CHAPTER- I

INTRODUCTION

1.1 Background of the study

Nepal is kingdom of hills and mountain with the area of 147181 square kilometers. Nepal is landlocked country surrounded by the regional superpower countries, India and China. Nepal is famous for its natural beauty, religion, language and its cultural heritage. Nepal is one of the least developed countries in the world. It has very low per capita income and corporate growth rate. Majority of the people is under the line of poverty. Agriculture is the backbone of Nepalese economy, but non agricultural sector has shown their significant contribution in the national economy. Various factors like landlocked situation, political instability, lack of skilled manpower, poor resource mobilization, lack of capital, instability of government policy, lack of institutional commitment, lack of better training program, implement of inferior technology etc are responsible for the slow pace of development of the country.

Nepal has a banking history of about seven decades. Nepal Bank Ltd. is the first bank of the country which was established in 1994 B.S. At present there are 31 commercial banks in Nepal. Then Nepal Rastra Bank was the second one to be established, which is the central bank of Nepal with an objective to promote, develop and facilitate the banking sectors. Financial institution plays an important role in the economic growth and development of the country. They help to mobilize the frizzed and dispersed saving of the people and play an intermediary role to make investment of the collected fund in different productive sector. They help to fulfill the requirements of trade and industry in the country and play great role in reducing poverty, raising employment opportunities, and people's life standards. Banks are the most important and essential financial institution in any nation. In general, banks are those financial institutions that perform the widest range of financial functions of any business firm in the economy.

Banks play a vital role in developing the economy of any country. The level of overall development of a country is due to the effect of level of economic growth. Banks is the foundation of the economy. Hence, banks are extremely necessary for the healthy and perennial progress of our country. Banks are totally different from financial institutions as they cannot create credit through their acceptance of deposit, but the bank do so. Banks collect the funds from different sources (people) and invest in many different sectors, which play the vital role in reducing poverty, creating employment opportunities, and raising people's life standard. Commercial banks undertake payment of subscription, insurance premium, rent etc. In addition they purchase and discount bills of exchange, promissory note and exchange foreign currency. Moreover, commercial banks also arrange to remit money. It is true that economic development of a country is not possible without sound banking system. Later due to the favorable industrial policy provided by the government, foreign investors were also attracted. The policy made by a company to distribute the profit to its shareholders and retention for its investment is known as dividend policy. Dividend policy is the main part of financing decision. Retained Earning is the most significant internal source of financing, for the growth of the firm. Dividend policy is a major decision for the board of directors as the board has to decide either paying out to the shareholders and keep them happy in the short term or retain money for investment which may be more beneficial to shareholders in the long term.

There have been a number of important studies dealing with the pattern of setting dividend policy. A classic one was conducted by Harvard economist John Lintner found that two considerations account for a large part of the actual pattern of corporations one considerations was the desire to have a relatively stable dividend; the second was the desire to pay out in the long run, a given fraction of earning. The fraction is usually referred to as the pay out target .Earnings tend to fluctuate substantially from year to year if a corporation routinely pays out a given fraction of those earnings as dividends . If the dividend is a constant amount then it will be a fluctuating proportion of earnings.

Assume that a corporation starts with a dividend amount. If earnings are stable, then the dividend is unlikely to be changed. However if earnings are increasing with a constant dividend, then the payout ratio will gradually decrease. If the increase in earnings is expected to be temporary, for e.g. as a result of some extra ordinary event or usually good business condition, then it is unlikely that the company will change its dividend. However, if management believes even further then it is likely that the dividend will be increased. The increase will be in the direction of approaching the amount that the board of directors has set as a target payout ratio companies vary the payout ratio they select, and the speed with which they adjust the dividend of a period to changes in earnings, but they do tend to adhere to a target payout ratio. Over long period of time, this policy tends to result in a dividend payout that is approximately equal to the payout target, but dividend will tend to be more stable from year to year than earnings.

Development of a country depends upon the economic development and for this; Banks and Financial Institutions play an important role. The main objective of the commercial bank is to make more profit in every field by utilizing saving and properly mobilizing the resources, after collecting them from different sectors. Dividends will change according to the condition of banks, and financial institution. The more is the earnings of a corporations, the more the dividend is. And if is suffers from loss, then it can't pay in proper way. If management feels that, the earning is increased, accordingly the dividend is also increased and the board of director's sets target payout ratio for certain period of changes in earnings. Dividend decision tends to provide information to shareholders about management forecast of future earnings. This study is related with banking dividend pattern of the Nepalese companies.

1.2 Focus of the study

Dividend refers to those portions of income of a firm that is distributed to the shareholders in return to their investment in the shares. "By a dividend policy we mean some kind of consistent approach to the distribution versus retention decision rather than making the decision on the purely adhoc basis from period to period." so what and how much it is desirable to pay dividend is always a controversial topic because shareholders always expect higher dividend but the firm tries to issue side funds for maximizing the shareholder's wealth. Investor's intention is to get more and more return but most of the corporations of banking institutions are not in good condition. Hence institution cannot pay more return. But now a day, investors are attracted towards financial institutions due to the growth of saving. If funds can be raised by collecting in different ways and mobilizing it properly then profit can be made.

In Nepal, there is no pattern of distributing dividend properly. The history shows that the government was unable to receive dividends from different public enterprises in the past. Now a day, different joint venture banks and some other public limited companies have shown new trend of paying dividend to shareholders. There is also growing practice of paying bonus shares among some corporations of Nepal. Stock split is another aspect of dividend policy which is popular in the developed capital market, but this aspect is almost neglected in the capital market of Nepal. An alternative form of dividend is share repurchase. If a firm has excess cash and insufficient profitability investment opportunities to justify the use of these funds, it is in the shareholder's interest to distribute the funds. The distribution can be accomplished either by the repurchase of share or by paying the funds out in increased dividends. It is thus corporate share repurchase is often viewed as an alternative to paying dividends. However, Nepal Company Act, 2053, Section 47 has prohibited company from purchasing its own shares. Thus this provision is against the theory of finance.

In each and every firm, dividend policy is taken as a financial decision that affects the firm. An investor should invest in the stock of any company knowing the dividend policy of the firm. The main focus of this research will be valuable to the investor to know about dividend policy of selected commercial banks comparatively. So this research may be helpful for those investors who want to know the productivity of the commercial banks for their better investment. This study also helps to the management for corrective action.

Stability or regularity of dividends is considered as a desirable policy by the management of the companies. Most of the shareholders also prefer stable dividend have a positive impact on the market price of shares. By stability we mean maintaining its position in relation to a trend lives preferably one that is upward sloping. Investors are interested in investing their funds in the share of public limited companies. This trend plays a significant role for the development and expansion of the capital market. And it will continue only when dividend patterned is directed to the interest of shareholders. There is no uniformity in the dividend patterned of Nepalese Corporations. This research focuses a new trend of paying dividend to shareholders shown by different commercial banks and some public limited companies.

1.3 Statement of the problem

Dividend pattern in Nepalese companies is relatively a recent phenomenon. There are various empirical studies on the corporate dividends in the capital market other than Nepal. A study made by H.K. Baker, G.E. Farrelly and Richard B.Edelman in America by surveying the opinions of financial official officers of 562 New York Exchange firms. This study revealed that the major determinants of dividend policy in order of their importance are: anticipated level of a firm's future earnings, pattern of past dividend, availability of cash and concern about maintaining or decreasing stock price.

Dividend decision is a vital decision in every field though in Nepal it is used rarely. Now a days, most of the banks issues dividend and they are attempting to attract the investor's mind towards the banking sector. But other institutions are still being run in traditional way; they are not practicing the system of dividend payments. This study is devoted to analyze the dividend pattern and what type of problems are being faced by banks, since every bank is not able to distribute dividend though they are collecting saving regularly and investing in different sectors.

In the case of Nepalese commercial banks and Public enterprises listed in Nepal Stock Exchange, they are not seen so serious regarding dividend decision since most of them do not have any consistent and clear cut policy on dividend distribution to shareholders. There are so many problems seen in Nepalese commercial banks. They have not managed their collection (earning) of the firm properly. If they can mobilize it then, dividend can be distributed regularly and properly. There is no limit to the identification of the problem about dividend policy that is visible in Nepalese commercial bank. Even if there is policy that dividend policy of commercial bank is not matching with the earning, retained earning of a firm is taken as financing sources. If the firm retains its earnings, it will result in decreasing leverage ratio, expanding activities and increasing profit in succeeding years. If the firm pays dividend it may need to raise capital through capital market, which reduce ownership control of the existing shareholders. Another way of raising capital is through debenture, which ultimately affects on risk of the firm. However, dividend is the most important factor for the attraction and the motivation of investor and it also reflects firm's healthy position in the market.. There is no limit to the identification of the problems about dividend policies and practices that are occurring in different public companies.

In the context of Nepalese capital market, the commercial banks provide low rate of interest on deposits. So the people are attracted to invest money in shares for greater benefits. In Nepal, very few companies have adopted dividend policies.

There are different forms of dividend payment such as cash dividend, stock dividend and bonus share etc. Among different form of dividend policy, stock dividend is the most popular one. But also dividend policy is not clearly understood by a large segment of financial community.

Different research has been made in this area seeking to establish the irrelevance of dividend on shareholders Millar and Modigliani's work the following questions: how can investor get benefit from a dividend when it is not in effect, paid rupee for rupee out of the value of the share?

Besides the number of research study has been made to lead the development of the behavior models associated with the name Linter(1956), Darling(1957), and Britain(1966) and other attempting to categories explain and measure the different types of observed different practice. The study seems to provide useful guidelines in handling the complicated decision problem.

Every firm follows different forms of dividend policy based on their strategy for the company. It is assumed that there is direct relationship between the dividend and stock price. But whole considering the firms of underdeveloped countries like Nepal, it is very difficult to match the relationship between dividend and stock price. There is no uniformity in the distribution of dividend of commercial banks. Similarly, there is no any relationship between dividend distributed and share price. Due to political instability and many other factors almost of the firms are not able to pay the dividend to their shareholders. The commercial banks especially joint venture banks pay low dividend while earning is high and sometime they pay high when earning is low.

It has been known that all banks have sufficient earning but they are not distributing the dividend in equal proportion. They have not followed the consistency in dividend policy and dividend policy has not been found to be uniformity of dividend payout ratio in these sample banks.

Therefore this research raises some of the following questions:

1. What is the trend of dividend payment pattern in Nepalese commercial banks?
2. Is there any uniformity among the selected banks on the dividend policy?
3. Are the sample banks guided by specific dividend policy?
4. Is there any consistency in dividend per share and dividend payout ratio in the sample banks?
5. Do the commercial banks paying larger dividend have a good financial position?
6. Does the dividend policy affect the market price of the shares of commercial banks?
7. What are the prevailing dividend policies of sample listed companies?
8. What relationship does there exist between dividend per share and other financial indicators such as EPS, DPR, P/E Ratio, and MPS?
9. This study will try to answer the above mentioned issues on the basis of major findings?

1.4 Objective of the study

This study is primarily undertaken to focus on the prevalent dividend policies and practices of commercial banks with a view to suggest some appropriate dividend strategy and direction of future endeavors for the overall healthier development of the share market and also the possible impact of such endeavors in share market in Nepal. In this regard, the specific objectives of the study are:

1. To analyze the present situation of dividend policy of commercial banks.
2. To analyze the trend of dividend pattern of commercial banks during the period of 2005-2010
3. To identify the dividend policies of different companies and find out whether the followed policy is appropriate or not and which policy is better.

4. To identify the relationship between dividend policy and other financial indicators.
5. To identify the regularity of dividend distribution of different listed companies.
6. To study the impact of dividend on its investment and shareholders.
7. To find out problems and suggest for further improvement in future.
8. To find out whether dividend policy affects value of the firm or not.
9. To provide practical suggestion and possible guidelines to overcome various issue and gaps based on the findings of the analysis.
10. To find out the liquidity position of the company by analyzing the dividend policy of the concerned banks.
11. To examine the relationship between EPS,DPS,DPR, and MPS on the samples of Himalayan Bank Ltd.(HBL), NABIL Bank Ltd.(NABIL), Everest Bank Ltd.(EBL) and Bank Of Kathmandu Ltd.(BOKL).

1.5 Importance of the study

Dividend pattern of Nepalese commercial banks are important because it is getting considerably attention in financial management. Dividend pattern of the companies determines and analyzes the division of earnings between payment to stockholders and reinvestment in the firm. This study mainly analyzes the factors that influence the allocation of earnings to dividends or retained earnings in Nepalese companies. It also discusses the relationship between dividend payment and share prices, earning and dividend payment, market price and earning.

In the present situation people are interested to invest their money in shares to get more return. So, most of the commercial banks provide dividend to attract the fund to their own institution. Due to sound dividend, investors invest their money in different sectors. If investor is sure to get return from any sector, they prefer to invest. So now a day, commercial banks are getting more opportunity to collect more investment due to their policy. In capital market investors can earn money in two ways; one is by means of dividend and another is by capital gain. In Nepal most of the investors invest their money in share unknowingly. It is necessary to make them clear about the concept of share and dividend, so that they can feel secured about their investment. This study may give important results for the investors and policy makers of the banking sectors that have been studied and other sectors too.

The Significance of the study is as follows:

1. This study provides important guidelines in setting suitable dividend policy in Commercial banks.
2. This study will be useful for government to reformulate different policies like planning, controlling, monitoring and other purposes too.
3. This study also helps to researchers, investors, shareholders, management and ordinary persons.
4. This study will be helpful to find out the strength and drawbacks of the commercial banks.

1.6 Review of Literature

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

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

The purpose of reviewing the literature is to develop some expertise in one area and to see what new contribution can be made and to receive some ideas for developing a research design. Dividend refers to the portion of earnings made by the firm that distributed to shareholders as return of their investment in shares. In other word, it is the reward to shareholders for bearing the risk of uncertainty. If any firms make profit then they have two alternatives, one is reinvest the earnings in profitability sector or in the expansion of business and other is distribute it to its owner i.e. shareholders. Most firms try to make balance between these two alternatives. For this they retain certain percentage of profit in business and rest is distributed to stockholders. This distributed income is simply called dividend.

Dividend policy refers to the policy which segments the earnings to retention amount and dividend. Dividend policy determines the ratio of earnings to be retained and payout. 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 prices include the returns of the original investment plus a capital gain. If the stock is actually sold at price above its purchase price, the investors will receive a capital gain. At the same time, they also expect firm's earnings in a form of dividend. So the shareholders may satisfy with dividend or capital gain. Financial manager is therefore concerned with the activities of corporation that affect the well being of stockholders. That well being can be partially measured by dividend received but a more accurate measure is the market value of stock." But shareholders usually think the dividend yield less risky than capital gain." Since dividend would be more effective to stockholders.

1.7 Research Methodology

Research Methodology is a way to systematically solve the problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. It refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based of both technical aspects and logical aspect. This research tries to perform a well designed qualitative and quantitative research in a very clear and direct way using both financial and statistical tools. In order to achieve the objective mentioned above following research methodology has been followed. In this study the procedure concerning the research includes research design, nature and sources of data and collection procedure, tools used for analysis.

1.7.1 Research design

Research is a plan to be carried in connection with a research period. It is the plan structure and strategy of investigation conceived so as to obtain a number of research question and the control vaccine. The research design includes specification of the method of the purposed study and detailed plan for carrying out the study with various empirical data for the analysis of the problem. Research design is always quite necessary in order to ascertain a specific study. The research design refers to the entire process of planning and carrying out a research study. The research design followed in this study will be analytical cum descriptive.

1.7.2 Population and Sample

The term population means all the members of any well defined class of people, events or the objects, organization or firms. The population means aggregate or the entire group. Population consists of large group. Due to its large size it is difficult to collect detailed information. So a sub group has been chosen that is believed to be representative of the population. Hence, sub group is called Sample. The sample allows the researcher more time to make an intensive study of a research problem. This study is conducted by assuming "A" class Commercial Banks of Nepal as population. Though there are many other sectors, but due to low volume and amount of share transactions and insufficient data, other sectors have been ignored. Following four banks are taken as for sample:

- Himalayan Bank Ltd.(HBL)
- Everest Bank Ltd.(EBL
- Nabil Bank Ltd.(NABIL)
- Bank of Kathmandu Ltd.(BOKL)

1.7.3 Nature and Sources of data

The study is primarily based on secondary data. The required data have been collected from financial statements of listed companies which have located at WWW Nepal stock.com and official website of Nepal stock exchange ltd.

Financial data of previous years of the selected banks are downloaded from www. Nepal stock.com, different books from library, periodicals, newspaper cuttings, company's magazines will also be used whenever required. Needless to say that this study is associated with past phenomena, therefore, only the secondary data will be used to carry out the whole calculations. Thus, the historical data from the NEPSE'S website shall be used which obviously is the secondary sources and past phenomena in nature.

