DIVIDEND POLICY OF FINANCE COMPANIES IN NEPAL

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SUBMITTED TO:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the Requirements for the Degree in

Master's of Business Studies (MBS)

Birgunj, Parsa

March, 2011

RECOMMENDATION

This is certify that this thesis

Submitted by

Dhiraj Kumar Sah

Entitled

"Dividend Policy of Finance Companies in Nepal"
Has been prepared as approvd by this department in the
Prescribed format of the faculty of management,
This thesis is forwarded for evaluation.

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<u>VIVA-VOCE SHEET</u>

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Entitled
"**Dividend Policy of Finance Companies in Nepal**"
and the thesis to be original work of the student and
Written according to the prescribed format . We
Recommend the thesis to be accepted as
Partial fullfillment of the requirement
For the Master's Degree in
Business Studies
(M.B.S.)

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DECLARATION

I hereby declared that the work reported in this thesis entitled " Dividend Policy of Finance Companies in Nepal" submitted to faculty of management . Hari khetan Multiple Campus ,Tribhuwan University in my original work done in the format of T.U. for partial fullfillment of the Master's Degree in Business Studies (M.B.S.) under the supervision of Rambabu Prasad Chaurasiya, thesis supervisor. Hari Khetan Multiple Campus , Birgunj, Parsa.

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Acknowledgement

I wish to express my honest appreciation to my supervisor Rambabu Pd. Chaurasiya for his valuable guidance, inspiratiion and constant encouragement through out the course of study, without his support this thesis was not possible.

I would like to express my heartfully thanks to Campus Chief Dr. Bhagwan Pd. Yadav for his valuable suggestions and encouragement to carry to out this study in time. I would like to express my thanks to Shambhu Pd. Chaurasiya and I am also thanks ful to all respected teachers and co operative staff members of Hari Khetan Multiple Campus.

Sincere, appreciation is conveyed to those staff of Mahalaxmi Finance Limited, Ace Finance Limited , United Finance Limited , National Finance Limited, Sidhartha Finance Limited and world Merchant Banking & Finance Limited. For their advice, support and making available data, journal during the data collection period. I am thankful to all respondents for providing necessary informatiion for the study.

Finally, I would like to express my sincere gratitide to all the members of family who supported and inspired me in different aspects during the entire period of the study and I express thanks to those known & unknown friends who helped e to complete this work.

Lastly, I would like to thanks Salman Ansari whose patience in computer typing and printing this thesis in success.

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Abbreviation

1-b	-	Dividend Payout Ratio
AFL	-	Ace Finance Limited
B	-	Retention Ratio
C.V.	-	Coefficient of Variance
D_1	-	Dividend Per Share at time 1
DPR	-	Dividend Payout Ratio
DPS	-	Dividend Per Share
EPS	-	Earning Per Share
EPSI	-	Expected Earning Per Share
G	-	Growth Rate
K	-	Firm's Cost of Capital of Capitalization Rate
MBFL	-	Merchant Banking & Finance Limited
MFL	-	Mahalaxmi Finance Limited
MPS	-	Market Price Per Share
NFL	-	National Finance Limited
P_1	-	Market Price Per Share at time 1
P_o	-	Price Per Share
R	-	Firm's Rate of Return (Average)
ROE	-	Return on Equity
RONW	-	Return on Net Worth
S.D.	-	Standard Deviation
SFL	-	Siddhartha Finance Limited
T	-	Subscript for time
UFL	-	United Finance Limited

Chapter -1

INTRODUCTION

Background of the study

Financial companies are essential factors for the process of economics development and to achieve growth and prosperity. Financial company offers prospects for the expansion of employment and income. More than that, it generates innovations and technological change that bring about shifts in the production frontier, there by accelerating growth and factor productivity. Development of financial sectors, among other sectors is equally essential for the rapid economic development of the country.

Economic liberalization policy of the government has encouraged the establishment and growth of finance companies in the country a short span of time. In a situation when the existing financial institution , especially commercial banks are unable to supply credit timely and carry capital market activities financial company have come timely to meet the individual credit needs , undertake merchant banking function and other allied function. The special features of finance companies are that they to the areas where commercial banks find difficult and not accessible to lend with risk. Most of the customers prefer finance companies although little bit costly is confident in getting the loan without passing too many producers often that exist in commercial banks.

As per available data, by mid April 2004 there has been licensed finance companies finance companies have come into under the finance companies Act 1986. There are registered as limited companies at the office of the register of companies according to the provision made in the company Act 1965. At present however, there is complete restructuring of the legal provision to extend that enactment of new ordinance 2060 has repeal the finance companies Acts and now it is regulated by the same umbrella Act, how for this Act is beneficial to the growth of finance companies and its operation is yet to seen in future, more about this will be discussed latter on.

Finance companies borrow funds from different sources. The largest parts of their funds are collected from bank loans, commercial paper sales, and issues of both long term and short term debt in the capital market. But commercial paper is absent in Nepal. Finance companies can accept time deposit of the maturity if minimum three months to maximum six years to a maximum limit of twelve times of the primary capital of the company. But there are allowed to accept deposits not exceeding 2.5 times of their primary capital. How ever even considering the attraction of deposit. Finance companies are facing problems since most investors have not developed full confidence of putting money in fixed deposit certificate of various maturity and sizes. However finance companies are under full control and the monitoring of Nepal Rastra Bank, there is little change for them to escape from public accountability and responsibility to depositors and the client.

Generally, finance companies have centered their business on the lending to customers finance companies advance loans to individuals , companies or institutions. Such companies are allowed by the Act to undertake lease financing offering credit for purchasing or const ruction of residential house. They can also perform merchant banking activities with prior approval of NRB. These companies are popular among low income in medium class people of financing hire purchase vehicles machinery. Tools equipments durable household goods etc. As a consequence of the financial liberalization policy . finance companies are growing outside the valley due to Nepal Rastra Bank directive and incentive.

Government made a signification effort top regulate the finance company Act 1985 the aim of this Act was to guide the economy in right way. According to Nepal stock exchange there are only 28 listed finance companies have been issued license by the Nepal Rastra Bank till 200 after the political change in Nepal on 2047 B.S the economic liberalization, privatization, globalization has been followed by government for the industrialization. This policy has given more emphasis to the private sector encouraging factor of sustainable economic growth. The new policy has already resulted in establishment of join venture as well as private bank and finance companies. The policy of economic linearization and globalization adopted by government of Nepal will continue to evoke response from the industrial financials and commercial sectors of the country of the course the legal foundation of finance companies has stared ,since finance company Act 1985 come up to the practice .But companies were started only after 1992.

The development of finance system in Nepal is applicable. But still much more has to be done in making financial system as an effective intermediate for the mobilization of domestic saving in productive sectors. The formulations of an effective monetary strategy and reformation programmed of the financial system in the country can make an important contribution in mobilization of more domestic resources as well as to finance the required funds needed for economic expansion. Therefore , much more emphasis should be given to an efficient monetary arrangement and reformation of financial system which is conductive to the proper growth of the financial system in Nepal.

Dividend policy is an integral part of a firm 's financing decision. The dividend policy of the firm is regarded as a tool to the determine the appropriate allocation of profits between dividend payments and retained earning in the firms. Of a firm which is distributed to of financing for the growth of a firm.

Financial companies whereas they have to make pertinent decision of dividend to identify exactly how much dividend is needed to run smoothly dividend policy of the companies of on division of its profits between dividend and retention in knows as dividend policy. All aspect and question related to payments of dividend are contained in dividend policy. They dividend, which is distributed to shareholders ,may be in cash. Share (stock)

and securities or combination of these. Dividend paid on preference share is called " preference divined " divined paid on equity share is called "Equity dividend " and paid on stock is stock dividend". Dividends are distributed to shareholders out of corporate profits according to corporate plans and policies. Corporate profits are the after tax earned income of firm of firms firm the past period. In view of maximizing the valve of shareholders wealth, the firm needs to explore best ways to use profits. Whether to distributed all of the profits as decision profits belong to investors however for some operation needs. A part or all of the profit may be retained for reinvestment in the expansion of business or for in vie opportunities.

1.1.1 Concept

Conceptually speaking finance companies are the non bank financial institutions operating in the overall financial system of the economy in practice however they serve as they Act as the borrowing and lending financial institution with additional financial risk taking management. So , depending upon a wide variety of financial companies , they are grouped in the following ways.

a) They are solely and wholly deposit taking institutions to disburse loans to the perspective clients.
b) They are again considered to the most diverse non depository financial institutions that tend to meet various kinds of consumer credit needs.
c) In course of time they are often developing as specialized financial institutions to meet specific needs like leasing , project financing housing and other real estate financing.
d) Then as distinct from a number of other financial institutions , financial companies were knows to server as the architects or engineers of financial risk management.
e) Lastly finance companies began to act as the merchant bankers in having a greater stake in the financial intermediary networks in the nation's financial system.

1.1.2 Nature And Function of Financial Companies

Basically , finance companies perform a wide verity of functions depending upon the extent and nature of their specializations. They obtain most of their finds in large quantities by borrowing directly from other financial institutions or by selling securities in capital market. They lend funds relatively in small amount especially in supporting consumer finance.

They do extend intermediate credit to individual and business firms as quickly and easily as possible. They perform to act as the main borrowing lending institutions. They loans also go for other purpose to accomplish lease financing, factoring accounts receivable , and other packages of merchant banking functions based on agreed terms and conditions of fee structure.

Because of the growing scope , specialization , coverage and functions of finance companies their business structure ranged from partnership to privately owned corporation and from publics owned corporations to the wholly life insurance companies and any other corporate financial entities.

In practice however , finance companies have undertake a number of non fund based activities such as identifying promising potential venture capital project prepare feasibility studies and services , arranging and negotiating for loan syndicating, assist investors in obtaining license do precise capital restricting plans , give guidance on reorganization , amalgamation , merger and acquisition plans change in the legal status of companies from private to public limited companies ad vice versa etc, moreover , the bulk of other function consist of merchant banking functions and serving as financial intermediaries in the process of found transfer from those who have to those who need. Thus the main strength of finance companies lies nit in the provision of finds but in providing a whole range of inputs of innovative finance and non finance function based on their managerial , technical and institutional expertise.

1.1.3 Types of finance companies

Finance companies is that types of financial institutions which is company , non banking institutions whose majors business is to receive the deposits under any scheme and lending in any manner. It is small business organization , finance companies offer short and middle term credit to customers finance companies can be classified as follows.

Sales Finance Companies : companies often purchase retail credit contracts in order to gain Sales finance companies concentrated on purchasing credit contracts from retailers and dealers. This type of companies provides facility for purchase of automobiles and other durable goods on installment plan. Sales finance new business.

Consumer finance companies: consumer finance companies concentrated on direct loan to the customers. This types of loan in small. The customer uses the loan household rather than business.

Business finance companies: Business or finance companies concentrated on loans to business firms. This types of companies usually provided loans that could not be obtain from commercial banks because banks.

1.1.4 Problems of finance Companies

Most of the problems finance companies are regulatory in nature although regulators do have their own stand to justify for tough and tough regulation. At the same time , there are broader micro and macro economic issues relating to finance companies , these issues cover policy level structure issues , of these are addressed below.

Policy Level Structure Issue: At the level in every country whether developed or developing , importance has been given to the uniqueness of the commercial banks while non bank financial institution including financial companies are considered to be of little importance although in various policy statements the remarks is often made that the line of demarcation between the two is less distinct. Fund creating and utilization power needs to be properly addressed.

Regulatory Level Legal Issue: At the regulatory level various regulatory authorities taking from the central of the country to other regulatory bodies like Income tax company affairs register secretaries Exchange Board etc are often found to discriminate the finance companies in the fair treatment of laws and regulation.

Managerial Level Institutional: finance companies themselves have unique problems of internal management efficiency and operational issues in view of the inadequate level of professionalism providing worldwide events and instances of few fake finance companies playing on the money of the investing public.

1.1.5 Growth of Finance Companies in Nepal

Economic linearization policy of the government has encouraged the establishment and growth of finance companies n the country. In Eight plan (1992 -1997) , it has been clearly stated that the vacuum in the present national financial system needs to be filled by institutional developed capital market institutions like investment companies , finance companies , leasing and housing finance on order to create a healthy competitive financial sector " . In tenth plan (2002-2007), it is been described that. "Encouragement will be expanded, wherever possible. " In situation when the exiting financial institution especially commercial banks are unable to carry capital market activities and also not in a position to meet consumer needs for credit. It is timely to encourage the growth and operation of finance companies to meet individual credit needs, undertake fee based merchant banking function and to gradually curtail the Upahaar and Dhukuti programmers which were run unofficially.

In purpose to governments economic liberalization policy NRB. Tool some policy measures for the healthy and competitive development of commercial banks an finance companies and to dissuade them from concentrating in Katmandu.

The approval and permission of NRB to encourage the establishment and growth of finance companies started in Nepal after the first amendment in finance company Act,1985 (2042). Within a period of four years 1991-1995 as per available data there had been 56 finance companies of various capital sizes registered in government company Register office.

But in the year 1994, the wave of establishment finance companies reached to the maximum number. All together 32 Finance companies where registered as per official record in company register. Moreover, 4 additional finance companies were registered in 1995.

Out of 56 finance companies ,32 finance companies were started operation in 1995 .These finance companies had authorized capital that vary from Rs.10. million to Rs. 240 million. The number of the finance companies reached to 45 in mid January which were 44 in mid January 1999 in mid January a 1999 the total resources of finance companies amounted to Rs. 9582 million in mid January 2000 the total recourses of finance companies reached to Rs. 12245 million. By march 2003 the number of finance companies licensed under the finance companies Act 2042 B.S. totaled 55.The numbers of financial companies reached 59 in mid April 2004 and they are already in operation.

In view in the growing number of finance companies reregistered and applying for license with NRB, a high level Technical Committee has been constituted for more serous and detailed study an analysis of feasibility report submitted by finance companies under the management and leadership of NRB s deputy governor to accomplish the objective of operation a more competitive environment in the financial sector. Based on the recommendations of this high level committee, policy framework and guideline will be published to help and direct the establishment and regulation of finance companies in the country. The recommendations of this committee will also help to determine basic eligibility criteria to be applied while issuing license to new finance companies and also in monitoring to those already established and have started operations.

1.2 Statement of the problems

Controversy relevance or irrelevance of the dividend decision arises from two different and somewhat incompatible approaches to the decision-making problem. Thus who argue for the relevance of dividend to the reinvestment of earning the firms, while thus argue for the irrelevance of dividend policy point out the investment decision need not be controlled by the firms dividend policy, but may be financed equally well through the issuance. Dividend policy determines the division of earning between payments to the stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financing corporate growth but dividends constitute the cash flow that accrues to stockholders. Capital market of company in Nepal is operating in a immature stage. There is not satisfactory result about dividend division. The turnover of dividend is still very poor. It is party due to the various government rules and regulations acting and reacting in the financing operations. But there is no limit to the identification of the problem about dividend policy that is visible in Nepalese finance companies. In connections to Nepalese public Enterprises Prof. Dr. M.K. Shrestha remarks that dividend is still considered as unintended strategy or the non payable obligation at a time when Government is not a position to impose the Public limited companies to pay minimum rate of dividend on the equity capital contribution.

Regarding the dividend policy most of Finance Companies recognized that the market price per share depends upon the dividend per share Shareholders have a desire to receive market price as the same ratio of dividend per share but the company's decision regarding the amount or earning to be distributed as dividends depends on the on the number of factors of like legal restriction, liquidity investment opportunity and inflation etc. So most of the companies could not able to maintain the market price as per the ratio dividend per share. How ever most of companies have to maintain the relationship in the same ratio . According to Walter's study, dividend policy almost always affect the value of companies , where the investor demands the relationship between internal rate of return on investment regarding the dividend and market rate . Solomon concludes that dividend may offer tangible evidence of the firms ability to generate cash , and as the result, the dividend policy of the firm affects the share price. Even if dividends do effect the value there is not much that they do to increase the shareholder wealth . As per previous study , most of the companies are underrating the expectation of investors and there is resulting the low market ability of share on trading floor of stock exchange . Dividend payment is not regular phenomenon in Nepalese listed companies . There is not adequate legal rule for finding finance companies to pay dividend distribution policy and practice in finance companies . In order to the problems, this study analysis the dividend portfolio , regarding dividends and examines the relationship between dividends and stock price by taking sample .

- Does the market price per share of listed companies depends upon the dividend per share of the companies ? what relationship there exists between MPS and DPS ?
- What is the dependence of market price per share with the dividend payout ratio of listed finance companies ? what is the relationship between MPS and DPS ?
- What is relationship between MPS and PER under the listed finance companies? Does the market price share depended upon the price earning ratio in listed finance companies?
- Does the market price per share depend upon the divided yield under the listed finance companies? What is relationship between two variables?
- Is there any dependency of market price per share on the return on net worth in the listed finance companies? What relationship between MPS and RONW?
- RONW? What is the relation among EPS, DPS, DPR, PER, MPS, DY and.
- How is the finance position among of listed finance companies in term of growth rate of the companies?
- Do the finance companies paying larger dividends have a good financial position?
- Is there uniformity in dividend distribution policy of listed finance companies?

1.3 Objective of the study

Dividend policy is one of the key instruments, which reflects the firm's ability of internal financing. This study primary aims to analyze the dividend policy of Nepalese listed companies. Specific objective of the study are.

- To analyze the impact of dividend per share and other variables regarding dividend on the market price per share.
- To analyze the relationship of dividend per share with over variable such as earning per share, dividend payout, price earning ratio, market price per share dividend yield and return on net worth.
- To examine the dividend policy of listed finance companies.
- To asses the finance position of listed finance companies in tern of dividend and other variables regarding dividends.
- To provide valuable suggestion regarding dividend policy.

1.4 Significance of study

The objective behind investment in stock is to get greater dividend. Dividend policy is an effective way to attract new investors, to keep present investors happy and to maintain the good will of the companies. When any new company issues the shares through capital market, many people apply to purchase the stock it indicates people expectation on higher return of investment in shares.

When investing in shares the investors forego opportunity income that he could have earned. The income of capital market is secured from two ways. Firstly by means of divided and secondly by capital gains i.e. appreciation in stock price. Due to the lack of enough knowledge, people are investing hit or miss in shares. It is necessary to clear conception about the return that result that result from investing in securities. In Nepal as result enough study of dividend policy is significant.

1.5 Limitation of the study

- This study is simply a partial fulfillment of MBS programmed.

