

**DIVIDEND POLICY AND its IMPACT
ON MARKET PRICE OF STOCK**

A Thesis

By:

Jeeban Prasad Neupane

Lumbini Banijya Campus

Exam Roll No: 3020024

T.U. Registration No: 7-475-17-2007

Submitted in partial fulfillment of the requirements for the degree of

Master of Business Studies (MBS)

in the

Faculty of Management

Tribhuvan University

Butwal

May, 2017

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

Jeeban Prasad Neupane

Entitled:

**DIVIDEND POLICY AND IT'S IMPACT
ON MARKET PRICE OF STOCK**

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

.....
Mr. Rajendra Lamsal
(Thesis Supervisor)

.....
Dr. Na Krishna Bhattarai
(HOD, Research)

.....
Dr. Ishwor Gautam
(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

Jeeban Prasad Neupane

Entitled:

**DIVIDEND POLICY AND IT'S IMPACT
ON MARKET PRICE OF STOCK**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master Degree of Business Studies (M.B.S.)

Research Committee

1. Head of Research Department
2. Member Thesis Supervisor
3. Member External Expert

Date :.....

DECLARATION

I hereby declare that the work reported in this thesis entitled “*Dividend Policy and It's Impact on Market Price of Stock*” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of **Mr. Rajendra Lamsal** of Lumbini Banijya Campus.

Jeeban Prasad Neupane

Researcher

T.U. Regd. No.:

Exam Roll No.:

ACKNOWLEDGEMENTS

This entitled thesis “*Dividend Policy and It's Impact on Market Price of Stock*” has been prepared for the partial fulfillment of the requirement of Master’s Degree of Business Studies (M.B.S) under the Faculty of Management, Tribhuvan University, is based on research models involving the use of quantitative as well as qualitative aspect.

I extend my deep sense of indebtedness to my respected supervisor **Mr. Rajendra Lamsal** for his precious guidelines, inspiration and valuable suggestions throughout the period of this research work. I also express my sincere gratitude to Campus Chief **Prof. Dr. Ishwor Gautam** for his remarkable help and guidance, without which this thesis would not have come in this form. The warm gratitude also goes to all the authors and learned personalities, whose writings have been cited in this study. I also express my gratitude to all the respected branch managers and bankers whose valuable inputs have helped me to carry this study smoothly and reach to my destination.

I express my heartfelt gratitude to my parents and all my family members who always inspired me to complete this journey of higher education from the benchmark of my academic qualification that I had. Without their encouragement and inspiration, my higher education could not have been fulfilled.

Lastly, I am equally grateful to Sudip Neupane for his effort in designing and printing my thesis and as well to all, who had supported me to complete this study.

Jeeban Prasad Neupane

TABLE OF CONTENTS

	Page No.
Recommendation	ii
Viva Sheet	iii
Declaration	iv
Acknowledgement	v
Table of Contents	vi
List of Tables	viii
Abbreviations	ix
CHAPTER I: INTRODUCTION	
1.1 Background of the Study	1
1.2 Statement of Problem	2
1.3 Objective of the Study	3
1.4 Significance of the Study	3
1.5 Limitations of the Study	4
1.6 Organization of the Study	5
CHAPTER II: REVIEW OF LITERATURE	
2.1 Theoretical Review	6
2.1.1 Forms of Dividend	7
2.1.2 Theories of Dividend	8
2.1.3 Factors Influencing Dividend Policy	12
2.1.4 Legal Provisions Regarding Dividend Practice in Nepal	15
2.2 Review of Previous Studies	17
2.3 Review of Research Works in Nepalese Perspective	29
2.4 Research Gap	34
CHAPTER III: RESEARCH METHODOLOGY	
3.1 Research Design	36
3.2 Population and Sample	36
3.3 Sources of Data Collection	37
3.4 Analysis of Data	37
3.5 Tools of Analysis	37

CHAPTER IV: DATA PRESENTATION AND ANALYSIS

4.1	Analysis of Financial Indicators and Variables	44
4.1.1	Analysis of Mean and Standard Deviation of NIBL	44
4.1.2	Mean and Standard Deviation of HBL	45
4.1.3	Mean and Standard Deviation of EBL	46
4.1.4	Mean and Standard Deviation of KBL	47
4.1.5	Mean and Standard Deviation of Global IME Bank	48
4.1.6	Analysis of Mean and Standard Deviation of SCBNL	49
4.2	Analysis of Statistical Indicators and Variables	51
4.2.1	Correlation between EPS and DPS	51
4.2.2.2	Analysis of Coefficient	52
4.3	Major Findings	54

CHAPTER V: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1	Summary	57
5.2	Conclusion	58
5.3	Recommendation	59

BIBLIOGRAPHY

APPENDICES

LIST OF TABLES

Table No.		Page No.
4.1	Mean and Standard Deviation of NIBL	45
4.2	Mean and Standard Deviation of HBL	46
4.3	Mean and Standard Deviation of EBL	47
4.4	Mean and Standard Deviation of KBL	48
4.5	Mean and Standard Deviation of Global IME Bank	49
4.6	Mean and Standard Deviation of SCBNL	50
4.7	Descriptive Statistics of all sample Banks	51
4.8	Correlation	52
4.9	Coefficient	53

ABBREVIATIONS

DPR	-	Dividend Payout Ratio
DPS	-	Dividend Per Share
DYR	-	Dividend Yield Ratio
EBL	-	Everest Bank Limited
EPS	-	Earning per Share
EY	-	Earning Yield
FY	-	Fiscal Year
HBL	-	Himalayan Bank Limited
KBL	-	Kumari Bank Limited
Ltd.	-	Limited
MPS	-	Market Price Per Share
NIBL	-	Nepal Investment Bank Limited
NABIL	-	Nepal Arab Bank Limited
NEPSE	-	Nepal Stock Exchange
NRB	-	Nepal Rastra Bank
Rs.	-	Rupees
SCBNL	-	Standard Chartered Bank Limited, Nepal
SD	-	Standard Deviation
SEBO/N	-	Security Exchange Board, Nepal

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The overall development of a country largely depends upon the economic development. Development of capital market and money market is essential to develop the economy of a country. Banks, finance companies and other financial institutions help to develop the money market as well as the capital market by mobilizing the deposit amount which are collected from public and investing the sum enterprises. Commercial banks are those which collect and invest financial resources to the productive and commercial areas to earn profit. Financing in the different economic fields like, industries trade, agricultural etc to generate profit, is the main objective of commercial banks. In addition to the primary function of collecting deposit and lending to others, it undertakes a wide variety of functions to assist the customers by performing agency functions like collection of cheques, bills, dividends etc or behalf of the customer; payment of insurance premium, subscription of rent, salary etc, transfer of funds, purchase and sale of securities etc.

A part from the agency functions, the commercial banks also provides certain general utility services; like custody deposits and safe deposits locker facilities; issuing of traveler's cheque, credit cards, letter of credits and voucher. A commercial bank also acts as a referee and guarantor of its customer to third parties.

All the business companies are established to earn more profit. Shareholders are the real owner of a company who invest their money for generating more income. Shareholders get dividend from out of the profit and benefited directly. Instead of paying dividend a firm can retain the fund to exploit other growth opportunities. The shareholders can expect benefit indirectly through future increase in price of stock. Thus shareholder wealth can be increased through either dividend or capital gains. So dividend policy involves the decision to pay out earnings versus retaining them for reinvestment in the firm.

Dividend policy is an integral part of financial decision. The dividend policy is a major decision for the board of directors as the board of directors has to decide between paying out to shareholders and keep them happy in the short run or retain for

investment which may be more beneficial to the shareholder in the long run. Dividend policy determines the division of earning between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financial corporate growth, but dividends constitute the cash flows that accrue to stockholders (Baker & Farrely,1985).

Dividend can be distributed to shareholders by a company in form of cash, shares or both. Some companies paid dividend whole amount of profit as dividend for good image, some retained all amount for reinvestment and some partially paid the amount as dividend.

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

The study is focused at assessing the prevailing practices of Nepalese listed companies regarding dividend .For that the study will concentrate on review of dividend policy of the selected companies and the assessment of the effect of dividend decision on the market price of stock and wealth position of the shareholders.

1.2 Statement of the Problem

Shareholders make investment in equity capital with the expectation of increasing their wealth. Dividend is a kind of earnings that the shareholders expect from their investment. But the dividend decision is still a fundamental as well as controversial area of managerial function. The affect of dividend policy on market price of share is a subject of long standing arguments. But, still there is no single conclusive result regarding the relationship between dividend payment and market price of the share.

There is no controversy that when a firm gets much earning, then the shareholders would expect much dividend. But earnings are also treated as financing sources for the firm. if the firm retains the earnings, its repercussion can be seen in many Factors such as decreased leverage ratio , expansion of activities and increase in profit in succeeding years whereas if the firm pays dividends , it may need to raise capital through capital market which may dilute the ownership control of existing shareholders. If the firm takes loan or raises debenture, it will affect on risk

characteristics of the firm .Therefore, there are many dimensions to be considered on dividend theories, policies and practices.

