CHAPTER I

INTRODUCTION

1.1 Background of the Study

Dividend policy is an integral part of financial decision. The dividend policy is a major decision for the board of directors as the board of directors has to decide between paying out to shareholders and keep them happy in the short run or retain for investment which may be more beneficial to the shareholder in the long run. Dividend policy determines the division of earning between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financial corporate growth, but dividends constitute the cash flows that accrue to stockholders (Baker and Farrely, 1985).

Dividend policy is a major financing decision that involves with the payment to shareholders in return of their investments. Every firm operating in a given industry follows some sort of dividend payment pattern or dividend policy and obviously it is a financial indicator of the firm. Thus, demand of the firm's share should to some extent, dependent on the firm's dividend policy.

Dividend policy is one of the most widely researched topics in the field of finance but the question is whether dividend policy affects stock prices still remain debatable among managers, policy makers and researchers for many years. Dividend policy is important for investors, managers, lenders and for other stakeholders. It is important for investors because investors consider dividends not only the source of income but also a way to assess the firms from investment points of view. It is the way of assessing whether the company could generate cash or not. Many investors like to watch the dividend yield, which is calculated as the annual dividend income per share divided by the current share price. The dividend yield measures the amount of income received in proportion to the share price. If a company has a low dividend yield compared to other companies in its sector, it can mean two things: (1) the share price is high because the market reckons the company has impressive prospects and isn't overly worried about the company's dividend payments, or (2) the company is in trouble and cannot afford to pay reasonable dividends. At the same time, however, a

high dividend yield can signal a sick company with a depressed share price. Dividend yield is of little importance for growth companies because, retained earnings will be reinvested in expansion opportunities, giving shareholders profits in the form of capital gains, (Masum, 2014).

All types of investors either large institutional or individual could see the new media for the report on the movements of the stock prices. Share prices are the most important indicators used by investors to invest or not to invest on a particular share. Their main objective of investing in the stock market is to maximize the expected return at low level of risk. There are psychological factors contributed to the price changes or volatility. Dividend payment is a major component of stock return to shareholders. Dividend payment could provide a signal to the investors that the company is complying with good corporate governance practices (Jo and Pan, 2009).

A number of studies on impact of dividends on stock price have been carried out in different parts of the world particularly in developed countries. Most of the earlier studies show the significant role of dividend policy on stock price. The corporate firms should follow the appropriate dividend policy to maximize the shareholders' value.

Dividend policy is considered as one of the important and critical variables affecting the share price (Pradhan: 2003 and Manandhar: 1998). In the context of Nepal, limited studies have been carried out by research scholars. Still there is a gap in the financial literature concerning the effect of dividends on stock prices particularly in banking and nonbanking sectors of Nepal. In the context of Nepal, only few companies are paying dividend but many other companies are not paying stable dividend. There are some companies which have never paid dividend to their investors. Dividend on share is an important indicator that shows the performance of banks and thereby attracting the investors. Investors examine the dividend policy of the banks before they decide to invest on stock market but due to fluctuation on dividend policy of commercial banks of Nepal, investors are unable to forecast the future cash flow from cash dividend (Bhandari and Pokharel, 2012). It has been perceived that company which has grown their dividend generally experience an increase in its stock price and those companies which don’t pay or lowers its dividend, leads to a fall in stock price trend. Hence, it shows dividend affects the

stock price of the company but several researchers argue that it is the information on payment of dividend that affects the stock price. In fact, that dividend works as a simple sufficient signal of management's interpretation of the firm's current performance and its future prospects.

Dividend policy may be defined as the way of acting of corporations with regard to providing returns to the investors in return to their investment in the shares. Corporate sector is small and it is at early stage of growth in Nepal. Selecting a suitable dividend payment pattern or policy is an important decision for the bank because flexibility to invest in future projects depends on the amount of dividends that they pay to their shareholders. If company pay more dividends then fewer funds available for investment in future projects. Lenders are also interested in the amount of dividend that a company declares, as more amounts is paid as dividend means less amount would be available to the company to pay off their obligation. So, the study will investigate the relationship between dividend pattern and its effects on stock price of the share.

In this study, the researchers examine some sample of Commercial banks that excavates whether the dividend pattern has any effect on the firm's share price determinants.

For this, the researchers will take some of the sample Commercial bank they are: Nabil bank limited (NBL), Nepal investment bank limited (NIBL), Mega Bank Nepal limited (MBNL), State Bank of India (SBI) and Sunrise Bank Ltd. (SRBL).

1.2 Statement of Problem

Corporate dividend policy has long been an issue of interest in the financial literature and, despite the vast research on the topic, it remains an open subject. Ever since the work of various study, followed by the work of Miller and Modigliani (1961), dividend policy remains a controversial issue. In fact, this has been true since Miller and Modigliani's (1961) irrelevance proposition, according to which dividend policies are all equivalent and there is no particular policy that can increase shareholders' wealth in perfect capital markets.

Joshi (2012), after having observed the impact of dividends on stock price of Nepalese stock market, it is found that DPS is a motivating factor in the Nepalese financial sector which is strong enough to increase market price per share of the banking and non-banking firms. Comparatively, it is also found that the effect of DPS greater than REPS on the impact of market price per share. Finally, the study shows that dividends and retained earnings significantly explain the variations in share price in both banking and nonbanking sectors.

Gautam et all. (2016), after conducting the study on the dividend policy and share price volatility: a case study of Nepalese commercial banks, state that the dividend is the deciding factors to change the wealth of the shareholders in the case of Nepalese commercial banks. The findings revealed that there is significant negative relationship between dividend yield and share price volatility, dividend yield, dividend payout and size have significant positive influence on volatility of share price. Growth and earnings volatility have negative and insignificant relation with price volatility.

Although there are the different kinds of theories indicating different impact of the dividend policy in stock price, the commercial banks of Nepal have not got the similar feature in case of dividend policy.

This study answers the following question such as;

i) What is the position of MPS, EPS, DPS, DPR, P/ER and DYR of listed banks?

ii) Is there any effect of EPS, DPS, DPR, P/ ER, DYR on MPS?

1.3 Objectives of the Study

The basic objective of this study is to examine the relationship between dividend pattern and its effects on stock price in the context of Nepalese commercial Banks.

To achieve the basic objectives, the following specific objectives are set:

i) To assess the position of MPS, EPS, DPS, DPR, P/ER and DYR.
ii) To analyze the effect of dividend on MPS.

1.4. Significance of the Study

i. This study helps to bank's CEO in financial organizations to be in a position to formulate policies on dividends.

ii. It also help scholars in various institutions of higher learning willing to carry out research on this field. It helps them in reviewing literature thereby adding to the existing body of knowledge in the area of the relationship between dividend policy and share prices.

iii. This research also helps average and potential investors in making informed decisions on their investments on stocks of various company.

iv. It also help scholars in various institutions of higher learning willing to carry out research on this field. It helps them in reviewing literature thereby adding to the existing body of knowledge in the area of the relationship between dividend policy and share prices.

v. This research also helps average and potential investors in making informed decisions on their investments on stocks of various company.

vi. The study provides opportunities for further research in the area of dividend policy in banking industry in Nepal. This study will be useful to policy-makers in the banking sector especially commercial banks in Nepal to strengthen policy considerations and regulatory framework. Such policy improvement and regulations may come in handy in ensuring better dividend policy in commercial banks and other financial institutions.

1.5. Limitations of the Study

There are many issues related to the study topic, however not all issued are touched. This research only focuses on the issues raised on the research question. Following are the limitation of the study:

i. Though a commercial bank has several areas to be analyzed but this study concentrates only on the dividend policy of selected commercial banks and its effects on stock price. Other areas of the banks are not covered in this research.

ii. Only selected statistical tool is used. i.e. correlation, regression and Anova.

iii. The data used in the study is secondary. Those are based on the information provided by the bank. The truth of the research is based upon the data available from the bank.

iv. This study has limited commercial banks which are as follows; Nabil Bank Limited, Nepal Investment Bank Limited, Mega Bank Nepal Limited, State Bank of India and Sunrise Bank Limited.

1.6. Chapter Plan

This study is divided into five chapter.

Chapter 1: Introduction

It deals with introduction of the main topic of the study like general background, statement of the problems, objective of the study, limitation of the study and chapter plan of the study and other introductory framework.

Chapter 2: Review of Literature

It includes with the review of available relevant studies. It includes the conceptual review of the related books, journals, articles and the published and unpublished research works as well as thesis.

Chapter 3: Research Methodology

It describes research methodology employed in this study i.e. research carry out in this size and shape. For the purpose various financial and statistical tools and techniques are defined which is used for the analysis of data presentation.

Chapter 4: Results

This chapter is the major part of the whole study in which all collected relevant data are analyzed and interpreted by the help of different financial and statistical tools. In this chapter we explained the major findings of the study.

Chapter 5: Conclusion

It contains the summary of the study, Discussion, Conclusion and Implementation on the basis of the study.

CHAPTER II

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1. Introduction

The study focuses on the effects of a firm's dividend policy which might have on the market price of its common stock. It contains literature on various dividend policies, factors affecting the share prices and relationship between dividend policies and the share prices. A number of studies on impact of dividends on stock price have been carried out in different parts of the world particularly in developed countries. Most of the earlier studies show the significant role of dividend policy on stock price. The corporate firms should follow the appropriate dividend policy to maximize the shareholders' value. Dividend policy is considered as one of the important and critical variables affecting the share price (Joshi, R., 2012).

2.2. Conceptual Review

"The functions of finance involve three major decisions a company must make: the investment decision, financing decision, and the dividend decision. Each must be considered in relation to firm's objective; an optimal combination of the three will create value"(Van Horne, 2006).

