

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Dividends are the divisions of the profit of a company, which are received by the shareholders. The study of dividend policy helps to know how a firm divides its net earnings into retained earnings and dividends. Retained earnings are the most significant internal sources of financing the growth of the firm. On the other hand, dividends may be considered favourable from shareholders' point of view as they tend to increase their current return. In general, a firm can choose among different forms of dividend policies based on its earnings and capital requirements. In practice, dividend policy varies from firm to firm, industry to industry. Some firms pay whole earnings as dividends and some retain more portions of the earnings and pay less as dividends. In the beginning, a firm pays more earnings as dividends to create a better image and existence in the financial market but later they may change their policy and announce a certain percentage of earnings as dividends. Thus, the important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm.

Dividend is that portion of earnings which is paid to shareholders as a return on investment. The retained earnings provide funds to finance the firm's long-term growth. "A dividend policy that allows shareholders to get their share of the profit by always paying out a fixed percentage of earnings tends to be preferred over one that regularly pays stable or increasing dividends (Gitman; 1988:602). Dividend payout of course reduces the total amount of internal financing. So, dividend is always a controversial topic because shareholders expect higher dividends but the firm ensures towards setting aside funds for maximizing the shareholders' wealth. "Dividend may be paid in cash, stock or merchandise. Cash dividends are most common and merchandise dividends are least common. Shareholders are not promised a dividend, but he or she grows to expect certain payment on the historical dividend

pattern of firm .Before dividend are paid to common stockholders the claims of all creditors, the government and preferred stockholders must be satisfied " (Gitman; 1988:609).

Market price of the stock is the price in which the stock are traded in the organized stock exchange in the over the counter market. In context of Nepal, the market price per share is the price coated for purchasing and selling under the Nepal stock exchange (NEPSE). Market price per share is the value of stock which can be obtained by a firm from the market. Market value of share is affected by the dividend of share and earning, per share of the firm. If the dividend per share and earning, per share is high the market value of share will also be high .Market value of share may be high or own than the book value. If the firm is growing, market value of share will be higher than the book value. If the firm's capacity is lower than the cost of capital, market value will also be lower. Market price of share is determined by capital market.

The price of share is highly influenced by the company's dividend policy and the dividend decision itself is also affected by the financial variables as well the expected dividend of a company paying higher dividend is higher eventually the price of share of the company goes up but contradictional, a company paying higher cash dividends can suffer from the scarcity of funds for financing the corporate growth as a result the share price comes down. The effect of dividend policy on stock price is developed stock market has also been widely suited by finance scholars. They have stressed on the important of dividend behavior by corporate firms. So need has been fell to study and understand corporate dividend behavior and practices of corporate firms in developing stock market like Nepal (Bhattarai; 2002:1).

Bank has always been the most important and the largest of financial intermediaries, almost everywhere. Nepal is enlisted in the list of the least developed countries of the world. Majority people here are engaged in their day to day survival various factors like landlocked situation, Poor resource mobilization, lack of education as well as entrepreneurship, irrational government policy political instability are responsible for the regarding pace of development in Nepal. Nepal is a country trying to develop its economy through global trend and of course with country suited economic

liberalization. Development in the financial terms is the efficient flow and generation of the funds in the most productive sectors (Bhattra; 2002:2). In Nepal the growing influencing of economic liberalization and globalization first of all appeared in the form of Nepal's liberal policies in the banking sector. These encouraged the healthy competition in the financial sector as well as it allowed the entry of foreign banks in the Nepalese market in the form of joint venture banks. In other aspect industrialization is an important factor for activating the basic objective of country's economic and social progress. Now a day's industrialization is considered as an essential for the economic development of the country. It facilitates on effective mobilization of resource such as capital and skill.

The growth of commercial banks increased dramatically after the restoration of democracy when government adopted liberal and market oriented policy. There are 33 commercial banks in the country. This development has helped to mobilize the internal resources as well as the external funds of foreign investors for the economic development of the nation. The economic development history of Nepal has very slow track record. It has very short history of industrial development Nepal. The establishment of Nepal bank ltd in 1937 A.D is the foundation stone of development of financing sector, particularly banking and the concept of finance companies are ever new in Nepalese practices. To regulate the banking activities and the monetary policy, Nepal Rastra Bank, the central Bank has been established. The first commercial Bank fully owned by government named " Rastriya Banijaya Bank "was established in 1966. The commercial bank has its own role and contribution in the economic development. It has a source of economic development; it maintains economic confidence of various segments and extends credit to the people. In global perspective, Joint Ventures (JVS) are the modes of trading through partnership among nations and is also form of negotiation between various groups of industrialists and traders to achieve mutual exchange competitive advantages. The security exchange centre limited was established in 1976 A.D with the objecting of facilitating and promoting the growth of capital market. Then it was the only capital market institution in the country undertaking the job of brokering under writing managing public issues, market, making for the government bond and other financial services.

In 1996 A.D the security exchange centre was converted into Nepal stock exchange (NEPSE) with the objective of providing free market ability and liquidity to the government and corporate securities by facilitating transaction in its own trading flower through the market intermediaries' i.e. broker as well as market maker. Economic leaders at the present scenario are the countries which have been successfully collecting the wide spread funds and making investment in the good prospects. Capital market generalities and liquidities securities as per requirement of the corporate groups (Gordon; 1962: 76).

Capital market is place where financial claims and obligations are bought and sold that have maturity period more than one year. Nepalese capital market has not efficient communication network even today. Even if capital market is in the early stage of development in Nepal Nepalese investors have heavily made investment of newly established companies especially in the financial sector. It is hopes that Nepalese capital market will be moving towards efficiently in the days to come. In capital market all firms operate in order to generate earning, shareholder make investment in equity capital with the expectation of making earning either directly in the form of dividend or indirectly in the form of capital gains in future. The sole objective of each and every business is maximizing the shareholders wealth. Financial management is the heart of management and the numbers of decisions are made by the financial decision in order to run the company smoothly. The common stock represents ownership in a company. The common stock are the permanent and vital source of capital since they do not have maturity date. For the capital contributed by the shareholders by purchasing common stock they are entitled to dividend. The amount or rate of dividend fixed by the company's board of directors. Most of the investors are wise to invest their saving funds in stocks, with the expectation of future cash inflow as dividend and maximization of value of their holding in the market. The dividend and value of the firm are linked with the earning power of the firm which ultimately affects the market price of shares.

In the theory of finance, dividend decision plays a very vital role. Dividend decision however is still role crucial as well as controversial area of managerial finance. Dividend decision is one of there major decision of managerial finance. The

relationship between dividend and value of firm is considered as the criterion for decision making. One of the major reason, people invest their hard money on the shares of any company is for dividend. The amount which distributed as dividend should be adequate to meet the normal expectations of the shareholders. The main controversy and agency problems between the shareholders and management is the rate of dividend, because shareholders want more dividends and the management want more amounts to retain in the company. Dividends policy decision is the major financial decision of the firm, which may affect the area such as financial structure, flow of funds, stock price growth of firm etc. The dividend decision is the most controversial decision which requires a lot of expertise knowledge as well as the institution power in such decision maker.

In the context of Nepal, people are interesting with the views and expectations of more capital appreciation and dividend on stocks. But there are not any consistency and regular practices of dividend announcement in different firm. Recently commercial banks and some other public limited companies have showed new trend of paying dividend to the shareholders. Price of stock usually fluctuates with reference to the adequate information. No one can earn more in the efficiency and inefficiency is legally prohibited in order to regulate the security market in every nation. But being focused in this study, Impact of dividend on stock price there should be discussion on different models and practices practices so as to conclude about the impact of dividend on stock price, Dividend policy and price of stock are always correlated. If a company pays dividend market price of stock increases and vice versa, but in some cases dividend decision may have no impact at all upon the price of stock i.e. market price of stock may remain constant or even decrease sometimes in response to the dividend distribution. Therefore information gap also play vital role in the analysis of market price of stock.

Every firm after making profit either retain the money for further investment or distributed it among the shareholders. The profit made by the firm which is distributed to the shareholders is termed as dividend. The firm should decide whether to keep the money as retain earning or pay the dividend versus retention decision (Dongol;

2006:1). The price of share is highly influenced by the company's dividend policy and the dividend decision and itself of is also effected by other financial variables as well.

Dividend policy has no effect on the share price of the firm. They argue the value of the firm depends on the firm earning, which result from its investment policy (Modigliani and Miller; 1961:345). As stable dividend policy is a long term policy. It does not affect by variation in earning from year to year. When a firm pays a fix amount of dividend and maintains it for all times to come regardless.

Dividend policy may serve as a proxy for growth and investment opportunities. After the establishment of joint venture companies there is a new trend of distributing dividend. Dividend distribution trend has not only attracted to the investors but has also made the management conscious about the policy regarding the payment of dividend. The present study attempts to analyze the dividend behavior of the joint venture and other major commercial banks. It will, also try to justify the dividend decision adopted by the banks and to relate them on the ground of similar fiscal period.

1.2 Statement of the Problem

Dividend policy however being one of the major decisions to be taken by firm has not become a well known phenomenon or a matter or practice to a larger number of financial communities even today. Since long time back there has been heated controversy regarding relevancy and irrelevancy of dividend policy. Scholars have not been able to define simple and conclusive relationship between dividend policy and market price of the stock. Some experts stand with a belief that there is positive relationship between dividend distribution by a firm and its price of share where as at the same there are other who put upon there view against this. There is no relation at all in between dividend distribution and market price of stock. Walter's model and Gordon's model suggest relevant theory that reads dividend policy is an active variable that influences the value of firm measured in terms of market price per share. But Modigalni and miller model advocates just contra to that done by Gordon and Walter (Dongol; 2006: 7).

Dividend policy is most controversial type of decision making. There is no doubt that when firm got much earning, shareholders would also expect much dividend. But earning is also treated as financing sources for the firm. If the firm retains earning then it decreased leverage ratio expansion of activities and increase in profit in succeeding year where as if firm pays dividend, it may need to raise capital through capital market which may dilutes the ownership control of the existing shareholders.

The capital market is an important part of corporate development of a country. Even though capital market is in the early stage of development in Nepal, Nepalese investors made more investment on newly establish companies, especially in the financial sectors. Dividend is the most inspiring aspect for the investment in the share of various companies for an investor. Even if dividends affected the firm value, unless management knows exactly how they affect, there is not much that they can do to increase shareholders wealth. So it is necessary for management to understand how the dividend policy affects the market price of the stock or the wealth position of the shareholders.

In Nepal different companies seem to hold different policies regarding dividend. There are only few companies that have sufficient earning and are capable to pay dividend every year. Dividend distribution does not match with the earning of the companies " The harder we look at the dividend picture the more it seems like a puzzle with pieces that just don't fit together (Black and Scholes; 1974:352). No matter how many studies have been conducted in this regard the effect of dividend policy on a corporation's market value has remained a subject of long standing controversy. The main focus of the study is to deal with the following problems.

- What are the major factors affecting dividend policy of a firm?
- What is the impact of dividend policy and practices on market price of stock?
- Is there any consistency in EPS, DPS, MPS and DPR of the sample firm?
- What kind of dividend policies are following by the commercial banks of Nepal?

1.3 Objectives of the Study

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

- To find out the impact of dividend policy on market price of stock.
- To examine various aspects of dividend policies and practices in Nepal carried out by the selected banks.
- To analyze if there is any uniformity in DPS EPS MPS and DPR of the sample banks.
- To suggest the appropriate dividend policy followed by the commercial bank.

1.4 Significance of the Study

Now a day's people are attracted to invest in share for the purpose of getting more return as well as to maximize their wealth so the dividend policy has become as effective way to attract new investors to keep present investors happy and to maintain good will of the company . As dividend is one of the curical factor in every organization and dividend policy decision is one of the most important decisions, this might serve to be important information for these respective firm taken as sample. The financial manager must very carefully decide the allocation of earning between dividends and retain earnings as this decision affects the value of firm. The objective in choosing dividend policy should be to maximize the value of the firm to its shareholders. The study will be helpful to understand the dividend policy of commercial banks in Nepal. It will be helpful to related persons like policy maker, shareholders, investors and further researchers. The main significance of the study are as follows:

- The study aim to the provide important and useful information to the investor.
- The study helps to the management, shareholders and policy maker in setting and making a suitable dividend policy.

- This study will be beneficial also to those parties who are directly or indirectly related to the financial institution.
- It will be useful for stock broker financial agencies, policy makers and various stakeholders.

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.

- The data analysis in this research is limited to simple tools and techniques.
- This study is based especially on secondary data like annual reports of the banks under review, journal unpublished as well as published theses, works, other published articles and reports related materials from various websites.
- The study covers only five commercial banks.
- Data taken for analysis covers only 5 years.
- The study only concentrates on dividend policy, it doesn't cover several other aspects of the commercial bank.

1.6 Organization of the Study

The whole study has been classified into five chapters.

Chapter I: Introduction

This chapter deals with the general idea about the study consisting background of the study, statement of problems, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter II: Review of Literature

This chapter deals with review of the different literature of the study field, therefore it includes conceptual framework along with the review of major books, journals, research work and theses etc.

Chapter III: Research Methodology

This chapter describes the research methodology with the matter and source of data population and sample of the model analysis meaning and definition of statistical tools.

Chapter IV: Data Presentation and Analysis

Analytical framework starts from this chapter. It contains presentation and analysis of the data using financial and statistical tools similarly this chapter also includes the major finding of the study so it is main part of study.

Chapter V: Summary, Conclusions and Recommendations

This chapter deals with suggestive framework, which is evocated to summary conclusion and recommendations.

CHAPTER II

REVIEW OF LITERATURE

The purpose of literature review is to find out what research studies have been conducted in one's chosen field to study and what remain to be done. Review of literature is way to discover what other researches in the area of problem has done and what has been left uncovered. This chapter deals with the reviewing of the different sources of dividend policy literature works and unpublished thesis. Similarly this chapter includes two main heading conceptual framework and review of related studies. Review of national and international studies and related theory to the dividend policy help to this research.

2.1 Conceptual Frame Work

The three major decisions in a company are investment decision, financing decision and dividend/share, repurchase decision. Dividend decision is not only important for the desire of the shareholder but also firm's internal growth.

"Dividend decision of the firm is yet another crucial area of financial management. The important aspect of dividend policy is to determine the amount of earning to be distributed to shareholders and the amount to be retained in the firm. Retained earnings are the most significant internal source of financing the growth of the firm.

2.1.1 Meaning of Dividend

Companies that earn a profit can decide either of three ways: Pay the profit out to shareholders, reinvest it in the business through expansion debt reduction or share repurchase or both when a portion of the profit is paid out to the shareholders the payment is known as dividend. Dividend is paid in cash or stock. There is an ongoing debate about whether a company should payout its earning as dividend or returns them for firm growth. There is further debate about which policy investors prefers. Firms that are growing generally pay low or no dividend matures firms that are no

longer in growth phase often pay high and increasing dividends (Gautam and Thapa; 2008:336).

The dividend decision is regarded as a financing decision any cash dividend paid reduces the amount of cash available for investment by the firm. Dividend is periodic cash payment by the company to its preference shareholder is usually filed by the terms of preference shares. But the dividend on equity share is payable at the discretion of the board of director of company for payment of dividend a company can earn distributable profit from which the actual payment of dividend will be made. A company in general meeting may declare dividend but no dividend shall exceed the amount of recommended by the board. The shareholders have no right to declare more dividend than what has been recommended by the board of directors (Gautam and Thapa; 2008:336).

"Dividend refers to that portion of firm's net earning which are paid to the shareholders"(Bhattarai; 2002: 12). In theory of finance, dividend decision plays a very crucial role. Dividend decision however is still a crucial as well as controversial area of managerial finance.

In the other words dividend is a periodic payment to compensate them for the use of and risk to their investment. Thus dividend are more than just a means distributing unused funds and dividend is the part of earning which distributed to the shareholders.

