

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

“Dividend policy for business organization is a very important decision, which depends upon the long-term and short-term strategy of a firm. Dividend policy of a firm is an effect of dividing its net earning into two parts: the retained earnings and dividend payment” (*Pandey; 1999: 770*). Business firms use the retained earnings to provide funds to the firm for long-term growth; we call it as internal financing source also. “Dividend is that portion of earning, which is paid to the common stock holders, is a return on their investment. By a dividend policy we mean some kind of consistent approaches to the distribution versus retention decision rather than making the decision on the purely ad hoc basis from period to period” (*Person, William & Gordon; 1972: 405*).

Likewise, dividend policy must be considered in relation to the overall financing decision. In practice, net earnings always may not be appropriate measure of the ability of the firm to pay dividend, that's why, what and how much it is desirable to pay dividend is always a controversial topic because shareholders expect higher dividend but companies ensure towards setting aside funds for maximizing the shareholders' wealth.

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

“Financial institutions have definitely contributed and played a gigantic role for domestic resource mobilization and economic development to build up the confidence of the businessmen for promoting their business and industrialists for encouraging opening new business venture. It maintains confidence for various segments and extends credit to people” (*Hasting; 1996: 72*).

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

Capital market plays an important role in the economics development of a nation. But, in Nepal, the capital market is very small and developing slowly with disorganized. The Nepalese companies (especially government enterprises) have not been able to generate sufficient as compared to the organizations that are established and operated on public sector. Hence the government is not receiving dividends from public enterprises for several years.

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

Dividend practice in public corporations is still having problem for taking dividend policy. Thus, here neither corporation are able to generate sufficient earnings for

dividend payment nor is the government expecting dividends, since it has been observed that dividend payment is practically a crucial problem of the public corporations. Corporation like Nepal Oil Corporation and Nepal Electricity Authority are not distributing earnings as dividend but total effort is focused on minimization of losing through better utilization of capital. Noticeable matter is that this shifting aim of public corporation is failed to minimize the losses.

The joint venture banks in Nepal have brought new hope for productive mobilization of funds according to their new trends of dividend.

Although, twenty five commercial banks are in operation in the nation; only seventeen commercial banks are listed in security board, on the Nepal Stock Exchange. Out of which, only five commercial banks have been taken as sample. They are as given below:

-) Standard Chartered Bank Nepal Ltd.
-) Nabil Bank Ltd.
-) Everest Bank Ltd
-) Bank of Kathmandu Ltd.
-) Himalayan Bank Ltd.

1.1.1 A Brief Introduction of Sample Commercial Banks:

Ñ Standard Chartered Bank Nepal

SCB has been in operation in Nepal since 1987 AD. The bank is the largest commercial bank currently operating in Nepal. Standard chartered has almost 150 years of banking history and operates in more than 70 countries all over the world. Standard chartered employs almost 75000 peoples representing over 115 nationalities worldwide. Standard chartered bank Nepal employs 350 local staff and represents at 16 points of the country. It has been providing full range of banking products and services. It has also been providing corporate social responsibility to the nation. Share holding pattern of the bank is:

- Standard chartered group: 75%
- Nepalese public: 25%

Ñ **Nabil Bank Limited**

The arrival of Nabil Bank in Nepal on the 12th of July 1984 through a joint venture with Dubai Bank Ltd. under a Technical Service Agreement (TSA), marks a new dawn in the Nepalese banking industry. What is more admirable is with the opening of then Nepal Arab Bank Ltd, Customer Service or marketing took a U-turn. That in substance accelerated the evolution in banking products and Services thereafter in Nepal. The bank commenced with a team of about 50 staff members and Rs. 28 million as capital. But today it has strength of 505 staffs. It has been providing full range of banking products and services. It has also been providing corporate social responsibility to the nation. Shareholding structure of the bank is :

- NB (international) Ltd.: 50%
- General Public: 30%

NIDC: 6.15%, RBS: 9.67%, NEPSE: 0.33%, promoters: 3.85%

Ñ **Everest Bank Limited**

EBL was registered on 1992.11.17 and came into operation on 1994.10.18. PNB joined hands with EBL as a joint venture partner in 1997. It employs more than 530 local staff and representing at 36 points as branches. It is a first Nepalese commercial bank who has opened representative office in India. Share holding pattern of the bank is :

- Nepalese promoters: 50%
- PNB: 20%
- General Public: 30%

Ñ **Himalayan Bank Limited**

HBL came into operation on 1991. Habib bank of Pakistan joined hands with HBL as a joint venture partner. It employs more than 591 local staff and representing at 23 points as branches at present. Share holding pattern of the bank is :

- Nepalese promoters: 65%
- Foreign Investment: 20%
- General Public: 15%

Ñ Bank of Kathmandu Limited

BOK came into operation on 1994. It employs more than 183 local staff and representing at 28 points as branches. Share holding pattern of the bank is :

- Nepalese Promoters : 41.81%
- General Public : 58.19%

1.2 Statements of the Problem

Dividend is desirable for the shareholders, which inspires them for the further investment on company's shares. But it is found that there is no satisfactory result about dividend decision of commercial banks in Nepal. Likewise, dividend distribution does not match with the earnings of the commercial banks, there does not exist a proper relationship between dividend and quoted market price of share. Similarly, commercial banks with lower returns record stable (rigid) price of share and banks making sound returns do not rigid in share price.

Dividend, the most inspiring factor for the investment on shares of the corporation, is an important aspect of financial management because the dividend policy determines the division of earnings between payment to stockholders and reinvestment in the firm to exploit growth opportunities. It affects the value of firm as well as overall financing decision such as financial structure, the flow of funds, corporate liquidity and investors' satisfaction.

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

Thus for the study, the following research problems have been raised;

-) Are all Nepalese Commercial Banks having uniform practice in dividend distribution?

-)] Is there any consistent relationship of dividend practices with other financial variables?
-)] Does the dividend policy affect the market price of commercial banks?
-)] Whether Nepalese stock market is efficient?

1.3 Objective of the Study

The study primarily focuses on the dividend practices of commercial banks with a view to suggest ways to maximize the shareholders return, i.e. value of their investment is maximized. Followings are the specific objectives of the study.

-)] To analyze the dividend practices of selected Nepalese commercial banks.
-)] To explore whether dividend practices affect the market price of shares differently in different banks.
-)] To examine the relationship of dividend with other financial variables in order to arrive at a consistent conclusion for the selected commercial banks.

1.4 Significance of the Study

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

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

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

1.5 Limitations of the Study

The limitations of the study are as follows:

- J The accuracy of secondary data depends on the reliability of the annual reports of the concerned banks and the accuracy of the primary data depends on the responses obtained from the questionnaire.
- J The study is focused only on dividend practice and price of stock only and does not cover the other financial aspects.
- J Only five banks are taken as samples to fulfill the objectives of the study.
- J This study covers five fiscal year period only, i.e. from 2004/05 to 2008/09.
- J Limited time and resources are also constraints.

1.6 Organization of the Study

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

Chapter I Introduction

Chapter one deals with the subject matters of the study. It consists of background of the study, statement of the problem, objectives of the study and limitation of the study and significance of the study.

Chapter II Review of Literature

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

Chapter III Research Methodology

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

Chapter IV Data Presentation and Analysis

Chapter four fulfills the objective of the study by presenting data and analyzing them with the help of various statistical tools as per methodology. It includes primary data as well as secondary data. It is concluded with the findings of the study.

Chapter V Summary, Conclusion and Recommendation

It states summary, conclusion and recommendation of the study based on the data presentation and its analysis using the tools used in the analysis.

Besides these chapters, Bibliography and Appendix are also included at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Framework

Dividend decision is an integral part of financial management decision. It is in the sense that the firm has to choose between distributing the profits to the shareholders and reinvesting it to finance the business. “The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders in return to their investment and the amount to be retained in the firm. It affects the financial structure, the flow of funds, corporate liquidity and investor's attitudes. It is a matter of interest for all the stakeholders. Thus, it is one of the central decision area related to policies seeking to maximize the value of firm’s common stock” (*Rao; 1992: 43*).

“Dividends refer to that portion of retained earnings that is paid to stockholders while dividend policy refers to the policy or guidelines that management uses in establishing the portion of retained earnings that is to be paid in dividends” (*Mathur; 1979: 297*).

“The policy of a company in the allocation of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. All aspects and questions related to payment of dividend are contained in a dividend policy. Generally, dividends are paid in the form of cash, which reduces the cash balance of the company. There is a reciprocal relationship between retained earnings and cash dividends. If retained earning is kept more by the company, less will be the dividend and vice-versa. The decision depends upon the objective of the management for wealth maximization” (*Gitman; 1976: 94*).

What and how much is desirable to pay dividend, is always a matter of dispute because shareholders expect higher dividend from company, as it tends to increase their current wealth whereas retention of earning is desirable for the growth of firm. These two objectives of the dividend policy are always in conflict. There is not yet consensus on whether the firms should follow certain pattern to distribute dividend and retain earnings. However, there is different decision models developed to analyze the situation and reach a decision. These decision models are conflicting and consider

the different aspects of the firm. One school of thought argues that dividend payment has no impact on valuation of a firm whereas other theories of dividend decision argues dividend to be active variable in valuation of firm. These different models on the relationship between dividend and the value of the firm will be discussed later on in this chapter in detail.

2.1.1 Concept of Dividend

The various concepts of dividend, defined in various books of finance, are discussed below:

(a) Discretionary Concept

“When the board of directors declares the amount of dividend, it is known as discretionary dividend. According to this concept, dividend payment is one of directors’ decisions and so they use discretion in declaration of dividend. Corporations’ charter vested powers to board of directors and it is up to their discretion that determines what and how much to pay by way of dividends to stockholders” (*Weston & Copeland; 1986: 123*).

“The power to declare dividends is lodged in the board of directors of the corporation. At a meeting of the board, in accordance with the charter and corporate by-laws, the board passes a resolution declaring the amount of dividend, the period which it covers, the payable date, and the record date of ownership” (*Gilbert & Edwin; 1967:180*).

Even in the context of Nepalese corporations, the decision regarding the payment of dividend is purely vested in the board of directors of corporation, and it is also insisted by the corporate acts. There are not any legal rights to demand any part of profit in the form of dividends by the ordinary shareholders because profits are the property of the corporations and not of individual shareholders.

(b) Pro-Rata Distribution Concept

“A dividend is a pro-rata distribution of cash, other assets, promises to pay, or additional stock to the shareholders of a corporation chargeable against its surplus

accounts or (for certain liquidating dividends only) against its capital stock accounts” (*Gilbert & Edwin; 1967:180*).

The pro-rata distribution refers to proportionate share of all outstanding stock, or all shares of a given class, which participate equally in whatever is distributed. Thus, under this concept, all shareholders enjoy equal right on the profit distributed by the corporations, according to their proportion of shares.

(c) Residual Concept

“Dividend is the residue left after meeting all obligations and adjusting for retention of earnings and other provisions. It is a residue since shareholders get dividends only when there exists balance of earnings after paying fixed obligations such as operating expenses, interest, provisions for depreciation, and setting.

Under this concept, dividend policy is a residual firm investment policy and dividends are paid only after financing all investment opportunities. So, dividend policy is totally passive in nature. “When we treat dividend policy as strictly a financing decision, the payment of cash dividends is a passive residual” (*Van Horne; 1993: 327*).

(d) Liability Concept

“Dividend once declared by the board of directors, becomes a liability of the corporation. When the board of directors of a solvent corporation declares cash dividend, the amount declared becomes an obligation to pay. If the directors avoid payment of dividend after declaration, the shareholders would have a right to take action against the directors to force payment. The dividends declared are treated as liabilities in the balance sheet if the shareholders do not come to claim in time” (*Pandey, 1991: 701*).

2.1.2 Types of Dividend

Though cash dividend is assumed to be the most popular form of dividend, corporation needs to follow various types of dividend according to the objectives and policies, which they implement. “The type of dividend that corporations follow is

partly a matter of attitude of directors and partly a matter of the various circumstances and financial constraints that bound corporate plans and policies”(Shrestha;1980: 70).

According to the changing needs of corporations, dividend is being distributed in several forms viz. cash dividend, stock dividend (bonus share issue), scrip dividend, property dividend, optional dividend and bond dividend. But in Nepal and India only two types of dividend namely cash dividend and stock dividend are being practiced.

i. Cash Dividend

“Cash dividend is the form of dividend, which is distributed to shareholders in cash out of earnings of company. The cash account and the reserves account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed” (Hastings; 1996: 370). So the companies should wisely make decisions regarding payment of cash dividend.

ii. Stock Dividend / Bonus Share

“A stock dividend represents the distribution of shares in addition to the cash dividend to the existing shareholders. This has the effect of increment in the number of outstanding shares of the company. The declaration of the bonus shares will increase the paid-up share capital and reduce the reserve and surplus of the company. The total net worth is not affected by the bonus issue. In fact, it represents nothing more than re-capitalization of the owners' equity portion, i.e., the reserve and surplus. It is simply an accounting transfer from retained earning to capital stock” (Gilbert and Edwin; 1967: 192).

iii. Scrip Dividend

“A scrip dividend is issued when company has been suffering from the cash problem and does not permit the cash dividend, but has earned profit. A dividend paid in promissory notes is called a scrip dividend. Scrip is a form of promissory notes promising to pay the holder at specified later date. Under this form of dividend, company issues and distributes transferable promissory notes to shareholders, which may be interest bearing or non - interest bearing. The use of scrip dividends is

desirable only when corporations have really earned profit and have only to wait for the conversion of other current assets into cash. Therefore, in order to overcome the temporary shortage of cash, sometimes company uses scrip dividends” (*Van Horne; 1993: 343*).

iv. Property Dividend

“It is also known by the name of liquidating dividends. It involves a payment of assets/property in any form other than cash. Such form of dividend may be followed whenever there are assets that are no longer necessary in the operation of the business or in extra ordinary circumstances. Companies own products and the securities of subsidiaries are the examples that have been paid as property dividend” (*Hastings; 1996: 375*).

v. Optional Dividend

The optional dividend is, in fact, not a kind of dividend but simply a choice of dividend given to the shareholders to accept either cash or stock dividend. But the shareholders consider the comparative value of stock dividend with the amount of optional cash. “If the two are very nearly the same, as it often the case, the cash option may be a convenience to the small shareholder, who thus avoids the case and expense of selling either whole or fraction of shares he does not wish to keep” (*Waring; 1931: 404*).

vi. Bond Dividend

“This type of dividend is distributed to the shareholders in the form of bond. It helps to postpone the payment of cash. In other words, company declares dividend in the form of its own bond with a view to avoid cash outflows. They are issued rarely. They are long term enough to fall beyond the current liability group. The stockholders become secured creditors if the bond carries lien on assets” (*Gitman; 1994: 552*).

2.1.3 Residual Theory of Dividends

“The residual dividend policy suggests that dividend paid by the firm should be viewed as a residual amount left after all acceptable investment opportunities have been undertaken” (*Gitman; 1994: 537*).

Dividend policy is a firm's policy in which dividend is paid only after all acceptable investments have been financed. So, payment of dividend depends on its investment policy. In other words, the firms use earnings to finance the investment opportunities having good returns. If the firm has earnings left after financing all acceptable investment opportunities these earnings would then be distributed to shareholders in the form of dividend. If not, there would be no dividends. Further, "the internally generated funds (i.e. retained earnings) are comparatively cheaper than the funds obtained from external sources (i.e. issuing new shares). It is because the retained earning or internally generated fund does not imply any flotation cost as in the external sources by selling equity shares" (*Van Horne; 1993: 327*).

2.1.4 Stability of Dividends

"Stability of dividends means regularity in paying some dividend annually, even though the amount of dividend may fluctuate from year to year and may not be related with earnings.

Stability or regularity of dividends is considered as a desirable policy by the management of most companies. Shareholders also generally prefer stable dividends because all other things being the same, stable dividends may have a positive impact on the market price of the share" (*Sinkey; 1988: 45*).

Three distinct forms of such stability may be distinguished.

a. Constant Dividend Per Share

"According to this form of stable dividend policy, a company follows a policy of paying a certain fixed amount per share as dividend. The fixed dividend amount would be paid year after year, irrespective of fluctuation in the earnings" (*Bearly & Myers; 1988: 51*).

b. Constant Payout Ratio

"Constant/target payout ratio is a form of stable dividend policy followed by some companies. The term payout ratio refers to the ratio of dividend to earnings or the percentage share of earnings used to pay dividend. With constant/target payout ratio, a firm pays a constant percentage of net earnings as dividend to the shareholders" (*Bearly & Myers; 1988: 51*).

c. Stable Rupee Dividend Plus Extra Dividend

“A policy of paying a low regular dividend plus a year end extra amount in good years is a compromise between the previous two policies. Under this policy, a firm usually pays fixed dividend to the shareholders and in years of marked prosperity, additional or extra dividend is paid over and above the regular dividend. As normal conditions return, the firm cuts the extra dividend and pays the normal dividend per share” (*Bearly & Myers; 1988: 52*).

2.1.5 Factors Affecting Dividend Policy

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

a. Size of the Earnings

“A firm that has high level of earning will generally pay a larger portion of its earnings in dividends. If the size of earnings is small, a smaller amount of the profits may be distributed to shareholders. Thus, size of earnings affects the dividend policy of the firm” (*Dean; 1999: 67*).

b. Liquidity Position

“The cash or liquidity position of the firm influences its ability to pay dividends. A firm may have sufficient retained earnings, but if they are invested in fixed assets, cash may not be available to make dividend payment. Thus, the company must have adequate cash available as well as retained earning to pay dividends” (*Dean; 1999: 68*).

c. Legal Rules

“Certain legal rules may limit the amount of dividends a firm may pay. These legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividends. While specific limitations vary be state, generally a corporation may not pay a dividend (i) if the firms’ liabilities exceed its assets, this provision is known as ‘The insolvency Rate’,(ii) if the amount of the dividend exceeds the accumulated profits (retained earnings), this legal provision is known as ‘The Net Profit Rule’, and (iii) if the dividend is proposed from capital invested in the firm. This provision is also known as ‘The Capital Impairment Rule.’ The second type

of legal restrictions is unique to each firm and results from restrictions in debt and preferred stock contracts” (Dean; 1999: 68).

d. Desire of Shareholders

“Shareholders may be interested either in dividend incomes or capital gains. Wealthy shareholder in a high income tax bracket may be interest in capital gains as against current dividends. A retired and old person, whose source of income is dividend, would like to get regular dividend. In a closely held company, management usually knows the desires of shareholders. So, they can easily adopt a dividend policy that satisfies all shareholders. But in a widely held company, number of shareholders is very large and they have diverse desires regarding dividends and capital gains. Some shareholders want cash dividends, while other prefer bonus share.” (Dean; 1999: 70)

e. Need to Repay Debt

“The need to repay debt also influences the availability of cash flow to pay dividend” (Dean; 1999: 70).

f. Restrictions in Debt Contracts

“Restrictions in debt contracts may specify that dividends may be paid only out of earnings generated after signing the loan agreement and only when net working capital is above a specified amount. Also, preferred dividends take precedence to common stock dividends” (Dean; 1999: 71.)

g. Rate of Asset Expansion

“A high rate of asset expansion creates a need retain funds rather than to pay dividends” (Dean; 1999: 71).

h. Profit Rate

“A high rate of profit on net worth makes it desirable to retained earnings rather than to pay them out if the investor will earn less on them” (Dean; 1999: 71).

i. Stability of Earning

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

may be retained to ensure that enough money is available for investment projects when needed” (Dean; 1999: 72).

j. Tax Position of Shareholders

“The tax position of stockholders also affects dividend policy. Corporations owned largely by taxpayers in high income tax brackets tend toward lower dividend payout where as corporations owned by small investors tend toward higher dividend payout” (Dean; 1999: 72).

k. Control

“For many small firms, and certain large ones, maintaining the controlling vote is very important. These owners would prefer the use of debt and retained profits to finance new investments rather than issue new stock. As a result dividend payout will be reduced” (Dean; 1999: 73).

l. Access to the Capital Markets

“A firm’s access to capital markets will be influenced by the age and size of the firm, therefore a well-established firm is likely to have higher payout ration than a smaller, newer firm” (Dean; 1999: 73).

