

## CHAPTER 1

### INTRODUCTION

#### 1.1 Background of the study

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

Dividend policy is concerned with financial policies regarding paying cash dividend in the present or paying an increased dividend at a later stage. Whether to issue dividends, and what amount, is determined mainly on the basis of the company's unappropriated profit (excess cash) and influenced by the company's long-term earning power. When cash surplus exists and is not needed by the firm, then management is expected to pay out some or all of those surplus earnings in the form of cash dividends or to repurchase the company's stock through a share buyback program. If there are no NPV positive opportunities, i.e. projects where returns exceed the hurdle rate, and excess cash surplus is not needed, then – finance theory suggests – management should return some or all of the excess cash to shareholders as dividends. This is the general case, however there are exceptions. For example, shareholders of a "growth stock", expect that the company will, almost by definition, retain most of the excess earnings so as to fund future growth internally. By withholding current dividend payments to shareholders, managers of growth companies are hoping that dividend payments will be increased proportionality higher in the future, to offset the retainment of current earnings and the internal financing of present investment projects. Management must also choose the form of the dividend

distribution, generally as cash dividends or via a share buyback. Various factors may be taken into consideration: where shareholders must pay tax on dividends, firms may elect to retain earnings or to perform a stock buyback, in both cases increasing the value of shares outstanding. Alternatively, some companies will pay "dividends" from stock rather than in cash; see corporate action. Financial theory suggests that the dividend policy should be set based upon the type of company and what management determines is the best use of those dividend resources for the firm to its shareholders. As a general rule, shareholders of growth companies would prefer managers to have a share buyback program, whereas shareholders of value or secondary stocks would prefer the management of these companies to payout surplus earnings in the form of cash dividends.

All the business companies are established to earn more profit. Shareholders are the real owner of a company who invest their money for generating more income. Shareholders get dividend from out of the profit and benefited directly. Instead of paying dividend a firm can retain the fund to exploit other growth opportunities. The shareholders can expect benefit indirectly through future increase in price of stock. Thus shareholder wealth can be increased through either dividend or capital gains. So dividend policy involves the decision to pay out earnings versus retaining them for reinvestment in the firm.

In the context of Nepal, only few companies are paying dividend but many other companies are not paying stable dividend. There are some companies which have never paid dividend to their investors. Dividend on share is an important indicator that shows the performance of banks and thereby attracting the investors. Investors examine the dividend policy of the banks before they decide to invest on stock market but due to fluctuation on dividend policy of commercial banks of Nepal, investors are unable to forecast the future cash flow from cash dividend (Bhandari and Pokharel, 2012). It has been perceived that company which has grown their dividend generally experience an increase in its stock price and those companies which don't pay or lowers its dividend, leads to a fall in stock price trend. Hence, it shows dividend affects the stock price of the company but several researchers argue that it is the information on payment of dividend that affects the stock price. In fact, that dividend works as a simple sufficient signal of management's interpretation of the firm's current performance and its future prospects.

Dividend policy is an integral part of financial decision. The dividend policy is a major decision for the board of directors as the board of directors has to decide between paying out to shareholders and keep them happy in the short run or retain for investment which may be more beneficial to the shareholder in the long run. Dividend policy determines the division of earning between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financial corporate growth, but dividends constitute the cash flows that accrue to stockholders (Baker , Farrelly, & Edelman, 1985)

Investopedia (2019) defines a stock as a type of security that signifies proportionate ownership in the issuing corporation. This entitles the stock holder to that proportion of the corporations assets and earnings. There are two types of stocks: common and preferred stock. Common stock usually entitles the owner to vote at shareholders meetings and to receive dividend. Preferred stock does not have voting rights, but has a higher claims on assets and earnings than just shares.

Arkan (2016) Equity markets enhance corporate efficiency, innovation and provide a valuable source of capital for long term economic development. They also provide a useful (Srinivasan, 2012) mechanism for governments to raise capital through the sale of state owned enterprises. Moreover, equity market investments constitute an important element of individuals' assets, particularly as governments shift their pension systems toward the private sector.

In an efficient market, stock prices would be analyzed by technical analysis or fundamental analysis. Technical analysis evaluates the stock price movement and predicts the future stock price based on historical data of stock price. Fundamental analysis evaluates the intrinsic value of the company and compares it to the stock price. Srinivasan (2012) state that internal factors determine the share prices for different markets dividend, return on assets, return on equity, retained earnings, size, age of banks, earning per share, dividend yield, leverage, payout ratio, and book value per share.

Understanding the impact of various fundamental variables on share price is very much helpful to investors as it will help them in taking profitable investment decisions. As the relationship between dividend policy and the movement of stock prices is debatable, this paper aims at answering the question- What is the impact of dividend policy or earning

per share, dividend per share, dividend payout ratio, earning yield ratio and dividend yield ratio on the value of insurance companies listed in the NEPSE? The main objective of this study is to determine the impact of dividend policy on market price per share with special reference to insurance companies listed in NEPSE.

### **1.2 Problem statement**

The capital market is an important part of corporate development of a country. Even though the capital market is in the early stage of development in Nepal. Nepalese investors have heavily made investment on newly established companies, especially in financial sector. This trend will remain to continue until the investors are satisfied by the decision made by the management of the companies. Dividend is most inspiring aspect for the investment in the shares of various companies for an investors, even if dividend affect the firm's value, unless management knows exactly how they affect value, there is not much that they can do to increase the shareholder's wealth. So it is necessary for the management to understand how the dividend policy affects the market value of the firm or market price of the stock or the wealth position of the shareholders. Thus, this study answers the following question:

- i. What is the position of EPS, DPS, DPR, EY, DY and MPS of insurance companies?
- ii. Is there any effect of EPS, DPS, DPR, EY and DY on MPS?

### **1.3 Objective of the study**

The major objective of the study is to analyze the impact of dividend practice adopted by the selected companies to its market price of shares .More specific objectives are:

- i. To identify the position of EPS, DPS, DPR, EY, DY and MPS of listed companies.
- ii. To examine the impact of EPS, DPS, DPR, EY and DY on MPS.

### **1.4 Significance of the study**

- i. The research will provide important and useful information to the investor.
- ii. It will be useful for the management.
- iii. It will useful for stock broker, financial agencies, policy makers and various stakeholders.
- iv. This study will also be beneficial to those parties who are directly or indirectly related to the companies.
- v. This study will cover the partial fulfillment of the requirement of MBS, T.U.

### **1.5 Limitation of the study**

Dividend policy is the vital aspect of the financial management. For a corporate manager it is the most challenging and crucial part of the decision making process because it has the signaling effect towards market price of stock. This study has been carried out within certain limitations which are as follows:

- i. The study is based on only selected Insurance companies.
- ii. The research study is mainly based on secondary data which will be collected from books, financial statements, reports and company's authorized websites and other publication.
- iii. The study concentrates on impact of dividend policy on market price of selected companies.
- iv. The calculation of the study is fully depend on the accuracy of data provided by the organization.

### **1.6 Chapter plan**

This study has five section including Introduction, Review of Literature, Research Methodology, Data Presentation and Analysis major findings and Summary, Conclusion and Recommendation.

#### **Chapter 1: Introduction**

First chapter deals with the background of the study, focus of the study, statement of problems, objectives of the study, limitation of the study and scheme of the study.

#### **Chapter 2: Review of literature**

Second chapter includes some relevant literature available on the subject matter of the study; it consists of literature on emergence of concept of dividend policy from the reviews of books, articles and thesis related to the study field.

#### **Chapter 3: Research methodology**

This chapter contains framework and procedure of the study, it deals with research methodology used to carry out the research. It includes research design, population and sample, sources and techniques of data collection, tools and techniques of data analysis.

#### **Chapter 4: Results and discussion**

This chapter is heart of the study- This chapter contains presentation of data, their analysis and interpretation using financial and statistical tools such as financial indicators

and variable analysis, simple regression analysis, correlation coefficient analysis etc.

### **Chapter 5: Summary and conclusion**

Last chapter deals with suggestion, which includes the summary of the main findings conclusion of the study and recommendation.

Finally, appendices contain list of bibliography, copies of different sheets having information required for the study and different basic calculations.

## CHAPTER 2

### LITERATURE REVIEW

Review of literature is the process of learning understand the concept of the related topic. After selecting the topic of result, researcher should study different materials (like books, journals, magazines, newspapers, articles etc.) to collect the information about the subject matter of the study. The process of studying different educational materials which are related with the selected of the researchers called Review of literature. It helps to find out the research gap.

#### 2.1 Theoretical review

It is the first part of review of literature. This review consists of theoretical review from text book, reference books and practice in dividend policy and its impact on market prices of stock.

