

Chapter-I

INTRODUCTION

1.1 Background:

Dividend policy involves the decision to pay out earning versus retaining them for reinvestment in the firm. Change in the dividend policy has data favorable and unfavorable effects on the firms stock price(Copland and Weston:1988,p613). Higher the dividend means higher the immediate cash flow to investors, which is good, but lower future growth, which is bad. The dividend policy should be optimal balances the opposite forces and maximizes stock prices. Firms may differ as per their dividend policies. In the secondary market the declaration of the dividend or the dividend policy of the farm changes the market prices of the share. It is expected that there is some impact of dividend policy over the market prices of the stock.

Production is the foundation of whole organization. In the absence of production activities there is no meaning of marketing and finance. Therefore, each organization produces some kinds of goods and services. Some organization produces physical and tangible products, where as the other produce intangible products. The organization which produce tangible product is known as manufacturing enterprises and for intangible products is known as service organizations' (Regmi, Joshi, Fago and Chaudhary:2004,p.1).

The produced goods should be distributed among the customers. Some organization involved in distributing the goods produced by manufacturing enterprises is known as trading enterprises.

The manufacturing enterprises and trading enterprises, besides, providing goods and services to the people, the need to maintain the quality of produced goods and services. Since Nepal has become the member of WTO, The challenges to meet the competition with foreign market have increased simultaneously. To compete in the global market, quality is the must. In the present contest there is greater challenges for manufacturing and trading enterprises to maintain quality in goods and services which they serve, and to generate adequate profit to fulfill their needed fund and to adept new technology keeping retention in the enterprises. They should provide the proper dividend to the share holders because they want to know about either their investment is proper utilized or not.

To sustain in the long run, Enterprise should decide a rational dividend policy, it is the challenging factor for them.

Dividend policy and prices of stock

Dividend in the simple term is the part of earning which is announced to distribute among the stock holders. In one way, it is the cost of sacrificing funds as investment. Some companies pay whole earning as dividend and some companies don't and some retain more portion of the earning and pay less as dividend. In practice, company pays whole earning as dividend at the beginning to create better image and existence in the financial market but later they may change their policy and announce a certain percent of dividend pay out term. The decision to keep some portion of earning as retained and pay some earning as dividend is known as dividend policy (Khatiwada: 2001,p.19).

“The payment of corporate dividend is at the discretion of the board of director most corporations pay dividend quarterly dividends any is paid in cash, stock or merchandise. Cash dividend is most common. Merchandise dividend is least common stockholders are not promised a dividend but he/she grows to expect certain payment on historical dividend pattern of the firm. Before a dividend is paid to common stock holder, the claim of Creditors, the government and preferred stockholders must be satisfied”(Gitman: 1994,p.22).

Market price of the stock is the price in which the stock are traded in the organized stock exchange and in the over the counter market. In context of Nepal the market price per share is the price quoted for purchasing and selling under the Nepal stock exchange floor. MPS is that value of stock which can be obtained by a firm from the market. Market value of the share is one of the variables which are affected by the dividend per share and earning per share of the firm. If the earning per share and dividend per share is high, the market value per share will also be high. Market value of share may high or low than the book value. If the firm is growing and its earning power is greater than cost of capital, the market value of the share will be higher than the book value. If the firm's earning capacity is lower than the cost of capital, MPS will also be lower. MPS is determined by capital market.

1.2 Focus of the Study

The main focus of the study will be to examine the practice made by the Nepalese firms in regards to the dividend policy. But for whole these purpose different other studies will going to be done i.e. comparison of earning per share, market per share and other per the requirement with respect to the simple firm. The study will be more focusing on the dividend policy and MPS; however other qualitative discussing will be submitted including the Nepalese practice. The relationship between different variable will be individually and combine analyzed in order to state the particular suggestion. In the same way the study will focus in regards to dividend practice made in last few years by the sample firm.

1.3 Statement of the Problem

Dividend policy it self is not well known subject or practice by large number of financial and manufacturing community. Even today from the past many years it has been tried to see the relevant and practical dividend policy in the firms all over the world. In practice of Nepal firm have followed some kinds of dividend policy, but of course with and adhoc tried that is the reasons it can be said that dividend policy is not matching with the earning made by the firm but at the same time it is the truth that many scholars have not been able to define simple and conclusive relationship between dividend policy and the market price of stock. Some experts believe that have positive relationship but other believes no relation at all “Modigliani and miller, the principle proponents of the dividend irrelevance theory, argue that the value of the firm depends on the income produced by its assets, not on how this income is split between dividend and retained earnings. According to the dividend relevancy theory develop by Myron Gordon; dividend policy can affect the value of the firm through investor preferences” (Copland and Weston: 1988).

Many studies over dividend policy concerted in the field of financial institutions and fund that many of this company do not followed consistence dividend policy and wise managerial decisions but they are failed to study in other sectors of business.

Nepalese investors also do not give interest towards dividend policy they seems to give only importance to the value of dividend amount distributed. How much they distribute

as dividend is the main focus by them rather than the ratio of dividend in Earnings and its effect with stock.

The M-M approach focus the irrelevant effect of dividend policy in the firm valuation arguing that, the value of the firm is determined only by its basic earnings power and its business risk. Thought and article “dividend policy, growth and valuation of shares” they advocated that dividend policy does not effect the value of the firm i.e. dividend policy has no effect on the share price of the firm. Professor **James E. Walter** conducted as study in 1966. In this study concluded that dividend policy almost always affects the value of the enterprise. **Myron Gordon** explains the investors are not indifferences between current dividend and retentions of earnings with the prospect of future dividend capital gain and both. Van Horne and MC Donald’s concluded a more comprehensive study on dividend policy and new equity financing. **Van Horn and Mc Donald** performed empirical study by testing two regressions for the electric utilities and one regression model for electronics and electronics component industry and fund that share values was not adversely effected by new equity financing in the presence of cash dividend However, a significant relationship between new equity financing and value was not demonstrated for electronics, electric component industry.

The research questions are to analysis what sorts of limitation or gap have made a culture of stock price change. Therefore the main focus of the study is to deal with:

1. What is the impact of dividend policy on the market price of the stock?
2. Whether the companies are applying same dividend payout ratio in each year?
3. Does dividend plays the significant role in the volatility in stock price?
4. Does the investor give more emphasis to the dividend?
5. Is there any uniformity in DPR among the sample firm?
6. What is the reason behind stock price increasing after the announcement of dividend and there any gaps, which have to be remarkable?
7. What are the factors that influence to the companies to determine the dividend policy in companies?
8. Are the multinational companies distributing the greater dividend than other?
9. Why manufacturing co. distributes fewer dividends in comparison to other financial institutions in Nepal?
10. Is there any uniformity among DPS, EPS, MPS and DPR in the sample firm?

1.4 Objectives of the Study

The major objective of the study are to examine the impact of dividend policy in stock price in Nepalese Manufacturing enterprises and trading co. especially the study have aimed at accomplishing the following objectives:

- J To examine the relationship between dividend payout ratio and stock price of Nepalese Manufacturing enterprises. And Trading co.
- J To analyze the role of dividend to determine market price of stock in Nepalese Manufacturing enterprises and Trading enterprises.
- J To evaluate the dividend paying policy of Manufacturing Enterprise And trading companies in comparison study

1.5 Significance of Study

As dividend is one of the crucial factors in every organization and dividend policy decision is one of the most important decision. The percentage of earning it pays in cash to its stock holder. Dividend payout, of course reduce the amount of earning retained in the firm and affect the total amount of internal financing (vanhorn:july2000,P.305). This study will support the future researcher by providing valuable information. Especially the significant of the study can be summarized in the following points:

- The study will help to the management and policy maker in setting and making a suitable dividend policy.
- The dividend policy of the Manufacturing sector plays a vital role for socio economics development in the nation.
- To raise public awareness about dividend policy and market price of share relation in order to help them for rational decisions for their investment.

1.6 Organization of the Study

The study has been organized into five chapters:

Chapter1; Introduction

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

Chapter 2; Review literature

This chapter deals with review of the difference literature of the study field. Therefore it includes conceptual framework along with the review of major book, journals, research works and thesis etc.

Chapter 3; Research Methodology

This chapter deals with research methodology and it includes research design, population and sampling, sources and technique of data collections, data analysis tools and limitation of the methodology.

Chapter4; Data preparation and analysis

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

Chapter5; Summary, Conclusions and Recommendations

This chapter with summary of the study hold, the conclusion made ultimately and the possible suggestion.

Chapter-II

REVIEW OF LITERATURE

The review of literature has been described in three sections. Section 1 presents a discussion on the conceptual framework. The review of empirical works on the dividend policy and value of the firm; reviews of Nepalese perspectives and journals have been presented in section second and section 3 is devoted to concluding remarks.

2.1 Conceptual Framework

In ordinary sense, dividend is states as the leftover earnings. It consists paying out to the ordinary stockholders opportunities. Furthermore it refers to that portion of earnings distributed as unused fund of the company either in the form of direct cash or something else. But, the most popular form of dividend is cash dividend. It makes fewer funds available for reinvestment in the company. To make decision, upon dividend is very challenging for the financial managers as it directly affects the wealth of the owners or shareholders. The important aspect of dividend policy is to determine the division of the earnings into dividend to the shareholders and retention for ploughing back to company. Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm.

The policy of a company, in the segmentation of its earnings as dividend and as retention for its reinvestment is known to be “dividend policy” in this sense; we can comfortably say that dividend and retained earning have close relationship. The high payment of dividend cause to reduce the amount of retained earnings in the firms and that affect the total amount of internal financing. Similarly, the retention of maximum amount makes least portion rests of payment of dividend. The decision towards dividend and retained earning mostly depends upon the firms objective to maximize the wealth of existing owners, otherwise, it is better to retain them for company growth an expansion. Viewed in this way, the relationship between the value of firm’s and dividend should therefore be the criteria for decision- making.

Most of the investors expect dividend to continue in each year as well as to receive price when they sell the stock. The expected final stock price includes the return of the original investment plus capital gain. If the stock is actually sold at price above its purchase price, the investors will receive a capital gain. As such the shareholder expects an increase in

market value of the common stock over time. At the same time, they also expect firm's earning in a form of dividend. So the shareholders may satisfy with dividend or capital gain. "Financial manager is therefore concerned with activities of corporation that affect the well being of shareholders, that well being can partially measured by dividend received. But a more accurate measure is the market value of stock"(Gupton: 1973,P.7). But shareholders usually think the dividend yield less risky than capital gain. "Since dividend would be more effective to increase distribution of dividend. But one might equally pressure that gross dividend would be reduced some what with an increase in net profit after tax dividend still available to stockholders and increase on retain earnings for the corporation" (Brandit: 1972,p-7).

Thus, the dividend policy may consider as one of the essential decision to maximize the value of common stock as it directly affect the structure of firms, the flow of funds, corporate liquidity and investor's attitudes.

FORMS OF DIVIDEND

Every organization adepts the various types of dividend policy to satisfy their requirement but in the shareholders point of view cash dividend policy is the most popular policy in compare to other. The type of dividend that corporation follows partly a matter of various circumstances and financial constraints that bond corporate plan and policies" (Ghimire: July 2002,p-14). Considering the companies they will distribute dividend on various form for examples cash dividend, stock dividend, and bond dividend etc. Which as follows:

Cash Dividend

While dividend is paid through cash to the stockholder is known to be cash dividend. This form is one of the popular forms used by companies. The cash dividend is the amount of new earnings paid as cash to the owners of the firm to their investment. So, while paying dividend the company should maintain sufficient amount of cash in hand. If not the arrangement should be made to borrow funds to support the cash dividend. It may be difficult when; company follows a stable dividend policy. So, cash planning for coming period to meet regular dividend payment of company will useful for the company paying stable dividend. The market price of the share drops in most cases by the amount of the cash dividend distributed. When cash dividend is distributed, it reduces the

reserve of the company and if directly affects both total assets and net worth of the company.

Scrip Dividend

Sometimes there may be temporary shortage of cash availability in the company in such situation, the company may issue scrip or notes promising to pay dividend with maturity date or disbursement date. So, if cash dividend payment made through scrip of promising notes instead of cash is known as scrip dividend. Such dividend may be interest bearing, they are paid when current or past earning are adequate to holding of cash.

Stock Dividend (Bonus Shares) and Stock Splits

The mode of dividend payment is stock dividend or stock splits. The stock dividend implies payment additional shares instead of cash to the existing shareholders in proportion to old number of shares they already own. It is paid with a view to made replacement fore cash dividend. Under stock dividend, each shareholder retains the same percentage of all outstanding stock that he/she had before stock dividend or split. Thus for example, a 20% stock dividend means that each shareholders will be given one share of stock for every 20 shares already owned under a two for one stock split each shareholders receives two shares for every share previously held. Then the book-value of per share cut in half and per value or stead value per share of stock is similarly changed. When there is given stock dividend .

) There is no change in the firm's assets or liability; it does not affect cash and earnings positions of the firm.

) It increases share numbers held by current shareholders reducing per value of stock remains as before their equality.

Some of the insure companies of Nepal have followed the practice of paying stock dividend along with cash dividend.

“In a stock split there is no change in the capital account because it simply involves a Book-keeping transfers from retained earnings at the capital stock account”(Pandey: 1999,p-780).

ADVANTAGE OF STOCK DIVIDEND

Following are the advantage of the stock dividend to the firm and the investors:

- J Tax advantage: - When the cash dividend is received it is added to the other income and taxed at ordinary tax rate but the stock dividend is tax free.
- J Future profits: - Company issues the bonus shares when it is expected to raise the earnings to accommodate the additional outstanding shares and build up the potentiality of higher future profits.
- J Cash conversion: - Bonus share can satisfy both investors and companies. The company can retain the money for future investment opportunities if bonus share are issued in place of cash dividend. Simply it satisfies to shareholders, as they will have increased no of shares. Increased numbers of share generate higher capital gain and accumulated dividend.
- J Contractual provision: - Company facing financial crisis can replace the cash dividend with bonus shares moreover, bonus issue is declared when the restriction to pay cash dividend is provisioned in the loan agreement.
- J Positive psychological impact: - bonus shares can increases the share volume of every investors and it make them feel as real owner of the company. It promotes the acceptance of bonus issue and could be able to create favorable environment for market price raise.
- J Increased transaction: - Bonus shares reduced price of stock, which attracts large numbers of investors and as a result of this volume of trading begins to increase as expected.

Bond Dividend

Another aspect of dividend payment is bond dividend. It is rare phenomenon and long term enough to fall the current liability. It is somehow similar to scrip dividend. But different between the two is in respect of date of payment. As in scrip dividend, dividend is not paid immediately. Thus issue of bond dividend increase the long term obligation of the company's current liability.

Property Dividend

When payment is made in the form of assets or property rather than cash is term as property dividend. It is distributed when assets are considered no longer essential in

the operation of the business or in extra ordinary circumstances. Such assets may be products of company itself or securities of subsidiaries owned by the company.

Share Repurchase

Share repurchase is a process of purchasing back the shares by the corporation itself. “A company’s repurchase of its own stock should be treated as a dividend decision when the firm has funds in excess of present and foreseeable future investment needs”(Vanhorn: 1998,p-334). Such buy back of shares cause an increase in the price of remaining shares.

In developed capital market, corporations are allowed to buy back share for better use of unused cash. However, Nepalese company act 1997, Sec.47 has prohibited companies from purchase of its own shares. It states that no company shall purchase its own shares or supply loans against the security of its own shares.