2.2 Review of Major International Studies

In this section, an attempt has been made to review of the major studies concerning dividends and stock prices and management views on dividend policy.

Lintner (1956), in his study, “*Corporate Dividend Policy in the American Context*”, investigated a partial adjustment model by testing the dividend patterns of 28 companies. Lintner stated that dividends are ‘sticky’ in the sense that they are slow to change and lay behind shifts in earnings by one, or more periods. Further, dividend is a function of earnings of that year, existing dividend rate, target payout ratio and speed of adjustment. The followings were the basic objectives of the study.

-) To identify occasions when a change in dividends might well have been under active consideration even though no change was made.
-) To determine the factors existing most actively into dividends.

He concluded that a major portion of a firm's dividend could be expressed in the following manner.

$$DIV_t^* = P \text{ EPS}_t \text{-----} (1)$$

$$\text{and } DIV_t - DIV_{t-1} = a + b (DIV_t^* - DIV_{t-1}) + e_t \text{-----}(2)$$

Adding DIV_{t-1} on both sides of equation (2)

$$DIV_t = a + b DIV_t^* + (1-b) DIV_{t-1} + e_t \text{-----}(3)$$

Where,

DIV_t^* = Firm's desired payment

EPS_t = earnings

P = Targeted payout ratio

a = constant relating to dividend growth

b = adjustment factor relating to the previous period's 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.
-) In order to modify the pattern of dividend, investment opportunities, liquidity position, funds flows are not considered.

Firms generally have target pay out ratios in view while determining change in dividend rate or dividend per share.

Modigliani and Miller (1961), in their study, "*Dividend Policy, Growth and Valuation of Share*", stated that dividend policy of a firm is irrelevant as it does not affect the wealth of the shareholders. The value of the firm depends on the earning power of the firm's assets or its investment policy. Thus, when the investment policy is given, the dividend decision - splitting the earnings into packages of retentions and dividends does not influence the value of equity shares. In other words, the division of earnings between dividend and retained earning is irrelevant from shareholders viewpoint.

In general, the argument supporting the irrelevance of dividend valuation is that dividend policy of the firm is a part of its financing decisions. As a part of the financing decision of the firm, the dividend policy of the firm is a residual decision and dividends are passive residual.

The MM approach of irrelevance dividend is based on the following critical assumptions:

-) The firms operate in perfect capital market where all investors are rational. Information is freely available to all. Securities are infinitely divisible and no investor is large enough to influence the market price of securities.
-) There are no flotation costs. The securities can be purchased and sold without payment of any commission or brokerage etc.
-) Taxes do not exist.
-) The firm has a definite (fixed) investment policy, which is not subject to change.
-) Risk of uncertainty does not exist. Investors are also able to forecast future prices and dividends with certainty, and one discount rate is appropriate for all securities and all time periods. Thus $r = k = kt$ for all time.

M-M provide the proof in support of their argument in the following manner.

Step-One

The market price of a share of the firm in the beginning the period is equal to the present value of dividends paid at the end of the period plus the market price of the share at the end of the period.

Symbolically,

$$P_0 = \frac{D_1 + P_1}{1 + K_e}$$

Where,

- P_0 = Current market price of a share (market price at the beginning or at the Zero period.)
- K_e = the cost of equity capital (Assumed constant)
- D_1 = the dividend per share to be received at the end of the period one.
- P_1 = the market price of the share at the end of the period one.

Step-Two

Multiply both sides of equation (1) by the number of shares outstanding (n) to obtain the total value of the firm if no new financing exists.

$$np_c = \frac{n(D_1 + P_1)}{1 + K_e}$$

Where,

n = no. of outstanding shares at zero period.

Step-Three

If the firm issues (sells) number of new shares (m) to finance the new investment needs of the fund at a price of P_1 , the value of the firm at time zero will be:

$$np_c = \frac{n(D_1 + P_1) + (nP_1 - mP_1)}{1 + K_e} \dots\dots\dots(2)$$

$$np_c = \frac{nD_1 + P_1 + nP_1 - mP_1}{1 + K_e} \dots\dots\dots(3)$$

Where,

n = no. of shares at the beginning (no. of outstanding shares at zero period.)

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

Step-Four

The investment proposals of a firm, in a given period of time can be financed, either by retained earning or the issuance of new shares or both. Thus the amount of new issued will be:

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

Or, $mp_1 = I - E + nD_1 \dots\dots\dots (4)$

Where,

I = Investment needs

E = Earning available.

Step-Five

By substituting the value of mp_1 from equation (4) to equation (3), we get,

$$np_o = \frac{nD_1 + (n+m)p_1 - I + E - nD_1}{1 + K_e}$$
$$np_o = \frac{p_1(n+m) - I + E}{1 + K_e} \dots\dots\dots(5)$$

Step-Six

Conclusions: Since dividend does not appear directly in expression and $E, I, (n+m) p_1$ and k_e are assumed to be independent of dividend.

In other words, MM concludes that dividend policy is irrelevant and dividend policy has no effect in the value of the firm. A firm that pays dividends will have to raise funds externally to finance its investment plans. MM hold that when the firm pays dividends, external financing offsets its advantage.

Gordon (1962), in his study, "*The Stock Valuation using the Dividend Capitalization Approach*", stated that dividend policy does affect the value of shares even when the return on investment and required rate of return are equal. The investors are not indifferent between current dividend and retention of earnings with the prospect of future dividends, capital gain and both. Further, the investors have a strong preference for present dividends to future capital gains under the condition of uncertainty. It is assumed that current dividend is less risky than the expected capital gain. Also, an increase in dividend payout ratio leads to increase in the stock price for the reason that investors consider the dividend yield (D_1/P_o) is less risky than the expected capital gain.

Basic assumptions of this model are as follows:

-) The firm uses equity capital only.
-) Internal rate of return (r) and cost of capital (k_e) are constant.
-) The firm and its stream of earnings are perpetual.
-) There are no taxes on corporate income.

- J The retention ratio (b) once decided upon is constant. Thus the growth rate, ($g = b_r$) is constant forever.
- J K_e' must be greater than $g (=b_r)$ to get meaningful value.
- J The source of financing for new investment is only retained earning. No external financing is available.

Gordon's model is also known as Growth Model. The formula for finding out the market value per share, proposed by Gordon is given below.

$$P = \frac{e(1-b)}{k_e - g}$$

Where,

- P = Price of share / market value per share
- e = Earning per share
- b = Retention ratio / percentage of retained earning
- 1-b = Dividend payout ratio (i.e., percentage of earning distributed As dividend)
- k_e = Capitalization rate / cost of capital
- g or g_r = g or growth rate in r, (i.e., rate of return on investment of an All equity firm)

Friend and Puckett (1964), in their study, “*Dividend and Stock Price*”, used the regression analysis on the data of 110 firms from five industry samples, viz., chemicals (n=20), electronics (n=20), electric utilities (n=25), foods (n=25), and steels (n=20), in each of two years, 1956 and 1958. The industries were selected to permit a distinction to be made between the results for growth and non-growth industries and to provide a basis for comparison with results by other authors for earlier years. Both cyclical and non-cyclical industries were covered. The periods covered include a boom year for the economy when stock prices leveled off after a substantial rise (1956) and a somewhat depressed year for the economy when stock prices, however, rose strongly (1958).

They used two-regression model of price function and dividend supply function. In price function, dividends, retained earnings & price earnings ratio are independent variables, whereas, earnings, last year's dividends and price earning ratio are independent variables in dividend supply function. Symbolically, their price function and dividend supply function can be written as:

Price function; $P_t = a + b D_t + c R_t + d (E/P)_{t-1}$

Where,

P_t = Per share price at time t

D_t = Dividends at time t

R_t = Retained earnings at time t

$(E/P)_{t-1}$ = Lagged earnings price ratio

And, Dividend supply function;

$D_t = e + f E_t + g D_{t-1} + h (E/P)_{t-1}$

Where,

E_t = Earnings per share at time t

P_{t-1} = Last year dividend

The followings were the basic assumptions of their study:

-) Dividends do react to year-to-year fluctuations in earnings.
-) Price does not contain speculative components.
-) Earnings fluctuations may not sum zero over the sample.

Friend and Puckett concluded that dividends have a predominant influence on stock prices in the same three out of five industries but the differences between the dividends and retained earnings coefficients were not quite so marked as in the first set of regressions. The dividends and retained earnings coefficients were closer to each other for all industries in both years except for steels in 1956, and the correlations are higher, again except for steels.

At last, Friend and Puckett found a conclusion that, it is possible that management might be able, at least in some measure, to increase stock prices in non-growth industries by raising dividends, and in growth industries by greater retention, i.e. smaller (lower) dividends.

Walter (1966), in his study, “*Dividend Policy and Common Stock Price*”, proposed a model for share valuation. He stated that the dividend policy of the firm affects the value of the shares. So, the dividends are relevant. Also, the choice of dividend policies always affects the value of enterprise.

The assumptions of the Walter's model are as follows:

-)] Firm finances all investment through retained earning. The external funds (i.e. debt, new equity) are not used for new investment.
-)] All earning on the firm's investment (R) and the cost of capital (k) are constant.
-)] All earnings are either distributed as dividend or reinvested internally.
-)] The values of EPS and DPS are assumed to remain constant forever in determining a given value.
-)] The firm has a perpetual or infinite life.

Based on these above assumptions, Walter has given following formula of valuation of equity share.

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

Where,

- P = market value of an equity share
(Market price per share)
- DPS = Dividend per Share
- EPS = Earning Per Share
- r = The rate of return on the firm's investment.
- k_e = cost of capital / capitalization rate

According to Walter's model, the optimum dividend policy depends on the relationship between the firm's internal rate of return (r) and its cost of capital (k). Walter referred different dividend policy for different types of the firm which can be summarized as follows (Walter; 1966: 29-41).

Van Horne and Mc-Donald (1971), in their study, "*Dividend policy and New Equity Financing*", investigated the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks.

Empirical tests are performed with year end 1968 cross sections for two industries, using a well-known valuation model. For there investigation, they employed two samples of firms viz. the 86 electric utilities in the continental U.S. which are included on the COMPUSTAT utility data tape; and 39 companies in the electronics and electric component industries as listed on the COMPUSTAT industrial data tape in 1968.

They concluded that for electric utility firms in 1968, share value was not adversely affected by new equity financing in the presence of cash dividends, except for those firms in the highest new issue group and it made new equity a more costly form of financing than the retention of earnings.

They also indicated that the "Cost" disadvantages of new equity issues relatives to retained earnings widens as relatively large amounts of new equity are raised, so that the payment of dividends through excessive equity financing reduces share prices. For forms in the electronics-electronic component industry, a significant relationship between new equity financing and value was not demonstrated.

Chawla and Srinivasan (1987), in their study, "*Impact of Dividend And Retention on Share Price*", selected 18 chemicals and 13 sugar companies and estimated cross-sectional relationship for the years 1969 and 1973. They collected the required data from the official directory of Bombay stock exchange. They used two stages least square technique for estimation. They also used lagged, earnings price ratio instead of lagged price earnings ratio, i.e. $P/E_{(t-1)}$.

The followings were the prime objectives of their study.

-) To test the hypothesis of dividend and retained earnings.
-) To estimate a model to explain share price, dividend and retained earnings relationship.
-) To examine the structural changes in estimated relations over time.

In order to achieve (attain) these objectives, they used simultaneous equation model as developed by Friend and Puckett (1964). The following was the model in its unspecified form.

a.
$$\frac{\text{Price Function}}{P_t = f[D_t, R_t, P/E(t-1)]}$$

b.
$$\frac{\text{Dividend supply function}}{D_t = f[E_t, D(t-1), P/E(t-1)]}$$

b.
$$\frac{\text{Identity}}{E_t = D_t + R_t}$$

It was found, from the result of their two stages least square estimation, that the estimated coefficients had the correct sign and the coefficients of determination of all the equations were very high in case of chemical industry. It implies that the stock price and dividend supply variation can be explained by their independent variables. But in case of sugar industry, they found that the sign for retained earnings is negative in both years and left for further analysis of sugar industry.

Finally, they concluded that dividend hypothesis holds well in the chemical industry. Both dividend and retained earnings significantly explain the variation in share price in chemical industry. They also stressed that the impact of dividend is more pronounced than that of the retained earnings but the market has started shifting towards more weight for retained earnings.

2.3 Review of Journals and Articles

Shrestha (1992), in his article, “*Shareholders’ Democracy and Annual General Meeting Feedback*”, has dealt with the policies and financial performance of some financial companies and has made the following outcomes:

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

Pradhan (1993), in his article, “*Stock Market Behaviors in a Small Market: A case of Nepal*”, has conducted a study on Small Market Behavior in A Small Capital Market: A case of Nepal in 1993. It is pertinent to put forth here because he has analyzed various ratios related to dividend and market price of shares. The study was based on the pooled – cross sectional data of 17 enterprises covering the year from 1986 to 1990.

The major findings of the study were;

- J Stocks with larger ratio of dividend per share to market price per share have higher liquidity. Liquidity position of stocks paying lower dividends is also more variable as compared to stocks paying higher dividends.
- J Stocks with larger ratio of dividend per share to market price per share have lower leverage ratios. So, leverage ratios of stocks paying smaller dividends are also more variable as compared to stocks paying higher dividends.

- J Stocks with larger ratio of dividend per share to market price per share also have higher earnings. But these earning ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.
- J Positive relationship is observed between the ratio of dividend per share to market price per share and turnover ratios. Stocks with larger ratio of dividend per share to market price per share also have higher turnover ratios. Turnover ratios of stocks paying larger dividends are also more variable than that of stocks paying smaller dividends.
- J There is also a positive relationship between the ratio of dividend per share to market price per share and interest coverage. Stocks with higher ratio of dividend per share to market price per share also have higher interest coverage. Interest coverage of stocks paying larger dividends is also more variable as compared to stocks paying smaller dividends.
- J So, in conclusion, it indicates positive relationship of dividend per share to market price per share with liquidity, profitability, assets turnover and interest coverage; and negative relationship with leverage.

2.4 Review of Thesis

Katuwal (2001), in his study, “*A Comparative Study of Dividend Policy in Commercial Bank*”, has the main objective to find out the dividend policy in CBs. The other specific objectives of this study are:

- J To find out the impact of dividend on share prices.
- J To analyze the relationship of financials indicators.
- J To examine if there is any uniformity among DPS, EPS and DPR on the six sample banks.

The major findings of this study are:

- J Average EPS and DPS for the period covered by the study of all concerned banks are satisfactory.
- J Analysis of coefficient of variance indicates that there is large fluctuation in EPS and DPS and other are relatively more consistent.
- J The analysis of DPR shows that none of the sample banks have consistent dividend policy.

-)] The market value of shares in market in fluctuating in all sample banks.
-)] The most important decision is that no specific dividend payment strategy is followed by these banks. Payment of cash dividend and stock dividend are made without wise managerial decision due to unstable and adequate dividend and unequal payout ratio.

Ghimire (2002), in his study, “*Dividend Policy of Listed Companies with Reference to Banks, Finance and Insurance Companies*”, has the main objective to examine the dividend policy of listed companies. The other specific objectives of the study are;

-)] To identify the regularity of divided distribution of different listed companies.
-)] To identify the relationship between dividend policy and other financial indicators.
-)] To find out whether dividend policy affect the value of the firm or not.
-)] To analyze the relationship between DPS and MPS.
-)] To provide suggestion for the improvement of sample companies dividend policy on the basis of findings.

The major findings of the study are:

-)] The average dividend per share of the banks is satisfactory compared to finance and insurance companies.
-)] The average earning per share of the bank is also more satisfactory than finance and insurance companies.
-)] DPS of the finance companies are more fluctuating in comparison to banks among them HBL has more fluctuation and NGBL being consistent.
-)] Dividend yield of the finance and insurance are higher than banks and more consistent too.
-)] Banks are following aggressive dividend policy due to higher DPR whereas finance and insurance companies implemented moderate dividend policy.

Adhikari (2003), in his study, “*Corporate Dividend Practices in Nepal*”, has the main objective to analyze the dividend practices in Nepal. The other specific objectives of the study are;

-)] To analyze the properties of portfolios formed on dividend.

-) To examine the relationship between dividend and stock prices.
-) To test the impact of earning on dividend distribution.

The major findings of this research are:

-) Financial position of high dividend paying companies is comparatively better than that of low dividend paying companies.
-) Market price of stock of both finance and non finance and non finance sectors are affected by dividends.
-) There is a positive relationship between dividend and stock price
-) There is a negative relationship between dividend payout and earnings before tax to net worth
-) Stocks with larger ratio of DPS to book value per share have higher profitability. These profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.

Budhathoki (2006), in his study, "*The study of Dividend Policy of the commercial Banks in Nepal*", has the main objective to examine the dividend policy in banks. The other specific objectives of the study are;

-) To compare the dividend policy followed by different commercial banks chosen.
-) To analyze the relationship of dividend on other financial indicators.
-) To provide the sample banks with some fruitful suggestion that can be implemented easily and possible guideline to overcome various issues and gaps based on the findings of the analysis.

The major findings of this study are:

-) The average earning per share (EPS) of the banks under study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS.
-) The average dividend per share (DPS) shows that there is no regularity in dividend payment.

) The analysis of DPR shows that the Dividend Payout Ratio (DPR) of the banks is not stable.

) The average market price shows that there is quite high level of fluctuation.

Karki (2006), in his study, “*A Study on Dividend Policy in Finance Companies*”, has the main objective to examine the dividend policy followed by finance companies.

The other specific objectives of the research are;

) To compare the dividend paid by Annapurna Finance Company Ltd. and Butwal Finance Ltd.

) To examine the relationship between DPS with EPS, MPS and BPS.

) To predict DPS in future years.

The major findings of the study are;

) The shareholders of AFCL enjoyed higher DPS than those of BFL.

) AFCL made more EPS than BFL. However, DPR of BFL is higher than DPR of AFCL, which indicates that BFL has concentrated on attracting new shareholders by distributing more portion of its earning while AFCL focused on retaining earning for internal financing.

) There is high positive relationship between DPS and EPS of AFCL and the relationship is statistically significant. However, the relationship between DPS and EPS of BFL is positive but the relationship is insignificant.

) The correlations coefficient indicates that MPS increases with the increase in DPS of each bank and the relationship is positively significant.

) The regression analysis indicates that the MPS of both banks is highly dependent on the DPS and EPS of corresponding banks.

