the estimating equation indicating the variability of the observed points around the regression line, that is the extent to which observed values differ from their predicted values on the regression line. The smaller the value of SEE, the closer will be the dots to the regression line & the better the estimates based on the equation for this line. If SEE is zero, then there is no variation about the line and the correlation will be perfect. Thus with the helps of

SEE, it is possible for us to ascertain how well and representative the regression line is as a description of the average relationship between two series.

In symbol,

$$SEE = \sqrt{\frac{\text{Unexplained variation}}{N - 2}}$$

VIII. t-Statistics

To test the validity of our assumption, if sample size is less than 30, t-test is used for applying t-test in the context of small sample, the “t” value is calculated first and then compared with the table value of ‘t’ at a certain level of significance fore given degree of freedom (in this study the ‘t’ value are computed with the help of computer). If the calculated value of ‘t’ exceeds the table value (say t 0.05), we infer that the difference is significant at 5% level but if “t” value is less than the concerning table value of the “t” the difference is not treated as significant.

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} \quad \text{where, } S^2 = \frac{n_1 s_1^2 + n_2 s_2^2}{n_1 + n_2 - 2}$$

CHAPTER FOUR

RESULT

Chapter one has introduced subject matters and objectives of this study. In order to achieve those objectives necessary analytical tools and techniques have been discussed under chapter of research methodology. In this chapter relevant data have been presented and analyzed with reference of dividend practices of joint venture banks. This chapter includes five sub-headings, at first analysis of financial indicators and variables are presented. The simple and multiple regression analysis are the next two sub-headings. Lastly the test of hypothesis and major findings are presented. Therefore this chapter is based on the presentation and analysis of the secondary data, which help to conclude and draw some recommendations.

4.1 Analysis of Financial Indicators and Variables

4.1.1 Analysis of EPS

Earning per Share (EPS) is one of the most important financial indicators, which measure the earning capacity of a firm. It measures the profit available to the ordinary shareholders on a per share basis. EPS is calculated by dividing net income available to the common stockholders by the total number of common shares outstanding. The Table 4.1 shows the EPS of the sample firms.

Table 4.1
Analysis of EPS

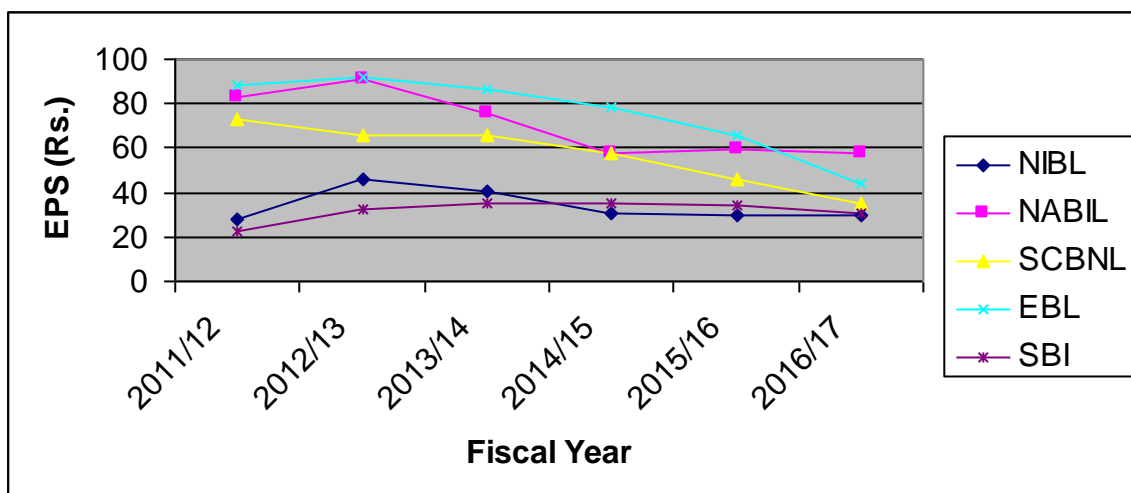
Year	NIBL	NABIL	SCBNL	EBL	SBI
2011/12	27.60	83.23	72.60	88.55	22.93
2012/13	46.20	91.05	65.70	91.88	32.75
2013/14	40.70	76.12	65.47	86.04	34.83
2014/15	30.90	57.24	57.38	78.04	34.84
2015/16	29.30	59.32	45.96	65.97	34.29
2016/17	29.30	58.0	35.49	44.32	30.61
Total	204	424.96	342.6	454.8	190.25
Mean	34	70.83	57.10	75.80	31.71
S.D	7.60	14.64	13.97	17.99	4.59
C.V	22.34	20.68	24.46	23.74	14.49

Source: Nepal Stock Exchange Limited from the FY 2011 to 2017.

