CHAPTER : I

INTRODUCTION

1.1 Background of the Study

In fact, corporate dividend decision is not an easy, straight forward and simple task as many people conceive it. Dividend is the earning or profit distributed to shareholders by a company. It may be in cash, shares and securities or a combination of these. Generally there are two types of shares; preference shares and equity shares. Dividend paid on preference share is called preference dividend which is generally fixed and payable before payment of equity dividend. There is no choice to management for the preference dividend. But there is full choice about the rate of equity dividend. The policy of a company on the division of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. The dividend should be paid; secondly it has to determine how much it should be. All aspects and questions related to payment of dividend are contained in a dividend policy. A dividend policy that allows stockholders to get their share of the profit by always paying out a fixed percentage of earning tend to be preferred by over one that regularly pays stable or increasing dividend (Gitman, 1988).

Dividend policy is an integral part of the firms financing decision (Van Horne & Wachowicz, 1997). It affects the financial structure, the flow of funds, corporate liquidity and investors' attitude. By a dividend policy we mean some kind of coexistent approach to the distribution versus retention decision rather than making the decision on the purely and hoc basis from period to period (William & Gordon, 1972). So what

and how much it is desirable to pay dividend is always controversial topic because shareholders always expect higher dividend, but management wants more amounts to retain to the company for investment purpose. Dividend policy decision is the major financial decision of the firm, which determines the further capital structure and the growth of the firm because retained earning is the internal source of financing which is the key factor to determine the amount if external financing. Retained earning is used for making investment in favorable investment opportunities which helps to increase the growth of the firm. Hence there should be an optimal dividend policy that can attract potential investors and finance for its growth and expansion.

As a result of the liberalization policy of Government of Nepal, foreign investors and internal investors were attracted to invest in Nepal in joint venture especially in banking business. Establishment of commercial banks contributes significantly in the formation and mobilization internal capital and development efforts. They furnish necessary capital needed for trade and commerce of mobilization the dispersed saving of the individuals and institutions. They perform the function in different ways like accepting deposits, providing interest, granting loan etc that helps to remove the deficiency of capital. The main objective of joint venture bank is to earn profit by proper mobilization of resources.

The decision regarding how much profit to distribute to the shareholders as a dividend and how much to keep in the organization is the crucial decision of the managers. JVBs are the leading financial institutions incase of paying regular dividend. But the payment of dividend is most debated issue. The debate revolves around the dividend payout is relevance or irrelevance to the value of the firm and the

investors. This research work will look into all relevant factors of dividend a dividend policy of joint venture banks of NABIL, SCBNL, HBL, SBI and EBL.

1.2 Introduction of the joint ventures under study

1.2.1 Nabil Bank Limited (NABIL)

The first joint venture bank incepted in 1984 commenced operation as a leader in terms of bringing the very best international standard banking practices, products and services. Nabil had a joint venture with Emirates Bank international limited with 50% equity shares. Nabil now has joint venture with National bank limited Dhaka with 50% equity. Today Nabil Bank is a leading institution in the financial sector in Nepal. It has 19 points of representation spread across the country over 170 reputed correspondent banks across the globe complimented by a network of ATMs. Nabil Bank, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, it starts an era of modern banking with customer satisfaction measured as a focal objective while conducting businesses. The authorized capital is Rs.1600 million; issued capital is Rs.689216000 and paid-up capital is Rs.689216000 (www.nabilbank.com).

1.2.2 Standard Chartered Bank Nepal Limited (SCBNL)

It is the third joint venture bank of Nepal. It was established in 1987A.D in the name of Nepal Grindlays and operated with authorized capital, issue capital and paid up capital of Rs. 100 million, Rs. 50million and Rs. 30 million respectively. Out of 100% paid up capital, 50% of Standard Charter Bank of London, 35% of Nepal Bank Limited and the

remaining 15% is issued to general public. It has Rs. 620784000 paid up capital, authorized capital Rs. 1000000000 .Issue capital Rs. 1000000000. The objectives of Standard Chartered Bank are to collect deposit and provide loan to different sector and provide easy, fast and reliable banking service.

1.2.3 Himalayan Bank Limited (HBL)

Himalayan Bank Limited was established as the joint venture banks with maximum shares hold by Nepalese private sector and managed by Nepalese executives. The authorized capital of bank is Rs. 240million. Its ownership is composed founders shareholders 51%, Habib Bank of Pakistan 20%, Karmachary Sanchaya Kosh 14% and remaining to general public i.e. 15%. It has Rs. 518000000 paid up capital; authorized capital Rs. 1000000000, issued Rs. 729800000. The main business activity of bank is to provide modern banking facilities to the businessman, industries and to other professional and to provide loan on different sector according to need of general public.

1.2.4 Nepal SBI Bank Limited (SBI)

It was established in the year 2049/50 with paid of capital Rs. 84 million, 50% of paid up capital had taken by bank of India. It has Rs. 1216215000 paid up capital, authorized capital Rs. 19033764750 issued capital Rs. 1216215000. The main objective of the bank is to provide modern banking service to people and modern banking facilities like Tele banking, E-banking etc.

1.2.5 Everest Bank Limited (EBL)

This bank was established in the financial year 2050/51 with paid up capital of Rs. 30 million. Its 20% paid up capital has share by National Bank Limited of India. It has Rs. 240 million authorized capitals, Rs. 729800000 issued capital, and Rs. 518000000 paid up capital. The objective of the bank is same as other commercial banks to collect the idle, scattered resources of the economy and mobilize that in productive sector and provide modern banking service to the people.

1.3 Statement of the Problem

Corporate dividend policy is not clearly understood by a large segment of the financial community. Dividend is the most inspiring factor for the investment on the shares of the company and similar to the commercial banks. Dividend policy is not straight forward and simple aspect of the corporate finance. It is more technical area of finance in the sense that is a complex one having numerous implications for the firm. But Nepalese commercial banks have not satisfactory result about dividend decision. Different government rules and regulations are the main factors that act and react in the banking operations. But there is no limit to the identification of the problem about dividend policy that is visible in Nepalese commercial bank. While keeping this in mind selected problem of the commercial banks with regard to dividend policy are taken.

In Nepal, only a small number of companies are paying regular dividend and other companies are not stable in the payment of dividend. There is no proper relationship between dividend and quoted market price of share exists in the joint venture banks. Retained earning doesn't match

with the dividend policy. It has been found that especially, the joint venture banks have been distributing regular dividend. But however, not a single, clear and convincing dividend policy that being followed is known yet. The expectation of shareholders has yet to be met by paying regular dividend.

There is no limit in identification of the problem about dividend practices that are visible in Nepalese JVBs. To sum up this study, the study deals with the following issues.

⟩ What are the dividend policies adopted by JVBs of Nepal?

⟩ What are the factor affecting the dividend policy?

⟩ What is the relationship of dividend with EPS, MPS, net profit and net worth?

⟩ Do the companies paying larger dividend have good financial position?

1.4 Objectives of the Study

The study primarily focuses on the dividend policy and practice of joint venture banks with a view to suggest some appropriate dividend strategy. The specific objectives of this study are as follows:

⟩ To assess and analyze prevailing dividend policy adopted by the JVBs.

⟩ To examine the relationship of dividend with stock price, EPS and NWPS

⟩ To explore the factors affecting the dividend policy decision of joint venture banks.

1.5 Significance of the Study

Getting more return from the limited source of investment is the essential part for every investor while they seek to invest in different sector based on portfolio. Nowadays people are very attracted to invest in shares for the purpose of getting greater return. Therefore, dividend policy has become an effective way for attracting the large number of investors, to keep present investor happy and to maintain goodwill of the company. Capital market plays a crucial role for to investors to select appropriate sector to invest. Numbers of investors will apply for owner's certificates through capital market when if the company sells shares for public offering. While investing in shares the investor foregoes opportunity income that he could have earned. Actually, in capital market the investors can earn earning in two ways

(a) by means of dividend

(b) by capital gain i.e. increase in share price.

In our country, most of the companies are not adapting the appropriate dividend policy, and so it seems very important for our perspectives which can be listed as:

-) This study will be very helpful for the further researcher to find more details on the same topic.

-) It may be useful to government for policy making, controlling, and supervision and monitoring.

-) It will be useful to the concerned people like shareholders, management and policy makers.

1.6 Limitations of the Study

A research is a vast study investigating the subject matter for solving perceived research problems. Each and every study has its own limitations. No study can be free from constraints, such as economic resources, time etc. And this study too is not an exception. Therefore, the following are the main limitations of the study.

⎧ This study is confined only to the joint-venture banks.

⎧ Only secondary data has been used in this study.

⎧ The study covers a five-year period i.e. 2003/04 to 2007/08.

⎧ Data related to cash dividend are analyzed and interpreted.

⎧ Lack of research experience, lack of recent information, time and sources constraints are other limitations.

The above limitation, no doubts have some impact on quality of the study but some impacts do not affect the usefulness of the study.

1.7 Organization of the Study

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

Chapter 1 Introduction

Chapter 2 Review of Literature

Chapter 3 Research Methodology

Chapter 4 Presentation and Analysis of Data

Chapter 5 Summary, Conclusion and Recommendation

Chapter-1

This is the introduction chapter of the study. This chapter includes general background, statement of problems, objectives of study, importance of the study and limitations of the study and organization of the study.

Chapter-2

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

Chapter-3

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

Chapter-4

This chapter deals with the data presentation and analysis of presented data using various financial and statistical tools.

Chapter-5

This chapter deals with summarization along with major findings, conclusion and recommendation.

CHAPTER : II
REVIEW OF LITERATURE

This chapter includes the literature of previous studies and conceptual framework for the related studies such as books, journals, research paper and other studies related to the divided policy. To present the real framework of the research mere analysis is not enough; review of some related materials should be included with to give the research a clear vision. This helps the researcher to explore what kind of research studies have already been conducted in his/her field of study and thus reduces the probability of duplication. Moreover, it is useful for exploring what areas of research are still left to be conducted. Accounting and finance books, articles, journals are the backbone of literature review.

2.1 Conceptual Framework

Dividend refers to a part of net earning which is given to its shareholders either in cash or bonus share in return of their investment in share capital. Dividend refers to that portion of a firms net earning, which are paid out to the shareholders (Khan and Jain, 1992).

Dividend is generally paid in the form of cash. The payment of dividend reduces the cash balance of the company as well as the amount of retained earnings. There a reciprocal relationship between retained earnings and cash dividend. Dividend decision is one of the three major decisions of managerial finance. The policy of a company on the division of its profits between distribution to shareholders as dividend and retention for its investment is known as dividend policy. It may affect the

financial structure of the firm flow of funds, corporate liquidity, stock prices, investor's satisfaction, growth of the firms etc. which helps in the maximization of the shareholders wealth.

The objectives of a dividend policy should be to maximize the shareholders' return so that value of his investment is maximized (Pandey, 1995). Return consists of two components: dividend and capital gains. Dividend policy has a direct influence on these components of return. The impact of dividend policy on future capital gain is however complex. Capital gains occur in distant future, and therefore, are uncertain. Normally, it is said that the low payout policy accelerates earnings growth; investors of growth companies will realize their return mostly in the form of capital gains. But, it is not certain that low payout policy will lead to higher prices in reality. It is quite difficult to clearly identify the effect of payout on share price. Share price is a reflection of so many factors that the long-run effect of payout is quite difficult to isolate.

Since dividend would be more attractive to shareholders on might think that there would be a tendency for corporation to increase distribution of dividend. But one might equally pressure that gross dividend would be reduced some what with an increase in net after tax dividend still available to stock holders and increase in retained earning for the corporation (Thorpe, 1997). What and how much percentage of earning is to pay dividend is always a matter of dispute. Retention of earning is desirable for the growth of firm and dividend are desirable from the shareholders point of view, as it tends to increase their current wealth. These two objectives of dividend policy are always in conflict.

Thus, dividend decision is one of the central and major decision area related to the policies seeking to maximize the value of firms common stock as well as the wealth of the shareholders.

2.2 Forms of Dividend

Though the most popular form of dividend is cash dividend, the firms need to follow various types of dividend in view of the firms' objectives and policies, which they implement. In Nepalese context, the types of dividend that corporations follow is partly a matter of attitude of financial directors and partly a matter of various circumstances and other financial constraints that bound corporate plans and policies (Shrestha, 1980).Considering the changing needs of institution, dividend is being distributed in several forms i.e. cash dividend, stock dividend, script dividend, property dividend, bond dividend etc. But, in Nepal, only cash and stock dividend are in practice. The usual practice is to pay dividend in cash (Pandey, 1988).

Cash Dividend

The portion of earnings paid as cash to the investors in proportion to their shares of the company is known as cash dividend. Public companies usually pay regular cash dividend. Sometimes firm will pay a regular cash dividend and extra cash dividend. Thus cash account and the reserves account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and the net worth the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed (Hastings, 1966). The firm has to maintain adequate balance of cash for

the payment of cash dividend otherwise funds to be borrowed for this purpose may be difficult.

Stock Dividend and Stock Splits

Stock dividend is the payment of dividend in the form of additional share of stock instead of cash dividend. The payment of stock dividend increases the number of outstanding share and reduces the reserve and surplus of the company. It is a recapitalization of the owner's equity position with the stock split the number of share is increased through a proportional reduction in the par value of stock (Van Horne, 1988). It is also a kind of stock dividend where company breaks shares through splitting the par value of the share.

Stock split take place in two ways, they are straight split and reverse split. Stock dividend does not affect to the proportional claim of the existing shareholders or total value and total shareholders' equity amount but market price of each share of stock should decline in proportion to the number of new shares issued (Bhattarai, 2006). Stock splits are similar to stock dividend. As a result of stock split the common stock, paid in capital and retained earning accounts remained unchanged. Shareholders' equity remains unchanged; the change is seen only in the par value of stock. In recent years some of the commercial banks and companies have adopted the policy of paying cash along with stock dividend.

Scrip dividend

The company may declare dividend in the form of scripts when earnings justify dividend but the company's cash position is temporarily weak and doesn't permit cash dividend. Scrip is a form of promissory note promising to pay the holder at specified later date. When the

company has really earned profit and has only to wait for the conversion of others current assets into cash in the course of operation, the company only justifies the scrip dividend.