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

- What is the position of DPS, EPS and MPS of listed banks ?
- Is there any effect of DPS, EPS DPR, EY, DY on MPS ?

1.3 Objectives of the Study

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

- To identify the position of DPS, EPS and MPS of listed banks.
- To examine the impact of dividend on MPS.

1.4 Significance of the Study

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

In Nepal, due to lack of enough knowledge, people are investing haphazardly in the shares. There is not adequate research conducted so far to improve the situation. Hence, it is necessary to establish clear conception about the return resulting from investing in the stocks this thesis will help to overcome this gap to some extent and

has considerable importance. It is aimed at providing important information to the investors and respective firms that are taken as sample. The importance of the study can be pointed out as follows:

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

1.5 Limitation of the Study

The limitation of the study is:

- Among the different determinants of the market price of the stock, only cash dividend, stock dividend and earnings are taken for the analysis.

1.6 Organization of the Study

This study has five section including Introduction, Review of Literature, Research Methodology, Data Presentation and Analysis major findings and Summary, Conclusion and Recommendation.

Chapter I: Introduction

First chapter deals with the background of the study, focus of the study, statement of problems, objectives of the study, limitation of the study and scheme of the study.

Chapter II: Review of Literature

Second chapter includes some relevant literature available on the subject matter of the study; it consists of literature on emergence of concept of dividend policy from the review of books, articles and thesis related to the study field.

Chapter III: Research Methodology

This chapter contains framework and procedure of the study, it deals with research methodology used to carry out the research, It includes research design, population

and sample, sources and techniques of data collection, tools and techniques of data analysis.

Chapter IV: Data Presentation and Analysis

This chapter is heart of the study- This chapter contains presentation of data, their analysis and interpretation using financial and statistical tools such as financial indicators and variable analysis, simple regression analysis, correlation coefficient analysis etc.

Chapter V: Summary, Conclusion and Recommendations

Last chapter deals with suggestion, which includes the summary of the main findings conclusion of the study and recommendation.

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

CHAPTER II

REVIEW OF LITERATURE

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

- Theoretical review.
- Review of Related studies.

2.1 Theoretical Review

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

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

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

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

of share. In order to maximize wealth under uncertainty, the firm must pay enough dividends to satisfy investors (William, 1973).

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

2.1.1 Forms of Dividend

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

i) Cash Dividend

Cash dividend is one form of dividend, which is distributed to shareholders in form of cash out of company's profit. "The cash account and the reserve account of a company will be reduced when the cash dividend is paid. Thus, the total assets and net worth of the company are reduced when cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed" (Pandey, 1979).

ii) Stock Dividend

If additional shares are issued to existing shareholders instead of cash dividend, it is known as stock dividend. "A stock dividend represents distribution of shares in addition to the cash dividend to the existing shareholders." This has the effect of increasing the number of outstanding share of the company. The shares are distributed proportionately. Thus, the shareholders retain their proportionate ownership of the company. The declarations of bonus share increases the paid-up share capital and

reduce the reserves and surplus of the company. The total net worth is not affected by the issue of bonus shares (Shrestha, 1980).

iii) Script Dividend

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

iv) Property Dividend

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

v) Bond Dividend

Bond Dividend is a dividend that is distributed to the shareholders in form of bond. When the company generates more profit for a long time, it is better to issue a bond which carries certain interest rate. In other words, corporation declares dividend in form of its own bond with a view to avoid cash outflows.

2.1.2 Theories of Dividend

1) Residual Theory of Dividend

2) Stability Theory of Dividend

2.1.2.1 Residual Theory of Dividend

According to one school of thought, the residual theory of dividends suggests that the dividend paid by a firm should be viewed as a residual amount left after all acceptable investment opportunities have been undertaken. Dividend policy can be viewed as one of a firm's investment decision. A firm that behaves in this manner is said to believe in the residual dividends. According to this theory, dividend policy is a residue after

investment whether or not a company pays dividends depends on the availability of investment opportunity.

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

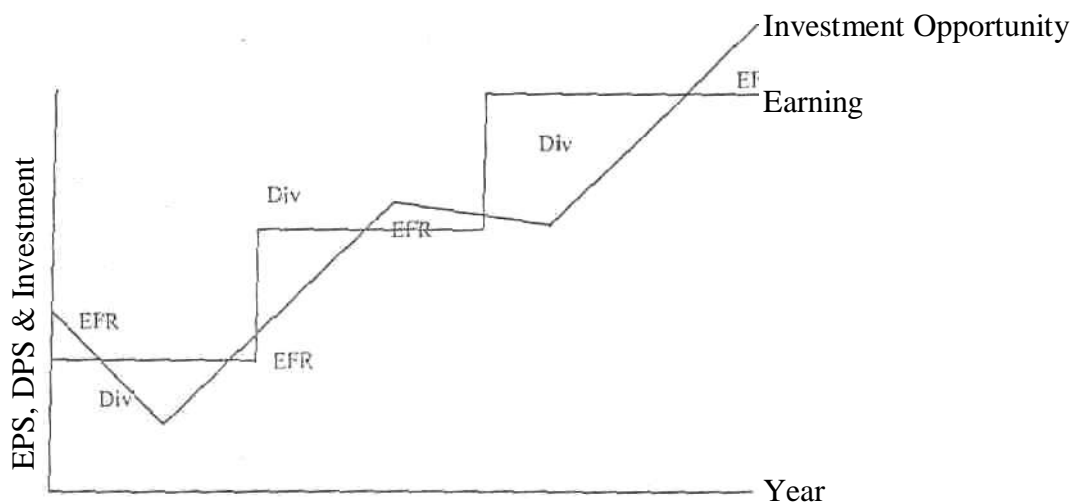


Fig. 2.1: EPS and DPS relationship under Residual Policy

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

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

as a part of a long-term financing decision. The dividend paid to shareholders represents a distribution of earnings that cannot be profitably reinvested by the firm. With this approach, dividend decision is viewed merely as a residual decision.

2.1.2.2 Stability Theory of Dividend

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

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

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

- i) Constant Dividend per share
- ii) Constant Dividend payout ratio
- iii) Low Regular Dividend plus extra dividend

i) Constant Dividend per share

The policy of constant dividend per share follows a policy of paying a certain fixed amount per share as dividend every year irrespective of the fluctuations in the earnings. This policy does not imply that the dividend per share or dividend rate will never be increased. When a company reaches new level of earnings and expects to maintain it, the annual dividend per share may be increased (Panday,1995).

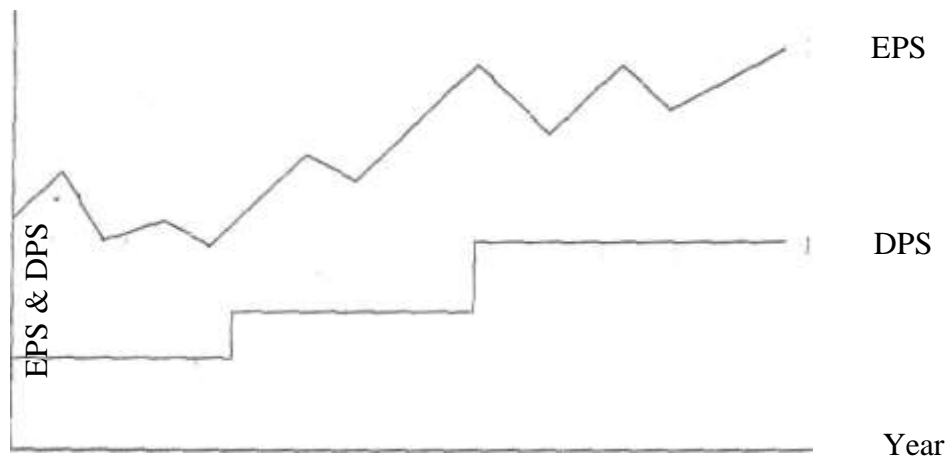


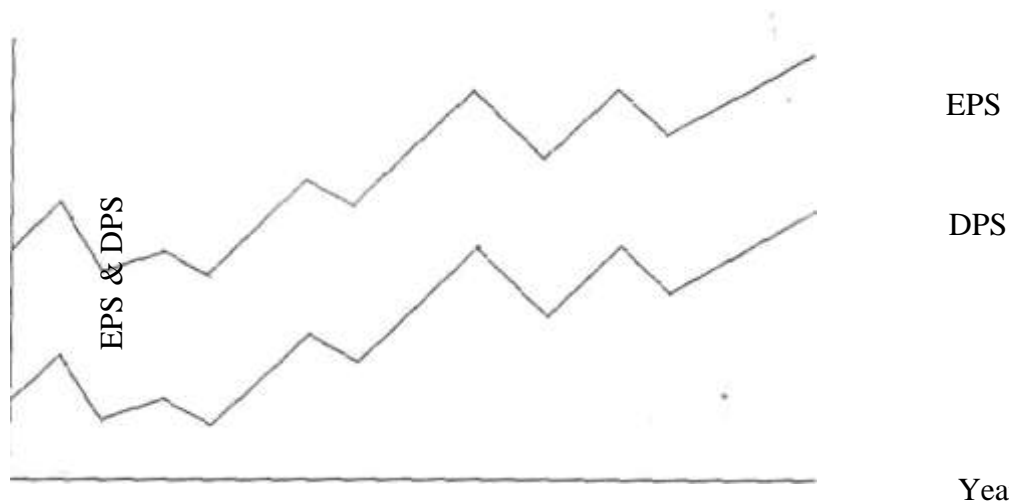
Fig. 2.2: *EPS and DPS relationship under Constant Dividend per share policy*

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

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

ii) Constant Dividend Payout Ratio

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



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

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

iii) Low Regular Dividend plus Extra Dividend

According to this policy, the company pays fixed amount of stable dividend to the shareholders to reduce the possibility of ever missing dividend payment and in years of market prosperity, additional dividend is paid over and above the regular dividend. When normal condition returns, the company cuts the extra dividend and returns in its normal dividend payment. This type of a policy enables a company to pay constant amount of dividend regularly without default and allows a great deal of flexibility for supplementing the income of shareholders only when the company's earnings are higher than the usual, without committing itself to make large payments as a part of the future fixed dividend.