DIVIDEND POLICY

The policy which decides on how much of the earnings a firm should retained reinvestment and how much it should pay to shareholders, as dividend is known as dividend policy. It is the third major decision of a firm, which aims at maximization of shareholders wealth.

Dividend policy determines the division of earning between reinvestment in firm and payment to shareholders. Retain earning are one of the significant sources for financing corporate growth, but dividend refers to the cash flows that occurs to shareholders. Basically, dividend policy outlines the basis to determine the amount of dividend to be paid. But at the same time it also specifies the form of dividend payment procedures (Bhattraï :July 2002,p-24).

In general dividend policy is concerned with the following matters:

- Amount of dividend to be paid
- Forms of dividend, stock or cash.
- Payment procedure
- Stocks repurchase and stock splits (Surendra: 1992,p-384).

Some of the dividend policy could be categorized as following:

Stable Dividend Policy

When a firm constantly pays a fix amount of dividend and maintains it for all times to come regardless of fluctuation in the level of its earnings, it is called a stable dividend policy. In this dividend policy the dividend will be paid regularly .A consistent dividend policy is likely to enhance the share price by satisfying the firm's clientele and by providing consistently positive single about future earnings prospects (Viscione & Gorden: 1987,p-377). This policy is applicable in the firm having regular and stable income. But this policy does not refer to fix income every year of periods. It can be change proportionately with the change in company's earnings. This policy has following forms:

Stable Dividend per Share

When a firm pays a fix amount of dividend per share over the year and does not change it with fluctuation in the level of its earnings, it is said to have persuade a relatively stable dividend policy. The most popular kind of dividend policy it is that pays a regular steady dividend (.Colb: 1987,p-419). This policy is completely rational policy and poses the strategic financial management; therefore, it is related to the company's ability to pay dividends.

Stable Payout Ratio

If the firms distribute a certain percentage of its profit as dividend in every year is known as stable payout dividend. The ratio of dividend to earning is called payout ratio. If the firm simply applied the target pay out rate to each year earnings, dividend could fluctuate widely (Barley & Myers: 1988,p-375).

Low Regular Plus Extra Policy

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

No Immediate Dividend Policy

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

- When the firm is new and rapidly growing concern, which needs tidy amount of funds to finance its expansion program,
- When the firms' access to capital market is difficult,
- When availability of funds is costlier,
- When stockholders have agreed to accept higher return in future.

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

Regular stock dividend policy

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

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

Irregular Pay Dividend Policy

It is the policy in which, the firm does not pay any fixed amount of dividend every year or dividend varied in corresponds with change in level of earnings i.e., higher earnings means higher dividend and vice-versa.

The firm with un-stable earnings also adopts this policy, when there are investment opportunities the company retains more and when there are not any investment opportunities, the company distributes the earnings as dividend or there is not regularity

of dividend payment therefore it is the most used type of dividend policy in the Nepalese context at present.

Factors Affecting Dividend policy

Every joint stock company after the financial performance declares the dividend payout. The typical dividend policy of most firms is to retain, (between one third to half of the net earnings) and distributes the remaining amount to the shareholders (Van Horne: 2000,p-305).

In fact earning and dividend has positive correlation (most of the times) therefore, when earnings increase the dividend is also become so and vice versa. But the challenge of the financial managers is to bring the balance between companies fund requirement and stockholders expectation. There e are many practical factors, which are vital in dividend decisions. To maintain the balance between both, companies need as well as investor's expectation, the following matters and circumstances are to be considered:

) Shareholders Expectations

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

) Closely Held Companies

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

) Widely Held Company

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

a) Small Shareholders

These types of shareholders are in small numbers investing in few companies with the hope of dividend regularly or making capital gain. Small shareholders purchase share

only when their saving permit, therefore they do not have the defining investment policy. The company having small shareholder should make the policy of high dividend payment.

b) Retired and Old person

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

c) Wealthy Investors

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

d) Institutional Investors

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

i) Financial Need of The Company

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

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

ii) Dividend paying constrains

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

Legal provision

Dividend declaration is not only the concern of shareholders and company, but it is also the issue of the government regulation. Therefore the government may put some criteria to the company for the announcement of the dividend. So the company must consider the provision made either in company act or by government.

Liquidity

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

Ability to Borrow

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

Access to the Capital Market

A company having the ability to liquidating can still pay dividend if is able to raise debt or equity in the capital markets. It also provides flexibility in the financial

position of the firm, which in fact could meet the desires of the stockholders (dividend) as well as the firm's obligations. Capital market reputation of a firm always make easy to raise funds and funds availability helps to meet both requirement as mentioned before.

Restriction in Loan Agreement

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

Control

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

Taxes

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

Investment Opportunity

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

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

Inflation

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

Difference in the cost of external equity or retain earning

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

- Issuing cost
- Earnings

The price at which the additional equity is offered to the public is lower than the prevailing market price. The magnitude of the cost differential between the external equity and retain earnings has bearing on the relative proportion of equity and retain earnings used by the firm and hence on its dividend policy.

Dividend Stability

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

Legal Provision Regarding Dividend Practice

In Nepal "The company Act (with amendment) 1997, makes some legal provision for dividend payments. These provisions may be seemed as under (Endi Consultants Research Group Ktm: 1998,p-43).

Section 2(m): Stats that bonus share (stock dividend) means shares issued in the firm of additional shares to shareholders by capitalizing the surplus from the profits or the

reserve found of the company. The term also denotes an increase in the paid up value of the share after capitalizing surplus or reserve funds.

Section 47: Has provided company from purchasing its own shares. This section states that no company shall purchase its own shares a supply loans against the security of its own shares.

Section 137: Bonus share and subsection (1) States that the company must in from the office before issuing bonus shares under subsection (1); this may be done only according to a special re - solution passed by the general meeting.

Section 140: Dividends and subsections of this section are as follows;

Subsection (1): Except in the following circumstances, dividend shall be distributed among the shareholders with in 45 days from the date of decision to distribute them.

In case any law forbids the distribution of dividends.

In case the right to dividend is disputes.

In case dividend can not be distributed within the time limit mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company.

Subsection 2: In case dividends are not distributed within the time limit mention in subsection 1, this shall be done by adding interest at the prescribed rate.

Subsection 3: Only the person whose name stands registered in the register of existing shareholder at the time of declaring the dividends shall be entitled to it.

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

2.2 REVIEW OF EMPIRICAL STUDIES

2.2.1 Review of Major International Studies

There are different views regarding dividend policy that contradicts among financial experts. Under this section, researches tries to review of the major studies in general concerning dividends and stock price, Management view on dividend. Therefore, now the research is going to review the various studies conducted in different place by the different expert and authors.

Therefore such situation has provided two theories concerned to dividend policy. They are;

a) Irrelevant theory

This theory says that there will be no effects in share price of the firm in the market while making the distribution of dividend.

b) Relevant theory

This theory says that the distribution of dividend directly affects the value of the firm.

Modigliani and Miller Study (Jour 1961), This theory was first introduced by Franco Modigliani and Merton Miller in 1961 and popularly known as M-M Approach. Their article “dividend policy, growth and valuation of shares” they advocated that dividend policy does not affect the value of the firm i.e. dividend policy has no effect on the share price of the firm. The M-M approach focuses the irrelevant effect of dividend policy in the firm valuation arguing that, the value of the firm is determined only by its basic earnings power and its business risk, thus, the value of the firm depends on the income from its assets and not on how this income is split between dividends and retained earnings.

The following are the critical assumptions set by them.

-) Perfect capital market, rational investors, freely available of information, no flotation cost, infinitely divisible securities and no investors in large enough to affect the market price of the security.
-) Taxes do not exist.
-) The firm has a fixed investment policy of which is not subject to change.
-) Risk of uncertainty does not exist.
-) Perfect certainty by every investor as to future investment and profits of the firm. (Modigliani and Miller drop this assumption later)

Based upon the above assumption, they have advanced the following formula, under the various steps.

Step 1:

The market price of the security in the beginning of the period is equal to the present value of dividend paid at the end of the period plus the market price of the share at the end of the period.

I.e. $P_0 = \frac{D_1}{1+k} + P_1$ (I)

Where;

P_0 = Market price at beginning or current market price per share.

D_1 = Dividend per share to be received at the end of year 1.

P_1 = Market price at the end of period 1 (MPS = market price per share).

K = cost of capital or cost of equity capital, or capitalization rate.

Step 2;

If the firm does not need any external funds then the market value of the firm can be computed as;

$$Np_0 = n(D_1 + P_1) / (1 + K) \text{ ----- (ii)}$$

Where;

n = Number of shares outstanding.

Step 3;

If the firm's internal sources of financing and its investment opportunities fall short of the funds required and np^1 . The value of the firm in time zero will be,

$$Np_0 = nD_1 + P_1 (n+m) - mP_1 / (1 + K) \text{ ----- (iii)}$$

Where;

N = Number of share at the beginning.

M = Number of equity share issued at the end of the period.

Step 4;

If the investment proposal of a firm, in a given period of time, can be financed either by retained earnings or the issuance of new shares or both. Thus the amount of new shares issued will be formed by the given equation.

$$Mp_1 = L - (E - nD_1)$$

Or $mp_1 = L - E + nD_1 \text{ ----- (iv)}$

Where;

Mp_1 = the total amount obtained from the sales of new shares to finance capital budget.

L = the total amount required of capital budget. Or total investment amount.

E = earnings of the firm during the period.

$E - nD_1$ = retained earnings.

By substituting the value of mP^1 from equation (IV) to equation (iii), we get;

$$Np_0 = nD_1 + (N+M) p_1 - L + E - nD_1 / (1 + K) \text{ ----- (v)}$$

Conclusion,

M-M concluded that dividend policy has no effect on the share price. So, there is no role of dividend in above equation. Since, dividend does not appear directly in expansion and $E, I, (n+m), p_1$ and K are assumed to be independent of dividend. M.M. Concluded that dividend policy has no effect in the value of the firm.

In this way according to M.M say “it seems that under condition of perfect capital market, rational investors absence of tax discrimination between dividend income and capital appreciation, given the firms investment policy.” Its dividend policy may have no influence on the market price of shares.

Walter, (1966), Professor James E. Walter conducted a study in 1966. In this study concluded that dividend policy almost always affects the value of the enterprise. In this view the investment policy of the firm directly affected by dividend policy. Such concept is just opposite to Modigliani and Miller approach. He argues that the significant relationship between the return of financial investment or internal rate of return and its cost of capital is the main argument of this model. They are the most important considerable factor to retain profits and distribute dividends. As long as the internal rate is greater than the cost of capital, the stock price will be unchanged by retention and will vary inversely with dividend payout.

This model is based on the following certain assumption in the determinants of firm value.

-) The firm has perpetual life.
-) The value of EPS (initial earning) and DPS (dividend) are assumed to exist for no change forever in determining a given value.
-) The firm's internal rate of return (r) cost of capital (k) is considered to remain constant.
-) The firm distributes its entire earning or retains it for reinvestment immediately.
-) The firm relies on internally generated funds to finance all investment opportunities that is debt or new equity is not issued for outside financing.

Based on above assumption Walter's formula to determine the market price per share is as follows:

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

Where,

$$P = \text{Market price per share}$$

DPS= Dividend per share

EPS= Earning per share

R = Internal rates of return

K = Cost of equity capital

Walter suggested different dividend policy for different nature of firm. There are generally three natures:

Growth Firm ($r > K$)

Growth firm are those firms, which expand rapidly because of ample investment opportunity, cost of capital or expected rate of return of shareholders. Those firms will maximize the value per share if they follow a policy of retaining all earning for investment. Thus a correlation between dividend and stock price is negative. For such firm optimal dividend pay out ratio is zero.

Normal Firm ($r = K$)

The firm whose internal rate of return and cost of equity capital being equal known to be normal firm in such firm's retention of earnings and distribution of dividend doesn't make change. The stock price does affect the share price.

Declining Firm ($r < K$)

If a firm has not profitable investment opportunities, the shareholders will be better off if earning is paid out to them so as to enable them to earn a higher return by using the funds else where. In other words, if firm's rate of return (r) is less than cost of equity capital (K) is relationship between dividends and stock price is positive. i.e., increasing in DPS fields increasing in market price per share? Thus, optimum payout ratio for declining firm is cent percent.

Gordon,(1962), Another popular model explicitly relating the market value if the firms to dividend policy is developed by Myron Gordon which explain that dividend policy affects the value of shares even in a situation where the return on investment and required rate of return are equal. This model explains the investors are not indifferences between current dividend and retentions of earnings with the prospect of future dividend capital gain and both. "This argument insisted that an increase in dividend payout ratio leads to increase in the stock prices for the reason that investor consider the dividend field (dl/pl) is less risky than the expected capital gain." Hence investors required rate of return increases as the amount of dividend decreases this means there exists a positive relationship between the amount of dividend and the stock price of market.

This study is mainly based on following assumptions:-

- J The firm is an all – equity firm. No external is available.
- J The internal rate of return ‘r’ and appropriate discount rate ‘k’ are constant.
- J The firm and its stream of earnings are perpetual.
- J There are no taxes on corporate income.
- J The retention ratio ‘b’ one decides upon ‘s’ constant thus the growth rate, because $g = br$ is constant forever.
- J K_e must be greater than ‘g’ (br) to get meaningful value.

Based on the above assumption, Gordon provided the following formula (which is a simplified version of the original formula) to determine the market value of share symbolically.

$$P = \text{EPS} (1-b) / K - br$$

Here;

P = price of share (market)

EPS = earnings per shares

b = retention ratio

(1-b) = dividend payout ratio

k = capitalization rate or cost of capital

br = growth rate

Conclusion,

a) Growth firm ($r > k$)

In this case of growth firm the share price tends to decline in correspondence with increase in payout ratio or decrease in retention ratio i.e. high dividend leads to decrease in share price. Therefore dividends and stock prices are negatively correlated in such firms.

b) Normal firm ($r = k$)

The share value remains constant and regardless of change in dividend policies. It means dividend and stock prices are free from each other in normal firm.

c) Declining firm ($r < k$)

The share prices tend to rise in correspondence with rise in dividend payout ratio. It means dividend and stock prices are positively correlated with each other in decline firm.

Van Horne and Donald (1971) concluded a more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks for their investigation. They selected two industries. They did the investigation by using a cross-section regression model during the year 1938 and performed the empirical test. The required data were collected from 86 electricity utility firms included on the computed utility data base and 39 firms in the electric component industries as listed on the computed industrial data base.

Van Horn and Mc Donald performed empirical study by testing two regressions for the electric utilities and one regression model for electronics and electronics component industry. They concluded that for electricity utility firm in 1968, share values were not adversely affected by new equity financing in the presence of cash dividend except for those in the highest new issue group and if made new equity or more costly from dividend through – excessive equity financing reduces share prices. However, a significant relationship between new equity financing and value was not demonstrated for electronics, electric component industry.

First model was they tested two regression models for the Van Horn and Mc Donald's study utility industries.

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

Where;

P_0/E_0 = closing market price in 1968 divided by average EPS for 1967 and 1968

g = expected growth rate measured by the compound annual rate.

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

Lev = financial risk measured by interest charges divided by the differences of operating expenses

u = error term.

By using this model or methodology, they compared the result obtained for the firms. Which both pay dividend and engage in new equity financing with other firms in an industry sample? They conclude that for electric utility firms in 1968, share value was not adversely affected by new equity financing in the presence of cash dividend, accepts for

those in the highest new issue group. It made new equity amore costly form of financing than the retention of earning.