1.7.4 Tools used for analysis

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

- Financial tools:

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

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

- Statistical tools:

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

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

1.8 Limitation of Study

A research work is a vast study investigating the subject matter for solving perceived research problems. No work is easy. To find any kind of solution we have to face different problems. Each and every study has its own limitations. No study can be free from constraints and this study too is not an exception. This research will be done for the partial fulfillment of the requirement of Master of Business Studies degree. The time is not sufficient and this study might not fulfillment of the lack of researcher experience. Therefore, the following are the main limitations of the study:

- The research should be done in very short period. We cannot analyze freely which restricts from minimizing error to full extend.
- Most of the data are secondary and may not be timely. So there may be reporting error.
- Due to various factors all the related areas are not covered.
- This study considers only the main factors which are related to the dividend.
- This study covers only period data from 2005-2010.
- Only four companies are taken as sample due to lack of time.
- Data is not available easily.

In addition, there are couples of limitations which weaken the generalization e.g. time taken, reliability of statistical tools. Thus, while using the findings of the study one should be careful and use the same judiciously by considering the various limitations.

1.9 Organization of the study

The study has been organized into five chapters; each chapter deals some important factors of dividend pattern. The title of each of these chapters is listed below:

Chapter 1: Introduction of the study
Chapter 2: Review of literature
Chapter 3: Research methodology
Chapter 4: Presentation and analysis of data
Chapter 5: Summary, conclusion and recommendation

Chapter 1: This is the introduction chapter of the study which includes the focus of the study and other relevant subject matters according to the needs.

Chapter 2: This chapter is the review of literature which includes conceptual framework along with the review of major books, research work, view point of experts etc.

Chapter 3: The third chapter deals with the research methodology. It is used to evaluate dividend practices of commercial banks in Nepal. It consists of research design, sources of data, data collection techniques, data processing procedures and data analysis tools.

Chapter 4: The fourth chapter is the main chapter and is the core of the study that deals with the data collection, presentation of different financial and statistical tools and techniques.

Chapter 5: The fifth and the last chapter of the study consist of summary, conclusions and recommendations. The bibliography and appendices are at the end of the study.

CHAPTER – II

Review of Literature

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

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

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

2.1 Conceptual Framework

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

Every investor invests their money to buy shares of firms with the hope of sharing profit earned by the firm. They want to receive maximum returns on their investment. It may be cash, shares and securities or a combination of these. It depends upon management policy that how much total profit to distribute as dividend and how much to retain in the business. A dividend is a periodic payment made to stockholders to compensate them for the use of and risk to their investment funds. Generally dividends are declared from the current earnings. The firm's board of directors determines the type, size and time of dividend payments. The firm may declare one dividend each year or several interim and a final dividend.

Dividend Decision of the firm is one of the major areas of financial management. "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."[1] There are two sources of financing in an existing firm. One is internal sources (i.e. retained earnings) and another one is issuing share, debenture (i.e. external sources of financing).

Retained earnings are the most significant internal sources of financing of the growth of the firm. On the other hand dividends are desirable from shareholders point of view as it tends to increase their current wealth. Dividend constitutes the use of the firm's funds. The retention of net profit widely effect by the dividend policy. If the firms adopt sound dividend policy then fewer funds will be available. On the contrary, if the firms adopt tight dividend policy then excess fund will be available for financing. So, an external source of financing and internal sources of

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[1] I.M. Pandey, *Financial Management*, 4/e, New Delhi: Vikash Publishing House Pvt. Ltd., 1997, p.277.

financing affect's the company's capital structure. Therefore controversial questions may arise in taking dividend decision for the financial manager. This chapter analyzes the factors that influence the allocations of earnings to dividend or retained earnings. It also discusses the relationship between dividend payout and share prices. The percentage of earnings paid as a dividend is payout ratio. A high payout ratio means more dividend and fewer funds for expansion and growth. "Dividend payout of course reduces the amount of earnings retained in the firm and affects the total amount of internal financing."[2]

The objectives of choosing a dividend policy should be to maximize the value of the firm to its shareholders. "Professor James E. Walter argues that the choice of dividend policies almost always affects the value of the enterprise."[3] Dividend policies are determined by the Board of Directors. But they have to take into consideration of a number of factors in determining their dividend policies and variations their in. The board of directors is also subject to a series of legal restrictions which are intended to maintain the capital of the corporation and to safeguard the interest of various parties in the corporations.

2.2 Majors Forms of Dividend

The firm uses different types of dividend to the shareholders to implement their objectives and policies. Before distributing any dividend, they first ensure that what is the current situation of the firm? What is the growth rate of the firm? How much dividend will need to meet the expectation of the shareholders? "The type of dividend that corporation follow is partly a matter of altitude of directors and partly a matter of a various circumstances and financial constraints that bound

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[2] James C. Van Horne, *Financial Management and Policy,* 11/e, New Delhi: Prentice-Hall, 1997, p.305.

[3] James E. Walter, 'Dividend Policy: Its Influence on the value of Enterprise' *Journal of Finance*, 1963, p.280.

corporate plans and policies."[4] Some of the major forms of dividends the corporation can adopt are discussed below:

a) Stock Dividend:

If additional shares are issued to existing shareholders instead of cash dividend is known as stock dividend. Stock dividend is nothing more than the paying stock equally to the dividend that is to be received by the shareholders. Stock dividend increases the number of outstanding shares of the firm's stock. Although stock dividends do not have a real value. Firms pay stock dividend as a replacement for a supplement to cash dividend. Under stock dividend, stockholder receives additional shares of the company in lieu of cash dividend.

b) Cash Dividend :

The portion of net earnings, which are distributed to the shareholder as cash in proportion to their shares of the company is called cash dividend. If the company doesn't have sufficient cash at the time of dividend payment, company seeks to arrange funds, which will be managed by borrowing. Cash dividend is major form of dividend, which is distributed to shareholders in cash out of the company's profit. Generally, stockholders have strong performance for cash dividend.

When cash dividend is paid then the total assets of the company is automatically reduced. So, the company needs to have enough cash and sufficient balance for the payment of cash dividend. If it does not have enough balance, arrangement should be made to borrow funds, which is difficult for the company. When the company follows stable dividend policy, they use to prepare cash budget to indicate the necessary funds which would be needed to meet regular dividend payment of the company.

[4] Manohar Krishna Shrestha, *Financial Management Theory and Practice*, Kathmandu: Curriculum Development Centre, 1980, p.670.

c) Bond Dividend:

Bond dividend is a kind of dividend that is distributed to shareholders in the form of bond. In other words, company declares dividend in the form of its own bond with a view to avoid the cash outflows. These are given when the firms are unable to take the burden of interest of loans. The main advantage of the bond dividend is that it has a favorable psychological impact on shareholders. The disadvantage of bond dividend from the company's point of view is that they are most costly to administer than cash dividend.

d) Property Dividend:

Property dividend is that dividend at which the payment of assets is made in any form other than cash. 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 dividend.

e) Scrip Dividend:

Scrip dividend is a form of promissory note, promising to pay the holder at specified later date when company has been suffering from the cash problem but has earned profit. In other words, if the company has not sufficient amount of cash for dividend payment, company may issue scrip or notes promising to pay dividend within the maturity period. These dividends may be interest bearing or non- interest bearing. When the company has sufficient cash then it is distributed to stockholders.

Scrip dividends are justified only when the company has really earned profit and have only to wait for the conversion of other current assets into cash in the course of operation.

f) Interim Dividend:

Generally, dividends are declared at the end of the financial year. This is called regular dividend. But when management declares dividend before the end of financial year it is called interim dividend.

2.3 Theories of Dividend

There are so many dividend policies in practice, some of them are:

2.3.1 Residual Theory of Dividend:

Residual theory of dividend suggest that only residual earnings should be distributed as dividend, which is left after accepting all the profitable investment opportunities, which depend upon the investment policy of the firm. According to this theory the dividend is distributed if there exists a balance of earning after paying fixed obligations and investment opportunities. If the firm has investment opportunity with higher return than required, then firm will invest the earnings to that project, and if there are only earnings left after accepting all the investment opportunities then it will be distributed to stockholders as cash dividend.

When the firm has opportunity of investment in profitable sector at first, they prefer the internally generated fund (Retained Earnings) rather than the externally generated fund which is comparatively expensive due to the flotation cost and others. So the amount of dividends fluctuates time to time in keeping with availability of acceptable investment opportunity of the firm. "Although, the residual theory of dividend appears to make further analysis of dividend policy unnecessary, it is not clear that dividends are solely a means of disbursing excess funds."[5] The dividend policy is affected by

1. desired capital structure of the firm
2. investment opportunities of the firm
3. availability of internally generated capital

[5] Ramesh K. Rao, *Financial Management Concept and Application*, 2/e, New York: Macmillian Publishing Co., 1992, p.458.

If a company has no investment opportunities, then, it is reasonable to distribute entire earning as dividend. On the contrary, if investment opportunities exist, then the company distributes some portion and remaining may be used for financial activities. But a critical question arises here: how much of the fund is needed to finance and out of it, how much is from equity. But the answer is: if earning is more than financing needed by equity than unnecessary fund can be distributed as dividend. If earning is less than financing needed by equity or equal to it, then no dividend is distributed. So this theory assumes that dividend policy is totally passive in nature. James C.Van Horn expresses as "when we treat dividend policy as strictly financing decision, the payment of cash dividend is passive residual."[6]

The mathematical expression can be presented as follows:

$$D_t = \text{Max. } (E_t – I, \text{ or } 0)$$

Where,

D_t = dividend paid in year't'

E_t = earning in year't'

I = portion of investment in year't' to be financed by equity

From above discussion, a conclusion can be drawn that residual theory of dividend prefers the use of internal funds in investment and increased value of shareholders through equity capital gain.

2.3.2 Stability of Dividend

This is another important aspect of dividend policy. Stability of dividend refers to the constantly paying dividend in some portion of earnings without variations. It also refers to the regularity in paying dividend even though the amount of dividend may fluctuate from period to period. Stability of dividends is considered as a desirable policy by the management of most companies. Most of the shareholders prefer stable dividends because all other things being the same, stable dividends

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[6] James C. Van Horne and John Mc Donald, 'Dividend Policy and Equity Financing' *Journal of Finance,* 1971, pp.507-519.

have a positive impact on the market price of the share. According to James C. Van Horn, the term dividend stability refers to the consistency or lack of variability in the stream of dividend. "By stability, we mean maintaining a position in relation to a dividend trend line, preferably one that is upward sloping." There are three distinct forms of such stability of dividends which are as follows:

1. **Constant Dividend per share**

   Under this dividend policy, a company follows a policy of paying a certain fixed amount per share as dividend and maintains over the year, without considering the fluctuation in earnings. When a company follows such a dividend policy, it will pay dividends to the shareholders even when it suffers losses. It is easy to follow this policy when earnings are stable. If the earnings pattern of a company shows wide fluctuations it is difficult to maintain such a policy. This policy doesn't imply that the dividend per share will never be increased. When the company reaches new level of earnings and expects to maintain it, the annual dividend per share may be increased. The dividend policy of paying a constant amount of dividend per share treats common shareholders without giving any considerations to investment opportunities within the firm and opportunities available to shareholders. This policy is generally preferred by those persons and institutions that depend upon the dividend income to meet their living and operating expenses because of the constant amount of dividend they received.

2. **Constant Payout Ratio**

   The ratio of dividend to earnings is known as payout ratio. The policy to distribute certain percentage of profit in every period is called constant payout ratio .under this policy, the amount of dividend fluctuates with direct proportion of earnings. If the company incurs losses no dividend shall be paid regardless of desires of shareholders. Constant payout ratio may be supported by management because it is related to the company's ability to pay dividends. Internal financing with retained earnings is automatic when this policy is followed. At any given payout ratio, the amount of dividends and the addition to retained earnings increase with increasing earnings and decrease with decreasing earnings.

3. Low regular Dividend per share plus Extra

Under this policy of dividend payment, both policy of dividend (i.e. constant dividend per share, and constant dividend payout) is included. The company having fluctuating earnings follows this policy. In this policy, a small amount of dividend is fixed to reduce the possibility of ever missing a dividend payment. In the period of prosperity extra dividend is paid to prevent investors from expecting that the dividend represents an increase in the established dividend amount. "This type of dividend policy enables a company to pay constant amount of dividend regularly without a default and allows a great deal of flexibility for supplementing the income of shareholder's only when the company's earning are higher than the usual without committing itself to make larger payments as a part of the future dividend."[7] Generally, this type of policy is mostly followed by those companies whose stockholder's prefer at least a certain amount of regular rewards.

2.4 Procedural Aspect of Dividend Payment

The Board of directors decides about the dividend to pay or not to pay. Dividend is distributed to shareholders of record on a specific date. "When a dividend has been declared, it becomes a liability of the firm and cannot be easily rescinded by the corporation."[8]. As the dividend policy has a number of types, it can also be paid in more than one method. In foreign countries, lower capital market is advanced as well as perfect, dividend are paid quarterly. In underdeveloped country like Nepal, dividend is used to be paid in annual system. One must view the procedures as

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[7] I.M. Pandey, *Financial Management* ,5/e, New Delhi: Vikash Publishing House Pvt. Ltd., 1997, p.773.

[8] Stephen A. Ross, Randolph W. Westonfield and Jaffe F. Jeffre, *Corporate Finance*, 3/e, Illinois: Irwin, 1993, p.522.

how dividend is paid to stakeholders. Dividend policy has some specific terms and conditions concerning the time, which handle not to stand conflict regarding the receipt and payment of dividend when it is sold and purchased. Some usual procedures are pointed below:

- **Declaration date**

  Declaration date is the date on which board of directors of the company declares the regular dividend. Usually, declaration date is fixed when the general meeting of the company is held .On the declaration date, amount of dividend per share, holders of record date and payment date are mentioned. After the declaration of dividends total amount of dividend is transferred to dividend payable account from retained earnings account.

- **Holder of record date**

  It is the date after which new owners of shares may not qualify to receive dividends. In others words, company makes the list of shareholders as a owner on that date. Only those shareholders get dividend that are listed. Therefore, it is a threshold date after which obtained ownership is not able to get dividend. It plays significant role in the payment of dividend for not allowing arising conflict between company and its share purchasers. Under this procedure, a list of stockholders is drawn up from the stock transfer book of the company .Stockholders on the list are entitled to dividend, where as stockholders who come on the books after the date of record are not entitled to the dividend.

- **Ex-Dividend date**

  In capital market, share can only be exchanged through the brokers. The association of share brokers set a time which is for business days before the holders of record date. After that, the holders are not able to receive the dividend, called ex-dividend date. In the context of Nepal, there is a provision issued by company act 1997, section 140 and subsection 3 which describes that only the person whose name stands registered in the list of existing shareholders at the time of declaration the dividend shall be entitled to it. This definition includes only declaration and payment date.

- **Payment Date**

The company declares the date in which it pays dividend to its shareholders is called Payment date. But in Nepal, company Act 2053, section 140, sub-section 3 describes that, “Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.” This indicates that only declaration and payment date take meaning in payment procedures.

2.5 Factors Affecting Dividend Policy:

Dividend decision cannot be taken in vacant as well as in isolation rather various factors which affect the dividend policy, either directly or indirectly, must be taken into consideration while taking dividend decision. There are some factors, mentioned below, to which financial manager must focus while taking dividend decision.

a. Legal Restrictions

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

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

b. Liquidity Position

Liquidity Position (Availability of cash) of the firm is an important consideration for dividend payment. It influences its ability to pay dividend. A firm may have sufficient retained earnings, but if they are invested in fixed assets, cash may not be available to make dividend payment. As dividend symbolize a cash outflow. Thus, the greater the cash position and overall liquidity of a company, the greater its ability to pay a dividend regularly. Generally growing firm faces the problem of liquidity even though it makes good profit but it needs fund for its expansion. So they cannot declare dividend.

c. Investment Opportunities

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

d. Stability of Earnings

The firm's earning is major determinants for sound dividend policy. Company that has relatively stable earnings often able to anticipate approximately what its future earnings will be. Such a firm is therefore more likely to payout a higher percentage of its earnings than a firm with fluctuating earnings. The unstable firm is not certain that in succeeding years the anticipated earnings will be realized. So it is likely to retain a higher portion of current earnings. A lower dividend will be easier to sustain if earnings fall of in the future.

e. Access to capital market

A company having insufficient cash can pay dividend, if it is able to raise fund in capital market. Because they can generate fund from the capital market whenever it is required." Easy accessibility to the capital market provides flexibility to the management in paying dividends as well as in meeting corporate obligations. Thus, greater the ability of the firm to raise fund in the capital market, the greater will be its ability to pay dividends even it is not liquid."[9]

f. Need to Repay Debt

When a firm has issued 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 requires the retention of earnings. In such case also the dividend decision will be effected.

g. Restrictions in Debt Contracts

Debt contracts, especially when long term debt is involved, often confine a firm's ability to pay cash dividends**.** In other words, the protective covenants in bond indenture or loan agreement often include a restriction on payment of dividends. The restriction is employed by the lenders to conserve the company's ability to service debt. Generally, it is articulated as maximum percentage of earnings. Similarly, preferred stock agreements generally state that no cash dividends can be paid on the common stock until all accrued preferred dividends have been paid. These types of limitations persuade the dividend policy of the firm.

h. Rate of Assets Expansion

The more rapidly a firm is growing, the greater its need for financing asset 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

[9] Ibid p. 301.

personal income tax rates, only a position of them will be available for investment.

i. Profit Rate

The expected rate of return on assets determines the relative attractiveness of paying earnings in the form of dividend to the stockholders on retains in the firm or using them in the present venture. Thus, the higher the profit of the company higher would be the dividends to the shareholder's.

j. Control

For many small firms and certain large ones maintaining the controlling vote is very important. These owners would prefer the use of debt and retain profit to finance new investment opportunities rather than issue new stock. As a result dividend payout certainly reduces the cash balance of the company and if the company needs funds to invest new proposals, it should issue common stocks. If the existing owner could not buy new shares or does not want the ownership is diluted and the control mechanism is affected.

k. Inflation

Inflation also play decisive role in dividend decision. The precise of the assets rises up in the situation of inflation and the funds generated by depreciation would be inadequate to replace the equipment. So, the greater profit retention may be required for the companies in order to make replacement or to maintain the capital intact which will reduce dividend payment.