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

The firm's decision to pay dividends may be shaped by two possible viewpoints. When dividend decision is treated as financing decision, the net earnings of the firm may be considered as a source of long-term funds. With this approach, dividend will be paid only when the firm does not have profitable investment opportunities. On the other hand, because of market imperfections and uncertainty, shareholders may give

a higher value to the near dividends than the future dividends and capital gains. Thus, the payment of dividends may significantly affect the market price of the share. Higher dividends increase the value of the shares and low dividends reduce the price of share. In other to maximize wealth under uncertainty, the firm must pay enough dividends to satisfy investors (William, 1973).

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

2.2.1. Forms of Dividend

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

i) **Cash Dividend**

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

ii) **Stock Dividend**

If additional shares are issued to existing shareholders instead of cash dividend, it is known as stock dividend. "A stock dividend represents distribution of shares in

addition to the cash dividend to the existing shareholders." This has the effect of increasing the number of outstanding shares of the company. The shares are distributed proportionately. Thus, the shareholders retain their proportionate ownership of the company. The declarations of bonus share increase the paid-up share capital and reduce the reserves and surplus of the company. The total net worth is not affected by the issue of bonus shares (Shrestha, 1980).

iii) **Script Dividend**

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

iv) **Property Dividend**

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

v) **Bond Dividend**

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

2.1.2 Theories of Dividend

i. Residual Theory of Dividend

The residual dividend policy suggests that dividend paid by the firm should be viewed as a residual amount left after all acceptable investment opportunities have been undertaken.

According to this theory, dividend policy is a firm's policy in which dividend is paid only after all acceptable investments have been financed. So, payment of dividend depends on its investment policy. In other words, the firms use earnings to finance the investment opportunities having good returns. If the firm has earnings left after financing all acceptable investment opportunities these earnings would then be distributed to shareholders in the form of dividend. If not, there would be no dividends. It assumes that the internally generated funds (i.e. retained earnings) are comparatively cheaper than the funds obtained from external sources (i.e. issuing new shares). It is because the retained earnings or internally generated fund does not imply any flotation cost as in the external sources by selling equity shares.

So, under this theory, dividend policy is determined by the following two major factors: Company's investment opportunities and availability of internally generated funds i.e., retained earnings.

According to Van Horne, 2012, "Dividend policy is totally passive in nature. When we treat dividend policy as strictly a financing decision, the payment of cash dividend is a passive residual."

By the analysis of residual theory, it can be concluded that the company's investment of the opportunity as well as the availability of internally generated capital determines the dividend is paid regularly, and then the dividend policy is stability.

ii. Stability of Dividend

Stability of dividends means regularity in paying some dividend annually, even though the amount of dividend may fluctuate from year to year and may not be related with earnings.

Stability or regularity of dividends is considered as a desirable policy by the management of most companies. Shareholders also generally prefer stable dividends because all other things being the same, stable dividends may have a positive impact on the market price of the share.

By stability, we mean maintaining its position in relation to a dividend trend line, preferably one that is upward slopping. In other words, the term dividend stability

refers to the consistency or lack of variability in the stream of dividends. Precisely, it means that a certain minimum amount of dividend is paid out.

2.2.3. Forms of Stability Dividend

Dividend can be stable in any of the following forms;

a) Constant Dividend Per Share

According to this form of stable dividend policy, a company follows a policy of paying a certain fixed amount per share as dividend. The fixed dividend amount would be paid year after year, irrespective of fluctuation in the earnings. In other words, fluctuations in earnings would not affect the dividend payment. In fact, when a company follows such a dividend policy it will pay dividends to the shareholders even when it suffers loss. It should be clearly noted that this policy does not imply that the dividend per share or dividend rate will never be increase. The dividend per share is increased over the years when the company reaches new levels of earnings and expects to maintain it. Of course, if the increase is expected to be temporary, the annual dividend per share is not changed and remains at the existing level.

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

b) Constant Payout Ratio

Constant/target payout ratio is a form of stable dividend policy followed by some companies. The term payout ratio refers to the ratio of dividend to earnings or the percentage share of earnings used to pay dividend. With constant / target payout ratio, a firm pays a constant percentage of net earnings as dividend to the shareholders. In other words, a stable dividend payout ratio implies that the percentage of earnings paid out each year is fixed. Accordingly, amount of dividend will fluctuate in direct proportion to earnings and are likely to be highly volatile in the wake of wide fluctuations in the earrings of the company.

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

c) Stable Rupee Dividend Plus Extra Dividend (low regular dividend plus extra)

A policy of paying a low regular dividend plus a year-end extra amount in good years is a compromise between the previous two policies. Under this policy, a firm usually pays fixed dividend to the shareholders and in years of marked prosperity, additional or extra dividend is paid over and above the regular dividend. As normal conditions return, the firm cuts the extra dividend and pays the normal dividend per share.

It gives the firm flexibility, but it leaves investors with somewhat uncertainty about what their dividend income will be. If a firm's earnings and cash flows are quite volatile, this policy might be the best choice.

There are several reasons why investors prefer stable dividend, some of them which are as follows:

Desire for Current Income

The investors always have desire for current income. The investors such as retired persons and widows view dividends as the source of income so; they are ready to pay high price for their shares to avoid erratic dividend payments, which disrupt their investment.

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The investors prefer stable dividend because they use dividend and change in dividend as the source of information about the firm's profitability. If the investors know that the firm will change dividends only if the management foresees a

permanent earning change, then the level of dividends informs investors about management's expectations concerning the company's earnings.

Requirement of Institutional Investors

The institutional investors such as life insurance companies, general insurance companies prefer to invest in those companies that have stable dividends. So, stable dividend policy is desirable.

2.2.4. Factors Affecting Dividend Decision

The main aspects of dividend decision are to determine the amount of earnings to be distributed to shareholders and to be retained in the enterprises. Retained earnings are most significant internal sources of finance of growth firm. Dividends are desirable to its shareholders because it tends to increase their current wealth whereas retained earnings are desirable for the firm to exploit investment opportunities as the internal source of financing. So, in order to develop a long-term dividend policy, the directors should aim at bringing a balance between the desire of shareholders and the needs of the company.

Here, an attempt has been focused to discuss the some of those factors that influence the dividend decision of firms:

a**) Legal Rules**

The dividend policy of the firm has to evolve with the legal framework and restrictions. Certain legal rules may limit amount of dividends that a firm may pay. First statutory restrictions may prevent a company from paying dividends while specific limitations vary by state, generally a company may not pay dividend.

i. If the firm's liabilities exceed its assets,

ii. If the amount of dividend exceeds the accumulated profits (retained earnings)

iii. If dividend is being paid from capital invested in the firm. Legal rules are significant in what they provide the framework within which dividend policies can be formulated.

b) Stockholders Desire

Being the owner of the enterprises, stockholders should be considered and interested while formulating dividend policy. Stockholders who are high income tax bracket may be more interested in capital gain than dividend. Stockholders who have low-income sources are more interested in dividend than capital gain.

c) Liquidity Position

Profit held as retained earnings are generally invested in assists required for the conduct of the business. Retained earnings from proceeding years are already invested in plant and equipment, inventories and other assets; they are not able to pay cash dividends because of its liquidity position. Indeed, a growing firm, even a very profitable one, typically has a pressing need for funds. in such a situation the firm may elect not to pay cash dividends.

d) Need to Repay Debt

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

e) Restriction on Loan Agreement

Restriction on loan agreement directly effects on dividend policy of a firm. Such restrictions are designed to protect the position of lender and preference shareholders. Restrictions on debt contracts may specify that dividend may be paid out of earning generated after signing the loan amount agreement and only when net working capital is above a specified amount certain amount of earning to reinvest as well.

f) Stability of Earning

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 payout a higher percentage of its earnings than is a firm with fluctuating earnings. The unstable firm

is not certain that in subsequent years the hope 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 earnings fall off in the future.

g) Rate of Assets Expansion

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

h) Profit Rate

The rate of return on assets determines the relative attractiveness of paying out earnings in the form of dividends to stockholders who will use them in the current enterprise or some elsewhere.

i) Access the Capital Market

All firms do not have equal access to the capital market. A large well established firm with record of profitability and stability of earning has easy access to capital markets and other forms of external financing. Easy accessibility to the capital market provides flexibility to the management in paying dividend as well as in meeting the corporate obligation. Thus a fast growing firm having tight liquidity position will not face any difficulty in paying dividends if it has access to the capital market.

j) Control

The objective of maintaining control over the company by the existing management group or the body of shareholders can be an important variable in influencing the company's dividend policy. When a company pays large dividends, its cash position is affected. As a result, the company will have to issue new shares to raise funds to finance its investment programs. The control of the existing shareholders will be diluted if they don't want or can't buy additional shares. Under this circumstance, the

payment of dividends may be withheld and earnings may be retained to finance the firm's investment opportunities.

k) Inflation

In an indirect way inflation costs act as a constraint on paying dividends. Our accounting system is based on historical costs. Depreciation is charged on the basis of original costs at which assets were acquired. As a result, with raising prices funds saved on account of depreciation may be inadequate to replace obsolete equipment. Those firms have to rely upon retained earnings as a source of funds to make up the shortfall. This aspect becomes more important if the assets are to be replaced in the near future. Consequently, their dividend payment tends to be low during periods of inflation.

l) Financial Needs of the Company

It is another consideration, which also influences on the establishment of an appropriate dividend policy. Mature companies that have few investment opportunities may generally have high payout ratios. On the other hand, growth companies may have low payout ratios. They are continuously in need of funds to finance their fast growing fixed assets. The distribution of earnings will reduce the funds of the company.

2.3 Theoretical Review

2.3.1. Miller and Modigliani Irrelevance Theory

In 1961, two noble laureates, Merton Miller and Franco Modigliani (M&M) showed that under certain simplifying assumptions, a firms' dividend policy does not affect its value. M&M concluded that given firms optimal investment policy, the firm's choice of dividend policy has no impact on shareholders wealth. In other words, all dividend policies are equivalent.