2.1.2 Meaning and Significance of Dividend Policy

Dividend policy is the policy of any firm regarding the division of its profit between shareholders as dividend and retention for the profit making investment. "Dividend policy determines the division of earning between reinvestment in the firm and payment to shareholders. Retained earnings are one of the significant for financing corporate growth, but dividends refers to the cash flow that accrues to shareholders" (Weston and Copeland; 1990: 657). The process of paying at "what's left" to shareholder is called dividend policy. Dividend policy involves the decision to pay out earning verses retaining them for investment in the firm policy. Any change in dividend policy has both favourable and unfavourable effect on the firm's stock price. Higher the dividends mean higher the immediate cash flows to investors, which are

good but lower future growth, which is bad. The dividend policy should be optimal which balances the opposing forces and maximizes stock price. The dividend policy should be optimal which balances the opposing forces and maximizes stock price. Dividend policy may have a critical influence on the value of the firm. If the value of the firm is a function of its dividend payment ratio, the dividend policy will affect directing the firm's cost of capital (Gautam and Thapa, 2008: 339).

2.1.3 Dividend Policy and Market Price Share (MPS)

MPS is that value which can be obtained by a firm from the market. Market value is one of the variables which are affected by the dividend per shareholders' earning per share of the firm. If the earning per share and the dividend value is high the market per share will also be high market value of share may be high or low than book value. If the firm is growing concern and its earning power is greater than the cost of capital the market value of share will be higher than the book value. If the firm earning capacity is lower than cost of capital MPS will also be lower MPS determined by capital market. Market price of stock usually fluctuated by the adequate information. Market price of stock (MPS) is the trading price of stock listed in authorized of legal stock exchanges. Dividend policy and MPS has always correlation, if the company pays dividend and the MPS increases and vice-versa. Therefore the information lack or flow is also vital in the analysis of MPS. In the context of Nepal MPS is the price is quoted for purchasing or selling under Nepal stock exchange Act or related laws and regulation on the stock exchange floor (Adhikari; 200: 16).

"Share variable is an economic process which generates rational securities price. Although the price fluctuation may appear to be chaotic, they are random arrival new information (Francis; 1990:20).

2.1.4 Theories of Dividend

There are two fundamental theories of dividend:

A. Residual Theory

Residual theory of dividend suggest that the first priority should be given to the profitable investment opportunities, if there are any profitable opportunities the firm

invites only those and the only the residual (remaining) amount of earnings (if any) would be distributed to the shareholders. Under this theory the firm first determines the optimum level of investment opportunity schedule (IOS) and weighted average cost of capital (WAAC). If retained earnings are not sufficient to meet the requirement, new common stock are to be sold. Any retained earning left this would be distributed as dividend (Bhattacharai; 2002: 19-20).

B. Wealth Maximization Theory

Larger Dividend is announced and distributed to shareholders under this theory in order to maximize their wealth. This theory is generally adopted by the newly established and declining companies to upkeep its image and retain the shareholder's positive attitude towards the common stock (Weston and Copeland; 1992: 657).

2.1.5 Payment Procedure of Dividend

Company makes dividend decision with considering number factors. Dividend includes a systematic process and every company follows it. The process includes different date and such are declaration date, holder of record date, ex-dividend date and payment date.

a) Declaration Date

Board of director controls the firm Board of directors meet and with the help of the management, declares dividend what the company is going to distribute. Thus this is the date on which the board of director declares the dividend.

b) Holder of the Record Date

It is a date until which a person who has bought shares before ex-dividend date, must register his/her name in the company.

c) Ex-Dividend Date

It is the date is four days prior to the record date share purchased after the ex-dividend date are not entitled to the dividend.

- d) **Payment Date:** It is the date on which company starts to pay dividend (Gautam and Thapa; 2008: 336).

2.1.6 Major forms of Dividend

The firm may distribute the dividend in various forms. Depending upon the objective and policies, they implement the firm can give various type of dividend to the shareholders. These should be consistency in dividend policy and financial plans, shareholder preference and attitude of the directors. Some of the major forms of dividend are briefly explained below:

A. Cash Dividend

Cash dividend is the dividend, which is distributed to the shareholder is cash out of the earnings of the company. A company should have enough bank balance at the time of paying cash dividend. Management should made to borrow funds. Cash dividend has the direct impact on the shareholders. It is one of the most interesting matters of the study and the volume of the cash dividend depends upon earning of firms and on the psychological value of stockholders. So cash dividend is not only a way to earning distribution but also a way of perception improvement the capital market. The objectives of the cash dividend are;

- To distribute the earning to shareholders as they hold the proportion of the shares.
- To build and image in the capital market so as to create favourable condition to raise the fund at the needs.
- To make distribution easy and to account easily.

B. Stock Dividend

A stock dividend occurs when the board of directors authorizes a distribution of common stock to existing shareholders. Stock dividend increases the number of outstanding share of the firm's stock. Stock dividend requires and account to the common stock and paid in capital account.

Rupees transferred from retained earning = number of shares outstanding × percentage of stock dividend × market price of the stock.

There is no cash involved in a stock dividend. Net worth remains unchanged and the number of shares is increased. When a stock dividend, retained earning decrease but common stock and paid in capital on common stock increase by the same total amount.

Market Price per share after stock Dividend

$$= \frac{\text{StokePrice Before Stock Dividend}}{1 + \text{Stock Dividend in Fraction}}$$

C. Stock Split

A stock split (also known as straight stock split) is essentially when a company increases the number of shares. In case of stock splits, a company may double triple or quadruple the number of shares outstanding. The market price of each shares of merely lowered; economic reality does not change at all. It is therefore completely irrational for investors to get excited over stock splits. The effect of a stock split is an increase in the number of shares outstanding and a reduction in the par or stated value of share.

D. Reverse Split

A method that is used to raise the market price of a firm stock by exchanging certain number of outstanding shares for one new shares of stock. The effect of a reverse split is a decrease in the number of shares outstanding and an increase in the par, or stated value of shares. The total net worth of the firm remains unchanged.

E. Bond Dividend

Bond is a payment of dividend by the corporation in the form of bond to the shareholders. In other words, the corporation declares dividend in the form of its own bond with a view of avoiding cash out flow. Bond dividend does not change its liquidity position.

F. Scrip Dividend

If the dividend paid to the shareholders in the form of promissory notes to pay at a specific future date such type of dividend is called the scrip dividend. In this, the company issues and distributes transferable promissory notes to the shareholders, which may or may not bear interest. Except cash dividend, the other dividends are paid to the shareholders to avoid the cash outflow. Cash dividend and stock dividend are frequently used and quite popular in dividend practice. Only cash dividend has been considered in this study.

G. Repurchase of Stock

When a company wants to pay cash to its stockholder it usually declares a cash dividend. But an alternative method is for the firm to repurchase its own stock. In a stock repurchase, the company pays cash to repurchase shares from its share shareholders. These shares are usually kept in the company's treasury and then resold it when the company needs money. Stock repurchase is a method, in which a firm buys back share of its own stock, thereby decreasing shares outstanding increasing EPS and often, increasing the price of stock. Share price for repurchase or the equilibrium price is calculated from the following equation,

$$\text{Repurchase Price (P*)} = \frac{S \times P_c}{S - n}$$

Where,

S = Total number of shares outstanding

P_c = Current market price per share

n = number of shares to be repurchased

H. Interim Dividend

Generally dividend is declared in the last of financial year. This is called a regular dividend. Many time directors can declare the dividend before the end of financial year. This is called interim dividend (Gautam and Thapa, 2008:344).

2.1.7 Dividend Payout Schemes

Stability of regular of dividends is considered as describe policy by the management of companies. Most of the shareholders also prefer stable dividend because all other things being the same, stable dividends have a positive impact on the market price of share. By stability preferable one that is upward sloping. Three of the commonly used dividend policies are.

a. Constant Dividend Per Share

Constant dividend policy is based on the payment of a fixed rupee dividend in each period. A number of companies follow the policy of paying fixed amount per share as dividend every period, without considering the fluctuation in the earning of the company. The policy does not imply that the dividend per share of dividend rate will never be increased. When the company reaches new level of earning and expects to maintain it the dividend per share may be increased. Investors who have dividends as the only source of their income prefer the constant dividend policy.

b. Constant Payout Ratio

The ratio of the dividend to earning is known as dividend payout ratio. When fixed percentage of earning is paid as dividend in every period, the policy is called constant payout ratio. For example if dividend payout ratio is 50 percent, firm always pays 50 percent of its annual earning as dividend. Under this policy the payout ratio remains constant but the dividend fluctuates with earning fluctuations. The variability in dividend signals uncertainty of dividend in the future to the shareholders.

c. Low Regular Dividend Plus Extras

The policy of paying a low regular dividend plus extra is a compromise between a stable dividend (or stable growth rate) and constant payout rate. Such policy gives the firm flexibility, yet investors can count on receiving at least a minimum dividend. It is often followed by firms with relatively volatile earning from year to year. The low regular dividend can usually be maintained even when excess funds are available (Gautam and Thapa, 2008: 339).

2.1.8 Factors Affecting Dividend Policy

Dividend Policy is concerned with deciding the part of profit to be distributed to the shareholder. Many considerations may affect a firm's decision about its dividends, some of them are unique to that company and some of more general consideration is given subsequently, they are as follows;

a. Size of Earnings

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

b. Investment Opportunity

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

c. Liquidity Position

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

d. Legal Rules

A firm may be legally restricted from declaring and paying dividends. Such legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividends. Generally, a corporation may not pay a dividend (i) if the firm's liabilities exceeds its assets, (ii) if the amount of dividend exceeds the accumulated profit (retained earning), and (iii) if the dividend is being paid from capital invested in the firm. The second type of

legal restrictions is unique to each firm and results from restrictions in debt and preferred stock contracts.

e. Desire of Shareholders

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

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

f. Growth Prospects

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

g. Need to Repay Debt

The need to repay debt also influences the availability of cash flow to pay dividend, if the company has to repay the debt in current year. It needs more fund and retains more profit paying fewer amount of dividend.

h. Rate of Assets Expansion

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

i. Stability of Earning

A firm that has stable earnings trend will generally pay a larger portion of its earning as dividends. If earnings fluctuate significantly, a larger amount of the profits available for investment projects when needed.

j. Profit Rate

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

k. Control

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

l. Access to Capital Markets

A firm's access to capital markets will be influenced by the age and size of the firm, therefore a well-established firm is likely to have a higher payout ratio than a smaller, newer firm (Bhattarai; 2008: 377).

2.2 Legal Provision Regarding Dividend Practices in Nepal

There are some legal provisions in company act of Nepal regarding the dividend payment. The responsibility to protect shareholder's interest is handed to stock exchange centre by the security exchange act 1983-1984 A.D. Only this is not enough to protect shareholders interest because the attitude of board of directors plays dominant role in public limited companies. In many cases, long term debt debentures and preferred stock agreements contain restrictions on the maximum common stock dividend that can be paid by a firm such covenants are designed to protect senior claimholder from executive withdrawals by real owners. Dividend is paid only out of certain earnings. In present situation, it is advisable to intract separate shareholders protection act safe guard shareholders right as an interest. Shareholders association of

Nepal has been established for the purpose. The responsibilities to undertake required action to protect shareholder interests was given to SEC by security exchange Act 1983-1984. Recently, Nepal government has issued company act 2068. The act marks some legal provision for dividend payments, those provision are as follows;

Section 179

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

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

Section- 182

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

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

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

Section-61

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

- If all amount against shares issued by the company is paid.
- If issued shares of public company is registered in security boards.
- If there is provision regarding the purchase of own share in the article of association of respective company.
- If the special resolution is passed by the general meeting of respective company regarding the purchase of its own shares.
- If loan amount of the company shall not be doubled by its capital reserve funds after purchasing its own shares.
- If the purchase own shares amount will not exceed by 20% of company's total paid-up capital and general reserve funds.
- The direction of the office issued by time will not be against.
- Regarding the purchase of own share will not be against the directing of the office.
- Other provision also has been made in the company Act 2063 regarding the purchase of its own share (Bhattra; 2009:39).

2.3 Review of Related Studies

This section is dedicated to the review of the major studies in general concerning dividends and stock price, management view on dividend policy and management views on stock dividends.

2.3.1 Review of Major International Studies

There have been so many studies made by the different persons and institution for dividend policy and stock price. There are two opinions regarding to dividend payout and market price of stocks. One point of views is that dividends are irrelevant and the amount of dividend payout does not affect the market relevant and the amount of stocks. Always a critical and confused question has arisen, whether dividend policy affects the market value of shares or not. To put light in these matter different studies made by different international scholars and researchers are going to be discussed below;

a) Linter's Model (1956)

Linter made an important study focusing on the "Behavioural aspect of dividend policy" in the American context. He investigated a partial adjustment model as he tested the dividend patterns of 28 companies. He concluded that a major portion of the dividend a firm could be expressed in the following way;

$$DIV_t = PEPS_t$$

$$DIV_t = DIV_{t-1} = P EPST - DIV_{t-1}$$

$$DIV_t = DIV_{t-1} = b (PEPS_t - DIV_{t-1})$$

$$DIV_t = DIV_{t-1} = a + b (PEPS_t - DIV_{t-1}) + et$$

$$DIV_t = a + bPEPS_t - b DIV_{t-1} + et$$

$$DIV_t = a + b DIV_{t-1} + (1-b) DIV_{t-1} + et$$

Where,

EPS_t = earning per share

DIV_t = dividend in time t

P = target payout ratio

A = Constant relation to dividend

$(1-b)$ = safety factors

E_t = error term

B = the adjustment factor relation to the previous period's dividend and new desired level of dividend where $b < 1$

The major finding of the study was as follows;

- Firms generally think in terms of proportion of earnings to be paid out. Investment requirements are not considered for modifying the pattern of dividend per share (or dividend rate)
- Firms generally have target payout ratios in view while determining change in dividend per share (or dividend rate) (Bhattacharai; 2009:41).

b) Modigliani and Miller's Model (1961)

Modigliani and Miller have propounded the MM hypothesis to explain the irrelevance of a firm's dividend policy. This model was based on a few assumptions, sidelining the "importance of the dividend policy and its effect on the share price of the firm. According to the model, it is only the firm's investment policy that will have an impact on the share value of the firm and hence should be given more importance. The assumptions of this model are;

- The essence of a perfect market is that all investors are rational. In perfect market conditions there is easy access to information and flotation and transaction costs do not exist. Securities are infinitely divisible and hence no single investor is large enough to influence the share value.
- It is assumed that there are no taxes, implying that there are no differential tax rates for dividend income and capital gain.
- There is neither a constant dividend policy of a firm, which will change the risk profile nor the rate of return even in cases where investments are funded by retained earnings.

- It was also assumed that the investors are able to forecast the future earnings the dividend and the share value of the firm with certainty. The assumption was however, dropped out of the model.

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

Step-1

In the first step the market price of shares equal to the sum of the present value of dividend paid and the market price at the end of the period.