2.6 Stock Dividend and Stock Split

In an economic sense, stock dividends and stock split are very similar, although typically used for different purposes. For a stock dividend journal entries are required to reflect changes in value of common stock, capital in excess of par (paid in capital) and retained earnings. A stock split needs only a journal notation changing the number of shares and the par value.

a. Stock Dividend

An issue of shares to existing shareholders instead of paying a cash dividend is known as Bonus shares. The number of shares increased by distributing the stock dividend. It is only transferring of fund from retained earnings to capital accounts. There is no use of fund on stock dividend. There is no effect on the wealth of shareholders. "By considering stock dividend the Book value per share, Earning per share and the market price per share decreases but number of share increase. In this case a stock dividend increases the total cash dividend."[10]

b. Stock Split

Stock Split is a sub-division of shares. In stock split, the number of shares is increased through a proportional reduction in the par value of the stock. The change doesn't take place in the total capitalization of the company as it remains the same as it was before the split.

Differences between stock dividend and stock split

Stock Dividend	Stock Split
a. The par value of the share remains same. b. Amount of paid up capital increases after distributing of stock dividend. c. A part of the reserve is transferred to capital account for stock dividend. d. The total value of share, holding shareholders increases. e. It is paid in shares of stock instead of cash. f. A stock dividend reduces the retained earnings.	a. The par value of the share is changed. b. No changes in paid up capital. c. There is no impact on Reserve and Surplus account for a stock split. d. The total value of shares holding will remain same. e. A stock simply increases the number of shares outstanding. A stock split doesn't affect retained earnings.

[10] James, Van Horne, *Financial Management and Policy*, 2/e, New Delhi: Prentice- Hall, 1977, p.321.

2.7 Legal provisions Regarding Dividend Practices in Nepal

There is a nothing stated regarding rule of dividend practices in "Nepal Company Act 2021". The responsibility to protect shareholders interest is handed to protect shareholder's interest, because the attitude of board of directors play dominant role in the management of public limited companies and they are generally in majority who are nominated by government. At the present situation, it is advisable to enact a separate shareholders protection act and safeguard shareholder's rights and interest. Shareholder's association of Nepal has been established for this purpose. The responsibilities to undertake required action to protect shareholder's interest was given to stock exchange centre by security exchange act 1983-84.

In Nepal, the Nepal Company Act – 1997 has made some legal provisions regarding dividend payment. These provisions are as under:

Section 2 (M) states that "Bonus shares (stock dividends) means shares issued in the form of additional shares to shareholders by capitalizing the surplus from the profit or the reserve fund of a company. The term also denotes an increase in the paid up values of the shares after capitalizing surplus or reserve funds."[11]

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

Section 137 Bonus shares and subsection (1) states that the "company must inform the office before issuing bonus shares. Under subsection (1), this may be done only according to a special resolution passed by the general meeting."[12]

Section 140 Dividend and Subscription of these sections are as follows.[13]

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[11] Endi Consultant Group, Kathmandu, (Nepal), Nepal Company Act 2053; *Nepal for Profitable Investment*, Kathmandu: Shree Star Printing Press, p.43.

[12] Ibid p.94.

[13] Ibid pp.94-95.

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

- Incase any law for bids the distribution of dividends.
- Incase the right to dividend is disputed.
- Incase dividend cannot be distributed within the time limit mentioned above owing to circumstances beyond any one's control and without any fault on the part of the company.

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

Subsection (3)-Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.

The above indicates that Nepalese law prohibits repurchase of stock which is against the theory of finance.

2.8 Review of Major Studies in General

This section is devoted to the review of the major study in general concerning dividends and stock prices, management views on dividend policy, and management view on stock dividends. Therefore, the researcher is going to review the various studies conducted in different places by the different experts and authors.

2.8.1 Modigliani and Miller's Model [14]

The major argument indicating that dividends are irrelevant was first propounded by Frances Modigliani and Merton Miller in 1961. It is popularly known as M.M approach. It is sometimes termed as "Dividend Irrelevance Model". In the history

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[14] Modigliani and Merton H. Miller, 'Dividend Policy, Growth and Revaluation of Share'. *Journal of Business,* Vol. XXIV, 1961, pp.411-433.

of corporate finance, firstly they declared that dividend policy does not affect the value of the firm; i.e. dividend policy has no effect on the share prices of the firm. They argued that the value of the firm depends on the firm's earnings which depend on its investment policy and the way how earnings doesn't affect this value is independent of dividend policy. The Modigliani and Miller approach of Irrelevance is based on following critical assumptions:

- The firm operates in perfect capital market where all investors are rational. Information are freely available, there is no transaction costs, securities are infinitely divisible, no investor is large enough to influence the market price of securities; there are no floatation costs.
- Taxes do not exist.
- The firm has fixed investment policy, which is not subject to change.
- Risk of uncertainty does not exist.

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

Step1:

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

Symbolically,

$$P_o = \frac{D_1 \Gamma P_1}{1 \Gamma K_e}$$

Where,

P_o = *market price of the share at the beginning or at the zero period.*

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

D_1 = *Dividend per share at the end of the period.*

K_e = *Cost of equity capital*

Step 2:

Assuming no external financing, the total capitalized value of the firm would be simply the number of share (n) times the price of each share (P_0). Thus we have,

$$np_o = \frac{n(D_1 \Gamma P_1)}{1 \Gamma K_e}$$

Where,

n = *Number of equity shares at Zero period*

Step 3:

Assuming that the retained earning is not sufficient to finance the new investment needs of the funds, in that case issuing the new shares is the other alternative. Say 'M' is the number of newly issued equity shares at price $p_{1.}$

Now,

The equation of step -2 can be re-written as follows:

$$np_0 = \frac{nd_1 \Gamma p_1 (n \Gamma m) \, \mathrm{Z} mp_1}{1 \Gamma K_e}$$

Where,

n = *number of equity shares at zero period*

The above equation is formed in following ways:

We have,

$$np_0 = \frac{n(d_1 \Gamma p_1)}{1 \Gamma K_e}$$

$$or, \quad np_0 + \frac{mp_1}{1 \Gamma k_e} = \frac{n(d_1 \Gamma p_1) \, \Gamma \, mp_1}{1 \Gamma K_e}$$

$$or, \quad np_0 = \frac{nd_1 \Gamma np_1 \Gamma mp_1 \mathrm{Z} mp_1}{1 \Gamma K_e}$$

$$or, \quad np_0 = \frac{nd_1 \Gamma p_1 (n \Gamma m) \, \mathrm{Z} mp_1}{1 \Gamma K_e}$$

Where,

n = *No. of shares at the beginning*

m = *No. of equity shares issued at the end of the period.*

Step 4:

The issuing of new stock is determined by the amount of investment in period-1 not financed by retained earning. The total number of new shares can be find out in the following ways:

$$mp_1 = I - (E - n\, d_1)$$

Where,

mp_1 = The amount collected by issuing new shares.(The number of Shares)

Step 5:

By substituting the value of mp_1 from equation of step 4 to equation of step 3

We find,

$$np_0 = \frac{nd_1 \Gamma p_1 (m \Gamma n)\, Z I \,\Gamma\, E\, Z nd_1}{1 \Gamma K_e}$$

$$np_0 = \frac{p_1 (m \Gamma n)\, Z I \,\Gamma\, E}{1 \Gamma K_e}$$

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

In this way, according to Modigliani and Miller study," it seems that under condition of perfect capital market, rational investors, absence of tax, discrimination between dividend income and capital market appreciation, given the firms investment policy its dividend policy may have no influence on the market price of the shares." However, the view that dividend is irrelevant, is not justifiable, once the assumption is modified to consider the realities of world.

In practice, every firm follows one kind of dividend policy on another. The section of certain dividend policy depends on the age and the nature of the firm. It does not seem so relevant to apply MM approach in Nepalese context because when we apply this approach, the assumptions supposed by MM are significantly deviated.

2.8.2 Walter's Study[15]

An approach developed by Professor Walter is of considerably interest. Walter conducted a study of dividend and stock price in 1966.Walter argues that dividend policies almost always affect the value of the enterprises. The investment policy of a firm cannot be separated from its dividend policy which is just opposite of what MM said. The key argument in support of the relevance proposition of this model is the relationship between the return of firm's investment or its internal rate of return(r) and its cost of capital (k). As long as internal rate is greater than the cost of capital (k), the stock price will be enhanced by retention and will vary inversely with dividend payment.

The basic assumptions presented by Walter Model are as follows:

- The firm's internal rate of return (r) and cost of capital (k) are constant.
- The firm distributes its entire earnings or retains it for reinvestment immediately.
- The value of EPS and DPS are assumed to remain constant forever in determining a given value.
- Retained earning is the only source of financing for the company rather than using debt and equity financing.
- The firm has perpetual life.

Considering the above assumptions, Walter presented the following formula to determine market price per share, which is as follows:

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

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[15] James E. Walter, 'Dividend Policies and Common Stock Price'. *Journal of Finance*, 1966, pp.29-41.

Where,

P	=	*Market price per share*
DPS	=	*Dividend per share*
EPS	=	*Earning per share*
r	=	*Internal Rate of return*
k	=	*Cost of capital*

According to Walter's model, the optimum dividend policy depends on the relationship between the firm's internal rate of return (r) and its cost of capital (k). Walter has suggested different dividend policy for different types of firm. They are:

i. Growth Firm (r>k)

If the internal rate of return is higher than the firm's cost f capital, than the firm is said to be growth firm. In other words, Growth firm are those which expand rapidly because of ample investment opportunities yielding returns higher than opportunity cost of capital or expected rate of return of shareholder's. Such firms can maximize the value of share by retaining all earnings for internal investment. Thus, the correlation between dividend and stock price is negative. For such firms optimum payout ratio is zero.

ii. Normal Firm (r=k)

The firm having equal internal rate of return and cost of capital is known as normal firm. For these firms there is no role of dividends on stock prices. i.e. dividends are indifferent from stock prices. In other words, dividend payout does not affect the market value of share whether the firm retains the profit or distributes dividends is a matter of indifference. "There is no unique optimum payout ratio for a normal firm. One dividend policy is as good as other. Market value per share is not affected by the payout ratio."[16]

[16] Ibid p.280.

iii. Declining Firm (r<k)

Just opposite of the growth firms, these firms have no investment opportunities and even their return on investment is less than the required rate by investors. Thus, it is better to distribute earning to its shareholders as dividend so that they can invest else where they earn more than the return by declining firm. In such case relationship between dividend and stock prices is positive. Increase in the dividend payout increases the stock price. Thus, the optimum payout ratio for declining firm is hundred percent.

Thus, Walter concluded that when the firm is in growth stage, then, dividends are negatively correlated with stock price. In the normal firm, there is no relationship between dividends and stock price i.e. dividend is indifferent to variation in the market price of share and in the declining firm; there is positive relationship between dividend policy and price of the stock.

2.8.3 Gordon's Study[17]

Myron J. Gordon conducted a study in 1962. He modified the Walter's model for determining the market price of the stock. In his study he conducted that dividend policy of a firm has an effect on its value of shares even in a situation, where the return on investment and required rate of return are equal. In this model, he explains that those investors are not indifferent between current dividends and retention of earnings. His study concluded that investors give more emphasis to the present dividend more than that of future gains. His arguments in this model insisted that an increase in dividend payout ratio leads to increase in the stock price for the reason the investors consider the dividend yield (d_1/p_0) is less risky than expected capital gain. Hence, there is positive relationship between amount of dividend and stock prices.

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[17] Myron J. Gordon, *The Invesment Financing and Valuation of Corporation,* Homewood Vol.III, 1962, pp.114-119.

Gordon's study is mainly based on the following assumptions:

- The firm wholly finances with equity
- Retained earning is the only one source for a new investment. No external financing is available.
- The firm and its stream of earnings are perpetual.
- Internal rate of return(r) and cost of capital (k) are constant.
- The corporate taxes do not exist.
- The discount rates must be greater than growth rate (ke>g)
- The retention ratio (b) is constant. Thus, the growth rate i.e. g = b.r is constant forever.

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

$$p_0 = \frac{EPS(1-b)}{K_e - br}$$

Where,

p_0	=	*Price of stock at zero period*
Eps	=	*Earning per share*
b	=	*Retention Ratio*
1-b	=	*Dividend payout ratio*
ke	=	*Capitalization rate or Cost of capital*
br	=	*Growth Rate.*

The effect of the dividends can be summarized as follows:

i. Growth Firm (r>ke)

Growth firm is defined as the higher earning than that of cost of capital i.e. (r>ke). Share price tends to decline in correspondence with increase in payout ratio or decrease in retention ratio (i.e. high dividend corresponding to earning leads to decrease in share) are negatively correlated in growth firm.

ii. Normal Firm (r = ke)

Normal firm indicates those firm whose earnings and coast of capital are equal i.e. r=k. For normal firms, share value remains constant regardless of changes in dividend policies. Thus, there is no correlation between dividends and stock prices.

iii. Declining Firm (r<ke)

The firm earning lesser internal rate of return than that of cost of capital indicates the declining firm (i.e. r<ke). There is positive correlation between dividend and stock price in which share price tends to rise in correspondence with rise in dividend payout ratio.

Thus, Gordon also concludes that there are various effect of dividend policy on share prices depending on the trend and position of the firm.

2.8.4 Linter's Study[18]

J. Linter made an important study in 1956, regarding the behavioral aspect of dividend policy in the American contest of 28 companies. His study was related to partial adjustment model to dividend patterns of American companies. He made fifteen readily observable factors and characteristics that appeared to reflect or might be expected to have an important bearing on dividend payment and policy. Then he reviewed the available information on over 600 listed, well established companies and selected 28 for dividend investigation. The author concluded that a major portion of dividend of a firm could be expressed in the following ways:

$$DIV_t^1 = P^{Eps}{}_t$$

$$DIV_t - DIV_{t-1} = a+b\ (DIV_t - DIV_{t-1}) + et$$

$$DIV_t = a+b\ (v_t^1 + (1-b)\ DIV_t^1 + et$$

[18] John Linter, 'Distribution of Incomes of Corporation among Dividend, Retained Earning and Taxes'., *American Economic Review*, Vol.46, 1956, pp.97-113.

Where,

$DIVt^1$	=	*Firms desired payment*
EPS_t	=	*Earnings*
p	=	*Target payout ratio*
a	=	*Constant relating to dividend growth*
b	=	*adjustment factor relating to previous periods dividend and new desired level of dividends, where $b<1$.*

Major findings of this study are as follows:

- Management of the firm generally thinks about the proportion of earnings to be paid out.
- Modifying the pattern of dividend behavior is not considered with investment requirements.
- Firms generally have target payout ratios in the view while determining changes in dividend per share.

2.8.5 Friend and Puckett's Model[19]

Friend and Puckett (1964) conducted a study on the relationship between dividend and stock prices by running regression analysis on the data of 110 firms from five industries i.e. Chemical industry, electric utilities, electronics, food and steel industry in the year 1956 to 1958. These industries were selected to permit a distinction made between the results for growth and non-growth industries and to provide a basis for comparison with result by other authors for earlier years. They also considered cyclical and non-cyclical industries which they covered a boom year for the economy when stock prices leveled off after raise (1956) and some what depresses year for the economy when stock prices however rose strongly(1958).

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[19] Irwin Friend and Marshall Puckett, 'Dividend and Stock Prices'.*The American Economic Review*, 1964, pp.656-681.

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

Symbolically, their price function and dividend supply function are:

Price function,

$$P_t = a + b\, D_t + CR_t + d\, (E/P)_{t-1}$$

Where,

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

Dividend supply function,

$$D_t = e + f\, E_t + g\, D_{t-1} + h\, (E/P)_{t-1}$$

Where,

E_t	=	*Earning per share at time t*
D_{t-1}	=	*Last year dividend*

This study is based on the following assumptions

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

Their regression results based on the equation of $p_t = a+b\ D_t + CR_t$ showed the customary strong dividend and relatively weak retained earnings effects in three of the five industries. i.e. chemicals, foods and steels. Again they tested other regression equations and found the following result as indicated in table 2.1.