"The functions of finance involve three major decisions a company must make: the investment decision, financing decision, and the dividend decision. Each must be considered in relation to firm's objective; an optimal combination of the three will create value"(Van Horne, 1929)

The firm's decision to pay dividends may be shaped by two possible viewpoints. When dividend decision is treated as financing decision, the net earnings of the firm may be considered as a source of long term funds. With this approach, dividend will be paid only when the firm does not have profitable investment opportunities. On the other hand, because of market imperfections and uncertainty, shareholders may give a higher value to the near dividends than the future dividends and capital gains. Thus the payment of dividends may significantly affect the market price of the share. Higher dividends increase the value of the shares and low dividends reduce the price of share. In other to maximize wealth under uncertainty, the firm must pay enough dividends to satisfy investors (William, 1973).

Most of the investors expect dividend to continue in each year as well as to receive price when they sell the stock". The expected final stock price includes the returns of the

original investment plus a capital gain. If the stock is actually sold at price above its purchase price, the investor will receive a capital gain as such the shareholders expect an increase in market value of the common stock over time. At the same time, they also expect firm's earning in a form of dividend. So the shareholders may satisfy with dividend or capital gain. "Financial Manager is therefore concerned with the activities of corporation that affect the wellbeing of stockholders. That wellbeing can be partially measured by dividend received but a more accurate measure is the market value of stock (Weston, 1989).

### **Forms of dividend**

Generally, dividends are paid in cash but when the company is unable to pay cash dividend they use different forms of dividend payment for satisfying stockholders. Such forms of dividends are stock dividend, script dividend, property dividend, bond dividend etc. (Weston, 1989).

### **Cash dividend**

Cash dividend is one form of dividend, which is distributed to shareholders in form of cash out of company's profit. "The cash account and the reserve account of a company will be reduced when the cash dividend is paid. Thus, the total assets and net worth of the company are reduced when cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed" (Pandey, 1979).

### **Stock dividend**

If additional shares are issued to existing shareholders instead of cash dividend, it is known as stock dividend. "A stock dividend represents distribution of shares in addition to the cash dividend to the existing shareholders." This has the effect of increasing the number of outstanding share of the company. The shares are distributed proportionately. Thus, the shareholders retain their proportionate ownership of the company. The declarations of bonus share increases the paid-up share capital and reduce the reserves and surplus of the company. The total net worth is not affected by the issue of bonus share (Shrestha, 1980).

### **Script dividend**

A dividend paid in promissory notes is called script dividends. "Script dividends are those paid in company's promise to pay instead of cash." When earning of the company



justify dividends but the company's cash position is temporarily weak and does not permit cash dividend, it may declare dividend in the form of script. Script dividend may bear a definite maturity date or it may be left to the directors. Such dividends may be interest bearing or non-interest bearing (Miller & Modigliani, 1966).

### **Property dividend**

If payment of dividend made in the form of property rather than cash, than it is called property dividend. This form of dividend may be followed when there are assets that are no longer necessary in operation of the business or in extra ordinary circumstances. Companies' own products and securities of subsidiaries are the examples that have been paid as property dividends (Gautam, 1998).

### **Bond dividend**

Bond Dividend is a dividend that is distributed to the shareholders in form of bond. When the company generates more profit for a long time, it is better to issue a bond which carries certain interest rate. In other words, corporation declares dividend in form of its own bond with a view to avoid cash outflows (Irwin Friend & Marshall Pocket, 1964).

### **Theories of dividend**

#### **Residual theory of dividend**

According to one school of thought, the residual theory of dividends suggests that the dividend paid by a firm should be viewed as a residual amount left after all acceptable investment opportunities have been undertaken. Dividend policy can be viewed as one of a firm's investment decision. A firm that behaves in this manner is said to believe in the residual dividends. According to this theory, dividend policy is a residue after investment whether or not a company pays dividends depends on the availability of investment opportunity.

The starting point in this theory is that investors prefer to have the firm retain and reinvest earning, instead of paying dividends, if the return on reinvestment is higher than the opportunity cost of fund for the investors. The dividend under residual dividend policy equals the amount left over from earning after investment, no dividends are paid and new shares are sold to cover deficit for investment that is not covered. If there is not any investment opportunity then cent percent earning is distributed as dividend to the shareholders. Dividend is therefore merely a residue i.e. percent remaining after all equity

investment needs are fulfilled (Irwin Friend & Marshall Pocket, 1964).

### **Stability theory of dividend**

Dividend stability refers to the consistency in stream of dividend. In other words, stability of dividend means regularity in paying dividend even though the amount of dividend may fluctuate from year to year. Stability of dividends is considered as a desirable policy by the management of most companies. Shareholders also generally favor this policy and value stable dividends higher than the fluctuating ones. All other things being the same, stable dividend may have a positive impact on the market price of the share (Panday, 1995)

By stability, we mean maintaining the position of the firm's dividend payments in relation to a trend line, preferably one that is upward sloping. There are some reasons to believe that a stable dividend policy does lead to higher stock prices. First, investors are generally expected to value more highly dividends they are sure of receiving, since fluctuating dividends are riskier than stable ones. Second, many stockholders live on income received in the form of dividends. These stockholders are greatly inconvenienced by fluctuating dividends and they will pay a premium for a stock with a relatively assured minimum dividend. Third, from the stand point of both the corporation and its stockholders is that, stability of dividend is desirable for the requirement of legal listing. There are three distinct forms of such stability of dividend payments. They are:

#### **i) Constant dividend per share**

The policy of constant dividend per share follows a policy of paying a certain fixed amount per share as dividend every year irrespective of the fluctuations in the earnings. This policy does not imply that the dividend per share or dividend rate will never be increased. When a company reaches new level of earnings and expects to maintain it, the annual dividend per share may be increased (Panday, 1995).

#### **ii) Constant dividend payout ratio**

The ratio of dividend to earnings is known as payout ratio. Some companies may follow a policy of constant payout ratio, i.e. paying a fixed percentage of net earnings every year. With this policy, the amount of dividend will fluctuate in direct proportion to earnings.

#### **iii) Low regular dividend plus extra dividend**

According to this policy, the company pays fixed amount of stable dividend to the

shareholders to reduce the possibility of ever missing dividend payment and in years of market prosperity, additional dividend is paid over and above the regular dividend. When normal condition returns, the company cuts the extra dividend and returns in its normal dividend payment. This types of a policy enables a company to pay constant amount of dividend regularly without default and allows a great deal of flexibility for supplementing the income of shareholders only when the company's earning are higher than the usual, without committing itself to make large payments as a part of the future fixed dividend.

### **Factors influencing dividend policy**

A firm's dividend policy is influenced by a large number of factors. Some factors affect amount of dividend and some others affect types of dividend. Legal provision, Firm's liquidity position, need to repay debt, restrictions imposed by debt holders expected rate of return, stability of earnings, shareholder's personal tax etc., are the major factors affecting dividend policy, which are described below

#### **Legal requirements**

There is no- legal compulsion on the part of a company to distribute dividend. However, there are certain conditions imposed by law regarding the way of distributing dividend. Basically, we find the following three rules relating to dividend payment (Van Horne, 1993).

##### **i) The net profit rule**

The net profit rule states that dividends can be paid out of present or past earnings. However, it should be recognized that dividends greater than the sum of current earnings and past accumulated earnings could not be made.

##### **ii) The capital impairment rules**

This rule states that the firm cannot pay dividend out of its paid up capital, because it adversely affects the firm's equity base threatening the position of creditors. The basic idea behind this rule is to protect the claim of creditors by maintaining sufficient equity.

### **iii) Insolvency Rule**

If a firm's liabilities exceed the assets or if the firm is unable to pay its current obligations, the firm is considered to be insolvent. If the firm is insolvent, it is strictly prohibited by law to pay dividends.

### **Firm's liquidity position**

Dividend payout is also affected by the firm's liquidity position. No matter firm's balance sheet shows sufficient retained earnings, they are not held in cash, rather they are reinvested into firm's assets. Because of this, the firm may not be able to pay cash dividends (William, 1973).

### **Repayment need**

Firm uses several form of debt financing for satisfying its investment needs. These debts are to be repaid at the maturity. The firm has generally two alternatives regarding the repayments of debt: either it can issue alternative securities to repay the existing debt at maturity or it can make provisions out of its earnings for the purpose of repayment (Weston, 1989).

### **Restriction imposed by debt holders**

Debt holders may impose certain restrictions upon the firm regarding dividend payment. The restrictions may be such that the firm is prohibited to pay dividend out of past retained earnings in the book of company before performing such debt contract, or the firm may be restricted by its preferred stock holders to pay any dividends on common stock unless and until the firm pays its entire accrued dividend on preferred stock (Van Horne, 1929).

### **Expected rate of return**

The quantum of dividend payment also depends on the expected rate of return on the investment. If a firm has relatively higher expected rate of return on its investment, the firm prefers to retain the earning for reinvestment rather than distributing cash dividends (Weston, 1989).

### **Stability of earnings**

If a firm has relatively stable earnings it is more likely to pay relatively larger dividend than a firm with relatively fluctuating earnings. The firm with unstable earnings is relatively uncertain about its future earnings so that it prefers to retain more from current earnings (William, 1973).