The comparative Table 4.1 shows the EPS of NIBL, NABIL, SCBNL, EBL and SBI is in fluctuating trend through out the study period. The maximum EPS of NIBL and NABIL are Rs. 46.20 and Rs. 91.05 respectively in year 2012/13. The maximum EPS of SCBNL, EBL and SBI are Rs. 72.60, Rs. 91.88 and Rs. 34.84 respectively in year 2011/12, 2012/13 and 2014/15. Similarly minimum EPS of NIBL and NABIL is seen in year 2011/12 and 2014/15. On the other hand, minimum EPS of SCBNL, EBL and SBI are in year 2016/17, 2016/17 and 2011/12 respectively.

The mean EPS for NIBL and NABIL stand for Rs. 34 and 70.83 respectively where as mean EPS for SCBNL, EBL and SBI stand for Rs. 57.10, 75.80 and 31.71 respectively. It shows that the highest mean EPS is in NABIL and lowest in SBI. Likewise the coefficient of variation (CV) of EPS of NIBL, NABIL, SCBNL, EBL and SBI are 22.34%, 20.68%, 24.46%, 23.74% and 14.49% respectively. It has indicated that the variability of EPS of NABIL is lesser than that of NIBL and in the same way variability of EPS of SBI is less than that of SCBNL & EBL. Among the sample firms CV is highest in SCBNL and lowest in SBI.

Figure 4.1: EPS of NIBL, NABIL SCBNL, EBL and SBI



Thus, the analysis of EPS trend shows that average EPS in NABIL is greater than NIBL; on the other hand average EPS in EBL is greater than SCBNL & SBI. It indicated the profitability of NABIL and EBL common shareholders investments are better than NIBL, SCBNL and SBI respectively.

4.1.2 Analysis of DPS

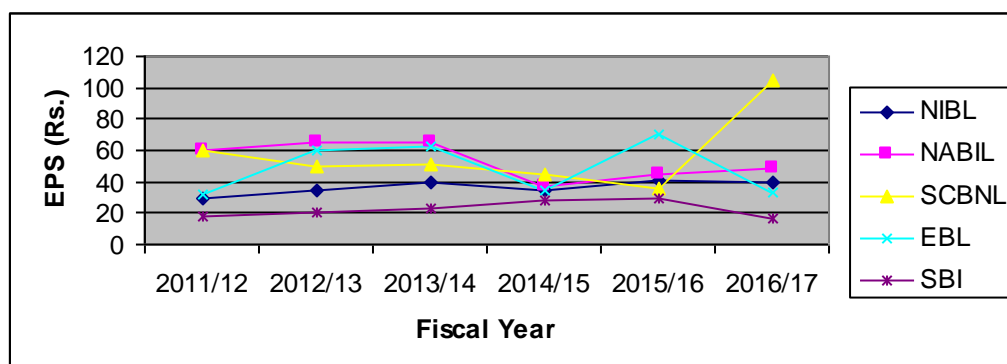
Dividend per Share (DPS) is that amount, which is paid to common shareholders on a per share basis. DPS shows that what exactly do the ordinary shareholders receive. It is calculated by dividing the total dividend to equity shareholders by the total number of equity shares. The Table 4.1 shows the Dividend per Share (DPS) of the sample firms:

Table 4.2
Analysis of DPS

Year	NIBL	NABIL	SCBNL	EBL	SBI
2011/12	30.0	60	60	31.58	17.50
2012/13	35.0	65	50	60	20
2013/14	40.0	65	51.5	62	22.7
2014/15	34.7	36.84	44.21	35	28.42
2015/16	41.0	45	35.9	70	29.53
2016/17	40.0	48	105.26	33	16.34
Total	220.7	319.84	346.87	291.58	134.49
Mean	36.78	53.31	57.81	48.60	22.42
S.D	4.29	11.72	24.59	17.24	5.54
C.V	11.66	21.98	42.53	35.47	24.73

Source: Nepal Stock Exchange Limited from the FY 2011 to 2017.

The comparative Table 4.2 shows that dividend per share of all the sample banks are in fluctuating trend except EBL and SBI. The highest dividends of Rs. 41 paid in year 2015/16 by NIBL, whereas NABIL has paid highest DPS (Rs. 65) in year 2012/13 and 2013/14. On the other hand SCBNL has paid highest DPS (Rs. 105.26) in year 2016/17, EBL has paid highest dividend in year 2015/16 and 2013/14, SBI has paid it in year 2015/16. The mean DPS of NIBL, NABIL, SCBNL, EBL and SBI are Rs., 36.78, 53.31, 57.81, 48.60 and 22.42 respectively. It shows that the mean DPS of NABIL and SCBNL are greater than NIBL, EBL & SBI respectively. On the other hand the coefficient of variation (CV) of NIBL and NABIL are lesser than SCBNL, EBL and SBI respectively.

Figure 4.2: DPS of NIBL, NABIL SCBNL, EBL and SBI

Thus, the analysis of the DPS trend shows that average dividend per share paid by NABIL and EBL are greater than NIBL, SCBNL and SBI respectively among the sample banks. Higher dividend per share creates positive attitude of the shareholders toward the NABIL and EBL, which consequently helps to increase the market value of the shares. It is the indicator of better performance of the bank. In this regard, EBL and SCBNL are better than NABIL, NIBL and SBI.

