CHAPTER: ONE
INTRODUCTION

1.1 Background of the Study

A dividend is a distribution of a portion of a company's earnings, decided by the board of directors to a class of its shareholders. Dividends can be issued as issued as cash payments, as shares of stock or other property(Shrestha, 1981). Dividend means an amount of a company's profits that the company pays to people who own stock in the company.Dividend policy is decision regarding distribution of dividend out of net income and retaining the income in the organization. A company has to decide what portion of net income to be distributed to the shareholders and what portion to be retained for reinvestment in future. So, dividend policy is allocating the net income between dividend and retention. Dividend policy may have some impact on the value of stock.

Dividend policy is a very sensitive, controversial and important subject. It affects an organization's many aspects like financial position, shareholder`s dividend and market value of shares. Shareholders interest, organization`s welfare, need to repay debt, legal rules, dividend payout date should also be consider while preparing dividend policy. Dividend distributing policy which has been prepared by considering the above mentioned factors is called optimal dividend policy (Bhattarai&Ghimire, 2069).

A share of the after-tax profit of a company, distributed to its shareholders according to the number and class of shares held by them. Smaller companies typically distribute dividend at the end of accounting year, whereas larger, publicly held companies usually distribute it every quarter. The amount and timing of the dividend is decided by the board of directors, who also determine whether it is paid out of current earnings or the past earnings kept as reserve. Holders of preferred stock receive dividend at a fix rate and are paid first. Holders of ordinary share are entitled to receive an amount of dividend based on the level of profit and the company's need for cash for expansion or other purpose (Brealy& Myers, 1956). Corporate legislation generally forbids payment of dividend out of anticipated but not yet received (unrealized) profit. Normally all dividend payments are taxable, often at the source. A dividend policy is a company`s approach to distributing profits back to its owners or stockholders. If a company is in a growth mode, it may

decide that it will not pay dividends, but rather re-invest its profit (retained earning) in a growth mode, it may decide to pay dividend, it must then decide how often to do so, and at what rate. Large, well –established companies often pay dividends on a fixed schedule, but sometimes they also declare "special dividends." The payment of dividends impacts the perception of a company in financial markets, and it may also have a direct impact on its stock price (Pandey, 1979).

The policy of a company on the division of its profit between distribution to shareholders as dividend and retention for its investment is known as dividend policy. Dividend policy is to determine the amount of earnings to distribute to shareholders and the amount to be retained or reinvestment in the firms. Any change in dividend policy has both favorable and unfavorable effects on the firm's stock price. For example shareholders get excess dividend in present that increase market value of shares which is favorable aspect. But in future the firm cannot invest in profitable project due to the lack of internal capital (retained earnings). As the result the future growth rate of the firm decreases that causes unfavorable effects in share value. So dividend distribution should be done being based on certain principles (Pradhan, 1993).

How much percent of the profit earned by an organization is to be distributed to the shareholders as dividend is based on the policy of the firm. The dividend policy of an organization determines the portion of retained earnings and the distributing amount for the shareholders. So that the dividend policy is taken as process i.e. How much to pay dividend and how much to retained. Thus the dividend policy works as financial source of shareholders and it helps for the progress and expansion of company moreover it motivates the employees towards their duties in a competitive way (Weston & Copeland, 1949).

Financial Institutions play a major role in the proper functioning and development of the economy of any country. The importance of financial institutions in the developing countries like Nepal is very vast and big. As according to Friend and Puckett (1964), the major roles of financial institutions are following;

- Act as intermediaries between the individuals who lend and who borrow

- ❖ Accept deposits and in turn lend it to people who are in need of financial resources
- ❖ Make the flow of investment easier
- ❖ Pool the scattered funds and mobilize them in productive sector

So no one can deny the role financial institutions play in developing an economy of a country. Investment, in its broadest sense, means the sacrifice of current Rupees (Dollars) and resources for the sake of future Rupees (Dollars) and resources. In the other words, it is a commitment of money and other resources that are expected to generate additional money and resources in future. Investments are made in Assets. Assets generally are of two types;

- ➢ Real Assets (Land, Building, Plant, Machineries, Factories etc.)
- ➢ Financial Assets (Stocks, Bonds, T-Bills etc.)

Return in the investment is combination of two components. The first component that usually comes to mind is the periodic cash receipts (either interest or dividend). This cash receipt is also known as Ordinary Gain on investment (Friend & Pocket, 1964). The second component is the appreciation (or depreciation) in the price of the asset and it is known as Capital Gain/Loss. So, mathematically the total return is the sum of Capital Gain/Loss and Ordinary Gain (i.e. Total Return = Capital Gain/Loss + Ordinary Gain. Dividend policy is an integral part of financial decision. The dividend policy is a major decision for the board of directors as the board of directors has to decide between paying out to shareholders and keep them happy in the short run or retain for investment which may be more beneficial to the shareholder in the long run. Dividend policy determines the division of earning between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financial corporate growth, but dividends constitute the cash flows that accrue to stockholders (Baker &Farrely, 1985).

Every shareholders, who invests his/her money expects both capital and ordinary return. That means, the shareholder wants good dividend as well as good value of the share. Otherwise, the shareholder could sell it in the secondary market. So it is necessary for an

organization to make an appropriate and convincing dividend policy decision (Walter, 1966).

Dividends are payment made by corporation to its shareholders. It is the portion of corporate profits paid out to shareholders. When a corporation success to earn a profit or surplus, that money can be put to two uses: It can either be re-invested in the business i.e. retained earnings, or it can be paid to the shareholders as a dividend. Many corporations retain a portion of their earning, or it can be paid to the shareholders as a dividend. Most widely accepted objective of the firm is to maximize the value of the firm and to maximize shareholder wealth. In general there are three types of financial decisions which might influence the value of firm: investment decision, financial decision and dividend decision. These Three decisions are interdependent in a number of ways. The investment made by a firm determine the future earning and future potential dividend decision; dividend policy influences the amount of equity capital in the firm's capital structure and financing decision influences the cost of capital. In Making this interrelated decisions, the goal is to maximize shareholder wealth (Pradhan, 1993).

So, this study aims to mobilize the fund prevailing practice and policies, relevant factors of some Nepal's listed Commercial banks and financial companies and manufacturing companies regarding the difference in policy adopted by them considering size of dividend and its impact in compare with the listed manufacturing companies.

1.2 Statement of the Problem

Shareholders make investment in equity capital with the expectation of increasing their wealth. Dividend is a kind of earnings that the shareholders expect from their investment. But the dividend decision is still a fundamental as well as controversial area of managerial function. The effect of dividend policy on market price of share is a subject of long standing arguments. There is no controversy that when a firm gets much earning, then the shareholders would expect much dividend. But earnings are also treated as financing sources for the firm, if the firm retains the earnings, its repercussion can be seen in many factors such as decreased leverage ratio, expansion of activities and increase in profit in succeeding years whereas if the firm pays dividends, it may need to raise

capital through capital market which may dilute the ownership control of existing shareholders. If the firm takes loan or raises debenture, it will effect on risk characteristics of the firm. Therefore, there are many dimensions to be considered on dividend theories, policies and practices.

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

The problem of the research can be addressed by the following research question:

1. What is the position of dividend distribution of the selected listed company?
2. What is the stock price movement after announcing the dividend decision by the listed companies?
3. What is the value of the share and earning position of the organization?

1.3 Objectives of the Study

The major objective of the study is to have an in-depth knowledge about the impact of dividend policy adopted by the selected companies to its market price of shares and the overall valuation of the firms. Other specific objectives are:

1. To identify the position of dividend policy of selected listed companies;
2. To analysis the stock price movement after announcing the dividend decisions by the listed companies.
3. To assess the value of share and earning position of the organization.

1.4 Significance of the Study

Dividend is a source of return to shareholders. Shareholders invest in shares for the purpose of getting high return and maximize their wealth position. The dividend policy is an effective way to attract new investors, retain existing investors, and make them happy as well as lo maintain the goodwill and desired controlling power in the management of the firm.

In Nepal, due to lack of enough knowledge, people are investing haphazardly in the shares. There is not adequate research conducted so far to improve the situation Hence, it is necessary to establish clear conception about (he return resulting from investing in the stocks, this thesis will help to overcome this gap to some extent and has considerable importance. It is aimed at providing important information to the investors and respective firms that are taken as sample. The importance of the study c

an be pointed out as follows:

1. This research work will provide vital information about the impact of dividend on market price.
2. This study will make suggestion and recommendation that will be helpful for further researchers, investors.
3. This study will help management and policy maker in setting and making a suitable dividend policy.
4. This study may be useful to government for policy making, controlling, and monitoring.

1.5 Limitation of the Study

The limitation of the study is:

1. The study is mainly based on the secondary data, so the accuracy of the findings depends on the reliability of available information.
2. The data covers for the fiscal year 2011 to 2015.
3. Among the different determinants of the market price of the stock, only cash dividend, stock dividend and earnings are taken for the analysis.
4. Companies hesitate to provide unpublished data it is not possible to reach at up to date conclusion.

1.6 Organization of the Study

The study would be organized into following five chapters listed below;

Chapter 1: Introduction; This chapter deals with subject matters of the study consisting background of the study, introduction to selected sample companies, statement of problem, objective of the study, significance of the study and limitation of the study.

Chapter 2: Review of Literature; This chapter deals with review of the different literature of the study field. Therefore it includes conceptual framework, theoretical review along with the review of major books, journals, previous research works and thesis reports on the subject matter.

Chapter 3: Research Methodology; This chapter deals with research methodology and it includes research design, population and sample selection, sources of data, data collection procedure, tools for analysis of the study, and limitations of the methodology.

Chapter 4: Presentation and Analysis of Data; Thischapter deals with analysis and interpretation of collected data using appropriate financial and statistical tools. This chapter will illustrate the collected data into a systematic format. Similarly, analysis and interpretation of these data will also be included in this chapter.

Chapter 5: Summary, Conclusions and Recommendations; Last chapter deals with suggestion, which includes the summary of the main findings conclusion of the study and recommendation.

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

CHAPTER : TWO

REVIEW OF LITERATURE

2. Introduction

In this chapter, review of concepts relating to profit planning and control and previous studies have been presented. Such reviews provide the conceptual foundation for the study. Therefore, this chapter is divided into two parts, viz.

- Theoretical review.
- Review of Related studies.

2.1 Theoretical Review:

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

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

Dividend refers to a portion of earning, which is distributed to shareholders in return of their investment in share capital. It is the periodic payment made to the shareholders to compensate them for the use of and risk to their investment. The important aspect of dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. Retained earnings are the most significant sources of financing the growth of the firm. On the other hand, dividends may be considered desirable from shareholders' point of view as they tend to increase their current wealth.

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

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

2.1.1 Forms of Dividend

Generally, dividends are paid in cash but when the company is unable to pay cash dividend they use different forms of dividend payment for satisfying stockholders. Such forms of dividends are stock dividend, script dividend, property dividend, bond dividend etc. But in Nepalese context, most of the companies are paying cash and stock dividend.

i) Cash Dividend

Cash dividend is one form of dividend, which is distributed to shareholders in form of cash out of company's profit. "The cash account and the reserve account of a company will be reduced when the cash dividend is paid. Thus, the total assets and net worth of the

company are reduced when cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed." (Pandey, 1979)

ii) Stock Dividend

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

iii) Script Dividend

A dividend paid in promissory notes is called script dividends. "Script dividends are those paid in company's promise to pay instead of cash." When earning of the company justify dividends but the company's cash position is temporarily weak and does not permit cash dividend, it may declare dividend in the form of script. Script dividend may bear a definite maturity date or it may be left to the directors. Such dividends may be interest bearing or non-interest bearing (Miller & Modigliani,1966).

iv)Property Dividend

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

v) Bond Dividend

Bond Dividend is a dividend that is distributed to the shareholders in form of bond. When the company generates +more profit for a long time, it is better to issue a bond which

carries certain interest rate. In other words, corporation declares dividend in form of its own bond with a view to avoid cash outflows.

2.1.2 Theories of Dividend

1) Residual Theory of Dividend

2) Stability Theory of Dividend

2.1.2.1 Residual Theory of Dividend

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

The starting point in this theory is that investors prefer to have the firm retain and reinvest earning, instead of paying dividends, if the return on reinvestment is higher than the opportunity cost of fund for the investors. The dividend under residual dividend policy equals the amount left over from earning after investment, no dividends are paid and new shares are sold to cover deficit for investment that is not covered. If there is not any investment opportunity then cent percent earning is distributed as dividend to the shareholders. Dividend is therefore merely a residue i.e. percent remaining after all equity investment needs arc fulfilled (Friend & Pocket, 1964).

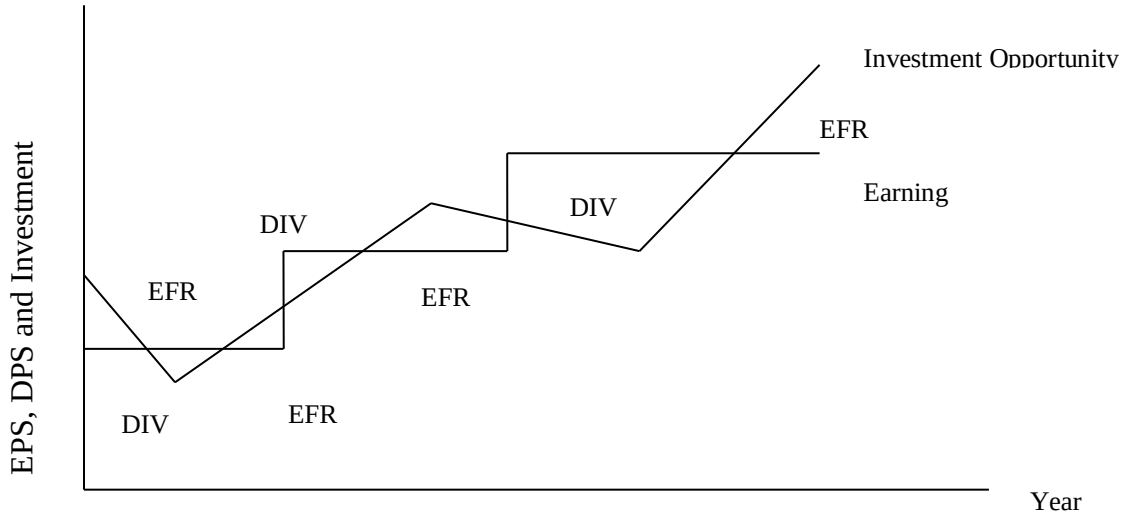


Fig. 2.1: EPS and DPS relationship under Residual PolicySources :(Friend & Pocket, 1964).

In the above figure, the shaded part shows the dividend paid after deducting the fund required for investment. When the earning does not meet the fund required for investment, the firm will bring Required External Fund (EFR).

As long as there are investment projects with higher returns, the firm retains the earnings to invest in such profitable projects rather than paying dividends. The firm grows at a faster rate when it accepts highly profitable investment projects. External equity could be raised to finance investments. But the retained earnings are preferable because unlike external equity, they do not involve any floatation costs. The distribution of cash dividend causes a reduction in internal funds available to finance profitable .investment opportunities and thus, either constrains growth or requires the firm to find other costly sources of financing. Thus, earning may remain undistributed as a part of a long-term financing decision. The dividend paid to shareholders represents a distribution of earnings that cannot be profitably reinvested by the firm. With this approach, dividend decision is viewed merely as a residual decision.

2.1.2.2 Stability theory of dividend

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

By stability, we mean maintaining the position of the firm's dividend payments in relation to a trend line, preferably one that is upward sloping. There are some reasons to believe that a stable dividend policy does lead to higher stock prices. First, investors are generally expected to value more highly dividends they are sure of receiving, since fluctuating dividends are riskier than stable ones. Accordingly, the same average amount of dividend received under a fluctuating dividend policy is likely to have a higher discount factor applied to it than is applied to dividends under a stable dividend policy. This means that the company with stable dividend policy will have a lower required rate of return or cost of equity capital than one whose dividend fluctuates. Second, many stockholders live on income received in the form of dividends. These stockholders are greatly inconvenienced by fluctuating dividends and they will pay a premium for a stock with a relatively assured minimum dollar dividend. Third, from the stand point of both the corporation and its stockholders is that, stability of dividend is desirable for the requirement of legal listing.

There are three distinct forms of such stability of dividend payments. They are:

i) Constant Dividend per share

ii) Constant Dividend payout ratio

iii) Low Regular Dividend plus extra dividend

i) Constant dividend per share

The policy of constant dividend per share follows a policy of paying a certain fixed amount per share as dividend every year irrespective of the fluctuations in the earnings. This policy does not imply that the dividend per share or dividend rate will never be

increased. When a company reaches new level of earnings and expects to maintain it, the annual dividend per share may be increased (Panday,1995).

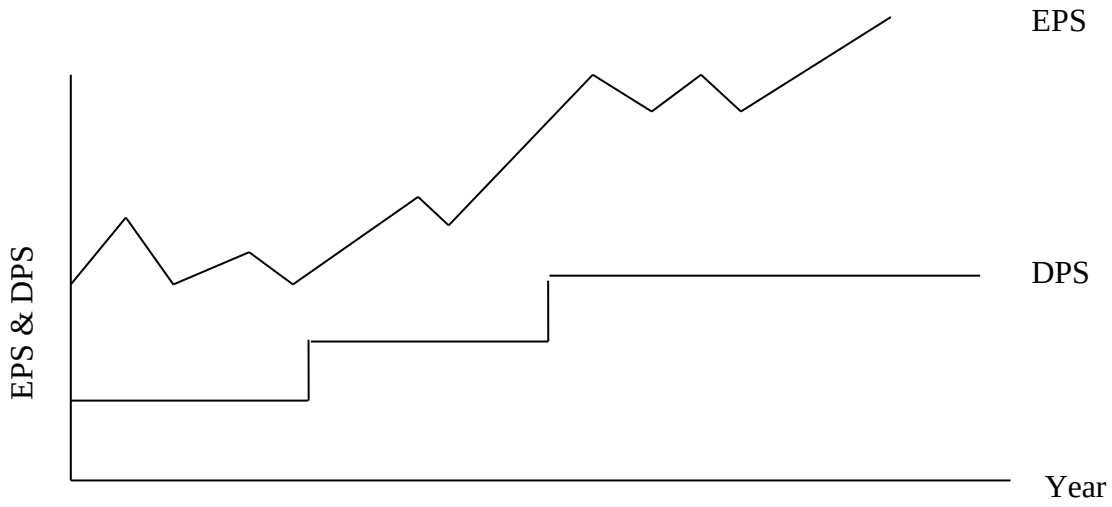


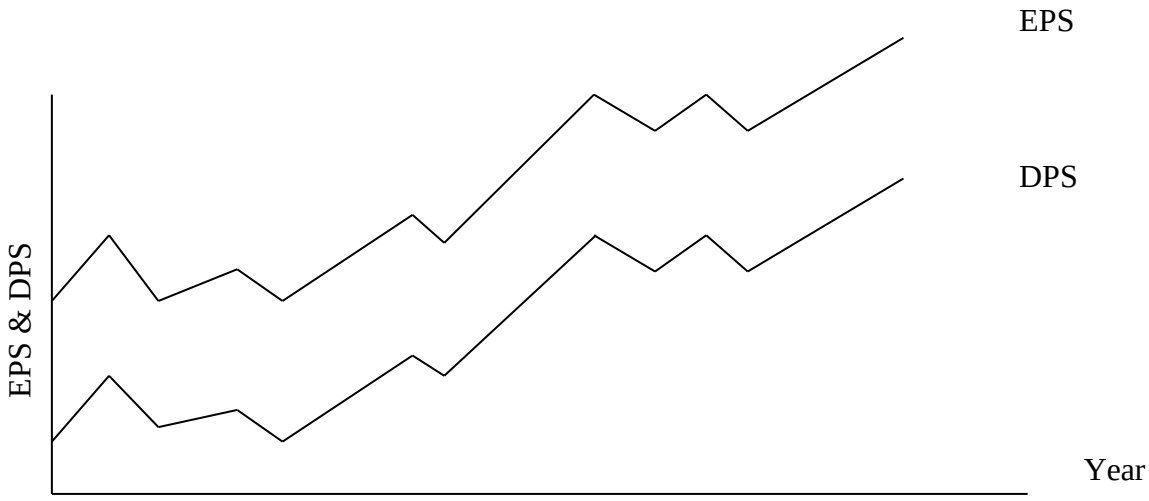
Fig. *2.2: EPS and DPS relationship under Constant Dividend per share policy*

Sources :(Panday,1995).

It is easy to follow this policy when earnings are stable. If the earning pattern is widely fluctuated, it is difficult to maintain such a policy.

The dividend policy of paying a constant amount of dividend per year treats ordinary shareholders somewhat like preference shareholders without taking into account the firm's or shareholders' investment opportunities. Those investors who have dividends as the only source of their income prefer the constant dividend policy. They are hardly concerned about the changes in share prices. In the long-run, such behavior helps to stabilize the market price of the share

ii) Constant Dividend Payout Ratio



Year *Fig. 2.3: EPS and DPS relationship under Constant Dividend Payout Ratio*

Sources :(Brandt, 1972)

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

This policy is related to company's ability to pay dividends. If the company incurs losses, no dividends shall be paid regardless of the desires of shareholders. Internal financing with retained earnings is automatic when this policy is followed. At any given payout ratio, the amount of dividends and additions to retained earnings increases with increasing earnings and decreases with decreasing earnings. This policy simplifies the dividend decision, and has the advantage of protecting a company against over or under payment of dividend. It ensures that dividends are paid when profits arc earned and avoided when it incurs losses (Brandt, 1972).

iii) Low regular dividend plus extra dividend

According to this policy, the company pays fixed amount of stable dividend to the shareholders to reduce the possibility of ever missing dividend payment and in years of market prosperity, additional dividend is paid over and above the regular dividend. When normal condition returns, the company cuts the extra dividend and returns in its normal dividend payment. This types of a policy enables a company to pay constant amount of

dividend regularly without default and allows a great deal of flexibility for supplementing the income of shareholders only when the company's earnings are higher than the usual, without committing itself to make large payments as a part of the future fixed dividend.