- Only secondary data have been analyzed to draw the result of this study related.
- The related data are considered of the finance companies.
- The study period only covers some fiscal year.
- This study only takes some finance companies as sample whereas there are 34 finance companies listed in NEPSE ltd.

1.6 Research methodology

Research methodology is the description of the methods used in a detailed study and investigation of a particular subject to discover new facts and to get additional information.

a) Primary data :

Under this research method direct persona interview. And information from local correspondent has been used. For this purpose i have faced faced many problems like spending a lot of time not availability of relevant personal etc.

b) Secondary data

I have taken this as main source of my research. Most of the data available in this research are based on it. The data as well as information presented in this report are taken from official publication. Reference book of the course, newspapers and other thesis.

1.7 Organization of the study

This study has been organized in to five chapters each devoted practice of selected finance companies in Nepal. The titles of each chapter are as follows.

Chapter -1	introduction
Chapter -2	Review of literature
Chapter -3	Research methodology
Chapter -4	presentation and analysis of data
Chapter -5	Summary, conclusion and Recommendation

Chapter -1

It contains the introductory part of the study. As already mentioned this chapter describes major issues to be investigated along with the objective and scope of the study.

Chapter -2

It is directed towards the review of literature of related studies. It contains conceptual frame work, major studies in general and reviews of major studies in Nepal.

Chapter -3

It describes the research methodology employed in the study. This chapter deals with the matter and soirées of data population and sample. Statistical tools and financial tools.

Chapter -4

It dealt with presentation and analysis of relevant data and information through definite course of research methodology.

Chapter -5

It states summary, conclusion and recommendation of the study. This chapter sates issues gaps and suggestive frame work of study.

CHAPTER – 2

REVIEW OF LITERRATURE

2.1 The Conceptual Framework

Company's total net income can be divided into two parts. Earnings to be distributed to the equity shareholders and earning to be kept in the organization. Earnings that are distributed to the shareholders are know as divided and earning which is kept in the organization is know as retained earnings. Dividend policy determines the division of earnings between payments to shareholders and reinvestment in the firm. Retained earnings are one of the most sources of founds for financing corporate growth. But dividends constitute the cash flows that accrue to shareholders.

Divided decision is the crucial area of financial management. The main aspect of the dividend policy is to determine the amount of earnings to be distributed the shareholders and the amount to be retained in the firm. Dividend is a portion of earning, which is distributed to shareholders. In return of their investment in share capital and it is a most significant source of internal financing to growth the firm. Conceptually speaking the the difference between divided and dividend policy is only of degree but not of the kind itself. Dividend implies to the portion of earnings that is paid to the shareholders whereas dividend and dividend policy is only of degree but not of the kind itself. Dividend implies to the portion of earnings that is paid to the shareholders in the form of dividend. Dividend conveys pro rata distribution of earning either in the form of direct cash or additional stock in accordance with his proportionate share holdings. Nowadays, it is mostly interpreted in terms of left over, earning after financing all acceptable investment opportunities and these are used for the payment of dividend. In this way, dividend is just means of distributing unused fund of paying out whatever fund left after making all attractive investment. Further more, it is stated simply as the by product of the form's capital budgeting decision and borrowing decision.

Dividend policy has effect in two parts. One is retained earnings and the other is dividend. The retained earning provides funds to finance the firm's investments. It has been taken as a long term financing decision because it provides funds, which are needed to the firm without issuing shares. It is preferable because unlike external equity they don't involve any floatation costs. It reduces the cost to be invested in to the new opportunity. So earning may remain undistributed as part of a long term financing decision. But dividends are generally paid in cash. The distribution of earning uses the available cash of the firm. A firm which intends to pay dividends and also needs funds to finance its investment opportunities will have to use external sources of financing such as the issue of debt or new common shares, which will be costly because of floatation cost. Despite the fact that only few companies are paying dividends in Nepal. There is also growing practice of paying stock dividend among some Nepalese companies. The clue to stock dividend distributions may lie in there perceived substitution for relatively of earnings, they issue stock dividends so that the shareholders of the firms are content. Manager strongly agrees that stock dividend have a positive psychological impact on investors for receiving them.

The question with respect to dividend distribution is how much to distributed and how to reinvest. In other words. What should be the dividend policy ? A closer look into this matter calls for consideration of man related aspects including the availability of present and future opportunities, regulations and shareholders expectation. The following figure the areas related to dividend management. Stock split is another aspect of dividend policy. Practitioners have long contended that the purpose of stock split is to move a firm's share price into an" Optimal trading range" Specifically investors of small means are presumably penalized by high stock prices that deny them the economics of buying stock in round lots. Thus stock split is the popular practice of developed capital market. An alternative form of dividend is share repurchase. If a firm has some surplus cash for if it can borrow it may choose to buy back some of its own share. In the developed capital market. Corporations are allowed to buy back share and better utilize unused cash. However, Nepalese company Act, 1997. Section 47 has prohibited company own shares or supply loans against the security of its own shares. The issue of how much a company should pay its stockholders as dividends is one that raises its dividends often experiences an increase in its stock price and a company that lowers its dividends has a falling stock price. This seems to suggest that do dividends do matter in that they affect stock price. But several researchers have refuted this causal relationship on the grounds that dividends per share do not affect prices. Ross (1997) and Bhattacharya (1979) have argued that dividend policy could be viewed as a signaling mechanism whereby firm with profitable projects are able and willing to pay higher dividends in order to segregate themselves forms with less profitable projects.

Dividend policy is set in consistence with the objective of maximizing the value of firm. Investors invest in the stocks with the objectives of maximizing the value of firm. Investors invest in the stocks with expectation of receiving at least risk adjusted rate of return of their investment. With respect to their investment, nothings would please them more than the corporate reporting increased profits, more dividends and higher stock price. As said before profits belongs to stockholders however. It is the managerial policy on and how much to retain in the business. In a way it should not matter for stockholder how much profit is distributed in the form of dividends or reinvested in the business, benefits are direct and at present. If they are reinvested the benefits are indirect and come in at some future time period or as capital gain from expected stock prices. But the questions is which one present dividend or future cash flows benefits more to stockholder?

2.2 Stability of dividends

Stability or regularity of dividends is considered a desirable policy by the management of most companies in practice. Shareholders also seem to favor this policy and value stable dividends higher than the fluctuating ones. All other thins beings the same, stable dividend may have a positive impact on the market prive of share. Stability dividends sometimes means regularity in paying some dividend annually, even though the amount of dividend may fluctuate over years, and may not related with earnings. There are a number of companies which have record of paying dividend for a long unbroken period. More precisely, stability of dividends refer to the amounts paid out regularly.

Three distinct forms of such stability may be distinguished:

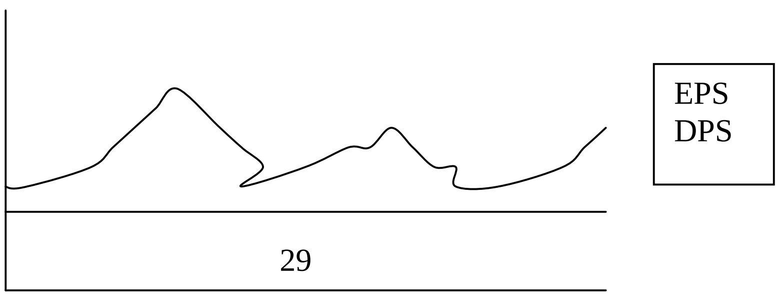
- Constant dividend per share
- Constant payout ration.
- Constant dividend per share plus extra dividend.

Constant dividend per share

Dividend as the under this policy, dividend is paid in a fixed amount per sharevery year, irrespective of fluctuations in the earnings. This policy is followed by most of the companies. It is easy to follow this policy when earnings are stable. If the earnings pattern of a company shows wide fluctuation, it is a difficult to maintain such a policy. Investors who gave only one sources of income prefer this policy.
For the example, following is given earnings and divided per where yearly under stable divided per share method.

Year	EPS	DPS
20X1	15	10
20X2	25	10
20X3	12	10
20X4	22	10
20X5	25	10

The following figure represents the dividend pattern for the given earning under this policy.



Stable dividend policy

Constant payout ratio

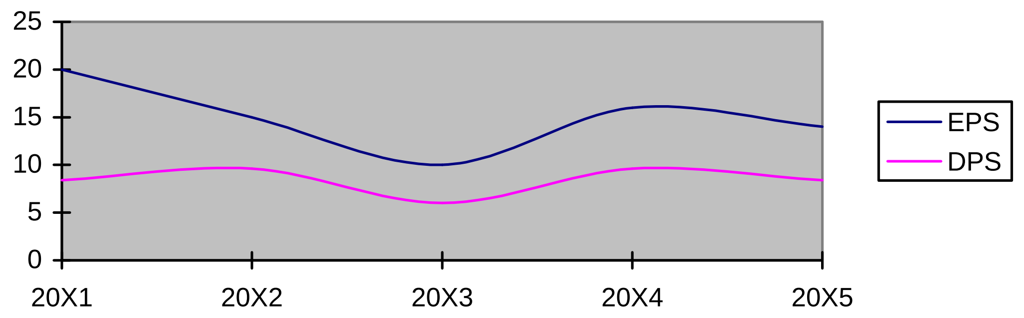
The policy to distribute a certain percentage of profit every period is called constant payout ratio. The payout ratio is the ratio of dividend to profit. There are many companies which use a constant percentage of profit for dividend distribution. Which a company uses a constant payout ratio , amount of dividend increases or decreases proportionately with earnings.

The following example of earning and dividend per share is given under constant payout policy.

If the dividend payout ratio has been fixed for 60%.

Year	EPS	DPS (D/P=60%)
20xl	20	12
20x2	15	9
20x3	10	6
20x4	16	9.6
20x5	14	8.4

The following figure represents the dividend pattern for the given under this policy.



Constant dividend per share plus extra dividend

The low regular dividend plus extra policy is a compromise between the first two. It gives the companies flexibility but it leaves investors some that uncertain about what their dividend income will be if a company's earning are quite volatile however , this policy may well its best choice. Under this policy , the small amount of dividend is fixed reduce the possibility of ever missing a dividend payment. By paying extra dividend in period of good profits an attempt is made to prevent investors from expecting that the dividend represents an increase in the established dividend amount. This policy enables a company to pay constant amount of dividend regularly without a default and allows a great deal of flexibility.

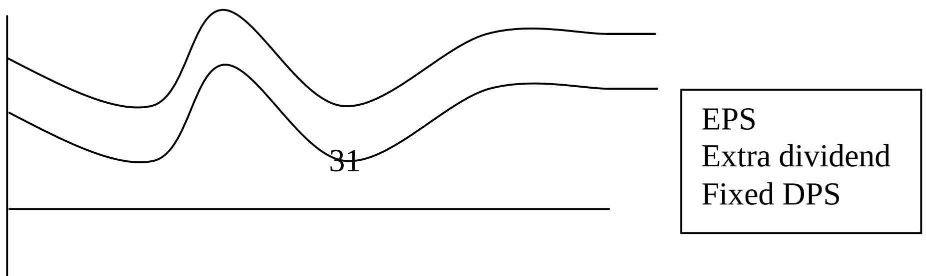
The following example is given of low regular plus extra dividend policy.

Year	20xl	20x2	20x3	20x4	20x5
EPS	5	6	10	12	15

A regular divided Rs. 4 and an extra dividend to bring to payout ratio to 60 % thus the annual dividend are the as follows.

Year	20xl	20x2	20x3	20x4	20x5
EPS	5	6	10	12	15
DPS	4	4	6	7.2	9

The following figure represents the dividends pattern for the given this policy.



2.3 Significance of Stability of dividends

Stability of dividends has several advantage as discussed below:

- Resolution of investor's uncertain
- Investors desire for current income.
- Institution investors requirement
- Raising additional finance.

Resolution of investors uncertainty:

When the company follows as stable dividends. It will not change the amount of dividends if there are temporary changes in its earnings. Thus when the earnings of the company fall and it continues to pay same amount of dividend as in the past,it covey to investors that the company is brighter than suggested by the drop in earnings. Similarly the amount of dividend is increased earnings level only when it is possible to maintain it in future. On the other hand. If a company follows a policy of changing dividends with cyclical changes in the earnings. Shareholders would not be certain about the amount of dividends.

Investor's desire for current income

There are many investors such as old and retired person. Women etc. who desire to receive regular periodic income. They invest their saving in the shares with a view to use dividends as source of income to meet their living expenses. These investors who desire to receive a regular dividend income will prefer a company with stable dividends to the with fluctuating dividends.

Institutional investors' requirements

Share of the companies are not only purchase by individuals but also by the financial, educational and social institutions and unit trust. Every company is interest to have these financial institutional in the list of their investors. These institutional generally invest in the share of those companies which have a record of paying regular dividends. A company which has a history of adopting an erratic dividend policy may not be preferred these institutional investors. Thus to cater the requirement of investors prefer to follow a stable dividends policy.

Raising additional finance

A stable dividends policy is also advantageous to the company in its effort to raise external finances. Stable and regular dividends policy tends to make the shares of a company as quality investment rather than a speculation. Investors purchasing these shares intend to hold them for long period long time. The loyalty and good will of shareholders towards a company increase with stable dividend policy. The would be more receptive to an offer by the company for the further issues of shares. A stable dividend policy also helps the sale of debentures and preference shares. The fact that the company has been paying dividend regularly in the past is a sufficient assurance to the purchase of these securities that no default will be made by the company in paying their interest or preference dividend and returning the principle sum. The financial institutional are the largest purchase of these securities. They purchase debentures and preference share of those companies which have a history of paying stable dividends.

2.4 Danger of Stability of Dividend

The great danger in adopting a stable dividend policy is that once it is established, it can not be changed with out seriously affecting investors' attitude and the financial standing of the company. If a company with a pattern of stable dividend misses dividend payment in a year, this year break will have an effect on investors dividend policy. The companies with stable dividend policy create a clientele which depends of dividend income to meet their living and operating expanses. A cut in dividend is considered as a cut in salary. Because of the serious depressing effect on investors due to a dividend cut, directors have to maintain stability of dividends during lean years even though financial prudence would indicate elimination or dividends or a cut in it. Consequently, to be on the safe side, dividend rate should be , to be on the safe side, dividend rate should be fixed at a conservative figure so that so that it may be possible to maintain it even in lean periods of several years. To give the benefit of the company prosperity, extra or interim dividend, can be declared. When a company fails to pay extra dividend, it does not a depressing effects on investors at the failure to pay a regular dividend does.

2.5 Payment Procedure

The actual payment procedure is of some important, and the following is an outline of the payment sequence.

- **Declaration date:** The directors meet, say, on November 15 and declare the regular dividend. On this date, they issue a statement similar to the following: On November 15, 19X0, the directors of the XYZ company, met and declared the regular quarterly dividend of 50 cents a share, plus an extra dividend of 75 cents a share, to holders of record on December 15, payment to be made of January 2. 19XI"
- **Holder of record date:** On December 15, the holder record date the company closes its stock transfer books and makes up a list of the shareholders as of date. If XYZ Company is notified of the sale and transfer December 16, the old stockholder gets the divided.
- **Ex-dividend date:** Suppose irma jones buys 100 shares to stock from report Nobel on December 13. will the company her the dividend to avoid conflict, the brokerage business has set up a conversation of declaring that the right to the dividend remains with the stock until the four days prior to the holders of

record date. On the forth day before the date, the right to the dividend no longer goes with the shares. The date when the right to the dividend leaves the stock goes is called the ex dividend date. In this case when the right to the ex dividend date is four days prior to December 15, or December 11. therefore, if jones is to receive the dividend, the must buy the stock by December 10, if she buys it on December 11 of later. Noble will receive the dividend. The total dividend regular plus extra amount to Rs. 1.25 so the ex dividend date is important. Barring fluctuations in the stock market, we would normality expect the price of a stock to drop by approximately the amount of the dividend on the se dividend date.

- **Payment date :** The company actually mails the checks to the holders or record on the January 2, the payment date.

2.6.1 Residual dividend policy

The resident policy suggests that dividend paid by a firm should be viewed as residual amount of left after all acceptable investment opportunities. There are many factors, as noted before which influence dividend policy. However, among all earnings and investment opportunities are considered as determining factors in the residual dividend policy. The residual dividend policy is the outcomes of the belief that investors are better off in reinvesting company profits and prefer so. If expected return on the reinvestment is higher than what individual investors can realize on their own it is to the shareholders advantages to first invest profits in those projects that promise higher profit and then distribute only leftover as dividends.

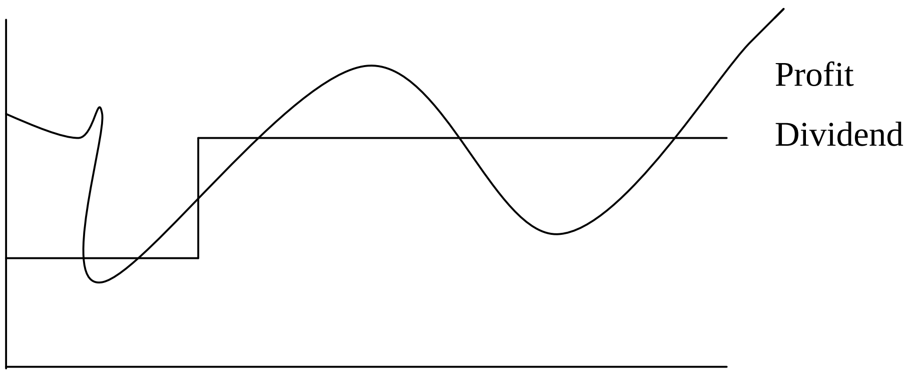
For the example, the approved capital investment and earning after tax of a company for four different years are as follows:

Year	Capital investment	Earning after tax
1	Rs 50000	Rs 15000
2	30000	20000
3	40000	20000
4	25000	15000

Dept financing for the company is 40^0 the company paid dividends as follows pattern.

Year	Capital Investment	Dept	Equity	EAT	Dividend	Common Share
1	Rs 50000	Rs. 20000	Rs. 30000	Rs. 15000		Rs.15000
2	30000	12000	18000	20000	2000	
3	40000	16000	24000	20000		4000
4	25000	10000	15000	15000		

If EAT is not sufficient for equity financing common share has to be issued, if EAT exceeds to equity finance, the dividend has to be distributed.