The assumptions of this theory are:

i. Perfect capital markets in which all investors are rational information available to all at no cost, instantaneous transactions without cost, infinitely

divisible securities, and no investor large enough to affect the market price of a security.

ii. An absence of flotation costs on securities issued by the firm.

iii. A world of no taxes.

iv. A given investment policy for the firm, not subject to change.

v. Perfect certainty by every investor as to future investments and profits of the firm. (MM drop this assumption later.)

The analysis above implicitly assumes 100% equity financing. It can be extended to include debt financing. In this case, management can finance dividends by using both debt and equity issues. This added degree of freedom, does not affect the result. As with equity-financed dividends, no addition in value is created by debt –financing, since capital markets are perfect and complete so the amount of debt does not affect total value of the firm. The most important insight of Miller and Modigliani's analysis is that it identifies the situations in which dividend policy can affect the firm value. It could matter, not because dividends are "safer" than capital gains, as was traditionally argued, but because one of the assumptions underlying the result is violated.

2.3.2. Agency Costs Theory

Traditionally, corporate dividend policy has been examined under the assumptions that the firm is one homogenous unit and that the management's objective is to maximize its value as a whole. The agency cost approach differs from the traditional approach mainly in the sense that it explicitly recognizes the firm as a collection of groups of individuals with conflicting interests and self-seeking motives. Under the agency theory, these behavioral implications cause individuals to maximize their own utility instead of maximizing the firm's wealth. According to Jensen–Meckling (1976), agency problems in corporations primarily arise from external debt and external equity. Agency theory underpins the relationship between the principal and the agent. Within the context of the firm, agency theory is primarily concerned with owner-manager relationship and with the need for shareholders to monitor

management behavior. This need arises due to the separation of ownership and control and the associated conflicts of interests that arise between shareholders (principals) and managers (agents). The agency-related rationale for paying dividends is based on the idea that monitoring of the firm and its management is helpful in reducing agency conflicts and in convincing the market that the managers are not in a position to abuse their position. Some shareholders may be monitoring managers, but the problem of collective action results in too little monitoring taking place.

2.3.3. Tax-Preference Theory

Litzenberger and Ramaswamy (1979) put forward a theory which claims that investors prefer lower pay-out companies for avoidance of current taxation. Dividends are taxed at higher rates compared to capital gains hence the preference. Dividends are taxed in the year they are received while capital gains if any are taxed when stock is sold. Using the time value of money concept, dividends paid on present dividends has higher effective capital cost that capital gains taxed in future.

2.3.4. Signaling Theory

Miller and Rock (1985); Bhattacharya (1979) in their model overlooked the standard finance model which assumes that in a perfect capital market, both outside investors and inside managers have access to the same information about the firm's current earnings and future opportunities. They replaced this assumption with the real-world occurrence whereby managers know more about the firm's earnings and investment opportunities more than outside investors. In that case, the announcement of dividends conveys certain information which is not available to the public thus the model suggests a positive relationship between asymmetry of information and dividend policy. Managers use dividends to convey useful information about a firm's future earnings to investors (Bhattacharya, 1979).

The signaling effect of dividends assumes that dividends convey information about future earnings. Changes of dividends give messages to investors about the firm's future cash flows. Modigliani–Miller (1959) and Miller–Modigliani (1961) hypothesized that dividend reductions convey information that future earnings prospects are poor.

Empirical results have found the signaling effect of dividends especially on U.S. data. Fama–Fisher–Jensen–Roll (1969) proposed the basic hypothesis explaining price reactions to stock dividends and stock splits. These announcements signal higher expected future earnings, which can later result in higher cash dividends.

2.3.5. Transaction Cost Theory

When companies pay a low dividend or no dividend, then shareholders have two options, whether to sell their stock to satisfy their money requirements or hold it for next periodic dividend. When shareholders go to sell their stocks in the market, they must pay a transaction cost, which makes the selling of stock more expensive, thus the income from capital gain cannot fully replaced by the dividend income. Therefore, the shareholders want a higher payout of the dividend to reduce transactional cost which arises from capital gains (Alli, Khan, and Ramirez, 1993).

2.3.6. Behavioral Models of Dividend Policy

Linter (1956) concluded interview with 28 carefully selected companies to investigate their thinking on the determination of dividend policy. His fieldwork suggested that (1) managers focused on the change in the existing rate of dividend payout, not on the amount of the newly established payout as such; (2) most managements sought to avoid making change in their dividend rates that might to be reversed within a year or so; (3) major changes in earnings "out of line" with existing dividend rates were the most important determinants of a company's dividend decisions; and (4) investment requirements generally had little effect on modifying the pattern of dividend behavior . Taken together, these observation s suggest that most companies had somewhat flexible but nevertheless reasonably well-defined standards regarding the speed with which they would try to move toward a full adjustment of dividend payout to earnings.

Fama and Babiak (1968) investigate many different models for explaining dividend behavior. They use a simple 201 firms with 17 years of data (1947-1964), then test each explanatory model by using it (1) to explain dividend policy for a holdout sample of 191 firms and (2) to predict dividend payments one year hence.

Barv, Graham, Harvey, and Michaely (2003) survey 384CFOs and treasures to determine key factors that drive dividend and repurchase policy. They find that, except under extraordinary circumstances, managers have strong desire not to cut dividends. As a result, for firms that pay dividends, they tend to be smoothed from year to year and linked to sustainable long run changes in profitability. They also find the managers are reluctant to increase dividends in conjunction with increase in earnings since they no longer have target payout ratios and are more likely to use repurchase as an alternative. Managers view repurchase decisions as more met and when good investments are hard to find. Managers like to repurchase their stock when they believe their stock price is low, and they are very conscious of the effect of repurchases on EPS.

One can conclude that U. S. corporations seem to increase dividends only after they are reasonably sure that they will be able to maintain them permanently at the new level. However, this does not help to answer the question of why corporations pay dividends in the first place (Copeland, T. E., Weston, J. F., Shastri, K., 2009, Pp. 683-684).

2.4. Empirical Review

This study will not be complete without taking a critical look at some past empirical studies in terms of the purpose of the studies, the methodology that was adopted and the findings of the studies as are related to this current study. This is necessary in order to enable the researcher to see the gaps that might have been left or to get a glimpse of some recommendations for further studies that might have been reported in these previous studies.

2.4.1. International Context

Asghar, Hamid and Suleman (2011) Examined impact of dividend policy on stock price risk in Pakistan. The data of the study is taken from the published resources of State Bank of Pakistan and Karachi Stock Exchange regarding to five important sectors for the period 2005- 2009. Descriptive statistics, correlation and regression models are used to perform the data analysis. The results of the study reveal that the correlation of price volatility and dividend yield is quite significant as compare to other variables. Moreover, price volatility has negative correlation to the growth in

assets. This is suggested that for future study the data for the period should take into account more sectors with small and large firm size to develop a comprehensive model that may predict the visual economic situation, price volatility in prevalent market in its true prospective.

Hashemijoo (2012) conducted the study of dividend policy on share price volatility in stock market of Malaysia. The aim of this study was found that the relationship between dividend policy and share price volatility on consumer product company in Malaysian stock market. They have taken a sample of 84 listed companies from the period of six years in 2005 to 2010. In this study the share price volatility is the dependent variable and dividend yield or payout ratio is the independent variables. Multiple Regression model are used in this study to analyze the results. The results of this study show that the dividend yield or dividend payout has negative effect in share price volatility.

Uwulgbe, Jafaru and Ajayi (2012) investigated the relationship between the financial performance and dividend payout among listed firms' in Nigeria. It also looks at the relationship between ownership structure, size of firms and the dividend payouts. The annual reports for the period 2006-2010 were utilized as the main source of data collection for the 50 sampled firms. The regression analysis method was employed as a statistical technique for analyzing the data collected. We find that there is a significant positive association between the performance of firms and the dividend payout of the sampled firms in Nigeria. The study also revealed that ownership structure and firm's size has a significant impact of the dividend payout of firms too. It would be of interest if future research can investigate how ownership structure and dividend policy will be affected by changes in tax policy.

Zakaria, Muhammad, and Zulkifli, (2012)the study on the impact of dividend policy on the share price volatility of the Malaysian listed construction companies using the least square regression method after controlling for debt, firm size, investment growth and earnings volatility, the finding suggests that, higher DPR will lead to a more volatile share price. Among the control variables, only firm size (FZ) and leverage (LEV) showed high correlation with the changes of the firm share prices. The larger the size of the company, the greater the company needs to face with the volatility of

share prices. The results show no significant influence between investment growth and earnings volatility on the changes of the company share prices.

Ramadan (2013) examined the influence of the dividend policy on the share price volatility for Jordanian industrial firms. He used stock price and dividend policy as variables to conduct the research. He collected data from secondary source of seventy-seven Jordanian industries and Amman Stock Exchange from 2000 to 2011. Descriptive analysis, correlation and cross-sectional time series techniques were used to measure the variables. He resulted that the dividend policy had negative impact on the share price volatility. Dividend policy had strong effect on price volatility which may effect on the firm's ability.

Hussain, Uzzaman, and Karim, (2013) it examined the effect of dividend policy on market price of share in the context of Bangladesh. Data employing descriptive statistic correlation and multiple regression model. It had tested hypothesis by using F test. It had found that the effect of the dividend payout is more on market price than retention. The finding overall the effect of dividend policy on market price supports the relevant theory of dividend theory.

Hunjra et all. (2014) an attempt had been made to see the effect of dividend yield, dividend payout ratio, return on equity, earning per share and profit after tax on stock prices in Pakistan ordinary least square Regression model had been applied on panel data. It shows indicated dividend yield and dividend payout ratio which are both measure of dividend policy had significant impact on stock price, dividend yield was negatively related with stock price and dividend payout ratio was positively related with stock price. It was shows new insight for policy maker to improve the performance of Karachi stock exchange.

