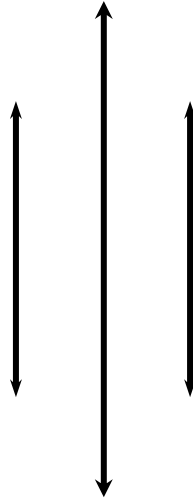


Dividend Policy of Nepalese Commercial Banks

(A Comparative Study)



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RECOMMENDATION

This is to certify that the thesis:

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Entitled

"Dividend Policy of Nepalese Commercial Banks"

has been prepared as approved by this Department in the prescribed format of Faculty of Management. This Thesis is forwarded for Examination.

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DECLARATION

I hereby declare that the work reported in this "**Dividend Policy of Nepalese Commercial Banks**" submitted to Post Graduate Campus, Biratnagar is my independent work done in the form of partial fulfillment of the requirement for the Master's degree of Business Studies under the supervision of Mr. Madhav Bahadur Shrestha.

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ABBREVIATION USED

SCBNL	:	Standard Chartered Bank Nepal Limited
NABIL	:	NABIL Bank Limited
NIBL	:	Nepal Investment Bank Limited
EBL	:	Everest Bank Limited
CV	:	Coefficient of Variation
EPS	:	Earning Per Share
DPS	:	Dividend Per Share
MPS	:	Market price of share
CR	:	Current Ratio
DY	:	Dividend Yield
DPR	:	Dividend Payout Ratio
r	:	Correlation Coefficient
ANOVA	:	Analysis of Variance
PE	:	Probable Error
SEE	:	Standard Error of the estimate

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CHAPTER – ONE

INTRODUCTION

1.10. General Background of the Study:

Nepal is a landlocked country. It is the Kingdom of Hills & Mountains with an area of 147,181 Sq. Meters. It is located on the southern flank of the Himalayan range. Nepal is sandwiched between China & India. Nepal and India share an open border stretching over 1700 kms. Nepal is one of the least developed and the ninth poorest country in the world and has many implicit and explicit obstacles for development. Agriculture is the largest sector and the backbone of the country or Nepalese economy. About 90% of Nepal's population is tied up with agriculture, 40.1% GDP of this country is contributed by it. Nepal is poor in mineral resources but very rich in huge potential for hydroelectric power. It is famous for its high Himalayan ranges, diversity in natural beauty, caste, religion, culture, language, or choreology etc. However, the overall economy condition of the nation mostly depends on agriculture, non-agricultural sector is significant contribution in the national economy. Agriculture and non-agriculture sector needs a sound financial system to carry out its activities efficiently because each and every managerial decision making is based on financial analysis. Finance is the art of raising & spending money. It involves acquisition, utilization, control and administration of funds needed for the different sector. The business world is entirely different from one in the past. The changing lifestyle has always been challenging to the business community and has given opportunities to produce thousands of types of goods and services to satisfy the changing need of people. The social needs have increased tremendously in quantity as well as quality.

Markets for products and services have developed throughout the world and the competition among firms has alerted their managers to preset the future preference of society. All this has induced business to gear up investment in many fields where investment needs huge amounts which can not be covered by the firms' post-profit and

surplus of individual investor only. The member of an economic society, individual and institutions rarely have balanced budget. Some of them always earn more than what they consume and others earn less than what they consume. Further some members of the society undertake additional activities of investing requiring more funds than what they have. Thus there is no equilibrium in income & expenditure. Similarly, these members have varying perceptions towards risk and enterprising ability of the other necessitated a mechanism to transfer financial resources from one unit to another unit of the society. The advent of securities market has successfully served this purpose of fund transfer from one unit to another

"A yam between two stones" is the famous and historical avowal that the people of Nepal frequently opt to represent the location of the nation. Nepal is a landlocked country survived on the beautiful lap of the Himalayas. Like other countries, Nepal happens to be among the least developed of the developing countries. Almost half of its population lives in absolute poverty line literacy. Actually slow pace of development of Nepal is due to nothing but landlockedness of geography, poor resource mobilization, weak infrastructure development and unstable Eco-Political environment.

As being developing country, Nepal is striving to develop and modernize the economy rapidly on rational and socially desired footing. But the structure of the economy has still remained primarily agriculture with very small manufacturing base. So, it is essential to divert and modify agro based economy and develop. Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector, on the ground of open and economic system. Specially, after the restoration of the democracy, the concept of liberalization policies has been incorporated. The continuing thrust to the development of nation has helped in establishing many companies, Banks, Financial Institutions and Manufacturing industries.

1.11. History of Commercial Banks of Nepal

In Nepal, the history of the commercial banking started from 1938 A.D. with the establishment of Nepal Bank Limited. The financial monopoly has changed with the introduction of joint venture banks in 1984. the domestic banks of Nepal, Nepal bank ltd and Rastrya banijya bank could no longer able to enjoy monopoly. The number of commercial banks has been increasing so is the investment volume and opportunity in various sectors. Contribution of commercial banks has been increasing in the overall economic development of the country.

As the study takes reference of commercial banks in Nepal, brief mention of commercial banks will be of great help for further study purpose. “commercial bank exchange money, deposit grants, loans and performs other commercial bank function and is not a bank meant for corporative, agriculture, industrials as per specific function.” (Commercial bank act, 2031,P-5).

Nepal Bank Ltd is a semi-government Bank with 51% ownership of Nepal government and 49% equity participation from private sector. The second commercial Bank named Rastriya Banijya Bank, a fully government owned bank established on 2022 B.S. The pace of development of banking system in Nepal was rather a slow. During the last two and half decades the number of financial institutions has grown significantly. At the beginning of 1980s there were only two commercial bank and development in the country. After the induction of economic liberalization policy, particularly the financial sector liberalization, that impetus in the establishment of new bank and non bank financial institutions. Consequently, by the end of mid July 2007 altogether 208 bank and non bank financial institutions licensed by NRB are in operation. Out of them, 20 are "A" class commercial bank, 38 "B" class development bank, 74 "C" class finance companies, 12 "D" class Micro-Credit development banks, 17 saving and Credit Cooperatives and 47 NGOs.

1.12. Meaning and concept of Dividend Policy

Generally while the company operates in profit, it will be capable to pay the dividend regularly. The portion out the earnings made by the firm that shareholders obtain as return to their investment in shares is referred to as “Dividend”. In other words, it is the shareholder’s earning instead of investment that provide equity towards the company whereas “policy” is decision regarding action. Therefore dividend Policy” is one of the most important financial decisions because it directly affects the financial structure of the company. Wealth maximization is the major objective of the dividend policy.

Dividend policy determines the allocation of net profit between payments to shareholders and re-investment in the firm. In other words, dividend policy can be defined as dividing the earning between dividend and retention. The sharing kept, as reserve by the company is known as retained earnings. Retained earning is one of the most significance sources of funds required for company growth. At the end of the fiscal year, management has to decide how much money should be kept as retention and how much should be distributed to the shareholder. This is the important aspect of the dividend policy.

In our country, there is no similar way on dividend distribution. Usually dividends are paid monthly, quarterly, semi-annually or annually. But in Nepal, it paid annually. Some companies may pay whole earnings within the year as dividend, whereas in some companies the dividend is not announced. Actually the usual dividend pay out ratio seems to be 40 percent. Thus, in short, the decision to keep some portion to retention and some to dividend made regarding earnings is known to be “Dividend Policy. “

This research work will study into all relevant factors of dividend and dividend policy of selected financial institutions. Nepal has already adopted liberal economic policy. Accordingly, there has been numerical growth in the emergence of financial institutes. It is consider as a positive sign in strengthening Nepalese financial sector. There are at present 20 commercial banks. Among the listed companies financial institute will be used as sample companies.

1.13. Statement of Problem

There is no dearth of study on dividend policy of different institutions. Numerous financial literatures, abundance of theories and findings are available relating to dividend and dividend policy. Dividend decision is pivotal as well as controversial area of financial management. However, there are ambiguities among the financial experts regarding the impact of dividends on the valuation of a firm. In fact, the financial community has not any conclusive and simple understanding. There is contradiction and confuse relationship between the market and share price and dividend per share. This due to the fact that the some financial experts hold the view that the dividends are irrelevant so that, the amount of dividends paid has to effect on the valuation of the firm. On the other hand other considers that dividend decision as relevant to the value of the firm. Thus, it is not easy to say whether the dividend decision effect positively or negatively. It remains a puzzle.

The traditional model of dividend policy by Miller Modigliani, 1961, known to be MM Approach shows that dividend have not effect on shareholder's wealth in a world without taxes. Farrar and Selwym 1967 and Brennan 1970, suggest to pay no dividend as it effects on investors benefit. The Dividend model is associated with the names of Rozeff 1981, Ross 1978, Bhattacharya 1979, McKesson 1982, Masulis and Trueman 1988. As yet, none of these theories is completely satisfactory but they provide guidance and also they throw light on the complicated decision problem.

Different institutions may follow different dividend policies according to their suitability. Normally, there is deep relationship between dividend and market price. But due to the underdeveloped capital market like Nepal, is not yet recognized.

In the context of Nepal, it is seemed that only the few companies in the financial sector have sufficient earnings and are able to pay dividends to the shareholders. Buts, there is no any uniformity in dividend distribution. They are not distributing dividend in equal proportion.

In this research we are trying to get the answer of the following questions:

- i. What are the prevailing dividend policies of sample listed companies?
- ii. Are dividend policies affects the market price of stock and value of the firm?
- iii. Are all the sample companies adopting same dividend policy?
- iv. Is there any relationship between dividend policy and dividend per share (DPS), Earning per share (EPS), Dividend Payout ratio (DPR), Price earning ratio (P/E ratio), liquidity ratio, and market price of share (MPS)?

This study will try to analyze the above stated issues by making major findings.

1.14. Objective of the Study

The objectives of study are:

- i. To identify the dividend policies of different companies and find out whether the followed policy is appropriate or not and which policy is better.
- ii. To identify the regularity of dividend distribution of different listed companies.
- iii. To identify the relationship between dividend policy and other financial indicators.
- iv. To find out whether dividend policy affects value of the firm or not.
- v. To find out the relationship between dividend per share (DPS) and market price of share (MPS).

This research provides provide workable suggestions that may be helpful to the formulation of the optimal dividend policy and maximize the stock price.

1.15. Significance of the Study

Nepalese financial institutes have already experienced the practice of dividend distribution. As such, it is felt significant to study the policy regarding dividend concerned with financial institutes. Dividend policy decision is one of the most important decisions in every organization. This study is expected to fill the research gap and add to the inputs to financial literatures relating to the dividend policy. The findings may be valuable to following groups

I. To the Management

Dividend policy is the controversial topic of financial management. It may affect value of the firm. Moreover, most common objective of the firm is to maximize shareholder's wealth. So, Management may adopt appropriate dividend policy

II. To the Shareholders

Shareholders are more concerned with the amount of dividend paid by firm. So, they have more curiosity on the dividend policy adopted by their concerned banks. With this study they can make their mind more comparable in terms of dividend pattern and value of the firm.

III. To the Investors

Generally, most of the investors prefer to invest in profitable firm and expect high return. Corporate sector is expanding but there is information gap between the management of Nepalese companies and Nepalese investors who are eager to invest in shares. They are just investing in the shares in trial and error methods. So, the dividend behavior should be effective to attract new investors keeping the previous investors satisfied and should maintain the reputation of the firm.

IV. To the Researcher

It can be used by researcher as guideline to fulfill the partial requirement of Master of Business Studies. It may help others who want to study in similar topic.

Beside these it will also be beneficial for the policy makers from the comparative study of dividend policy. They can get important findings, which are useful in policy making about dividend policy formation. Dividend policy of the banks helps the customers, financial agencies, stockbrokers, interest person and scholars to find out appropriate dividend policy. It is believed that other banks will also benefited with this study

1.16. Research Methodology

In order to achieve the objective mentioned above following research methodology has been followed. In this study the procedure concerning the research includes research design, nature and source of data and collection procedure, tools used for analysis.

1.7.5. Population and Sample

This study is conducted by assuming all "A" class commercial banks of Nepal as the population and following four banks as sample.

- Standard Chartered Bank Nepal Limited
- NABIL Bank Limited
- Nepal Investment Bank Limited
- Everest Bank Limited

1.7.6. Research Design

Research design is always quite necessary in order to ascertain a specific study. The research design refers to the entire process of planning and carrying out a research study. The research design followed in this study will be analytical cum descriptive.

1.7.7. Sources of collection of Data

- i. Primary as well as secondary data will be used for this research. The sources of data collection will be as follows.
- ii. Financial documents provided by the companies.
- iii. Issues of Finance ministry.
- iv. Telephonic inquiries.
- v. Personal visits(Interviews)
- vi. Articles and other related materials published in newspapers.
- vii. Speeches of financial experts.
- viii. Related websites
- ix. Other related books

1.7.8. Tools used for analysis

Collected data are analyzed and interpreted with the help of various fundamental financial and statistical tools. Following tools are used while conducting this research.

a) Financial Tools

It mainly provides support to analyze the strength and weakness of a firm. It helps to show the mathematical relationship between two figures. Mainly following financial tools are used in this study.

- Dividend Per Share
- Earning Per Share
- Market Price Per share
- Dividend Yield
- Earning Ratio
- Retention Ratio
- Dividend Payout Ratio
- Price Earning Ratio

b) Statistical Tools

For the presentation & proper analysis of the data to get the objective of the study, following statistical tools are used in this research

- Mean
- Standard Deviation
- Coefficient of Variation
- Correlation
- Regression
- Test of Hypothesis
- Analysis of Variance

1.17. Limitation of Study

- i. The research should be done in very short period. We can not analyze freely which restricts from minimizing error to full extend.
- ii. Most of the data are secondary and may not be timely. So there may be reporting error.
- iii. Only four companies are taken as sample due to lack of time.
- iv. Data is not available easily.

1.18. Chapter Scheme

The study has been organized into five different chapters; each chapter deals important factors of dividend policy. The titles of each of these chapters are listed below.

Chapter One: Introduction

This chapter includes statement of problems, objectives of study, focus of the study, importance of the study and limitation of the study.

Chapter Two: Review of literature

This chapter deals with conceptual framework of the Dividend policy. In this part research history of dividend policy will present in brief. Review of major studies will be also presented.

Chapter Three: Research methodology

This chapter deals with research design, sources of data, data collection techniques, data processing and data analysis tools.

Chapter Four: Presentation and analysis of data

This chapter deals with the presentation and analysis and major findings of the study on dividend.

Chapter Five: Summary, conclusion and Recommendation.

This chapter includes Summary, Conclusion and Recommendations. The bibliography and appendices are at the end of the study.

CHAPTER - TWO

Review of Literature

Review of literature means reviewing research studies or other relevant proposition in the related areas of study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research work.

Research is a continuous process. The procedure of findings may change but it never ends. In literature review researcher reviews the books, journals, magazine or any other type of studies, which are related to his or her field study in order to analyze the data and to find something new. Review of literature further helps us to identify the problem, to avoid unintentional replication of previous studies and also helps us to interpret the significance of researchers results in precise manner.