They also indicated that the payment of dividend through excessive equity financing reduces share prices for electronic components industry. A significant relationship between new equity financing and value was not demonstrated.

Lintner, (1956), made an important study focusing on the behavioral aspect of dividend policy in American context. He investigates a partial adjustment model as he tested the dividend pattern of 28 companies. He concluded that a major portion of the dividend of a firm could be expressed in the following way.

$$\text{Div}_t = p \text{EPS}_t \text{-----} (1)$$

$$\text{And } \text{Div}_t - \text{Div}_{t-1} = a + b (\text{Div}_t - \text{Div}_{t-1}) + e_t \text{-----} (2)$$

$$\text{Or } \text{Div}_t = a + b \text{Div}_t^* + (1 - b) \text{Div}_{t-1}^* + e_t \text{-----} (3)$$

Where,

Div_t^* is firm's desired payment, 'EPS_t' is earnings 'p' is targeted payout ratio, 'a' is constant relating to dividend growth, and 'b' is the adjustment factor relating to the previous periods dividend and new desired level of dividends where $b < 1$.

The major findings of this study were as follows.

-) Firms generally think in terms of proportion of earnings to be paid out.
-) Investment requirements are not consider for modifying the patterns of dividend behavior.
-) Firms generally have target payout ratios in view while determining change in dividend per share (or dividend rate).

Ross watt's study (1976), of an annual dividend model is some how disagreed by Michael Laub. He disagrees with Watt's specification of an annual dividend model instead of a quarterly dividend model and with his conclusion that information content of dividend is trivial.

Laub placed his views by 'Reinterpretation of watt's study' and gave some empirical evidences for his argument. But Watt denied Laub's views and further said, neither his evidence nor 'Reinterpretation' indicates the superiority of a quarterly dividend model or the non triviality of the information contents in dividend. It means the specification of the dividend – earning relationship is important and the result of any dividend information content study depends crucially on the approach used.

Ross Watt's Interpretation

Ross Watt in his own way had interpreted quarterly versus annual dividend model and ads:

- The accountants tend to base their accounting procedures for the calculation of the earnings on one- year periods.
- The quarterly earnings often include in their calculations simple extrapolation of many of the preceding year's expenses.
- As a consequence, an expectation of future annual earnings based on quarterly earnings may\will be less efficient than such an expectation base on annual earnings which that extrapolation are absent.

Therefore, it is the case; management may prefer to wait for the determination of annual earnings before changing regular dividends.

In regards to quarterly earnings, he further arisen a problem. The problem is that: There may be a seasonal component in those earnings and in order to interpret any change in quarterly earnings, an estimate must be made of seasonal component. It may encourage management to wait for annual earnings to determine weather to change dividends.

Watt points out ; two third of the regular dividend change and nine-tenth of the extra dividend declaration occur in the first and last quarters which give the evidence of management for annual dividend rather than quarterly model of Laub. Therefore according to Watt, if Laubs dispute were valid, it wouldn't affect stock price tests. Watt said in conclusion, nothing would cause Watt to change the conclusion of his paper.

Lamont , (1998), shows that the aggregate dividend payout ratio forecast excess return on both stocks and corporate bonds. It is to mean, high dividends forecast high return and high earnings forecast low return. The correlation of earnings with business condition gives them predicted power of returns; they contained information about future returns that is not captured by other variable. Dividend and earnings contribute explanation power at short horizon but however for long horizon stock price matters. There are two reasons, why the payout ratio forecast return i.e.

- The payout ratio forecasts return because the level of dividends forecast return. High dividend predicts high future return.

- The payout ratio forecast return because the level of earning forecast return.

Conclusion of the Study

The dividend payout ratio helps forecast returns because both dividend and earning have separately identifiable forecasting ability.

- J Dividend contains information about future return because they help measure the value of future dividends while earnings contain information because they are corrected business conditions.
- J Both high current price and high current earning forecast low future returns.
- J Using earnings yield alone to forecast return is a bad idea.
- J High dividends forecast high future return so using dividends yield alone to forecast return is more successful.
- J Dividend price by any smooth accounting variable capturing normal growth produces roughly the same forecasting variables.

2.2.2 REVIEW OF EMPIRICAL WORKS IN NEPALESE PERSPECTIVE

Dr Radheshyam Pradhan conducted an outstanding study related to stock market behavior in 1992. In his study he collected the data of 17 enterprises from the year 1986 to 1990.

The objectives of this study were as follows:

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

The conclusion of the study related to dividend behavior is as follows:

- J Higher earning on stocks; larger the ratio of dividend per share (DPS) to market price per share (MPS).
- J Stock with larger ratio of DPS to market price have lower leverage ratio.
- J DPS and MPS where positively correlated.
- J Positive relationship between the ratio of DPS to MPS and interest coverage.
- J Positive relationship between dividend payout and liquidity.
- J Positive relationship between dividend payout and profitability.
- J Positive relationship between dividend payout and turnover ratio.

- J Positive relationship between dividend payout and in interest coverage.
- J Liquidity and leverage ratio are more variable for the stock paying lower dividend.
- J Earnings assets turnover and interest coverage are more variable for the stock paying higher dividend.

Shrestha Study (1994), There are very few articles published related to dividend on Nepal. The article by Dr M. K. Shrestha published in 1981 about the dividend performance of some public enterprise highlighted the following issues.

- J Nepal Government expect two things from the public enterprises: 1. they should be in a positive to pay minimum dividend and 2. Public enterprise should be self – supporting in financial matters in future years to come but none of these two objectives are achieved by public enterprise.
- J The article point's irony about government biasness that government has not allowed banks to flow an independent dividend policy and Nepal Government is found to pressurize dividend payment in cash of Nepal bank ltd. Regardless of profit. But it has allowed Rastriya Banijya Bank to be relived from dividend obligation in spite of considerable profit.

K. D. Manandhar describes about the relationship of dividend payout to other financial factors based on the data of 7 commercial banks, 5 Financial institute and insurance company, 2 trading companies, 2 service oriented companies and 1 Manufacturing company for the year 1987 to 1998.

Following are the major findings of his study.

- J Significant relationship is found between change in dividend policy in terms of dividend for share and change in lagged earnings.
- J There is relationship between distributed lagged profit and dividend.
- J The difference is found significant between over all proportion of change dividend and due to increase and decreased in IPS during the study period.
- J In overall increase in EPS has resulted to increase in the dividend payment in 66.66% of the cases while decrease in EPS resulted decrease in dividend payment, which come to equal to 33.3% of the cases.
- J It is found that Nepalese corporate firm has followed practice of maintaining constant dividend payments per share or increases it irrespective of change in

EPS as reflected by the total percentage of constant and increased dividend payment of 78.33% of the cases. In other words firms are reluctant to decreased dividend payment.

-) In overall Nepalese corporate firms are found reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantage of information contains and signaling effects of dividend relating to the firms continued progress and performance sound financial strength favorable investment environment, lower risk, ability to maintain sustained dividend rate and finally to increase the market price of the stock in the stock market.

A comparative study of dividend policy in commercial banks conducted by **Mr. Rishiraj Gautam** was carried out by using the secondary data of three commercial banks in 1998.

Objective of the study are as follows:

-) To identify what type of dividend policy is being followed and find out weather the policy followed is appropriate or not.
-) To examine the impact of dividend on share price.
-) To identify the relationship between DPS and other financial indicators.
-) To know if there is any uniformity among DPS. EPS and DPS of the three sample commercial banks.

Major finding of the study are as follows:

-) Average earnings per share and dividend per share of all concerned Banks are satisfactory.
-) Analysis indicated that there is the largest fluctuations in EPS and DPS, on the other hand have relatively more consistency dividend per share in all the sample banks.
-) No commercial banks seen to be guided by cleanly defined dividend strategy in spite of the good earnings and potential.
-) Shares of the financial institution are actively traded and market prices are increasing.
-) Commercial banks represent a robust body of profit earning organization in comparison to the other sectors such as Manufacturing, Trading etc.
-) Once of the most striking finding of this study is that no commercial bank sample for this study has clearly defined dividend strategy. On the other hand, there is

significant relationship perceives between earnings and dividend of expansion program. It is necessary to research about the dividend policy in joint venture commercial bank taking large number of sample and do wide spread analysis in above variables.

Timalsina's study, (1998), on dividend and stock prices was carried out by using the data for 16 enterprises from 1990 through 1994.

Objectives of this study were as follows:

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

To explain the price behavior the study used simultaneous equation model as developed by Friend and Puckett (1964). The findings drawn by the study are as follows:

- J The relationship between dividend per share and stock price as positively in the sample companies.
- J DPS affects the share price variedly in different sector.
- J Changing the dividend policy or DPS might help to increase the market price of share.
- J The relationship between stock price and retained earning per share. it is not prominent.
- J The relationship between stock price and lagged carrying price ratio is negative.

Prerana Laxmi Rajbhandari,(2001), has conducted a study on *dividend policy: A comparative study between banks and Insurance companies* through data collected from 1994/ 95 to 1998/99 with three joint venture commercial banks and three Insurance companies in may 2001.

The main objectives of her study were:

- J To examine the relationship between dividend and market price of the stock.
- J To identify the appropriate dividend policy followed by the banks and insurance companies.
- J To analyze the relation between dividend policy decision of bank and insurance companies.

Major findings are as follows:

- J The average DPS and all concerned institution except NABIL and EPS of all sample institution seem satisfactory.
- J The analysis of coefficient of variation shows that there is the largest fluctuation in EPS and DPS. Other companies have seemed to be relatively more consistent.
- J The analysis of dividend payout ratio shows, none of the banks or insurance companies had constant payout ratio each year. It is always fluctuating from year to year.

Yagya Bahadur Katwal,(2001), has conducted a thesis on “*A comparative study of dividend policy in commercial banks*” in July 2008 based on data collected from 2002/03 to 2006/07 for 6 sample commercial banks.

The main objects of his research are:

- J To find the current practice of dividend policy in commercial banks.
- J To find out impact of dividend on share price.
- J To analyze the relationship of financial indicators.

Major findings are:

- J The analysis of the DPS shows that none of the sample banks have consist dividend policy.
- J No specific dividend payment strategy is following by these banks. Payment of cash dividend and stock dividends are made without wise managerial decision.

Bhattraï's study, (2002), on Dividend policy and its impact on Market Price of Stock were carried out by using the data for two commercial banks and two insurance companies from 2000/01 to 2004/05.

The Major objectives determined by this study were:

- J To find out the impact of dividend policy on market price of stock.
- J To analyze if there is any uniformity among DPS, EPS, MPS and DPR in the sample firms.

The major findings of this study were:

- J From the descriptive analysis, the researcher fund there is not any consistency in dividend policy in the sample firms. It has indicated the need of dividend strategy as well as the need of proper analysis of the respective sector of the firms.
- J Most of the Nepalese firms from the historical data, they have not consistent earning

- J Besides all the D/P ratio of the sample firms in many years are found more than the popular practice (i.e.40%).
- J The MPS is affected by the financial position and the dividend paid by the firms, in this regards the MPS of the sample firms is seem to be fluctuated. It denotes Nepalese investors are not treated fairly.

Lamsal, (2002), had conducted the study on impact of information on share price in 2007. In this study his objective was to determine the impact of information, such as dividend declaration, return on equity and EPS on share price. To analyze his study, he had use t-test and correlation. Lamsal in his study finds that there is significant difference in share prices of four samples companies out of five, because of information of divided declaration. It is found that share price of the sampled organization has decreased significantly after the issuance of directives made by NRB. In most cases MPS is negatively correlated with EPS, DPS & ROE.

2.3 Concluding Remarks

In Conclusion the M-M approach focus the irrelevant effect of dividend policy in the firm valuation arguing that, the value of the firm is determined only by its basic earnings power and its business risk. Thought and article “dividend policy, growth and valuation of shares” they advocated that dividend policy does not effect the value of the firm i.e. dividend policy has no effect on the share price of the firm. Professor **James E. Walter** conducted as study in 1966. In this study concluded that dividend policy almost always affects the value of the enterprise. **Myron Gordon** explains the investors are not indifferences between current dividend and retentions of earnings with the prospect of future dividend capital gain and both. Van Horne and MC Donald’s concluded a more comprehensive study on dividend policy and new equity financing. **Van Horn and Mc Donald** performed empirical study by testing two regressions for the electric utilities and one regression model for electronics and electronics component industry and fund that share values was not adversely effected by new equity financing in the presence of cash dividend However, a significant relationship between new equity financing and value was not demonstrated for electronics, electric component industry. **Ross Watt’s** study of an annual dividend model is some how disagreed by Michael Laub. He disagrees with Watt’s specification of an annual dividend model instead of a quarterly dividend model

and with his conclusion that information content of dividend is trivial. Therefore, it is the case; management may prefer to wait for the determination of annual earnings before changing regular dividends. **Lamont's Study** shows that, high dividends forecast high return and high earnings forecast low return. The payout ratio forecasts return because the level of dividends forecast return. High dividend predicts high future return.

The payout ratio forecast return because the level of earning forecast return.

High dividends forecast high future return so using dividends yield alone to forecast return is more successful.

Many studies over dividend policy concerted in the field of financial institutions and fund that many of this company do not followed consistence dividend policy and wise managerial decisions but they are failed to study in other sectors of business.

Nepalese investors also do not give interest towards dividend policy they seems to give only importance to the value of dividend amount distributed. How much they distribute as dividend is the main focus by them rather than the ratio of dividend in Earnings and it effect with stock.

To obtain the findings of Impact of dividend policy on stock price not enough only taking financial institutions as sample, it is equally important to know the impact of dividend policy on stock price in the field of Manufacturing, Trading and other business sector, therefore the remarking factor of this study is to analyze and study the dividend practice in Nepalese Manufacturing and Trading enterprise. But it is also limited to study on other sector of business like Hotels, Hospital etc.

Chapter III

RESEARCH METHODOLOGY

Research Methodology describes the method and process applied in the entire aspect of the study. In other words, it is a systematic way to solve the research problem. Every research should be outlined in a systematic manner and for that reason Research Methodology is one of the most important parts of every research.

In fact, Research Methodology is a way to systematically solve the research problems. It refers to the various sequential steps to be adopted by the researcher in studying a problem with certain objects in view (C. R. Kothari:1978,p-19).

This chapter has been divided into five sections. Section first represents the research design, while section 2 describes the nature and sources of data, section 3 presents the selection of enterprises, section 4 explains the method of analysis employed in this study, similarly limitations of the study indicated in the section 5.

3.1 Research Design

Research design is the plan structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances (Karliger: 1978,p-300).

The research design in this study basically follows the comparative evaluation of dividend policy in the sample Manufacturing enterprises and Trading Companies and its impact on stock price. This research study attempts to analyze the relationship between the dividend policy (independent variable) and market price (dependent variable). Similarly the other variable relating to the dividend policy and the market price of the shares have been considered. Since the study will incorporate mostly secondary data the research design will be less descriptive but more prescriptive.