2.1.3 Factors Influencing Dividend Policy

A firm's dividend policy is influenced by a large number of factors. Some factors affect amount of dividend and some others affect types of dividend. Legal provision, Firm's liquidity position, need to repay debt, restrictions imposed by debt holders,

expected rate of return, stability of earnings, shareholder's personal tax etc., are the major factors affecting dividend policy, which are described below:

1. Legal Requirements

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

i) The net profit rule

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

ii) The capital impairment rules

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

iii) Insolvency Rule

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

2. Firm's Liquidity Position

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

3. Repayment Need

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

existing debt at maturity or it can make provisions out of its earnings for the purpose of repayment.

4. Restriction imposed by debt holders

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

5. Expected rate of return

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

6. Stability of earnings

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

7. Desire for Control

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

8. Access to the capital markets

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

9. Stockholders' individual tax situation

For a closely held company, shareholders prefer relatively lower cash dividend because of higher tax to be paid on dividend income. The stockholders in higher

personal tax bracket for closely held companies prefer capital gain rather than dividend gains.

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

2.1.4 Legal Provisions Regarding Dividend Practice in Nepal

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

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

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

Section 137 is regarding bonus share and sub-section (1) states that the Company must inform the office before issuing bonus shares under sub section (1) this may be done only by passing special resolution by the general meeting.

Sub-Section (1): Except in the following circumstances, dividends shall be distributed among the shareholders within 45 days from the date of decision to distribute them.

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

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

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

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

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

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

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

dividend percentage by coordinating all concerned corporation and ministries.

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

2.2 Review of Previous Studies

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

1. Modigliani and Miller's Hypothesis

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

The MM approach is based on the following critical assumptions:

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

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

Step 1:

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

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

Where,

P_0 = Market price at the beginning or at the zero period

K_e = Cost of equity capital

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

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

Step 2:

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

$$P_0 = \frac{(nD_1 + P_1)}{(1+K_e)}$$

Where,

n = Number of shares outstanding at the beginning period

Step 3:

If the firm's internal sources of financing are not sufficient to finance the new investment needs of the funds, in that case issuing the new share is the other alternative. Say Δn is the number of newly issued equity share at the end of year 1 at price P_1 then,

$$nP_0 = \frac{[D_1 + (n + \Delta n) P_1] - \Delta n P_1}{(1 + K_e)}$$

Step 4:

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

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

$$\text{or } \Delta nP_1 = I + E - nD_1$$

Where,

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

I = Total amount of capital required for the project

E = Earning of the firm during the period

$(E - nD_1)$ = Retained Earnings

nD_1 = Total dividend paid

Step 5:

If value of nP_1 is substituted from equation of step 4 into equation of step 3 then,

$$nP_o =$$

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

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

Step 6:

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

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

2. Walter's Study

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

The main point which he emphasizes is that there is a significant relationship between the internal rate of return and cost of capital and determining factors to retain profit or distribute dividends. As long as the internal rate is greater than the market rate the

stock price will be enhanced by retention of earnings and will inversely affected by dividend payout.

Walter's model is based on following assumptions:

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

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

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

Where,

P	=	Market price per share
DPS	=	Dividend per share
EPS	=	Earning per share
r	=	internal rate of return (average)
k	=	cost of capital or capitalization rate

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

Growth Firms ($r > k$):

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

Normal Firms ($r = k$)

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

Declining Firms ($r < k$)

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

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

Limitation of Walter's Model

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

No External Financing

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

Constant r and k

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

3. Gordon's Study

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

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

His model is based on the following assumptions:

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

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

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

Where,

P	=	Market Price of share
EPS	=	Earnings per share
b	=	Retention Ratio
1- b	=	Dividend payout Ratio
K_e	=	Equity capitalization rate
$b \times r$	=	Growth Rate (g)

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

4. Van Horne and McDonald's Study

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

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

First model was

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

Where,

P_0/E_0 = Closing market price in 1968 dividend by average EPS for 1967 and 1968.

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

D_0/E_0 = Dividend payout, measured by cash dividend in 1968 dividend by earnings in 1968.

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

U = Error term.

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

Where, F_a, F_b, F_c, F_d are dummy variables corresponding to “new issue ratio” (NIR) groups A through D. It is noted that they had grouped the firms in five categories A, B, C, D, and E by NIR. For each firm the value of dummy variables presenting its NIR group is one and the value of remaining dummy variables is zero.

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

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

Where,

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

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

5. Friend and Puckett's Study

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

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

Where,

P_t	=	Share price at the time 't'
D_t	=	Dividends at the time 't'
R_t	=	Retained earnings at time 't'
$(E/P)_{t-1}$	=	Legged earning price ratio

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

Where,

E_t	=	Earning per share at time 't'
D_{t-1}	=	Last year dividend

Their study was based on the following assumptions:

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

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

They also calculated dividend supply equation; $D_t = e + fE_{1t} + gD_{t-1} + h(E/P)_{t-1}$ 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 seem to have a significant effect on dividend payout. On the other hand they noted that the retained earnings effect is increased relatively in three of the four cases tested. Further, they argued that their results suggested price effects on dividend are probably not serious of bias in the customer derivation of dividend and retained earnings effects on stock prices. Though, such a bias might be market if the disturbing effects of short run income movements are sufficiently great.

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

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

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

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

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

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

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

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

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

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

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

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

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

- Respondents from all 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 used dividend announcements as information for assessing security value.

- The respondents also demonstrated a high level of agreement that the reason for dividend policy changes should be adequately disclosed to investors.
- Respondents from all three-industry groups thought that investors have different perceptions of the relative riskiness of dividends and retained earnings and hence are not indifferent between dividend and capital gain returns.

2.3 Review of Research Works in Nepalese Perspective

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

Shrestha (1980) highlighted the following issues: HMG expects two things from public enterprises: (i) They should be in a position to pay minimum dividend and (ii) Public enterprises should be self supporting in financial matters in future years to come but none of these two objectives are achieved by public enterprises. The article points the irony about government biasness that government has not allowed banks to follow independent dividend policy and HMG is found to pressurize dividend payment in case of Nepal Bank Ltd. Regardless of profit. But it has allowed Rastriya Banijya Bank to be relieved obligation in spite of considerable profit.

Pradhan (1993) conducted that higher earning on stock leads (lie larger of DPS. Stock with larger ratio of dividend per share to market price have lower leverage ratio. Positive relationship between the ratios of DPS to market price and interest coverage. Positive relationship between dividend payout and turnover ratios. Positive relationship between dividend payout and liquidity. Positive relationship between dividend payout and profitability. DPS and MFS are positively correlated, Liquidity and leverage ratios are more variable for the stock paying lower dividends. Earnings, assets turnover, and interest coverage are more variable for the stock paying higher dividends.

Bhattarai (1996) concluded that there are positive relationship between cash flow and current profit and divided percentage of shares. The degree of relationship is almost perfect. There is no criterion to adopt payout ratio and it is observed that there is a negative relationship between payout ratio and valuation of shares. In aggregate, there is no stable dividend paid by the companies over the years. Some companies have

steadily increased dividend. Such increase in dividend has a considerable impact on valuation of shares if there are rational investors; however this is yet to be realized by Nepalese company management. Inflation rate in recent year are decreasing and the market price of share are increasing. Nevertheless, the companies are not able to give required rate of return to the investors. There was negative relationship between price of share and stockholders required rate of return. Shareholders have foregone opportunity income in hope of getting higher return, but companies have not been able to return even equal to risk free rate of return.

Timilsina (1997) carried out that the relationship between dividend per share and stock price. To determine the impact of dividend policy on stock price. To identify whether it is possible to increase the market value of stock by changing dividend policy or payout ratio. To explain the price behaviour, the study used simultaneous equation models developed by Friend and Puckett (1964). The findings of his study were as follows; the relationship between dividend per share and stock price is positive in the sample companies. Dividend per share affects the share price differently in different sectors. Changing dividend policy or dividend per share might help to increase the market price of the share. The relationship between stock price and retained earnings per share is not prominent. The relationship between stock prices and lagged earning price ratio is negative.

