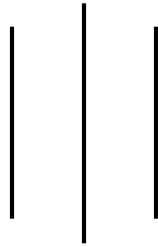
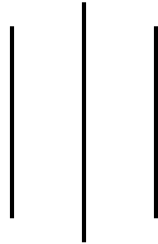


Dividend Practices of Himalayan Bank and Nabil Bank – A Comparative Study

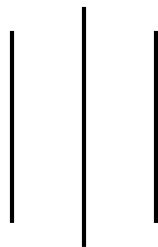


*A thesis submitted to:
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**In Partial Fulfillment of the Requirement for the Degree of
Master of Business Studies (M. B. S.)**

March, 2009

ACKNOWLEDGEMENT

This thesis study is the product of the contribution of many people. I am grate full to all of them. In particular, I would like to record my deep sense of gratitude and indebt ness to Mr. Achut Raj Bhattarai Shanker Dev Campus for his invaluable guidance through out the study. I would also like to record my deep appreciation and thanks to Mr Suman Kamal Parajuli, Shanker Dev Campus for his encouragement and untiring support throughout the study. I wish to express my sincere thanks to Dr. Kamal Deep Dhakal Campus chief, of Shanker Dev Campus.

I would like to express my gratitude to the Shanker Dev Campus library staff for their kind cooperation which has made this thesis writing possible.

Last but not least, I acknowledge the help of the staff of Nabil Bank, Himalya Bank Ltd, and Nepal Stock Exchange who directly or indirectly assist me to prepare this thesis.

Sulochana Shrestha

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CHAPTER I

BACKGROUND of the STUDY

1.1. Introduction

Banks have influenced economies and politics for centuries. Historically, the primary purpose of a bank was to provide loans to trading companies. Banks provided funds to allow businesses to purchase inventory, and collected those funds back with interest when the goods were sold. For centuries, the banking industry only dealt with businesses, not consumers. Banking services have expanded to include services directed at individuals, and risk in these much smaller transactions are pooled.

The name *bank* derives from the Italian word *banco* "desk/bench", used during the Renaissance by Florentines bankers, who used to make their transactions above a desk covered by a green tablecloth. However, there are traces of banking activity even in ancient times.

In fact, the word traces its origins back to the Ancient Roman Empire, where moneylenders would set up their stalls in the middle of enclosed courtyards called *macella* on a long bench called a *bancu*, from which the words *banco* and *bank* are derived. As a moneychanger, the merchant at the *bancu* did not so much invest money as merely convert the foreign currency into the only legal tender in Rome—that of the Imperial Mint.

Banks borrow money from households and non-financial businesses by accepting funds deposited on current account, accepting term deposits and by issuing debt securities such as banknotes and bonds. Banks lend money by making advances to customers on current account, by making installment loans, and by investing in marketable debt securities and other forms of money lending.

Banks act as payment agents by conducting checking or current accounts for customers, paying cheques drawn by customers on the bank, and collecting cheques deposited to customers' current accounts. Banks also enable customer payments via other payment methods such as telegraphic transfer and ATM.

Nepal's first commercial bank, the Nepal Bank Limited, was established in 1937. The government owned 51 percent of the shares in the bank and controlled its operations to a large extent. Nepal Bank Limited was headquartered in Kathmandu and had branches in other parts of the country. Nepal Rastra Bank was created in 1956 as the central bank. Its function was to supervise commercial banks and to guide the basic monetary policy of the nation.

There were other government banking institutions. Rastriya Banijya Bank (National Commercial Bank), a state-owned commercial bank, was established in 1966. The Land Reform Savings Corporation was established in 1966 to deal with finances related to land reforms.

Since the 1960s, both commercial and specialized banks have expanded. More businesses and households had better access to the credit market although the credit market had not expanded.

In the mid-1980s, three foreign commercial banks opened branches in Nepal viz. Nepal Arab Bank, Nepal Indosuez Bank and Nepal Grindlays Bank.

Dividend policy, an integral part of the firm's financing decision, refers to the policy of a company on the allocation of its profit between dividend and retention. It is one of the major decisions of financial management as it affects the value of firm as well as overall financing decision like financial structure, the flow of funds, corporate liquidity and investor's attitudes.

The financial world has yet to develop a model indicative of the process by which corporations create an effective dividend policy. In conjunction with this, there still remains controversy over the value of dividends themselves to both the firm and the investor. Many studies are divided in their findings, as some researchers have taken a "normative" approach to answering questions concerning dividend decisions, while others have taken a "behavioral" approach, looking directly to management for answers on the factors that enter into their decision-making process. Simply put, dividend policy is the determination of which portion of cash earnings should be retained in the firm for reinvestment and which funds are paid out to investors from either current or

accumulated retained earnings, but the complexities of this payout have continued to mystify the financial community.

Factors such as the impact of dividends on stockholder wealth, the role of dividends in stock valuation, and the stockholders' expectations of future cash flows from dividends still provoke controversy among finance scholars as to the value of issuing a dividend for both the investor and the corporation.

Negative aspects associated with paying out profits to shareholders include the potential tax costs associated with dividends, agency costs, and the lost opportunity to reinvest these corporate earnings to further the firm's growth. By paying a dividend, a firm also risks having to use more expensive external financing methods if earnings are not sufficient to cover both dividends and investment opportunities, which results in a high opportunity cost for the firm .

Although investors may be in theory mathematically indifferent to dividend policy, dividends themselves have proven very relevant in the eyes of investors for behavioral reasons . As most investors are risk-averse, a predictable return through dividends is often preferred to the uncertain return of capital gains resulting from reinvested earnings, despite the fact that either option would lead to the same end result in the absence of taxes and expected transaction costs .

In Nepal, only few companies are able to pay dividend. The government is unable to receive dividends from most of the public enterprises as documented in past several year's budget speech and economic survey published by the government. It is because, they are unable to generate earning due to number of causes beyond their control and questions of dividends are really a ticklish problem. Some corporations are unable to minimize the losses through the better utilization of capital. Some corporations are following a balanced policy between dividend declaration and profit retention. According to the study made by Management Consultants and Company, it has been found that the government has never received dividend more than 1.07 percent aggregate of net worth. It is, thus, quite clear that neither corporation are capable of generating sufficient earnings for dividend payment, nor the government is expecting dividend since it has been observed that dividend payment is practically a crucial problem of the corporations.

Nevertheless, after the establishment of joint venture banks, they have shown new trend of paying dividends to shareholders that has brought new hopes for productive mobilization of funds. So dividend policy is assumed as the major decision of financial management. Among foreign joint venture banks, Nepal Arab Bank Limited has been able to pay a token dividend of Rs.5 per share, while other two banks Nepal Indoseuz Bank Limited and Nepal Grindlays Bank Limited have given signal to pay dividend in the near future. The appreciation in the market value of shares of these joint venture banks has, without any doubt, provided adequate sense of protection to the shareholders.

Thus among the several commercial banks operating in Nepal, this study aims to focus on prevailing practice and policies of two joint venture commercial banks namely Himalayan Bank Limited and Nabil Bank Limited regarding dividend. Himalayan Bank Limited of Nepal, established in 1992 is new in the banking sector. It is a product of the collaboration of famous business personalities of Nepal along with the employees of the Provident Habib Bank Ltd., Pakistan. Nabil Bank Limited, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society.

1.2 Statement of the Problem

The dividend decision, is not easily taken because it is very 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 is relevance to the stock prices is quite significant. Whether dividend per share has positive effect or negative is hard to ascertain.

Shareholders investment on company's shares is greatly influence by the dividend policy. However in our country there is no proper relationship between dividend and quoted market price of share. In addition to it, dividend distribution does not match with the earnings of the commercial banks. It is interesting to note that the banks which have lower returns record stable price of share contrary to the banks making high returns show high fluctuation in share price. It may be due to lack of proper government rules and regulations, ownership patterns, attitudes of management, forms of management rules and regulations.

Every company have there own dividend policy. Theoretically, there is relationship between dividend and stock price. This relationship in under developed country like, Nepal is still to be verified under any established norms. Therefore, the relation between dividend and stock prices of Nepal needs to be tested in the framework established by finance scholars.

In the Nepalese context, the companies listed in NEPSE do not have any definite, consistent and clear-cut policy on dividend distribution. In connection to Nepalese public enterprises dividend is still considered as the unintended strategy or the non-payable obligation at a time when the Nepalese government is not in a position to impose the public limited companies to pay a minimum rate of dividend on the equity capital contributed. Some Nepalese acts like Nepal Company Act 2053, Nepal Commercial Bank Act 2031 and other regulating acts are still silent regarding dividend distribution. There is a common trend of deciding the dividend by the management of companies instead of shareholders meeting.

The proposed study will be concentrated around following issues:

- Whether there is any uniformity in dividend distribution among different banks or not.
- Whether the dividend decision affects the market price of shares differently in different banks or not
- Whether changing dividend policy or payout ratio increase the value of stock or not.
- What is the relationship between dividends with other key variables like earning per share (EPS), market price per share (MPS), book value per share, net profit of banks?
- What are the prevailing practices of the banks regarding their dividends?

1.3 Objective of the Study

The proposed study intends to focus around the dividend policy and practices adopted by the Himalyan Bank and Nabil Bank. The specific objectives are

- To highlight the dividend practices of the banks.
- To reflect the relationship between dividend per share and other financial indicators such as earning per share, net profits, and market price of stock.
- To examine whether or not dividend policy influence the liquidity position and share prices of sample banks.

1.4 Significance of the Study

The public are investing considerable amount in share due to lack of other viable opportunities in capital market. Public despite of ignorance about the dividend policy of the company still invest in the company. In order to have higher return from the safer investment one should have clear conception about the return.

The dividend is one of very effect tool to attract new investors, to retain existing investors and also to control position of company. Generally in capital market the return can be achieved by:

- A) By means of dividend
- B) By capital gains

As already mentioned above none of the company in Nepal have consistent dividend policy. It may due to various reasons. The present study will try to establish the reason behind it. The present study of Himalyan Bank and Nabil Bank will be beneficial to many people who are interested to invest in capital market as the study result will focus around the dividend policy. In addition it will through light on dividend decision and factors affecting the dividend policy.

1.5 Limitation of the Study

The process adopted for the collection and analysis of data in this study may not be exhaustive in itself. There are numerous variables that have some degree of relationship with dividend. All these variables can not be taken in to consideration for the study due to the time and money constrain. Therefore during the proposed study there may occur following limitations.

- ⌘ Unavailability of the data
- ⌘ Reliability of the secondary data
- ⌘ The related data considers only cash dividend and exclude the stock dividend.

1.6 Chapter Scheme

The outcome of the study has been presented in five different chapters. The chapterwise contents of the study are briefly mentioned bellow.

Chapter I	: Introduction
Chapter II	: Review of Literature
Chapter III	: Research Methodology
Chapter IV	: Presentation and Data Analysis
Chapter V	: Summary, Conclusions & recommendations

The first chapter contents the introduction to study. It consists of description of, history of banks, study objectives and significance of the study. It also explains the limitation of the study.

The second chapter deals with the review of related available literatures. Basically the review includes conceptual framework and major studies on dividend policy and decisions.

The third chapter entitled “Research Methodology” explains the study approach and methods which includes research design, source of data, data processing procedures, population and sample, period of study, method of analysis, financial and statistical tools.

Chapter four contains the analysis results. The results of various correlations, regression, multiple correlation and regression analysis are presented and explained in this chapter.

All the findings of the study is summarized in the last chapter i.e. chapter five. It also contains conclusions and recommendation together with suggestion.

The study report also contains bibliography and appendices.

CHAPTER-2

REVIEW OF LITERATURE

This chapter deals with review of some of the basic literatures on the stock price movement. It includes literatures regarding theories on the subject and also reviews of the previous studies.

This chapter is organized in two sections. First section contains a brief description of the theories of the stock price movement which includes the technical analysis, fundamental analysis and efficient market theories. The second section provides reviews on empirical experience of previous studies.

Conceptual Framework

Financial System and Market

2.1 Conceptual Framework

Under this, meaning of dividend, theories of dividend, major forms of dividend, conflicting theories of dividend, factor affecting dividends and rules regarding dividend are reviewed.

2.1.1 Meaning of dividend

Dividends are payments made by a corporation to its shareholder members. It is the portion of corporate profits paid out to stockholders. When a corporation earns a profit or surplus, that money can be put to two uses: it can either be re-invested in the business (called retained earnings), or it can be paid to the shareholders as a dividend. Many corporations retain a portion of their earnings and pay the remainder as a dividend.

For a joint stock company, a dividend is allocated fast as a fixed amount per share. Therefore, a shareholder receives a dividend in proportion to their shareholding. For the joint stock company, paying dividends is not an expense; rather, it is the division of an asset among shareholders. Public companies usually pay dividends on a fixed schedule, but may declare a dividend at any time, sometimes called a special dividend to distinguish it from a regular one.

Cooperatives, on the other hand, allocate dividends according to members' activity, so their dividends are often considered to be a pre-tax expense.

Dividends are usually settled on a cash basis, as a payment from the company to the shareholder. They can take other forms, such as store credits (common among retail consumers' cooperatives) and shares in the company (either newly-created shares or existing shares bought in the market.) Further, many public companies offer dividend reinvestment plans, which automatically use the cash dividend to purchase additional shares for the shareholder.

2.1.2 Theories of Dividend

Under this section different theory related to the dividend are described.