2.1.3 Factors influencing dividend policy

A firm's dividend policy is influenced by a large number of factors. Some factors affect amount of dividend and some others affect types of dividend. Legal provision, Firm's liquidity position, need to repay debt, restrictions imposed by debt holders, expected rate of return, stability of earnings, shareholder's personal tax etc., are the major factors affecting dividend policy, which are described below:(Shrestha, 1980)

1. Legal requirements

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

i) The net profit rule

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

ii) The capital impairment rules

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

iii) Insolvency Rule

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

2. Firm's Liquidity Position

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

3. Repayment Need

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

4. Restriction imposed by debt holders

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

5. Expected rate of return

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

6. Stability of earnings

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

7. Desire for Control

When the needs for additional finance arise, the existing management of the, firm may not prefer to issue additional common stock because of the fear of dilution in control on management of the company.

8. Access to the capital markets

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

9. Stockholders' individual tax situation

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

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

2.1.4 Legal provisions regarding dividend practice in Nepal

Nepal Company Act- 2063, (NRB Circular 2063) makes some legal provisions for dividend payment in Nepalese firms/organizations. These provisions are as follows.

Section 2(m) states that bonus shares mean shares issued in the forms of additional shares to shareholders by capitalizing the surplus from the profits or the reserve of a company. The term also denotes an increase in capitalized surplus or reserve funds.

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

Section 137 is regarding bonus share 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 by passing special resolution by the generalmeeting.

Sub-Section (1): Except in the following circumstances, dividends 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.

h) In case the right to dividend is disputed.

c) In case dividends cannot he distributed within the time limit mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company.

Sub Section (2): In case the dividends are not distributed within the time limit mentioned in sub-section (1), this shall be done by adding interest at the prescribed rate.

Sub-section (3); only the person whose name stands registered in the register of existing shareholders at the time of declaring dividends shall be intended to it.

The above mentioned sections and sub-sections of company Act. -1997 indicates that the repurchase of own stock is not permitted to Nepalese company. The sections only speak about bonus share issues. This Act is not enough regarding dividend policy.

Nepal Government Decision Regarding Dividend Payment by the Government Corporations (June 14,1998).

Then HMG on June 14, 1998 has decided some dividend payments aspect for government corporations. The decisions are as mentioned below;

- Dividend should be paid in profitable years. Though there are cumulative losses, dividend is to be paid if cash flow is sufficient to distribute dividend.
- In case of un-audited accounts, interim dividend should be paid on the basis of provisional financial statement.
- Dividend rate will not be less than the interest rate on fixed deposit of commercial bank, which is owned by government. In case of insufficiency of profit to distribute in above mentioned rate, concerned corporation should send proposal of new rate of dividend to the Finance Ministry through Unison ministry and should do what so ever decision is given thereof.
- The decision regarding distribution of annual distribution of annual net profit shall not be made without prior acceptance of Finance Ministry. All incentives, except those to be paid by law, shall not be distributed unless the amount of dividend is not paid to government.
- Those corporations operating monopoly situation should repay all amounts of profits to government except the amounts of bonus, tax and the amount needed to expand and develop the business. The amount separated for expansion and development of business will not be more than profit for the year and this amount should not be more than total paid up capital. The entire amount kept aside for above provision should be paid as dividend if is not used within three years.
- Concerned BOD and top management will be responsible for implementation of these dividend policies.
- Ministry of Finance shall make necessary' arrangement regarding fixation of dividend percentage by coordinating all concerned corporation and ministries.

The above stated HMG decision is solely concerned to the dividend decision of government owned corporations and does say nothing about other privately owned companies.

2.1.5 Conflicting Theories of Dividend Policy

Basically two schools of thoughts have been advanced in the theoretical literature of finance. One school, associated with Myron Gordon and John Linter, among others holds that the capital gains expected to result from earnings retention are riskier than dividend expectations. Accordingly these theories suggest that the earnings ratios are typically capitalized at bigger rates than the earnings of a high payout firm, other things held constant *(Weston & Brigham, 1972; 686).*

The other schools, associated with Merton Miller and Franco Modigliani holds that investors are basically indifferent to returns in the form of dividends or capital gains when firms raise or lower their dividends. If their stock prices tend to rise of fall in like manner, does this prove that investors prefer dividends? Miller and Modigliani argue that it does not; that they affect change in dividends has no the price of a firm's stock is related primarily to information about expected future earnings conveyed by a change in dividends. Recalling that corporate managements dislike cutting dividends, Miller and Modigliani argue that increase in cash dividends raise expectations about the level of future earnings that they have favorable information content.

Dividends are probably subject to less uncertain than capital gains, but they are taxed at a higher rate. How do these two forces balanced out? Some argue that the uncertain factor dominates; other feel that the differential tax rate is the stranger force and causes investors to favor corporate retention of earnings; still other like Miller and schools, reason that investors have opportunities for altering the tax effects of dividends, nor do systematic empirical studies settle the manner.

2.1.6 Role of Expected Dividend on Stock Value

This is one of the prime issues of this research. According to generally accepted theory, stock prices are the present value of future cash flows streams. In other words, the capitalization of income procedure applies to common stocks as well as to bonds and other assets. What are the cash flows that corporations provide to their stockholders? What flows do the markets in fact capitalize? A number of different models have been formulated. They are;

- The stream of dividends
- The stream of earnings
- The current earnings plus flows resulting from future investment opportunities, and
- The discounting of cash flows as in capital budgeting models

In the dividend formulation, a share of common stock may be regarded as a similar to a perpetual bond or share of perpetual preferred stock and its value may be established as the present value of its stream of dividends. This is,

Value of stock (P_0) = PV of all of the expected future dividends

$$= \frac{d_1}{(1+Kg)^1} + \frac{d_2}{(1+Kg)^2} + \frac{d_3}{(1+Kg)^3} + \cdots$$

$$= \sum_{r=1}^{\infty} \frac{d_r}{(1+Kg)^r}$$

Stock values with growth:

$$\boldsymbol{Price} = \frac{\boldsymbol{Dividend}}{\boldsymbol{CapitalizationRate}}$$

$$\boldsymbol{P_0} = \frac{\boldsymbol{d_1}}{\boldsymbol{Kg}}$$

Constant/Normal growth:

$$\boldsymbol{P_0 = \sum_{t=1}^{\infty} \frac{d_0(1+g)^t}{(1+Kg)^t}}$$

Or,

$$\boldsymbol{P_0 = \frac{d_1}{Kg - g}}$$

Super Normal Growth:

Present Price = PV of dividend during super normal growth period + value of stock price at end of super normal growth period discounted back to present

$$P_0 = \frac{d_1}{(1+Kg)^1} + \frac{d_2}{(1+Kg)^2} + \frac{d_3}{(1+Kg)^3} + \cdots + \frac{d_t}{(1+Kg)^t} + \frac{P_t}{(1+Kg)^t}$$

$$P_0 = \frac{d_1}{(1+Kg)^1} + \frac{d_2}{(1+Kg)^2} + \frac{d_3}{(1+Kg)^3} + \cdots + \frac{d_t + P_t}{(1+Kg)^t}$$

Where,

d_1, d_2, d_3 …….are the cash dividends for the given period. $\boldsymbol{Kg}$ is a required return, 'g' is a growth rate

2.2 Review of major studies

In this section of the chapter, an attempt is made to review the various studies of past researches relating to the dividend policy and market price of shares in financial, management

Modigliani and Miller (1966) have provided the most comprehensive argument for the irrelevance of dividends. According to MM. "Dividend policy of a firm is irrelevant,as it does not affect the wealth of the shareholders"[17]. They hold that the value of the Firm depends on the earning power of the firm's assets, or its investment policy. When investment decision of the firm is given, dividend decision split of earnings between dividends and retained earnings is of no significance in determining value of the firm-

According to them, the effect of dividend payments on shareholders' wealth is exactly offset by other means of financing.

The MM approach is based on the following critical assumptions:

- The firm operates in perfect capital markets where investors behave rationally, information is freely available to all and transactions and floatation costs do not exist. Perfect capital markets also imply that no investor is large enough to affect the market price of the share.
- Taxes do not exist, or there are no differences in die tax rates applicable to capital gains and dividends. This means investors value a rupee of dividend as much as a rupee of capital gains,
- The firm has fixed investment policy.
- Risks of uncertainty do not exist.

MM provide the proof in support of their argument in the following manner:

Step 1:

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

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

Where,

P_O= Market price at the beginning or at the zero period

K_e = Cost of equity capital

D_1= Dividend per share to be received at the end of the period

P_1= Market price of share at the end of the period

Step 2:

Assuming that the firm does not resort any external financing the market value of the firm can be computed as follows:

$$P_o = \frac{(nD_1 + P_1)}{(1+K_e)}$$

Where,

n = Number of shares outstanding at the beginning period

Step 3:

If the firm's internal sources of financing are not sufficient to finance the new investment needs of the funds, in that case issuing the new share is the other alternative. Say an is the number of newly issued equity share at the end of year 1 at price P_1then,

nP_o =

Step 4:

If a firm were to finance nil investment proposals, the total amount new shares issued would be given by,

$\Delta nP_1 = I - (E - nD_1)$

or $\Delta nP_1 = I + E + nD_1$

Where,

ΔnP_1 = Amount raised from the sale of shares to finance the project

I = Total amount of capital required for the project

E = Earning of the firm during the period

$(E-nD_1)$ = Retained Earnings

nD_1 = Total dividend paid

Step 5:

If value of nP1is substituted from equation of step 4 into equation of step 3 then,

$$nP_o = \frac{[\{D_1 + (n + \Delta n)\, P_1\} - (I - E + nD_1)}{(1 + K_e)}$$

or, $$nP_o = \frac{D_1 + (n+\Delta n)\, P_1 - I + E - nD_1}{(1 + K_e)}$$

or, $$nP_o = \frac{(n+\Delta n)\, P_1 - I + E}{(1 + K_e)}$$

Step 6:

There is no any role of dividend (D_1) in above equation. So Modigliani and Miller conclude that dividend policy is irrelevant and dividend policy has no effect on the share price.

In this way, according to Modigliani and Miller's study, it seems that under condition of perfect markets, rational investors, absence of tax discrimination between dividend income and capital gain, given the firm's investment policy is fixed, its dividend policy may have no influence on the market price of share. However, the view that dividend is irrelevant is not justified. The assumption of perfect capital market mechanism and rational investors prove faulty assumption in case of Nepal. Floatation cost, transformation cost and the tax effect on capital gain are neglected by MM. that is not appropriate. The assumption “in a world without taxes” one critic satires; such a world is probably the moon or other planet in the universe.

Professor James E. Walter (1966), argues that the choice of dividend policies almost always affect the value of the enterprise.The approach developed by Prof. Walter is considerable interest. Walter conducted a study on dividend and stock. prices in 1966.

The main point which he emphasizes is that there is a significant relationship between the internal rate of return and cost of capital and determining factors to retain profit or distribute dividends. As long as the internal rate is greater than the market rate the stock price will be enhanced by retention of earnings and will inversely affected by dividend payout.

Walter's model is based on following assumptions:

- The firm finances all investment through retained earnings; that is debt or new equity is not issued,
- The firm's internal rate of return and its cost of capital are constant.
- All earnings are either distributed as dividends or reinvested internally immediately.

- Beginning earnings and dividends never change. The values of the earnings per share (EPS) and the dividend per share (DPS) may be changed in the model to determine the results, but any given values of EPS or DPS are assumed to remain constant forever in determining given value.
- The firm has a very long or infinite life.

He insists on the fundamental premise that stock prices over the long period reveal the present value of the expected dividends. The retained earnings affect stock prices in consideration of their impact on future dividends. Operating on the objective of maximizing the wealth position of the ordinary shareholders, the appropriate dividend payout is suggested by following formula.

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

Where,

P = Market price per share

DPS = Dividend per share

EPS = Earnings per share

r = internal rate of return (average)

k = cost of capital or capitalization rate

According to Walter's model, the optimal dividend policy depends on the relationship between the firm's internal rate of returns, r, and its cost of capital, k. Walter's view on the optimum dividend payout ratio can be summarized as follows.

Growth firms (r>k):

Growth firms are those firms which expand rapidly because of ample investment opportunities yielding returns higher than the opportunity cost of capital. These firms are able to reinvest earnings at a rate which is higher than the rate expected by shareholders. They will maximize the value per share if they follow a policy of retaining all earnings for internal investment. Thus, optimum payout ratio for the growth firm is zero. The market value per share P increases as payout ratio declines when r>k.

Normal firms (r=k)

Most of the firm do not have unlimited surplus-generating investment opportunities, generating returns higher than the opportunity cost of capital. After having exhausted such profitable opportunities, these firms earn on their investments' rate of return equals to the cost of capita!, r=k. For the normal firms with r=-k, the dividend policy has not effect on the market value per share in this model. There is no unique optimum payout ratio for a normal firm. .One dividend policy is as good as the other. The market value per share is not affected by the payout ratio when r=k.

Declining firms (r<k)

Some firms do not have any profitable investment opportunities to invest the earnings. Such firms would earn on their investment rates of return less than the minimum rate required by investors. Investors of such firm would like earnings to be distributed to them so that they may either spend it or invest elsewhere to get a rate higher than earned by the declining firms, The market value per share of declining firm with r<k will be maximum when it does not retain earnings at all. Thus, the optimum payout ratio for a declining firm is 100 percent, P increases as payout ratio increases when r<k.

Thus, in Walter's model, the dividend policy of the firm depends on the availability of investment opportunities and the relationship between the firm's internal rate of return and its cost of capital. The firm should use earnings to finance investments if r>k; should distribute all earnings when r<k and would remain indifferent when r=k. Thus, dividend policy is a financing decision. When dividend policy is treated as a financing decision, the payment of cash dividends is a passive residual.

Limitation of Walter's model

Walter's model is quite useful to show the effects of dividend policy on an all equity firms under different assumptions about the rate of return. However, the simplified nature of the model can lead to conclusions which are not true in general, though true for the model. Following are the limitations of the model:

No external financing

Walter's approach assumes that retained earnings finance the investment opportunities of the firm only and no external financing debt or equity is used for the Financing. When such a situation exists, either the firm's investment or its dividend policy or both will be sub optimum. This means, when the firm's earnings are not adequate to exploit all investment opportunities having return at least equal or more than cost of capital, this approach does not allow financing the gap by using other sources.

Constant r and k

Walter's approach is based on the assumption that r and k are constant. In fact, r decreases as more investment occurs and k changes directly with the firm's risk. Walter's model may not be applicable in case of Nepalese company because in the other assumptions also i.e., EPS and DPS are constant.

One very popular model explicitly, relating the market value of the firm to dividend policy is developed by Myron Gordon (1929). He modified the Walter's model for determining the market price of the stock. This model explains that investors are not indifferent between current dividend and retention of earnings with the prospects of future dividends, capital gain and both. The conclusion of his study is that investors give more emphasis to the present dividend more than future capital gain. His argument stresses that an increase in dividend payout ratio leads to increase in the stock price for the reason that investors consider the dividend yield is less risky than expected capital gain.

Hence, investors' required rate of return increases as the amount of dividend decreases. This means there exist positive relationship between the-amount of dividend and stock prices.

His model is based on the following assumptions:

- The firm is an all-equity firm.
- Internal rate of return and cost of capital are constant.

- The firm and its stream of earnings are perpetual.
- The corporate taxes do not exist.
- The retention ratio once decided upon is constant. Thus the growth rate $g = b \times r$ is constant.
- K_e must be greater than g
- No external financing is available, so retained earnings would be used to finance for any expansion.

Based on the above assumption, Gordon has provided following formula, to determine the market value of a share.

$$P = \frac{EPS\ (1 - b)}{Ke - br}$$

Where,

P = Market Price of share

EPS = Earnings per share

b = Retention Ratio

1- b = Dividend payout Ratio

K_e = Equity capitalization rate

b×r = Growth Rate (g)

According to this model, the following facts are revealed. In the case of growth firm, share price tends to decline in correspondence with increase in payout ratio, i.e. high dividend corresponds to earnings leads to decrease in share price. Therefore, dividends and stock prices are negatively correlated in growth firm. But in the case of normal firm share value remain constant regardless of change in dividend policies. It means dividend and stock prices are free from each other in normal firm. In the case of declining firm, share price tends to rise in correspondence with raise in dividend payout ratio. It means dividend and stock prices are positively correlated with each other in a declining firm.

Van Home and McDonald, (1972) concluded a comprehensive study of 86 electric utility firms and 39 electronics and electric component industries by using cross sectional

regression model in 1968 to know the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stock. They employed two-regression model for electric utilities and one regression mode! for electronics component industry.

First model was

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

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.

Do/Eo= Dividend payout, measured by cash dividend in 1968 dividend by earnings in 1968.

lev= Financial Risk, measured by interest charges divided by the difference of operating revenues and operating expenses.

U = Error term.

$P_0/E_0= a_0+a_1(g)+a_2(D_0/E_0)+ a_3(lev)+ a_4(F_a)+a_5(F_b)+a_6(F_c)+a_7(F_d)+u$

WhereF_a, F_b, F_e, F_d are dummy variables corresponding to “new issue ratio” (NIR) sups 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 firm the value of dummy variables presenting its NIR group is one and the value of remaining dummy variables is zero.

Again, they tested the following regression equation for electronics components industry.

$P_0/E_0 = a_0 + a_1 (g) + a_2 (D_0/E_0) + a_3 (lev) + a_4 (OR) + u$

Where,

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

From their study they concluded that The market price of share was not affected by new equity financing in presence of cash dividend except for these in the highest new issue group and it made new equity more costly from of financing than retention of earning, They also indicated that the payment of dividend through excessive equity financing reduces the market price of share.

Friend and Puckett (1964) conducted a study and the relationship between dividends and stock prices, by running regression analysis on the data of 110 firms from five industries in the year 1956 and 1958. These five industries were chemicals, electronics, electric utilities, food and steels. These industries were selected to permit a distinction made between the results for growth and non-growth industries and to provide, a basis for comparison with result by other authors for earlier years. They also considered cyclical and non-cyclical industries that they covered. The study periods covered a boom year for the economy when stock prices, leveled off after rise (1956) and a somewhat depressed year for the economy when stock prices however, rose strongly (1958). They used dividends, retained earnings and price earnings ratio as independent variables in their regression model of price function. They used supply function i.e. dividend function as well. In their dividend function, earnings, last year's dividend and price earnings ratio are independent variables. They quoted that the dividends and price earnings ratio are independent variables. They quoted that the dividend supply function (equation) was developed by adding to the best types of relationship developed by Linter. Symbolically, their price function and dividend

supply function are:

Price function: $P_t = a + bD_t + cR_t + d(E/P)_{t-1}$

Where, P_t= Share price at the time ‘t’

D_t = Dividends at the time 't'

Rt = Retained earnings at time 't'

$(E/P)_{t-1}$= Legged earning price ratio

Dividend Supply Function: $D_t = e + fE_1 + gD_{t-1} + h(E/P)_{t-1}$

Where,

E_t = Earnings per share at time 't'

D_{t-1} = Last year dividend

Their study was based on the following assumptions:

- Dividends do react to year to year fluctuation in earnings.
- Price doesn't contain speculative components.
- Earnings fluctuations may not sum zero over the sample.

Their regression results based on the equation: $P_t = a + bD_t + cR_t$ showed the company's strong dividend and relatively weak retained earnings effects in three of the industries; i.e., chemical, foods and steels. Again they tested other regression equation by adding lagged earning price ratio to the above equation and resulted the following equation $D_t = e + fE_1 + gD_{t-1} + h(E/P)_{t-1}$; they found that more than 80% of the variation in stock price could be explained by three independent variables. Dividends have predominant influence on stock price in the same three out of five business industries but they found difference between the dividends and retained earning coefficient are not quite so marked as in the first set of regression. They also found that the dividends and retained earnings coefficient are closer to each other for all industries in both years except for steels in 1956, and the correlation are higher again except for steels.

They also calculated dividend supply equation; $D_t = e + fE_1 + gD_{t-1} + h(E/P)_{t-1}$ and the dividend price equation for four industry groups in 1958. In their derived price equation it seems that there was no significant changes from those obtained from the single equation approach as explained above. They argued that the stock prices or more accurately the price earnings ratio does not seem to have a significant effect on dividend payout. On the other hand they noted that the retained earnings effect is increased relatively in three of the four cases tested. Further, they argued that their results suggested price effects on dividend are probably not serious of bias in the customer derivation of dividend and retained earnings effects on stock prices. Though, such a bias might be market if the disturbing effects of short run income movements are sufficiently great.

Further, they used lagged price as a variable instead of lagged earnings price ratio and showed that more than 90% of variation in stock prices can be explained by the three independent variables and retained earnings received greater relative weight than dividends in the most of the cases. The only exceptions were steels and foods in 1958. They considered chemicals, electronics and utilities as growth industries in their groups and the retained earnings effect was larger than the dividend effect for both years covered. For the other two industries, namely foods and steels, there were no significant systematic differences between the retained earnings and dividend coefficients.

Similarly, they tested the regression equation; $P_t = a + bD_t + cR_t$by using .normalized earnings again. They obtained normalized retained earnings bysubtracting dividends form normalized earnings. That normalized procedure was based on the period 1950 to 1961. Again, they added prior year's normalized earning price variable and they compared the result. Comparing the result they found that there was significant role of normalized earnings. When they examined the later equation they found that the difference between dividend and retained earning coefficient disappeared. Finally they concluded that management might be able to increase price somewhat by raising dividends in foods and steels industries.

They concluded more detailed examination of chemical samples. That examination disclosed that the result obtained largely reflected the undue regression weighting given the three firms with price deviating most from the average price in the sample of 20 firms and retained earnings as a price determinant.

Finally, Friend and Puckett concluded that, it is possible that management might be able, at least in some measure to increase stock prices in the non-growth industries by raising dividends and in growth industries by greater retention i.e., low dividends.

Baker. Farrelly and Richard (1985) surveyed management view on dividend policy. They asked cooperative financial managers what they considered most important in determining their firm's dividend policy. The objectives of their survey were as follows:

- To compare the determinants of dividend policy today with Linter's behavioral model of corporate dividend policy and to assess management's agreement with

Linter's findings.

- To examine management's perception of signaling and clienteles effect and
- To determine whether managers in different industries share-similar views about the determinants of dividend policy.

The firms they surveyed were listed, on the New York Stock Exchange and classified four digit standard industrial classification codes. Total of 562 NYSE firms were selected from three industrial groups. Utility (150), manufacturing (309) and wholesale/retail (103).

They mailed questionnaire to obtain information about corporate dividend policy. The questionnaire consisted of three parts (i) 15 close ended statements about the importance of various factors that each firm used in determining its dividend policy, (ii) 18closed ended statement about theoretical issues involving corporate dividend policy, and (iii) a respondent's profile including such items as the firm's dividends and earnings per share.