Manandhar (2000) found significance relationship between change in dividend policy in terms of dividend per share and change in lagged earnings. There is relationship between distributed lagged profit and dividend. The difference is found significant between overall proportion of change dividend and due to increase and decrease in EPS during the study period. In overall increase in EPS has resulted to increase in the dividend payment in 66.6% of the cases while decrease in EPS is resulted decrease in dividend payments come to 33.3% of the cases. It is found that Nepalese Corporate firms have followed the practice of maintaining constant dividend payment per share or increase it irrespective of change in EPS as reflected by total percentage of constant and increase dividend payout of 78.33% of the cases. In other words forms are reluctant to decrease dividend payment. In overall Nepalese corporate firms are found reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information contents and signaling effects of dividend relating to the firm's continued progress and performance, sound financial strength, favorable

investment environment, lower risk, ability to maintain sustained dividend rate and finally to increase the market price of the stocks in the stock market.

Gautam (2000) concluded that average EPS and DPS of all commercial banks are satisfactory. Analysis indicates that there is large fluctuation in EPS and DPS, on the other hand, there is relatively more consistency dividend per share in all the sample banks. No commercial bank seems to be guided by cleanly defined dividend strategy in spite of the good earnings and potentials. Shares of the financial institution are actively traded and market prices are increasing. Commercial banks represent a robust body of profit earning organization in comparison to the other sectors such as manufacturing, trading etc. One of the most striking findings of the 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.

Adhikari (2000) highlighted the differences in financial position of high dividend paying and low dividend paying companies. The stocks with larger ratio of dividend per share to book value per share have higher liquidity. It is 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. Another interesting conclusion is that market price of stock is affected by dividend for finance and non-finance sectors differently. There is positive relationship between dividend and stock price. There is negative relationship between dividend payout and earning before tax to net worth. Stocks with larger ratio of DPS to book value per share have higher profitability. Nepalese shareholders are not really indifferent towards payout or nonpayment of dividend. One of the major finding is that earning announcement helps to increase the market price of the share.

Khatiwada (2001) concluded that announcement of dividend and earnings did not affect the shareholders return in average. Other banks except Nepal SBI Bank Ltd. having different dividend rates did not provide abnormal return to the shareholders. Shareholder realized positive abnormal return from NB, SBI and Grindlays.

Basnet (2004) justified that the dividend payment is not a regular and attractive phenomenon in Nepalese listed companies. The companies do not have any stable and consistent dividend practice. The market price' of share of banking and total

companies is influenced by many factors other than DPS. Change in dividend per share affects the share price differently in different companies. The DPS and EPS are positively correlated in all sectors. Which means higher the EPS, higher will be the DPS. Market Value per Share (MVPS) of the listed companies is higher than net worth per share (NWPS). There exist vast difference between MP and NWPS. This situation clearly indicates that the investors are not matching book value and market value of the share. They don't see the reported value of share from its books of account.

Rijal (2004) concluded that the primary objectives of investors investing in stocks are to earn dividend. But the earning of shareholders can be dividend as dividend gain and capital gain. High payout satisfies the dividend need whereas increase in market price of stock increases capital gain. Therefore, the firms make a proper balance between dividend distribution and retention of EPS. In Nepal, only a few listed companies have been paying regular dividends to their shareholders. Further companies have not been following stable dividend payout policy. On the other hand, the dividend payout ratio of listed Companies in Nepal has not been able to distribute fair dividends. In this regards, however commercial banks are also no exception. This study rests to conclude that the cash dividend can't be said as a sole factor to affect price of share. But there are some other factors like earning power, bonus share, information value of dividend decision etc. that also cause the share price fluctuation. In an imperfect market mechanism like Nepalese Share Market, the security brokers, other market makers and the rumors they spread in the market have also significant role in share price fluctuation.

Though there were above mentioned studies are related to dividend behavior in Nepalese context. It has now become necessary to find out whether 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 carry out a fresh study related to dividend pattern of Nepalese companies. In this study, it is tried to carry out by using the latest data for different companies for analyzing the dividend policies of Nepalese companies.

Bista (2006) focuses that the banks and manufacturing companies do not follow any specific dividend policy. DPR are fluctuating over the periods of those selected companies. MPS do not follow any specific trend, it fluctuates the future price. There

is not any specific trend of EPS in the companies. There is great difference between market price per share and book value per share.

Adhikari (2007) concluded that there are differences in financial position of high dividend paying and low dividend paying companies. The stocks with longer ratio of dividend per share to book value per share have higher liquidity. It has more variable as compared to stock paying lower dividends. Other thing remaining the same, other thing remaining the same, financial position of high dividend paying companies are comparatively better than that of low dividend paying companies. Another interesting conclusion is that market price of stock is affected by dividend for finance and non finance sectors differently. There is positive relationship between dividend and stock price. There is negative relationship between dividend payout and earnings before tax to net worth. Stocks with larger ratio of DPS to book value per share have higher profit ability. With respect to major motives for paying cash dividend, the majority of the respondent feels that it is to convey information to shareholders that the company is doing good. Nepalese shareholders are not really indifferent towards payout or nonpayment of dividend. One of the major findings is that earning announcement helps to increase the market price of share.

Jha (2007) highlighted dividend practice of the bank, insurance and financial companies. To analyze the relationship of dividend with various important variables. Major findings to the study are: Nepalese government NRB, SEBON, NEPSE should be conscious to discourage market imperfection. Companies should have long term policy regarding the adoption of suitable dividend policy. Even if not earning has been increasing, the dividend per share has widely fluctuated. Distribution of bonus share should be pre-evaluated. There needs a proper information discloser to the investor.

Bhattarai (2008) justified that the banks and manufacturing companies do not follow any specific dividend policy. DPR are fluctuating over the periods of those selected companies. MPS do not follow any specific trend, it fluctuates the future price. There is not any specific trend of EPS in the companies. There is great difference between market price per share and book value per share.

Gautam (2009) concluded that the average earning per share of both two banks is satisfactory and dividend per share is too much unsatisfactory. There is no

consistency in dividend payment and its growth rate is not static as well. There is no prominent difference in DPS and D/P rate of both two banks however; there is no uniformity in EPS. R.R Gautam recommends as follows: To follow clearly defined dividend strategy as lack of it causes serious inconvenience to many other sectors of finance. Banks should consider the interest and expectation of the investors while making dividend decisions.

Budhathoki (2012) conducted that the average earning per share (EPS) of the banks under study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS. The average dividend per share (DPS) shows that there is no regularity in dividend payment. The analysis of DPR shows that the Dividend Payout Ratio (DPR) of the banks is not stable. The average market price shows that there is quite high level of fluctuation.

Bhattarai (2013) conducted that there is the largest fluctuation in EPS and DPS, The relationship between DPS and EPS is positive; however it is not significant. There may be various other factors beside EPS to affect MPS and the growth rate of dividend is inconsistent. It concluded that no sampled commercial banks have followed distinctly defined dividend policy.

Bhattarai, (2014), conducted that the trend of volume of stock traded was in fluctuating manner. Dividend & earning played the important role to fluctuate the share price. Signaling factors played major while determining stock price. Used secondary as well as primary data. Statistical tools such as correlation analysis, regression analysis, coefficient of determinants, test static were used. To examine the trend of securities market and volume of stock traded on the secondary market, To analyze the investors view regarding the decision on stock investment. To analyze the behavior of stock price of secondary market in Nepal. To measure composition of sector and their market capitalization of listed companies on NEPSE.

Paudel (2014) highlighted the research on the basic objective of the study are to examine whether MPS of listed companies, especially for selected companies under the study and to what extent the risk is involved in the investment of common stocks of those. There is no uniformity in the relationship of MPS with various financial indicators of the sampled companies. If considered on the basis of the average data for the past 5 years, MPS of 6 financial institutions has higher positive correlation with

major financial indicators such as EPS, NWPS and DPS and such relationship is significant. The Nepalese stock markets are not efficient enough to determine MPS in accordance with respective financial performance. The market price of share in Nepal is not indicative of a company's financial performance in stock market. Value of share price is to be determined by the future financial indicators, unfortunately, the stock market does not run based on proper information about the company.

2.4 Research Gap

The purpose of this study is to draw some ideas concerning to the dividend policy and to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation. In this context, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. The various financing decisions are vital for the financial welfare of the company. Dividend decision is one of the major decisions to be made.

Many studies have been done in the context of Nepal. It has now become necessary to find out whether their findings are still valid or not. Many changes have taken place in and outside Nepal. Most of the studies conducted in the context of Nepal are based on secondary data. There is a need to conduct a survey of financial executives. In order to find out more qualitative facts on dividends which cannot be determined through the use of secondary data? Besides the analysis of secondary data this study attempts to make an opinion survey among the financial executives of different commercial banks in Nepal. Moreover, the earlier studies on dividends become old and need to be up to date and validated. Because of the rapid changes taking place in financial markets in Nepal.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

The research design of this study has been more descriptive as well as analytical using the various phenomena related and influencing the dividend decision and market price of stock. For this purpose secondary data and information are obtained from different reliable sources and primary data are obtained through questionnaire survey. This study is carried out by using quantitative analysis method. Mostly, secondary data has been used for analysis; hence, research design of this study is based on descriptive and correlational.