<u>TABLE NO. 2.1</u>

Regression of stock prices on Dividend, Retained Earning and Lagged Earning Price Ratio

Regression Equation: $p_t = a+b\ D_t + CR_t + d\ (E/P)_{t-1}$

Industry Sample Size	Regression Coefficient					(standard Error)
	t	A	b	c	d	R^2
Chemicals (n=2)	1956	+58.21	+25.19 (1.69)	+13.81 (3.00)	-0.97 (0.14)	0.967
	1958	+21.75	26.93 (1.55)	15.20 (3.95)	-0.45 (0.10)	0.959
Electronic (n=2)	1956	+23.83	15.78 (7.76)	+19.54 (5.02)	-0.49 (0.13)	0.681
	1958	54.59	+27.28 (8.14)	28.06 (12.6)	0.87 (1.57)	0.836
Electronic utilities(n=25)	1956	30.26	12.42 (2.04)	15.5 (2.89)	-0.14 (0.13)	0.892
	1958	41.59	13.12	14.88	-0.49	0.897
Foods(n=25)	1956	15.66	13.68 (1.44)	7.52 (1.16)	0.17 (0.04)	0.905
	1958	16.93	16.75 (6.27)	5.68 (4.91)	-0.16 (0.07)	0.843
Steels (n= 20)	1956	-6.39	17.85 (2.78)	2.21 (1.55)	0.03 (0.07)	0.875
	1958	4.33	15.06 (1.68)	5.67 (2.17)	0.05 (0.07)	0.885

Source: Friend and Puckett, "Dividend and stock price" The American Economic Review Vol. Liv. September , p-673

From the above table, it is clear that more than 80 % of the variation in stock prices can be explained by three independent variables. Dividend have a predominant influence on stock prices in the same three out of five industries but they found the differences between the dividends, and retained earnings. Coefficients are not quite so marked as in the first set of regressions. They also found that the dividends and retained earnings coefficient are closer to each other for all industries, in both year except for steels in 1956 and the correlations are higher again except for steels.

They also calculate dividend supply equation, i.e. $D_t = e + f\ E_t + g\ D_{t-1} + h\ (E/P)_{t-1}$ and the dividend price equation for four industry groups in 1958. In their derived price equation it seems that there were no significant changes from those obtained from the single equation approach as explained above. They argued that the stock prices or more accurately the price earnings ratio does not seem to have a significant effect on dividend payout. On the other hand, they noted that the retained earnings effect is increased relatively in three of the four cases tested. Further, they argued that their result suggests price effect on dividend supply are probably not a serious source of bias in the customary deviation of dividend and retained earnings effects on stock prices, though such a bias might be a marked if the disturbing effect of short run income movements are sufficiently great.

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

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

They operated entitled evaluation of chemical samples. That evaluation disclosed that the result obtained largely reflected the undue regression weighting given the three firms with price deviating most from the average price in the sample of 20 firms and retained earnings became more important that dividends as a price determinants.

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

2.8.6 Chawala and Shriniwasan's study[20]

Chawala and Shriniwasan conducted a study taking 18 chemical and 13 sugar companies, aiming to find the impact of dividend and retention on share price. They were estimated cross- section relationship for the year 1969-1973. The objectives of the study were:

- To set a model which shows the relationship of share price with dividend and retained earnings.
- To test the dividend, retained earning hypothesis.
- To examine the structural changes in estimated relation over time.

[20] G. Chawala, Deepak and Shriniwasan, *Impact of Dividend and Retention on share price –An Econometric Study Decision*, 1987, pp. 137-140.

To test their study, they used a model, what the Friend and Puckett developed in 1964 which are presented below:

i. Price Function

$$P_t = f\,[D_t, R_t, P/E_{(t-1)}]$$

ii. Dividend Supply Function

$$P_t = f\,[D_t, D_{(t-1)}, P/E_{(t-1)}]$$

Identify,

$$E_t = D_t + R_t$$

Where,

P	=	*Market price per share*
D	=	*Dividend per share*
R	=	*Retained earning per share*
E	=	*Earning per share*
P/E	=	*Deviation from sample, Average of price earning ratio*
t	=	*Subscript for time*

They used two stage least square techniques for estimation. They also used lagged earning price ratio instead of lagged price earning ratio. i.e. $P/E_{(t-1)}$. From the result of their two stages least estimation, they found that in the case of chemical industry the estimated coefficients had the correct sign and the coefficient of determination of all the equation were very high. It implies that the stock price and dividend supply variation can be explained by their independent variables. But in the case of sugar industry they found that the sign for the retained earnings is negative in both years. So, they left sugar industry for further analysis.

For chemical industry, they observed that the coefficient of dividend was very high as compared to retained earning. They also found that coefficient of dividend was significant at 1% level in both years, where as the coefficient of retained earnings was significant at 10 % level in 1969 and at 1% level in 1973. Finally, they concluded that the dividend hypothesis holds good in the chemical industry. Both dividend and retained earnings significantly explained the variations in share price in chemical industry.

2.8.7 H.K. Baker, G.E. Farrelley and Richard B.Edelman Study[21]

H. Kent Baker, Gail E. Farrelley and Richard B. Edelman surveyed management view on dividend policy. They made questions to corporate financial managers about what they considered most important in determining their firm's dividend policy. The objectives of their study were as follows:

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

They selected 526 firms for the study purpose which were listed at the New York Stock Exchange (NYSE) and classified four digit standard industrial classification codes. These were taken 150 from utility sector, 309 from manufacturing sector and 103 from wholesale/retail sector. They mailed Questionnaire to obtained information about corporate dividend policy. The questionnaire consisted of three parts:

i. 15 closed- end statement about the importance of various factors that each firm used in determining its dividend policy.
ii. 18 closed- end statement about theoretical issues involving corporate dividend policy.
iii. A respondent's profile including such items as the firm's dividends and earning per share.

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[21] H.K. Baker, G.E. Farrelley and Richard E. Edelman, 'A survey of Management view on Dividend Policy', *Financial Management*, 1985, pp.78-84.

They send the final survey instrument to the chief financial officers (CFOs) of the 562 firms followed by second complete mailing to improve the response rate and reduce potential non-response bias. Their survey yielded 318 usable responses (56.6% response rate), which were dividend among the three industry groups as follows: 114 utilities (76%), 147 manufacturing firms (47.6%), and 57 wholesale/retail (5.3%). Based on dividends and earning per share data provided by the respondents, they found that payout ratio of the responding utilities (70.3%) was considerably higher than for manufacturing (36.6%) and wholesale/retail (36.1%). The results of their study on the aspect of determinants of dividend policy were as follows:

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

2.9 Review of Journal and Article in Nepalese Perspective

In this regard, there are very few articles published in Nepal. Under this subsection, the major studies are reviewed as follows:

2.9.1 Radhe Shyam Pradhan's Study[22]

Radhe Shyam Pradhan's study on stock market behavior in a small capital market was carried on in 1992. The study "A study of Dividend Policies and Practices of Nepalese Enterprises" has been conducted based on views of 135 managers on dividend policy of large Nepalese enterprises.

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[22] Radhe Shyam Pradhan, 'Stock Market Behavior in a Small Capital Market: A Case of Nepal'. *The Nepalese Management Review*, New Delhi: Vikash Publishing House Pvt. Ltd., 1993, pp.23-43.

A questionnaire was provided to the financial executives of 50 large Nepalese enterprises as identified in the publication of securities boards, Nepal and Nepal stock Exchange Ltd. out of 50 enterprises. They research on 36 financial sectors and on 14 non finance sectors.

The main objectives of that study is to examine management's view on various aspects of dividend policy and practices in Nepal.

The major findings on the study are as follows:

- In their ranks for the importance of major decision of finance, respondents give third priority to dividend decision.
- With respect to major motives for paying cash dividend that it is to convey information to shareholders that the company is doing well and is to draw attention from the investment community.
- Dividend decision is not a residual decision.
- Nepalese shareholders are not really indifferent to whether the company pays or does not pay dividend.
- The earning announcement by the company would help to increase market price of share.
- In Nepal most of the companies do not want to pay dividend.
- Dividend policy is affected by earning availability stock price.

2.9.2 Manohar Krishna Shrestha's Study [23]

Dr. Manohar Krishna Shrestha has conducted a study to deal with policy and financial performance of some companies in Nepal. A book entitled "Shareholder's Democracy and Annual General Meeting Feed back" contains a paper presented by Dr. Shrestha on the occasion of fifth annual meeting of Nepal Arab Bank Ltd. On the paper Dr. Shrestha opines that the shareholder's have common views on the problems and constraints of the shareholders which are as follows:

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[23] Dr. Manohar Krishna Shrestha, *Shareholder Democracy and Annual General Meeting Feedback,* Kathmandu: 1992.

- The cost- push inflation at exorbitant rate has made the shareholder to expect higher return from their investment.
- Multiple decreases in purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequence of it.
- Erosion in the purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholders purchasing power by raising dividend payout ratio on the basis of both earning and cost theory.
- Indo- Nepal trade and transit deadlock has become a sort of economic welfare putting rise in the cost of living index to a considerable extent. This has caused the shareholders to expect higher dividend.
- The waiting of five years with peanut dividend in previous year shareholders to expect handsome dividend already assured and committed in various reports earlier annual general meeting.
- One way to encourage risk- taking ability and performance is to have proper risk- return trade off by bank is management boards in a way that higher risk taker that comprise bank is shareholders.

Regarding these difficulties he requested the bank management board to rethink the matters relation to payment of dividend.

2.10 Review of Previous Thesis

In last few years, prior to this thesis; some students of M.B.A and M.B.S programme have conducted research about the dividend and its relation with stock prices in various sectors. Some of them, which are supposed to be relevant for this study have been reviewed and presented in this section.

2.10.1 Bishnu Hari Bhattarai's Study[24]

The study of dividend decision and its impact on the stock valuation was carried out by Bishnu Hari Bhattarai, in 1996 using 10 companies of various sectors. The basic objective of the study was to identify the relationship between dividend and the stock price.

The major objectives of this study can be stated as follows:

i. To highlight various aspects of dividend policies and practices in Nepal.
ii. To analyze the variables such as profit, dividend, retained earning, growth rate, and relevant variables to show the relationship between the value and other ingredients affecting it.
iii. To provide feedback to the policy makers and executive working in various companies chosen for study based on the findings of the analysis.

The major findings of this study are as follows:

i. The companies while paying dividend generally neglect shareholder's expectations.
ii. Dividends were paid only in profitable year.
iii. In aggregate, there was no stable dividend paid by the companies i.e. instability of dividend.
iv. There were no criteria to adopt payout ratio and is observed that there is a negative relationship between payout ratio and valuation of shares.
v. Cash balance and dividend payment were positively correlated.
vi. There was positive impact of dividend on valuation of shares.
vii. Inflation rate in recent year are decreasing and the market price of share are increasing. Nevertheless, the funds are not able to give required rate of return to the investors,
viii. Dividend payment was inadequate to cover the required rate of return of the investors.

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[24] Bishnu Hari Bhattarai, *Dividend Decision and Its Impact on Stock Valuation,* Unpublished Master's Degree Thesis, Central Department of Management, Kirtipur, 1996.

ix. Market price considerably higher than actual net worth.

x. There is a negative relationship between market price of share and stockholders required rate of return. Shareholders have forgone company's opportunity income in hope of getting higher return, but the companies have not been able to return even equal to risk free rate of return.

2.10.2 Dipen Sitaula's Study [25]

Sitaula's thesis is based on the analysis of dividend policy of three joint venture banks of Nepal named by

- NABIL Bank Limited
- Everest Bank Limited
- Nepal SBI Bank Limited

The main objectives of the study are listed below:

- To study the current practice of dividend policy in joint venture commercial banks.
- To examine the relationship between DPS, EPS, and DP ratio of sample banks.
- To find out the impact of dividend on share price.
- To identify the uniformity of dividend distribution of different commercial banks.
- To provide valuable suggestions and important guidelines to the banks to formulate optimal dividend policy and maximize share price on the basis of finding.

After conducting the research, finally he concluded that,

- Dividend per share, Earning per share of the sample bank except NABIL bank are not satisfactory. NABIL bank has distributed moderate amount of dividend.
- The price earning ratio of the sample banks have high degree of fluctuation.
- The sample banks have not defined clearly about the dividend policy. The dividend paying system is highly fluctuating.

[25] Dipen Sitaula, *Dividend Policy of Joint Venture Banks in Nepal*, Unpublished Master's Degree Thesis, Biratnagar: 2009.

2.10.3 Sadakar Timilsina's Study [26]

Sadakar Timilsina in his thesis paper, "Dividend and stock price: An Empirical study" has studied the relationship between dividend and stock price by taking the data of ten enterprises from 1991 to 1994. Though it was not very comprehensive, it was the first of its kind and able to throw some light in the Nepalese context. One of the major objectives of study was to know about the influence in price caused by dividend policy of the firm. So the study used simultaneous equation model as developed by Friend and Puckett (1964) to explain the price behavior. The specific objectives of his study were as follows:

- To test the relationship between dividend per share and stock price.
- To determine the impact of dividend policy on stock price.
- To identify whether it is possible to increase the market value of stock by changing dividend policy or payout ratio.

The main findings of his study were as follows:

- The relationship between dividend per share and stock price is positive in the sample companies.
- DPS affects the share price differently in different sector.
- By changing the dividend policy or DPS might help to increase the MPS.
- The relationship between stock prices and retained earning per share is not important.
- The relationship between stock price and lagged earning price ratio is negative.

[26] Sadakar Timilsina, *Dividend and Stock Price*: An Empirical Study, 1997.

2.10.4 Rabindra Poudel's Study [27]

A study" Dividend policy, A case study of Different Listed Finance Companies" conducted by Rabindra Poudel has concluded the following factors:

- Dividend practices of all the sample companies are neither stable nor constantly growing; moreover haphazard way is adopting but in growing trend.
- Relationship between DPS with EPS, NAPAT and NW are positive in all these finance companies, whereas relationship between DPS with average stock price is in improving condition with compare to previous year.
- Change in DPS affects the MPS differently in different finance companies.

The situation of capital market of Nepal is improving condition. So, the capital market is efficient with compare to previous years. But still capital markets of Nepal are inefficient.

Reviewing the available studies in Nepal, it is found that no one has conducted any studies of dividend policy; dividend decision is major decision of the company. It has direct effect on the market value of share and its trend is very important for attraction of investors.

Actually, commercial banks are financial institutions. It provides those kinds of services, which are different from other banks like development of agriculture. So in commercial bank there should be unique policy and strategy. This study differs from the previous study.

[27] Rabindra Poudel, *Dividend policy*, Unpublished Master Degree's thesis, Kirtipur Campus, Kathmandu.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology is composed of two words: 'Research' and 'Methodology'. Research is the systematic and organized efforts to investigate a specific problem that needs a solution. This process of investigation involves a series of well though out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answer to problem. Thus, the entire process by which we attempt to solve problem is called Research, while 'Methodology' is the research method used to test hypothesis. A sound and systematic methodology is required to carryout any study, if it is to be worthwhile.

3.1 Research Design

Research Design is a plan for the collection and analysis of data. It presents a series of guideposts to the researcher to progress in the right direction in order to achieve the goal. This study is descriptive, analytical and comparative employing various historical secondary data to analyze the variables which are related to dividend policy practicing Nepalese Commercial banks. For the analytical purpose, the annual reports, financial statement and other relevant material of the companies were collected under the study. So, the analytical as well as descriptive research designs have been followed in the research study.

3.2 Nature and Sources of Data

This study is primarily based on secondary data. The data relating to the dividend policy are obtained from the Nepal Stock Exchange and financial statements of respective banks from their websites. Other major sources to collect secondary data are viewed from published materials, books by different authors, unpublished thesis reports, newspaper, magazines, internet, AGM Reports of the listed commercial Banks, Economic report published by Nepal Rastra Bank, Economic survey published from Nepal Ministry of Finance, Journals published by the concerned agencies and different books relating to the topic of dividend.

3.3 Population and Sample

As this study is based on the data of the commercial bank listed in Nepal Stock Exchange (NEPSE). So the population is taken from only those companies which are listed in NEPSE. Since the topic implies the study should be done among the dividend paying and actively traded companies. Sampling has been made on the basis of Convenience. In this study, the sample banks selected for analysis are as follows:

1. Himalayan Bank
2. NABIL Bank
3. Everest Bank
4. Bank of Kathmandu

3.4 Data Processing Procedure

The study attempts to present the relevant data of selected banks by calculating useful financial indicators. Data are presented and explained in the light of theoretical basis. Similarly, the collected data are arranged, tabulated, and presented in the form of percentage, ratio, and rupees etc.

3.5 Tools and Techniques for analysis

Data obtained have no meaning unless they are arranged and presented in a proper and systematic tables and formats. Such tables and formats are explained and interpreted whenever necessary. Further, they need to be verified and simplified for the purpose of analysis. Moreover, data and information which are gathered are to be checked, edited and tabulated in such a way that provide convenience for computation and interpretation.

The analysis of data is done through financial and statistical tools. In order to analyze the data, some financial indicators will be calculated and presented in a tabular form. Further more, such financial indicators are analyzed with the help of statistical tools.

3.5.1 Financial Indicators and Variables

The study tries to achieve its objectives with the help of some financial indicators which is presented below:

1. Earning per share (EPS)

Earning per share is defined as the ratio of earning available to common stockholders to number of shares outstanding. It measures the profit available to the equity shareholders on a per share basis i.e. the amount that they can get on every share held. It is calculated by dividing the profit available to the shareholders by the number of outstanding shares. The profits available to the ordinary shareholders are represented by net profit after tax and preference dividend. Thus,

$$EPS = \frac{Net\Pr ofitavailabletoequityshareholder}{Tota\ln umberofsharesouts\tan ding}$$

2. Market per share (MPS)

Market price per share is the value of stock. It is obtained by a firm from the market. Market value of share is affected by the dividend per share and earning per share of the firm. It is calculated to know the financial soundness and comparison between the selected banks. If EPS and DPS is high than the market value of share will also be high.