Bond Dividend

It is that kind of dividend at which bond of the same company is distributed to the shareholders. Generally, this type of dividend is declared to avoid the cash outflows. The shareholders easily accept the bond dividend because they get regular interest in fixed time period. If dividend is paid in the form of bond, promising that is will mature in the future date. Similar to the scrip dividend the intention and purpose of bond dividend is to postpone the dividend payment for some time but is has more obligations. Bond dividend carries relatively larger maturity period than that to scrip dividend.

Property Dividend

The payment of assets/property in any form other than cash is known as property dividend. When there are assets that are no longer necessary in operation of the business as in extra ordinary circumstances, the company declares this type of dividend. Companies own products and securities of subsidiaries are the examples that have been paid as property dividend. This type of dividend can rarely seen in practice.

In general, the forms of dividend popular in Nepal are cash dividend and stock dividend, although there are different forms of dividend. Generally, the term dividend, so far in my study, has referred to cash dividend only.

2.3 Stability of Dividend

The consistency or absence of variability in stream of dividend is known as stability of dividend. It tells us that a minimum amount of dividend is paid out regularly. Stability of dividend is considered as desirable policy by the management of most companies. The most desirable policy of the company concerning to the dividend payment to the shareholders is stability or regularity of dividend. Shareholders are also generally in favor of this policy and value stable dividend higher than the fluctuating ones. If all other things are same, stable dividend has positive impact in the market price of the share (Pandey, 1988). Stability of dividend sometimes means regularity in paying some dividend annually. Even though the amount of dividend may fluctuate over years and may not be related with earnings.

There are some reasons to believe that stable dividend policy does lead the higher stock price. First, investors generally expect the value higher dividend value, they are sure of receiving, since fluctuating dividend are riskier than stable once. Accordingly the same amount of dividend received under a fluctuating dividend policy is in likely to have higher discount factor than a stable dividend policy. This means that a company with a stable dividend 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 cash dividend and they will pay premium for a stock with a relatively assured minimum dollar dividend. Third, from the stand point of both company and its shareholders is that, stability of dividend is desirable for the requirement of legal listing (Weston and Brigham, 1982)

The dividend practice should reflect the different factors as well as the firms present operating and financial position. In this total framework,

the firm finds that it has a choice of several dividend policies to follow. The distinct forms of stability of dividend payments are as follows:

i. Constant Dividend per Share

Under this policy, the fixed amount of dividend would be paid year after year irrespective of the fluctuation in the earning. Fluctuation would not affect the dividend payment. Under this policy, the company should pay dividend to its shareholder even when it suffers losses. This policy does not imply that the dividend per share will never be increased. The annual dividend per share may be increased when the company reaches new level of earnings and expects to maintain it.

It is easy to follow this policy when earning is stable. If the earning pattern of the company shows wide fluctuations, it is difficult to maintain such policy. Investors who have dividend as the only one source of income prefer this policy.

ii. Constant Payment Ratio

The ratio of dividend to earnings in known as payout ratio. When a fixed percentage of earnings is paid out as dividend in every year that policy is called constant payout ratio policy. According to this policy, the amount a dividend will fluctuate in direct proportion of earnings. There is positive relationship between the level of earnings and the percentage rate of dividend. In this type of policy only the amount of dividend increase or decreases in the proportion of earnings or the percentage rate of dividend never changes due to earnings. Dividend will be paid to the shareholders if the company generates profit. This type of dividend policy may be supported by the management because it is related to the companies' ability to pay dividend. This policy is not likely to maximize the value of a firm's stock because it results in unreliable signals to the market about

the future prospects of the firm and because it may interfere with investment policy (Weston and Copeland, 1990).

ii. Low Regular Dividend plus Extra

The policy refers to the combination of regular dividend with the payment of additional dividend whenever earnings are significantly high. It gives the firm flexibility, but it leaves investors somewhat uncertain about what their dividend income will be. If a firm's earnings are quite volatile, however, this policy may well be its best choice. Under this policy, the small amount of dividend is fixed to reduce the possibility of over missing a dividend payout. This policy enables a company to pay constant amount of dividend regularly without default and allows a great deal of flexibility when profits of the company swell, the management may decide to distribute a part of the increased earnings as extra dividend instead of enhancing the regular dividend payout ratio. Some certain shareholders want this policy because it allows them to plan on set amount of cash and at the same time to be pleasantly surprised when extra dividend are paid. Generally, this policy is mostly followed by those where company's stockholders prefer at least a certain amount of regular reward.

2.4 Theories of Dividend

Residual Theory of Dividend

This theory suggests the company to distribute its earnings to shareholders in the form of cash dividend, only when the firm has retained earning left over after financing all possible acceptable investment opportunities. There will be no dividend distributed to the stockholders when if there doesn't exist balance of earning after paying

fixed obligation and financing all acceptable investment. When the company treats dividend policy as strictly a financing decision, the payment of dividend is a passive residual. The amount of dividend payment will fluctuate in the amount of acceptable investment available to the company. The theory assumes that the internally generated funds are comparatively cheaper than the funds obtained from external sources due to the floatation costs. But the company always may not be able to do so because of the variation in the attitude of the shareholders.

Wealth Maximization Theory

Larger dividend is announced and distributed to shareholders under this theory in order to maximize their wealth. This theory is generally adopted by the newly established and declining companies to up keep its image and retain the shareholders positive attitude towards the company's stock (Bhattarai, 2002).

2.5 Factor Affecting the Dividend Policy

Many considerations may affect a firm's decision about its dividend, some of them are unique to the company and some of them are more general considerations. They are presented subsequently.

Liquidity Position

The liquidity position of the company influences its ability to pay dividend. Payment of dividend is possible only if the firm has sufficient earnings. But if firm invests in fixed assets from assets from its sufficient retained earnings, cash amount is available to make dividend payment. Indeed, a growing firm, even a very profitable one typically had a pressing need for funds (Weston and Brigham, 1974).

Stability of Earnings

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

Legal Restrictions

Certain legal rules may limit the amount of dividend a firm may pay. These legal constraints fall into two categories; first, statutory restrictions may present a company from paying dividend. While specific limitations value by state, generally a corporation may not pay a dividend (i) if the firms liabilities exceed its assets, (ii) If the amount of the dividend exceeds the accumulated profits (retained earnings) and iii) if the dividend is being paid from capital invested in the firm. The second type of legal restrictions is unique to each firm and results from restrictions by the bond issue, preferred stock issue and loan arrangement which is clearly specified in indenture.

Contractual Restrictions

A contract made with lender such as debt holders, creditors, preference shareholders may restrict to pay cash dividend. Such restriction may pay certain level of earning or not paying more than specified sum of amount or setting a side some percentage of earning to the investment.

Control

The existing controlling group, wanting to continue their position, wants to retain more profit paying fewer dividends. The owners of the company would prefer the use of debt and retain profits to finance new investments rather than issue new stock to reduce the chances of diluting the control position.

Investment Opportunities

If the firm has future profitable investment opportunities, the firm is likely to reinvest the earnings rather than pay dividend. The more rapid the rate at the need the financing assets expansion, the greater the future need for funds the more likely the firm is to retain earnings rather than pay them out (Christy and Roden, 1976).

Access to Capital Market

A firm's access to capital market will be influenced by the age and size of the firm. Therefore a well-established firm is likely to have a higher payout ratio than smaller and new firm. A large well established corporate firm with a record of profitability and stability of earnings has easy access to capital markets and other forms of financing. Such firms are more likely to have higher percentage of dividend payout.

Desire of Shareholders

Shareholders may be interested either in dividend incomes or capital gains. Wealthy shareholders in a high income tax bracket may be interested in capital gains as against current dividend. A retired and old person, whose source of income is only dividend, would like to get regular dividend. In a closely held company, management usually knows the desired policy that satisfies all shareholders. But in a widely held company, number of shareholders is very large and they have diverse

desires regarding dividend and capital gains. Some shareholders want cash dividend, while other prefers bonus share.

Inflation

The price of the assets rises up in the situation of inflation. Fund generated from depreciation may be inadequate to replace the equipment. Thus, the fund should be expensed more than reserve earlier or the amount from earning should spend for assets and earning reduced by the way dividend payment is affected.

Need to Repay Debt

When a firm has issued debt to finance expansion or to substitute other forms of financing. It has two alternatives. It can refund the debt at maturity by replacing it or making provision of paying debt. If the decision is to retire the debt, this will generally require retained earning (Weston & Copland: 1990, 659). In such case dividend decision will be affected.

Tax position of the shareholders

Paying dividend is not only the action of company but it also should consider the preferential need of the stockholders. Corporations owned by largely tax payers in high income tax brackets tend towards lower dividend payout whereas corporation owned by small investors tend towards higher dividend payout.

2.6 Legal Provision Regarding Dividend Policy and Practices in Nepal

In Nepal, Nepal Company Act 2006 has made certain legal provisions for dividend payments. The provisions play important role on dividend practices.

Section 2 (P): States that bonus share (stock dividend) means shares issues in the form of additional shares to shareholders by capitalizing the surplus from the profits or the reserve fund of the company. The term also denotes an increase in the paid-up values of the shares after capitalizing surplus reserve fund.

Section 61 has prohibited company from purchasing its own shares. This section is subsection (1) states that no company shall purchase its own shares (buy back) or supply loans against the security of its own shares.

Section 179, bonus shares and sub section (2) states that the company must inform the shareholders before issuing bonus share under subsection (1) this may be done only according to a special result ion passed by the general meeting. Subsection (2) states that according to subsection (1) to inform the office before issuing bonus shares.

Section 182 dividend and subsections of this section are as follows:

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

    a. In case any law forbids the distribution of dividend.

    b. Incase the right to dividend disputed.

    c. In case dividend 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.

Subsection (2): Without permission of government the fully owned shares or majority owned shares of government's institution can't distribute the dividend. Government can forward the direction to these organizations for distribution of dividend.

Subsection (3): In case dividends are not distributed with in time limit mentioned in subsection (1) this shall be done by adding interest at the prescribed rate.

Subsection (4): Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.

The above rules indicated the Nepalese law prohibits repurchase of stock which is against the theory of finance. The reason for this kind of provision is unknown.

2.7 Review of Major International Studies

2.7.1 Modigliani and Millers Study

Modigliani and Millers provides the most comprehensive argument for irrelevance of dividend in 1961. Dividend policy of firm is irrelevant as it does not affect the value of the firm or the value of equity according to M.M. They propounded the "Irrelevance Theory of Dividend" which theory argue that the value of firm depends on the earning power of the firm asset or investment policy. Thus when the investment decision of the firm is given, a firm's value is independent of dividend policy.

The M.M. approach of irrelevance dividend is based on the following critical

assumptions.

⟩ Perfect capital market in which all investors are rational.

⟩ Taxes do not exist.

⟩ The firm has no flotation costs.

) Risk of uncertainty does not exist.

) Information are available at free of cost.

) No transaction cost and infinitely divisible securities.

M.M. provides the proof in support to their argument in the following manner.

Step-One

The market price of share of the firm 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,

$$P_0 \ X \frac{d_1 \ \Gamma \ p_1}{1 \ \Gamma \ k_e}$$

Where,

Po = Current market price of a beginning

k_e = Cost of equity capital (assumed constant)

d_1 = the dividend per share to be received at the end of the period 1.

P_1 = the market price of the share at the end of the period 1.

Step-Two

Multiply both sides of equation one by the number of shares outstanding to obtain the total value of the firm if no new financing exists.

$$nP_0 \ X \frac{n\!f\!d_1 \ \Gamma \ p_1 \ A}{1 \ \Gamma \ k_e}$$

Where,

n = numbers of outstanding shares at zero period.

nP_o = Total value of equity

Step-Three

If the firms has internal source of financing, its investment opportunities fall short of funds required and n is the number of new share issued at the end of year 1 at price P1 then,

$$nP_0 \ X \frac{nd_1 \ \Gamma \ p_1 fn \ \Gamma \ \zeta n \text{\AE} Z \ \zeta np_1}{1 \ \Gamma \ k_e}$$

Where,

n = No. of new share issued at the end of the period.

Step-Four

If the firms were to finance all investment proposals, the total amount of new shares issued will be,

nP1 = I-(E-nd$_1$)

or,   nP1 = I-E+nd$_1$

Where,

I = Investment needs

E = Earning available

  nP1 = Additional or new equity

nd1 = Total dividend paid during the period

Step-Five

By substituting the value of np1 from the equation of step 4 to equation 3, we get,

$$nP_0 \ X \frac{nd_1 \ \Gamma \ p_1 fn \ \Gamma \ \zeta n \text{\AE} Z I \ \Gamma \ E \ \Gamma \ nd_1}{1 \ \Gamma \ K_e}$$

$$\text{or, } nP_0 \text{ X} \frac{nd_1 \, \Gamma \, np_1 \, \Gamma \, \zeta \, np_1 \, ZI \, \Gamma \, End_1}{1 \, \Gamma \, K_e}$$

$$\text{or, } nP_0 \text{ X} \frac{p_1 fn \, \Gamma \, \zeta \, nAZI \, \Gamma \, E}{1 \, \Gamma \, K_e}$$

Step-Six

Conclusions

From above, there is no role of dividend in equation, so Modigliani and Miller concluded that dividend policy has no effect on the share price or value of the firm. A firm that pays dividend will have to raise funds externally to finance its investment plans. M.M. holds that when the firm pays dividend, its advantage is offset by external finance. Thus dividend payment is irrelevant regarding the valuation of equity and firm. Hence, it seems that dividend policy may have no influence on the market price of share under several assumptions. Thus, the several assumptions may be the debated issue to apply this model in case of Nepal.

2.7.2 Gordon Study

The popular model was developed by Myron J. Gordon (1962) which concluded that dividend policy of a firm affects its value even in a situation where the return on investment and required rate of return are equal. This study explains that investors are not indifferent between current dividend and retention of earnings with the prospects of future dividend and capital gain. The conclusion of this study is that investors give more emphasis to the present dividend more than future capital gain. According to this study, an increase in dividend pay out ratio leads to increase in the stock price for the reason that the investor considers the dividend yield is less risky than the expected capital gain.

The concerning assumptions adopted in this model are as follows:

⟩ No external financing is available in the market.

⟩ The firm is an all equity-financing firm i.e. neither debt and nor preferred stock is issued.

⟩ The cost of capital (k) and internal rate of return (r) are constant.