3.2 Population and Sample

AS this study is based on the data of the companies listed in NEPSE, the population is taken from only those banks which are listed, no. of listed bank in NEPSE are 28. Since the topic implies the study should be done among the dividend paying and actively traded banks, the sampling are done accordingly. The study covers altogether three banks consisting. Convenient sampling method is used in this study.

The samples selected are as follows:

1. Nepal Investment Bank Limiter
2. Himalayan Bank Limited
3. Everest Bank Limited
4. Kumari Bank Limited
5. Global IME Bank Limited
6. Standard Chartered Bank Limited

3.3 Sources of Data Collection

The data used in this study is secondary. The secondary data collected from, annual reports from Fiscal year 2010/11 to 2014/15, magazines and bulletins of the companies under study, relevant information and data from the publication of SEBON, NEPSE, NRB, and web pages of the selected companies, various newspapers, previous studies, thesis and dissertation related to this field etc. Beside

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

3.4 Analysis of Data

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

3.5 Tools of Analysis

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

3.5.1 Financial Tools:

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

Earning Per Share (EPS)

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

Symbolically,

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

Dividend per Share (DPS)

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

Symbolically,

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

Dividend Payout Ratio (DPR)

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

Symbolically,

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

Earning Yield Ratio (EYR)

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

Symbolically,

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

Dividend Yield Ratio (DYR)

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

Symbolically,

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

Price Earnings Ratio (P/E Ratio)

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

Symbolically,

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

3.5.2 Statistical Tools:

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

Arithmetic Mean (\bar{X})

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

Symbolically,

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

Standard Deviation (σ)

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

Symbolically,

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

Coefficient of Variation (CV)

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

Symbolically,

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

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

Correlation Analysis

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

Simple correlation coefficient

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

Multiple Correlation Coefficients

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

Probable Error [PE]

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

Symbolically:

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

Where,

PE(r) = Probable Error of 'r'

r = Correlation coefficient between x and y

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

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

[i.e., $r < 6 \times PE(r)$], there is no significant relationship between x and y.

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

[i.e., $r > 6 \times PE(r)$], there is most significant relationship between x and y.

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

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

Regression Analysis

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

Multiple Regression Analysis

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

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5$$

Where, y = Market Price per Share

a = regression constant

b₁ = regression coefficient of EPS variable

b₂ = regression coefficient DPS variable

b₃ = regression coefficient DPR variable

b₄ = regression coefficient EYR variable

b₅ = regression coefficient DYR variable

X₁ = Earning per share

X₂ = Dividend per share

X₃ = Dividend Pay Out Ratio

X₄ = Earning Yield Ratio

X₅ = Dividend Yield Ratio

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

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

1. Coefficient of Correlation(r)

Correlation Analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. (Levin, et. Al. 1997:613). Coefficient of correlation is the measurement of the degree of relationship between two casually related sets of figures whether positive or negative. Its value lies somewhere ranging between -1 to +1, if both variables are constantly changing in the similar direction, the value of coefficient will be +1 indicative of perfectly positive correlation, when the coefficient will be -1 two variables take place in opposite direction. The correlation is said to be perfectly negative. In this study, simple coefficient of correlation is used to examine the relationship of different factors with dividend and other variables. The data regarding dividend over different years are tabulated and their relationship with each other are drawn out.

2. Coefficient of Determination (r^2)

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

3. Regression Constant (a)

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

4. Regression Coefficient (b)

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

5. Standard Error of Estimate (SEE)

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

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This is an analytical chapter, where an attempt has been made to analyze and evaluate the data collected. To analyze the data collected various presentation and interpretation is done in order to fulfill the objective of this study.

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

4.1 Analysis of Financial Indicators and Variables

4.1.1 Analysis of Mean and Standard Deviation of NIBL

In this study, descriptive statistics includes the information of market price per share, earning per share, dividend per share, dividend payout ratio, earning yield and dividend yield of each sample banks for the period of 2010/11 to 2014/15 which has been presented in table. With the help of descriptive analysis, the classification of sample banks and comparison of sample banks based on sector is presented. The mean value of sample banks under sector is computed to make comparison of sectors. The mean value gives the result of the average of each sector. The descriptive statistics are supported by bar diagram describing the related variable i.e. MPS, EPS, DPS, DPR, EY, DY etc.

Table No. 4.1
Mean and Standard Deviation of NIBL

Year	MPS	EPS	DPS	DPR	EY	DY
2010/11	539	27.6	25	0.91	0.051	0.046
2011/12	876	46.2	5	0.11	0.053	0.006
2012/13	836	40.7	25	0.61	0.049	0.03
2013/14	920	30.9	25	0.81	0.034	0.027
2014/15	1075	29.3	1.74	0.06	0.027	0.002
Average	849.2	34.94	16.348	0.5	0.043	0.022
S.D.	195.64	8.092	11.9031	0.3939	0.0115	0.01846

Source: Annual Reports of NIBL from 2010/11 to 2014/15

The above table shows the amount of market price per share of NIBL 2010/11 to 2014/15 is increasing 539, 876, 836, 920 and 1075 respectively. The MPS of NIBL is every year is increasing. The earnings per share of the NIBL from 2010/11 to 2014/15 is 27.26, 46.2, 40.7, 30.9 and 29.3 respectively. The EPS is in the year 2011/12 is high and in the year 2010/11 is lowest. The dividend per share is in the year 2010/11 to 2014/15 is 25, 5, 25, 25, 1.74 and 16.348 respectively. The dividend payout ratio is in the year 2010/11 to 2014/15 is 0.91, 0.11, 0.61, 0.81, 0.06 and 0.5 respectively. In the year 2010/11 is highest and in the year 2011/12 is lowest. The earning yield is in the year 2010/11 to 2014/15 is 0.051, 0.053, 0.049, 0.034, 0.027 and 0.043 respectively. In the year 2011/12 is high and 2014/15 is low. The dividend yield is in the year 2010/11 to 2014/15 is 0.046, 0.006, 0.03, 0.027, 0.002 and 0.022 respectively, In the year 2014/15 is low and 2010/11 is high. The average MPS is 849.2, EPS is 34.94, DPS is 16.348, DPR is 0.5, EY is 0.0115 and DY is 0.022 respectively.

4.1.2 Mean and Standard Deviation of HBL

HBL indicates the descriptive statistics are supported by table and bar diagram describing the related variable i.e. MPS, EPS, DPS, DPR, EY, DY etc.

Table No. 4.2

Mean and Standard Deviation of HBL

Year	MPS	EPS	DPS	DPR	EY	DY
2010/11	635	44.66	16.84	0.38	0.07	0.027
2011/12	923	39.94	25	0.63	0.043	0.027
2012/13	902	34.19	10	0.29	0.038	0.011
2013/14	900	33.1	6	0.18	0.037	0.007
2014/15	1272	33.37	7	0.21	0.026	0.006
Average	926.4	37.052	12.968	0.34	0.043	0.015
S.D.	226.74	5.089	7.95	0.178	0.016	0.01064

Source: Annual Reports of HBL from 2010/11 to 2014/15

The above table shows the amount of market price per share of HBL 2010/11 to 2014/15 is 635, 923, 902, 900 and 1272 respectively. The MPS of HBL is every year is increasing. The earnings per share of the HBL from 2010/11 to 2014/15 is 44.66, 39.94, 34.19, 33.1 and 33.37 respectively. The EPS is in the year 2010/11 is highest and in the year 2013/14 is lowest. The DPS is in the year 2010/11 to 2014/15 is 16.84, 25, 10, 6, and 7 respectively. In the year 2011/12 DPS is highest and in the year 2013/14 is lowest. The dividend payout ratio is in the year 2010/11 to 2014/15 is 0.38, 0.63, 0.29, 0.18, and 0.21 respectively. In the year 2011/12 is highest and in the year 2014/15 is lowest. The earning yield is in the year 2010/11 to 2014/15 is 0.07, 0.043, 0.038, 0.037 and 0.026 respectively. In the year 2011/12 is high and 2013/14 is lowest. The dividend yield is in the year 2010/11 to 2014/15 is 0.027, 0.027, 0.011, 0.007, and 0.006 respectively. In the year 2014/15 is low and 2010/11 is high. The average MPS is 926.4, EPS is 37.052, DPS is 12.968, DPR is 0.34, EY is 0.043 and DY is 0.015 respectively.

4.1.3 Mean and Standard Deviation of EBL

EBL indicates the descriptive statistics are supported by table and bar diagram describing the related variable i.e. MPS, EPS, DPS, DPR, EY, DY etc.