### **Desire for control**

When the needs for additional finance arise, the existing management of the, firm may not prefer to issue additional common stock because of the fear of dilution in control on management of the company (Irwin Friend & Marshall Pocket, 1964).

### **Access to the capital markets**

If a firm has easy access to capital markets in raising additional financing, it does not require keeping more retained earnings. However, smaller and newly established firm generally finds difficulties in raising funds externally from capital market (Weston, 1989).

### **Stockholders' individual tax situation**

For a closely held company, shareholders prefer relatively lower cash dividend because of higher tax to be paid on dividend income. The stockholders in higher personal tax bracket for closely held companies prefer capital gain rather than dividend gains (Irwin Friend & Marshall Pocket, 1964).

Only the above-mentioned things are not enough to determine a sound dividend policy. Other many insights and considerations have to be taken into account. Such are: change in government policies, prospects of future growth, maturity and age of corporations, informational content of dividend and so on.

### **Factors influencing share price**

#### **Demand and supply**

Demand and supply of securities influence price of securities. If the demand of securities is more than the supply (buyers are more than the sellers), prices of securities increases. On the other hand if the demand of securities is less than the supply (buyers are less than the sellers), prices of securities decreases (William, 1989).

#### **Bank rate**

In case of lower bank rate (lower interest rate), the demand for funds would be higher and the demand for securities would be high. Whereas in case of higher bank rate (high interest rate) the demand for funds would be lower and therefore the demand for securities would be lower (Van Horne, 1929).

**Market players**

Security prices are influenced by the market players. If the number of bulls are more than the bears, then the prices of securities would increase. On the other hand, if the bears are more than the bulls, the prices of securities would decline (Irwin Friend & Marshall Pocket, 1964).

**Dividend announcements**

Dividends act as a signaling device for share price movement. Dividend announcements influence share prices. If companies announce dividends, generally share prices of those companies tend to increase. An important point to be note is that, if the rate of dividend announced is less than what was expected by investors, share prices would decline, whereas if they are up to are more than expectations share prices would increase (Gautam 1998).

**Management profile**

Management profile significantly influences success of companies and therefore they have an important influence on share prices. If the management comprises of educated, experienced professionals with a successful track record then share prices would be higher. In case the company is taken over by a management having a poor reputation then the share prices would fall (Weston 1989).

**Trade cycle**

Trade cycles refer to cyclical fluctuations in economic activity. During boom conditions the share prices would be at their peak and during depression they would be at their lowest point. Share prices would gradually increase during recovery conditions and would fall during conditions of recession (Irwin Friend & Marshall Pocket, 1964).

**Speculation**

In case speculation in the market is high or in case speculation in a stock is high, then the price of that share would be showing high fluctuations. In case speculation is at a low level then the fluctuations in share price would be lower (Van Horne 1929).

**Political factors**

Political factors such as ideology of the party in power and policies of the government towards private sectors influence share prices (Irwin Friend & Marshall Pocket, 1964).

**Industrial relations**

In case there is good relationship between the workers and the management of a company, the productivity would be high leading to better profits. Therefore share prices would be higher. In case of companies where industrial relations are poor and strikes and lockouts occur regularly, performance of the company would be poor. Therefore share prices would fall (Irwin Friend & Marshall Pocket, 1964).

**Stability of government**

When there is a stable government, businessmen feel confident to invest in new businesses and expand existing businesses. Production, sales and profits are higher and consequently share prices would increase. In case of instability in the government, new investments do not take place. Demand, production and profits are lower and share prices fall (William, 1973).

**General market sentiments**

It is generally said that sentiments move the markets. If there is optimism among market players, more buying would take place leading to increase in share prices. In case market players are pessimistic, then more selling would take place pushing down share prices (Weston, 1989).

**Actions of institutional investors**

Share prices are influenced by Institutional investors such as mutual funds, investment trusts, pension funds etc. They have large amount of funds at their disposal. When they start buying, share prices would increase and when they starts selling, share prices would decline (Irwin Friend & Marshall Pocket, 1964).

**Level of foreign investment**

In recent times, the level of foreign institutional investors have played a significant role in influencing share prices. If the level of foreign investment in the market increases (more buying of shares), then the share prices increases. If the level of foreign investors decreases then the share prices decreases (Irwin Friend & Marshall Pocket, 1964).

**Returns offered by other markets**

If the national markets offer high returns, institutional investors (especially FII's) would invest in national markets. Demand for shares would increase and prices rise. In case

returns offered by markets in other countries are attractive, then institutional investors would sell their securities in order to invest in those markets. In such cases, shares would be sold in large quantities lowering prices (Gautam, 1998).

### **Availability of credit**

In case credit is availability without much restriction, then investors would borrow to invest in the markets. Demand for shares would be more and therefore prices rise. In case credit restriction, then the level of borrowing would be less and demand for shares would also be lower (Irwin Friend & Marshall Pocket, 1964).

### **Effective regulation**

If the stock market is run in a transparent manner with effective regulation then the investors would feel confident to invest. Therefore more buying would take place and share prices increase. But when regulation is ineffective and if scams occur investors would lose confidence. They would panic and sell their shares. So prices would fall (William, 1929).

## **2.2 Empirical review**

Aiali et.al (2019) examined the effect of dividend policy on the market value of common stocks of insurance companies listed at Kuwait stock exchange over the period 2009-2017. The study was motivated by the unsolved issue on dividend policy in financial management literature. The study used share prices as dependent variable and dividend yield, dividend payout ratio, earnings per share, book value per share, and market price to book value ratio as independent variables. The results of the regression model revealed that dividend yield and dividend payout ratio had a statically significant negative effect on the share prices while earnings per share, book value per share, and market price to book value ratio had a statistically significant positive effect on the share price. The results of this study supported Miller and Modigliani (1961) dividend irrelevance theory.

Silwal & Napit (2019) analyzed and identified the determinants of the stock price in Nepalese Commercial bank. The study is based on pooled cross-sectional data of ten banks whose stocks are listed in Nepal stock exchange. The study employed correlation and casual comparative research design and results revealed that book value per share, price earnings ratio, and return on equity have positive relation with stock price. Dividend yield had positive but minimum influence on the price of the stock whereas size



has negative relationship and is statistically insignificant with stock price. It revealed that book value per share is the most influence factors that determines stock price in Nepal.

Baral and Pradhan (2018) analyzed on impact of dividend policy on share price of commercial bank in Nepal. The paper investigated the relationship between dividend announcement, EPS, P/E ratio, DPR, on stock price by using Descriptive Statistics, Correlation and Regression, ANOVA and Wilcoxon Signed Rank Test. The articles concluded that except DPR, the other factors like EPS, P/E ratio have positive relationship with stock price among them P/E is the strongest factor that affects the share price in case of top gainer commercial banks whereas EPS, P/E ratio and DPR have positive influence on stock price among them DPR is the strongest factor that affects the share price in case of top loser bank.

Pradhan and Gautam (2017) examined the impact of dividend policy on share price volatility of Nepalese commercial banks. The share price volatility, change in market price per share and stock return change were dependent variables. Dividend yield, dividend payout, debt ratio, size, growth and earning volatility were independent variables. The study was based on 18 commercial banks of Nepal from 2009-2014, leading to a total of 108 observations. The data were collected from various issues of Banking and Financial Statistics and Bank Supervision Report published by Nepal Rastra Bank, annual Report of Nepal Stock Exchange and the annual reports of the selected banks. The regression models were estimated to test the significance and impact of dividend policy on share price volatility of Nepalese commercial banks. The study revealed that dividend payout is negatively related to share price volatility (price volatility, change in MPS and stock return volatility). It indicates that increase in dividend payout leads to decrease in share price volatility. However, earning volatility is positively related to share price volatility indicating that higher the earning volatility, higher would be share price volatility. The regression result shows that dividend yield and size have significant positive impact on share price volatility. The beta coefficients for growth and dividend yield are significant at 5 percent level of significance.

Pradhan and Dahal (2016) had examined the factor affecting the share price of Nepalese commercial banks. Earnings per share, Dividend per share, P/E ratio, BVPS, Return on assets and size were chosen as firm specific independent variables whilst Market price per share is selected as dependent variable. The multiple regression models were estimated to

test impact of firm specific on share price of Nepalese commercial banks. Using data of 14 banks listed in NEPSE for the period of 2002/03-2013/2014. The result showed that size is found to be the most important determining variable that affects the share price. It means larger the firm size, higher would be the stock price.