⟩ The corporate tax does not exist.

⟩ Cost of equity (Ke) must be greater than growth rate (g).

⟩ The retention ratio (br), once decided upon, is constant therefore the growth rate (g) = (br) is constant forever.

⟩ The firm and its stream of earning are perpetual.

Based on the above assumptions, Gordon provided the following formula for finding out the market value per share.

$$P_0 \text{ X} \frac{EPS(1-b)}{K_e - b_r} \text{X} \frac{EPS(1-b)}{K_e - g}$$

Where,

P₀ = Price of Share

EPS = Earning per Share

b = Retention Ratio

Kₑ = capitalization rate

g = growth rate

(1-b) = dividend pay out ratio

Based on this study, we can get the following fact:

In case of Growth Firm (r>k)

Share price tends to enhance with increase in retention ratio (b) or decrease in payout ratio (l-b). So dividend and stocks prices are negatively correlated with growth.

In case of normal firm (r=k)

Share price firm remains constant regardless of changes in dividend policies. It means dividend and stock price are free from each other.

Incase of declining firms (r<k)

Share price tends to enhance with increase in payout ratio (l-b) or decrease in retention ratio (b). So dividend and stock prices are positively correlated with each other in declining firm.

2.7.3 Walter's study

The argument advanced by Professor Walter is of considerable interest in the literature of finance. He holds that the choices of dividend policies almost always affect the value of the enterprise. (James E Walter, 1996). The main point which he emphasized is that there is significant relationship between the internal rates of return on investment project and market rate demand by the investors. As the market rate, the stock price will be enhance by retention of earning and will vary with dividend payout. This approach is based on that dividend policy can be used to maximize the wealth position of shareholder.

Basic Assumption

) The firm finance all investment through retained earning that is debt or new equity is not issued.

○ The firm's internal rate of return, (r) and its cost of capital, (k) are constant.

○ All earning are in either distributed as dividend or reinvested internally.

○ There is no change in values of earning per share and dividend per share.

○ The firm has a very long infinite life.

Based on above assumption, Walter has suggested the following formula.

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

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

Where,

P = Market price per share

r = Internal rate of return

k = Cost of capital

DPS = Dividend per share

EPS = Earning per share.

Walter has suggested different dividend policy for different firm based on their growth stage. They are:

Growth firm (r>k)

Firms having r>k are referred as growth firm. Growth firms are assumed to have simple profitable opportunities. These firms re invest earning because they have higher rate of return than the rate of return

expected by the shareholders. It is more beneficial to retain all earning for investment to maximize the value of growth firm.

Normal firm (r=k)

If internal rate of return is equal to cost of capital, the dividend payout does not affect the value of share i.e. dividend policy is irrelevant whether the earnings are retained or distributed as dividend, the market value per share is not affected. Thus, these are no unique optimum payout ratio for a normal firm.

Declining firm (r<k)

There is a positive relation between dividend and stock price if the internal rate of return is less than cost of capital. By distributing the entire earning as dividend, the value of share will be at optimum value. Thus, the optimum payout ratio for declining firm has to be loose.

2.7.4 Friend and Puckett's Study

Friend and Puckett (1964) have conducted a study about the relationship between dividend and stock price through the regression analysis on the data of 110 firms from five industries in the year 1956 to 1958. These five industries were chemicals, electric utilities, electronics, food and steel. These industries were selected to permit a distinction made between the result for growth and non growth industries and to prove a basic for comparison with result by other author for earlier years. They also considered cyclical and non-cyclical industries which they covered. The study period covered a boom year for the economy when stock prices leveled off after substantial rise (1956) and some what depressed year for the economy when stock prices, however, rose strongly (1958).

They used dividend, retained earnings and price earning ratio as independent variable in their regression model of price function. They used supply function i.e. dividend function also. In their dividend function, earnings, last year's dividend price earning ratio are independent variables.

Symbolically, their price function and dividend supply function can be written as Price function:

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

Where,

P_t = Per share price at time t.

D_t = Dividend at time t.

R_t = Retained earning at time t.

$(E/p)_{t-1}$ = Lagged earnings price ratio.

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

The study was based on the following assumptions

⟩ Dividend does not react to year to year fluctuation in earnings.

⟩ Price does not contain speculative in earnings.

⟩ Earnings fluctuations may not sum zero over the sample

These regression result based on the equation of $P_t = a + b\ D_t + cR_1$ showed the customary strong dividend and relatively weak retained

earning affect in three of the five industries i.e. chemicals, foods and steel. Again they tested other regression equations by adding lagged earning price ratio to the above equation and result the following equation.

$P_t = a + b\ D_t + c\ R_t + d\ (E/P)_{t-1}$ they found the following result: they found that more than 80% of the variation and stock prices can be explained by three independent variables.

Dividend have a predominant influence on the stock prices in the same three out of five industries but they found the differences between dividend and retained earning coefficient are not quite so marked as in the first set of regressions. They also found that the dividend and retained earning coefficient are closer to each other for all industries in both years except for steels in 1956 and correlation are higher again except for steel.

They also calculated dividend supply equations i.e. $D_t = e + f\ E_t + f\ D_{t-1} + n\ (E/P)_{t-1}$ and the dividend price equation for four industries 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 have a significant effect.

On the other hand, they noted that the retained earning effect is increased relatively in three of the four cases tested. Further, they argued that their result suggests price effect on the dividend supply are not a serious source of bias is the customary derivation of the dividend and retained earnings effects on the marked if the disturbing effect of short run income movements are sufficiently great.

Further, they lagged price as a variable instead of lagged earning 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 dividend in most of the cases. The only exception was steels and foods in 1958.They considered chemicals, electronics and utilities as growth industries, in these groups and the retained earnings effect was larger than the dividend effect for both years covered. For the other two industries, namely foods and steels, there were no significant systematic differences between coefficients.

Similarly, they tested the regression equation $P_t = a + bD_t + cR_t$ by using normalized retained earnings by subtracting dividend from normalized earnings. The normalized procedure was based on the period 1950 – 1962. Again they added prior years normalized earning price variable and they compared the result.

Comparing the result they found that there was significant role of normalized earnings and retained earnings but effects of normalized price earning ratio was constant. When they examined the later equation, they found that the difference between dividend and retained earnings coefficients disappeared.

Finally they concluded that management might be able to increase prices somewhat by raising dividend in food and steel industries. They conducted more detailed examination of the 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 earning as price determinant.

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 dividend and in growth industries by greater retention, in low dividend.

2.7.5 Baker and Phillips' Study

H.K. Baker and Aaron L. Phillips surveyed management views on stock dividend. They addressed two major research questions in the survey. First, why do some managers continue to support stock dividend given the apparently limited benefits of these distributors to shareholders? Second, do management views about the issues and motive for stock dividend differ based on the firms trading location, the size of the stock dividend or the frequency of issuing stock dividend? Their sample contained all firms that paid at least one stock dividend between 1988 and 1990 i.e. NYSE/AMEX Firms and 26 NASDAQ firms.

The questionnaire used by them has two parts. Part I contained 15 closed end questions on issues drawn from the finance literature about stock dividend. Part II contained seven questions about stock dividend decision and four questions about the respondent's profile.

The findings were:

⟩ Managers strongly agree that stock dividend have a positive psychological impact on investors receiving them.

⟩ Managers believe that stock dividend enable them to express their confidence in the firm's future prospects, suggesting that stock dividend may have some information content.

⟩ The dominant motive for paying stock dividend is to maintain the firm's historical practice.

⟩ Management views on issues and motives about stock dividend differ little based on the firms trading location or the size of stock dividend.

2.7.6 Linter's study

During the period of 1956, Linter made an important study of the behavior aspect of dividend policy in the American contest. He investigates a partial adjustment model as he tested the dividend pattern of 28 companies. He concludes that a major portion of the dividend of a firm could be expressed in the following way.

$$Div^*_t = P^{Eps}_t \text{ --------(i)}$$

$$\text{And, } Div_t - Div_{t-1} = a + b (Div^*_t - Div_{t-1}) + e_t \text{ ----------(ii)}$$

$$\text{or, } Div_t = a + b Div^*_t + (1-b) Div^*_{t-1} + e_t \text{ -------- (iii)}$$

Where,

Div^*_t = firm's desired payment.

Eps_t = earning (P) is targeted payout ratio, (a) is constant relating to dividend growth and (b) is the adjustment factor relating to the previous periods dividend and new desired level of dividend where b<1.

The major findings of this study where as follows.

) Firm generally think in term of proportion of earning to be paid out.

) Investment requirements are not considered for modifying the pattern of dividend behavior.

) Firms generally have target payout ratio in view while determining change in dividend per share.

2.7.7 Robert H. Litzenberger and Krishna Ramishwamy Study

Litzenberger and Ramishwamy have found positive relationship between expected before tax returns and dividend yield (The Affects of

Dividend on Common Stock Prices, Tax Effects or Information Effects?).They have discovered that high dividend stock providing higher expected before tax returns that low dividend stocks to offset the tax effects. However adding default risk premium variable to the extended capital assets pricing model shows the dividend co-efficient is not significant different from zero and concludes that the dividend yield measure is likely to be corrected with number of economics the relationship between dividend yield and stock returns by Black and Scholes, indicates that stock with high payout ratios did not provide return significantly different from those with low payout ratios. So they give the idea that dividend policy does not matter.

2.8 Review of Previous Related Studies in Nepalese Perspective

In Nepal, there are few studies which have looked into corporate dividend behaviors. Some of them which are related in this research are reviewed in this section.

2.8.1 Professor Manohar Krishna Shrestha Study

Prof. M.K. Shrestha (1981) has written an article about „**Public Enterprises: Have They Dividend Paying Ability?** which was published in the book „**PRASHASAN (30ᵗʰ issue**). It gives short glimpse of the dividend performance of some public enterprises of that time in Nepal. Prof. Shrestha has highlighted (focused) the following issues in the article.

Government of Nepal wants two things from the public enterprises:

⌡ They should be in a position to pay minimum dividend.

) Realization by managers about cost of equity capital and dividend obligation.

If Nepal government wants to tap resources through dividend, the following criteria should be followed:

o   Proper evaluation of public enterprises in terms of capability of paying dividend should be made through corporation co-ordination committee.

o   Imposition of fixed rate of dividend by government on financially sound public enterprises.

o   Circulation of information about minimum rate of dividend to all public enterprises.

o   Specifying performance targets in terms of profit priorities on timings and plans and development of strategic plans that bridges the gap between aspiration and reality.

o   Identification of corporate objectives under Corporation Act, Company Act or special charters so as to clarity public enterprises managers regarding their financial obligation to pay dividend to the government.

Shareholder's Democracy and Annual General Meeting Feedback' by Prof. M.K. Shrestha is one of the most important book that deal with the policies and financial performance of some financial companies.

In this book, a paper presented by Prof. Shrestha on the occasion of 5th annual general meeting of Nepal Arab bank Limited (NABIL) is also contained. He opines, on his paper, that the shareholders have common views on the problems and constraints of the shareholders.

Although it is not directly related to my sample banks, I think it is pertinent to review and present this paper in this study. Among the joint venture banks in Nepal, it is found that NABIL seems to be more conscious for protecting shareholders' interest as evidenced by the annual general meeting report. In the 5th annual general meeting of NABIL, the management presented the following points on the problems and constraints of shareholders.

i.   The cost-push inflation at exorbitant rate has made. The shareholders expect higher return from their investment.

ii.   Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequence of it.

iii. Erosion in the purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholders' purchasing power by raising dividend payout ratio on the basis of both earnings and cost theory.

iv.   Indo-Nepal trade and transit deadlock has become a sort of economic warfare putting rise in the cost of living index to a considerable extent. This is one of the reasons, which made shareholders to expect higher demand for satisfactory dividend.

v.   The waiting of five years with peanut dividend in previous year is equally a strong enforceable reason of the bank‟s shareholders to expect handsome dividend already assured and committed in various reports of the earlier annual general meeting.

vi.   One way to encourage risk-taking ability and preference is to have proper risk return trade off by bank's management board in a way

that higher return must be the investment rule for higher risk-takers that comprise bank's shareholders.

In the years 1992, the bank had paid 60% (40% stock dividend and 20% cash dividend) of its profit as dividend to the shareholders to satisfy their needs and 40% of earnings was retained. However, dividend growth rate is not equal to the growth rate of earnings.

2.8.2 Prof. Radhe Shyam Pradhan's Study

Prof. R.S. Pradhan has conducted a study on Small Market Behaviour in A Small Capital Market: A case of Nepal in 1993. It is pertinent to put forth here because he has analyzed various ratios related to dividend and market price of shares. The study was based on the pooled-cross sectional data of 17 enterprises covering the year from 1986 to 1990.

The objectives of this study were as follows.

) To assess the stock market behavior in Nepal.

) To examine the relationship of market equity, market-value to book value,

) price-earning, and dividend with liquidity, profitability, leverage,

) assets turnover and interest coverage's.

The following model was employed.

$V = bo + b_1 LIQ + b_2 LEV + b_3 EARN + b_4 TURN + b_5 COV + Ui$…………

The dependent variable, V chosen for the study has been is specified as under:

1. Market equity, number of shares multiplied by market price of share (ME).

2. Market value of equity to its book value (MV/BV)

3. Price-earning ratio (PE)

4. Dividend per share to market price per share (DPS/MPS)

5. Dividend per share to earning per share (DPS/EPS)

The independent variables are specified as:

LIQ = Current ratio (CR) or Quick or Acid-test ratio (QR)

LEV = Long-term debt to total assets (LTD/TA) or long-term debt to total capitalization

(LTD/TC) = Total capitalization is specified as long-term debt plus net worth.

EARN = Return on assets, that is earnings before tax to total (ROA) or return on net worth, that is earnings before tax to net worth (RONW).

COV = Interest coverage ratio, that is earnings before tax to interest.

TURN = Fixed assets turnover, that is sales to average fixed assets (S/FA) or total assets turnover, that is sales to average total assets (S/TA).

U = Error term

He has found the following findings as observed by him in connection with dividend behavior:

o Higher earnings on stock, larger the ratios of dividend per share to market price per share.

o   Stocks with larger ratio of dividend per share to market price per share have lower leverage ratios.

o   Positive relationship between the ratios of DPS to MPS and interest coverage.

o   Positive relationship between dividend payout and liquidity.

o   Positive relationship between dividend payout and profitability ratios.

o   Positive relationship between dividend payout and turnover ratios.

o   Positive relationship between dividend payout and interest coverage ratios.

o   DPS and MPS were positively correlated.