4.1.3 Analysis of D/P Ratio

Dividend payout ratio (D/P ratio) indicates what percentage of actual earnings of a firm has been received by the ordinary shareholders. It is calculated by dividing the dividend per share to ordinary shareholders by the earning per share (EPS). The Table 4.3 shows that dividend payout ratio (D/P ratio) of sample firms.

Table 4.3
Analysis of D/P Ratio

Year	NIBL	NABIL	SCBNL	EBL	SBI
2011/12	1.09	0.72	0.83	0.36	0.76
2012/13	0.76	0.71	0.76	0.65	0.61
2013/14	0.98	0.85	0.79	0.72	0.65
2014/15	1.12	0.64	0.77	0.45	0.82
2015/16	1.40	0.76	0.78	1.06	0.86
2016/17	1.37	0.83	2.97	0.74	0.53
Total	6.72	4.51	6.9	3.98	4.23
Mean	1.12	0.75	1.15	0.66	0.71
S.D	0.24	0.08	0.89	0.25	0.13
C.V	21.54	10.49	77.56	37.18	18.27

Source: Nepal Stock Exchange Limited from the FY 2011 to 2017.

Figure 4.3: D/P Ratio of NIBL, NABIL SCBNL, EBL and SBI

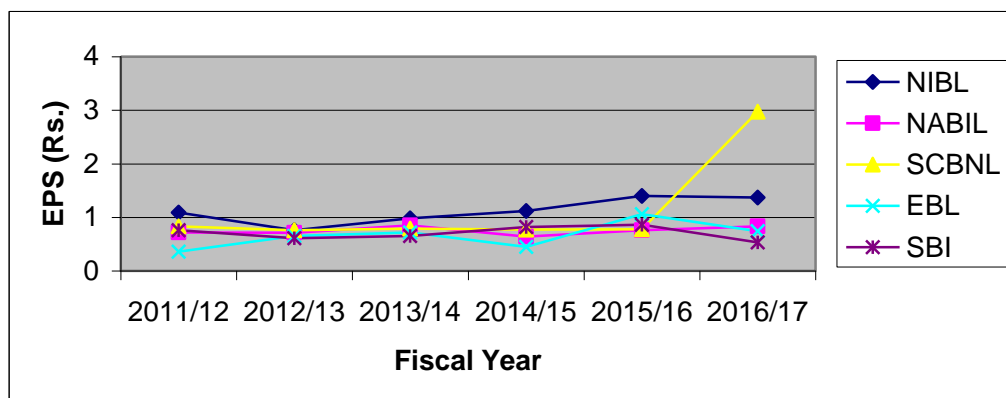


Table 4.3 shows that the average dividend payout ratio of NIBL, NABIL, SCBNL, EBL and SBI are 1.12, 0.75, 1.15, 0.66 and 0.71 respectively. It indicated the D/P ratio of NIBL, SCBNL and NABIL are higher than EBL and SBI. Highest percentage of dividend payout ratio of NIBL, SCBNL and NABIL are 1.40, 0.85 and 2.97 in year 2015/16, 2013/14 and 2016/17. Similarly, for EBL and SBI highest D/P ratio is in year 2015/16 (1.06) and 2012/13 (0.86) respectively.

The coefficient of variation (CV) of dividend pay ratio of SCBNL (77.56%) is higher than NABIL, EBL and NIBL. Thus, the analysis of dividend payout ratio trend shows that the SCBNL and NIBL D/P ratio to common shareholders is much better than NABIL.

The coefficient of variation (CV) of dividend payout ratio of NIBL (21.54%) is higher than NABIL (10.49%). Similarly CV of dividend payout ratio of EBL (37.18%) are higher than SBI (18.27%). Thus the analysis of dividend payout ratio trend shows that the NABIL, NIBL and SBI D/P ratio to common shareholders are much better than SCBNL and EBL respectively.

4.1.4 Analysis of MPS

Market price of share is the value of stock, which can be received by firm or equity holders selling it in capital market. The capital market determines MPS. In this analysis MPS represents the closing market price of NEPSE Index of the sample firms. The Table 4.4 shows the market price of stock (MPS) of the sample firms:

Table 4.4
Analysis of MPS

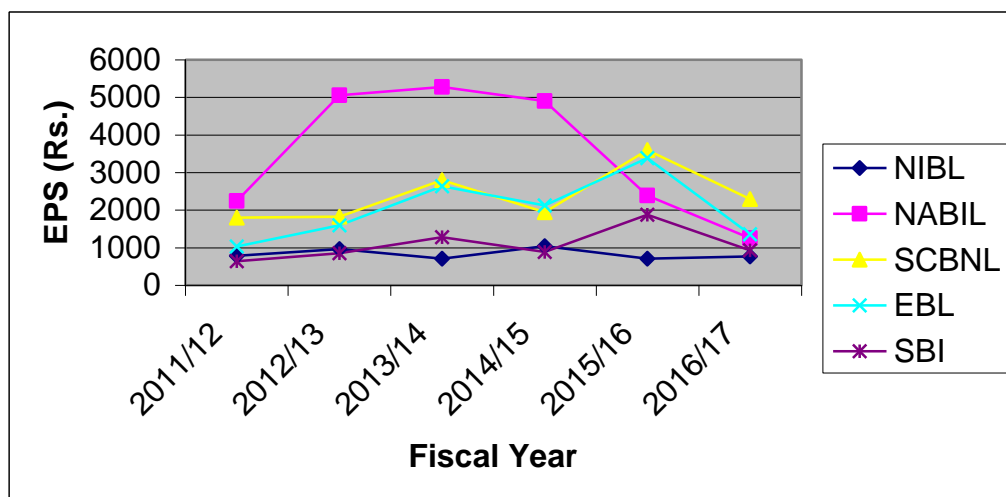
Year	NIBL	NABIL	SCBNL	EBL	SBI
2011/12	784	2240	1799	1033	635
2012/13	960	5050	1820	1591	850
2013/14	704	5275	2799	2631	1280
2014/15	1040	4899	1943	2120	887
2015/16	710	2384	3600	3385	1875
2016/17	770	1252	2295	1353	925
Total	4968	21100	14256	12113	6452
Mean	828.00	3516.67	2376.00	2018.83	1075.33
S.D	139.26	1754.72	708.97	877.46	443.64
C.V	16.82	49.90	29.84	43.46	41.26

Source: Nepal Stock Exchange Limited from the FY 2011 to 2017.

The mentioned comparative Table 4.4 shows that the average yearly market price of stock (MPS) in NIBL, NABIL, SCBNL, EBL and SBI are Rs. 828, 3516.67, 2376, 2018.83 and 1075.33 respectively. The highest market price of NIBL (Rs. 1040) is in the year 2014/15 and lowest (Rs. 704) in the year 2013/14 where as highest market price of NABIL (Rs. 5275) is in the year 2013/14 & lowest (Rs. 1252) in the year 2016/17 Similarly the highest and lowest MPS of SCBNL (Rs. 3600 and 1799 are in the year 2015/16 and 2011/12 respectively. On the other hand, highest and lowest MPS of EBL (Rs. 3385 and 1033) are in the year 2015/16 and 2011/12, where the highest and lowest MPS of SBI (Rs. 1875 and 635) are in the year 2015/16 and 2011/12 respectively. The MPS trends of all firms are increasing.

The coefficient of variation (CV) of MPS of SCBNL and NIBL are lesser than NABIL, EBL and SBI among sample banks. The higher CV indicates the greater variability of MPS. Thus the analysis of MPS trend shows that the NABIL, EBL and SBI capital increasing rate are higher than that of NIBL and SCBNL among sample banks.

Figure 4.4: MPS of NIBL, NABIL SCBNL, EBL and SBI



4.2 Multiple Regression Analysis

This part of the study is designed to examine the relationship between MPS, DPS, D/P and EPS & Lagged DPS. For this purpose two models have been determined. First one is the model for DPS and the next one is for MPS.

4.2.1 MPS_t on DPS_t , EPS_t & D/P

The concerning of this study is to know the relationship between MPS, DPS and EPS. Therefore, MPS being dependent and EPS, DPS & D/P being independent the following results are obtained:

Table 4.5
Multiple Regression Analysis of MPS on DPS, EPS and D/P
(Regression Equation: $MPS = a + b_1DPS + b_2EPS + b_3D/P + \epsilon_i$)

Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
Model					R Square Change	F Change	df1	df2	Sig. F Change
1	.999	.998	.995	13.4022	.998	412.652	14	14	.002

a Predictors: (Constant), EPS, DPS, D/P

Source: Calculated from SPSS Computer Software

Coefficients

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	72.580	3.452		2.938	.019
	DPS	13.427	.682	.763	19.693	.003
	EPS	11.620	1.154	.390	10.072	.010
	D/P	37.807	.722	.966	5.233	.035

a Dependent Variable: MPS

Source: Calculated from SPSS Computer Software

The results are based on pooled data of five commercial banks with 30 observations by using linear regression model. The model is, $MPS = a + b_1DPS + b_2EPS + b_3D/P + \epsilon$, where, dependent variable is MPS (Market Per Share) and independent variables are DPS (Dividend Per share), EPS (Earning Per Share), and D/P (Dividend Payout ratio). The reported results also include the values of F-statistics (F) and coefficient of determinants (R^2).

The regression of dependent variables of MPS shows that beta coefficient for Dividend per share, Earning per share, and Dividend payout ratio are positive as indicated in table. The result shows that banks with better dividend per share would have higher MPS. Similarly, increase in earning per share leads to an increase in MPS. In the same way, increase in dividend payout ratio leads to an increase in MPS. The beta coefficient is significant for dividend per share, earning per share, and dividend payout ratio.