3. Dividend per share (DPS)

Dividend refers to that portion of firm earnings which are paid out to shareholders in return to their investment. It gives financial soundness of the company. Only financially strong companies can distribute dividend. It indicates the part of earning distributed to the shareholders on per share basis and is calculated by dividing the total dividend distributed to equity shareholder by the total number of equity shares outstanding.

$$DPS = \frac{TotalDividends}{No.ofsharesouts\tan ding}$$

4. Dividend payout Ratio (DPR)

Dividend payout ratio is the ratio of earning distributed as dividend to total earning. This ratio shows what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for expansion and growth. A high payout ratio means more dividend and less funds for expansion. It is calculated with the purpose of knowing earning power and dividend policy of the selected Nepalese Commercial Bank. It is computed as:

$$DPR = \frac{DividendPerShare}{EarningPerShare}$$

5. Retained Earning Per Share (REPS)

Out of total earnings earned by a company, a portion is distributed as dividend to the shareholders and remaining are retained to carry out for further investment opportunities. The retained amounts of total earnings are called retained earnings which are directly related to share prices of the company. It is compared as:

$$REPS = \frac{Totalamountofretainedearning}{Noofshareouts\tan ding}$$

OR,

$$REPS = EPS - DPS$$

6. Price Earning Ratio (P/E Ratio)

P/E ratio is the ratio between market price per share and earning per share. It is also called the earning multiplier. It is an important measure of performance for the commercial banks. Price earning ratio also represents the amount which investors are willing to pay for each rupee of the firms earnings. It is generally expressed in time. This ratio is computed by using the following formula:

$$\text{Price Earning Ratio} = \frac{Market\,Price Per Share}{Earning Per Share}$$

Symbolically,

$$P/E\ Ratio = \frac{MPS}{EPS}$$

7. Dividend Yield (DY)

Dividend yield per share is the amount distributed to the shareholder's per share. It is determined that how large the firm is able to distribute the earnings as dividend. Dividend Yields, thus establishes the relationship between dividend per share and market per share. It measures the dividend in relation to market value of the investors as a percentage of market prices per share in the stock market. It is calculated by dividing the cash dividend per share (DPS) by the market price per share (MPS). Thus,

$$DY = \frac{DPS}{MPS} \times 100$$

8. Dividend Cover

Dividend Cover establishes the relationship between earning per share and dividend per share. Earning per share is the amount of after tax profit before distributing dividend. Dividend per share is the amount of distributed to the shareholder's per share. It is computed as:

$$DC = \frac{EPS}{DPS}$$

9. Earning Yield (EY)

The performances and prospects of the company are affected by earning per share. If earning per share increases there is possibility that the company's market price per share to be increased. Earning yield measures the relationship of earnings to the market value per share. It is computed as:

$$EY = \frac{EPS}{MPS} | 100$$

3.5.2 Statistical tools used

Besides the financial tools, various statistical tools have been used to conduct this study. The result of analysis has been properly tabulated, compared, analyzed and interpreted. In this study, the following statistical tools are used to analyze the relationship between dividend and other variables.

1. Arithmetic Mean or Average $(\overline{X})$

Arithmetic mean or simply ' Mean' a set of observations is the sum of all observations divided by the number of observations. Arithmetic mean is the most popular and widely used measured of representing the entire data. A.M has been used to compute the company wise and individual average calculation for various variables and ratios. It can be calculated as:

$$Mean = \frac{X_1 \Gamma X_2 \Gamma X_3 \Gamma .... \Gamma X_n}{N}$$

$$OR, \quad \overline{\varepsilon} = \frac{X}{N}$$

Where,

$\overline{\varepsilon}$	=	Arithmetic Mean
$\varepsilon_1 \Gamma \varepsilon_2 \Gamma \varepsilon_3 \Gamma .... \Gamma \varepsilon_n$	=	Value of Variables
x	=	Sum of the value of variables
ρ	=	Total Number of observations.

.

2. Standard Deviation

The standard Deviation is the absolute measure of dispersion, value of risk, variability of the return from the mean returns in which the drawbacks present in other measures of dispersion are removed. It is said to the best measure of dispersion as it satisfies most of the requisites of a good measure of dispersion.

Standard Deviation is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. This study used this tool to know the dispersion in each financial indicator of selected banks. It is computed as:

$$\text{¢} \quad = \quad \sqrt{\frac{(X \; \mathrm{Z} \overline{X})^2}{N}}$$

Where,

¢	=	Standard Deviation
$(X \; \mathrm{Z} \overline{X})^2$	=	Sum of mean deviation square
N	=	Total number of observation.

3. Co- efficient of Variation (C.V.)

Co-efficient of variation also measures the scatter ness from the central value but it is a relative measurement to its respective control value which helps to make comparison between the series. Higher the C.V represents the greater variability and vice-versa.

This study also uses these tools for the purpose of viewing variability in different financial indicator. It is calculated as:

$$\text{CV} \quad = \quad \frac{\text{¢}}{\overline{X}} \,|\, 100$$

Where,

$C.V$	=	Coefficient of Variation
¢	=	Standard Deviation
$\overline{X}$		Arithmetic Mean

4. Coefficient of Correlation (r)

Coefficient of correlation is an analytical tool for measuring the degree of relationship between two casually related sets of figures. In other words, it measures the closeness of one variable with another variable. The relationship may be positive or negative which depends on their movement. Its value lies somewhere ranging between -1 to +1. If both the variables are constantly changing in the similar direction, the value of coefficient will be +1, indicative of perfect positive correlation. Similarly, when the coefficient will be -1 two variables take place in opposite direction. The correlation is said to be perfectly negative. In this study, simple coefficient of correlation is used to examine the relationship of different factors with dividend and other variables. Higher the value of correlation coefficient, more will be the relationship that exists between the variables and vice-versa. It is computed as:

$$r = \frac{xy}{\sqrt{x^2}\sqrt{y^2}}$$

Where,

$$\varepsilon = \varepsilon \; Z\overline{X}$$

$$\psi = \psi \; Z\overline{\psi}$$

Where,

r = Coefficient of Correlation

xy = Sum of the value of two variables multiplied.

x^2 = Sum of squared values of variables x.

y^2 = Sum of squared values of variables y.

Interpretation of correlation coefficient

a. The coefficient of correlation as obtained by the above formula always lies between +1 and -1.
b. Where r is +1, there is positively perfect correlation between the two variables.
c. Where r is –1, there is negatively perfect correlation between the variables.
d. Where r is between 0.7 to 0.999, there is high degree of correlation between the variables.
e. Where r is between 0.5 to 0.699, there is moderate degree of correlation between the variables.

f. Where r is less than 0.5, there is low degree of correlation between the variables.

g. Where r is 0 (zero), there is no correlation between the variables are uncorrelated.

5. coefficient of Determination (r^2)

The coefficient of determination is a much useful and better measure for interpreting the value of 'r' which gives the performance of variables in the dependent variable that is accounted by the independent variable. The coefficient of determination value can have ranges from zero to one. A value one can occur only if the unexpected variation is zero which simply means that all the data points in the scatter diagram fall exactly on the regression line.

Coefficient of determination = r^2 *or* R^2

6. Student's t-test

T- test is the validity of our assumption, if sample size is less than or equal to 30 (i.e., $n \leq 30$) than t-test is used. In t-test, the population standard deviation (σ) is unknown. The samples are independent and are drawn by random sampling method. To test in the context of small sample, t-value is calculated first and compared with the table value of 't' at a certain level of significance for given degree of freedom. The following formula's is applied to calculate t-value.

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

Where,

t = *student's t- values*

r = *coefficient of correlation*

n = *Number of observation*

If the calculated value of 't' exceeds the tabulated t0.05 for (n=2) degree of freedom, the Null Hypothesis will be rejected or Alternative Hypothesis will be accepted which implies that the value of 'r' is significant at 5% level.

7. F – test

F-test is basically used to test the hypothesis of equality between more than two sample variance. It is also used to test the hypothesis of equality among several means. It is particularly suitable for experimental work where the assumption of equality of variance is not necessary. The assumption made in ANOVA. The hypothesis of this research work is as follows:

a. Null Hypothesis (H_0): There is no significant difference in EPS of sample banks.

Alternative Hypothesis (H_1): There is a significant difference in EPS of sample banks.

b. Null Hypothesis (H_0): There is no significant differences in DPS of sample banks

Alternative Hypothesis (H_1): There is a significant difference in DPS of sample banks.

c. Null Hypothesis (H_0): There is no significant differences in DPR of Concerned four banks.

Alternative Hypothesis (H_1): There is a significant difference in DPR of Concerned four banks.

$$F = \frac{\text{var}\,iance between samples}{\text{var}\,iance within samples}$$

Write down the tabulated value of F for (n_1-1), (n_2-1) degree of freedom at 5%

If $F_{cal} < F_{tab}$, H_0 is accepted.

If $F_{cal} > F_{tab}$, H_0 is rejected.

3.6 Limitations of Methodology

- This study is based on financial data obtained from WWW. Nepal Stock.Com for the sampled banks. Thus it posses all inherent limitations of financial data. In the context of Nepal, data problem is very acute. The sources of data are not easily available.
- Due to time constraint all the related areas are not possible to cover in depth.
- The study covers only 5 years period i.e. from 2005/06 to 2009/10. This study includes limited tools to analyze the impact of Earning per share, Market per share, Dividend per share, Retained earning per share, analysis and compare of price earning ratio, Dividend Yield their mean value, S.D and C.V. In inferential sector the study attempt to setting hypothesis with computing correlation (r^2), t- test. Only few financial indicators and statistical tools are not enough to analysis in depth because there are few more tools which are not possible to apply in this study due to the limited data. Qualitative and quantitative variables may also influence the dividend behavior of selected banks.

CHAPTER- IV

Presentation and Analysis of Data

Presentation and analysis of data is the major part of the research study. The main purpose of this chapter is to carry out secondary analysis. In this chapter, the relevant data and information regarding dividend policy of commercial banks are presented and analyzed comparatively. For this purpose, two types of analysis have been carried out descriptive and inferential analysis. This chapter has therefore been divided into two sections:

4. A Descriptive Analysis

This section attempts to analyze and compare some variables such as EPS, MPS, DPS and REPS. in case of four sampled commercial banks to analyze their dividend payment pattern. It attempts to analyze and compare trend of some during the five year periods (i.e. from 2005/06 to 2009/10). This section also attempts to interpret and compare average of EPS, MPS, DPS, REPS, P/E Ratio, D/P Ratio for selected commercial banks. Lastly, this section attempts to interpret and compare sector-wise Mean Value, Standard Deviation and Coefficient of Variation of EPS, MPS, DPS, REPS and P/E Ratio for the selected banks. The above analysis and interpretation have been presented with the help of table and figure.

4. A.1 HIMALAYAN BANK

Himalayan Bank Limited (HBL) was established in 1992 by the distinguished business personalities of Nepal in partnership with employees provident Habib Bank Limited, One of the largest Commercial bank of Pakistan. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Himalayan Bank's policy is to extend quality and personalized service to its customers as promptly as possible. To extend more efficient services to its customers, Himalayan Bank has been adopting innovative and latest banking technology. To ensure the customers optimally enjoy modern banking, HBL are providing technology-driven services such as internet banking services and SMS banking. Himalayan Bank has been a pioneer in introducing a Nepalese domestic credit card, "Himalayan Bank Credit Card" valid in Nepal. HBL is also a member of VISA and master card international. HBL provides Home loan, Automobile Loan, Subidha Loan or Hassle Free loan to customers to finance their social and educational requirements. In current year, the Net Profit of the bank is 115.02 M. It's current Authorized Capital is Rs.2, 000,000,000. Issued Capital is Rs.1, 216,220,000.

4. A.1.1 Analysis of EPS, MPS, DPS, and REPS of HBL

This section attempts to analyze and compare the EPS, MPS, DPS and REPS of Himalayan Bank LTD. during the period of 2005/06 to 2009/10. It has thus been divided into four parts. First it deals with the analysis and comparison of Earning per share. Secondly, it deals with the analysis and comparison of Market price per share. Thirdly, it deals with analysis and comparison of Dividend per share. Lastly, it deals with analysis and comparison of Retained Earning per share.

Table no. 4.1 presents the EPS, MPS, DPS and REPS of the Himalayan Bank Ltd. during the study period from 2005/06 to 2009/10.

Table No. 4.1

EPS, MPS, DPS and REPS OF HBL (2005/06-2009/10)

Years	EPS		MPS		DPS		REPS	
	Rs.	Trend	Rs.	Trend	Rs.	Trend	Rs	Trend
2005/06	59.24	100	1100	100	35	100	24.24	100
2006/07	60.66	102.40	1740	158.18	40	114.29	20.66	85.23
2007/08	62.74	105.91	1980	180	45	128.58	17.74	73.18
2008/09	61.90	104.49	1760	160	43.56	124.47	18.34	75.66
2009/10	9.46	15.97	1495	135.91	-	-	9.46	39.03
X	50.8		1615		32.71		18.09	
¢	20.70		295		16.72		4.88	
C.V	40.75%		18.27%		51.12%		26.98%	

From the Table No. 4.1, it is clear that EPS has increasing trend in the first three years and the rest two years it has decreasing value. Mean value of EPS is 50.8, Std Deviation is 20.70 and C.V is 40.75%. Similarly, the value of MPS and the trend is also in the same process as EPS is. The Mean value of MPS is 1615, S.D is 295, and C.V is 18.27%. From the above table, the value of DPS is increasing in the first three years, but in the year 2008/09 the value of DPS has decreased. There is no dividend paying in 2009/10. It's trend is also in the same process like value. The Mean value of the DPS is 32.71, S.D is 16.72 and C.V is 51.12%. At last, the value of REPS decreases from 2005/06 to 2007/08, but in year 2008/09 it increases and again it decreases. The trend of REPS is also in the same process as value is. It's Mean value is 18.09, S.D is 4.88, C.V is 26.98%.

4. A.1.2 Analysis of P/E Ratio, Dividend Cover, Dividend Payout Ratio, Dividend Yield, Earning Yield and Retention Ratio of HBL.

This Table No. 4.2 presents the P/E Ratio, Dividend Cover, Dividend Payout Ratio, Dividend Yield, Earning Yield and Retention Ratio of Himalayan Bank Ltd. during the study period from 2005/06 to 2009/10.

Table No. 4.2

Analysis of Dividend Behavior of HBL (2005/06-2009/10)

Years	P/E Ratio	Dividend cover (t)	Div Payout Ratio (%)	Dividend Yield (%)	Earning Yield (%)	Retention Ratio
2005/06	18.57	1.69	59.08	3.18	5.39	0.41
2006/07	28.69	1.52	65.94	2.30	3.49	0.34
2007/08	31.56	1.39	71.72	2.27	3.17	0.28
2008/09	28.43	1.42	70.37	2.48	3.52	0.30
2009/10	158.08	-	-	-	0.63	1
X	53.07	1.20	53.42	2.05	3.24	0.47
¢	52.69	0.61	27.07	1.07	1.52	0.27
C.V	99.28%	25.83%	50.67%	52.20%	46.91%	57.45%

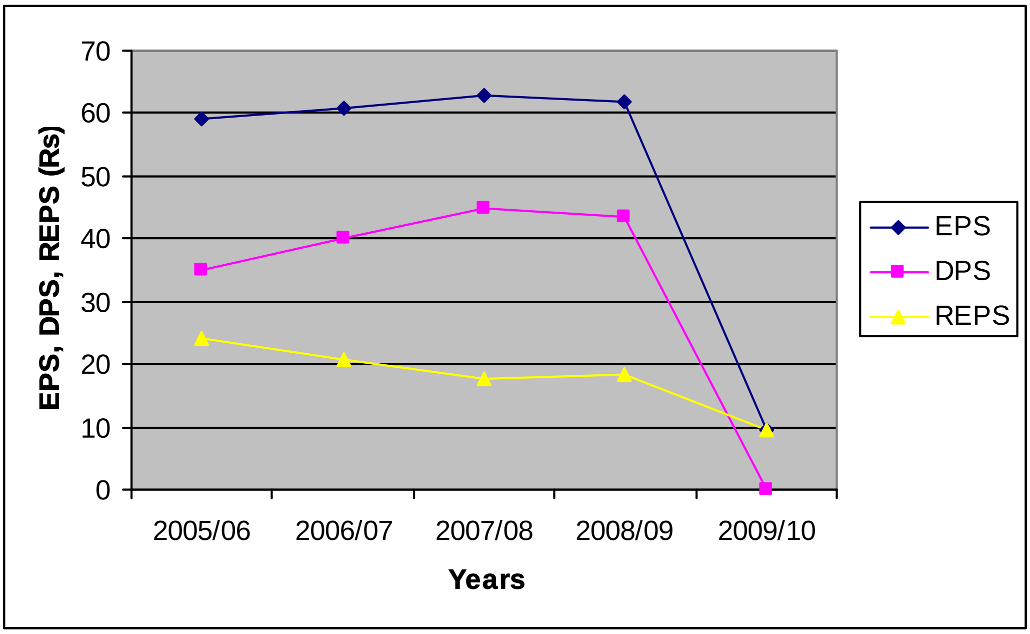
From the Table No.4.2, we can see that in 2008/09, P/E Ratio has decreased but it increases in rest of the year. Its Mean value is 53.07, S.D is 52.69 and C.V is 99.28%. Dividend Cover is in decreasing trend from 2005/06 to 2007/08 and is Nil in 2009/10. It's Mean value is 1.20, S.D is 0.61 and C.V is 25.83%. Dividend Payout Ratio increases in the first three years but decreases in 2008/09 and is Nil in 2009/10. The Mean value of DPR is 53.42, S.D is 27.07 and C.V is 50.67%. In Dividend Yield it is decreasing during the 3 years of the study period but increases in 2008/09 and is Nil in 2009/10. Earning Yield is in decreasing trend. It's Mean value is 3.24, S.D is 1.52 and C.V is 46.91%. Similarly, Retention Ratio Mean value is 0.47, S.D is 0.27 and C.V is 57.45%.