Issa (2015) analyzed the relationship between dividend payout ratio in Malaysian firms with profitability, size, growth opportunities, free cash flow, business risk and market to book value. The paper used a sample of 284 firms listed on the Kuala Lumpur Stock Exchange (KLSE) from seven sectors viz., Consumer Products, Industrial Products, Construction, Finance, Technology, Properties, and Telecommunication. In order to decipher the relationships as stated above, multivariate regression analysis is used to test the hypotheses. The study found that at the pooled data level for All sectors, free cash flow, return on assets, return on equity, earning per share, market to book value and market capitalization have significant positive correlation with dividend payout ratio. The variable Beta, however, has a strong negative correlation with dividend payout ratio. The findings however differ from sector to sector; results reflect that Market capitalization; Beta, ROA and ROE are the common variables which have influence on DPR across various sectors except in technology sector where as the variable Market capitalization is not significantly associated with DPR. Similarly, ROA, which is significant determinant variable of DPR in four sectors like Construction, Consumer Products, Properties and Telecommunication Sector, it has no influence on the dividend payout ratio of the companies in the Industrial, Technology and Finance sectors.

Flora and Hutabarat (2015) explored the factors affecting stock price of Indonesia. It found that all institutions are seeking to get the most profit in the shortest possible time. The companies can do different things, including funding to achieve their goals. There are different methods that can be used by the company to earn as much money as possible for the survival of the company. One of the most important ways is to attract investors to invest their capital as a source of corporate finance. The investment of the capital markets is the way to find out those who have a surplus of money and in need of funds. In Indonesia, the banking industry is important. Such as Indonesia survives the financial crisis of 2008 the world, Indonesia has grown interest from other countries. The banking industry can support the growth of one nation. Investors are trying to find a suitable opportunity to invest in this sector, especially state-owned banks, which is based on the

banking industry in Indonesia. However, banks have operating structures differ from normal industrial companies. For this reason, investors have different elements to think about them when evaluating banks and thinking about investing in a bank. The result of this study was a recommendation for investors to invest in Bank Mandiri and Bank BNI and Bank BRI because they found it through financial ratios alone is a useful and greatly affects the share price. For Bank BNI, there is no significant financial ratios and inflation in the prices of shares relationship.

Adhikari (2015) analyzed determinants of corporate dividend payout in Nepal and examined whether enterprises' characteristics affect dividend payouts of the enterprises listed on Nepal Stock Exchange Ltd. A priori hypothesis between relationship of the dividends paid by the enterprises and enterprises' characteristics- net profits, size, lagged dividends, liquidity, risk, investment opportunity set, and number of shareholders were set based on theoretical framework and other empirical studies, and tested on 22 listed enterprises covering a 5-year period, 2009 to 2013 by employing regression model. The results of empirical tests for total sample reveal that net profits, total assets, and liquidity are the major determinants of corporate dividend payout in Nepal. The result is partly consistent with the proposition set in this study that the dividend policy of an enterprise tends to depend on net profits, total assets, lagged dividends, liquidity, risk, investment opportunity set, and number of shareholders, and also with the determinants of corporate dividend payout of developed stock markets and emerging stock markets including Indian stock market.

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

Matthew et. al (2014) analyzed effect of dividend payment on the market prices of shares

in Nigeria: A study of 17 quoted firms using time series on dividend per share, dividend yield and dividend payout ratio that ranges between 2000 and 2011. The model specification for the analysis of data was ordinary least squares techniques applied as panel estimation. The researchers empirical results arising from the panel least squares suggested significant positive effect between market price per share and dividend per share confirming that a rise in dividend per share brings about an increase in the market price per share of quoted firms; that dividend yield have a significant negative effect on the market prices of shares of quoted firms in Nigeria; that there exists a direct relationship between market prices per share and dividend per share of selected firms on the NSE. Further, the study revealed that significant variations exist in the movement of the share prices of the selected firms which in theory could be attributed to the forces of demand and supply while in practice could be attributed to some other exogenous and endogenous variables such as economic policies, corporate managerial decisions, psychosocial variables, political situations and institutional parameters. Thus it was concluded and recommended that, earnings remain the most significant determinant of dividend payment averagely, hence it has significant influences on the market value of public owned firms in Nigeria and the world all over.

Tandon and Malhotra (2013) attempted to determine the factors that influence stock prices in the context of National Stock Exchange (NSE) of 100 companies. A sample of 95 companies was selected for the period 2007- 2012 and linear regression model was used. The results indicated that firms' book value, earning per share, and price-earnings ratio are having a significant positive association with firm's stock price while dividend yield is having a significant inverse association with the market price of the firm's stock.

Habib, Khan and Khan (2012) examined the relationship between dividend policy and share price volatility in Pakistani stock market. The cross sectional regression was used to analyze the relationship of share price with dividend yield and payout ratio. The dividend yield and share prices are positively related but dividend payout ratio is negatively related. This study suggested that dividend policy is effect the share price volatility in Pakistan and this study also proposed that signaling effect is also relevant in determining the share price volatility.

Bhandari and Pokhrel (2012) analyzed the corporate dividend policy in Nepal by taking financial indicators of 8 commercial banks for the period of 1996/9 .The study had

attempts to elucidate the dividend practices of commercial banks of Nepal and concluded that commercial banks of Nepal do not show uniform trend of dividend policy. Correlation and regression models were used in the study. Dividend policy practiced by commercial banks of Nepal is neither fully explained by residual theory nor stable theory. With the development of financial institutions in Nepal, they need to follow a robust method of dividend policy so that investors can predict stock market and make a rationale investment decision.

Budhathoki (2012) analyzed relationship between earnings and market price of Nepalese commercial banks. Correlation and regression analysis were used to identify the relation among variables. The study conducted that the average earning per share (EPS) of the banks under study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS. The average dividend per share (DPS) shows that there is no regularity in dividend payment. The analysis of DPR shows that the Dividend Payout Ratio (DPR) of the banks is not stable. The average market price shows that there is quite high level of fluctuation.

Nirmala, Sanju and Ramachandran (2011) identified the determinants of share prices in the Indian market. The study used panel data pertaining to three sectors viz., auto, healthcare and public sector undertakings over the period 2000-2009 and employs the fully modified ordinary least squares method. The study found that dividend, price-earnings ratio and leverage are significant determinants of share prices for all the sectors under consideration. Further, profitability was found to influence share prices only in the case of auto sector.

Gbalam and Uzochukwu (2020) evaluated price reactions to dividend announcement of firms listed on the Nigerian Stock Exchange. Variables for the study were dividend per share, dividend pay-out ratio, Price per share. Ordinary Least Square Regression was carried out to determine the relationship and the results of the findings shows that there is a positive but insignificant relationship between dividend payout and share price announcement of firms in Nigeria.

The study of Sharma (2011) examined the empirical relationship between equity share prices and explanatory variables such as: book value per share, dividend per share, earning per share, price earnings ratio, dividend yield, dividend payout, size in terms of

sale, and net worth for the period 1993-94 to 2008-09. The results revealed that earning per share, dividend per share, and book value per share has significant impact on the market price of share. Furthermore, results of the study indicated that dividend per share and earnings per share being the strongest determinants of market price, so the results of the study supports liberal dividend policy and suggests companies to pay regular dividends.

Noble (2010) investigated dividend policy on stock prices of firms in Nigeria. The study adopts the Ordinary Least Square Regression approach. Dividend yield, and dividend per share were the variables for the study. Findings revealed that there is a relationship between the variables and concludes that the firm should focus on paying dividend to shareholders to continue to enjoy investment.

Gautam (2009) analyzed dividend policy of Nepalese commercial banks. Bivariate correlation and multiple regression analysis was used to show the relationship among the variables. The average earning per share of banks is satisfactory and dividend per share is too much unsatisfactory. There is no consistency in dividend payment and its growth rate is not static as well. There is no prominent difference in DPS and D/P rate of both two studied banks however; there is no uniformity in EPS. This study recommended as follows: To follow clearly defined dividend strategy as lack of it causes serious inconvenience to many other sectors of finance. Banks should consider the interest and expectation of the investors while making dividend decisions.

Mohammed and Chaudhary (2003) evaluated the effect of dividend policy on stock price volatility in Pakistan from 1991 to 2000. Dividend yield and dividend payout ratio were the independent variable and findings reveal a positive and significant relationship between the independent variables and share price volatility of companies in Pakistan. Ordinary Least Square regression was the methodology adopted for the study. The authors submit that dividend policy is a major factor management needs to focus on for stock returns.

Irfan and Nishat (2002) identified factors exerting impact on the share prices in Karachi Stock Exchange for the period between 1981 and 2000. The study employed cross-sectional weighted least square regression and analyzed the impact of six variables viz. dividend yield, payout ratio, size, asset growth, leverage and earning volatility on share

prices. Of these the payout ratio, size, leverage and dividend yield emerged as the significant factors affecting the stock market prices in Karachi. This suggests that firm specific factors have a significant impact on market price of share

### **2.3 Research gap**

During the review of previous studies, it was found that most of the researches (Baral and Pradhan 2018, Pradhan and Gautam 2017, Paudel 2014) has been conducted on dividend policy and its impact on share price of commercial banks. Aiali et.al. conducted research on effect of dividend policy on market value of insurance companies of Kuwait Stock Exchange. Impact of dividend on market price of Nepalese life insurance companies is not analyzed by taking these data in the access of researcher's study.