The results presented in Table 4.5 clearly shows in commercial banks, one rupee increase in EPS leads to an average of about rupee 11.620 increases in MPS, holding the DPS and D/P variables constant. In the same way increase in one rupee of DPS leads to an average of about rupee 13.427 increases in MPS of commercial banks. Likewise increase in one rupee of D/P leads to an average of about rupee 37.807 increases in MPS of commercial banks.

The value of multiple coefficient of determination (R^2) is (0.998) in commercial banks. The t value of coefficient of EPS, DPS and D/p are statistically significant given model at 5% level of significance; therefore the regression equation could provide statistically significant explanation of variation in the MPS due to EPS, DPS and D/P of commercial banks.

The results presented in Table 4.5 indicate that there is greater influence of DPS rather than EPS to Market Price of Stock in all the sample banks. The F- statistic for regression is 412.652, which is higher than their corresponding critical value at 5% level of significance indicating that the regression equation provides statistically significant explanation of variation in the stock prices of commercial banks.

4.2.2 DPS_t on EPS_t & $DPS_{(t-1)}$

When the multiple regression model having two independent variables are run, the results are obtained as presented in Table 4.6. It presents the usual linear relationship between average DPS, EPS & LDPS (Lagged Dividend per Share).

Table 4.6
Multiple Regression Analysis of DPS on EPS and Lagged DPS_(t-1)
(Regression Equation: $D_t = a + b_1E_t + b_2D_{t-1} + \epsilon_i$)

Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
Model 1					R Square Change	F Change	df1	df2	Sig. F Change
1	.910	.829	.657	8.1629	.829	4.838	14	14	.0171

a Predictors: (Constant), LAGGED DPS, EPS

b Dependent Variable: DPS

Source: Calculated from SPSS Computer Software

Coefficients

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model 1		B	Std. Error	Beta		
	(Constant)	35.855	17.241		2.080	.0173
	EPS	.953	.350	1.001	2.720	.0113
	Lagged DPS	.135	.301	.165	.448	.0598

a Dependent Variable: DPS

Source: Calculated from SPSS Computer Software

The results are based on pooled data of 5 commercial banks with 30 observations by using linear regression model. The model is, $MPS = a + b_1 \text{Lagged DPS} + b_2 \text{EPS} + \epsilon_i$, where, dependent variable is MPS (Market per share) and independent variables are Lagged DPS (Previous year dividend per share), and EPS (earning per share salary). The reported results also include the values of F-statistics (F) and coefficient of determinants (R^2).

Table 4.6 reveals the results of regression of Market per share, Lagged dividend per share and earning per share. The regression of dependent variables of Market per share shows that beta coefficient for earning per share and lagged dividend per share are positive as indicated in table. It is indicated that banks having better earning per share, would have better market per share. Similarly, higher the previous year (lagged) dividend per share, higher would be the market per share.

The results presented in Table 4.6 clearly shows in commercial banks, one rupee increase in EPS leads to an average of about rupee 0.953 increases in DPS, holding the lagged DPS variable constant. In the same way increase in one rupee of previous year DPS i.e. lagged DPS leads to an average of about rupee 0.135 increases in DPS of commercial banks.

The value of multiple coefficient of determination (R^2) is (0.829) in commercial banks. The t value of coefficient of EPS is statistically significant given model at 5% level of significance; therefore the regression equation could provide statistically significant explanation of variation in the DPS of commercial banks.

The results presented in Table 4.6 indicate that there is greater influence of EPS rather than lagged DPS to Market Price of Stock in all the sample banks. The F- statistic for regression is 4.838, which is higher than their corresponding critical value at 5% level of significance indicating that the regression equation provides statistically significant explanation of variation in the stock prices of commercial banks.

4.3 Major Findings of the Study

1. From the descriptive analysis it was found that there is not any consistency in dividend policy in the sample banks. It has indicated the need of dividend strategy as well as the need of proper analysis of the respective group of the banks.
2. The MPS is affected by the financial position and the dividend paid by the firms, in this regards the MPS of the sample firms was seemed to be fluctuated. It denotes Nepalese investors are not treated fairly.
3. Most of the Nepalese firm from the past 6 years have not profit planning and investment strategy, which has imbalanced the whole position of the banks. It means there is not consistency even in the earnings.
4. Most of the D/P Ratio of the sample banks in 6 years was found more than the popular practice (i.e. 40%).
5. The lack of financial knowledge and the market inefficiency has affected the market price of the share in all the firms. But it is theoretically argued.
6. The study clearly found that one rupee increase in EPS leads to an average of about rupee 11.620 increases in MPS of commercial banks, holding the DPS and D/P variables constant. In the same way increase in one rupee of DPS leads to an average of about rupee 13.427 increases in MPS of commercial banks. Likewise increase in one rupee of D/P leads to an average of about rupee 37.807 increases in MPS of commercial banks.
7. The study found that the value of multiple coefficient of determination (R^2) is (0.998) in commercial banks. The t value of coefficient of EPS, DPS and D/p are statistically significant given model at 5% level of significance; therefore the regression equation could provide statistically significant explanation of variation in the MPS due to EPS, DPS and D/P of commercial banks.
8. The study found that there is greater influence of DPS rather than EPS to Market Price of Stock in all the sample banks. The F- statistic for regression is 412.652, which is higher than their corresponding critical value at 5% level of significance indicating that the regression equation provides statistically significant explanation of variation in the stock prices of commercial banks.