Also Prof R.S. Pradhan has conducted a study on **Financial Management Practices in Nepal in 1994.**

The main objectives of the study were:

1. To survey financial management practice concerning finance function, sources and types of financing debt ratios and debt limits, financing preferences at the margin, tax and distress effects, relationship of enterprise with the banks and dividend policy.

2. To examine stock market behavior in Nepal by analyzing the relationship of market equity, market value to book value of equity, price earnings and dividend with liquidity, leverage, profitability turnover and interest coverage.

3. To find out the degree of consensus among decision makers on the use of selected financial ratios for predicting financial distress.

4. To determine the major causes, signals and symptoms of financial distress including measures to be adopted to rehabilitation industries under financial distress

Some conclusions of the study among others were as follows:

) Non traded sector has a higher dividend, price earning ratio as compared to traded sector. One of the important reasons to retain earnings for the traded sector is that company doesn't want to dilute control from selling stocks to outsiders while non traded sector enterprises retain as the find it hard to convince outsiders about the profitability of investments.

) Larger stocks have price earnings ratios, larger ratios of market value to book value of equity and smaller dividend. However, price earning ratios and dividend ratios are more variable for smaller stocks whereas market value to book value of equity is more variable for larger stocks.

) Smaller dividend, lower profitability, lower assets turnover and lower interest coverage for larger stocks may be attributed to the fact that most of larger stocks are at their initial stage of operation.

) Stocks with larger market value to book value of equity have larger price earnings ratios are more variable for stocks with larger market value to book value ratios and dividend ratios are more variable for stocks with smaller market value to book value.

) Stocks paying higher dividend have higher liquidity, lower leverage, higher earnings, higher turnover and higher interest coverage. However, liquidity and leverage ratios are more variable for the stocks paying lower dividend while earnings, assets

turnover, and interest coverage are more variable for the stocks paying higher dividend.

2.8.3 Kamal Das Manandhar's Study

Kamal Das Manandhar Study has carried out latest study on the topic of "Bonus share and dividend changes empirical analysis in Nepalese context" based on the data collected for the years from 1987/88 to 1997/98. The analysis cover 35 observations per bonus divided rate and 29 samples of the Nepalese corporate firms selected from the listed corporate firms in NEPSE. The sample corporate firms include 5 from banking, 3 from insurance and finance company and 4 from manufacturing, trading and airlines. The study is made to analyze the actual dividend behavior of Nepalese corporate firms after an issue of bonus share.

The conclusions drawn by the study are:

o There is relationship between distributed lag profits and dividend.

o There is significant relationship between change in dividend policy in terms of DPS and change in lagged earnings.

o In overall there is positive relationship between change in lagged consecutive earnings and dividend per share.

o There is relationship between distributed lagged consecutive earnings and dividend per share.

o When change in lagged consecutive earnings is greater than zero in 65% the cases change in dividend per share.

o　　　　Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share.

o　　　　When change in lagged consecutive earnings is greater than zero in 65% the cases change in dividend per share.

o　　　　Overall increase in EPS (t) has resulted to the increase in the dividend pay out in 66.60% of the cases while in others decreases in EPS that resulted decreases in dividend payments.

o　　　　Corporate firm do not take into account that one-year and two year lagged earnings.

2.9 Review of Thesis

Prior to this thesis several thesis works has been conducted by some students relevant for this study are presented below:

2.9.1 Rishi Raj Gautam's Study:

Rishi Raj Gautam has conducted a research on "Dividend policy of Commercial Bank. A comparative study of NGBL, NIBL and NABIL" in 1998. The study is based on secondary data.

The main objectives of his research are:

⟩ To identify what type of dividend policy is being followed and find out whether the policy followed is appropriate or not.

⟩ To study the impact of dividend on stock price.

⟩ To study the relationship between DPS and other financial indicators.

⟩ To known if there is any uniformity among DPS, EPS and DPR of the three commercial banks sampled.

Major Findings are

No commercial banks sampled seem to be guided by clearly define dividend strategy in spite of the good earnings and potential.

  i.   Shares of the financial institution are actively traded.

 ii.   Commercial banks represent a robust body or perfect earnings organization

iii.   in comparisons to the other sectors such as manufacturing, trading etc.

 iv.   There is significant relationship perceives between earning and dividend of expansion program.

2.9.2 Sadakar Timilsina Study

He has submitted a thesis related to dividend policy. "Dividend and Stock Price" is the topic chosen by him in 1997. It was for the study relationship between dividend and stock price of sample companies by using, the data from 1991 to 1994. Though it was not very comprehensive, it was the first kind and able through some light in the Nepalese context.

The basic objectives if the study were as follows:

o   To find the impact of dividend policy on stock price so that the relationship can be obtained.

o   To identify whether it is possible to increase the market value of stock by changing dividend policy or pay out ratio.

o   To examine the relationship between dividend per share and stock price per share.

The major findings presented by him areas follows:

o   Dividend pay put affects the share price differently in different sectors.

o   In the sample companies, there is a positive relationship between dividend per share and stock price per share.

o   Flexibility in dividend policy or dividend per share might help to increase the market price per share.

2.9.3 Ramesh K.C. Study

The topic selected was "Dividend policy of Joint Venture Banks in Nepal". Based on this study he has concluded the findings as follows:

o   Joint venture banks in Nepal are growth bank.

o   Their market values per share are significantly fluctuation and traded in high price.

o   Investments in their stocks are less risky.

o   DPS of these banks is correlated with their EPS.

o   Retained earnings ratio of these banks fluctuates in smaller proportion. EPS is raised at the satisfactory level.

o   Price earning ratio and earning yield ratios are inconsistent.

o   Declaration of dividend rate is found higher in comparison to other sectors.

2.9.4 Hari Ram Aryal Study:

Aryal, H.R. in his thesis paper "Dividend policy comparative study between Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd (Unpublished Master's Thesis, CDM, TU). The main objectives of his study were as:

⟩ To highlight dividend practice in banks.

⟩ To analysis the relationship of dividend with various important variables such as earning per share, net profit, net worth and stock price.

⟩ To provide a workable suggestion and possible guideline to overcome various issues and gaps based on the finding analysis.

Aryal in his research, analyze the factor using the statistical tool and financial tool and concludes that:

⟩ The Relationship of dividend per share with earning per share, net profit, net worth and stock prices are positive.

⟩ A change in dividend per share affects the share prices differently in different banks.

⟩ There is uniformity in dividend distribution policy in both banks.

2.9.5 Bishnu Hari Bhattarai's Study

The study of dividend decision and its impact on the stock valuation was carried out by Bishnu Hari Bhattari in 1996, using 10 companies of various sectors. The basic objective of the study was to identify the relationship between dividend and the stock price. The specific objectives of this study can be shown as follows.

o   Analyze the variables such as profit, dividend, retained earning, growth rate and relevant variables to show the relationship between the value and other ingredients affecting it.

o   Highlight various aspects of dividend policy and its practices in Nepal.

o   Provide feed book to the financial decision maker on the basis of his findings.

The major findings or conclusion drawn by the researcher through his study can be shown as follows:

o   There was no stable dividend paid by the companies over year also no companies adapting constant pay our ratio.

o   Dividend paid was inadequate to cover the required rate of return of the investors.

o   Market price considerable higher than actual net worth.

o   There is positive relationship between liquidity position and dividend payment.

o   The company generally neglects shareholder's expectation while paying dividend.

o   Dividend was paid only in profitable years.

o   Generally, the joint venture companies were paying regular dividend than the companies invested by the Nepalese investors.

o   There was positive impact of dividend on valuation of shares.

o   The net profit and dividend per share positively correlated.

o   The correlation between cash balance and dividend payment was positive.

2.9.6 Pujan Dhungel:

Pujan Dhungel has conducted a thesis on "Dividend Policy of the Commercial Banks in Nepal" on September 2004.

The main objectives of his research are:

⟩ To study whether the commercial banks are following the suitable dividend policy or not.

⟩ To study whether the dividend policy affects the value of the firm or not.

⟩ To compare the dividend policy followed by different commercial banks chosen.

⟩ To study the relationship of dividend policy with various financial indicators like EPS, DPS, MPS, DPR, Net worth, Net profit and book value of share.

Major findings are:

⟩ None of the sample banks are following suitable dividend policy except SCBNL.

⟩ The regression analysis of DPS on MPS shows that increase in MPS leads to decrease in DPS in all the sample banks except SCBNL.

） There is positive relationship between EPS and MPS in all the banks except in case of SBI. Change in dividend per share affects the value of share differently in different banks.

2.9.7 Kishori Budathoki.

Kishori Budathoki carried out a research on "Dividend Policy of the Commercial Banks in Nepal." on may 2006. The main objectives of her research were:

i. To highlight the dividend practices of commercial banks.

ii. To compare the dividend policy followed by different commercial banks chosen.

Major findings are:

i. There is not fixed consistency between financial variable i.e. EPS, MPS, DPS, DPR, P/E Ratio, EY and DY.

ii. Dividend practices of all sample banks are neither stable nor constantly growing. Haphazard way of distribution in growing trend is observed.

iii. Changes in DPS affect the market price per share differently in different banks.

2.9.8 Saraswati Kharel

Saraswati Kharel conducted her studies on "Dividend Policy of Commercial Banks with respect to Nepal Arab Bank Ltd., Himalayan

Bank Ltd and Bank of Kathmandu. Ltd." Based on the data collected for the years from 2000/01 to 2004/05.

The main objectives are:

   i.   To analyze the prevailing dividend practices of sample banks.

  ii.   To analyze and evaluate the application of dividend decision in the selected banks.

 iii.   To analyze the relationship of dividend with earning per share, net worth, net profit, market price and book value per share.

Major findings are:

   i.   DPS of the commercial banks in average shows that there is no regularity in dividend payment.

  ii.   Banks should pay proper attention to enhance their percent of cash dividend on paid up value.

 iii.   From the regression analysis it can be conclude that a chance in DPS affects the share price differently in different banks.

 iv.   Payment ratio affects stock price differently in different banks.

2.9.9 Rabindra Shrestha

Rabindra Shrestha has researched with the title "Effect of dividend policy on market price of the stock of Nepalese commercial banks" on July 2006 taking data through 2057-2061.

The main objectives are:

   i.   To find out the impact of dividend policy on market price of stock.

ii. To analyze the variables such as profit, retained earning, growth rate and other relevant variables to show relationship between the value and other ingredients affecting it.

iii. To analyze if there is any uniformity among DPS, EPS, MPS and DPR in the sample firms and the relation between them.

Major findings are:

a. Market price per share of every financial institution has fluctuating nature as indicated by standard deviation.

b. There is positive relationship between MPS and DPS and MPS and EPS incase of NSBIL, SCBL, HBL, NBBL, NBL and BOKL.

c. Most of the financial institutions stock prices are highly depend in fluctuations of EPS.

d. The customary strong EPS and relatively week lagged DPS effect in DPS in all firms.

e. There is greater influence of DPS rather than EPS to MPS in all the sample firms observed.

2.10 Research Gaps

There have been many studies on the dividend policies. Though there were above mentioned studies in the context of Nepal, it has now become necessary to find out whether their findings are still valid. Many changes have taken place in and outside Nepal after 1990. Like other countries, Nepal has also followed a policy of liberalization, privatization and globalization. Many more companies have also come up after 1990 considering all therefore it is necessary to carryout a fresh study in Nepal.

Studies on dividend 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 dividend which can not be determined through the use of secondary data. Moreover, the earlier studies on dividend have become old and need to be updated and validated because of the rapid changes taking place in financial market of Nepal.

CHAPTER : III

RESEARCH METHODOLOGY

Research methodology is a way of solving a research problem systematically (Kothari, 1990). In other word, research methodology describes the methods and process applied in the entire aspects of the study. It is the methods, steps, guidelines which are to be used in analysis. The basic objectives of the study are to analyze the dividend policy and practices of Nepalese joint venture banks and the factors that affect it. It also tries to find out the relationship of dividend with earning per share, market price per share and net worth per share. So, research methodology has paid due attention to achieve the objectives of the study.

3.1 Research Design

Generally, Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control actual variance (Kerlinger, 2002). The logical planning and directing a piece of research is research design. It is the conceptual structure in which research is conducted. The research design is descriptive but more prescriptive because the historical secondary data have been employed to analyze the used variables which are related to dividend policy and practices of JVBs in Nepal. This study is based on five JVBs from 2004/05 to 2008/09.

3.2 Natures and Sources of Data

The whole study of JVBs is carried out basically from secondary sources. The data relating to the dividend policy are obtained from Nepal stock exchange. The supplementary data and information are obtained from annual reports, financial statements of concerned banks, annual reports of SEBON, reports and publication of NRB, unpublished thesis, central library, T.U., Journals, books and newspapers. Moreover electronic websites of SEBON, NEPSE etc has also been used.

3.3 Population and Sample

There are some JVBs whose shares are actively traded in the stock market. The lists of the JVBs which are in operation currently are follows:

Table 3.1

The List of Joint Venture Banks in Nepal

S.N.	Name of the bank
1	Nepal Arab Bank Ltd.
2	Standard Chartered Bank Ltd.
3	Himalayan Bank Ltd.
4	Nepal Bangladesh Bank Ltd.
5	Nepal SBI Bank Ltd.
6	Everest Bank Ltd.

From the above joint venture banks, it is not possible to study the dividend policies and practices of all the banks due to lack of availability of data and time constraints. Hence only five joint venture banks are taken under the study.