They send the final survey instrument to the chief financial officer of 562 firms, followed by a second complete mailing to improve the response rate and reduce potential non-response bias. Their survey yielded 318 usable responses (i.e. 56.6%), which were divided among the three industry groups as follows: 114 utilities (76%), 147 manufacturing firms (47.6%), and 57 wholesale and retail (5.3%). Based on dividend and earnings per share data provided by the respondents, the average dividend payout ratios were computed. They found that payout ratio of the responding utilities (70.3%) were considerably higher than for manufacturing (36.6%) and wholesale/retail (36.1%).

The results of their survey on the aspect of determinants of dividend policy were as follows.

- The first highly ranked determinants are the anticipated level of firm's future earnings and the second factor is the pattern of the past dividends. They found the high ranking of these two factors is consistent with Linter's findings.
- A third factor cited as important in determining dividend policy is the availability of cash.
- A fourth determinant is concerned about maintaining or increasing stock price.

They found this factor is particularly strong among utilities who ranked this second in importance.

Similarly, the results of their survey on the aspect of attitudes of theoretical issues were as follows:

- Respondents from all there-industry groups agreed relatively strongly that dividend payout affects common stock prices.
- The respondents from all three industry groups agreed, on average, that dividend payouts provide a signaling device of future company prospects and that the market used dividend announcements as information for assessing security value.
- The respondents also demonstrated a high level of agreement that the reason for dividend policy changes should be adequately disclosed to investors.
- Respondents from all three-industry groups thought that investors have different perceptions of the relative riskiness of dividends and retained earnings and hence are not indifferent between dividend and capital gain returns.

2.3 Review of research works in Nepalese perspective

Since Nepalese capital market is small, and at emerging stage, there are very few studies regarding corporate dividend policy and its impact on share prices. Here is a review of research work in Nepalese perspective.

There are very few articles published related to dividend in Nepal. The article Shrestha,M.K(1980) about the dividend performance of some public enterprises highlighted the following issues:

- HMG expects two things from public enterprises: (i) They should be in a positive to pay minimum dividend and (ii) Public enterprises should be self supporting in financial matters in future years to come but none of these two objectives are achieved by public enterprises.
- The article points the irony about government biasness that government has not allowed banks to follow independent dividend policy and HMG is found to pressurize dividend payment in case of Nepal Bank Ltd. Regardless of profit. But

it has allowed RastriyaBanijya Bank to be relieved obligation in spite of considerable profit.

We can find very few articles related to dividend policy that is being published in Nepalese context.Shrestha, (1981) writes one of those related to dividend published. In 1981, the study presented by him was: " Public Enterprises: have they Dividend Paying Ability?"

Dr. Shrestha, M.K has highlighted following issue in the articles:

- The expectation of HMG from the public enterprises are of two things: (1) They should be in a positive of paying minimum dividend (2) Public enterprises should be self-supporting in financial matters in future years to come, but non of these two objectives are achieved by public enterprises.
- One reason for excessive government causes this inefficiency interferes in day to day affairs. On the other hand, high-ranking officials of HMG appointed as Directors of Board do nothing but simple show their bureaucratic personalities Bureaucracy has been the enemy of efficiency and so led corporation to face losses.

Another reason is the lack of self-criticism and self-consciousness. Esman has pointed out that the lack of favorable leadership is one biggest constraint to institutional building. Moreover corporate leadership comes, as managers are not ready to have self-criticism.

The study on stock market behavior in a small capital market is a popular case study of Pradhan,R.S.(1993).The was based on the data collected from 17 enterprises from 1986 through 1990. The objectives of the study are:

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

Some Findings of his study, among others were as follows:

- Higher earning on stock leads higher DPS.

- Stock with larger ratio of dividend per share to market price have lower leverage ratio.
- Positive relationship between the ratios of DPS to market price and interest coverage.
- Positive relationship between dividend payout and turnover ratios.
- Positive relationship between dividend payout and liquidity.
- Positive relationship between dividend payout and profitability.
- DPS and MFS are positively correlated,
- Liquidity and leverage ratios are more variable for the stock paying lower dividends.
- Earnings, assets turnover, and interest coverage are more variable for the stock paying higher dividends.

In his dissertation paper "Dividend Decision and its Impact on Stock Valuation", Bhattarai,B.(1996) , concludes that:

- There is positive relationship between cash flow and current profit and divided percentage of shares. The degree of relationship is almost perfect.
- There is no criterion to adopt payout ratio and it is observed that there is a negative relationship between payout ratio and valuation of shares.
- In aggregate, there is no stable dividend paid by the companies over the years. Some companies have steadily increased dividend. Such increase in dividend has a considerable impact on valuation of shares if there are rational investors; however this is yet to be realized by Nepalese company management.
- Inflation rate in recent year are decreasing and the market price of share are increasing. Nevertheless, the companies are not able .to give required rate of return to the investors.
- There was negative relationship between price of share and stockholders required rate of return. Shareholders have foregone opportunity income in hope of getting higher return, but companies have not been able to return even equal to risk free rate of return.

Timilsina,S. (1997) in his thesis paper "Dividend and Stock Price: An Stock Price: An Empirical Study" has studied the relationship between dividend and stock price of the sample companies by using data from 1990 to 1994. Though it was not very comprehensive, it was the first of its kind and able through some light in the Nepalese context.

The objectives of this study were as follows:

- To test the relationship between dividend per share and stock price.
- To determine the impact of dividend policy on stock price.
- To identify whether it is possible to increase the market value of stock by changing dividend policy or payout ratio.
- To explain the price behaviour, the study used simultaneous equation models developed by Friend and Puckett (1964).

The findings of his study were as follows;

- The relationship between dividend per share and stock price is positive in the sample companies.
- Dividend per share affects the share price differently in different sectors.
- Changing dividend policy or dividend per share might help to increase the market price of the share.
- The relationship between stock price and retained earnings per share is not prominent.
- The relationship between stock prices and lagged earning price ratio is negative.

Another article published by (ManandharK.D2000), describes about the relationship of dividend payout other financial factors based on the data of 7 commercial banks, 5 finance and insurance companies, 2 trading companies, 2 service oriented companies and 1 manufacturing company for the year 1987 to 1998.

Following are the major findings of his study:

- Significance relationship is found between change in dividend policy in terms of dividend per share and change in lagged earnings.

- There is relationship between distributed lagged profit and dividend.
- The difference is found significant between overall proportion of change dividend and due to increase and decrease in EPS during the study period.
- In overall increase in EPS has resulted to increase in the dividend payment in 66.6% of the cases while decrease in EPS is resulted decrease in dividend payments come to 33.3% of the cases.
- It is found that Nepalese Corporate firms have followed the practice of maintaining constant dividend payment per share or increase it irrespective of change in EPS as reflected by total percentage of constant and increase dividend payout of 78.33% of the cases. In other words forms are reluctant to decrease dividend payment.
- In overall Nepalese corporate firms are found reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information contents and signaling effects of dividend relating to the firm's continued progress and, performance, sound financial strength, favorable investment environment, lower risk, ability to maintain sustained dividend rate and finally to increase the market price of the stocks in the stock market.

Basnet,P. (2004) in her master's degree thesis on "Dividend Policy of Listed Companies in Nepal", has analyzed and examined the relationship between dividends and stock price of Banking and other financial sectors.

The objectives of this study were as follows.

- To highlight the prevailing dividend policy adopted by the listed
- Companies.
- To assess the impact of dividend on market price of share of the selected companies.
- To analyze the relationship between dividend with earning per share, net profit and net worth.

Analysis of the result of the sample companies helped her to draw following conclusion:

- Dividend payment is not a regular and attractive phenomenon in Nepalese listed companies. The companies do not have any stable and consistent dividend practice.
- The market price' of share of banking and total companies is influenced by many factors oilier than DPS. Change in dividend per share affects the share price differently in different companies.
- The DPS and EPS are positively correlated in all sectors. Which means higher the EPS, higher will be the DPS.
- Market Value per Share (MVPS) of the listed companies is higher than net worth per share (NWPS). There exist vast difference between MP and NWPS. This situation clearly indicates that the investors are not matching book value and market value of the share. They don't see the reported value of share from its books of account.

Bista,S. (2006) presented his dissertation "Dividend Policy and Practices in Nepal". A comparative study of listed joint ventures commercial banks and manufacturing companies. Through data collected from 1999 to 2005 with three joint venture banks out of the three manufacturing companies in 2006.

The major objectives of the study were:

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

Major Findings are follows:

1. The banks and manufacturing companies do not follow any specific dividend policy. DPR are fluctuating over the periods of those selected companies.
2. MPS do not follow any specific trend, it fluctuates the future price.
3. There is not any specific trend of EPS in the companies.

4. There is great difference between market price per share and book value per share.

The major objectives of his study are as follow:-

a) To study the existing practices and effort made in dividend policy among the firms..
b) To analyze the consistency and uniformity among DPS, EPS, MPS and DPR.
c) To find the impact of dividend policy on market price of stock.

He selected two commercial banks and two insurance companies for the study. The selected companies are Nepal Arab Bank Limited, Himalayan Bank Limited, Himalayan General Insurance Company Limited and United Insurance Company Nepal Limited.

The methodology used in the study included, financial tools such as ratio analysis and statistical tools such as correlation analysis, regression analysis and test of hypothesis etc. She used secondary data for the analysis.

The major findings of his study are:-

a) There is not any consistency in the dividend policy of the sample firms, therefore sometimes the result of the different test accept the theoretical assumptions of dividend policy and sometimes do not.
b) Majority of Nepalese firm gives first priority to “earning” to get into the decision of dividend. The second priority goes to the “cash availability” and third priority is given to “past dividend”
c) HBL is a strong company with the financial market reputation, if the result of it compared to other firms, it can be said that although EPS affects DPS it is less concerned with MPS. Therefore the MPS is more or less dependent with DPS in the efficient capital market.

Bhattarai,S. (2008) presented his dissertation "Dividend Policy and Practices in Nepal". A comparative study of listed joint ventures commercial banks and manufacturing companies. Through data collected from 1999 to 2005 with three joint venture banks out of the three manufacturing companies in 2006.

The major objectives of the study were:

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

Major findings are follows:

- The banks and manufacturing companies do not follow any specific dividend policy. DPR are fluctuating over the periods of those selected companies.
- MPS do not follow any specific trend, it fluctuates the future price.
- There is not any specific trend of EPS in the companies.
- There is great difference between market price per share and book value per share.

Adhikari N. (2010)corporate dividend practices in Nepal. using primary as well as secondary data.

The objectives of the study are:

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

Major findings of the study are as follows:

- There are differences in financial position of high dividend paying and low dividend paying companies.
- The stocks with longer ratio of dividend per share to book value per share have higher liquidity. It has more variable as compared to stock paying lower dividends. Other thing remaining the same, other thing remaining the same,

financial position of high dividend paying companies are comparatively better than that of low dividend paying companies.

- Another interesting conclusion is that market price of stock is affected by dividend for finance and non finance sectors differently.
- There is positive relationship between dividend and stock price.
- There is negative relationship between dividend payout and earnings before tan to net worth.
- Stocks with larger ratio of DPS to book value per share have higher profit ability. These profitability ratios of stocks paying large dividends are also some variable as compared to stocks paying smaller dividends.
- The companies paying higher dividend are reluctant to employ high degree of leverage is 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.

Some findings through primary data:

- With respect to factors affecting corporate dividend policy, the majority of the respondents give the first priority to "earnings", the second to availability of cash and the third to past dividend and fourth to concern about maintaining or increasing stock price.
- Dividend payout affects the price of common stock.
- As regards dividend as a residual decision, the majority of the respondents feel that it is not a real residual decision.
- With respect to major motives for paying cash dividend, the majority of the respondent feels that it is to convey information to shareholders that the company is doing good.
- Nepalese shareholders are not really indifferent towards payout or nonpayment of dividend.
- One of the major findings is that earning announcement helps to increase the market price of share.

(Gautam,R.R2012) analysis the factors using various statistical and financial tools and concludes that:

- Average earning per share of both two banks is satisfactory and dividend per share is too much unsatisfactory.
- There is no consistency in dividend payment and its growth rate is not static as well.
- There is no prominent difference in DPS and D/P rate of both two banks however; there is no uniformity in EPS.

GautamR.R recommends as follows:

- To follow clearly defined dividend strategy as lack of it causes serious in convenience to may other sectors of finance.
- Banks should consider the interest and expecatation of the investors while making dividend decisions.

2.4 Research gap

The purpose of this study is to develop some expertise in one's area, to see what new contributions can be made and to receive some ideas, knowledge and suggestion in relation dividend policy of sample company .Thus, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in study. This continuity in research is ensured by linking the present study with the past research studies. But the purpose of study is quite different from the previous studies has been conducted taking (NABIL),Standard chartered bank ltd, Unnpurna finance limited, Kathamndu finance limited, Bottlersnepal limited, Unilever Nepal limited as the samples which are the successful and fast growing joint venture company of country . The previous studies under the similar topic has not studied taking these six company as the samples.

At present, there are 150 company listed in NEPSE; however these six company have been very successful in maintaining their reputation despite tough competition and unfavourable environment(internal and external) factors prevailing.Six company have huge market share and numerous investment activities in the current financial market and have played significant role in the economic development of country in spite of influence of various internal and external factors which play the role of change agents in the fluctuation of their annual financial performance. This study, therefore, would contribute to fulfill the prevailing communication gap about the major factors influencing the financial performance of the banks for shareholders and stakeholders. Furthermore, this research would help researchers and students who aspire to gain knowledge about different tools and techniques needed to conduct similar studies in future.

CHAPTER : THREE

RESEARCH METHODOLOGY

3.1 Research design

The research design of this study is descriptive. This study is an examination and evaluation of dividend policy and its impact on the market price of shares of various financial institutions like banks, finance companies and manufacturing companies. Therefore the study is closely related with the various financial statements as well as the market price of the stock. Analytical method is used to present the information and data.

The data required for the clarity of the concept and fulfill the study objectives are collected mostly from selected company's annual reports and NEPSE. The standard information and modem concept is view through the journals, articles, and book-let. The information so collected is analyzed using various standard and statistical measures. The statistical calculation will help to see if or not there is trend on the activities.

There arise various tools for operating and summarizing the information. The major tool to analyze data is selected to comply with the nature of data and meet the Nepalese investor's need. The tools and technique, which is suitable elsewhere, may not be appropriate in our context.

The information presented is represented with tables, charts and graphs. The tables, charts and graphs will be helpful to notice the information at glance and also assist to predict the future level.The data after presentation is interpreted so as to best suit the interest of the reader or to provide the theoretical insight about the data behavior.

3.1.1 Population and sample

This study is based on the data of the companies listed in NEPSE, the population is taken from only those companies which are listed, no. of listed company in NEPSE are 151 till ,2o16. Since the topic implies the study should be done among the dividend paying and

actively traded companies, the sampling are done accordingly. The study covers altogether six companies consisting two from commercial banking sector, two from finance companies and the rest two from manufacturing companies. The sampling method used is stratified sampling method.

The samples selected are as follows:

From Banking Sector:

1. Standard Charted Bank Nepal Ltd. (SCBNL)

2. Nepal Arab Bank Ltd. (NABIL)

From Finance Companies:

3. United Finance Company Ltd. (UFC)

4. Kathmandu Finance Limited (KFC)

From Manufacturing Sector:

5. Uniliver Nepal Private Ltd. (UNL)

6. Bottlers Nepal Private Ltd. (BNL)

3.1.2 Selection criteria

- Being the top performance Bank as per Annual Report and NEPSE.
- Being wellPerformance finance of Kathmandu as per Annual Report and NEPSE.
- Being multinational company having Task Environment In Nepal.

3.2 Sources of data collection

The data used in this study are from two sources, primary and secondary. However the prime focus has been given to the secondary data. The secondary data collected from, annual reports from Fiscal year 2011 to 2015, magazines and bulletins of the companies under study, relevant information and data from the publication of SEBON, NEPSE, NRB, and web pages of the selected companies, various newspapers, previous studies,

thesis and dissertation related to this field etc. Beside that the indirect and informal talks, interviews with some professors, teachers and persons of related field etc. have also been made.

3.3 Analysis of data

The analysis of data has been done according to the pattern of data available. Wide varieties of methodology have been applied according to the reliability and consistency of data. Firstly, the collected data are presented in proper forms, grouped in various tables and charts according to their nature. Then various financial and statistical tools have been applied. And then interpretations and explanations are made wherever necessary with the help of various statistical analyses.

3.3.1 Tools of analysis

Various financial and statistical tools have been used in the study. The analysis of data will be done according to the pattern of data. Financial tools and simple regression analysis, multiple regression analysis and Hypothetical test will mainly be the tools, of analysis. The relationship between different variable related to study topic would be drawn out using financial and statistical tools. The main, financial indicator EPS, DPS, MPS, P/E Ratio, Dividend Yield. Earning Yield and D/P ratio will be calculated in this research, likewise statistical tools arithmetic mean, simple regression analysis, standard deviation, coefficient of correlation and hypothetical test will be calculated in the research.

3.3.1.1 Financial tools:

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

Earning Per Share (EPS)

Earning per share is one of the factors that affect the dividend policy and stock price of a firm. EPS calculation will be helpful to know whether the firm's earning power on per share basis. If EPS is greater the dividend will be larger and so is the market price. So, it is assumes as independent variable to determine the dividend and market price of stock. It

is calculated by dividing the earning available to the common shareholder by the total number of common shares outstanding.

Symbolically,

$$EPS = \frac{\text{Earning Available to Common Shareholders}}{\text{No. of Common Stock Outstanding}}$$

Dividend per Share (DPS)

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

Symbolically,

$$DPS = \frac{\text{Total Dividend to ordinary shareholders}}{\text{No. of Common Stock Outstanding}}$$

Dividend Payout Ratio (DPR)

DPR reflect what percentage of profit is distributed as dividend and what percentage is retained ns reserve and surplus for the growth of the company. It is calculated by dividing the DPS by the EPS.

Symbolically,

$$DPR = \frac{\text{Dividend Per Share(DPS)}}{\text{Earning Per Share (EPS)}}$$

Earning Yield Ratio (EYR)

This ratio shows the relationship between earning per share and market value per share. it is calculated by earning per share by market value per share.

Symbolically,

$$EYR = \frac{\text{Earning Per Share(EPS)}}{\text{Market Price Per Share (MPS)}}$$

Dividend Yield Ratio (DYR)

This ratio shows the relationship between dividend per share and market value per share. it is calculated by dividend per share by market value per share.

Symbolically,

$$\text{DYR} = \frac{\text{Dividend Per Share(DPS)}}{\text{Market Price Per Share (MPS)}}$$

Price Earnings Ratio (P/E Ratio)

This ratio reflects the market value per share for each rupee of currently reported EPS. It is calculated by dividing the market value per share by earning per share.

Symbolically,

$$\text{P/E Ratio} = \frac{\text{Market Price Per Share(MPS)}}{\text{Earning Per Share (EPS)}}$$

3.3.1.2 Statistical tools:

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

Arithmetic mean ($\overline{X}$)

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

Symbolically,

$$\text{Mean } (\overline{X}) = \frac{\text{Sum of the total Values } (\Sigma X)}{\text{No. of Values(N)}}$$

Standard deviation (σ)

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

Symbolically,

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\Sigma\left(X - \overline{X}\right)^2}{N}}$$

Coefficient of Variation (CV)

The coefficient of variation is defined as the ratio of standard deviation to the mean expressed in percentage.

Symbolically,

$$CV = \frac{\sigma}{\overline{X}} \times 100\ \%$$

The coefficient of variation is the relative measure and is independent of units. The coefficient of variation is applicable for the comparisons of variability of two or more distributions. The greater the value of the coefficient of variation, the less will be the uniformity (or consistency, stability, etc.) and the smaller the value of coefficient of variation, the more will be the uniformity (or less will be the variability).

Correlation analysis

Correlation analysis is the statistical tools that can be used to describe the degree to which one variable is linearly related to another. In the study both single and multiple correlations have been used. Correlation co-efficient between the following financial variables have been calculated and interpreted.

Simple correlation coefficient

- Between dividend per share and earnings per share
- Between earning per share of last year and current market price per share.
- Between dividend per share of last year and current market price per share.

Multiple correlation coefficients

Between earning per share of last year, dividend per share of last year and current market price of share.

Probable error [PE]

Tin; probable error of the coefficient of correlation helps in interpreting its value. It helps to determine the reliability of the value of coefficient. To cross check the validity of the result, the help of following formula.

Symbolically:

$$PE(r) = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

Where,

PE(r) = Probable Error of' 'r'

r = Correlation coefficient between x and y

There are three condition to know the degree of correlation between x and y.

1. if the value of 'r' is less than 6 times the probable error

[ie, r<6xPE(r)j, there is no significant relationship between x and y.

2. if the value of 'r' is more than 6 times the probable error

[ie, r>6xPE(r)j, there is most significant relationship between x and y.

3. if PE(r) < r < 6 PE (r), there is moderate relation between x and y.

In the study, probable error has been calculated to determine the reliability of the value of coefficient of EPS and DPS, DPS and Net Profit and DPS and Net Worth.

Regression analysis

Correlation analysis tells the direction of movement but it does not tell the relative movement in the variables under study. Regression analysis helps us to know the relative movement in the variables, Regression analysis of the following variables have been calculated and interpreted.

Simple regression analysis

Dividend per Share on Earning per share

This analysis enables us to know whether EPS is the influencing factor of dividend per share or not. At what extent EPS affects the DPS

$Y = a + bx$

Where, y = Dividend per share

a = regression constant

b = regression coefficient

x = Earning per share

Market Price per Share and Dividend per Share of Last Year

This analysis tests the dependency of market price on dividend per share of last year,

$Y = a + bx$

Where, y = Market Price per Share

a = regression constant

b = regression coefficient

x = Dividend per share of last year

Market Price per Share and Earning per Share of Last Year

This analysis tests the dependency of market price on earning per share of last year.

$y = a + bx$

Where, y = Market Price per Share

a = regression constant

b = regression coefficient

x = Earning per share last year

Multiple Regression Analysis

Market price of share on earning per share of last year and dividend per share of last year.

$Y = a + b_1X_1 + b_2X_2$

Where, y = Market Price per Share

a = regression constant

b_1 = regression coefficient of 1st variable

b_2 = regression coefficient 2nd variable

X_1 = Earning per share of last year

X_2 = Dividend per share of last year

This model helps to predict in what extent EPS and DPS affect market price of share.

In Correlation and regression analysis, following statistics have been calculated and interpreted accordingly.