Symbolically;

$$P_0 = \left[\frac{D_1 + P_1}{1 + k_e} \right]$$

Where,

P_0 = Current market price of the share

P_1 = Market price of the share at the end of the period (t=1)

D_1 = Dividend per share to be paid at the end of the period (t=1)

k_e = Cost of equity capital

Step- 2

If no new external financing exists market value of a firm can be computed by multiplying both sides by the number of outstanding share as follows:

$$np_0 = \left[\frac{n(D_1 + P_1)}{1 + k_e} \right] \text{ ——— (ii)}$$

Where,

N = Number of equity share at zero period

Step-3

If retained earning is not sufficient to finance the investment opportunities. Issuing new share is the other alternative. Assuming that 'm' is the number of newly issued equity share at the price of P_1 , the value of firm at time zero will be:

$$np_0 = \frac{nD_1 + (n+m)P_1 - mp_1}{1+ke}$$

Where,

n = no. of shares at the beginning

m = no of new equity shares issued at the end of the period

Step- 4

If the firm were to finance all the investment proposals, it may finance either by retained earning or by the issuance of new shares or both. Thus total value of the newly issued stock will be as follow,

$$mp_1 = I - (E - nD_1)$$

or, $mp_1 = I - E + nD_1$ ——— (IV)

Where,

I = Total investment amount required

E = Total amount of earning

nD_1 = Total amount of dividend paid

$E - nD_1$ = Amount of retained earning

mp_1 = Value of newly issued stock

Step- 5

substituting the value of MPL from equation (iv) to equation (iii), we get

$$np_0 = \frac{nD_1 + P_1(n+m) - I + E - nD_1}{1 + k_e}$$

$$\text{Or, } np = \frac{P_1(n+m) - I + E}{1 + K_e} \text{ —————(v)}$$

Conclusion:

There is no role of dividend in above equation. So Modigliani and Miller concluded that dividend policy has no effect on stock price. In other words, MM reach into conclusion that dividend does not matter and hence irrelevant. Therefore, dividend policy of firm has no impact on market value of the firm.

MM conclude that the current value of the firm is independent of its current dividend decision MM shows that NPO is unaffected not only by the current dividend decision but future dividend decision as well. Thus the stockholders are indifferent between retention and the payment of dividends in all future period and stockholders wealth is unaffected by current and future dividend decisions.

It does not seem to apply MM approach in Nepalese context because when we apply this approach the assumption supposed by MM are significantly deviated. In Nepal, we are enabling to find the rational investors as well as perfect capital market, which are considered by MM. It does not seem so sound to neglect the flotation cost transaction cost and tax effect on capital gain as neglected by mm. Arbitrage arguments as explained by MM applies only when there are very sensitive investors and which are lacking in Nepal. A conscious in use for always finds different between dividend and retained earnings. Thus, MM proposition is not relevant in the case of Nepal

In this way, according to Modigliani and Miller's study it seems that under conditions or perfect capital markets, rational investors, absence of tax discrimination between dividend income and capital appreciation, given the firm's investment policy, its

dividend policy may have no influence on the market price of shares (Modigliani and Millers; 1961:345)

c) Gordon's Model (1962)

This approach was developed by Myron Gordon in 1962. Gordon uses the dividend capitalization approach to study the effect of the firm's dividend policy on the stock price. The conclusion of his study is that investors value the present dividend more than capital gain. His argument insisted that an increase in dividend payout ratio leads to an increase in the stock price for the reason that investors consider the dividend yield (D_1/P_0) is less risky than the expected capital gain.

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

His model is based on the following assumptions:

- i. The firm is an all-equity firm.
- ii. No external financing is available
- iii. The firm and stream of earnings are perpetual.
- iii. The corporate taxes do not exist.
- iv. Return on investment (r) and the cost of equity capital (k) remain constant.
- v. The retention ratio remains constant and hence the growth rate ($g = br$)
- vi. $k > br$, i.e. cost of equity capital is greater than the growth rate.

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

$$P_0 = \frac{EPS(1-b)}{K_e - br}$$

Where,

P_0 = market price per share

EPS = Earning per share

b = retention ratio

1-b = dividend payout ratio

K_e = Cost of equity capital or cost of capital of the firm

$B_r = g$ = growth rate (g) in the rate of return on investment

Therefore, Gordon correlated that the firm, share value is positive with the payout ratio where $r_e > k_e$ and decrease with an increase in the payout ratio when $r < k_e$. Thus firm with rate of return greater than the cost of capital should have higher retention and those firms, which have a rate of return less than cost of capital, should have a lower retention ratio. The dividend policy of firm which have rate of return equal to the cost of capital will however not has any impact on its share price (Gautam and Thapa; 2008: 356).

d) Walter's Model (1966)

Professor Jams E. Walter conducted a study on dividend and stock prices in 1966. He proposed a model for share valuation. According to him the dividend policy of a firm cannot be looked a side from investment policy. His argument is just opposite of what Modigliani and Miller said. He argued that dividend policy affects the stock prices. In this model he studied the relationship between the internal rate of return (r) and the cost of capital of the firm (k), to give a dividend policy that maximizes the shareholder's wealth waller's model is based on the following assumption:

- The firms finance all investment through retained earning, that is debt or new equity is not issued.
- The firm's internal rate of return and its cost of capital are constant.
- All earning of the firms are either distributed as dividend of reinvested internally.
- There is no change in value of earning per share and dividend per share.
- The firm has perpetual or infinite life.

According to Walter, the market price of the share is taken as the sum of the present value of the future cash dividends and capital gains. His formula is based on the share valuation model and is arrived at in the following manner.

$$P = \frac{DPS}{K_e} + r/K_e (EPS - DPS) / K_e$$

Or, $P = DPS + r/K_e (EPS - DPS) / K_e$

Where,

P = Market price per share

DPS = Dividend per share

EPS = Earning Per share

K_e = Cost of capital or capitalization rate

r = Internal rate of return

According to Waller's model, the optimum dividend, policy depends on the relationship between the firms internal rate of return (r) and its cost of capital (k), Walter's view on the optimum dividend payout ratio can be summarized as follows,

Growth Firms (r > k)

Firm having r > k may be referred as growth firm. The optimum payout ratio for a growth firm is zero. The market value per share increase as payout ratio decline when r > k.

Normal Firms (r = k)

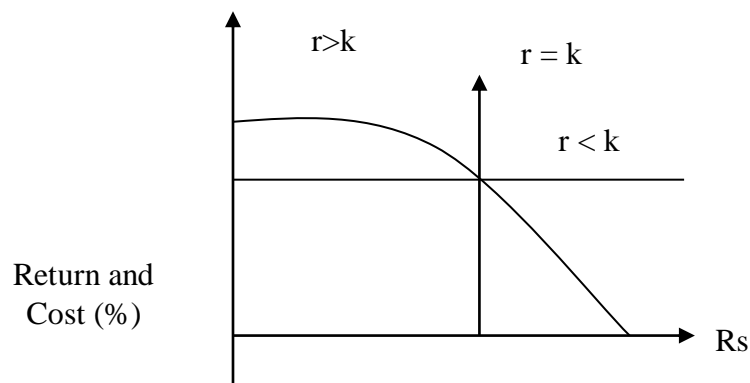
Firms having r = k may be referred as normal firm. There is no unique optimum payout ratio for normal firm. One dividend policy is as good as the other. The market value per share is not affected by the payout ratio when r = k.

Declining firm ($r < k$)

Firm having $r > k$ may be referred as declining firm. The optimum payout ratio for declining firm is 100 percent. The market value per share increases as percent payout ratio increases when $r > k$.

Fig. 2.1

Earning, Investment and New Financing under Walter's Model



Thus the Waller's model the dividend policy of the firm depends on the availability of investment opportunities and the relationship between the firm's internal rate of return(r) and its cost of capital (k). The firm should use earning to finance investment if $r > k$ should distributed all earning where $r > k$ and would remain indifferent where $r = k$ (Regmi, 2006: 21)

2.3.1 Review of Related Studies in Nepal

Shrestha (1992), presented a paper on "shareholder's Democracy and Annual General meeting feedback" on fifth annual general meeting of Nepal Arab Bank Limited, which has been presented here.

In his view the common problems and constants of the shareholder are as follows,

- a. The cost-push inflation at exorbitant rate has made the shareholders to expect higher return from their investment

- b. Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequence of it.
- c. Erosion in the purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholder's purchasing power by raising dividend payout ratio on the basis of both earnings and cost theory.
- d. Indo-Nepal trade and transit deadlock has become a sort of economic welfare putting rise in the cost of living index to a considerable extent. This is the reason, which made shareholder's to expect higher demand for satisfactory dividend.
- e. The waiting of 5 years with payment of dividend in previous year is equally a strong enforceable reason at the bank's shareholder's to expect handsome dividend already assumed and committed. In various reports of the earlier annual general meeting
- f. One way to encourage risk taking ability and preference is to have proper risk return trade off by bank's management board is a way that higher return must be the investment rule for higher risk takers that comprise bank's shareholders.

Pradhan (1993), conducted a land mark study in the field of dividend policy in Nepal . He studies stock market behavior of 17 firms covering, the period 1986 to 1990 with the following objectives:

- To access the stock market behavior in Nepal.
- To examine the relationship of market equity market value, price earning and dividend with liquidity profitability, leverage assets turnover and interest turnover.

Major Finding his study are as follows

- Higher earning in the stock leads to the larger the ratio of dividend per share.

- Stock with larger ratio of dividend per share to market price have lower leverage ratio.
- Stock with larger ratio of dividend per share and market price has higher liquidity.
- Positive relationship of dividend payout with liquidity profitability assets turnover and interest coverage ratio.

Manandhar (2000), conducted a study on "Bonus Share and Dividend Charge Empirical, Analysis in Nepalese Context." To test the lagged structure of dividend payout and other financial features were tested. He carried out his study based on the data taken from 17 Nepalese corporate firms and covered the period of 1987 to 1988. The conclusion of this study are as follow;

- There is significant relationship between changed in dividend policy in terms of dividend per share and change in lagged earning.
- There is relationship between distributed lagged profit and dividends.
- In overall there is a positive relationship between in lagged consecutive earning and dividend per share.

2.3.3 Review of Related Master Thesis

Gautam (1996), conducted his master's research on "A Comparative Study of Dividend Policy of Commercial Banks" by using the secondary data of three banks is 1996 has following objectives;

- To identify what types of dividend policy is being followed and find out whether the policy followed is appropriate or not.
- To examine the impact of dividend on share prices.
- To know if there is any uniformity among DPS, EPS and DPR of the sample commercial banks.

Major finding of the study are as follows

- His objectives of the study were to identify the largest fluctuations in earning per share and dividend per share. No banks exhibit dividend payout ratio.
- Share of the financial institution are actively traded and market prices are increasing.
- Average EPS and DPS of all concerned banks are satisfactory.
- Correlation between DPS and EPS of all sample banks is fairly positive but it is fairly safe to say that the relationship is not significant.
- Theoretically, issue of bonus share has equal impact on EPS, MPS, and DPS. But in case of these sample banks, a significant variation in the degree of impact is observed.

Bhattacharai (2002), conducted his master research on "Dividend Policy and Its Impact on Market Price of Stock" with data taken from two commercial banks and two insurance companies analyzed the data of five years from 1995 to 2000 using simple and multiple regression equation has the following objective;

- To study the prevailing practice and effort made in the dividend policy in the Nepalese firm with the help of sample firms.
- To find out the impact of dividend policy on market price of stock.
- To analyze if there is any uniformity among EPS, DPS, MPS and DPR in the sample firms.

Major finding of his study are as follows:

- There is not any consistency in dividend policy in the sample firms. It has indicated the need of dividend strategy as well as need of proper analysis of the respective sector of the firms.
- The MPS is affected by the financial position and the dividend paid by the firms in this regard the MPS of the sample firms is seem to be fluctuated. It denotes that Nepalese investors are not treated fairly.

- Most the Nepalese firms from the very past did not have profit planning and investment strategy, which has imbalanced the whole position of the firms. It means there is no consistency even in the earnings.
- The lack of financial knowledge and the market inefficiency has affected the market price of the share in all the firms.

Regmi (2006), conducted a study on "Impact of Dividend on Market Price of Share With Reference to Five Commercial Banks Listed in NEPSE" the specific objectives where as follows;

- To examine the relationship between dividends and stock prices.
- To determine the impact of dividend policy on stock prices.
- To analyze the financial variable affecting the stock value and impact the dividend paying implication under dividend valuation model.

The main findings of the study are as follows:

- The MPS is affected by the financial position and the dividends paid by the firms, in the regard the MPS of the Sample firms are seen to be fluctuated. It denotes Nepalese investors are not treated fairly.
- There was correlation between EPS and DPS.
- In aggregate, dividend paid by the company is not stable.

Bhurtel (2006), conducted a study on "Dividend Policy and its Impact on Stock Price." The basic objective of the study was to identify the relationship between dividend and market price per share the major objective other this study can be stated as follows;

- To analyze the properties of Portfolio on dividend.
- To examine the relationship between dividend and stock price.
- To survey the option of financial executive's on corporate dividend practices.

The main Finding of his study are as follows:

- From the descriptive analysis the researcher found there is not any consistency in dividend policy in the sample banks, which has maintained stable dividend per

share policy. It has indicated the need of dividend policy as well as the need of proper analysis of the banks.

- The MPS is affected by the financial position and the dividend paid by the firms, in this regards the MPS of the sample firms are seen to be fluctuated. It denotes Nepalese investors are no treated fairly.
- Most of the Nepalese firm from the very past have not profit planning and investing strategy, which have imbalanced the whole position of the firm. It means there is not consistency even in the earning.

Adhikari (2008), has conducted a study on "Impact of Dividend on Market Price of Share." The specific objectives of his study are as follows;

- To examine the practices and effort made in dividend policy in the Nepalese firms with the help of sample firms.
- To analyzed if there is any uniformity among DPS, EPS, MPS, net worth and DPS in the sample firms.
- To examine the impact of dividend on market price of stock.

The finding drawn by the study are as follows:

- Dividend per share affected the share price, validity in different sectors.
- The relationship between dividend per share and stock price was positive in the sample companies.
- Changing the dividend policy of dividend per share right help to increase the market price of shares.

Bhattarai (2009), conducted a study on "Dividend Practices of Commercial Banks and Its Impact on Stock Prices."

The specific objectives of the study are as follows;

- To analyze the impact of dividend on stock price.
- To identify the determination of the dividend per share (DPS) and market price of stock (MPS).
- To compare dividend practices of selected commercial banks.

The summary of the major finding of the study are as follows:

- There is high degree positive relationship between DPS and EPS in most of the banks as they are statically significant.
- Relationship between DPS and MPS is found to be high degree positive in most of bank as they are statically significant also.
- All the selected banks paid dividend in each year which shows that dividend paying practice is established in Nepalese commercial banks.
- The dividend per share of Nepalese commercial bank is depending on current earnings. The banking is following earning based dividend policy.

Bista (2009), conducted a study on "Impact of Dividend on Market Price of Share of Selected Commercial Banks." The specific objectives of the study are as follows:

- Highest the aspect of dividend policy of selected commercial banks.
- To examine at the relationship of dividend with various factor like DPS, MPS, Net worth, Net earning.
- To identify the uniformity among DPS, EPS and DPR of the selected commercial banks.

Baral (2010), conducted a study on "Impact of Dividend on Market of Stock of Selected Commercial Bank". The specific objectives are as follows:

- To find out the impact of dividend policy on market price of stock.
- To explain the prevailing policies and practices regarding dividend in the Nepalese firms with reference to the sample firm.
- To examine various aspects of dividend policies and practices in Nepal carried out by the banking sector.

The summary of the major finding of the study are as follows;

- The market price per share is affected by the dividend related financial variable i.e. DPS and DPR either positively or negatively changes are DPS affected the market price per share differently in different bank.

- Besides dividend, other factors also affected the market price per share i.e earning per share, price earning ratio, net worth per share etc. Their effect is also in different banks.
- In case of same banks, there exists negative relationship besides the MPS largely depends upon the dividend which been shown by the coefficient of multiple determination.

2.4 Research Gap

There have been many national and international studies in the field of dividend policy to date. Those studies have tried to find out the relationship between dividend policy and market price of stock. Nepalese capital market is in the early stage of development, the conclusion made by international studies may not be relevant in the Nepalese context. So far the Nepalese studies concerned there are some studies done, like Pradhan's and Manadhar's, which can be considered to be landmark in the field of dividend policy; but many more changes have taken place in Nepalese capital market in last few years and the validity of the past results are doubtful in the present context. Besides this, some researchers have taken few only few firms of the same sector as sample and so, the result drawn from those studies may not be accurate to represent the present practices and effort made in Nepalese markets. So, it is necessary to carry out a fresh study related to dividend pattern of Nepalese companies.