2.1.2.1 Residual Theory of Dividend

The residual theory of dividend suggest that dividend paid by a firm should be viewed as a residual amount or left after all acceptable investment opportunities have been undertaken. This theory states that profit should be used first in all profitable investment plans, which reflect equal of higher rate of return that investor's opportunities rate of return. 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. When we treat dividend policy as strictly as financing decision, the payment of cash dividend is a passive residual. (Khan and Jain; 1990:556)

The literature classifies residual theories in to following three theory purporting to explain the methodology of dividend policy, each of which centers on the idea of remitting residual earnings to investors:

i) Pure Residual Dividend Policy – states that when the corporation's return on equity capital is greater then the rate of return the investor could obtain by reinvesting those dividends in another investment of equivalent risk, the investor would rather the corporation act on his behalf and reinvest the earnings rather than issue a dividend; the firm can determine which option is better suited to benefiting the investor by first identifying the firm's optimal capital budget, thereby noting the level of equity capital

required, and then maintaining the amount of earnings required to finance the equity capital in the capital budget and allowing “residual” funds (earnings not utilized in internal investment) after the mandated reinvestment to be issued as a dividend (Droms 218). Therefore, dividends are a function of earnings fluctuations, and this method allows for significant fluctuations in dividends with changes in earnings and corporate investment opportunities. In effect, all residual earnings are paid out which causes the dividend payout ratio to fluctuate. This policy also results in a dividend that varies from year to year, and when equity investment is greater than earnings, equity financing must be initiated to create a residual (Droms, 1990).

ii) ***Smoothed Residual Dividend Policy*** – suggests that dividend fluctuations are kept to a minimum. Dividend policy changes tend to lag behind earnings fluctuations according to Shapiro, as “Dividends are set equal to the long-run residual between forecasted earnings and investment requirements. Dividend changes, in turn, are made only when this long-run residual is expected to change; earnings fluctuations believed to be temporary are ignored in setting dividend payments. The clear preference is for a stable, but increasing, dividend per share” (Shapiro 532-533). As such, the dividend payout ratio fluctuates significantly with this payment method, and dividends have the potential to exceed the residual if earnings are unexpectedly low.

iii) ***Constant Payout Residual Dividend Policy*** – suggests maintaining a constant dividend payout ratio, which causes dividends to fluctuate with earnings.

2.1.2.2 Stability Theory of Dividend

Stable dividend policy is a long-term policy. It is not affected by the long-term variation in the earning from year to year. The dividend will be regular. Stability of dividends means regularity in paying dividend even though the amount of dividend may fluctuate from year to year. By stability, we maintain a position in relation to a dividend trend line, preferably one that is upward sloping.

The shareholders generally prefer stability or regularity of dividends because the company distributes a stable dividend over the year. It is suitable for those companies, who have stable income. All other things being the same, stable dividend may have a positive impact on the market price of the share. We can define it in other words, that is

the term dividend stability refers to the consistency or lack of variability in the stream of dividends. There are three types of dividend stability, which are as follows:

(a) Constant Dividend per share

Constant dividend per share implies that the dividend can be fixed either in amount or in percentage. Under this form of stable dividend policy, a company follows a policy of paying a certain fixed amount per share as dividend every year. In this policy, the fluctuation in earnings would not affect the dividend payment. In fact, when a company follows such a dividend, it will pay dividends to the shareholders even when it suffers losses. This policy does not imply that the dividend per share or dividend rate will never be increased, when the company reaches new level of earnings and expects to maintain to be temporary, the annual dividend per share is not changed and remains at the existing level.

(b) Constant Payout Ratio

Another form of stable dividend policy is constant payout ratio. The ratio of dividend to earning is known as payout ratio. A stable dividend payout ratio implies that the percentage of earnings paid out each year is fixed. Some companies may follow a policy of constant payout ratio, i.e. paying a fixed percentage of net earnings every year. With this policy, the amount of dividend will fluctuate in direct proportion to earnings. With this policy, the amount of dividend will fluctuate in direct proportion to earnings. This policy does not put any pressure on a company's liquidity since dividends are distributed only when the company has profits.

(c) Low Constant Dividend per Share plus Extra Dividend

This policy is a combination of small regular dividend and an extra dividend in addition. This alternative is suitable for companies whose earnings fluctuate widely. Therefore, firm's having fluctuating earnings use this policy. With this method, a firm can regularly pay fixed, though small amount of dividends so that there is no risk of not being able to pay dividend to the shareholders. This type of policy enables a company to pay constant amount of dividend regularly without a default and allows a great deal of flexibility for supplementing the income of shareholders only when the company's earnings are higher

than the usual, without committing itself to make larger payment as a part of the future fixed dividend. (Rajbhandari; 2001:10)

2.1.2.3 Conflicting Theories on Dividends

Under this conflicting theory on dividend, two basic schools of thought on dividend have been expressed in the theoretical literature of finance. First school holds that capital gains expected to result from earnings retention are riskier than are dividend operations. Myron Gordon and John Linter are theories of this school of thought. These theorists suggest that earning of a firm with a low payment ratio is typically capitalized at higher rate than the earnings of a high payout firm.

The other school associated with Metro Miller and Franco Modigliani hold that investors are basically indifferent to return in the form of dividend or capital gains. They advocated that the dividend policy does not affect the value of the firm is determined safely by the earning power of the firm's asset and the manner in which the earnings split between dividends and retained earnings does not affect the value of the firm. So the value of the firm depends upon the firm's earnings which depends on its investment policy. Therefore as per MM hypothesis, a firm's value is independent of dividend policy. They argued that the value of the firm is not determined by the amount of dividends paid, but rather than by the earning power of the projects in which the firm invested its money. (Gurung; 2003:13)

2.1.3 Forms of Dividends

The general trend is to pay the dividends in the form of cash. Different companies follow different types of dividend policy. Corporations need to follow different types of policies due to the objectives and policies, which they implement.

The different types of dividends include:

(1) Regular Dividend. By dividend we mean regular dividend paid annually, proposed by the board of directors and approved by the shareholders in general meeting. It is also known as final dividend because it is usually paid after the finalization of accounts. It is generally paid in cash as a percentage of paid up capital, say 10 % or 15 % of the capital. Sometimes, it is paid per share. No dividend is paid on calls in advance or calls in arrears.

The company is, however, authorized to make provisions in the Articles prohibiting the payment of dividend on shares having calls in arrears.

(2) Interim Dividend. If Articles so permit, the directors may decide to pay dividend at any time between the two Annual General Meeting before finalizing the accounts. It is generally declared and paid when company has earned heavy profits or abnormal profits during the year and directors which to pay the profits to shareholders. Such payment of dividend in between the two Annual General meetings before finalizing the accounts is called Interim Dividend. No Interim Dividend can be declared or paid unless depreciation for the full year (not proportionately) has been provided for. It is, thus,, an extra dividend paid during the year requiring no need of approval of the Annual General Meeting. It is paid in cash.

(3) Stock-Dividend. Companies, not having good cash position, generally pay dividend in the form of shares by capitalizing the profits of current year and of past years. Such shares are issued instead of paying dividend in cash and called 'Bonus Shares'. Basically there is no change in the equity of shareholders. Certain guidelines have been used by the company Law Board in respect of Bonus Shares.

(4) Scrip Dividend. Scrip dividends are used when earnings justify a dividend, but the cash position of the company is temporarily weak. So, shareholders are issued shares and debentures of other companies. Such payment of dividend is called Scrip Dividend. Shareholders generally do not like such dividend because the shares or debentures, so paid are worthless for the shareholders as directors would use only such investment is which were not . Such dividend was allowed before passing of the Companies (Amendment) Act 1960, but thereafter this unhealthy practice was stopped.

(5) Bond Dividends. In rare instances, dividends are paid in the form of debentures or bounds or notes for a long-term period. The effect of such dividend is the same as that of paying dividend in scrips. The shareholders become the secured creditor is the bonds has a lien on assets.

(6) Property Dividend. Sometimes, dividend is paid in the form of asset instead of payment of dividend in cash. The distribution of dividend is made whenever the asset is no longer required in the business such as investment or stock of finished goods. But, it

is, however, important to note that in India, distribution of dividend is permissible in the form of cash or bonus shares only. Distribution of dividend in any other form is not allowed.

2.1.4 Factors Influencing Dividend Policy

Many factors may affect a firm's decision about its dividends. The company's decision regarding the amount of earnings to be distributed as dividends depends upon a number of factors. Some of these factors are mentioned below.

1. Stability of Earnings. The nature of business has an important bearing on the dividend policy. Industrial units having stability of earnings may formulate a more consistent dividend policy than those having an uneven flow of incomes because they can predict easily their savings and earnings. Usually, enterprises dealing in necessities suffer less from oscillating earnings than those dealing in luxuries or fancy goods.

2. Age of corporation. Age of the corporation counts much in deciding the dividend policy. A newly established company may require much of its earnings for expansion and plant improvement and may adopt a rigid dividend policy while, on the other hand, an older company can formulate a clear cut and more consistent policy regarding dividend.

3. Liquidity of Funds. Availability of cash and sound financial position is also an important factor in dividend decisions. A dividend represents a cash outflow, the greater the funds and the liquidity of the firm the better the ability to pay dividend. The liquidity of a firm depends very much on the investment and financial decisions of the firm which in turn determines the rate of expansion and the manner of financing. If cash position is weak, stock dividend will be distributed and if cash position is good, company can distribute the cash dividend.

4. Extent of share Distribution. Nature of ownership also affects the dividend decisions. A closely held company is likely to get the assent of the shareholders for the suspension of dividend or for following a conservative dividend policy. On the other hand, a company having a good number of shareholders widely distributed and forming low or medium income group, would face a great difficulty in securing such assent because they will emphasize to distribute higher dividend.

5. Needs for Additional Capital. Companies retain a part of their profits for strengthening their financial position. The income may be conserved for meeting the increased requirements of working capital or of future expansion. Small companies usually find difficulties in raising finance for their needs of increased working capital for expansion programs. They having no other alternative, use their ploughed back profits. Thus, such Companies distribute dividend at low rates and retain a big part of profits.

6. Trade Cycles. Business cycles also exercise influence upon dividend Policy. Dividend policy is adjusted according to the business oscillations. During the boom, prudent management creates food reserves for contingencies which follow the inflationary period. Higher rates of dividend can be used as a tool for marketing the securities in an otherwise depressed market. The financial solvency can be proved and maintained by the companies in dull years if the adequate reserves have been built up.

7. Government Policies. The earnings capacity of the enterprise is widely affected by the change in fiscal, industrial, labor, control and other government policies. Sometimes government restricts the distribution of dividend beyond a certain percentage in a particular industry or in all spheres of business activity as was done in emergency. The dividend policy has to be modified or formulated accordingly in those enterprises.

8. Taxation Policy. High taxation reduces the earnings of the companies and consequently the rate of dividend is lowered down. Sometimes government levies dividend-tax of distribution of dividend beyond a certain limit. It also affects the capital formation. In India, dividends beyond 10 % of paid-up capital are subject to dividend tax at 7.5 %.

9. Legal Requirements. In deciding on the dividend, the directors take the legal requirements too into consideration. In order to protect the interests of creditors and outsiders, the companies Act 1956 prescribes certain guidelines in respect of the distribution and payment of dividend. Moreover, a company is required to provide for depreciation on its fixed and tangible assets before declaring dividend on shares. It proposes that Dividend should not be distributed out of capital, in any case. Likewise, contractual obligation should also be fulfilled, for example, payment of dividend on preference shares in priority over ordinary dividend.

10. Past dividend Rates. While formulating the Dividend Policy, the directors must keep in mind the dividend paid in past years. The current rate should be around the average past rate. If it has been abnormally increased the shares will be subjected to speculation. In a new concern, the company should consider the dividend policy of the rival organization.

11. Ability to Borrow. Well established and large firms have better access to the capital market than the new Companies and may borrow funds from the external sources if there arises any need. Such Companies may have a better dividend pay-out ratio. Whereas smaller firms have to depend on their internal sources and therefore they will have to built up good reserves by reducing the dividend pay out ratio for meeting any obligation requiring heavy funds.

12. Policy of Control. Policy of control is another determining factor is so far as dividends are concerned. If the directors want to have control on company, they would not like to add new shareholders and therefore, declare a dividend at low rate. Because by adding new shareholders they fear dilution of control and diversion of policies and programs of the existing management. So they prefer to meet the needs through retained earning. If the directors do not bother about the control of affairs they will follow a liberal dividend policy. Thus control is an influencing factor in framing the dividend policy.

13. Repayments of Loan. A company having loan indebtedness are vowed to a high rate of retention earnings, unless one other arrangements are made for the redemption of debt on maturity. It will naturally lower down the rate of dividend. Sometimes, the lenders (mostly institutional lenders) put restrictions on the dividend distribution still such time their loan is outstanding. Formal loan contracts generally provide a certain standard of liquidity and solvency to be maintained. Management is bound to hour such restrictions and to limit the rate of dividend payout.

14. Time for Payment of Dividend. When should the dividend be paid is another consideration. Payment of dividend means outflow of cash. It is, therefore, desirable to distribute dividend at a time when is least needed by the company because there are peak times as well as lean periods of expenditure. Wise management should plan the payment

of dividend in such a manner that there is no cash outflow at a time when the undertaking is already in need of urgent finances.

15. Regularity and stability in Dividend Payment. Dividends should be paid regularly because each investor is interested in the regular payment of dividend. The management should, in spite of regular payment of dividend, consider that the rate of dividend should be all the most constant. For this purpose sometimes companies maintain dividend equalization Fund.

2.1.5 Rules Regarding Dividend Practices

No clear-cut legal provisions regarding dividend policy could be found in Nepal. The responsibility to undertake required actions to protect shareholder's interest is given to Nepal Stock Exchange, which is stated on the Security Exchange Act 1983. However, this organization has not been so able to protect shareholders interest since interest and attitude of the board of directors play dominant role in management of public limited companies and they are generally in majority who are nominated by government.