) The trend analysis depicts that the DPS of AFCL in the fiscal year 2005/06 and 2006/07 will be Rs.12.76 and Rs.14.85 respectively, whereas the DPS of BFL will be Rs.9.82 and Rs.10.15 in the fiscal year 2005/06 and 2006/07 respectively.

Khatiwada (2008), in his study, “*A Comparative Study of Dividend Policy in Nepal Investment Bank Ltd. and Standard Chartered Bank Ltd.*”, has the main objective to identify the dividend policy in SCBNL and NIBL. The other specific objectives of the research are;

-)] To examine the relationship between earning and dividend distribution.
-)] To evaluate the impact of dividend on share price.
-)] To examine the relationship of DPS with other financial indicators.

The major findings of the study are;

-)] The shareholders of SCBNL received comparatively very high DPS than the shareholders of NIBL. On average, SCBNL paid Rs. 110 DPS, whereas NIBL paid Rs. 14.50 DPS.
-)] SCBNL remained more successful than NIBL in generating earning per share. On average, SCBNL earned Rs. 155.84 per share, while NIBL earned only Rs. 50.54.
-)] The DPR of SCBNL is also very high compared to that of NIBL. The average DPR of SCBNL is 70.59% and that of NIBL is 28.69%.
-)] DPS has high influence on the price rise/fall of share. Both MPS and BPS are highly dependent on the DPS of corresponding banks.
-)] The prime objective to invest in bank is to earn dividend. About 78% of the respondents stated that dividend is the most alluring factor in share investment.
-)] There exists high correlation between DPS and EPS, DPS and MPS and DPS and BPS of both banks.

Research Gap

All of the above research focused on the secondary data analysis to examine the dividend distribution pattern in listed companies. However, for the examination of dividend policy, the analysis of primary data is also equally important. Keeping this fact into consideration, the present study embraces both the secondary data and primary data to analyze the dividend practices and its impact on market price. Further, the study uses multiple regression analysis to trace out the joint effect of EPS and DPS on MPS.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

The main objective of this research work is to do the comparative study of dividend practice and price of stock of selected commercial banks. To complete this study, following design and format has been adopted.

First of all, information and data are collected. Both primary and secondary data are collected. The important information and data are selected. Then data are arranged in useful manner. After that, data are analyzed by using appropriate financial and descriptive and analytical tools. In analysis part, interpretation and comments are also made wherever necessary.

3.2 Sources of Data

The study is based on both secondary and primary data. The secondary data are collected from the annual reports of SCBNL, NABIL, EBL, BOK and HBL, especially financial indicators presented by the banks. However, the primary data has been collected by distributing questionnaire containing seven set of questions to the investors and market analyzer.

3.3 Data Processing Procedures

For the purpose of this study, the different data are obtained from different sources, which are scanned and tabulated under different heads. After tabulation, they are analyzed by applying both financial and statistical tools.

3.4 Population and Sample

At present, there are 26 commercial banks operating in Nepal. However, only 17 commercial banks are listed in NEPSE. Due to limited time and resource factors, it is not possible to study all of them regarding the study topic. Therefore, sampling will be done selecting from population.

The samples to be selected are as follows:

- i. Standard Chartered Bank Nepal Limited
- ii. Nabil Bank Limited
- iii. Everest Bank Limited
- iv. Bank of Kathmandu Limited
- v. Himalayan Bank Limited

3.5 Period of the Study

The study is based on five years financial data of sample banks (i.e., SCBNL, NABIL, EBL, BOK and HBL) from fiscal year 2004/05 to 2008/09.

3.6 Research Tools

To achieve the objectives of the research, the following financial and statistical tools will be used.

3.6.1 Financial Tools

Earning Per Share (EPS)

Earning per share refers the rupee amount earned per share of common stock outstanding. It measures the return of each equity shareholders. EPS is computed to know the earnings capacity and to make comparison between concerned banks. This ratio can be computed by dividing the earning available to common shareholders by the total number of common stock outstanding of banks. Thus,

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

Dividend Per Share (DPS)

Dividend per share indicates the rupee earnings actually distributed to common stockholders per share held by them. It measures the dividend distribution to each equity shareholders. It is defined as the result received by dividing the total dividend distributed to equity shareholders by the total number of equity shares outstanding. Thus,

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

Dividend Payout Ratio (DPR)

It is the portion of the earning used for the payment of dividend. The dividend payout ratio is the earnings paid to the equity holders from the earnings of a firm in a particular year. This ratio shows what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks. This ratio is calculated by dividing dividend per share by the earning per share. Thus,

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

Price-Earning Ratio (P/E Ratio)

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

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

Earning Yield and Dividend Yield (EY and DY Ratio)

The earning yield and dividend yield both are expressed in terms of the market value (price) per share. Earning yield and dividend yield are two important profitability ratios from the point of view of the ordinary shareholders.

Earning yield (EY)

It measures the earning in relation to market value of share. It gives some idea of how much an investor might get for his money. The share with higher earnings yield is worth buying. Earning yield is informative to compare the market share prices of stocks in the secondary market. It is calculated as:

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

Dividend Yield (DY)

Dividend yield is a percentage of dividends per share on market price per share. It shows that how much is the dividend per share on market price per share. It measures the dividend in relation to market value of share. This ratio is calculated by dividing dividend per share by market price of the stock. Thus,

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

3.6.2 Statistical Tools

➤ Arithmetic Mean or Average (\bar{X})

An average is a single value that represents a group of values. It depicts the characteristic of the whole group. It is a representative of the entire mass of homogeneous data, its value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is obtained by dividing the sum of the quantities by the number of items. Thus,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

X = sum of the sizes of the items

N = number of items

Standard Deviation: (S.D.)

It is the most usual measure of dispersion and it represents the square root of the variance of a group of numbers, i.e., the square root of the sum of the squared differences between a group of numbers and their arithmetic mean. Generally, it is denoted by small Greek letter σ (read as sigma) and is obtained as follows.

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

Where,

N = Number of items in the series.

\bar{X} = mean

X = Variable

The standard deviation measures the absolute dispersion or variability of a distribution; the greater the amount of dispersion or variability the greater the standard derivation, for the greater will be the magnitude of the deviations of the values from their mean.

Coefficient of Variation (C.V.)

Karl Pearson developed this measurement to measure the relative dispersion. It is used in such problems where we want to compare the variability of two or more series. It is denoted by C.V. and is obtained by dividing the arithmetic mean to standard deviation. Thus,

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

Coefficient of Correlation

The correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variables. It helps us in determining the degree of relationship between two or more variables. It doesn't tell us anything about cause and effect relationship. It describes not only the magnitude of correlation but also its direction. The coefficient of correlation is a number, which indicates to what extent two things (variables) are related to what extent variations in one go with the variations in the other.

The value of coefficient of correlation as obtained shall always lie between ± 1 , a value of -1 indicating a perfect negative relationship between the variables, of $+1$ a perfect positive relationship, and of no relationship when correlation coefficient is zero. The zero correlation coefficient means the variables are uncorrected. It is defined by Karl Pearson as:

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

Under the correlation analysis, the following financial variables have been calculated.

Simple Correlation Coefficient

- a) Between dividend per share and earning per share.
- b) Between market price per share and dividend per share.
- c) Between market price per share and earning per share.
- d) Between earning yield and dividend yield.
- e) Between market price per share and dividend payout ratio.

Multiple Correlation Coefficients

- a) Between market price per share (MPS) and earning per share (EPS), dividend per share (DPS).

Regression Analysis

Regression is a statistical method for investigating relationships between the variables by the establishment of an approximate functional relationship between them. It is considered as a useful tool for determining the strength of relationship between two (Simple Regression) or more (Multiple regression) variables. In order to make easier in study, regression analysis has been divided into two parts.

Simple Regression

The analysis, which is used to explain the average relationship between two variables, is known as simple linear regression analysis. In this study, the following simple regression has been analyzed.

Simple Regression Analysis

a. Dividend per share on Earning per share

$$Y = a + bX$$

Where,

Y= Dividend per share

a = Regression constant

b= Regression coefficient

X= Earning Per share

This model has been constructed to examine the relationship between dividend per share (dependent variable) and earning per share (independent variable). It enables to

determine whether the variable of earning per share is the influencing factor to dividend decision or not.

b. Market Price per Share on Dividend per share

$$Y = a+bX$$

Where,

Y= Average stock price

a= Regression constant

b= Regression coefficient

X= Dividend per share

This model examines the relationship between the average stock price and dividend per share.

c. Market Price per Share on Earning per Share

$$Y = a+bX$$

Where,

Y = Market price per share

a = Regression constant

b = Regression coefficient

X = Earning per Share

The relationship between market price per share and earning per share can be explained through this model.

d. Dividend Yield on Earning Yield

$$Y= a+bX$$

Where,

Y= Dividend Yield

a= Regression constant

b= Regression coefficient

X= Earning Yield

The relationship between dividend yield and earning yield can be explained through this model.

e. Market price per Share on Dividend payout ratio

$$Y = a + bX$$

Where,

Y= Average stock price (Market price per share)

a= Regression constant

b= Regression coefficient

X= Dividend payout ratio.

This model tests the dependency of market price per share on dividend payout ratio.

Multiple Regression Analysis

In multiple regression analysis, two or more independent variables are used to estimate the values of dependent variable. It is the extension of simple regression technique. In this study, the following multiple regression analysis have been analyzed.

(a) Market price per share on Earning per share and Dividend per share

$$X_1 = a_1 + b_1X_2 + b_2X_3$$

Where,

X₁= Market price per share

a₁= Regression constant

b₁= Regression coefficient of variable 1st

b₂= Regression coefficient of variable 2nd

X₂= Dividend per share

X₃= Earning per share

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Secondary Data Analysis

4.1.1 Earning Per Share (EPS)

Earning per share shows the company's capability of generating profit per share. Higher EPS indicates better performance of the companies and company with net loss will result negative EPS. The EPS of sampled banks, SCBNL, NABIL, EBL, BOK & HBL is presented in the Table 4.1.

Table 4.1
Earning Per Share (EPS)

FY	SCBNL	NABIL	EBL	BOK	HBL	Average
2004/05	143.14	105.49	54.22	30.1	47.91	76.17
2005/06	175.84	129.21	62.78	43.67	59.24	94.15
2006/07	167.37	137.08	78.42	43.5	60.66	97.41
2007/08	131.92	108.31	91.82	59.94	62.74	90.95
2008/09	109.99	106.76	97.69	54.68	61.90	86.20
Mean	145.65	117.37	76.99	46.38	58.49	88.98
S.D.(□)	23.87	13.15	16.56	10.33	5.42	13.87
C.V.%	16.39	11.20	21.51	22.27	9.27	16.13

(Source: Appendix II)

The table 4.1 showed the trend of EPS of the selected sample banks. The EPS of SCBNL fluctuated during the five year periods. The EPS ranged from Rs. 143.14 in the fiscal year 2004/05 to Rs. 175.84 in the fiscal year 2005/06. In average, SCBNL earned Rs. 145.65 per share. Also, the C.V. of 16.39% on the EPS indicated uniformity in the EPS.

Likewise, the EPS of NABIL increased in the beginning for fiscal years 2004/05, 2005/06, 2006/07 respectively. Finally, the EPS of NABIL decreased to Rs. 106.76 in the fiscal year 2008/09. However, in average NABIL earned Rs. 117.37 per share and the C.V. on such EPS was 11.20%. In contrast, the EPS of EBL followed increasing trend over the entire period i.e. Rs.54.22 & Rs.97.69

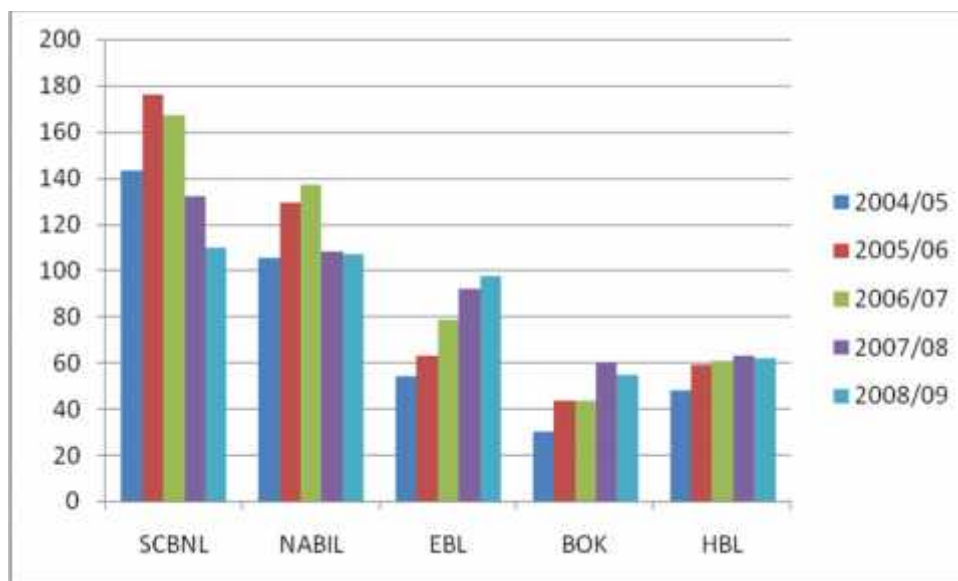
respectively for FY 2004/05 and FY 2008/09. In average, the EPS was Rs. 76.99 and the coefficient of variation was 21.51%.

Similarly, the EPS of BOK increased in the beginning and then no uniform trend has achieved. In average, BOK earned Rs. 46.38 per share and the coefficient of variation on such EPS was 22.27%.

Eventually, the EPS of HBL was found to be in increasing trend, i.e. Rs. 47.91 to Rs.62.74 for the fiscal year 2004/05 to FY 2007/08 but it slightly decreased in FY 2008/09. In an average, HBL earned Rs. 58.49 per share and the coefficient of variation on such EPS was 9.27%, which indicated quite uniformity on EPS.

Comparing five banks on the basis of EPS, it can be concluded that SCBNL has the highest EPS than others compared to that of others. However, on the basis of trend on EPS, it can be considered that EBL has good prospect in future as the EPS of EBL is in increasing trend.

Figure 4.1
Earning Per Share



4.1.2 Dividend per share (DPS)

Dividend per share is the amount of dividend distributed to the shareholders for the single unit of share. Higher the amount of DPS retains the shareholder for long term. Both cash dividend and bonus share dividend distributed to the shareholders of the sampled banks is presented in the Table 4.2.

Table 4.2
Dividend per Share

Banks	Fiscal Year					Mean	S.D.	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
<u>SCBNL</u>								
CD	120	130	80	80	50	92	29.26	31.8
BSD	0	10	50	50	50	32	22.27	69.6
TD	120	140	130	130	100	124	13.56	10.94
<u>NABIL</u>								
CD	70	85	100	60	35	70	22.14	31.62
BSD	0	0	40	40	50	26	21.54	82.85
TD	70	85	140	100	85	96	23.96	24.96
<u>EBL</u>								
CD	0	25	10	20	30	17	10.77	63.35
BSD	20	0	30	30	30	22	11.66	53.01
TD	20	25	40	50	60	39	14.97	38.38
<u>BOK</u>								
CD	15	18	20	2.11	7.37	12.5	6.74	53.92
BSD	0	30	0	40	40	22	18.33	83.32
TD	15	48	20	42.11	47.37	34.5	14.12	40.92
<u>HBL</u>								
CD	11.58	30	15	25	12	18.72	7.44	39.74
BSD	20	5	25	20	31.56	20.31	8.75	43.1
TD	31.58	35	40	45	43.56	39.03	5.08	13.01
Average	51.32	66.60	74.00	73.42	67.19	66.51	14.34	25.64

(Source: Appendix II)

The table 4.2 depicted the dividend pattern of the sampled banks. The table showed that SCBNL distributed Rs. 120, Rs. 130, Rs. 80, Rs. 80 and Rs. 50 as cash dividend in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Also, the bank distributed bonus share equivalent to Rs. 10, Rs. 50, Rs.50 and Rs. 50 in the fiscal year 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, SCBNL disbursed Rs. 124 per share as dividend; Rs. 92 as cash dividend and Rs. 32 as bonus share. The coefficient of variation of 10.94% also indicated higher consistency in the dividend policy.

Similarly, the cash dividend paid by NABIL was Rs. 70, Rs. 85, Rs. 100, Rs. 60 and Rs. 35 in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. NABIL disbursed bonus share dividend equivalent to Rs. 40 in fiscal year 2006/07 and 2007/08 and Rs.50 in fiscal year 2008/09. In average, NABIL paid Rs. 96 per share as dividend, viz, Rs. 70 per share as cash dividend and Rs. 26 per share as bonus share dividend. Also, the coefficient of variation on dividend payment was 24.96%, indicating inconsistency.

Likewise, EBL paid Rs. 25, Rs. 10, Rs.20 and Rs. 30 as cash dividend in the fiscal year 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Also the bonus share dividend equivalent to Rs. 20, Rs. 30, Rs. 30 and Rs. 30 was disbursed in the fiscal year 2004/05, 2006/07, 2007/08 and 2008/09 respectively. In average, EBL paid Rs. 39 as dividend, viz, Rs. 17 per share as cash dividend and Rs. 22 per share as bonus share dividend. The coefficient of variation of 38.38% indicated higher irregularity in the payment of dividend.

In contrast, BOK paid Rs. 15, Rs. 18, Rs. 20, Rs. 2.11 and Rs.7.37 as cash dividend in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Also the bank disbursed bonus share equivalent to Rs. 30 in the fiscal year 2005/06 and Rs. 40 in the fiscal year 2007/08 and 2008/09. In average, BOK paid Rs. 34.5 as total dividend, viz, Rs. 12.5 as cash dividend and Rs. 22 as bonus share dividend. It seemed that the bank focused more on distributing bonus share rather than cash as dividend to retain the cash within the bank. However, the coefficient of variation of 40.92% demonstrated that the bank lacks good dividend policy.

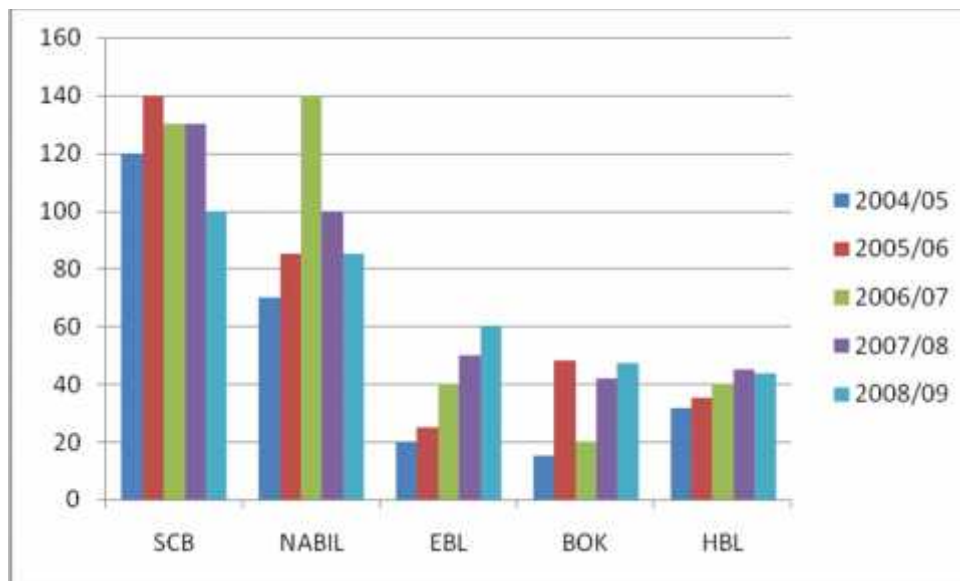
Eventually, HBL paid Rs. 11.58, Rs. 30, Rs. 15, Rs. 25 and Rs.12 as cash dividend in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. The bank also distributed bonus share dividend equivalent to Rs. 20, Rs. 5, Rs. 25, Rs. 20 and Rs. 31.56 in the fiscal year 2004/05, 2005/06, 2006/07 and 2007/08 and 2008/09 respectively. The higher the average bonus share dividend (Rs. 20.31) than average cash dividend (Rs. 18.72) implied that HBL

focused more on bonus share than cash while making decision on the form of dividend. In average, HBL paid Rs. 39.03 as dividend for the five year periods and the coefficient of variation on such dividend was 13.01%.