3.2 Nature and Sources of Data

This study is mostly based on secondary data. Primary data has also been taken to some extent so qualitative and quantitative data are taken for the study. Which are as follows: -

a) Primary Data

To identify the problems, intention and Impact of Dividend Policy in pricing the share of Trading and Manufacturing Enterprises in Nepal, primary data are collected. Primary sources include the responses of the questionnaires, personal interviews with concerned person such as experts, investors, managers of companies etc.

b) Secondary Data

Secondary sources of data includes annual reports of SEBO/N, various publication of NEPSE, statistical book of Nepal, published and unpublished documents, previous studies, dissertation, articles and foreign related journals as well. Newspaper, magazine, books and other reports such as Kantipur, Gorkhapatra, and New Business Age etc are useful sources of secondary data. Some other important information has been collected from Internet.

Data Collection Technique

Necessary data for this study are collected from various sources, out of them only related data are considered for the study. Primary data and secondary data are collected through following method:

a) Questionnaire Method

To get information about the Dividend Policy and its various aspects, questionnaire method has been used. Opened, closed and mixed questionnaire methods are used to collect the data. Yes/No question and multiple choice questions are designed to get the response. Due to various limitations only 20 questionnaires are dispatched to the individual investors, managers of the corporation and related experts and responses were obtained.

b) Interview Method

Interview of some persons are taken to make the study more reliable. Structured and unstructured interview has been used for the data collection. Formal and informal discussions with students, teachers and representatives of some companies make this study more reliable.

c) Historical Data Record Method

It is the main sources of the data for this study. Historical data are collected from various reports, prospectus of companies and newspaper. Previous data, which was used by other party, are also useful for this study. The announcement day is the day of first public announcement. To ensure that, this was the first day that the information was became public, the announcement date was confirmed or collected by reviewing each firm's official records in the SEBO/N. The share prices collected from the official quotation, lists of NEPSE published in the National Daily Newspaper as well as trading report of SEBO/N. For the purpose of analysis of data 5 year will be taken as a sample. These have been analyzed in two ways:

- i) Using Financial tools
- ii) Using Statistical tools

3.3 Population and Sample

Investors who have invested in the field of Manufacturing and trading enterprises are seemed to have the take and hold strategy, hence the shares of those enterprises are not actively traded in the open market in Nepalese context in this way, the investors are investing in manufacturing and trading sector for the revenues (Dividend) rather than capital gains. Present study is conducted by taking the following sample firms for the study:

1, manufacturing enterprises

-) Uniliver Nepal limited
-) Bottlers Nepal limited(Balaju)
-) Nepal lube oil limited
-) Bottlers Nepal limited(Terai)

2, trading enterprises

-) Bishal bazaar limited
-) Salt trading Nepal limited

3.4 Methods of Analysis

1. *financial tools*

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

I) Earning per share (EPS)

EPS is collected to know the earning capacity and to make the comparison between the Manufacturing enterprises and trading companies according to their respective sectors. EPS defined as the result received by dividing net profit after taxes by no of common stock outstanding. In equation

$$\text{EPS} \times \frac{\text{Net Profit after Tax}}{\text{No. of Common Stock outstanding}}$$

II) Dividend per Share:

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

$$\text{DPS} \times \frac{\text{Total Dividend}}{\text{No. of Common Stock outstanding}}$$

III) Dividend Payout Ratio:

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

$$\text{D/P Ratio} \times \frac{\text{DPS}}{\text{EPS}}$$

IV) Market Price per Share (MPS):

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

2, *Statistical Tools*

I) **Arithmetic Mean**

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

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

Where;

' \bar{X} ' denotes mean, 'X' denote value of observation ' ' denote summation of values and 'n' for no. of observation.

II) **Standard Deviation (S.D.)**

The measurement of the scatter ness of the mass of figures in a series about an average is known as dispersion. The standard deviation means the absolute dispersion. The greater amount of dispersion greater will be the standard deviation. A small standard deviation refers to the high degree of consistency of the observation as well as homogeneity of a series and vice versa.

In symbol;

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

III) **The Coefficient of Variation (CV)**

The coefficient of variation is the relative measure of dispersion, comparable across, which is defined as the ratios of the standard deviation to the mean expressed in percent (Richard & David: 1994,p-114).

In symbol;

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

Where; S.D. = Standard deviation.

The higher CV denotes to the higher fluctuation of variables and vice versa.

IV) Coefficient of correlation (r)

Correlation analysis is the statistical tools that can be used to describe the degree to which one variable is linearly related to another (Richard & David: 1994,p-114). The coefficient of correlation measure the direction of relationship two sets of figure. It is the square root of the coefficient of determination- correlation can either be positive or it can be negative. If both variables are changing in the same direction, the correlation is set to be positive but when the variations in the two variables take place in opposite direction, the correlation is turn as negative. In this study, coefficient of correlation is calculated between stock prices and dividends, stock prices and retained earnings, stock prices and lagged earning.

$$\text{Coefficient of correlation (r)} = \frac{xy}{\sqrt{x^2} \sqrt{y^2}}$$

V) Coefficient of (multiple) Determination (R²)

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

VI) Regression Equation

Regression analysis is concerned with the study of the relationship between one variable called the explained or dependent variable and one or more other variables called independent explanatory variables (Richard & David: 1994,p-114). there are two types of regression analysis. One is called simple linear regression analysis, which is concerned with the study of the relationship between one variable called the dependent or explained variable and one other variable called independent or explanatory variable other is called multiple- linear regression analysis, which is concerned with the study of the relationship

between one variable called the dependent or explanatory variable. The regression analysis submits the following two concepts:

VII) Regression Constant (a)

The value of constant, which is the intercept of the model, indicates the average level of dependent variable when independent variable is zero. In another words, it is better to understand that 'a' constant indicates the mean or average effect on dependent variable of all the variables omitted from the model. In this study, regression constant is calculated for selected dependent and independent variables specified in the model, which is presented above.

VIII) Regression Coefficient (b)

The regression coefficient of each independent variable indicates the marginal relationship between that variable and value of dependent variable, holding constant the effect of all other independent variables in regression model. In other words, the coefficients describe how changes in independent variables affect the values of dependent variables estimate. In this study, regression, coefficient is calculated for selected dependent and independent variables specified in the model, which is presented above.

Simple Regression Model

Simple regression model is used to analyze the role of dividend in stock price taking only one independent variable. The models used in this study are as follows:

$$\text{MPS} = a + b (\text{DPS}) \dots\dots\dots (i)$$

$$\text{MPS} = a + b (\text{D/P Ratio}) \dots\dots (ii)$$

$$\text{MPS} = a + b (\text{EPS}) \dots\dots\dots (iii)$$

Multiple Regression Model

This model is used to analyze the role of dividend policy on stock price taking all independent variable (EPS, DPS and D/P Ratio) at a time to find the dependency level of Stock price on independent variable assuming all variable change in a same event. The model used is as follow:

$$\text{MPS} = a + b_1 (\text{EPS}) + b_2 (\text{DPS}) + b_3 (\text{D/P Ratio}) \dots\dots\dots (iv)$$

IX) Standard Error of Estimate (SEE)

With the help of regression equation perfect prediction is practically impossible. The standard error of estimate measured of reliability of the estimating equation, indicating the variability of the observed point around the regression line that is the extent to which observed value differ their predict values on the regression line. The small value of the standard error of estimate, the closer will be the dots to regression line. If SEE is zero, there is no variation about the line and correlation will be perfect. Thus with the help to SEE it is possible for us to ascertain how well and representative the regression line is as a description of the average relationship between two series.

X) t- Statistics (Kothari: 1994,p-613)

To test the validity of our assumption, of sample size is less than 30; to test is used for applying test in the context of small sample. If the calculated value of 't' exceeds the table value (say 0.5) we refer that the difference is significant at 5% level. But if 't' is less than the concerning table value of 't' the difference is not treated as significant. In this research work, t-value is calculated between earning per share, dividend per share and market price per share and dividend per share and net worth.

XI) Test of Hypothesis

Statistical inference is important topic in statistics, inference means drawing conclusion about characteristics relating to a large number of events (population characteristics) on the basis of sample observation or a portion of population units. It should be noted that study of a population characteristics is one of the major problems in practice due to some limitation such as time, money and manpower needed. However this can be waived using sample information. It is also noted that if we have no prior knowledge as to the parameter value in question, we use the technique of estimation, to obtain an estimate of its value. If we do have some prior idea as to the parameter value, we use the technique of hypothesis testing, to examine weather our prior knowledge is supported by the sample information.

Hypothesis means the presumption or quantitative statement of the population parameter which may be true or false. In order to make proper decision about the quantitative statement of the population, testing of hypothesis technique is used.

T-test for The Significance of an Observed Sample Correlation

Null hypothesis (H_0): $r=0$, i.e. the variables are not correlated in the population (in respect of time) or the population correlation coefficient is zero.

Alternative hypothesis (H_1): $r \neq 0$ (Two tailed test) i.e. the variables are correlated in the population or the population correlation coefficient is not zero.

Test statistics: T-statistic under H_0 is

$$T = \frac{r}{\sqrt{1-r^2}} \sqrt{n-2}$$

Follows t-distribution with $(n-2)$ degree of freedom

Where, r = correlation coefficient

n = sample size.

Critical value: Tabulated or critical value of 't' at % level of significance for two tailed test and $(n-2)$ degree of freedom is obtained from t-table.

Decision: If calculated $|t| > t_{\alpha/2, n-2}$, accept null hypothesis otherwise reject null hypothesis in favour of alternative hypothesis.

F-Test of Regression Line

F-Test of MPS on independent Variable DPS

Null Hypothesis H_0 :

The regression equation of Market Price per Share (MPS) on dividend Per Share (DPS) is not significant in other words there is no relationship between dependent variable Market Price per Share (MPS) and independent variable dividend Per Share (DPS).

Alternative Hypothesis H_1 :

The regression equation of Market Price per Share (MPS) on dividend Per Share (DPS) is significant. In other words there is a relationship between dependent variable Market Price per Share (MPS) and independent variables dividend Per Share (DPS).

Test Statistics

$$F = \frac{MSR}{MSE}$$

Where,

MSR = Mean sum of square due to Regression or Explained Variance

MSE = Mean sum of Square due to Error or Unexplained Variance.

F-Test of MPS on independent Variable D/P Ratio

Null Hypothesis H_0 :

The regression equation of Market Price per Share (MPS) on Dividend Payout Ratio (D/P Ratio) is not significant in other words there is no relationship between dependent variable Market Price per Share (MPS) and independent variable Dividend Payout Ratio (D/P Ratio)

Alternative Hypothesis H_1

The regression equation of Market Price per Share (MPS) on Dividend Payout Ratio (D/P Ratio) is significant. In other words there is a relationship between dependent variable Market Price per Share (MPS) and independent variables Dividend Payout Ratio (D/P Ratio).

Test Statistics

$$F = \frac{MSR}{MSE}$$

Where,

MSR = Mean sum of square due to Regression or Explained Variance

MSE = Mean sum of Square due to Error or Unexplained Variance.

Paired T- test

Null Hypothesis H_0

$\mu_t = \mu_m$ i.e. two population means are equal. In other words the mean value of D/P Ratio are equal it means the dividend policy of Manufacturing Enterprise and Trading Companies is similar.

Alternative Hypothesis H_1

$\mu_t \neq \mu_m$ i.e. two population means are not equal. In other words the mean values of D/P Ratio are not equal it means the dividend policy of Manufacturing Enterprise and Trading Companies is different.

Test statistics

$$T = \frac{\bar{X}_t - \bar{X}_m}{\sqrt{S_p^2 \left(\frac{1}{n_t} + \frac{1}{n_m} \right)}}$$

Where,

$$S_p^2 = \frac{n_t s_t^2 + n_m s_m^2}{n_t + n_m - 2}$$

Where,

\bar{X}_t = Mean value of D/P Ratio of Trading Company

\bar{X}_m = Mean value of D/P Ratio of Manufacturing Enterprise

S_p^2 = Unbiased Estimate of common population variable

n_t = Number of sample observation of Trading Company

n_m = Number of sample observation of Manufacturing Enterprise

s_t^2 = Variance of D/P Ratio of Trading Company

s_m^2 = Variance of D/P Ratio of Manufacturing Enterprise

3.5 Limitations of the Study

Every study is conducted under certain limitation. So the present study as a partial fulfillment of MBS programme have been also done under some limitation but the researcher has tried to include all the requirement information for conduct of the study as far as possible. Most of the data used in the research are of website and annual reports of SEBON. Therefore there might be reporting errors. All the data have been collected only for few years from the selected companies. Among the different aspects of dividend policy only the market price of the stock have been selected and only cash dividend is taken for the analysis. Due to annual distribution system in Nepal, dividend have not considered for calculation of holding monthly, periodic return.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

This chapter has been divided into six sections. Section 1 describes the financial indicator used in the study, section 2 and 3 presented relationship of dividend policy with stock price and role of dividend policy while determining stock price in market respectively, section 4 represents the hypothesis testing for the calculated statistical value and similarly section 5 and 6 represent the questionnaire analysis and major findings respectively.

4.1 Analysis of Financial Indicators

The purpose of this chapter is to carry out the financial indicators and analysis of them in order to examine the role and impact in relating to dividend policy in stock price behaviour. In this purpose, primary as well as secondary data have been collected and analyzed. They are serially presented and analyzed in this chapter.

Earning per Share (EPS)

Generally the performance and achievements of business organization are measured in terms of their capacity to generate earnings. The earning of any business organization also helps to evaluate performance. Higher the earning indicates the strength and lower the earning denotes weakness of business organizations because the earning of any organization helps for its growth, expansion and modernizations.

The earning power of the business unit is measured in terms of earning per share (EPS). EPS calculation made over the years indicates weather the company's earning power on per share basis has improved or deteriorated over the period. So EPS is one of the vital variables measuring the firms earning generations.

Table No. 4.1

EPS values of selected Enterprises

Year	ULN	BN(B)	BN(T)	NLO	BBC	STC
2006/07	73.9	18.415	46.496	-9.901	63.26	42.58
2007/08	24.96	24.942	32.36	30.5	71.46	107.6
2008/09	101.19	9.939	20.96	20.79	83.41	202.8
2009/010	152.9	19.395	16.66	1.52	74.37	294.7
2010/011	205.495	17.82	0	15	92.38	201.03
Mean (\bar{x})	111.689	18.1022	23.2952	11.5818	76.976	169.742
SD ()	69.92508	5.368182	17.41115	15.94619	11.22526	97.10571
CV	0.62607	0.296549	0.747414	1.376832	0.145828	0.572078

Table no. 4.1 shows the EPS of ULN is in the range of Rs. 24.96 to Rs. 205.495, where standard deviation is 69.925 and average earning per share is Rs. 111.689 so the degrees of fluctuation of EPS with mean (CV) is 62.6 percent. Where as range of DPS is from Rs.40 to Rs. 400 and average for sample period is Rs. 137, with high degree of fluctuation of 108.8 percent being standard deviation of Rs.149.06 for this study period. Bottlers Nepal (Balaju) has the EPS ranging from Rs. 9.94 to Rs. 24.94. The average, SD, and CV of EPS are Rs.18.1022, Rs. 5.3682 and 29.65 percent respectively.

Dividend per Share (DPS)

DPS indicates the portion of earning that distributes to the shareholders on per share basis. It is determined by dividing total distributed earning to the total number of shares outstanding.

Table no 4.2
DPS of sample Enterprises

Year	ULN	BN(B)	BN(T)	NLO	BBC	STC
2006/07	55	10	15	10	50	25
2007/08	40	10	10	15	65	30
2008/09	90	5	10	15	75	10
2009/010	100	0	5	0	85	20
2010/011	400	0	0	15	90	20
Mean (\bar{x})	137	5	8	11	73	21
SD ()	149.0637	5	5.700877	6.519202	16.04681	7.416198
CV	1.088057	1	0.71261	0.592655	0.219819	0.353152

Table 4.2 shows the DPS ranges from Rs. 0 to Rs. 10. The mean, SD and CV are Rs. 5, Rs.5 and 100 percent, which refers the cent percent fluctuation on DPS during studied period.