According to Corporation Act, corporations must set aside a certain part of profit as reserves before the declaration of dividend. Moreover, corporations have to separate the tax provisions prior to dividend declaration.

Likewise, Commercial Bank Act 2031 has also made some provisions for distributing dividend. Section 18 of this Act states about the restrictions for dividend distribution. According to this section, the bank should not declare and distribute the dividend to shareholders before providing the whole expenses for preliminary expenses, loss incurred in last year, capital reserve, risk bearing fund and reserve fund.

Similarly, Company Act 1997 makes some legal provisions regarding dividend distributions, which are discussed below.

According to this Act, board of directors can fix dividend payout rate but such rate should be proposed, first for the discussion and approval in the annual general meeting of shareholders, the general meeting can reduce the rate determined by board of directors but can't increase. Likewise, some other legal provisions are:

Section (2) (m) states that bonus shares mean shares issued in the form of additional shares to shareholders by capitalizing the surplus from the profits on the reserve fund of a company. The term also denotes an increase in the paid up values of the shares after capitalizing surplus or reserve funds.

Section (47) has prohibited company from purchasing its own shares. This section states that no company shall purchase its own shares or supply loans against the security of its own shares.

Section (137) bonus shares and sub-section (1) states that the company must inform the office before issuing bonus shares under sub-section (1); this may be done only according to a special resolution passed by the general meeting.

Section (140): Dividends and sub-sections of this section are as follows:

- (1) Except in the following circumstances, dividend shall be distributed among the shareholders within 45 days from the date of decision to distribute them
 - (a) In case any law forbids, the distribution of dividends.
 - (b) In case, the right to dividend is disputed.
 - (c) In case dividends cannot be distributed within, the time limit mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company.
- (2) In case dividends are not distributed within the time limit mentioned in sub-section (1), this shall be done by adding interest at the prescribed rate.
- (3) Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it. Kunwar; 20001: 15)

2.1.6 Different conceptual theories of dividend

Under this, major studies regarding dividend, journal and articles in Nepalese perspective and different related theses are reviewed.

2.1.6.1 Linter's Study

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

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

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:

1. Firms generally think in terms of proportion of earnings to be paid out.
2. Investment requirements are not considered for modifying the pattern of dividend behavior.
3. Firms generally have target payout ratios in view while determining change in dividend per share (or dividend rate). (Linter; 1956: 99-113, extracted from, ("Katuwal; 2001:30-31"))

2.1.6.2 Modigliani and Miller Study:

The most comprehensive arguments supporting the irrelevance of dividend are propounded by Modigliani and Miller in 1961. This is popularly known as MM approach. It is sometimes termed as Dividend Irrelevance Model.

According to MM, dividend policy of a firm is irrelevant, as it does not affect the wealth of the shareholders. They argue that 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 splits the earnings into packages of retentions so dividend 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:

- I. 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.
- II. There are no floatation costs. The securities can be purchased and sold without payment of any commission or brokerage etc.
- III. Taxes do not exist.
- IV. The firm has a definite (fixed) investment policy, which is not subject to change.
- V. 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 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,

$$P_0 = \frac{D_1 + P_1}{1 + K_e} \quad \text{----- (1)}$$

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 now new financing exists.

$$np_0 = \frac{n(D_1 + P_1)}{1 + K_e} \quad (2)$$

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 P₁, the value of the firm at time zero will be:

$$np_0 = \frac{n(D_1 + P_1) + (mn_1 - mp_1)}{1 + K_e}$$
$$np_0 = \frac{nD_1 + nP_1 + mn_1 - mp_1}{1 + K_e} \quad (3)$$

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 by the issuance of new shares or both. Thus the amount of new issued will be,

$$mp_1 = I - (E - nD_1)$$
$$\text{Or, } mp_1 = I - E + nD_1 \quad \dots\dots\dots (4)$$

Where,

I = Investment needs

E = Earning available.

Step-five,

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

$$np_0 = \frac{nD_1 + (n+m)p_1 - 1 + E - nD_1}{1 + K_e}$$

$$\text{Or, } np_0 = \frac{nD_1 + np_1 + mp_1 - 1 + E - nD_1}{1 + K_e}$$

$$\text{Or, } np_0 = \frac{p_1(n+m) - 1 + E}{1 + K_e} \quad \text{----- (5)}$$

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.

It does not seem so relevant to apply MM approach in Nepalese Context because when we apply this approach, the assumptions supposed by MM are significantly deviated. In Nepal, we are unable to find the rational investors as well as perfect capital market, which are considered by MM. It does not seem so sound to neglect the floatation cost, transaction cost and tax effect on capital gain as neglected by MM. Arbitrage arguments as explained by MM apply only when there are very sensitive investors and which are lacking in Nepal. A conscious investor always finds difference between dividend and retained earning, and generally, Nepalese investor also prefers dividends more than retained earnings, when dividend is distributed. Thus, MM proposition is not relevant in the case of Nepal. (Miller and Modigliani; 1961: 411-433, extracted from, "Pandey; 1989:287")

2.1.6.3 Gordon's Study

Myron Gordon developed one very popular model explicitly relating to the market value of the firm to dividend policy. It is model of stock valuation using the dividend capitalization approach. This model assumes that dividend per share determine the value of shares. So according to him the dividend policy of a firm affect its value even when the return on investment is equal to the capitalization rate ($r=k$). This argument suggest that an increase in dividend payout ratio leads to increase in the stock prices for the reason that investors consider the dividend yield less risky than the expected capital gain. What is available at present is preferable than what may be available in the future. That is to say, current dividends are considered certain and risk less. Therefore, rationale investors, as compared to differed dividend, prefer it in future. The future is uncertain. The investors would naturally like to avoid uncertainty. Therefore, the current dividends are given more weight than expected future dividend by the investors. So the value per share increases if dividend payout ratio is increasing. Gordon's model is known as Growth Model.

Gordon's Model is based on the following assumptions:

1. The firm is an all equity firm, and it has no debt.
2. The only source of financing new investment is retained earning. No external financing is available.
3. The internal rate of return (r) and the cost of capital (k) for the firm remain constant.
4. The firm and its stream of earnings are perpetual.
5. Corporate taxes do not exist.
6. The retention ratio, (b) once decided upon, is constant. Thus, the growth rate $g=b.r$, is constant.
7. The cost of capital of the firm is greater than the growth rate (g) of the firm ($k>g$) to get meaningful value.

Based on above assumptions the formula for finding out the market value per share, proposed by Gordon is given below:

$$P = \frac{E (1 - b)}{k - br}$$

Where,

P = Price of share

E = Earnings per share

$b =$ Retention ratio or percentage of earnings retained

$(1-b) =$ Dividend payout ratio, i.e. percentage of earnings distributed as dividends

$K =$ Cost of capital or capitalization rate

$br =$ Growth rate

Probable conditions of r and k under this study are:

(a) $r > k$ (Growth firm)

In growth firm the share price tends to decline in correspond to increase in payout ratio or decrease in retention ratio, i.e. high dividends corresponding to earnings leads to decrease in share price which are negatively co-related in case of growth firm.

(b) $r = k$ (Normal Firm)

The share value remains constant regardless of changes in dividend policies in the case of normal firms.

(c) $r < k$ (Declining Firm)

The share prices tend to rise with the rise in dividend payout ratio. It means dividend and stock prices are positively co-related in a declining firm. (Gordon; 1962:118, extracted from, ("Khan and Jain; 1990:573"))

2.1.6.4 Walter's Study

James E. Walter proposed a model for share valuation. He opines that the dividend policy of the firm affects the value of the shares. His model supports that dividends are relevant. He argues that the choice of dividend policies usually affect the value of an enterprise. The investment policy of a firm cannot be separated from its dividend policy; according to him, both are interlinked, which is just opposite to Modigliani and Miller approach.

Walter's model clearly shows the importance of the relationship between the return on a firm's investment or its internal rate of return (r) and its cost of capital or the required rate of return (k) in determining the dividend policy. As long as the internal rate greater than the cost of capital, the share price will be enhanced by retention and will vary inversely

with dividend payout. Therefore, Walter's model is also known as "Optimal theory of dividend." The basic assumptions of the Walter's model are as follow:

1. The firm finances all investment through retained earning. The external sources of funds like debt or new equity capitals are not used.
2. Firm's internal rate of return (r) and cost of capital (k) are constant.
3. All earnings are either distributed as dividend or reinvested internally.
4. There is no change in values of earnings per share (E) and dividend per share (D). The value of E and D remain constant, although there may be changed in the model for determining the result.
5. The firm has a perpetual or infinite life.

Based on above assumptions, formula determining the market price per share is as follows:

$$P = \frac{Div}{k} + \frac{r (EPS - Div) / k}{k}$$

Or
$$P = \frac{Div + (r/k) (EPS - Div)}{k}$$

Where,

- P = Market price per share
 Div = Dividend per share
 EPS = Earning per share
 R = Firm's internal rate of return
 k = Firm's cost of capital or capitalization rate.

Walter's model shows that there are three probable conditions the firm for comparing the relationship between r and k.

(i) r > k (Growth Firm)

If the internal rate of return is greater than cost of capital, it is better to retained earning. These firms are able to reinvest earnings at a rate (r), which is higher than the rate expected by shareholders (k). They will be maximizing the value per share if they follow a policy of retaining all earnings for internal investment. The market value per share

increases by decreasing the dividend in such a condition. The market value per share will be highest at zero dividends.

(ii) $r = k$ (Normal Firm)

If the internal rate of return is equal to cost of capital the dividend, payout does not affect the value of share. Such an enterprise can be called a Normal Firm. Whether the earnings are retained or distributed, it is a matter of indifference for a normal firm. The market price of share will remain constant for all dividend payout ratios from zero to 100. There is no optimum dividend policy for such firm. The market value per share is not affected by the payout ratio where $r=k$.

(iii) $r < k$ (Declining Firm)

If the internal rate of return (r) is less than cost of capital (k), it indicates that the shareholders can earn a higher return by investing elsewhere. In such case for maximizing the value of shares dividend also should be maximized. By distributing the entire earnings as dividend, the value of the shares will be at optimum value. The dividend payout ratio would give an optimum dividend policy. The market value per share increases as payout ratio increases when $r < k$. (Walter; 1966: 29-41, extracted from, "Panday; 1989:280")

2.1.6.5 Van Horne and Mc Donald's Study

Van Horne and Mc Donald conducted a more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. They are using a well-known valuation model, i.e., cross section regression model during the year-end 1968 performed the empirical test. The required data were collected from 86 electric utility firms included on the COMPUSTAT utility data tape and 39 firms in the electronics and electronic-component industries as listed on the COMPUSTAT industrial data tape. They tested two regression models for the utilities industries.

First model was,

$$P_o/E_o = a_o + a_1(g) + a_2(D_o/E_o) + a_3(Lev) + u$$

Where,

P_o/E_o = closing market price in 1968 dividend by average EPS for 1967 and 1968.

g = Expected growth rate measured by the compound annual rate of growth in assets per share for 1960 through 1968.

D_o/E_o = Dividend payout, measured by cash dividend in 1968
dividend by earnings in 1968

Lev = Financial risk, measured by interest charges, dividend by the difference of operating revenues and operating expenses.

u = Error term.

Second model was,

$$P_o/E_o = a_o + a_1(g) + a_2(D_o/E_o) + a_3(Lev) + a_4(F_a) + a_5(F_b) + a_6(F_c) + a_7(F_d) + u$$

Where,

$F_a, F_b, F_c,$ and F_d are dummy variables corresponding to "New issue ratio" (NIR) groups A through D.

It is noted that they had grouped the Firms in five categories A, B, C, D and E, by NIR for each year the value of dummy variables representing its NIR group is one and the value of remaining dummy variables are zero.

Again, they tested the following regression equation for electronics-electronic component industry,

Where,

Lev = Financial risk, measured by long-term debt plus preferred stock dividend by net worth as of the end of 1968.

OR = Operating risk, measured by the standard error for the regression of operating earnings per share on time for 1960 through 1968, and rest are as in first model above.

By using these models or methodology, they compared the result obtained for the firms, which both paid dividends and engaged in new equity financing with other firms in an industry sample. 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 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 payment of dividends through excessive equity financing reduces share prices. For electronics electronic-components industry, a significant relationship between new equity financing and value was not demonstrated. (Van Horne and Mc Donald; 1971:507-519)

2.1.6.6 R. Richardson Pettit's study

R. Richardson Pettit conducted a most comprehensive study on the "dividend announcement security performance and capital market efficiency." The main objective of the study was to offer further evidence about the validity of efficient market's hypothesis by estimating the speed and accuracy with which market price react to the announcement of changes in the level of dividend payment. Another objective was to provide evidence on the hypothesis that changes in dividend levels convey important information to market participants. For the purpose of the study, they collected necessary monthly and daily data. In the context of monthly data, they collected 625 New York Stock Exchange (NYSE) firms for the period of January 1964 through June 1968 from the wall street journal index whereas daily data were collected from 135 announcements made in the 1967-1969. They employed well-

$$R_{it} = \beta_1 + \beta_2 R_{mt} + U_{it}$$

Where,

R_{it} = the investment relative of the i th security in time period t

R_{mt} = the investment relative to the market.

U_{it} = a random error term incorporating the effect of the factors that affect only the i th security.

1 = it measures the response of this security's return to factors that affect the return on all securities.