1. 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 Coefficient of correlation is the measurement of the degree of relationship between two casually related sets of figures

whether positive or negative. Its value lies somewhere ranging between -1 to +1, if both variables are constantly changing in the similar direction, the value of coefficient will be +1 indicative of perfectly positive correlation, when the coefficient will be -1 two variables take place in opposite direction. The correlation is said to be perfectly negative. In this study, simple coefficient of correlation is used to examine the relationship of different factors with dividend and other variables. The data regarding dividend over different years are tabulated and their relationship with each other are drawn out.

2. Coefficient of Determination (r^2)

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

3. Regression Constant (a)

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

4. Regression Coefficient (b)

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

5. Standard Error of Estimate (SEE)

With the help of regression equations perfect prediction is practically impossible. The standard error of the estimate measures the accuracy of the estimated figures. It also measures the dispersion about an average line. If standard error of estimate is zero, then the estimating equation to be 'perfect' estimator of the dependent variable. It indicates that the smaller value of SE estimate the closer will be the dots to the regression line. Thus, with the help of standard error of estimate, it is possible for us to ascertain how good and representative the regression time is as a description of the average relationship between two series. In this research work, standard error of estimate is calculated for the selected dependent and independent variables specified on the model.

3.4.2. Test of Hypothesis

A Hypothesis is a conjectural statement of the relationship between two or more variables (Kerlinger,1964). Hypothesis Statement Should be able to show the relationship between variables. At the same time, they should carry clear implication for testing the stated relations. The research on this thesis topic strongly holds that the hypothesis formulated, meet the above mentioned criteria. The hypothesis of this study is as follows:

t-statistic

To test the validity of assumption if sample size is less than 30 t-test is used. For applying t-test in the context of small sample, the t-value is calculated at first and compared with the table value of 't' at a certain level of significance for given degree of freedom. If calculated t-value exceeds the table value (say 0.05) we infer that the difference is significant at 5 percent level. But if t-value is less that that of table value the difference is not treated as significant. In this research work, t-value is calculated between earning per share and dividend per share, net profit and dividend per share and market price per share.

1. First Hypothesis

Null Hypothesis (Ho):

i. There is no significant difference between mean DPS of NABIL and SCBL
ii. There is no significant difference between mean DPR of NABIL and SCBL

$$\mu_1 = \mu_2$$

Alternative Hypothesis (H_1):

i. There is significant difference between mean DPS of NABIL and SCBL.
ii. There is significant difference between mean DPR of NABIL and SCBL

$$\mu_1 \neq \mu_2$$

2. Second Hypothesis

Null Hypothesis (Ho):

i. There is no significant difference between mean DPS of UFC and KFC.
ii. There is no significant difference between mean DPR of UFC and KFC.

$$\mu_1 = \mu_2$$

Alternative Hypothesis (H_1):

i. There is significant difference between mean DPS of UFC and KFC.
ii. There is significant difference between mean DPR of UFC and KFC.

$$\mu_1 \neq \mu_2$$

3. Third Hypothesis

Null Hypothesis (Ho):

i. There is no significant difference between mean DPS of UNL and BNL.
ii. There is no significant difference between mean DPR of UNL and BNL.

$$\mu_1 = \mu_2$$

Alternative Hypothesis (H_1):

i. There is significant difference between mean DPS of UNL and BNL.

ii. There is significant difference between mean DPR of UNL and BNL.

$$\mu_1 \neq \mu_2$$

Analysis of Variance (ANOVA)

In order to test whether all the means of different sectors have same common mean or not, analysis of variance is carried out. With this test one can make a inference whether the difference between the sample means is merely due to sample fluctuation or they are significantly different. The technique used in analysis of variance which compares among-sector variance & to the within sector variance is F-ratio.

$$F = \frac{\text{Mean Sums of Squares between Sectors/d.f.}}{\text{Mean Sums of Error/d.f.}}$$

1. First Hypothesis

Null Hypothesis:

Ho: There is no significant difference among the DPS of Banking Sector, ManufacturingSector and Finance Sector.

i.e. H_o: $\mu_1 = \mu_2 = \mu_3$

Alternative Hypothesis:

Ho: There is significant difference among the DPS of Banking Sector, Manufacturing Sector and Finance Sector.

i.e. H_1: $\mu_1 \neq \mu_2 \neq \mu_3$

2. Second Hypothesis

Null Hypothesis:

Ho: There is no significant difference among the EPS of Banking Sector, Manufacturing Sector and Finance Sector.

i.e. H_o: $\mu_1 = \mu_2 = \mu_3$

Alternative Hypothesis:

H_1: There is significant difference among the BPS of Banking Sector, Manufacturing sector and Finance Sector.

i.e. H_1: $\mu_1 \neq \mu_2 \neq \mu_3$

3. Third Hypothesis

Null Hypothesis (Ho):

i. There is no significant difference among the DPR of Banking Sector, Manufacturing Sector and Finance Sector.

i.e. H_o: $\mu_1 = \mu_2 = \mu_3$

ii. Alternative Hypothesis(Ho):

There is significant difference among the DPR of Banking Sector, Manufacturing Sector and Finance Sector.

i.e. H_1: $\mu_1 \neq \mu_2 \neq \mu_3$

4. Forth Hypothesis

Null Hypothesis(Ho):

i. There is no significant difference among the MPS of Banking Sector, Manufacturing and Finance Sector.

i.e. H_o: $\mu_1 = \mu_2 = \mu_3$

Alternative Hypothesis: (H1):

ii. There is significant difference among the MPS of Banking Sector, Manufacturing Sector and Finance Sector.

i.e. H_1: $\mu_1 \neq \mu_2 \neq \mu_3$

CHAPTER : FOUR

DATA PRESENTATION AND ANALYSIS

In this chapter, the relevant data and information on dividend policy of the selected companies are presented and analyzed comparatively keeping the objective of the study in mind .To being with analysis of dividend payment practices of the banks is done at first. In the second part of the chapter, analysis of impact of dividend policy on market price of share and relationship of dividend with other key variables are done with the help of the statistical tools mentioned in the chapter .In the third part, hypothetical analysis is done .This is the main central nervous system, which helps to conclude the study through major findings, vital issues and recommendation. This chapter makes the proper linkage with other chapter.

4.1 Analysis of Financial Indicators and Variables

4.1.1. Analysis of Earning Per Share (EPS)

In generally, the performance and achievements of business organization are measured in term of their capability to generate earnings. The earnings of any business organization also helps to evaluate performance Higher earning indicates the strength and Lower earning denotes the weakness of business organization because the earning of any organization helps for its growth, expansion and modernizations.

Table No. 4.1

Analysis of EPS

Year	EPS	Pooled

	SCBL	NABIL	BNL	UNL	KFC	UFC	Average
2013	77.65	83.81	37.80	626.19	21.56	12.12	143.19
2014	69.51	70.67	34.73	662.14	11.01	17.37	144.24
2015	72.60	83.23	24.96	799.19	11.01	10.83	166.97
2016	65.70	95.14	35.21	807.53	8.16	15.81	171.26
2017	65.47	83.68	46.52	841.72	3.42	23.98	177.47
Average	**70.19**	**83.31**	**35.85**	**747.36**	**11.04**	**16.00**	**160.63**
S.D.	**4.57**	**7.75**	**6.90**	**86.20**	**5.95**	**4.64**	
CV(%)	**6.51**	**9.30**	**19.25**	**11.53**	**53.90**	**29.00**	

(Source : Annual Reports of the companies)

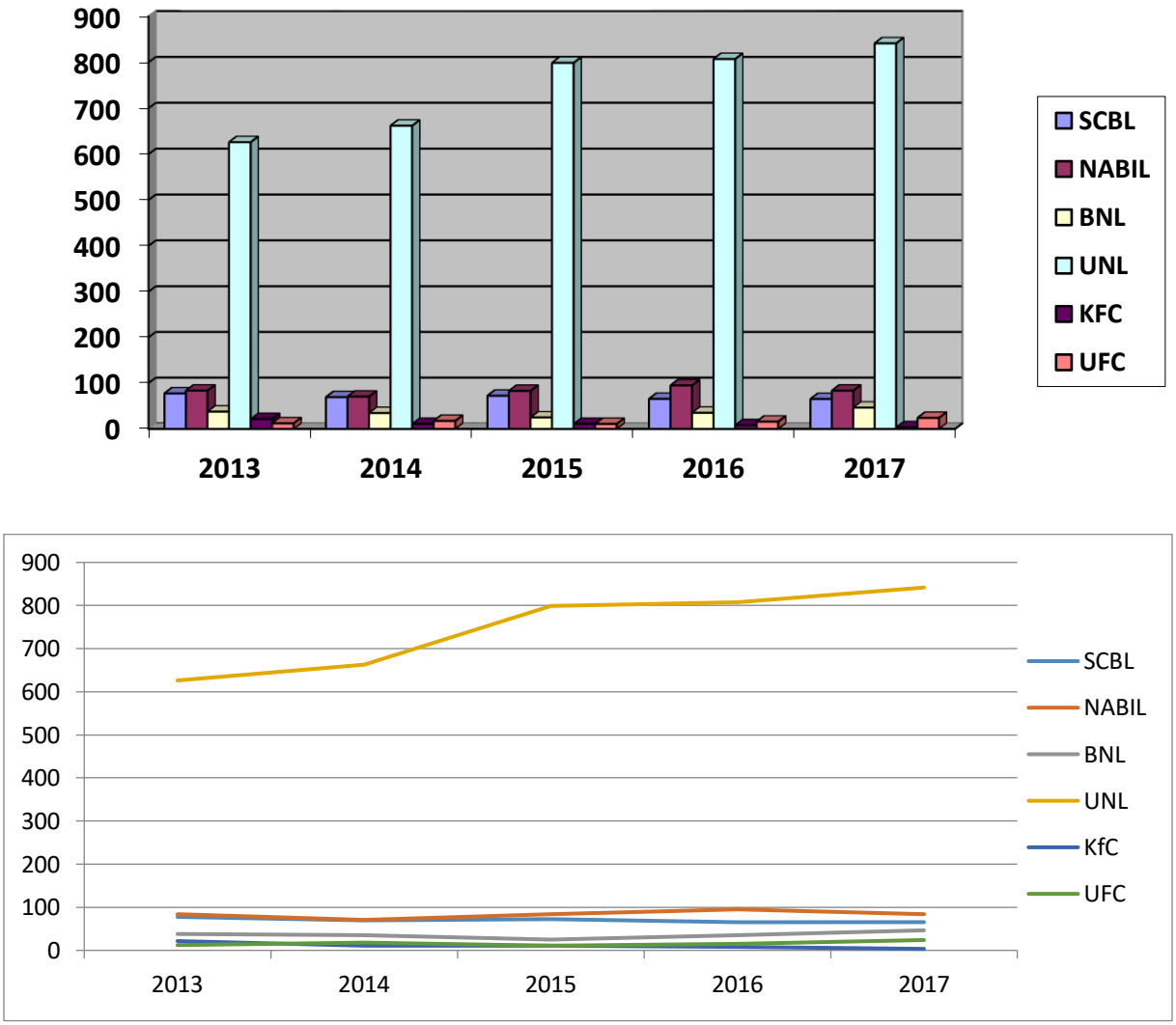
The table no. 4.1 shows Earning per share (EPS) of the samples from the year 2013 to 2017. While analyzing the earning, higher earning indicates the company is in prosperity while lower earning indicates difficulties. SCBL's EPS has ranged between Rs 65.47 to Rs 77.65. NABIL's raised Rs 70.67 to Rs 95.14. BNL's has ranged 24.96 to 46.52. UNL's EPS raised Rs 626.19 to Rs 841.72, KFL's has ranged Rs 3.42 to Rs 21.56. UNL has earned the highest EPS (i.e. Rs 747.36) whereas KFL has secured the lowest EPS (i.e. Rs 11.04).

In terms of CV, SCBL is the best (i.e.6.51%) EPS of KFL is most consistent. While SCBL has the lowest consistency (i.e.53.90%). As a matter of fact all the companies are inconsistent in EPS which is not satisfactory. As will as The cross-section analysis shows that consider from all above company the UNL is always above the pooled average EPS.

Comparing overall performance of companies among selected for the study of EPS, only one out of six has been found to maintain composite average. The composite average EPS is Rs.160.63 and the average of UNL is more than Rs.747.36.

Figure No.4.1

Analysis of EPS



(Graphic presentation of EPS: Years & EPS amount)

4.1.2 Analysis of Dividend per Share (DPS)

DPS indicates the portion of earning distributed to the shareholders on per share basis. the following policy has been assumed in the study. The following table shows all details relating to dividend per share. Dividend per share (DPS) is that amount, which is paid to common shareholders on a per share basis. DPS shows that what exactly do the ordinary shareholders receive. It is calculated by dividing the total dividend to equity shareholders by the total numbers of equity shares.

Table No. 4.2

Analysis of DPS

Year	DPS						Pooled Average
	SCBL	NABIL	BNL	UNL	KFC	UFC	
2013	70	70	-	560	20	13.16	122.19
2014	50	30	13	590	12	13.16	118.03
2015	60	60	-	680	-	10.00	135.00
2016	50	65	60	760	-	12.50	157.92
2017	51.50	65	-	860	8	15.79	166.72
Average	**56.30**	**58**	**14.6**	**690**	**8.00**	**12.92**	**139.97**
S.D.	**7.80**	**14.35**	**23.25**	**110.27**	**8.20**	**1.85**	

CV (%)	**13.86**	**24.74**	**159.25**	**15.98**	**102.50**	**14.32**	

(Source: Annual Reports of the companies)

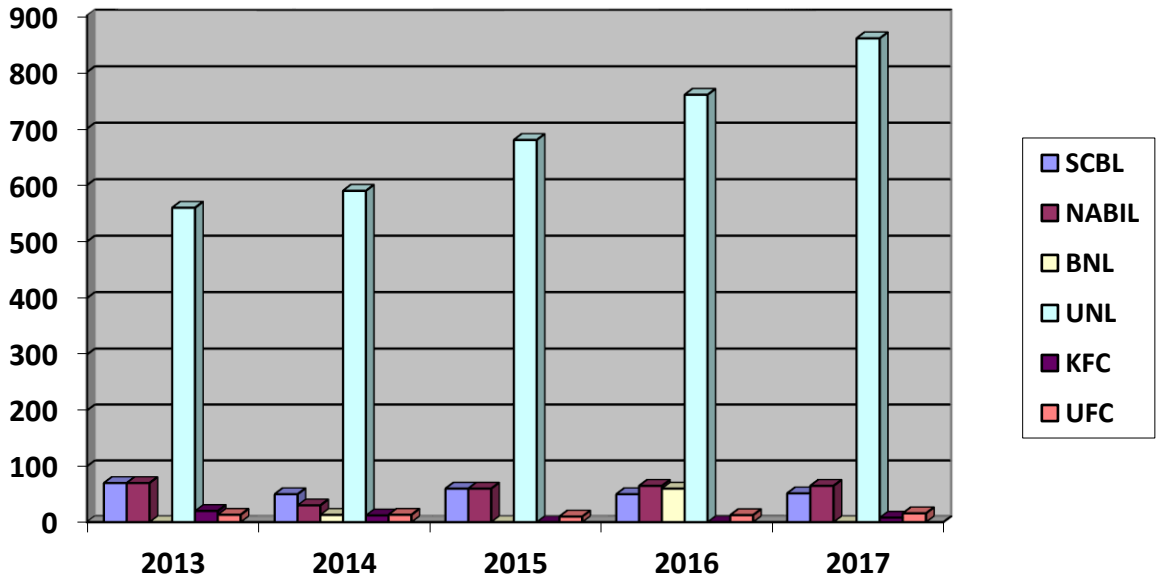
The table 4.2 shows the amount of dividend per share (DPS) of the sample banks from FY 2004. DPS shows the impact of dividend on the share price. SCBL's DPS has ranged between Rs 50 to Rs 70. NABIL's raised Rs 30 to Rs 70. BNL's has ranged 13 to 60. UNL's EPS raised Rs 560 to Rs 860, KFC's has ranged Rs 8 to Rs 20. UNL has earned the highest DPS (i.e. Rs 690) whereas KFC has secured the lowest DPS (i.e. Rs 8).

In terms of CV, SCBL is the best (i.e.13.86%) DPS of SCBL is most consistent. While UNL has the lowest consistency (i.e.102.50%). As a matter of fact all the companies are inconsistent in EPS which is not satisfactory. As well as the cross-section analysis shows that consider from all above company the UNL is always above the pooled average EPS.

Comparing overall performance of companies among selected for the study of DPS, only one out of six has been found to maintain composite average. The composite average DPS is Rs.139.97 and the average of UNL is more than Rs. 690.

Figure No. 4.2

Analysis of DPS



(Graphic presentation of DPS: Years & DPS amount)

4.1.3. Analysis of Market Price per Share (MPS)

Market price of share refers to the value paid to a share of the firm by the investors in stock market .This price fixed on the basis of demand and supply interaction of a specified share in the stock market .MPS represents the closing market price of the particular share in the particular fiscal year in NEPSE. The following table shows the market price of sample firms.

Table No. 4.3

Analysis of MPS

Year	MPS						Pooled Average
	SCBL	NABIL	BNL	UNL	KFC	UFC	
2013	3279	2384	1572	1134.20	167	294	1471.70
2014	1800	1252	1620	1178.53	138	199	1031.26
2015	1799	1355	1680	1213.49	114	140	1050.25
2016	1820	1815	1690	1305.60	146	133	1151.60
2017	2799	2535	1697	1423.87	191	256	1483.65
Average	**2299.40**	**1868.20**	**1651.80**	**1251.12**	**151.20**	**204.40**	**1237.69**
S.D.	**622.71**	**520.88**	**48.35**	**103.06**	**26.15**	**63.19**	
CV (%)	**27.08**	**27.88**	**2.93**	**8.24**	**17.30**	**30.92**	

(Source: Annual Reports of the companies)

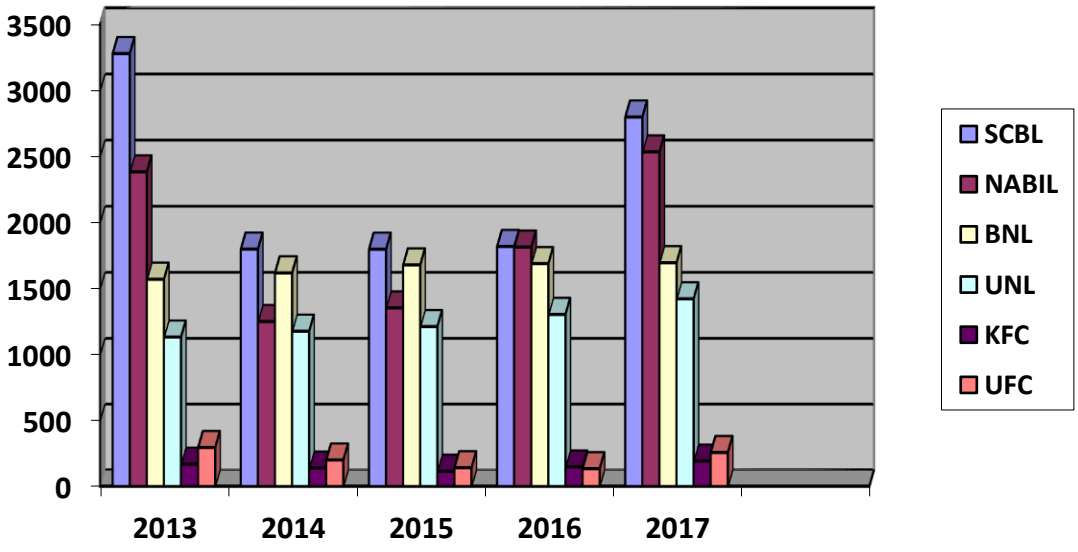
The table 4.3 shows the MPS of the six sample companies for the period of five fiscal year starting from 2069/70 to 2073/74. The objective to analyze market value is to evaluate the value of the shares in the market. SCBL's MPS has ranged between Rs 1799 to Rs 3279; NABIL has ranged to Rs 1252 to Rs 2535 Rs. BNL's MPS has ranged between Rs 1572 to Rs 1697 whereas UNL's MPS has ranged between Rs 1134.20 to Rs 1423.87. KFC's MPS has ranged to Rs 114 to Rs 191. Likewise UFC'S MPS has Rs 140 to Rs 294. SCBL has earned the highest MPS (i.e. Rs 2239.40) and KFC has secured lowest MPS (i.e. Rs 151.20).

In terms of CV, BNL is the best (i.e. 2.93%) MPS of NIBL is most consistent. While NABL has the lowest consistency that (i.e. 27.88%). As a matter of case of fact, all the companies are inconsistent in MPS which is not satisfactory.

Comparing overall performance of companies among selected for the study of MPS, All the companies except the financial companies (i.e. KFC & UFC) has been found to maintain composite average. The composite average MPS is Rs.1237.69. Where the average MPS of KFC and UFC are Rs 151.20 and Rs 204.40 respectively which shows the lower level of average MPS comparing among all the remaining. Similarly them have lowest consistence while we talking about the CV.

Figure No.4.3

Analysis of MPS



(Graphic presentation of MPS: Years & MPS amount)

4.1.4 Analysis of Dividend Payout Ratio (DPR)

The amount of dividend that a company pays depends upon the earning capacity of the company. Greater earning enhances the ability to pay more dividends and vice versa. In connection with this, dividend payout ratio reflects that percentage of current profit, which has been distributed as dividend and what percentage has retained to finance the growth of the company. It is the attitude of the management towards the treatment of profit in respect to distribution of dividend and retained earnings.

Dividend payout ratio indicates that what percentage actual earnings of a firm has been received by the ordinary shareholders. It is calculated by dividing the dividend per share to ordinary shareholders by the earning per share (EPS). The following Table shows that dividend payout ratio (DPR) of sample firms.