9. The study found that that beta coefficient for earning per share and lagged dividend per share are positive as indicated in table. It is indicated that banks having better earning per share, would have better market per share. Similarly, higher the previous year (lagged) dividend per share, higher would be the market per share.
10. The study found that one rupee increase in EPS leads to an average of about rupee 0.953 increases in DPS, holding the lagged DPS variable constant. In the same way increase in one rupee of previous year DPS i.e. lagged DPS leads to an average of about rupee 0.135 increases in DPS of commercial banks.
11. The value of multiple coefficient of determination (R^2) is (0.829) in commercial banks. The t value of coefficient of EPS is statistically significant given model at 5% level of significance; therefore the regression equation could provide statistically significant explanation of variation in the DPS of commercial banks.
12. The study found that there is greater influence of EPS rather than lagged DPS to Market Price of Stock in all the sample banks. The F- statistic for regression is 4.838, which is higher than their corresponding critical value at 5% level of significance indicating that the regression equation provides statistically significant explanation of variation in the stock prices of commercial banks.

CHAPTER FIVE

CONCLUSIONS

5.1 Summary

A brief introduction of this study has been already presented in the first chapter. In the second chapter, the review of literature with possible review of ideas, theories and research findings have also been presented. Moreover, research methodology is described in third chapter relating to dividend decision. This chapter focuses on summarizing the study held with the researcher's conclusion. The next attempt in this chapter is made for the recommendations on the basis of findings. For this whole purpose the chapter is sub divided into summary, conclusion and recommendation as follows:

The main objective of the study is to evaluate and analyzes dividend policy of selected commercial banks. The specific objective are, a) to assess the dividend payment pattern of Nepalese commercial banks, b) to analyze the current position of EPS, DPR and MPPS and c) to examine the impact of DPS, EPS and DPR on MPPS of Nepalese commercial banks. There are 28 commercial banks operating in Nepal which are considered as population of the study. Out of them five commercial banks namely Nabil Bank Limited (NABIL), Standard Chartered Bank Nepal Limited (SCBNL), Nepal Investment Bank Limited (NIBL), Nepal SBI Bank Limited (SBI) and Everest Bank Limited (EBL) were selected as sample banks. Both descriptive and analytical research design was used. Mainly secondary data were used in this study.

From the analysis, it was found there is not any consistency in dividend policy in the sample banks. It indicates the need of dividend strategy as well as the need of proper analysis of the respective sector of the firms. Most of the Nepalese firm from the very past have not profit planning and investment strategy, which has imbalanced the whole position of the firms. It means there is not consistency even in the earnings.

The MPS is affected by the financial position and the dividend paid by the banks, in this regards the MPS of the sample banks is seem to be fluctuated. It denotes Nepalese investors are not treated fairly. The lack of financial knowledge and the

market inefficiency has affected the market price of the share in all the banks. But it is theoretically argued. Every investor expects handsome earnings on the investment. A firm that is able to distribute fair dividend, will be able to raise further capital from capital market. The total earning that a shareholder can gain from share investment is classified into dividend yield and capital gain yield. The company therefore needs to device a proper balance between retention and dividend distributions.

In Nepal, only a few listed companies have paying regular dividends to their shareholders. Further companies have not been following stable dividend payout policy. On the other hand, the dividend payout ratio of listed companies in Nepal has not been able to distribute fair dividends. In this regards, however commercial banks are also no exception. The objective of this study is to study the impact of dividend policy on market price of the stock, therefore it is concluded that more or less the dividend policy depends on the earning per share of a company; the earning per share and dividend per share having the positive relation may also impact on market price of stock. For this argument, there were two multiple regression formed.

The first multiple regression was formed to see the relationship of the lagged dividend per share and earning-per share to dividend per share. The results of different test reveal that there is positive relationship between DPS & EPS in most of the times. But for MPS it would not happen all the time that increase of EPS & DPS increases the MPS. The second multiple regression was formed to see the effect of EPS & DPS to MPS. But it also concludes the fact that some times the increase in DPS & EPS affects the MPS and some times it does not.

The insignificant of t-test in many cases, conveys the message of our capital market and financial managers of the companies are ignoring to those variables, which are used in the test. DPS and MPS simple regression have resulted positive relationship in all the banks. It is because the firms' rational and balancing decision in regards to dividend policy. The relation between DPS and EPS were observed as positive all the times in the sample banks, it could highlight the fact that "pay as much as the investor expects for their investment".