Residual dividend policy

2.6.2 The Residual Theory of Dividend

Dividend policy can be viewed as one of a firm's investment decisions. A firm that behaves in this manner is said to believe in the residual theory of dividends. According to this theory, dividend policy is a residual from investment policy. Whether or not a company pays dividends depends on its investment policy. It assumes that the externally generated funds are comparatively cheaper than the funds obtained from externally generated funds are comparatively cheaper than the fund obtained from external sources. The theory is based on the premise that investors prefer to have the firm retain and reinvested earnings exceeds the rate of return the investor could, himself residual dividend policy equals the amount left over from earnings after equity investments of comparable risk. The dividend under the residual dividend policy equals the amount left over from earnings after equity investment. If the equity investment equals earnings, no dividends are paid new shares are sold to cover any equity investment not covered by earnings. If there is no any investment opportunity, then cent percent earnings are distributed to shareholders. Dividend is therefore merely a residual remaining after all equity investment needs are fulfilled. Although the residual theory of dividends appears to make further analysis of dividend policy unnecessary, it is indeed not clear that dividends are solely a means of distributing excess funds. It would therefore be imprudent to conclude that there are not other implications of dividends policy, and so this study shall take a closer look at the relationship between dividends and value.

2.7 Review the provision of Dividend policy under the Nepalese Company Act.

There is nothing stated in Nepal company Act 2021 regarding dividend policy. The responsibility to undertake required actions to protect shareholders interest is given to stock exchange centre by then securities exchange Act 1983. However, organization is not competent enough to protect shareholders interest since attitude of the board of directory plays dominant role in management to public limited companies. In may cases a firm can pay long term debt indentures and preferred stock agreements contain restrictions to protect senior claim holders from excessive with drawls by residual owners. In Nepal regarding dividend policy, the Nepalese company Act 2053 with correction 059/03/24 determined the following rules and regulation. Company has to dividend to the shareholders. According to the rules under this company Act 2053, company has allowed to pay dividend against the amount, which is remaining to pay as a share price according to the company Act 2053 section 42(5), company cloud not pay dividend against the unlearned capital, company is not cleared about dividend payment in the rules of company, company has to pay dividend in nominal value. According to this Act dividends have to pay in cash. This amount should pay by cheque to shareholders within 45 days. Without special cause, company should not pay interest against the dividend. But the company could not able to pay dividend until 45 days, since declaration date do dividend, company have to pay interest against the dividend.

- According to sections 64 (4) dividend, which is declared by annual general meeting. Should not more than declared by board of members committee.
- According to section 42 (5), generally company will not be forced to pay dividend until company could not able to earn more profit.
- Although, company based on any accounting procedure for account, account should be prepared under the section 82(1) and 83(2) of Nepalese company Act 2053.

2.8 Forms of dividend Policy

Although most particular form of dividend is cash dividend, corporation need to follow different types of dividend in view of the objective and policies which they implement. The type of dividend that corporation follows is partly of a matter of attitude of directors and party a matter of the various circumstances and financial constraints that bound corporate plan and policies. According to changing needs of corporations, and scrip dividend. In Nepal and India, only cash dividend and stock dividend are declared and paid.

1. **Cash dividend**

   Cash dividend is the dividend, which is distributed to the shareholder in cash out of the earnings of the company. Where cash dividend is distributed both total assets and net worth of the company decrease as cash and earning decrease. In a sample of companies. Elton and Gruber found that on average a stock declined by 0.78 of the dividend on the ex-dividend data.

2. **Stock dividend**

   A stock dividend is the payment of existing owners of a dividends is the form of stock. Although stock dividends don't have a real value, firms pays stock dividend as a replacement for a supplement to cash dividend. A stock dividend simply is the payment of additional stock to shareholders nothing more than a recapitalization of the company: a stock holder proportional ownership remains unchanged. This form o dividend may be followed whenever there are assets that are no longer necessary in the operation of the business or in extra ordinary circumstances. Company owns products and securityies of subsidiaries are the example that have been paid as property dividend.

3. **Bond dividend :**

   Bond dividend by its name is dividends is distributed to shareholder in form of a bond. Bond dividend helps the payment of cash. in other words company declares dividends in the form of its own with a view to avoid cash outflow.

4. **Scrip dividend**

   When earning of the company justify dividend but the company's cash position is temporary weak and doesn't permit cash dividend, it me declare dividend in the form of scripts. In the method of dividend company issue and distributed to transferable promissory notes which may be interest bearing or not. A scrip dividend is justify only when the company has really earned profit and has only to wait for the conservation of others current assets into cash in the course of operation.

2.9 Practical considerations in dividend policy

The view that dividend are irrelevant is not entirely current, once we modify the assumptions underlying this view to consider the realities of the world. In practice every firm follows some kind of dividend policy. The typical dividend policy of most firm is to retain between one third to half of the net earning and distributed remaining amount to shareholder.

The following questions relate to the dividend policy of a firm.

- What are the preference of the shareholders dividend income or capital gains?
- What are the financial needs of company?
- What are the constraints on paying dividend?
- Should the company follow a stable dividend i.e. cash or house share?

It is not easy to answer these questions. A number of factors will have to be evaluated to analyze each of these questions to evolve a long term dividend policy for the firm broadly speaking to developed a long term dividend policy the directors should aim at bringing a balance between the disperse of shareholders and the need s of the company. The factors which generally influence the dividend policy of the firm are as discussed below.

Shareholder's Expectations

Shareholders are the legal owners of the company, and directors appointed by them are their agents. Therefore , directors should give due importance to the expectations of shareholders in the matter of dividend decision shareholders presence for dividend or capital gains ma depend on their economic status and the effect of tax differential on dividends on capital gains. In most countries dividend income is taxed at a rate higher than the capital gains wealthy shareholders , in a high income tax brackets , may be interested in capital gains than current dividend. On other hand a retired person with small means , whose means whose main source of income is dividend would like to get regular dividend and may not be interested in capital gains

Closely held company

In the case of closely held company the body of the shareholodere is small and homogenous and the expectations of shareholders are usually known to management. Therefore they can easily a dividend policy which satisfies most shareholders. It most of the shareholders of in high tax brackets and have a presences for capital gains to current dividend income the company can establish a dividend policy of paying less or not dividends and retaining the earning within the company.

Widely – held company

Its is a formidable task to ascertain the preference the preference of shareholder in a wieldy held company. The number of shareholders is very large and they may have diverse desires regarding dividend and capital gains .As a result , it is not possible in case of wilily held company to follow a dividend policy which serves the purpose of the dominating groups, but does not completely neglect the desires of others . shareholders of a widely held company may be dividend for example in to four groups.

- Small shareholders
- Retired and old persons
- Wealthy investors
- Institutional investors

Small shareholders are not the frequent purchasers of the share. They hold a small numbers of shares in a few company with the purpose of receiving dividend income ,or making capital gains. Thus they do not have a definite investment policy they purchase share only when their saving permit. This group rarely proves to be dominating in the body of shareholders in a company and it is not much concerned with the dividend policy of the company. Retired and old person generally investment in share to get a regular income they use their saving of provided funds to purchase share. There persons regular and liberal dividends. However a retired person who has some source of income and is in a high tax brackets may be interested in capital gains.

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

Institutional investors purchase large blocks of shares to hold them for relatively long periods of time. Institutional investors, unlike wealthy shareholders are not concerned with personal income taxes but with profitable investments. Most institutional inventors avoid speculatively issues. Seek diversification in their portfolio and favor a policy of regular cash dividend payment.

2.10 Factors Affecting Dividend Policy

The factors affecting dividend decision is one of the main focus of this study. Mostly government owned public limited companies are in less in there is no questions of paying dividend rather than minimizes losses. However in case of joint venture companies and other privately owned enterprises management has somewhat understand the important of the dividend thought all of them are not protecting shareholders. There fore, it is desirable to describe the factors recognized as active variable in determination of dividend in Nepalese companies.

Legal rules

Certain legal rules may limit the amount of dividend a firm may pay. These are

a] **The net profit rules: -** The net profits rules provides that dividends can be paid from past earnings.

b] **Capital impairment :-** The capital impairment rule protects creditors by fording the payment of dividend from capital. (paying dividends from capital would be distributing the investment in a company rather than earnings.)

c] **The insolvency : -** The insolvency rule provides that corporations cannot pay dividends while insolvent. (insolvency is divined here, in the backruptcy sense, as liabilities exceeding assets. To pay dividends under such condition would mean giving stockholders funds that rightfully belong to creditors.)

Liquidity position

The cash or liquidity position of a firm influences its ability to pay dividends. A firm may have sufficient retained earnings. But if they are invested in physical assets cash may not available to make dividends payments.

Need to repayment dept

When a firm has issued dept to finance expansion or to substitute for other firm of financing it is faced with two alternatives. It can refund the dept at maturity by replacing it with another fir of a security, or it can make provisions for paying off the dept. If the decision is to retire the dept this will generally require the retention o earnings.

Restrictions in dept contracts

Dept contracts, particularly when long term dept is involved, frequently restrict a firm's ability to pay cash dividends. Such restriction, which are designed to protect the position of the lender, usually state that

1) future dividends can be paid only out of earning generated after the signing of the loan agreement (that is, they cannot be paid out of past retained earnings) and

2) that dividends cannot be paid when net working capital (current assets times current liabilities) is below specified amount. Similarly, preferred lock agreements generally state that no cash dividends can be paid on the common stock until all accrued preferred dividends have been paid.

Rate of Assets Expansion

The more rapidly a firm is growing the greater its needs for financing assets expansion. The greater the future need for found, the more likely the firm is to retain earnings rather than pay them out. If a firm seeks to raise funds externally, nature sources are the present shareholders, who already know the company. But if earnings paid our as dividends and subjected to high personal income tax rates, only a portion of them will be available for reinvestment.

Profit Rate

The expected rate of return of assets determines the relative attractiveness of paying out earnings in the form of dividends to stockholders or using them in the present enterprises.

Stability or Earnings

A firm that has relatively stable earnings is often able to predict approximately what is future earnings will be. Such firm is therefore more likely to pay out a higher percentage of its earnings that is a firm with fluctuating earnings. The unstable firm is not certain that in subsequent years the hoped for earnings will be realized, so it is likely to retain a high proportion of current earnings. A lower dividends will be easier to maintain if earnings fall off in the future.

Access to the Capital Market

A large established firm with a record of profitability and stability of earnings has easy access to capital market and other forms of external financing. A small new or venturesome firm, however is riskier for potential investors. Its ability to raise equity or debt fund from capital markets is restricted, and is must retain more earning to finance its operations. A well established firm is thus likely to have a higher dividend payout rate than is new or small firm.

Control

Another important variable is the effect or alternative sources of financing on the control situation of the firm. As a matter of policy, some corporations expand only to the extent of their internal earnings. This policy is defended on the ground that raising funds by selling additional common stock dilutes the control of the dominant group in the company. At the same time selling debt increases the risks of fluctuation earnings to the present owners of the company.

Tax Positional of Stockholders

The tax position of stockholders also affects dividend policy. For example corporations owned largely by taxpayers in high income tax brackets tend towards lower dividend payout because the tax rates applied to dividend. Corporations owned by small investors tend toward higher dividend payouts. Brackets and stockholders in high income tax brackets and stockholders in lower tax brackets.

Review of financial Journal

Walter's Study

Professor James E. Walter argues that the choice of dividend polices almost always affect the value of the firm. His model on of the earlier theoretical works, clearly shows the importance of the relationship between the firm's rate of return, r, and its cost capital, k, in determining the dividends policy that will maximize the wealth of shareholders. Walter's model is based on the following assumptions.

- The firm finance all investment through retain earnings that is debt or new equity is not issued.
- The firm's rate of return, r and its cost of capital, k, are constant.
- All earnings are either distributed as dividend or reinvested internally immediately
- Beginning earnings and dividends never change. The values of the earnings per share, EPS and the dividend per share. DIV, may be changed in the model to determine result, but any given values of EPS or DIV are assumed to remain constant forever in determining a given value.
- The firm has a very long or indefinite life.

Walter's formula to determine the market price per share is as follows

P= $\underline{\text{DPS}}$ + $\underline{\text{r(EPS-DPS)k}}$ OR

K K

P= DPS+r/k (EPS-DPS)

K

P= market price per share
DPS= dividend per share
EPS= earnings per share
r= firm's rate of return (average)
k= firm's cost of capital of capitalization rate.

DIVIDEND POLICY AND THE VALUE OF THE SHARE WALTER MODEL

Growth form, r>k	Normal firm r>k	Decline firm r>k
Basis Date r=0.15 k=0.10 EPS=Rs.10 Payout ratio 0%	Basis Date r=0.10 k=0.10 EPS=Rs.10 Payout ratio 0%	Basis Date r=0.08 k=0.10 EPS=Rs.10 Payout ratio 0%
DIV=Re.0 P=O+(0.15/0.10) =Rs.150 **Payout Ratio40%** DIV=Rs.40% P=4+(0.15/0.10 Rs.130 **Payout Ratio 80%** DIV=Rs.8 P=8+(0.15/0.10) (10-8)/010 Rs.110 **Payout Ratio100%** DIV=Rs.10 P=10+(0.15/0.10 (10-10)/0.10 Rs.100	DIV=Re.0 P=0+(0.10/0.10) (10-0)/0.10 Rs.100 **Payout Ratio 40%** DIV=Re.0 P=0+(0.10/0.10) (10-0)/0.10 Rs.100 **Payout ratio 80%** DIV=Re.8 P=0+(0.10/0.10) (10-8)/0.10 Rs.80 **Payout ratio 100%** DIV=Re.10 P=0+(0.10/0.10) (10+(0.10/0.10(10-10/0.10) Rs.100	DIV=Re.0 P=0+(0.10/0.10) (10-0)/0.10 Rs.80 **Payout Ratio 40%** DIV=Re.4 P=4-(0.08/0.10)(10-4)/0.10 Rs.88 **Payout ratio 80%** DIV=Re.8 P=8-(0.80/0.10) (10-8)/0.10 Rs.96 **Payout Ratio 100%** DIV=Rs.10 P=10+(0.80/0.10)(10-10)/0.10 Rs.100

Walter has suggested different divided policy for different firms based on their growth.

They are:

Growth Firm

Growth firms are those firms which expand rapidly because of sample investment opportunity yielding returns higher than the opportunities cost of capital. The firms able to reinvest earnings at a rate ® which is higher than the rate of expected by shareholders (K).They will maximize the value per share if they follow a policy of retaining all earnings for internal market. Thus the optimum pay out for growth firms is zero. The market per increases as pay out ratio declines where r>k.

Normal firms:

When the firms do not have unlimited invest opportunities with r>k. After exploiting portable investment opportunities. These firms earn equal to the cost of capital and they have r=k. When firms are in this situation divided policy does not have any effect on market per share. Thus there is not unique optimum pay out ratio for the normal firms.

When the firms do not have any profitable investment opportunity to invest these are referred as declining firms. If these firms invest on unattractive investors. So investing on these investment worthless. Thus optimum pay out ratio for declining firm 100 percent. The market value per share increases as pay out ratio increase.

Criticism of Walter's Approach

Walter's model is quite useful to show the effects of divided policy on all equity firm under different assumptions about the rate of returns. However. The simplified nature of the model can lead to conclusions which are not true in general, through true for the model. The following is a critical evaluation of the assumptions underlying the model.

1) No External Financing – Walter's approach assumes that retained earning only and no external financing finance the investment opportunities of the firm. When such situation exists. Either the firm's investment or its dividend policy or both will be sub optimum.
2) Constant Rate of Return r- Walter's model is based on the assumption that r is constant. In fact r decreases as more and more investment are made first and the poorer investments as made. The firs should stop at a point where r=k.
3) Constant Opportunity Cost of Capital, k - A firm cost of capital or discount rate k does not remain constant ; it change directly with the firm 's risk. Thus the percent value of the firm's income moves inversely with the cost of capital. By assuming that the discount rate, k, is constant, Walter's model abstracts from the effects of risk on the value of the firm.

Gordon's Study

Myron Gordon has recommended the interest approach relating the market value of the firm to divided policy. He hold that investors have a strong preference for present divided s to future capital gains under the condition of uncertainly. It is assumed that current divided is less risky than be expected capital gain. According to him, market value of a share is equal to the present value of an infinite stream of dividends to be received by the share. Gordon's model is based on the following assumption:

- **All equity firm**: The firm is an all equity firm and it has no dept.
- **No external financing:** No external financing is available consequently retained earnings would be used to finance any expansion. Thus as Walter's model too confounds dividends and investment polices.
- **Constant return :** The internal rate of return r of the firm is constant.
- **Constant cost of Capital :** The appropriate discount rate of k for the firm remains. Thus Gordon's model also ignores the effects of a change in the firm' risk class and its effects on k..
- **Perpetual earnings** : The firm and its stream of earning are perpetual.
- **No taxes :** Corporate taxes do not exist.

- **Constant retention :** the retention ration b once decided upon. Is constant. Thus the growth rate g=br is constant forever.

- **Cost of capital greater than growth rate :** The discount rate is greater than growth rate k br=g If this condition is not fulfilled. We can not get a meaningful value for the share.

Based on above assumption, the formula advance by him is as follows :

$$Po = \frac{EPSI(1-b)}{K-g}$$

Where,

Po	= Price per share
ESPI	= Expected Earning per share
B	= Retention Ration
K	= Capitalization rate
G	= Growth rate
1-b	= Dividend payout ratio

DIVIDEND POLICY AND THE VALUE OF THE FIRM (GORDON'S MODEL)

Growth firm, r>k	Normal firm, r=k	Decline firm, r<k
Basis Date r=0.15 k=0.10 EPS=Rs.10 Payout ratio (1-b)=40% ratio b=60% g=br=0.6×0.15=0.09 $p=\frac{10(1-0.06)}{0.10-0.09}$ Rs. 400 Payout ratio (1-b)=40% ratio b=60% Retention ratio, b=40% g=br=0.4×0.15=0.06 $p=\frac{10(1-0.04)}{0.10-0.06}$ Rs. 150 Payout ratio (1-b)=40% ratio b=60% Retention ratio, b=40% g=br=0.4×0.15=0.06 $p=\frac{10(1-0.04)}{0.10-0.06}$ Rs. 150 Payout ratio (1-b)=90% ratio b=60% Retention ratio, b=10% g=br=0.10×0.15=0.15 $p=\frac{10(1-0.01)}{0.10-0.15}$ Rs. 106	Basis Date r=0.10 k=0.10 EPS=Rs.10 Payout ratio (1-b)=40% ratio b=60% Retention ratio,b=60% g=br=0.6×0.10 =0.6 $P=\frac{10(1-0.06)}{0.10-0.06}$ Rs=100 Payout ratio (1-b)=60% ratio b=40% g=br=0.4×0.10=0.4 $P=\frac{10(1-0.04)}{0.10-0.04}$ Rs=100 Payout ratio (1-b)=90% Retention ratio, b=10% g=br=0.10×0.10=0.01 $P=\frac{10(1-0.1)}{0.10-0.01}$ Rs=100	Basis Date r=0.08 k=0.10 EPS=Rs.10 Payout ratio (1-b)=40% ratio b=60% Retention ratio,b=60% g=br=0.6×0.08=0.48 $P=\frac{10(1-0.6)}{0.10-0.048}$ Rs=77 Payout ratio (1-b)=60% ratio b=40% Retention ratio,b=60% g=br=0.4×0.08=0.032 $P=\frac{10(1-0.4)}{0.10-0.032}$ Rs=88 Payout ratio (1-b)=90% Retention ratio,r=10% g=br=0.10×0.08=0.008 $P=\frac{10(1-0.1)}{0.10-0.008}$ Rs=98

It is relevant that under Gordon's model :

- The market value of the share, P, increase with the retention ratio, b, for firms with growth opportunities, i.e when r>k.
- The market value of the share p increases with the payout ratio, (1-b), for declining firms with r<k.
- The market value of the share is not affected by dividend policy when r>k.
- Cost of capital is greater than Growth Rate.