Table No. 4.4

Analysis of DPR

Year	DPR						Pooled Average
	SCBL	NABIL	BNL	UNL	KFC	UFC	
2013	90.32	83.52	0	89.43	92.76	108.58	77.45
2014	71.93	42.45	37.43	89.11	109	75.76	70.95
2015	82.65	72.10	0	85.10	0	92.34	55.37
2016	76.11	68.32	170.41	94.12	0	79.06	81.34

2017	78.66	77.68	0	102.17	233.92	65.85	93.05
Average	**79.94**	**68.83**	**41.57**	**91.92**	**87.14**	**84.32**	**75.63**
S.D.	**6.25**	**14.15**	**66.03**	**5.84**	**66.41**	**14.80**	
CV (%)	**7.82**	**20.56**	**158.84**	**6.35**	**76.21**	**17.55**	

(Source: Annual Reports of the companies)

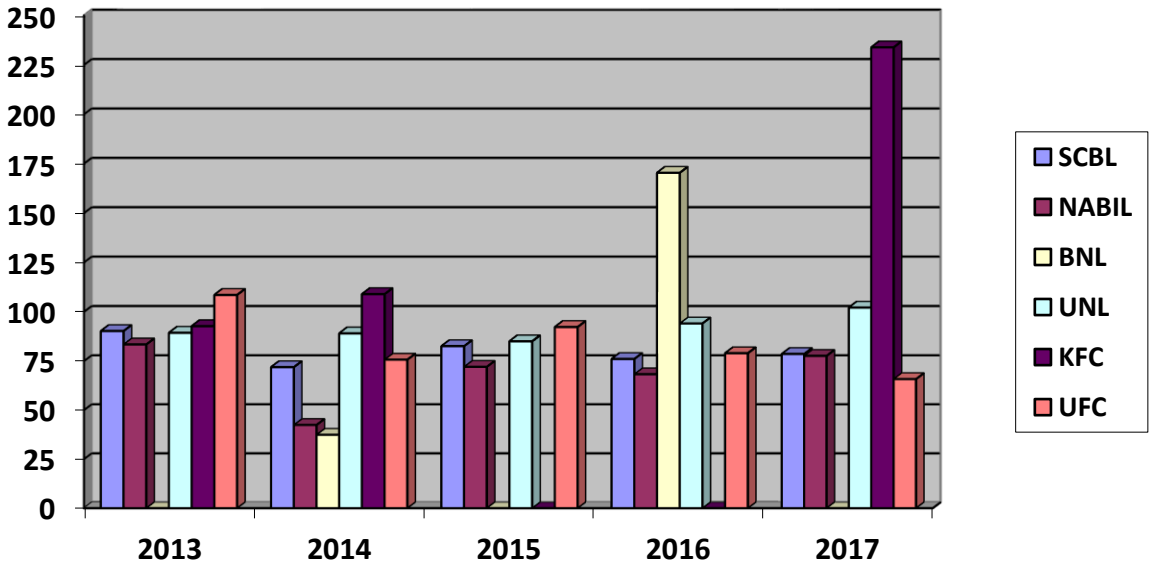
Table no. 4.4 shows the SCBL's DPR has ranged between 71.93 to 90.32; NABIL has ranged between 42.45 to 83.52. BNL's DPR has ranged between Rs 0 to 170.41 whereas UNL's DPR has ranged between Rs 85.10 to Rs 102.17. KFC's DPS has ranged to Rs 0 to 233.92. Likewise UFC'S DPS has 65.85 to 108.58. UNL has the highest DPR (i.e. Rs 91.92) and BNL has secured lowest DPR (i.e. 41.57).

In terms of CV, UNL is the best (i.e. 6.35%). DPR of NIBL is most consistent. While BNL has the lowest consistency that (i.e. 158.84%). As a matter of case of fact, all the companies are inconsistent in DPR which is not satisfactory.

Going through the table 4.4 it is clear that BNL has the highest fluctuation in DPR (158.84%) and UNL has the lowest fluctuation in DPR (6.35%) among all. Going through the facts, it has been clear that Nepalese companies are not following stable dividend payout policy. Most of the companies (incase BNL) are found to maintain composite average dividend payout ratio.

Figure No. 4.4

Analysis of DPR



(Graphic presentation of DPR: Years & percentage of DPR)

4.1.5 Analysis of Dividend Yield Ratio (DYR)

Dividend Yield Ratio is highly influenced by the market value per share and dividend per share .This ratio highly influences the market value per share because small change in dividend per share can bring effective change in market value of that share. Therefore, before allocation of a market scenario and price fluctuation is said to be studied and evaluated for the long run survival of the company.

Dividend yield is a percentage of dividends per share on market price per share. It shows that how much is the dividend per share on market price per share. The dividend yield is a financial ratio that measures the amount of cash dividends distributed to common shareholders relative to the market value per share. The dividend yield is used by investors to show how their investment in stock is generating either cash flows in the form of dividends or increases in asset value by stock appreciation.

The following table 4.5 shows Dividend Yield Ratio (DYR) of the sample companies.

Table No. 4.5

Analysis of DYR

Year	DYR						Pooled Average
	SCBL	NABIL	BNL	UNL	KFC	UFC	
2013	2.14	2.94	0	49.37	11.98	4.48	11.82
2014	2.78	2.40	0.80	50.06	8.70	6.61	11.89
2015	3.34	4.43	0	56.04	0	7.14	11.83
2016	2.75	3.58	3.55	58.21	0	9.40	12.92
2017	1.84	2.56	0	60.40	4.19	6.17	12.53
Average	**2.57**	**3.18**	**0.87**	**54.82**	**4.98**	**6.76**	**12.20**
S.D.	**0.53**	**0.75**	**1.38**	**4.39**	**4.76**	**1.59**	
CV (%)	**20.62**	**23.59**	**158.62**	**8**	**95.58**	**23.52**	

(Source: Annual Reports of the companies)

The table no. 4.5 shows SCBL's DYR has ranged between1.84 to 3.34; NABIL has ranged between 2.40 to 3.43. BNL's DYR has ranged between Rs 0 to 3.55 whereas UNL's DYR has ranged between Rs 49.37 to Rs 60.40. KFC's DYR has ranged to Rs 0

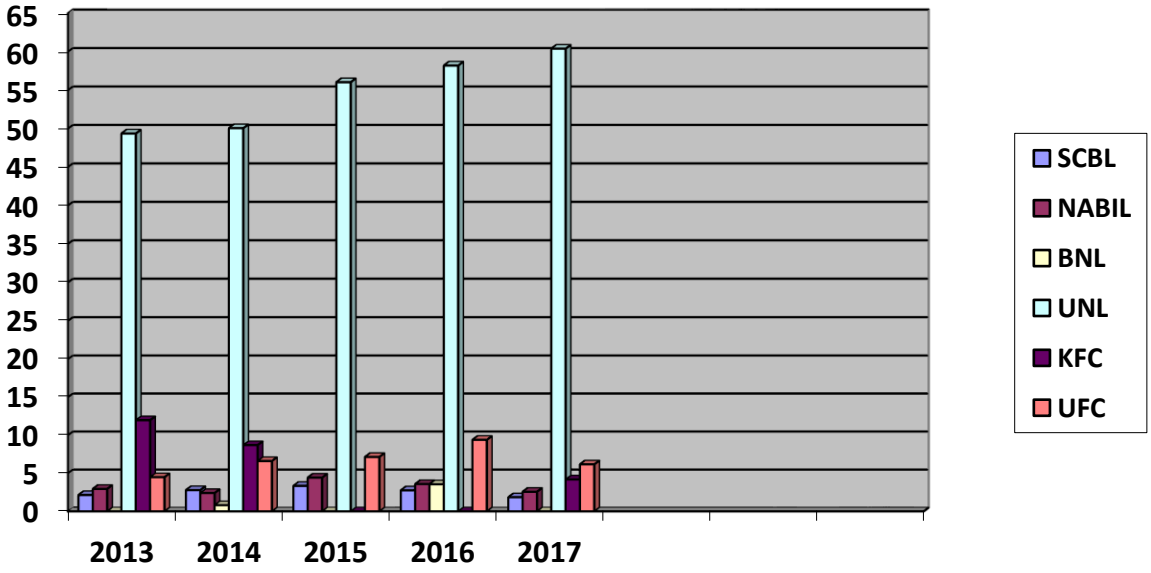
to 233.92. Likewise UFC'S DYR has 0 to 11.98. UNL has the highest DYR (i.e. Rs 54.82) and BNL has secured lowest DPR (i.e. 0.87).

In terms of CV, UNL is the best (i.e. 8%). DPR of UNL is most consistent. While BNL has the lowest consistency that (i.e. 158.62%). As a matter of case of fact, all the companies are inconsistent in DPR which is not satisfactory.

In totality, UNL has the highest average DYR i.e.54.82% where the dividend yield of the company seems encouraging. It shows that investor does have got handsome return on their market value of share. Only a company i.e. UNL, out of six companies are found to maintain above composite average dividend yield.

Figure No. 4.5

Analysis of DYR



(Graphic presentation of DPS: Years & DPS amount)

4.1.6 Analysis of Earning Yield Ratio (EYR)

This ratio significantly influences the market value per share because a small change in EPS brings effective change in the market value of the share. The main reason behind such kind of tabulation is to point out the percentage relationship between EPS-MPS so as to illustrate the earning yield of the concerned companies, which may be reliable tool to calculate the real value of the dividend as compared with current market value of each share. This ratio is calculated by dividing the earning per share by the market price per share.

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.

The table 4.5 shows the earning yield ratio of sample companies.

Table no. 4.6

Analysis of Earning Yield Ratio (EYR)

Year	Earning Yield Ratio (EYR)						Pooled Average
	SCBL	**NABIL**	**BNL**	**UNL**	**KFC**	**UFC**	
2013	2.37	3.52	2.41	55.21	12.91	4.12	13.42
2014	3.86	5.65	2.14	56.18	7.98	8.73	14.09
2015	4.04	6.14	1.49	65.86	9.66	7.74	15.82
2016	3.61	5.24	2.08	61.85	5.59	11.89	15.04
2017	2.34	3.30	2.74	59.12	1.79	9.37	13.11
Average	**3.25**	**4.77**	**2.17**	**59.65**	**7.59**	**8.37**	**14.30**
S.D.	**0.74**	**1.15**	**0.42**	**3.88**	**3.75**	**2.53**	
CV (%)	**22.77**	**24.11**	**19.36**	**6.51**	**49.41**	**30.23**	

(Source: Annual Reports of the companies)

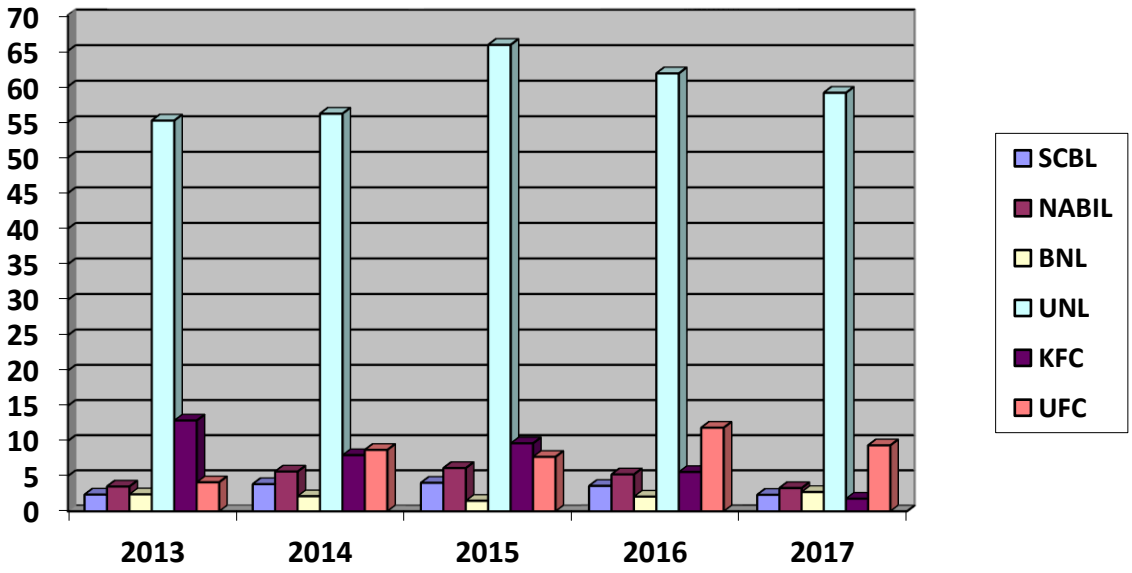
The table no. 4.6 shows the SCBL's EYR has ranged between 2.34 to 4.04; NABIL has ranged between 3.30 to 6.14. BNL's EYR has ranged between Rs 1.49 to 2.74 whereas UNL's DYR has ranged between Rs 55.21 to Rs 65.86. KFC's EYR has ranged to Rs 1.79 to 12.91. Likewise UFC'S DYR has 4.12 to 11.89. UNL has the highest EYR (i.e. Rs 59.65) and BNL has secured lowest DPR (i.e. 2.17).

In terms of CV, UNL is the best (i.e. 6.51%).DPR of UNL is most consistent. While KFC has the lowest consistency that (i.e. 49.41%). As a matter of case of fact, all the companies are inconsistent in DPR which is not satisfactory.

Ongoing to the companies of the EYR figures of the above samples, in the early years of study all companies have higher EYR but it decreases in subsequent year. From table 4.6 only a company i.e. UNL has meet composite average(14.30%).The highest average EYR is 59.65% of UNL and the lowest average EYR is 2.17% of BNL. The BNL has lowest fluctuation and UNL has highest fluctuation.

Figure no. 4.6

Analysis of Earning Yield Ratio (EYR)



(Graphic Presentation of EYR: Years & Amounts of Portion)

4.1.7. Analysis of Price Earnings Ratio (P/E Ratio)

Price earnings ratio is concerned with the relationship of the market value per share. It indicates the price currently paid by the market value per share. It indicates the price currently paid by the market for each rupee of reported earnings per share. The analysis of P/E Ratio helps to judge the investor expectations about the companies' performance and also market appraisal of the companies' performance.

Investors often use this ratio to evaluate what a stock's fair market value should be by predicting future earnings per share. Companies with higher future earnings are usually expected to issue higher dividends or have appreciating stock in the future. The PE ratio helps investors analyze how much they should pay for a stock based on its current earnings. Higher P/E Ratio shows the better performance and vice-versa. Hence higher P/E ratio is regarded as better for both the banks and shareholders. It is calculated by dividing the market value per share by earning per share.

The following table 4.7 shows the Price earnings ratio of sample companies.

Table no. 4.7

Analysis of P/E Ratio

Year	Price Earnings Ratio(P/E Ratio)						Pooled Average
	SCBL	NABIL	BNL	UNL	KFC	UFC	
2013	42.23	28.45	41.59	1.81	7.75	24.26	24.35
2014	25.90	17.72	46.65	1.78	12.53	11.46	19.34
2015	24.78	16.28	67.31	1.52	10.35	12.93	22.20
2016	27.70	19.08	48.00	1.62	17.89	8.41	20.45
2017	42.75	30.29	36.48	1.69	55.85	10.68	29.62
Average	**32.67**	**22.37**	**48.00**	**1.69**	**20.88**	**13.55**	**23.19**
S.D.	**8.07**	**5.65**	**10.48**	**0.11**	**17.80**	**5.55**	
CV (%)	**24.70**	**25.26**	**21.83**	**6.51**	**85.25**	**40.96**	

(Source: Annual Reports of the companies)

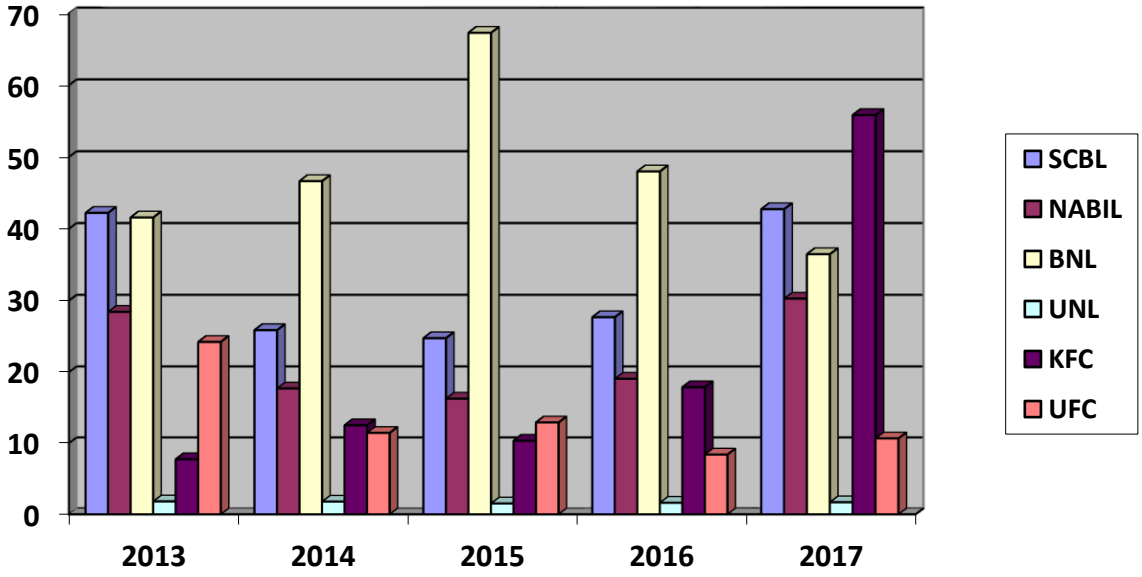
Table no. 4.7 shows the SCBL's P/E ratio has ranged between 24.78 to 42.75; NABIL has ranged between 3.30 to 6.14. BNL's P/E Ratio has ranged between Rs 16.28 to 30.29. Whereas UNL's P/E ratio has ranged between Rs 1.52 to Rs 1.81. KFC's EYR has ranged to Rs 7.75 to Rs 55.85. Likewise UFC's P/E ratio has Rs 8.41 to Rs 24.26. BNL has the highest P/E ratio (i.e. 48) and UNL has secured lowest DPR(i.e. Rs 1.69).

In terms of CV, UNL is the best (i.e. 6.51%).P/E ratio of UNL is most consistent. While KFC has the lowest consistency that (i.e. 85.25%). As a matter of case of fact, all the companies are inconsistent in DPR which is not satisfactory.

Ongoing to the comparative analysis of P/E Ratio figures of the above samples only three companies out of six companies can success to meet the composite average; (i.e. SCBL, NABIL, and BNL). The highest average P/E ratio is 48 and that is of BNL. The lowest P/E ratio is Rs 1.69 and that is of UNL. The BNL has the lowest fluctuation and UNL has highest fluctuation.

Figure no. 4.7

Analysis of P/E Ratio



(Graphic Presentation of P/E Rate: Years & Amounts of Portion)

4.2 Analysis of Statistical Indicators and Variables

4.2.1 Correlation Analysis

4.2.1.1 Correlation between EPS and DPS

Correlation analysis is a statistical tool which studies the relationship between two variables .correlation analysis involves various methods and techniques which is used for studying and measuring the extent of the relationship between two variables ,whether a positive or a negative relationship exist between two variables. It also indicates whether the relationship is significant or insignificant and the correlation analysis is used to identify the relationship between EPS and DPS, EPS and MPS, Last Dividend and MPS.

One can see that earnings per share and dividends per share differ from each other. The EPS calculates how profitable a company is by measuring the net income for each outstanding share of the company. The DPS, on the other hand, calculates the portion of the company's earnings that is paid out to each preferred shareholder.

Table no. 4.8

Correlation Between, EPS and DPS

Name of the company	Coefficient of Correlation(r)	Relationship	Coefficient of Determination(r^2)	Probable Error (PE)	Significant/ Insignificant
SCBL	0.94	Positive	0.88	0.0351	Significant
NABIL	0.80	Positive	0.64	0.1086	Significant
BNL	-0.07	Negative	0.05	0.300	Insignificant
UNL	-0.28	Negative	0.08	0.2780	Insignificant
KFC	-0.80	Negative	0.64	0.1086	Insignificant
UFC	0.87	Positive	0.76	0.0733	Significant

The table no.4.8 shows the relationship between EPS and DPS of the concerned companies. The coefficient of correlation between EPS and DPS of SCBL is 0.94, which shows that there is high degree of positive correlation between EPS and DPS of SCBL.

Likewise, its coefficient of determination is 0.88 which means, DPS is affected by EPS only by 88% and the rest 12% is affected by other variables. Since r> 6PE, the value of r is significant, i.e. the correlation is certain.

Likewise, coefficient of correlation between EPS and DPS of NABIL is 0.80, which shows there is high degree of positive correlation between EPS and DPS of NABIL. Likewise, its coefficient of determination is 0.64 which means, DPS is affected by EPS only by 64% and the rest 36% is affected by other variables. Since r> 6PE, the value of r is significant, i.e. the correlation is certain.

In the same way, coefficient of correlation between EPS and DPS of BNL is -0.07, which shows there is low degree of negative correlation between EPS and DPS of BNL. Its coefficient of determination is 0.05, which means 5% of DPS is affected by EPS and rest 95% is due to other unknown factors. Since r<6PE, the value of r is insignificant, i.e. the correlation is uncertain.

The coefficient of correlation between EPS and DPS of UNL is -0.28, which shows there is low degree of positive correlation between EPS and DPS of UNL. Likewise, its coefficient of determination is 0.08 which means, DPS is affected by EPS only by 8% and the rest 92% is affected by other variables. Since r< 6PE, the value of r is insignificant, i.e. the correlation is uncertain.

The coefficient of correlation between EPS and DPS of KFC is -0.80, which shows there is high degree of negative correlation between EPS and DPS of KFC. Likewise, its coefficient of determination is 0.64 which means, DPS of KFC is affected by EPS only by 64% and rest 36 % is affected by other variable. Since r< 6PE, the value of r is not significant, i.e. the correlation is uncertain.

Finally, coefficient of correlation between EPS and DPS of UFC is 0.87, which shows there is high degree of positive correlation between EPS and DPS of UFC. Its coefficient of determination is 0.76, which means only 76% of DPS is affected by EPS and rest 14% is due to other unknown factors. Since r>6PE, the value of r is significant, i.e. the correlation is certain.

From the analysis of above table 4.8 it can be conclude that DPS of the banks and finance company are somewhat determined by the level of EPS but that of manufacturing sector is determined by other factors rather than EPS.

4.2.1.2 Correlation between Last EPS and MPS

Table no. 4.9

Correlation Last EPS and MPS

Name of the company	Coefficient of Correlation(r)	Relationship	Coefficient of Determination(r^2)	Probable Error (PE)	Significant/ Insignificant
SCBL	0.43	Positive	0.19	0.2459	Insignificant
NABIL	0.97	Positive	0.94	0.0178	Significant
BNL	0.02	Positive	0.001	0.3015	Insignificant
UNL	0.86	Positive	0.74	0.0785	Significant
KFC	0.16	Positive	0.03	0.2939	Insignificant

UFC	0.28	Positive	0.08	0.2780	Insignificant

The table no.4.9 shows the relationship between Earning per Share of last year [EPS $_{(t-1)}$] and Market price per Share of the concerned companies. The coefficient of correlation between [EPS $_{(t-1)}$] and MPS of SCBL is 0.43, which shows that there is moderate degree of positive Correlation between [EPS $_{(t-1)}$] and MPS of SCBL. Likewise, its coefficient of determination is 0.19 means, MPS is affected by $EPS_{(t-1)}$ only by 19% and rest 81% by other unknown variables .Since r<6PE, the value of r is not significant.