By reviewing earlier studies it was found that researchers only analyzed the market trend of MPS with other financial indicators but this study has examined those internal factors that play important role in determining market price of life insurance companies. This study examines the impact and relationship of market price with some financial indicators like EPS, DPS, DPR, EY and DY. Previous researches have analyzed only the qualitative factors affecting stock price but this research is based on quantitative factors affecting stock price. The researcher has conducted research on stock price movement by taking secondary data. To find out the subjective facts and to fulfill the gaps the present study is conducted.

## CHAPTER 3

### RESEARCH METHODOLOGY

This chapter refers to the overall research methods from the theoretical aspects to the collection and analysis of data. Its focus is made on the application of the technique and procedure to analyses the relevant variables to see the basic relationship between relevant topics. To achieve the basis objectives both financial and statistical tools has been adopted. This chapter contains the research design, population and sample, sources of data collection, data collection techniques, data processing and data analysis tools and techniques.

#### **3.1 Research design**

This research study is attempted to analyze the dividend policy of life insurance companies and its impact on stock price. According to the objective of the study, descriptive research design is used. Thus, to fulfill the objectives of the study secondary data are used.

#### **3.2 Population and sample**

There are 19 life insurance companies in Nepal so this is the number of population. Due to the lack of time and resource factor, it is not possible to study all of them. Hence, the 4 life insurance companies have taken as samples which are operating in Nepal. The 4 companies were selected by using convenience sampling method from the list of life insurance companies



**Table 3.1:**

*List of the life insurance companies selected as samples:*

<b>S.N</b>	<b>Name of the companies</b>	<b>Study period</b>
1	Surya Life Insurance	2014/15-2018/19
2	Nepal Life Insurance	2014/15-2018/19
3	LIC Nepal	2014/15-2018/19
4	National Life Insurance	2014/15-2018/19

### **3.3 Nature and sources of data**

This study is mainly based on secondary data which are gathered from 4 life insurance companies in Nepal for the period of 2014/15 to 2019/20. These data are used to analyze the dividend policy of insurance companies and its impact on their share price. The data have been acquired from various sources which are as follows:

- i. Annual reports of published by selected companies.
- ii. Financial Report published by NEPSE.
- iii. Economic report published by Nepal Rastra Bank.
- iv. Annual report published by SEBON
- v. [www.nib.gov.np](http://www.nib.gov.np)
- vi. Newspapers, journals etc.

### **3.4 Data collection and data processing procedure**

The study is based on secondary data. For this, the published materials, books of different authors, unpublished thesis reports, journals, internet web sites, AGM reports of life insurance companies, bulletins published by NRB and Beema Samiti etc. are the major sources of the secondary data. To collect these secondary data, the researcher visits different campus library including online library, TU central library, SEBON library

Beema Samiti library and NRB library. Different web sites are also search to collect necessary information for the study. To find the result of the research collected data are processed, analyses and interpret by using several tools like SPSS, MS-excel, and MS-word etc.

### **3.5 Data analysis tools**

The data collected from different sources will be recorded systematically as necessary only useful and related data are grouped as per need of the research work. Data are presented in appropriate forms of tables, graphs, and charts. To analyze the data in this research, some financial and statistical tools are used which are explained here.

#### **3.5.1 Financial tools**

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

##### **Earnings per share (EPS)**

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

Symbolically

$$\text{EPS} = \frac{\text{Earning available to shareholders}}{\text{No. of shares outstanding}}$$

##### **Dividend per share (DPS)**

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

Symbolically,

$$\text{DPS} = \frac{\text{Total dividend available to shareholders}}{\text{No. of shares outstanding}}$$

**Dividend payout ratio (DPR)**

Dividend payout ratio reflect what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the company. It is calculated by dividing the dividend per share by the earning per share.

Symbolically,

$$\text{DPR} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

**Earning yield (EY)**

Earning yield shows the relationship between earning per share and market price per share. It is calculated by dividing earning per share by price of share.

Symbolically,

$$\text{EY} = \frac{\text{Earning per share}}{\text{Price per share}}$$

**Dividend yield (DY)**

Dividend yield shows the relationship between dividend per share and price per share. It is calculated by dividing dividend per share by price per share.

Symbolically,

$$\text{DY} = \frac{\text{Dividend per share}}{\text{Price per share}}$$

**3.5.2 Statistical tools**

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

**Arithmetic mean (X)**

The most popular and widely used measure of representing the entire data by one variable is the arithmetic mean. The arithmetic mean is the sum of total values to the number of observations in the sample. It represents the entire data which lies almost between the two extremes. For this reason an average is frequently referred to as a measure of central tendency.

Symbolically,

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

Where,

$\bar{X}$  = Arithmetic mean

$\Sigma X$  = Sum of all the values of the variable X

N= Number of observations

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

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

Symbolically,

$$S.D(\sigma) = \sqrt{\frac{1}{n} \sum (X - \bar{X})^2}$$

Where,

$\sigma$  = Standard deviations

n= number of observations

$\bar{X}$  = Arithmetic mean

### **Coefficient of correlation(r)**

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

Symbolically,

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

### **Coefficient of determination ( $r^2$ )**

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

### **Regression analysis**

Correlation analysis tells the direction of movement but it does not tell the relative movement in the variables under study. Regression analysis helps us to know the relative movement in the variables. The multiple regression method is used in this analysis which can be described as follows:

### **Multiple regression analysis**

This is defined as statistical device which is used to predict the most probable value of dependent variable on the basis of known value of two or more independent variables so this is a logical extension of the simple regression analysis. In this study, following multiple regression equation is analyzed.

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5$$

Where,

Y= Market price per share

a= Regression constant

$b_1$ = Regression coefficient of EPS variable

$b_2$ = Regression coefficient of DPS variable

$b_3$ = Regression coefficient of DPR variable

$b_4$ = Regression coefficient of EY variable

$b_5$ = Regression coefficient of DY variable

$X_1$ =Earnings per share

$X_2$ =dividend per share

$X_3$ =Dividend payout ratio

$X_4$ =Earning yield

$X_5$ =Dividend yield

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

#### **Regression constant (a)**

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

#### **Regression coefficient (b)**

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

### **3.6 Conceptual framework**

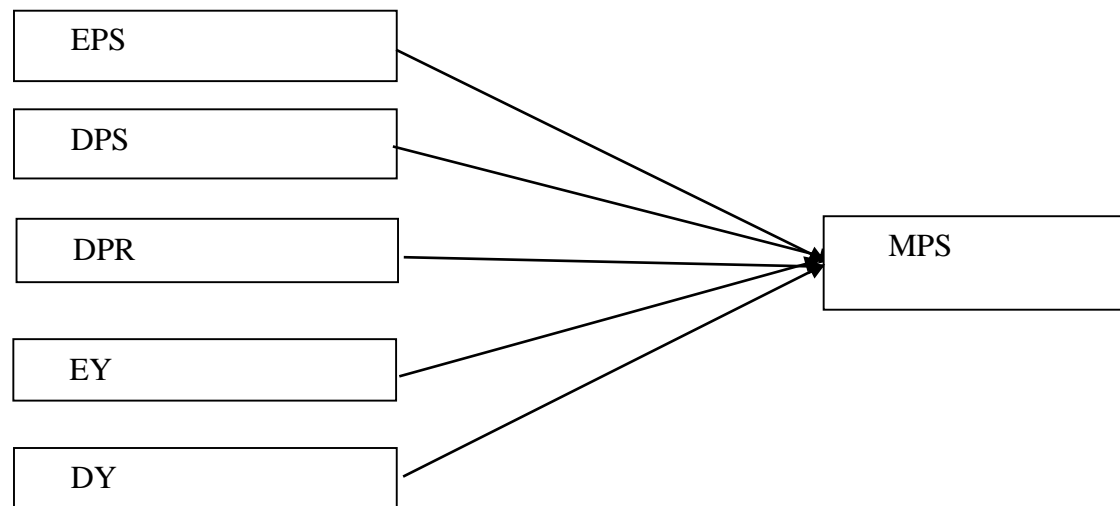
The conceptual framework is design to understand the factors that may affect the market price per share. In view of theories and major empirical evidences, it is expected that the market price per share of insurance companies may be influenced by Earning per share,

Dividend per share, Dividend payout ratio, Earning yield and Dividend yield. The conceptual framework is developed to test the effects of these variables on the market price per share of listed commercial banks of Nepal.

### Conceptual framework

#### Independent variables

#### Dependent variable



### The variables

#### Earnings per share (EPS)

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

#### Dividend per share (DPS)

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

**Dividend payout ratio (DPR)**

Dividend payout ratio reflect what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the company. It is calculated by dividing the dividend per share by the earning per share.

**Earning yield (EY)**

Earning yield shows the relationship between earning per share and market price per share. It is calculated by dividing earning per share by price of share.

**Dividend yield (DY)**

Dividend yield shows the relationship between dividend per share and price per share. It is calculated by dividing dividend per share by price per share.