The purpose of reviewing the literature is to develop some expertise in one area and to see what new contribution can be made and to receive some ideas for developing a research design. Various books, journals and articles, thesis of seniors, some research reports related with the topic have been reviewed in this chapter. Some of the master degree thesis has also been reviewed.

2.1 Conceptual Framework

Dividend refers to the portion of earnings made by the firm that distributed to shareholders as return of their investment in shares. In other words, it is the reward to shareholders for bearing the risk of uncertainty. If any firm makes profit then they have two alternatives, one is reinvest the earnings in profitable sector or in the expansion of business and other is distribute it to its owner i.e. Shareholders. Most firms try to make balance between these two alternatives. For this they retain certain percentage of profit in business and rest is distributed to stockholders. This distributed income is simply called dividend. It is not easy to decide dividend payout ratio because firm needs more fund for the expansion, in other hand they should have to

satisfy shareholders by providing return on their investment. For this it is necessary to adopt an effective dividend policy.

Dividend policy refers to the policy, which segments the earnings to retention amount and dividend. Dividend policy determines the ratio of earning to be retained and pay out. As the dividend payment and retained earning have inverse relationship all the problems regarding dividend payment and retention of earning is closely examined before applying appropriate dividend policy. Higher dividend payout reduces the retention amount, which affects the internal financing in other hand lower dividend payout affects marker price of stock. The decision regarding dividend payment depends upon the objective of the firm. If the firm have wealth maximization objective, it pays higher dividend otherwise it uses the fund to reinvestment for growth and expansion of the firm with lower dividend payout.

Most of the investors expect dividend to continue in each year as well as to receive price when they sell the stock¹. The expected final stock prices includes the returns of the original investment plus a capital gain .If the stock is actually sold at price above it's purchase price, the investor will receive a capital gain .as such the shareholders expect an increase in market value of the common stock over time .At the same time, they also expect firm's earnings in a form of dividend .So the shareholders may satisfy with dividend or capital gain. "Financial manager is therefore concerned with the activities of corporation that affect the well being of stockholders. That well being can be partially measured by dividend received but a more accurate measure is the market value of stock." ² But shareholders usually think the dividend yield less risky than capital gain." Since dividend would be mare effective to stockholder. One might think that there would be a tendency for corporation to increase distribution of dividend. But one might equally pressure that gross dividend would be reduced some what with an increase in net profit after tax

¹ J.Fred Weston.Eugene F.Brigham. (1989). *Managerial Finance* 9th Edition. Chicago: The Dryden Press, p. 228.

² William H Dean. (1973). *Finance*. Illionois: The Dryden Press. p.1

dividend still available to shareholders and increase in retained earnings for the corporation"³.

2.1.1 Forms of Dividend

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

1. Cash Dividend

Cash dividend may be termed as portion of earning paid in cash to the owner of the firm as return on their equity investment. If company doesn't have enough cash at the time of dividend payment, company seeks to arrange funds, which will be managed by borrowing. 'When the company follows stable dividend policy, they uses to prepare cash budget to indicate the necessary funds which would be needed to meet regular dividend payment of the company'⁴.

'The cash account and the reserve account of the company will be reduced when cash dividend is paid. Thus, both the total assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of share drops in most cases by the amount of the cash dividend distributed'.⁵

2. Stock Dividend

If additional shares are issued to existing shareholders instead of cash dividend is known as stock dividend. 'A stock dividend represents a distribution of shares in lieu of or in addition to the cash dividend to the existing shareholders'⁶. When stockholder receive stock dividend, the number of shares increases but as it is paid to existing

³Smith Dan Throp. (1977). "Relief from double Taxation of Dividend Tncome", Harvard business Review ,Jan-Feb Vol. pp.90-91.

⁴ I.M.Pandey. (1995). *Financial Management*, 7th Edition. New Delhi: Vikash Publishing house P. Ltd., p. 309.

⁵P.G. Hastings. (1966). *Management of Business Finance*,(n.e.). New York: Van Nostrand. P. 370

⁶ Ibid p- 309

shareholders on their proportion of their share holding, It doesn't affect the ownership of the company. Stock dividend increases number of shares as a result, EPS, DPS and Market price of share of the company decreases.

3. Scrip Dividend

If the company have not sufficient amount of cash for dividend payment, Company may issue scrip or notes promising to pay dividend within the maturity period. So Scrip dividend is those paid in the company promises to pay instead of cash. These dividends may be interest bearing or non-interest bearing. When the company has sufficient cash then it is distributed to stockholders.

4. Property Dividend

If payments are made in the form of property or assets rather than cash, it is called property dividend. When the company has unnecessary or useless assets for the operation of business, it is distributed in the form of property dividend.

5. Bond Dividend

When the company generates more profit for a long time, it is better to issue bonds, which carries certain interest rate. But there should be other constraints to issue bonds. It is issued in the form of bond dividend for existing shareholders.

2.1.2 Theories of Dividend

- 1) Residual Theory of Dividend.
- 2) Stability of Dividend.

Residual Theory of Dividend:

Residual theory of dividend suggests that only Residual earnings should be distributed as dividend, which is left after accepting all the profitable investment opportunities, which depend upon the investment policy of the firm. According to this theory, the dividend is distributed if there exists a balance of earning after paying fixed

obligations and investment opportunities⁷. If the firm have investment opportunity with higher return than required, then firm will invest the earnings to that project, and if there is only earnings left after accepting all the investment opportunities then it will be distributed to stock holders as cash dividend.

When the firm has opportunity of investment in profitable sector at first, they prefer the internally generated fund (Retained earnings) rather than the externally generated fund which is comparatively expensive due to the floatation cost and others. So, the amount of dividends fluctuates time to time in keeping with availability of acceptable investment opportunity of the firm “Although, the residual theory of dividend appears to make further analysis of dividend policy unnecessary. It is not clear that dividends are solely a means of disbursing excess funds”⁸

Thus, we can conclude that the company investment opportunity as well as the availability of internally generated fund determines the dividend amount of a firm.

Stability of Dividend:

Stability of dividend refers to the regularity in paying dividend even though the amount of dividend may fluctuate from period to period. ‘Stability of dividends is considers as a desirable policy by the management of most companies. Shareholders also generally favor this policy and value stable dividends higher than the fluctuating ones. All other things being the same, stable dividends have a positive impact on the market price of the share’⁹.

There are three major types of dividend policies developed (established) under dividend stability. Which are as follows.

⁷ Ibid p- 537

⁸ Ramesh K Rao. (1992). “*The Dividend policy decision*” Financial management concept and application. 2nd Edition. New York: Macmillian Publishing Co.p. 458

⁹ I.M. Pandey.(1995). *Financial Management*, 7th Edition. New Delhi: Vikash Publishing house P. Ltd. p.302

i. Constant Dividend Per Share

The company, which follows this policy, pays a fixed amount per share as dividend every year, irrespective of the fluctuations in the earnings. It is easy to follow this policy when earnings are stable but if it fluctuates, the company faces difficulties to maintain such policy.

This policy does not imply that the dividend per share will never be increased. When the company reaches new level of earnings and expects to maintain it, the annual dividend per share may be increased.

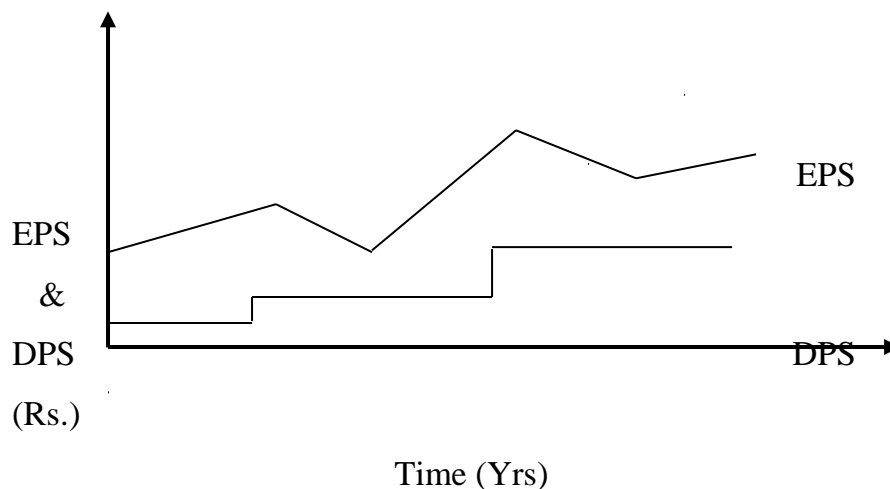


Figure 2.1 Constant Dividend per share policy

‘The dividend policy of paying a constant amount of dividend per year treats common shareholders without giving any consideration to investment opportunities within the firm and opportunities available to shareholders’¹⁰.

‘This policy is generally preferred by those persons and institutions that depend upon the dividend income to meet their living and operating expenses because of the constant amount of dividend they received’¹¹.

¹⁰ Louis K. Brandit (1972). *Analysis of Financial Management*, (n.e.). Engle Wood Cliffs, N.J: Prentice Hall Inc. p7

¹¹ Ibid

ii. Constant payout ratio

Constant payout ratio refers to the paying a fixed percentage of net earnings every year as dividend. Under this policy, the amount of dividend fluctuates with direct proportion of earnings. If the company incurs losses no dividend shall be paid regardless of the desire of shareholders. Internal financing with Retained earnings is automatic when this policy is followed. At any payout ratio the amount of dividend and the additions to retained earnings increase with increasing earnings and Vice Versa.

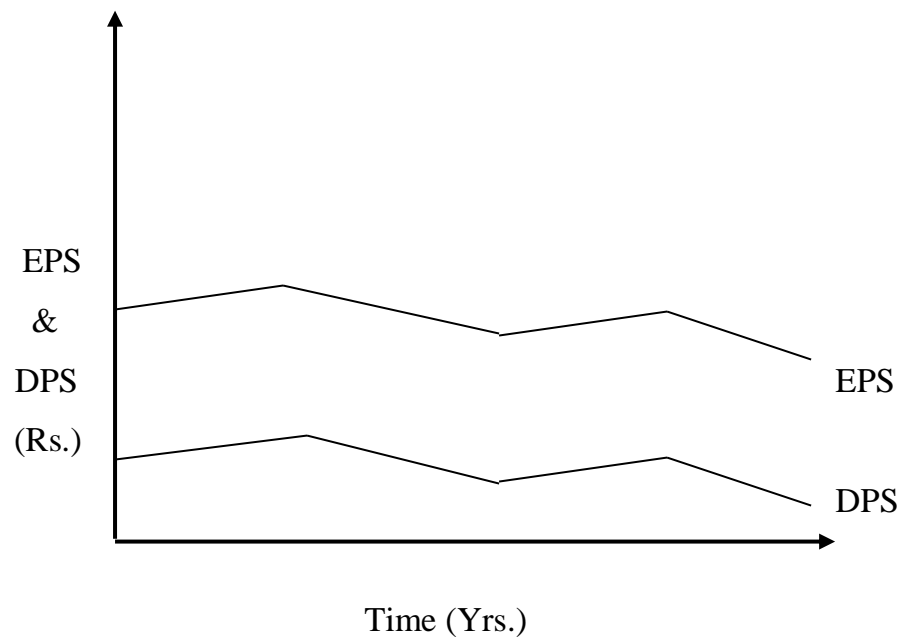


Figure 2.2 Div. Policy of constant payout Ratio

iii. Low Regular dividend per share plus extra

The company having fluctuating earnings follows this policy. In this policy, a small amount of dividend is fixed to reduce the possibility of ever missing a dividend payment. In the period of prosperity extra dividend is paid to prevent investors from expecting that the dividend represent an increase in the established dividend amount. 'This type of policy enables a company to pay constant amount of dividend regularly

without a default and allows a great deal of flexibility for supplementing the income of shareholders only when the company's earnings are higher than the usual, without committing itself to make larger payments as a part the future dividend'.¹² Some shareholder like this policy because of the certain amount of dividend with surprise extra dividend.

2.1.3 Factors Affecting Dividend policy

The company's decision regarding the dividend payment may (extremely) affect by different factors. Therefore, it is desirable to consider some of the factors that influences dividend policy. Which are as follows.

1. Legal Restrictions

All the companies are bounded by certain legal restrictions for dividend payment. These constraints are:

- i. Company can pay dividend from the earnings of current year or past year.
- ii. Company cannot pay dividend if the liabilities of the company exceeds assets.
- iii. Dividend cannot be paid if the amount of dividend to be distributed exceeds net profit.
- iv. Dividend cannot be paid from the capital invested in the firm.

2. Liquidity Position

Liquidity position (Availability of cash) of the firm is an important consideration for dividend payment. Although a firm may have adequate earning to declare dividend, but it may not have sufficient cash to pay. The dividend payment means cash outflow. Thus the greater cash position and overall liquidity of a company, the greater ability to pay dividend. Generally growing firm faces the problem of liquidity even though it makes good profit but it needs funds for its expansion. So they cannot declare dividend.

¹²I.M. Pandey.(1995). *Financial Management*,7th Edition. New Delhi: Vikash Publishing house P. Ltd. p.304

3. Investment Opportunities

The dividend policy is also influenced by the financial needs of the company. If any profitable project found, company invests its earnings to that project rather than paying dividend. 'A growing firm gives precedence to the retention of earnings over the payment of dividend in order to finance its expanding activities. But the firm having stable earning trends will prefer to pay larger portion of its earnings as dividend'¹³. When the investment opportunities arise infrequently, company follows a policy of paying dividend and raises external funds when the investment opportunity occurs.

4. Access to Capital Market

A company having insufficient cash can pay dividend, if it is able to raise fund in capital market. Because they can generate fund from the capital market whenever it is required. 'Easy accessibility to the capital market provides flexibility to the management in paying dividends as well in meeting corporate obligation. Thus, greater the ability of the firm to raise funds in the capital market, the greater will be its ability to pay dividends even it is not liquid'¹⁴.

5. Control

If the company pays access cash dividend, There will be the shortage of fund to finance investment opportunities, which must be fulfilled by issuing new securities. This affects the control position of existing stockholders. So, they are not desirable to distribute the earnings as dividend. Which prevents them to loose the control position to the company.

6. Inflation

This is another constraint for dividend payment. Cost of replacing assets increases substantially due to inflation and the funds generated by depreciation would be inadequate to replace the assets. So, the greater profit retention may be required for the companies on order to make replacement or to maintain the capital intact which will reduce dividend payment.

7. Stability of Earning

¹³ Ibid

¹⁴ Ibid, p. 301

If the companies have stable earnings they can predict its approximately future earning. Such firm likely to payout a higher percentage of its earning as dividend. If the earning is unstable they used to retain higher percentage of earning.

8. Past Dividends

The firm has to maintain its past dividend payout rate. If current dividend payout ratio is less than past year rate, the market price of stock will decline.

9. Rates of Assets expansion

Any growing firm needs expansion on its assets. For this the firm should retain profit, which affects the dividend payment.

2.1.4 Legal provision regarding Dividend practice in Nepal

Company Act 1997 makes some legal provision for dividend payments in Nepal. These provisions may be seemed as under:

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

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

- a) Case any law forbids the distribution of dividends.
- b) In case the right to dividend is disputed.
- c) In case dividends cannot be distributed with in the time limit mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company.