Masum (2014) examined what kind of relationship exists between dividend policy and stock market return of private commercial banks in Bangladesh. Panel data approach was used to explain the relationship between dividend and stock prices after controlling the variable like Earning per share, Return on equity, Retention ratio had positive relationship with stock price and significantly explain the variations in the market prices of shares, while the dividend yield and profit after tax had negative

relationship with stock prices. Overall result of that was indicated that dividend policy has significant positive effect on stock prices.

Sharif, Ali and Jan (2015) investigated the effect of dividend policy on stock prices. Objective of the study is to see if there exists any relationship between dividend policy and stock prices. We analyzed 45 non-financial companies listed on KSE-100 index that have earned profits and paid dividend for a period of twelve-year w.e.f. 2001. Using data is panel, pooled regression, fixed and random effect tests are run. Random effect results are focused after applying Hausman's test. Regression Results witness that Dividend per Share and Retention Ratio have an insignificant relationship with Share Market Prices. Dividend Payout Ratio has a significant positive relationship with Share Prices as supported by the Bird in hand theory suggested that owners give preference to a dollar of estimated dividends over a likely dollar of capital gains. Profit after tax, Earning per share and Return on Equity are the three control variables. Profit after Tax has insignificant relation to Stock Prices. Earnings per Share have positive significant relation to Stock Prices. There is negative significant relation between Return on Equity and Share Prices. It is recommended that firms in the sample should regularly pay dividend as it will cause an upward movement in the stock market prices, whereas profit retention by firms will result in a decrease in the value of the stock market prices.

Qudah and Yusuf (2015) examined the relationship between stock prices and dividend policy. It used multiple least square regression for its analysis. The analysis utilizes multiple regression to describe these relationships and also include correlation analysis amongst the variable chosen. This result conveyed a negative impact of the two components of the dividend policy that D_ P and D_Y on the share volatility. The result also demonstrated the higher payout ratios would mean low volatility of the stock price

Ajayi and Seyingbo (2015) examined the effect of dividend policy on share price volatility covering two categories of firms in the Nigerian banking industry using panel data analysis. The study declared that there was a positive relationship between dividend payout ratio, earning payout ratio, size of bank and share price volatility and negative relationship between Retained earnings and share price volatility. It was concluded that deceleration of dividend by banks causes more volatility in share price

movement. While retained earning causes less volatility in share price movement of banks in Nigeria. The study recommended that banks needed to concentrate more on retaining all their earning and making judicious use of the fund by committing it in a profitable and viable investment opportunities while, the investors needed to concentered more on capital gains as a return for their investment in a share of a company instead of collection of dividend.

Nuhu (2016) examined the relationship between dividend payout, retained earnings, corporate tax and stock prices with a focus on the Nigerian banking sector. The Ordinary Least Square Regression Model was used to estimate the relationship between dividend pay-out, retained earnings, corporate tax and stock prices with the aid of Statistical Package for Social Science (SPSS). Regression Results shows that dividend pay-out has significant positive relationship with stock market prices. The study also revealed that retained earnings have a significant positive relationship with share prices. Corporate tax, has significant negative relationship with the stock prices of the listed commercial banks in Nigeria. It also recommends that adherence to interest of shareholders in choosing dividend policies that will maximize shareholders' value by management.

Memon, Channa and Khoso, (2017) observed the impact of dividend policy on market prices of firms. The outcomes of fixed effect regression model exposed that there is the significant negative impact of dividend yield and significant positive impact of dividend payout on stock market prices.

Therefore, all outcomes of this research signified that the dividend policy had a significant impact on market prices of stock in Pakistan.

Rahman (2018) investigated that whether the dividend policy makes an impact on the firm performance in Pakistan especially in cement sector .person's correlation have been calculated to see the positive relationship between return on equity (ROE) and Dividend per share (D.P.S) which imply that by increasing cost dividend per share, return on equity increases for the selected companies. Furthermore, a significant positive relationship between earning per share (EPS) and return-on-equity (R.O.E) was found. In the case of firm size, significant relationship was found with ROE and

financial leverage showed an insignificant relationship with firm performance (R.O.E).

2.4.2. Nepalese Context

Manandhar (1998) studied on dividend policy and value of firm to identify the determinants of dividend policy in the context of Nepal. The study found that dividend per share and return on equity have positive impact on market capitalization while earning per share, price-earnings ratio, and dividend yield have negative impact. It was also found a positive relationship between dividends and market capitalization.

Pradhan (2003) determined the relative importance of dividend and retained earnings in determining the market price of stock. Researcher found that dividend payment is more important as opposed to retained earnings in Nepal. The results revealed the customary strong dividends effect and a very weak retained earning effect indicating the attractiveness of dividends among Nepalese investors. The findings suggest that Nepalese stock market has not started recognizing the impact of retained earnings.

Chhetri (2008) explained that there are differences in financial position of high dividend paying and low dividend paying companies. The study revealed that there is a positive relationship between dividends and stock prices. Further, the coefficient of dividends is higher as compared to the coefficient of retained earnings.

Joshi (2012)observed the impact of dividends on stock price of Nepalese stock market, it is found that DPS is a motivating factor in the Nepalese financial sector which is strong enough to increase market price per share of the banking and non-banking firms. Comparatively, it is also found that the effect of DPS greater than REPS on the impact of market price per share. Finally, the study shows that dividends and retained earnings significantly explain the variations in share price in both banking and nonbanking sectors. The impact of dividend, however, is much more pronounced than that of the retained earnings. The relation of dividends and retained earnings on share price is positive in all cases.

Dhungel (2013) analyzed the impact of dividend on stock price of Nepalese bank and financial institutions. The researcher used market price per share, earning per share,

dividend per share and equity share price as variables. Secondary data collected from websites and published material of selected five commercial banks of their fiscal year 2004/05 to 2010/2011 and the primary data were obtained from the individuals using a self-designed questionnaire. He used the correlation method for his study purpose. He also selected the five commercial banks by random sampling method. The author concluded the positive relationship between market price per share and earning per share and also predicts that dividend policy of banks is difficult.

Gautam et all. (2016) studied on the dividend policy and share price volatility: a case study of Nepalese commercial banks, state that the dividend is the deciding factors to change the wealth of the shareholders in the case of Nepalese commercial banks. The findings revealed that there is significant negative relationship between dividend yield and share price volatility, dividend yield, dividend payout and size have significant positive influence on volatility of share price. Growth and earnings volatility have negative and insignificant relation with price volatility.

Baral and Pradhan (2018) examined the impact of dividend policy on share price of commercial bank in Nepal. It investigated the relationship between earning per share, price earnings ratio, dividend payout ratio, on stock price by using descriptive statistics, correlation and regression, ANOVA and Wilcoxon signed rank test. That except dividend payout ratio, the other factors like earning per share, price earnings ratio have positive relationship with stock price among them price earning is the strongest factor that affects the share price in case of top gainer commercial banks whereas earning per share, Price earnings ratio and Dividend payout ratio have positive influence on stock price among them Dividend payout ratio is the strongest factor that affects the share price in case of top loser banks. The result of this study suggests investors, board of directors and head of finance department of Nepalese commercial banks to give consideration to dividend announcement, EPS, P/E ratio, DPR before they invest and set the dividend policy. This will help to decide whether firms should keep retained earnings for future projects, for debt settlement, and/ or for dividend decisions which is an efficient, effective, and reasonable dividend payout decision.

2.5. Research Gap

In all the foregoing studies, there can be identified research gaps. First, the studies fail to establish it strongly whether or not there is a correlation between dividend policy and stock prices. Other factors such as earnings, book value, growth assets, leverage, size, government regulations, foreign exchange rate, forces of demand and supply were identified as having more significant effect on share prices other than dividends.

The studies have only added to the already existing confusion as to the nature of the relationship between dividend policy and its effects on stock price in commercial banks of Nepal. Majority of the theories assume that capital markets are perfect which rarely the case is. It can also be observed that most of the studies were done in the developed markets and more studies needed to done in the emerging market like Nepal. This research study attempts to bridge these gaps.

2.6. Theoretical Framework

The variable of secondary interest in this research is the dependent variable of market price per share. Five independent variables are used in an attempt to explain the variance in commercial banks of dividend policy. These five variables are: Earning per share, Dividend per share, Price earnings ratio, Dividend payout ratio and Dividend yield ratio of the commercial banks.

The earnings per share and market price per share would be positively related with each other. While earning per share is increases the market price per share also increases. If earning per share is greater the dividend will be larger and so the market price is high.

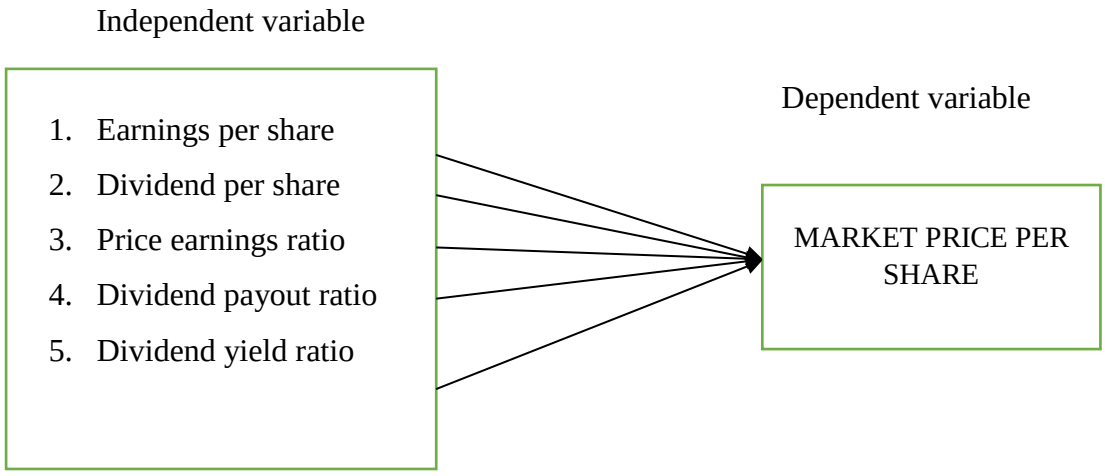
The higher dividend per share creates positive attitude among the shareholders towards the bank; which accordingly helps to increase the market value of share. Hence dividend per share would seem to have a positive correlation with market price per share.