The mean, standard deviation and CV of Bottlers Nepal (Terai) on EPS are Rs. 23.295, Rs. 17.41 and 74.74 percent respectively. Similarly the mean, SD and CV of DPS are Rs. 8, Rs. 5.7, and 71.26 percent.

Nepal Lube Oil able to generate EPS ranging from Rs. -9.9 to Rs. 30.5. The mean, SD and CV are Rs 11.58, Rs 15.946 and 137.68 percent, whereas DPS expressed in mean, SD and CV are Rs 11, Rs 6.519 and 59.266 percent.

Dividend payout Ratio (D/P Ratio)

Dividend payout ratio indicates the percentage rate of dividend distributed on its earning to its shareholders. The following table shows that the D/P ratio for sample firms:

Table no 4.3

D/P ratio of sample Enterprises

Year	ULN	BN(B)	BN(T)	NLO	BBC	STC
2006/07	74.42	54.30	32.26		79.039	58.71
2007/08	160.26	40.1	30.90	49.18	90.96	27.88
2008/09	88.94	50.31	47.71	72.15	89.92	4.93
2009/010	65.40	0	30.01	0	114.29	6.79
2010/011	194.65	0	0	100	97.424	9.95
Mean (\bar{x})	116.734	28.942	28.176	55.3325	94.3266	21.652
SD ()	57.36631	26.92304	17.34162	42.33813	12.96721	22.63584
CV	0.491428	0.930241	0.615475	0.765159	0.137471	1.045439

Comparative table no. 4.3 shows that the average D/P ratio of Uniliver Nepal ,Bottlers Nepal (Balaju), Bottlers Nepal (Terai), Nepal Lube Oil, Bishal Bazaar Ltd and Salt Trading Corporation are 116.73, 28.942, 28.18, 55.33, 94.33 and 21.65 percent respectively. It means the ratio of dividend payout of Uniliver is higher than other and Salt trading has lower payout ratio.

The coefficient of variation (CV) of D/P ratio of ULN, BN (B), BN (T), NLO, BBC, and STC are .4914, .9302, .6155, .7655, .1375, and 1.0454 It means the dividend payout ratio of STC is greater fluctuated over the sample year where as the payout ratio of BBC is greater consistent in comparison to others over the sample year being less CV than other.

Market Price per Share (MPS)

Market price of share is that value of stock, which can be received by firm or shareholders after selling it in the Capital market. The capital market determines the value of Shares i.e. MPS. In this analysis MPS represents the closing market price of NEPSE index of sample firms. The following table no. 4.4 shows the market price of stock (MPS) of the sample firms:

Table no 4.4
MPS of sample Enterprises

Year	ULN	BN(B)	BN(T)	NLO	BBC	STC
2006/07	1130	700	534	480	1400	300
2007/08	1130	700	480	400	1405	300
2008/09	1400	554	456	350	1550	315
2009/010	1631	635	413	350	1930	315
2010/011	2500	500	400	350	2400	316
Mean (\bar{x})	1558.2	617.8	456.6	386	1737	309.2
SD ()	566.5741	89.10219	53.95183	56.83309	428.8298	8.408329
CV	0.363608	0.144225	0.11816	0.147236	0.24688	0.027194

The comparative table no. 4.4 shows that the average MPS of Uniliver Nepal ,Bottlers Nepal (Balaju), Bottlers Nepal (Terai), Nepal Lube Oil, Bishal Bazaar Ltd and Salt Trading Corporation are Rs.1558.2, Rs.617.8, Rs.456.6, Rs.386, Rs.1737 and Rs.309.2 respectively. It means the price of stock of BBC is higher and STC has the lower average market price over the sample year.

The SD of the MPS represents the rate of fluctuation in market price of stock over the year above table shows that ULN has the greater fluctuations in its MPS where as the price of stock in market seems greater consistence of STC which has fluctuated by only Rs.8.408 in its sample years.

4.2 Analysis of Relationship of Dividend with Stock Price

Correlation analysis

Correlation analysis is the statistical tools that can be used to describe the degree to which one variable is linearly related to another (Richard & David: 1994,p-114). The coefficient of correlation measure the direction of relationship two sets of figure. It is the square root of the coefficient of determination- correlation can either be positive or it can be negative. If both variables are changing in the same direction, the correlation is set to be positive but when the variations in the two variables take place in opposite direction, the correlation is turn as negative. In this study, coefficient of correlation is calculated between stock prices and dividends, stock prices and retained earnings, stock prices and lagged earning.

Correlation between DPS and MPS

Correlation between DPS and MPS shows the relation of DPS while determining the MPS either MPS decreased or increased when DPS changes in the enterprises.

Table No. 4.5

Correlation between DPS and MPS

Firms	ULN	BN(B)	BN(T)	NLO	BBC	STC
Correlation(r)	0.97413	0.743528	0.951807	0.047233	0.858117	-0.78579

Sources; Appendix- VI

Correlation between dependent variable DPS and Independent Variable MPS of Bishal Bazar Company is 0.8581. It means there is positive correlation between MPS and DPS. Higher the dividend, higher the market value per share and vice versa. Similarly the correlation coefficient of Salt trading corporation is -0.7858. It means there is negative correlation between DPS and MPS. Increase in dividend per share results decline in share price and vice versa. Remaining companies has the positive correlation between DPS and MPS. The correlation coefficient of Unilever, Bottlers Nepal (Balaju), Bottlers Nepal (Terai), and Nepal Lube Oil are 0.9741, 0.7435, 0.9518, and 0.0472 respectively. Therefore the share price of these companies has gone in the same direction with dividend.

Correlation between EPS and MPS

Table No. 4.6

Correlation between EPS and MPS

Firms	ULN	BN(B)	BN(T)	NLO	BBC	STC
Correlation(r)	0.923363	0.608506	0.962636	-0.50947	0.776963	0.879014

Sources; Appendix- VI

According to table no. 4.6 correlation coefficient between EPS and MPS of Bishal Bazaar Company is 0.7770 i.e. there is positive correlation between EPS and MPS which indicates that increase in earning increases the stock price. Similarly the correlation of Salt Trading Corporation, Unilever limited, Bottlers Nepal (Balaju) and Bottlers Nepal (Terai) are 0.879, 0.9234, 0.6085 and 0.9626 so there is positive relationship between EPS and MPS of those companies but the correlation for Nepal Lube Oil is -0.5095 which denotes that increase in EPS cause decline in share price but in real practice such condition does not exist so there may other cause to be negative relation between them.

Correlation between D/P Ratio and MPS

Table No. 4.7

Correlation between D/P Ratio and MPS

Firms	ULN	BN(B)	BN(T)	NLO	BBC	STC
Correlation(r)	0.565516	0.474165	0.503126	0.202169	0.584464	-0.86822

Sources; Appendix- VI

Table no. 4.7 shows that the correlation coefficient between D/P Ratio and MPS of Bishal Bazaar Company is 0.58 i.e. there is positive correlation between the D/P ratio and market price per share. It means higher the D/P ratio higher the share price but the value of t-statistics is less than the critical value of t-statistics for 3degree of freedom and two tailed test therefore the result is not significant. There may be other cause behind the positive change in share price with the dividend payout ratio.

Similarly the Salt Trading Co. has negative correlation between dividend payout ratio and Market price per share but this correlation also insignificant. Unilever Company, Bottlers Nepal (Balaju), Bottlers Nepal (Terai) and Nepal Lube Oil Company has 0.56, 0.47, 0.50 and 0.20 correlation coefficient but the correlation coefficient is significant for Bottlers Nepal (Balaju) and Nepal Lube Oil. It shows that due to the higher D/P ratio the price of share of those companies has gone up and gone down due to the lower D/P ratio. The investor of these companies seems to be higher sensitive with the D/P ratio. They prefer higher D/P ratio. Even in other companies except the Salt Trading Corporation have the positive correlation between D/P ratio and Market price per share but in those companies even the D/P ratio and MPS has gone in the same direction the influencing factor may other like dividend per share, Earning per share, economic and Political condition etc.

4.3 Role of Dividend policy on Stock Price

The role of dividend policy has been analyzed establishing the regression model with dependent variable MPS and other independent or explanatory variable DPS, EPS and Dividend payout ratio. While evaluating the role of these explanatory variable determining the MPS simple and multiple regression are used in this study.

Simple Regression Analysis

Simple regression model is used to analyze the role of dividend in stock price taking only one independent variable. The models used in this study are as follows:

$$MPS = a + b (DPS) \dots \dots \dots (i)$$

$$MPS = a + b (D/P \text{ Ratio}) \dots \dots (ii)$$

$$MPS = a + b (EPS) \dots\dots\dots (iii)$$

$$MPS = a + bDPS$$

On the basis of regression line between the independent variable DPS and dependent variable MPS, intercept 'a' of Bihsal Bazaar, Salt Trading, Uniliver Limited, Bottlers Nepal (Balaju), Bottlers Nepal (Terai) and Nepal Lube Oil are Rs.62.96, Rs.327.91, Rs.1050.95, Rs.551.55, Rs.384.54 and Rs.381.47 respectively according to table no.4.8. It shows that when the value of independent variable DPS is zero i.e. dividend is not distributed on stock the price per share will be Rs.62.96 for Bishal Bazaar Company, Rs.327.91 for Salt Trading Corporation, Similarly Rs.1050.95 for the Unilever, Rs.551.55 for Bottlers Nepal (Balaju), Rs.384.58 for Bottlers Nepal (Terai) and Rs.381.47 for Nepal Lube Oil.

Table No. 4.8
Regression Line of dependent variable MPS on DPS

Firms	BBC	STC	ULN	BN(B)	BN(T)	NLO
Intercept -a	62.96117	327.9091	1050.95	551.55	384.5385	381.4706
Slope - b	22.93204	-0.89091	3.702554	13.25	9.007692	0.411765

Sources; Appendix- VII

The slope of the regression or coefficient 'b' shows the sensitivity of the dependent variables with the respect of change in independent variable. Coefficient 'b' of Bishal Bazaar Company is 22.93, it means Re 1 change in independent variable DPS results Rs.22.93 change in Market Price per Share. Similarly in Salt Trading Corporation coefficient 'b' is -0.89 it shows due to Re 1 increase in independent variable Dividend per Share, Market Price of Share decrease by Re 0.89. Therefore there is negative relation between DPS and MPS of Salt Trading Corporation.

Coefficient 'b' of Unilever Limited is 3.7, similarly Bottlers Nepal (Balaju), Bottlers Nepal (Terai) and Nepal Lube Oil has 13.25, 9.01 and 0.41 respectively. This indicates the rupees change in Market Price per Share (MPS) due to Re 1 change in Dividend per Share (DPS). It shows that except Salt Trading Corporation all the sample companies have the positive impact of dividend per share. The investors of these companies prefer higher dividend per share.

$$MPS = a + bD/P \text{ Ratio}$$

According to table no.4.9, regression line between the independent variable D/P ratio and dependent variable MPS, intercept 'a' of Salt Trading, Uniliver Limited,

Bottlers Nepal (Balaju), Bottlers Nepal (Terai) and Nepal Lube Oil are Rs.316.183, Rs.906.2084, Rs.572.3826, Rs.412.4966, and Rs.365.6653 respectively. It shows that when the value of independent variable D/P Ratio is zero i.e. dividend is not distributed on stock the price per share will be Rs.316.183 for Salt Trading Corporation, Similarly Rs.906.2084 for the Unilever, Rs.572.3826 for Bottlers Nepal (Balaju), Rs.412.4966 for Bottlers Nepal (Terai) and Rs.365.6653 for Nepal Lube Oil.

The intercept 'a' in the regression line between D/P ratio and MPS of the Bishal Bazaar Company is Rs-86.18. It indicates that if the company pays no dividend out of its profit i.e. D/P ratio is zero, The Mps of the company will be negative. It means the share will have no price in the market.

Table No. 4.9

Regression Line of dependent variable MPS on D/P Ratio

Firms	BBC	STC	ULN	BN(B)	BN(T)	NLO
Intercept- a	-86.1839	316.183	906.2084	572.3826	412.4966	365.6653
Slope - b	19.32842	-0.32251	5.585276	1.569257	1.565284	-0.05721

Sources; Appendix- VII

The slope of the regression or coefficient 'b' shows the sensitivity of the dependent variables with the respect of change in independent variable. Coefficient 'b' of Bishal Bazaar Company is 19.32842, it means 1% change in independent variable D/P Ratio results Rs.19.32842 change in Market Price per Share. Similarly in Nepal Lube Oil coefficient 'b' is -0.05721 it shows due to 1% increase in independent variable Dividend payout ratio, Market Price of Share decrease by Re-0.05721. Therefore there is negative relation between D/P Ratio and MPS of Nepal Lube Oil.

Coefficient 'b' of Unilever Limited is 5.585276, similarly Bottlers Nepal (Balaju) and Bottlers Nepal (Terai) has 1.56927 and 1.56528 respectively. This indicates the rupees change in Market Price per Share (MPS) due to percentage 1 change in Dividend payout Ratio (D/P Ratio). It shows that except Salt Trading Corporation and Nepal Lube Oil all the sample companies have the positive impact of dividend payout Ratio. The investors of these companies prefer higher dividend payout Ratio rather than retaining the earning in the company.

Standard Error of Estimate (SEE)

The Standard Error of the Estimate measures the variability of the actual values from its predicted values, in the same way that the standard deviation measures the

variability of each observation around its means. The standard deviation around the line of regression is called standard error of estimate. In other words the standard error of estimate measures the variability around the line of regression.

Table No. 4.10 shows the standard error of estimate around the regression line of MPS on dependent variable DPS and D/P ratio.

Table No. 4.10
Standard Error of Estimate

Name of Firms	SEE on DPS	SEE on D/P ratio
BBC	254.247	401.79
STC	6.005	4.82
ULN	147.848	539.56
BN(B)	68.8	90.59
BN(T)	19.107	53.84
NLO	65.55	58.54

Sources; Appendix- VIII and IX

SEE of Regression Line of MPS on Independent Variable DPS

Standard error of estimate of Bishal Bazaar Company is Rs.254.247. It means the actual value of share price may be scattered up to the limit of Rs.254.247 from the estimated value of share price defined by regression line on the basis of dependent variable Market Price per Share (MPS) and independent variable Dividend per Share (DPS). Similarly Standard Error of Estimate (SEE) of Salt Trading Corporation, Unilever Limited Nepal, Bottlers Nepal (Balaju), Bottlers Nepal (Terai) and Nepal Lube Oil are Rs.6.005, Rs.147.848, Rs.68.8, Rs.19.107 and Rs.65.55. These values indicate the possibility of fluctuation in actual price from estimated price of share in Market defined by regression line.

SEE of Regression Line of MPS on Independent Variable D/P Ratio

According to the Standard Error of Estimate Given in table no. 4.10, the value of Bishal Bazaar Company is Rs.401.79. It means the actual value of share price may be scattered up to the limit of Rs.401.79 from the estimated value of share price defined by regression line on the basis of dependent variable Market Price per Share (MPS) and independent variable Dividend Payout ratio (D/P Ratio). Similarly Standard Error of Estimate (SEE) of Salt Trading Corporation, Unilever Limited Nepal, Bottlers Nepal (Balaju), Bottlers Nepal (Terai) and Nepal Lube Oil are Rs.4.82, Rs.539.56,

Rs.90.59, Rs.53.84 and Rs.58.54. These values indicate the possibility of fluctuation in actual price from estimated price of share in Market defined by regression line.