Gordon's model's value of share in not affected by dividend policy are similar to that of Walter's model. This similarity is due to the similarities of assumptions which underline both models. Thus the Gordon's suffers the same limitation as the Walter model.

Modigliani and Miller's Study

According to Modigliani and Miller (M-M) under a perfect market situation, the dividend policy of a firm is irrelevant as it does not affect the value of the firm. The argue that the value of the firm depends on the firm's earnings which result from its investment policy. Thus when investment decision of the firm is given dividend decision the split of earnings between dividends and retained earnings is of no significance in determining the value of no significance in determining the value of the firm.

A firm operating in perfect capital market conditions may face one of the following three situations regarding the payment of dividends.

- The firm has sufficient cash to pay dividends.
- The firm not have sufficient cash to pay dividends, and there for it issue new share to finance the pay of dividends.
- The firm does not pay dividends but a shareholders needs cash.
- The firm does not paid tax.
- Transaction cost does not exits.

In the first situation when the firm pays dividends shareholders get cash in their hands hut the firms assets reduce (its cash balance declines). What shareholders gain in the form of cash dividends they lose in the form of their claims in the (reduced) assets. Thus there is a transfer of wealth from shareholder's one pockets to another pockets. There in not get gain of lose. Since it is a fair transaction under perfect capital market conditions the value of the firm will remain unaffected.

In second situation, when the firm new share to finance the payment of dividends, two transactions take place. First existing shareholders get cash in the form of dividends but they suffer an equal amount of capital loss since the value of their claim on assets reduces. Thus the wealth of shareholders does not change. Second the new shareholders part with their price per share is share price before the payment of dividends less dividends per share to existing shareholders. The existing shareholders transfer a part of their claim (in the from of new share) to the new shareholders in exchange for cash. There in no get gain of loss. But transaction are fair and thus the value the firm will remain unaltered these transactions.

In third situation, if the firm does not pay any dividend a shareholders can create a "home made dividend" by selling a part of his/her shares at the market (fair) price in the capital market for obtaining cash. The shareholders will have less number of share. He or she has exchanged a part of the his claim on the from of to a new shareholder for a cash. The net affect is the same a sin the case of the second. The situation is a fair transition and no one loses or gains. The value of the firm the same before or after these transactions.

M-M's hypothesis of irrelevance is based on the following assumptions:

- **Perfect capital markets** The firm operates capital markets where investors behave fractionally , information is freely available to all and transactions and flotation costs do not exist. Perfect capital markets also imply that no investors is larger enough to affect the markets price per share.

- **No taxes** taxes do net or there is no difference in the tax rates applicable to capital gains and dividends. This means that investors valve a rupee of dividends as much a rupee of capital gains.

- **Investments policy given** The firm has a fixed investment policy

- **No risk** Risk of uncertainty does not exist. That is investors are able to forecast future prices and dividend with certainty and one discount rate is appropriate or all securities and all time period. Thus r = k for all t.

Under the M- M assumptions r will equal to the discount rate k and identical or all shares. As a result , the price of each share adjust so that the rate of return , which is composed of the rate of dividend and capital gains on every share will be equal to the discount rate and be identical for all shares. Thus the rate of return for a share held or only year may be calculated as followed.

$$r == \frac{\text{dividend + capital gain (loss)}}{\text{purchase price}}$$

or

$$r = \frac{dl + p1}{l+r}$$

Where,

Po = market of purchase price per share at time o

Pl = market price per share at time l

Dl= dividend per share at time l

As hypothesized by M-M r should be equal for all share if it is not so the low return yielding shares will be sold by esters who will purchase the high re turn yielding shares. This process will be tend to reduce the price of the low return shares and increases the prices of the high return shares. This switching of arbitrage will continue until the differentials in rates are eliminated. The discount rate will also be equal for the all firms under the M-M assumptions since there are no risk difference.

From M-M 's fundamental principal of valuation described by following formula , we can derive their valuations model as follows :

$$Po == \frac{dl + p}{l+k}$$

since r = k in the assumed world of certainly and perfect market. Multiplying both side of above formula by number of share outstanding n, we obtain the total valve of the firm if no new financing exists.

$$V = nPO$$

Or

$$V = n \frac{(Dl+pl)}{L+k}$$

If the firm sells number of new shares I at a price PL the valve of the firm at time O will be:

$$V = \frac{n (Dl+ pl) + mpl – mpl}{L+k}$$

Or

$$= \frac{nDl + npl –mpl}{L+k}$$

The investment programmers of a firm in a given period of time can be financed either by retained earnings or the issue of new shares of both thus the amount of new shares issued will be.

mPI=11(X1-Ndiv1)

= 11- X1+nDIV1

Where,

II = The total amount of investment during first period

XI= Total net profit of the firm during first period

By substituting above formula, M-M showed that the value of the firm is unaffected by its dividend policy, thus,

$$nPO=\frac{nDIV1+(n+m)P1-mP1}{1+K}$$

$$= \frac{nDIV1+(n+m)P1-(11-X1+nDIV1)}{1+K}$$

$$= \frac{(n-m)\ P1-11-XI}{1-k}$$

A firm which pays dividends will have to raise funds externally to finance its investment plans. M-M's argument that dividend policy does not effect the wealth of the shareholders, implies that when the firm pays dividend. Its advantage is offset by external financing. This means that the terminal value of the share (say, price, of the share at first period if the holding period is one year) declines when dividends are paid thud, the wealth of the shareholders—dividend plus terminal price—remains unchanged. As a result, the present value per share after dividends and external financing is equal to the present value per share before the payment of dividends. Thus the shareholders are indifferent between payment of dividends and retention on earnings.

For example

Number of share outstanding (n) =100000

Current market price per share (Po) = Rs 100

Net profit of a firm (X)= Rs.1000000

New investment (l)= Rs.2000000

Cost of capital (k)= 10^0

The price of the share at the end of current fiscal year is determined as follows:

$$PO=\frac{DIVI+P1}{1+K}$$

P1=PO(1+K)-DIVI

The value of Pl when dividend is not paid is:

Pl=Rs 100(1.1)-0

=Rs. 110

When dividend is paid it is:

Pl=Rs100(1.1)-Rs5

=Rs.105

Is can be observed that dividend is paid or not the wealth of shareholders remains the same. When the dividend is paid the shareholder will get Rs.110 b way of the price per share al the end of the current fiscal year. On other hand, when dividend is paid, the shareholders will realized Rs.105 by of the price share ate end of the current fiscal year plus Rs.5 as dividend.

The number of new shares to be issued by the company to finance its investment is determined as follows:

mPl=1-(X-nDIVI)

105m=2000000-(100000-500000)

105m=1500000

m=1500000/105

=14285 shares.

Value of the firm, if dividend is paid.

$$\text{Value of firm} = \frac{(n+m)pl-1-E}{1+K}$$

$$= \frac{10000+14285)105-2000000-1000000}{1-0.1}$$

Rs= Rs.11818113

Value of the firm, if dividend is not paid.

No of new shares to be issued =

mPl=1-(X-nDIVI)

110m=2000000-(1000000-0)

=9091 shares.

Value of the firm = $\frac{(n+m)pl-1+E}{1+K}$

$$= \frac{(10000+9091)110-2000000-1000000}{1-0.1}$$

= Rs. 11818113

Whether, dividend is paid or not, the value of the firm is same is both conditions.

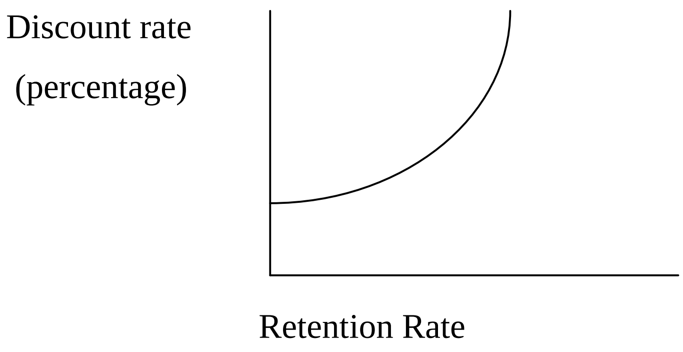
THE BIRD IN THE HAND ARGUMENT

According to Gordon's model dividend policy is irrelevant where r=k, when all other assumptions are held valid. But when the simplifying assumptions are modified to conform more closely with reality. Gordon's concludes that dividend policy does affect the value the of a share even when r=k. This view is based on the assumption that under conditions of uncertainly investors tend to discount distant dividends (capital gain) at a higher rate than they discount near dividends. Investors behaving rationally, are risk averse and there fore have a preference for near dividend to future dividend. The logic underlying the dividend effect on the share value can be described as the bird in the land argument. The bird in the hand argument was put ford ward first of all by Krishman in the following words:

Of two stocks with identical earnings record, and the prospects but the one paying a large dividend that the other, the former will undoubtedly command a higher price merely because stockholders prefer present future values. Myopic vision plays a part in the price making process. Stockholders often act upon the principle that a bird in the hand is worth two in the bush and for this reason are willing to pay a premium for the stock with the higher dividend rate just as they on with lower rate.

The bird in the hand argument has been expressed more convincingly and in the formal terms by Gordon. According to him uncertainty increases with futurity; that is the future one look into future the more uncertain dividends become. According, when dividend policy is considered in the context of uncertainty, when dividend policy is considered in the context of uncertainty the appropriate discount rate k can be assumed to be constant.

In a fact it increases with uncertainty investors prefer to avoid uncertainty and would willing to pay higher price for the share that pays the greater current dividend all other things held constant. In other words, the appropriate discount rate would increases with the retention rate shown in given figure. Thus the distance dividends would be discounted at a higher rate than near dividends. Symbolically, Kt>Kt-1=1,2,3…. because of increasing uncertainty in the future. As the discount rate increases with the length of the time, a low dividend payment in the beginning will tend lower the value of share in future.



When the discount rate is assumed to be increasing. We cab be following formula:

$$P_O = \frac{DIVI}{(1+K)} + \frac{DIV2}{1+K)} + \frac{DIV3}{1+K)} + \ldots\ldots\ldots + \frac{DIVt}{1+K)}$$

Here P_0 is the price of the share when the retention rate, be, is zero and Kt>Kt-1. If the form is assumed to retain a fraction b of earnings, dividend per share will be equal to (1-b) EPSI in the first year. Thus the dividend per share is expected to grow ate rate g=br, when retain earnings are reinvested at r rate of return. The dividend in the second year will be DIV0 (1+g)

Thus incorporating uncertainty into his model. Gordon concludes that dividend policy affects the value of the share. His reformulation of the model justifies the behavior or investors who value a rupee of dividend income more than rupee of capital gains income. These investors prefer dividend above capital gains because dividends are easier to predict, are less uncertain and less risky, and therefore discounted with a lower discount rate. However all do not agree with his view.

Van Horne and McDonald's Study

Van Horne and McDonald's provide a more comprehensive study on dividend policy and new equity financing.

The basis objective of the study was highlight the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stock. For the purpose of study two industries have 86 firms in the electronics and their electrics component industries listed on the computed industrial date tape in 1968 were selected. The employed two regression for electric. Form the study it was found that where value of electrics components industrial. From the study it was found that where value of electric first in 1968 was adversely affected by new equity financing in the presence of east dividends except for those forms in the highest new issue group and in made new equity that the payment of dividend thought excessive equity financing reduces share prices.

Chawala and Srivasan's Study

Chawala and Srivasan conducted a study on impact of dividend and retention on share prices. 18 chemical and 13 sugar industries were selected for study. They basic objective of the study were:

- To set a model explain share price dividend and retained earnings relationship.
- To test the dividend, retained earnings hypothesis.
- To examine the structural change estimated relations overtime.

Simultaneous equation model as developed by friend and Puckett 1964 was employed.

Price function

F[Dt,RtP/E(t-1)]

F[Et,D(t-1),P/E(t-1)]

Where,

P	=	Market price per share
D	=	Dividend per share
R	=	Retained earnings per share
E	=	Earnings Per share
P/E	=	Dividend from the sample. Average of price earnings ratio
T	=	Subscript for time

They used to least square technical for estimation and case of chemical industrial they fond the estimated co efficient had the correct sign and co efficient of determination of all the equations were very high.

It implies that the stock price and dividend supply variation can be explained by their independent variables. But in the case sugar industrial they found that the sign for retained earnings in negative. Finally they concluded that dividend hypothesis hold well in the chemical industrial. Both dividend and retained earnings significantly explain the variation in the share price in chemical industry.

Dr. Shrestha's Study

Dr. Shresha's has conducted a study to deal with policies and financing performance of some companies in Nepal. A book entitle Shareholder's democracy and Annual General Meeting Feedback contains a paper. Presented by Dr. Shrestha on the occasion of Fifth Annual Meeting of Nepal Arab Bank. On his, Dr. Shrestha had raised following issues:

- The cost push inflation at exorbitant rate had made the shareholder's to expected higher return from their investment.

- Multiple decrease in the purchasing power of the Nepalese current to the extent that higher return by way of dividend is just a natural economics consequence of it.
- Erosion in the purchasing power of people has made it clear that dividend payment must be directed to enhance shareholder's purchasing power by raising dividend payout ratio of the basis of both earning and cost theory.
- Indo Nepal trade and transit deadlock has become a sort of economics warfare putting rise in the cost of living index to a considerable extent. This has caused the shareholder's to expect higher dividend.
- The waiting of five years with peanut with peanut dividend previous year is equally a strong enforceable reason of the bank's shareholder's to expect handsome dividend already assured and committed in various reports of earlier Annual General Meeting.
- One way encourage risk taking and reference is to have proper risk return trade off Bank Management in a way that higher return must be the investment rule for higher risk takers that compromise bank's share holder's.

In the prevalence of these conditions. Shrestha suggested bank management to rethink the matters related to payment of dividend.

Pradhan's Study

Pradhan's conducted a comprehensive study on stock market behavior for in a small capital market. The study was based on poled cross sectional data of 17 enterprises whose stocks are listed in stock exchange centre and traced in stock market. The result revealed by the study are as follows.

- Stock with larger Market value to book value have larger P/E ratio and lower dividends. Price earnings ratio are more variable for stock with larger MV to BV ratio dividend ratios ratio are more variable for stock with smaller MV to BV.
- Stock with larger P/E ratio has larger MV to BV of equity and smaller dividend ratio. But these ratio of MV to BV and dividend are more variable for smaller stocks than stock than for larger stock.

- Stock with larger P/E ratio have lower liquidity , higher leverage lower profitability lower assets t urn over and lower interest coverage. However liquidity leverage earning turn over and interest coverage 's are more variable or stock with smaller P/E ratio.
- Stocks paying higher dividend have higher liquidity. Leverage , higher earning higher turnover and higher coverage's. However lower dividends while earning assets turnover and interest coverage are more variable for the stock paying higher dividends.

Review of previous Thesis

There are very few these have been written by students regarding the study topic. Some of them are supposed to be relevant for the study which are summarized as below.

Navaraj Adhikari

Thesis titles " Corporate Dividend practice in Nepal " written by Nabaraj Adhikari in April 1999. According to this study dividend has a number of unique advantages over alternative managerial communications. The empirical evidence conforms that alternatives are not perfect substitutes for dividends. Dividends serve as a simple , comprehensive signal of managements 's interpretation of the firm 's recent performance and its future prospects. The improved corporate dividends practice is thus and essential means to solve the problems of asymmetric information's between management of newly established Nepalese companies and Nepalese investors who have poured their funds there in dividends decision however is still a crucial as well as controversial area of managerial finance. Only a few companies are paying dividend there is also growing practice for paying stock dividend among some Nepalese companies.

The problems of the study are do the companies paying larger dividends have a good financial position. Are the companies with higher dividend yield having improved financial ratios? What relationship between dividends and stock price?

Where legal restriction on share repurchases should continue to prevail? What kind to dividend policy should be followed by Nepalese enterprises?

The major objectives of this study are to assess corporate dividend practice in Nepal. The specific objectives are to analyze to properties of portfolios formed to dividends. To examine the relationship between dividend and stock prices and to survey the opinions of financial executives on corporate dividends practices. In the this study dat4e in analyzed by using statistical as well as financial tools under primary secondary data.

The major finding of secondary date is stocks with larger ratio of dividends per share to book value per share have higher liquidity. However, liquidity position of stocks paying higher. Positive relationship is observed between the ratio of dividend per share to book value per share and turnover ratios. There is positive relationship between the ratio of dividend per share book value per share and interest coverage. Negative relationship between dividend payout and earning before tax to net worth. The result from primary data is among the major decisions of finance the majority of the respondents fell that investment decisions are more important. Financing decisions got second and dividend decisions got third and last important. It indicates that dividend decisions are relative less important. As regards dividend ad residual decision the majority of the respondents tell that is it not a residual decision. Nepalese shareholders are not really indifferent towards payment or not payment of dividends.

ChandraKanta Bhandari's Study

A case study of Nepalese listed companies" written by Chandra Kanta Bhandari in 1996. according to him.