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

Section B explains that only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.

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

2.2 Review of Major Studies

2.2.1 Walter's study¹⁵

Professor James E. Walter conducted a research in 1966 regarding dividend policy, in which he argues that value of the firm always affected by the dividend policy adopted by the firm. In his approach, investment policy of the firm is directly affected by the dividend policy. Which is opposite to the Modigliani and Miller's approach.

His study is mainly focused to find out the relationship between internal rate of return and firm's cost of capital. By analyzing these two factors firm can allocate the total earnings to dividend and retained earning.

His model is based on following assumptions.

1. The firm finances all investment through retained earning i.e. Debt or new equity not issued.
2. All earnings are either distributed as dividend or reinvested immediately, i.e. no earning should be retained in form of cash.
3. The firm's Internal rate of return and Cost of capital are constant.
4. Beginning earning per share and dividend never change.
5. Firm has very long or infinite life.

Based on these assumptions Walter formulated the related factors to determine the Market price of share.

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

¹⁵ James E. Walter. March (1966). "Dividend policies and common stock price", *Journal of Finance*. pp.29-41

Where,

P = Market price per share

DPS = Dividend per share

EPS = Earning per share

r = Internal rate of return

k = Cost of capital

According to Walter's model, the optimum dividend policy depends on the relationship between IRR and its cost of capital. His view on the optimum dividend payout ratio can be summarized as follows.

i. Growth Firm

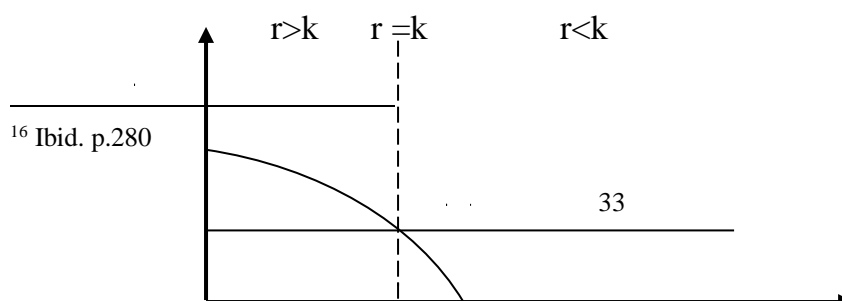
If the internal rate of return is higher than the firm's cost of capital, these firms are said to be growth firm. These firms assumed to have sufficient profitable investment opportunities. Such firms can maximize the value of share by retaining all earnings for internal investment. Thus, the optimum payout ratio for a growth firm is zero.

ii. Normal Firm

The firm having equal internal rate of return and cost of capital is known as normal firm. For these firms dividend policy does not affect the market value of share. 'There is no unique optimum payout ratio for a normal firm. One dividend policy is as good as other. Market value per share is not affected by the payout ratio'¹⁶

iii. Declining Firm

Declining firms have lower IRR than firm's cost of capital. Generally these firms don't have any profitable investment opportunities. So, for these firms it is better to distribute all the earnings as dividend. Thus the optimum payout ratio for declining firm is 100%. The market value per share increases as payout ratio increases.



¹⁶ Ibid. p.280

Return
&
Cost (%)

$I = r = k$
Rs.

Figure 2.3 Earning, investment and New Financing

2.2.2 Gordon's Model¹⁷

Myron Gordon modified the Walter's model for determining the market price of the stock. In his study he conducted that dividend policy has the direct relationship with market value of the stock. so, dividend policy affects the market value of the stock even when the internal rate of return (Return on investment) is equal to the capitalization rate. This study suggests that investor prefer present dividend rather than future gains. So, the higher dividend yield causes increase in market price of stock.

This study is mainly based on following assumptions.

- i. The firm is an all equity firm.
- ii. No external equity is available. Only retained earning is used for financing any expansion.
- iii. Internal rate of return and appropriate discount rate are constant.
- iv. The firm and its stream of earnings are perpetual.
- v. The corporate taxes do not exist.
- vi. The retention ratio once decided upon is constant. Thus the growth rate is constant forever.
- vii. Cost of equity (K_e) must be greater than growth rate (g).

Based on these assumptions, Gordon has derived a formula for determining the market value of share.

¹⁷ Myron J. Gorden. (1962). *The investment financing and Valuation of Corporation*, Home Wood Vol. III.

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

Where,

P	=	Market price of share
EPS	=	Earning per share
B	=	Retention ratio
1-b	=	Dividend payout ratio
k	=	capitalization rate
br = g	=	Growth rate

Limitations

Since the assumptions of both model are almost same. Some both have same conclusions. But their assumptions are far from the reality. Like they assumed that r and k will be constant but in practice r & K will not be constant rather it changes. They also assumed that firm is free from tax liability but in practice tax exists in any firm.

2.2.3 Modigliani and Miller' Study (MM Study)¹⁸

MM theory is also known as irrelevant theory of dividend. According to Modigliani and Miller, dividend policy of any firm is irrelevant, as it does not affect the wealth of shareholders. They argue that the value of the firm depends upon the firm's earning rather than the amount of dividend paid. So, an effective investment policy causes increase in value of the stock. MM theory is based on following assumptions.

1. The firm operates in perfect capital market. Information is costless and readily available to all investor. Transaction cost and floatation cost do not exist. All securities are infinitely divisible. Investors are assumed to rational and to behave accordingly.
2. Taxes do not exist.
3. The firm has fixed investment policy.
4. Risks of uncertainty do not exist.

¹⁸ F. Modigliani and M.H. Miller. October (1961). "Dividend policy, Growth and Valuation of shares", *Journal of Business*. pp. 411-433

Modigliani and Miller provide following proofs for the support of their argument.

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

$$P_0 = \frac{D_1 + P_1}{1 + k_e} \dots\dots\dots (i)$$

Where,

P_0 = Market price of the share at the beginning of the period.

P_1 = Market Price of share at the end of the period.

D_1 = Dividend per share at the end of the period

K_e = cost of equity

According to MM model, if external financing exists the market value of the firm can be computed by multiplying both sides by number of share outstanding. The total value of the firm is,

$$nP_0 = \frac{n(D_1 + P_1)}{1 + K_e}$$

Where,

n = No. Of Shares outstanding

At the end of the year the firm sells number of new shares (Δn) at price P_1 and finances its investment opportunities. The value of the firm at time 0 will be,

$$\text{Or, } nP_0 = \frac{nD_1 + p_1(n + \Delta n)}{1 + K_e}$$

n = No. Shares at the beginning of the year

Δn = No. Of share issued at the end of the year

If the firm finances all investment proposals (projects) either by issuance of new shares or by RE or both the amount of the new shares issued would be

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

ΔnP_1 = Amount obtained from the sale of new shares.

I = Amount Required for new investment during the period.

E = total Earnings during the period.

E - nD₁ = Retained Earning

Substituting the value of ΔnP_1 of step 4 to equation of step 3 we get

$$nP_0 = \frac{nD_1 + P_1(n + \Delta n) - I + E - nD_1}{1 + K_e}$$

$$nP_0 = \frac{P_1(n + \Delta n) + I + E}{1 + K_e}$$

Conclusion

Since there is no existence of dividend in above equation, MM concluded that amount of dividend paid is irrelevant to the value of the firm. In other words, dividend policy doesn't affect the value of the firm.

Limitation

MM Theory of irrelevance is mainly based on simple assumptions, which are not well founded. Such as perfect capital market, which is hardly found in practice. Their assumption about inexistence of tax is far from the reality. Investors have to pay tax on dividend received or capital gains earned. As the tax rate on capital gain is lesser than dividend received. So, investors don't remain indifferent between dividend and capital gains. In fact, dividends are relevant and influence the wealth of firm.

2.2.4 Linter's Study¹⁹

J. Linter conducted a study in 1956, which is focused in the behavioral aspect of dividend policy. He investigated dividend pattern of 28 different companies of America. The conclusion of his study is as follows.

$$\text{Div}^*_t = P \text{EPS}_t$$

$$\text{And } \text{DIV}_t - \text{DIV}_{t-1} = a + b (\text{DIV}^*_t - \text{DIV}_{t-1}) + e$$

Where, DIV^*_t = Firms desired payout

EPS_t = Earning per share

P = Targeted payout ratio

A = Constant relating to dividend growth

B = Adjustment factor relating to pervious period's dividend and desired level of dividend ($b > 1$).

Major Findings of this study is as follows:

1. Firm generally thinks in terms of proportion to be paid as dividend.
2. Investment requirements are not considered for modifying the pattern of dividend behavior.
3. Firm generally have target payout ratios in view while determining change in dividend per share.

2.2.5 Van Horne and Mc Donald's Study²⁰

Van Horne and Mc Donald concluded a comprehensive study of 86 electric utility firms and 39 electronics and electric component industries by using cross sectional regression model in 1968 to know the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stock.

From their study they concluded that the market price of share was not affected by new equity financing in presence of cash dividend except for these in the highest new issue group and it made new equity more costly form of financing than retention of

¹⁹ J. Linter.(1956). "Distribution of incomes of corporations among dividend, Retained Earnings and Taxes." *American Economic Review*. Vol. 46. pp. 97-113

²⁰James C. Van Horne and G. Mc Donald (1971). " Dividend policy and new equity financing" *Journal of Finance*. Vol. XXVI. pp. 507-519

earning. They also indicated that the payment of dividend through excessive equity financing reduces the market price of share.

2.2.6 Chawala And Shrinivasan's Study

This study is also focused on the impact of dividend and retention Market price of stock. They estimated cross sectional relationship of 18 chemical and 13 sugar industries for the year 1963 to 1973. The basic objectives of the study are

- i. To set a model which explains the relationship between share price, dividend and retained earning.
- ii. To test the dividend, retained earning hypothesis.
- iii. To examine the structural changes in the estimated relations overtime.

To achieve above objectives, they used simultaneous equation model as developed by Friend and Puckett in 1964.

The unspecified form of the model is as follows

Price function

$$P_t = F(D_t, R_t, P/E_{t-1})$$

Dividend Supply Function:

$$D_t = F(E_t, D_{t-1}, P/E_{t-1})$$

$$\text{Identity, } E_t = D_t + R_t$$

Where,

P= Market Price of Share

D= Dividend Per Share

R= Retained Earning per Share

E= Earning Per Share

P/E= Deviation from the sample, Average of price earning Ratio

t= Subscript for time

They used two stage least square technique for estimation. They found that the estimated coefficient had a correct sign and coefficient of determination of all equation was higher in case of chemical industry. Which implies that the stock price

and dividend paid variation can be explained by their independent variables. But in case of sugar industry the sign for retained earning is negative.

From their study they concluded that both dividend and retained earnings significantly explain the variations in share price of the industry

2.2.7 Friend And Puckett's Study

Friend and Puckett (1964)²¹ conducted a study on the relationship between dividends and stock prices, by running regression analysis on the data of 110 firms from five industries in the year 1956 to 1958. These five industries were chemicals, electric utilities, electronics, food and steels. These industries were selected to permit a distinction made between the results for growth and non growth industries and to provide a basis for comparison with result by other authors for earlier years. They also considered cyclical and no cyclical industries which they covered. The study periods covered a boom year for the economy when stock prices leveled off after rise (1956) and a somewhat depressed year for the economy when stock prices, however rose strongly (1958).

They used dividends, retained earnings and price earning ratio as independent variables in their regression model of price function. They used supply function, i.e., dividend function also. In their dividend function, earnings, last year's dividend and price earning ratio are independent variables. They quoted that the dividend supply function was developed by adding to the best type of relationship developed by Linter.

Symbolically, their price function and dividend supply function are,

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

Where,

- P_t = share price at time t
- D_t = Dividends at time t
- R_t = Retained earnings at time t
- $(E/P)_{t-1}$ = Lagged earning price ratio

²¹ Irwin Friend and Marshall Puckett.(1964). "Dividends and stock Prices". *The American Economic Review*, Vol. LIV, pp. 656-682.

Dividend supply function: $D_t = e + fE_t + gD_{t-1} + h(E/P)_{t-1}$

Where,

E_t = Earning per share at time t

D_{t-1} = Last year dividend

Their study was based on the following assumptions:

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

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

They also calculated dividends supply equation i.e.

$D_t = e + f E_t + gD_{t-1} + h (E/P)_{t-1}$ and the dividend price equation for four industry groups in 1958. In their derived price equation it seems that there was no significant changes from those obtained from the single equation approach as explained above. They argued that the stock prices or more accurately the price earning ratio does not does not have a significant effect on dividend payout. On the other hand, they noted that the retained earnings effect is increased relatively in three of the four cases tested. Further, they argued that their result suggests price effect on dividend supply are not a

serious source of bias in the customary derivation of dividend and retained earnings effects on stock prices, though such a bias might be marked if the disturbing effect of short run income movements are sufficiently great.²²

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

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

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

²² Ibid pp. 675.

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

2.2.8 H.K. Baker, G.E. Farrelly and Richard B. Edelman's Study

H.K.Baker, Gail E. Farrelly and Richard B. Edelman surveyed management view on dividend policy.²³ They asked corporate financial managers what they considered most important in determining their firm's dividend policy. The objectives of their survey were as follows.

- i. To compare the determinants of dividend policy today with Linter's behavioral model of corporate dividend policy and to assess management's agreement with Linter's findings
- ii. To examine management's perception of signaling and clientele effect and
- iii. To determine whether managers in different industries share similar views about the determinants of dividend policy.

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

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

They send the final survey instrument to the chief financial officer of the 562 firms, followed by a second complete mailing to improve the response rate and reduce potential non-response bias. Their survey yielded 318 usable responses (56.6% response rate), which were divided among the three industry groups as follows: 114

²³ H.Kent Baker , Gail E. Farrelly and Richard B. Edelman. (1985). "A Survey of Management Views on Dividend Policy", *Financial Management*. Autumn Vol. pp. 78-84.

utilities (76%)v 147 manufacturing firms (47.6%), and 57 wholesale/retail (5.3%). Based on dividend and earning per share data provided by the respondents, the average dividend payout ratio were computed. They found that payout ratio of the responding utilities (70.3%) was considerably higher than for manufacturing (36.6%) and wholesale / retail (36.1%).

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

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

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

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

2.3 Review of Journal and Articles

Radhe Shyan Pradhan conducted an outstanding study related to stock Market behavior²⁴ in 1992. In his study he collected the data of 17 enterprises from the year 1986 to 1990. The objectives of the study are

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

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

- i. Higher earning on stock leads the larger ratio of DPS.
- ii. Stock with larger ratio of dividend per share to market price have lower leverage ratio.
- iii. Positive relationship between the ratios of DPS to market price and interest coverage.
- iv. Positive relationship between dividend pay out and turnover ratios.
- v. Positive relationship between dividend pay out and liquidity.
- vi. Positive relationship between dividend payout and profitability.
- vii. DPS and MPS are positively correlated.

Manohar K. Shrestha's Study on 'Shareholder's democracy and annual general meeting feedback'²⁵ deals with the policies and financial performance of some financial institution of Nepal, which contains Dr. Shrestha's view expressed in annual general meeting of financial institutions. The paper presented by him on fifth annual general meeting of Nepal Arab Bank has been presented here.