Coefficient of Determination (R^2)

The correlation analysis is the study of strength of relationship between the dependent variable and independent variable. This strength of the relationship is measured by the ratio of explained variation and total variation where explained variation is the variation of the dependent variable attributable to the movement in independent variable. This measure is known as the coefficient of determination. In other words coefficient of determination represents the portion of the variation in the dependent variable that is explained variation by the independent variable selected.

Table No. 4.11

Coefficient of determination

Name of Firms	R^2 of MPS with DPS	R^2 of MPS with D/P Ratio
BBC	0.7364	0.3416
STC	0.6175	0.7538
ULN	0.9489	0.3198
BN(B)	0.5528	0.2248
BN(T)	0.9059	0.2531
NLO	0.00223	0.2044

Sources; Appendix- VIII and IX

Table no. 4.11 shows that the coefficient of determination of Bishal Bazaar Company is 0.7364. It means 73.64% of the total variation of the Market Price per Share (MPS) is due to the variation of Dividend per Share (DPS) and remaining is due to the error terms or influenced by other factors. Similarly the Coefficient of Determination of Salt Trading Corporation, Unilever Nepal, Bottlers Nepal (Balaju), Bottlers Nepal (Terai) and Nepal Lube Oil are 0.6175, 0.9489, 0.5528, 0.9059 and 0.00223 respectively. Fluctuation of Share price of Unilever Nepal is highly depend on the fluctuation of independent variable Dividend Per share (DPS) where as there is very low impact of change in dividend per share on Share Price of the Nepal Lube Oil.

Table no. 4.11 shows that the coefficient of determination of Bishal Bazaar Company is 0.3416. It means 34.16% of the total variation of the Market Price per Share (MPS) is due to the variation of Dividend payout Ratio (D/P Ratio) and remaining is due

to the error terms or influenced by other factors. Similarly the Coefficient of Determination of Salt Trading Corporation, Unilever Nepal, Bottlers Nepal (Balaju), Bottlers Nepal (Terai) and Nepal Lube Oil are 0.7538, 0.3198, 0.2248, 0.2531 and 0.2044 respectively. Fluctuation of Share price of Salt Trading Corporation is highly depend on the fluctuation of independent variable Dividend payout Ratio (D/P Ratio) where as there is comparatively low impact of change in Dividend payout Ratio (D/P Ratio) on Share Price of the Nepal Lube Oil among the sample companies.

Multiple Regression Analysis

To test the relationship among variables multiple regression analysis is performed and result obtained is presented in table 4.12.

Table No. 4.12

Regression of Market price per share (MPS) on Earning per share (EPS), Dividend per share (DPS), Dividend payout ratio (D/P Ratio)

Regression Equation: $MPS = a + b_1EPS + b_2 DPS + b_3 D/P \text{ Ratio}$

Sample	Constant (a)	Regression Coefficient			R ²	SEE	F-statistic
		EPS	DPS	D/P ratio			
BBC	22297.16	-307.015 (8.93)*	361.603 (9.68)*	-247.272 (9.2)*	0.997	46.497	113.08**
STC	312.496	0.0447 (0.755)	-0.459 (1.046)	-0.0576 (0.213)	0.907	5.12	3.261
UL	367.463	6.639 (9.13)*	0.12 (0.266)	3.708 (5.77)*	0.998	23.725	760.031**
BN(B)	-353.445	49.2 (0.87)	-81.297 (0.658)	16.83 (0.749)	0.823	74.988	1.549
BN(T)	399.87	-0.482 (.648)	13.856 (5.09)*	-1.522 (5.038)*	0.998	5.341	135.74**
NLO	353.054	-1.694 (1.468)	10.874 (3.398)*	-1.515 (2.981)	0.947	26.196	5.943

Source: Appendix I

t- Statistics are in parenthesis

*** Significant at 0.05 level**

**** f- Statistics significant at 0.05 level**

EPS appears with negative sign in Bishal Bazaar Company, Bottlers (Terai) and Nepal Lube Oil which indicate that EPS and MPS has negative association in these companies but it is positive association in Salt Trading Corporation, Bottlers (Balaju) and Unilever. This implies that larger EPS and lesser MPS on BBC, Bottlers Nepal (Terai), and Nepal Lube oil and other sample larger EPS larger will be MPS. But only in Bishal Bazaar Company 't' statistic is negatively significant and in Unilever Positively significant.

The DPS is negatively associated with MPS in Salt Trading and Bottlers Nepal (Balaju) and positive in other BBC, UL, BN (T) and NLO but 't' statistic is only positively significant in BBC, BN(T) and NLO at 5 percent level of significance.

The D/P ratio is negative with MPS in BBC, STC, BN (T) and NLO but positive in UL and BN (B) but it is significant in BBC, UL and BN (T).

MPS is almost perfectly explained and predicted by the variable EPS, DPS and D/P Ratio in Bishal Bazaar Company, Unilever Limited and Bottlers Nepal (Terai) because in this company coefficient of determination is almost nearly to 100 percent.

F – Statistic is significant for Bishal Bazaar Company, Unilever Limited and Bottlers Nepal (Terai). Among them Dividend policy exist positive significant impact on Stock price of the Unilever Limited Company.

4.4 Test of Hypothesis

Statistical inference is important topic in statistics, inference means drawing conclusion about characteristics relating to a large number of events (population characteristics) on the basis of sample observation or a portion of population units. It should be noted that study of a population characteristics is one of the major problems in practice due to some limitation such as time, money and manpower needed. However this can be waived using sample information. It is also noted that if we have no prior knowledge as to the parameter value in question, we use the technique of estimation, to obtain an estimate of its value. If we do have some prior ideas to the parameter value, we use the technique of hypothesis testing, to examine whether our prior knowledge is supported by the sample information.

Hypothesis means the presumption or quantitative statement of the population parameter which may be true or false. In order to make proper decision about the quantitative statement of the population, testing of hypothesis technique is used.

Test of Correlation

T-test of Correlation between MPS and D/P Ratio

Null hypothesis (H₀):

r=0, i.e. the variable are not correlated in the population (in respect of time) or the population correlation coefficient is zero between MPS and D/P Ratio.

Alternative hypothesis (H₁):

r ≠ 0 (Two tailed test) i.e. the variables are correlated in the population or the population correlation coefficient is not zero.

Test statistics:

T-statistic under H₀ is

$$T = \frac{r}{\sqrt{1-r^2}} \sqrt{fn Z^2 A}$$

Following table shows the calculated value of t-distribution with (n-2) degree of freedom i.e. (5-2) = 3 degree of freedom.

Where, r= correlation coefficient

.n = sample size.

Table No. 4.13

T-test for the correlation between D/P ratio and MPS

Firms	correlation®	degree of freedom	2-tailed	calculated value	critical value	Result (Significant)
BBC	0.584464	3	2	1.24759	3.182	No
STC	-0.86822	3	2	-3.3076	3.182	yes
UL	0.565516	3	2	1.1877	3.182	No
BN(b)	0.474165	3	2	9.3281	3.182	Yes
BN(T)	0.503126	3	2	1.01	3.182	No
NLO	0.202169	3	2	3.5755	3.182	yes

Sources; Appendix-VI

Critical value:

Tabulated or critical value of 't' at 5% level of significance for two tailed test and 3 degree of freedom is 3.182.

Decision:

Table no. 4.13 shows the calculated value of 't' for Bishal Bazaar Company, Unilever Nepal Limited and Bottlers Nepal (Terai) are 1.2478, 1.188 and 1.01 respectively i.e. less than the critical value, hence null hypothesis is selected. It means

there is no correlation between Market Price per Share (MPS) and Dividend Payout ratio (D/P Ratio).

Similarly the calculated value of 't' is 3.31 i.e. greater than the tabulated value of 't' (3.182) for Salt Trading Corporation. Therefore alternative hypothesis is accepted. It means there is negative correlation between Market Price per Share (MPS) and Dividend Payout ratio (D/P Ratio) for Salt Trading Corporation. Increase in D/P Ratio cause decrease in Share Price and vice versa.

For Bottlers Nepal (Balaju) and Nepal Lube Oil the calculated value of 't' are 9.3281 and 3.5755 respectively. Which are greater than the tabulated value of 't' (3.182). Therefore the alternative hypothesis is accepted. It means there is the relationship or significantly positive correlation between Market Price per Share (MPS) and Dividend Payout ratio (D/P Ratio) for these firms. Means, Increase in D/P Ratio cause increase in Share Price and vice versa.

T-test of Correlation between MPS and EPS

Null hypothesis (H₀):

$r=0$, i.e. the variable are not correlated in the population (in respect of time) or the population correlation coefficient is zero between MPS and EPS.

Alternative hypothesis (H₁):

$r \neq 0$ (Two tailed test) i.e. the variables are correlated in the population or the population correlation coefficient is not zero.

Test statistics:

T-statistic under H₀ is

$$T = \frac{r}{\sqrt{1-r^2}} \sqrt{fn Z2A}$$

Following table shows the calculated value of t-distribution with (n-2) degree of freedom i.e. (5-2) = 3 degree of freedom.

Where, r= correlation coefficient

.n = sample size.

Table No. 4.14

T-test for the correlation between EPS and MPS

Firms	correlation®	degree of freedom	2-tailed	calculated value	critical value	Result (Significant)
BBC	0.776963	3	2	2.1376	3.182	No
STC	0.879014	3	2	3.1932	3.182	Yes
UL	0.923363	3	2	4.1657	3.182	Yes
BN(b)	0.608506	3	2	1.3282	3.182	No
BN(T)	0.962636	3	2	6.1571	3.182	Yes
NLO	-0.50947	3	2	-1.2549	3.182	No

Sources; Appendix-VI

Critical value:

Tabulated or critical value of 't' at 5% level of significance for two tailed test and 3 degree of freedom is 3.182.

Decision:

Table no. 4.14 shows calculated value of 't' for Bishal Bazaar Company, Nepal Lube Oil Limited and Bottlers Nepal (Balaju) are 2.1376, 1.2549 and 1.3282 respectively i.e. less than the critical value, hence null hypothesis is selected. It means there is no correlation between Market Price per Share (MPS) and Earning per Share (EPS).

Similarly for Bottlers Nepal (Tarai), Unilever Nepal Limited and Salt Trading Corporation the calculated value of 't' are 6.1571, 4.1657 and 3.1932 respectively. Which are greater than the tabulated value of 't' (3.182). Therefore the alternative hypothesis is accepted. It means there is the relationship or significantly positive correlation between Market Price per Share (MPS) and Earning per Share (EPS) for these firms. Means, Increase in Earning per Share (EPS) cause increase in Share Price and vice versa.

T-test of Correlation between MPS and DPS

Null hypothesis (H_0):

$r=0$, i.e. the variable are not correlated in the population (in respect of time) or the population correlation coefficient is zero between MPS and DPS.

Alternative hypothesis (H_1):

$r \neq 0$ (Two tailed test) i.e. the variables are correlated in the population or the population correlation coefficient is not zero.

Test statistics:

T-statistic under H_0 is

$$T = \frac{r}{\sqrt{1-r^2}} \sqrt{fn Z2A}$$

Following table shows the calculated value of t-distribution with (n-2) degree of freedom i.e. (5-2) = 3 degree of freedom.

Where, r= correlation coefficient

.n = sample size.

Table No. 4.15

T-test for the correlation between DPS and MPS

Firms	correlation®	degree of freedom	2-tailed	calculated value	critical value	Result (Significant)
BBC	0.858117	3	2	2.8947	3.182	No
STC	-0.78579	3	2	-2.20	3.182	No
UL	0.97413	3	2	7.466	3.182	Yes
BN(b)	0.743528	3	2	1.9259	3.182	No
BN(T)	0.951807	3	2	5.3752	3.182	Yes
NLO	0.047233	3	2	0.0819	3.182	No

Sources; Appendix-VI

Critical value:

Tabulated or critical value of 't' at 5% level of significance for two tailed test and 3 degree of freedom is 3.182.

Decision:

Table no. 4.15 shows the calculated value of 't' for Bishal Bazaar Company, Salt Trading Corporation, Bottlers Nepal (Balaju) and Nepal Lube Oil Limited are 2.8947, -2.20, 1.9259 and 0.0819 respectively i.e. less than the critical value, hence null hypothesis is selected. It means there is no correlation between Market Price per Share (MPS) and Dividend per Share (DPS).

Similarly for Bottlers Nepal (Tarai) and Unilever Nepal Limited the calculated value of 't' are 5.3752 and 7.466 respectively. Which are greater than the tabulated value of 't' (3.182). Therefore the alternative hypothesis is accepted. It means there is significantly positive correlation between Market Price per Share (MPS) and Dividend per Share (DPS) for these firms. Means, Increase in Dividend per Share (DPS) cause increase in Share Price and vice versa.

F-Test of Regression Line

F-Test of MPS on independent Variable DPS

Null Hypothesis H₀:

The regression equation of Market Price per Share (MPS) on dividend Per Share (DPS) is not significant in other words there is no relationship between dependent variable Market Price per Share (MPS) and independent variable dividend Per Share (DPS).

Alternative Hypothesis H_1 :

The regression equation of Market Price per Share (MPS) on dividend Per Share (DPS) is significant. In other words there is a relationship between dependent variable Market Price per Share (MPS) and independent variables dividend Per Share (DPS).

Test Statistics

$$F = \frac{MSR}{MSE}$$

Where,

MSR = Mean sum of square due to Regression or Explained Variance

MSE = Mean sum of Square due to Error or Unexplained Variance.

Table No. 4.16

Calculated value of ‘f’ from one way ANOVA table

Firms	Intercept	Slope	Degree of freedom	F-value	Result
BBC	62.96117	22.93204	1&3	8.379339	Insignificant
STC	327.9091	-0.89091	1&3	4.84235067	Insignificant
UL	1050.95	3.702554	1&3	55.7410452	Significant
BN(b)	551.55	13.25	1&3	3.708923	Insignificant
BN(T)	384.5385	9.007692	1&3	28.8935557	Significant
NLO	381.4706	0.411765	1&3	0.0067	Insignificant

Source: appendix- VIII (from ANOVA tables)

Degree of freedom for numerator = k-1 = 2-1 = 1.

Degree of freedom for denominator = n-k = 5-2 = 3.

Tabulated Value

Tabulated value of ‘f’ on 5% level of significance for 1 & 3 df is 10.1 From F-Table.

Decision

Table no. 4.16 shows the calculated value of ‘f’ for Bishal Bazaar Company is 8.379, for Salt trading Corporation 4.8433, for Bottlers Nepal (Balaju) 3.7089 and for

Nepal Lube Oil Limited 0.0067, which are less than tabulated value of 'f' i.e. 10.1 for 5% level of significance and (1,3) degree of freedom, hence, null hypothesis is accepted. It means the regression equation of Market Price per Share (MPS) on Dividend per Share (DPS) is not significant. Therefore there is no significantly defined slope of MPS on the basis of DPS for future estimation for those firms.