Likewise, coefficient of correlation between [EPS $_{(t-1)}$] and MPS of NABIL is 0.97, which shows that there is high degree of positive Correlation between [$EPS_{(t-1)}$] and MPS of NABIL. Likewise, its coefficient of determination is 0.94 means, MPS is affected by $EPS_{(t-1)}$ only by 94% and rest 14% by other unknown variables .Since r>6PE, the value of r is significant.

In the same way, coefficient of correlation between [EPS $_{(t-1)}$] and MPS of BNL is 0.02, which shows that there is low degree of positive Correlation between [EPS $_{(t-1)}$] and MPS of BNL. Likewise, its coefficient of determination is 0.001, which is almost zero that means MPS is affected by $EPS_{(t-1)}$ only by 1% and rest 99% by other unknown variables .Since r<6PE, the value of r is not significant.

The coefficient of correlation between [EPS $_{(t-1)}$] and MPS of UNL is 0.86, which shows that there is high degree of positive Correlation between [$EPS_{(t-1)}$] and MPS of UNL. Likewise, its coefficient of determination is 0.74 which means, MPS is affected by EPS $_{(t-1)}$ is 74% and rest of only 16% by other unknown variables .Since r>6PE, the value of r is significant.

The coefficient of correlation between [EPS $_{(t-1)}$] and MPS of KFL is 0.16,which shows that there is low degree of positive Correlation between [$EPS_{(t-1)}$] and MPS of KFL. Likewise, its coefficient of determination is 0.03 means, MPS is affected by $EPS_{(t-1)}$ only by 3% and rest 97% by other unknown variables .Since r<6PE, the value of r is not significant.

Likewise, coefficient of correlation between [EPS $_{(t-1)}$] and MPS of UFC is 0.28, which shows that there is low degree of positive Correlation between [EPS $_{(t-1)}$] and MPS of UFC. Likewise, its coefficient of determination is 0.08 means, MPS is affected by $EPS_{(t-1)}$ only by 8% and rest 92% by other unknown variables .Since r<6PE, the value of r is not significant.

From the analysis of above table it can conclude that MPS of NABIL and UNL are highly affected by the EPS and also all the remaining companies is not affected by the earning per share of last year [EPS $_{(t-1)}$] since remarks of all companies is insignificant except NABIL and UNL.

4.2.1.3 Correlation between Last DPS and MPS

Table no. 4.10

Correlation Last DPS and MPS

Name of the company	Coefficient of Correlation(r)	Relationship	Coefficient of Determination(r^2)	Probable Error (PE)	Significant/ Insignificant

SCBL	0.63	Positive	0.40	0.1819	Insignificant
NABIL	0.83	Positive	0.69	0.0938	Significant
BNL	0.34	Positive	0.12	0.2668	Insignificant
UNL	0.99	Positive	0.98	0.0600	Significant
KFC	0.48	Negative	0.23	0.2322	Insignificant
UFC	0.66	Negative	0.44	0.1703	Insignificant

The table no. 4.10 shows the relationship between dividend of last year [$DPS_{(t-1)}$] and the current MPS of the concerned companies. The coefficient of correlation between $DPS_{(t-1)}$ and MPS of SCBL is 0.63, which shows there is moderate degree of positive correlation between $DPS_{(t-1)}$ and MPS of SCBL. Likewise, It's coefficient of determination is 0.40 means, MPS is affected by EPS only by 40% and the rest 60% is affected by other unknown variables. Since r<6PE, the value of r is not significant.

Likewise, the coefficient of correlation between $DPS_{(t-1)}$ and MPS of NABIL is 0.83, which shows there is high degree of positive correlation between $DPS_{(t-1)}$ and MPS of NABIL. Likewise, It's coefficient of determination is 0.69 means, MPS is affected by EPS only by 69% and the rest 31% is affected by other unknown variables. Since r>6PE, the value of r is significant.

In the same way, coefficient of correlation between $DPS_{(t-1)}$ and MPS of BNL is 0.34, which shows there is low degree of positive correlation between $DPS_{(t-1)}$ and MPS of BNL. Likewise, It's coefficient of determination is 0.12 means, MPS is affected by EPS

only by 12% and the rest 88% is affected by other unknown variables. Since r<6PE, the value of r is not significant.

The coefficient of correlation between DPS $_{(t-1)}$ and MPS of UNL is 0.99, which shows there is high degree of positive correlation between DPS $_{(t-1)}$ and MPS of UNL. Likewise, It's coefficient of determination is 0.98 means, MPS is affected by EPS only by 98% and the rest 2% is affected by other unknown variables. Since r>6PE, the value of r is significant.

The coefficient of correlation between DPS $_{(t-1)}$ and MPS of KFC is 0.48, which shows there is low degree of negative correlation between DPS $_{(t-1)}$ and MPS of KFC. Likewise, It's coefficient of determination is 0.23 means, MPS is affected by EPS only by 23% and the rest 78% is affected by other unknown variables. Since r<6PE, the value of r is not significant.

Likewise, coefficient of correlation between DPS $_{(t-1)}$ and MPS of UFC is 0.66, which shows there is moderate degree of negative correlation between DPS $_{(t-1)}$ and MPS of UFC. Likewise, It's coefficient of determination is 0.44 means, MPS is affected by EPS only by 44% and the rest 66% is affected by other unknown variables. Since r<6PE, the value of r is not significant.

From the analysis of above table 4.10 it can be conclude that MPS of the all companies is not affected by the last dividend [DPS $_{(t-1)}$] except in NABIL and UNL. That means there is no high significant relationship between the MPS and Last Dividend of the selected companies.

4.2.2 Regression Analysis

Regression Analysis is a very powerful tool in the field of statistical analysis in predicting the value of one variable, given the value of another variable, when these two variables are related to each other. It describes about the effect to the dependent variable due to change in dependent variable. The regression analysis can be either simple regression on multiple regressions. In simple regression analysis only one independent variable is taken for the prediction of the value of dependent variables. But multiple regression analysis involves two or more independent variables. In this study, simple regression analysis is used to establish relationship between the dependent variable and independent variable on the individual sample companies whereas the multiple regression analysis is used to show the combined relationship of dependent variables to other independent variables of all sample companies.

4.2.2.1 Simple Regression Analysis:

Simple Regression Analysis is used as a tool of determining the strength of relationship between two variables. Regression lines are expressed in terms of algebraic relation i.e.

$$Y = a + b\,x$$

Where 'y' is dependent variable and 'x' is independent variable. Similarly, 'a' is the intercept of the model, which indicates the average level of dependent variable when independent variable is zero. Likewise, regression coefficient 'b' describes how change in independent variables affects the value of dependent variables. Coefficient of multiple determinations (r^2) measures the percentage of tool variation in dependent variable explained by independent variable. But with the help of regression equation, perfect prediction is practically impossible. So standard error (SE) measures the accuracy of estimated figures. To test the validity of our assumption, t-test is used because the sample size is less than 30. If calculated value of 't' excess the table value say (0.05), we infer that the difference is significant at 5% level of significance. But, if 't' is less than the concerning table value the difference is not treated as significant.

A. Dependent Variable MPS and Independent Variable DPS of Last Year.

Regression Equation: $MPS_t = a + b\ DPS_{(t-1)}$

Table no. 4.11

Regression of MPS on $DPS_{(t-1)}$

Name of the Company	Constant (a)	Regression Coefficient(b)	Standard Error(SE)	r^2	t- value
SCBL	(534.54)	50.34	623.15	0.40	1.4051
NABIL	(329.40)	37.20	472.81	0.70	2.5774
BNL	1641.58	0.70	58.77	0.12	0.6262
UNL	616.34	0.92	23.23	0.99	12.1554
KFC	138.00	1.65	29.63	0.23	0.9477

UFC	(98.28)	22.65	84.52	0.44	1.5216

The table no. 4.11 shows that the regression results between Market Price Per Share and Dividend of Last Year of the sample companies. As the result shows that the regression coefficient (b) of SCBL, NABIL, BNL, UNL, KFC and UFC is 50.34, 37.20, 0.70, 0.92, 1.65 and 22.65 respectively. In case of SCBL b is 50.34 that indicates that one rupee increase in last dividend leads to an average about Rs.50.34 increases in MPS, holding other variable constant. In case of NABIL b is 37.20 that indicates that one rupee increase in last dividend leads to an average about Rs.37.20 increases in MPS, holding other variable constant. In case BNL b is 0.70 that indicates that one rupee increase in last dividend leads to an average about Rs.0.70 increases in MPS, holding other variable constant. In case of UNL b is 0.92 that indicates that one rupee increase in last dividend leads to an average about Rs.0.92 increase in MPS, holding other variable constant. In case of KFC b is 1.65 that indicates that one rupee increase in last dividend leads to an average about Rs.1.65 increases in MPS, holding other variable constant. In case of UFC b is 22.65 that indicates that one rupee increase in last dividend leads to an average about Rs.22.65 increases in MPS, holding other variable constant.

In case of SCBL, the coefficient of determination r^2 is 0.40, which indicate that only 40% of the variation of MPS is explained by explanatory variables $DPS_{(t-1)}$ .The remaining 60% variation is due to other factors. The standard error predicts the value of MPS based on $DPS_{(t-1)}$. The calculated value't' is 1.4051, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance or it indicated that the variable in the population are uncorrelated.

In case of NABIL, the coefficient of determination r^2 is 0.70, which indicate that only 70% of the variation of MPS is explained by explanatory variables $D_{(t-1)}$ .The remaining

25% variation is due to other factors. The standard error predicts the value of MPS based on $DPS_{(t-1)}$. The calculated value 't' is 2.5774, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance and it can be concluded that the variable in the population are uncorrelated.

In case of BNL, the coefficient of determination r^2 is 0.12, which indicate that only 12% of the variation of MPS is explained by explanatory variables $DPS_{(t-1)}$. .The remaining 88% variation is due to other factors. The standard error predicts the value of MPS based on $DPS_{(t-1)}$. The calculated value 't' is 0.6262, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance and it can be concluded that the variable are uncorrelated in the population.

In case of UNL, the coefficient of determination r^2 is 0.99, which indicate that only 99% of the variation of MPS is explained by explanatory variables $DPS_{(t-1)}$. .The remaining 1% variation is due to other factors. The standard error predicts the value of MPS based on $DPS_{(t-1)}$. The calculated value 't' is 12.1554, which is more than that of tabulated value 2.776. So, it is statistically significant at 5% level of significance and it can be concluded that the variable are correlated in the population.

In case of KFC, the coefficient of determination r^2 is 0.23, which indicate that only 23% of the variation of MPS is explained by explanatory variables $DPS_{(t-1)}$ .The remaining 77% variation is due to other factors. The standard error predicts the value of MPS based on $DPS_{(t-1)}$. The calculated value 't' is 0.9477, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance and it can be concluded that the variable are uncorrelated in the population.

In case of UFC, the coefficient of determination r^2 is 0.44, which indicate that only 44% of the variation of MPS is explained by explanatory variables DPS(t-1). .The remaining 66% variation is due to other factors. The standard error predicts the value of MPS based on $DPS_{(t-1)}$. The calculated value 't' is 1.5216, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance and it can be concluded that the variable are uncorrelated in the population.

B. Dependent Variable MPS and Independent Variable EPS of Last Year.

Regression Equation: $MPS_t = a + b\ EPS_{(t-1)}$

Table no. 4.12

Regression of MPS_t on $EPS_{(t-1)}$

Name of the Company	Constant (a)	Regression Coefficient(b)	Standard Error(SE)	r^2	t- value
SCBL	2188.15	1.58	802.27	0.0490	0.1216
NABIL	(4925.42)	81.07	200.42	0.9409	0.9110
BNL	1647.14	0.13	62.38	0.0001	0.0347
UNL	488.84	1.02	69.30	0.7225	2.7948

KFC	158.70	(0.68)	33.36	0.0256	0.2808
UFC	144.32	3.75	78.42	0.0729	0.4857

The table no.4.12 shows that the regression results between Market Price Per Share and Earning Per Share of Last Year of the sample companies. As the result shows that the regression coefficient (b) of SCBL, NABIL, BNL, UNL, KFC and UFC is 1.58, 81.07, 0.13, 1.02, (0.68), and 3.75 respectively. In case of SCBL b is 1.58 that indicates that one rupee increase in last dividend leads to an average about Rs.1.58 increases in MPS, holding other variable constant. In case of NABIL b is 81.07 that indicates that one rupee increase in last dividend leads to an average about Rs.81.07 increases in MPS, holding other variable constant. In case BNL b is 0.13 that indicates that one rupee increase in last dividend leads to an average about Rs.0.13 increases in MPS, holding other variable constant. In case of UNL b is 1.02 that indicates that one rupee increase in last dividend leads to an average about Rs.1.02 increase in MPS, holding other variable constant. In case of KFC b is (0.68) that indicates that one rupee increase in last dividend leads to an average about Rs.0.68 decrease in MPS, holding other variable constant. In case of UFC b is 3.75 that indicates that one rupee increase in last dividend leads to an average about Rs.3.75 increases in MPS, holding other variable constant.

In case of SCBL, the coefficient of determination r^2 is 0.0490, which indicate that only 4.90% of the variation of MPS is explained by explanatory variables EPS(t-1). The remaining 95.10% variation is due to other factors. The standard error predicts the value of MPS based on EPS(t-1). The calculated value 't' is 0.1216, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance or it indicated that the variable in the population are uncorrelated.

In case of NABIL, the coefficient of determination r^2 is 0.9409 which indicate that only 94.09% of the variation of MPS is explained by explanatory variables EPS(t-1). .The remaining 5.91% variation is due to other factors. The standard error predicts the value of MPS based on EPS(t-1). The calculated value 't' is 0.9110, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance and it can be concluded that the variable in the population are uncorrelated.

In case of BNL, the coefficient of determination r^2 is 0.0001, which indicate that only 0.01% (mostly zero) of the variation of MPS is explained by explanatory variables EPS(t-1). .The remaining 99.99% variation is due to other factors. The standard error predicts the value of MPS based on EPS(t-1). The calculated value 't' is 0.0347, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance and it can be concluded that the variable are uncorrelated in the population.

In case of UNL, the coefficient of determination r^2 is 0.7225, which indicate that only 72.25% of the variation of MPS is explained by explanatory variables EPS(t-1) .The remaining 27.75 % variation is due to other factors. The standard error predicts the value of MPS based on EPS(t-1). The calculated value 't' is 2.7948, which is more than that of tabulated value 2.776. So, it is statistically significant at 5% level of significance and it can be concluded that the variable are correlated in the population.

In case of KFC, the coefficient of determination r^2 is 0.0256, which indicate that only 2.56% of the variation of MPS is explained by explanatory variables EPS(t-1). .The remaining 97.44% variation is due to other factors. The standard error predicts the value of MPS based on EPS(t-1). The calculated value 't' is 0.2808, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance and it can be concluded that the variable are uncorrelated in the population.

In case of UFC, the coefficient of determination r^2 is 0.0729, which indicate that only 7.29% of the variation of MPS is explained by explanatory variables EPS(t-1). .The remaining 92.71% variation is due to other factors. The standard error predicts the value of MPS based on EPS(t-1). The calculated value 't' is 0.4857, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance and it can be concluded that the variable are uncorrelated in the population.

C. Dependent Variable DPS and Independent Variable EPS.

Regression Equation: DPSt = a + b EPSt

Table no. 4.13

Regression of DPS on EPSt

Name of the Company	Constant (a)	Regression Coefficient(b)	Standard Error(SE)	r^2	t- value
SCBL	(55.30)	1.59	3.64	0.89	4.7721
NABIL	(65.29)	1.48	11.55	0.64	2.3094
BNL	22.49	(0.22)	29.95	0.01	0.1215
UNL	(199.35)	1.19	49.24	0.08	0.5220

KFC	(28.74)	0.84	420.48	0.44	1.52
AFC	362.31	0.35	87.43	0.75	3.21

The table no. 4.13 shows the regression results between Dividend per Share and Earning per Share of the sample companies. As the result shows that the regression coefficient (b) of SCBL, NABIL, BNL, UNL, KFC and UFC is 1.59, 1.48, (0.22), 1.19, 0.84 and 0.35 respectively. In case of SCBL b is 1.59 that indicates that one rupee increase in EPS leads to an average about Rs.1.59 increases in DPS, holding other variable constant. In case of NABIL b is 1.48 that indicates that one rupee increase in EPS leads to an average about Rs.1.48 increases in DPS, holding other variable constant. In case BNL b is (0.22) that indicates that one rupee increase in EPS leads to an average about Rs.0.22 decreases in DPS, holding other variable constant. In case of UNL b is 1.19 that indicates that one rupee increase in EPS leads to an average about Rs.1.19 increase in DPS, holding other variable constant. In case of KFC b is 0.84 that indicates that one rupee increase in EPS leads to an average about Rs.0.84 increase in DPS, holding other variable constant. In case of UFC b is 0.35 that indicates that one rupee increase in EPS leads to an average about Rs.0.35 increases in DPS, holding other variable constant.

In case of SCBL, the coefficient of determination r^2 is 0.89, which indicate that only 89% of the variation of DPS is explained by explanatory variables EPS. .The remaining 11% variation is due to other factors. The standard error predicts the value of DPS based on EPS. The calculated value 't' is 4.7721, which is more than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance or it indicated that the variable in the population are correlated.

Likewise in the case of NABIL, the coefficient of determination r^2 is 0.64, which indicate that only 64% of the variation of DPS is explained by explanatory variables EPS. .The

remaining 36% variation is due to other factors. The standard error predicts the value of DPS based on EPS. The calculated value 't' is 2.3094, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance or it indicated that the variable in the population are uncorrelated.

Again, in the case of BNL, the coefficient of determination r^2 is 0.01, which indicate that only 1% of the variation of DPS is explained by explanatory variables EPS. .The remaining 99% variation is due to other factors. The standard error predicts the value of DPS based on EPS. The calculated value 't' is 0.1215, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance or it indicated that the variable in the population are uncorrelated.

In the case of UNL, the coefficient of determination r^2 is 0.08, which indicate that only 8% of the variation of DPS is explained by explanatory variables EPS. .The remaining 92% variation is due to other factors. The standard error predicts the value of DPS based on EPS. The calculated value 't' is 0.5220, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance or it indicated that the variable in the population are uncorrelated.

In the same way the coefficient of determination r^2 of KFC is 0.44, which indicate that only 44% of the variation of DPS is explained by explanatory variables EPS. .The remaining 66% variation is due to other factors. The standard error predicts the value of DPS based on EPS. The calculated value 't' is 1.52, which is less than that of tabulated value 2.776. So, it is not statistically significant at 5% level of significance or it indicated that the variable in the population are uncorrelated.

In the case of UFC, the coefficient of determination r^2 is 0.75, which indicate that only 75% of the variation of DPS is explained by explanatory variables EPS. .The remaining 25% variation is due to other factors. The standard error predicts the value of DPS based on EPS. The calculated value 't' is 03.21, which is more than that of tabulated value 2.776. So, it is statistically significant at 5% level of significance or it indicated that the variable in the population are correlated.

4.2.2.2 Multiple Regression Analysis:

In multiple regression analysis, two or more independent variables are used to estimate the value of dependent variables whereas in the simple regression analysis single independent variable is used to estimate the values of a dependent variable. Multiple regression analysis helps to know relative movement in the variable.

To estimate the relationship between dividends and stock prices, the theoretical statement of the model is that the price of the stock would depend on dividend per share of last year and earning per share of last year. The theoretical statements farmed above may be stated as,

$MPSt = f (DPS_{(t-1),} EPS_{(t-1)})$

Where,

MPS_t = Price of stock in time 't'

$DPS_{(t-1)}$ = Dividend Per Share of Last Year

$EPS_{(t-1)}$ = Earning Per Share of Last Year

Regression Equation $MPS_t = a + b_1 DPS_{(t-1)} + b_2 EPS_{(t-1)}$

Table no. 4.14

Regression of MPS_t on $DPS_{(t-1)}$ and $EPS_{(t-1)}$

Name of the Company	Constant (a)	Regression Coefficient(b_1)	Regression Coefficient(b_2)	Standard Error(SEE)	r^2	F-Ratio
SCBL	6108.54	143.19	(169.13)	628.17	0.5919	51.35
NABIL	(4533.57)	6.00	72.19	230.39	0.95	29.47
BNL	42246.82	(21.14)	(1123.94)	208.58	6.45	36.28
UNL	484.20	(0.015)	1.04	85.89	0.72	4.78
KFC	163.28	3.56	(3.68)	25.58	0.62	10.33
UFC	(301.80)	60.82	(17.46)	42.06	0.82	3.5

Table value of $f_{0.05(2,12)} = 3.89$

The table no. 4.14 shows the regression results of MPS between Dividend per Share and Earning per Share of the sample companies In case of SCBL, regression coefficient b_1 for DPS $_{(t-1)}$ is 143.19 which indicates that one rupee increase in $DPS_{(t-1)}$ leads to an average of Rs.143.19 increase in MPS holding $EPS_{(t-1)}$ constant. Similarly, the regression coefficient b_2 for $EPS_{(t-1)}$ is (169.13) which indicates that one rupee increase in $EPS_{(t-1)}$ resulted in Rs.169.13 decrease in MPS holding $DPS_{(t-1)}$ variable constant . There is negative relation between MPS and $EPS_{(t-1)}$. The adjusted value of r^2 is 0.5919, which shows that the 59.19% variation in MPS is explained by variation in explained by variation in $DPS_{(t-1)}$ and $EPS_{(t-1)}$. And the rest 40.81% variation is due to other factors. Since calculated value of $f_{0.05(2,12)}$,51.35 is more than the table value of $f_{0.05(2,12)}$ (i.e. 3.89) the regression equation is significant at 5% level of significance. The standard error of estimate measures the variability of the actual value from its predicated values.