4. A.1.3 Relationship Among EPS, DPS and REPS of HBL

Figure No. 4.1 shows the relationship among EPS, DPS and REPS of the HBL during the study period from 2005/06 to 2009/10.

Figure No. 4.1

Graphical Presentation of EPS, DPS and REPS of HBL (2005/06-2009/10)



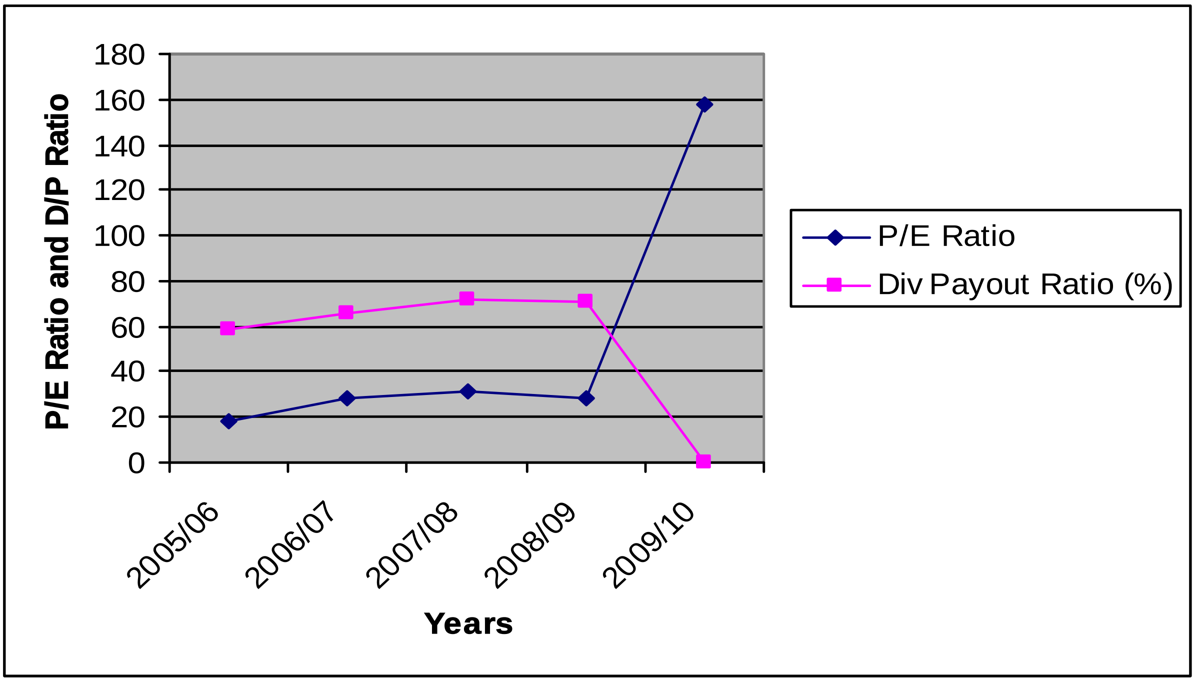
From above figure 4.1, it is clear that EPS and DPS has positive relationship from 2005/06 to 2008/09. DPS is Nil on 2009/10. EPS and REPS had negative relationship from 2005/06 to 2008/09. Similarly, DPS and REPS has negative relationship.

4.A.1.4 Relationship Among P/E Ratio and Dividend Payout Ratio of HBL

Figure No. 4.2 shows the relationship among P/E Ratio and D/P Ratio of HBL during the study period from 2005/06 to 2009/10.

Figure No. 4.2

Graphical Presentation of P/E Ratio and D/P Ratio of HBL (2005/06-2009/10)



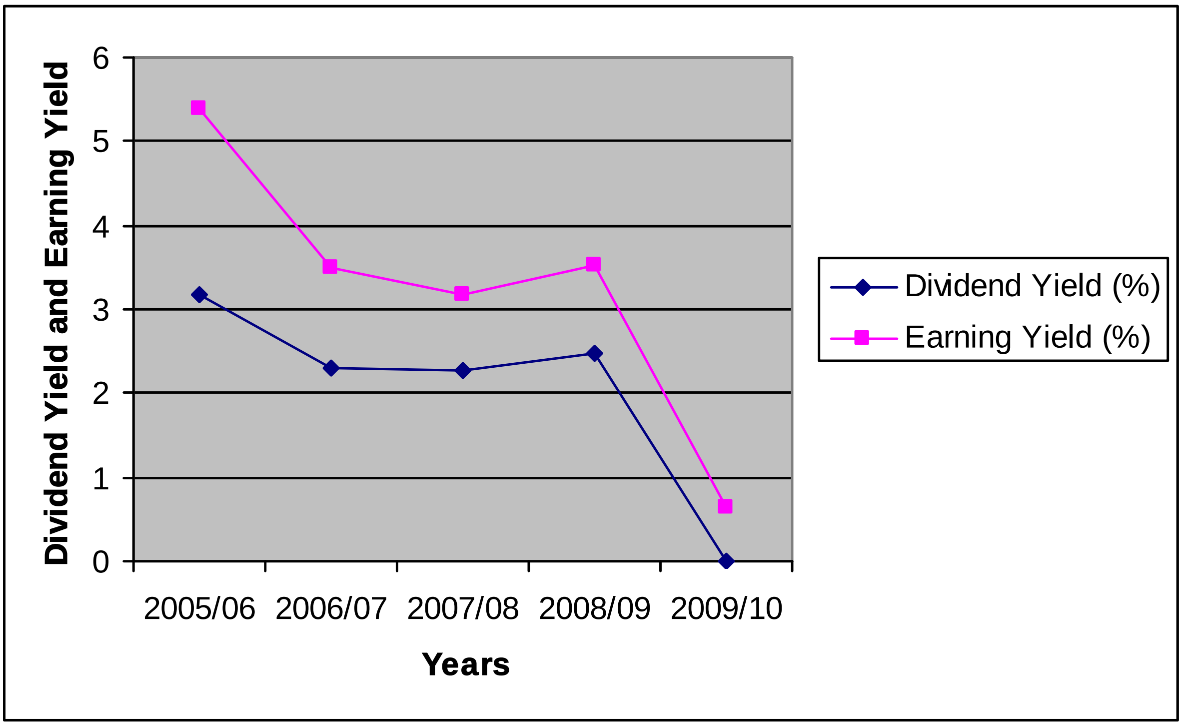
From the above figure 4.2 it is clear that from 2005/06 to 2008/09, P/E Ratio and D/P Ratio both have positive relationship.

4.A.1.5 Relationship Among Dividend Yield and Earning Yield of HBL.

Figure No. 4.3 shows the relationship among Dividend Yield and Earning Yield of the HBL during the study period from 2005/06 to 2009/10.

Figure No. 4.3

Graphical Presentation of D.Y and E.Y of HBL (2005/06-2009/10)



From above figure 4.3, it is clear that Earning Yield and Dividend Yield of HBL has positive relationship from 2005/06 to 2008/09.

4. A.2 NABIL BANK

The arrival of Nabil Bank in Nepal was on 12th of July, 1984 through Joint Venture Bank with Dubai Bank Ltd. under a Technical Service Agreement (TSA), makes a new dawn in Nepalese Banking Industry. Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction. The bank commenced with a team of about 50 staff members and Rs 28 Million as Capital. This year (2009/10), the bank's After Tax Profit is Rs 262.45 Million which is -74.55%. i.e. negative growth rate as compared with last year i.e. 2008/09. In current year i.e. 2009/10 the bank's total deposits increased to Rs 41.1 Billion from Rs 37.3 Billion of previous years. It's current Authorized Capital is Rs 1600000000, Issued Capital is Rs 1449120000 and Paid up Capital is Rs 1449120000.

4.A.2.1 Analysis of EPS, MPS, DPS and REPS of NABIL Bank Ltd.

This section attempts to analyze and compare the EPS, MPS, DPS and REPS of NABIL Bank Ltd. during the period of 2005/06 to 2009/10. It has thus been divided into four parts. First, it deals with the analysis and comparison of Earning per Share. Secondly, it deals with the analysis and comparison of Market Price per Share. Third, it deals with analysis of Dividend per Share. Lastly, it deals with analysis and comparison of Retained Earning per Share.

Table No. 4.3 presents the EPS, MPS, DPS and REPS of the NABIL Bank Ltd. during the study period from 2005/06 to 2009/10.

Table No. 4.3

EPS, MPS, DPS and REPS of NABIL Bank Ltd. (2005/06-2009/10)

Years	EPS		MPS		DPS		REPS	
	Rs.	Trend	Rs.	Trend	Rs.	Trend	Rs	Trend
2005/06	129.21	100	2240	100	85	100	44.21	100
2006/07	137.08	106.09	5050	225.45	140	164.71	-2.92	-6.60
2007/08	108.31	83.82	5275	235.49	100	117.65	8.31	18.78
2008/09	106.76	82.62	4899	218.70	85	100	21.76	49.18
2009/10	18.11	14.02	2880	128.57	-	-	18.11	40.93
X	99.89		4068.8		82		17.89	
¢	42.54		1254.17		45.67		15.70	
C.V	42.59%		30.82%		55.70%		87.76%	

From Table No. 4.3, We can see that the value of EPS is increasing during the first two period and then it has decreased. It's trend is also in the same process like the value. The Mean Value is 99.89, S.D is 42.54 and C.V is 42.59%. The Value of MPS is increasing in the first three years and then decreased in 2008/09 and 2009/10. It's trend is also same like value. The Mean Value of MPS is 4068.8, S.D is 1254.17 and C.V is 30.82%. The Value of DPS is high in 2006/07 i.e. Rs 140 and in the year 2009/10 the bank doesn't paid dividend. Mean Value is 82, S.D is 45.67 and C.V is 55.70%. At last, the value of REPS and trend is in negative in the year 2006/07. It's Mean Value is 17.89, S.D is 15.70 and C.V is 87.76%.

4. A.2.2 Analysis of P/E Ratio, Dividend Cover, Dividend Payout Ratio, Dividend Yield, Earning Yield and Retention Ratio of NABIL Bank Ltd.

This Table No. 4.4 represents the P/E Ratio, Dividend Payout Ratio, Dividend Yield, Earning Yield and Retention Ratio of NABIL Bank Ltd. during the study period from 2005/06 to 2009/10.

Table No. 4.4

Analysis of Dividend Behavior of NABIL Bank Ltd. (2005/06-2009/10)

Years	P/E Ratio	Dividend cover (t)	Div Payout Ratio(%)	Dividend Yield(%)	Earning Yield(%)	Retention Ratio
2005/06	17.34	1.52	65.78	3.79	5.77	0.34
2006/07	36.84	0.98	102.13	2.77	2.71	-0.02
2007/08	48.70	1.08	92.33	1.90	2.05	0.08
2008/09	45.89	1.26	79.62	1.74	2.18	0.20
2009/10	159.02	-	-	-	0.63	1
X	61.56	0.97	67.97	2.04	2.67	0.32
¢	49.95	0.52	36.11	1.25	1.70	0.36
C.V	81.14%	53.61%	53.13%	61.27%	63.67%	112.5%

From the Table No. 4.4, it is clear that P/E Ratio increased for 3 years only than after it has decreased in 2008/09. Mean Value is 61.56, S.D is 49.95 and C.V is 81.14%. Dividend Cover has decreased on 2006/07. It's Mean Value is 0.97, S.D is

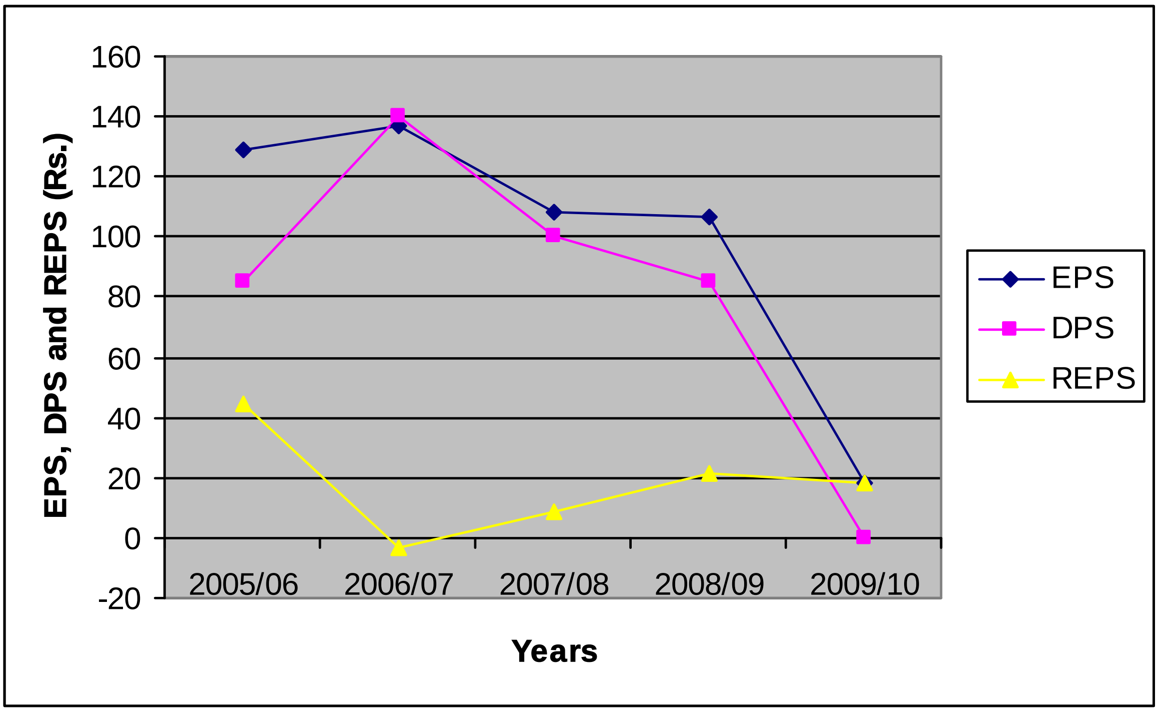
0.52 and C.V is 53.61%. Dividend Payout Ratio is high in 2006/07 i.e. 102.13 and in 2009/10 DPR is Nil. The Mean Value is 67.97, S.D is 36.11 and C.V is 53.13%. Dividend Yield is in decreasing trend whole five years. It's Mean Value is 2.04, S.D is 1.25 and C.V is 61.27%. Similarly, Earning Yield is also decreasing from 2005/06 to 2007/08 but it has increased on 2008/09 and again it decreased in 2009/10. The Mean Value of Earning Yield is 2.67, S.D. is 1.70 and C.V. is 63.67%. Retention Ratio is negative is 2006/07 and the value is increasing from 2007/08 t 2009/10 with positive value. The Mean Value is 0.32, S.D. is 0.36 and C.V. is 112.5%.

4.A.2.3 Relationship Among EPS, DPS and REPS of NABIL Bank Ltd.

Figure No. 4.4 shows the relationship among EPS, DPS and REPS of NABIL Bank during the study period from 2005/06 to 2009/10.