Similarly the calculated value of 'f' for Unilever Limited is 55.74 and Bottlers Nepal (Terai) is 28.89 which are greater than the tabulated value i.e. 10.1, hence, alternative hypothesis is accepted. In other words there is the significantly defined relationship between Market Price per Share (MPS) and Dividend per Share (DPS) for these Companies.

F-Test of MPS on independent Variable D/P Ratio

Null Hypothesis H_0 :

The regression equation of Market Price per Share (MPS) on Dividend Payout Ratio (D/P Ratio) is not significant in other words there is no relationship between dependent variable Market Price per Share (MPS) and independent variable Dividend Payout Ratio (D/P Ratio)

Alternative Hypothesis H_1 :

The regression equation of Market Price per Share (MPS) on Dividend Payout Ratio (D/P Ratio) is significant. In other words there is a relationship between dependent variable Market Price per Share (MPS) and independent variables Dividend Payout Ratio (D/P Ratio).

Test Statistics

$$F = \frac{MSR}{MSE}$$

Where,

MSR = Mean sum of square due to Regression or Explained Variance

MSE = Mean sum of Square due to Error or Unexplained Variance.

F = Test statistic.

Table No. 4.17
Calculated value of 'f' from one way ANOVA table

Firms	Intercept	Slope	Degree of freedom	F-value	Result
BBC	-86.1839	19.32842	1 & 3	1.55648905	Insignificant
STC	316.183	-0.32251	1 & 3	9.1855373	Insignificant
UL	906.2084	5.585276	1 & 3	1.41052144	Insignificant
BN(B)	572.3826	1.569257	1 & 3	0.8701319	Insignificant
BN(T)	412.4966	1.565284	1 & 3	1.01679288	Insignificant
NLO	365.6653	-0.05721	1 & 3	0.77040359	Insignificant

Source: appendix- IX (from ANOVA tables)

Degree of freedom for numerator = $k-1 = 2-1 = 1$.

Degree of freedom for denominator = $n-k = 5-2 = 3$.

Tabulated Value

Tabulated value of 'f' on 5% level of significance for 1 & 3 df is 10.1 From F-Table.

Decision

Since the calculated value of 'f' for Bishal Bazaar Company is 1.5565, for Salt trading Corporation 9.1855, for Unilever Limited 1.4105 for Bottlers Nepal (Balaju) is 0.8703, for Bottlers Nepal (Terai) is 1.01679 and for Nepal Lube Oil Limited 0.7704, which are less than tabulated value of 'f' i.e. 10.1 for 5% level of significance and (1, 3) degree of freedom, hence, null hypothesis is accepted. It means the regression equation of Market Price per Share (MPS) on Dividend Payout Ratio (D/P Ratio) is not significant. Therefore there is no significantly defined slope of MPS on the basis of Dividend Payout Ratio (D/P Ratio) for future estimation for those firms.

Comparative Study of Dividend policy with Pair T – test of Trading and Mfg Enterprise

Null Hypothesis H_0 :

$\mu_t = \mu_m$ i.e. two population means are equal. In other words the mean value of D/P Ratio are equal it means the dividend policy of Manufacturing Enterprise and Trading Companies is similar.

Alternative Hypothesis H_1 :

$\mu_t \neq \mu_m$ i.e. two population means are not equal. In other words the mean values of D/P Ratio are not equal it means the dividend policy of Manufacturing Enterprise and Trading Companies is different.

Test statistics

$$T = \frac{\bar{X}_t - \bar{X}_m}{\sqrt{S_p^2 \left(\frac{1}{n_t} + \frac{1}{n_m} \right)}}$$

Where, $S_p^2 = \frac{n_t s_t^2 + n_m s_m^2}{n_t + n_m - 2}$

Where,

\bar{X}_t = Mean value of D/P Ratio of Trading Company

\bar{X}_m = Mean value of D/P Ratio of Manufacturing Enterprise

S_p^2 = Unbiased Estimate of common population variable

n_t = Number of sample observation of Trading Company

n_m = Number of sample observation of Manufacturing Enterprise

s_t^2 = Variance of D/P Ratio of Trading Company

s_m^2 = Variance of D/P Ratio of Manufacturing Enterprise

Table No. 4.18

Calculated value of 't' from paired value of Mean D/P Ratio

Firms compared	\bar{X}_t vs. \bar{X}_m	s_t^2 vs. s_m^2	S_p^2	Calculated value of /t/	Result
BBC vs. UL	94.3266 vs. 116.734	168.1485 vs. 3290.89	2161.878	7.6198	Significant
BBC vs. BN(B)	94.3266 vs. 28.942	168.1485 vs. 724.85	558.124	4.376	Significant
BBC vs. BN(T)	94.3266 vs. 28.176	168.1485 vs. 300.732	293.05	6.11	Significant
BBC vs. NLO	94.3266 vs. 55.3325	168.1485 vs. 1792.52	1225.4178	1.671	Not Significant
STC vs. UL	21.652 vs. 116.734	512.38 vs. 3290.89	2377.044	3.0835	Significant
STC vs. BN(B)	21.652 vs. 28.942	512.38 vs. 724.85	773.26875	4.145	Significant
STC vs. BN(T)	21.652 vs. 28.176	512.38 vs. 300.732	508.195	4.5758	Significant
STC vs. NLO	21.652 vs. 55.3325	512.38 vs. 1792.52	1440.5625	1.403	Not Significant

Source: Appendix - V

Critical Value

The tabulated value of 't' for $(5+5-2) = 8$ degree of freedom and 5% level of significance for two tailed test is 2.306.

Decision

Table no.4.18 shows the calculated value of t-statistics from which the dividend policy of Nepal Lube Oil is same with both trading companies Bishal Bazaar Company and Salt Trading Corporation because the calculated value of 't' are 1.671 and 1.403, less than the critical value so null hypothesis is accepted.

Similarly the dividend policy followed by the Manufacturing Enterprises Unilever Nepal, Bottlers Nepal (Balaju) and Bottlers Nepal (Terai) is different from the Trading

Companies because the calculated value of t-statistics for those companies are greater than the tabulated value of 't' so null hypothesis rejected and alternative hypothesis accepted. It means there is significant difference between the average dividend payout ratio between Trading and Manufacturing Enterprise.

4.5 Primary Data Analysis

During the research study, a series of questionnaire was presented and pulled the opinion from executive of the selected Trading and Manufacturing Enterprises, Researchers and intellectuals. Here is the brief analysis of the respondents' opinions.

In response to the question about 'Which of the dividend policy would be effective for the Nepalese Companies?' following result has been obtained

Figure No. 1
Effectiveness of dividend policy

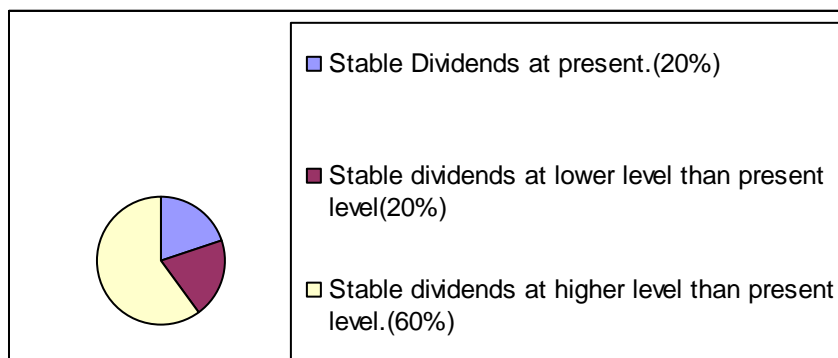


Figure no 1 shows the 60 percent vote towards stable dividend in higher level than present status and remaining 40 percent respondent equally given the importance to the stable dividend at present and less than present level status. By this query the decision will better to make stable dividend

at some what higher level dividend than present to make effective dividend for stock price.

In response to the question about agreement towards the statement 'Most of the Manufacturing enterprises are facing operating loss in the Nepalese context due to cause the price of the stock of enterprise depends greater to their earning than that of their dividend policy.' the following result has been obtained :

Figure No. 2
Impact of Earning in Stock price

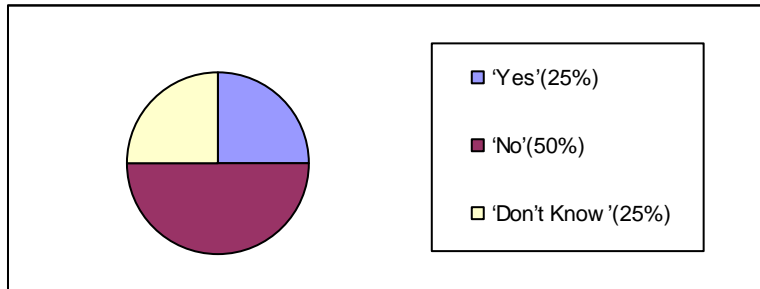
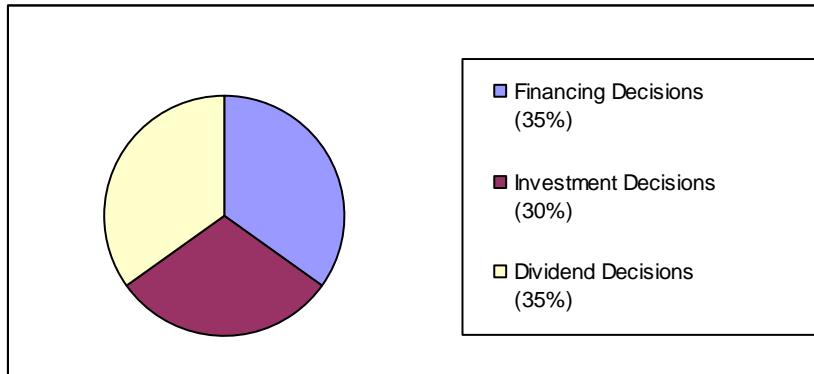


Figure no 2 shows 50 percent respondent (10 response) against the statement and only 25percent respondent are favor to this statement and 25 percent respondent are indifference this means that they are not dependent upon earnings so the price of Stock of Nepalese enterprise are most stable even if some of them are facing operating loss.

Figure No. 3
Role of various decisions in stock price

- a, Financing decisions
- b, Investment decisions
- c, Dividend decisions



In response to the question towards the significant role of following decisions for the increment of stock price following results has been obtained:

Figure no 3 shows 35 percent weight towards financing decision and dividend decision respectively and remaining 30 percent weight is in favor of Investment decision. It means there is equally significant all kinds of decision for the increment of Stock price.

In response to the question that 'what do you think the motive for paying cash dividends?' the following response has been obtained:

Figure No. 4

Objectives of cash dividend

- a, To convey information to shareholders that the company is financially strong
- b, To draw attention of the investment community
- c, To increase the market value of their stock
- d, To fulfill the shareholders expectation
- e, Others (please do specify)

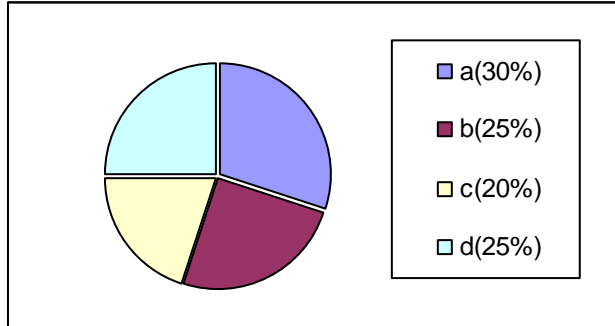


Figure no 4 shows that the 25 percent response towards drawing attention of investment community and to fulfill the investors expectations respectively , 30 percent respondent are agreed with the fact that conveying the financially strong ness by the company.

The question about the dividend as a residual decision in Nepalese enterprise (residual decision means that the company will pay dividend only if there are no investment opportunities in the company), following results has been responded:

Figure No. 5

Response towards dividend as a residual decision

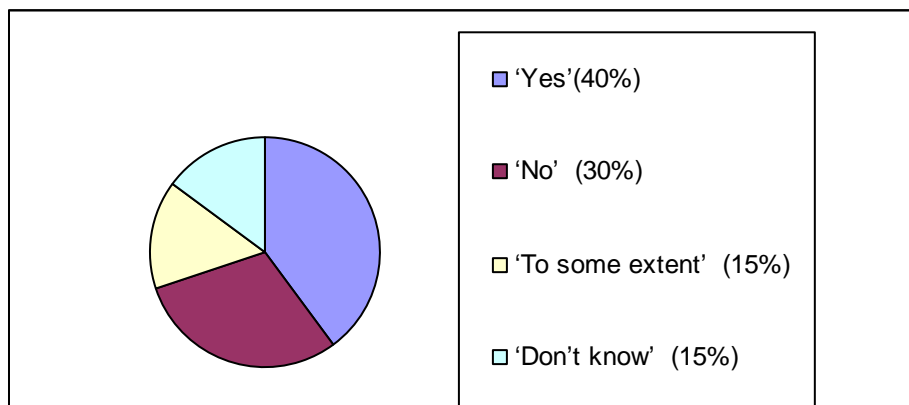
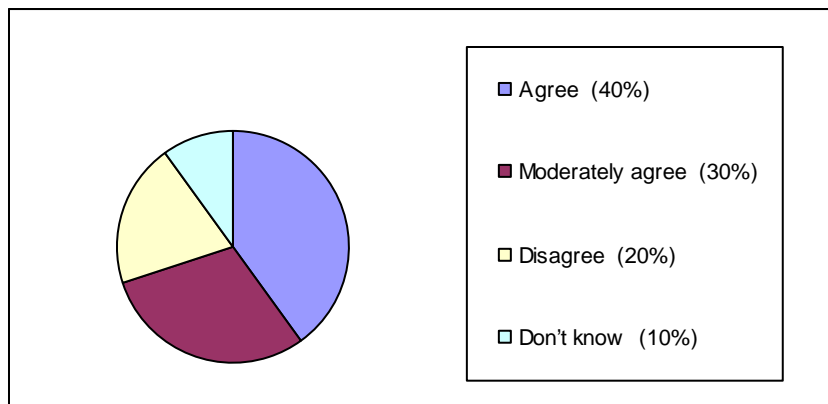


Figure no 5 shows that, 40 percent respondent are agreed with the statement and 15 percent respondent even agree for some extent but 15 percent are indifference and 30 percent are against the statement. It means the company only distribute dividend if there is no any profitable investment opportunity for the company.

Question about the nature of Nepalese investor towards dividend policy that they are indifference, the following result has been obtained:

Figure No 6
Shareholder are indifferent weather the company pays or not dividend.



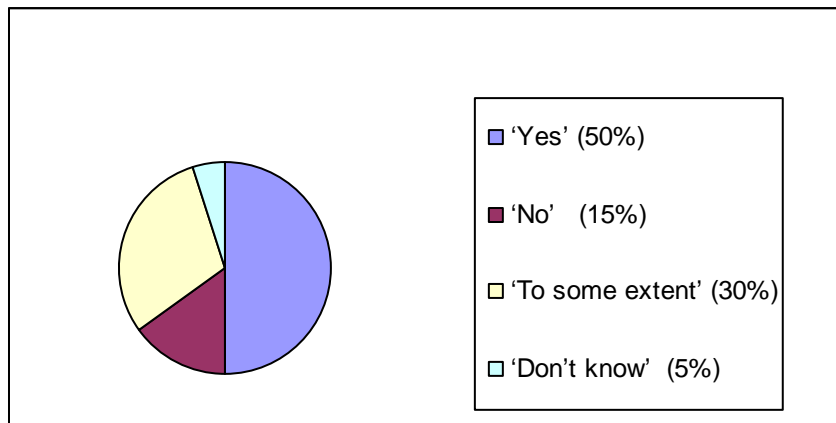
According to figure no 6 the 40 percent respondent are strongly agree with this statement where as 30 percent respondent are moderately agree and 20 percent respondent also agree with this statement and only 10 percent respondent are indifference towards this statement. It means Nepalese investors are seems to be indifference towards dividend policy and the stock price of the Nepalese enterprises do not effect with dividend announcement.