3.4 Tools and Techniques of Data Analysis

Data collected from various sources have been properly organized, analyzed and presented in appropriate tables and formats. Such tables and formats are subjected to interpretation and explanation as necessary. Specific financial tools and statistical tools are used to analyze variables. Mainly, the analysis has been made using following tools and methods:

3.4.1 Financial Tools

Financial tools are those which help to study the financial position of the firms. The financial tools used in this study are as follows:

a. Earning Per Share (EPS)

Earning per share refers to the rupee amount earned per share of common stock outstanding. It measures the profitableness of the shareholders investment. It shows the profitability of the companies on a per share basis. The higher earning indicates the better achievements in terms of profitability of the companies by mobilizing their funds and vice versa. EPS is computed by dividing net profit after taxes by the total number of common stock outstanding. Thus,

$$\text{Earning per Share (EPS)} = \frac{\text{Earnings available to common shareholde rs}}{\text{No. of common stock outstandin g}}$$

b. Dividend per Share (DPS)

Dividend per share indicates the rupee earnings distributed to common stockholders per share held by them. It measures the dividend distribution to each equity shareholder. Generally, higher DPS creates positive attitude to the shareholders toward the company's common stock, which consequently helps to increase the market value of the share. And, it also works as the indicator of better performance of the company management. It is calculated by dividing the total dividend distributed to equity shareholders by the total number of equity shares outstanding. Thus,

$$\text{Dividend Per Share (DPS)} = \frac{\text{Total amt. of dividend paid to ordinary shareholders}}{\text{No. of ordinary share outstanding}}$$

c. Dividend Payout Ratio (DPR)

DPR is calculated to indicate percentage of the profit on share that is distributed as dividend. DPR can be calculated using the following formula.

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

d. Market Price per Share (MPS)

Market price per share is that value of stock, which can be obtained by a firm from the market. Market value of share is one of the variables which are affected by the dividend per share and earning per share of the firm. If the EPS and DPS are high, value of the share will also be high. If the firm is growing concern and its earning power is greater than the cost of capital, the market value of share will be higher than the book value. If firms earning capacity is lower than the cost of capital, the market price of share will also be lower. The capital market determines MPS.

Theoretically calculated current price of the share can be derived by using the following formula:

$(MPS = P_0)$

$$P_0 \quad X \quad \frac{D_1}{fK_s\ Z\,g\,A}$$

$$P_0 \quad X \quad \frac{D_0\,f\!i\,\Gamma\,g\,A}{fK_s\ Z\,g\,A}$$

Where,

P_0 = Current market price per share

D_0 = Current dividend per share

D_1 = Expected dividend per share at the end of year 1

g = Dividend growth rate

K_s = Investor's required rate of return

e. Dividend Yield Ratio

Dividend yield shows the relationship between dividend per share and market value per share. Market value per share is highly influenced by the dividend yield because a change in DPS can bring effective change in the MPS. It is calculated by dividing DPS by market value per share.

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

f. Earning Yield

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

$$EY = \frac{\text{Earning per share}}{\text{Market value per hare}}$$

g. Market Value per Share to Book Value Per Share (MVPS/BVPS)

The ratio shows the relation between market value per share and book value per share. It indicates the price that the market is paying for the share that is reported from the net worth of the banks. It is calculated by dividing the market value per share by the book value per share.

$$\text{MVPS / BVPS} = \frac{\text{Market price per share}}{\text{Book value per share}}$$

h. Net Worth Per Share (NWPS)

It is a rupee value per share. It is calculated by dividing book value of net worth by total number of shares outstanding.

$$\text{NWPS} = \frac{\text{Net worth}}{\text{No. of Shares outstanding}}$$

3.4.2 Statistical Tools

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

a. Standard Deviation

The measurement of scatter ness of the data from mass of figures in a series about an average is known as dispersion. The standard deviation measure the absolute dispersion. The greater amount of dispersion is shown by greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and vice versa. It is expressed in terms of the units of the variables. Standard deviation is calculated as :

$$† \quad X \quad \sqrt{\frac{\int x \, z \overline{x} Å}{N}}$$

where,

      X= observation

      $\overline{X}$ = mean

      N= Number of items in the series

      = standard deviation

b. Mean or Average

Mean is the set of observation that presents the entire data, its value lies some where in between the extremes. For this reason an average is frequently referred to a measure of central tendency. The data related to dividend are tabulated and drawn out average (mean) over different years.

Arithmetic mean $\bar{x}$ A x $\dfrac{X}{N}$

where,

      X = sum of all observations

      N = number of elements in the sample

c. Coefficient of determination $(R)^2$

Coefficient of determination is measure of the degree of linear association or correlation between two variables, one of them happen to be independent and other being dependent variable. In other words, R2 measures the percentage total variation in dependent variable explained by independent variables. The coefficient of determination can have value ranging from zero to one. A value of one can occur only if the unexpected variation is zero which simply means that all the data points in the scatter diagram fall exactly on the regression line.

d. Co-efficient of Variation

Coefficient of variation is calculated for the purpose of comparison or relative measures of dispersion. It relates the standard deviation and the mean by expressing the standard deviation as a percentage of the mean. We can calculate the CV by using this formula.

$$CV \quad X \quad \frac{\dagger}{\overline{X}}$$

Where,

$\dagger$ = standard deviation of sample

$\overline{X}$ = mean of sample

e. Regression analysis

Regression analysis is a statistical device with the help of which we are in a position to determine the value of unknown variables from two or more known variables. Simple regression analysis has been used in this study to determine whether the variable of EPS is related to dividend decision of the company or not. Simple regression analysis of the following variables are calculated and interpreted in this study by the help of software SPSS 11.5.

1. Dividend per share on earning per share

For this, following model is used

DPS = a+b EPS

Where,

DPS = Dividend per share (Dependent variable)

a = Regression constant(y-intercept)

b = Slope of the line (regression coefficient)

EPS = Earning per share (Independent variable)

This analysis enables to know whether EPS is influencing factor of dividend per share or not.

2. Market price per share on dividend per share

The used model,

MPS=a+b DPS

Where,

MPS = Market price per share

a = Regression constant

b = Regression coefficient

DPS = Dividend per share

This model has been constructed to examine the relationship between MPS (dependent variable) and DPS (independent variable).

3. Market price per share on earning per share

For this, following model is used.

MPS= a+b EPS

Where,

MPS = Market price per share

a = regression constant

b = Regression coefficient

EPS = Earning per share

This model helps to test the dependency of MPS on EPS.

4. Net worth on Dividend per share

The used model,

NWPS= a+b DPS

Where,

NWPS = Net worth (Dependent variable)

a = Regression constant

b = Regression coefficient

DPS = Dividend per share (Independent variable)

This model tests the dependency of Net worth on Dividend per share.

5. Multiple Regressions of MPS on EPS, DPS and NWPS

The used model,

$MPS= a+b_1 EPS + b_2 DPS + b_3 NWPS$

Where,

MPS = Market Price per share

EPS = Earning per share

DPS = Dividend per share

NWPS = Net worth per share

In regression analysis following statistics have been calculated and interpreted accordingly with the help of SPSS 11.5.

a. Regression constant (a)

The value of the constant which is the intercept of the model indicates the average level of dependent variable when independent variable(s) is/are zero. In other words, it is better to understand that 'a'

(constant) indicates the mean or average effect on dependent variable if all the variables omitted from the model.

b. 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 coefficients describe how changes in independent variables affect the value of dependent variables estimate.

c. Standard Error of Estimate (SEE)

With the help of regression equations perfect prediction is practically impossible. Standard error of estimate is a measure of the reliability of the estimating equation, indicating the variability of the observed around the regression line, that is the extent to which observed values differ from their predicted values on the regression line. The smaller the value of SEE, the closer will be the dots to the regression line and the better the estimates based on the equation for this line. If SEE is zero, then there is no variation about the line and the correlation will be perfect. Thus with the help of SEE, it is possible for us to ascertain how well and representative the regression line is as a description of the average relationship between two series.

CHAPTER : IV

PRESENTATION AND ANALYSIS OF DATA

To fulfill the objectives of the study mentioned in introduction chapter, several analytical tool and techniques have been presented in research methodology chapter. In this chapter, the effort has been made to interpret the dividend policy and practices of Nepalese commercial joint venture banks. The whole research is based on analysis and interpretations of collected data from secondary sources. All the tools and techniques mentioned in earlier chapter are helpful to carry out the analysis upon the secondary data in order to achieve the objectives.

This chapter of data presentation and analysis on dividend policy and practices of joint venture banks begins with the analysis of DPS, EPS, MPS, D/P ratio, etc. These financial indicators of concerned banks are compared with the help of statistical tools like mean, standard deviation, coefficient of variation, regression analysis which are calculated and interpreted. The data are also presented in table.

4.1 Analysis of Financial Variable

4.1.1 Earning Per Share (EPS)

The earning of any business firm helps to evaluate the performance. EPS calculation helps to know the bank's earning power. It shows the profitability of the banks on per share shows the profitability of the banks on per share basis. It is calculated by dividing net profit after tax by the total number of common shares outstanding. The following table shows all the details relating to EPS of respective banks.

Table 4.1

EPS of Respective Banks (In Rs.)

Years	Banks				
	NABIL	**SCBNL**	**HBL**	**SBI**	**EBL**
2004/05	92.61	143.55	49.05	14.26	45.58
2005/06	105.49	143.14	47.91	13.29	54.22
2006/07	129.21	175.84	59.24	18.27	62.78
2007/08	137.08	167.37	60.66	39.35	78.40
2008/09	108.31	131.92	62.74	28.33	91.82
Mean	114.54	152.36	55.92	22.69	66.56
S.D.	18.19	18.41	6.91	11.05	18.60
C.V.	0.158	0.121	0.123	0.486	0.279

Sources: SEBON

The above table shows the EPS of concerned banks from 2004/05 to 2008/09.

The EPS of NABIL ranges between Rs. 92.61 to Rs. 137.08 during the period of study. The average EPS of the bank is Rs. 114.54 and its standard deviation is 18.19. The coefficient of variation is 0.158 i.e. there is 15.8% fluctuation in EPS of NABIL bank during the study period.

The EPS of SCBNL range between Rs. 131.92 to Rs. 175.84 during the study period. The average EPS of the bank is Rs. 152.36 and the standard deviation is 18.41. The coefficient of variation is 0.121 i.e. there is 12.1% fluctuations in EPS of SCBNL during the study period.

Himalayan Bank limited (HBL) has the EPS range between Rs. 47.91 to Rs. 62.74 during the study period. The average EPS of the bank

is Rs. 55.92 and the standard deviation is 6.91. The coefficient of variation 0.123 indicates that there is 12.3% fluctuation in EPS.

The average EPS of SBI is Rs. 22.69 and the EPS of the bank range between Rs. 13.29 to Rs. 39.35. The standard deviation of SBI is 11.05 during the study period and the coefficient of variation of 0.486 means there is 48.6% fluctuation in EPS.

The EPS of EBL range between Rs. 45.58 to Rs. 91.82 during the study period. The average EPS of the bank is Rs. 66.56 and the standard deviation is 18.60. The coefficient of variation of 0.279 indicates that there is 27.9% fluctuation in EPS of the EBL bank during the study period.

On average, the EPS of SCBNL Rs. 152.36 is highest among the five banks and SBI bank has the lowest average EPS i.e. Rs. 22.69. Similarly, EBL has the highest standard deviation and it is lowest for the HBL. A small S.D. measure a high degree of uniformity of observation as well as rate of fluctuation is preferable to state with the help of C.V of above data. Here C.V of SBI is the highest and it is lowest for SCBNL. By analyzing the all factors, it can be concluded that SCBNL has the most consistent and higher EPS among the five joint venture banks.

4.1.2 Dividend per Share (DPS)

Dividend per share indicates the part of earning distributed to the shareholders on per share basis and calculated by dividing the total dividend to equity shareholders by the total number of equity share. Generally, the higher DPS creates the positive attitude among the shareholders towards the organization, which accordingly helps to increase the market value of share.

Table 4.2

DPS of Respective Banks (In Rs.)

Years	Banks				
	NABIL	**SCBNL**	**HBL**	**SBI**	**EBL**
2004/05	65	110	0	0	20
2005/06	70	120	11.58	0	0
2006/07	85	130	30	5	25
2007/08	100	80	15	12.59	10
2008/09	60	80	25	0	20
Mean	76	104	16.31	3.51	15
S.D.	16.35	23.02	11.75	5.51	10
C.V.	0.215	0.221	0.720	1.569	0.667

The cash DPS of NABIL ranges between Rs. 60 to Rs. 100 during the study period. The average of DPS of NABIL is Rs. 76 and its standard deviation is 16.35. The CV of DPS of NABIL is 0.215 which indicates the 21.50 percent fluctuation in DPS of NABIL during the study period.

In case of SCBNL, the average DPS is Rs. 104 the highest cash DPS is Rs. 130 and the lowest for it is Rs. 80. The standard deviation for SCBNL is 23.02 and it's coefficient of variation is 0.221 which indicates that there is 22.10 percent fluctuation in DPS of SCBNL during the study period.

Himalayan bank ltd. has paid the highest DPS of Rs. 30 and the lowest DPS of Rs. 11.58 during the period of study and has not paid cash dividend in the year 2004/05. The average DPS of HBL is Rs. 16.7531 and its standard deviation is 11.75, the C.V. of HBL is 0.720 which indicates that there is a 72 percent fluctuation in DPS of HBL.

In case of SBI, the average DPS is Rs. 3.51 with standard deviation of 5.51. The highest DPS of SBI is Rs. 12.59 which is in the year of 2007/08 and Rs. 5 for the year 2006/07. No dividend is paid in the year 2004/05, 2005/06 and 2008/09. The C.V. which indicates the fluctuation in DPS is 156.90%, the highest fluctuation than other banks which are under the study.

Lastly, the average DPS of EBL is Rs. 15 with the standard deviation of 10. The DPS of EBL range between Rs. 25 to Rs. 10 during the study period and has not paid a cash dividend in the year 2005/06. The CV of EBL is 0.667 which indicates that there is 66.70 percent fluctuation in DPS during the study period.

From the above calculation and analysis, it can be observed that SCBNL has the highest average DPS and it is lowest for the SBI bank. The standard deviation of SCBNL bank is the highest and it is lowest for SBI. Similarly, the CV of SBI is the highest among other banks, which indicates the highest fluctuations in DPS. It can be concluded that NABIL has the most consistency in paying dividend.

4.1.3 Market Price Per Share (MPS)

It is value of share paid by market MPS is fixed in the stock market on the basis of demand and supply of shares. MPS has the positive relation to the firm's return and also to the DPS, higher MPS is desirable. Following table shows the MPS of joint venture banks.

Table 4.3

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MPS of Concerned Banks (In Rs.)