On the basis of DPS, it can be concluded that SCBNL remained more success to retain its existing shareholders and to allure the potential shareholders toward it, by distributing higher amount of dividend per share than other banks. Also, there is high uniformity in dividend policy of SCBNL as the coefficient of variation on DPS of SCBNL is lowest compared to that of other banks.

Figure 4.2

Dividend Per Share



4.1.3 Market Price Per Share (MPS)

Market price per share is the value per share of the organization in the market. The MPS measures the eagerness of the investors to participate in the concerned organization as a shareholder. Highest MPS indicates highest demand of share and vice-versa. The MPS of the five sampled banks is presented in the Table 4.3.

Table 4.3
Market Price Per Share

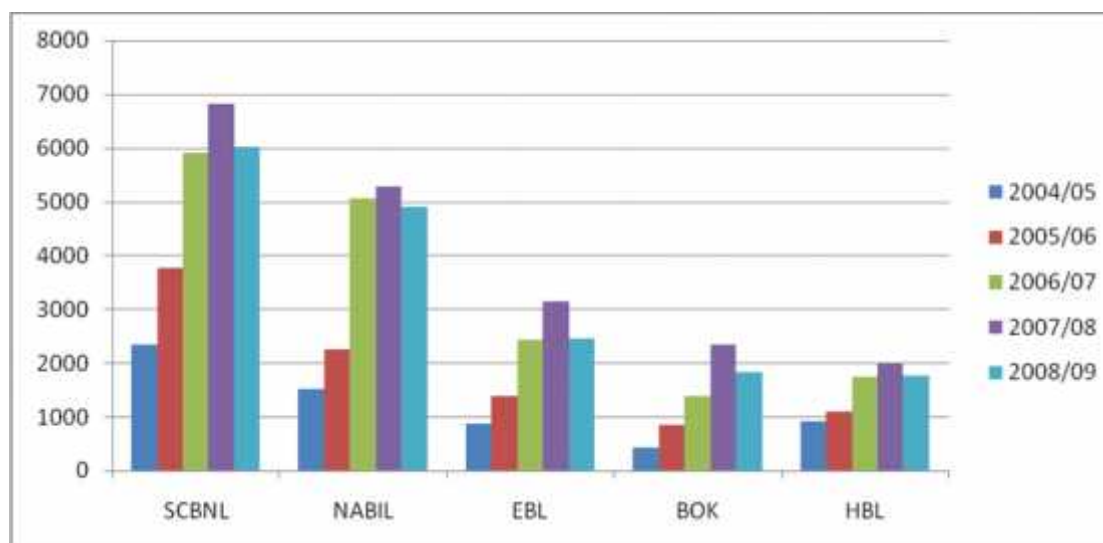
FY	SCBNL	NABIL	EBL	BOK	HBL	Average
2004/05	2345	1505	870	430	920	1,214.00
2005/06	3775	2240	1379	850	1100	1,868.80
2006/07	5900	5050	2430	1375	1740	3,299.00
2007/08	6830	5275	3132	2350	1980	3,913.40
2008/09	6010	4899	2455	1825	1760	3,389.80
Mean	4972	3793.8	2053.2	1366	1500	2,737.00
S.D.(□)	1656.79	1590.37	815.08	681.38	412.8	1,031.28
C.V.%	33.32	41.92	39.7	49.88	27.52	38.47

(Source: Appendix II)

The table 4.3 showed the market price per share of the sampled banks. The table showed that the MPS of each banks were in increasing trend in first four years period and then decreased in the last year. The MPS of SCBNL ranged from Rs. 2345 in the fiscal year 2004/05 to Rs. 6830 in the fiscal year 2007/08. Similarly, the MPS of NABIL was Rs. 1505 in the fiscal year 2004/05 and reached to Rs. 5275 in the fiscal year 2007/08. Similarly, the MPS of EBL ranged from Rs. 870 in the fiscal year 2004/05 to Rs. 3132 in the fiscal year 2007/08. Likewise, the MPS of BOK ranged from Rs. 430 in the fiscal year 2004/05 to Rs. 2350 in the fiscal year 2007/08. Also, the MPS of HBL ranged from Rs. 920 in the fiscal year 2004/05 to Rs. 1980 in the fiscal year 2007/08. MPS of all the five sample banks were decreased in the fiscal year 2008/09 as seen in the table.

On the basis of average MPS of SCBNL (Rs. 4972), NABIL (Rs. 3793.8), EBL (Rs. 2053.20), BOK (Rs. 1366) and HBL (Rs. 1500), it can be concluded that the share of SCBNL has highest market price in the secondary market than that of other banks. This might be due to highest earning capacity and highest generosity in paying dividend by the SCBNL. Further, ranking the bank on the basis of highest MPS on each year and average, SCBNL comes into rank 1, NABIL comes into rank 2, EBL comes into rank 3, HBL comes into rank 4 and BOK comes into rank 5.

Figure 4.3
Market Price per Share



(Source: Appendix II)

4.1.4 Dividend Payout Ratio (DPR)

Dividend payout ratio measures the percentage of dividend paid out of the net profit after tax. It also clears about the retained earning, since net profit is composed of dividend and retained earning only. Higher dividend payout ratio attracts the shareholders and consequently increases the market price of share. The dividend payout ratio of the sampled banks is presented in the following Table 4.4.

Table 4.4
Dividend Payout Ratio (DPR) Analysis

FY	SCBNL	NABIL	EBL	BOK	HBL	Average
2004/05	83.83	66.36	36.89	49.83	65.92	60.57
2005/06	79.62	65.78	39.82	109.92	59.08	70.84
2006/07	77.67	102.13	51.01	45.98	65.94	68.55
2007/08	98.54	92.33	54.45	70.25	71.72	77.46
2008/09	90.91	59.6	61.58	86.62	70.36	73.81
Mean	86.11	77.24	48.75	72.52	66.6	70.24
S.D.(□)	7.7	16.78	9.19	23.76	4.42	12.37
C.V.%	8.94	21.73	18.86	32.76	6.64	17.79

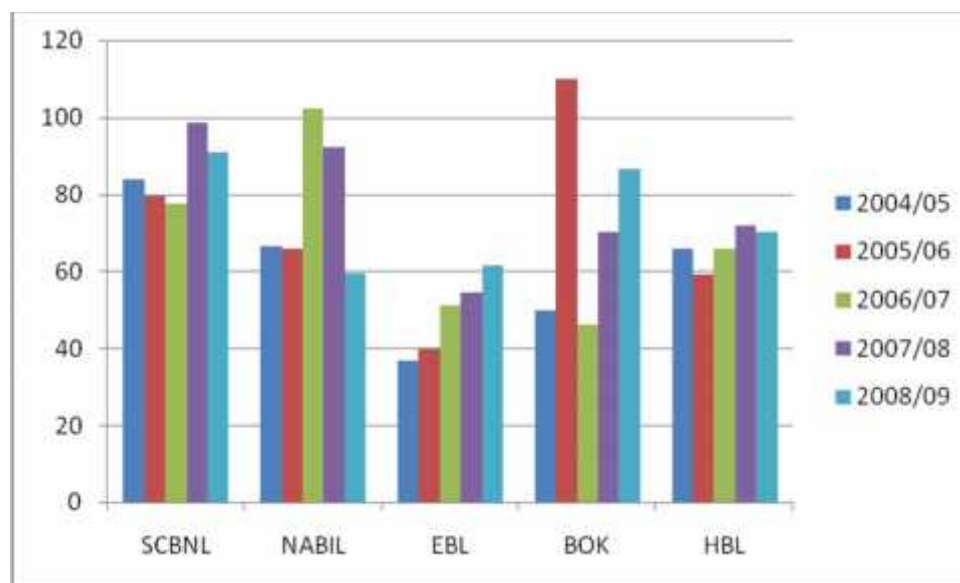
(Source: Appendix II)

The table 4.4 showed the dividend payout ratio of the sampled banks, SCBNL, NABIL, EBL, BOK and HBL. The table showed that the dividend payout ratio of SCBNL in the five consecutive years were 83.83%, 79.62%, 77.67%, 98.54% and 90.91% respectively. Similarly, the dividend payout ratio of NABIL ranged from 66.36% in the fiscal year 2004/05 to 102.13% in the fiscal year 2006/07. Also, the dividend payout ratio of EBL ranged from 36.89% in the fiscal year 2004/05 to 61.58% in the fiscal year 2008/09. Likewise, the dividend payout ratio of BOK was highest in the fiscal year 2005/06, i.e. 109.92%, and lowest in the fiscal year 2004/05, i.e. 49.83%. Finally, the dividend payout ratio of HBL ranged from 65.92% in the fiscal year 2004/05 to 71.72% in the fiscal year 2007/08.

In average, SCBNL, NABIL, EBL, BOK and HBL distributed 86.11%, 77.24%, 48.75%, 72.52% and 66.60% respectively of the total earnings as dividend to the shareholders of the corresponding banks. Besides these, the coefficient of variations on dividend payout ratio of SCBNL was 8.94%, NABIL was 21.73%, EBL was 18.86%, BOK was 32.76% and HBL was 6.64%.

Although NABIL distributed 102.13% and BOK distributed 109.92% of earnings as dividend, the dividend payout ratio of SCBNL is considered best since the average dividend payout ratio of SCBNL is highest compared to that of other banks. Hence, it can be considered that the shareholders of SCBNL were more satisfied than those of other banks, as SCBNL's shareholders got more percentage of EPS in the form of dividend. Also, on the basis of highest dividend payout ratio, it can be considered that SCBNL is most matured bank than others. In addition, the 2nd lowest C.V. of 8.94% of SCBNL indicated that SCBNL has best benchmark and uniformity on dividend payout ratio. But lowest CV of HBL shows that it has maintained uniformity in distributing dividends to its shareholders.

Figure 4.4
Dividend Payout Ratio



4.1.5 Price Earning Ratio (P/E Ratio)

Price Earning Ratio is the ratio between market price per share and earning per share. It indicates the payment by the investors in the market for per rupee of earning in the company. The price earning ratio of both banks for the period taken for study is presented in the following Table 4.5.

Table 4.5
Price Earning Ratio

FY	SCBNL	NABIL	EBL	BOK	HBL	Average
2004/05	16.38	14.27	16.04	14.29	19.2	16.04
2005/06	21.47	17.34	21.97	19.46	18.57	19.76
2006/07	35.25	36.84	30.99	31.61	28.69	32.68
2007/08	51.77	48.7	34.11	39.21	31.56	41.07
2008/09	54.64	45.89	24.55	33.37	28.43	37.38
Mean	35.9	32.61	25.53	27.59	25.29	29.38
S.D.(□)	15.44	14.3	6.44	9.25	5.35	10.16
C.V.%	43.02	43.86	25.21	33.52	21.14	33.35

(Source: Appendix II)

The table 4.5 depicted the P/E Ratio of sampled banks. The P/E ratio of SCBNL ranged from 16.38 times in the fiscal year 2004/05 to 54.64 times in the fiscal year 2008/09. The P/E ratio of SCBNL followed an increasing trend in the five year

period. However, SCBNL maintained an average 35.90 times P/E ratio in the five year period, which indicated that the investors get Rs. 35.90 for 1 rupee of earnings in an average. The standard deviation and coefficient of variation of the same bank in P/E ratio are 15.44 times and 43.02% respectively.

Similarly, the P/E ratio of NABIL followed increasing trend in the four consecutive years and decreased in fiscal year 2008/09. The P/E ratio of NABIL ranged from 14.27 times in the fiscal year 2004/05 to 48.70 times in the fiscal year 2007/08. The average P/E ratio of 32.61 times indicated that the shareholders of NABIL had to invest Rs. 32.61 on market to generate Re. 1 as earnings. However, the coefficient of variation of 43.86% depicted higher fluctuation in the P/E ratio.

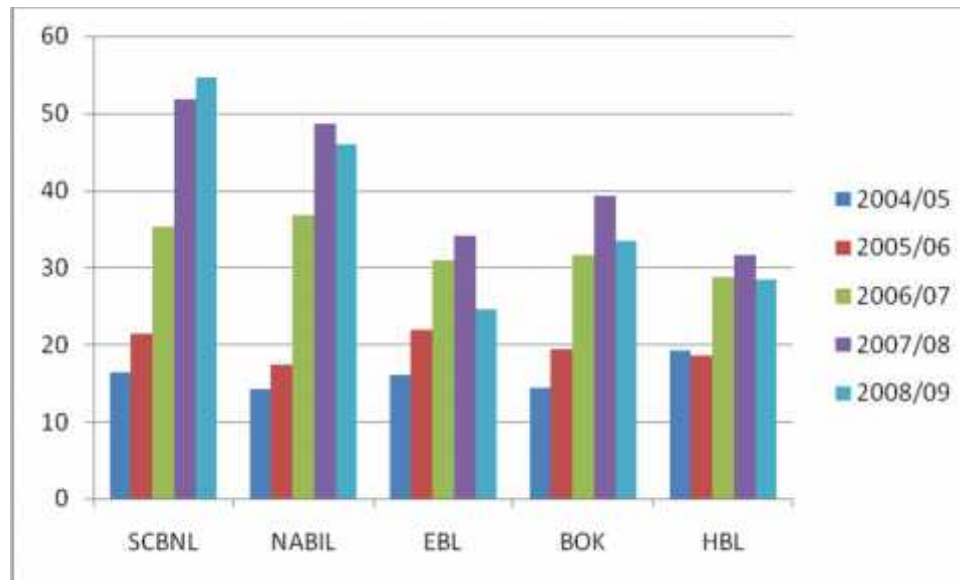
Likewise, the P/E ratio of EBL followed increasing trend in the four year periods and decreased in fiscal year 2008/09. The table showed that the P/E ratio of EBL ranged from 16.04 times in the fiscal year 2004/05 to 34.11 times in the fiscal year 2007/08. In average, the P/E ratio of EBL was 25.53 times which tacitly stated that the shareholders invested Rs. 25.53 to gain Re. 1 as earning.

Further, the P/E ratio of BOK was also found to be increasing trend for four years and decreased in fiscal year 2008/09, which ranged from 14.29 times in the fiscal year 2004/05 to 39.21 times in the fiscal year 2007/08. The average P/E ratio of BOK in the five years period was 27.59 times, which implied that the shareholders of BOK invested Rs. 27.59 in market to achieve Re. 1 as income. Also, the coefficient of variation on the P/E ratio was 33.52%, which indicated little inconsistency.

However, the P/E ratio of HBL was in fluctuating trend. The P/E ratio of HBL in the fiscal year 2004/04 is 19.20 times and in the fiscal year 2005/06 it decreased to 18.57. increased to 28.69 times in the fiscal year 2006/07 and reached to 31.56 times in the fiscal year 2007/08 and again decreased to 28.43 in fiscal year 2008/09. In average, the shareholders of HBL spent Rs. 25.29 to earn Re. 1, as the average P/E ratio of HBL was 25.29 times. Eventually, the coefficient of variation on P/E ratio of HBL was 21.14%, indicating little inconsistency.

Comparing the P/E ratio of the sampled banks, it can be considered that the investors of HBL paid least amount to gain 1 rupee of earning. Similarly, the P/E ratio of HBL fluctuated by 21.14%, stating lower inconsistency than other banks.

Figure 4.5
Price Earning Ratio



4.1.6 Earning Yield Ratio (EY)

It measures the earning in relation to market value of share. It gives idea on how much an investor might get for his money. The share with higher earnings yield is worth buying. Earning yield is informative to compare the market share prices of stocks in the secondary market.

Table 4.6
EY Analysis

FY	SCBNL	NABIL	EBL	BOK	HBL	Average
2004/05	6.10	7.01	6.23	7.00	5.21	6.31
2005/06	4.66	5.77	4.55	5.14	5.39	5.10
2006/07	2.84	2.71	3.23	3.16	3.49	3.09
2007/08	1.93	2.05	2.93	2.55	3.17	2.53
2008/09	1.83	2.18	3.98	3.00	3.52	2.90
Mean	3.47	3.94	4.18	4.17	4.15	3.98
S.D.(σ)	1.66	2.05	1.17	1.67	0.94	1.50
C.V.%	47.86	51.86	27.98	40.07	22.71	38.10

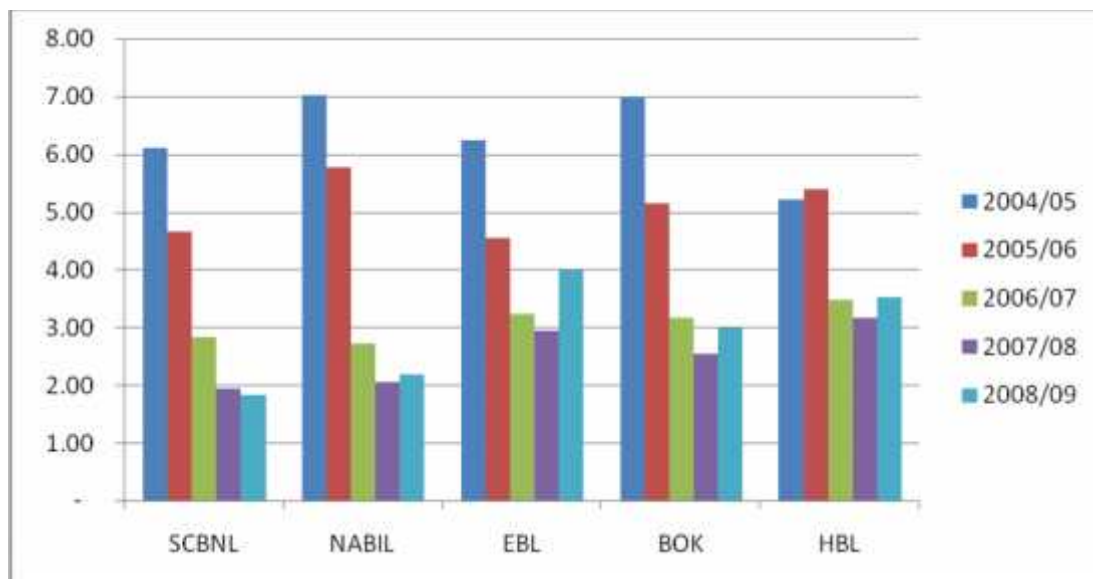
(Source: Appendix II)

The table 4.6 exhibited the earning yield ratio of the five sampled banks. The table showed that the earning yield of the sampled banks were in in fluctuating trend. The earning yield of SCBNL was 6.10% in the fiscal year 2004/05 and decreased to 1.83% in the fiscal year 2008/09. Similarly, the earning yield of NABIL ranged from 7.01% in the fiscal year 2004/05 to 2.05% in the fiscal year 2007/08, EBL decreased from 6.23% in the fiscal year 2004/05 to 2.93% in the fiscal year 2007/08 and BOK ranged from 7.00% in the fiscal year 2003/04 to 2.55% in the fiscal year 2007/08. However, the earning yield of HBL ranged from 5.21% in the fiscal year 2004/05 to 3.17% in the fiscal year 2007/08 and slightly increased to 3.52% in fiscal year 2008/09.