In this study, it is tried to take new thesis, journals and articles from different researchers which are related to dividend policy that helps to know about dividend practice and its effect on financial indicators, relationship among them and shows actual dividend behavior in Nepal. This study has covered five leading commercial banks that listed in NEPSE. six year's data have analyzed with due consideration on EPS, DPS, DPR and MPS. Analyses of financial indicators, standard deviation, regression analysis etc are used as the main models in the study with a view to obtain the relevant and accurate results. So, it has been believed that this study will be different and comprehensive as compared to previous research and study.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology indicates the methods and process employed in the entire aspect of the study. In other words research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives. Research methodology is a way for systematically solving the research problem. So, it is the methods, steps and guidelines which are to be followed in analysis and it is a way of presenting the collected data with meaningful analysis. In other words, it is a systematic way to find research problems.

This chapter has been divided in to four sections. Section one represent the research design, while section two describes the nature and source of data, section three represent the population and sample and section four explains the method of analysis.

3.2 Research Design

The research design refers to the conceptual structure within which the research is conducted (Kothari; 1988:22). A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Seltiz; 1962:50). Fed N. Kerelings has defined it in his book foundation of behavioral research as "Research Design is the plan, structure and strategy of investigation concerned so as to obtain answers to research questions and to control variances." In simple language, it's just a planning for a research. It is purposeful scheme of action proposed to be carried out in a sequence during the process of research.

3.3 Population and Sample

There are 32 commercial banks in the country on 14th July, 2012 (including government owned private and joint venture) due to time and resource factors, it is

not possible to study all of them regarding the study topic. With the reason, only some banks are chosen as sample for the study. The study has focused the data from such sample commercial banks. The selected commercial banks for the sample are as follows:

S.No.	Selected Banks	Abbreviation Used
1.	NABIL Bank Limited	NABIL
2.	Standard Chartered Bank Limited	SCBL
3.	Nepal SBI Bank Limited	SBI
4.	Everest Bank Limited	EBL
5.	Bank of Kathmandu Limited	BOK

Table : 3.1

Sampling Description

Population (N)	Sample (n)	Sample Ratio (n/N)
Listed Commercial Bank (N) = 32	Selected Commercial Bank for study (n) =5	$\frac{5}{32} \times 100 = 15.63\%$

3.4 Nature and Source of Data

This study is based on the secondary data. The data relating to the dividend decision, which are directly obtained from commercial bank. Annual reports, balance sheet, profit and loss account of commercial banks are main source of data. Beside the data are also collected from various journals, articles, newspaper, magazines, booklets and journals published by the concerned government and non-governmental organizations. Economic report published by Nepal Rastra bank, the stock price of the whole year listed in the Nepal stock exchange (NEPSE). Economic survey published from HMG/N, minister of finance, financial report published by NEPSE and securities exchange board, financial and others relevant data regarding the dividend policies and practices of bank. Main source of secondary data are:

- Annual report published by commercial bank.
- Data are collected for the year 2006/2007 to 2010/2011 in case of NABIL, SCBL, SBI, EBL, BOK as five year data are analyzed.
- Nepal stock exchange, website (www.nepalstock.com) and perspective firm's central office and security exchange board.

3.5 Methods of Analysis

Various financial and statistical tools have been used to analyze the data of this study.

3.5.1 Financial Tools

Financial tools are those which help to study the financial position of the firms. The financial tools used in this study are as follows.

a) Earning Per Share (EPS)

Earning per share refers to the rupee amount earned per share of common stock outstanding. It measures the profitableness of the shareholder investment. The income of per share is calculated by dividing the earning available to common shareholders by the total number of common stock outstanding. Thus,

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

The higher coming indicates the better achievements in turns of profitability of the bank by mobilizing their funds and vice-versa. In other words, the earning per share indicates the strength and weakness of the bank.

b) Dividend Per Share (DPS)

Dividend per share indicates the rupee earning distributes to common stockholder per share held by them. It measures the dividend distributed to each equity shareholder. It is calculated by dividing the total dividend distributed to equity shareholder by the total number of equity shares outstanding. Thus, Formula for calculating this ratio is as under

- $$\text{DPS} = \frac{\text{Total Dividend Amount}}{\text{No. of outstanding Shares}}$$

Generally, the higher DPS creates positive attitude of the shareholders towards the bank is common stock, which consequently helps to increase the market value of the shares and it also works as the indicator of better performance of the bank management.

c. Dividend Payout Ratio (DPR)

The purpose of calculating this ratio is to know the portion of dividend distributed out of total earning. This ratio shows the relation between the returns belonging to equity shareholders and the dividend paid to them.

It can be calculated as under:

$$\text{Dividend Payout Ratio (DPR)} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

The higher the dividend payout ratio, the lower will be the proportion of retained earning and vice-versa.

d. Market Price Per Share (MPS)

Market values of share are one of the variables, which is affected by the dividend per share and earning per share of firm. So, the MPS is that value of stock, which can be obtained by a firm from the market. If the EPS and DPS are high, the MPS will also be high. In this study, MPS can be obtained from capital market and it is the closing price of share indicated in the NEPSE index.

e. Dividend Yield (DY) Ratio

If defined the relationship between dividend per share and market value per share. It is very useful for the investors. So, dividend yield is the dividend received by the investors as a percentage of market price per share in stock market. Thus,

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

f. Price Earning Ratio (P/E)

This ratio is closely related to the earning yield. The reciprocal of the earning yield is called the price earning ratio. It is very useful to prospective investors. The higher P/E ratio implies the high market price of a stock given the earning per share and greater confidence of investors in the firms future. Thus,

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

3.5.2 Statistical Tools

Besides the financial tools, various statistical tools have been used to conduct this study. The result of analysis has been properly tabulated, compared, analyzed and intercepted. In this study, the following statistical tools are used to analyze the relationship between dividend and other variables.

a. Arithmetic Mean or Average

Arithmetic mean is the average return over period. Arithmetic mean of a given set of observation is their sum dividend by the numbers of observations. In general $X_1, X_2 \dots X_n$ are given 'n' observation. It is calculated by,

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

b. Standard Deviation

Standard deviation is avantitative measure of total risk. It provides more information about the risk of the assets. The standard deviation of a distribution is the square root of the variance of return around the mean. It measures the absolute dispersion, the following formula is applied to calculate the standard deviation, using historical return.

$$\text{Standard Deviation} = \sqrt{\sum \frac{(x-\bar{x})^2}{n}}$$

c. Coefficient of Variation

The risk per unit of expected return can be measured by coefficient of variation. It should be used to compare investments when both the standard deviation and the expected values differ. CV is computed as follows

$$C.V. = \frac{\sigma}{\bar{x}} \times 100$$

The higher C.V. denotes the higher variability of variable and vice-versa.

d. Correlation Coefficient (r)

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

$$\text{correlation coefficient (r)} = \frac{\text{Covariance (x,y)}}{S.D.x \times S.D.y}$$

Where,

$$\text{Covariance (x,y)} = \frac{\sum(x-\bar{x})(y-\bar{y})}{n}$$

r = Karl Pearson's Correlation Coefficient

Under this study, correlation between the following variables is analyzed

- (a) Market price per share and earning per share
- (b) Market price per share and dividend per share

- (c) Market Price per share and dividend yield
- (d) Market price per share and price earnings ratio
- (e) Market price per share and dividend payout ratio
- e) **Coefficient of Determination (r^2)**

The coefficient of determination is the primary way to measure the extent or strength of the association that exist between two variables, x and y. It refers to a measure of the total variance in a dependent variable that is explained by the linear relationship to an independent variable. The coefficient of determination is denoted by r^2 and the values lies between zero and unity or the r^2 is always a positive number. The r^2 is defined as the ratio of explained variance to the total variance. Thus, coefficient of determination (r^2)

$$\text{Coefficient of determination} = \frac{\text{Explained variance}}{\text{Total Variance}}$$

f) Regression Analysis:

Regression analysis studies the statistical relationship between the variables. The main objective of regression analysis is to predict or estimate the value of dependent variable corresponding to a given value of independent variables. There are two types of regression analysis.

1. Simple Regression Analysis

The regression refers to an analysis or statistical method for determining relationships between the variables by the establishment of an approximate functional relationship between them. It is a statistical device used to estimate or predict the variable or interest from the known values of other variable. In the words of Johnson and Siskin, 'The technique of regression analysis is used to determine the statistical relationship between two (or more) variables and to make prediction of one variable on the basis or the others (s). It is considered as a useful tool for determining the strength of relationship between two (simple regression) or more (multiple regression) variables.

It is also used to predict value of one variable from the given value of other variables (s).

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

Simple regression analysis, concerned with the study of the relationship between one variable called dependent variable and another variable called independent variable. Regression analysis has been developed to study and measure the statistical relationship between two variable only, and then the process is known a simple regression analysis. In this study the following simple regression have been analyzed.

a. Market Price Per Share on Dividend Per Share (DPS)

$$Y = a + bx$$

Where,

y = Market price per share

a = Regression constant

b = Regression coefficient

x = Dividend per share (DPS)

This model has been constructed to examine the relationship between MPS (dependent variable) and EPS (independent variable).

b. Market Price Per share on Earning Per Share

$$y = a + bx$$

Where,

y = Market Price Per Share (MPS)

a = Regression contant

b = Regression coefficient

x = Earning per Share (EPS)

This model has been constructed to examine the relationship between MPS (dependent variable) and EPS (independent variable).

c. Market Price Per Share (MPS) on Dividend Payout Ratio (DPR)

$$y = a + bx$$

Where,

y = Market Price Per Share (MPS)

a = Regression constant

b = Regression coefficient

x = Dividend Payout Ratio (DPR)

d. Market Price Per Share (MPS) on Dividend Yield

$$y = a + bx$$

Where,

y = Market Price Per Share (MPS)

a = Regression constant

b = Regression coefficient

x = Dividend Yield

The relationship between MPS (dependent variable) and Dividend yield (independent variable) can be explained through this model.

e. Dividend Per Share on Earning Per Share

$$y = a + bx$$

Where,

y = Dividend Price Per Share (DPS)

a = Regression constant

b = Regression coefficient

x = Earning Per Share

The relationship between DPS (dependent variable) and EPS (independent variable) can be explained through this model.

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

$$\sum X = na + bx$$

$$\sum Xy = a \sum x^2$$

Where,

'a' and 'b' are unknown

n = number of observation in the sample

Regression Constant

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

Regression Coefficient

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

Standard Error of Estimate (SEE)

With the help of regression equation perfect prediction is practically impossible, standard error of estimate is a measure of reliability of the estimating equation indicating the variability of the observed points around the regression line, that is the extent to which observed values differ from their predicted values on the regression line. The smaller the value of SEE, the closer will be dots to the regression line and the better the estimates based on the equation for this line. If SEF is zero, then there is on variation about the line and the correlation will be perfect. Thus, with the regression line is as a descriptive of the average relationship between two series

3.6 Regression Analysis Development

a. Simple Regression Analysis

Three simple regression analysis would be done which are as follows;

i. $Y = a + bx$

or, $MPS = a + b (DPS)$

Where,

MPS = Market Price Per Share

DPS = Dividend Per Share

A and b is regression coefficient.

ii. $y = a + bx$

or $MPS = a + b (EPS)$

Where,

EPS = Earning Per Share

iii. $y = a + bx$

or, $DPS = a + b (EPS)$

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

The main purpose of analyzing data is to change it from an unprocessed form to an understandable presentation. The analysis of data consists of organizing, tabulating and performing statistical analysis.

This chapter consists of presentation and analysis of data, which is collected from different sources. The data is mainly focused on the capital adequacy on the capital adequacy position and its impact on the performance of the sample banks. To obtain best result, the data and information have been analyzed with the measure of different financial and analytical tools by using appropriate tables, graphs, formulae, hypothesis and other tools.

4.1 Presentation of Financial Variable

Before observing the impact of different financial indicator and variables on dividend as well as value of the firm, we need to present and analyze them systematically. For this purpose DPS, EPS, DPR, MPS, DY and P/E ratio have been selected as an affecting variable. However these variables show the dividend status of the bank as well as their strength. Consequently helps to identify the banks position regarding dividend payout. These variable have been presented by the help of table, diagram, and by using statistical tools as specified in chapter three.

4.1.1 Analysis of EPS of the sample Banks

EPS measure the earning capacity of a firm and it is expressed as per share basis. It helps to show the earning availability to each ordinary share holder.

Table : 4.1

EPS of Sample Banks

Banks Year	NABIL	SCBL	SBI	BOK	EBL
2006/07	137.08	167.37	39.35	43.50	78.42
2007/08	115.86	131.92	28.33	59.94	91.82
2008/09	113.44	109.99	36.18	54.68	99.99
2009/10	83.81	77.65	23.69	43.08	100.16
2010/11	70.67	78.65	24.85	44.51	83.18
Mean	104.17	113.17	30.48	49.14	90.71
St. dev	23.84	33.92	6.22	6.89	8.77
CV (%)	22.89	29.97	20.41	14.02	9.67

Source : Annual Report of Sample Bank Provided by SEBON

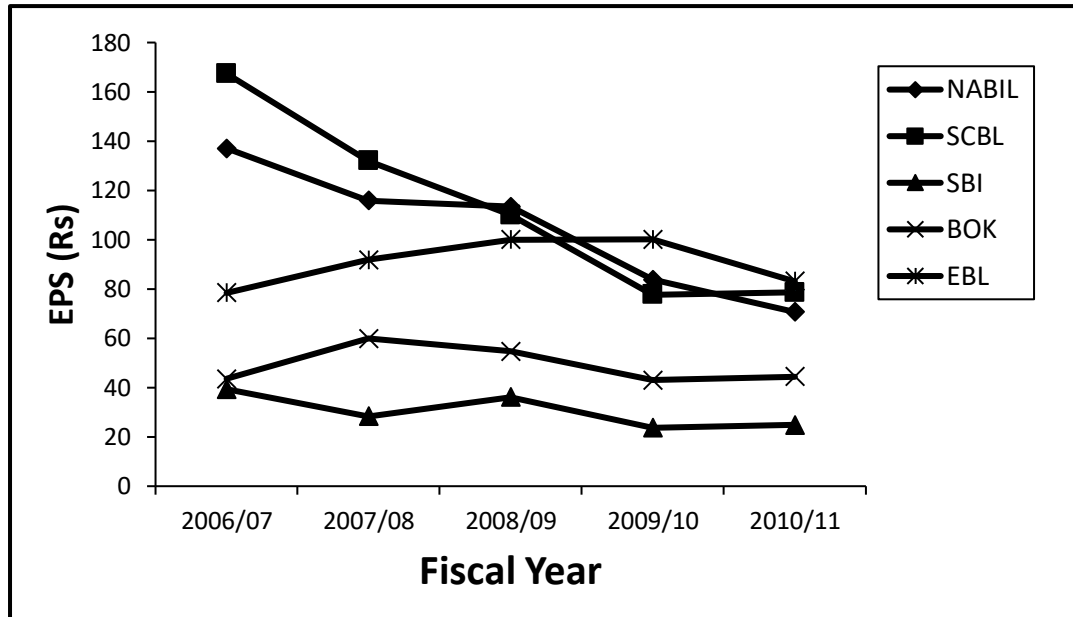
Table 4.1 shows EPS of the selected banks from the year 2006/07 to 2010/11. In the table mean, standard deviation and coefficient of variation respectively have been presented.

When we observe the mean EPS, 'SCBL is in 1st position with Rs 113.17. Similarly NABIL, EBL, BOK and SBI are in 2nd 3rd 4th and 5th position of EPS with Rs. 104.17, 90.71, Rs. 49.14 and Rs. 30.48 respectively.