Years	Banks				
	NABIL	**SCBNL**	**HBL**	**SBI**	**EBL**
2004/05	1000	1745	840	307	880
2005/06	1505	2345	920	335	870
2006/07	2240	3775	1100	612	1379
2007/08	5050	5900	1740	1176	2430
2008/09	5275	6830	1980	1511	3132
Mean	3014	4119	1316	788.20	1738.20
S.D.	2011.82	2203.56	512.52	534.04	1005.05
C.V.	0.6674	0.5349	0.3894	0.6775	0.5782

Source: SEBON

From the above table, it can be observed that, NABIL has an average MPS of Rs. 3014 with standard deviation of 2011.82 during the study period. The fluctuation in MPS of NABIL is 66.74% which is indicated by C.V. in the table.

In case of SCBNL the MPS range between Rs. 1745 to Rs. 6830 during the study period. The average MPS of SCBNL is Rs. 4119 with standard deviation of 2203.06. The C.V. shows the fluctuation of 53.49 percent in MPS of SCBNL.

The range of MPS of HBL is between Rs. 840 to Rs. 1980. The average MPS of HBL during the study period is Rs. 1316 with standard deviation of 512.52. The fluctuation in MPS of HBL is 38.94 percent which is indicated by CV in the above table.

SBI has the range MPS of Rs. 307 to Rs. 1511. The average MPS of SBI is Rs. 788.20 with standard deviation of 534.04 during the study

period. The CV of MPS is 0.6775 which is the fluctuation in MPS i.e. 67.75 percent.

Lastly, the average MPS of EBL is Rs. 1738.20. It is stated within the range of Rs. 870 to Rs. 3132. The standard deviation of MPS is 1005.05 with the CV of 57.82 percent which indicates the fluctuation in MPS of EBL.

In conclusion, the average MPS of SCBNL is the higher and it is lowest for the SBI SCBNL has the highest fluctuation in MPS and HBL has the lowest fluctuation in MPS among all joint venture banks during the period of study.

4.1.4 Dividend Yield

Dividend yield is the percentage of DPS on MPS. Dividend highly influences the market value per share. Dividend yield measures the dividend in relation to market value of share. Therefore before allocation of dividend to shareholders the impact on market scenario and price fluctuation is to be studied and evaluated for the long run survival of the bank. Dividend yield of the banks under study is presented in the table below.

Table 4.4

Dividend Yield of Respective Banks (In %)

Years	Banks				
	NABIL	SCBNL	HBL	SBI	EBL
2004/05	6.50	6.30	0.00	0.00	2.94
2005/06	4.65	5.12	1.25	0.00	0.00
2006/07	3.79	3.44	2.72	0.82	1.81
2007/08	1.98	1.35	0.86	1.07	0.41
2008/09	1.14	1.17	1.26	0.00	0.63
Mean	3.612	3.476	1.128	0.378	1.158
S.D.	2.134	2.264	0.983	0.5250	1.202
C.V.	0.590	0.651	0.807	1.389	1.038

Source: SEBON.

The DY of NABIL is in decreasing rate. The DY for this bank ranged form 1.14 percent to 6.50 percent over the years. The bank has average DY of 3.612% which is the highest among the sample joint venture banks with the standard deviation of 2.134. There is 59 percent fluctuation in DY which is the lowest among the banks during the study period.

SCBNL has the average DY of 3.476% with the standard deviation of 2.264. There is 65.10 percent fluctuation in DY of SCBNL which is moderate fluctuation among the banks under the study period.

Similarly, the average DY of HBL and SBI are 1.128% and 0.378% with the standard deviation of 0.983 and 0.5250 respectively. The fluctuation in DY of these banks i.e. 80.70% and 138.90% respectively.

At last, Everest bank ltd. has the average DY of 1.158% with the standard deviation of 1.202. There is 103.8 percent fluctuation in DY of EBL during the study period.

After analyzing the above data, we can conclude that NABIL has the highest average DY and it is lowest for the HBL. The HBL has no DY in the year 2004/05 and EBL for 2005/06 because of not paying cash dividend. Similarly SBI bank lacks the DY for three years because of not paying cash dividend. NABIL has the minimum fluctuation in DY and it is highest for the SBI bank. Hence we can say that NABIL has the sound DY than others during the study period.

4.1.5 Dividend Payout Ratio (DPR)

Dividend payout ratio reflects what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the bank. It is calculated by dividing the DPS by EPS.

Table No. 4.5

Dividend Payout Ratio of Respective Banks (In %)

Years	Banks		

	NABIL	SCBNL	HBL	SBI	EBL
2004/05	70.19	76.63	0.00	0.00	43.88
2005/06	67.36	83.84	24.16	0.00	0.00
2006/07	65.78	73.93	50.64	27.37	39.82
2007/08	72.95	47.79	24.73	32.00	12.77
2008/09	55.4	60.64	39.84	0.00	21.78
Mean	66.336	68.566	27.874	11.874	23.65
S.D.	6.699	14.331	19.118	16.341	18.384
C.V.	0.100	0.209	0.685	1.376	0.777

From the above table, it can be observed that the average dividend payout ratio (DPR) of NABIL is 66.33% which means the bank pays 66.33 percent of its earnings as a dividend for equity shareholders. The standard deviation and coefficient of variation are 6.699 and 0.10% respectively. The value of CV indicates that the bank's behavior on dividend payment is very nominal over the period of study among the sample banks.

The average DPR of SCBNL is 68.56%. The standard deviation and CV of the bank are 14.33 and 0.209. The C.V. of 0.209 indicates that there is 20.90% fluctuation in DPR which is moderately varied among the sample banks.

In average 27.87% dividend is paid by HBL. The fluctuation in dividend payment is 68.50% which is indicated by CV in the table. The standard deviation is 19.11 during the period of study.

SBI has average DPR of 11.87%. The bank has paid dividend only for two years during the study period. It has not paid dividend for three

years during the study period. So, there is more fluctuation in DPR i.e. 137.60% which is indicated by CV in above table. The standard deviation of DPR is 16.341.

In average 23.65% dividend is paid by EBL. The fluctuation in dividend payment is 77.7% which is indicated by CV in the table. The standard deviation of DPR is 18.38.

In summary, it is clear that SCBNL has sound DPR because its DPR is higher that other banks but C.V. of NABIL is lower than other banks. The DPR of EBL, SBI and HBL are varied widely.

4.1.6 Earning Yield

Earning yield is expressed in terms of market value per share. It is the important profitability ratios from the point of view of the ordinary shareholders. The earning yield may be defined as the ratio of earning per share to the market value per ordinary share. Earning yield of the banks under study is presented in table.

Table 4.6

Earning Yield (Ey) of Respective Banks (In %)

Years	Banks				
	NABIL	SCBNL	HBL	SBI	EBL

2004/05	9.26	8.23	5.84	4.46	6.70
2005/06	7.01	6.10	5.21	3.97	6.23
2006/07	5.77	4.65	5.39	2.99	4.55
2007/08	2.71	2.84	3.49	3.35	3.23
2008/09	2.05	1.93	3.17	1.87	2.93
Mean	5.36	4.75	4.62	3.328	4.728
S.D.	3.00	2.527	1.205	0.991	1.706
C.V.	0.560	0.532	0.260	0.297	0.361

The average earning yield of NABIL is 5.36 percent. Its EY ranges between 2.05% to 9.26 %. The standard deviation of EY of NABIL bank is 3.00 and coefficient of variation is 56%.

The highest and lowest EY of SCBNL is 8.23% and 1.93% respectively. The average EY of SCBNL is 4.75 percent. During the period of study the standard deviation of SCBNL is 2.527 and the coefficient of variation is 53.20%, it indicates that there is 53.20 percent fluctuation in EY of SCBNL.

HBL has the EY ranges from 3.17 percent to 5.84 percent. The average EY of HBL is 4.62%. The standard deviation of HBL is 1.205 and the coefficient of variation is 0.26 which indicates the 26% fluctuation in EY which is the minimum among the sampled banks.

For SBI, the average EY is 3.32% which is the lowest EY among the banks which are under the study. The EY of SBI bank ranges from 1.87 percent to 4.46 percent. In the period of study, the SBI bank has the standard deviation of 0.99 which is also lowest among the banks and the coefficient of variation is 29.7 percent of SBI during the period of study.

The average EY of EBL is 4.728 percent. For EBL, the EY range between 2.93 percent to 6.70 percent. The standard deviation is 1.706 and coefficient of variation is 0.361 which indicates that there is 36.10 percent fluctuation in EY of EBL during the study period.

By observing the above analysis, we can conclude that the average EY of NABIL is the highest and it is lowest for the SBI bank. From this we can say that there is no uniformity in EY of these joint venture banks. Similarly, there is highest fluctuation in EY of NABIL and it is lowest for the HBL bank than other bank which is under the study.

4.1.7 Market Value Per Share (MVPS) to Book Value Per Share (BVPS)

This ratio indicates the price the market is paying for the price that is reported for the net worth of banks. The higher ratio presents to conclude that the better performance of joint venture banks in terms of market price per share to book value per share. It is calculated by dividing the market value per share by book value per share.

Table 4.7

MVPS to BVPS (In %)

Years	Banks				
	NABIL	**SCBNL**	**HBL**	**SBI**	**EBL**
2004/05	3.32	3.37	3.40	2.09	5.13

2005/06	4.46	5.55	3.84	2.10	5.14
2006/07	5.87	8.06	4.81	3.99	7.42
2007/08	12.08	11.52	6.57	6.60	8.30
2008/09	14.90	17.01	7.98	9.41	9.73
Mean	8.126	9.102	5.32	4.838	7.144
S.D.	5.078	5.360	1.921	3.153	2.010
C.V.	0.624	0.588	0.361	0.651	0.281

The NABIL has the average ratio of MVPS to BVPS is 8.126. The standard deviation of the ratio is 5.078. The coefficient of variation is 0.624. The value of C.V. indicates that there is only about 62.40 percent fluctuation in the ratio of MVPS to BVPS of the bank over the study period.

For SCBNL, the average ratio of MVPS to BVPS is 9.102. The standard deviation is 5.360. The coefficient of variation is 0.588. The value of CV indicates that there is only about 58.80 percent fluctuation in the ratio of MVPS to BVPS of the bank over the study period.

In case of HBL and SBI bank the average ratio of MVPS to BVPS are 5.32 and 4.83 respectively. The standard deviation of the ratio is 1.92 and 315 respectively. Similarly, the CV of HBL and SBI is 0.361 and 0.651 respectively. The value of CV indicates the fluctuation in the ratio is 36.10 percent and 65.10 percent respectively for the study period.

During the study period, the average ratio of MVPS to BVPS of EBL is 7.144 and its standard deviation is 2.010. The CV of EBL is 0.281 which indicates that there are only about 28.10 percent fluctuations in the ratio of MVPS to BVPS of EBL.

By observing above calculation the average ratio of MVPS to BVPS of SCBNL is the highest among the banks under the study while, this ratio is lowest for the SBI bank. The CV of the ratio of MVPS to BVPS shows consistency of EBL and wide fluctuation of SBI.

4.1. 8 Net Worth Per Share (NWPS)

Net worth is the value of shareholders capital plus any money retained from profit. It is the value per share of total net worth in book value and calculated by dividing the total net worth by number of share issued.

Table 4.8

Net Worth Per Share (NWPS) of Respective Banks (In Rs.)

Years	Banks				
	NABIL	SCBNL	HBL	SBI	EBL
2004/05	301.37	399.24	246.93	146.80	171.53
2005/06	337.16	422.37	239.59	159.54	169.15
2006/07	381.36	468.22	228.72	151.78	217.67
2007/08	418.00	512.11	264.74	178.04	292.75
2008/09	354	401.51	247.95	160.57	321.77
Mean	358.378	440.69	245.58	159.34	234.57
S.D.	44.16	48.60	13.17	11.89	69.87
C.V.	0.123	0.110	0.0536	0.074	0.297

Source: SEBON

The NABIL has the average NWPS of Rs. 358.37 and its NWPS ranges between Rs. 301.37 to Rs. 418.00. The standard deviation of NABIL is 44.16 and coefficient of variation is 0.123 which indicates that

there is 12.30 percent fluctuation in NWPS of NABIL during the study period.

For SCBNL, the average NWPS is Rs. 440.69. The NWPS of SCBNL range between Rs. 399.24 to Rs. 512.11 during the study period. Standard deviation is 48.60 and coefficient of variation is 0.11 which indicates that there is 11% fluctuation in NWPS among the banks which are under the study.

The NWPS of HBL is ranged between Rs. 228.72 to Rs. 264.74. The average NWPS is Rs. 245.58. The standard deviation is 13.17 and it's coefficient of variation 0.0536 indicates that there is 5.36% fluctuation in NWPS of HBL.

Similarly, the NWPS of SBI is ranged between Rs. 146.80 to Rs. 178.04. The average NWPS is Rs. 159.34. The standard deviation is 11.89 and it's coefficient of variation 0.074 indicates that there is 7.40% fluctuation in NWPS of SBI.

Likewise, the range of NWPS of EBL is Rs. 169.15 to Rs. 321.77 and the average NWPS of EBL is Rs. 234.57. The standard deviation of NWPS is 69.87 which are highest among the other sampled banks and its coefficient of variation 0.297 indicates that there is 29.70 percent fluctuation in NWPS of EBL.

In conclusion, the above analysis shows that, the average NWPS of SCBNL Rs. 440.69 is the highest and it is lowest for the SBI which is Rs. 159.34. HBL has the lowest C.V which is 5.36% in comparison of other banks, so it indicates the highest consistency in NWPS of HBL than other four joint venture banks which are under the study.

4.2 Company Wise Analysis of Financial Variables

4.2.1 NABIL Bank Ltd. (NABIL)

Table 4.9

Financial Situation of NABIL

Variables	Max	Min	Mean	S.D	C.V
EPS	137.08	92.61	114.54	18.19	0.158
DPS	100	60	76	16.35	0.215
MPS	5275	1000	3014	2011.82	0.667
EY	9.26	2.05	5.36	3.00	0.56
DY	6.76	1.14	3.612	2.134	0.590
DPR	72.95	55.4	66.33	6.69	0.10
MVPS/BVPS	14.90	3.32	8.12	5.07	0.62
NWPS	418	301.37	358.378	44.16	0.123

Source: SEBON

The overall performance of the NABIL can be taken as satisfactory during the period of study. The bank has the average EPS of Rs. 114.54 that ranges between Rs. 92.61 to Rs. 137.08 and the fluctuation in EPS is 15.8%. NABIL has distributed 66.33 percent of its profit to the common shareholders on an average and 33.67% of its profit is retained in the bank to meet other financing requirements. The dividend yield of this bank is moderate fluctuating i.e. 59.0% Remaining other financial variables of this bank are supposed to be good which are mentioned in the above table but the MPS has more fluctuated i.e. 66.67% due to the market condition.