If dividend payout ratio is increased than market price share is decreased to the shareholders relative to the net income of the company. Therefore, dividend per ratio

and market price per share would be negatively related. The high price earnings ratio generally indicates increased demand because investors anticipate earnings growth in the future. The price earnings ratio has units of years, which can be interpreted as the number of years of earning to pay back purchase price so this ratio reflects the market value per share for each rupee of currently reported earnings per share. Hence, a positive relationship between market price per share and price earnings ratio is expected.

The dividend yield is the estimated one year return of an investment in a stock based only on the dividend payment that the many stock do not paid dividend , therefore like to remain with the same banks for a longer time with very little market price per share. On the basic of above arguments, we theorize that there would be positive and negative correlation between market price per share and each of the following variables: earning per share, dividend per share, price earnings ratio, dividend payout ratio and dividend yield ratio. The theoretical framework is depicted in figure 2.5.1

Figure 2.5.1 Schematic Diagram of the *Theoretical Framework*



Source: *Rahaman (2018)*

CHAPTER III

RESEARCH METHODOLOGY

Research methods is important to carry out a research, which describes the entire methodological approaches employed in the study. Mostly, in the case of the empirical studies, the consistencies the findings of the impact of dividend policy on stock price of commercial bank in Nepal. In this chapter focuses on research design, population and sample, nature and sources of data, selection of samples, data analysis methods and tool.

3.1 Research Design

This study adopts descriptive research design for fact finding and identifies adequate information about factors affecting of dividend policy on stock price of commercial bank in Nepal. This research design is a process of accumulating facts. Such design involves the systematic collection and presentation of data to give clear picture of a particular situation. Descriptive research design helps to reduce data into manageable form. It is used to depict the accurate results and further describe about characteristics of the sample.

This study also adopt the test of cause and impact of dividend policy on stock price of bank the selective variables and the impact of dividend policy on, market price per share, earning per share, dividend per share, dividend payout ratio, price earning ratio and dividend yield ratio of Nepalese commercial bank.

3.2 Population and Sample

As this study is based on the data of the company listed in NEPSE. The population is taken from only those banks which are listed in NEPSE. In 27 commercial banks. Data has been taken from 5 commercial banks on the basis of profitability and capital. The study period of this study is nine year (2010 to 2018). The samples selected are as follows

i. Nabil Bank Limited
ii. Nepal Investment Bank Limited
iii. Mega Bank Nepal Limited
iv. Nepal State Bank of India

v. Sunrise Bank Limited

3.3 Sources of Data Collection

The data used in this study is secondary. The secondary data collected from, annual reports from FY 20010/11 to 2018/19, magazines and bulletins of the companies under study, relevant information and data from the publication of SEBON, NEPSE, NRB, and annual report of the selected commercials banks web, various newspapers, previous studies, thesis and dissertation related to this field etc.

3.4 Data Analysis Tools and Techniques

A thorough analysis of the collected data is done through data entry and used in SPSS software. Descriptive, correlation and multiple regressions method of analysis are used in this study and to analyze the impact of the variables and to examine the relationship between different variable related to study topic would be drawn out using financial and statistical tools.

Descriptive Statistics

Descriptive statistics is used to describe the basic features of the data in a study. Descriptive statistics provide simple summaries about the sample and about the observations that have been made. It measures maximum, minimum, mean and standard deviation

Correlation Analysis

The person correlation method is used to analyze the correlation among variables. It is an expression of the change or effect produced by the variation in certain variables, or of the ratio between two different quantities. The study sought to examine the impact of dividend policy on stock price of commercial banks in Nepal. Confident level is 95 percent to examine the result.

Regression Analysis

The main, financial indicators are EPS, DPS, DPR, P/ER, DYR and Market price per share will be taken as performance variable. The equation to be estimated has been specified as under the equation which is stated below:

$Y = \beta 0 + \beta\ 1\ EPS\ it + \beta\ 2\ DPS\ it + \beta\ 3DPRit + \beta 4PE/R\ it + \beta 5DYR + \beta it + e\ it...\ (1)$

Where,

Y= Market Price Per Share

EPS= Earnings per share

DPS= Dividend Per share

DPR= Dividend payout ratio

PE/R= Price earnings ratio

DYR= Dividend yield ratio

e= Disturbance or error Term.

i= 1…n

t=1 …t

Definition of Variables

Market Price Per Share

Market price of a share refers to the value paid to a share of the firm by the investors in capital markets. The price was fixed based on the interactions of the demand and supply of specified share of an organization in the stock market. Market price per share represents the closing market price of the particulars share in particulars fiscal year in NEPSE. In other word the market price per share or fair market value of a stock is the price that a stock can be readily bought or sold in the current market place

Earning per Share

Earning per share refers to the rupee amount earning per share of common stock outstanding. Simply the performance and the achievement of any business organizations are measured in terms of their capacity to generate earnings. It is calculated by dividing the net income after tax by total numbers of common stock outstanding. EPS is the amount of earning of a share invested in the company. So higher the EPS indicates the better position of banks seen in stock market by mobilizing their funds and earnings per share is one of the factors that affect the dividend policy and stock price of a firm. EPS calculation will be helpful to know whether the firm's earning power on per share basis. If EPS is greater the dividend will be larger and so is the market price.

Symbolically

$$\text{EPS}= \frac{Earnings available to common shareholder}{no.\ of\ common\ stock\ oustanding}$$

Dividend per Share (DPS)

Dividend per share is the amount of dividend which is distributed to the shareholders of the single unit of share. Generally, the higher dividend per share creates positive attitude among the shareholders towards the bank, which accordingly helps to increase the market value of shares so earning distributed to the shareholders out of EPS is known as DPS. It also affects the market price of stock. If EPS is greater, DPS will be greater. It is calculated by dividing total dividend to equity shareholders by the total number of the equity shares.

Symbolically

$$\text{DPS}=\frac{Total\ dividend\ to\ ordinary\ shareholders}{no.\ of\ common\ stock\ oustanding}$$

Dividend Payout Ratio

DPR reflect what percentage of profit is distributed as dividend and what percentage is retained ns reserve and surplus for the growth of the company. It is calculated by dividing the DPS by the EPS. The dividend payout ratio is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company. It is the percentage of earnings paid to shareholders in dividends.

Symbolically

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

Price Earnings Ratio

The price to earnings ratio (PE Ratio) is the measure of the share price relative to the annual net income earned by the firm per share. PE ratio shows current investor demand for a company share. A high PE ratio generally indicates increased demand because investors anticipate earnings growth in the future. The PE ratio has units of years, which can be interpreted as the number of years of earnings to pay back

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

Symbolically

$$\text{Price earnings ratio} = \frac{Market\ \ price\ per\ share}{Earning\ per\ shre}$$

Dividend Yield Ratio

This ratio shows the relationship between dividend per share and market value per share the dividend yield is the estimated one-year return of an investment in a stock-based only on the dividend payment. Note that many stocks do not pay dividends

Symbolically

$$\text{Dividend yield ratio} = \frac{Dividend\ pershare}{Market\ price\ per\ share}$$

CHAPTER IV

RESULTS

In this chapter, the relevant available information/data regarding the sample commercial banks have been presented and analyzed according to the research methodology as mentioned as previous chapters. In order to achieve the objectives which are set in first chapters, the gathered data are presented, compared and analyzed with the help of financial and statistical tools

4.1 Analysis of Financial Indicators and Variables

4.1.1 Mean and Standard Deviation of NABIL Bank

Year	MPPS	EPS	DPS	DPR	P/ER	DYR
2010/11	1252	65.91	30	0.45	18.99	0.02
2011/12	1355	69.64	60	0.86	19.45	0.04
2012/13	1815	72.84	65	0.89	24.91	0.35
2013/14	2535	63.44	65	1.02	39.95	0.03
2014/15	1910	44.03	36.84	0.83	43.37	0.01
2015/16	2344	45.59	45	0.98	51.41	0.02
2016/17	1523	46.03	48	1.04	33.08	0.03
2017/18	921	49.51	34	0.68	18.60	0.04
2018/19	800	47.04	34	0.72	17.00	0.05
Mean	1606.11	56	46.43	0.83	29.64	0.65
S.D	597.68	11.71	13.91	0.19	12.76	0.11

Source: Appendix I

Table 4.3.1 shows in the year 2010/11 market price per share is 1252.which is highly increased in the year 2013/14 and slightly decreased in the year 2018/19. Earning per share in the year 2010/11 is 65.91. Year 2012/13 the earning per share is increase up to 72.84. Due to fluctuation and slightly decrease in other year. The dividend payout ratio in the year 2010/11 is 30 and reached to 60 in year 2012/13 which is increasing form and the year 2012/13 to 2013/14 is constant. In year 2014/15 till 2018/19 the DPS decreased rapidly. Dividend payout ratio is increasing 2010/11 to 2013/14.in the year 2014/15 to 2018/19 is fluctuated. The highest dividend payout ratio is in year 2013/14 is 1.02 and the lowest dividend payout ratio is 0.45 in year 2010/11. The

price per earning ratio in year 2015/16 is 51.41 which is very higher to compare other year and the price earning ratio 2018/19 is 17. Dividend yield ratio is very low in the year 2014/15 i.e. 0.01 and the highest dividend yield ratio is 0.35 in the year of 2012/13. The fluctuation in this data maybe impact on market price per share and dividend per share. The average MPPS is 1606.11, EPS is 56, DPS is 46.43, DPR is 0.83, P/ER is 29.64 and DYR is 0.65.