In case of NABIL, regression coefficient b_1 for $DPS_{(t-1)}$ is 6 which indicates that one rupee increase in $DPS_{(t-1)}$ leads to an average of Rs.6 increase in MPS holding $EPS_{(t-1)}$ constant. Similarly, the regression coefficient b_2 for $EPS_{(t-1)}$ is 72.19 which indicates that one rupee increase in $EPS_{(t-1)}$ resulted in Rs.72.19 increase in MPS holding $DPS_{(t-1)}$ variable constant . There is positive relation between MPS and $EPS_{(t-1)}$. The adjusted value of r^2 is 0.95, which shows that the 95% variation in MPS is explained by variation in explained by variation in $DPS_{(t-1)}$ and $EPS_{(t-1)}$. And the rest 5% variation is due to other factors. Since calculated value of $f_{0.05(2,12)}$, 29.47 is more than the table value of $f_{0.05(2,12)}$ (i.e. 3.89) the regression equation is significant at 5% level of significance. The standard error of estimate measures the variability of the actual value from its predicated values.

In case of BNL, regression coefficient b_1 for $DPS_{(t-1)}$ is (21.14) which indicates that one rupee increase in $DPS_{(t-1)}$ leads to an average of Rs.21.14 decrease in MPS holding $EPS_{(t-1)}$ constant. Similarly, the regression coefficient b_2 for $EPS_{(t-1)}$ is (1123.94)which indicates that one rupee increase in $EPS_{(t-1)}$ resulted in Rs.1123.94 decrease in MPS holding $DPS_{(t-1)}$ variable constant . The adjusted value of r^2 is 6.45, which shows that the 6.45% variation in MPS is explained by variation in explained by variation in $DPS_{(t-1)}$ and $EPS_{(t-1)}$. And the rest 93.55% variation is due to other factors. Since calculated value of $f_{0.05(2,12)}$, 36.28 is more than the table value of $f_{0.05(2,12)}$ (i.e. 3.89) the regression equation is significant at 5% level of significance. The standard error of estimate measures the variability of the actual value from its predicated values.

In case of UNL, regression coefficient b_1 for $DPS_{(t-1)}$ is (0.015) which indicates that one rupee increase in $DPS_{(t-1)}$ leads to an average of Rs.0.015 decrease in MPS holding $EPS_{(t-1)}$ constant. Similarly, the regression coefficient b_2 for $EPS_{(t-1)}$ is 1.04 which indicates that one rupee increase in $EPS_{(t-1)}$ resulted in Rs.1.04 increase in MPS holding $DPS_{(t-1)}$ variable constant . There is positive relation between MPS and $DPS_{(t-1)}$. The adjusted value of r^2 is 0.72, which shows that the 72% variation in MPS is explained by variation

in explained by variation in $DPS_{(t-1)}$ and $EPS_{(t-1)}$. And the rest 28% variation is due to other factors. Since calculated value of $f_{0.05(2,12),}$ 4.78 is more than the table value of f $_{0.05(2,12)}$ (i.e.3.89) the regression equation is significant at 5% level of significance. The standard error of estimate measures the variability of the actual value from its predicated values.

In case of KFC, regression coefficient b_1 for DPS $_{(t-1)}$ is 3.56 which indicates that one rupee increase in $DPS_{(t-1)}$ leads to an average of Rs.3.56 increase in MPS holding $EPS_{(t-1)}$ constant. Similarly, the regression coefficient b_2 for $EPS_{(t-1)}$ is (3.68) which indicates that one rupee increase in $EPS_{(t-1)}$ resulted in Rs.3.68 decrease in MPS holding $DPS_{(t-1)}$ variable constant . There is negative relation between MPS and $DPS_{(t-1)}$. The adjusted value of r^2 is 0.62, which shows that the 62% variation in MPS is explained by variation in explained by variation in $DPS_{(t-1)}$ and $EPS_{(t-1)}$. And the rest 38% variation is due to other factors. Since calculated value of $f_{0.05(2,12)}$,10.33 is more than the table value of f $_{0.05(2,12)}$ (i.e. 3.89) the regression equation is significant at 5% level of significance. The standard error of estimate measures the variability of the actual value from its predicated values.

In case of UFC, regression coefficient b_1 for DPS $_{(t-1)}$ is 60.82 which indicates that one rupee increase in $DPS_{(t-1)}$ leads to an average of Rs.60.82 increase in MPS holding $EPS_{(t-1)}$ constant. Similarly, the regression coefficient b_2 for $EPS_{(t-1)}$ is (17.46) which indicates that one rupee increase in $EPS_{(t-1)}$ resulted in Rs.17.46 decrease in MPS holding $DPS_{(t-1)}$ variable constant . There is negative relation between MPS and $EPS_{(t-1)}$ and MPS and $DPS_{(t-1)}$. The adjusted value of r^2 is 0.82, which shows that the 82% variation in MPS is explained by variation in explained by variation in $DPS_{(t-1)}$ and $EPS_{(t-1)}$. And the rest 18% variation is due to other factors. Since calculated value of $f_{0.05(2,12)}$ 3.5 is less than the table value of f $_{0.05(2,12)}$ (i.e. 3.89) the regression equation is not significant at 5% level of significance.

4.2.3 Testing of Hypothesis

A quantitative statement about the population parameter is called a hypothesis. In other words, it is an assumption that is made about the population parameter and then its validity is tested. It may or may not be found valid on verification.

Testing of hypothesis is one of the most important aspects of the theory of decision making .It is consists of decision rules required for drawing probabilistic inference about the population parameters. It often involves deciding at any given point of time whether a given population parameter is the same as before, as claimed or has changed.

4.2.3.1 t-test

4.2.3.1.1 First Hypothesis

Null Hypothesis:

H_o: 1. There is no significant difference between mean DPS of SCBL and NABIL.

2. There is no significant difference between mean DPR of SCBL and NABIL.

i.e. Ho: $\mu_1 = \mu_2$

Alternative Hypothesis:

H_1: 1. There is significant difference between mean DPS of SCBL and NABIL.

2. There is significant difference between mean DPR of SCBL and NABIL.

i.e. H1: $\mu_1 \neq \mu_2$

Table 4.15

Result of t-test between the Banks

Variables	Calculated Value(t)	Tabulated Value $\lvert t_{0.05(4)} \rvert$	Null Hypothesis	Inference
Average DPS	-0.31	2.776	Accept	Insignificant
Average DPR	2.29	2.776	Accept	Insignificant

(Source: Appendix III& VI)

Above table 4.15 shows that the calculated average DPS t-value is more than that of tabulated value at 5% level of significance and 4 degree of freedom. So, Null Hypothesis (H_o) is accepted and alternate Hypothesis (H_1) is rejected. That means there is no significant difference between the mean DPS of SCBL and NABIL .It is found that SCBL has higher average DPS than that of NABIL.

Likewise, the table shows that the calculated average DPR t-value is less than that of tabulated value at 5% level of significance and between the 4 degree of freedom. So, Null

Hypothesis (H_o) is accepted and alternate Hypothesis (H_1) is rejected. That means there is no significant difference between the mean of SCBL and NABIL .It is found that SCBL has higher DPR than that of NABIL.

4.2.3.1.2 Second Hypothesis

Null Hypothesis:

H_o: 1. There is no significant difference between mean DPS of BNL and UNL.

2. There is no significant difference between mean DPR of BNL and UNL.

i.e. Ho: $\mu_1 = \mu_2$

Alternative Hypothesis:

H_1: 1. There is significant difference between mean DPS of BNL and UNL.

2. There is significant difference between mean DPR of SCBL and UNL.

i.e. H1: $\mu_1 \neq \mu_2$

Table 4.16

Result of t-test between the Manufacturing Companies

Variables	Calculated Value(t)	Tabulated Value $\lvert t_{0.05(4)} \rvert$	Null Hypothesis	Inference
Average DPS	-1.41	2.776	Accept	Significant
Average DPR	-1.54	2.776	Accept	Significant

(Source: Appendix IV& VII)

Above table 4.16 shows that the calculated average DPS t-value is less than that of tabulated value at 5% level of significance and 4 degree of freedom. So, Null Hypothesis (H_o) is accepted and alternate Hypothesis (H_1) is rejected. That means there is no significant difference between the mean DPS of UNL and BNL .It is found that UNL has higher average DPS than that of BNL.

Likewise, the table shows that the calculated average DPR t-value is less than that of tabulated value at 5% level of significance and between the 4 degree of freedom. So, Null Hypothesis (H_o) is accepted and alternate Hypothesis (H_1) is rejected. That means there is no significant difference between the mean of SCBL and NABIL .It is found that the average DPR of UNL is higher than that of BNL.

4.2.3.1.3 Third Hypothesis

Null Hypothesis:

H_o: 1. There is no significant difference between mean DPS of KFC and UFC.

2. There is no significant difference between mean DPR of

KFC and UFC

i.e. $H_o: \mu_1 = \mu_2$

Alternative Hypothesis:

H_1: 1. There is significant difference between mean DPS of AFC and KFC.

2. There is significant difference between mean DPR of AFC and KFC.

i.e. $H_1: \mu_1 \neq \mu_2$

Table 4.17

Result of t-test between the Finance Companies

Variables	Calculated Value(t)	Tabulated Value $\lvert t_{0.05(4)} \rvert$	Null Hypothesis	Inference
Average DPS	-0.43	2.776	Accept	Significant
Average DPR	0.06	2.776	Accept	Significant

(Source: Appendix V & VIII)

Above table 4.17 shows that the calculated average DPS t-value is less than that of tabulated value at 5% level of significance and 4 degree of freedom. So, Null Hypothesis (H_o) is accepted and alternate Hypothesis (H_1) is rejected. That means there is no significant difference between the mean DPS of KFC and UFC .It is found that the average of UFC is more than that of KFC.

Likewise, the table shows that the calculated average DPR t-value is less than that of tabulated value at 5% level of significance and between the 4 degree of freedom. So, Null

Hypothesis (H_o) is accepted and alternate Hypothesis (H_1) is rejected. That means there is no significant difference between the mean DPR of UFC and KFC .It is found that the average DPR of UFC is higher than that of KFC.

4.2.3.2 Analysis of Variance ANOVA:

A. Analysis of Variance of DPS:

Table no. 4.18

Pooled Average of DPS

Year	Pooled Average		
	Banks	**Manufacturing Companies**	**Finance Companies**
2013	70	280	16.58
2014	40	301.5	12.58
2015	60	340	5
2016	57.5	410	6.25
2017	85.25	430	11.895

(Source: Appendix II)

Null Hypothesis:

H_o: There is no significant difference among the DPS of Banking Sector, manufacturing Sector, and Finance Sector.

i.e. $H_0: \mu_1 = \mu_2 = \mu_3$

Alternative Hypothesis:

H_1: There is no significant difference among the DPS of Banking Sector, manufacturing Sector, and Finance Sector.

i.e. $H_1: \mu_1 \neq \mu_2 \neq \mu_3$

Computation of test statistic: F

Sum of the squares of variation between samples (SSC) = 37126.81

Sum of the squares of variation within samples (SSE) = 14039.16

Total Sum of Squares (SST) = 51165.97

Table no. 4.19

ANOVA of DPS

Sources of Variation	Sum of Squares(SS)	Degree of Freedom(d.f.)	Mean Sum of Squares (MSS)	F-Ratio
Between	SSC=343577.52	k-1=3-1	MSC=SSC/(k-1)	F=MSC/MSE

Samples		=2	=171788.76	=94
Within Samples	SSE=21930.84	n-k=15-3 =12	MSE=SSE/(n-k) =1827.57	
Total	SST=51165.97	n-1=15-1 =14		

Tabulated $F_{0.05\,(2,\,12)} = 3.89$

Decision: Since the tabulated value of F at 5% level of significance for d.f. (2, 12) d.f. is less then calculated value. Null Hypothesis (H_0) is rejected. That means there is significant difference among the DPS of Banks, Manufacturing Companies and Finance Companies at 5% level of significance .It indicates that the DPS of the different sectors are not similar in pattern. The average DPS of Banks is more than that of manufacturing sector and financial institutes.

B. Analysis of Variance of EPS

Table no. 4.20

Pooled Average of EPS

Year	**Pooled Average**		
	Banks	**Manufacturing Companies**	**Finance Companies**
2013	80.73	332	16.84

2014	70.09	348.44	14.19
2015	77.92	412.08	10.92
2016	80.42	421.37	11.99
2017	74.52	444.12	13.70

(Source: Appendix II)

Null Hypothesis:

Ho: There is no significant difference among the EPS of Banking Sector, Manufacturing Sector, and Finance Sector.

i.e. $H_0: \mu_1 = \mu_2 = \mu_3$

Alternative Hypothesis:

H_1: There is no significant difference among the EPS of Banking Sector, Manufacturing Sector, and Finance Sector.

i.e. $H1: \mu_1 \neq \mu_2 \neq \mu_3$

Computation of test statistic: F

Sum of the squares of variation between samples (SSC) = 41016.62

Sum of the squares of variation within samples (SSE) = 9574.90

Total Sum of Squares (SST) = 70467.04

Table no. 4.21

ANOVA of EPS

Sources of Variation	Sum of Squares(SS)	Degree of Freedom(d.f.)	Mean Sum of Squares (MSS)	F-Ratio
Between Samples	SSC=41016.62	k-1=3-1 =2	MSC=SSC/(k-1) =20508.31	F=MSC/MSE =25.70
Within Samples	SSE=9574.90	n-k=15-3 =12	MSE=SSE/(n-k) =797.91	
Total	SST=70467.04	n-1=15-1 =14		

Tabulated $F_{0.05\,(2,\,12)} = 3.89$

Decision: Since the tabulated value of F at 5% level of significance for (2, 12) d.f. is less then calculated value. Null Hypothesis (H_0) is rejected. That means there is significant difference among the EPS of Banks, Manufacturing Companies and Finance Companies

at 5% level of significance .It indicates that the EPS of the different sectors are not similar in pattern. The average EPS of banking sector is found more than that of manufacturing sector and financial sector.

C. Analysis of Variance of DPR:

Table no. 4.22

Pooled Average of DPR

Year	Pooled Average		
	Banks	**Manufacturing Companies**	**Finance Companies**
2013	86.92	44.72	100.67
2014	57.19	63.27	92.38
2015	77.38	42.55	46.17
2016	72.22	132.27	39.53
2017	78.17	51.09	32.93

Source: Appendix II

Null Hypothesis:

Ho: There is no significant difference among the DPR of Banking Sector, Manufacturing Sector, and Finance Sector.

i.e. H0: $\mu_1 = \mu_2 = \mu_3$

Alternative Hypothesis:

H_1: There is no significant difference among the DPR of Banking Sector, Manufacturing Sector, and Finance Sector.

i.e. $H_1: \mu_1 \neq \mu_2 \neq \mu_3$

Computation of test statistic: F

Sum of the squares of variation between samples (SSC) = 370.67

Sum of the squares of variation within samples (SSE) = 10119.33

Total Sum of Squares (SST) = 2649.52

Table no. 4. 23

ANOVA of DPR

Sources of Variation	Sum of Squares(SS)	Degree of Freedom(d.f.)	Mean Sum of Squares (MSS)	F-Ratio

Between Samples	SSC=370.67	k-1=3-1 =2	MSC=SSC/(k-1) =185.34	F=MSC/MSE =0.22
Within Samples	SSE=10119.33	n-k=15-3 =12	MSE=SSE/(n-k) =843.28	
Total	SST=2649.52	n-1=15-1 =14		

Tabulated $F_{0.05\,(2,\,12)} = 3.89$

Decision: Since the tabulated value of F at 5% level of significance for (2, 12) d.f. is more than calculated value. Null Hypothesis (H_0) is accepted. That means there is no significant difference among the DPR of Banks, Manufacturing Companies and Finance Companies at 5% level of significance .It indicates that the DPR of the different sectors are similar in pattern. The average DPR of banking sector is found more than that of manufacturing sector and financial sector.

D. Analysis of Variance of MPS:

Table no. 4.24

Pooled Average of MPS

Year	**Pooled Average**

	Banks	Manufacturing Companies	Finance Companies
2013	2831.5	1353.10	230.5
2014	1526	1399.27	168.5
2015	1577	1446.75	127
2016	1817.5	1497.8	139.5
2017	2667	1560.44	223.5

Source: Appendix II

Null Hypothesis:

H_o: There is no significant difference among the MPS of Banking Sector, Manufacturing Sector, and Finance Sector

i.e. $H_0: \mu_1 = \mu_2 = \mu_3$

Alternative Hypothesis:

H_o: There is no significant difference among the MPS of Banking Sector, Manufacturing Sector, and Finance Sector.

i.e. $H_1: \mu_1 \neq \mu_2 \neq \mu_3$

Computation of test statistic: F

Sum of the squares of variation between samples (SSC) = 9424858.44

Sum of the squares of variation within samples (SSE) = (6441035.95)

Total Sum of Squares (SST) = 57283451

Table no. 4. 25

ANOVA of MPS

Sources of Variation	Sum of Squares(SS)	Degree of Freedom(d.f.)	Mean Sum of Squares (MSS)	F-Ratio
Between Samples	SSC=25996246	k-1=3-1 =2	MSC=SSC/(k-1) =4712429.22	F=MSC/ MSE =7.33
Within Samples	SSE=6441035.95	n-k=15-3 =12	MSE=SSE/(n-k) = 536753	
Total	SST=57283451	n-1=15-1 =14		

Tabulated $F_{0.05\,(2,\,12)} = 3.89$

Decision: Since the tabulated value of F at 5% level of significance for (2, 12) d.f. is less then calculated value. Null Hypothesis (H_0) is rejected. That means there is significant difference among the MPS of Banks, Manufacturing Companies and Finance Companies at 5% level of significance .It indicates that the MPS of the different sectors are not in

similar in pattern. The average MPS of banking sector is found more than that of manufacturing sector and financial sector.

Major findings

The major findings obtained from the secondary data analysis are stated as follows:

1. EPS of banking and Manufacturing sector is in increasing trend. EPS of financing sector is fluctuating trend.UNL has the very impressive increasing trend of EPS although out of last year.
2. The mean EPS of SCBL, NABIL, BNL, UNL, KFC and UFC is 70.19, 83.31, 35.85, 747.36, 11.04, and 16.0 respectively. It shows that the highest EPS mean is in UNL and lowest is in KFC.
3. Profitability of common shareholders investment is better in SCBL, NABIL, UNL and BNL then other companies as they are not found as maintain their EPS above industry average with satisfy.
4. UNL has the highest DPS of 110.27 among six listed companies, which has far up then others companies. NABIL, SCBL have been found to maintain its moderate DPS with going to meet the industry average, In spite of highly dominated by UNL. It indicates that they pay higher dividend as compared to other companies and it creates positive attitude of the investors towards the banking sector which consequently helps to increase the market value of the share. UNL has the highest DPS so market value of the share of DPS is higher. But BNL has lowest DPS of Rs. 2 only. The coefficient of variation of BNL which indicate relative dispersion, is highest i.e. 159.25 but SCBL has lowest of only 13.86%. The DPS of two manufacture companies is highest and lowest. So the more value of share of the manufacture companies may be different. This clearly indicates that companies do not have any stable and consistent dividend practice.
5. Average market price per share of SCBL, NABIL, BNL, UNL, KFL and UFC is Rs. 2299.40, 1868.20, 1651.80, 1251.12 151.20, 204.40 respectively mean MPS of SCBL is greater than other companies. Higher market price creates the positive attitude of the investors towards the bank, which consequently attracts the

investor to invest in such high valued shares. The lower value of financing sector which have trouble to maintain industry average not highly attracts the investor to invest in such low value share.

6. The average highest DPR is 91.92 of UNL followed by all the companies except BNL. There is high fluctuation in DPS, BNL, as depicted by CV of 158.84% whereas lowest fluctuation CV in is 6.35% of UNL.
7. When dividend amount is considered as return on market price of share, represent of DYR the highest value is 54.82% of UNL and lowest of BNL is 0.87. The fluctuation of DYR of BNL is 158.62% and DYR of BNL is 0.87%. It is found that the company with foreign investment is paying high cash dividend. The dividend amount paid by the listed companies appears very low which is less than the interest provided by commercial banks in fixed deposit. The average DYR is 12.20% only.
8. UNL has the lowest fluctuation in the price currently paid by the market for each rupee (i.e. P/E Ratio) is 6.51% reported by EPS followed by BNL is 21.83%. The KFC has the highest fluctuation in this regard as depicted by P/E ratio is 85.25%.
9. The earning yield of UNL ranks the highest (i.e. 59.65) while the earning yield of BNL is the lowest (i.e. 2.17) and of the companies lies in between these two where as the industry average is 14.30.Except UNL, The other companies are below the industry average.(i.e. 14.30).
10. When EPS and DPS are taken into consideration, it is found that positive correlation exists in banking companies. BNL, UNL and KFC have negative correlation between EPS and DPS whereas it shows KFC has low degree of Negative correlation between EPS and DPS. The correlation of SCBL, NABIL and UFC are certain and the remaining companies correlation are uncertain.
11. It is found that EPS is the strong variables that determine the DPS for SCBL.
12. When EPS and MPS are taken into consideration, it is found that positive correlation exists in all companies. The correlation of all the companies is uncertain since r <6PE except of NABIL and UNL.
13. The study of impact of cash dividend on market price of share reveled that dividend per share (i.e. DPS and MPS) has positive impact on market price of share of SCBL, NABIL, BNL and UNL. The highest value of correlation

coefficient among all the companies is UNL (i.e. r=0.92) which means 99% of change in MPS is affected by change in last dividend and the rest 1% is due to unknown factor.

14. It is found that DPS is the strong variables that determine the MPS for NABIL.
15. With respect to regression analysis of MPS on last DPS, the regression coefficient (σ) is positive exists in all companies. Which indicate the increase in last dividend lead on increase in current MPS in all the companies.
16. With respect to regression analysis of MPS on last EPS, the regression coefficient (σ) of KFC is negative (i.e.-0.68) and the rest other companies has positive regression coefficient. Which indicate the increase in last EPS cause increase in MPS of all the companies except KFC.
17. With respect to regression analysis of DPS on last EPS are taken into consideration, it is found that the regression coefficient (σ) is positive exists in all companies but regression coefficient is negative on BNL (i.e.-0.22) Which indicate the increase in last dividend lead on increase in current MPS in all the companies except BNL.
18. The multiple regression analysis of MPS and last EPS and last DPS shows that MPS and last DPS has positive relationship holding EPS constant exist in all the companies except manufacturing companies (i.e. BNL and UNL) .Whereas MPS and last EPS has positive relationship holding last DPS constant in all companies expect in SCBL, KFC and UFC.
19. The F-statistic is significant on five companies (SCBL, NABIL, BNL, UNL KFC) and not significant for UFC.
20. T-test calculation at 5% level of significance, point out that there is a significant difference between the DPS and there is not significant between the DPR of banking sector (NABIL and SCBL). Likewise there is no significant difference between the DPS and DPR of manufacturing sector (UNL and BNL). Again there is no significant difference between DPR and DPS of UFC and KFC.
21. ANOVA of DPS indicates that there is significant difference among the DPS of banks, manufacturing companies and financial companies at 5% level of significance. That means, DPS of these sectors are not similar in pattern.