4.2.2 Standard Chartered Bank Ltd. (SCBNL)

Table 4.10

Financial Situation of SCBNL

Variables	Max	Min	Mean	S.D	C.V
EPS	175.84	131.92	152.36	18.41	0.121
DPS	130	80	104	23.02	0.221
MPS	6830	1745	4119	2203.56	0.5349
EY	8.23	1.93	4.75	2.52	0.532
DY	6.30	1.17	3.476	2.264	0.651
DPR	83.84	47.79	68.56	14.33	0.209
MVPS/BVPS	17.01	3.37	9.102	5.360	0.58
NWPS	512.11	399.24	440.69	48.6	0.11

Source: SEBON

The average EPS of SCBNL is Rs. 152.36. The EPS has the minimum fluctuation i.e. 12.1%. DPS of SCBNL has ranged between Rs. 130 and Rs. 80 and its average DPS is Rs. 104 which is the highest among other banks during the period of the study. The average DY and DPR of this bank are 3.476% and 68.56% respectively. The fluctuation in DY is 65.10% and the deviation is low i.e. 2.264. SCBNL has distributed 68.56 percent on average as dividend to its shareholders remaining 31.44 percent is retained for external financing. The fluctuation in DPR is normal i.e. 20.90%. The MPS has little more fluctuated i.e. 53.49%. The overall performance of this bank is assumed to be best than other bank during the period of study.

4.2.3 Himalayan Bank Ltd. (HBL)

Table 4.11

Financial Situation of HBL

Variables	Max	Min	Mean	S.D	C.V
EPS	62.74	47.91	55.92	6.91	0.123
DPS	30	0	16.31	11.75	0.720
MPS	1980	840	1316	512.52	0.3894
EY	5.84	3.17	4.62	1.20	0.26
DY	2.72	0	1.128	0.983	0.807
DPR	50.64	0	27.87	19.11	0.685
MVPS/BVPS	7.98	3.4	5.32	1.92	0.36
NWPS	264.74	228.72	245.58	11.89	0.074

Source: SEBON

The average EPS of HBL is Rs. 55.92, it ranges between Rs. 62.74 and Rs. 47.91 for the period of study. The fluctuation in EPS is 12.30 percent which is indicated by CV is in normal condition. HBL'S average DPS, DY and DPR are Rs. 16.5831, 1.128% and 27.87% respectively. It's DPR of 27.87 percent shows that the bank has distributed 27.87% of its earning as a dividend and remaining 72.13% retained in the bank for future betterment. Dividend yield of the bank is low and fluctuation is very high i.e. 80.7 percent. The average MPS, EY, NWPS and MPS/BVPS of this bank are Rs. 1316, 4.62%, Rs. 245.58 and 5.32 times respectively. The fluctuation in EY is low which is better for the company. The others are in moderate fluctuation. The overall performance of this bank is assumed to be good for the study period.

4.2.4 State Bank of India Nepal Ltd.

Table 4.12

Financial Situations of SBI

Variables	Max	Min	Mean	S.D	C.V
EPS	39.35	13.29	22.69	11.05	0.48
DPS	12.59	0.00	3.51	5.51	1.569
MPS	1511	307	788.20	534.04	0.67
EY	4.64	1.87	3.32	0.99	0.29
DY	1.07	0.00	0.378	0.52	1.38
DPR	32.00	0.00	11.870	16.340	1.376
MVPS/BVPS	9.410	2.090	4.838	3.153	0.650
NWPS	178.04	146.80	159.34	11.89	0.074

Source: SEBON

The average EPS of a SBI bank is Rs. 22.69 and its fluctuation in EPS is very high i.e. 48%. SBI has not paid the cash dividend for three years during the study period. The DPS of SBI has ranged from Rs. 0 to Rs. 12.59 and average DPS is Rs. 3.51. The C.V of DPS 1.569 indicates 156.90% fluctuation in DPS of SBI bank which is very high. The average DY and DPR are 0.378% and 11.87% respectively and their C.Vs. are 138% and 137.60% respectively which are very high. The average MPS, EY, NWPS and MPS/BWPS of this bank are Rs. 788.20, 3.32%, Rs. 159.34 and 4.838 times respectively. The fluctuation in EY is very low which better for the company. The bank has not paid the dividend so DPS, DY, DPR have fluctuated very much.

4.2.5 Everest Bank Ltd.

Table 4.13

Financial Situation of EBL

Variables	Max	Min	Mean	S.D	C.V
EPS	91.82	45.58	66.56	18.60	0.279
DPS	25	0	15	10	0.67
MPS	3132	870	1738.2	1005.05	0.5782
EY	6.23	3.22	4.72	1.70	0.361
DY	2.27	0	1.158	1.202	1.038
DPR	43.88	0	23.65	18.38	0.777
MVPS/BVPS	9.73	5.13	7.14	2.01	0.281
NWPS	321.77	169.15	234.57	69.87	28.65

EBL has not paid a cash dividend for one year during the period of study. The DPS of this bank range form Rs. 25 to 0, its average DPS is Rs. 15 with 67 percent fluctuation. The average DPR is 23.65 percent which indicates that the bank has paid 23.65% of its earning as dividend to the shareholders and the remaining is retained for future betterment. The fluctuation in DPR is 77.7% because of not paying cash dividend. The average EPS is Rs. 66.56 with 27.9% fluctuation. The average MPS, EY, NWPS and MVPS to BVPS are Rs. 1738.20, 4.72%, Rs. 234.57.24 and 7.14 times respectively. The overall performance of the bank is considered as good for the period of study.

4.3 Regression Analysis

The regression is used to determine the statistically relationship between two or more variable and to make prediction of one variable on the basis of others. The regression analyses can either simple regression or multiple regressions. Here, for the simple regression we analyze DPS

on EPS, MPS on EPS, MPS on DPS and NWPS on DPS and for multiple regression analysis we analyze MPS on DPS EPS and NWPS respectively.

4.3.1 Simple Regression Analysis

4.3.1.1 Dividend Per Share on Earning Per Share (DPS on EPS)

Regression Equation,

DPS=a+b EPS

The following table shows the regression analysis of DPS on EPS

Table 4.14

Regression Result of DPS on EPS

Banks	Constant (a)	Regression Coefficient of EPS (b)	R^2	SE.E	F-Value
NABIL	-16.348 (-0.617)	0.806 (3.518)	0.805	8.34	12.37
SCBNL	43.323 (0.413)	0.398 (0.582)	0.102	25.19	0.34
HBL	-56.28 (-1.579)	1.29 (2.049)	0.583	8.765	4.19
SBI	-5.19 (-1.140)	0.384 (2.085)	0.592	4.068	4.34
EBL	9.738 (0.462)	0.79 (0.258)	0.22	11.42	0.066

Source: SEBON

Note: Figures in parentheses are t-value.

The above table depicts the major output of simple regression analysis between dividend per share (DPS) dependent variable and

independent variable earning per share (EPS) of concerned banks. This analysis shows that change in the value of earning per share may affect the dividend per share or not. All the sampled banks have positive regression coefficient. The positive regression coefficient indicates that increase in EPS would lead to increase in DPS, if all other variable remain constant. The regression coefficient of SCBNL, EBL NABIL, HBL and SBI, indicates that one rupee increase in EPS would lead to average Rs. 0.806, Rs. 0.398, Rs. 1.29, Rs. 0.384 and Rs. 0.790 increases in DPS respectively if other variable remain constant.

Coefficient of determination (R^2) of NABIL, SCBNL, HBL, SBI and EBL are 0.805, 0.102, 0.583, 0.592 and 0.22 respectively. This is indicating that, 80.5 %, 10.2%, 58.3%, 59.2% and 22% variation is explained in DPS due to change in value of EPS of the bank.

The regression constant (a) of all banks indicate the average effect on dependent variable (DPS), if all independent variables (EPS) are omitted from the model. The SEE measures the variability of actual values from the predictive value. 8.34, 25.19, 8.76, 4.06, 11.42 are the SEE of NABIL, SCBNL, HBL, SBI and EBL respectively.

4.3.1.2 Market Price Per Share (MPS) on Dividend Per Share (DPS)

Regression equation

MPS = a + b DPS

Table 4.15

Regression Result of MPS on DPS

Banks	Constant (a)	Regression Coefficient of EPS (b)	R^2	SE.E	F-Value
NABIL	390.93 (0.74)	34.51 (0.506)	0.79	2229.73	0.256
SCBNL	11937.64 (3.292)	-75.18 (-2.198)	0.617	1574.87	4.831
HBL	965.09 (2.271)	21.50 (0.983)	0.243	514.75	0.965
SBI	672.46 (2.111)	32.89 (0.626)	0.115	579.99	0.391
EBL	1413.82 (1.429)	21.62 (0.382)	0.046	1133.35	0.146

Source: SEBON

Note: Figures in parentheses are t-value.

The above table shows the output of simple regression analysis between MPS and DPS of concerned joint venture banks.

The regression coefficient (b) of four banks NABIL, HBL, SBI and EBL are positive. It implies that one rupee increase in DPS leads to an average increase in MPS of Rs. 34.51, Rs. 21.50, Rs. 32.89 and Rs. 21.62 respectively. But it is negative for SCBNL which implies that one rupee increase in DPS would leads to an average decrease in MPS of Rs. 75.18.

The coefficient of determination (R^2) of NABIL, SCBNL, HBL, SBI and EBL are 0.790, 0.617, 0.243, 0.115, and 0.46 respectively. This means that 79%, 61.7%, 24.3%, 11.5% and 46% variation in MPS is

explained by variation in DPS. R2 is lowest for the SBI and it is highest for the SCBNL.

The regression constant (a) of all banks indicate the average effect on dependent variable MPS, if all independent variable omitted from the regression line. SEE measure the variability of actual values from the predictive values for the concerned banks. The larger SEE value implies greater the variation of point around the regression line.

4.3.1.3 Market Price Per Share (MPS) on Earning Per Share (EPS)

Regression Equation MPS = a + b EPS

Table 4.16

Regression Result of MPS on EPS

Banks	Constant (a)	Regression Coefficient of EPS (b)	R^2	SE.E	F-Value
NABIL	-3752.95 (-0.601)	59.07 (1.09)	0.286	1963.44	1.20
SCBNL	4061.28 (0.384)	0.379 (0.005)	0.00	2544.44	0.00
HBL	-2267.61 (-1.877)	64.08 (2.984)	0.748	297.11	8.902
SBI	-124.26 (-0.324)	40.20 (2.59)	0.692	342.24	6.74
EBL	-1792.88 (-4.46)	53.05 (9.05)	0.965	218.05	81.97

Source: SEBON

Note: Figures in parentheses are t-value.

The above table shows the out put of simple regression analysis between market price per share and earning per share of concerned banks.

The regressions coefficient (b) of all banks which are under the study are positive i.e. 59.07, 0.379, 64.08, 40.20 and 53.05 respectively. It implies that one rupee increase in EPS leads to an average increase in MPS of Rs. 59.07, Rs. 0.379, Rs. 64.08, Rs. 40.20 and Rs. 53.05 for the banks NABIL, SCBNL, HBL, SBI and EBL respectively.

The coefficient of determination (R^2) of NABIL, SCBNL, HBL, SBI and EBL are 0.286, 0.00, 0.748, 0.692 and 0.965 respectively. This means that 28.6 percent, 0 percent, 74.8 percent, 69.2 percent and 96.5 percent variation on MPS is explained by variation in EPS incase of NABIL, SCBNL, HBL, SBI and EBL.

The value of SEE which measure the variability of actual value from the predictive value, for the bank NABIL, SCBNL, HBL, SBL and EBL are 1963.44, 2544.44, 297.11, 342.24 and 218.05 respectively, for the concerned banks.

4.3.1.4 Net worth Per Share (NWPS) on Dividend Per Share (DPS)

Regression Equation NWPS = a + b DPS

Table 4.17

Regression Result of NWPS on DPS

Banks	Constant (a)	Regression Coefficient of EPS (b)	R^2	SE.E	F-Value
NABIL	183.49 (2.906)	2.301 (2.821)	0.726	26.68	7.956
SCBNL	470.114 (3.67)	-0.283 (-0.234)	0.018	55.61	0.55
HBL	252.34 (21.61)	-0.414 (0.689)	0.137	14.14	0.474
SBI	153.63 (30.95)	1.62 (1.98)	0.567	9.03	3.93
EBL	210.49 (3.07)	1.60 (0.409)	0.53	78.52	0.167

Source: SEBON

Note: Figures in parentheses are t-value.

The above table shows the output of simple regression analysis between net worth per share (NWPS) and DPS of concerned banks.

The regression coefficient of DPS (b) of NABIL, SBI and EBL are positive i.e. 2.301, 1.62 and 1.60 respectively. The positive regression coefficients indicate that one rupee increase in dependent variable net worth per share by Rs. 2.301, Rs. 1.62 and Rs. 1.60 for the banks NABIL,

SBI and EBL respectively. But, the regression coefficient (b) of SCBNL and HBL are -0.283, and -0.414 respectively. This means that one rupee increase in independent variable DPS would lead to decrease in NWPS by Rs. 0.283 and Rs. 0.414 respectively for the banks.

The coefficient of determination (R2) of NABIL, SCBNL, HBL, SBI and EBL are 0.726, 0.018, 0.137, 0.567, and 0.53 respectively. This means that 72.6 percent, 1.8 percent, 13.7 percent, 56.7 percent and 53 percent variation on NWPS is explained by variation in DPS of respective banks.

The constant (a) of five joint venture banks shows that NWPS will not fall below Rs. 183.49, Rs. 470.114, Rs. 252.34, Rs. 153.63, and Rs. 210.49 respectively, even if the DPS is zero. The standard error which measures the dispersion of the banks is 26.68, 55.61, 14.14, 9.03 and 78.52 with respect to NABIL, SCBNL, HBL, SBI and EBL respectively.