Table No. 4.3**Mean and Standard Deviation of EBL**

Year	MPS	EPS	DPS	DPR	EY	DY
2010/11	991	83.18	50	0.6	0.084	0.05
2011/12	1140	88.55	1.58	0.02	0.078	0.001
2012/13	1784	91.88	50	0.54	0.052	0.028
2013/14	2450	86.04	50	0.58	0.035	0.02
2014/15	3018	78.04	5	0.06	0.026	0.002
Average	1876.6	85.538	31.316	0.36	0.055	0.02
S.D.	861.252	5.275	25.6126	0.2939	0.0255	0.0204

Source: Annual Reports of EBL from 2010/11 to 2014/15

The above table shows the amount of market price per share of EBL 2010/11 to 2014/15 is 991, 1140, 1784, 2450 and 3018 respectively. The MPS of EBL is every year is increasing. The highest MPS is in the year 2014/15 is 3018. The earnings per share of the EBL from 2010/11 to 2014/15 is 83.18, 88.55, 91.88, 86.04, and 78.04 respectively. The EPS is in the year 2012/13 is highest and in the year 2014/15 is lowest. The DPS is in the year 2010/11 to 2014/15 is 50, 1.58, 50, 50 and 5 respectively. In the year 2011/12 DPS is lowest is 1.58. The dividend payout ratio is in the year 2010/11 to 2014/15 is 0.6, 0.02, 0.54, 0.58, and 0.06 respectively. In the year 2010/11 is highest and in the year 2011/12 is lowest. The earning yield is in the year 2010/11 to 2014/15 is 0.084, 0.078, 0.052, 0.035 and 0.026 respectively. In the year 2010/11 is high and 2014/15 is lowest. The dividend yield is in the year 2010/11 to 2014/15 is 0.05, 0.001, 0.028, 0.02 and 0.002 respectively. In the year 2011/12 is low and 2010/11 is high. The average MPS is 1876.6, EPS is 85.538, DPS is 31.316, DPR is 0.36, EY is 0.055 and DY is 0.02 respectively.

4.1.4 Mean and Standard Deviation of KBL

KBL indicates the descriptive statistics are supported by table and bar diagram describing the related variable i.e. MPS, EPS, DPS, DPR, EY, DY etc.

Table No. 4.4
Mean and Standard Deviation of KBL

Year	MPS	EPS	DPS	DPR	EY	DY
2010/11	218	15.67	0.44	0.03	0.072	0.002
2011/12	261	17.18	7	0.41	0.066	0.027
2012/13	302	18.17	0.74	0.04	0.06	0.002
2013/14	622	18.69	1.74	0.09	0.03	0.003
2014/15	440	16.24	0.58	0.04	0.037	0.001
Average	368.6	17.19	2.1	0.12	0.053	0.007
S.D.	164.319	1.267	2.786	0.1621	0.01845	0.0110

Source: Annual Reports of KBL from 2010/11 to 2014/15

The above table shows the amount of market price per share of KBL 2010/11 to 2014/15 is 218, 216, 302, 622 and 440 respectively. The MPS of KBL is every year is increasing. The highest MPS is in the year 2013/14 is 622 and lowest is in the year 2010/11 is 218. The earnings per share of the KBL from 2010/11 to 2014/15 is 15.67, 17.18, 18.17, 18.69 and 16.24 respectively. The EPS is in the year 2012/13 is highest 18.69 and in the year 2010/11 is lowest 15.67. The DPS is in the year 2010/11 to 2014/15 is 0.44, 7, 0.74, 1.74 and 0.58 respectively. In the year 2010/11 DPS is lowest is 0.44. The dividend payout ratio is in the year 2010/11 to 2014/15 is 0.03, 0.41, 0.04, 0.09, and 0.04 respectively. In the year 2011/12 is highest and in the year 2010/11 is lowest. The earning yield is in the year 2010/11 to 2014/15 is 0.072, 0.066, 0.06, 0.03 and 0.037 respectively. In the year 2010/11 is high and 2013/14 is lowest. The dividend yield is in the year 2010/11 to 2014/15 is 0.002, 0.027, 0.002, 0.003 and 0.001 respectively. In the year 2014/15 is low and 2011/12 is high. The average MPS is 368.6, EPS is 17.19, DPS is 2.1, DPR is 0.12, EY is 0.053 and DY is 0.007 respectively.

4.1.5 Mean and Standard Deviation of Global IME Bank

HBL indicates the descriptive statistics are supported by table and bar diagram describing the related variable i.e. MPS, EPS, DPS, DPR, EY, DY etc.

Table No. 4.5**Mean and Standard Deviation of Global IME Bank**

Year	MPS	EPS	DPS	DPR	EY	DY
2010/11	192	14.06	5	0.36	0.073	0.026
2011/12	255	11.79	5.35	0.45	0.046	0.021
2012/13	473	16.15	10	0.62	0.034	0.021
2013/14	545	19.57	0.0	0.0	0.036	0.0
2014/15	415	15.58	4	0.26	0.038	0.01
Average	376	15.43	4.87	0.34	0.045	0.016
S.D.	148.31	2.8638	3.5720	0.23109	0.01623	0.0105

Source: Annual Reports of Global IME Bank from 2010/11 to 2014/15

The above table shows the amount of market price per share of Global IME bank 2010/11 to 2014/15 is 192, 255, 473, 545, and 415 respectively. The highest MPS is in the year 2013/14 is 545 and lowest is in the year 2010/11 is 192. The earnings per share of the Global IME bank from 2010/11 to 2014/15 is 14.06, 11.79, 16.15, 19.57 and 15.58 respectively. The EPS is in the year 2013/14 is highest 19.57 and in the year 2011/12 is lowest 11.79. The DPS is in the year 2010/11 to 2014/15 is 5, 5.35, 10, 0.0 and 4 respectively. In the year 2013/14 DPS is lowest is 0.0. The dividend payout ratio is in the year 2010/11 to 2014/15 is 0.36, 0.45, 0.62, 0.0, and 0.26 respectively. In the year 2012/13 is highest and in the year 2013/14 is lowest. The earning yield is in the year 2010/11 to 2014/15 is 0.073, 0.046, 0.34, 0.36 and 0.038 respectively. In the year 2010/11 is high and 2012/13 is lowest. The dividend yield is in the year 2010/11 to 2014/15 is 0.026, 0.021, 0.021, 0.0 and 0.01 respectively. In the year 2013/14 is low and 2010/11 is high. The average MPS is 376, EPS is 15.43, DPS is 4.87, DPR is 0.34, EY is 0.045 and DY is 0.016 respectively.

4.1.6 Analysis of Mean and Standard Deviation of SCBNL

SCBNL indicates the descriptive statistics are supported by table and bar diagram describing the related variable i.e. MPS, EPS, DPS, DPR, EY, DY etc.

Table No. 4.6**Mean and Standard Deviation of SCBNL**

Year	MPS	EPS	DPS	DPR	EY	DY
2010/11	1440	72.6	50	0.69	0.05	0.035
2011/12	1850	65.7	45	0.68	0.036	0.024
2012/13	1825	65.47	40	0.61	0.036	0.022
2013/14	2250	57.38	41.5	0.72	0.026	0.018
2014/15	2498	45.96	19.21	0.42	0.018	0.008
Average	1972.6	61.422	39.142	0.63	0.033	0.021
S.D.	410.327	10.1863	11.7876	0.1228	0.01212	0.009785

Source: Annual Reports of SCBNL from 2010/11 to 2014/15

The above table shows the amount of market price per share of SCBNL 2010/11 to 2014/15 is 1440, 1850, 1825, 2250, and 2498 respectively. The highest MPS is in the year 2014/15 is 2498 and lowest is in the year 2010/11 is 1440. The earnings per share of the SCBNL from 2010/11 to 2014/15 is 72.6, 65.7, 65.47, 57.38 and 45.96 respectively. The EPS is in the year 2010/11 is highest 72.6 and in the year 2014/15 is lowest 45.96. The DPS is in the year 2010/11 to 2014/15 is 50, 45, 40, 41.5 and 19.21 respectively. In the year 2014/15 DPS is lowest is 19.21. The dividend payout ratio is in the year 2010/11 to 2014/15 is 0.69, 0.68, 0.61, 0.72, and 0.42 respectively. In the year 2013/14 is highest and in the year 2014/15 is lowest. The earning yield is in the year 2010/11 to 2014/15 is 0.05, 0.036, 0.36, 0.26 and 0.018 respectively. In the year 2010/11 is high and 2014/15 is lowest. The dividend yield is in the year 2010/11 to 2014/15 is 0.035, 0.024, 0.022, 0.18 and 0.008 respectively. In the year 2014/15 is low 0.008 and 2010/11 is high 0.035. The average MPS is 1972.6, EPS is 61.42, DPS is 39.142, DPR is 0.63, EY is 0.033 and DY is 0.021 respectively.

Table No.: 4.7

Descriptive Statistics of all sample Banks

	N	Minimum	Maximum	Mean	Std. Deviation
MPS	30	192	3018	1061.57	759.638
EPS	30	11.8	91.9	41.929	25.7802
DPS	30	0.0	50	17.79	18.069
DPR	30	.000000000000	.905797101449	.38026011725489	.275447174885222
EY	30	.01839871898	.08393541877	.0453224257153	.01739884758860
DY	30	.000000000000	.050454086781	.01699618700495	.013913679931375
Valid N (List wise)	30				

All the banks have comparative in minimum MPS 192. and maximum is 3018. The EPS of all banks minimum EPS is 11.8 and maximum EPS is 91.9. The minimum DPS is 0.0 and maximum DPS is 50, minimum DPR is 0.0000 and maximum is 0.9057, minimum EY is 0.01839 and maximum EY is 0.08393 and minimum Dy is 0.00000 and maximum DY is 0.05045 respectively.