According to this study dividend policy is majority decision of the firm under which it is determined that what percentage of the earning is retained in the firm is distributed to its shareholders and what percentage of the earnings is retained in the firm which is desirous for the growth of the firm. Dividend policy being of crucial importance and purely a policy matter is to be formulated with consistent approach instead of making decision of moment basis. Retention of earning is desirous for the growth for the of the firm whereas as shareholders are interested to get some sport of return in the firm to dividend. Thus this study aims to focus on prevailing proactive and policies of some Nepalese listed companies regarding dividend decision. Most of them don't have any consistent and clear dividend policy on dividend policy on dividend distributed. This study is covering different areas of business like banking, manufacturing, trading, and insurance sectors.

The maim problems of the study are, what is the prevailing practice of the Nepalese listed companies regarding their dividend policy? Whether on not the prevailing dividend policy affects corporate liquidity and stock prices of selected companies? What is the relationship of dividend with earning per share, net worth market price of the stock?

The basis objectives are of the study is to assess the prevailing practice of the Nepalese listed companies regarding dividend and to test whether or not dividend decision is influencing factors of financial structure, the flow the funds, corporate liquidity, stock prices and investors satisfaction and to test the relationship between dividend with earning per share net profit net worth and market price of the stock. In this study the date is analyzed by using secondary whereas statistical as well financial tools.

In finally the dividend per share and earning per share of the Nepalese listed companies are positively correlated. Market prices per share of the listed companies is higher that net worth per share. The market prices per share and dividend pay out ration are inversely correlated which seems ridiculers. The higher the investment, higher the investment, higher the dividend per share.

Rabindra Kumar poudel's Study

Dividend Policy "A case study of different listed finance companies written in 2000. According to this study dividend is the return distributed dividend is the return distributed by the firm in term of cash, share and other form of the earning to its shareholders for their investment in share capital. Dividend policy has direct influence on these two companies of return. So dividend policy of the firm is yet another crucial area of financial management. The important aspect of dividend policy is to determined the amount of earnings to be distributed to shareholders and the amount to be retained in the firm.

The main problem of study is there is no any proper relationship between dividend and quoted market price per share exists. Distribution of dividend is not matching with the earning of the finance companies. Do the finance companies have uniformity in dividend distribution policy? Does th4e dividend policy affect the market price of the share differently of different companies? Is there relationship between financial tools? The ability to pay dividend not a problem but the attitude to pay the dividend is the problem of the companies.

The objective of this study is dividend decision should be maximize the shareholders return, so that value of their investment is maximized. Objective of the study focus to analyze the relationship of dividend with earning per share, net profit tax, net worth, average stock price, and percentage retained earning. To highlight dividend practices of the finance companies. To provide a workable suggestion and possible guidelines to overcome various and gaps based on the findings of the analysis. To find our whether the capital market are efficient of inefficient. In this the date is analyzed by using secondary whereas statistical as well as financial tools.

The finding of the study is the relationship between NPAT and DPS were positively correlated. Higher the P/E ratio, it is the better of the owners. There is no adequate legal rule for binding finance companies to pay dividend when they are in profit position. There is the fluctuating trend of average market price in all finance company, al these happens due to the slackness in capital market, price per share of all these finance companies reached peck at on time began to drop considerably at present. Again they quite able to in shareholders market value of share.

"Dividend policy: Comparative analysis of Nepalese listed companies" written Tirtha Raj Ghimire in 2001, according to this study dividend policy in one of the important topics in financial management. But few student conduced research on dividend policy based on some sector. The date analyzed by using secondary date taking financial as well as statistical tools.

Major finding of the study are differences in financial position of high dividend paying and low dividend paying companies, other things remaining the some financial position of high dividend paying companies in comparatively better than that of low dividend paying companies. Another interesting conclusion is that market price of share is affected by dividends. Dividend pay out is not regular in Nepalese listed companies.

There is not uniformity of dividend distribution policy and practice in selected companies. Change in dividend per share and payment ratio affects the share price of different sector companies. The relationship between dividend per share with net profit and net worth positive in al sectors companies.

Krishana Prasad Upadhya's Study

" Dividend Policy, practice: A comparative study of Nepal Bank ltd. And Nepal Arab Bank ltd," Writer by Krishana Prasad Upadhya 1999. According to this study dividend key factor for the investment on the company's shares is desirable fro the stockholder's point of view. But commercial bank in Nepal have not adopted consistent policy on dividend decision. Firstly, dividend distribution does not match with the earnings of the commercial banks. Secondary, there is not proper relationship between dividend and quoted market price of shares. Similar commercial banks with lower returns record stable share price and vice versa. Thus return of the banks does not reflect he market price of share's. Ownership patterns attitude of management forms of management, government rules and regulations may be the partial causes of such a situation the obvious problems of these banks regarding dividend policy is the problem of appropriate relationship of dividend with earnings per share, market price share, book value per share bank. The problem of deviance of the possibility of increasing the market price of stock by changing dividend payout ratio. Net profit and net worth the bank relative consistency problem of dividend policy and practice of the commercial banks. The problem of relevancy of dividend decision to affect the market price per shares issued different banks.

The study primary focuses on the dividend policy and practice of commercial banks with a view to suggests some appropriate dividend strategy. In this regard specific objectives of this study are to highlight the various aspects of dividend policies and practices of NBL and NABIL. To analysis he relationship of dividend with various keys variables such as earnings per share, net profit worth and stock price. To recommend the policy markets and executives to overcome various issues and gaps on the finding of the analysis. In order to accomplish the objectives of the study, various financial and statistical tools have been used. The result of analysis has been properly tabulated, compared analyzed and interpreted. In this study simply regression technical has used to analyze the influence o independence variables on variable.

The finding of the study is the net profit and dividend per share are positively correlated in both the banks with means dividend decision of these banks depend upon net profit earned. So and increase in meet profit result in a increase in dividend per share and vice versa. But these banks have followed growth rates of dividend per share. This indicates that both banks have adopted the stable dividend policy. Moreover, different financial indictors of both the bank show that average EPS of NBL is higher that of NABIL but the average DPS of NABIL is higher the NBL. So it is obvious that NBL is earnings more profit but paying lower portion of its earning as dividend to shareholders as compared to NABIL. However, incase of both the banks, there is no stable growth rate of DPS. But NABIL's dividend pay out ratio is higher than that of NBL. A changer in DPS affects the share prices differently in different banks. There is not uniformity of dividend distribution policy and practice in both the banks.

Buddhi Sagar Timilsina's Study

"Dividend policy, comparative study between Nepal Grid lays Bank Ltd, and Nepal noses Bank Ltd." Written by Buddha Sager Timilsina 2000. The policy of the company on the division of it's profit between distributed to shareholders as dividend and retention far it is investment is known as dividend policy. All aspect and question related to payment of dividend are contained in a dividend. Dividend decision is one of the major decisions of managerial finance.

The major problems that have been identified for the purpose of this study are the problem is not ability to pay dividend but the attitude to pay dividend what is the relationship of dividend with earning per share, market price of share book value of share net profit end worth of companies? Does the dividend policy affected to the market price of share of different companies? It is possible to increase the value of stock by changing dividend policy or pay out ratio? The overall objective of the study are to highlight dividend practices of the banks to analyze the relationship of dividend with various important variable such as earning per share, stock price, net profit and net worth.

The major finding of the study are dividend pay out ratio is higher than earnings as dividends, dividends per share is positive correlated with earnings per share, net profit market price per share and net worth, market price per share is considerable higher that actual net worth. In some case market price of share is three times higher than net worth. This clear shown that investors do not have adequate knowledge about to evaluate value of shares before investing on it. The pattern of dividend payout ratio of both the banks shows the conservative dividend policy followed by the banks. Relationship of earning and dividend payment is matching with growth and expansion and diversification schemes lead to hammer on maximization of the share holders' wealth.

Chapter 3

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the description of the method used a detailed study and investigation of a particular subject to discover new facts and to get additional information. It is a process of systematic and in dept study of particular subject of topic bucket by collection competition, presentation and interpretation of relevant data.

3.2 Research Design

The research design includes specification of the method purposed study and detail plan for carrying out the study with various empirical data for the analysis of the problems. The present study is mainly based of two types of research design i.e. descriptive research design describes the general pattern of the Nepalese investors business structure, problems of finance companies etc. the analytical research design makes analysis of the gadhered facts and information and makes a critical evaluation of it. The research design is followed to analysis the dividend policy of finance companies. For the analytical purpose the actual reports of relative finance companies and financial statement of finance companies were collected for the year 2061/ 2062 to 2065 2066.

3.3 Nature and Source of data

To analysis the study topic , require secondary data have been collected from different financial companies as well as financial institutions which are related with dividend it is not possible to involve the primary data regarding the study topic so only secondary data is basis of the study topic for the year 2061 / 2062 to 2065 / 2066.

The required data is collected from mentioned below.

- Annual reports
- Security Board of Nepal
- Nepal stock Exchange Limited
- Books journals and Articles

3.4 Selection of Data

Economics liberalization policy of the government has encouraged the establishment and growth of finance companies in the country within a short span a time. In a situation when existing financial institution especially commercial banks are unable to supply credit timely and carry capital market activities financial company have come timely to meet the individual credit needs. As a available data by mid April 2004 there had been 59 licensed finance companies. So there are many finance companies operating in the country but only few companies that their share have traded actively on stock market. Hence it is not possible to study all the finance companies regarding study topic. So this study will cover altogether 6 companies. Therefore sampling will be done selecting from population. The samples are as follows.

a] Mahalaxmi finance Limited
b] Ace finance limited
c] United finance limited
d] National finance limited
e] Siddhartha finance limited
f] World merchant Banking & finance limited

In the context of Nepal data problems is acute. Event the finance statements of the companies published by them are not readily available since they are treated as confidential Nepal stock exchange ltd. Publishes finance statement of some of the listed companies to avail and ease information regarding capital market. For the research purpose we need sufficient data of several years regarding the study topic. So newly established finance companies do not have sufficient data even though they are listed in Nepal stock exchange market. Only those companies are included in sample are included whose shares are actively traded in stock market and make some contribution towards the financial markets.

3.5 Method of Analysis

The analysis of the finance companies data will be done according to pattern of data available. Various financial and statistical tools have been used to analyze the variables regarding th4e study topic. Mainly the analysis will be done by using financial tools, correlation and simple regression analysis. The various calculated result have been obtaining through financial and statistical tools are tabulated under different heading. By using various financial and statistical tools the relationship between different variable dividend will be drawn out. Then result are compared with each other to interpret.

Financial tools

Earning per a share (EPS)

Net earning means after tax profit which are calculated after decocting reserve etc to shareholders. Calculating of earning per share over the year indicates that whether the finance companies earning power on per share basis have changed over the period or not. Earning per share would be calculated by dividing net earning by the total number of outstanding share.

$$EPS = \frac{\text{Net profit after tax}}{\text{No of common shares outstanding}}$$

Divided per share (DPS)

The whole amount of earning may or may not be distributed to shareholders by a company. How much per share the divided is distributed to common shareholders can be known this from this divided per share is calculated by dividing the total dividend to equity share holders by the total no of shares.

$$DPS = \frac{\text{Net profit after interest and preference dividend}}{\text{Not of ordinary shares outstanding}}$$

Or

$$= \frac{\text{Earning to shares holders}}{\text{Not of share outstanding}}$$

Dividend pay out ratio (DPR)

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

$$DPR = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

$$\text{Or} = \frac{\textbf{DPS}}{EPS}$$

Dividend yield ratio (DYR)

Market valve per share is highly influenced by the dividend yield ratio because a change in DPS can bring effective change in the MPS. It is calculating by dividing the dividend share by market price per share.

$$DYR = \frac{\text{Dividend per share}}{\text{Market valve per share}}$$

$$\text{Or} = \frac{DPS}{MV}$$

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

$$PER = \frac{\text{Market valve per share}}{\text{Earning per share}}$$

Return to net worth (RONW)

It refers to the owners claim in the assets of finance companies. This can be found by subtracting total liabilities from total assets and also this is the indicator of company's good financial performance that means it indicates how well the finance companies have used the resources of the investors. It is calculated by dividing net profit after taxes by net worth. The formula used is as follows.

$$\text{RONW} = \frac{\text{Net profit after tax}}{\text{Net worth}}$$

Simple Coefficient of Correlation between Variables (rxy)

The coefficient of correlation analysis is the statistical tools that we can used to describe the degree to which one variable is linearly related to another. So, on the basis of correlation theory we can the cause, effect, relationship between two or more set of variable. Thus to determine the relationship between two factors with market price per share to other variables (EPS, DPS, PER, DY, ROWN). The formula used as follows.

The simple correlation coefficients are as follows:

- Market price share and Earnings per share
- Market price share and Dividend per share
- Market price per share and Price earnings ratio
- Market price per share and Dividend yield
- Market price share Return on net worth.

Simple Arithmetic Mean (X)

The most population and widely used measure of representation the entire data by one variable is the arithmetic mean. The number of items obtains by adding together all items and by dividing this total, its value. Mean values of different variable represent the average value of for the study period.

In generally if XI, X2……….Xn are the given in observations then their arithmetic mean, usually denoted is X given by.

Standard Deviation

The standard deviation measure the absolute dispersion. Dispersion can be defined as the measurement of the scatter ness o the mass of figures in a serious about an average in known as dispersion. The greater amount of dispersion of dispersion indicates the greater standard deviation. A large standard deviation mean low degree of uniformity of the observation as well as homogeneity of a series small a means a high degree uniformity of observation of series. Standard deviation is calculated that for selecting dependent and independent variables specified in the models presented above regarding this study.

Standard deviation is usually denoted by small sigma. It is defined as positive square root of the arithmetic mean of the square of the deviation from their arithmetic mean. It is measured an absolute term dispersion depending upon unit measurement.

Coefficient Variation

The coefficient of variation is the relative measure of dispersion. The greater the value of coefficient of variation, the less will be the uniformity (or consistency, stability etc) and the smaller the value the of coefficient of variation the more will be the uniformity (or less will be the variability).

Chapter-4

RESENTATION AND INTERPRETATION OF DATA

Dividend policy is an important function of due to its decision impact upon value of the firm. In this context, this section of the study attempts to analyze the secondary date regarding dividend policy of the finance companies. The analysis includes financial and statically indicators as well the attitude of management towards the of optimum dividend decision. In order to achieve the objectives of the study , this analysis is highly supported by the practice of divided distribution of finance companies presentation and interpretation of financial statement are done hare to determine the meaning of the financial data. Some graphic and diagram presentation is used to highlight the company's perforce.

This study mainly based upon the walter's study, wnereas dividend policy almost always affects to the market value to enterprise so this is analyzed to dividend per share with market price per share. Hence it is tried to analyze data regarding dividend, by taking the market price per share as a dependent variables and dividend per share and other related variables (EPS, DPR, PER, DY, and RONW) in the terms of dividend are taken as an independent variables, without this, here is tiried to analyze the date between variables through. Coefficient of correlation matrix and other tools.

4.1 Analysis of Financial Tools

4.1.1 Earnings per Share (EPS)

Earnings per share is calculated by dividing the net profit after taxes by the total number of the common share outstanding. Higher EPS of the companies indicate is good performance in financial markets whereas lower EPS of the companies indicates its weak performance in financial markets. So the achievement of the companies higher earnings per share. Therefore higher EPS is the important financial tools (factors) of business organization to achieve its goals and objectives.

EPS Calculating made calculating made over years where or not the firms earnings power on per basis changed over that period. The EPS of the company should be compared with industry average and the earnings per share of other firms. EPS simply shows are profitability of the firm on a per share basis; it does not reflect how much is paid as dividend and show much is retained in the business. But as a profitability index, it is a valuable and widely used ratio.

The following table of the finance company shows all the details regarding to its EPS.

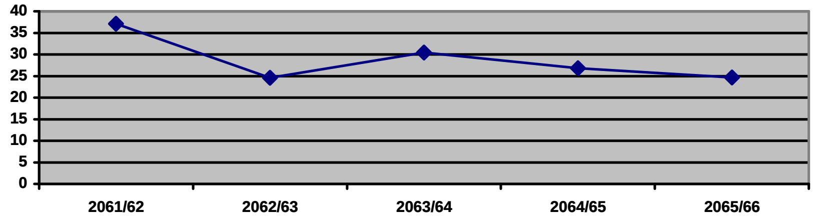
Table No. 4.1 Earning per share (EPS)

Year company	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	37.13	24.6	30.44	26.83	24.66
AFCL	9.00	26.00	26.00	18.00	27.94
UFL	0.67	1.14	4.65	13.4	21.18
NFL	55.70	35.75	42.15	69.12	17.37
SFL	20.52	28.24	32.31	17.54	26.04
WMB & Fl	2.52	11.27	31.73	22.27	25.82

Mahalaxmi Finance Limited (Bittiya Sanstha)

The average earnings per share of Mahalaxmi Finance Limited is Rs. 28.732 the company limited has maintained its average earnings per share only fiscal year 2061/62 and 2063/64. The company could not maintained average EPS in fiscal year 2062/63, 2064/65 and 2065/66. The highest earnings per share is during the five year period 2061/62 and lower earnings per share is 2062/63. According to the able the earning per share is fluctuating during the five year period.

The following figure represents of earning per share of Mahalaxmi Finance Limited.

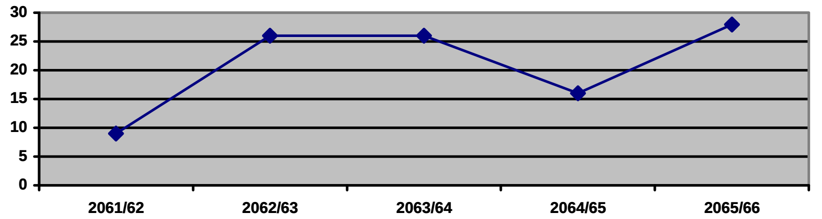


Year

Ace Finance Company Limited (Bittiya Sanstha)

The average earning per share of Ace Finance Company Limited is Rs. 21.39. The company has maintained average earning per share is only during the fiscal year 2062/063, 2063/064 and 2065/066. The higher earning per share is fiscal year 2065/066 and lower earning per share is fiscal year 2062/063. In the company is improving its earning per share smoothly.

The following figure represents the earning per share of Ace Finance Company Limited.