In average, SCBNL, NABIL, EBL, BOK and HBL converted 3.47%, 3.94%, 4.18%, 4.17% and 4.15% of the total market price of the corresponding bank into earning per share respectively. The coefficient of variations on earning yield of SCBNL, NABIL, EBL, BOK and HBL are 47.86%, 51.86%, 27.98%, 40.07% and 22.71% respectively.

Comparing five banks on the basis of earning yield, it can be concluded that EBL remained more successful to efficiently convert its market price per share into earning per share. This might be due to lower growth of MPS of EBL in comparison of MPS of other banks.

Figure 4.6
Earning Yield



4.1.7 Dividend Yield Ratio (DY)

Dividend yield is a percentage of dividends per share on market price per share. It shows that how much is the dividend per share on market price per share. The dividend yield ratio of EBL and BOK during the five year period is presented in the following Table 4.7.

Table 4.7
DY Analysis

FY	SCBNL	NABIL	EBL	BOK	HBL	Average
2004/05	5.12	4.65	2.3	3.49	3.43	3.80
2005/06	3.71	3.79	1.81	5.65	3.18	3.63
2006/07	2.2	2.77	1.65	1.45	2.3	2.07
2007/08	1.9	1.9	1.6	1.79	2.27	1.89
2008/09	1.66	1.74	2.44	2.6	2.48	2.18
Mean	2.92	2.97	1.96	3	2.73	2.72
S.D.(□)	1.31	1.11	0.34	1.5	0.48	0.95
C.V.%	44.97	37.47	17.59	50.15	17.57	33.55

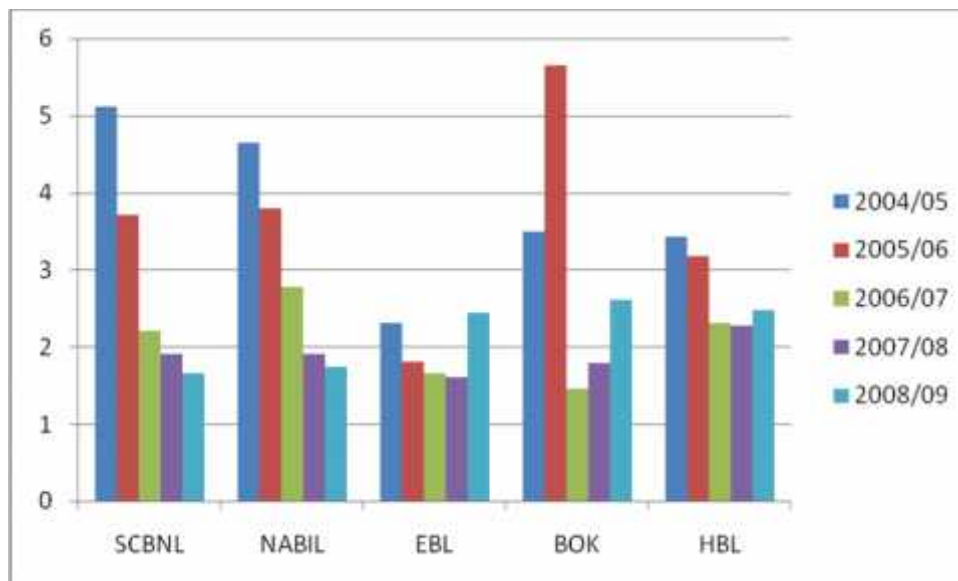
(Source: Appendix II)

The above table depicted that the dividend yield ratio of SCBNL, NABIL, EBL and HBL were in decreasing trend, whereas the dividend yield ratio of BOK is in fluctuating trend. The dividend yield of SCBNL was 5.12% in the base year 2004/05, which gradually decreased to 1.66% in the fiscal year 2008/09. Similarly, the dividend yield ratio of NABIL decreased to 1.74% in the fiscal year 2008/09 from 4.65% in the fiscal year 2004/05 and the dividend yield of EBL decreased to 1.60% in the fiscal year 2007/08 from 2.30% in the fiscal year 2004/05. However, the dividend yield of BOK increased to 5.65% in the fiscal year 2005/06 from 3.49% in the fiscal year 2004/05 and finally decreased to 1.79% in the fiscal year 2007/08. Also, the dividend yield of HBL decreased to 2.27% in the fiscal year 2007/08 from 3.43% in the fiscal year 2004/05.

In average, the dividend yield ratio of SCBNL, NABIL, EBL, BOK and HBL was 2.92%, 2.97%, 1.96%, 3.00% and 2.73% respectively and the coefficient of variation on such dividend yield of the respective banks was 44.97%, 37.47%, 17.59%, 50.19% and 17.57% respectively.

Comparing five banks on the basis of dividend yield, it can be concluded that NABIL bank was more aggressive in paying dividend by considering the market price per share as the dividend yield of NABIL was highest compared to that of other banks. Hence, the shareholders of NABIL were more satisfied than those of others as the shareholders of NABIL got more percentage of amounts as returns that they had invested in the market while purchasing share.

Figure 4.7
Dividend Yield



4.1.8 Correlation and Regression Analysis

To find the relationship of dividend with other determinants of share price the Karl Pearson's correlation coefficient and regression lines have been analyzed.

4.1.8.1 Dividend per Share (DPS) and Earning Per Share (EPS)

4.1.8.1.1 Correlation between DPS and EPS

The correlation coefficient between DPS and EPS as calculated in Appendix IV is summarized below.

Table 4.8
Correlation Coefficient between DPS and EPS

Banks	r	Relationship	r²	P.E.	6 P.E.	Remarks
SCBNL	0.8627	+ ve (Direct)	0.7443	0.0771	0.4628	Significant
NABIL	0.7151	+ ve (Direct)	0.5114	0.1474	0.8844	Insignificant
EBL	0.9933	+ ve (Direct)	0.9867	0.0040	0.0241	Significant
BOK	0.7306	+ ve (Direct)	0.5338	0.1406	0.8437	Insignificant
HBL	0.8630	+ ve (Direct)	0.7447	0.0770	0.4621	Significant

(Source: Appendix III)

The Table 4.8 depicted the relationship between Earning Per Share (EPS) and Dividend Per Share (DPS) of the sample banks. The correlation coefficient (r) between EPS and DPS of SCBNL was 0.8627, which indicated positive relationship between EPS and DPS, meaning DPS increases with the increase in EPS. The higher the value of r (0.8627) than the calculated 6 P.E. (0.4628) indicated that there exist significant relationship between DPS and EPS of SCBNL. Thus, the dividend policy depends mainly with EPS along with other variables. Similarly, the correlation coefficient between DPS and EPS of NABIL was positive, i.e. 0.7151, which was lower than the 6 P.E. (0.8844). This implied that DPS decreases with the increase in EPS and the relationship was statistically insignificant. Also, the coefficient of determination, 0.5114, indicated that 51.14% in the DPS of NABIL was explained by the change in EPS.

Likewise, DPS of EBL had perfect positive relationship with EPS as the correlation coefficient between EPS and DPS was 0.9933. Also, the relationship was statistically significant as the correlation coefficient 'r' (0.9933) was greater than the calculated 6 P.E. (0.0241). Further, the coefficient of determination 'r²' (0.9867) indicated that 98.67% variation in DPS was explained by the change in EPS. Again, the DPS of BOK had indirect relationship with the EPS of same bank. As the correlation

coefficient 'r' (0.7306) was less than the calculated 6 P.E. (0.8437), it can be concluded that the relationship between EPS and DPS was statistically insignificant and hence DPS decreases with the increase in EPS. Eventually, the correlation coefficient of 0.8630 demonstrated that the relationship between EPS and DPS of HBL was positive and the coefficient of determination 'r²' (0.7447) indicated that 74.47% variation in DPS was explained by the variation in EPS. As the correlation coefficient 'r' (0.8630) was greater than the calculated 6 P.E. (0.4621), it can be considered that there existed significant relationship between EPS and DPS and hence the DPS of HBL increased with the increase in EPS.

Comparing five sampled banks, it can be concluded that the DPS is highly influenced by EPS in EBL in the comparison of other banks, as the correlation coefficient 'r' (0.9933) of EBL was greatest than that of other banks.

4.1.8.1.2 Regression Analysis: Dividend Per Share on Earning Per Share

The simple regression equation of DPS on EPS calculated in the Appendix IV is:

$$Y = a + b X$$

$$DPS_{SCBNL} = 52.62 + 0.49 \times EPS_{SCBNL}$$

$$DPS_{NABIL} = -56.91 + 1.30 \times EPS_{NABIL}$$

$$DPS_{EBL} = -43.65 + 0.90 \times EPS_{EBL}$$

$$DPS_{BOK} = -38.99 + 1.00 \times EPS_{BOK}$$

$$DPS_{HBL} = -49.82 + 0.81 \times EPS_{HBL}$$

Table 4.9

Regression Analysis of DPS on EPS

Banks	No. of observation (n)	Constant (a)	Regression coefficient (b)
SCBNL	5	52.62	0.49
NABIL	5	-56.91	1.30
EBL	5	-43.65	0.90
BOK	5	-38.99	1.00
HBL	5	-49.82	0.81

(Source: Appendix III)

The Table 4.9 depicted the output of simple regression analysis of DPS on EPS of the five banks viz. SCBNL, NABIL, EBL, BOK and HBL. In case of SCBNL, regression coefficient was 0.49, which indicated that one rupee increase in EPS leads to an average Re. 0.49 increase in dependent variable DPS, holding the constant (a), 52.62, uniform. Similarly, the corr. coefficient of 1.30, 0.90, 1.00 and 0.81 of NABIL, EBL, BOK and HBL respectively indicated that one rupee increase in EPS leads to Rs. 1.30, Rs. 0.90, Rs. 1.00 and Rs. 0.81 increase in dependent variable DPS of NABIL, EBL, BOK and HBL respectively, holding the other variable constant.

Comparing five banks, it can be concluded that NABIL showed most generosity while distributing dividend in case of increase in EPS by the same amount in all banks. In other word, the shareholders of NABIL got more dividend amount than other bank's shareholders with the increase in EPS by same amount.

4. 1.8.2 Market Price per Share (MPS) and Dividend per Share (DPS)

4.1.8.2.1 Correlation between MPS and DPS

The correlation between MPS and DPS and the probable error calculated in *Appendix IV* is summarized in the below Table 4.10.

Table 4.10
Correlation Coefficient between DPS and MPS

Banks	R	Relationship	r ²	P.E.	6 P.E.	Remarks
SCBNL	0.1499	+ ve (Direct)	0.0225	0.2949	1.7692	Insignificant
NABIL	0.6595	+ ve (Direct)	0.4349	0.1705	1.0227	Insignificant
EBL	0.8624	+ ve (Direct)	0.7437	0.0773	0.4638	Significant
BOK	0.5105	+ ve (Direct)	0.2606	0.2230	1.3382	Insignificant
HBL	0.9838	+ ve (Direct)	0.9630	0.0097	0.0580	Significant

(Source: Appendix III)

The Table 4.10 revealed the relationship between dividend per share (DPS) and market price of stock (MPS). Coefficients of correlation of SCBNL, NABIL, EBL, BOK and HBL were 0.1499, 0.6595, 0.8624, 0.5105 and 0.9838 respectively. The coefficient of correlation between DPS and MPS of SCBNL, NABIL and BOK indicated that there existed no statistically significant relationship, as the correlation coefficient of SCBNL (0.1499), NABIL (0.6595) and BOK (0.5105) were lower than the calculated 6 P.E. of corresponding bank. Thus, the MPS of SCBNL depended upon the other financial indicators, not solely on DPS. In case of EBL, since the value of 'r' (0.8624) was greater than 6 P.E. (0.4638), there was significant relationship between MPS and DPS, which means MPS increased with the increase on DPS. Similarly, there existed significant relationship between MPS and DPS of HBL, since the value of 'r' (0.9838) was greater than the 6 P.E. (0.0580). Further the coefficient of determination indicated that 86.24% and 98.38% variation in DPS of EBL and HBL respectively were explained by the change in EPS.

Comparing five sampled banks, it can be concluded that DPS has highest impact on the MPS of HBL since the correlation coefficient between DPS and EPS was greatest in HBL compared to other banks.

4.1.8.2.2 Regression Analysis: Market Price per Share (MPS) on Dividend Per Share (DPS)

Let the dependent variable MPS is denoted by Y and independent variable DPS is denoted by X, then the regression equation of MPS on DPS is given by:

$$Y = a + b X$$

$$MPS_{SCBNL} = -4981.14 + 18.30 \times DPS_{SCBNL}$$

$$MPS_{NABIL} = -3797.81 + 43.78 \times DPS_{NABIL}$$

$$MPS_{EBL} = -2055.81 + 46.97 \times DPS_{EBL}$$

$$MPS_{BOK} = -1368.44 + 24.64 \times DPS_{BOK}$$

$$MPS_{HBL} = -1373.69 + 132.06 \times DPS_{HBL}$$

Table 4.11
Regression Analysis of MPS on DPS

Banks	No. of observation (n)	Constant (a)	Regression coefficient (b)
SCBNL	5	-4981.14	18.30
NABIL	5	-3797.81	43.78
EBL	5	-2055.81	46.97
BOK	5	-1368.44	24.64
HBL	5	-1373.69	132.06

(Source: Appendix III)

The Table 4.11 depicted the major output of simple regression analysis of average market price per share (MPS) on dividend per share (DPS) of the concerned banks.

As far as the regression of MPS and DPS was concerned, the regression coefficient of SCBNL, NABIL, EBL, BOK and HBL were 18.30, 43.78, 46.97, 24.64 and 132.06 respectively. It indicated that a one-rupee increase in DPS leads to an average of Rs. 18.30 increase in MPS of SCBNL, Rs. 43.78 increase in MPS of NABIL, Rs. 46.97 increase in MPS of EBL, Rs. 24.64 increase in MPS of BOK and Rs. 132.06 increase in MPS of HBL, if the other variable remains constant.

Comparing five banks, it can be concluded that even a single rupee change in DPS leads to highest amount of Rs. 132.06 variation in MPS of HBL. Thus, it can be considered that DPS has greatest impact to MPS in HBL than other banks in term of amount.

4.1.8.3 Average Stock Price (MPS) and Earning Per Share (EPS)

4.1.8.3.1 Correlation between MPS and EPS

The correlation coefficient between MPS and EPS and the probable error is presented in the following Table 4.12.

Table 4.12
Correlation between MPS and EPS

Banks	R	Relationship	r²	P.E.	6 P.E.	Remarks
SCBNL	0.3636	+ ve (Direct)	0.1322	0.2618	1.5706	Insignificant
NABIL	0.0804	+ ve (Direct)	0.0065	0.2997	1.7982	Insignificant

EBL	0.9095	+ ve (Direct)	0.8273	0.0521	0.3126	Significant
BOK	0.9595	+ ve (Direct)	0.9206	0.0240	0.1438	Significant
HBL	0.8298	+ ve (Direct)	0.6886	0.0939	0.5635	Significant

(Source: Appendix III)

The Table 4.12 demonstrated the relationship between market price per share (MPS) and earning per share (EPS) of the five concerned banks. Coefficient of correlation between MPS and EPS of SCBNL, NABIL, EBL, BOK and HBL were 0.3636, 0.0804, 0.9095, 0.9595 and 0.8298 respectively. NABIL and SCB had very lower positive correlation between MPS and EPS, and the relationship was statistically insignificant since the value of 'r' (0.3636 and 0.0804) was less than 6 P.E. (1.5706 and 1.7982).

However in case of EBL, the correlation coefficient 'r' (0.9095) was greater than the 6 P.E. (0.3126), which means that there was significant relationship between MPS and EPS and hence MPS increased with the increment in EPS and vice versa. Similarly, in BOK and HBL the coefficient of correlation 'r' of each bank was greater than the calculated 6 P.E. of the corresponding banks, which directly implied that there was significant relationship between MPS and EPS of each bank and hence EPS had direct impact on MPS of the respective banks. Eventually, the coefficient of determination elaborated that 90.95%, 95.95% and 82.98% variation in MPS of EBL, BOK and HBL respectively was explained by the change in the value of EPS.

Comparing five sampled banks, it can be concluded that EPS has most crucial role in changing the MPS in BOK than other banks, as the correlation coefficient between MPS and EPS of BOK was highest than that of other remaining banks.

4.1.8.3.2 Regression Analysis: Average Stock Price (MPS) on Earning per Share (EPS)

Let MPS be denoted by Y and EPS be denoted by X, then the regression line of MPS (Y) on EPS (X) is given by:

$$\begin{aligned}
 Y &= a + b X \\
 \text{MPS}_{\text{SCBNL}} &= -4978.10 - 25.24 \times \text{EPS}_{\text{SCBNL}} \\
 \text{MPS}_{\text{NABIL}} &= -3802.39 - 9.73 \times \text{EPS}_{\text{NABIL}}
 \end{aligned}$$

$$\begin{aligned} \text{MPS}_{\text{EBL}} &= -2057.85 - 44.77 \times \text{EPS}_{\text{EBL}} \\ \text{MPS}_{\text{BOK}} &= -1370.49 - 63.29 \times \text{EPS}_{\text{BOK}} \\ \text{MPS}_{\text{HBL}} &= -1510.79 - 63.20 \times \text{EPS}_{\text{HBL}} \end{aligned}$$

Table 4.13
Regression Analysis of MPS on EPS

Banks	No. of observation (n)	Constant (a)	Regression Coefficient (b)
SCBNL	5	-4978.10	25.24
NABIL	5	-3802.39	9.73
EBL	5	-2057.85	44.77
BOK	5	-1370.49	63.29
HBL	5	-1510.79	63.20

(Source: Appendix III)

With respect to the above regression result of Market Price per Share (MPS) on Earning per Share (EPS), correlation coefficients in five sampled banks, SCBNL (25.24), NABIL (9.73), EBL (44.77), BOK (63.29) and HBL (63.20), were positive. The correlation coefficient of SCBNL indicated that 1 rupee increase in earning per share leads to Rs. 25.24 increase in Market Price per Share, if the other variable - 4978.10 remains constant. Similarly, 1 rupee increase in EPS leads to Rs. 9.73, Rs. 44.77, Rs. 63.29 and Rs. 63.20 increase in MPS of NABIL, EBL, BOK and HBL respectively, if the corresponding other variables remain uniform.

Comparing five sampled banks, it can be concluded that EPS has highest impact on MPS of EBL, since the same amount of increase in EPS yields to highest increment in MPS of EBL.