4.2 Analysis of Statistical Indicators and Variables

4.2.1 Correlation among variables

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

Table no. 4.8
Correlation

		MPS	EPS	DPS	DPR	EY	DY
MPS	Pearson Correlation	1					
	Sig. (2-tailed)						
EPS	Pearson Correlation	.754(**)	1				
	Sig. (2-tailed)	.000					
DPS	Pearson Correlation	.538(**)	.703(**)	1			
	Sig. (2-tailed)	.002	.000				
DPR	Pearson Correlation	.220	.269	.778(**)	1		
	Sig. (2-tailed)	.242	.151	.000			
EY	Pearson Correlation	-.484(**)	.086	-.003	-.051	1	
	Sig. (2-tailed)	.007	.650	.986	.787		
DY	Pearson Correlation	-.025	.267	.703(**)	.860(**)	.361(*)	1
	Sig. (2-tailed)	.897	.153	.000	.000	.050	

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

In the above table shows the data reflects significant correlations between market price per share, earning per share, dividend per share, dividend payout ratio, earning yield and dividend yield are each other. The correlation between MPS and DPS is 0.754, MPS and EPS is 0.538, MPS and DPR is 0.220, MPS and EY is -0.484, MPS and DY is -0.025, correlation between EPS and DPS is 0.703, EPS and DPR is 0.269, EPS and EY is 0.086, EPS and DY is 0.267. The correlation between DPS and DPR is 0.778, DPS and EY is -0.003, DPS and DY is 0.703, DPR and EY is -0.051, DPR and DY is 0.060 at the end the correlation between EY and DY is 0.361 this has been taken in to consideration in the regression analysis to avoid multi-collinearity problem.

4.2.2.2 Regression Analysis

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

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

Table no. 4.9
Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1013.336	269.381		3.762	.001
	EPS	24.889	3.876	.845	6.421	.000
	DPS	-2.908	8.488	-.069	-.343	.735
	DPR	469.685	648.273	.170	.725	.476
	EY	-21225.7	5277.034	-.486	-4.022	.000
	DY	-9424.844	12903.182	-.173	-.730	.472

a. Dependent Variable: Mps

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

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5$$

$$1013.336 + 0.845 X_1 + (-0.069) X_2 + 0.17 X_3 + (-0.486) X_4 + (-0.173) X_5$$

Where,

$$Y = \text{MPS}$$

$$X_1 = \text{EPS}$$

$$X_2 = \text{DPS}$$

$$X_3 = \text{DPR}$$

$$X_4 = \text{EYR}$$

$$X_5 = \text{DYR}$$

In order to understand the effect on share holder's wealth (MPS), a linear multiple regression models were used in the table 4.9 represent the multiple correlation matrix and multiple regression technique have been used to study the effect of dividend polices & practices of L &T on its share holder's wealth (MPS). In this study DPS, DPR, DY and EY have been used as the explanatory variables and MPS has been used as dependent variable. In this analysis, the correlation matrix representing

correlation coefficient between the explanatory variables and MPS. The model for the dividend policies and practices and firms market value of share or shareholders wealth (MPS) is selected on the basis of strong diagnostics and high value for the R-squared the result is represented in table 4.9. The table exhibiting the relationship between the dependent variable MPS and all the independent variables taken together and the impact of these independent variables on the market value of shares or shareholders wealth of the firm. When DPS increased by one unit, DPR of the company increased by 469.685 units which was statistically significant at 5% level of significance. When DY increased by one unit, MPS of the company increased by 2.667 units which was statistically significant at 5% level of significance. The remaining variables of dividend policy such as DPR (469.685) and EY (-21225.7) are negatively influencing on the market value of shares or shareholders wealth (MPS) of the firm. It reveals that the market value of share (MPS) or shareholders wealth of the company was highly influenced by DPS, DPR, DY and EY.

4.3 Major Findings

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

1. The amount of market price per share of NIBL 2010/11 to 2014/15 is 539, 876, 836, 920 and 1075 respectively. The MPS of NIBL is every year is increasing. The earnings per share of the NIBL from 2010/11 to 2014/15 is 27.26, 46.2, 40.7, 30.9 and 29.3 respectively. The EPS is in the year 2011/12 is high and in the year 2010/11 is lowest. The dividend per share is in the year 2010/11 to 2014/15 is 25, 5, 25, 25, 1.74 and 16.348 respectively. In the year 2010/11 is highest and in the year 2011/12 is lowest. The earning yield is in the year 2010/11 to 2014/15 is 0.051, 0.053, 0.049, 0.034, 0.027 and 0.043 respectively. In the year 2011/12 is high and 2014/15 is low. The dividend yield is in the year 2010/11 to 2014/15 is 0.046, 0.006, 0.03, 0.027, 0.002 and 0.022 respectively, In the year 2014/15 is low and 2010/11 is high.
2. The amount of market price per share of HBL 2010/11 to 2014/15 is 635, 923, 902, 900 and 1272 respectively. The MPS of HBL is every year is increasing. The earnings per share of the HBL from 2010/11 to 2014/15 is 44.66, 39.94, 34.19, 33.1 and 33.37 respectively. The EPS is in the year 2010/11 is highest and in the year 2013/14 is lowest. The DPS is in the year 2010/11 to 2014/15 is 16.84, 25, 10, 6, and 7 respectively. In the year 2011/12 DPS is highest and in the

year 2013/14 is lowest. The dividend payout ratio is in the year 2010/11 to 2014/15 is 0.38, 0.63, 0.29, 0.18, and 0.21 respectively. In the year 2011/12 is highest and in the year 2014/15 is lowest. The earning yield is in the year 2010/11 to 2014/15 is 0.07, 0.043, 0.038, 0.037 and 0.026 respectively.

3. The amount of market price per share of EBL 2010/11 to 2014/15 is 991, 1140, 1784, 2450 and 3018 respectively. The MPS of EBL is every year is increasing. The highest MPS is in the year 2014/15 is 3018. The earnings per share of the EBL from 2010/11 to 2014/15 is 83.18, 88.55, 91.88, 86.04, and 78.04 respectively. The EPS is in the year 2012/13 is highest and in the year 2014/15 is lowest. The DPS is in the year 2010/11 to 2014/15 is 50, 1.58, 50, 50 and 5 respectively. In the year 2011/12 DPS is lowest is 1.58. The dividend payout ratio is in the year 2010/11 to 2014/15 is 0.6, 0.02, 0.54, 0.58, and 0.06 respectively. In the year 2010/11 is highest and in the year 2011/12 is lowest.
4. The highest MPS is in the year 2013/14 is 622 and lowest is in the year 2010/11 is 218. The earnings per share of the KBL from 2010/11 to 2014/15 is 15.67, 17.18, 18.17, 18.69 and 16.24 respectively. The EPS is in the year 2012/13 is highest 18.69 and in the year 2010/11 is lowest 15.67. The DPS is in the year 2010/11 to 2014/15 is 0.44, 7, 0.74, 1.74 and 0.58 respectively. In the year 2010/11 DPS is lowest is 0.44. The dividend payout ratio is in the year 2010/11 to 2014/15 is 0.03, 0.41, 0.04, 0.09, and 0.04 respectively. In the year 2011/12 is highest and in the year 2010/11 is lowest.
5. The amount of market price per share of Global IME bank 2010/11 to 2014/15 is 192, 255, 473, 545, and 415 respectively. The highest MPS is in the year 2013/14 is 545 and lowest is in the year 2010/11 is 192. The earnings per share of the Global IME bank from 2010/11 to 2014/15 is 14.06, 11.79, 16.15, 19.57 and 15.58 respectively. The EPS is in the year 2013/14 is highest 19.57 and in the year 2011/12 is lowest 11.79. The DPS is in the year 2010/11 to 2014/15 is 5, 5.35, 10, 0.0 and 4 respectively. In the year 2013/14 DPS is lowest is 0.0. The dividend payout ratio is in the year 2010/11 to 2014/15 is 0.36, 0.45, 0.62, 0.0, and 0.26 respectively. In the year 2012/13 is highest and in the year 2013/14 is lowest. The earning yield is in the year 2010/11 to 2014/15 is 0.073, 0.046, 0.34, 0.36 and 0.038 respectively. In the year 2010/11 is high and 2012/13 is lowest.
6. The amount of market price per share of SCBNL 2010/11 to 2014/15 is 1440, 1850, 1825, 2250, and 2498 respectively. The highest MPS is in the year 2014/15

is 2498 and lowest is in the year 2010/11 is 1440. The earnings per share of the SCBNL from 2010/11 to 2014/15 is 72.6, 65.7, 65.47, 57.38 and 45.96 respectively. The EPS is in the year 2010/11 is highest 72.6 and in the year 2014/15 is lowest 45.96. The DPS is in the year 2010/11 to 2014/15 is 50, 45, 40, 41.5 and 19.21 respectively. In the year 2014/15 DPS is lowest is 19.21. The dividend payout ratio is in the year 2010/11 to 2014/15 is 0.69, 0.68, 0.61, 0.72, and 0.42 respectively. In the year 2013/14 is highest and in the year 2014/15 is lowest.