<u>Figure No. 4.4</u>

Graphical Presentation of EPS, DPS and REPS of NABIL Bank Ltd. (2005/06-2009/10)



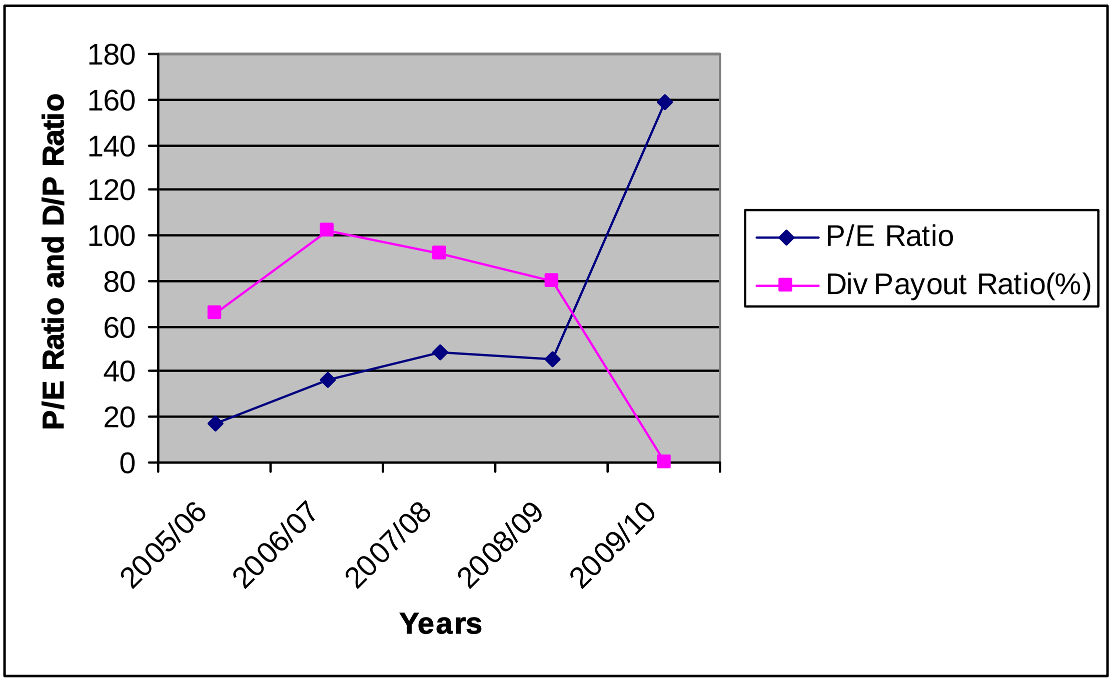
From the above figure 4.4 it is clear that EPS and DPS has positive relationship from 2005/06 to 2008/09. The relationship of REPS with DPS is negative from 2005/06 to 2008/09. The relationship of EPS with REPS is also same as REPS with DPS i.e. negative.

4.A.2.4 Relationship Among P/E Ratio and Dividend Payout Ratio of NABIL Bank Ltd.

Figure No. 4.5 shows the relationship among P/E ratio and D/P ratio of NABIL Bank during the study period from 2005/06 to 2009/10.

Figure No.4.5

Graphical Presentation of P/E Ratio and D/P Ratio of NABIL Bank Ltd. (2005/06-2009/10)



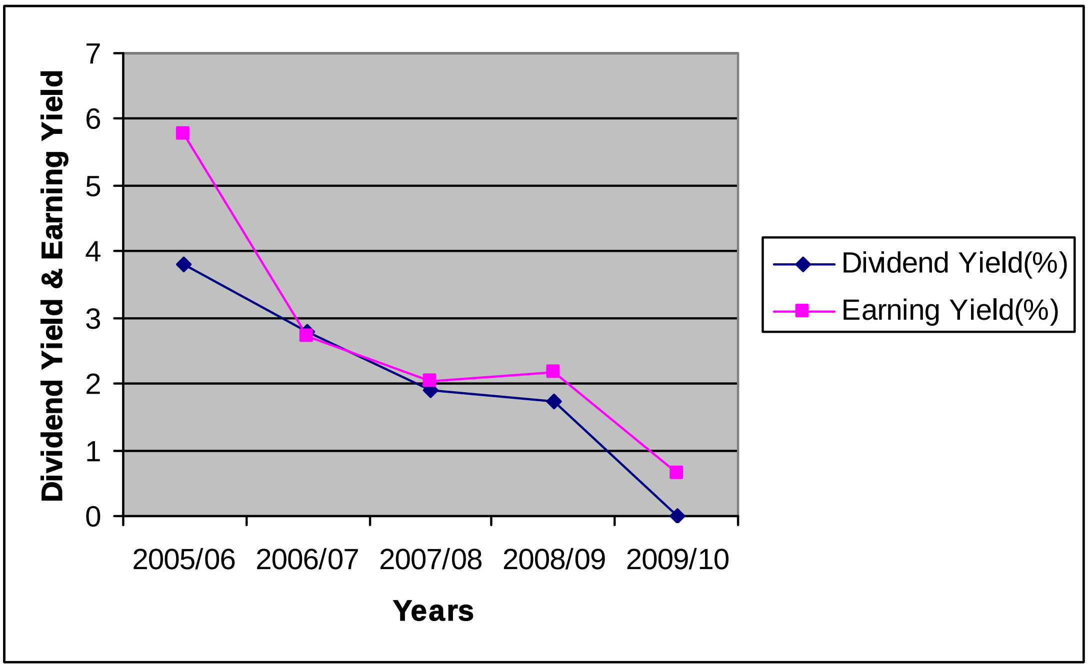
From above figure 4.5, it is clear that P/E Ratio and D/P Ratio have positive relationship except in year 2007/08 i.e. on 2007/08 it has negative relationship. On 2009/10 D/P ratio is Nil.

4.A.2.5 Relationship Among Dividend Yield and Earning Yield of NABIL Bank Ltd.

Figure No. 4.6 Shows the relationship among Dividend Yield and Earning Yield of NABIL Bank during the study period from 2005/06 to 2009/10.

Figure No. 4.6

Graphical Presentation of D.Y and E.Y of NABIL Bank Ltd. (2005/06-2009/10)



From the above figure No. 4.6, it is clear that both the Earning Yield and Dividend has positive relationship because from 2005/06 to 2008/09 both are in decreasing trend. On 2009/10 Dividend Yield is Nil.

4.A.3 Everest Bank Ltd.

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. Everest Bank Ltd. Joined hands with Punjab National Bank (PNB) India as its Joint Venture Partner in 1997. PNB is the latest nationalized bank in India having 110 years of banking history with more than 4500 offices all over India of which 1400 branches are interconnected. EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. The Bank has been conferred with "Bank of the year 2006, Nepal" by the banker, a publication of financial times, London. The Bank recognizes the value of offering a complete range of services. It has been pioneering in extending various customer friendly products such as Home Loan, Education loan, Loan against Share, Car Loan, EBL Property Plus (future lease rental), Loan against Life insurance Policies and Loan for Professionals. Everest Bank Ltd. also recorded pioneering achievements in the field of ATM service by typing-up with Punjab National Bank for enabling operation of ATM cards of SCT member banks of Nepal at PNB ATM's in India and vice versa through SCT-FSS switch sharing arrangements. The Net Profit of the Bank is Rs.175.62 M. during the fiscal year 2009/10. It's current Authorized Capital is Rs. 1,000,000,000.Issued Capital is Rs. 840,620,000 and Paid up Capital is Rs. 838,820,000.

4.A.3.1 Analysis of EPS, MPS, DPS and REPS of Everest Bank Ltd.

This section attempts to analyze and compare the EPS, MPS, DPS and REPS of Everest Bank Ltd. during the period 2005/06 to 2009/10. It has thus been divided into four parts. First it deals with the analysis and comparison of Earning per share. Secondly, it deals with the analysis and comparison of Market price per share. Third, it deals with analysis and comparison Dividend per share. Lastly, it deals with analysis and comparison of Retained Earning per share.

Table No. 4.5 presents the EPS, MPS, DPS and REPS of the Everest Bank Ltd. during the study period from 2005/06 to 2009/10.

Table No. 4.5

EPS, MPS, DPS and REPS of EBL (2005/06-2009/10)

Years	EPS		MPS		DPS		REPS	
	Rs.	Trend	Rs.	Trend	Rs.	Trend	Rs	Trend
2005/06	45.81	100	1379	100	25	100	20.81	100
2006/07	57.22	124.91	2430	176.21	40	160	17.22	82.75
2007/08	54.27	118.47	3132	227.12	50	200	4.27	20.52
2008/09	76.15	166.23	2455	178.03	60	240	16.15	77.61
2009/10	20.94	45.71	2390	173.32	-	-	20.94	100.63
X	50.88		2357.2		35		15.88	
¢	17.96		560.92		20.98		6.11	
C.V	35.30%		23.80%		59.94%		38.48%	

From the Table No. 4.5, it is clear that EPS has increased in 2006/07 i.e. Rs 57.22 and decreased in 2007/08 and again increased in 2008/09. In 2009/10, value of EPS has again decreased. It's Mean Value is 50.88, S.D is 17.96 and C.V is 35.30%. It's Trend is also same as the value of EPS is. The value of MPS is increasing from 2005/06 to 2007/08 and then decreased on 2008/09 and 2009/10. It's Mean Value is 2357.2, S.D is 560.92 and C.V is 23.80%. DPS is increasing from 2005/06 to 2008/09 but at last, the bank didn't paid dividend. The trend is also in the same process like DPS. The Mean Value of DPS is 35, S.D is 20.98 and C.V is 59.94%. The Value of REPS is decreasing from 2005/06 to 2007/08 and then increased in 2008/09 and 2009/10. It's Mean Value is 15.88, S.D is 6.11 and C.V is 38.48%.

4.A.3.2 Analysis of P/E Ratio, Dividend Cover, Dividend Payout Ratio, Dividend Yield, Earning Yield and Retention Ratio of Everest Bank Ltd.

This Table No. 4.6 represents the P/E Ratio, Dividend Cover, Dividend Payout Ratio, Dividend Yield, Earning Yield and Retention Ratio of Everest Bank Ltd. during the study period from 2005/06 to 2009/10.

Table No. 4.6

Analysis of Dividend Behavior of EBL (2005/06-2009/10)

Years	P/E Ratio	Dividend cover (t)	Div Payout Ratio(%)	Dividend Yield(%)	Earning Yield(%)	Retention Ratio
2005/06	30.10	1.83	54.57	1.81	3.32	0.45
2006/07	42.47	1.43	69.91	1.65	2.35	0.30
2007/08	57.71	1.09	92.13	1.60	1.73	0.08
2008/09	32.24	1.27	78.79	2.44	3.10	0.21
2009/10	114.16	-	-	-	0.88	1
X	55.34	1.12	59.09	1.5	2.28	0.41
¢	30.99	0.61	31.97	0.81	0.90	0.32
C.V	56%	54.46%	54.10%	54%	39.47%	78.05%

From the Table No. 4.6, it is clear that P/E Ratio is increasing from 2005/06 to 2007/08. In year 2008/09, it has decreased and again increased in 2009/10.Mean Value of P/E Ratio is 55.34, S.D is 30.99 and C.V is 56%. Dividend Cover is decreasing from 2005/06 to 2007/08 and is Nil in 2009/10. It's Mean Value is 1.12, S.D is 0.61 and C.V is 54.46%. Dividend Payout Ratio has increased from 2005/06 to 2007/08 but decreased in 2008/09 and Nil in 2009/10. It's Mean Value is 59.09, S.D is 31.97 and C.V is 54.10%. Dividend Yield and Earning Yield both are in same process, first 3 years i.e. from 2005/06 to 2007/08 both are in decreasing trend but both increases in year 2008/09. The Mean Value of Dividend Yield is 1.5, S.D is 0.81 and C.V is 54%. Similarly, the Mean Value of Earning Yield is

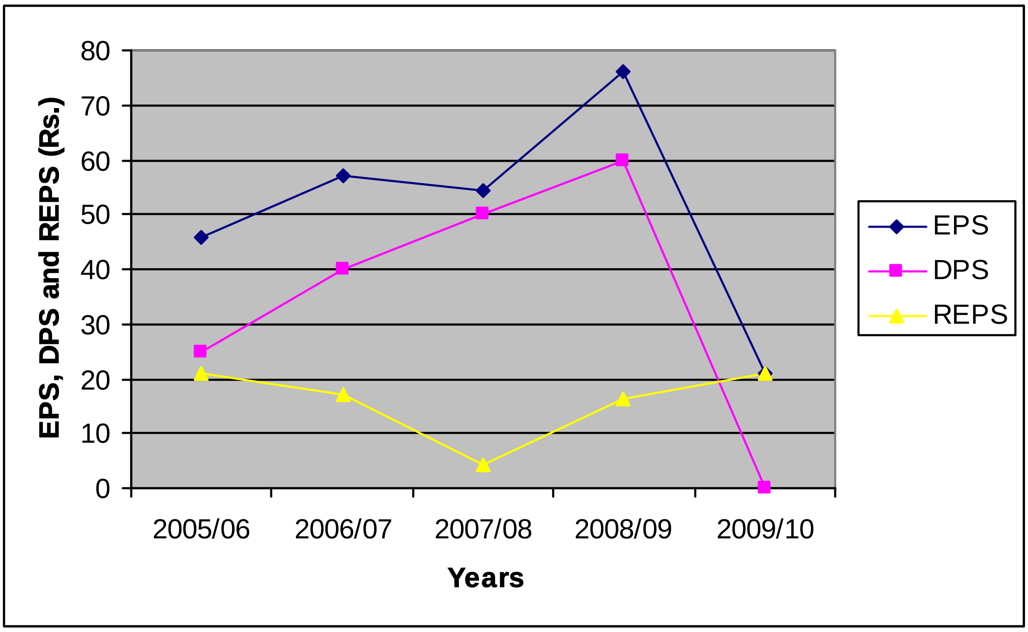
2.28, S.D is 0.90 and C.V is 39.47%. Retention Ratio has decreased from 2005/06 to 2007/08 and then increased in 2008/09 and 2009/10. Mean Value of Retention Ratio is 0.41, S.D is 0.32 and C.V is 78.05%.

4. A.3.3 Relationship Among EPS, DPS and REPS of Everest Bank Ltd.

Figure No. 4.7 shows the relationship between EPS, DPS and REPS of Everest Bank Ltd. during the study period from 2005/06 to 2009/10.

Figure No. 4.7

Graphical Presentation of EPS, DPS and REPS of EBL (2005/06-2009/10)



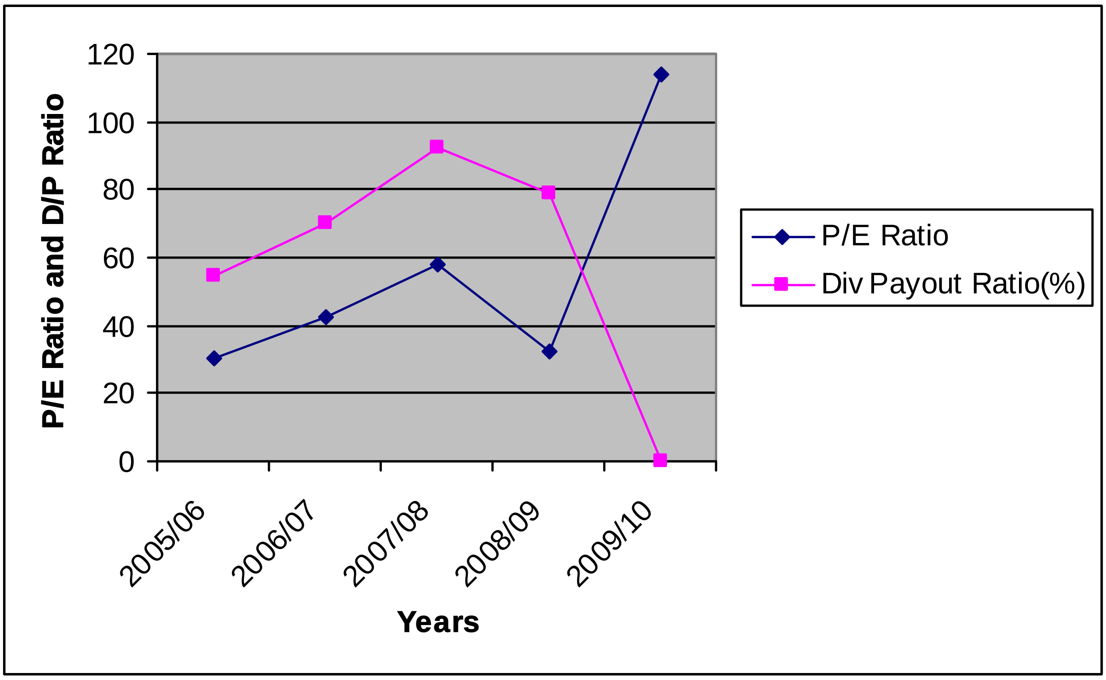
From the above figure no 4.7, it is clear that EPS, DPS and REPS have negative relationship. If EPS is increasing then DPS is also increasing but when EPS is decreasing, DPS is still increasing. Similarly, when EPS is increasing in 2006/07 then REPS is decreasing.

4.A.3.4 Relationship Among P/E Ratio and Dividend Payout Ratio of Everest Bank Ltd.

Figure No. 4.8 shows the relationship between P/E Ratio and Dividend Payout Ratio of the Everest Bank Ltd. during the study period from 2005/06 to 2009/10.