## **CHAPTER 4**

### **RESULT AND DISCUSSION**

This is an analytical chapter, where an attempt has been made to analyze and evaluate the collected data. To analyze the data collected various presentation and interpretation is done in order to fulfill the objective of this study. The secondary data collected in unprocessed form are present in systematic formats and analyzed using various appropriate tools and techniques. In this chapter the secondary data are collected from different sources are presented in an understandable presentation and analyzed separately using quantitative measures whenever are appropriate.

#### **4.1 Analysis of financial variables**

##### **4.1.1 Analysis of mean and standard deviation**

In this study, descriptive statistics includes the information of market price per share, earning per share, dividend per share, dividend payout ratio, earning yield and dividend yield of each sample companies for the period of 2014/15 to 2018/19 which has been presented in table. With the help of descriptive analysis, the classification of sample companies and comparison of sample companies based on sector is presented. The mean value of sample companies under sector is computed to make comparison of sectors. The mean value gives the result of the average of each sector. Standard deviation computed show the fluctuation of mean of each sector.

**Table 4.1***Mean and standard deviation of SLI*

<b>Year</b>	<b>MPS</b>	<b>EPS</b>	<b>DPS</b>	<b>DPR</b>	<b>EY</b>	<b>DY</b>
<b>2014/15</b>	709	4.39	4	0.911	0.006	0.006
<b>2015/16</b>	856	26.49	11	0.415	0.031	0.013
<b>2016/17</b>	1070	20.76	18	0.867	0.019	0.017
<b>2017/18</b>	600	16.48	12.65	0.768	0.027	0.021
<b>2018/19</b>	456	22.85	10.53	0.461	0.050	0.023
<b>Average</b>	738.2	18.194	11.236	0.684	0.027	0.015
<b>S.D.</b>	236.409	8.523	5.017	0.231	0.036	0.021

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Source: Annual reports of SLI from 2014/15-2018/19

Table 4.1 shows the amount of market price per share of SLI 2014/15 to 2018/19 is fluctuating 709, 856, 1070, 600 and 456 respectively. MPS of company is highest in year 2016/17 and lowest in year 2018/19. The earnings per share of the SLI from 2014/15 to 2018/19 is 4.39, 26.49, 20.76, 16.48 and 22.85 respectively. EPS is highest in year 2015/16 and lowest in year 2014/15. The dividend per share is in the year 2014/15 to 2018/19 is fluctuating 4, 11, 18, 12.65, and 10.53 respectively. DPS is highest in year 2017/18 and lowest in year 2014/15. The dividend payout ratio is in the year 2014/15 to 2018/19 is 0.911, 0.415, 0.867, 0.768 and 0.461 respectively. DPR in the year 2014/15 is highest and in the year 2015/16 is lowest. The earning yield is in the year 2014/15 to 2018/19 is 0.006, 0.031, 0.019, 0.027, and 0.050 respectively. EY in the year 2018/19 is highest and 2014/15 is lowest. The dividend yield is in the year 2014/15 to 2018/19 is 0.006, 0.013, 0.017, 0.021, and 0.023 respectively. DY in the year 2018/19 is highest and 2014/15 is lowest. The average MPS is 738.2, EPS is 18.194, DPS is 11.236, DPR is 0.684, EY is 0.027 and DY is 0.015 respectively. The standard deviation of MPS is 236.409, EPS is 8.523, DPS is 5.017, DPR is 0.231, EY is 0.036 and DY is 0.021.

**Table 4.2***Mean and standard deviation of NLI*

<b>Year</b>	<b>MPS</b>	<b>EPS</b>	<b>DPS</b>	<b>DPR</b>	<b>EY</b>	<b>DY</b>
<b>2014/15</b>	2886	30.42	26.32	0.865	0.011	0.009
<b>2015/16</b>	4006	41.83	30.08	0.719	0.010	0.008
<b>2016/17</b>	2148	70.53	32.44	0.460	0.033	0.015
<b>2017/18</b>	1050	48.5	25.31	0.522	0.046	0.024
<b>2018/19</b>	901	51	21.51	0.422	0.057	0.024
<b>Average</b>	1123.328	37.794	13.865	0.314	0.024	0.016
<b>S.D</b>	1298.54	14.688	4.256	0.188	0.021	0.008

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Source: Annual reports of NLI from 2014/15 to 2018/19

Table 4.2 shows the amount of market price per share of NLI 2014/15 to 2018/19 is fluctuating 2886, 4006, 2148, 1050 and 901 respectively. MPS of company is highest in year 2015/16 and lowest in year 2018/19. The earnings per share of the NLI from 2014/15 to 2018/19 is 30.42, 41.83, 70.53, 48.5 and 51 respectively. EPS is highest in year 2016/17 and lowest in year 2014/15. The dividend per share is in the year 2014/15 to 2018/19 is fluctuating 26.32, 30.08, 32.44, 25.31, and 21.51 respectively. DPS is highest in year 2016/17 and lowest in year 2018/19. The dividend payout ratio is in the year 2014/15 to 2018/19 is 0.865, 0.719, 0.460, 0.522 and 0.422 respectively. DPR in the year 2014/15 is highest and in the year 2018/19 is lowest. The earning yield is in the year 2014/15 to 2018/19 is 0.011, 0.010, 0.033, 0.046, and 0.057 respectively. EY in the year 2018/19 is highest and 2015/16 is lowest. The dividend yield is in the year 2014/15 to 2018/19 is 0.009, 0.008, 0.015, 0.024, and 0.024 respectively. DY in the year 2018/19 and 2017/18 is highest and 2015/16 is lowest. The average MPS is 1123.328, EPS is 37.794, DPS is 13.865, DPR is 0.314, EY is 0.024 and DY is 0.016 respectively. The standard deviation of MPS is 1298.54, EPS is 14.688, DPS is 4.256, DPR is 0.188, EY is 0.021 and DY is 0.008 respectively.

**Table 4.3**

Mean and standard deviation of LIC Nepal

<b>Year</b>	<b>MPS</b>	<b>EPS</b>	<b>DPS</b>	<b>DPR</b>	<b>EY</b>	<b>DY</b>
<b>2014/15</b>	2799	29.11	26.32	0.904	0.010	0.009
<b>2015/16</b>	3580	30.06	26.11	0.869	0.008	0.007
<b>2016/17</b>	2151	12.63	10.11	0.800	0.006	0.005
<b>2017/18</b>	1622	100.81	78.4	0.778	0.062	0.048
<b>2018/19</b>	1600	20.73	14.15	0.683	0.013	0.009
<b>Average</b>	2350.4	38.668	31.018	0.807	0.020	0.018
<b>S.D.</b>	843.591	35.450	27.445	0.086	0.024	0.018

Source: Annual reports of LIC Nepal from 2014/15 to 2018/19

Table 4.3 shows the amount of market price per share of LIC Nepal 2014/15 to 2018/19 is fluctuating 2799, 3580, 2151, 1622 and 1600 respectively. MPS of company is highest in year 2015/16 and lowest in year 2018/19. The earnings per share from 2014/15 to 2018/19 is 29.11, 30.06, 12.63, 100.81 and 20.73 respectively. EPS is highest in year 2017/18 and lowest in year 2016/17. The dividend per share is in the year 2014/15 to 2018/19 is fluctuating 26.32, 26.11, 10.11, 78.4, and 14.15 respectively. DPS is highest in year 2017/18 and lowest in year 2016/17. The dividend payout ratio is in the year 2014/15 to 2018/19 is 0.904, 0.869, 0.800, 0.778 and 0.683 respectively. DPR in the year 2014/15 is highest and in the year 2018/19 is lowest. The earning yield is in the year 2014/15 to 2018/19 is 0.010, 0.008, 0.006, 0.062, and 0.013 respectively. EY in the year 2017/18 is highest and 2016/17 is lowest. The dividend yield is in the year 2014/15 to 2018/19 is 0.009, 0.007, 0.005, 0.048, and 0.009 respectively. DY in the year 2018/19 and 2017/18 is highest and 2016/17 is lowest. The average MPS is 2350.4, EPS is 38.668, DPS is 31.018, DPR is 0.807, EY is 0.020 and DY is 0.18 respectively. The standard deviation of MPS is 843.591, EPS is 35.450, DPS is 27.445, DPR is 0.086, EY is 0.024 and DY is 0.018 respectively

**Table 4.4***Mean and standard deviation of NLLI*

<b>Year</b>	<b>MPS</b>	<b>EPS</b>	<b>DPS</b>	<b>DPR</b>	<b>EY</b>	<b>DY</b>
<b>2014/15</b>	1840	31.58	25.88	0.820	0.017	0.014
<b>2015/16</b>	3300	26.4	25	0.947	0.008	0.008
<b>2016/17</b>	2300	24.71	14.21	0.575	0.011	0.006
<b>2017/18</b>	799	28.64	26.57	0.928	0.036	0.033
<b>2018/19</b>	565	11.67	10.79	0.925	0.021	0.019
<b>Average</b>	1760.8	24.6	20.49	0.839	0.018	0.016
<b>S.D</b>	1120.395	7.673	7.414	0.156	0.011	0.011