4.1.8.4 Earning Yield (EY) and Dividend Yield (DY)

4.1.8.4.1 Correlation between EY and DY

The correlation between DY and EY and the probable error determined in Appendix III is summarized in the below Table 4.14.

Table 4.14
Correlation between EY and DY

Banks	R	Relationship	r²	P.E.	6 P.E.	Remarks
SCBNL	0.9928	+ ve (Direct)	0.9827	0.0043	0.0259	Significant

NABIL	0.9738	+ ve (Direct)	0.9483	0.0156	0.0935	Significant
EBL	0.6392	+ ve (Direct)	0.4086	0.1784	1.0703	Insignificant
BOK	0.6325	+ ve (Direct)	0.4001	0.1810	1.0858	Insignificant
HBL	0.9682	+ ve (Direct)	0.9373	0.0189	0.1134	Significant

(Source: Appendix III)

The Table 4.14 depicted the relationship between earning yield (EY) and dividend yield (DY) of the concerned banks. According to this table, the correlation coefficients between DY and EY of SCBNL, NABIL, EBL, BOK and HBL were 0.9928, 0.9738, 0.6392, 0.6325 and 0.9682 respectively. Similarly, the coefficient of determination indicated that 99.28%, 97.38%, 63.92%, 63.25% and 96.82% variation in dividend yield of SCBNL, NABIL, EBL, BOK and HBL respectively were explained by the change in earning yield. However, the relationship was statistically insignificant in BOK and EBL, since the value of 'r' of BOK (0.6325) was lower than 6 P.E. (1.0858) and the value of 'r' of EBL (0.6392) was lower than the 6 P.E. (1.0703).

In contrast, there existed significant relationship between earning yield and dividend yield of SCBNL, NABIL and HBL, since the correlation coefficient of the respective banks were greater than the calculated 6 P.E. of the corresponding banks.

Comparing five sampled banks, it can be concluded that earning yield has highest effect on dividend yield in SCBNL than in other banks, since there existed highest perfect correlation between earning yield and dividend yield of SCBNL.

4.1.8.4.2 Regression Analysis: Dividend yield (DY) on Earning Yield (EY)

Let dividend yield be denoted by Y and earning yield be denoted by X, then the regression line of dividend yield on earning yield is given by;

$$\begin{aligned}
 Y &= a + b X \\
 DY_{SCBNL} &= -5.01 + 0.78 \times EY_{SCBNL} \\
 DY_{NABIL} &= -4.90 + 0.53 \times EY_{NABIL} \\
 DY_{EBL} &= -5.53 + 0.19 \times EY_{EBL} \\
 DY_{BOK} &= -5.49 + 0.57 \times EY_{BOK} \\
 DY_{HBL} &= -7.13 + 0.49 \times EY_{HBL}
 \end{aligned}$$

Table 4.15
Regression Analysis of DY on EY

Banks	No. of observation (n)	Constant (a)	Regression Coefficient (b)
SCBNL	5	-5.01	0.78
NABIL	5	-4.90	0.53
EBL	5	-5.53	0.19
BOK	5	-5.49	0.57
HBL	5	-7.13	0.49

(Source: Appendix III)

The table 4.15 depicted the major output of simple regression analysis of Dividend Yield (DY) on Earning Yield (EY) of the concerned banks.

With respect to the above regression result of dividend yield (DY) in earning yield (EY), in case of SCBNL, correlation coefficient was 0.78, which mean that one rupee increase in earning yield leads to an average of about Rs. 0.78 increase in the dividend yield holding other variable, -5.01, constant. Similarly, the corr. coefficient indicated that one rupee increase in earning yield lead to Rs. 0.53, Rs. 0.19, Rs. 0.57 and Rs. 0.49 increase in dividend yield of NABIL, EBL, BOK and HBL respectively, if the other variable of the corresponding banks remain uniform.

Comparing five sampled banks, it can be concluded that earning yield has highest impact on dividend yield of SCBNL than in other banks, since the same amount of increase in earning yield leads to highest (Rs. 0.78) increase in SCBNL.

4.1.8.5 Market Price Per Share (MPS) and Dividend Payout Ratio (DPR)

4.1.8.5.1 Correlation between MPS and DPR

Let 'r' be the correlation coefficient between MPS and DPR and P.E. be the probable error.

Table 4.16
Correlation between MPS and DPR

Banks	r	Relationship	r²	P.E.	6 P.E.	Remarks
SCBNL	0.5334	+ ve (Direct)	0.2845	0.2158	1.2949	Insignificant
NABIL	0.5758	+ ve (Direct)	0.3315	0.2017	1.2099	Insignificant

EBL	0.8597	+ ve (Direct)	0.7390	0.0787	0.4724	Significant
BOK	0.0734	+ ve (Direct)	0.0054	0.3000	1.8001	Insignificant
HBL	0.7483	+ ve (Direct)	0.5599	0.1327	0.7965	Insignificant

(Source: Appendix III)

As shown in Table 4.16, the correlation coefficient between dividend payout ratio (DPR) and market price per share of SCBNL, NABIL, EBL, BOK and HBL were 0.5334, 0.5758, 0.8597, 0.0734 and 0.7483 respectively, which indicated positive relationship between the two variables. Coefficient of determination (r^2) indicated that 28.45%, 33.15%, 73.90%, 0.54% and 55.99% variations in MPS was explained by DPR. However, the lower the value of 'r' of SCBNL, NABIL, BOK and HBL with their corresponding calculated 6 P.E. indicated that the change in DPR had nothing to do with the variation in MPS. But in contrast, the change in DPR had positive impact on the change in MPS in case of EBL, since the value of 'r' of EBL was greater than the corresponding 6 P.E. and hence MPS increased with the increment in DPR.

Comparing five sampled banks on the basis of correlation coefficient between DPR and MPS, it can be concluded that the dividend payout ratio has highest impact on market price per share in EBL than in other banks.

4.1.8.5.2 Regression Analysis: Market Price Per Share (MPS) on Dividend Payout Ratio (DPR)

Let MPS be denoted by Y and DPR be denoted by X, then the regression line of Y on X is given by:

$$\begin{aligned}
 Y &= a + b X \\
 \text{MPS}_{\text{SCBNL}} &= -4983.19 + 114.84 \times \text{DPR}_{\text{SCBNL}} \\
 \text{MPS}_{\text{NABIL}} &= -3798.40 + 54.56 \times \text{DPR}_{\text{NABIL}} \\
 \text{MPS}_{\text{EBL}} &= -2058.50 + 76.21 \times \text{DPR}_{\text{EBL}} \\
 \text{MPS}_{\text{BOK}} &= -1369.05 + 2.10 \times \text{DPR}_{\text{BOK}} \\
 \text{MPS}_{\text{HBL}} &= -1381.06 + 115.28 \times \text{DPR}_{\text{HBL}}
 \end{aligned}$$

Table 4.17

Regression Analysis of MPS on DPR

Banks	No. of observation (n)	Constant (a)	Regression Coefficient
-------	------------------------	--------------	------------------------

			(b)
SCBNL	5	-4983.19	114.84
NABIL	5	-3798.40	54.56
EBL	5	-2058.50	76.21
BOK	5	-1369.05	2.10
HBL	5	-1381.06	115.28

(Source: Appendix III)

The Table 4.17 depicted the linear relationship between stock price (MPS) and dividend payout ratio (DPR) of concerned banks. The beta coefficient indicated that there existed positive relationship between DPR and MPS of each bank and one percentage increase in DPR leads to Rs. 114.84, Rs. 54.56, Rs. 76.21, Rs. 2.10 and Rs. 115.28 increase in MPS of SCBNL, NABIL, EBL, BOK and HBL respectively, if the other variables of the corresponding bank remain constant.

Comparing five sample banks, it can be considered that even the same percentage increase in dividend payout ratio yield highest rupee increase in MPS of HBL (Rs. 115.28) in comparison with the other banks and hence DPR plays most crucial role to upgrade the value of MPS in HBL than in other remaining banks.

4.1.8.6 Market Price Per Share (MPS), Dividend Per Share (DPS) and Earning Per Share (EPS)

4.1.8.6.1 Multiple Correlations between MPS, DPS and EPS

Let correlation between MPS and DPS be denoted by r_{12} , DPS and EPS be denoted by r_{23} and MPS and EPS be denoted by r_{13} . Then the multiple correlation coefficient of MPS on DPS and EPS is given by; (Appendix V)

$$R_{1,23} = \frac{r_{12}^2 + r_{13}^2 - 2 r_{12} r_{23} r_{13}}{1 - r_{23}^2}$$

$$R_{\text{MPS.DPS EPS}} (\text{SCBNL}) = 0.4869$$

$$R_{\text{MPS.DPS EPS}} (\text{NABIL}) = 0.8650$$

$$R_{\text{MPS.DPS EPS}} (\text{EBL}) = 0.9763$$

$$R_{\text{MPS.DPS EPS}} (\text{BOK}) = 0.9992$$

$$R_{\text{MPS.DPS EPS}} (\text{HBL}) = 0.9845$$

Table 4.18

Multiple Correlations between MPS, EPS and DPS

Banks	R	Relationship	r²	P.E.	6 P.E.	Remarks
SCBNL	0.4869	+ ve (Direct)	0.2371	0.2301	1.3808	Insignificant
NABIL	0.8650	+ ve (Direct)	0.7481	0.0760	0.4560	Significant
EBL	0.9763	+ ve (Direct)	0.9530	0.0142	0.0851	Significant
BOK	0.9992	+ ve (Direct)	0.9985	0.0005	0.0027	Significant
HBL	0.9845	+ ve (Direct)	0.9693	0.0093	0.0555	Significant

(Source: Appendix IV)

The above Table 4.18 showed the multiple correlation between market price per share (MPS) and dividend per share (DPS) and earning per share (EPS) of the sampled banks during the year covered for research. The multiple correlation coefficients (r) between MPS, DPS and EPS of SCBNL, NABIL, EBL, BOK and HBL were 0.4869, 0.8649, 0.9762, 0.9992 and 0.9845 respectively, which showed the positive relationship between these variables of all the sampled banks.

The coefficient of multiple determination (r²) of BOK was 0.9985, which was highest than that of SCBNL (0.2371), NABIL (0.7481), EBL (0.9530) and HBL (0.9693). It showed that, 23.71%, 74.81%, 95.30%, 99.85% and 96.93% variations in dependent variable (MPS) was explained by the variation in independent variables (EPS and DPS). Further, the higher the value of multiple correlation coefficient 'r' than the calculated 6 P.E. of each bank indicated that there existed significant relationship between the MPS and the joint DPS and EPS except SCB which was insignificant.

Comparing five sampled banks on the basis of multiple correlation coefficient, it can be concluded that the joint effect of DPS and EPS on MPS was immense in HBL than in other banks, since HBL had highest value of 'r' than other remaining banks.

4.1.8.6.2 Multiple Regression Equation: MPS on DPS and EPS

Let MPS, DPS and EPS be denoted by X_1 , X_2 and X_3 respectively. Then the multiple regression equation of MPS on DPS and EPS is given by;

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

$$MPS_{SCBNL} = 4531.34 + 78.25 DPS_{SCBNL} - 63.59 EPS_{SCBNL}$$

$$MPS_{NABIL} = 7307.63 + 81.78 DPS_{NABIL} - 96.83 EPS_{NABIL}$$

$$MPS_{EBL} = -6460.95 - 168.23 DPS_{EBL} + 195.81 EPS_{EBL}$$

$$MPS_{BOK} = -1802.46 - 19.73 DPS_{BOK} + 82.99 EPS_{BOK}$$

$$MPS_{HBL} = -1518.34 + 82.27 DPS_{HBL} - 3.51 EPS_{HBL}$$

Table 4.19**Multiple Regression Line of MPS on DPS and EPS**

Banks	No. of year	Constant (a)	Regression Coefficient (b)	
			b ₁	b ₂
SCBNL	5	4531.34	78.25	-63.59
NABIL	5	7307.63	81.78	-96.83
EBL	5	-6460.95	-168.23	195.81
BOK	5	-1802.46	-19.73	82.99
HBL	5	-1518.34	82.27	-3.51

(Source: Appendix V)

The above table represented the linear relationship between MPS, with DPS and EPS of sampled banks. The constant (a) was negative in EBL (-6460.95) BOK (-1802.46) and HBL (-1518.34), while positive in SCBNL (4531.34), NABIL (7307.63). In case of SCBNL, the correlation coefficient of DPS and EPS were 78.25 and -63.59 respectively. It indicates that a one-rupee increase in DPS leads to Rs. 78.25 increase in MPS, if EPS remains constant and one rupee increase in EPS leads to an average about Rs. 63.59 decrease in MPS, if DPS remains constant. Similarly, one rupee increase in DPS of NABIL increases Rs. 81.78 increase in MPS, keeping EPS constant, and per rupee increase in EPS leads to Rs. -96.83 decreases in MPS, keeping DPS constant.

Likewise, per rupee increase in DPS of EBL yields Rs. (-)168.23 decreases in MPS, keeping EPS constant and per rupee increase in EPS leads to Rs. 195.81 increase in MPS, keeping DPS constant. Also, per rupee increase in DPS and EPS of BOK decreases Rs. (-) 19.73 and increases Rs. 82.99 in MPS respectively. Finally, per rupee increase in DPS and EPS of HBL increases Rs. 82.27 and decreases Rs. (-) 3.51 in MPS of the HBL.

Comparing five sampled banks, DPS and EPS has greatest impact on MPS of EBL.

4.1.9 Trend Analysis

The trend analysis aids to predict the future value on the basis of the past years. To know the DPS, MPS and DPR of the concerned banks, the trend analysis has been used.

4.1.9.1 Trend Analysis of DPS

Let Year (X) 1, 2, 3, 4 and 5 denotes fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Then regression line of DPS (Y) on year is given by;

$$\begin{aligned}
 Y &= a + b X \\
 \text{DPS}_{\text{SCBNL}} &= 139 - 5.00 X \\
 \text{DPS}_{\text{NABIL}} &= 82.50 + 4.50 X \\
 \text{DPS}_{\text{EBL}} &= 7.50 + 10.50 X \\
 \text{DPS}_{\text{BOK}} &= 16.84 + 5.89 X \\
 \text{DPS}_{\text{HBL}} &= 28.84 + 3.40 X
 \end{aligned}$$

Table 4.20

Trend Analysis of DPS

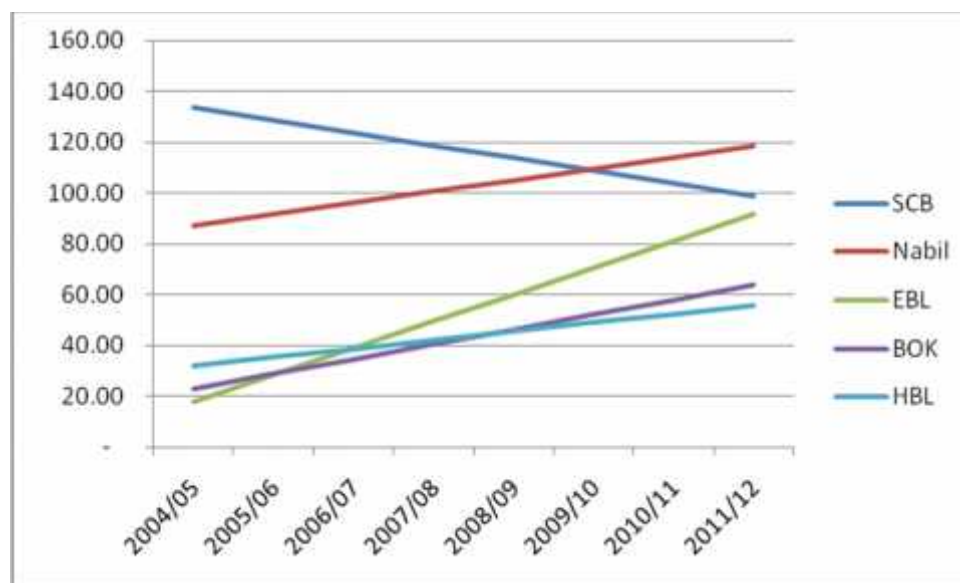
FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	134.00	87.00	18.00	22.73	32.24
2005/06	129.00	91.50	28.50	28.61	35.63
2006/07	124.00	96.00	39.00	34.50	39.03
2007/08	119.00	100.50	49.50	40.38	42.42
2008/09	114.00	105.00	60.00	46.27	45.82
2009/10	109.00	109.50	70.50	52.15	49.22
2010/11	104.00	114.00	81.00	58.04	52.61
2011/12	99.00	118.50	91.50	63.92	56.01

(Source: Appendix VI)

The table 4.20 showed that the trend DPS of all the sampled banks followed increasing trend. The table depicted that the DPS of SCBNL, NABIL, EBL, BOK and HBL in the fiscal year 2009/10 will be Rs. 109, Rs. 109.50, Rs. 70.50, Rs. 52.15 and Rs. 49.22 respectively and in the fiscal year 2010/11 it will be Rs. 104, Rs. 114, Rs. 81, Rs. 58.04 and Rs. 52.61 respectively.

Likewise, the regression line of DPS on year demonstrated that in each year, the value of DPS in SCBNL will decrease by Rs. 5, in NABIL will increase by Rs. 4.50, in EBL will increase by Rs. 10.50, in BOK will increase by Rs. 5.89 and in HBL will increase by Rs. 3.40.

Figure 4.8
Trend Value of DPS



4.1.9.2 Trend Analysis of MPS

Let Year (X) 1, 2, 3, 4 and 5 denotes fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Then regression line of MPS (Y) on year is given by;

$$Y = a + b X$$

$$MPS_{SCBNL} = 1856.50 + 1038.50 X$$

$$MPS_{NABIL} = 846.90 + 982.30 X$$

$$MPS_{EBL} = 576.30 + 492.30 X$$

$$MPS_{BOK} = 79 + 429 X$$

$$MPS_{HBL} = 732 + 256 X$$

Table 4.21
Trend Analysis of MPS

FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	2,895.00	1,829.20	1,068.60	508.00	988.00
2005/06	3,933.50	2,811.50	1,560.90	937.00	1,244.00
2006/07	4,972.00	3,793.80	2,053.20	1,366.00	1,500.00
2007/08	6,010.50	4,776.10	2,545.50	1,795.00	1,756.00
2008/09	7,049.00	5,758.40	3,037.80	2,224.00	2,012.00
2009/10	8,087.50	6,740.70	3,530.10	2,653.00	2,268.00
2010/11	9,126.00	7,723.00	4,022.40	3,082.00	2,524.00
2011/12	10,164.50	8,705.30	4,514.70	3,511.00	2,780.00

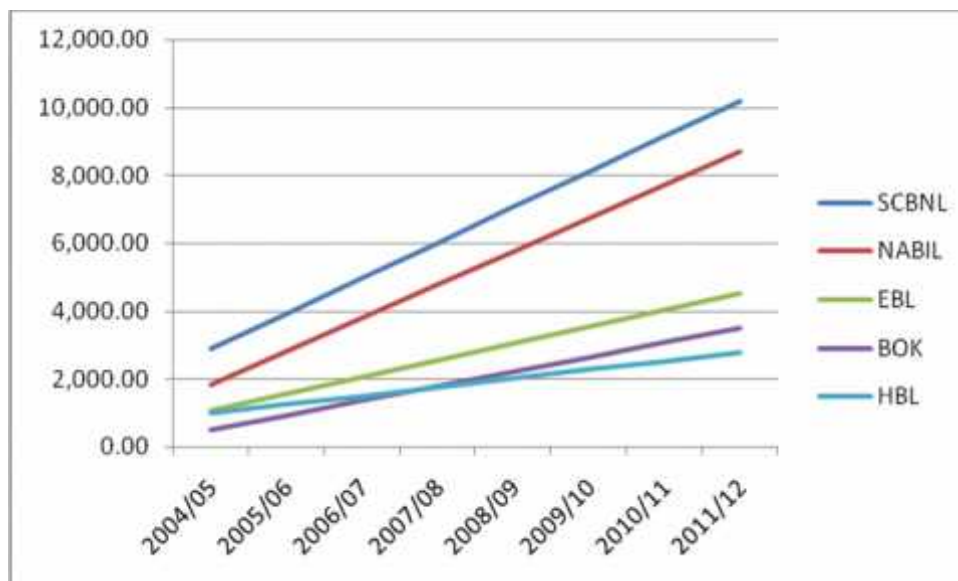
(Source: Appendix VI)

The table 4.21 showed that the trend MPS of all the sampled banks follows increasing trend. The table depicted that the estimated MPS of SCBNL, NABIL, EBL, BOK and HBL in the fiscal year 2010/11 will be Rs. 9126, Rs. 7723, Rs. 4022.40, Rs. 3082 and Rs. 2524 respectively and in 2011/12 it will be Rs. 10164, Rs. 8705, Rs. 4514, Rs. 3511 and Rs. 2780 respectively.