4.1.2 Mean and Standard Deviation of NIBL

Year	MPPS	EPS	DPS	DPR	P\ER	DYR
2010/11	515	39.07	50	1.28	13.18	0.10
2011/12	511	27.6	30	1.09	18.51	0.06
2012/13	784	46.2	35	0.76	16.97	0.05
2013/14	990	40.67	40	0.98	24.34	0.04
2014/15	704	30.92	34.7	1.12	22.77	0.05
2015/16	1040	29.3	41	1.40	35.49	0.04
2016/17	770	43.21	40	0.93	17.82	0.05
2017/18	621	34.37	40	1.16	18.07	0.06
2018/19	519	25.83	19	0.74	20.09	0.04
Mean	717.11	35.24	36.63	1.05	20.80	0.05
S.D	199.37	7.32	8.61	0.22	6.39	0.02

Source: Appendix I

Table 4.1.2 shows the market price per share of NIBL in the year 2010/11 is 515. In the year2015/16 the market price per share is increasing i.e.; 1040 and it is decreasing to till 2018/19. The earning per share of NIBL is 39.07, 27.6, 46.2, 40.67, 30.92, 29.3, 43.21, 34.37 and 25.83 respectively in year 2010/11 to 2018/19. The highest earning price per share is 46.2 and the lowest earning price per share is 25.83.The dividend per share in the year 2010/11 is 50 and 2016/17 to 2017/18 is constant and rapidly decreased in the year 2018/19 is 19. The dividend payout ratio in the year 2010/11 to 2018/19 1.28, 1.09, 0.76, 0.98, 1.12, 1.40, 0.93, 1.16 and 0.74 respectively. This fluctuation in data is due to dividend per share and earning per share. In the year 2015/16 the price earning ratio is 35.49 which is highest in the year 2010/11. The price earning ratio is 13.18 which is lowest than compared to other year. Dividend yield ratio is fluctuated in every year. The highest dividend yield ratio is in the year

is 2010/11 i.e.; 0.10 and the lowest dividend yield ratio is 0.04. The average value of MPPS, EPS, DPS, DPR, P/ER and DYR is 717.11, 35.24, 36.63, 1.05, 20.80 and 0.05 respectively.

4.1.3 Mean and Standard Deviation of MBNL

Year	MPPS	EPS	DPS	DPR	P/ER	DYR
2010/11	-	1.49	-	-	-	-
2011/12	-	4.41	-	-	-	-
2012/13	-	7.61	9	1.18	-	-
2013/14	449	11.71	12.63	1.08	38.34	0.03
2014/15	395	12.06	10.53	0.87	32.75	0.03
2015/16	565	14.61	13.95	0.96	38.67	0.02
2016/17	458	17.34	10.75	0.62	26.42	0.02
2017/18	163	12.81	7.85	0.61	12.73	0.05
2018/19	213	15.69	11.75	0.75	13.57	0.06
Mean	249.22	10.86	8.49	0.67	18.05	0.23
S.D	223.48	5.30	5.14	0.43	16.39	0.02

Source: Appendix I

Table 4.1.3 present in the year 2010/11 to 2012/13 market price per share is not given in annual report of MBNL bank. In year 2013/14 to 2018/19 449, 395, 565, 458, 163, 213 respectively. The highest market price per share in 2015/16 is 565 and lowest market price per share is 2017/18 is 163. Earning price per share in 2010/11 is 1.49 which is very lowest than other year. In the year 2012/13 the earning price per share is increasing throughout year 2018 to 2019. In year 2010/11 to 2011/12 dividend per share is not distributed shareholder received highest dividend per share in the year 2015/16 by 13.95. Since, the market price per share is not provided in 2010/11 to 2011/12. Thus dividend payout ratio is not provided 2010/11 to 2011/12.

The highest dividend payout ratio in the year 2013/14 and lowest in the year 2017/18. Thus, price earning ratio depend on market price per share and earning price per share. The value of market price per share is not given in those three year that is why the price earning ratio is not provided for three years. The price earning ratio value is highest in 2015/16 is 38.67and rapidly decreasing from 2016/17 to 2018/19. Dividend

yield ratio is not given in three years but in 2013/14 to 2014/15 the dividend yield ratio is constant and in 2017/18 the dividend yield ratio is 0.05. In 2018/19 the dividend yield ratio is highest by 0.06. The average MPPS, EPS, DPS, DPR, P/ER and DYR is 249.22, 10.86, 8.49, 0.67, 18.05 and 0.23 respectively.

4.1.4 Mean and Standard Deviation of SBI

Year	MPPS	EPS	DPS	DPR	P/ER	DYR
2010/11	565	22.09	17.5	0.79	25.58	0.04
2011/12	635	20.38	17.5	0.86	31.16	0.03
2012/13	850	29.11	20	0.69	29.20	0.03
2013/14	1280	30.27	22.07	0.73	42.29	0.08
2014/15	887	27.43	28.47	1.04	32.34	0.03
2015/16	1875	26.78	29.53	1.11	70.02	0.02
2016/17	925	22.6	16.23	0.72	40.93	0.02
2017/18	499	25.15	15.79	0.63	19.84	0.03
2018/19	469	27.13	16.84	0.62	17.29	0.04
Mean	887.22	25.66	20.44	0.79	34.29	0.04
S.D	450.81	3.35	5.23	0.17	15.80	0.02

Source: Appendix II

The Table 4.1.4 shows the amount of market price per share of SBI 2010/11 to 2018/19 is 565,635,850,1280,887,1875,925,499and 469 respectively. The MPS of SBI fluctuation every year. The earnings per share of the year 2010/11 to 2018/19is 22.09, 20.38, 29.11, 30.27, 27.43, 26.78, 22.6, 25.15 and 27.13 respectively. The EPS is in the year 2013/14 is high and in the year 2010/11 is lowest. The dividend per share is in the year 2010/11 to 2018 /19 is 17.5, 17,5,20, 22.07, 28.47, 29.53, 16.23, 15.79 and 16.84 respectively. The dividend payout ratio is in the year 2010/11 to 2018/19 is 0.79, 0.86, 0.69, 0.73, 1.04, 1.11, 0.72, 0.63 and 0.62 respectively. In the year 2015/16 is highest and in the year 2018/19 is lowest. The price earnings ratio is in the year 2010/11 to 2018/19 is 25.58, 31.16, 29.20, 42.29, 32.34, 70.02, 40.93, 19.84 and 17.29 respectively, in the year 2018/19 is low and 2015/16 is high. The dividend yield is in the year 2010/11 to 2018/19 is 0.04, 0.03, 0.03, 0.08, 0.03, 0.02, 0.02, 0.03 and 0.04 respectively. In the year 2013/14 is high. The average MPS is 887.22, EPS is 25.66, DPS is 20.44, DPR is 0.79, P/ER is 34.29 and DYR is 0.04 respectively.

4.1.5 Mean and Standard Deviation of SBRL

Year	MPPS	EPS	DPS	DPR	P/ER	DYR
2010/11	163	2.2	4	1.82	74.09	0.03
2011/12	145	5.52	5.26	0.95	26.27	0.04
2012/13	231	13.93	11.58	0.83	16.59	0.05
2013/14	510	11.03	-	-	46.24	-
2014/15	410	15.84	22.63	1.43	25.88	0.06
2015/16	748	17.94	33.33	1.86	41.69	0.04
2016/17	396	15.86	15	0.95	24.96	0.04
2017/18	230	18.12	11.5	0.64	12.69	0.05
2018/19	248	20.93	15.8	0.75	11.85	0.06
Mean	342.33	13.48	13.23	1.03	31.14	0.04
S.D	195.30	6.17	10.19	0.59	20	0.02

Source: Appendix II

The 4.1.5 Table shows the amount of market price per share of SBRL 2010/11 to 2018/19 is 163,145,231,510,410,748,396,230and 248 respectively. The MPS of SBRL is highest in year 2015/16 and lowest is in year 2011/12. The earnings per share of the year 2010/11 to 2018/19is 2.2, 5.52, 13.93, 11.03, 15.84, 17.94, 15.86, 18.12 and 20.93 respectively. The EPS is in the year 2018/19 is high and in the year 2010/11 is lowest. The dividend per share is in the year 2010/11 to 2018 /19 is 4, 5.26, 11.58, 0, 22.63, 33.33, 15, 11.5 and 15.8 respectively.

The dividend payout ratio is in the year 2010/11 to 2018/19 is 1.82, 0.95. 0.83, 0, 1.43, 1.86, 0.95, 0.64 and 0.75 respectively. In the year 2015/16 is highest and in the year 2018/19 is lowest. The price earning ratio is in the year 2010/11 to 2018/19 is 74.09, 26.27, 16.59, 46.24. 25.88, 41.69, 24.96, 12.69 and 11.85 respectively, in the year 2018/19 is low and 2010/11 is high. The dividend yield is in the year 2010/11 to 2018/19 is 0.03, 0.04, 0.05, 0.00, 0.06, 0.04, 0.04, 0.05 and 0.06 respectively. In the year 2013/14 is 0. The average MPS is 342.55, EPS is 13.48, DPS is 13.23, DPR is 1.03, P/ER is 31.14 and DYR is 0.04 respectively.

4.2 Descriptive Statistics

A critical examination of the descriptive statistics for the dependent and explanatory variables of the study are shown in table.