The result of this investigation clearly supports the proposition that the market makes use of announcements of changes in dividend payment in assessing the value of security. Management's fear of reducing or omitting dividend seems well founded and leads to a desire to delay increasing dividend until a level of cash flows can be estimated with little uncertainty. They suggest at least two conclusions regarding the rules and regulations of corporate disclosure. (Thapa; 2003: 38-39)

2.1.6.7 Robert H. Litzenberger and Krishna Ramashwamy's study

Robert H Litzenberger and Krishna Ramashwami have found positive relationship between expected before tax returns and dividend yield. They have discovered that high dividend stocks providing higher expected before tax returns than low dividend stocks to offset the tax effect. However, adding default risk premium, variable to the extended capital asset's pricing model shows the dividend co-efficient is not significantly different from zero and concluded that the dividend yield measure is likely to be co-related with a number of economics phenomena. Thus, tax effect or dividend is in unsettled state. Another study of relationship between dividend yield and stock returns by black and Scholes indicate that the stocks with high payout ratios did not provide returns significantly different from those with low payout ratios. Therefore, they interpret these findings as consistent with the idea that dividend policy does not matter for common stock prices. Dividend and retained earning significantly explain the variation in share price in chemical industry. (Basnet; 2004:33)

2.2 Review of Related Studies

Few studies have been undertaken in Nepal, which have looked into corporate dividend behavior. Among them, the two major studies are reviewed here:

2.2.1 Review of Journals and Articles in Nepalese perspective

M. K. Shrestha (1981), in his article "*Public Enterprises: Have They Dividend Paying Ability*", has given small glimpse of the dividend performance of some public enterprises of that time in Nepal. He has highlighted the following issues in the article.

The government sets two objectives for the public enterprises:

1. Public Enterprises should be in a position to pay minimum dividend
2. They should be self-supporting in financial matters in future years to come.

However, these both objectives are not achieved by public enterprises.

1. One reason for this inefficiency is caused by excessive governmental interference over daily affairs even though there is provision of government interference only for policy matters. On the other hand, high-ranking officials of HMG appointed as directors of board do nothing but simply show their bureaucratic personalities. Bureaucracy has been the enemy of efficiency and thus led corporation to face losses. Losing corporations are, therefore, not in a position to pay dividends to government.
2. Another reason of this is the lack of self-criticism and self-consciousness.

Manohar Krishna Shrestha (1992), in his article, "*Share holder's democracy and annual general meeting feedback*", has dealt with the policies and financial performance of some financial companies in Nepal. He presented the article on fifth annual meeting of 'Nepal Arab Bank Ltd. On the article, he opines that the shareholders have common views on the problems and constraints of the shareholders, which are as follows:

1. The cost-push inflation at exorbitant rate has made the shareholders to expect higher return from their investment.
2. Multiple decreases in purchasing power of the Nepalese currency to the extent that, higher return by way of dividend is just a natural economic consequence of it.
3. 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.
4. 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.
5. The waiting of live 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.
6. One way to encourage risk- taking ability and performance 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.

Regarding these difficulties, he requested the bank's management board to rethink the matters in relations to payment of dividend.

At the end of his paper, Dr Shrestha writes that the bank is trying its best to satisfy both the shareholders and employees. As Dr Shrestha's report (Third general meeting of NGBL) shows some of the shareholders thought that bonus payment and shareholders dividend payment were not handled in a proper way. Rs 2.85 million bonus was paid to nearly 50 employees, but Rs. 3 million dividends to more than 500 shareholders, which is not socially justifiable from income sharing perspective. Where as on the sixth annual meeting Dr Shrestha's report bitterly comments management board for neglecting shareholder's interest. He expressed that the dividend payout ratio is relatively lower the seven years average growth rate of earnings.

Radhe Shyam Pradhan, (1993), in his article "*stock market behavior in a small market: a case of Nepal*", expressed the following issues:

1. Higher the earnings on stocks, larger the ratio of dividend per share to market price per share.
2. Dividend per share and market price per share was positively correlated.
3. Positive relationship between the ratio, dividend per share to market price per share and interest coverage.
4. Positive relationship between dividend payout and liquidity.
5. Positive relationship between dividend payout and profitability.
6. Positive relationship between dividend payout and turnover ratios.
7. Positive relationship between dividend payout and interest coverage.
8. Liquidity and leverage ratios are more variable for the stock paying lower dividends.
9. Earnings, assets turnover and interest coverage are more variable for the stock paying higher dividends.

2.2.2 Review of Thesis

Nabha Raj Adhikari (1996) conducted his master's thesis titled, "*corporate dividend practices in Nepal*".

The main objectives of his research are as follows:

- To analyze the properties of portfolios formed on dividend.
- To examine the relationship of dividend and stock prices.
- To survey the opinions of financial on corporate dividend practices.

The methodology used in the study includes financial tools such as ratio analysis and statistical tools such as correlation co-efficient and probable error. Secondary data are used for the analysis.

The findings of his study are as follows:

- Differences in financial position between high dividend paying and low dividend paying companies.
- 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 sectors are affecting by dividend.
- 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.
- Companies paying higher dividend are reluctant to employ higher degree of leverage in their capital structures.
- The stocks with larger ratio of dividend per share to book value per share have also higher turnover ratio and higher interest coverage.

Rishi Raj Gautam (1996) conducted his master's thesis titled, "*Dividend Policy in Commercial Banks: A comparative study of NGBL, NIBL, and Nabil.*"

The main objectives of this study are as follows:

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

The methodology used in the study includes financial tools such as ratio analysis and statistical tools such as correlation co-efficient and probable error. Secondary data are used for the analysis.

Major Findings of his study are as follows:

- Average earnings per share and dividend per share of all concerned banks are satisfactory.
- Analysis indicates that there is the largest fluctuation in EPS and DPS and have relatively more consistent dividend per share in all the three banks.
- No commercial banks seem to be guided by clearly defined dividend strategy in spite of the good earnings and potentials.
- Shares of the financial institutions are actively traded and market prices are increasing.
- Commercial banks represent a robust body of profit earning organization in comparison to the other sectors such as manufacturing, trading etc.
- One of the most striking findings of this study is that no commercial bank sample for this study has a clear dividend strategy. On the other hand, there is significant relationship perceived between earnings and dividend of expansion program.

Sadakar Timilshina (1997) conducted his master's thesis, titled "*Dividend and stock Prices: an empirical study*".

The main objectives of the study are as follows:

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

The methodology used in the study includes financial tools such as ratio analysis and statistical tools such as correlation co-efficient and probable error. Secondary data are used for the analysis.

The findings of this study are as follows:

- The relationship between DPS and stock prices is positive in sample companies.
- DPS affects the share prices variably in different sectors.

- Changing the dividend policy or dividend per share might help to increase the market price of the share.
- The relationship between stock price and retained earning per share is not prominent.
- Relationship between stock prices and lagged earning ratio is negative.

Yagya Bahadur Katuwal (2001) conducted his master's thesis, titled, "*A Comparative Study of Dividend Policy in Commercial Banks*".

The main objectives of this study are as follows:

- To study the current practices of dividend policy in commercial banks.
- To find out the impact of dividend on share prices.
- To analyze the relationship of financial indicators.
- To examine if there is any uniformity among DPS, EPS and DPR on the six sample banks.

The methodology used in the study includes financial tools such as ratio analysis and statistical tools such as correlation co-efficient and probable error. Secondary data are used for the analysis.

The major findings of this study are as follows:

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

Prerana Laxmi Rajbhandari (2001) conducted her master's thesis titled, "*Study on Dividend Policy: A Comparative Study between Banks and Insurance Companies*."

The objectives of her research are as follows:

- To examine the relationship between dividend and market price of the stock.

- To identify the appropriate dividend policy followed by the banks and insurance companies.
- To analyze the relation between dividend policy decision of the bank and insurance companies.

The methodology used in the study includes financial tools such as ratio analysis and statistical tools such as correlation co-efficient and probable error. Secondary data are used for the analysis.

Major findings are as follows:

- The average DPS and all concerned institutions except Nabil and EPS of all sample institutions seem satisfactory.
- The analysis of co-efficient variance shows that there is the largest fluctuation in EPS and DPS. Other companies have seemed to be relatively more consistent.
- The analysis of dividend payout ratio shows none of the banks or insurance companies has consistent payout ratio each year. It is always fluctuating from year to year.

Pravin Kumar Ghimire (2002) conducted his master's thesis titled, "*Dividend Policy of listed companies (with ref. to banks, finance and insurance companies).*"

The main objectives of his study are as follows:

- To identify the dividend policy of different sample companies.
- To identify the regularity of dividend distribution of different listed companies.
- To identify the relationship between dividend policy and other financial indicators
- To find out whether dividend policy affects 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 methodology used in the study includes financial tools such as ratio analysis and statistical tools such as correlation co-efficient and probable error. Secondary data are used for the analysis.

Major findings of his study are as follows:

- 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.

2.3 Research gap

The present thesis work reflects the following research gap:

1. This thesis work has covered the period of study till 2004/5, whereas the previous thesis work covered only period up to 2002/4.
2. This thesis work uses primary data to analyze the present study of the sample banks, but the previous thesis work used only secondary data for the analysis.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the method of research adopted in this study. Research design, sample selection, data collection procedure, period covered, data processing procedure and tools used for analysis are included under this chapter.

3.2 Research Design

The analytical as well as descriptive research designs have been included in the present study. In this study, research methodology has been paid due attention to achieve the objectives of the study

3.3 Nature and sources of Data

Secondary as well as primary data are used in this study. The basic sources of data are published annual reports of the concerned organization. Similarly, official records, other related magazine and bulletins, data of Nepal stock exchange and Nepal Rastriya Bank's banking directives and financial statistics, etc as well as other supplementary data and findings of various economic surveys are also used. Previous studies related to the subject

Unpublished official records of the banks are also used as the sources of information. Primary data are also used to draw the conclusion. Few questionnaires to bankers, personal interviews and observation etc were applied to clarify the materials.

3.4 Data Processing Procedures

First of all, bibliography cards were prepared on the basis of available literature studies, journals and reports. Pertinent literature are studies were accumulated from various, libraries documentation centers and required financial statement and records were collected from concerned offices. Thereafter, necessary clarifications were also made through officials of the banks. Questionnaires prepared for the purpose were distributed to selected staffs of the bank. Those were collected and taken for the observation and analysis. Collected secondary data (balance and profit and loss account) were changed into tabular form. Data were analyzed with the aid of analytical tool. On the basis of study, conclusions were drawn and suitable recommendations were also made.

3.5 Population and Sample

At present, there are 17 commercial banks operating in Nepal. Due to time and resource constraints, it is not possible to study all of them regarding the study topic. Therefore, only two banks are selected. They are:

- (i) Nabil Bank Limited
- (ii) Himalayan Bank Limited

3.6 Period of the study

The study is based on financial data of eight years of sample banks (i.e., Nabil Bank Limited and Himalayan Bank Limited) from fiscal year 2000 to 2008.

3.7 Tools of analysis

In this study two types of tools of analysis are used. They are:-

3.7.1 Financial tools

The following financial tools are used in this study.

- Earning Per Share (EPS)
- Dividend Per Share (DPS)

- Dividend Percent (DP)
- Dividend Payout ratio (DPR)
- Price \Earning Ratio / Earning Multiplier (P/E Ratio)
- Earning Yield and Dividend Yield (EY and DY)
- Market Value Per Share to Book Value Per Share Ratio (MPS to BVPS Ratio)

Earning per share (EPS)

It is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability. Earnings per share are generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

EPS is calculated as:

$$\text{EPS} = \frac{\text{Net Income} - \text{Dividends on preferred stock}}{\text{Average Outstanding Shares}}$$

Dividend Per Share (DPS)

Dividend per share (DPS) is a simple and intuitive number. It is the amount of the dividend that shareholders have (or will) receive for each share they own. DPS is calculated by following formula.

$$\text{DPS} = \frac{\text{Dividend Paid}}{\text{Number of share in issue}}$$

This is calculated separately for each class of share (ordinary shares, preferred etc.). It is most often used to calculate dividend yield, dividend cover, and the payout ratio.

Dividend Percentage (DP)

Dividend percent is the ratio of dividend per share to the paid-up price per ordinary share.

It can be calculated as:

$$\text{DP} = \frac{\text{Dividend per share}}{\text{Paid- up price per share}}$$

Dividend Payout Ratio (DPR)

The dividend payout ratio measures the percentage of a company's net income that is returned to shareholders in the form of dividends.

The dividend payout ratio is a relatively simple calculation:

$$\text{DPR} = \frac{\text{Total Annual Dividends Per Share}}{\text{Earnings Per Share}}$$

Price-Earning Ratio / Earning Multiplier (P/E Ratio)

The relationship of the price of the stock in relation to EPS is expressed as the Price to Earnings Ratio or P / E Ratio. Investors often refer to the P / E Ratio as a rough indicator of value for a company. A high P / E Ratio would imply that investors are very optimistic (bullish) about the future of the company since the price (which reflects market value) is selling for well above current earnings. A low P / E Ratio would imply that investors view the company's future as poor and thus, the price the company sells for is relatively low when compared to its earnings. The P / E Ratio is calculated as follows:

$$\text{P/E ratio} = \frac{\text{Price of Stock}}{\text{Earnings per Share}}$$

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)

Earning per share as the percentage of market price per share in the stock market is called the earning yield. In other words, it is a financial ratio relating to earning per share to the market share price at a particular time. 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:

$$\text{EY} = \frac{\text{EPS}}{\text{Market Price per Share}}$$

share price

Dividend Yield (DY)

The percentage of dividends paid to shareholders in relation to the price of the stock is called the Dividend Yield. For investors interested in a source of income, the dividend yield is important since it gives the investor an indication of how much dividends are paid by the company. Dividend Yield is calculated as follows:

$$DY = \frac{\text{Dividends per Share}}{\text{Price of Stock}}$$

Market Value (Price) Per Share to Book Value Per Share (MPS to BVPS) Ratio

This ratio measures the market value per share, in the competitive open market with respect to book value per share. This ratio indicates the price that the market is paying for the share that is reported from the net worth of the banks.