In his view the common problems and constraints of the shareholders are as follows.

- i. The cost-push inflation at exorbitant rate has made the shareholders to expect higher return from their investment.
- ii. Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequence of it.

²⁴ Radhe Shyam Pradhan . (1993). "Stock Market behavior in a small capital market : A case of Nepal". *The Nepalese Management Review*, Vol. .IX. pp. 23- 49

²⁵ Dr. Manohar Krishna Shrestha. (1992). "Shareholder's Democracy & Annual general meetings feedback", *Portfolio Analysis*. Katmandu: Nepal publication.

- iii. Erosion in the purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholder's purchasing power by raising dividend payment ratio on the basis of both earnings and cost theory.
- iv. Indo- Nepal trade and transit deadlock has become a sort of economic welfare putting rise in the cost of living index to a considerable extent. This is the reason, which made shareholders to expect higher demand for satisfactory dividend.
- v. The waiting of 5 years with payment dividend in previous years is equally a strong enforceable reason of the bank's shareholder to expect handsome dividend already assumed and committed in various reports of the earlier annual general meeting.
- vi. One way to encourage risk taking ability and preference is to have proper risk return trade off by bank's management board is a way that higher return must be the investment rule for higher risk takers that comprise bank's shareholders.

At the end of the paper, Mr. Shrestha States that the bank are trying its best to satisfy shareholders and employees as well.

Another article Published by K.D. Manandhar²⁶ describes about the relationship of dividend payout to other financial factors based on the data of 7 commercial Banks, 5 Finance and insurance companies, 2 Trading companies, 2 service oriented companies and 1 Manufacturing company for the year 1987 to 1998.

Following are the major findings of his study

- i. Significant relationship is found between change in dividend policy in terms of dividend per share and change in lagged earnings.
- ii. There is relationship between distributed lagged profit and dividend.

²⁶ Kamal Das Manandhar. (2000). "Preliminary Test of Lagged Structure of dividend". *Empirical test: Case of corporate firms in Nepal*. *Management of Dynamics*. Vol. 10, Shanker Dev Campus. Pp. 5-12

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

2.4 Reviews from the Thesis

There are few theses available which have looked into corporate dividend behavior. The available thesis reviewed as follows:

A comparative study of dividend policy in commercial banks conducted by **Mr. Rishi Raj Gautam**²⁷ was carried out by using the secondary data three commercial banks in 1998.

Objectives of the study are as follows:

²⁷ Rishi Raj Gautam. (1996). "*Dividend Policy in Commercial Banks :A Comparative Study of SCBNL, NIBL, NABIL*" Unpublished Master's Degree Thesis (T.U., Central Department of Management Kirtipur)

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

Major findings of the study are as follows:

1. Average earnings per share and dividend per share of all concerned banks are satisfactory.
2. Analysis indicates that there is the largest fluctuation in EPS and DPS , on the other hand have relatively more consistency dividend per share in all the sample banks.
3. No commercial banks seen to be guided by cleanly defined dividend strategy in spite of the good earnings and potentials.
4. Shares of the financial institution are actively traded and market prices are increasing.
5. Commercial banks represent a robust body of profit earnings organization in comparison to the other sectors such as manufacturing, trading etc.
6. Once of the most striking findings of this study is that no commercial bank sample for this study has clearly defined dividend strategy. On the other hand, there is significant relationship perceives between earnings and dividend of expansion program.

It is necessary to research about the dividend policy in joint venture commercial banks taking large number of sample and do wide spread analysis in above variables.

Prerana Laxmi Rajbhandari has conducted a study on dividend policy: A Comparative study between Banks and insurance Companies²⁸ through data collected

²⁸ Prerana Laxmi Rajbhandari.(2001). “*Study on Dividend Policy : A Comparative Study Between Banks and Insurance Companies*” Unpublished Master’s Degree Thesis (T.U., Central Department of Management Kirtipur)

from 1994/95 to 1998/99 with 3 Joint Venture Commercial Banks and 3 insurance companies in May 2001.

The main objective of her study was:

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

Major findings are as follows:

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

Bishnu Hari Bhattarai has conducted study on "Dividend decision and its impact on stock valuation"²⁹ in 1996. The main findings of his study are as follows:

1. There is positive relationship between cash flow and current profit and dividend percentage of share. The degree of relationship is almost perfect.
2. Basically there are no criteria to adopt payout ratio and it is observed that there is negative relationship between payout ratio and valuation of share.

²⁹Bishnu Hari Bhattarai.(1996). "*Dividend Decision and its Impact on Stock Valuation*" Unpublished Master's Degree Thesis (T.U., Central Department of Management Kirtipur)

3. In aggregate, dividend paid by the company is not stable.
4. Inflation ratio in recent years is decreasing and the market price of share is increasing. Nevertheless the companies are not able to give required rate return to the investors.
5. There was positive relationship observed on foreign investors and payout of dividend .i.e. the companies invested by Nepalese. There was negative relationship observed between the companies paying dividend and percentage of public share holder and percentage of shareholder by HMG/N.

A study on “Impact of Dividend and Earnings announcement on shareholders return and Stock Prices in Nepal”³⁰ by **Narayan Prasad Khatiwada** in May 2001 through data collected from 053/54 to 055/56 for 6 joint venture Banks.

Objectives of the study are as follows.

- To analyze the impact of earning and dividend announcement on shareholders return.
- To see the correlation between the return of the individual securities with market return.
- To identify the quality of systematic risk and unsystematic risk.

The major findings of the study are as follows.

- 1) Announcement of dividend and earnings did not affect the shareholders return in average.
- 2) Other banks except Nepal SBI Bank Ltd. having different dividend rates did not provide significant abnormal return to the shareholders.
- 3) Shareholder realized positive abnormal return from NB, SBI and Grindlays.

³⁰ Narayan Prasad Khatiwada. (2001). “*Impact of Dividend and Earning Announcement on Shareholder’s Return and Stock Prices in Nepal*” Unpublished Master’s Degree Thesis (T.U., Central Department of Management Kirtipur)

Hari Ram Aryal has performed a thesis on dividend Policy: Comparative study between NABIL and SCBNL³¹ with eight year's data relating to dividend policy from 1987/88 to 1994/95.

His main objectives of the work are as follows.

- To highlight dividend practices of the banks.
- To analyze the relationship of dividend with various important variables.

Major Findings of the study are:

1. The relationship between DPS with EPS, net profit, net worth and stock prices are positive in sample banks.
2. A change in DPS affects the share prices differently in different banks.
3. There is not uniformity of dividend distribution policy in both the banks.

A research on “Corporate dividend practices in Nepal”³² carried out by **Naba Raj Adhikari** Using primary as well as secondary data.

The objectives of study are;

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

Major findings of the study are as follows:

1. There are differences in financial position of high dividend paying and low dividend paying company companies.
2. The stocks with larger ratio of dividend per share to book value per share have higher liquidity it also more variable as compared to stock paying lower dividends. Other thing remaining the same, financial position of high dividend paying companies is comparatively better than that of low dividend paying companies.

³¹ Hari Ram Aryal.(1997). “*Dividend Policy comparative study between Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd.*” Unpublished Master’s Degree Thesis (T.U., Central Department of Management Kirtipur)

³² Naba Raj Adhikari.(1999). “*Corporate Dividend Practice in Nepal*” Unpublished Master’s Degree Thesis (T.U., Central Department of Management Kirtipur)

3. Another interesting conclusion is that market price of stock is affected by dividend for finance and non-finance sectors differently.
4. There is positive relationship between dividend and stock price.
5. There is negative relationship between dividend payout and earnings before tax to net worth.
6. Stocks with larger ratio of DPS to book value per share have higher profitability. These profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.
7. The companies paying higher dividend are reluctant to employ higher degree of leverage in their capital structures.
8. The stocks with larger ratio of dividend per share to book value per share have also higher turnover ratio and higher interest coverage.

Some findings through primary data:

1. With respect to factors affecting corporate dividend policy, the majority of the respondents give the first priority to “earning”, the second to availability of cash the third to past dividend and fourth to concern about maintaining or increasing stock price.
2. Dividend payout affects the price of common stock.
3. As regards dividend as a residual decision, the majority of the respondents feel that it is not a real residual decision.
4. With respect to major motives for paying cash dividend, the majority of the respondents feel that it is to convey information to shareholders that the company is doing good.
5. Nepalese shareholders are not really indifferent towards payout or non payment of dividend.
6. One of the major finding is that earning announcement helps to increase the market price of the share.

The study on dividends and stock prices³³ conducted by **Sadakar Timilsina** was carried out by using the data for 16 enterprises from 1990 to 1994.

Objectives of the study are as follows:

- To test the relationship between DPS and stock prices.

³³ Sadakar Timilsena. (1998). “*Dividends and Stock Prices : An Empirical Study*”, Unpublished Master’s Degree Dissertation, (T. U., Central Department of Management, Kirtipur)

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

Major findings of the study are as follows.

1. The relationship between DPS and stock prices is positive in the sample companies.
2. DPS affects the share prices variably in different sectors
3. Changing the dividend policy or dividend per share might help to increase the market price of share.
4. The relationship between stock prices and retained earnings per share is not prominent.
5. The relationship between stock prices and lagged earnings price ratio is negative.

Though there were above mentioned studies are related to dividend behavior in Nepalese context. It has now become necessary to find out where their findings are still valid or not. In Nepalese context, many more changes have taken place in last few years. So, it is necessary to carryout a fresh study related to dividend pattern of Nepalese companies. In this study, it is tried to carryout the latest data for different companies for analyzing the dividend policies of Nepalese companies. Because the earlier studies on dividends have become old and need to be updated and validated because of the rapid changes taking place in financial market of Nepal.

It is found that no research has been conducted by taking the sample companies', which the researcher has selected in this research. So, it is believed that this study will be different than earlier research

CHAPTER – THREE

Research Methodology

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps to adopt by a researcher in studying the problem with certain objectives. It describes the method and process applied in the entire aspect of the study. In this research, the research design, data collection procedure and analysis are described thoroughly. Analysis is conducted with using appropriate financial and statistical tools and the findings are presented in a systematic way.

3.1 Research Design

Research design can be defined as the plan, structure and strategy of investigation concerned so as to obtain answer to reason questions and to control variants. A researcher can design his research in many different ways. This research is based on secondary data. It is simply an analytical and descriptive research. It covers the data from the year 1995 to 2000. However it was tried to analyze the latest data upto 2001, many constraints could not provide the recent one. So the research is somehow limited. The collected data is analyzed with financial as well as statistical tools and interpreted.

3.2 Population and sample

As this study is based on the data of the commercial banks listed in NEPSE. So the population is taken from only those companies which are listed in NEPSE. Since the topic implies the study should be done among the dividend paying and actively traded companies, the sampling will be done accordingly. This study will cover all together 4 commercial banks

The selected sample companies are as follows.

- i. Standard Chartered Bank Nepal Limited
- ii. NABIL Bank Limited
- iii. Nepal Investment Bank Limited

iv. Everest Bank Limited

3.3 Data Collection Procedure

Almost all the data required for the research is collected are collected from the secondary source, mainly from the financial statement of listed companies' volume III and IV and Trading Report published by Nepal Stock Exchange. Other necessary information has been taken from the individual investors, related organizational officials, SEBO/N and NEPSE staffs and other related personalities as well. Beside this, related Web sites like www.nepalstock.com, www.fncci.com are also used for data collection

3.4 Method for Analysis

Specific financial and statistical tools are used in this research. The analysis of data is done according to pattern of data available. The relationship between different variables related to study topic would be drawn out by using financial and statistical tools. The calculated results are tabulated under different heading for ease of reading, and then they are compared with each other to interpret results. In this study simple regression analysis has been used to analyze the effect of independent variable on dependent variable. It helps in studying the effect and magnitude of the single independent variable on one dependent variable to determine whether the variable of DPS is related to dividend decision.

3.5 Data Analysis Tools

3.5.1 Financial tools used for Analysis

1.Earning per share (EPS)

EPS is calculated to know the earning capacity and to make comparison between concerned companies

It is defined as the result received by dividing net profit after taxes by no. of common stock outstanding

$$\text{EPS} = \frac{\text{Net profit available to equityholders}}{\text{No. of common shares outstanding}}$$

2. Dividend per Share (DPS)

The part of earnings distributed to the shareholders as per share basis is known as DPS. It is the amount calculated by dividing the total dividend with total numbers of share outstanding

$$DPS = \frac{\text{total dividend}}{\text{No.of Common Sahres Outs tan dings}}$$

3. Dividend in Percent

Dividend percent indicates the ratio of dividend per share to the paid up price per outstanding share. It is obtained by dividing dividend per share by paid up price per share.

$$\text{Dividend in Percent (\%)} = \frac{\text{Dividend per share (DPS)}}{\text{Paidup price per share}}$$

4. Dividend Pay-out Ratio (DPR)

The Percentage of the profit on share that is distributed as dividend is called dividend pay- out ratio (DPR). It is the result received by dividing DPS by EPS

$$DPR = \frac{\text{Dividend per share (DPS)}}{\text{Earning per share (EPS)}}$$

5. Price Earning Ratio (P/E Ratio)

P/E Ratio expresses the amount currently paid to each rupee of currently reported by the balance sheet of company; s earning per share by the market. IT is calculated using following formula,

$$P/E \text{ Ratio} = \frac{\text{Market value per share (MVPS)}}{\text{Earning per share (EPS)}}$$

6.Dividend Yield

Dividend yield may defined as the ratio of dividend per share to the market value per share .IT is also expressed in terms of the market value per share .IT is the result obtained by dividing DPS by the MVPS.AS,

$$\text{Dividend Yield} = \frac{\text{Dividend per share (DPS)}}{\text{Market value per share (MVS)}}$$

7. Market Value per Share to Book Value per Share Ratio

This ratio reflects the price of the market or outsiders are paying for each rupee of currently or reported by the company. It is calculated by dividing the market value per share by book value per share.

$$= \frac{\text{Market valur per share (MVPS)}}{\text{Book value per share (BVPS)}}$$

8.Liquidity Ratio

This ratio is calculated through dividing total assets by total liability

$$\text{Liquidityratio} = \frac{\text{TotalAssets}}{\text{TotalLiability}}$$

9.Profitability Ratio

This ratio is calculated by dividing Net Assets by capital employed (EBIT).
That is ,

$$\text{ProfitabilityRatio} = \frac{\text{NetAssets}}{\text{EBIT}}$$

3.5.2 Statistical Tools Used

The research holds various statistical tools, which are defined as follows.

i. Mean (\bar{X})

The arithmetic mean or average is the sum of total values to the number of observations in the sample. It represents the entire data which lies almost between the two extremes. For this reason an average is frequently referred to as a measure of central tendency. In this study it is used in data related to dividend of sample companies over different years. It is calculated as

$$\text{Mean}(\bar{X}) = \frac{\text{Sum of the values of observation}(\Sigma X)}{\text{Total number of observation} (N)}$$

ii. Standard Deviation (S.D. ' σ ')

The measurement of the scatter ness of the mass of figures in a series about an average is known as dispersion. The standard deviation (S.D.) is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observations. It is calculated for selected dependent and independent variables specified. It is the positive square root of mean squared deviation from the arithmetic mean it is denoted by σ . That is,

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

Where,

σ = standard deviation

$\sum (X - \bar{X})^2$ = Sum of the mean deviation square

N = Total number of observation

iii. Coefficient of variations (C.V.)