In the table 4.1, the result of standard deviation is also presented but it is not the absolute measure. So, CV has been chosen for relative measurement. Lower the CV, the smaller the volatility and vice-versa. When we take the CV criterion we can say that EBL is being success to maintain more or less constant earning through the periods and consistency in earning that is why CV of EBL (i.e. 9.67%) is less than other banks. Similarly CV for BOK, SBI, NABIL and SCBL is 14.02%, 20.41%, 22.89%, 29.97% respectively. Based on these results we can say that volatility in earning is more for SCBL than other banks. The CV of SCBL is highest among the sample banks and EBL has the lowest among the sample bank. It indicates EBL has the consistent EPS among all sample bank during the period of study.

Fig. : 4.1

EPS of Sample Banks



4.1.2 Analysis of Dividend Per-Share of Sample Banks

Dividend is the part of a firm earning which is paid to equity shareholder. It can be shown in per share basis, which indicates what exactly the equity shareholders receive in his one share invested.

Table : 4.2

DPS for the Banks

Banks Year	NABIL	SCBL	SBI	BOK	EBL
2006/07	100	80	12.59	20	10
2007/08	60	80	-	2.11	20
2008/09	35	50	2.11	7.37	30
2009/10	30	55	5	15	30
2010/11	30	60	5	16.75	50
Mean	51	65	4.94	12.25	28
St. dev	26.91	12.65	4.26	42.90	13.27
CV (%)	52.76	19.46	86.23	28.55	47.39

Source: Appendix A (i) - (vi)

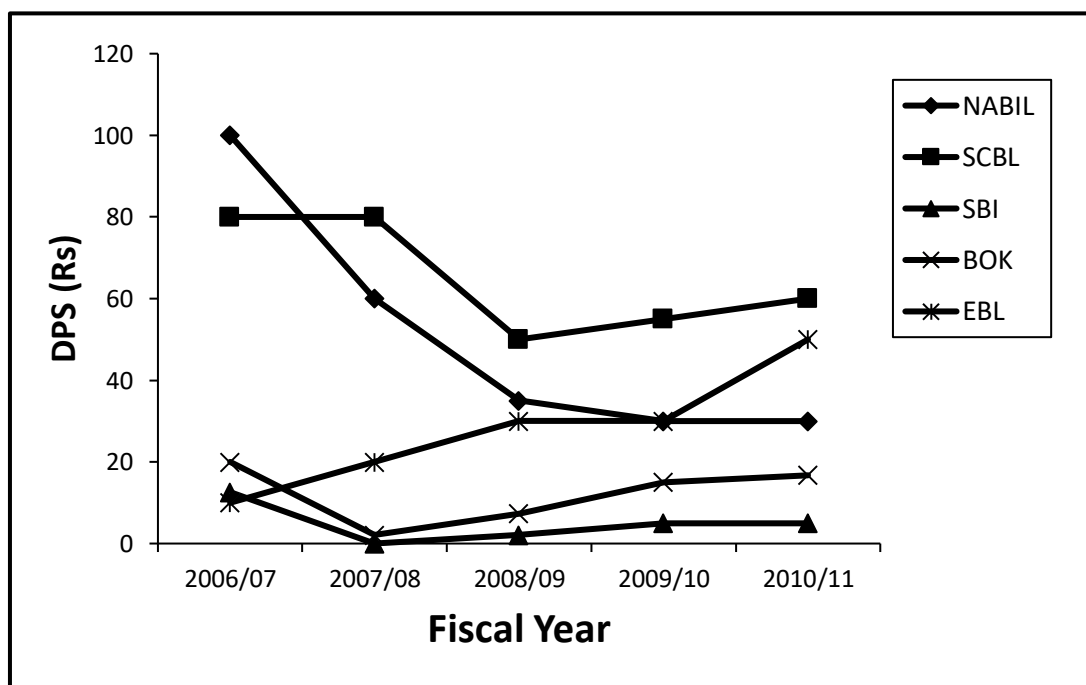
Table 4.2 shows the DPS of the selected banks from the year 2006/2007 to 2010/11. In the table mean, standard deviation and coefficient of variation respectively have been presented.

While observing the mean DPS, SCBL is in 1st position with Rs. 65. Similarly NABIL, EBL, BOK and SBI are in second, third, fourth and fifth position of DPS with Rs. 51, RS. 28, Rs. 12.25 and Rs. 4.94 respectively. This result indicates that SCBL is better than that of other banks with respect to dividend per share.

Using the CV criterion, we can say that consistency in DPS for SCBL is highest than other banks. CV of SCBL is lowest than other banks i.e. 19.46%. It indicates that the bank is following stable dividend policy. In other words, as it is less volatile than others and there is more stability in dividend payment in SCBL. Similarly, CV for BOK, EBL, NABIL, SBI is 28.55, 47.39, 52.76 and 86.23% respectively.

Fig. : 4.2

DPS for the Sample Bank



4.1.3 Analysis of MPS of Sample Banks

When equity shares are sold in the capital market the money of the share is called market value of share. MPS is determined in the capital market by trading, the

securities. (Trading means buying and selling the securities). Here it is the closing price of common stock of selected banks during the study period. MPS of selected bank has been shown in table 4.3.

Table : 4.3

MPS of Sample Bank

Banks Year	NABIL	SCBL	SBI	BOK	EBL
2006/07	5050	5900	1176	1375	2430
2007/08	5275	6830	1511	2350	3132
2008/09	4899	6010	1900	1825	2455
2009/10	2384	3279	741	840	1630
2010/11	1252	4900	565	570	1094
Mean	3772	5383.8	1178.6	1392	2148.2
St. dev	1639.47	1217.73	527.33	645.90	710.11
CV (%)	43.46	22.61	44.74	46.40	33.06

Source: Annual Report of Sample Bank Provided by SEBON.

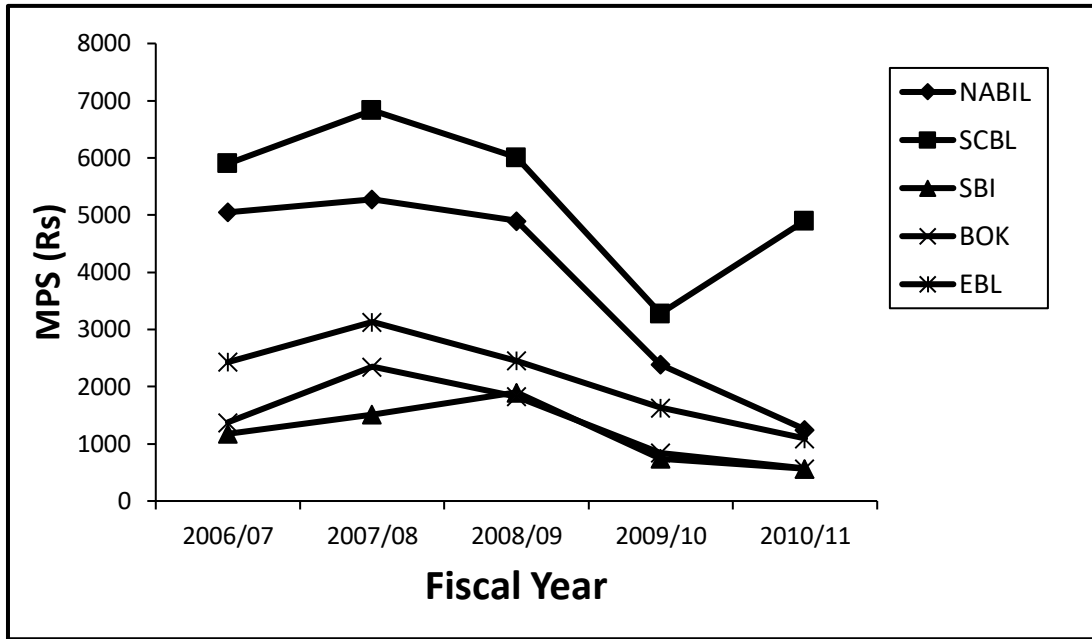
Table 4.3 shows the MPS of selected banks during the study period. Like previous tables MPS of the selected bank has been presented in the top part and mean, standard deviation and coefficient of variation (CV) of MPS have been demonstrated in the bottom part.

As per table the highest mean MPS is Rs. 5383.8 for SCBL and the lowest one is Rs. 117.86 for SBI, mean MPS for NABIL, EBL and BOK are Rs. 3772, Rs. 2148.2 and Rs.1392 respectively. By this result we can say that SCBL means MPS is highest than other i.e. Rs. 3772. As we observe fig. 4.3 MPS of all banks is in increasing trend. When the capital rate increases there is also increase in MPS. Hence, the analysis of MPS trend shows that total measure value incremental rate of all banks is not similar to each other.

When we take the CV criterion, consistency in MPS is highest in SCBI over the study period that is why it has lowest CV (i.e. 22.61%). Similarly CV for EBL, NABIL, SBI and BOK are 33.06%, 43.46%, 44.76% and 46.40% respectively.

Fig. : 4.3

MPS for the Sample Banks



4.1.4 Analysis of D/P of sample bank

Business firms used to pay dividend considering their earning. Dividend payout ratio shows what percentage of actual earning has been distributed to equity shareholders as dividend against their investment.

Table 4.4

D/P for the Sample Bank

Banks Year	NABIL	SCBL	SBI	BOK	EBL
2006/07	72.95	47.80	31.99	45.98	12.75
2007/08	51.79	60.64	0	3.52	21.78
2008/09	30.85	45.46	5.83	13.48	30
2009/10	35.80	70.83	21.11	34.82	29.95
2010/11	42.45	76.29	20.12	37.63	60.11
Mean	46.77	60.20	15.81	27.09	30.92
St. dev	14.85	12.19	11.47	16.03	15.92
CV (%)	31.75	21.43	72.55	59.17	51.49

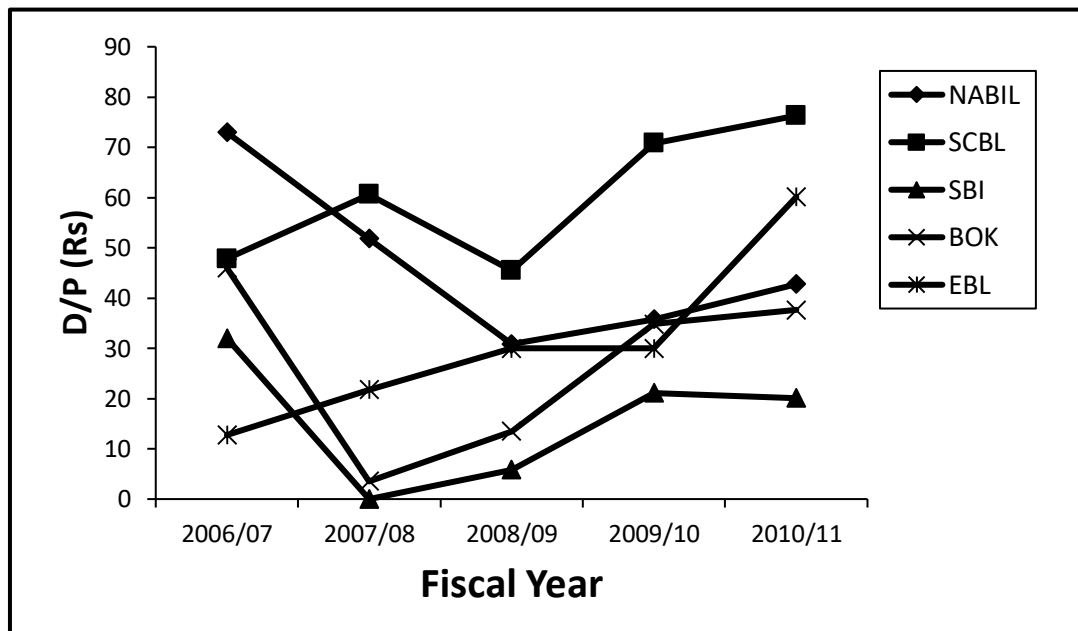
Source: Appendix I and II

D/p ratio of selected bank has been presented in table 4.4. It is clear from the table that mean D/p ratio of SCBI (i.e. 60.20%) is in the highest throughout the study period whereas SBI is in lowest position with is 15.81% similarly NABIL, EBL and BOK and second, third and fifth position respectively i.e. 46.77%, 30.92% and 27.09% respectively. D/p ratio of 15.81% indicates that SBI is less good bank regarding dividend payment. However, there may be other factors such as net profit, no of equity shares competitive advantage goodwill etc that can affect the dividend policy of the banks.

Considering the another decision making criterion CV for SCBL, NABIL, EBL, BOK and SBI is 21.43%, 31.75%, 51.49%, 59.17% and 72.55% respectively. This suggest that SCBL is following stable dividend payout ratio in comparison to other selected banks.

Fig. : 4.4

D/p for the Sample Banks



4.1.5 Analysis of P/E Ratio of Sample Banks

Price earning reflects the price which is currently paid by the market for each rupees of price which is currently reported earning per share. The price earning ratio could be calculated by dividing the market value per share by earning per share.

Table : 4.5
P/E Ratio of the Sample Banks

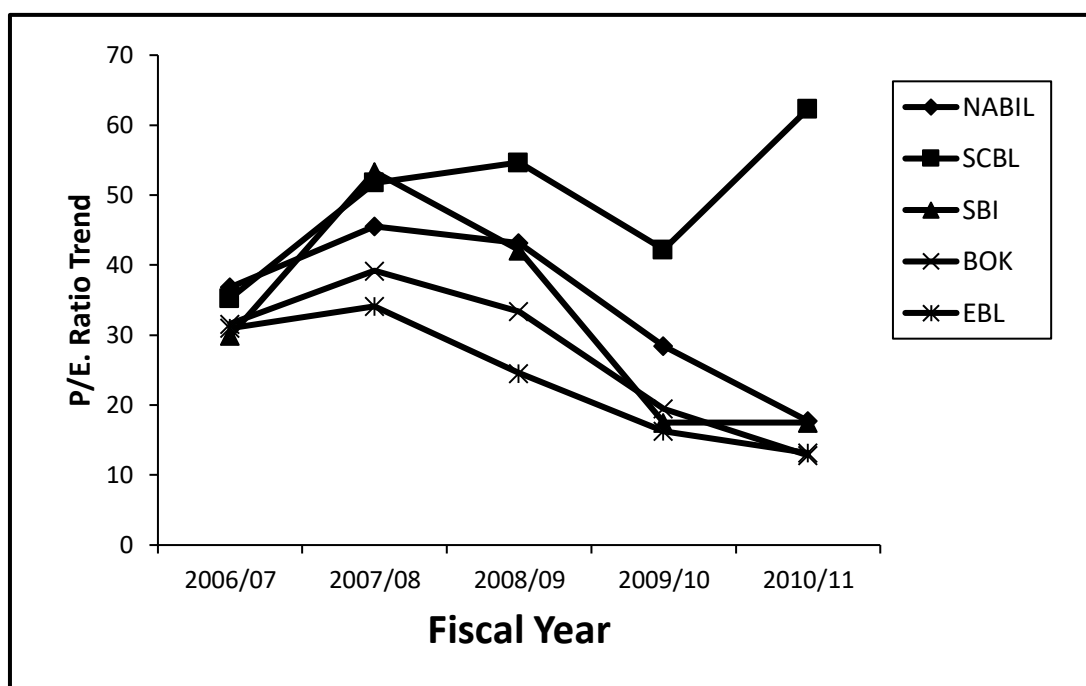
Banks Year	NABIL	SCBL	SBI	BOK	EBL
2006/07	36.84	35.25	29.89	31.61	30.99
2007/08	45.53	51.77	53.34	39.21	34.11
2008/09	43.19	54.64	42.11	33.37	24.55
2009/10	28.45	42.23	17.50	19.50	16.27
2010/11	17.72	62.30	17.50	12.81	13.15
Mean	34.35	49.24	32.07	27.3	23.81
St. dev	10.20	9.50	14.02	9.68	8.11
CV (%)	26.69	19.29	43.72	35.46	34.06

Source: Annual Report of Sample Bank Provided by SEBON.