Similarly, the regression line of MPS on year delineated that MPS will increase by Rs. 1038.50, Rs. 982.30, Rs. 492.30, Rs. 429 and Rs. 256 per year in SCBNL, NABIL, EBL, BOK and EBL respectively.

Eventually, the trend value indicated that eagerness to buy the share of SCBNL will continue remain highest in the future than that of other banks, since the estimated value of MPS of SCBNL is highest.

Figure 4.9
Trend Value of MPS



4.1.9.3 Trend Analysis of DPR

Let X denotes the fiscal year and Y denotes the DPR. Then regression line of DPR (Y) on year is given by;

$$\begin{aligned} Y &= a + b X \\ \text{DPR}_{\text{SCBNL}} &= 76.19 + 3.31 X \\ \text{DPR}_{\text{NABIL}} &= 73.33 + 1.30 X \\ \text{DPR}_{\text{EBL}} &= 29.55 + 6.40 X \\ \text{DPR}_{\text{BOK}} &= 62.35 + 3.39 X \\ \text{DPR}_{\text{HBL}} &= 60.15 + 2.15 X \end{aligned}$$

Table 4.22

Trend Analysis of DPR

FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	79.50	74.63	35.95	65.74	62.30
2005/06	82.81	75.94	42.35	69.13	64.45
2006/07	86.11	77.24	48.75	72.52	66.60
2007/08	89.42	78.54	55.15	75.91	68.76
2008/09	92.73	79.85	61.55	79.30	70.91
2009/10	96.04	81.15	67.95	82.69	73.06
2010/11	99.35	82.45	74.35	86.08	75.21
2011/12	102.65	83.76	80.76	89.48	77.36

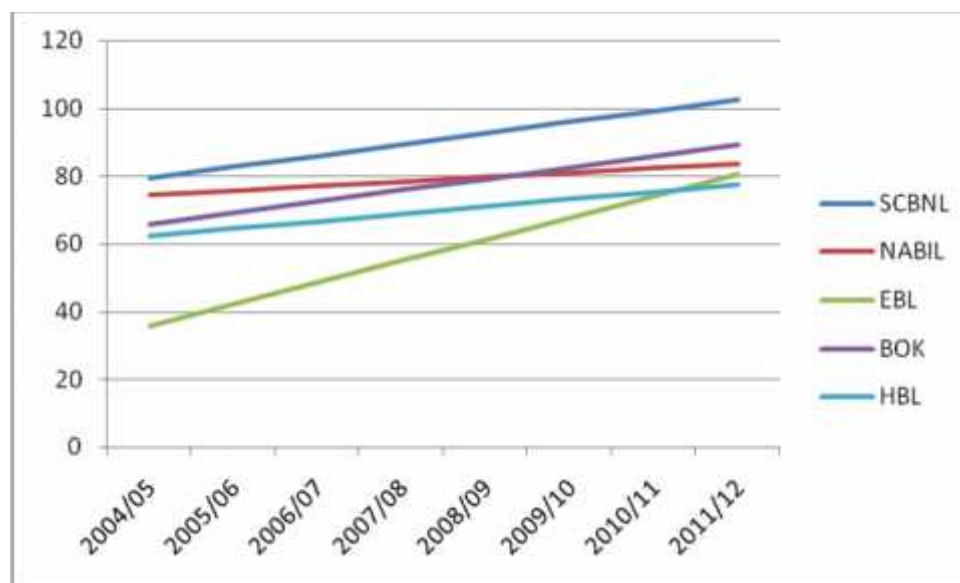
(Source: Appendix VI)

The table 4.22 showed that there was positive relationship between DPR and year of the sampled banks. In each fiscal year the DPR of SCBNL, NABIL, EBL, BOK and HBL increases by the multiple of 3.31 percent, 1.30 percent, 6.40 percent, 3.39 percent and 2.15 percent respectively.

The table showed that the estimated dividend payout ratio of SCBNL, NABIL, EBL, BOK and HBL will be 96.04%, 81.15%, 67.95%, 82.69% and 73.06% respectively in the fiscal year 2009/10 and it will be 102.65%, 83.76%, 80.76%, 89.48% and 77.36% respectively in the fiscal year 2011/12.

On the basis of estimated DPR, it can be concluded that as in the past SCB will continue to adopt the highest DPR policy other sampled banks.

Figure 4.10
Trend Value of DPR



4.2 Primary Data Analysis

Primary data have been used to reach greater depth of dividend practice. Although secondary data has provided a result in this section, the opinions of various types of respondents are collected in this report. This investigation deals with the study of the opinions of respondents with respect to the major aspects dividend policy of the sample banks.

The study is based on the opinions of ten respondents from investors and ten respondents from market analyzer. The questionnaire has been distributed randomly to the investors and market analyzer in the NEPSE floor. The Performa of the questions asked and details of response are given in *Appendix I*.

4.2.1 Factors for Dividend Practice

To know the factors that should be considered to adopt the dividend practice, the respondents were given options and asked to choose from them. The responses obtained from them are presented in the following table 4.23.

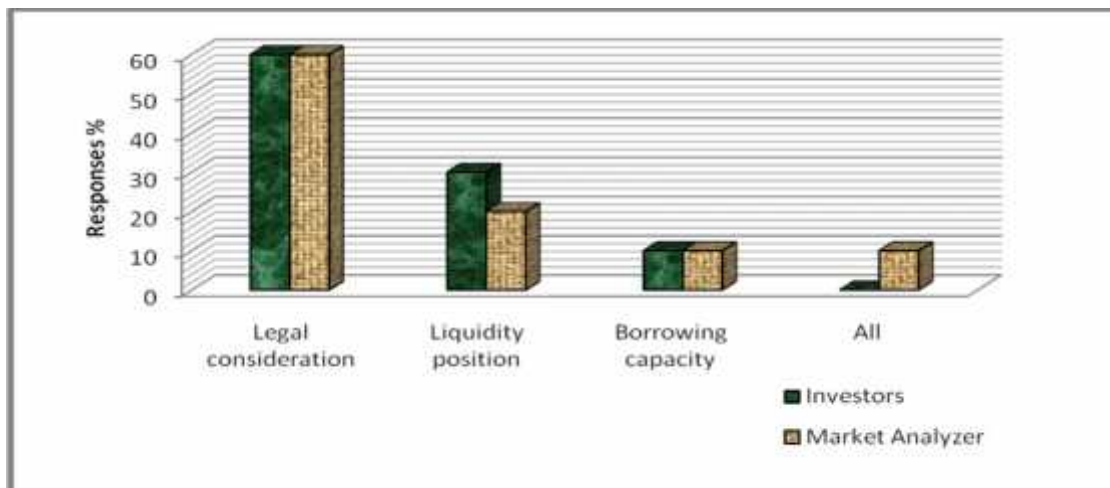
Table 4.23
Factors for Dividend Practice

Factors	Investors		Market Analyzer	
	No.	%	No.	%
Legal consideration	6	60	6	60
Liquidity position	3	30	2	20
Borrowing capacity of the firm	1	10	1	10
All of above	0	0	1	10
Total	10	100	10	100

(Source: Opinion Survey, 2009)

The above table reflects that 60% of each category, Investors and market analyzer, consider the legal considerations to be adopted while declaring dividend. Likewise 30% of Investors and 20% of market analyzer replied liquidity position should be adopted for that. Similarly 10% respondents of each group consider borrowing capacity of the firm before declaring dividend. None of the respondents of Investors and 10% respondents of market analyzer replied in favor of all above mentioned factors.

Figure 4.11
Factors for Dividend Practice



4.2.2 Major Motive of Cash Dividend

To know the actual reason for providing cash dividend to the shareholders, the respondents were asked to choose the best answer that suits their motive for distributing cash dividend. The responses achieved are summarized in the following table 4.24.

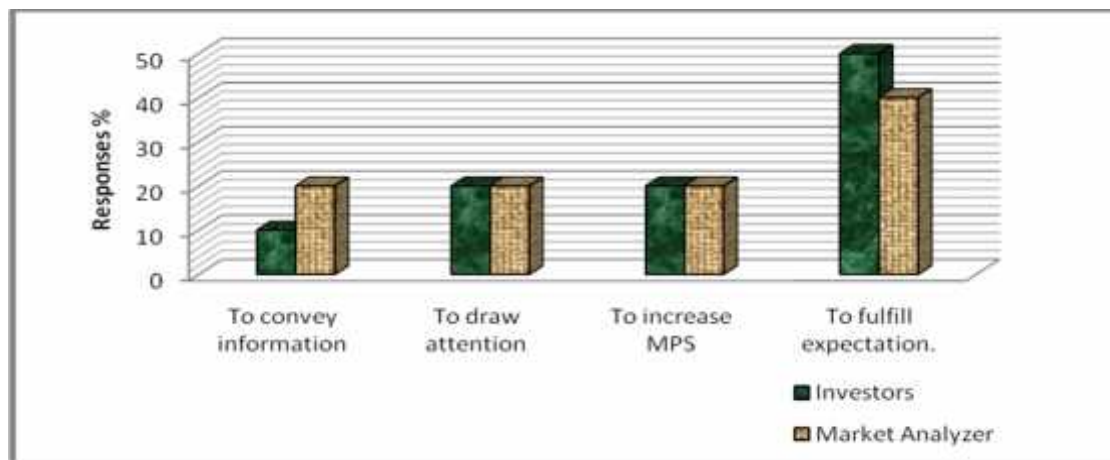
Table 4.24
Major Motive of Cash Dividend

Motive	Investors		Market Analyzer	
	No.	%	No.	%
To convey information to shareholders that the company is doing well.	1	10	2	20
To draw attention from the investment community.	2	20	2	20
To increase the market value of the firm's stock	2	20	2	20
To fulfill shareholder's expectation.	5	50	4	40
Total	10	100	10	100

(Source: Opinion Survey, 2009)

The above table shows that 20% of market analyzer and 10% of Investors responded that the company pays cash dividend to convey information to shareholders that the company is doing well. 20% of each group said that in order to draw attention from the investment community, cash dividend is paid. Similarly, 20% of respondents of each group also replied that cash dividend is paid to increase the market value of the firm's stock. And remaining 40% and 50% of respondents of market analyzer and Investors respectively said that cash dividend is paid to fulfill share holder's expectations. But, none gave any reasons other than mentioned above behind paying cash dividend.

Figure 4.12
Major Motive of Cash Dividend



4.2.3 Dividend Practice Followed

The respondents were asked to state the types of dividend practices that are followed by the banks in Nepal. The responses obtained from them are presented in table 4.25.

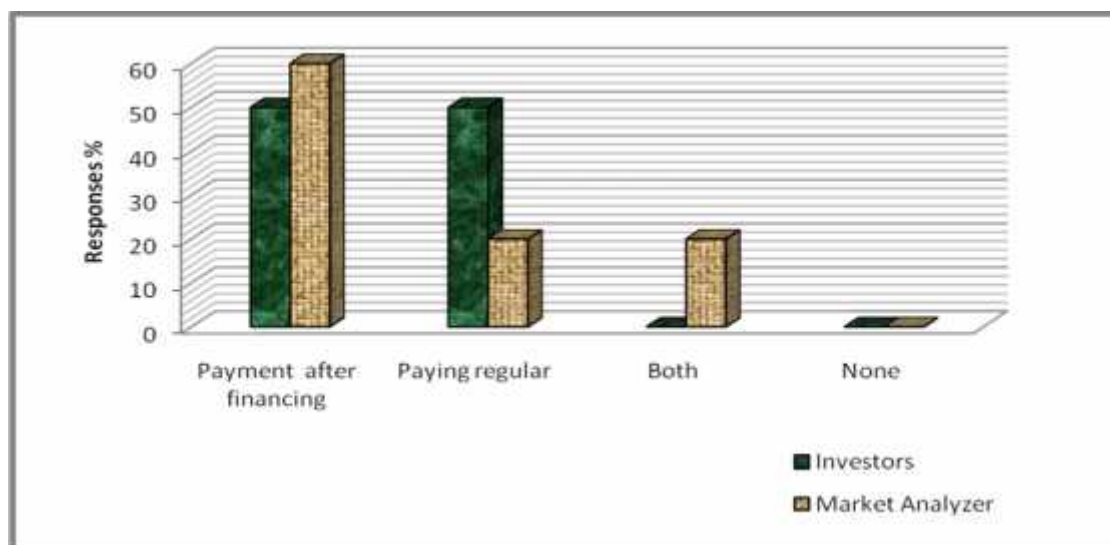
Table 4.25
Dividend Practice Followed

Practice	Investors		Market Analyzer	
	No.	%	No.	%
Payment of dividend after financing in all investment opportunities.	5	50	6	60
Paying regular dividend	5	50	2	20
Both of above	0	0	2	20
None of above	0	0	0	0
Total	10	100	10	100

(Source: Opinion Survey, 2009)

The above table clearly depicts that 50% of Investors and 60% of market analyzer said that dividend is a residual decision. But, 50% of investors and 20% of market analyzer replied that the banks followed regular dividend practice, while none of the investors and 20% of market analyzer considered that both practices, payment of dividend after financing in all investment opportunities and paying regular dividend, should be followed.

Figure 4.13
Dividend Practice Followed



4.2.4 Announcement of Earning and Market Price of Share

To know whether the companies' announcement of earning increases the market price of that company, the respondents were asked to present their view.

Table 4.26

Announcement of Earning and Market Price of Share

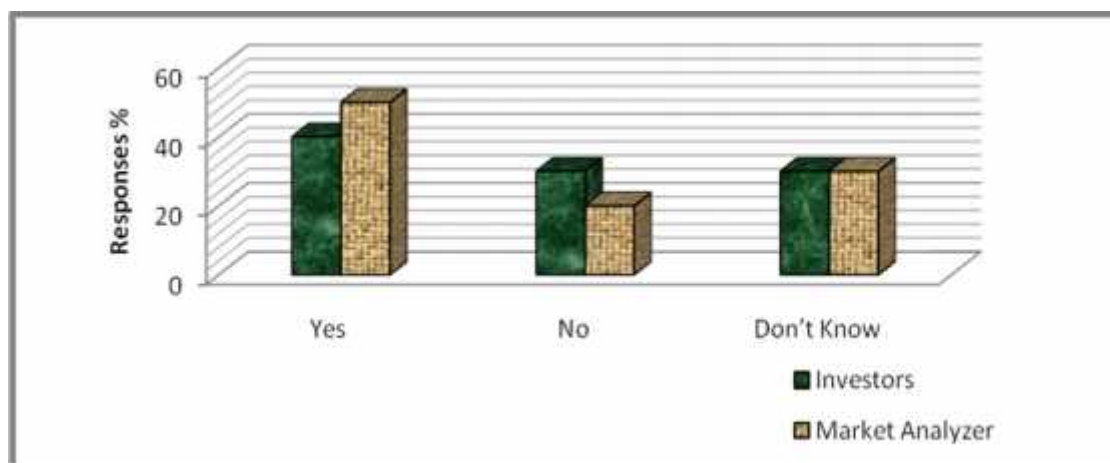
Effect of Announcement	Investors		Market Analyzer	
	No.	%	No.	%
Yes	4	40	5	50
No	3	30	2	20
Don't Know	3	30	3	30
Total	10	100	10	100

(Source: *Opinion Survey, 2009*)

The table shows that 50% of market analyzer and 40% of investors responded that the announcement of earning would help to increase the market price of a share. But 20% of market analyzer and 30% of investors said that the announcement of earning would have no effect on the market price. And 30% of market analyzer and investors said that they had no idea about the question.

Figure 4.14

Announcement of Earning and Market Price of Share



4.2.5 Suggestion in case of no Cash to pay Dividend

To examine what should the company do, in case of dearth of cash to pay the dividend, the respondents were asked on this matter. The suggestions obtained from them are presented in the table 4.27.

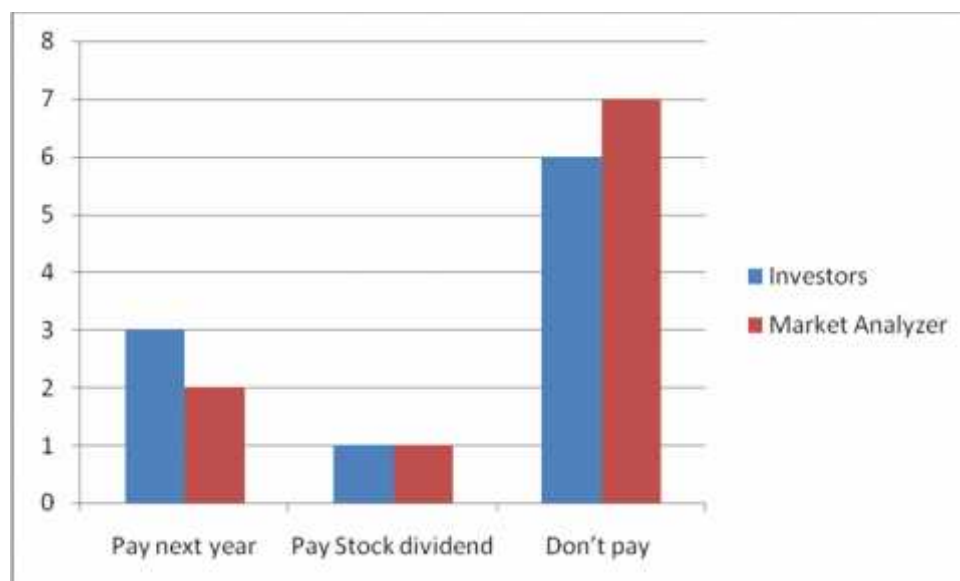
Table 4.27
Suggestion in case of no Cash to pay Dividend

Suggestions	Investors		Market Analyzer	
	No.	%	No.	%
Pay next year	3	30	2	20
Pay Stock dividend	1	10	1	10
Don't pay	6	60	7	70
Total	10	100	10	100

(Source: Opinion Survey, 2009)

It is clear from the above table that 70% of market analyzer and 60% of investors suggested that the company should not pay dividends if the company has no cash to pay the dividends. But 20% of market analyzer and 30% of investors suggested paying next year if no cash to pay cash dividends. Similarly, 10% of both the banks recommended for paying stock dividends.