The coefficient of variables reflect the relation between standard deviation and mean .The relative measure of dispersion based on the standard deviation is known as coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the c.v. It is used for comparing variability of two distributions. If the \bar{x} be the arithmetic mean and σ the standard deviation of the distribution, then the C.V. is defined as,

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

Where,

C.V.= Coefficient of variation

σ = Standard deviation

\bar{x} = Arithmetic mean

Less the C.V. more will be the uniformity; consistency and more the C.V. less will be the uniformity, consistency.

iv. Coefficient of Correlation (r)

"Correlation Analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another." Coefficient of correlation is the measurement of the degree of relationship between two casually related sets of figures whether positive or negative. Its value lies somewhere ranging between -1 to $+1$. If the both variables are constantly changing in the similar direction, the value of coefficient will be $+1$ indicative of perfect positive correlation, when the coefficient will be -1 two variables take place in opposite direction. The correlation is said to be perfect negative. In this study, simple coefficient of correlation is used to examine the relationship of different factors with dividend and other variables. The data regarding dividend over different years are tabulated and their relationship with

each others are drawn out. In practical life, the possibility of obtaining either perfect positive or perfect negative correlation is very remote.

It is calculated as follows

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

Where,

r = coefficient of correlation

X = independent variable

Y = dependent variable

N = number of periods

v. Coefficient of Multiple Determinations (r²)

The coefficient of determination is a measure of the degree of linear association or correlation between two or more independent variables. It measures the percentage total variation in dependent variables explained by independent variables. If r² has a zero value then, it indicates that there is no correlations which means all the data points in the scatter diagram fall exactly on the regression line. If it has a value equal to 1 then it indicates that there is perfect correlation and as such the regression line is a perfect estimator. But in most of the cases the value of r² will lie somewhere between these two extremes of 1 and 0. One should remember that r² close to 1 indicates a strong correlation between two variables and r² near to zero means there is little correlation. It is symbolically indicates as r² though some would prefer to put it as R² the coefficient of determination value can have ranging between zero to one. A value of one can occur only if the unexplained variation is zero which means that all the data points in the scatter diagram fall exactly on the regression line. If r² is .70%, it indicates that the independent variable explain 70% of the total variation in the dependent variable.

$$R^2 = \frac{1 - \text{Unexplained variation}}{\text{totalVariation}}$$

vi. Regression Analysis

Simply, using the relationship between a known variable (Independent) and an unknown (Dependent) variable to estimate the unknown one is termed as regression analysis. But, in real life, so many independent variables do affect the dependent variable and any study of correlation must take all variables into consideration. Such relationship between a single dependent variable and a

number of independent variable in combinations is known as multiple regressions.

Regression Constant (a)

The regression constant (a) which is the intercept of the model, represents the average level of dependent variable when independent variable has a value of zero. In other words, it can be termed as an indicator which specifies average effect on dependent variable if all the variables are omitted from the model. This term has practical meaning only if a zero value for the independent variable is possible.

Regression Coefficient (b)

The regression coefficient (b) is a parameter which indicates the marginal relationship between independent variable and value of dependent variable holding constant the effect of all other independent variables in the regression model. The coefficient specifies a part of change in the dependent variable regarding part of change in the independent variables.

vii. T-Test

In case of all small sample, where 'n' is less than 30, we make use of the 't' distribution. It used for finding more appropriately the two limits where in the estimate would probably lie. For applying t-test first of all 't' value should be calculated and compared with the table value of 't'. At a certain of significance for given degree of freedom, If the calculated value of 't' exceeds the table value, (say 0.05) we know that the different is significant at 5% level, But if 't' is less than the concerning table value of the 't' the different is not trended as significant.

viii. F-Test

A technique which is generally known as the variance ratio and is mostly used in context of analysis of variance. F-test is used to identify the significance of difference between more than two samples means from same normal population with equal variance. In case of F-test there is no assumption of

equality of variances as it was in the case of t-test. So one-way ANOVA method is used to examine the equality between sample variances.

ix. Standard Error of Estimate (SEE)

Standard Error of Estimate measures the line variability or scatter of the observed values around the regression line. It also measures the reliability after finding the regression. If the S.E. of estimate happens to be zero, then there is cent percent correct estimator. In other words, the estimating equation of the dependent variable is a “Perfect” estimator. IT is possible for us to ascertain how good and representative the regression line is as a description of the average relationship between two series. It is worked out as under. The square root of the se is also known as the variance of the error term which is the basic measure of reliability.

$$Se = \sqrt{\frac{\sum e^2}{n-2}}$$

Where,

e = the error term

Se = Standard Error

N = no. of observation

x. Probable Error (P. E.)

Probable error of the correlation coefficient denoted by P. E. is the measure of testing the reliability of the calculated value of ‘r’.

$$P.E.=0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

- (1) If $r < P.E.$, it is insignificant. So perhaps there is no evidence of correlation
- (2) If $r > 6 P.E.$, it is significant. The P.E. of correlation coefficients may be used to determine the limits within which the population correlation lies. Limits for population correlation coefficient are $r \pm P.E.$

3.6 Limitation of the Methodology

- i. The analysis is based is secondary data.

- ii. Only five commercial banks are taken as sample companies.
- iii. Only cash dividend is considered for data analysis.

CHAPTER - FOUR

PRESENTATION AND ANALYSIS OF DATA

The purpose of this chapter is to carry out secondary data analysis. In this chapter, the relevant data and information regarding dividend policy of commercial banks are presented and analyzed comparatively. The chapter begins with the descriptive analysis of earning per share, dividend per share, Market price per share, dividend yield, and price earning ratio analysis of the sample companies and then explanatory and hypothetical analysis is followed. The financial as well as statistical tools are used for the comparison of the financial indicators. At the end of this chapter the simple and multiple regression analysis of the different components of each sample company is done and data are presented in a systematic tabulated form.

4.1 Analysis of Individual Commercial Banks

As the study has taken a special reference to listed commercial banks. Among 17 commercial banks operating in Nepal, only 14 commercial banks are listed in NEPSE, among those, study has taken 4 sample commercial bank. Although data coverage for some of the listed commercial banks is five years which has been introduced and their dividends are analyzed.

4.1.i Standard Chartered Bank Nepal Ltd. (SCBNL)

This Bank Which was formerly Nepal Grindlays Bank was established in 1085 as a Foreign Joint Venture Bank Under the company act 1964. In 2000, the Nepal Grindlays Bank was Amalgamate in standard chartered banking group and the 50 percent share of former was transferred to the latter by the virtue of amalgamation 33.34 percent of equity share capital is help by general public investors. The Bank has been providing various banking services to its customers through branches national wide. The bank listed in the NEPSE in 2045 B.S. Its central office is at new Baneshwor, Kathamandu. Bank's authorized capital, issued capital and Paid up capital are Rs.1,00,00,00,000/-, Rs.50,00,00,000/-, and Rs.37,46,40,400/-respectively.

The No. of Equity share is 37,46,404, No. of staff are 263 according to the bank's annual report FY 2060/61.

4.1.ii Nepal Arab Bank Ltd. (NABIL)

Nepal Arab Bank Ltd. (NABIL) is the first joint Venture commercial bank in Nepal. Which is the joint venture of Nepal promoters and emirates bank international (Dubai) in 1984 A.D. (2041 B.S. under the company act 1996. Now its 50 percent equity share holds by emirates bank international 20 percent equity share hold by Nepali promoters and financial institution and remaining 30 percent were issued general public of Nepal. The bank listed in the NEPSE in 1986. (2042 B.S.) it has 19 Branches operating different Parts of the country. Authorized capital, issued capital and paid up capital of the bank are Rs.50,00,00,000/-, Rs.49,16,54,400/- and 49,16,54,400/- respectively with par Value per share is Rs.100, No. of share is 4916544 and no. of Staff is 372 according to bank annual report 2060/61.

4.1.iii Nepal Investment Bank Ltd.(NIBL)

Nepal Investment Bank Ltd. (Previously Nepal Indosuez Bank Ltd.) was established on 21st January 1986 A.D. (2042 B.S.) as a second joint venture Bank under the company act 1964. The bank is managed by bank of Indosuez, Paris in accordance with joint venture and technical services agreement signed between it and Nepalese Promotes. Now this Bank is Operating under the full ownership of Nepalese Promoters and shareholders. Authorized capital, issued capital and paid up capital of this bank is Rs.59,00,00,000/-, Rs.29,52,93,000/- and Rs.29,52,93,000 respectively.

4.1.iv Everest Bank Ltd. (EBL)

Everest Bank Ltd. Was established in 1994 A.D. (2051 B.S) Under the company act 1964 with an objective of carrying out commercial banking activities under the commercial bank act 1974. United Bank of India ltd. Under technical services agreement signed between it and Nepal Promoter was managing the bank till November 1996. Later on it handed over the management of the Panjab National Bank Ltd., India which holds 20 percent equity on the Bank's share capital, 50 percent equity hold by Nepal Promoter and 30 percent hold by the general public investors. There are 14 Branch of EBL in Operating in the equity and number of employees are

250. Authorized capital, issued capital and paid up capital are Rs.75,00,00,000/-, Rs.46,68,00,000/- and Rs. 45,50,00,000/- respectively.

4.1.1 Earning per share (EPS) and Dividend per share (DPS) Analysis

Table 4.1 (a) EPS of Respective Banks

Year	SCBNL	NABIL	NIBL	EBL	Pooled Average
2002/03	149.30	84.66	39.56	29.9	75.86
2003/04	143.55	92.61	51.7	45.57	83.36
2004/05	143.95	105.49	39.5	53.4	85.59
2005/06	175.84	129.21	59.35	62.78	106.80
2006/07	167.37	137.08	62.57	78.41	111.36
Average	156.00	109.81	50.54	54.01	92.59
Stdev	14.73	22.73	10.79	18.20	16.61
C.V.%	9.44	20.70	21.36	33.70	21.30

Source: www.nepalstock.com

Figure 4.1 (a) EPS of Banks under Study

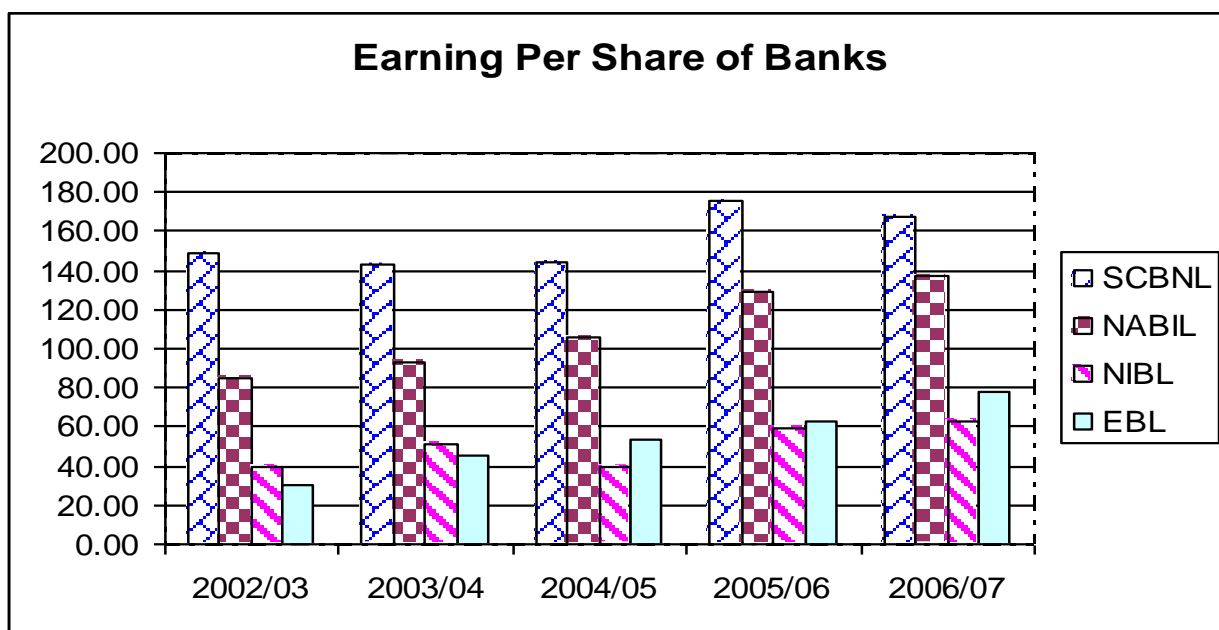
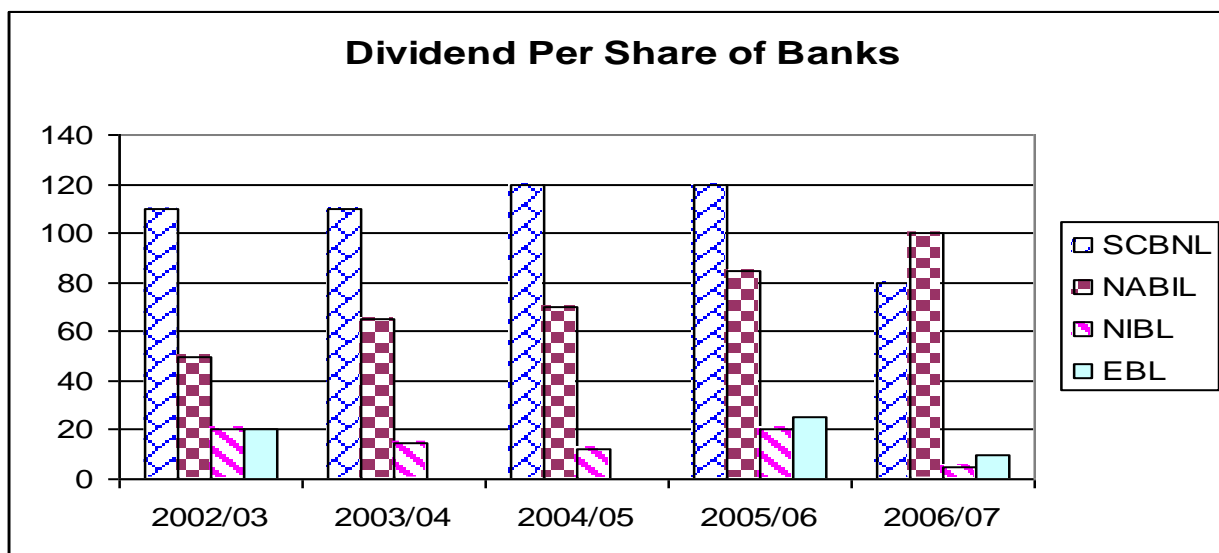


Table 4.1 (b) DPS of Respective Banks

Year	SCBNL	NABIL	NIBL	EBL	Pooled Average
2002/03	110	50	20	20	50.00
2003/04	110	65	15	0	47.50
2004/05	120	70	12.5	0	50.63
2005/06	120	85	20	25	62.50
2006/07	80	100	5	10	48.75
Average	108.00	74.00	14.50	11.00	51.88
Stdev	16.43	19.17	6.22	11.40	13.31
C.V.%	15.21	25.91	42.93	103.65	46.93

Source : www.nepalstock.com

Figure 4.1 (b) DPS of Banks under Study



Above table shows the amount of earning per share and dividend per share paid by the banks from the year 2002/03 to 2006/07.