Another question about weather the earning announcement of the company will help to change the stock price in market? The following result has been obtained:

Figure no 7 shows that the 50 percent respondent are agree with the statement and 15 percent respondent are disagree where as 30 percent agreed in some extent and 5 percent are indifferent in this statement. It means the earning announcement of the company will help to change the stock price of the company.

Figure No. 7

Impact of company's announcement of earning to change market price of share



Similarly for the response of the question "In Nepal market price of same companies is higher and is out the accessibility of ordinary or poor investors. Do you suggest these companies to go for stock split so that their shares can trade within a more popular trading range?" Figure no 8 shows the result obtained below:

Figure No. 8

Stock split and market transaction of shares

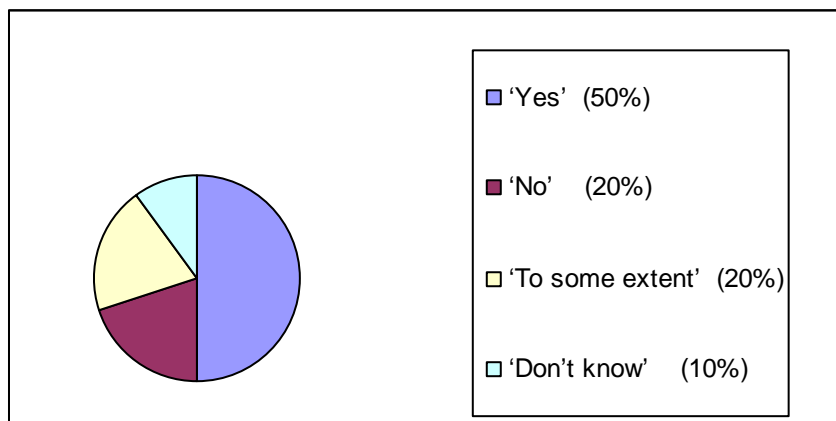


Figure no 8 shows 50 percent result in favor of stock split to make accessible for poor investor 10 percent are indifferent and 20 percent agree to some extent and another 20 percent are disagreed with this thinking, in conclusion we can say that the stock price should be of small rate so that the investor having few funds also can take part in stock market and it would automatically increased being trading in higher degree in market.

In response to the various question relating to the following subject matter the results obtained has been presented in the table no 4.19 below:

Table No. 4.19

How far do you agree /disagree with the following observation on corporate dividend policy in Nepal?

(Please make a tick at the appropriate number as per following scheme:

1=strongly agree 2=agree 3=don't know 4=Disagree 5= strongly disagree)

S.No.	Statement:	1	2	3	4	5
1	Dividend payout affects the price of the common stock.	8	4	3	3	2
2	Dividend payment convey future prospects	7	5	4	2	2
3	Shareholders in high tax brackets are attracted to low dividends	8	6	3	2	0
4	A firm should avoid making changes in its dividend rates that might have to be reversed in a year or so.	5	3	2	6	4
5	Reasons for dividend policy changes should be adequately disclosed to investors.	12	5	2	1	0
6	Shareholders in high tax brackets prefer stock dividends.	10	4	3	2	1
7	If a company provides information on favorable future prospect, it will increase market price of its shares.	8	5	4	2	1
8	Shareholders are different weather company pays dividends or retain earnings.	6	5	4	3	2
9	Companies should not pay dividends if profitable investments are on hand.	10	4	3	2	1
10	In Nepal most of the companies do not want to pay dividends.	4	6	3	5	2

Table no 4.19 shows the positive results towards the effect of dividend payout ratio in stock price where 40 percent (8 respondent) are strongly agree and 10 percent (2 respondent) are strongly disagree and 15 percent (3 respondent) are disagree with this statement, similarly the another facts relating to convey of dividend payment in future prospects 35 percent (7 respondent) are in 1st rank where as 25 percent are in 2nd rank it means agree with this statement and 10 percent respondent are disagreed and strongly disagreed respectively with this statement.

In the question about tax rate and preference of dividend, 40 percent (8 respondents) strongly prefers low dividend at high tax bracket where as 30 percent prefers to low dividend at high tax bracket and 15 percent (3 respondents) are indifferent with this statement.

In response to the question about the changes in dividend policy by the company 25 percent (5 respondent) are strongly and 15 percent are agreed that the company don't want to change dividend policy where as 30 percent strongly and 20 percent says the company changes their dividend rate over the years.

60 percent (12respondent) strongly agree that the changes in dividend policy should adequately disclose to the investor. Similarly 50 percent (10 respondents) strongly agree with stock dividend at high tax bracket and 20 percent respondents agree with stock dividend in high tax rate.

40 percent (8 respondent) strongly and 25 percent (5 respondent) agree with the believe that if the company provide the information about favorable future prospect it will increases the market price of the stock.

Similarly 50 percent (10 respondents) believes that the company would better to retain the profit if there is greater opportunity for profitable projects. 20 percent (4 respondents) also agree with this statement. Similarly 20 percent respondent agrees strongly and 30 percent respondents agree with that the Nepalese company do not want to pay dividend but 35 percent respondent are not agree with this statement.

4.6, Major Findings of the Study

The study shows that the market price of the share is the consequent result of various factors. Since the study aims at finding the impact of dividend policy on Market price of Share, Some major findings are as follows:

1. The study reveals that the correlation seems to be positive between D/P Ratio and Market price per Share in most of manufacturing and trading companies of Nepal but the correlation coefficient is statistically insignificant which indicate that only some companies have the impact of dividend policy in determining the share price.
2. The role of dividend is not significant to share price in trading companies but only in two sample companies have the significant role of dividend per share in Market price of share.
3. Nepalese Trading and Manufacturing enterprises have followed the different dividend paying policy.
4. Unilever Company has the highest dividend payout ratio and the Salt Trading Corporation has the lowest dividend payout ratio among the sample companies.
5. Bishal Bazaar company has more uniformity in dividend payout ratio where as the Unilever Company has more variability in D/P Ratio.

6. Unilever Company has the greater fluctuations in its MPS where as the price of stock in market seems greater consistence of Salt Trading Corporation.
7. Correlation coefficient is significant for Bottlers Nepal (Balaju) and Nepal Lube Oil. It shows that due to the higher D/P ratio the price of share of those companies has gone up and gone down due to the lower D/P ratio. The investor of these companies seems to be higher sensitive with the D/P ratio. They prefer higher D/P ratio.
8. Fluctuation of Share price of Unilever Nepal is highly depend on the fluctuation of independent variable Dividend Per share (DPS) where as there is very low impact of change in dividend per share on Share Price of the Nepal Lube Oil in accordance with coefficient of determinant.
9. Fluctuation of Share price of Salt Trading Corporation is highly depend on the fluctuation of independent variable Dividend payout Ratio (D/P Ratio) where as there is comparatively low impact of change in Dividend payout Ratio (D/P Ratio) on Share Price of the Nepal Lube Oil among the sample companies.
10. EPS and D/P ratio plays adverse role on Stock price of BBC and D/P ratio of BN(T) also plays adverse role on Stock price where as DPS of BBC, EPS and D/P ratio of UL and DPS of BN(T) and NLO play positive role on Determining Stock price of the firm.
11. F- statistics is significant for Bishal Bazaar Company, Unilever Limited and Bottlers Nepal (Terai). Among them Dividend policy exist positive significant impact on Stock price of the Unilever Limited Company.

Finding from Primary sources

1. Stable dividends at higher level than present level will effective dividend policy hence investors prefer to stable dividend but in higher level than present.
2. There is no relation of operating loss while determining the stock price of manufacturing companies in Nepal.
3. Financing and Dividend decision left the equal effect while determining stock price where as Investing decision has lower effect than other.
4. To some extent Nepalese Shareholder are indifferent weather the company pays or not dividend.
5. Company's announcement of earning may help to change market price of a share.
6. Company pays dividend only if there are no investment opportunities in the company.

Chapter-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter focuses on summarizing the study held with the conclusion. The next attempt in this chapter will be made for the Recommendations on the basis of findings. For this whole purpose the chapter is sub divided in to summary, conclusion and recommendation as following:

5.1, Summary

The dividend refers to that portion of firm's net earnings, which is paid out to the shareholders as a return for their share investment. The dividend decision affects the operation and prosperity of the organization. To attracts new investors and maintain the existing ones, dividend can be used as an effective tool.

The major objectives of the study are to examine the impact of dividend policy in stock price in Nepalese Manufacturing enterprises and trading corporations. For this purpose the study concentrated to examine the relationship between dividend payout ratio and Stock price of mfg. and trading companies, to analyze the role of dividend policy to determine the stock price and to evaluate the dividend paying policy of mfg enterprise and trading corporations.

The dividend decisions, in one hand effects in the company's capital structure, in other hand it has an information value to the investors. The impacts on share price are one another influence of dividend decisions.

The study of relationship between the dividend and stock prices have been accomplished by collecting and calculating the earning per share, dividend payout ratio, correlation between them, regression analysis of Market price of share with Dividend payout ratio and Dividend per share, with respective coefficient of determination and Standard error of estimates for the four Manufacturing enterprises and two Trading corporations. An attempt has been made to analyze the inter-relationship between the variables with the use of statistical tools.

In order to incorporate the primary data into analysis, the questionnaire technique has also been used and duly analyzed.

This study has been primarily focused with the evaluation of resultant impact of dividend on Market price of share. The study covers four Manufacturing enterprises and two Trading Corporations (ULN, BN't', BN'b', NLO, BBC and STC) and the last five years data from 2006/07 to 2010/011 are taken for this study. The reliability of conclusions made in this study depends upon the accuracy of secondary data.

5.2, Conclusions

People living in remote area of Nepal have no access in the capital market. Only limited people living in the urban area make the investment in the financial assets. Therefore the real picture of the Nepalese Companies can't be presented by the analysis of the security price. From the study conducted by, it was found that transfer of ownership of the share is very few in Nepalese trading and Manufacturing enterprises. The investors seem to be more passive one in those Companies. The dividend policy has no major role in the share price. Investors do not give the priority to the company from the different dividend payout policy. Dividend per share per rupees has more or less role but percentage on the earning is not taken into consideration while choosing the company for investment by the investors. This research can conclude the following points:

-) There is no significant effect of dividend policy in the share price of Nepalese Manufacturing and Trading Enterprises.
-) Dividend per share played the significant role in stock price for Unilever Nepal and Bottlers Nepal (Terai) only so the investor of these companies have given more emphasis on dividend per share in comparison to other companies and other indicators.
-) There is no uniformity in dividend paying policy in Trading and Manufacturing Enterprises.
-) There is the fluctuation in Earning per share of the Nepalese Trading and Manufacturing companies.
-) The share price of Unilever limited has largest fluctuation where as the Salt trading Company has the almost constant.

5.3, Recommendations

-) There is lack of legal obligation that abides the companies to pay dividend when they are running at profit. There is no clear provision in Company Act 2063, and others regulating Acts regarding the dividend policy. The concerning Manufacturing Enterprises and Trading Companies should pay proper attention.
-) The Manufacturing Enterprises and Trading Companies have not provided their information regarding the earning, dividend, issue approval etc. They should inform about all those information in the media with a view to provide the information to the different group of investors.
-) There should be optimum dividend so as to maximize shareholders wealth through increase in Market price of share.

- J There should be optimum retention for excellent expansion and modernization of the Companies.
- J Nepalese Government, Nepal Rastra Bank, Security Exchange Board and Nepal Stock Exchange should be conscious to discourage Market imperfection and Speculation.
- J The Company managers and Board of Directors need to have long term vision regarding dividend policy.
- J There needs an organization as a pressure group to promote and protect shareholders rights.
- J Choice should be given to stock holders to select stock dividend vs. cash dividend if company favors to both dividend.
- J There needs a proper information discloser to shareholders.
- J DPS analysis shows that there is not any consistence in dividend policy in all the sample firms, therefore these firms need to create some how paying reasonable dividend every year it is because higher DPS create positive attitude of shareholders towards company, which consequently helps to increase the market price of the shares. The psychological value of Shareholders is also should valued as the assets of the firm.

5.4 Future Avenues

This study is concentrate to analyze dividend practice in Trading and Manufacturing sector. It might help to future researcher to obtain detail study of dividend in manufacturing sector which will help to uplift the management practice in such Enterprise of Nepal. It also expected to give importance in trading shares of Manufacturing and trading sectors in stock market giving equal importance with financial sectors.

This study might be useful to take research on the Manufacturing sector of Nepalese enterprises about dividend policy and practice followed by them.

It will be the sources of dividend practice and history of its impact on stock price movement for management of related sample corporation and enterprises.

It may be the future guideline to adopt right dividend policy in manufacturing sector and make the stock market compatible for this sector in Capital market.

This study will be helpful to the students of Masters Level who have studied financial study as a specialized subject and want to take research on Dividend policy of Manufacturing and trading sectors taking more than 5 sample year to get more reliable findings regarding dividend policy.

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APENDIX-I

DPS for the Sample firm

Year	Bishal bazar	Salt trading	Unilever ltd	Bottlers (Balaju)_	Bottlers (Terai)	Nepal lube Oil
2006/07	50	25	55	10	15	10
2007/08	65	30	40	10	10	15
2008/09	75	10	90	5	10	15
2009/010	85	20	100	0	5	0
2010/011	90	20	400	0	0	15
2011/012		20				20

(Source : <http://www.nepalstock.com>)

EPS for the sample firm

Year	Bishal bazar	Salt trading	Unilever ltd	Bottlers (Balaju)_	Bottlers (Terai)	Nepal lube Oil
2006/07	63.26	42.58	73.9	18.415	46.496	-9.901
2007/08	71.46	107.6	24.96	24.942	32.36	30.5
2008/09	83.41	202.8	101.19	9.939	20.96	20.79
2009/010	74.37	294.7	152.9	19.395	16.66	1.52
2010/011	92.38	201.03	205.495	17.82	0	15

(Source: <http://www.sebonp.com>)

MPS for the Sample firm

Year	Bishal bazar	Salt trading	Unilever ltd	Bottlers (Balaju)_	Bottlers (Terai)	Nepal lube Oil
2006/07	1400	300	1130	700	534	480
2007/08	1405	300	1130	700	480	400
2008/09	1550	315	1400	554	456	350
2009/010	1930	315	1631	635	413	350
2010/011	2400	316	2500	500	400	350

(Source: <http://www.nepalstock.com>)

D/P Ratio of the Sample firms*

Year	Bishal bazar	Salt trading	Unilever ltd	Bottlers (Balaju)_	Bottlers (Terai)	Nepal lube Oil
2006/07	79.039	58.71	74.42	54.30	32.26	
2007/08	90.96	27.88	160.26	40.1	30.90	49.18
2008/09	89.92	4.93	88.94	50.31	47.71	72.15
2009/010	114.29	6.79	65.40	0	30.01	0
2010/011	97.424	9.95	194.65	0	0	100

*D/P Ratio is calculated by dividing the DPS by EPS