P/E ratio of selected banks has been presented in table 4.5. It is clear from the tables that mean P/E ratio of SCBL (i.e. 49.24) is in the highest position throughout the study period whereas EBL is lowest position with 23.81. Similarly BOK, SBI and NABIL. Second, third and fourth position with 27.3, 32.07, 34.35 times respectively. The CV of SBI is 43.72% which is highly inconsistent among selected banks. Decrease in P/E ratio for some selected banks may be due to recession of other economic indicator. CV of SCBL is lowest i.e. 19.29. So, the consistency in P/E is highest in SCBL over the study period.

Fig. : 4.5

P/E Ratio of the Sample Banks



4.1.6 Analysis of Dividend Yield (DY) of the Sample Banks

The dividend yield (DY) of the sample banks under study are tabulated as follows:

Table : 4.6

DY of Sample Banks

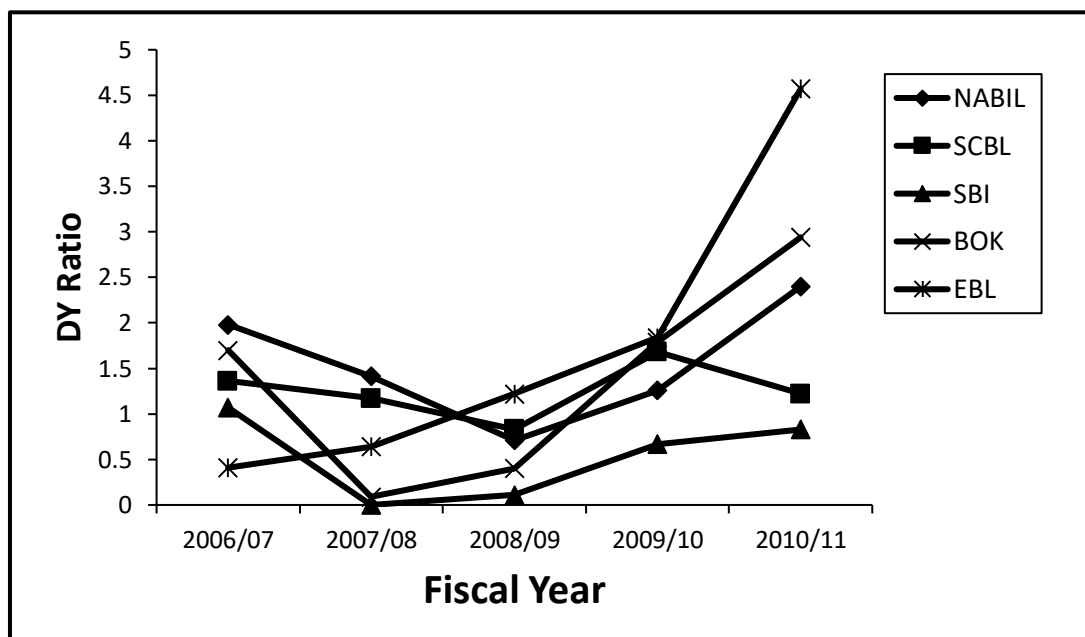
Banks Year	NABIL	SCBL	SBI	BOK	EBL
2006/07	1.98	1.36	1.07	1.70	0.41
2007/08	1.14	1.17	-	0.09	0.64
2008/09	0.71	0.83	0.11	0.40	1.22
2009/10	1.26	1.68	0.67	1.79	1.84
2010/11	2.40	1.22	0.83	2.94	4.57
Mean	14.98	1.25	0.55	1.38	1.74
St. dev	13.50	27.59	42.19	1.03	1.50
CV (%)	90.12	22.07	76.71	74.64	86.21

Source: Appendix I and II

The DY of selected banks has been presented in the table 4.6. It is clear from the table the mean DY of NABIL is 14.98. Position through the study period whereas SBI is lowest position with 0.55. Similarly SCBI, BOK and EBL are third, fourth and fifth position with 1.25, 1.38 and 1.74 respectively. The CV of these bank show a high level of fluctuation in DY if we compared SCBL has the most consistent DY among all sample banks.

Fig. : 4.6

DY of Sample Bank



4.2 Statistical Tools

4.2.1 Correlation Analysis

Correlation matrix for selected banks among seven variables has been presented below,

4.2.1.1 Correlation between Financial Variable of NABIL

Table : 4.7

Correlation between Financial Variable of NABIL

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.316	0.2567	1	0.0126	0.3174	0.9573
EPS	1	0.0462	-	-0.4867	0.688	0.6645
DPS	-	1	-	0.7138	0.5910	0.5972
P/E	0.262	0.281	-	0.301	0.271	1
6×PE	1.572	1.691	-	1.807	1.627	6

Source: Appendix III

The table 4.7 indicates that the MPS of NABIL has moderate of positive correlation with its EPS, high degree of positive correlation with its P/E ratio and perfectly positive correlation itself. The MPS is perfectly positive and highly correlated with its DPS and high degree of positive correlation with its P/E ratio and perfectly positive correlation with itself. The EPS is moderate negative correlation with its DPR the DPS of NABIL has high degree of positive correlation with its DPR and moderate positive correlation with its DY and perfectly positive correlation with itself. The DPS has high degree of positive correlation with its P/E ratio

The correlation between MPS on EPS, MPS on DPR, MPS on DY on MPS on P/E ratio are greater than probable error (P.E.). The correlation between MPS on DPS is less than P.E. so it is insignificant. Again correlation between MPS on EPS, MPS on DPS and MPS on DPR are less than 6 time of P.E. The correlation between MPS on DY and MPS on P/E ratio are greater than 6 times of P.E. so it is significant.

Table : 4.8
Correlation Matrix of SCBL

	EPS	DPS	MPS	DPR	DY	P/E
MPS	-0.262	-0.766	-	-0.847	0.982	0.952
EPS	1	0.679	-	0.305	0.249	-0.572
DPS	-	1	-	0.898	0.775	-0.880
P/E	0.256	0.114	-	0.078	0.010	1
6×PE	1.536	0.684	-	0.468	0.06	6

Source: Appendix III

The above table indicates that MPS of SCBL have high degree of positive correlation with its P/E ratio and perfectly positive correlation with itself. The MPS of SCBL has moderate negative correlation with its EPS, and high degree of negative correlation with its DPS, DPR and DY. The EPS of SCBL has moderate positive correlation with its DPS, DPR and DY. The EPS has moderate negative correlation with its DPS, DPR and DY. The EPS has moderate negative, correlation with its P/E ratio. The DPS of SCBL has high degree of positive correlation with its DPR and DY and perfectly positive correlation with itself. The DPS has high degree of negative correlation with its P/E ratio.

Table : 4.9
Correlation between Financial Variable of SBI

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.862	0.165	1	0.041	0.084	0.903
EPS	1	0.611	-	0.410	0.409	0.984
DPS	-	1	-	0.919	0.977	-0.160
P/E	0.071	0.268	-	0.275	0.273	1
6×PE	0.426	1.608	-	1.650	1.638	6

Source: Appendix III

The above table shows that MPS of SBI has high degree of positive correlation with its EPS and P/E ratio and low degree of positive correlation with its DPS, DPR, DY and P/E ratio. The correlation of SBI, MPS on MPS, EPS with EPS and DPS with DPS are respectively positive correlation.

The correlation between MPS on EPS and MPS on P/E ratio are greater than probable error (P.E). The correlation between MPS on DPS, MPS on DPR and MPS on DY are less than probable error (P.E.) so, it is insignificant. The correlation between MPS on EPS and MPS on P/E ratio are greater than 6 time of P.E. So, it is significant. The correlation between MPS on DPS, MPS on DPR and MPS on P/E ratio are less than 6 time of P.E.

4.2.1.4 Correlation between Financial Variable of EBL

Table : 4.10

Correlation between Financial Variable of EBL

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.928	0.319	1	-0.157	-0.436	0.903
EPS	1	0.452	-	-0.108	-0.396	0.779
DPS	-	1	-	0.827	0.596	0.171
P/E	0.28	0.247	-	0.268	0.223	1
6×PE	0.228	1.482	-	1.608	1.338	6

Source: Appendix III

From the above table it is found that the MPS of EBL has high degree of positive correlation with its EPS and P/E ratio and moderate of positive correlation with its DPS. The MPS has low degree of negative correlation with its DPR, and moderate negative correlation with its DY. The EPS of EBL has moderate positive correlation with its DPS and high degree of positive correlation with its P/E ratio. The EPS has low degree of negative correlation with its DPR and moderate negative correlation with its DY. The DPS of EBL has high degree of positive correlation with its DPR, moderate positive correlation with its DY and low degree of positive correlation with its P/E ratio. The correlation of EBL MPS with MPS, EPS with EPS and DPS with DPS are perfectly positive.

The correlation between MPS on EPS, MPS on DPS, MPS on DY and MPS on P/E ratio are greater than probable error (P.E.) so it is nothing can be concluded. The correlation between MPS on DPR is less than probable error (P.E.). So it is insignificant. Again the correlation between MPS on EPS, MPS on P/E ratio are

greater than 6 time of P.E. So it is insignificant. The correlation between MPS on DPR is less than probable error (P.E.). So it is insignificant. Again the correlation between MPS on EPS, MPS on P/E ratio are greater than 6 time of P.E. so it is insignificant. The correlation between MPS on DPS, MPS on DPR and MPS on DY are less than 6 time of P.E.

4.2.1.5 Correlation between Financial Variable of BOK

Table : 4.11

Correlation between Financial Variable of BOK

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.971	-0.574	1	0.835	-0.976	0.972
EPS	1	-0.504	-	-0.810	-0.978	0.90
DPS	-	1	-	0.903	0.492	-0.106
P/E	0.016	0.185	-	0.083	0.013	1
6×PE	0.096	1.11	-	0.498	0.078	6

Source: Appendix III

The above table indicates that the MPS of BOK has high degree of positive correlation with its EPS, DPR and P/E ratio of positive correlation with its EPS DPR, and P/E ratio. The MPS has moderate negative correlation with its DPS and high degree of negative correlation with its DY. The EPS of BOK has high degree of positive correlation with its P/E ratio and perfectly positive correlation itself. The EPS has moderate negative correlation with it's DPS and high degree of negative correlation with its DPR and DY. The DPS of BOK has high degree of positive correlation with its DPR and perfectly positive correlation with itself. The DPS has moderate positive correlation with its DY and low degree of positive correlation with its P/E ratio.

The correlation between MPS on EPS, MPS on DPS, MPS on DY greater than probable error (P.E.) So it is nothing can be concluded. The correlation between MPS on DPS, MPS on DPR, MPS on P/E ratio are greater than 6 time of P.E. So it is insignificant. Again the correlation between MPS on DPS is less than 6 time of P.E. So it is also nothing can be concluded

4.2.2 Regression Analysis

The regression analysis is used to determine the statistical relationship between two or more variable and to make prediction of one variable on the basis of others. The regression analysis can either be simple regression or multiple regressions. When we take only one independent to predict the value of the dependent variable through the appropriate regression time then the analysis is known as simple regression analysis. But the analysis performed by the use of two more independent variable is known as multiple regression analysis.

4.2.2.1 Regression Analysis between MPS on EPS

Table : 4.12

Regression Analysis between MPS on EPs

Banks	a	b	r²	SEE
NABIL	41.37	-0.035	0.01	531.02
SCBL	10574.69	-45.89	0.069	1101.94
SBI	1263.94	-2.80	0.743	592.52
BOK	2748.21	84.25	0.943	413.14
EBL	1563.50	75.53	0.861	3288.36

Source: Appendix IV

The table 4.13 of regression analysis show that regression constant (a) regression coefficient (b) coefficient of determination (r^2) between MPS on EPS of SCBL, NABIL, SBI, BOK and EBL. The regression constant are 4.37, 10574.69, 1263.94, 2748.21, 1563.50 of NABIL, SCBL, SBI, BOK and EBL respectively.

The standard error of estimate (SEE) of NABIL, SCBL,SBI, BOK and EBL are 531.02. 1101.94, 592.52, 413.14, 3288.36 respectively.

The coefficient of determination (r^2) is lowest for SCBL (0.060) which indicate that only 6.9% in MPS is explained by EPS i.e. 6.9% variation in MPS of the bank is explained due to the change in value of EPS of the bank. The value of r^2 of NABIL, SBI, BOK and EBL are 0.01, 0.743, 0.943 and 0.861 respectively which indicate that 10%, 74.3%, 94.3% and 86.1% variation in the MPS of these banks are explained by the change in EPS of respective banks.

4.2.2.2 Regression Analysis between MPS on DPS

Table : 4.13

Regression Analysis between MPS on DPS

Banks	a	b	r ²	SEE
NABIL	1796.77	38.73	0.00016	1634.01
SCBL	136436.95	-2016.11	0.587	1522.08
SBI	-973.98	41.42	0.027	1537.92
BOK	2434.75	-85.15	0.329	420.57
EBL	985.08	41.54	0.102	1160.44

Source: Appendix IV

The above regression analysis MPS on DPS shows that among the banks under this study SBI, NABIL and EBL have positive regression relation between MPS and DPS of the banks when SCBL and BOK have negative relation between MPS and DPS. The regression relation between MPS and DPS of SBI and EBL indicate that with an increase of Rs. 1 in DPS the MPS will increased by Rs. 38.73 and Rs. 41.54 and Rs. 41.42 respectively, other variable remaining constant. In contrast there will be decrease MPS of NABIL, SCBL, BOK and NIC by Rs. 2016.11, 85.15 respectively within an increase on DPS by RS. 1 assuming the other variables are constant.

The standard error of estimate of NABIL, SCBL, SBI, BOK and EBL are Rs. 1634.01, 1522.08, 1537.92, 420.57 and 1160.44 respectively.

The coefficient of determination (r^2) is lowest for NABIL 0.0016 which indicates that only 0.016% variance in the MPS is explained by DPS i.e. 0.016% variation in MPS of the bank is explained due to the change in value of DPS of the bank the coefficient of determination is highest in case of SCBL 0.587. This indicates that 58.7% in variation in MPS of SCBL is explained due to changed in the DPS of the bank. The value of r^2 of SBI, NABIL, BOK and EBL are 0.027, 0.102, 0.329 respectively, which indicate 27%, 10.2%, 32.9% variation in the MPS of these banks are explained due to change in DPS of the respective banks.

4.2.2.3 Regression Analysis between MPS on DPR

Table : 4.14

Regression Analysis between MPS on DPR

Banks	a	b	r²	SEE
NABIL	2632.73	24.36	0.238	2020.03
SCBL	90058.92	-1406.47	0.717	4324.05
SBI	1597.51	-26.50	0.0017	495.49
BOK	280.96	-32.82	0.697	488.72
EBL	2314.07	-35.49	0.025	512.66

Source: Appendix IV

The regression analysis between MPS and DPR shows position relation between MPS and DPR of NABIL. The regression relation between MPS and DPR of NABIL indicates that with an increase of 1% in DPR, the MPS will increase by Rs. 24.36 assuring that the other variables constant in the other hand the regression analysis between MPS and DPR of SCBL, SBI, BOK and EBL which indicates that with an increase in 1% in DPR the MPS of SCBL, SBI, BOK and EBL will decrease by Rs. 1406.47, 26.50, 32.82 and 35.49 respectively, assuming that other variables are constant.

The standard error of estimate NABIL, SCBL, SBI, BOK and EBL are 2020.03, 4324.05, 495.49, 488.72 and 512.66 respectively.

The coefficient of determination (r^2) is lowest for SBI 0.0017 which indicates that only 0.17% in MPS is explained by DPR i.e. 0.17% variation in MPS of the bank is explained due to the change in the value of DPR of the bank. The coefficient of determination is highest in case of SCBL which indicate that 71.7% variation in MPS of BOK is due to the change of DPR of the bank. The value of r^2 of NABIL BOK and EBL are 0.238, 0.697, 0.025 respectively which indicate 23.8%, 2.5% and 69.7% variation in the MPS of these banks are explained due to the change in DPR of the respective banks.