This is important to compare the market share prices of different stocks on the basis of the book value per share. It shows the market share price of a stock as a percentage of book value per share and the effect of later on the former. This ratio can be derived by dividing market price per share by book value per share.

Thus,

$$\text{MPS to BVPS Ratio} = \frac{\text{Market price per share}}{\text{Book value per share}}$$

3.7.2 Statistical Tools

Following statistical tools for the analysis:

Arithmetic Mean or Average (X)

An average is a single value that represents a group of values. It depicts the characteristics 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,

$$\text{Mean } \overline{(X)} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N}$$
$$\text{Or } \overline{(X)} = \frac{X}{N}$$

Where,

X = Sum of the sizes of the items

N= Numbers of items

Standard Deviation ():

The concept of standard deviation was first introduced by Karl Pearson in 1983. “it is defined as the positive square root of the arithmetic mean of the squares of the deviation of the given observations from their arithmetic mean.” (Gupta; 1996:380)

In other words, standard deviation is the positive square root of the arithmetic average of the squares of all the deviations measured from the arithmetic average of the series. It is independent of the position of the origin. Generally, it is denoted by small Greek letter ... (read as sigma) and is obtained as follows.

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

Where

N = Numbers 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. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series.

Coefficient of Variation (C.V.)

Karl Pearson developed this measurement to measures the relative dispersion. It is used in such problems where we want to compare the variability of two or more series. The series (or group) for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the contrary, that series (or group) for which the coefficient of variation is less is said to be less variable is less is said to be less variable or more consistent, more uniform, more stable or more homogeneous. It is denoted by C.V. and is obtained by dividing the arithmetic mean to standard deviation.

Thus,

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{SD}}{\text{Mean}}$$

Coefficient of Correlation (r)

“Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another.” (Levin and Rubin; 1994:613)

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 variables are related and 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 and -1, a value of +1 indicating a perfect positive relationship between the variables, of -1 a perfect negative relationship, and of no relationship when correlation coefficient is zero. The zero correlation coefficient means the variables are uncorrelated.

Similarly, a high correlation coefficient reveals that two variables move together but does not indicate cause and effect. In other words, the closer r is to +1 or -1, the closer the relationship between the variables and closer r is to zero (0), the less close relationship. The algebraic sign of the correlation coefficient indicates only the direction of the relationship between two variables, whether direct or inverse, while the numerical value of the coefficient is concerned

Thus, in this study, the degree of relationship between dividend and other relevant financial indicators such as earning per share, market price per share, current ratio, net profit is measured by the correlation coefficient, which is denoted by r or r_{xy} (of X and Y are two sets). It is defined by Karl Person as:

$$r_{xy} = \frac{\text{Cov}(X, Y)}{s_x s_y}$$

$$\text{Or, } r_{xy} = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{N s_x s_y}$$

$$\text{Or, } r_{xy} = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

$$\frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2 \sum (Y - \bar{Y})^2}}$$

Where,

σ_x σ_y are the standard deviation of the distribution of X and Y values respectively

Cov (X,Y) = covariance of X,Y value

$$= \frac{\sum (X - \bar{X})(Y - \bar{Y})}{N}$$

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 dividend per share and net profit
- c) Between market price per share and dividend per share.
- d) Between net worth and dividend per share.
- e) Between dividend per share and investment.
- f) Between dividend per share and current ratio.
- g) Between earning yield and dividend yield
- h) Between market price per share and earning per share.
- i) Between market price per share and dividend payout ratio.
- j) Between market price per share and dividend percentage on paid up capital
- k) Between dividend payout ratio and percentage of cash and bank balance to current assets.

Coefficient of Determination (r^2)

The coefficient of determination is the primary way. We can measure the extent, or strength, of the association that exists between two variables, x and y. r^2 measures only the strength of a linear relationship between two variables.

It refers to a measure of the total variance in a dependent variable that is explained by its linear relationship to an independent variable. The coefficient of determination equals r^2 and the value of r^2 lies between zero and unity, the closer to unity, the greater the explanatory power. A value of one can occur only if the unexplained variation is zero, which simply means that all the data point in the scatter diagram fall exactly on the regression line. The r^2 is always a positive number. It can't tell whether the relationship between the two variables is positive or negative. The r^2 is defined as the ratio of explained variance to the total variance.

Thus,

Coefficient of determination (r^2) = (Correlation)²

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the interpretation of the primary as well secondary data that have been collected according to meet the research objective. The analysis of the data has been done to compare the dividend policy of the selected banks i.e. Nabil and HBL.

4.1 Analysis of Primary Data

Primary data are collected by interviewing the people who have invested money in the sample banks. The interview was carried to find out opinions of respondents about major aspects dividend policy of the sample banks. The study is based on the opinions of 10 respondents from each sample bank. The respondents are the share investors and the concerned bank officials. The Performance of the questions asked and details of response are given in Appendix B (I).

4.1.1 Dividend practices adopted by the commercial banks in Nepal.

Table No. 4.1 Type of dividend practice

S. No	Dividend practices	Response of respondents	
		Nabil (%)	HBL (%)
1	Paying dividend after financing in all investment opportunities (residual practices)	60	60
2	Paying regular dividend (stability practices)	40	40
3	Mix of above	-	-
4	None of above	-	-

Source: Field survey 2009

The percentage of response suggest that there is no clear practices in the dividend pay in Nepal as the response to the both practices i.e. residual practice and stability practices are in close percentage. However, the above table shows in the opinion of the majority of respondents of both banks follow residual practice in paying dividend in Nepal.

Table No. 4.2 Similarity in dividend practice in commercial banks of Nepal

S. No	Have Similarity	Response of respondents	
		Nabil (%)	HBL (%)
1	Yes	-	-
2	No	70	70
3	Can not say	30	30

Source: Field survey 2009

The above table reflects that 70% of respondents of both Nabil bank and Himalayn bank are in the view that same dividend practice is being followed in Nepal.

4.1.2 Share Investment

In Nepal people invest in share without having enough knowledge about the share market. So it is very interesting to find out for what reasons they invest in it. The following table gives some basic indication about the investment in share.

Table No. 4.3: Investment in share

S. No	Reasons	Response of respondents	
		Nabil (%)	HBL (%)
1	To receive dividend	80	90
2	To get voting rights	-	-
3	To have quick return	10	-
4	Utilization of money	-	-
5	To get capital gain	10	10

Source: Field survey 2009

Majority of the respondents think that the investments in the share are done to get dividends. There are few people who think investment is done to get quick return and for the capital gain.

4.1.3 Effects of dividend distribution on liquidity

The following table shows the respondents view about the effects of dividend distribution in liquidity of the banks.

Table No. 4.4: Effects of dividend distribution on liquidity

S. No	Effects	Response of respondents	
		Nabil (%)	HBL (%)
1	Yes	50	40
2	No	20	30
3	Can not say	20	30

Source: Field survey 2009

The above table reflects that 50% of respondents of Nabil bank are in the view that dividend distribution influences the liquidity position; the proportion for the same reason in HBL is 40%. The table shows that the considerable numbers have no idea about the effects of dividend distribution on liquidity.

4.1.4 Effects of dividend distribution on share price

The table below illustrates the people opinion about the effects of dividend distribution on share price.

Table 4.5: Effects of dividend distribution on share price

S. No	Effects	Response of respondents	
		Nabil (%)	HBL (%)
1	No effects	10	20
2	Increases the market price of the share	70	60
3	Decreases the market price of the share	20	20

Source: Field survey 2009

The above table shows that majority of people think that dividend distribution increases the market price of the share. It is interesting to observe that there are people who think that dividend distribution decreases the market price for the share. Moreover, rest 10% respondents of both banks think it has no effect on market price of the share.

4.1.5 Reason behind distributing dividend.

The respondents' response to find out the reasons of dividend distribution is given in the table no 4.6.

Table No. 4.6: Reason behind distributing dividend.

S. No	Reasons	Response of respondents	
		Nabil (%)	HBL (%)
1	To increase good will	10	10
2	To utilize earning	-	-
3	To attract investors	30	60
4	To fulfill shareholders' expectation	60	30

Source: Field survey 2009

The above table reflects that majority of respondents of both bank think that the reason behind distributing dividend is either to attract the investors or to fulfill the share holder's expectation.

4.1.6 Preference among different forms of dividend.

The shareholders preference on mode of dividend distribution is give in table below. This analysis is basically done by asking the question to the investors.

The table reflects that most of the respondents of both banks prefer cash dividend. The percentage of respondents preferring stock dividend in Nabil and HBL are respectively

30 and 40. It shows that compare to stock dividend cash dividend are more popular to the investor.

Table No. 4.7: Preference of dividend pay.

S. No	Type of dividend	Response of respondents	
		Nabil (%)	HBL (%)
1	Cash dividend	70	60
2	Stock dividend	30	40
3	None of them	-	-

Source: Field survey 2009

4.1.7 Dividend practices consideration.

To have knowledge on the factors to be considered while adopting dividend practices the respondents were asked a proper question. Their response is summarized in following table.

Table No. 4.8 Dividend practices consideration

S. No	Factors	Response of respondents	
		Nabil (%)	HBL (%)
1	Legal consideration	100	100
2	Liquidity position	-	-
3	Borrowing capacity of the company	-	-
	Control	-	-
3	All of above	-	-

Source: Field survey 2009

The above table reflects that all of the respondents of either bank area in the view that legal considerations should be taken into account while adopting dividend practices.

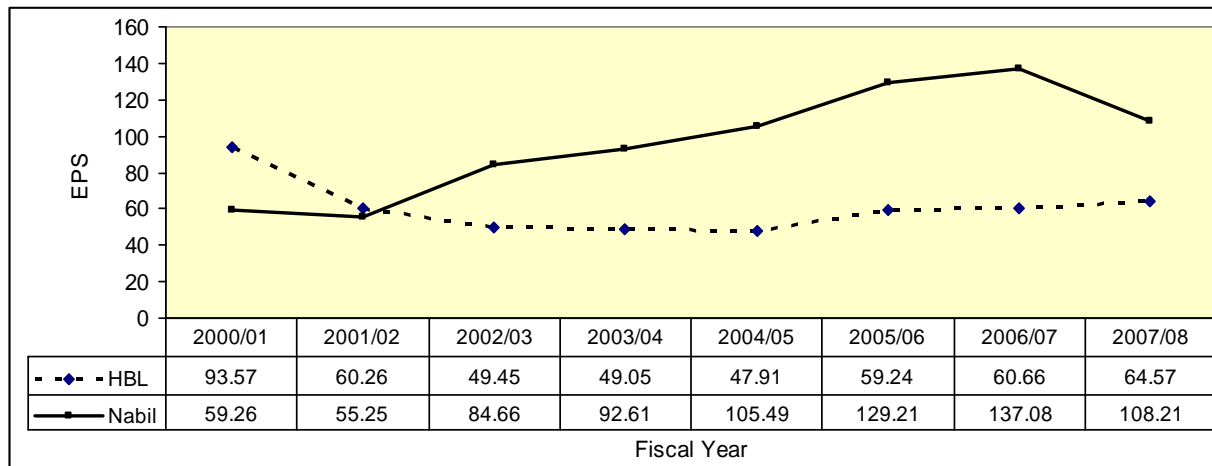
4.2. Secondary Data Analysis

The secondary data collected from various relevant sources were analyzed by using appropriate tools so that logical conclusion on the study objective can be reached.

4.2.1 Earning per share (EPS)

It measures the profitability of the shareholder's investment. It shows the return of each equity shareholders.

Chart no 4.1: EPS of HBL and Nabil



Source: HBL and Nabil

It is quite apparent from the above chart, that the EPS of HBL has shown a decreasing trend from 2000/1 to 2004/5. After that it has slightly increasing trend. Currently it stands at the value of 64.57. The highest EPS was in the year 2000/1, which was 93.57 while the 47.91 being the lowest in the year 2004/5. The average EPS is 60.59, standard deviation is 13.80, and the coefficient of variation is 22.78% suggesting that there is 22.78% fluctuation in EPS of Himalyan bank.

Similarly, the EPS of Nabil bank has shown an increasing trend from the start of the study period i.e. 2000/01 to 2006/7. The EPS was 59.26 in the year 2000/1, which increased dramatically to 137.08 in the year 2006/7. The average EPS is 96.47 which is higher than the EPS of the first four fiscal years and lower than the last four fiscal year. This means, the bank has not been able to maintain its average EPS for first four fiscal years and it has been able to maintain and to some extent exceed its average EPS for the last four fiscal years. The standard deviation is 27.79. The coefficient of variation is 28.81%, which means there is 28.81% fluctuation in EPS of the Nabil bank.