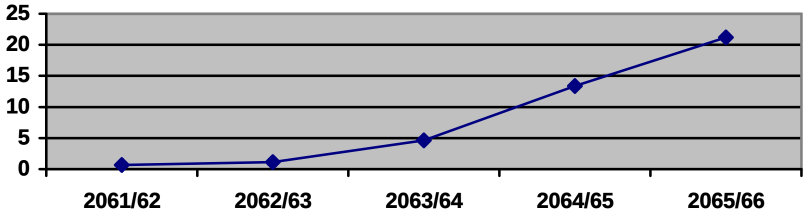


Year

United Finance Limited (Bittiya Sanstha)

In above table we see the average earning per share of United Finance Limited is Rs. is 8.22. The company has maintained average earning per share only during fiscal year 2064/2065 and 2065/2066. The higher earning per share is the fiscal year 2065/2066 and lower earning share is 2061/2062. According to the above table we feel that earning per share of United Finance Limited is improving smoothly.

The following figure represent of earning of per share of United Finace Limited.

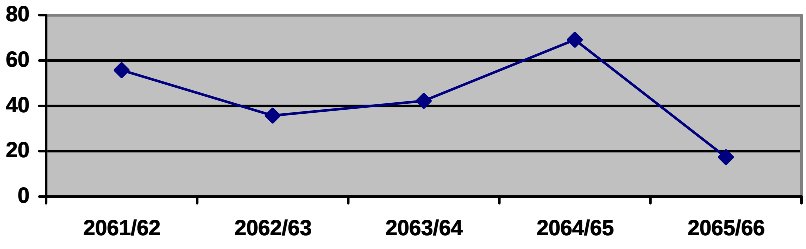


Year

National Finance Limited (Bittiya Sanstha)

Average earning per share of National Finance Limited is Rs 44.02. The company has maintained average earning per share only fiscal year 2061/2062 and 2064/065. In fiscal year 2062/063, 2063/64 and 2065/66, earning per share of the company has less than average earning per share. The highest earning per share is in fiscal 2064/65 and lower earning per share is in fiscal year 2065/66. In above table we see that earning per share of National Finance Limited is fluctuating for the every year.

The following figure represents EPS of National Finance Limited.

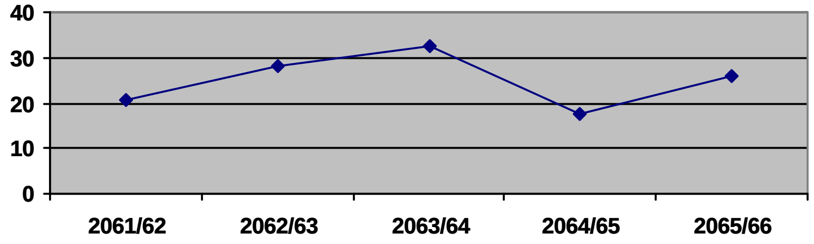


Year

Sidharth Finance Limited

The average earning per share of Sidharth finance Limited is Rs. 24.39. The company has maintained average per share in only fiscal year 2062/63, 2063/2064 and 2065/66. The EPS has less than average EPS in fiscal per share

2061/62 and 2064/2065. We feel that the company is improving its earnings per share smoothly.

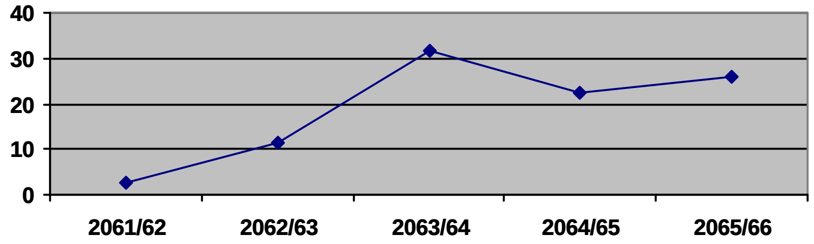


Year

World Merchant Banking & Finance Limited (WMB&FL)

In above table we see the that average earning per share of world Merchant Banking and finance Limited is Rs. 18.72. The company has maintained average earning per share per share in only fiscal year 2063/64, 2064/65 and 2065/66. The company could not maintain average earning per share in fiscal year 2061/62 and 2062/63. The higher earning per share is in fiscal year 2063/2064 and lower earning per share is in fiscal year 2061/62.

The following figure represents EPS of WMB&FL.



Year

4.1.2 Dividend Per share

The net profit after taxes belong to shareholders. But the which they really reciece in the amount of earnings distributed as cash dividends. Therefore, a larger of present and potential investors be interested in DPS, rather than EPS. DPS is the earnings distributed to ordinary shareholders dividend the number of ordinary shares outstanding.

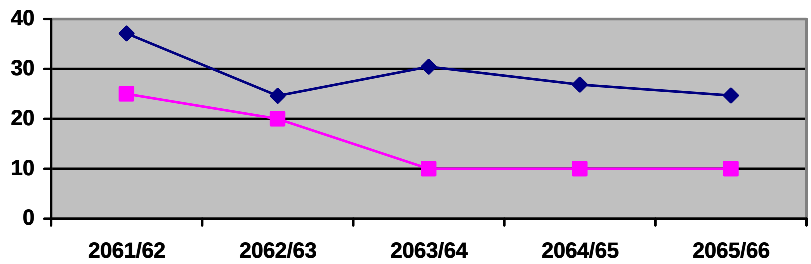
Table No. 4.2: Dividend per share

Company	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	25	20	10	10	10
Ace FCL	5.00	15.00	20.00	0.00	2.11
UFL	0.00	5.00	5.00	7.50	10.00
NFL	20.00	0.00	1.05	0.53	0.53
SFL	15.00	15.00	10.00	1.58	10.00
WMB&FL	0	0	0	10.00	12.00

Mahalaxmi Finance Limited

Mahalaxmi Finance Limited has paid different amount in fiscal year 2061/2062 and 2061/63 after that year dividend amount is constant. Average dividend per share company is Rs 15. The company has been distributed more that average dividend per share in fiscal year 2061/2062 and 2062/2063. Rest year the company has able to pay less than average dividend per share but constant amount.

The following figure represents EPS and DPS of Mahalaxmi Finance Limited.

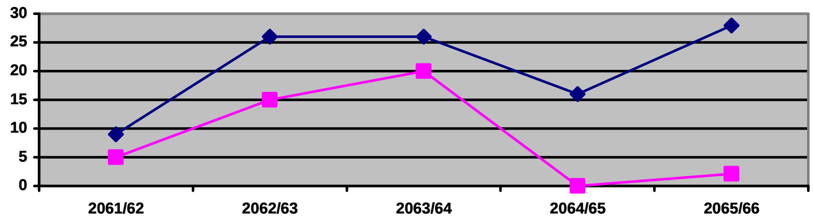


Year

Ace Finance Company Limited

Ace Finance has not distributed regular dividend. The company has not paid any dividend in fiscal year 2064/2065. Average dividend per share of Ace finance company is Rs. 8.42. Fiscal year 2062/63 and 2063/64 the company has paid more than average dividend but in fiscal year 2061/2062 and 2065/66 had paid lower dividend. In above table, Ace Finance Company limited is paying fluctuated dividend per share with in the five years period.

The following figure represents EPS and DPS of Ace Finance company.

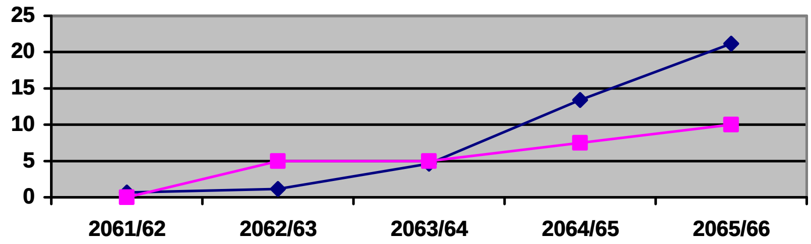


Year

United Finance limited

United finance company has not paid dividend in fiscal year2061/62. The company has paid same amount of dividend in fiscal in year 2062/63. and 2063/64. In the above table we see dividend per share of united finance company is increasing condition every year. Average dividend per share of the company is Rs. 5.5 The company has maintained average dividend per share. In fiscal year 2065/66 the company has paid highest dividend

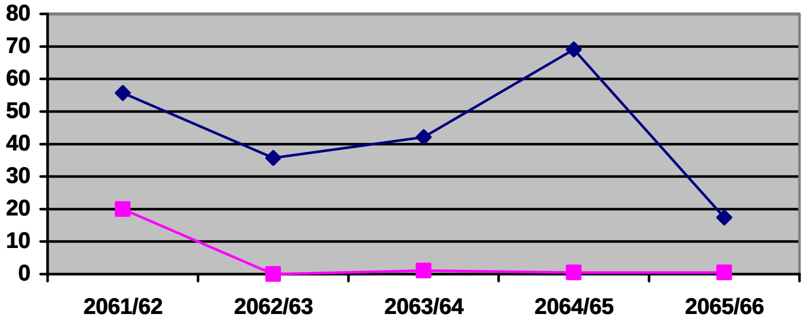
The following figure represent EPS and DPS United Finance



Year

National Finance Limited

In above table , national finance limited is paying fluctuated dividend within five year. The average dividend per share is Rs. 4.422 the company could not maintained average dividend per share excluding fiscal year 2061/62. In fiscal year 2063/64 , 2064/65 and 2065/66, the company has paid bonus share so , in that year company dividend per share is less average dividend per share.

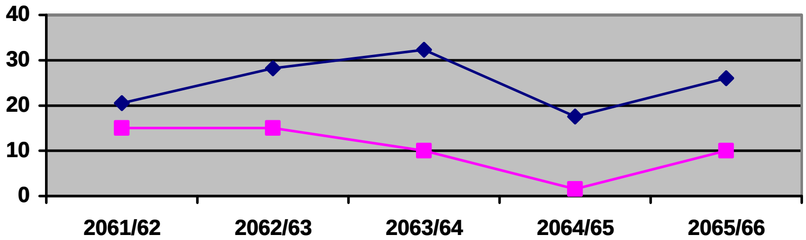


Year

Sidharth Finance Limited

Sidharth Finance Limited has distributed regular dividend since 2061/62 to 2065/66. The company has paid same amount of dividend in fiscal year 2061/62 and 2062/63. The average dividend per share is Rs. 10.32 the company has maintained average dividend per share excluding fiscal year 2064/65.we can feel that company is improving performance in every year.

The following figure represent EPS and DPS of sidharth Finance Limited.

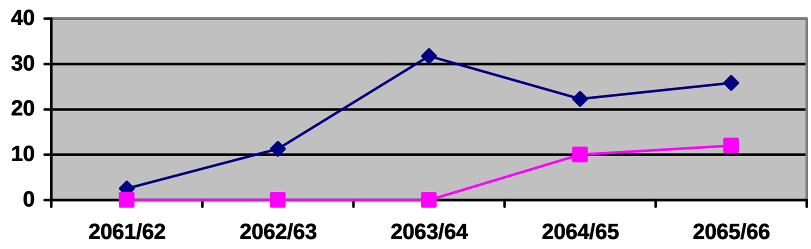


Year

World Merchant Banking & Finance Limited

In starting three year the company was not able to pay dividend. After then the company has paid dividend. Dividend per share is increasing order. According to above table we feel that the company has retained all earning in fiscal year 2061/62, 2062/63 and 2063/64.

The following figure represents EPS and DPS of WMB & FL.



4.1.3 Dividend Pay out Ratio

The portion of earning of the finance companies determines the amount to be paid as dividend to the shareholders. So greater earning indicate more performance of the finance companies to pay out as dividend to its common stock holders . so this ratio determines the amount of dividend as a percentage of earning available for common shares after tax of the company. Dividend pay out ratio is calculated by dividend per share by earning per share.

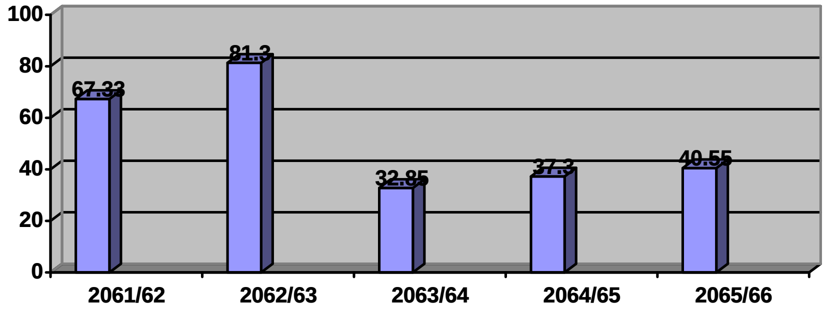
Table No.4.3 dividend pay out ratio(percentage)

Company year	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	67.33	81.3	32.85	37.3	40.55
AFCL	55.55	57.7	76.9	0	7.55
UFL	0	438.6	107.53	56	47.21
NFL	35.90	0.00	2.5	0.76	3.05
SFL	73.1	53.11	30.95	9.00	38.42
WMB& FL	0.00	0.00	0.0	44.9	46.5

Mahalaxmi Finance Limited

Dividend pay out ratio of mahalaxmi finance limited is more fluctuated since start to end. The company has paid regular dividend which shown well performance. The average dividend payout ratio is 51.875%. the company has maintained average dividend ratio payout ratio only fiscal year 2061/62 and 2062/63 The company has paid in fiscal year 2063/64 2064/65 and 2065/66 lower dividend payout ratio.

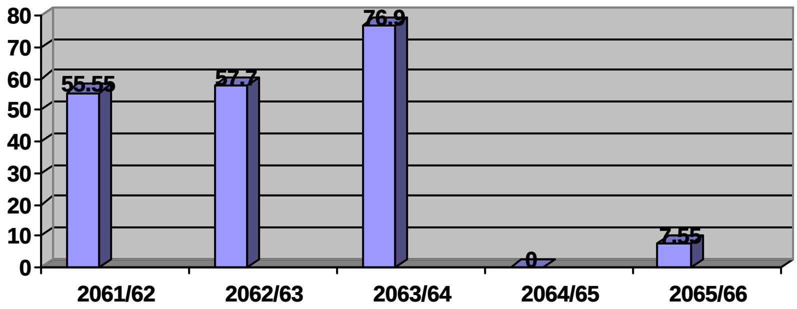
The following figure represent dividend payout ratio of Mahalaxmi Finance Limited.



Ace Finance Company Limited

In above table we see that, dividend payout ratio of Ace Finance company limited was increasing condition in first three years. In fiscal year 2064/65 the company could not paid any dividend. In this year company has retained all earning. The average dividend pay out ratio of Ace Finance company is 39.5%.In fiscal year 2061/62 2062/63 and 2063/64. Dividend payout ratio has more than average dividend pay out ratio.

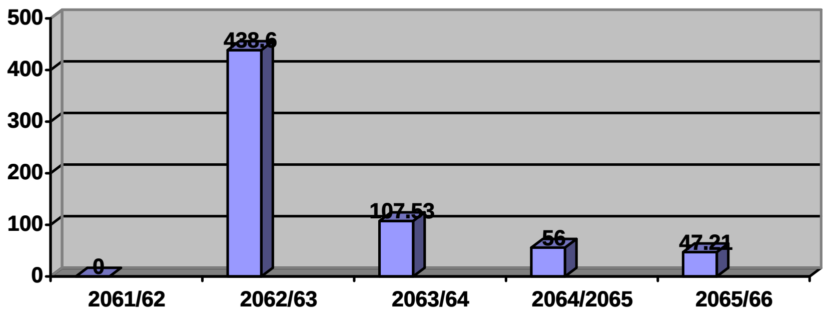
The following figure represents the dividend payout ratio.



United Finance Limited

The dividend pay out ratio of United Finance Limited excluding the fiscal year 2061/62 was regular. In fiscal year 2062/63 and 2063/64 , the dividend pay out ratio was more than 100%. In this year dividend per share was more than earning per share. In above table we see that dividend payout ratio is fluctuated during the five years period .

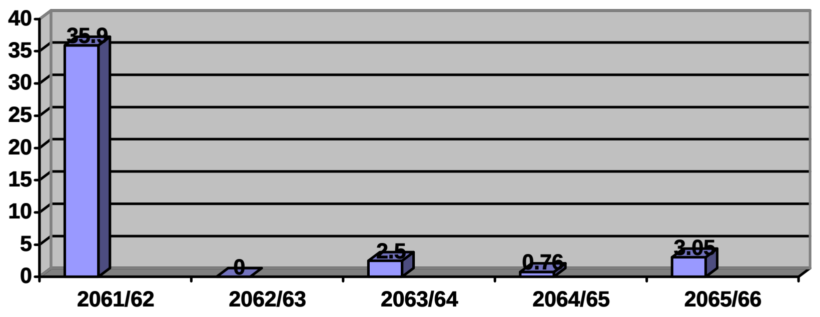
The following figure represents dividend payout ratio of United Finance Limited.



National Finance Limited

The company could not maintain average regular dividend payout ratio. Dividend payout ratio of National Finance Limited has fluctuated since start to end. In fiscal year 2062/63 the company has not pay dividend so dividend payout ratio was seem zero in that year.

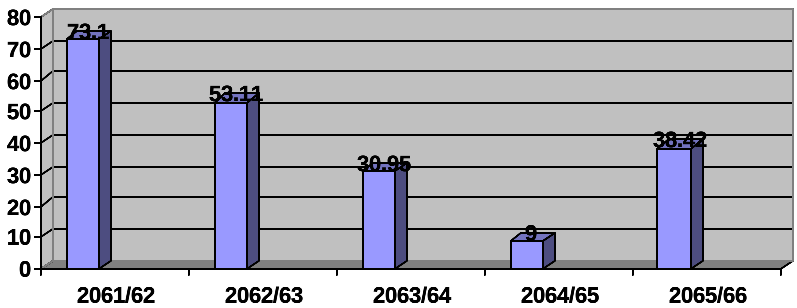
The following figure represents dividend payout ratio of National Finance Limited.



Sidharth Finance Limited

The condition of dividend payout ratio of sidharth finance during the five year was regular because EPS and DPS. Average dividend payout ratio of sidharth finance limited is 40.9% . Dividend payout ratio excluding 2061/62 and 2062/63 in fiscal years 2063/64, 2064/65 and 2065/66 , dividend payout ratio could not maintain more than average dividend payout ratio.

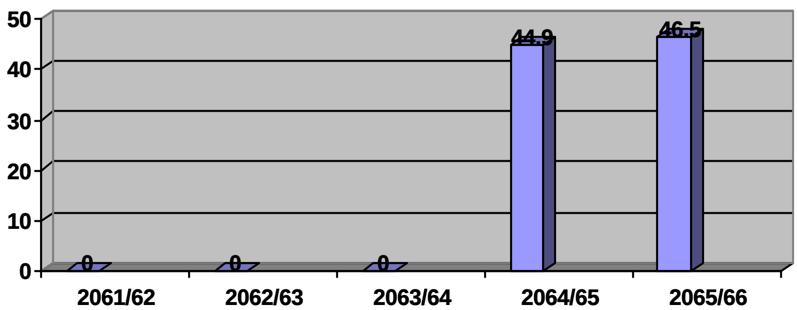
The following figure represents dividend payout ratio of sidharth finance limited.