Figure 4.15
Suggestion in case of no Cash to pay Dividend



4.2.6 Suggestion for Dividend Policy in Nepal

The respondents were also asked to suggest with regard to the dividend policy in Nepalese enterprises. The valuable suggestions achieved from them are inserted in the table 4.28.

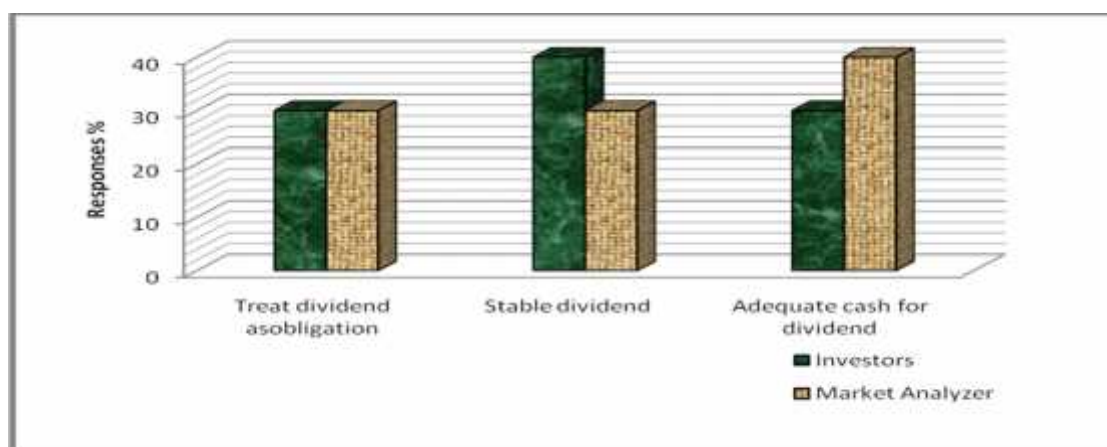
Table 4.28
Suggestion for Dividend Policy in Nepal

Dividend Policy	Investors		Market Analyzer	
	No.	%	No.	%
Treatment of dividend as an obligation	3	30	3	30
Stability of dividend and unhaphazard payout ratio	4	40	3	30
Cash balance for dividend be adequately planned and maintained	3	30	4	40
Total	10	100	10	100

(Source: *Opinion Survey, 2009*)

From the above table it is clear that 30% of each category suggested that treatment of dividend as an obligation should be the dividend policy in Nepalese enterprises. Similarly, 30% of market analyzer and 40% of investors suggested stability of dividend and unhaphazard payout ratio with regards to dividend policy in Nepalese enterprises. And 40% of market analyzer and 30% of investors recommended that cash balance for dividend should be adequately planned and maintained.

Figure 4.16
Suggestion for Dividend Policy in Nepal



4.2.7 Reasons to invest in Share Capital

Large number of people is driving to invest in share capital. So to know the actual causes that provoke them to invest, the respondents were requested to give the main reasons that attract the Investors in share capital.

Table 4.29

Reasons to invest in Share Capital

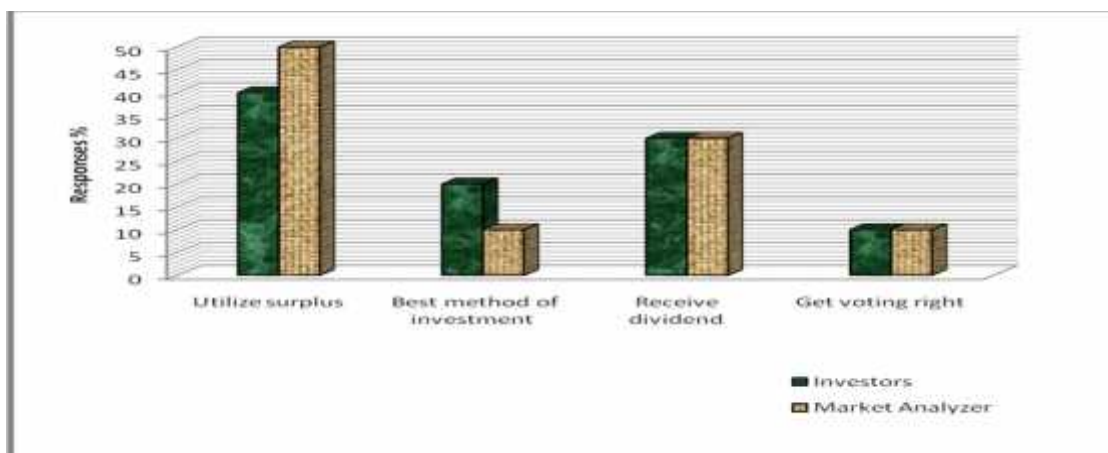
Dividend Policy	Investors		Market Analyzer	
	No.	%	No.	%
To utilize the surplus	4	40	5	50
This is the best method of investment	2	20	1	10
To receive dividend	3	30	3	30
To get voting right	1	10	1	10
Total	10	100	10	100

(Source: Opinion Survey, 2009)

From the above table it is obvious that 50% of market analyzer and 40% of investors replied that people invest in share capital to utilize surplus. 10% of market analyzer and 20% of investors considered the investment in share capital is the best method. Similarly, 30% of each category responded that people invest in share capital in order to get dividend. Likewise, 10% of each category said that the reason for investment in share capital is to get voting rights.

Figure 4.17

Reasons to invest in Share Capital



4.3 Major Findings of the Study

On the basis of the analysis of primary and secondary data, the following major findings have been found.

Findings from Secondary Data

- a. EPS analysis shows that the SCBNL made highest profit in the five years profit. The average EPS of SCBNL, NABIL, EBL, BOK and HBL were Rs. 145.65, Rs. 117.37, Rs. 76.99 Rs. 46.38 and Rs. 61.90 respectively. Also, the EPS of BOK was highly consistent (10.33%) than that of other banks.
- b. SCBNL distributed highest DPS than other banks. The average distribution of dividend in the five year periods of SCBNL, NABIL, EBL, BOK and HBL were Rs. 124, Rs. 96, Rs. 39, Rs. 34.50 and Rs. 39.03 respectively. In average, SCBNL and NABIL gave more focus on distributing cash dividend while the other three remaining banks focused on distributing bonus share dividend.
- c. The MPS of SCBNL always remained highest in the periods taken for research. Next to SCBNL, NABIL's MPS was highest. Similarly, EBL's MPS was higher than that of BOK and HBL, whereas BOK's MPS was least than that of other banks. The average MPS of SCBNL, NABIL, EBL, BOK and HBL was Rs. 4972, Rs. 3793.80, Rs. 2053.20, Rs. 1366 and Rs. 1500 respectively.
- d. The DPR ratio shows that the dividend policy scheme of SCBNL was far better than that of other sampled banks. Also, the consistency in dividend payout ratio of SCBNL (8.94%) was second highest than HBL (6.64). In average, SCBNL provided 86.11%, NABIL provided 77.24%, EBL provided 48.75%, BOK provided 72.52% and HBL provided 66.60% of the total earnings of the respective banks.
- e. The P/E ratio shows that the difference between MPS and EPS of SCBNL was highest than other banks. In average, the shareholders invested 35.90 times, 32.61 times, 25.53 times, 27.59 times and 25.29 times more amount than the par value of share of SCBNL, NABIL, EBL, BOK and HBL respectively. This clearly demonstrated that the investors were more interested to possess the share of SCBNL.

- f. The dividend yield ratio showed that BOK paid highest percentage of market price as dividend. 2.92%, 2.97%, 1.96%, 3.00% and 2.73% of the average market price was provided as dividend by SCBNL, NABIL, EBL, BOK and HBL respectively. Hence the shareholders of BOK enjoyed more dividend percent compared to the shareholders of other banks on the basis of MPS.
- g. In case of SCBNL, the correlation of DPS with EPS-significant, MPS with DPS-insignificant, MPS with EPS-insignificant and MPS with DPR-insignificant and the correlation between EY and DY were significant. In case of NABIL, the correlation between DPS and EPS was insignificant, DPS and MPS was insignificant, MPS and EPS was insignificant, EY and DY was significant, and MPS and DPR was insignificant. Similarly, there existed significant relationship between, DPS and EPS of EBL and HBL whereas it was insignificant in case of BOK. DPS and MPS of EBL and HBL were significant and insignificant in case of BOK, there were significant relationship of MPS and EPS of EBL, BOK and HBL. There was insignificant relation of EY and DY of EBL and BOK whereas it was significant in HBL.
- h. But, the multiple correlation between MPS on DPS and EPS of SCBNL, NABIL, EBL, BOK and HBL were 0.4869, 0.8649, 0.9762, 0.9845 and 0.9992 respectively and the relationship was statistically significant in all banks except SCB which showed insignificant relationship.
- i. The multiple regression equation indicated that one rupee increase in DPS leads to Rs. 78.25, Rs. 81.78, Rs. 82.27 increase in MPS of SCBNL, NABIL and HBL respectively and Rs. 168.23, Rs.19.73 decrease in MPS of EBL and BOK. Similarly, one rupee increase in EPS leads to Rs. 63.59, Rs. 96.83, Rs.3.51 decrease in MPS of SCBNL, NABIL and HBL respectively, and Rs. 195.81 and Rs. 82.99 increase in MPS of EBL and BOK respectively.
- j. The estimated DPS of SCNBL, NABIL, EBL, BOK and HBL for the fiscal year 2009/10 will be Rs.109, Rs. 109.50, Rs.70.50, Rs.52.15 and Rs.49.22 and for FY 2011/12 will be Rs. 99, Rs. 118.50, Rs. 91.50, Rs. 63.92 and Rs. 56.01 respectively.
- k. The estimated MPS of SCNBL, NABIL, EBL, BOK and HBL for the fiscal year 2009/10 will be Rs. 8087, Rs. 6740, Rs. 3530, Rs. 2653 and Rs. 2268

respectively and in FY 2011/12 it will be Rs. 10164, Rs. 8705, Rs. 4514, Rs. 3511 and Rs. 2780 respectively.

- i. Also, the estimated dividend payout ratio of SCBNL, NABIL, EBL, BOK and HBL will be 96.04%, 81.15%, 67.95%, 82.69% and 73.06% respectively in the fiscal year 2009/10 and will be 102.65%, 83.76%, 80.76%, 89.48% and 77.36% respectively in the fiscal year 2011/12.

Findings from Primary Data

- a. Majority of the respondents replied that legal consideration should be taken into consideration while adopting dividend practices.
- b. Majority of the respondents stated that the reason behind paying cash dividend was to fulfill shareholders' expectation.
- c. Majority of the respondents stated that Nepalese enterprises pay the dividend after financing in all investment opportunities.
- d. Majority of the respondents agreed with that the announcement of earning will help to increase the market price of the share.
- e. Major respondents stated that company should not pay dividend if it has no cash to pay dividends.
- f. Major respondents stated both that dividend should be stable and unhaphazard, and cash balance for dividend should be adequately planned and maintained with regard to dividend policy in Nepalese enterprises.
- g. Major respondents stated that the reason behind people's investment in share capital is to utilize the surplus.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Every investor expects handsome earnings on share capital investment. The firm that is not able to distribute fair dividend, will not be able to raise further equity capital from capital market. The total earning that a shareholder can gain from share investment may be classified into dividend yield and capital gain yield. The company therefore needs to device a proper balance between retention and dividend distributions.

In Nepal, only a few listed companies, mainly banks, have paid regular dividends to their shareholders. Further companies have not been following stable dividend payout policy. On the other hand, the dividend payout ratio of listed companies in Nepal has not been able to distribute fair dividends. In this regards, however commercial banks are also no exception.

The theoretical statement of this study is to study the impact of dividend policy on market price of the stock, therefore, it is concluded that more or less the dividend policy depends on the earning per share of a company and dividend per share having the positive relation may also impact on market price of stock. For this argument, there were two multiple regression formed.

To achieve the objective of the study set out, i.e. to make a comparative study on dividend practice adopted and its impact on market price per share, five listed banks have been selected, since the selection of all the 26 commercial banks within this study is impossible. The study analyzes both the primary and secondary data with the aid of both financial and statistical tools to achieve the result. The study period covers only last five fiscal years from 2004/05 to 2008/09.

5.2 Conclusion

On the basis of secondary data analysis it can be concluded that per share earning of SCBNL was highest compared to that of other banks. Further, SCBNL had most

stable policy on earning per share. Along with the highest earning, the dividend distribution per share of SCBNL was also highest. Overlooking the dividend distribution pattern, it can be considered that SCBNL and NABIL gave more focus on distributing cash dividend while EBL, HBL and BOK focused on distributing bonus share dividend. Similarly, the MPS of SCBNL was highest and that of BOK was lowest among the selected banks, which indicated that the consumers were most interested in SCBNL than in other banks.

Also, it can be concluded that the dividend payout ratio of SCBNL was far superior to that of others and more consistent. Hence, SCBNL was oriented to retain the existing shareholders and to allure the potential investors toward it. However, EBL concentrated more in internal financing and thus retained greater portion of the EPS. According to the P/E ratio, it can be inferred that investors were willing to pay more amount in MPS than they receive from EPS. The P/E ratio also determined that investors paid more amounts in SCBNL in comparison to the EPS they received. Next to SCBNL was the investment in NABIL, then EBL, HBL and BOK respectively.

The statistical analysis aid to conclude that DPS and DPR were not the sole determinant to impact the MPS of SCBNL, since the correlation between them was insignificant. However in NABIL, EBL, HBL and BOK, DPS had significant impact in MPS. Likewise, the joint effect of EPS and DPS on the MPS of each bank is statistically significant except SCBNL, and thus MPS increase/decreases if both the EPS and DPS change in most of the banks. The trend analysis further aid to conclude that in the fiscal year 2008/09 the DPS of SCB was greatest but from the fiscal year 2009/10, the DPS of NABIL will overtake the DPS of SCB. However, the market value of share of SCBNL will remain highest in the forthcoming years as well.

The primary data analysis helped to conclude that bank pays dividend to meet the shareholder's expectation after financing in all investment opportunities. The announcement of earning will help to increase the market price of the share but in our country rumor has been playing crucial role. Neither should the company pay cash dividend nor stock dividend if it has no cash to pay dividends. Further, dividend should be stable and uniform, and cash balance for dividend should be adequately planned and maintained with regard to dividend policy in Nepalese enterprises.

Finally, it can be concluded that people make investment in share capital to utilize the surplus.

5.3 Recommendations

On the basis of findings and conclusion drawn, the following recommendations are made for the further applications of dividend policy to have the strong MPS in the capital market:

-) Banks are paying dividend without adopting any appropriate policy. Banks should have their clearly defined dividend policy. Clearly defined dividend policy helps to determine specific policy i.e. stable dividend or constant pays out or low regular plus extras. Fix dividend payout policies or smooth dividend policy should be adopted. This helps to investor in deciding whether to buy or not the share of particular company and to build image, stock market.
-) It is necessary to enact legal rules that bind banks to pay dividend and the legal rule for the treatment of dividend is most for the smooth growth of the enterprises as well as growth of national economy. For this purpose, NEPSE, SEBON, NRB and other concerned parties should work together.
-) Banks should have long term vision regarding earning and dividend payment that helps to cope with challenging competitive situation of present world. Various internal and external factors should be considered before taking decision.
-) Shareholders should be given option to choose between stock dividend and cash dividend instead of declaring stock or cash dividend arbitrarily. For this dividend declaration should be proposed to the annual general meeting of shareholders for approval.
-) Banks should have target rate of earnings i.e. profit planning and target payout ratio because the fluctuation in EPS and DPR may cause confusion in the mind of shareholders.
-) All the banks must accept one major fact that EPS is to be considered for determining dividend amount. The analysis shows the condition of not being able to say either significant or insignificant relationship between EPS and DPS in all the banks. It is important to consider earning rather than neglecting it while making dividend decision.

-) The legal rules and regulation must be in favor of investors to exercise the dividend practice and to protect the shareholders rights.
-) Each and every bank should provide information regarding its activities and performance, so that investors can analyze the situation and invest their money in the best company.
-) Banks should have target rate of earning and target payout ratio that will help companies to build good image in stock market and investors will be ease on making investment decision.
-) The government should encourage for the establishment of organization to promote and to protect activities in favor of investors. There are not any other organizations fully devoted to protect investor's interest.

FY	SCBNL	NABIL	EBL	BOK	HBL
2004/05	143.14	105.49	54.22	30.1	47.91
2005/06	175.84	129.21	62.78	43.67	59.24
2006/07	167.37	137.08	78.42	43.5	60.66
2007/08	131.92	108.31	91.82	59.94	62.74
2008/09	109.99	106.76	97.69	54.68	61.9

<u>SCBNL</u>	<u>NABIL</u>	<u>EBL</u>	<u>BOK</u>
120	20	15	31.58
140	25	48	35
130	40	20	40
130	50	42.11	45
100	60	47.37	43.56

Banks	Fiscal				
	Year				
	2004/05	2005/06	2006/07	2007/08	2008/09
<u>SCBNL</u>	120	140	130	130	100
<u>NABIL</u>	70	85	140	100	85
<u>BOK</u>	20	25	40	50	60
<u>EBL</u>	15	48	20	42.11	47.37
<u>HBL</u>	31.58	35	40	45	43.56

TD

TD

TD

FY	SCBNL	NABIL	EBL	BOK	HB
2004/05	2345	1505	870	430	920
2005/06	3775	2240	1379	850	1100
2006/07	5900	5050	2430	1375	1740
2007/08	6830	5275	3132	2350	1980
2008/09	6010	4899	2455	1825	1760

FY	SCBNL	NABIL	EBL	BOK	HB
2004/05	83.83	66.36	36.89	49.83	65.9
	79.62	65.78	39.82	109.92	59.0
2005/06					
2006/07	77.67	102.13	51.01	45.98	65.9
2007/08	98.54	92.33	54.45	70.25	71.7
2008/09	90.91	59.6	61.58	86.62	70.3

FY	SCBNL	NABIL	EBL	BOK	HB
2004/05	16.38	14.27	16.04	14.29	19.2

2005/06	21.47	17.34	21.97	19.46	18.5
2006/07	35.25	36.84	30.99	31.61	28.6
2007/08	51.77	48.7	34.11	39.21	31.5
2008/09	54.64	45.89	24.55	33.37	28.4

FY	SCBNL	NABIL	EBL	BOI
2004/05	6.1	7.01	6.23	7
2005/06	4.66	5.77	4.55	5.14
2006/07	2.84	2.71	3.23	3.16
2007/08	1.93	2.05	2.93	2.55
2008/09	1.83	2.18	3.98	3

FY	SCBNL	NABIL	EBL	BOI
2004/05	5.12	4.65	2.3	3.49
2005/06	3.71	3.79	1.81	5.65
2006/07	2.2	2.77	1.65	1.45
2007/08	1.9	1.9	1.6	1.79
2008/09	1.66	1.74	2.44	2.6