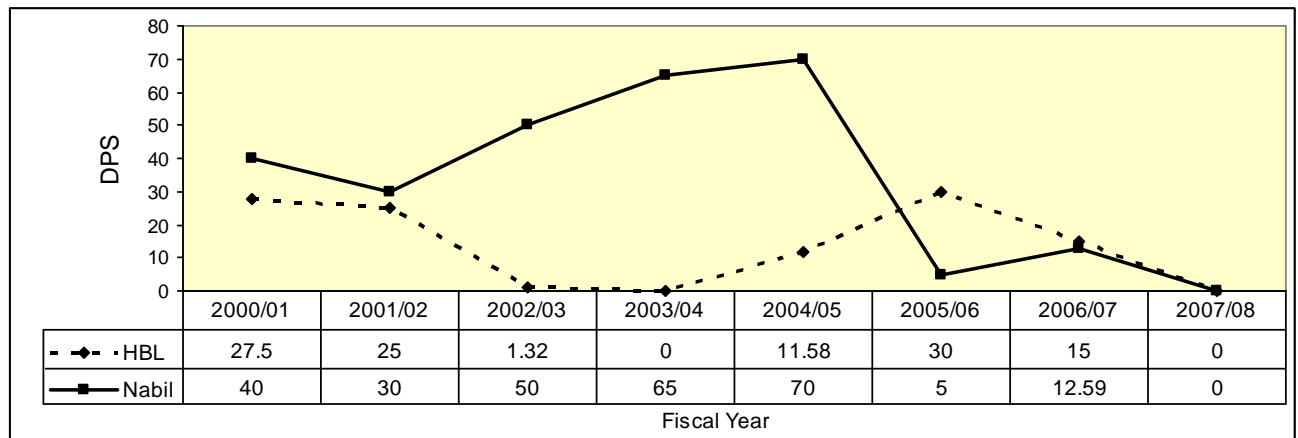
While making a comparison between the two banks, the average EPS of Nabil is significantly higher than that of HBL. Both the banks show unstable tendency of EPS. On the basis of EPS Nabil bank is in better position than HBL. But the Nabil bank shows high fluctuation on EPS than the HBL. The high fluctuation of EPS of Nabil may be due to the high rise in EPS in short period of time.

Therefore, from the above discussion we can conclude that Nabil bank has recorded a better performance than HBL bank in the last eight fiscal years.

4.2.2 Dividend per share (DPS)

It is the amount of the dividend that shareholders have (or will) receive for each share they own. Dividend per share indicates the rupee earnings actually distributed to common stockholders per share held by them.

Chart 4.2 DPS Analysis of HBL and Nabil



Source: HBL and Nabil

The DPS of both banks show very high fluctuation (see chart no 4.2). The trend of DPS of HBL shows fall-rise-fall. It started on 27.5 in 2000/1, reached to zero in 2003/4 and again climbed to 11.58 in 2004/5 and then again falls to 0 in 2007/8. The average DPS for the period is 13.8. Zero DPS in the year 2003/4 and 2007/8 signify that the bank did not distribute any dividend and retained all its earning, despite there was earning in that year. S.D. of DPS for the study period was 11.82 and C.V. was 85.69% which signifies there was a very fluctuation in the DPS

In case of Nabil bank, the DPS showed rise-fall-slight rise trend. It started on 40 in the year 2000/1 reached the lowest figure in 2001/2 and reached the peak in 2004/5. The

bank has not been able to maintain its average DPS of 34.07 in the last 3 fiscal year (2005 to 2008) and also during 2003/4. S.D. for the study period for Nabil bank was 25.05 and C.V. was 75.53.

Comparing the two banks it is quite clear that Nabil bank has shown better performance in terms of average DPS and C.V.

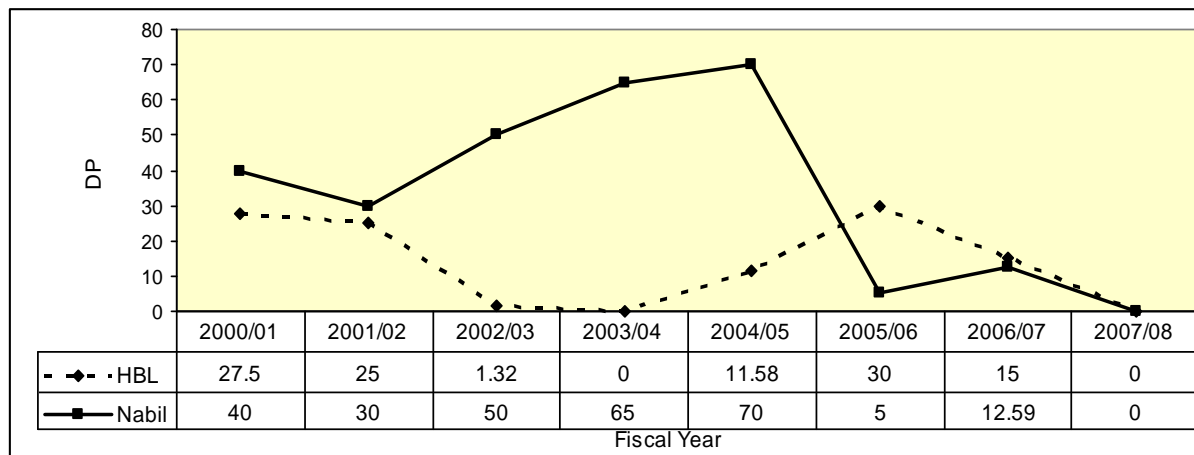
4.2.3 Dividend Percent (DP)

Dividend percent is the ratio of dividend per share to the paid-up price per ordinary share.

True picture of a bank dividend policy can not be always accurate by the general analysis of EPS and DPS since the paid up price differs from one bank to another. Therefore, sometimes it is necessary to measure the dividend percentage in order to know the trend of paying dividend to the shareholders. The chart no 4.3 given bellow shows the dividend percentage of two banks viz. HBL and Nabil.

The trend of DP of HBL shows fall-rise-fall for the study period. It can be said that HBL paid 27.5% dividend in the year 2000/1 which decreased by a high range to 11.58. In the year 2004/5 there was no dividend distributed in the year 2003/4 and nominal 1.32% of dividend was distributed in the year 2002/3. The average DP for the period was 13.8. The C.V. of the HBL is 86.65%. This shows a very high fluctuation or inconsistency in DP.

Chart 4.3 DP analysis of HBL and Nabil



Source: HBL and Nabil

Similarly, the trend of DP for Nabil bank shows rise-fall-rise. The DP started on 40 in the year 2000/1 decreased to 30 in 2001/2 then increased gradually to 70 in 2004/5. The

average DP was 34.07. S.D. and C.V. for the bank for the study period was 25.05 and 75.53 respectively. This signifies there was a moderate fluctuate in DP.

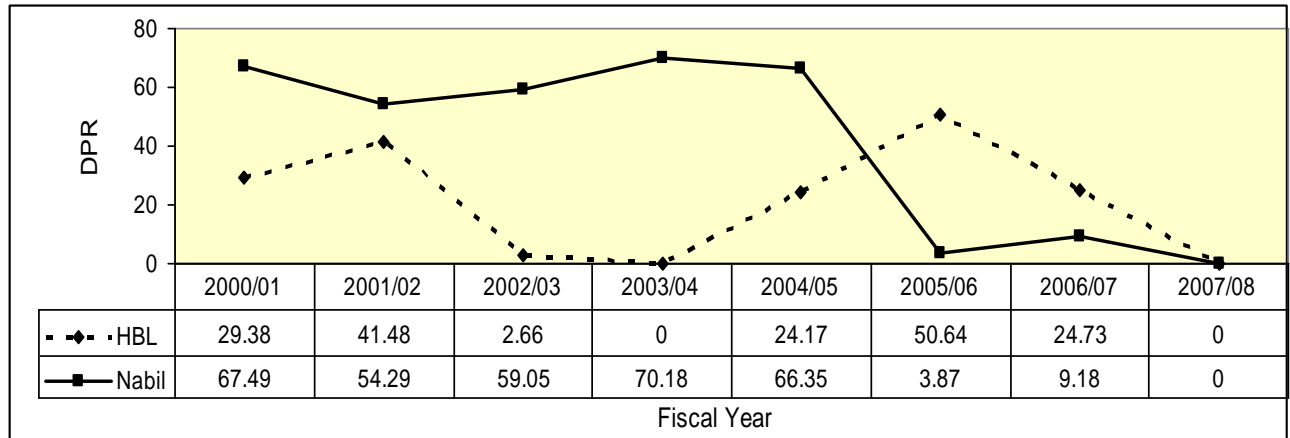
Therefore, in aggregate, the Nabil is more efficient for dividend distribution and also more consistent than HBL.

4.2.4 Dividend Payout Ratio (DPR)

The dividend payout ratio is earnings paid to the equity holders from the earnings of a firm in a particular year.

The chart bellow shows the trend of depicts the dividend payout ratio of the two banks. The main objective of this presentation is to show the percentage of dividend payment, out of its earning.

Chart 4.4 DPR analysis of HBL and Nabil



Source: HBL and Nabil

The DPR trend of HBL shows the rise-fall-rise-fall. It is quite apparent from the chart that DPR of HBL ranged from 0 to 50.64%. It started from 29.38 in 2000/1, reached to zero in 2003/4 and again climbed to 50.64 in 2005/6. In 2003/4 the DPR was zero, this is because HBL did not distribute any dividend in that year. The average DPR was 21.63. The bank has been able to maintain its average DPR except in the year 2002/3, 2003/4 and 2007/8. The figures here mean that the bank distributed respective percentage of dividend. S.D. and C.V. for the period was 18.02 and 83.31 respectively. This signifies that there was a high fluctuation in the DPR of HBL.

Similarly, the DPR of Nabil ranged from 0 to 70.18. The DPR started on 67.49 in the year 2000/1 reached the lowest figure 0 in the year 2007/8. The highest value was obtained at 2003/4 which is 70.18. The average DPR was 41.3 which was maintained by the bank except in the last 3 fiscal year.

S.D. and C.V. for the period was 29.09 and 70.44 respectively. This signifies that there was a moderate fluctuation in the DPR.

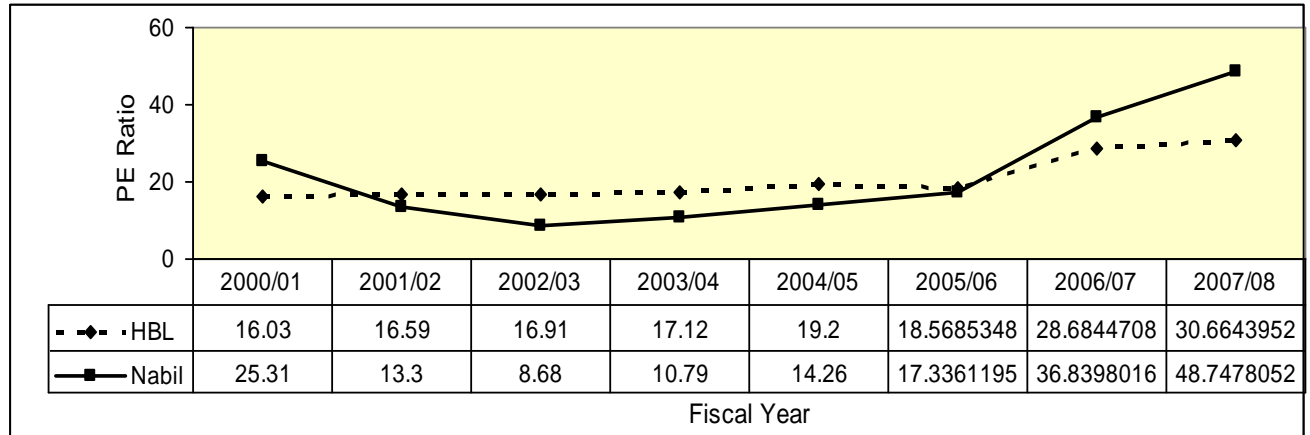
While comparing the data of the two banks, we can say that Nabil was consistent in DPR than HBL while looking at the average DPR Nabil bank far exceeds HBL, which signifies that Nabil has been able to pay high dividend than HBL.

4.2.5 Price Earning Ratio (P/E Ratio)

Price-earning ratio is simply the ratio between market price per share and earning per share.

The chart below exhibits the P/E Ratio of two banks viz. HBL and Nabil. This presentation helps our study by clarifying the relationship between earning per share and market price per share.

Chart 4.5 P/E ratio analysis of HBL and Nabil



Source: HBL and Nabil

According to the table, the P/E ratio of HBL hovered between 16.03 and 30.66. The P/E ratios for the first three years are nearly equal. The highest figure was 30.66 in 2007/8. The average P/E ratio was 20.47. The average value indicates that there is dramatic rise in P/E ratio. For the first six years the bank has below the average P/E ratio.

S.D. and C.V. of the bank for the period was 4.58 and 22.37%. This signifies that the bank was very consistent in its P/E ratio.

Similarly, Nabil bank showed a decreasing trend up to the year 2002/3 and then again, it started increasing. It started on 25.31 in the year 2000/01, reached the lowest figure of 8.68 in 2002/3 and again increased to 48.75 in 2007/8. The average P/E ratio was 21.19. The bank was able to maintain its average P/E ratio only for the year 2000/1 and for the last 2 fiscal year.

The standard deviation and the coefficient of variation were 13.26 and 60.52% respectively. The C.V. shows that there is greater fluctuation in the variable. In other words, there is only 60.52% consistency in P/E ratio of this bank.