World Merchant Banking & Finance Limited

The dividend pay out ratio excluding the fiscal year 2064/ 65 and 2065/66 was regular. In fiscal year 2061/62, 2062/063, and 2063/064, dividend payout ratio seemed zero due to these year the company would not pay dividend.

The following figure represents dividends payout ratio of word Merchant Banking & Finance Limited



4.1.4 Market Price Per share

Market price per share evaluates the net value of share in the market.

Table No: 4.4: Market Price per share

Year company	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	415	245	270	264	260
AFL	230	240	273	251	320
UFL	0	105	115	125	154
NFL	545	455	360	295	263
SFL	145	151	120	158	158
WMB&FL	102	111	131	122	125

Mahalaxmi Finance Limited

Market price per share of Mahalaxmi Finance Limited has been decreasing since 2061/62 to 2065/66. During the fiscal year 2061/62, the market per share is higher than other period. In fiscal year 2065/66, the market per share is lower than period.

Ace Finance Limited

During the fiscal year 2065/66 the market price share of Ace Finance Limited is higher than other period. During the fiscal year 2063/64 the market price of the company is less than other period. In above table we see that more diviation in market price per share in during the five year period.

United Finance Limited

During the fiscal year 2061/62 the company could not declare market price per share. In fiscal year 2065/66 market price share is higher than other period and in fiscal year 2062/63 the market price per share is lower than other period.

National Finance Limited

In above table we see the market price per share of National Finance limited has been decreasing from 2061/62. In fiscal year 2061/62 the market price per share is higher than other period, and in fiscal year 2065/66 the market price share is lower than other period

Sidharth Finance Limited

The market price per share of Sidharth Finance Limited is not more fluctuated during the five year period. In fiscal year 2064/65 and 2065 the market price per share is same both year. In fiscal year 2063/64, market price per share is lower than other period.

World Merchant Banking & Finance Limited

Market price per share of world Merchant Banking and Finance Limited is regular in every year. During the fiscal year 2063/64 the market price per share is higher than other period and fiscal year 2061/62 the market price per share is lower than other period.

4.1.5 Price earning ratio

The price ratio is widely used by the security analysis to valve the firm 's performance as expected by investors. It indicates investors ' judgment or expectations about the firm's performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the price earning ratio declines. Price earning ratio is calculated market price per share dividing by earning per share.

Table No. 4.5 price earning ratio (Ratio)

Year company	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	11	10	9	10	11
AFL	41.11	8.86	7.36	12.46	10.83
UFL	0	92.11	24.73	9.33	7.27
NFL	9.78	12.73	8.54	4.27	15.14
SFL	7.06	5.35	3.71	9.01	6.07
WMB& FL	4.87	5.49	4.15	9.88	40.67

Mahalaxmi Finance Limited

The average price earning ratio of the company is 10.2 times out of the five year, in fiscal year 2061/62and 2065/66 the price earning ratio was better than average price earning ratio. In fiscal year 2063/64 the price earning ratio is lower than other fiscal year.

Ace Finance Limited

The price earning ratio of Ace Finance Limited was fluctuated since star to end. The average price earning ratio is 16.12 times. The company would not maintained average price earning excluding fiscal year2061/62. The higher price earning ratio is in fiscal year 2061/62.

United Finance Limited

During the fiscal year 2061/62 the price earning ratio was zero. Due to the fiscal year 2061/62 the company would not declare the price per share. The highest price earning ratio was in fiscal year 2062/63 and lower price earning ratio was 2065/66.

National Finance Limited

The average price earning ratio of National Finance Limited is 10 times. The company could maintain average price earning ratio only in fiscal year 2062/63 and 2065/66. The lowest price earning ratio was in fiscal year 2064/65.

Sidharth Finance Limited

The average price earning ratio of sidharth Finance Limited is 6.24 times. The highest price earning ratio was in fiscal year2064/65 and lowest price earning ratio was in fiscal year 2063/64. During the fiscal year 2061/62 and 2064/65 the price earning ratio was grater than average price earning ratio.

World Merchant Banking & Finance Limited

The price earning ratio was regular during the five year. The average price earning ratio was 13.1 times. The highest price earning ratio was in fiscal yeat 2062/63 and lowest price earning ratio was in fiscal year 2063/64.

4.1.6 **Dividend Yield**

Market valve per share is affected by dividend per share. Due to this reason dividend yield ratio highly influences with the market valve per share.

Table No 4.6 Dividend Yield Ratio (%)

Year	2061/62	2062/63	2063/64	2064/65	2065/66

company					
MFL	6.02	8.16	3.70	3.8	3.85
AFL	2.17	6.25	11.56	0.00	0.66
UFL	0.00	4.76	4.34	6.00	6.5
NFL	3. 67	0.00	0.29	0.17	0.20
SFL	10.34	9.93	8.33	1.00	6.33
WMB& FL	0.00	0.00	0.00	8.18	9.54

Mahalaxmi Finance Limited

The average dividend yield ratio of the company is 5.11.The company has maintained average dividend yield fiscal year 2061/62 and 2062/63.In fiscal year 2063/64, 2064/65 and 2065/66 , the dividend yield ratio is less than average dividend yield.

Ace Finance Limited

The average dividend yield of the Ace Finance Limited is 4.13 In fiscal year 2062/63 and 2063\64 the dividend yield is greater than average dividend yield and remaining fiscal year dividend yield is less average dividend yield.

United Finance Limited

The average dividend yield is 4.32 .In fiscal year 2062/63, 2063/64,2064/65 and 2065/66 the dividend yield is more than average dividend yield. It means the company has maintained average dividend yield.

National Finance Limited

The average dividend yield ratio of the National Finance Limited is 0.86.This ratio shows less than one due to the company would not pay more dividend.

Sidharth Finance Limited

The average dividend yield ratio is 7.19. In fiscal year 2061/62 ,2062/63 and 2063/64 the dividend yield is more than average dividend yield. In fiscal year 2064/65 and 2065/66 the dividend yield is less than average dividend

World Merchant Banking & Finance Limited

The average dividend yield ratio of world Merchant Banking & Finance Limited is 8.86.The company would not pay any dividend in fiscal year 2061/62,2062/63 and 2063/64 so dividend yield Ratio of these years shows zero.

4.1.7 Return on Net Worth

Return on equity indicators how well the firm has used the resources 0f owners. In fact, this ratio is one of the most important relationships in financial analysis. The earning of a satisfactory return is the most desirable objectives of a firm. The ratio of net profit to owner equity reflects the extent to which this objective has been accomplished. This ratio is thus. Of greater interest to the present as well as the prospective shareholders and also of great concern to management, which has the responsibility of maximizing the owners' welfare.

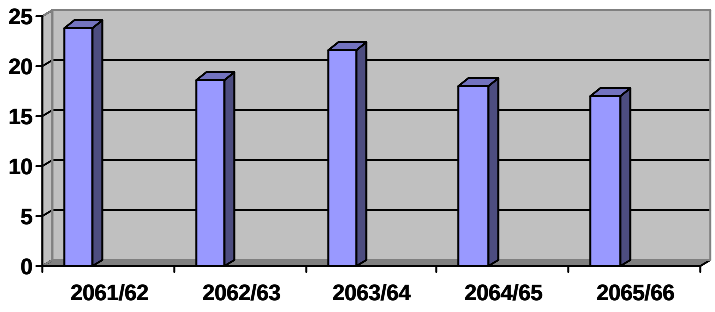
Table No. 4.7 Return on Net equity (percentage)

Year company	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	22.85	18.66	21.67	18.02	17.12
AFL	5.88	16.05	15.75	10.05	13.90
UFL	0.59	1.04	4.28	11.70	16.85
NFL	19.1	11.62	16.67	25.42	9.41
SFL	18.04	22.24	27.04	14.40	19.61
WMB& FL	2.51	10.12	13.74	18.21	20.52

Mahalaxmi Finance Limited

The average return on equity of mahalaxmi Finanace Limited is 19.86%. during the fiscal year 2061/62 and 2063/64 the company has maintained the average return on equity .In fiscal year 2065/66 return on equity was lower than other fiscal year.

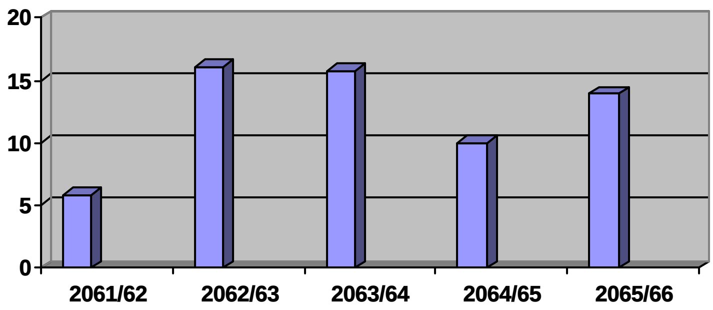
The following graph represent of ROE of MFL



Ace Finance Limited

The average return on equity of Ace Finance Limited is 12.33. the company has maintained average return on equity in only fiscal year 2062/63, 2063/64 and 2065/66. the highest return on equity was in fiscal year 2062/63 and lowest return on equity was shown in fiscal year 2061/62.

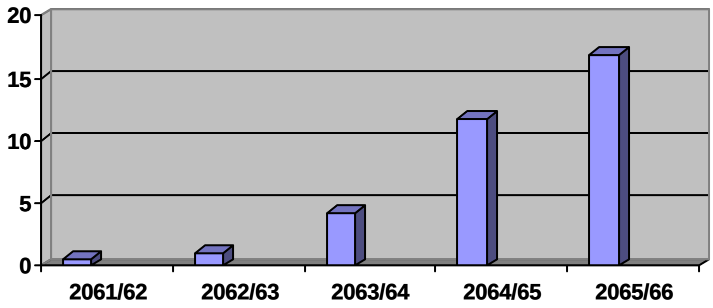
The following figure represent return on equity of AFL



United Finance Limited

Return on equity of United Finance Limited is going up word from fiscal year 2061/62 to 2065/66.We can see that the company is improving the return on equity. The average return on equity of the company is 6.9. last two years the ROE is greater than average ROE.

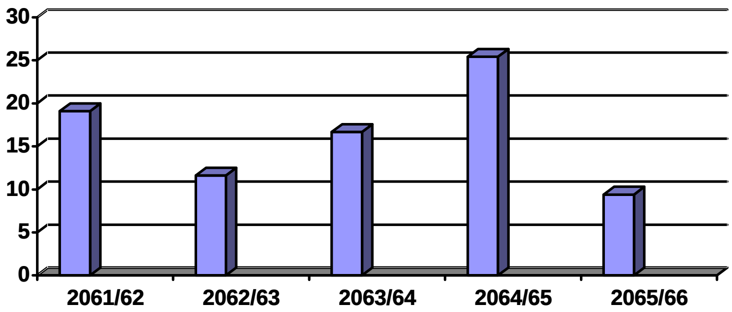
The following figure resents ROE of UFL



National Finance Limited

The average return on equity is 16.44%. during the fiscal year 2061/62, 2063/64 and 2064/65 the return on equity was higher than average return on equity. During the fiscal year 2062/63 and 2065/66 the return on equity was less than average return equity.

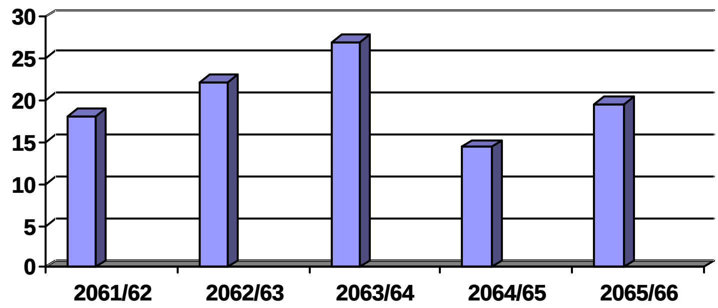
The following figure represents ROE of NFL



Sidharth Finance Limited

The average return on equity of Sidharth Finance Limited is 20.27% the company has maintained average return on equity in fiscal year 2062/63 and 2063/64. in fiscal year 2061/62, 2064/65 and 2065/66 the return equity was less than average return on equity.

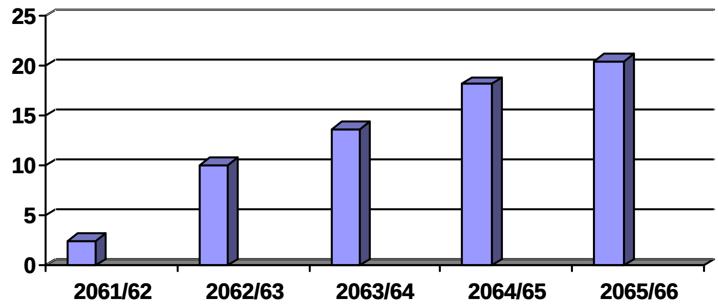
The following figure represents ROE of UFL



World Merchant Banking & Finance Limited

The average return on equity of the company is 13.02% during the fiscal year 2063/64, 2064/65 and 2065/66 the company has maintained average return on equity. During the fiscal year 2061/62 and 2062/63 the return on equity was less than average return on equity.

The following figure represents the ROE of WMB&FL



4.2 Statistical Tools

4.2.1 Correlation Coefficient

Table No.4.7 Correlation Coefficient of market price per share with other variable of mahalaxmi Finance Limited.

Variable	Correlation of Coefficient
MPS and EPS	0.931
MPS and DPS	0.709

MPS and PER	0.487
MPS and DY	0.139
MPS and RONW	0.822

Among the variable MPS of MFL is positively Correlation with EPS. DPS , PER DY , and RONE. Out of them RONE and EPS have high degree of Correlation and the relation ship between MPS and PER is low degree of correlation.

Table No. 4.8 Correlation Coefficient of market price per share with other variable of Ace Finance Limited.

Variable	Correlation of Coefficient
MPS and EPS	0.181
MPS and DPS	-0.735
MPS and PER	-0.0426
MPS and DY	-0.791
MPS and RONW	-0.0711

The Correlation Coefficient of Ace Finance Limited between Market price and other variables like DPS PER, DY, and RONE have negative correlation. There is positive correlation between MPS and EPS, MPS and PER, MPS and RONE have very low degree of negative correlation.

Table No. 4.9 Correlation Coefficient of market price per share with other variable of United Finance Limited.

Variable	Correlation of Coefficient
MPS and EPS	0.716
MPS and DPS	0.956
MPS and PER	0.167
MPS and DY	0.726

DPS and RONW	0.728

Correlation between market price per share and other variables, all they are positive correlation. The relation ship between MPS and DPS is very high degree of positive correlation. The relation ship between MPS and EPS and MPS and RONW are high degree of positive correlation. The relation ship between MPS and Per is very low degree of positive correlation.

Table No.4.10: correlation Coefficient of Market price per share with other variables of National Finance Limited.

Variables	**Correlation of coefficient**
MPS and EPS	0.254
MPS and DPS	0.762
MPS and PER	0.0168
MPS and DY	0.747
MPS and RONW	0.0447

Among the variables Market price per share of National Finance Limited is positively related with EPS, DPS, PER and RONW. Out of them the relation ship between MPS and DPS is high degree of Positive correlation. There is low degree of positive correlation between MPS with other variables like wise EPS, PER and RONW.

Table No. 4.11: Correlation Coefficient of Market price per share with other variables of Sidharth Finance Limited.

Variables	**Correlation of coefficient**
MPS and EPS	0.66
MPS and DPS	-0.26
MPS and PER	0.739
MPS and DY	0.435

MPS and RONW	-0.803

The Relationship between MPS and EPS is high degree of positive correlation. The relationship between MPS and DPS is low degree of negative correlation and the relation between MPS and RONW is very high degree of negative correlation.

Table No. 4.12 : Correlation Coefficient of Market price per share with other variables of world Merchant Banking & Finance Limited.

Variables	**Correlation of coefficient**
MPS and EPS	1
MPS and DPS	0.432
MPS and PER	-0.852
MPS and DY	0.424
MPS and RONW	0.817

There is positively perfect correlation between MPS and EPS. The relationship MPS and DPS is low degree of positively correlation and the relationship MPS and RONW is very high degree of positive correlation. There is high degree of negative correlation between of MPS and PER.

4.2.2 Mean, Standard Deviation and Coefficient of Variance

Table No. 4.13 Mean, Standard Deviation and Coefficient of Variance of Mahalaxmi, Finance Limited.

Variables	**Mean**	**S.D**	**C.V**
EPS	28.732	5.261	0.1831
DPS	15	7.071	0.471
DPR	51.872	21.267	0.409
MPS	290.8	70.040	0.240
PER	10.2	0.837	0.0820
DY	5.106	1.963	0.384
RONW	19.864	2.807	0.441

Table No. 4.14 Mean, Standard Deviation and Coefficient of Variance of Ace Finance Limited.

Variables	Mean	S.D	C.V
EPS	21.388	7.912	0.369
DPS	8.422	8.657	1.027
DPR	39.54	33.79	0.854
MPS	242.8	52.60	0.216
PER	16.124	14.10	0.874
DY	4.128	4.81	1.165
RONW	12.328	4.33	0.350

Table No. 4.15 Mean, Standard Deviation and Coefficient of Variance of United Finance Limited.

Variables	Mean	S.D	C.V
EPS	8.218	8.858	1.0777
DPS	5.5	3.708	0.674
DPR	129.868	176.754	1.361
MPS	99.8	58.417	0.588
PER	26.688	37.66	1.411
DY	4.32	2.57	0.595
RONW	6.892	7.125	1.033

Table No. 4.16 Mean, Standard Deviation and Coefficient of Variance of National Finance Limited.

Variables	Mean	S.D	C.V
EPS	44.018	19.675	0.446
DPS	4.422	8.716	1.971
DPR	23.49	32.869	1.399
MPS	383.6	116.296	0303
PER	10.092	4.418	0.411
DY	0.866	1.570	1.181
RONW	16.444	6.332	0.385

Table No. 4.17 Mean, Standard Deviation and Coefficient of Variance of Sidharth Finance Limited.