5.2 Conclusions

From the study it can be concluded that there is not any consistency in the dividend policy of the sample banks, therefore some times the result of the different test accept the theoretical assumptions of dividend policy and some times do not. The main focus of investors however is the dividend, but there is not any consistency and regular practice of dividend announcement in different firms. In popular practice of Nepal, when the firm has big earnings firms retain more and when firms do not have good figure of earnings, firms announce high dividend to protect their image in the capital market. Studying the dividend trend of Nabil Bank can be proved as this bank had paid Rs. 60 in the year 2011/12 when the EPS was Rs. 83.23 but in the year 2012/13 it had paid Rs. 65 as dividend, it is because the bank wanted to increase the perception value to protect the image in the capital market. Similarly the dividend trend of NIBL can be proved as this bank had paid Rs. 30 in the year 2011/12 when the EPS was Rs. 27.60 but in the year 2013/14 and 2014/15 it had paid Rs. 40 and Rs. 34.7 as dividend, it is because the bank wanted to increase the perception value to protect the image in the capital market. In the same way many other examples can be found even these days.

Among the sample banks, SCBNL, and NABIL is a strong company with the financial market reputation, if the result of it compared to other banks, it can be said that although EPS affect DPS it is less concerned with MPS. Therefore the MPS is more or less dependent with DPS in the efficient capital market.

The study clearly found that one rupee increase in EPS leads to an average of about rupee 11.620 increases in MPS of commercial banks, holding the DPS and D/P variables constant. In the same way increase in one rupee of DPS leads to an average of about rupee 13.427 increases in MPS of commercial banks. Likewise increase in one rupee of D/P leads to an average of about rupee 37.807 increases in MPS of commercial banks.

The study found that the value of multiple coefficient of determination (R^2) is (0.998) in commercial banks. The t value of coefficient of EPS, DPS and D/p are statistically

significant given model at 5% level of significance; therefore the regression equation could provide statistically significant explanation of variation in the MPS due to EPS, DPS and D/P of commercial banks.

The study found that there is greater influence of DPS rather than EPS to Market Price of Stock in all the sample banks. The F- statistic for regression is 412.652, which is higher than their corresponding critical value at 5% level of significance indicating that the regression equation provides statistically significant explanation of variation in the stock prices of commercial banks. The study found that that beta coefficient for earning per share and lagged dividend per share are positive as indicated in table. It is indicated that banks having better earning per share, would have better market per share. Similarly, higher the previous year (lagged) dividend per share, higher would be the market per share.

The study found that one rupee increase in EPS leads to an average of about rupee 0.953 increases in DPS, holding the lagged DPS variable constant. In the same way increase in one rupee of previous year DPS i.e. lagged DPS leads to an average of about rupee 0.135 increases in DPS of commercial banks. The value of multiple coefficient of determination (R^2) is (0.829) in commercial banks. The t value of coefficient of EPS is statistically significant given model at 5% level of significance; therefore the regression equation could provide statistically significant explanation of variation in the DPS of commercial banks.

The study found that there is greater influence of EPS rather than lagged DPS to Market Price of Stock in all the sample banks. The F- statistic for regression is 4.838, which is higher than their corresponding critical value at 5% level of significance indicating that the regression equation provides statistically significant explanation of variation in the stock prices of commercial banks.

5.3 Implications

Although, this study was concerned with dividend decision, it may be appropriate to provide a package of suggestion in the light of findings. However these recommendations may also have some repercussion, and there is no doubt of these

measures to improve the existing conditions. On the basis of findings the following recommendation is made for the further applications of dividend policy to have the strong MPS in the capital market:

As banks are playing on the public money, the banks should plan profit by linking its activities with income generating programs whether fund based or non fund based. Formulation of dividend policy will clearly guide the way on how to follow dividend distribution. The policy should determine whether the company is going to adopt stable dividend policy, constant payout ratio or low regular plus extra dividends. What should be the long run dividend payout ratio, either it is pure residual policy, fixed dividend payout policy or smoothed residual dividend policy should have been clearly explained by the dividend policy. The tendency of doing as, management interference in policy matters about dividend decision should be eliminated.

Shareholders should be given a choice whether shareholders prefer stock dividend or cash dividend. Shareholders should be well informed to shareholders that issue of stock dividend decrease market value per share and earning per share. As number of shares are increased, total earning to shareholders will be the same. Issue of cash dividend increases both market value per share and earning per share but it does not increase the number of shares.

The DPS analysis shows that there is not any consistency of dividend policy in all the sample banks. Therefore, these firms need to create somehow paying reasonable DPS every year, it is because higher DPS creates positive attitude of shareholders towards company, which consequently helps to increase the market value of the shares. The psychological value of the shareholders is also valued as the assets of the firm.