22. ANOVA of EPS indicates that there is significant difference among the EPS of banks, manufacturing companies and finance companies of 5% level of significance. That means, of these sectors are not similar in pattern.
23. ANOVA of DPR indicates that there is no significant difference between the DPR of banks, manufacturing companies and financial companies at 5% level of significance. That means DPR of this sector are similar in pattern.
24. ANOVA of MPS indicates that there is significant difference among the MPS of banks, manufacturing companies and finance companies at 5% level of significance. That means of MPS of this sector are not similar in pattern.

CHAPTER : FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Dividend policy is one of the three major decisions of the financial management. The dividend refers to that portion of the firm's net earnings, which is paid out to the shareholders as a return for their investments. The dividend decision affects the operation, and prosperity of the organization. To attract the new investors and to maintain the existing ones, dividend can be used as an effective tool. Dividend implies paying earning to the equity share holders and theories of dividend policy differ, some prefer residual theory that conveys passive residual earning available for payment whereas MM hypothesis insists on dividend irrelevance in the sense that dividend policy does not affect the stock price (which makes dividend decision, irrelevance). There are others who argue that dividend policy does affect value due to uncertainty factor. Many factors affect the dividend payment depending upon the investors' need and preference on one hand and the financing need of the financial institution to the potential investment on the other hand. The dividend decision, in one hand affects the company's structure. In other hand it has an information value to the investors. The impacts on share price are one another influence of dividend decisions. Since 1984, when the government of Nepal has adopted economic liberalization and open market policy, many JV Banks, finance companies and insurance companies are established in Nepal. These institution got opportunity and appropriate environment to expand their activities, it is because the initially established financial institutions are unable to supply credit needs and meet the market expectation that market activities towards the growth position. The stockholders have a high desire and expectation that market price of share will be higher than net worth and getting high percentage of dividend from earnings. So, distributing dividend to the shareholders is effective way to achieve the trust of investors and encourage them to invest in shares.

This study mainly aims the prevailing practices of listed companies regarding dividend payment. The study is mainly focused to access the dividend practices of different banks, finance companies and insurance companies. Instability of dividend and haphazard payout ratio is the most common practice of Nepalese companies. Companies do not adequately maintain cash balance for dividend payment. So, it covers some specific objectives to find out the relationship between other financial indicators and also to find out the appropriate dividend policies for different companies, Shareholders have high expectation that market prices of shares will be significantly higher than net worth. The companies invested by foreigners are paying more attractive dividend than the companies promoted by the indigenous promoters of Nepal. The study of relationship between the dividend and stock prices have been accomplished by collecting and calculating the earning per share, dividend per share, dividend payout ratio, dividend yield, earning yield and price earning ratio. To make the research reliable, many more analysis are conducted to find out appropriate relationship between dividend and other variables, which affects the dividend. The consistency of dividend distribution of different companies is

also analyzed by using statistical tools. The relationship also statistically tested at 5% level of significance. This study has been primarily focused to evaluate the resultant impacts of dividend on market price of share. The study is mainly based on the secondary data of six companies which are listed in NEPSE. They are categorized in three groups, banks manufacturing companies and finance companies. These groups represent their own sectors. The last five years data from FY 2011 to 2015 are taken for study. They reliability of conclusions made in this study depends upon the accuracy of secondary data. Three major aspect of the study are discussed in this chapter. At the beginning all the findings have been made summarized and same conclusions have been drawn up to the basis of findings. An attempt is also made to present the gap and the factors to cause those gaps. This chapter is very important in the sense that.

It shows the result what was observed during the research.

It concludes the findings in an understandable form and

It provides clues of suggestions to the concerned authorities as well as practitioners and academicians.

5.2 Conclusion

By the analysis of investment activities, it is noticed that this thesis recovered three sector Banking sector, finance company and Manufacturing company. According to table no. 4.1 EPS of finance companies (UFC) and (KFC) are low. Banking sector EPS of SCBL and NABIL high. Manufacturing company UNL is very high and BNL is low .But the bank has high level of dividend payout ratio similar the potential investor on these banks, they are not able to create the fund for the further investment because of high DPR as a result the fruitful investment opportunity may lost by these banks. However, other manufacturing sample company UNL is very high DPS and BNL is low. Finance company KFC and UFC‘s DPS is low because it cost is high so the potential investor are not attract toward fiancé company. The bank SCBL and NABIL are not able to create the fund for the further investment because of high DPR as a result the fruitful investment opportunity may lost by these banks. However, manufacturing company sample BNL and UNL are retaining the earning for the future purpose that indicate more. According to their earning they also achieving the trust of common people and potential investors as well which is the success of their performance. But yet to be done much more than this for the satisfaction of shareholders as well as overall growth of economy in tenure of research one important relation is revealed that there positive correlation between GDP and MPS.IT may conclude that the growth of whole economy can be represented by the growth of

stock price, high intensity of movement economic growth that movement also helps to increase in price of stock there may be another reason behind it, better performance of commercial bank increase the GDP of country and stock price of commercial bank together, that lead the positive correlation between them. There no relation between interest rate, inflation and MPS which concluded that interest rate and inflation may not impact on the stock price movement.

At least, consistent and right amount of dividend payment, net worth growth EPS,DPS have positive impact on MPS so, the bank, manufacturing company and finance company have try to maintain those variable. By the perfect management of those variables leads to increase the price of stock, like wise macro-economic factor (GDP), interest rate, inflation rate are not in control of bank, manufacturing company and finance and finance company. Analysis of those factors beneficial for the both potential investors and company.

5.3 Recommendation

Although, this study is concerned with dividend practices of Nepalese companies and their impact on market price of stock, it may be appropriate to provide a package of suggestion in the light of major findings and conclusions. These recommendations may also have some repercussions, but there is no doubt of these measures to improve the existing conditions. The following suggestions are recommended for the problems on the issue of Dividend which are find out from the analysis of data.

1) Applying strategic dividend policy

There are different dividend policies i.e. stable dividends, constant payout, low regular plus extra policies etc.

2) Considering the environment

There are challenges and threats in front of the companies because of internal and external environment.

3) Expansion of activities and mobilize the funds

The market price is seen higher than dividend payment. The companies can solve the problem by raising the funds from market.

4) Flow of Information

Regular, simplified and adequate information must be provided by the companies.

5) Options to the shareholders regarding form of dividend.

There are only two form of dividend used in practice i.e., stock dividend & cash dividend.

6) Legal rules and regulation

The legal rules are not enough regarding to dividend. Binding legal rules with enough flexibility

7) Balance activities

MPS, DPS, EPS, fluctuates widely of the companies. To remove this problem companies need to make appropriate plan.

8) Investment Decision

The investor who want to invest their capital or want to purchase equity share and immediate return should invest on the share of high profit earning companies.

9 Related agencies

Like the NEPSE, SEBCON, NRB should properly handle, guide and information the shareholders and the related company most have to co-operate with them.

BIBLIOGRAPHY

Adhikari, N. (2010). *Corporate dividend practices in Nepal,* Unpublished Master's Degree Dissertation, T.U. Central Department of Management, Kirtipur.

Bajracharya, B.C. (2058). *Business Statistics and Mathematics. Kathmandu:* M.K. Publishers.

Baker, H.K. and Philips, Aaron L. (1992), *Management view on stock dividends,* USA: Working Paper Series, Jacksonville.

Baker, H.K., Farrelly, G.E. and Edelman, R.B. (1985).*A Survey of Management Views on Dividend Policy,* Financial Management.

Basnet, P. (2004). *Dividend* Adhikari, N.R. (2000). *Corporate Dividend Practices in Nepal*, A published Master's Degree Thesis, T.U. Central Department of Management, Kirtipur.

Bhattarai, B.H. (1996). *Dividend Decision and Its Impact on Stock Valuation,* A published Master's Degree Thesis, T.U. Central Department of Management, Kirtipur.

Bhattari, M. (2008).*An examination of the effect of Dividend policy on market price ofshares*, An published MBA Thesis, T.U. Kathmandu.

Bista, S. (2006).*Dividend Policy and Practices in Nepal : A Comparative Study of Listed Joint Venture Commercial Banks and Manufacturing Companies,*Kathmandu,ShankerDevCampus,T.U.

Bochme, D.R. and Sorescu, S.M. (2002).*The Long Run Performance Following Dividend Initiations and Resumptions,* Under Reaction or Product of Chance? Journal of Finance.

Friend and Pocket (1964), *Dividend policy and stock prices,* The American Economic Review Vol, LIV.

Gautam, R.R. (1998). *Dividend Policy in commercial Banks: A Comparative Study of NGBL, & NABIL,* A published Master's Degree DegreeThesis,Kathmandu, T.U. Central Department of Management, Kirtipur

Gorden and Myron J. (1962), *The investment financing and valuation of corporation,*

James, Horen and Donald Mc.(1971). *Dividend Policy and New equity financing journal of finance.*

Jha, P.K (2007). *Dividend Policy of Listed Companies in Nepal: Comparative Study on Banking,* Finance and Insurance Companies A published Master's Degree Thesis,Kathmandu, Peoples College,T.U.

Khan, M.Y. and Jain P.K. (1992). *Financial Management, Test & Problem,* Tata Mc.Graw-Hill Publishing Com. Ltd.

Khatiwada, N.P. (2001). *Impact of Dividend and Earning Announcement on Shareholder's Return and Stock Price in Nepal,* A published Master's Degree DegreeThesis,Kathmandu, T.U. Central Department of Management, Kirtipur.

Manandhar, K.D. (2000). *Preliminary Test of Lagged Structure of Dividedn. Empirical Test: Case of Corporate Firms in Nepal".* Management of Dynamics.

Miller and Modigliani, "Dividend Policy, Growth and Valuation of Share,*Journal of Business* XXIV.

Miller, M.H. and Modigliani, F. (1966). *Some Estimates of the cost of capital to the electric unity industry,* 1954-57, American Economic Review.

Pandey, I.M. (1979). *Financial Management.* Vikas Publishing House Pvt. td.

Pearson, H., Williams, C.M. and Donald son, D. (1972). *Basic Business Finance,* Rechard D Irwin Inc., Homewood, Illinois.

Pradhan, R.S. (1993). *Stock Market Behavior in a Small Capital Market: A Case of Nepal,* The Nepalese Management Review.

Rijal, S. (2004). *Impact of Dividend Policy on Market Price of Shares*,A published Master's Degree Thesis, Central Department of Management, Kirtipur.

Shrestha, K.N. and ManandharK.D. (2050). *Statistics and Quantitative Techniques for Management*.Kathmandu:Valley Publishers.

Shrestha, M.K. (1980), *Financial Management* (Theory and Practice), Kirtipur Curriculum Development Center, T.U.

Shrestha, M.K. (1981). Public enterprises: Have They Dividend Paying Ability*?,Nepal Journal of Public Administration.*

Timilsina, S. (1997).*Dividend and Stock Price: An Empirical Study,* A published Master's Degree Thesis, Kathmandu, Central Department of management , T.U.

Van Horne, J.C. (2002). *Financial Management and Policy*, Prentice Hall of India.

Van Horne, J.C. and Wachowiez, J.M. (1979).*Fundamental of Financial Management,* Prentice-Hall of India.

Walter, J.F. (1966). *Dividend Policy and Common Stock Prices,* Journal of Finance.

Western, J.W. and Copeland, T.E. (1989).*Managerial Finance,* The Dryden Press, Chicago.

Weston, J. Fred and Brigham, Eugene F.,(1964)**.** *Managerial Finance*, New York: Dryden Press.

Wolf, H.K. and Pant, P.R. (1999).*Social Science Research and Thesis Writing,* Buddha Academic Enterprises Pvt. Ltd.

Yadav, V.K. (2007).*Dividend policy and its impact on market price of stock,* A published Master's Degree Thesis, Kathmandu, ShankerDev College, T.U

Acts:

Company Act 1997

Nepal Commercial Bank Act 2031

Security Exchange Act 1983.

JournalsArticles :

Chawala, Deepak and Srinivasan, G.,*Impact of Dividend and Retention onShare Prices on Econometric Study,* Decision, 14(3):32-34, Bombay

Nepal Rastra Bank Economic Reports

Nepal Stock Exchange Trading Reports

Pradhan, RadheShyam,*Stock Market Behavior in a Small Market: A Case ofNepal*, The Nepalese Management Review, 9(1):15-16, Katmandu.

Shrestha, Manoharkrishan. (1981). Public Enterprises: Have they Divdiend paying Ability ? Prakashan, *The Nepalese journal of public Administration.*

Appendix I

Basic Data Using Cash Dividend only

SCBL

Year	EPS (X)	DPS (Y)	MPS (Z)	DPR
2069/070	77.65	70	3279	90.32
2070/071	69.51	50	1800	71.93
2071/072	72.60	60	1799	82.65
2072/073	65.70	50	1820	76.11
2073/074	65.47	51.50	2799	78.66
Total	**350.93**	**281.50**	**11498**	**399.67**

NABIL

Year	EPS (X)	DPS (Y)	MPS (Z)	DPR
2069/070	83.81	70	2384	83.52
2070/071	70.67	30	1252	42.45
2071/072	83.23	60	1355	72.10
2072/073	95.14	65	1815	68.32
2073/074	83.68	65	2535	77.68
Total	**416.53**	**290**	**9341**	**344.07**

BNL

Year	EPS (X)	DPS (Y)	MPS (Z)	DPR
2069/070	37.80	0	1572	0
2070/071	34.73	13	1620	37.43
2071/072	24.96	0	1680	0
2072/073	35.21	60	1690	170.41
2073/074	46.52	0	1697	0
Total	**179.22**	**73**	**8259**	**207.84**

UNL

Year	EPS (X)	DPS (Y)	MPS (Z)	DPR
2069/070	626.19	560	1134.20	89.43
2070/071	662.14	590	1178.53	89.43

2071/072	799.19	680	1213.49	85.10
2072/073	807.53	760	1305.60	94.12
2073/074	841.72	860	1423.87	102.17
Total	**3736.77**	**3450**	**6255.69**	**460.25**

KFC

Year	**EPS (X)**	**DPS (Y)**	**MPS (Z)**	**DPR**
2069/070	21.56	20	167	92.76
2070/071	11.01	12	138	109
2071/072	11.01	0	114	0
2072/073	8.16	0	146	0
2073/074	3.42	8	191	233.92
Total	**55.16**	**40**	**756**	**435.68**

UFC

Year	**EPS (X)**	**DPS (Y)**	**MPS (Z)**	**DPR**

2069/070	12.12	13.16	294	108.58
2070/071	17.37	13.16	199	75.76
2071/072	10.83	10.00	140	92.34
2072/073	15.81	12.50	133	79.06
2073/074	23.98	15.79	256	65.85
Total	**80.11**	**54.61**	**1022**	**421.59**

Appendix II

Calculation of Sector wise pooled Average (DPS)

Year	Banking Sector		Pooled Average	Manu. Sector		Pooled Average	Financial Sector		Pooled Average
	SCBL	NABIL		BNL	UNL		KFC	UFC	
2069/070	70	70	70	0	560	280	20	13.16	16.58
2070/071	50	30	40	13	590	301.5	12	13.16	12.58
2071/072	60	60	60	0	680	340	0	10.00	5
2072/073	50	65	57.5	60	760	410	0	12.50	6.25
2073/074	51.50	65	58.25	0	860	430	8	15.79	11.895

Calculation of Sector wise pooled Average (EPS)

Year	Banking Sector	Pooled Average	Manu. Sector	Pooled Average	Financial Sector	Pooled Average

	SCBL	NABIL		BNL	UNL		KFC	AFC	
2069/070	77.65	83.81	80.73	37.80	626.19	332	21.56	12.12	16.84
2070/071	69.51	70.67	70.09	34.73	662.14	348.44	11.01	17.37	14.19
2071/072	72.60	83.23	77.92	24.96	799.19	412.08	11.01	10.83	10.92
2072/073	65.70	95.14	80.42	35.21	807.53	421.37	8.16	15.81	11.99
2073/074	65.47	83.68	74.58	46.52	841.72	444.12	3.42	23.98	13.70

Calculation of Sector wise pooled Average (MPS)

Year	Banking Sector		Pooled Average	Manu. Sector		Pooled Average	Financial Sector		Pooled Average
	SCBL	NABIL		BNL	UNL		KFC	UFC	
2069/070	3279	2384	2831.5	1572	1134.20	1353.10	167	294	230.5
2070/071	1800	1252	1526	1620	1178.53	1399.27	138	199	168.5
2071/072	1799	1355	1577	1680	1213.49	1446.75	114	140	127
2072/073	1820	1815	1817.5	1690	1305.60	1497.80	146	133	139.5
2073/074	2799	2535	2667	1697	1423.87	1560.44	191	256	223.5

Calculation of Sector wise pooled Average (DPR)

Year	Banking Sector		Pooled Average	Manu. Sector		Pooled Average	Financial Sector		ɔoled Average
	SCBL	NABIL		BNL	UNL		KFC	UFC	
2069/070	90.32	83.52	86.92	0	89.43	44.72	92.76	108.58	100.67
2070/071	71.93	42.45	57.19	37.43	89.11	63.27	109	75.76	92.38

2071/072	82.65	72.10	77.38	0	85.10	42.55	0	92.34	46.17
2072/073	76.11	68.32	72.22	170.41	94.12	132.27	0	79.06	39.53
2073/074	78.66	77.68	78.17	0	102.17	51.09	233.92	65.85	32.93

Appendix III

Computation of t-test with Banks

DPS

SCBL (X)	NABIL (Y)	Diff. (D) = x-y
70	70	0
50	30	20

60	60	0
50	65	-15
51.50	65	-13.5
630	290	ΣD = -8.5

$\Sigma D = -8.5$

$\Sigma D^2 = 807.25$ ($\Sigma D^2 = D_1^2 + D_2^2 + D_3^2 + D_4^2 + D_5^2$)

$\overline{D} = \Sigma D/n = -1.7$

$n = 5$

$$s = \sqrt{\frac{\Sigma D2 - n(\overline{D})^2}{n-1}} = 14.08$$

$$S\,E(\overline{D}) = \frac{S}{\sqrt{n}} = 5.47$$

$$t = \frac{\overline{D}}{SE(\overline{D})} = -0.31$$

Appendix IV:

Computation of t-test with Manufacturing Companies

DPS

BNL (X)	UNL (Y)	Diff. (D) = x-y
0	560	-560
13	590	-577
0	680	-680
60	760	-700
0	860	-860
		ΣD = -3377

$\Sigma D = -3377$

$\Sigma D^2 = 2338529$ ($\Sigma D^2 = D_1^2 + D_2^2 + D_3^2 + D_4^2 + D_5^2$)

$\overline{D} = -675.4$

$n = 5$

$$s = \sqrt{\frac{\Sigma D2 - n(\overline{D})^2}{n-1}} = 1074.64$$

$$S\,E(\overline{D}) = \frac{S}{\sqrt{n}} = 480.59$$

$$t = \frac{\overline{D}}{SE(\overline{D})} = -1.41$$

Appendix V:

Computation of t-test with Finance Co.

DPS

KFC (X)	UFC(Y)	Diff. (D) = x-y
20	13.16	6.84
12	13.16	-1,16
0	10.00	-10
0	12.50	-12.50
8	15.79	-7.79
		ΣD = -24.61

$\Sigma D = -24.61$

$\Sigma D^2 = 365.0653$ ($\Sigma D^2 = D_1^2 + D_2^2 + D_3^2 + D_4^2 + D_5^2$)

$\overline{D} = -4.922$

$n = 5$

$$s = \sqrt{\frac{\Sigma D2 - n(\overline{D})^2}{n-1}} = 25.71$$

$$S\,E(\overline{D}) = \frac{S}{\sqrt{n}} = 11.49$$

$$t = \frac{\overline{D}}{SE(\overline{D})} = -0.43$$

Appendix VI

DPR

SCBL(X)	NABIL (Y)	Diff. (D) = x-y
90.32	83.52	6.8
71.93	42.45	29.48
82.65	72.10	10.55
76.11	68.30	7.81
78.66	77.68	0.98
		$\Sigma D = 55.62$

$\Sigma D = 55.62$

$\Sigma D^2 = 1088.5694 (\Sigma D^2 = D_1^2 + D_2^2 + D_3^2 + D_4^2 + D_5^2)$

$\overline{D} = 11.124$

$n = 5$

$$s = \sqrt{\frac{\Sigma D2 - n(\overline{D})^2}{n-1}} = 10.84$$

$$S\,E(\overline{D}) = \frac{S}{\sqrt{n}} = 4.85$$

$$t = \frac{\overline{D}}{SE(\overline{D})} = 2.29$$

Appendix VII

DPR

BNL (X)	UNL (Y)	Diff. (D) = x-y
0	89.43	-89.43
37.43	89.11	-51.68
0	85.10	-85.10
170.41	94.12	76.29
0	102.17	-102.17
		ΣD = - 252.09

ΣD = -252.09

ΣD^2 = 34169.4303 ($\Sigma D^2 = D_1^2 + D_2^2 + D_3^2 + D_4^2 + D_5^2$)

$\overline{D}$ = -50.418

n = 5

$$s = \sqrt{\frac{\Sigma D2 - n(\overline{D})^2}{n-1}} = 73.25$$

$$S\,E(\overline{D}) = \frac{S}{\sqrt{n}} = 32.76$$

$$t = \frac{\overline{D}}{SE(\overline{D})} = -1.54$$

Appendix VIII

DPR

KFC(X)	UFC (Y)	Diff. (D) = x-y
92.76	108.58	-15.82
109	75.76	33.24
0	92.34	-92.34
0	79.06	-79.06
233.92	65.85	168.07
		ΣD = 14.09

$\Sigma D = 14.09$

$\Sigma D^2 = 44379.86$ ($\Sigma D^2 = D_1^2 + D_2^2 + D_3^2 + D_4^2 + D_5^2$)

$\overline{D} = 2.818$

$n = 5$

$s = \sqrt{\frac{\Sigma D2 - n(\overline{D})^2}{n-1}} = 105.29$

$S\,E(\overline{D}) = \frac{S}{\sqrt{n}} = 47.09$

$t = \frac{\overline{D}}{SE(\overline{D})} = 0.06$