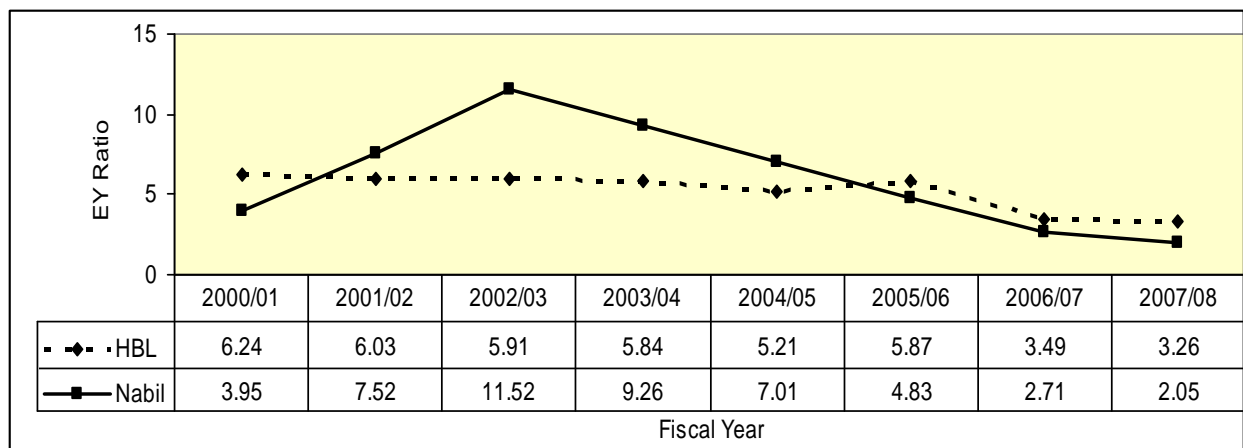
Comparing the two banks we can say that, both banks showed almost equal performance because average P/E ratio is almost same. But on the basis of C.V. the P/E ratio of the HBL shows better stability than that of Nabil.

4.2.6 Earning Yield Ratio (EY)

Earning per share as the percentage of market price per share in the stock market is called the earning yield. In other words, it is a financial ratio relating to earning per share to the market share price at a particular time.

The chart bellow shows the relationship between earning per share and market price per share of two banks for the study period. The main reason behind such kind of tabulation is to point the percentage relationship between EPS and MPS to illustrate the earning yield of the concerned banks, which may be a reliable tool to calculate the real value of the dividend as compared with the current market value of each share.

Chart 4.6 EY ratio analysis of HBL and Nabil



Source: HBL and Nabil

As observed from the chart of EY ratio of HBL, it is almost same for the period of 2000/1 to 2005/6 than after it begins to decrease. The EY ratio started on 6.24% in the year 2000/1 and decreased gradually to 3.24% in the year 2007/8. The average earning yield ratio of the bank was 5.23%, which is higher than the earning yield ratio of the first four years and is lower than the earning yield ratio the last two years.

The standard deviation was 0.92 and the coefficient of variation was 17.59% which shows that there was low consistency in the EY ratio of this bank.

Likewise, the earning yield ratio of the Nabil bank showed a increasing tendency from the year 2000/1 to 2002/3 and then it started to decrease. It was 3.95, the lowest in the year 2000/1, reached the highest in the year 2002/3 and again it decreased to 2.05 in the year 2007/8. The average EY was 6.11 which were maintained by the bank for years from 2001/2 to 2004/5.

The standard deviation and the coefficient of variation were 3.09 and 50.57% respectively. The C.V. shows that there is greater fluctuation in the variable. In other words, there is only 50.57% consistency in P/E ratio of this bank.

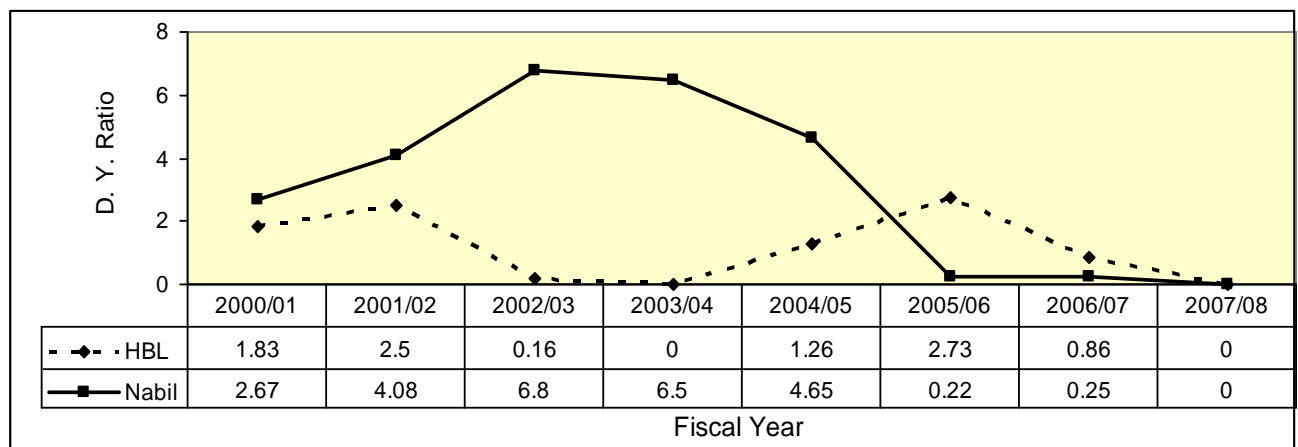
Therefore, in aggregate, HBL is more efficient than Nabil bank based on C.V. whereas Nabil bank is better in terms of average EY ratio.

4.2.7 Dividend Yield Ratio (DY)

Dividend yield is the percentage of dividend per share on market price per share. It measures the dividend in relation to market value of share.

The chart no 4.6 reveals the dividend yield ratio of the concerned banks from the year 2000/1 to 2004/5. It is clearly shown that HBL has not paid any dividend in case of the year 2003/4. Therefore, there is no dividend yield ratio in the year. The DY ratio showed a fluctuating trend it started on 1.83 in the year 2000/1 then increased to 2.73 in the 2001/2 then after it decreased gradually to reach 0.00, two years later then increased to 2.73 in the year 2005/6 which is the highest value for the study period. The average dividend yield ratio was 1.17.

Chart 4.7 DY ratio analysis of HBL and Nabil



Source: HBL and Nabil

The standard deviation was 1.03 and the coefficient of variation, 88.03%. This shows a very high fluctuation in the DY ratio.

Similarly, in case of Nabil, the DY ratio shows the increasing trend from the start of the study period upto fiscal year 2002/3. Than it shows the declining trend and reach lowest

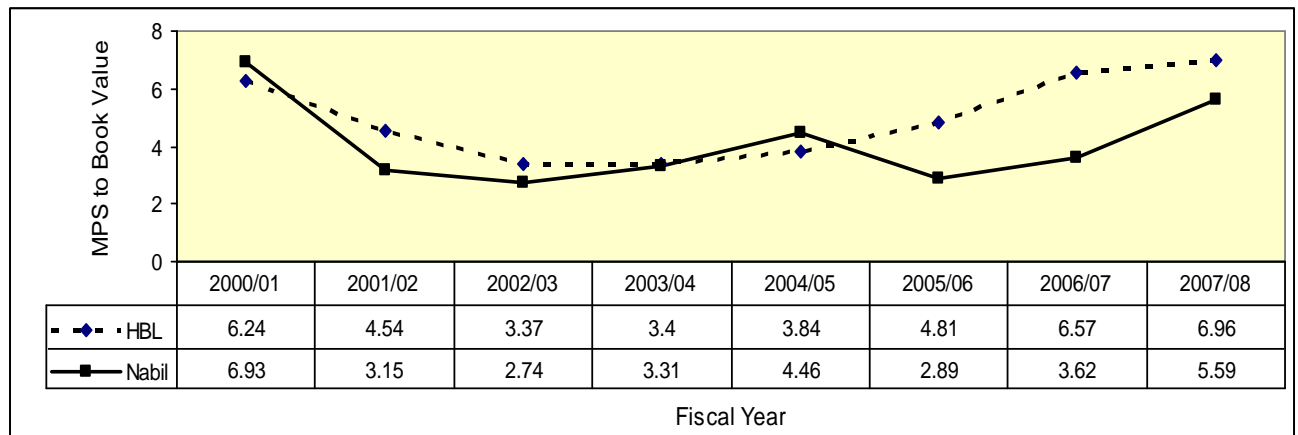
value which is of 0 in 2007/8. The average value of the ratio is 3.15. The DY ratio of the bane for the last 3 fiscal year is lower than the average value. The standard deviation of the DY ratio and C.V. for Nabil is 2.62 and 83.17 respectively.

The analysis of DY ratio shows that the performance of Nabil bank is better than that of HBL as the average value of Nabil is more than that of HBL. Furthermore the standard deviation and C.V. of the HBL is high compare to that of Nabil.

4.2.8 MPS to BVPS Ratio

The chart of MPS to BVPS ratio shows that almost same trend of variation. The ratio for the HBL started to decrease from the value of 6.24 in 2001/ to the lowest value of 3.37 in 2002/3 than after it started to climb and currently it stands at the value of 6.96. The average value is 4.97 and standard deviation is 1.23. Likewise the C.V. value is 24.75% which implies 24.75% consistency.

Chart 4.8 MPS to BVPS ratio analysis of HBL and Nabil



Source: HBL and Nabil

Similarly the MPS to BVPS ratio of Nabil bank shows fall-rise-fall-rise trend for the study period. For the fiscal year 2000/1 the ratio was 6.93 which dip to the value of 2.74 in 2002/3 and rises to the value of 4.46 during fiscal year 2004/5. In subsequent year i.e. 2005/6 it again falls to the point 2.89. Than after it started to rise and at current time it stands at 5.59. The average value for study period of the Nabil bank is 4.09. The standard deviation and C.V. of the bank is respectively 1.39 and 33.99.

The comparative analysis of two studied banks of MPS to BVPS shows that the Nabil bank has better performance as its average value and standard deviation is higher and it has C.V. value lesser than HBL.

4.3. Simple Correlation Analysis:

4.3.1 Correlation between of Dividend per share (DPS) on earning Per Share (EPS)

It is calculated to know, to what extent DPS and EPS are correlated and to what extent variations in one go with the variation in the other.

There is direct relationship between DPS and EPS of both banks. The correlation coefficient of both banks shows the moderate degree of relationship. The analysis indicates that for the HBL bank the correlation between DPS and EPS is positive while for the Nabil bank it is negative one (see table 4.9).

The value of r^2 of HBL is 0.28, which indicates that 28 percent variation is explained in dependent variable DPS due to change in the value of independent variable EPS. Similarly, Coefficient of determination between DPS and EPS of Nabil is 0.168, which indicates that the variations in the EPS explain 16.8% of the variations in DPS.

Table no 4.9: Simple Correlation & Coefficient of determination between DPS and EPS of HBL and Nabil

Banks	Coefficient of correlation (r)	Relationship	r- square (r^2)
HBL	0.53	Moderate degree of +ve (direct)	0.28
Nabil	-0.41	Moderate degree of -ve (direct)	0.168

(See table no 14a and 15a appendix)

4.3.2 Correlation between Dividend Per Share (DPS) on NET Profit (NP)

It is calculated to know, to what extent DPS and NP are correlated and to what extent variations in one go with the variations in the other.

The table bellow (table no 4.10) depicts the relationship between dividend per share (DPS) and Net Profit (NP) of Nabil and HBL. There is direct relation between DPS and

NP for the both banks with negative degree .The degree of relationship of HBL bank is low degree and that of Nabil is moderate.

The r^2 between DPS and NP of HBL and Nabil are 0.048 and 0.314 respectively. It shows that the variation in NP explains 4.81% variation in DPS case of HBL. The figure related to Nabil shows that variation in NP determines 3.14% of variation in DPS.

Table No. 4.10: Simple Correlation & Coefficient of determination between DPS and NP of HBL and Nabil

Banks	Coefficient of correlation (r)	Relationship	r- square (r^2)
HBL	-0.22	Low degree of -ve (direct)	0.048
Nabil	-0.56	Moderate degree of -ve (direct)	0.314

(See appendix table no 16a and 17a)

4.3.3 Correlation Average Stock Price (MPS) and Dividend Per Share (DPS)

It is calculated to know, to what extent MPS and DPS are correlated and to what extent variations in one go with the variations in the other.

Table No. 4.11: Simple Correlation & Coefficient of determination between MPS and DPS

Banks	Coefficient of correlation (r)	Relationship	r- square (r^2)
HBL	0.007	Low degree of +ve (direct)	0.00005
Nabil	-0.72	Moderate degree of -ve (direct)	0.518

(See appendix table no 18a and 19a)

The table above shows the relationship between MPS and DPS. There is direct relationship between MPS and DPS for the both studied banks. The value 0.007 of r shows low degree of positive relationship for the HBL..

The coefficients of determination (r^2) between MPS and DPS of HBL and Nabil are 0.00005 and 0.518 respectively. The figure related to Nabil shows that variation in the DPS explains only 5.18% of variation in the MPS, which is very small. At the same time, the figure related to HBL shows that the variation in the DPS explain 0.005% of variation in the MPS, which is quite low.

4.3.4 Correlation between Dividend per share (DPS) and investment (INV)

The correlation between DPS and INV is carried to find to what extent variation in affects the other and the how much they are correlated.

Table no 4.12: Simple Correlation & Coefficient of determination between DPS and INV

Banks	Coefficient of correlation (r)	Relationship	r- square (r ²)
HBL	-0.34	Low degree of +ve (direct)	0.116
Nabil	-0.89	Moderate degree of +ve (direct)	0.792

(See appendix table no 20a and 21a)

The table above shows that for the both banks the relation is direct one with negative degree. The degree of correlation of the HBL bank is rather low while it is high for the Nabil.

The coefficients of determination (r²) between DPS and INV of HBL and Nabil are 0.116 and 0.792 respectively. The figure related to Nabil shows that variation in the DPS explains 79.2% of variation in the INV, which is high. At the same time, the figure related to HBL shows that the variation in the DPS explain 11.6% of variation in the MPS, which is quite low.

4.3.5 Correlation between Dividend per share (DPS) and Current Ratio (CR)

It is calculated to what extent DPS and CR are correlated and to what extent variation in one go with the variation in other.