EPS in NIBL, SCBNL, EBL and SBI are in fluctuating trend; therefore these banks should search the fruitful investment opportunities plan for profit maximization. The correlation between MPS & DPS in NIBL observed from simple regression was 57.0% positive; therefore this firm should try to increase DPS to better uplift the MPS in future. The correlation between 'MPS & DPS in SCBNL is positive 63.0%; therefore SCBNL should try to search the investment opportunity and increasing DPS.

The correlation between MPS & DPS in NABIL observed from simple regression was positive (0.743); therefore this bank should try to increase DPS to better uplift the MPS in future. The correlation between 'MPS & DPS in SBI is positive (0.906); therefore SBI should also try to search the investment opportunity and increasing DPS. Since higher CV of MPS indicates the greater variability of MPS, NABIL & SBI and NIBL & SCBNL should try to balance between dividend policy and MPS.

The correlation between MPS & DPS in EBL & also very low positive value, it is because these banks have announced dividend in very fluctuating trend therefore other variable affected MPS more than DPS. These banks should maintain consistent dividend policy. There is greater influence DPS rather than EPS to market price of stock, was found by second multiple regression analysis for all the sample banks. Therefore to improve MPS the firms are suggested to increase the DPS while considering other MPS influencing variables.

The test of hypothesis indicated that there is not any uniformity between the samples banks (in many cases) in regards to the financial indicators, therefore all the banks are suggested to analyze their sector to get into the decisions.

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APPENDICES

Appendix-I: Multiple Regression Analysis

Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
Model					R Square Change	F Change	df1	df2	Sig. F Change
1	.999	.998	.995	13.4022	.998	412.652	14	14	.002

a Predictors: (Constant), EPS, DPS, D/P

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	148240.761	14	74120.380	412.652	.002
	Residual	359.239	14	179.620		
	Total	148600.000	28			

a Predictors: (Constant), EPS, DPS, D/P

b Dependent Variable: MPS

Coefficients

Model		Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
	B			Beta		
1	(Constant)	72.580	3.452		2.938	.019
	DPS	13.427	.682	.763	19.693	.003
	EPS	11.620	1.154	.390	10.072	.010
	D/P	37.807	.722	.966	5.233	.035

a Dependent Variable: MPS

Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
Model					R Square Change	F Change	df1	df2	Sig. F Change
1	.910	.829	.657	8.1629	.829	4.838	14	14	.0171

a Predictors: (Constant), LAGGED DPS, EPS

b Dependent Variable: DPS

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1						

1	Regression	644.725	2	322.362	4.838	.0171
	Residual	133.267	2	66.634		
	Total	777.992	4			

a Predictors: (Constant), LAGGED DPS, EPS

b Dependent Variable: DPS

Coefficients

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
	(Constant)	35.855	17.241		2.080	.0173
	EPS	.953	.350	1.001	2.720	.0113
	LAGGED DPS	.135	.301	.165	.448	.0598

a Dependent Variable: DPS

Appendix-II: Data of EPS, DPS, D/P Ratio and MPS

Data of EPS

Year	NIBL	NABIL	SCBNL	EBL	SBI
2011/12	27.60	83.23	72.60	88.55	22.93
2012/13	46.20	91.05	65.70	91.88	32.75
2013/14	40.70	76.12	65.47	86.04	34.83
2014/15	30.90	57.24	57.38	78.04	34.84
2015/16	29.30	59.32	45.96	65.97	34.29
2016/17	29.30	58.0	35.49	44.32	30.61

Source: Nepal Stock Exchange Limited from FY 2011 to 2017

Data of DPS

Year	NIBL	NABIL	SCBNL	EBL	SBI
2011/12	30.0	60	60	31.58	17.50
2012/13	35.0	65	50	60	20
2013/14	40.0	65	51.5	62	22.7
2014/15	34.7	36.84	44.21	35	28.42
2015/16	41.0	45	35.9	70	29.53
2016/17	40.0	48	105.26	33	16.34

Source: Nepal Stock Exchange Limited from FY 2011 to 2017.

Data of D/P Ratio

Year	NIBL	NABIL	SCBNL	EBL	SBI
2011/12	1.09	0.72	0.83	0.36	0.76
2012/13	0.76	0.71	0.76	0.65	0.61
2013/14	0.98	0.85	0.79	0.72	0.65

2014/15	1.12	0.64	0.77	0.45	0.82
2015/16	1.40	0.76	0.78	1.06	0.86
2016/17	1.37	0.83	2.97	0.74	0.53

Source: Nepal Stock Exchange Limited from FY 2011 to 2017.

Data of MPS

Year	NIBL	NABIL	SCBNL	EBL	SBI
2011/12	784	2240	1799	1033	635
2012/13	960	5050	1820	1591	850
2013/14	704	5275	2799	2631	1280
2014/15	1040	4899	1943	2120	887
2015/16	710	2384	3600	3385	1875
2016/17	770	1252	2295	1353	925

Source: Nepal Stock Exchange Limited from FY 2011 to 2017.