Starting from the year 2002/03 SCBNL has the highest EPS than other banks, which paid higher dividend also in comparison with other banks. The lowest earning made by EBL but it paid same amount of dividend as NIBL.

In 2003/04 the EPS of SCBNL slightly decreased and increasing trend of other three banks continues. But NIBL paid lower DPS in comparison with previous year. EBL haven't paid dividend. Although the EPS of SCBNL is decreased in this year it paid constant dividend. The DPS of NABIL is increased as increase in EPS.

The data related to the year 2004/05 shows the increase in EPS except NIBL. But the amount of dividend is increased in case of SCBNL, NABIL and EBL haven't paid dividend this year also despite of increase in EPS. NIBL has decreased the amount of dividend in this year also.

It can be observed the remarkable increase in EPS of all four banks in the year 2005/06, as a result DPS is also increase, but SCBNL has paid constant dividend in comparison with previous year.

In the year 2006/07 the EPS of NABIL, NIBL and EBL is increased but in case of SCBNL it is decreased. In this year DPS of NABIL is increased while other three banks reduced dividend payment.

On the average, SCBNL has the highest EPS. NABIL, EBL, and NIBL come after SCBNL respectively. The average of pooled average is 92.59, which is quite satisfactory.

Since the average of EPS of SCBNL is highest among all four banks it has been able to pay considerably higher amount of dividend to its shareholder in comparison with other three banks. NIBL have the lowest EPS in average among all four banks.

Without considering the rate of fluctuation the analysis of EPS and DPS cannot be completed for this we can observe the coefficient of variation. It can be observed that the CV of SCBNL is lowest (15.21%) in comparison with other banks and the CV of EBL is 103.65 which is almost seven times higher than that of SCBNL which shows the great fluctuation in EPS of EBL while NABIL and NIBL has the lower degree of fluctuation in EPS in comparison with this bank.

4.1.2 Market Price per Share (MPR) Analysis

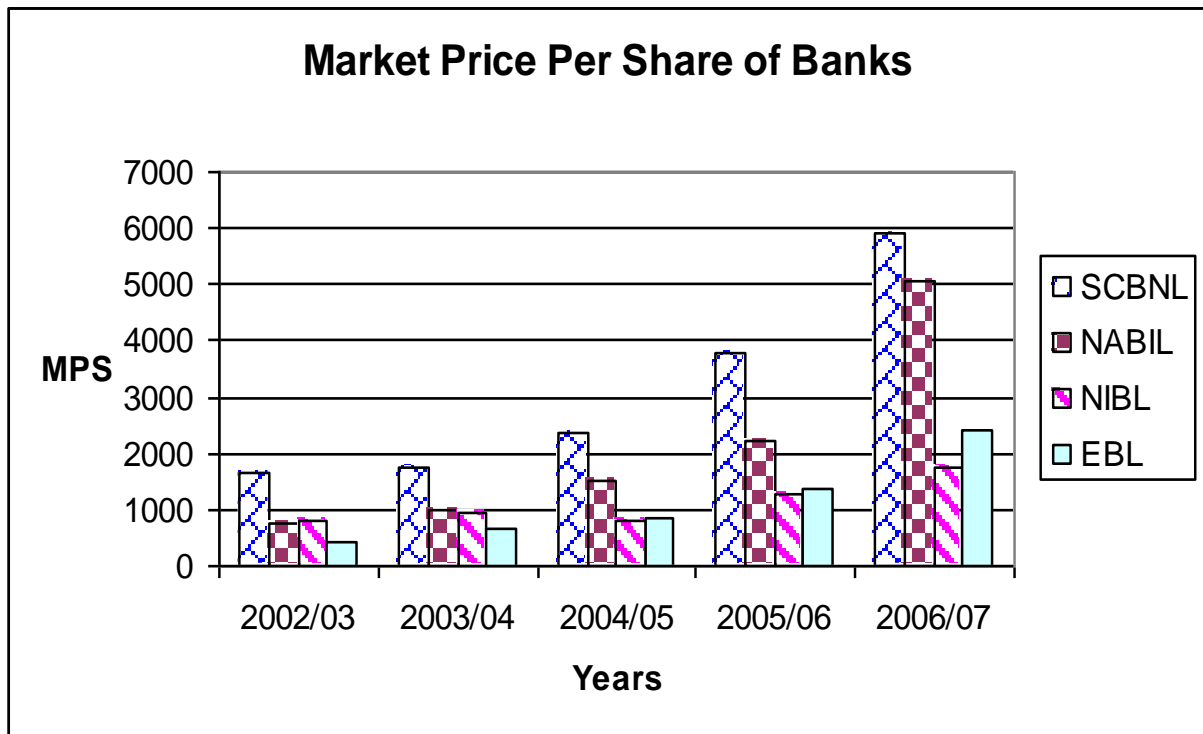
Table 4.2 Market Price per Share of Respective Banks

Year	SCBNL	NABIL	NIBL	EBL	Pooled Average
2002/03	1640	735	795	445	903.75
2003/04	1745	1000	940	680	1091.25
2004/05	2345	1505	800	870	1380.00
2005/06	3775	2240	1260	1379	2163.50
2006/07	5900	5050	1729	2430	3777.25
Average	3081	2106	1105	1161	1863.15

Stdev	1791.05	1742.78	396.78	788.45	1179.77
C.V.%	58.13	82.75	35.91	67.92	61.18

Source: www.nepalstock.com

Figure 4.2 MPS of Banks under Study



Above table shows the amount of market price per share of the banks from the year 2002/03 to 2006/07.

Starting from the year 2002/03 SCBNL has the highest MPS than other banks. EBL has the lowest MPS. In 2003/04 the MPS of all sample banks increased.

The data related to the year 2004/05 shows the increase in MPS except NIBL It can be observed the remarkable increase in MPS of all four banks in the year 2005/06 and 2006/07.

On the average, SCBNL has the highest MPS. NABIL, EBL and NIBL come after SCBNL respectively. The average of pooled average is 1863.25, which is quite satisfactory.

Without considering the rate of fluctuation the analysis of MPS cannot be completed for this we can observe the coefficient of variation. It can be observed that the CV of NIBL is lowest (35.91%) in comparison with other banks and the CV of NABIL is 82.75% higher than other bank which shows the great fluctuation in MPS of NABIL while NIBL and EBL has the lower degree of fluctuation in MPS in comparison with other banks.

4.1.3 Dividend Payout Ratio (DPR) Analysis

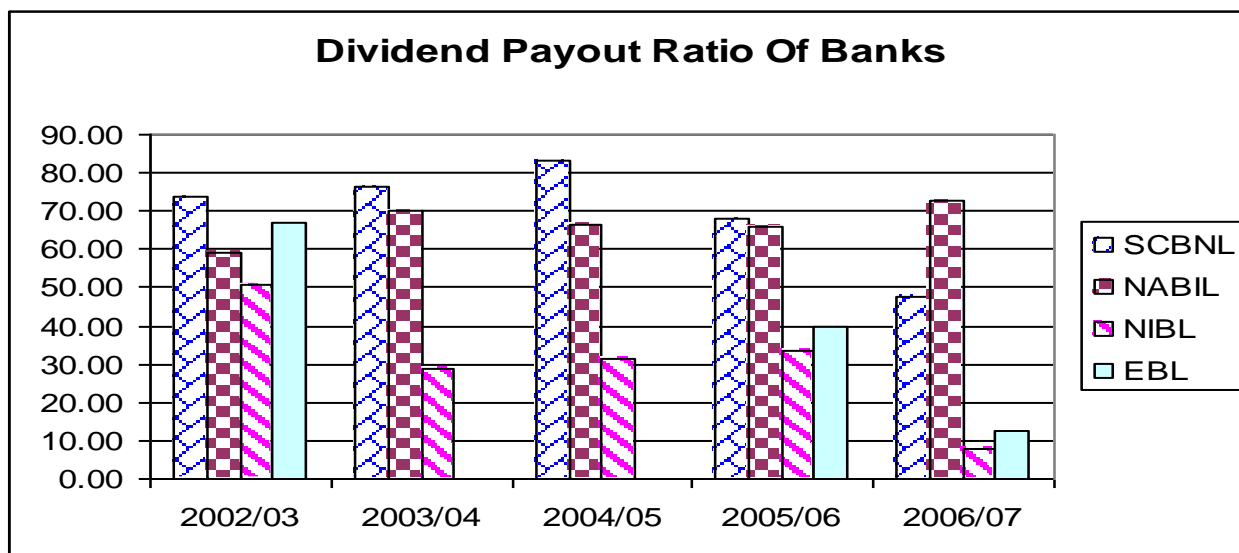
Table 4.3 Dividend Payout Ratio of Respective Banks

Year	SCBNL	NABIL	NIBL	EBL	Pooled Average
2002/03	73.68	59.06	50.56	66.89	62.55
2003/04	76.63	70.19	29.01	0.00	43.96
2004/05	83.36	66.36	31.65	0.00	45.34
2005/06	68.24	65.78	33.70	39.82	51.89
2006/07	47.80	72.95	7.99	12.75	35.37
Average	69.94	66.87	30.58	23.89	47.82
Stdev	13.53	5.25	15.19	29.02	15.75

C.V.%	19.34	7.86	49.67	121.46	49.58
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Source: www.nepalstock.com

Figure 4.3 DPR of Banks under Study



The above table 4.3 shows the dividend payout ratio of four sample banks, which is the percentage of dividend paid out of the total earnings made. Before analyzing the DPR we can segregate the DPR of these companies in to three differently categorize policy.

<u>Policy</u>	<u>DPR</u>
Conservative dividend policy =	less than 20%
Moderate dividend policy =	20% to 50%
Aggressive dividend policy =	More than 50%

In the year 2002/03, SCBNL, NABIL, NIBL and EBL applied aggressive dividend policy. They have 73.68%, 59.06%, 50.56% and 66.89% dividend payout Ratio respectively. The pooled average was 62.55%, which shows the aggressive dividend policy according to assumption.

In the year 2003/04, SCBNL and NABIL has increased dividend payout Ratio. The DPR of other two banks has decreased, but the DPR of SCBNL and NABIL is still in aggressive position. The pooled average 43.96% shows moderate policy.

In the year 2004/05, dividend payout ratios SCBNL and NIBL increased while NABIL has decreased its dividend payout ratio but still adopting aggressive policy. The pooled average 45.34% shows moderate policy.

In the year 2005/06, the highest payout was 68.24% of SCBNL under aggressive policy. NABIL applied aggressive policy with DPR 65.78% . The pooled average is 51.89%. It showed aggressive policy.

In the year 2006/07 NABIL has increased their payout ratio to 72.95%, which showed aggressive policy. SCBNL decreased its ratio and followed moderate policy. On the other hand, NIBL and EBL followed conservative policy. The pooled average 35.37% showed moderate policy.

The average DPR of SCBNL and NABIL shows that they follow aggressive policy. While average DPR of NIBL and EBL shows that they are adopting moderate policy. The coefficient of variation of the DPR suggests that the DPR of EBL is more fluctuating than other three banks The C.V. of NABIL and SCBNL shows less fluctuating in different years. The average of C.V. i.e. 49.58% shows the fluctuating condition is in average.

4.1.4 Analysis of P/E Ratio

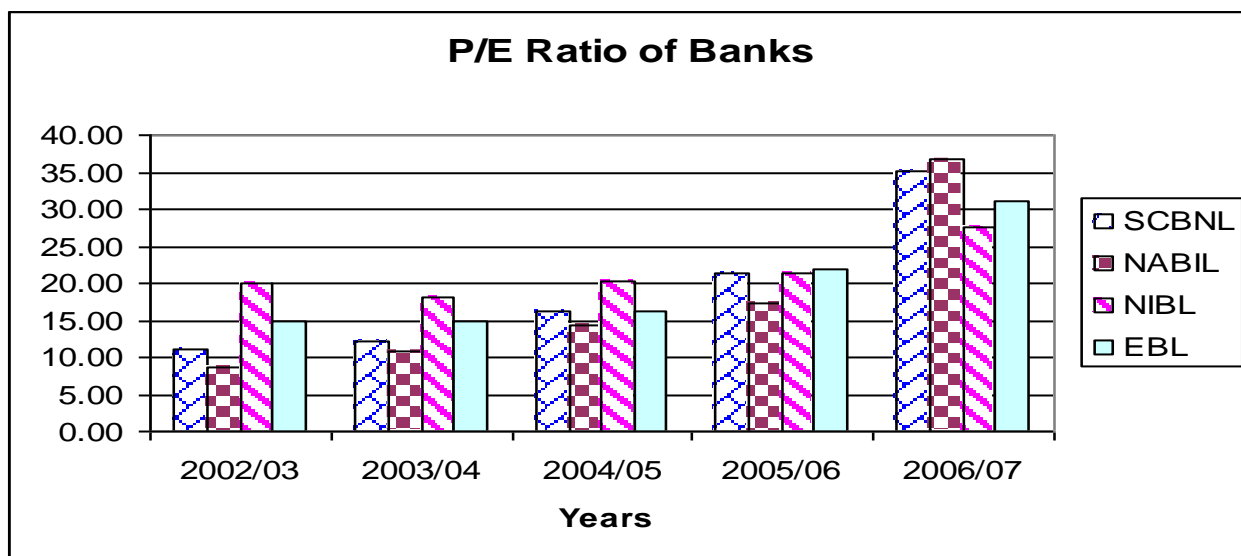
Table 4.4 P/E Ratio of Respective Banks

Year	SCBNL	NABIL	NIBL	EBL	Pooled Average
2002/03	10.98	8.68	20.10	14.89	13.66
2003/04	12.16	10.80	18.18	14.92	14.02
2004/05	16.29	14.27	20.25	16.29	16.78
2005/06	21.47	17.34	21.23	21.97	20.50
2006/07	35.25	36.84	27.63	30.99	32.68

Average	19.23	17.59	21.48	19.81	19.53
Stdev	9.85	11.26	3.61	6.90	7.91
C.V.%	51.24	64.03	16.82	34.80	41.72

Source: www.nepalstock.com

Figure 4.4 P/E Ratio of Banks under Study



Above table 4.4 shows the P/E Ratio of sample banks. This ratio describes the relationship between EPS and MPS.

In the year 2002/03, the P/E Ratio of SCBNL, NABIL, NIBL and EBL is 10.98, 8.68, 20.10 and 14.89 respectively, where NIBL has the highest P/E Ratio among these four banks and NABIL has the lowest P/E Ratio. The pooled average is 13.66.