Table 4.2.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
MPS	45	0.00	2535.00	760.4000	603.58401
EPS	45	1.49	72.84	28.2498	18.00424
DPS	45	0.00	65.00	25.0451	16.94916
DPR	45	0.00	1.86	0.8760	0.37285
PER	45	0.00	74.09	26.7864	15.61834
DYR	45	0.00	0.35	0.0440	0.05087

Source: SPSS output

Table 4.2.1 presents the number of total observation for this study shows the detail of descriptive statistics of variable that affect the market price of the selected private commercial banks listed n NRB for the period of 2010 to 2019.market price which is the dependent variable the model ranges from 0 to 2535 with a mean value of 760.4 and standard deviation 603.58401. The first. Explanatory variable is earning per share with a mean value 28.2498 and a standard deviation of 18.0042 and 1.49 minimum to72.84 maximum. Dividend per share which is the second explanatory variable ranges from 0 to 65 and it is mean value and standard deviation is 25.0451 and16.94916 respectively. Dividend payout ratio which is the third explanatory variable has a minimum value 0 and maximum value 1.86 with mean 0.8760 and standard deviation 0. 37285. The fourth explanatory variable is Price earning ratio with a mean value of 26.7864 and a standard deviation 15. 61834. Which have 0 minimum and 74.09 is maximum. Finally, the fifth explanatory variable is Dividend yield ratio shows the minimum value 0 and maximum value 0.35 with mean 0.0440 and standard deviation 0.5087.

4.3. Correlation Analysis

This section of the study presents the results and discussion of the correlation analysis. The correlation analysis has been carried out to investigate the impact of dividend policy on stock price variables of the banks. Variables. Correlation analysis involves various methods and techniques which is used for studying and measuring the extent of the relationship between two variables, whether a positive or a negative relationship exist between six variables. It also

Indicates whether the relationship is significant or insignificant and the correlation Analysis is used to identify the relationship between MPS, EPS, DPS, DPR, P/ER and DYR for the 5 banks of the study has been presented in Table 4.2.1

Table 4.3.1: Pearson's correlation matrix for the dependent and independent variables during the period 2010 to 2019

		MPS	EPS	DPS	DPR	PER	DYR
MPS	Pearson Correlation	1	.764**	.772**	.150	.495**	.207
	Sig. (2-tailed)		.000	.000	.325	.001	.173
	N	45	45	45	45	45	45
EPS	Pearson Correlation	.764**	1	.892**	.041	.013	.420**
	Sig. (2-tailed)	.000		.000	.791	.932	.004
	N	45	45	45	45	45	45
DPS	Pearson Correlation	.772**	.892**	1	.362*	.112	.450**
	Sig. (2-tailed)	.000	.000		.015	.463	.002
	N	45	45	45	45	45	45
DPR	Pearson Correlation	.150	.041	.362*	1	.435**	.149
	Sig. (2-tailed)	.325	.791	.015		.003	.328
	N	45	45	45	45	45	45
PER	Pearson Correlation	.495**	.013	.112	.435**	1	-.088
	Sig. (2-tailed)	.001	.932	.463	.003		.565
	N	45	45	45	45	45	45
DYR	Pearson Correlation	.207	.420**	.450**	.149	-.088	1
	Sig. (2-tailed)	.173	.004	.002	.328	.565	
	N	45	45	45	45	45	45

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

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

Independent variables. Market price per share, Earning price share, Dividend per share, Dividend payout ratio Price earning ratio and Dividend yield ratio are defined in the table.4.3.1.The correlation coefficients are based on the data from. 5 sample banks with 45 observations for the period of 2010 to 2019.

The correlation coefficient between EPS and MPS 0.764. The correlation of EPS with MPS is meaningful in the context of this significant impact few inference can be made the first EPS is calculated by dividing the net income after tax by total number of common stock outstanding. The result of this is that EPS is significantly and positively correlated with market per share

Another indicator of dividend policy is dividend per share which is distributed to the shareholder of the significant unit of share. It measure the bonus on share capital distributed to the shareholder. The correlation coefficient between DPS and MPS is 0.772 through the correlation of MPS and DPS is positive correlated.

DPR is the indicator of dividend policy. DPR provide on indication of how much money a company is returning to shareholder verses how much keeping on hand to h reinvest in growth, pay off debt, or add or cash reserves. There is negative correlation between MPS and DPS IS 0.50. There is negative impact of dividend policy in shareholder.

P/ER is another indicator of dividend policy. P/ER is the measure of the share price relative to the annual rate income earned by the firm per share. There is positive correlation between MPS and P/ER is 0.495. So, the positive impact of current investor demand for a company share.

DYR is another indicator of dividend policy. It shows the negative relationship between DYR and MPS is 0. 207. So there is negative impact on the investor in stock market of banks.

4.4. Regression Analysis

In coefficient analysis, two or more independent variables are used to estimate the Value of dependent variables whereas in the simple regression analysis single Independent variable is used to estimate the values of a dependent variable. Multiple Regression analysis helps to know relative movement in the variable. To estimate the relationship between dividends and stock prices, the theoretical. Statement of the model is that the price of the stock would depend on dividend per Share of last year and earning per share of last year. The theoretical statements farmed above may be stated as,

Table No: **4.4**

Table of Analysis of Regression

Model		**Coefficients**	**Standard Error**	**t stat**	**P-value**
1	(Constant)	-51.498	117.906	-0.437	0.665
	EPS	3.410	5.345	0.638	0.527
	DPS	28.286	6.115	4.626	0.000
	DPR	601.593	136.262	-4.415	0.000
	P/ER	21.647	2.358	9.180	0.000
	DYR	-1058.927	718.436	-1.147	0.149

Source: Appendix II

It shows the coefficients of the independent variables. The regression model can be written mathematically as:

MPS= -51.498+3.410x1+28.286x2+601.593x3+21.647x4+ (-1058.927x5)

Coefficient of regression of MPS on EPS is positive i.e. 3.410. While determining MPS, the impact of EPS is positive that shows increase in EPS leads to increase in MPS. This regression of coefficient has 5.345 as SE, which measures the variability of the observed values around the fitted line of regression. This coefficient's t-statistic is 0.638 and p-value is 0.527. So, t-statistic is significant and p-value is not significant at 5% significance level.

Coefficient of regression MPS on DPS is positive with 28.286. While determining MPS, the impact of DPS is positive that shows that the increase in DPS leads to increase in MPS. This regression coefficient has 5.345 as SE, which measures the variability of the observed values around the fitted line of regression this coefficients t-statistics is 4.626 and p-value is 00. So, t-statistic is significant and p-value also significant at 5% significant level.

Coefficient of regression MPS on DPR is positive i.e. 601. 593 while determining DPR its impact is positive that shows increase in DPR leads to increase in MPS. This regression of coefficient has 6.115as SE, which measures the variability of the observed values around the fitted line of regression. This coefficient's t-statistic is -

4.415 and p-value is 00. So, t-statistic is not significant and p-value is significant at 5% significance level.

Coefficient of regression MPS on P/ER is positive i.e. 21.647. P/ER has positive impact on MPS that shows increase in P/ER leads to increase in MPS. This regression of Coefficient has 2.358 as SE, which measures the variability of the observed values around the fitted line of regression. This coefficient's t-statistic is 9.180 and p-value is 00. So, t-statistic is significant and p-value is also significant at 5% significance level.

Coefficient of regression MPS on DYR is negative i.e. -1058.927. DYR has negative impact on MPS that shows increase in DYR leads to decrease in MPS. This regression of Coefficient has 718.436 as SE, which measures the variability of the observed values around the fitted line of regression. This coefficient's t-statistic is -1.474 and p-value is 0.149. So, t-statistic is not significant and p-value is also not significant at 5% significance level.

Table no.4.5 Significance of the Model

Model	**R**	**R Square**	**Adjusted R square**	**Std. error of the estimate**
1	.944[a]	.891	.877	212.40088

Source: Appendix II

Table 4.4 shows R^2: = 0.877. This means that the model using dividend policy variable could be used to explain 87% of the variability of stock price and rest 13% by other independent variables.

ANOVA Table 4.6

Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	14046942.83	5	209388.567	15761279.91	0.000[b]
	Residual	1714337.076	38	45114.134		
	Total	15761279.91	43			

a. Dependent Variable: MPS

b. Predictors: (Constant), DYR, PER, EPS, DPR, DPS

Source: Appendix II

ANOVA (analysis of variance) is used to report quantities related to the overall explanatory power and significance of the regression model. Since p-value is less than 0.05 (critical level of significance) it is concluded that there is significant impact of dividend policy on stock price.

Table 4.6 shows F- value of 15761279.91, with a corresponding p-value of 0.000, which means that the overall fitness of the model is well justified .This means that the model using dividend policy measure stock price can be relied on to explain the variability in market price.

Major Findings

The major finding of the study is associated with statistical tools that include descriptive statistics, correlation and panel regression model. Descriptive statistics is used to understand the summary statistics for every variable in the study testing the association between dividend policy and stock price in commercial banks in Nepal, the Pearson correlation test is conducted for each independent and dependent variable separately. Another major analysis is regression analysis where, conducted independent with dependent variables. The major findings of this study are as follows:

i. The correlation coefficient of EPS and MPS is 0.764 which is positively significant correlated in MPS.
ii. The correlation coefficient between DPS and MPS is 0.772 which is positively significant correlated in MPS.
iii. The correlation coefficient of DPR and MPS is 0.150 which is negative impact of dividend policy in shareholder.
iv. The correlation coefficient between P/ER and MPS is 0.495. The coefficient is positive significance.
v. The correlation coefficient of DYR and MPS is 0.207 is negative correlation. There is negative impact on the investor in stock market of banks.
vi. The regression of dividend pattern and its impact on stock price shows that the estimated coefficient of EPS, DPS,DPR,P/ER have positive which are 3.0110,28.286,601.593,21.647 respectively. The value t-statistic of EPS, DPS, and P/ER are significant at 5% level of significance. While DPR is insignificant.

vii. The estimated coefficient of MPS and DYR have negative which -1058.927. The value of t-statistics is not significant at 5% level of significance.