Source: Annual reports of NLLI from 2014/15 to 2018/19

Table 4.4 shows the amount of market price per share of NLLI 2014/15 to 2018/19 is fluctuating 1840, 3300, 2300, 799 and 565 respectively. MPS of company is highest in year 2015/16 and lowest in year 2018/19. The earnings per share from 2014/15 to 2018/19 is 31.58, 26.40, 24.71, 28.64 and 11.67 respectively. EPS is highest in year 2014/15 and lowest in year 2018/19. The dividend per share is in the year 2014/15 to 2018/19 is fluctuating 25.88, 25, 14.21, 26.57, and 10.79 respectively. DPS is highest in year 2017/18 and lowest in year 2018/19. The dividend payout ratio is in the year 2014/15 to 2018/19 is 0.820, 0.947, 0.575, 0.928 and 0.925 respectively. DPR in the year 2015/16 is highest and in the year 2016/17 is lowest. The earning yield is in the year 2014/15 to 2018/19 is 0.017, 0.008, 0.011, 0.360, and 0.021 respectively. EY in the year 2017/18 is highest and 2015/16 is lowest. The dividend yield is in the year 2014/15 to 2018/19 is 0.014, 0.008, 0.006, 0.033, and 0.019 respectively. DY in the year 2018/19 and 2017/18 is highest and 2016/17 is lowest. The average MPS is 1760.8, EPS is 24.6, DPS is 20.49, DPR is 0.839, EY is 0.018 and DY is 0.016 respectively. The standard deviation of MPS is 1120.395, EPS is 7.673, DPS is 7.414, DPR is 0.0156, EY is 0.011 and DY is 0.011 respectively.

## 4.2 Presentation of Statistical Variables

Statistical tools are the mathematical technique used to analysis and interpret of performance. It is used to describe the relationship between variables and interpret the result. This analysis includes Correlation co-efficient and the Regression coefficient between the following financial variable have been calculated and interpreted.

### 4.2.1 Bivariate Correlations

The bivariate correlation analysis is used to assess the relationship between two variables. The bivariate correlation analysis results have been presented in Table 4.5

**Table 4.5**

*Bivariate correlation analysis*

MPS	MPS	EPS	DPS	DPR	EY	DY
MPS	1					
EPS	.157	1				
DPS	.290	.797**	1			
DPR	.266	-.0331	.072	1		
EY	-.543*	.645**	.452*	-.558	1	
DY	-.488*	.632**	.638**	-.127	.769**	1

Source: SPSS output

According to table 4.5, the highest correlation has been observed to be 0.797 between DPS and EPS. The market price of share is positively related to EPS, DPS and DPR but MPS is negatively related to EY and DY. There is highest correlation with market price per share and dividend per share is 0.290. The result shows that higher the earning per share, dividend per share and dividend payout ratio, higher would be the market price per share but negative correlation between market price of share, dividend yield and earning yield shows that higher the dividend yield and earning yield lower would be the market price per share.

### Regression Analysis

The regression analysis is carried out to determine whether the dependent variable is influenced by the given independent variables or not. In this analysis MPS is the dependent variable and EPS, DY, P/E Ratio and Size are independent variables.

### Multiple Regression Analysis

Multiple regression analysis is done to find out the relationship of MPS on EPS, DPS, DPR, EY and DY. Where MPS is the dependent variable and EPS, DPS, DPR, EY and DY are independent variables.

The multiple regression equation is,

$$MPS = a + b_1 \text{ EPS} + b_2 \text{ DPS} + b_3 \text{ DPR} + b_4 \text{ EY} + b_5 \text{ DY}$$

Where,

MPS is the dependent variable and EPS, DPS, DPR, EY and DY are independent variables.

**Table 4.6**

*Variation in MPS explained by EPS, DPS, DPR, EY and DY*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.928 <sup>a</sup>	.861	.812	474.561

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

As shown in table 4.6 of model summary, which explains the total variation in MPS explained by EPS, DPS, DPR, EY & DY. The value of the coefficient of multiple determination  $R^2$  is 0.861. This implies that the variation in MPS can be explained by 86.1% independent variables (EPS, DPS, DPR, EY & DY) at 95% confidence interval. The standard error of the estimate is 474.561. In other words, finding of the coefficient of multiple determination R Square shows that 86.1% changes in MPS of Nepalese life insurance companies could be accounted to changes in EPS, DPS, DPR, EY & DY and remaining 13.9% are contributed by other factors. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a highly significantly positive relationship between the study variables as shown by 0.928<sup>a</sup>. This result is complemented by the adjusted R-square of about 86.1%,

which is essence is the proportion of total variance that is explained by the model. The table 4.7 below shows the Analysis of Variance (ANOVA).

**Table 4.7**

*Goodness of Fit Regression (ANOVA)*

Model		Sum of Squares	D. f.	Mean Square	F	Sig.
1	Regression	19506453.19	5	3921290.639	17.412	.000 <sup>b</sup>
	Residual	3152916.607	14	225208.329		
	Total	22759369.80	19			

a. Dependent Variable: MPS

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

Source: SPSS output

From the ANOVA statics in table 4.7 above, the processed data which is the population parameters, had a significance level of 0.00<sup>b</sup>% which shows that the data is ideal for making a conclusion on the population's parameters as the value of significance (p-value) is less than standard (5%). The F value is about 17.412 and a P-value or F (sig) that is equal to 0.00<sup>b</sup> this invariably suggests clearly that simultaneously the explanatory variables are significantly associated with the dependent variable. That is, they strongly determine the behavior of the market values of share prices. The regression results for independent effect of EPS, P/E ratio, BVPS & ROA on MPS is shown in table 4.8 below.



**Table 4.8**

*Regression Result for Independent Effect of EPS, DPS, DPR, EY and DY on MPS (Coefficients<sup>a</sup>)*

Models		Unstandardized		Standardized	t	Sig.
		coefficients		Coefficients		
		B	Std. Error	Beta		
	(Constant)	1985.619	1343.002		1.478	.161
	EPS	-27.195	27.357	-.547	-.994	.337
1	DPS	108.712	38.474	1.524	2.826	.013
	DPR	-41.237	1661.459	-.007	-.025	.981
	EY	22074.978	32501.215	.360	.679	.508
	DY	-143792.374	47303.706	-1.434	-3.040	.009

a. Dependent variable: MPS

Source: SPSS output

From the table 4.8 regression model, Earning per share (EPS), Dividend per share (DPS), Dividend payout ratio (DPR), Earning yield (EY) and Dividend yield (DY) of Nepalese life insurance companies to a constant zero, Market price per Share of companies would be 1985.619, its established that a unit increase in level of Earning per share (EPS) would lead to an increase in Market Price per Share (MPS) by factor of -27.195, a unit increase in level of DPS would cause to an increase MPS by a factor of 108.712, a unit increase in DPR lead to increase in MPS by a factor of -41.237, a unit increase in EY would cause increase in MPS by a factor of 22074.978 and a unit increase in DY would cause increase in MPS by a factor of -143792.374 of Nepalese life insurance companies. From the above finding there is positive relationship between MPS and independent variables DPS and DY. There is negative relationship between MPS and EPS, DPR and DY. The study further revealed that the P- value was less than 5% are DPS, and DY, which shows that there are two independent variables, has a statistically

significant for this study at 95% confidence level. Thus this means that DPS & DY has significantly influence on MPS. From the table 4.8 we find out following result.

- i. There is an insignificant negative relationship between MPS and EPS (i.e. p- value  $0.337 > 0.05$ ).
- ii. Another empirical finding from the regression analysis shows that there is significant positive relationship between MPS and DPS (i.e. p- value  $0.013 < 0.05$ ).
- iii. There is insignificant negative impact of DPR on MPS (i.e. p-value  $0.981 > 0.05$ )
- iv. There is insignificant positive relationship between EY and MPS (i.e. p- value  $0.508 > 0.05$ ).
- v. There is significant negative relationship between DY and MPS (i.e. p- value  $0.009 < 0.05$ ).

### **4.3. Findings**

- i. According to market price per share analysis, LIC Nepal has highest average price per share i.e. NPR 2350.4 and SLI has lowest average price per share i.e. NPR 302.60.
- ii. According to EPS analysis, the average EPS of all life insurance under the study are positive. The LIC Nepal has a highest average EPS i.e. NPR 38.668 and SLI has lowest average EPS i.e. NPR 18.194.
- iii. According to DPS, LIC Nepal has highest average dividend per share i.e. NPR 31.018. SLI has lowest average DPS i.e. NPR 11.256.
- iv. According to dividend payout ratio NLLI has the highest DPR i.e. 0.839 times, while NLI has lowest DPR i.e. 0.314.
- v. According to earning yield, SLI has the highest average EY (i.e. 0.027 times). NLLI has the lowest average EY (i.e. 0.018times).
- vi. According to dividend yield, LIC Nepal has the highest average DY (i.e. 0.018 times). SLI has the lowest average DY (i.e. 0.015times)
- vii. From the bivariate correlation analysis, the market price per share (MPS) of sampled insurance is positively correlated with the EPS, DPS and DPR. It indicates that increase in EPS, DPS and DPR of the all companies lead to increase in MPS and vice -versa.
- viii. There is positive correlation between MPS and EPS of life insurance companies. (i.e. 0.157).