4.3.2 Multiple Regression Analysis

4.3.2.1 Market Price Per Share on Earning Per Share (EPS), Dividend Per Share

(DPS) and Networth Per Share (NWPs)

Regression equation

$$MPS = a + b1\ EPS + b2\ DPS + b3\ NWPS$$

Table 4.18

Regression Result of MPS on EPS, DPS and NWPS

Banks	Constant (a)	Regression Coefficient of EPS (b)			R^2	SE.E	F-Value
		EPS (B_1)	DPS (B_2)	NWPS (B_3)			
NABIL	-18474.14 (-2.884)	-264.568 (-1.407)	-66.241 (-0.830)	158.565 (2.424)	0.926	1097.48	4.147
SCBNL	9477.686 (0.607)	67.506 (0.293)	-96.02 (-0.988)	-12.839 (-0.154)	0.696	2431.63	0.762
HBL	-6539.744 (-1.502)	27.941 (0.350)	19.04 (0.388)	24.360 (0.836)	0.891	338.37	2.726
SBI	913.653 (0.251)	75.143 (2.630)	-66.67 (-1.539)	-10.01 (-0.389)	0.924	294.01	4.066
EBL	-1702.453 (-3.88)	15.51 (0.509)	0.998 (0.82)	10.203 (1.237)	0.988	219.57	27.603

Source: SEBON

Note: Figures in parentheses are t-value.

The above table depicts the output of multiple regression analysis of joint venture banks between MPS, EPS, DPS, and NWPS on the basis of pooled data of concerned banks taken together. MPS is the dependent variable and other three EPS, DPS and NWPS are the independent variable in the regression line.

The multiple regression constant of all the banks are -18474.14, 9477.68, -6539.744, 913.653 and -1702.453 with respect to NABIL, SCBNL, HBL, SBI and EBL respectively. It means the MPS will not fall below Rs. -18474.14, Rs. 9477.68, Rs. -6539.744, Rs. 913.653 and Rs. -

1702.453 for the NABIL, SCBNL, HBL, SBI and EBL respectively even if the EPS, DPS and NWPS are zero.

For SCBNL, HBL, SBI and EBL one rupee increase in EPS leads to the average amount of Rs. 67.506, Rs. 27.941, Rs. 75.143 and Rs. 15.51 increases in stock price respectively, holding the DPS and NWPS variable constant. For NABIL, one rupee increase in EPS would lead to the average amount of Rs. 264.56 decrease in stock price being DPS and NWPS variable constant. Similarly, one rupee increase in DPS for the bank, NABIL, SCBNL and SBI would lead to average amount of Rs. 66.241, Rs. 96.02 and Rs. 66.67 decreases in stock price respectively and for the bank HBL and EBL one rupee increase in DPS would lead to average amount of Rs. 19.04 and 0.998 increases in stock price holding EPS and NWPS constant. Likewise, in case of NWPS, one rupee increase in NWPS would leads to the average amount of Rs. 158.565, Rs. 24.360 and Rs. 10.203 increase in stock price for the bank NABIL, HBL and EBL respectively and for the bank SCBNL and SBI, one rupee increase in NWPS would leads to average amount of Rs. 12.839 and Rs. 10.01 decrease in stock price respectively holding the variable EPS and DPS constant.

The value of multiple coefficient of determination (R^2) of all banks is 0.926, 0.696, 0.891, 0.924 and 0.988 with respect to NABIL, SCBNL, HBL, SBI and EBL respectively. It is lower for the bank SCBNL and higher for the bank NABIL, SBI and EBL i.e. 69.6 percent, 92.6 percent, 92.4 percent and 98.8 percent respectively. The standard error of estimate (SEE) measures the relative dispersion. The large value of SEE shows greater variation around the regression line. The value of SEE which measures the variability of actual value from the predictive value for the

bank NABIL, SCBNL, HBL, SBI and EBL are 1097.48, 2431.63, 338.37, 294.01 and 219.57 respectively for the concerned banks.

From the above analysis, it has been clearly seen that coefficient of different variables are both positive and negative. Incase of any regression result, the positive result indicates that there is positive relationship. On the other hand, the negative result indicates that there is negative relationship between the dependent and independent variables. In multiple regression result the R2 values for the banks are almost one. In conclusion, it can be said that earning per share affects the dividend differently in different joint venture banks and dividend affects the stock price and net worth differently. Similarly, EPS affects MPS differently in different joint venture banks which can be seen clearly in the above analysis and the dividend behavior of joint venture banks are not seen uniform in Nepal.

CHAPTER : V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Dividend serves as a simple comprehension signal of management interpretation of the firm's recent performance and its future prospects. Dividend refers to that portion of the firms net earning which are paid out to the share holders in returns their investment paying to dividend to shareholders. It is an effective way to attract new investor to invest shares. Dividend decision is the major factor of managerial finance. It is such a price sensitive factor that has directly influenced in liquidity. It also helps to boost investor's confidence by fulfilling their expectations of the investment. Since, dividend seeks to maximize the value of common stock so it is one of the major decisions of an organization.

By dividend practice we mean the way of implementing its dividend policy that includes paying out dividend to its shareholders, determining ratio of retained earnings for reinvestment, the rate of dividend, the trend of dividend payment, the form of dividend determining target payout ratio etc. Since, dividend serves as a simple, comprehensive signal of management's interpretation of the firm's recent performance and its future prospects. So, the improved corporate dividend practice is thus an essential means to solve the problem of symmetric information between Nepalese investors who have poured their funds in it. It seems that dividend practice affects on the liquidity on the one hand and financial structure on the other hand and also investor's

attitudes and expectations of return for their investments. There are the different factors that affect dividend such as earnings, liquidity position, degree of leverage, assets turnover and interest coverage. These factors indicate the financial position of a firm. If a firm has good performance in terms of these factors, it will be able to provide returns in the form of dividend to the shareholders. The study mainly aims to assess dividend policy and practices of joint venture banks. Its specific objectives are (i) to study the dividend policies and practices in Nepalese joint venture banks (ii) to examine the relationship of dividend with stock price, earning per share and net worth (iii) to explore the factors affecting the dividend policy of Nepalese joint venture banks.

This study covers all the joint venture banks except and the Nepal Bangladesh bank. The five years data form 2004/05 A.D. to 2008/09 A.D. are taken. It has been based on the secondary data collected from published and unpublished journals, articles, trading report of SEBON, the website of NEPSE ltd., website of SEBON. To accomplish the above mentioned objectives different financial and statistical tools are used. The accuracy of the secondary data determines the reliability of the conclusion of the study.

The stockholders have high desire and expectation that market price of share will be significantly higher than net worth and getting high percentage of dividend from earnings. The joint venture banks are not following appropriate dividend policy. This means that the management of the banks is not serious on the matter of dividend policy and practices.

Summary of Major Findings

From the analysis of secondary data, following major findings are drawn out:

- The earning per share (EPS) of Nepalese joint venture banks is positive. The average EPS of SCBNL is highest and it is lowest for the SBI. Joint venture banks ranged from 12.1 percent to 48 percent. The EPS of SCBNL is almost stable i.e. 12.1 percent fluctuation with similar stability of 12.3 percent of HBL but in case of other banks there in no stability in EPS.

- No regular cash dividend is paid in the joint ventures. The SBI has not paid cash dividend for three years. EBL and HBL have not paid cash dividend for one year during the study period.

- The SCBNL paid comparatively high dividend per share among the banks and also has the highly consistency in paying cash dividend whereas the DPS of SBI is highly low and fluctuating.

- The SCBNL has sound DPR but NABIL has lower fluctuation. There is higher fluctuation in DPR of SBI.

- The average market price per share (MPS) of SCBNL is higher than other joint venture banks. MPS is in increasing trend for almost all the banks in succeeding years. MPS of joint ventures has fluctuated minimum 38.94 percent for HBL to maximum 67.75 percent for EBL.

- The average earning yield (EY) of NABIL is higher than other banks. There is no uniformity in EY of joint venture banks. The HBL has the lowest fluctuation and NABIL and SCBNL has the highest fluctuation among the banks.

- Since the higher and sound dividend yield (DY) is desirable, the SCBNL has the higher average dividend yield but it has lower fluctuation so, it can be said that SCBNL has the sound DY. The

HBL, SBI and EBL have lower DY and higher fluctuation so it is not desirable for the rational investors.

➢ The ratio of MVPS to BVPS of SCBNL is the highest among the banks under study while this ratio is lowest for SBI. The ratio is consistent for EBL but wide fluctuation for SBI.

➢ The SCBNL has the highest average NWPS but SBI has the lowest. The fluctuation in NWPS is highest EBL and lowest in case of HBL.

➢ From the regression result of DPS on EPS, it is found that all the sampled banks have positive regression coefficient of EPS (b) which indicates the positive

➢ relationship between DPS and EPS. Increase in EPS leads to increase in DPS on the banks if all other variable remains constant.

➢ According to the regression result of MPS on DPS, regression coefficient of DPS (b) is positive for NABIL, HBL, SBI and EBL but negative for SCBNL.

➢ As far as the regression result of MPS of EPS is concerned, the regression coefficient of EPS (b) is positive for all banks.

➢ With respect to regression result of NWPS on DPS, the regression coefficient of DPS (b) is positive for NABIL, SBI and EBL whereas it is negative for SCBNL and HBL.

➢ The multiple regression result of MPS on EPS, DPS and NWPS clarify that the regression coefficient of EPS (b1) is positive for SCBNL, HBL, SBI and EBL it is negative for NABIL. The regression coefficient of DPS (b2) is positive for HBL and EBL but other three banks have it negative. The regression coefficient of

NWPS (b3) is positive for all sample banks except for SCBNL and SBI.

5.2 Conclusion

The above mentioned major findings led this study to conclude that there is no uniformity in dividend policy and practices followed by Nepalese joint venture banks. Dividend is distributed as an ad-hoc or situational basis. The dividend payment is not consistent with earning and there is greater fluctuation on the trend of dividend payment. Dividend affects the market price of stock but the nature of effect would be different for different banks. There are also other factors that affect the market price of stock viz. earning per share, price earning ratio, information value of dividend decision etc. However, the MPS do not truly and uniformly reflect the actual dividend paid by joint venture banks under study. There are no significant relationships of DPS with MPS in almost all of the banks.

5.3 Recommendations

The study has found many findings and conclusions from the presentation and analysis of the various data. Based on this study the following recommendation and suggestions can be prescribed regarding dividend policy and practices of Joint venture banks.

➢ There seems lack of term vision regarding earning and dividend payout ratio in joint venture banks which is essential for future betterment. Leaving the dividend as residual, banks should choose whether to adopt stable dividend policy or constant payout ratio.

➢ The shareholders should be well informed by the management about the dividend policy. More specifically, whether cash dividend or stock dividend is fruitful for them since stock dividend decreases market value of stock and earning per share.

➢ There is no consistency in the dividend payout behavior in many cases; for example, small amount of dividend has been paid despite sufficient earnings without considering the rate of return. Further the price of shares seems to increase even in years when the dividend was not paid. This is the result of market imperfection. To come out from this undesired situation; Government, Nepal Rastra Bank and Nepal stock exchange must work together.

➢ The legal rules regarding dividend policy should be clear for the smooth growth of the enterprises as well as for the growth of the national economy. Some of the banks are able to pay dividend, some are suffering from loss and there is an effort to minimize loss rather than payment of dividend. So, the government should act in favor of investors and bind these banks by special rules.

➢ Most of the banks seem to ignore the dividend expectation of the minority shareholders. It seems necessary to be organized to promote and protect the shareholders right.

➢ The organization formed by conscious shareholders like 'Shareholder's Association of Nepal' should be encouraged to work against the management ignorance.

➢ Due to lack of information about securities market, the potential investors are not stimulated properly. So, seminars, workshops etc. should be organized and information's should be delivered to shareholders as well as potential investors to develop efficient securities market in Nepal.

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APPENDIX-I

List of DPS, EPS, MPS, NWPS, DY, DPR, EY and MPPS/BVPS of

Five Joint Ventures

Banks	Years	DPS	EPS	MPS	NWPS	DY	DPR	EY	MPPS/ BVPS
NABIL	2004/05	65	92.61	1000	301	6.50	70.19	9.26	3.32
	2005/06	70	105.49	1505	337	4.65	66.36	7.01	4.46
	2006/07	85	129.21	2240	381	3.79	65.78	5.77	5.87
	2007/08	100	137.08	5050	418	1.98	72.95	2.71	12.08
	2008/09	60	108.31	5275	354	1.14	55.4	2.05	14.90
SCBNL	2004/05	110	143.55	1745	399.24	6.30	76.63	8.23	3.37
	2005/06	120	143.14	2345	422.37	5.12	83.84	6.10	5.55
	2006/07	130	175.84	3775	468.22	3.44	73.93	4.65	8.06
	2007/08	80	167.37	5900	512.11	1.35	47.79	2.84	11.52
	2008/09	80	131.92	6830	401.51	1.17	60.64	1.93	17.01
HBL	2004/05	0	49.05	840	246.93	0.00	0.00	5.84	3.40
	2005/06	11.58	47.91	920	239.59	1.25	24.18	5.21	3.84
	2006/07	30	59.24	1100	228.72	2.72	50.64	5.39	4.81
	2007/08	15	60.66	1740	264.74	0.86	24.73	3.49	6.57
	2008/09	25	62.74	1980	247.95	1.26	39.84	3.17	7.98
SBI	2004/05	0	14.25	307	146.80	0.00	0.00	4.64	2.09
	2005/06	0	13.29	335	159.54	0.00	0.00	3.97	2.10
	2006/07	5	18.27	612	151.78	0.82	27.37	2.99	3.99
	2007/08	12.59	39.35	1176	178.04	1.07	32.00	3.35	6.60
	2008/09	0	28.33	1511	160.57	0.00	0.00	1.87	9.41
EBL	2004/05	20	45.58	880	171.53	2.27	43.88	5.17	5.13
	2005/06	0	54.22	870	169.15	0.00	0.00	6.23	5.14
	2006/07	25	62.78	1379	217.67	1.81	39.82	4.55	6.33
	2007/08	10	78.40	2430	292.75	0.41	12.77	3.22	8.30
	2008/09	20	91.82	3132	321.77	0.63	21.78	2.93	9.73