4.2.2.4 Regression Analysis between MPS on DY

Table : 4.15
Regression Analysis between MPS on DY

Banks	a	b	r²	SEE
NABIL	6003.54	-1486.68	0.071	4982.35
SCBL	9371.49	-3185.06	0.964	28311.38
SBI	2999.18	3396.60	0.007	1763.49
BOK	1805.27	-328.51	0.953	666.14
EBL	2864.86	-412.82	0.190	447.55

Source: Appendix IV

The above table of regression analysis shows negative regression relation between MPS on DY. The regression coefficient MPS on DY of NABIL, SCBL, BOK and EBL will decrease by RS. 1486.68, 3185.06, 328.51 and 412.82 respectively, only MPS on DY of SBI is positive which is increased by Rs. 3396.60 with an increase in DY by 1% assuming that other variables are constant.

The standard error of estimate of NABIL, SCBL, SBI, BOK and EBL are Rs. 143.01, 191.02, 682.40, RS. 53.44 and 414.47 respectively. The values indicate the probable error in the predicted value for the respective banks.

The coefficient of determination (r^2) is lowest for SBI 0.007 which indicates that only 0.7% in MPS is explained by DY i.e. 0.7% variation in MPS of the bank is explained due to the change in value of DY of the banks. The value of r^2 of NABIL, SCBL, BOK and EBL are 7.1%, 96.4%, 95.3% and 19% variation in the MPS of these banks are explained due to change in DY of the respective banks.

4.2.2.5 Regression Analysis between DPS on EPS

Table : 4.16

Regression Analysis between DPS on EPS

Banks	a	b	r ²	SEE
NABIL	47.96	0.95	0.536	108.18
SCBL	122.61	-0.19	0.416	35.40
SBI	41.23	0.27	0.373	4.38
BOK	0.981	-0.23	0.254	6.57
EBL	-0.37	0.12	0.204	4.21

Source: Appendix IV

The regression analysis between DPS and EPS shows that among the bank under study, NABIL, SBI, EBL have positive relation but SCBL and BOK have negative relation between DPS and EPS. The regression relation between DPS and EPS indicates that with an increase of Rs. 1 and EPS, there will be increase in DPS of NABIL, SBI, SCBL by Rs. 0.95, 0.27 and 0.12 respectively. On the other hand SCBL and BOK will decrease by RS. 0.19 and 0.23 respectively.

The standard error of estimate of NABIL, SCBL, SBI, BOK and EBL are 108.18, 35.40, 4.38, 6.57 and 4.21 respectively.

The coefficient of determination (r^2) is lowest for EB 0.204 which indicates that only 20.4% in DPS is explained due to the change in value of EPS of the bank. The value of r^2 of NABIL, SCBL, SBI and BOK are 0.536, 0.461, 0.373, 0.254 respectively, which indicate that 53.6%, 46.1%, 37/3% and 25/4% variation in the DPS of these banks are explained due to change in EPS of the respective banks.

4.3 Major Findings

This section includes the key Findings of the study obtained from the analysis of data. Conclusion derives from the findings are presenting in the next chapter

- The SCBL has the highest mean EPS among the banks which is Rs 113.17 and SBI has the lowest which is Rs 30.48 respectively. Most of the firm always seeks to have more earning so that they can sustain efficiently in the

competitive capital market. Therefore earning is the indicator of firms. Again there is higher earning consistency in SCBL i.e, 29.97 % where there is lower consistency in NABIL, SBI, BOK and EBL 23.84 %,6.22%,6.89% and 8.77% respectively than that of SCBL.

- The SCBL has the highest mean DPS among selected banks where as it is lowest in SBI (i.e RS 4.94). If DPS of any firm is high, it will create positive attitude of its shareholder towards the firm which is consequently helps to increase the market value of the share. In another words the firm is paying higher dividend implies that it is performing better. Consistency in DPS is also highest in SCBL than that other banks representing (C.V= 19.46) which is lower than others.
- Higher DPR indicates that the firm is paying higher dividend to its share holders and lower dividend payout ratio implies that the firm is retaining its profit to profitable investment opportunities. The mean DPR of NABIL, SCBL, SBI, BOK, and EBL are 46.77 %, 60.20%, 15.81%, 27.09%, 30.92% respectively. This evidence shows that SBI is retaining more its earning and it might be the consequences of the higher growth opportunities and non constant.
- The SCBL has the highest mean MPS among the selected banks which is Rs. 5838.8 and SBI has the lowest, which is RS 1178.6. Increases in MPS is the indication of better performance MPS trend over the sample period. Consistency of MPS in SCBI is higher that of other as its C.V (i.e 22.61%) is lowest as compared to other banks.
- The average dividend yeild of NABIL highest among the bank which is 14.98% and lowest one is 0.55% in SBI. Dividend yeild defined the relationship between dividend per share and market value per share. It is very useful for the investors.
- Correlation matrix of selected banks shows that correlation between DPS and MPS is positive in NABIL and SBI, EBL. It implies that there is a positive impact of dividend of market price of stock. It means if dividend increase, market price of share also increases and vice-versa. Correlation between DPS

and MPS in SCBL, BOK is negative. It implies that there is negative impact of dividend on market price of stock. It means if dividend increases, market price of stock decreases and vice-versa. Correlation between MPS and DPR is positive in SBI and negative in NABIL, SCBL, BOK and EBL. Whereas correlation between MPS and DY is positive in SBI and negative in NABIL, SCBL, BOK and EBL.

- The regression analysis of MPS on EPS shows that the regression coefficient is positive for BOK and EBL while negative for NABIL, SCBL and SBI. The coefficient of multiple determinations (r^2) of BOK is highest among sample bank in the regression analysis of MPS on EPS.
- The regression analysis MPS on DPS indicates that the regression coefficient (b) is positive for SBI, NABIL and EBL while negative for SCBL and BOK. The coefficient of Multiple determinations for the regression analysis of MPS on DPS of SCBL is highest and NABIL is lowest among sample Banks.
- The regression coefficient (b) of the regression analysis between MPS on DPR is positive for NABIL the regression coefficient (b) for relation between MPS on DPR is negative for SCBL, SBI, BOK and EBL. The coefficient of multiple determinations (r^2) of SCBL has highest among sample banks. The regression coefficient (b) of the regression analysis between MPS on DY shows that NABIL, SCBL, EBL and BOK have negative regression coefficient but SBI have positive regression coefficient. The coefficient of multiple determinations (r^2) of SCBL is highest and SBI is lowest among sample banks. The regression coefficient (b) of the regression analysis between DPS on EPS is positive of NABIL, SBI and FBL on the other hand SCBL, and BOK have negative regression coefficient. The coefficient of multiple determinations (r^2) of NABIL highest among sample banks.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter focuses on summarizing the study held with the conclusions and some recommendation on the basis of findings for this propose, the chapter has been divided in to three parts as summary conclusion and recommendation.

5.1 Summary

This study was concluded with objectives to analyze the dividend practices and its impact on market price of stock of selected Nepalese commercial banks over the study period 2006/07 to 2010/2011 following a descriptive and analytical research design. The sample for the study of five commercial banks listed in Nepal stock Exchange (NFPSE). The study is based on secondary data and the data obtained were analyzed using various descriptive statistical tools correlation analysis and various financial tools.

Dividend services as simple comprehensive signal of management's interpretation of the firm's recent performance and its future prospects. Most of the firm always seeks to have more earnings. So that they could sustain efficiency in the competitive capital market.

Dividend policy decision is one of the major decisions of financial management. The dividend policy decision affects on the operation and prosperity of the organization because it has the power to influence other two decision of the organization i.e. capital structure decision and investment decision.

Theories of dividend policies do differ some prefer resident theories that convey passive residual earning available for payment where as M.M Hypothesis insists on dividend irrelevance in the sense that dividend does not affect the stock price. There are other who argue that dividend policy does affect the value to the factors of uncertainty. Many factors affect the dividend payment depending upon investors need and preference on one hand the financing need of the financial institutions potential investment opportunities on the other hand. Dividend policy involves many aspects

such as selecting the types of dividend and other forms as well as selecting stable or fluctuating or extra dividend payment.

The stockholders have a high desire and expectation that market price of share will be higher than net worth and getting high percent of dividend from earning. So distributing dividend to the shareholder is effective way to achieve the trust of investors and encourage them to invest in shares. Besides this dividend paying ability reflects the financial position of the organization in the market. So the funds that could not be used due to the lack of investment opportunities would be better as dividend. Since shareholders have investment opportunities elsewhere.

Dividend paying banks have been selected for the study. So the reference can be made about the implication of dividend policy they have adopted in their market price per share. Even if the market is governed by various factors, this study is made to analyzed one of the important fact i.e. Dividend. This study covers five commercial banks and only for last five fiscal years from 2006/07 to 2010/2011. The available secondary data have been analyzed using various financial and statistical tools. So the reliability of the conclusion of this study is determined on the accuracy of secondary data.

To make the study more reliable, different types of analysis have been conducted to find out the appropriate relationship between market price and other variables which affect the dividend. The theoretical statement is to study of the impact of dividend on stock price. Therefore it is concluded that none of the sample firm have adopted consistent dividend policy except SCBL. More or less the dividend policy depends on the earning per share of the company. The earnings per share and dividend per share having the positive relation may also impact on market price of stock.

5.2 Conclusions

Based on major findings, this study concludes that there is higher dividend impact on market value of the banks share in most of the banks. In another words, dividend plays an important role to change the market price of stock. Besides this, the following conclusions are made;

- The dividend payout ratio also does not show any stability and co-ordination with other variables. The research shows that the none of the banks have well defined and appropriate policy regarding dividend payment.
- They don't seem to follow the optimum dividend policy of paying regular dividend as per the shareholders expectation, it might cause uncertainty among shareholders.
- The legal rules and regulation is not favour of investors. The EPS of all banks seems to have fluctuated trend. The government also seems to fail in improving the efficiency of the companies, as government does not have any clear policy towards dividend.
- Shareholders in Nepal seems to be not much conscious. Taking the advantage of this law, the company management doesn't show the commitment promised to prospectus while raising capital.
- The market price of share is affected by the dividend related financial variable i.e DPS either positively or negatively changes and DPS affect the market price per share differently in different bank.
- In case of some banks, there exists positive relation between dividend and MPS While for other there exist negative relation besides the MPS. Largely depends upon the dividend which have been shown by the coefficient of multiple determination. Besides dividend other factors also affected the market price per share i.e. EPS, DY, and P/E ratio etc. Their effect is also different for different banks.
- While comparing the impact of EPS and lagged DPS on MPS there is higher role of EPS to change to DPS as compared to lagged dividend. It can be conducted that dividend policy of the banks are not stable.
- There is no strategy of calculating growth in the dividend paid by banks. This shows that the dividend policy of the commercial bank is not uniform and consistent. There is fluctuation in the dividend payment even if the banks are making profit regularly the dividend payout ratio also does not show any stability and coordination with other variables.
- There is large fluctuation in dividend in each year. There is not certain criterion for paying dividends. This study concludes that there is no long term vision regarding the dividend policy. All the selected commercial banks paid a dividend

in each year which shows that the dividend paying practices is established in Nepalese commercial bank.

- The dividend per share of Nepalese commercial bank is depending on current earnings. The banks are following earning based dividend policy. Only two variables earning and dividend is not sufficient to explain the change in dividend and market price of share meaning that it is necessary to add other more variables in the regression model.

5.3 Recommendations

Based on the basis of finding and on the above conclusions, following recommendations have been provided;

- Firm, should have well defined policy as which help to satisfy the investors and to create better position of firm in the capital market for this the concerned firm may adopt the policy of paying reasonable DPS every year as it will create positive attitude of shareholders towards the firm which consequently helps to increase the market value per share.
- Dividend payment as a financing decisions need the formation of a comprehensive long term financial policy and optimal dividend policy to fulfill the investor's expectation and interest.
- The legal rules and regulation must be in favour of investors to exercise the dividend practice and protect the shareholders rights.
- The EPS of selected banks seems to be in fluctuated trend, therefore these banks should search the fruitful investment opportunities and plan for profit maximization.
- The government should play a prominent role and interfere to encourage for the establishment organization to promote and protect activities those are fruitful to investors.
- Shareholders should be given option to choose between stock dividend and cash dividend instead of declaring stock or cash dividend arbitrary. For this dividend declaration should be proposed to the annual general meeting of shareholders for approval.

- The sample banks are not adopting a fixed or defined dividend policy, they are adopting the dividend policy according to the requirement with the change of time and situation. But most of the investors prefer defined dividend policy. Therefore, company Banks should clearly define their dividend policy and communicate to investors clearly defined dividend policy help to determine specific policy i.e. stable dividend or constant payout or low regular plus extra. This helps to investors in deciding whether to buy or not the share of a particular company and to build good image stock market.
- Most of the bank had great fluctuation in DPS, EPS and Dividend payout ratio, Price earning ratio in terms of coefficient of variation. Such fluctuation increase in risk position of investors. Therefore, company should try to stabilize these variables.
- Wide fluctuation in dividend payout ratio should be minimized consistency in dividend payout ratio over the period helps in gaining the shareholders confidence and then maximizing firm's value.
- The legal rule regarding dividend should be clear for the smooth growth of the national economy. There is lack of rules finding companies to pay dividend. Some of the companies are unable for paying dividend some are suffering from the less and there is an effort to minimize loss rather than payment investors and bind these companies by special rules. This is not any other organization fully devoted to protect investor's interest. For this purpose GON, NEPSE, SEBON and other in favors of investors and bind their companies by separate rules.
- Formula of dividend policy will clearly guide the way of dividend distribution. The policy should determine whether the company is going to adopt stable dividend policy constant payout ratio or low regular plus extra dividend .what should be the long run dividend payout ratio, either it is pure residual ratio theory, fixed dividend policy of smooth residual dividend policy, should have been clearly explained by the dividend policy.
- Central bank, NRB should come up with more monitoring tools to strengthen the banking system of the country because they are still some Loopholes in rules and policies regarding dividend declaration. Legal rules relating to

dividend policy indeed helps the central banks to protect the interest of depositors.

Certain specific rules and regulation should be made from the SFBON as well from the side of the government regarding payment of dividend. The legal rules and regulations must be in favor to exercise the dividend practice and to protect the shareholders right.

Banks should have long term vision regarding earning and dividend payment also should define their vision clearly considering their future plans, expansion in business, future economy of the country etc various internal and external factors should be considered before taking decision .

Lastly after making the study this study it is realized the dividend payment practices of the commercial banks are not regular in Nepal. Banks organizations establish to run for long periods in the small economy of Nepal there are already over a two dozen banks and have to next competition. So even a small wrong decision can lead to bank bear loss. So it is necessary of legal provisions and rules for preserving certain policy regarding the dividend payment in the banking sector for this purpose the concerned authority i.e. Nepal Government, Nepal Rastra Bank, Security Board, Nepal stock Exchange and also commercial institution should be can serious about the formulation and implication of rules regarding dividend payment this will help to regularized the dividend policy of the financial sector in Nepal.