Variables	Mean	S.D	C.V

EPS	24.93	5.931	0.237
DPS	10.316	5.486	0.531
DPR	40.916	24.024	0.587
MPS	145.4	15.725	0.107
PER	6.24	1.972	0.316
DY	7.186	3.80	0.528
RONW	20.266	7.732	0.233

Table No. 4.18 Mean, Standard Deviation and Coefficient of Variance of World Merchant Banking & Finance Limited.

Variables	**Mean**	**S.D**	**C.V**
EPS	18.72	11.728	0.626
DPS	4.4	6.0663	1.378
DPR	18.198	27.928	1.369
MPS	118.722	11.728	0.988
PER	13.012	15.621	1.200
DY	3.544	4.876	1.376
RONW	13.02	7.116	0.546

Average earning per share of National Finance Company is more than of other companies. Coefficient of variation of mean EPS of Mahalaxmi Finance Limited is lower than other companies. Mean divided per share of Mahalaxmi Finance Limited is greater than other Finance limited but divided pay out ratio of United Finance Limited is more than other Finance Limited C.V. of dividend payout ratio of World Merchant Banking & Finance Limited is greater than one. C.V. of DPR, DPS and PER of World Merchant Banking & Finance Limited is greater than one. Return on net worth of Sidharth Finance Limited is greater than other companies. Average price earning ratio of United Finance Limited is better than other companies.

4.2.3 Analysis of Growth Rate

Table No. 4.19 : Growth Rate of Selected Finance Companies for the period of 2061/62 to 2065/66.

Year/Companies	**2061/62**	**2062/63**	**2063/64**	**2064/65**	**2065/66**	**Average**
MFL	7.8	3.48	14.55	11.3	10.18	9.46
AFL	2.61	6.8	3.64	10.05	12.85	7.19
UFL	0.59	-3.52	-0.322	5.14	8.9	2.16
NFL	12.24	11.62	6.25	6.10	9.12	11.06
SFL	4.85	10.43	18.67	13.10	12.08	11.83
WMB & FL	2.51	10.12	13.74	10.03	10.98	9.48

Among the selected companies, during the fiscal year 2061/62, the growth rate of National Finance Limited is highest and the growth rate of United Finance Limited is lowest. This means the financial condition of National Finance Limited is better than other companies. Similarly, in Fiscal year 2062/63, the growth rate of National Finance Limited is better than other companies and in fiscal year 2063/64 the growth rate of Sidharth Finance Limited is better than other companies. In average growth rate during the five years period, the growth rate of Sidharth Finance Limited is better than other selected companies. This means the financial condition of Sidharth Finance Limited is better than other companies and average growth rate of United Finance Limited is lowest. Better positions in selected companies are Sidharth Finance Limited, National Finance Limited. World Merchant Banking & Finance Limited, Mahalaxmi Finance Limited. Finance Limited and United Finance Limited respectively.

Major Finding of The Study

- A strong role is played by earning per share, dividend per share and return on net to determine the market price per share of Mahalaxmi Finance Limited. Market price per share of Mahalaxmi Finance Limited is decreasing condition. The positively relation between market price per share with earning per share dividend per share dividend per share, dividend yield price earning ratio and return on equity.

- The relation of market price per share with earning per share is positively and dividend per share, dividend yield price earning ratio and return on net worth is negative in Ace Finance Limited.
- The relation market price share with price earning ratio and return on net worth are low degree of negatively correlation of Ace Finance Limited.
- The market price is positively related to earnings per share dividend per share, dividend yield price earning ratio and return on net worth and earning per share has played signifying role to determine the market price per share.
- In national finance limited Earning per share price earning ratio. Dividend yield and return on equity have positive to determine the market price per share.
- The relation market price per share with all variable EPS, DPS, PER, DY and RONW) are positively correlation of National Finance Limited.
- Among the variable of Sidharth Finance Limited , the earning per share, price earning ratio, dividend pay out ratio are positively relation with market price per share while dividend per share and return on net worth are negative relation with market price per share.
- In world Merchant Banking & Finance Limited, Earning per share dividend per share, dividend yield, and return on equity are positive relation with market but the relation market price and price earning is negative.
- Average earning per share of National Finance Limited is higher than other companies.
- Average dividend per share of Mahalaxmi Finance Limited is higher than other selected companies and coefficient of variation of dividend per share of Mahalaxmi Finance Limited is lower than other companies. It means than dividend per share is more consistent.
- Dividend payout ratio of United Finance Limited is higher companies and standard deviation, coefficient of variation is also higher.

- Market price per share of National Finance Limited is higher than other companies.
- Average price earning ratio of United Finance Limited is higher than other companies and coefficient is also greater than one.
- Average return on net worth of Sidharth Finance Limited is greater than other companies.
- The correlation between market price per share and earning per share of weorld Merchant Banking and Finance Limited is equal to one. This means the market per share is change same of earning of earning per share.
- Average growth rate of Sidharth Finance Limited is higher than other selected Finance Companies. It means position of the Sidharth Finance Limited is better than other selected companies.
- Standard deviation of dividend payout ratio of United Finance Limited higher than other companies. It represents higher risk.
- The result from dividend per share indicates than the policies of dividend payout ratio and dividend and dividend yield are same which are explained above.
- Return on net of these selected companies is regular. This means the policy of the company about return on net worth is good.
- Among the selected companies, no one is able to keep the perfect relationship, regarding dividend between variables.

Comparatively, good financial position companies are paying large dividend than other poor financial companies

Chapter -5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

Dividend refers to that portion of a firm's net earnings. Which are distributed to the shareholders according to corporate plans and policies. Dividends policy of financial companies is regarded as tools to determine the appropriate allocation of profits between dividend payment and retained earnings in the firms. Dividend policy of a company on division of its profits between dividends and retention is known dividend policy. The dividend, which is distributed to shareholders, may be in cash, share and securities or a combination of these. Dividend policy has effect in two parts one is retained earnings and the other is dividend. The retained earnings provides funds to finance the firm investment.

The manor objectives of the study

- To analyze dividend per share and other variables regarding dividends and their impacts on the market prices per share.
- To analyze relations of dividends per share with other variable such as earnings per share, dividend payout ratio, price earning ratio, market price per share, dividend yield and return on net worth.
- To identify financial performance of the listed finance companies regarding dividends.

This study mainly covers almost all listed finance companies of Nepal, which has paid dividends. The study is based on secondary data collected from secondary sources. The study covers the period from 2061/62 to 2065/66 of selected companies. The companies selected as sample for the study are Mahalaxmi Finance Limited, Ace Finance Limited, United Finance Limited. Banking & Finance limited. This study has analyzed EPS, DPS, DPR, PER, deviation and coefficient of variation.

5.2 Conclusions

In the conclusion of the study regarding dividend policy the position of financial companies can not see neither better or nor bad. The relationship of between markets   prince per share and other variables like earning per share, dividend per share, dividend payout ratio, price earnings ratio, dividend yield and return on net worth is not perfect correlated. Among the six selected companies the market price per share of Mahalaxmi Finance Limited is more fluctuated during the five years. Market price per share of United Finance Limited is increasing condition. According to the theory of dividend policy, dividend per share and market price per share have to positive relationship, but the analysis of data the relationship between variable of Mahalaxmi Finance Limited, United Finance Limited, National Finance Limited, World Merchant Banding & Finance Limited have positive as well as Ace Finance Limited and Sidharth Finance Limited have negative relationship, under the growth rate Sidharth Finance Limited is better performance of all companies. There is perfect positive correlation between market price per share and earning per share of world Merchant Banking & Finance Limited, It means Both variables good but in the term of standard deviation of market price is more than other companies.

By analyzing dependent and independent variables of market per share, the change in earning per share dividend per share dividend yield and return on net worth have significant impact in market price. These independent are powerful predicted of price share. The significant relationship between variables are showing by Mahalaxmi Finance Limited, United Finance Limited, National Finance Limited, Sidharth Finance Limited and World Merchant Banking & Finance Limited is not showing the significant relationship between variables. Regarding the selected companies no one company has followed a particular dividend policy in every year. It also shows the weakness of finance company. The relationship between market price per share and return on net worth shows the positive relationship of every company excluding Ace Finance Limited and Sidharth Finance Limited. It can take in the well position of finance company. Among the six selected companies Mahalaxmi finance Limited, United finance Limited and National Finance Limited are highly appropriated because there is not any negative relationship and impact between variables. But the relationship and impact between variables. But the relationship between a few variables of other selected companies has negative impact and relationship.

5.3 Recommendations

1] Among the Finance Company, Mahalaxmi Finance Company should try to minimize the dividend payout ratio and dividend yield in order to determine market price per share.

2] The result of Ace Finance Limited with dividend per share, dividend payout ratio, price earning ratio, dividend yield, and return on net worth is negative and earning per share is positive. So company should try to minimize the negative value and maximize the positive value.

3] United Finance Limited should try to improve the earning per share price earnings ratio and return on net worth and try to maximize the value of per share.

4] The impact in market price share with other variables like earning per share, dividend per share, dividend payout ratio, price earning ratio and return on net worth of National Finance Limited is positive. So the company should try to maximize the value of variables.

5] The result of Sidharth Finance Limited with dividend per share and return on net worth is negative and earnings per share, price earning ratio and dividend yield is positive. So company should try to minimize the negative value maximize the positive value.

6] World Merchant Banking & Finance Limited should try to improve the value of earnings per share, dividend per share, return on net worth and price earning ratio.

7] Finance company should clearly define dividend policy. Without adopting any appropriate policy should not declare dividend because it effect to investor's evaluations about the company.

8] Earning per share dividend per share and price earning ratio have positive impact in the market capitalization. Thus this sort of parameters should maintain regularly to reduce negative in market valve of the company.

9] Dividend payment practices of the existing companies are inconsistent and irregular. Account to annual report of Nepal stock exchange limited beside a few companies. There is not any company . which is adopting a particular dividend policy. So company should clear define the dividend policy and should adopt any appropriate policy.

10] Finance companies are showing high standard deviation and coefficient of variable because there is not better. So the finance company should try t o minimize the standard deviation and coefficient of variance.

11] No one company is able to keep the perfect relationship between the variable. it indicates that the performance in relationship variable of the company is not better. So finance company should try to keep perfect relationship between the variable.

12] The investors who prefers short term investment opportunities are profit oriented investors. In stock market. The demand of share has increase by regularity in dividend higher earning. Distribution of bonus share etc. so companies should timely announced dividend short term reward. Right share to attract short term profit oriented.

13] The management should improve regularities in operation monitoring in stock market professional in management. Timely update the rules and regulation etc.

14] It seems to be very necessary that existing laws and regulation should be revised to rationalize and simplify the regulatory system, which ultimately pay in creasing a sound capital market. So if there a genuine wish to have clear cut rule an deregulation within which the financial sector can work for a liberalize an open market development.

15] To promote the competition among market practitioners on level of paying field, transparent regulation and timely dissemination of market information seem the primary requisite along with ensuring high professional standard from market participants the market may be quite dynamic by a large participating of investors and higher liquidity.

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Sidhartha Finance Limited, Annual Report Fiscal Year 2061-2066

World Merchant Banking & Finance Limited, Annual Report Fiscal Year 2061-2066

Appendix 1

Table No. 4.1 Earning per share (EPS)

Year company	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	37.13	24.6	30.44	26.83	24.66
AFCL	9.00	26.00	26.00	18.00	27.94
UFL	0.67	1.14	4.65	13.4	21.18
NFL	55.70	35.75	42.15	69.12	17.37
SFL	20.52	28.24	32.31	17.54	26.04
WMB & Fl	2.52	11.27	31.73	22.27	25.82

Appendix 2

Dividend per share

Year Company	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	25	20	10	10	10
Ace FCL	5.00	15.00	20.00	0.00	2.11
UFL	0.00	5.00	5.00	7.50	10.00
NFL	20.00	0.00	1.05	0.53	0.53
SFL	15.00	15.00	10.00	1.58	10.00
WMB&FL	0	0	0	10.00	12.00

Appendix 3

Dividend pay out ratio(percentage)

year Comapany	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	67.33	81.3	32.85	37.3	40.55
AFCL	55.55	57.7	76.9	0	7.55
UFL	0	438.6	107.53	56	47.21
NFL	35.90	0.00	2.5	0.76	3.05
SFL	73.1	53.11	30.95	9.00	38.42
WMB& FL	0.00	0.00	0.0	44.9	46.5

Appendix 4

Market Price per share

Year company	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	415	245	270	264	260
AFL	230	240	273	251	320
UFL	0	105	115	125	154
NFL	545	455	360	295	263
SFL	145	151	120	158	158
WMB&FL	102	111	131	122	125

Appendix 5

Price earning ratio (Ratio)

Year company	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	11	10	9	10	11
AFL	41.11	8.86	7.36	12.46	10.83
UFL	0	92.11	24.73	9.33	7.27
NFL	9.78	12.73	8.54	4.27	15.14
SFL	7.06	5.35	3.71	9.01	6.07
WMB& FL	4.87	5.49	4.15	9.88	40.67

Appendix 6

Dividend Yield Ratio (%)

Year company	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	6.02	8.16	3.70	3.8	3.85
AFL	2.17	6.25	11.56	0.00	0.66
UFL	0.00	4.76	4.34	6.00	6.5
NFL	3. 67	0.00	0.29	0.17	0.20
SFL	10.34	9.93	8.33	1.00	6.33
WMB& FL	0.00	0.00	0.00	8.18	9.54

Appendix 7

Return on Net equity (percentage)

Year company	2061/62	2062/63	2063/64	2064/65	2065/66
MFL	22.85	18.66	21.67	18.02	17.12
AFL	5.88	16.05	15.75	10.05	13.90
UFL	0.59	1.04	4.28	11.70	16.85
NFL	19.1	11.62	16.67	25.42	9.41
SFL	18.04	22.24	27.04	14.40	19.61
WMB& FL	2.51	10.12	13.74	18.21	20.52

Appendix 8

Correlation Coefficient of market price per share with other variable of Mahalaxmi Finance Limited.

Variable	Correlation of Coefficient
MPS and EPS	0.931
MPS and DPS	0.709
MPS and PER	0.487
MPS and DY	0.139
MPS and RONW	0.822

Appendix 9

Correlation Coefficient of market price per share with other variable of Ace Finance Limited.

Variable	Correlation of Coefficient
MPS and EPS	0.181
MPS and DPS	-0.735
MPS and PER	-0.0426
MPS and DY	-0.791
MPS and RONW	-0.0711

Appendix 10

Correlation Coefficient of market price per share with other variable of United Finance Limited.

Variable	Correlation of Coefficient
MPS and EPS	0.716
MPS and DPS	0.956
MPS and PER	0.167
MPS and DY	0.726
DPS and RONW	0.728

Appendix 11

Correlation Coefficient of Market price per share with other variables of National Finance Limited.

Variables	Correlation of coefficient
MPS and EPS	0.254
MPS and DPS	0.762
MPS and PER	0.0168
MPS and DY	0.747
MPS and RONW	0.0447

Appendix 12

Correlation Coefficient of Market price per share with other variables of Sidharth Finance Limited.

Variables	Correlation of coefficient
MPS and EPS	0.66
MPS and DPS	-0.26
MPS and PER	0.739
MPS and DY	0.435
MPS and RONW	-0.803

Appendix 13

Correlation Coefficient of Market price per share with other variables of World Merchant Banking & Finance Limited.

Variables	Correlation of coefficient
MPS and EPS	1
MPS and DPS	0.432
MPS and PER	-0.852
MPS and DY	0.424
MPS and RONW	0.817

Appendix 14

Mean, Standard Deviation and Coefficient of Variance of Mahalaxmi, Finance Limited.

Variables	**Mean**	**S.D**	**C.V**
EPS	28.732	5.261	0.1831
DPS	15	7.071	0.471
DPR	51.872	21.267	0.409
MPS	290.8	70.040	0.240
PER	10.2	0.837	0.0820
DY	5.106	1.963	0.384
RONW	19.864	2.807	0.441

Appendix 15

Mean, Standard Deviation and Coefficient of Variance of Ace Finance Limited.

Variables	**Mean**	**S.D**	**C.V**
EPS	21.388	7.912	0.369
DPS	8.422	8.657	1.027
DPR	39.54	33.79	0.854
MPS	242.8	52.60	0.216
PER	16.124	14.10	0.874
DY	4.128	4.81	1.165
RONW	12.328	4.33	0.350

Appendix 16

Mean, Standard Deviation and Coefficient of Variance of United Finance Limited.

Variables	Mean	S.D	C.V
EPS	8.218	8.858	1.0777
DPS	5.5	3.708	0.674
DPR	129.868	176.754	1.361
MPS	99.8	58.417	0.588
PER	26.688	37.66	1.411
DY	4.32	2.57	0.595
RONW	6.892	7.125	1.033

Appendix 17

Mean, Standard Deviation and Coefficient of Variance of National Finance Limited.

Variables	Mean	S.D	C.V
EPS	44.018	19.675	0.446
DPS	4.422	8.716	1.971
DPR	23.49	32.869	1.399
MPS	383.6	116.296	0303
PER	10.092	4.418	0.411
DY	0.866	1.570	1.181
RONW	16.444	6.332	0.385

Appendix 18

Mean, Standard Deviation and Coefficient of Variance of Sidharth Finance Limited.

Variables	**Mean**	**S.D**	**C.V**
EPS	24.93	5.931	0.237
DPS	10.316	5.486	0.531
DPR	40.916	24.024	0.587
MPS	145.4	15.725	0.107
PER	6.24	1.972	0.316
DY	7.186	3.80	0.528
RONW	20.266	7.732	0.233

Appendix 19

Mean, Standard Deviation and Coefficient of Variance of World Merchant Banking & Finance Limited.

Variables	**Mean**	**S.D**	**C.V**
EPS	18.72	11.728	0.626
DPS	4.4	6.0663	1.378
DPR	18.198	27.928	1.369
MPS	118.722	11.728	0.988
PER	13.012	15.621	1.200
DY	3.544	4.876	1.376
RONW	13.02	7.116	0.546

Appendix 20

Growth Rate of Selected Finance Companies for the period of 2061/62 to 2065/66.

Year/Companies	**2061/62**	**2062/63**	**2063/64**	**2064/65**	**2065/66**	**Average**
MFL	7.8	3.48	14.55	11.3	10.18	9.46
AFL	2.61	6.8	3.64	10.05	12.85	7.19
UFL	0.59	-3.52	-0.322	5.14	8.9	2.16
NFL	12.24	11.62	6.25	6.10	9.12	11.06
SFL	4.85	10.43	18.67	13.10	12.08	11.83
WMB & FL	2.51	10.12	13.74	10.03	10.98	9.48