In 2003/04, the P/E Ratio SCBNL, NABIL, and EBL is increased and that is of NIBL is decreased to 18.18. The pooled average is increased to 14.02 .

In 2004/05, the P/E Ratio of all four banks are increased. NIBL has the highest P/E Ratio (20.25). The pooled average is 16.78.

In the year 2005/06, the increasing pattern follows again. In this year, EBL stands first with 21.97.

The year 2006/07 also follows increasing trend in P/E Ratio, which is the highest of all four banks in comparison with previous four years. The pooled average in this year is 32.68

On average, NIBL has the highest P/E Ratio with 21.48. EBL, SCBNL and NABIL have P/E Ratio of 19.81, 19.23 and 17.59 respectively.

The CV analysis shows that NIBL is more consistent than others and P/E Ratio of NABIL is highly fluctuating in these five years.

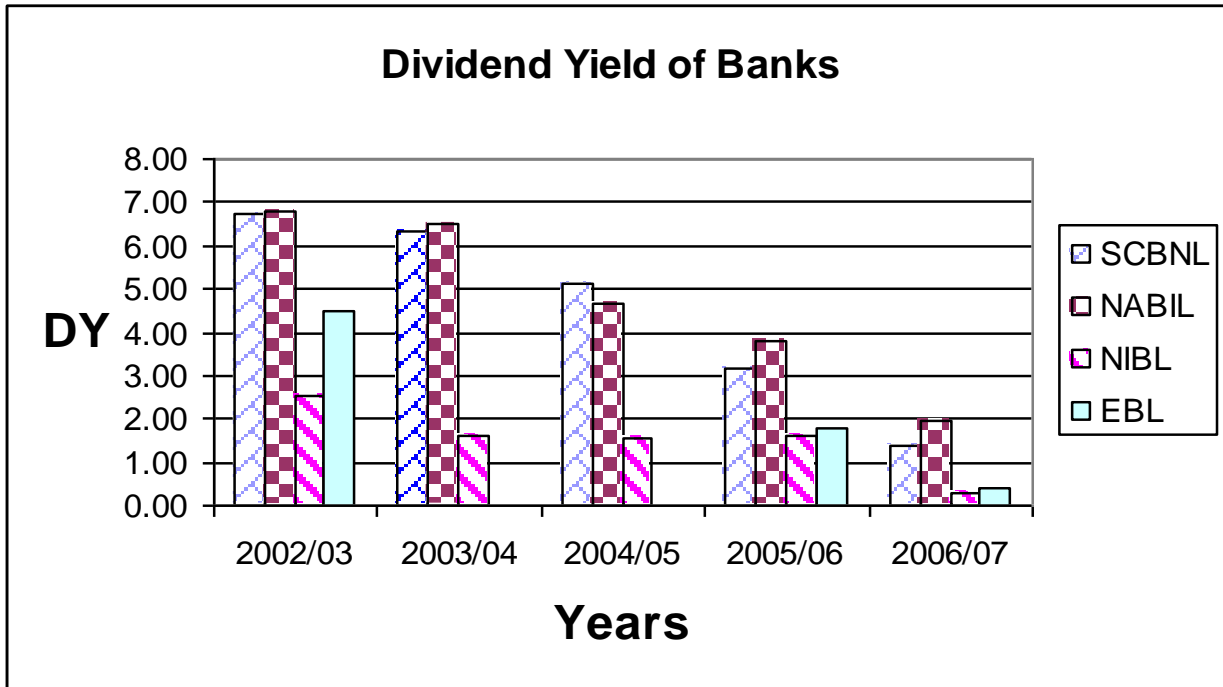
4.1.5 Dividend Yield Analysis

Table 4.5 Dividend Yield of Respective Banks

Year	SCBNL	NABIL	NIBL	EBL	Pooled Average
2002/03	6.71	6.80	2.52	4.49	5.13
2003/04	6.30	6.50	1.60	0.00	3.60
2004/05	5.12	4.65	1.56	0.00	2.83
2005/06	3.18	3.79	1.59	1.81	2.59
2006/07	1.36	1.98	0.29	0.41	1.01
Average	4.53	4.75	1.51	1.34	3.03
Stdev	2.24	1.99	0.79	1.91	1.74
C.V.%	49.50	41.96	52.60	142.26	71.58

Source: www.nepalstock.com

Figure 4.5 Dividend Yield of Banks under Study



Above table 4.5 shows the dividend yield analysis of five sample banks for the years 2002/03 to 2006/07

In the year 2002/03, NABIL has the highest dividend yield (6.80) and NIBL has the lowest (2.52). The pooled average in this year is 5.13 In the year 2003/04, the dividend yield of all banks is decreased. The pooled average is 3.60 in this year. In the year 2004/05, the dividend yield of all four banks decreased. In the year 2005/06, the dividend yield of NIBL and EBL is increased and that of SCBNL and NABIL decreased as a result the pooled average is also decreased to 2.59. In the year 2006/07, the dividend yield is again decreased, which is the lowest ratio of last five years.

On average, NABIL has the highest dividend yield (4.75) and the dividend yield of EBL is lowest.

On observing the coefficient of variation the dividend yield of NABIL is more consistent than others.

4.2 Correlation Analysis

Correlation analysis helps to determine the strength of the linear relationship between two variables. In other words, as to how strongly are these two variables correlated. It helps to determine whether a positive or negative relationship exists between two variables and the relationship is significant or not.

In this study, the correlation analysis is referred to identify the relationship between DPS and other variables like MPS, EPS, CR, D_{t-1} and the relationship is significant or not.

4.2.1 Correlation between EPS and DPS

Table 4.6

Bank	r	Relationship	r²	Probable Error	Sig./Insig.
SCBNL	-0.27	Negative	0.07	0.28	Insignificant
NABIL	0.97	Positive	0.95	0.02	Significant
NIBL	-0.39	Negative	0.15	0.26	Insignificant
EBL	-0.02	Negative	0.00	0.30	Insignificant

Above table 4.6 shows the relationship between EPS and DPS of five sample banks. It is observed that the correlation coefficient of SCBNL, NIBL and EBL is negative, which indicates that EPS and DPS are negatively correlated with each other. But in case of NABIL there is a positive correlation and since the values are nearly equal to 1 it can be said that EPS and DPS of these banks are strongly correlated with each other. The relationship between EPS and DPS whether they are significant or not can be measured by calculating the probable error of the correlation coefficient. In case of NABIL it is greater than 6PE. For NABIL, EPS is the key factor to determine DPS due to significant relationship between EPS and DPS.

The coefficient of determination is a more precise measure of the strength of the relationship between two variables and tends itself to more precise interpretation because it can be presented as a proportion or as a percentage. The coefficient of determination between EPS and DPS of NABIL is 0.95, which means that the dependent variable (EPS) explains 95% of the variation in DPS. It shows that the change in EPS has a significant effect on the variation of DPS. In case of SCBNL, NIBL and EBL it is just 7%, 15% and 0% respectively.

4.2.2 Correlation between EPS and MPS

Table 4.7

Bank	r	Relationship	r²	Probable Error	sig./Insig.
SCBNL	0.77	Positive	0.59	0.12	Significant
NABIL	0.88	Positive	0.77	0.07	Significant
NIBL	0.90	Positive	0.81	0.06	Significant
EBL	0.95	Positive	0.90	0.03	Significant

Above table 4.7 shows the relationship between EPS and MPS of four sample banks. It is observed that the correlation coefficient of all banks is positive. So it is concluded that there is positive relationship between EPS and DPS of SCBNL, NABIL, NIBL and EBL and since correlation coefficient of these banks are higher than 6PE there is significant relation ship between EPS and MPS. It means that the market price of the stock of these banks is affected by dividend.

4.2.3 Correlation between DPS and CR of Banks

Table 4.8

Bank	r	Relationship	r ²	Probable Error	sig./Insig.
SCBNL	0.36	Positive	0.13	0.26	-
NABIL	-0.06	Negative	0.00	0.30	Insignificant
NIBL	-0.05	Negative	0.00	0.30	Insignificant
EBL	-0.19	Negative	0.04	0.29	Insignificant

Above table 4.8 shows the relationship between current ratio and dividend per share of sample banks. The correlation coefficient of SCBNL and HBL is positive. So, the positive relationship exists between DPS and CR. In case of NABIL, NIBL and EBL it is negative.

Though the correlation coefficient between DPS and CR of SCBNL is positive, it is difficult to determine the significance of relationship. As r is greater than PE but it is still less than 6PE. In case of NABIL, NIBL and EBL an insignificant relationship exists between DPS and CR.

4.2.4 Correlation between MPS and Last year's Dividend (D_{t-1}) of Banks

Table 4.9

Bank	r	Relationship	r ²	Probable Error	Sig./Insig.
SCBNL	0.83	Positive	0.68	0.10	Significant
NABIL	0.85	Positive	0.72	0.08	Significant
NIBL	0.50	Positive	0.25	0.23	-
EBL	0.56	Positive	0.32	0.21	-

In above table 4.9 all four sample banks have the positive correlation coefficient. But correlation coefficient of NIBL and EBL is less than 6PE. so no conclusion can be drawn from this analysis. But in case of SCBNL and NABIL it is greater than 6PE. It means the market price of stock of these two banks is depended to its last year dividend.

4.3 Regression Analysis

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

4.3.1 Simple regression Analysis

In this analysis, it is tried to show the relationship of dependent variable to the independent variable.

- i. Dependent variable Market price per share(P_t) and independent variable last year's dividend ($D_{(t-1)}$),

Regression Equation:

$$P_t = a + b D_{(t-1)}$$

Table 4.10

Banks	Constant 'a'	Reg. Coefficient	Standard Error	R2	SEE	't' Value	Sig.t
SCBNL	-16735	176.929	69.577	0.683	1164.249	2.543	0.084
NABIL	-2149.714	70.929	25.242	0.725	1055.961	2.810	0.067
NIBL	777	24.281	24.103	0.253	396.048	1.007	0.388
EBL	839.790	35.668	30.213	0.317	752.291	1.181	0.323

Above table 4.10 describes the output of simple regression analysis between the market price of stock and last year's dividend of SCBNL, NABIL, NIBL and EBL.

The regression coefficient of all sample banks is positive which indicates that positive correlation exists between Mps and Dt-1. One rupees increase in dividend causes Rs.176.93, Rs.70.93, 24.28 and Rs.35.67 increase in the price of stock of SCBNL, NABIL, NIBL and EBL respectively. The coefficient of determination of NABIL(0.725) is quite high . It indicates that 72.50% stock price variation is explained by the variation in dividend. In case of SCBNL, NIBL and EBL It is 68.30%, 25.30% and 31.70% respectively. The coefficient of determination of NIBL is quite low (0.25). It means only 25% stock variation can be explained by variation in dividend.

Since the 't' value of SCBNL and NABIL (2.543 and 2.810) is higher than the tabulated 't' value (2.132), the results are statistically significant at 5% level of significance. But in case of HBL, NIBL and EBL calculated 't' value is less than the tabulated 't' value (2.132), the results are not statistically significant at 5% level of significance.

- ii. Dependent variable Market price Per share (MPS) on Earning Per Share (EPS)

Regression Equation:

$$P_t = a + b E_t$$

Table 4.11

Banks	Constant 'a'	Reg. Coefficient	Standard Error	R2	SEE	't' Value	Sig.t
SCBNL	-11472.82	93.293	45.016	0.589	1326.255	2.072	0.130
NABIL	-5277.36	67.238	21.266	0.769	966.835	3.162	0.051
NIBL	-570.4509	33.150	9.168	0.813	197.928	3.616	0.036
EBL	-1055.46	41.033	8.015	0.897	291.783	5.119	0.014

Above table 4.11 shows the output of simple regression analysis between MPS dependent variable and EPS independent variable of four banks. As far the regression of EPS and MPS is concerned the regression coefficient of all four banks are positive. It means that one rupee increase in EPS leads the average about 93.293 rupees

increase in MPS of SCBNL, 21.266 in case of NABIL, 9.168 for NIBL and 8.015 for EBL remaining other variable constant. The highest coefficient of determination of EBL (0.897) indicates that 89.7% variation on MPS due to change in EPS. In case of SCBNL, NABIL, and NIBL It is 58.9%, 76.9%, and 81.3% respectively.

Since the ‘t’ value of NABIL(3.162), NIBL(3.616) and EBL(5.119) is higher than the tabulated ‘t’ value (2.132), the results are statistically significant at 5% level of significance. But in case of SCBNL calculated ‘t’ value is less than the tabulated ‘t’ value (2.132), the results is not statistically significant at 5% level of significance.

- iii. Dependent variable Dividend Per share (DPS) on Earning Per Share (EPS)
Regression Equation:

$$D_t = a + b E_t$$

Table 4.12

Banks	Constant 'a'	Reg. Coefficient	Standard Error	R2	SEE	't' Value	Sig.t
SCBNL	155.300	-0.303	0.620	0.074	18.259	-0.489	0.658
NABIL	-16.210	0.821	0.110	0.949	4.100	7.471	0.005
NIBL	25.728	-0.222	0.307	0.148	6.633	-0.723	0.522
EBL	11.777	-0.014	0.362	0.001	13.162	-0.040	0.971

Above table 4.12 describes the output of simple regression analysis between the dividend per share and earning per share of SCBNL, NABIL, NIBL and EBL. The regression coefficient of NABIL is positive which indicates that positive correlation exists between DPS and EPS. One rupees increase in EPS causes Rs.0.82 increase in DPS of NABIL. In case of SCBNL, NIBL and EBL the regression coefficient is negative. It shows the inverse relationship between DPS and EPS. The regression coefficient indicates that one rupees increase in EPS leads an average of Rs. 0.30 decrease in DPS of SCBNL, Rs.0.22 decrease in DPS of NIBL and Rs.0.01 for EBL. The coefficient of determination of EBL is quite low (0.001). It means only 0.1% DPS can be explained by variation in EPS. But in case of NABIL, it is very high (0.949). So 94.9 % of variation of dividend is affected by change in earning.

Since the ‘t’ value of NABIL (7.471) is higher than the tabulated ‘t’ value (2.132), the results is statistically significant at 5% level of significance. But in case of SCBNL, NIBL and EBL calculated ‘t’ value is less than the tabulated ‘t’ value (2.132), the results are not statistically significant at 5% level of significance.

4.3.2 Multiple Regression Analysis

The dividend and market price of stock depends on more than two variables. So the results of simple regression analysis are not reliable as far. Multiple regression analysis eliminates all the limitations of single regression analysis. In this study, the pooled data of banks and finance/insurance companies are used for multiple regression analysis.