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APPENDICES

APPENDIX I

EPS of Sample Banks

Year	NABIL	SCBL	SBI	BOK	EBL
2006/07	137.08	167.37	39.35	43.50	78.42
2007/08	115.86	131.92	28.33	59.94	91.82
2008/09	113.44	109.99	36.18	54.68	99.99
2009/10	83.81	77.65	23.69	43.08	100.16
2010/11	70.67	78.65	24.85	44.51	83.18

Source : Annual Report of Sample Bank Provided by SEBON

DPS of Sample Banks

Year	Banks				
	NABIL	SCBL	SBI	BOK	EBL
2006/07	100	80	12.59	20	10
2007/08	60	80	-	2.11	20
2008/09	35	50	2.11	7.37	30
2009/10	30	55	5	15	30
2010/11	30	60	5	16.75	50

Source: Annual Report of Sample Bank Provided by SEBON

DPR of Sample Banks

$$(\text{DPR}) = \frac{\text{DPS}}{\text{EPS}} \times 100$$

Banks	NABIL	SCBL	SBI	BOK	EBL
2006/07	$\frac{100}{137.08} * 100 = 72.95$	$\frac{80}{167.37} * 100 = 47.80$	$\frac{12.59}{39.35} * 100 = 39.35$	$\frac{20}{43.50} * 100 = 45.98$	$\frac{10}{78.42} * 100 = 12.75$
2007/08	$\frac{60}{115} * 100 = 51.79$	$\frac{80}{131.92} * 100 = 60.64$	$\frac{0}{28.33} * 100 = 0$	$\frac{2.11}{59.94} * 100 = 3.52$	$\frac{20}{91.82} * 100 = 21.78$
2008/09	$\frac{35}{113.44} * 100 = 30.85$	$\frac{50}{109.99} * 100 = 45.46$	$\frac{2.11}{36.18} * 100 = 5.83$	$\frac{7.37}{54.68} * 100 = 13.48$	$\frac{30}{99.99} * 100 = 30$
2009/10	$\frac{30}{83.81} * 100 = 36.80$	$\frac{55}{77.65} * 100 = 70.83$	$\frac{5}{23.69} * 100 = 21.11$	$\frac{15}{43.08} * 100 = 34.82$	$\frac{30}{100.16} * 100 = 29.95$
2010/11	$\frac{30}{70.67} * 100 = 42.45$	$\frac{60}{78.65} * 100 = 76.29$	$\frac{5}{24.85} * 100 = 20.12$	$\frac{16.75}{44.15} * 100 = 37.63$	$\frac{50}{83.18} * 100 = 60.11$

Source: Annual Report of sample Banks Provided by the SEBON

B

MPS of Sample Banks

Banks	NABIL	SCBL	SBI	BOK	EBL
2006/07	5050	5900	1176	1375	2430
2007/08	5275	6830	1511	2350	3132
2008/09	4899	6010	1900	1825	2455
2009/10	2384	3279	742	840	1630
2010/11	1252	4900	565	570	1094

Source : Annual Report of sample banks provide by the SFBON

$$\text{Dividend Yield (DY)} = \frac{DPS}{MPS} \times 100$$

DY of sample Banks

Banks	NABIL	SCBL	SBI	BOK	EBL
2006/07	$\frac{100}{5050} * 100 = 1.98$	$\frac{80}{5900} * 100 = 1.36$	$\frac{12.59}{1176} * 100 = 1.07$	$\frac{20}{1176} * 100 = 1.70$	$\frac{10}{2430} * 100 = 0.41$
2007/08	$\frac{60}{5275} * 100 = 1.14$	$\frac{80}{6830} * 100 = 1.17$	$\frac{0}{1511} * 100 = 0$	$\frac{2.11}{2350} * 100 = 0.09$	$\frac{20}{3132} * 100 = 0.64$
2008/09	$\frac{35}{4899} * 100 = 0.71$	$\frac{50}{6010} * 100 = 0.83$	$\frac{2.11}{1900} * 100 = 0.11$	$\frac{7.37}{1825} * 100 = 0.40$	$\frac{20}{2455} * 100 = 1.22$
2009/10	$\frac{30}{2384} * 100 = 1.26$	$\frac{55}{3279} * 100 = 1.68$	$\frac{5}{741} * 100 = 0.67$	$\frac{15}{840} * 100 = 1.79$	$\frac{1530}{1630} * 100 = 1.84$
2010/11	$\frac{30}{1251} * 100 = 2.40$	$\frac{60}{4900} * 100 = 1.22$	$\frac{5}{565} * 100 = 0.83$	$\frac{16.75}{570} * 100 = 2.94$	$\frac{50}{1094} * 100 = 4.57$

Source: Annual Report of sample Banks Provided by the SEBON

P/E Ratio of sample banks

Banks	NABIL	SCBL	SBI	BOK	EBL
2006/07	36.84	35.25	29.89	31.61	30.99
2007/08	45.53	51.77	53.34	39.21	34.11
2008/09	43.19	54.64	42.11	33.37	24.55
2009/10	28.45	42.23	17.50	19.50	16.27
2010/11	17.72	62.30	17.50	12.81	13.15

Source : Annual Report of sample banks provide by the SFBON

APPENDIX II

YEAR	EPS OF SCBL (x)	X- \bar{x}	(X- \bar{x}) ²
2006/07	167.37	54.2	2937.64
2007/08	131.92	18.75	351.5625
2008/09	109.99	-3.18	10.1124
2009/10	77.65	-35.52	1261.6704
2010/11	78.65	-34.52	1191.6304
	$\sum x=565.58$		$\sum(X - \bar{x})^2=5752.6157$

$$\bar{x} = \frac{\sum x}{n} = \frac{565.58}{5} = 113.17$$

$$s.n(\sigma) = \sqrt{\frac{\sum(X-\bar{x})^2}{n}} = \sqrt{\frac{5752.6157}{5}} = 33.92$$

$$cv = \frac{s.D}{\bar{x}} * 100 = \frac{33.92}{113.17} * 100 = 29.97\%$$

Note : Mean \bar{x} , standard deviation (SD) and coefficient of variation (c.v) of EPS, DPS, MPS, DPR,DY and PLE ratio of all the sample bank are computed using the above model, result of the computation are as follows .

EPS

EPS	NABIL	SCBL	SBI	BOK	EBL
Mean	104.17	113.17	30.48	49.14	90.71
S.D	32.84	33.92	6.22	6.89	8.77
CV(%)	22.89	29.97	20.41	14.02	9.67

DPS

DPS	NABIL	SCBL	SBI	BOK	EBL
Mean	51	65	4.94	12.25	28
S.D	36.91	12.65	4.26	42.90	13.27
CV(%)	52.76	19.46	86.23	28.55	47.39

DPR

DPR	NABIL	SCBL	SBI	BOK	EBL
Mean	46.77	60.20	15.81	27.09	30.92
S.D	14.85	12.19	11.47	16.03	15.92
CV(%)	31.75	21.43	72.55	59.17	51.49

MPS

MPS	NABIL	SCBL	SBI	BOK	EBL
Mean	3772	5383.8	1178.6	1392	2148.2
S.D	1639.4	1217.73	527.33	645.90	710.11
CV(%)	43.46	22.61	44.74	46.40	33.06

DY

DY	NABIL	SCBL	SBI	BOK	EBL
Mean	1.50	1.25	0.55	1.38	1.74
S.D	60.86	27.59	42.19	1.03	1.50
CV(%)	40.57	22.07	76.71	74.64	86.21

P/E

P/E	NABIL	SCBL	SBI	BOK	EBL
Mean	34.35	49.24	32.07	27.3	23.81
S.D	10.20	9.50	14.02	9.68	8.11
CV(%)	26.69	19.29	43.72	35.46	34.06

APPENDIX III
Calculation of correlation coefficient MPS and DPS, NABIL
Calculated table of correlation coefficient between MPS and DPS

Year	MPS (X)	DPS (y)	X- \bar{x}	(X- \bar{x}) ²	Y- \bar{y}	(Y- \bar{y}) ²	(X- \bar{x})(Y- \bar{y})
2006/07	5050	100	1278	1633284	43	1849	54954
2007/08	5275	60	1503	2259009	3	9	4509
2008/09	4899	65	1127	1270129	8	64	374
2009/10	2384	30	-1388	1926544	-27	576	37476
2010/11	1252	30	-2520	6350400	-27	576	68040
	$\sum x=18860$	$\sum y=285$		$\sum(X - \bar{x})^2=13439366$		$\sum(Y - \bar{y})^2=3074$	$\sum(X - \bar{x})(Y - \bar{y})=164979$

$$\frac{\sum x}{n} = \frac{18860}{5} = 3772$$

$$s.n(\sigma x) = \sqrt{\frac{\sum(X-\bar{x})^2}{n}} = \sqrt{\frac{13439366}{5}} = 1639.47$$

$$\text{cov}(x,y) = \frac{\sum(X-\bar{x})(Y-\bar{y})}{n} = \frac{164979}{5} = 32995.8$$

$$\bar{y} = \frac{\sum y}{n} = \frac{285}{5} = 57$$

$$s.n(\sigma y) = \sqrt{\frac{\sum(Y-\bar{y})^2}{n}} = \sqrt{\frac{3074}{5}} = 78.41$$

$$r = \frac{\text{cov}(x,y)}{\sigma x, \sigma y} = 0.2567$$

$$\text{Probable Error (P.E)} = 0.6745 * \frac{1-r^2}{\sqrt{n}}$$

NABIL

MPS ON DPS

$$\begin{aligned}\text{Probable error (P.E)} &= 0.6745 * \frac{1-(0.2567)^2}{\sqrt{5}} \\ &= 0.281\end{aligned}$$

$$6 * \text{D.E} = 6 * 0.281 = 1.691$$

MPS on EPS

$$\begin{aligned}\text{Probable error (PE)} &= 0.6745 * \frac{1-(0.3610)^2}{\sqrt{5}} \\ &= 0.262\end{aligned}$$

$$6 * \text{PE} = 6 * 0.262 = 1.572$$

MPS on DPR

$$\begin{aligned}\text{Probable error (PE)} &= 0.6745 * \frac{1-(0.0126)^2}{\sqrt{5}} \\ &= 0.301\end{aligned}$$

$$\text{P.E} * 6 = 0.301 * 2 = 1.807$$

MPS on DY

$$\begin{aligned}\text{Probable error (PE)} &= 0.6745 * \frac{1-(0.1374)^2}{\sqrt{5}} \\ &= 0.271\end{aligned}$$

$$6 * \text{P.E} = 6 * 1 = 6$$

Note : Correlation coefficient (r) between MPS and DPS, MPS and EPS, MPS and DPR, MPS and DY, MPS and P/E, DPS and EPS, DPS and DPR, DPS and DY, DPS and P/E ratio, EPS and DPR, EPS and DY and EPS and P/E ratio also probable error (P.E) between MPS with other financial indicators of all the sample banks are compute using above model Results of the computation are as follows

Calculated table of correlation coefficient between MPS and DPS and MPA and other financial variables

NABIL

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.316	0.293	1	0.0126	0.3174	0.9573
EPS	1	0.0462	–	-0.4267	0.688	0.6645
DPS		1	–	0.7138	0.5910	0.5972
PE	0.262	0.281	–	0.301	0.271	1
6*P.E.	1.572	1.691	–	1.807	1.627	6

SCBL

	EPS	DPS	MPS	DPR	DY	P/E
MPS	-0.262	-0.766	–	-0.847	0.982	0.952
EPS	1	0.679	–	0.305	0.249	-0.572
DPS		1	–	0.898	0.775	-0.880
PE	0.256	0.114	–	0.078	0.010	1
6*P.E.	1.536	0.684	–	1.468	0.06	6

SBI

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.862	0.165	1	0.041	0.084	0.903
EPS	1	0.611	–	0.410	0.409	0.584
DPS		1	–	0.919	0.977	-0.160
PE	0.071	0.268	–	0.275	0.273	1
6*P.E.	0.426	1.608	–	1.650	0.1638	6

EBL

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.928	0.319	1	-0.157	-0.436	0.903
EPS	1	0.452	–	-0.108	-0.397	0.779
DPS	–	1	–	0.827	0.596	0.171
PE	0.38	0.247	–	0.268	0.223	1
6*P.E.	1.228	1.482	–	1.608	1.338	6

BOK

	EPS	DPS	MPS	DPR	DY	P/E
MPS	0.971	-0.574	1	0.835	-0.976	0.972
EPS	1	-0.504	–	-0.810	-0.978	0.90
DPS	–	1	–	0.903	0.492	-0.106
PE	0.016	0.185	–	0.083	0.013	1
6×P/E	0.096	1.11	–	0.498	0.078	6

APPENDIX IV

Simple linear Regression Analysis between MPS on EPS

Let MPS = Y

EPS = X

Simple linear Regression equation Y on X is given by

Y = dependent variable

X = independent variable

a = regression constant

b = regression coefficient

$$\sum Y = na + b\sum X \text{ ----- (ii)}$$

$$\sum XY = a\sum X + b\sum X^2 \text{ ----- (iii)}$$

r^2 = coefficient of determination

S.E.E = Standard error of estimation

S.b = Standard error of regression coefficient

Calculation of simple linear regression between MPS on EPS

Year	X	Y	XY	X ²	Y ²
2006/07	137.08	5050	692254	1879.09	25502500
2007/08	115.86	5275	611161.5	13423.54	27825625
2008/09	113.44	4899	555742.56	12868.63	24000201
2009/10	83.81	2384	199803.04	7024.12	5683456
2010/11	70.67	1252	88478.84	4994.25	1567504
	$\sum X$ = 52086	$\sum y$ = 18860	$\sum XY$ = 474908.48	$\sum X^2$ = 57101.47	$\sum Y^2$ = 84579286

Putting the calculated value on eqn(ii) and (iii)

$$18860 = 5a + 520.86 \text{ ----- (iv)}$$

$$47908.48 = 520.86a + b 57101.47 \text{ (v)}$$

Multiply eqn (v) by 6 and 520.86 × eqn (iv)

$$9823419.6 = 2604.3a + 271295.14b$$

$$\underline{2374542.4 = 2604.3a + 285507.35}$$

$$744877.2 = 261421.21b$$

$$b = -0.035$$

Putting the value of b in eqn (iii)

$$\sum y = na + b \sum X$$

$$18860 = 5a + 520.86b$$

$$18860 = 5a - 0.035 \times b$$

$$a = 41.37$$

$$\begin{aligned} \text{S.E.E.} &= \sqrt{\sum X^2 - \frac{a \sum X - b \sum XY}{n-2}} \\ &= \sqrt{\frac{84579286 - 41.37 + 0.035 \times 474908.48}{5-2}} \\ &= 5316 \end{aligned}$$

Note : The simple regression analysis between MPS on EPS, MPS on DPS, MPS of DPR, MPS of DY, DPS on EPS and S.E.E of all sample banks are calculate using the above model. Results of the computation are as follows.

Simple Regression Analysis between MPS on EPS

Banks	a	b	r²	SEE
NABIL	41.37	-0.035	0.01	5310.2
SCBL	10574.69	-45.89	0.069	1101.94
SBI	1263.94	-2.80	0.743	592.52
BOK	2748.21	84.25	0.943	413.14
EBL	1563.50	75.53	0.861	3288.36

Regression Analysis between MPS on DPS

Banks	a	b	r²	SEE
NABIL	1796.77	38.73	0.00016	1634.01
SCBL	136430.95	-2016.11	0.587	1522.08
SBI	-973.98	41.48	0.027	1537.92
BOK	2434.75	-85.15	0.329	420.57
EBL	985.08	41.54	0.102	1160.44

Regression Analysis between MPS on DPR

Banks	a	b	r²	SEE
NABIL	2632.73	24.36	0.238	2020.03
SCBL	90058.92	-1406.47	0.717	4324.05
SBI	1597.51	-26.50	0.0017	495.49
BOK	280.96	32.82	0.697	488.72
EBL	2314.07	-35.49	0.025	512.62

Regression Analysis between MPS on DY

Banks	a	b	r²	SEE
NABIL	6003.54	-1486.68	0.071	4982.35
SCBL	9371.49	-3185.06	0.964	28311.38
SBI	2999.18	3396.60	0.007	1763.49
BOK	1805.27	-32851	0.953	666.14
EBL	2864.86	-412.82	0.190	447.55

Regression Analysis between DPS on EPS

Banks	a	b	r²	SEE
NABIL	47.96	0.95	0.536	108.18
SCBL	122.61	-0.19	0.416	35.40
SBI	41.23	0.27	0.373	4.38
BOK	0.981	-0.23	0.254	6.57
EBL	-0.37	0.12	0.204	4.21