- ix. There is positive correlation between MPS and DPS (i.e.0.290).
- x. There is positive correlation between MPS and DPR of life insurance companies. (i.e.0.266).
- xi. There is negative correlation between MPS and EY. (i.e. -0.543).
- xii. There is negative correlation between MPS and DY. (i.e. -0.488).
- xiii. The coefficient of multiple determination of the equation is 0.861. This means the variables EPS, DPS, DPR, EY and DY are responsible for determining stock price by 86.1 % and the rest 13.9 % are unexplained on determining the stock price.
- xiv. The multiple regressions show that the regression coefficients are positive for dividend per share and earning yield. Similarly, regression coefficients are negative for earning per share, dividend payout ratio and dividend yield.
- xv. The tests of P-value explain that the relationship of MPS with DPS and DY of the companies at 5% level of significant. Since the P-value of DPS and DY are less than 0.05 which mean that DPS and DY significantly affect the Market prices. And, the P- value of EPS, DPR and EY of the companies are more than 0.05 which mean that EPS, DPR and EY of the companies have insignificant impact on share prices.

#### **4.4 Discussion**

This study used descriptive and multiple regression analysis to examine impact of the dividend on the market share price of Nepalese life insurance companies. Secondary data has been collected for the annual report of selected companies. To obtain the result of the study different financial and statistical tools are used.

From the regression model the study concluded that dividend per share have significant positive relationship with market price of Nepalese life insurance companies. Which means increase in dividend per share increases market price per share and vice-versa. Further dividend yield have significant negative relationship with market price per share of Nepalese life insurance companies. Which means that increase in dividend yield results decrease in market price per share. The result of this study consistent with Matthew et.al (2014) and Aiali et.al (2019) both study have also concluded that dividend per share have significant positive relationship with market price per share and dividend yield have significant negative relationship.

The result from this study is inconsistent with Habib, Khan and Khan (2012) and Mohammed and Chaudhary(2003) both study have concluded that dividend yield have significant positive relationship with market share price and dividend payout ratio have significant negative relationship. The cause of this inconsistency may be industry area focused by study, geographical and regional difference, time gap and knowledge of the people about the financial market and awareness towards other variables that affects the market price of share.

## CHAPTER 5

### SUMMARY AND CONCLUSION

This is the final chapter that involves summary, conclusions and implications of the research work. The facts and findings from secondary data analysis are presented in this chapter. Besides summary and concluding research work, implications are made to concerned persons and organizations.

#### 5.1 Summary

The smooth continuity of the economic development widely depends upon the adequate and steady of medium as well long-term capital fund for productive investment. Capital plays highly significant role for future growth and prosperity of the organization. Nepalese Stock Market is in developing stage. Most of the general public i.e. average citizens are still unaware about it. Though Share Market plays a vital role on the mobilization of capital in national economy, in the case of Nepal, it is still crawling towards the betterment

The objective of the study was to investigate the impact of dividend (EPS, DPS, DPR, EY and DY) on stock prices of Nepalese life insurance companies listed in NEPSE. In doing so, the study could contribute immensely to the scarce literature in the area of life insurance companies in the Nepalese context. Chapter one gave a detailed background of dividend, its impact on share prices and objectives of the study. Further, the chapter discussed. The chapter also focused on the significance of the study, limitation and the organization of the study.

The basic objective of this study is to examine the relationship between dividend policy and share prices of companies and its impact on stock price in the context of Nepalese life insurance companies. The specific objectives of this study are (1) to analyze the current status of MPS, EPS, DPS, DPR, EY and DY of Nepalese insurance companies. (2) to examine the impact of EPS, DPS, DPR, EY and DY of Nepalese insurance companies on MPS.

Chapter two presented the review of theoretical literature on dividend policy and share prices. Different theories of dividend policies are also discussed in this part. So many international articles and theses related to factors affecting the share prices of life insurance companies are also reviewed in this section. The chapter also focused on the critical review of major issues followed by the summary and gaps to be filled by the study.

Chapter three was structured around research design, target population, sample design, data collection procedures and instruments, and data analysis and presentation. The sample comprised of 4 sampled life insurance companies (i.e. SLI, NLI, LIC Nepal and NNLI) from total population of 19 life insurance companies by using convenient sampling method that met the eligibility criteria. To achieving the objectives of the study, descriptive research design has been employed.

Chapter four presented and discussed the results of empirical testing of dividend policy and its impact on share price of life insurance companies. Data are analyzed by using appropriate financial and descriptive and analytical tools. In analysis part, interpretation and comments are also made wherever necessary. Major findings of the study were also pointed out in this chapter.

## **5.2 Conclusion**

The study of dividend policy and its impact on share prices of life insurance companies has been a subject of great interest these days. Moreover, it is a subject of immense curiosity especially an insurance sector to identify impact of dividend on share prices. The shares of life insurance companies offer the investment opportunities to Nepalese investors because these shares are more frequently traded in the market than as compared to others in Nepalese context. Specifically, this study examined the effect of earnings per share, dividend per share, dividend payout ratio, earning yield dividend yield of life insurance companies listed on Nepal stock exchange limited.

The findings of the study over the period of 2014/15 to 2018/19 revealed that dividend per share have the significant positive association and dividend yield have significant negative association with share price. Earnings per share, dividend payout ratio, and earning yield of the companies have no explanatory power toward stock price movement. It means if dividend per share increases, the price of share will also increase and vice-

versa. If dividend yield increases price of share will decrease and vice-versa. But earnings per share, dividend payout ratio and earning yield does not affect the share price. It means if earning per share, dividend payout ratio and earning yield increases there is no guarantee that the prices of share will also increases and vice-versa. The study concludes that dividend per share and dividend yield are the major determinants of share price of Nepalese life insurance companies.

The results of this study uncovered new evidence in Nepalese perspective, which are considered to be valuable to the market participants. Thus, findings of this study seem to be particularly useful for equity investors and fund managers as they can watch out for these significant factors while estimating stock returns and predicting share prices.

### **5.3 Implication**

This study has also several implications pointing to interesting avenues for future research. Some implication and suggestion for future research are discusses here.

#### **5.3.1 General implications**

- i. This study examined the dividend and its impact on market price of Nepalese life insurance companies listed on the NEPSE. The variables chosen were firm specific variables and may not be the only variables that affect share prices. It is recommended that further research could be conducted to establish whether macro-economic variables affect stock price for firms listed in the NEPSE.
- ii. This study has been conducted in the context of Nepalese life insurance companies, with short period of time and with small sample size. Future studies may deal with wide area of firms with long period of time.
- iii. There is need to conduct event study on the factors affecting the share price for Nepalese life insurance companies at the NEPSE and by extension, on emerging markets. In addition, research could be conducted on factors affecting in the market returns in Nepal. Despite a lot of literature in this area, internal factors like (EPS, BVPS, P/E ratio, ROA and Size) are vital element of life insurance companies.
- iv. This study acts as a guide to potential investors in Nepal to focus on the factors discussed above before making investment decisions. Nepal is an economy with lots of opportunities and it is imperative to conduct studies which will benefit the investors to make rational investors.

- v. Since general public are unaware about the share and share market, an organised effort is necessary to aware the public about it. A separate department in NEPSE or an independent organisation is recommended which analyse, inform and create the awareness within the emerging potential investors about share and share market through different approaches like seminar, advertisement, conference or print, air media.

### **5.3.2 Implications for further studies**

This study has portrayed some crucial results and one avenue for future research is to extend the study to other emerging markets.

- i. This result is basically from life insurance companies. Thus, the future study may incorporate other financial sectors such as commercial banks, development banks, finance companies, micro- finance companies nonlife insurance companies and cooperatives etc.
- ii. The study is entirely based on secondary data and does not include the preference of different investors and other stake holders. Therefore, future studies can be based on using primary data or both primary and secondary data.
- iii. The sample size and time period taken for the study is limited so future study can be carried out by taking large sample size for longer time period. The model used in this study is limited on multiple linear regressions. Thus other models can be taken to set a model and examine the impact of corporate governance on the capital structure of Nepalese life insurance companies.
- iv. Finally, future studies can use some advance statistical tools. For example, the future studies can use non-linear statistical tools and bidirectional causality tool.
- v. The study is limited to Nepalese life insurance companies. Therefore, the findings of this study could only be generalized to firms similar to those that were included in this research.
- vi. Further studies could consider other corporate governance variables.
- vii. The findings are based on research in a single country and may not be generalized.



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