The DPS and CR of the both banks have direct relationship. The value of 0.37 of r for the HBL (see table 4.13) shows low degree of positive relationship.

Similarly the value of -0.05 of r for the Nabil indicates low degree of negative relationship between DPS and CR.

Table no 4.13: Simple Correlation & Coefficient of determination between DPS and CR

Banks	Coefficient of correlation (r)	Relationship	r- square (r ²)
HBL	0.37	Moderate degree of +ve (direct)	0.14
Nabil	-0.05	Moderate degree of +ve (indirect)	0.168

(See appendix table no 22a and 23a)

The coefficient of correlation of the DPS and CR of the HBL is 0.14 which explain only 14% variation in the CR which is quite low. Likewise the r² value of the Nabil bank is also quite low which is only 0.168, and it explains 16.8% of variation in CR.

4.3.6 Correlation between Dividend Yield (DY) and Earning Yield (EY)

It is calculated to what extent DY and EY are correlated and to what extent variation in one go with the variation in other.

The DY and EY have a direct positive correlation for the both banks. The degree of correlation for Nabil is high and that of HBL is moderate one (see table 4.14).

Table no 4.14: Simple Correlation & Coefficient of determination between DY and EY.

Banks	Coefficient of correlation (r)	Relationship	r- square (r ²)
HBL	0.46	Moderate degree of +ve (direct)	0.212
Nabil	0.93	High degree of +ve (direct)	0.865

(See appendix table no 24a and 25a)

The value of r^2 of the HBL and Nabil is respectively 0.212 and 0.865. This shows that variation in EY explains 21.2% and 86.5% of variation in DY for HBL and Nabil respectively.

4.3.7 Correlation between Average Stock Price (MPS) and Earning per share (EPS)

It is calculated to what extent MPS and EPS are correlated and to what extent variation in one go with the variation in other.

Table no 4.16 Simple Correlation & Coefficient of determination between MPS and EPS.

Banks	Coefficient of correlation (r)	Relationship	r- square (r^2)
HBL	0.55	Moderate degree of +ve (direct)	0.3
Nabil	0.66	Moderate degree of +ve (direct)	0.436

(See appendix table no 26a and 27a)

The MPS and EPS have a direct moderate positive correlation for the both banks.

The value of r^2 of the HBL and Nabil is respectively 0.3 and 0.436. This shows that variation in EPS explains 30.0% and 43.6% of variation in MPS for HBL and Nabil respectively which is average value.

4.3.8 Correlation between Average Stock Price (MPS) and Dividend Pay Ratio (DPR)

It is calculated to what extent MPS and DPR are correlated and to what extent variation in one go with the variation in other.

The table bellow (table no 4.17) shows that there is indirect low degree of negative correlation between MPS and DPR of the HBL as the value of r is -0.097. Likewise the correlation is of direct high degree of negative correlation for the Nabil.

Table no 4.17: Simple Correlation & Coefficient of determination between MPS and DPR.

Banks	Coefficient of correlation (r)	Relationship	r- square (r ²)
HBL	-0.097	Low degree of -ve (indirect)	0.009
Nabil	-0.83	High degree of -ve (direct)	0.689

(See appendix table no 28a and 29a)

The value of r² is respectively 0.009 and 0.689 for the HBL and Nabil. This shows that variation in DPR explains 9.0% which is quite low and 68.96% of variation in MPS for HBL and Nabil which is comparatively high respectively.

4.3.9 Correlation between Dividend Pay Ratio (DPR)and Cash & Bank Balance

It is calculated to what extent DPR and CBB are correlated and to what extent variation in one go with the variation in other.

Table no 4.18 Simple Correlation & Coefficient of determination between DPR and CBB

Banks	Coefficient of correlation (r)	Relationship	r- square (r ²)
HBL	-0.32	Low degree of -ve (direct)	0.09986
Nabil	0.35	Low degree of +ve (direct)	0.123

(See appendix table no 30a and 31a)

The above table shows that the correlation for the HBL bank is of negative low degree but direct between DPR and CBB. Similarly for the Nabil the correlation is of low degree positive between DPR and CBB.

The value of r^2 is 0.099 and 0.123 for HBL and Nabil respectively. The r^2 value of HBL indicates that variation in of CBB explains 9% variation in DPR which is quite low. Similarly for Nabil variation in CBB explains 12% variation in DPR which is also quite low.

4.4 Major Findings of the study

The findings of the study are summarized bellow.

4.4.1 Findings of primary data:

According to the most of the respondents in Nepal the residual dividend policy is in practices and there is no homogeneity in it.

The share investment is basically done to get the dividend. The majority of the investor preferred cash dividend.

In the view of the people interviewed the distribution of dividend influences the liquidity position of the company. The distribution of dividend according to them does increases the market price of the share and its distribution is mainly done to fulfill shareholders expectation.

Legal consideration in the view of respondents is the major consideration while taking decision on dividend policy.

4.4.2 Findings of Secondary Data:

The analysis of EPS indicates that the average EPS of HBL in compare to the Nabil is lesser. But C.V. analysis shows that it has relatively slightly more consistent EPS than that of Nabil.

In case of DPS, the Nabil bank has higher average value and it is more consistency than that of HBL, which has relatively lower average with more variation. This indicates that Nabil is able to pay higher average dividend to its shareholders.

The data of DP analysis shows that average DP of Nabil (34.07) is nearly three times greater with more consistency than that of HBL, which relatively lower average DP (13.8) with more variation.

The analysis of DPR is one of the major studies, which helps us to find out dividend policy and practices adopted by the concerned banks. Average DPR of Nabil (41.3) is more than HBL (21.6). It illustrates that Nabil is paying higher percentage of its earnings as dividends than HBL.

P/E ratio analysis shows that the average P/E ratio of HBL (20.47) is lower than Nabil (21.91). Although the Nabil has slightly higher P/E ratio than HBL, but it is less consistent P/E ratio.

The EY ratio analysis shows that the average EY ratio of both banks are almost equal. Nabil (6.11) is just over than that of HBL (5.23). However, C.V. analysis indicates that Nabil has far more variation in EY than that of HBL.

On the basis of DY ratio, Nabil is more efficient with more consistency than HBL. HBL has 1.17, average DY Ratio, whereas Nabil has 3.15.

Average MPS to BVPS ratio of HBL and Nabil is nearly equal. Whereas C.V. analysis shows HBL is more consistent.

There is direct relationship between DPS and EPS of both banks. The correlation coefficient of both banks shows the moderate degree of relationship. The analysis indicates that for the HBL bank the correlation between DPS and EPS is positive while for the Nabil bank it is negative one.

The relationship between MPS and DPS is direct for the both studied banks. The relationship is positive for HBL while it negative for the Nabil

The correlation between DPS and INV shows that for the both banks the relation is direct one with negative degree.

The DPS and CR of the both banks have direct relationship. The HBL shows low degree of positive relationship. Similarly the Nabil indicates low degree of negative relationship between DPS and CR.

The DY and EY have a direct positive correlation for the both banks. The degree of correlation for Nabil is high and that of HBL is moderate one.

The MPS and EPS have a direct moderate positive correlation for the both banks.

There is indirect low degree of negative correlation between MPS and DPR of the HBL. Likewise the correlation is of direct high degree of negative correlation for the Nabil.

The correlation for the HBL bank is of negative low degree but direct between DPR and CBB. Similarly for the Nabil the correlation is of low degree positive.

CHAPTER V

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Summary

Among the three major decision of financial management, which includes dividend, capital structure and investment decision, the dividend decision is considered the utmost important as it affects the operation and prosperity of a financial company because it has the power to influence other two decisions. Payment of dividend to shareholders is an effective way to attract new investors and maintain present investors. A clearly defined and effectively managed dividend policy is required in all financial companies to fulfill the shareholders expectation and it should maintain the corporate growth. The distribution of dividend to the investor is a viable option to the company if there is lack of opportunities to invest surplus profit because it would maintained the current shareholders and also attract new one.

Considering time and resource constraints, only two commercial banks namely Nabil and HBL have been selected as sample banks in study to fulfill the objective of studying dividend policy decision and other factors related to dividend. The study period covers only last eight fiscal years from 2000/01 to 2007/08. The available secondary data have been analyzed using various financial and statistical tools in this study. Therefore, the reliability of the conclusions of this study is determined on the accuracy of secondary data.

Commercial banks represent a robust body of profit earning organization in comparison to the other sectors such as manufacturing, trading etc.

Instability of dividend and inconsistent payout ratio is the most applied phenomena of Nepalese dividend distribution practices. None of the banks are guided by an appropriate dividend policy.

Shares of the financial institution are actively traded and market prices are increasing in stock market. So, the market prices of shares are significantly higher than net worth.

The Shareholders in Nepal don't seem to be investing their capital on the basis of financial performances of the financial institution as such. The main reason behind this statement is that market price of the shares don't seem to be more or less dependent upon earning per share and dividend per share.

5.2 Conclusion

From the findings of the study of primary data, the following conclusions are drawn.

All banks do not follow the same dividend policy; however, residual policy is followed by most of the banks. Most of the people invest in share capital to get dividend. Dividend distribution influences the liquidity position and it increases the price of the share. Most investors prefer cash dividend, companies distribute dividend to fulfill shareholders expectation. Legal considerations are the prime factor to be taken into account while adopting dividend practices.

From the findings of the study of secondary data, the following conclusions are drawn.

- 1 Different financial indicators of both the banks show the following results:
 - (i) Average earning per share on Nabil is greater than HBL, which means Nabil is relatively more successful than HBL.
 - (ii) The average dividend per share of Nabil is higher than HBL, which means Nabil is paying higher portion of its earning as dividend.
 - (iii) The Nabil leads HBL in the sense that it has greater average dividend payout ratio and dividend percent than that of HBL.
 - (iv) Average price earning ratio of HBL is higher than that of Nabil, which means HBL has better performance to enhance the wealth of shareholders.
 - (v) Average market value per share to book value per share of HBL is slightly greater than that of Nabil. Therefore, there is greater chance of higher capital gain to the shareholders of HBL.
 - (vi) Average dividend yield ratio as well as the average earning yield ratio of Nabil is greater than that of HBL.

- 1 There is direct relationship between DPS & EPS, DPS & MPS and DPS & CR of both banks but for HBL bank the correlation is positive while for the Nabil bank it is negative one.
- 2 The correlation between DPS and INV shows that for the both banks the relation is direct one with negative degree.
- 3 The DY and EY have a direct positive correlation for the both banks. The degree of correlation for Nabil is high and that of HBL is moderate one.
- 4 The MPS and EPS have a direct moderate positive correlation for the both banks. There is indirect low degree of negative correlation between MPS and DPR of the HBL. Likewise the correlation is of direct high degree of negative correlation for the Nabil.
- 5 The correlation for the HBL bank is of negative low degree but direct between DPR and CBB. Similarly for the Nabil the correlation is of low degree positive.
- 6 When we make slight changes in dividend per share, the effect of changes in dividend per share affects the share prices differently in different banks. Similarly, a change in earning per share, dividend payout ratio and dividend percentage on paid up capital affects market price per share differently in different banks.

5.3 Issues & Gaps:

Considering the major findings some gaps that perceived in this study are presented below. Some issues, which are related to dividend and other relevant factors found in the course of analysis, are also presented here. All these are given below.

1. Lack of Legal Rules:

There is lack of legal rule and regulations that bind companies to pay dividend when they are running at profit.

2. Lack of Specific Dividend Strategy:

The banks have not paid dividend regularly. This indicates that there is instability and inconsistency in dividend payment. Dividend payout ratio does not show any stability and coordination with other variables.

3. Irregularity in Dividend Payment:

In Nepal although company are in profit they do not pay dividend to the investor. This indicates that there is irregularity in payment of dividend.

4. Management's Role in Determining Dividend Decision:

There is no choice to the shareholders to prefer the stock dividend or cash dividend or any forms of dividend. The management is playing active role in determining the forms and amount of dividend instead of shareholders collective view. Moreover, the practices of dividend payment adopted by bank are not stable and adequate too. In some cases, only a small amount of dividend is paid without considering the risk free rate of return.

5.4 Recommendations:

Based on major findings from this study, some recommendations are done below hoping that these recommendations will certainly be proved milestone to overcome existing issues in this field.

- The bank should consider shareholders view while distributing dividends. The bank should formulate appropriate strategy to attract more investors in such a way that the interest or the expectation of shareholders will not be ruined and bank can pay the dividend in each year.
- Banks should have target rate of return and target payout ratio that will help them to build good image in stock market.
- It would be better to fix the amount of dividend in the annual general meeting of shareholders. This is important not only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of bank, efficient management and socially acceptable distribution of income.

- The banks should define their dividend strategy (policy) clearly whether the bank is going to adopt stable dividend policy, constant payout ratio or low regular plus extra dividends. The clearly defined policy will guide the way on how to follow dividend distribution. The bank should follow them (defined dividend strategy) strictly in normal condition.
- There is no clear-cut legal provision regarding dividend payments. Therefore, the government should act in favor of investors and should bind through legal provisions or distinct rules so that the profit earning companies should distribute certain percent of their earnings as dividend.
- The payment of dividend is highly fluctuating, which is neither static nor constantly growing. Such inconsistency and irregularity in the dividend payment may create more confusion and miss-conception about that firm. Due to higher degree of risk and uncertainty, such fluctuations affect the firm's market price per share adversely. So these banks are advised to follow either static or constantly growing dividend payment policy.
- It is recommended to the concerned parties that the optimum dividend policy must be based on the following criteria.
 1. Optimum retention is made for excellent expansion and modernization.
 2. Optimum dividends so that market value per share will increase rapidly i.e., net present value of shareholders wealth can be maximized.

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