CHAPTER V

DISCUSSION

This chapter provides the discussion drawn from the tests carried out in the study and conclusions of findings. The last part of this chapter provides the implications of the study carried out to future researcher, professor, investors and scholars.

5.1 Discussion

Dividend policy may be defined as the way of acting of corporations with regard to providing returns to the investors in return to their investment in the shares. Corporate sector is small and it is at early stage of growth in Nepal. Selecting a suitable dividend payment pattern or policy is an important decision for the bank because flexibility to invest in future projects depends on the amount of dividends that they pay to their shareholders. Dividend policy is a major financing decision that involves with the payment to shareholders in return of their investments. Every firm operating in a given industry follows some sort of dividend payment pattern or dividend policy and obviously it is a financial indicator of the firm. Thus, demand of the firm's share should to some extent, dependent on the firm's dividend policy

There are some factors that influence the dividend decision of firms. They are legal rules, stockholders desire, and liquidity position, need to repay debt, restriction on loan agreements, and stability of earning, rate of assets expansion, profit rate, access the capital market, control, inflation, financing needs of the company. This factors shows the financial positions of firms or banks. If the firms have good performance in terms of these factors, firms will be able to provide dividends to the shareholders. The basic objective of this study is to examine the relationship between dividend pattern and its effects on stock price in the context of Nepalese commercial Banks. The specific objectives of this study are (1) to access the position of MPS, EPS, DPS, DPR, P\ER and DRY. (2) To analyze the effect of dividend of MPS.

In this study, researchers examine with some sample of Commercial banks that whether the dividend policy has any effect on the firm's share price determinants. For this, the researchers have taken some of the sample Commercial bank they are Nabil Bank Ltd.(NABIL), Nepal Investment Bank Ltd.(NIBL), Mega Bank Nepal Ltd.(MBNL), State Bank of India Ltd (SBI) and Sunrise Bank Ltd. (SRBL).

According to achieve the objective of the study descriptive research design has been employed. To fulfill the objective of the study, secondary data are used. For this, at first, required information and data (the annual reports and the financial statements published by the related banks) are collected for the F/Y 2010/11 to F/Y 2018/19, for the study. After that, data are analyzed by using appropriate financial and descriptive and analytical tools. In analysis part, interpretation and comments are also made wherever necessary.

The estimated coefficient of MPS on EPS and P/ER has positive impact with expected sign. The casual relation tells us that, with the increase of EPS and P/ER it increase the shareholders equity due to the MPS also increases. The result is supported by the (Baral and Pradhan)

The estimated coefficient of MPS on DPS has positive sign. The casual relation tells us that, DPS is the motivating factor in the financial sector which is strong enough to increase MPS. This result is supported by the study of (Joshi, 2012) this result is consistent with his assumption.

The estimated coefficient of MPS on DPR has negative signwith unexpected signs. The casual relation tells about demonstrated the higher payout ratios would mean low volatility of the stock price. This result supported by the study of (Qudah and Yusuf, 2015) which concluded correlation between market price per share and dividend payout ratio is insignificant.

The estimated coefficient of MPS on DYR has negative sign. The casual relation tells that many stocks do not pay dividend this result supported by the study of (Masum, 2014) which concluded correlation between market price per share and dividend payout ratio is insignificant.

5.2 Conclusion

The purpose of this study was to examine the impact of dividend policy on stock of commercial banks in Nepal. This study was based on 9 commercial banks from 2010 to 2019 with 45 observations. Which are listed in Nepal Stock Exchange.

The study shows the stock price and its impacts on dividend policy is major concern in Nepalese commercial banks. After analyzing the different variables it is find that

there are different factors that play major role to determine the value of share such as the dividend per share, earning per share, dividend payout ratio, price earning ratio dividend yield ratio The findings shows that the earning per share (EPS) and the dividend Per Share (DPS) have positive correlation on each sample banks which indicates increase in earning per share also leads to increase the shareholders dividend and vice versa. Similarly, the regression of dividend pattern and its impact on stock price shows that beta coefficients are positive for earning per share (EPS) and dividend per share (DPS). Since this results state that increase on earning and the dividend of any stock leads to increase in share price. There is negative relationship between the dividend payout ratio, dividend yield ratio and stock price. There is positive relationship between price earnings ratio and stock price. PE ratio shows current investor demand for a company share. A high PE ratio generally indicates increased demand because investors anticipate earnings growth in the future. Since this result increase on P/E ratio is increase and the stock price also increases. The relationship between MPS and EPS, DPS, P/ER of commercial bank has positive significant of share price and DPR and DYR of commercial banks has negative impact of stock price. In another words, in the process of price determinations of stock the variables earnings, dividends payout price earning and dividend yield play the important role.

5.3. Implication

The study has examined the impact of dividend policy on stock price of Nepalese commercial banks. There remains enough ground of scope in terms of data, models and methodology for studies in days to come. The study remains enough ground for the further studies, which are listed below:

The result of the study is basically from the commercial banks of Nepal. Thus, the future study may include other financial sectors such as development bank, finance companies and micro finance companies.

Similarly, further studies can be done by using some advance statistical tools. For example, the future studies can use non-linear statistical tools and causality tools.

This study is based only on secondary data. Thus, the further study can make much more comprehensive by using primary source such as survey, questionnaire, special

group discussion etc. The qualitative phenomena can be considered for the research in future.

In further research some addition variables such as GDP, Inflection, and size of banks should be included for better regression result and data is taken quarterly or monthly should be included since huge fluctuations can be seen in yearly data.

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APPENDIX I

Indicator of dividend policy and stock price of Nabil Bank

Year	EPS	DPS	MPPS	DPR	P/ER	DYR
2010/11	65.91	30	1252	0.45	18.99	0.02
2011/12	69.64	60	1355	0.86	19.45	0.04
2012/13	72.84	65	1815	0.89	24.91	0.35
2013/14	63.44	65	2535	1.02	39.95	0.03
2014/15	44.03	36.84	1910	0.83	43.37	0.01
2015/16	45.59	45	2344	0.98	51.41	0.02
2016/17	46.03	48	1523	1.04	33.08	0.03
2017/18	49.51	34	921	0.68	18.60	0.04
2018/19	47.04	34	800	0.72	17.00	0.05

Source: annual report of Nabil bank

Indicator of dividend policy and stock price of NIBL

Year	**EPS**	**DPS**	**MPPS**	**DPR**	**P\ER**	**DYR**
2010/11	39.07	50	515	1.28	13.18	0.10
2011/12	27.6	30	511	1.09	18.51	0.06
2012/13	46.2	35	784	0.76	16.97	0.05
2013/14	40.67	40	990	0.98	24.34	0.04
2014/15	30.92	34.7	704	1.12	22.77	0.05
2015/16	29.3	41	1040	1.40	35.49	0.04
2016/17	43.21	40	770	0.93	17.82	0.05
2017/18	34.37	40	621	1.16	18.07	0.06
2018/19	25.83	19	519	0.74	20.09	0.04

Source: Annual report of NIBL

Indicator of dividend policy and stock price of MBL

year	EPS	DPS	MPPS	DPR	P/ER	DYR
2010/11	1.49	-	-	-	-	-
2011/12	4.41	-	-	-	-	-
2012/13	7.61	9	-	1.18	-	-
2013/14	11.71	12.63	449	1.08	38.34	0.03
2014/15	12.06	10.53	395	0.87	32.75	0.03
2015/16	14.61	13.95	565	0.96	38.67	0.02
2016/17	17.34	10.75	458	0.62	26.42	0.02
2017/18	12.81	7.85	163	0.61	12.73	0.05
2018/19	15.69	11.75	213	0.75	13.57	0.06

Source: annual report of MBL

APPENDIX II

Indicator of dividend policy and stock price of SBI

Year	EPS	DPS	MPPS	DPR	P/ER	DYR
2010/11	22.09	17.5	565	0.79	25.58	0.04
2011/12	20.38	17.5	635	0.86	31.16	0.03
2012/13	29.11	20	850	0.69	29.20	0.03
2013/14	30.27	22.07	1280	0.73	42.29	0.08
2014/15	27.43	28.47	887	1.04	32.34	0.03
2015/16	26.78	29.53	1875	1.11	70.02	0.02
2016/17	22.6	16.23	925	0.72	40.93	0.02
2017/18	25.15	15.79	499	0.63	19.84	0.03
2018/19	27.13	16.84	469	0.62	17.29	0.04

Source: Annual report of SBI

Indicator of dividend policy and stock price of SRBL

Year	EPS	DPS	MPPS	DPR	P/ER	DYR
2010/11	2.2	4	163	1.82	74.09	0.03
2011/12	5.52	5.26	145	0.95	26.27	0.04
2012/13	13.93	11.58	231	0.83	16.59	0.05
2013/14	11.03	-	510	-	46.24	-
2014/15	15.84	22.63	410	1.43	25.88	0.06
2015/16	17.94	33.33	748	1.86	41.69	0.04
2016/17	15.86	15	396	0.95	24.96	0.04
2017/18	18.12	11.5	230	0.64	12.69	0.05
2018/19	20.93	15.8	248	0.75	11.85	0.06

Source: Annual report of SRBL

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.996[a]	.991	.990	.08862

a. Predictors: (Constant), DYR, PER, DPR, EPS, DPS

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.229	5	5.046	642.476	.000[b]
	Residual	.220	28	.008		
	Total	25.449	33			

a. Dependent Variable: MPS

b. Predictors: (Constant), DYR, PER, DPR, EPS, DPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.051	.122		-.420	.678
	EPS	.108	.252	.044	.429	.671
	DPS	.987	.267	.474	3.697	.001
	DPR	-.630	.139	-.214	-4.518	.000
	PER	1.362	.049	.690	27.628	.000
	DYR	.250	.292	.016	.855	.400

a. Dependent Variable: MPS