- i. Dependent variable DPS and independent variables EPS, Current Ratio and last year's dividend.

$$\text{Regression Equation: } D_t = a + b_1 E_t + b_2 CR + b_3 D_{(t-1)}$$

Table 4.13

Banks	Constant 'a'	Regression Coefficient			R ²	S.E.E.	F	Sign. F
		b ₁	b ₂	b ₃				
SCBNL	-616.173	0.629	809.612	-2.144	0.499	23.271	0.331	0.819
NABIL	752.081	0.190	-690.729	0.726	0.997	2.204	100.524	0.073
NIBL	129.311	0.086	-103.207	-0.652	0.552	8.333	0.411	0.783
EBL	1282.609	0.506	-1196.806	-1.521	0.945	5.339	5.749	0.295

Above table 4.13 shows the output of multiple regression analysis of four sample banks. It shows the relationship between DPS and other variables (EPS, CR, D_{t-1}). The regression coefficient b₁ for SCBNL, NABIL, NIBL and EBL indicates that one rupees increase in EPS causes Rs.0.629, 0.190, 0.086 and 0.506 increase in DPS for above mentioned banks respectively holding other variable CR and D_{t-1} constant. Another regression coefficient b₂ for SCBNL, NABIL, NIBL and EBL are 809.612, -609.729, -103.207 and -1196.806 respectively. It implies that unitary increment in

current ratio of banks can increase its Dividend by Rs.809.712 for SCBNL. It shows the greater impact on dividend by the CR of SCBNL. But in case of NABIL, NIBL and EBL, value of b_2 is negative; so unitary increment in current ratio will decrease the dividend per share of these banks by Rs.690.729, 103.207 and 1196.806 respectively. At last the beta coefficient of last year dividend (D_{t-1}) are -2.144, 0.726, -0.652 and -1.521 for SCBNL, NABIL, NIBL and EBL. It shows the little impact of last year's dividend on current dividend. One rupees increase in D_{t-1} will increase the current year dividend by Rs.0.726 of NABIL and decrease Rs.2.144, 0.652 and 1.521 of SCBNL, NIBL and EBL respectively. Above analysis shows that the independent variables have positive and negative impact on dividend for sample banks.

The coefficient of multiple determinations for SCBNL, NABIL, NIBL and EBL is comparatively high. It means 99.7% variation in DPS is explained by variation in EPS, D_{t-1} and CR of NABIL. For SCBNL, NIBL and EBL it is 49.9%, 55.2% and 94.5% respectively.

Similarly 'F' statistics for the regression of NABIL (100.524) and EBL (5.749) shows higher than its table value at 5% level of significant. Hence, we conclude that, the data indicate the regression equation provide a statistically significant explanation of variation in DPS. But in case of SCBNL and NIBL it is lower than critical value. It indicates that the regression equation provide a statistically insignificant explanation of variation in DPS.

4.4 Test of Hypothesis

The null and alternative hypotheses have been formulated to test whether the difference between mean value of MPS, DPR and EPS of sample banks are statistically significant or not

4.4.1 First hypothesis

Dividend per share

Table 4.14

Year	SCBNL	NABIL	NIBL	EBL
2002/03	110	50	20	20
2003/04	110	65	15	0
2004/05	120	70	12.5	0
2005/06	120	85	20	25
2006/07	80	100	5	10

Null Hypothesis (H_0): There is significant difference between the DPS of SCBNL, NABIL, NIBL and EBL.

i.e. $\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5$

Alternative Hypothesis (H_1): There is significant difference between the DPS of SCBNL, NABIL, NIBL and EBL.

i.e. $\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$

Computation of test statistics 'F'

Correction Factor (C.F.)	= 59800.35
Total Sum of Square (TSS)	= 30780.90
Sum of squares between samples (SSBS)	= 27959.23
Sum of squares within samples (SSWS)	= 2821.67

ANOVA TABLE

Table 4.15

Sources of Variation	Sum of squares	Degree of freedom	Mean sum of squares	F-Ratio
Between Banks	27959.23	4-1=3	9319.74	46.24
Within banks	2821.67	18-4=14	201.55	
Total	30780.90	18-1=17		

Critical Value for degree of freedoms $V_1=3$ and $V_2=14$, $F_{0.05}$ is 3.34

Decision: since the calculated 'F' value (46.24) is greater than tabulated value (3.34), H_0 is rejected. There is significant difference between the DPS of SCBNL, NABIL, NIBL and EBL at 5% level of significance.

4.4.2 Second Hypothesis

Dividend payout Ratio

This analysis is based on the pooled data for the five years of five sample banks.

Table 4.16

Dividend Payout Ratio of Respective Banks

Year	SCBNL	NABIL	NIBL	EBL
2002/03	73.68	59.06	50.56	66.89
2003/04	76.63	70.19	29.01	0.00
2004/05	83.36	66.36	31.65	0.00
2005/06	68.24	65.78	33.70	39.82
2006/07	47.80	72.95	7.99	12.75

Null Hypothesis (H_0): There is no significant difference between the DPR of SCBNL, NABIL, NIBL and EBL.

i.e. $\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5$

Alternative Hypothesis (H₁): There is significant difference between the DPR of SCBNL, NABIL, NIBL and EBL.

i.e. $\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$

Computation of test statistics ‘F’

Correction Factor (C.F.)	= 50818.85
Total Sum of Square (TSS)	= 8661.16
Sum of squares between samples (SSBS)	= 5430.41
Sum of squares Within samples (SSWS)	=3230..75

ANOVA TABLE

Table 4.17

Sources of Variation	Degree of freedom	Sum of squares	Mean sum of squares	F-Ratio
Between Banks	4-1=3	5430.41	1810.14	7.84
Within banks	18-4=14	3230.75	230.77	
Total	18-1=17	8661.16		

Critical Value for degree of freedoms $V_1=3$ and $V_2=14$, $F_{0.05}$ is 3.34

Decision: since the calculated ‘F’ value (8.52) is greater than tabulated value (3.34), H₀ is rejected. There is significant difference between the DPS of SCBNL, NABIL, NIBL and EBL at 5% level of significance.

4.5 Major findings

Major findings obtained from the secondary data analysis are stated as follows

1. The average of earning per share of banks is satisfactory. SCBNL lies in top position and it is followed by NABIL, EBL, and NIBL respectively. Among the sample banks, the C.V. of EBL is greater than other sample banks and the C.V. of SCBNL is lowest. It means common stock of EBL is riskier as compared to other sample banks. The common stock of SCBNL is less risky as compared to other sample banks because it has lowest C.V. than others. The common stock of NABIL and NIBL has lower risk than EBL but higher than SCBNL.
2. The DPS analysis shows that the DPS of SCBNL is greater and EBL is lower among sample banks. Higher dividend per share creates positive attitude of the shareholders towards the company, which consequently helps to increase the market value of shares. It shows that CV of DPS of EBL is greater and SCBNL is lowest. It indicates that among the sample banks, SCBNL has the highest consistency in paying dividend whereas the DPS of EBL is highly fluctuating. DPS of NIBL and NABIL respectively followed EBL in terms of fluctuation of DPS.
3. The analysis of MPS shows that MPS of all four sample banks are in increasing trend. It also shows that the average MPS of SCBNL is highest and average MPS of NIBL is lowest. NABIL has the highest C.V. and NIBL has lowest C.V. among the sample banks. It indicates that NABIL has greater variability in MPS and its capital increasing rate is higher than others. But NIBL has less variability in MPS
4. The dividend payout ratio of SCBNL is higher and EBL has lowest among all, which indicates that SCBNL is following aggressive dividend policy and it has the ability to pay the dividend is strong than others and EBL has weak ability to pay dividend. The C.V. of DPR is highest of EBL and lowest C.V. of DPR of NABIL indicates that the NABIL's D/P ratio to common shareholders are much better than other sample banks

5. The P/E Ratio of EBL and SCBNL are almost close to each other, where NIBL has the highest and P/E Multiple among banks. NABIL has the lowest P/E Ratio and highest C.V., which indicates that P/E ratio of NABIL, is more fluctuating than other banks. The lowest C.V. of NIBL indicates that it has the highest consistency in P/E ratio.
6. Dividend yield of NABIL is higher and EBL has lowest among all sample banks. It indicates that the share of NABIL is worth buying. The C.V. of DY is highest of EBL and lowest of NABIL indicates that NABIL has the highest consistency followed by SCBNL, NIBL whereas DY of EBL is highly fluctuating, Then other three Banks.
7. The correlation between EPS and DPS is positive for NABIL. NABIL has the significant relationship at 5% level of significance. Whereas SCBNL, NIBL and EBL have the negative correlation between EPS and DPS.
8. The correlation between EPS and MPS is positive of all four sample banks and has the significant relationship at 5% level of significance. It means the EPS and MPS of these banks are strongly correlated with each other.
9. The correlation coefficient between DPS and CR of SCBNL is positive and it is negative for NABIL, NIBL and EBL. The relationship is insignificant for NABIL, NIBL and EBL. But SCBNL's relationship cannot be determined due to low degree of correlation.
10. The correlation coefficient between market price of stock and last year's dividend is positive for all four sample banks. But only SCBNL and NABIL have statistically significant relationship between their earnings and last year's dividend. The relationship of rest two banks cannot be determined.
11. Simple regression analysis of MPS and last year's dividend concludes that all four sample banks have positive relation between MPS and last year's dividend. But only SCBNL and NABIL have the significant relationship between MPS and last year's dividend at 5% level of significance.

12. Simple regression analysis of MPS and EPS concludes that all four sample banks have positive relation between MPS and EPS. NABIL, NIBL and EBL have the significant relationship between MPS and EPS at 5% level of significance. But SCBNL has insignificant relationship at 5% level of significance.
13. The regression analysis of DPS and EPS shows NABIL has positive relationship and rest three banks have negative relation between MPS and EPS. But only NABIL has the significant relationship between MPS and EPS at 5% level of significance.
14. The multiple regression analysis of dividend on EPS, CR and $D_{(t-1)}$ shows that SCBNL has positive relationship with EPS and CR but negative relation with $D_{(t-1)}$. NABIL has positive relation with EPS and $D_{(t-1)}$ but negative relation with CR. Similarly, NIBL and EBL have positive relation with EPS but negative with CR and $D_{(t-1)}$. The coefficient of multiple determinations for SCBNL, NABIL, NIBL and EBL is comparatively high. It means 99.7% variation in DPS is explained by variation in EPS, $D_{(t-1)}$ and CR of NABIL. For SCBNL, NIBL and EBL it is 49.9%, 55.2% and 94.5% respectively. Since 'F' statistics for the regression of NABIL and EBL shows higher than its table value at 5% level of significant. We conclude that, the data indicate the regression equation provide a statistically significant explanation of variation in DPS. But in case of SCBNL, and NIBL it is lower than critical value. It indicates that the regression equation provide a statistically insignificant explanation of variation in DPS.
15. Test of hypothesis of DPS shows that there is a significant difference between DPS of sample banks at 5% level of significance.
16. Test of hypothesis of DPR also implies about the significant difference between DPR of sample banks at 5% level of significance.

CHAPTER - FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter focuses on summarizing the study held with the researcher's analysis. Also, this chapter includes conclusion of the study based on major findings. The next attempt in this chapter will be made for the recommendations on the basis of findings and conclusions. For this purpose, the chapter is subdivided into summary and conclusion of the research, which will be followed by some recommendations.

5.1 Summary

Dividend refers to distributed earnings to the shareholders of the company in return to their investment. Dividend decision is a major financial management decision because the firm has to choose between distributing the profit to the shareholders or reinvesting it to finance the business.

The dividend may be affected by different factors such as earning of the firm, liquidity position of the firm; net worth etc. these factors indicate the financial position of the company. If a firm has good performance in terms of these factors, it will be able to provide return in form of dividend.

This study is mainly focused to access the dividend practices of different banks. It covers some specific objectives mainly to find out the relationship between other financial indicators and also to find out the appropriate dividend policies of different banks.

This study is mainly based on the secondary data of four commercial banks, which are listed in NEPSE. This study covers a period of five years from 2002/03 to 2006/07

To make the research reliable, many more analysis are conducted to find out the appropriate relationship between dividend and other variables, which affects the dividend. The consistency of dividend distribution of different companies is also analyzed by using statistical tools. The relationship also statistically tested at 5% level of significance.

5.2 Conclusion

From the analysis of various financial indicators and statistical tools of all the sample banks, following conclusions are drawn.

- Above mentioned major findings led this study concludes that the earnings of banks said to be satisfactory in Nepalese context. Among sample banks SCBNL is in leading position in terms of earning followed by NABIL, EBL and NIBL respectively.
- It is found from the study that there is no consistency found in dividend distribution in all sample companies. The research shows that none of these companies have well defined and appropriate policy regarding dividend payment. SCBNL is paying higher dividend than other sample banks.
- It is also found from the study that there is positive and significant relationship between market price of share and earning per share for all sample banks. It means that there is positive effect of earning to the market price of stock in Nepalese commercial banks.
- Though there is positive relationship between market price of share and last year's dividend for all sample banks. There is negligible effect on market price of stock due to dividend.
- The insignificant relationship between DPS and other financial indicators like EPS and CR indicates that the dividend policy of all these companies is unscientific.
- From the analysis it is found that the market price of stock is affected by other variables which indicate about the rational behavior of investors.
- Most of the companies don't seem to follow the optimum dividend policy of paying regular dividends per shareholder's expectation. It might cause uncertainty among stockholders.

- The major findings have also led to conclude that the companies are neglecting the major factors like earning position of the firm, liquidity position while paying dividend.
- The study deals with only examining and analyzing the dividend practices of 4 sample banks for a period covering 5 years from 2002/03 to 2006/07 due to limited time period. If a large sample is taken for the whole population the result might vary and be more accurate and absolute. So, dividend policy may be subject of further study, which can be more appropriate.

5.3 Recommendation:

- i. From the analysis it is found that NIBL and EBL hasn't followed a relevant and appropriate dividend policy. The DPS of these companies are highly fluctuating. These companies are neither following fixed dividend policy nor constant payout ratio policy. This fluctuation in dividend distribution may cause uncertainty among stockholders. So, all sample companies to satisfy investors and to create goodwill of the company should follow the constant dividend payout ratio policy.
- ii. Most of the investors are expecting a quick return on their investment rather than long term return due to declining economic condition of Nepal. They prefer dividend in form of cash rather than stock. So, the cash dividend should be distributed to satisfy the stockholders of the company.
- iii. All companies must accept one major fact that EPS is to be considered for determining dividend amount. The analysis shows the insignificant relationship between EPS and DPS except NABIL. This indicates that EPS is not taken in account for declaration of dividend. So, it is important for the companies to consider earning rather than neglecting it while making dividend decision.

- iv. Analysis shows that the sample companies are ignoring the liquidity position of company while making dividend decision. They should consider the liquidity ratio rather than neglecting regarding dividend decision. Higher dividend should be paid on only that time, when the company has strong liquidity position.
- v. The analysis clearly shows the low degree of significant relationship between market price and dividend. But the price of stock of these companies is in increasing trend. It means the investors are making investments without considering the company's performance. This shows that the investors are nor rational. So. They should be understanding the market condition and study the financial performance of the company.
- vi. The legal rules and regulation must be in favor of investors to exercise the dividend practice and to protect the shareholders rights.
- vii. The capital market of Nepal should be perfect and efficient to attract the investor.
- viii. The companies should follow the proper dividend policy. Dividend payment as a financing decision needs the formulation of a comprehensive long term financial policy and optimal dividend policy to fulfill the investor's expectation and interest.
- ix. The decision regarding dividend payment should not be biased and it should always in favor of the prosperity of the company.

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