7. The minimum MPS 192. and maximum is 3018. The EPS of all banks minimum EPS is 11.8 and maximum EPS is 91.9. The minimum DPS is 0.0 and maximum DPS is 50, minimum DPR is 0.0000 and maximum is 0.9057, minimum EY is 0.01839 and maximum EY is 0.08393 and minimum Dy is 0.00000 and maximum DY is 0.05045 respectively.
8. The correlation between MPS and DPS is 0.754, MPS and DPS is 0.538, MPS and DPR is 0.220, MPS and EY is -0.484, MPS and DY is -0.025, correlation between EPS and DPS is 0.703, PES and DPR is 0.269, EPS and EY is 0.086, EPS and DY is 0.267.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Dividend policy is one of the three major decisions of the financial management. The dividend refers to that portion of the firm's net earnings, which is paid out to the shareholders as a return for their investments. The dividend decision affects the operation, and prosperity of the organization. To attract the new investors and to maintain the existing ones, dividend can be used as an effective tool. There are others who argue that dividend policy does affect value due to uncertainty factor. Many factors affect the dividend payment depending upon the investors' need and preference on one hand and the financing need of the financial institution to the potential investment on the other hand. The dividend decision, in one hand affects the company's structure. In other hand it has an information value to the investors. The impacts on share price are one another influence of dividend decisions. These institution got opportunity and appropriate environment to expand their activities, it is because the initially established financial institutions are unable to supply credit needs and meet the market expectation that market activities towards the growth position. The stockholders have a high desire and expectation that market price of share will be higher than net worth and getting high percentage of dividend from earnings. So, distributing dividend to the shareholders is effective way to achieve the trust of investors and encourage them to invest in shares.

This study mainly aims the prevailing practices of listed companies regarding dividend payment. The study is mainly focused to access the dividend policy and its impact on market price in banks. Instability of dividend and haphazard payout ratio is the most common practice of Nepalese companies. Companies do not adequately maintain cash balance for dividend payment. So, it covers some specific objectives to find out the relationship between other financial indicators and also to find out the appropriate dividend policies for different banks. The study of relationship between the dividend and stock prices have been accomplished by collecting and calculating the earning per share, dividend per share, dividend payout ratio, dividend yield, earning yield and price earning ratio. To make the research reliable, many more

analysis are conducted to find out appropriate relationship between dividend and other variables, which affects the dividend. The consistency of dividend distribution of different companies is also analyzed by using statistical tools.

5.2 Conclusion

In Nepal, only a few listed companies have been paying regular dividends to their shareholders. Further companies have not been following stable dividend payout policy. Above major findings led this study conclude that the earning and dividend payout of banks are comparatively high than finance and manufacturing companies and it is said to be satisfactory in Nepalese context. On the other hand, the dividend payout ratio of listed companies in Nepal has not been able to distribute fair dividends. None of these companies have well defined and appropriate policy regarding dividend payment. The insignificant relationship between DPS and other variables indicates that dividend policy of all these companies is not better. This study rests to conclude that the cash dividend can't be said as a sole factor to affect price of share. But there are some other factors like earning power, bonus shares, information value of dividend decision etc. that also cause the share price fluctuation. In an imperfect market mechanism like Nepalese Share Market, the security brokers, other market makers and the rumors they spray in the market have also significant role in share price fluctuation. The leverage effect is positive when the earnings of the firm are higher than the fixed financial charges to be paid for the lenders. The dividend policy has negative impact on the market price of share. Even though the fluctuations in share prices are arising due to economic conditions, government policies, prospects of Engineering Industry and activities of market forces but important one is dividend policy which should be optimum in maximizing shareholders wealth. Therefore it is suggested to the company that it should modify the existing dividend policy and practices so that market value of share is maximized but it should not affect its growth prospects.

5.3 Recommendations

The recommendation is presented in the last part of this chapter considering the major findings and gaps fund. The recommendations presented have been certainly milestone to improve existing condition in this field. These recommendations may also have some repercussions, but there is no doubt of these measures to improve the existing conditions. The following suggestions are recommended to further research;

1. Some additional variables such as GDP, Inflation, size of banks should be included for better regression results.
2. Quarterly or monthly data should be included since large fluctuations can be seen in yearly data.

BIBLIOGRAPHY

- Aryal, H.R. (1997). *Dividend Policy: Comparative Study Between Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd.*, Unpublished Master's Degree Dissertation, T.U. Central Department of Management, Kirtipur.
- Bajracharya, B.C. (2058). *Business Statistics and Mathematics*. Kathmandu: M.K. Publishers.
- Baker, H.K., Farrelly, G.E. and Edelman, R.B. (1985). *A Survey of Management Views on Dividend Policy*, Financial Management.
- Basnet, P. (2004). *Dividend Adhikari*, N.R. (2000). *Corporate Dividend Practices in Nepal*, Unpublished Master's Degree Dissertation, T.U. Central Department of Management, Kirtipur.
- Bhattarai, B.H. (1996). *Dividend Decision and Its Impact on Stock Valuation*, Unpublished Master's Degree Dissertation, T.U. Central Department of Management, Kirtipur.
- Bhattarai, D. K. (2013). *A Study on Dividend Policy of the Commercial Banks in Nepal*. Kathmandu. An Unpublished Master Degree thesis. Faculty of Management. Shankar Dev Campus. T.U.
- Bista, Surendra, (2006). *Dividend Policy and Practices in Nepal : A Comparative Study of Listed Joint Venture Commercial Banks and Manufacturing Companies*, Shanker Dev Campus, March, 2006.
- Boehme, D.R. and Sorescu, S.M. (2002). *The Long Run Performance Following Dividend Initiations and Resumptions*, Under Reaction or Product of Chance? Journal of Finance.
- Budhathoki, K. (2012). *The Study of Dividend Policy of the Commercial Banks in Nepal*. Kathmandu. An Unpublished Master Degree thesis. Faculty of Management. Shankar Dev Campus. T.U.
- Gautam, R.R. (1998). *Dividend Policy in commercial Banks: A Comparative Study of NGBL, & NABIL*, Unpublished Master's Degree Dissertation, T.U. Central Department of Management, Kirtipur
- Irwin friend and Marshall pocket 1964, "Dividend policy and stock prices", The American Economic Review Vol, LIV.

- James C., Van Horen and G. Mc. Donald 1971. *"Dividend Policy and New equity financing journal of finance.*
- Jha, Pawan Kumar (2007). *"Dividend Policy of Listed Companies in Nepal: Comparative Study on Banking, Finance and Insurance Companies* Unpublished Master's Degree Thesis Peoples College.
- Khan, M.Y. and Jain P.K. (1992). *Financial Management, Test & Problem*, Tata Mc.Graw-Hill Publishing Com. Ltd.
- Khatiwada, N.P. (2001). *Impact of Dividend and Earning Announcement on Shareholder's Return and Stock Price in Nepal*, Unpublished Master's Degree Dissertation, T.U. Central Department of Management, Kirtipur.
- Manandhar, K.D. (2000). *Preliminary Test of Lagged Structure of Dividedn. Empirical Test: Case of Corporate Firms in Nepal".* Management of Dynamics.
- Miller and Modigliani, *"Dividend Policy, Growth and Valuation of Share Journal of Business XXIV.*
- Miller, M.H. and Modigliani, F. (1966). *Some Estimates of the cost of capital to the electric unity industry, 1954-57*, American Economic Review.
- Myron J Gordon, *The Investment Financing and valuation of Corporation*, Richard D. Irwin 1962.
- Nepal Rastra Bank Economic Reports
- Nepal Stock Exchange Trading Reports
- Pandey, I.M. (1979). *Financial Management*. Vikas Publishing House Pvt. td.
- Paudel, D. (2014) has conducted research on *Determinants of share price in Nepalese Financial Market*. An Unpublished Master Degree thesis. Faculty of Management. Shankar Dev Campus. T.U.
- Pearson, H., Williams, C.M. and Donald son, D. (1972). *Basic Business Finance*, Rechard D Irwin Inc., Homewood, Illinois.
- Policy of Listed Companies in Nepal: A Comparative Study of Banking, Finance and Insurance Companies*, Unpublished Master's Degree Dissertation, T.U. Central Department of Management, Kirtipur.
- Pradhan, R.S. (1993). *Stock Market Behavior in a Small Capital Market: A Case of Nepal*, The Nepalese Management Review.

Rijal, S. (2004). *Impact of Dividend Policy on Market Price of Shares*, Unpublished Master's Degree Dissertation, T.U. Central Department of Management, Kirtipur.

Security Board Reports

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

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

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

Timilsina, S. (1997). *Dividend and Stock Price: An Empirical Study*, Unpublished 1997, Master's Degree Dissertation, T.U. Central Department of Management, Kirtipur.

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

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

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

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

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

website address:

<http://www.nepalsotck.com>

<http://www.sebonp.com>