Figure No. 4.8

Graphical Presentation of P/E Ratio and Dividend Payout Ratio of EBL (2005/06-2009/10)



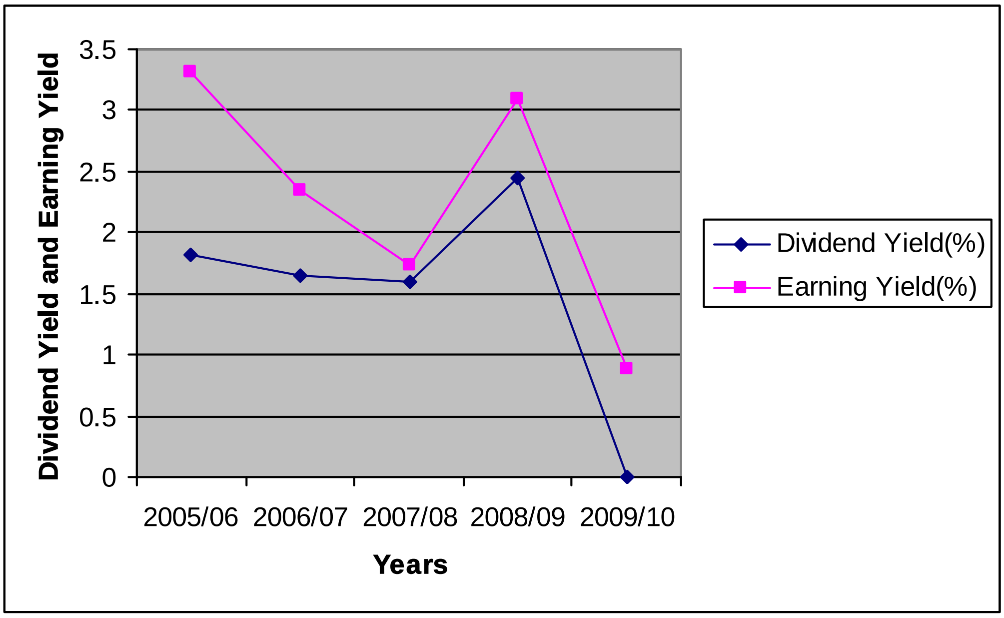
From the above figure no. 4.8 it is clear that P/E Ratio and D/P Ratio have positive relationship. Both are in increasing trend from 2005/06 to 2007/08 and in year 2008/09 both are decreasing.

4. A.3.5 Relationship Among Dividend Yield and Earning Yield of Everest Bank Ltd.

Figure No. 4.9 shows the relationship between Dividend Yield and Earning Yield of the Everest Bank Ltd. during the study period from 2005/06 to 2009/10.

Figure No. 4.9

Graphical Presentation of D.Y and E.Y of EBL (2005/06-2009/10)



From the above figure no. 4.9, we can see that the relationship between Dividend Yield and Earning Yield are positive. Both are decreasing from the year 2005/06 to 2007/08 and increasing in the year 2008/209.

4. A.4 Bank of Kathmandu Limited

Bank of Kathmandu Limited (BOKL) has started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. Bank of Kathmandu Limited has become a prominent name in the Nepalese banking sector. It is committed to delivering quality services to customers, generating good return to shareholders, providing attractive incentives to employees and serving the community through stronger corporate social responsibility endeavor. BOKL also aims to facilitate the nation's economy and to become more competitive globally. To achieve these, BOKL has been focusing on its set objectives right from the beginning. It has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public. This year i.e. 2009/10 Bank's After

Tax profit is Rs. 120.32 M. It's current Authorized Capital is Rs 1,000,000,000, Issued Capital is Rs 844,400,000 and Paid up Capital is Rs 844,400,000.

4.A.4.1 Analysis of EPS, MPS, DPS and REPS of BOKL

This section attempts to analyze and compare the EPS, MPS, DPS and REPS of Bank of Kathmandu during the period 2005/06 to 2009/10. It has thus been divided into four parts. First it deals with the analysis and comparison of Earning per share. Secondly, it deals with the analysis and comparison of Market price per share. Third, it deals with the analysis and comparison of Dividend per share. Lastly, it deals with the analysis and comparison of Retained earning per share.

Table no. 4.7 presents the EPS, MPS, DPS and REPS of the BOKL during the study period from 2005/06 to 2009/10.

Table No. 4.7

EPS, MPS, DPS and REPS of BOKL (2005/06-2009/10)

Years	EPS		MPS		DPS		REPS	
	Rs.	Trend	Rs.	Trend	Rs.	Trend	Rs	Trend
2005/06	43.67	100	850	100	18	100	25.67	100
2006/07	43.50	99.61	1375	161.76	20	111.11	23.5	91.55
2007/08	59.94	137.26	2350	276.46	40	222.22	19.94	77.68
2008/09	54.68	125.21	1750	205.87	47.37	263.16	7.31	28.48
2009/10	14.25	32.63	1605	188.81	-	-	14.25	55.52
X	43.21		1586		25.07		18.13	
¢	15.81		489.32		16.88		6.65	
C.V	36.59%		30.85%		67.33%		36.68%	

From the Table No. 4.7 it is clear that EPS has increased in year 2007/08 and decreased in next two years. It's Mean Value is 43.21, S.D. is 15.81 and C.V. is 36.59%. The trend of EPS has also got the same process like EPS. MPS has increased in the beginning two years and then decreased in next two years . Mean

Value is 1586, S.D. is 489.32 and C.V. is 3085%. DPS is increasing from 2005/06 to 2008/09 and is Nil on 2009/10. Mean Value is 25.07, S.D. is 16.88 and C.V. is 67.33%. REPS has decreased in the beginning four years and then increased in 2009/10. It's Mean Value is 18.13, S.D. is 6.65 and C.V. is 36.68%.

4.A.4.2 Analysis of P/E Ratio, Dividend Cover, Dividend Payout Ratio, Dividend Yield, Earning Yield and Retention Ratio of BOKL

This Table No. 4.8 represents the P/E Ratio, Dividend Cover, Dividend Payout Ratio, Dividend Yield, Earning Yield and Retention Ratio of Bank of Kathmandu, during the study period from 2005/06 to 2009/10.

Table No. 4.8

Analysis of Dividend Behavior of BOKL (2005/06-2009/10)

Years	P/E Ratio	Dividend cover (t)	Div Payout Ratio(%)	Dividend Yield(%)	Earning Yield(%)	Retention Ratio
2005/06	19.46	2.43	41.22	2.12	5.14	0.59
2006/07	31.61	2.18	45.98	1.45	3.16	0.54
2007/08	39.21	1.50	66.73	1.70	2.55	0.33
2008/09	32	1.15	86.63	2.71	3.12	0.13
2009/10	112.64	-	-	-	0.89	1
X	46.98	1.45	48.11	1.60	2.97	0.52
¢	33.43	0.86	28.97	0.90	1.36	0.29
C.V	71.16%	59.31%	60.22%	56.25%	45.79%	55.77%

From the Table No. 4.8, it is clear that P/E Ratio is increasing in the first two years and decreased in 2008/09 and again increased in 2009/10. The Mean Value is 46.98, S.D. is 33.43 and C.V. is 71.16%. Dividend Cover is decreasing all the time i.e. for 5 year's. The Mean Value is 1.45, S.D. is 0.86 and C.V. is 59.31%. Dividend Payout Ratio is increasing from year 2005/06 to 2008/09 and is Nil in 2009/10. It's Mean Value is 48.11, S.D. is 28.97 and C.V. is 60.22%. Dividend

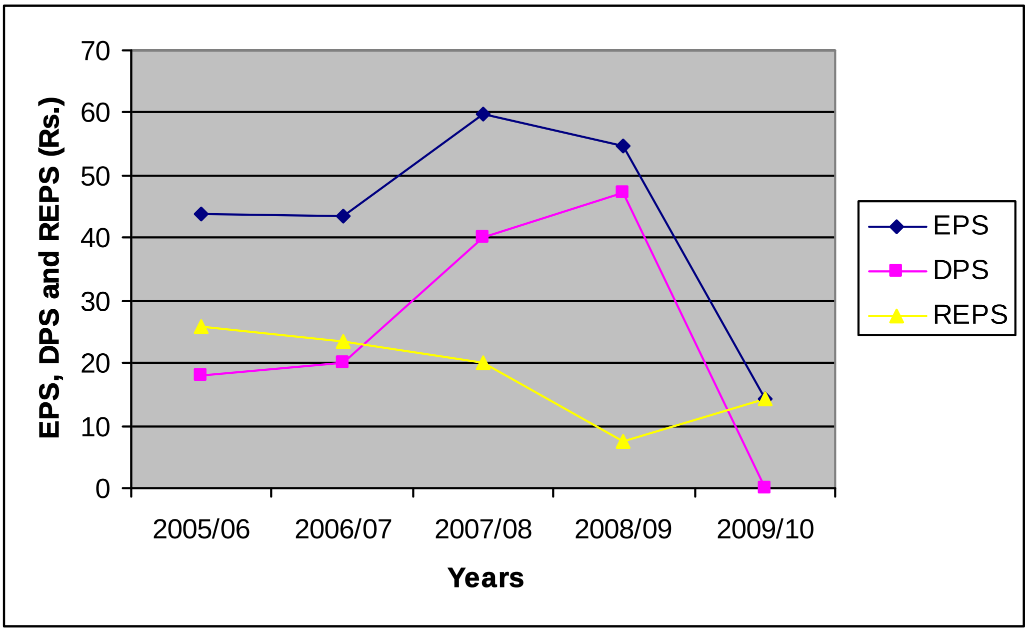
Yield is decreasing in year 2006/07 and increased in 2007/08 and 2008/09 and is Nil on 2009/10. It's Mean Value is 1.60, S.D. is 0.90 and C.V. is 56.25%. Earning Yield has decreased regular for three years but in 2008/09 it has increased and again on 2009/10 earning yield has decreased. It's Mean Value is 2.97, S.D. is 1.36 and C.V. is 45.79%. Similarly, Retention Ratio is also decreasing regular for four years and then increased in 2009/10. It's Mean Value is 0.52, S.D. is 0.29 and C.V. is 55.77%.

4. A.4.3 Relationship Among EPS, DPS and REPS of BOKL

Figure No. 4.10 shows the relationship between EPS, DPS and REPS of Bank of Kathmandu Ltd. during the study period from 2005/06 to 2009/10.

Figure No. 4.10

Graphical Presentation of EPS, DPS and REPS of BOKL (2005/06-2009/10)



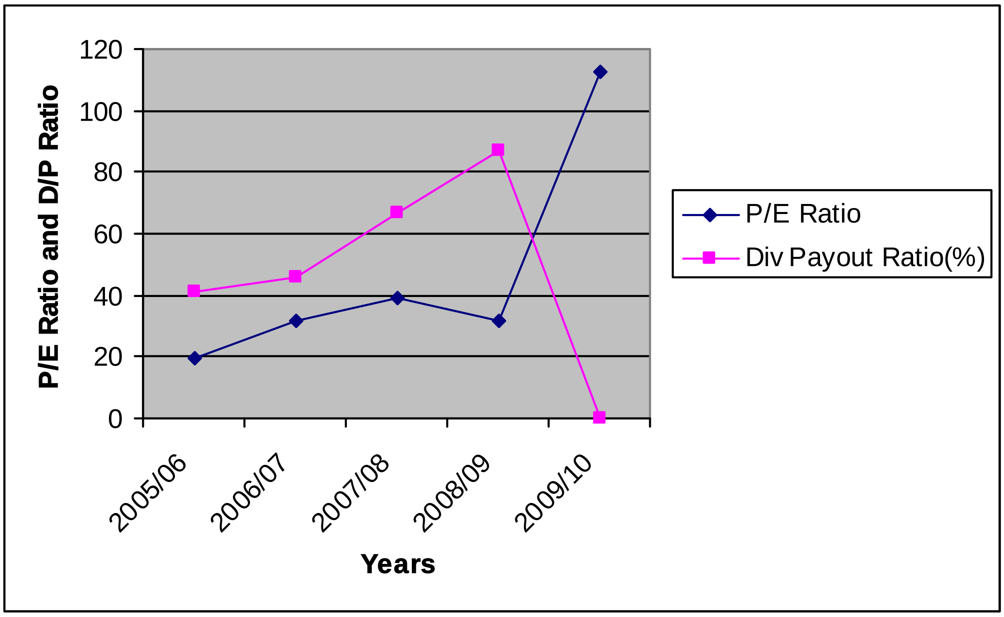
From the Table No. 4.10 it is clear that EPS, DPS and REPS have negative relationship. If EPS is decreasing then DPS is increasing and when EPS is increasing, DPS is still increasing. Similarly, when EPS is decreasing, REPS is also decreasing but when EPS is increasing, REPS is still decreasing.

4. A.4.4 Relationship Among P/E Ratio and Dividend Payout Ratio of BOKL

Figure No. 4.11 shows the relationship between P/E Ratio and Dividend Payout Ratio of Bank of Kathmandu Ltd. during the study period from 2005/06 to 2009/10.

Figure No. 4.11

Graphical Presentation of P/E Ratio and Dividend Payout Ratio of BOKL (2005/06-2009/10)



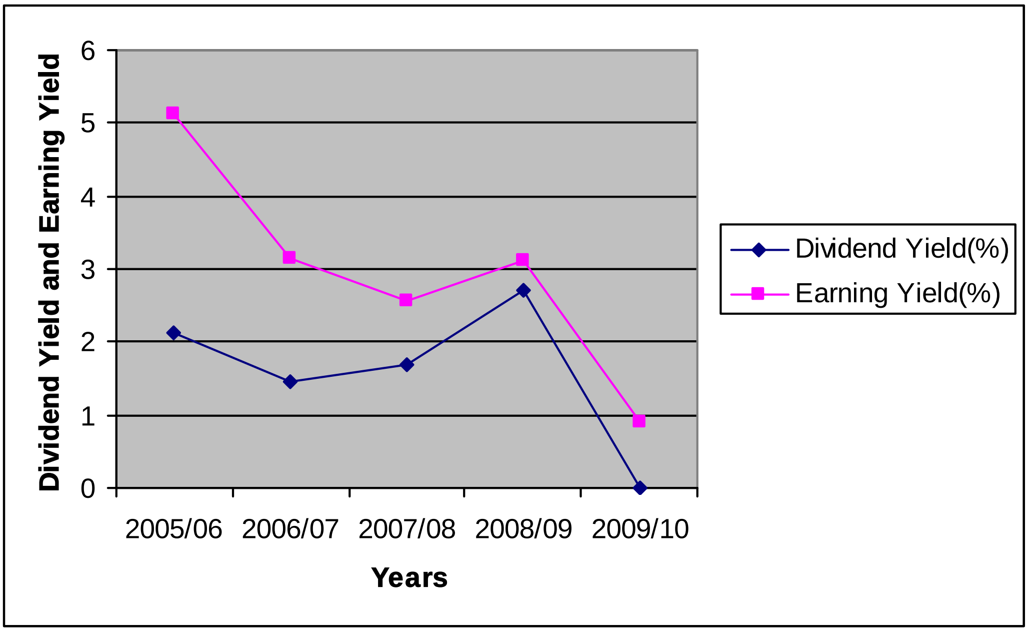
From the above Figure No. 4.11 we can see that P/E Ratio and D/P Ratio has got similarity except on the year 2008/09. In 2008/09 P/E Ratio has decreased but D/P Ratio has increased. D/P Ratio is Nil on 2009/10.

4.A.4.5 Relationship Among Dividend Yield and Earning Yield of BOKL

Figure No. 4.12 shows the relationship between Dividend Yield and Earning Yield of Bank of Kathmandu, during the study period from 2005/06 to 2009/10.

<u>Figure No. 4.12</u>

Graphical Presentation of D.Y and E.Y of BOKL (2005/06-2009/10)



From the above Figure No. 4.12 we can see that Earning Yield is decreasing from year 2005/06 to 2007/08 but increased on 2008/09. While Dividend Yield has increased except 2006/07. So, it is clear that Dividend Yield and Earning Yield has negative relation.

4. B Inferential Analysis

Inferential Analysis is based on the sampling and statistics. For the inferential analysis, null and alternative hypothesis were formulated and tested with the help of student's t-test. If the calculated t-values were less than the table values at 5% level of significant for n-2 degree of freedom, the null hypothesis would be accepted and alternative hypothesis would be rejected or vice- versa. Inferential analysis helps to estimate a good estimator of population parameters to predict the future outcomes, i.e. to established correlation relationship between EPS and MPS, DPS and MPS and EPS and DPS in the case of Commercial Banks under the study. For the purpose, all of the four banks for the sample study correlation coefficient have been computed between different ratios. In addition, student's t-values have been calculated to test the statistical significance correlationship of all the correlation coefficient calculates. Again in addition, "Analysis of Variation" using ANOVA technique we find out established hypothesis statement used to show the relationship between variables. Analysis of variation, F-Value has been calculated to test the statistical significance of concerned four banks at 5% level. The following table from (Table No. 4.1 to 4.8) shows the analysis as well as individual company analysis of dividend behavior with the help of different ratios (viz. P/E Ratio, D/Y and DC) and their correlation coefficient and t-values and testing hypothesis.

4.B.1 Bank Wise testing of Hypothesis

4. B.1.1 Testing of Hypothesis on the basis of Price Earning Ratio

The following Null Hypothesis has been tested by applying the student t-test on the basis of Price Earning Ratio of different Commercial Banks.

Ho: There is no significant correlation between Market Price of share defined in term of MPS and Earning defined in term of EPS.

Ha: There is significant correlation between Market Price of share defined in term of MPS and Earning defined in term of EPS

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The following table (4.9) presents the correlation between EPS and MPS of the Nepalese Commercial banks related for the study and their calculated coefficient of determination and t-values.

Table No. 4.9

Correlation Coefficient between EPS and MPS of Sample Banks

Banks	**r**	**r^2**	**t-values**	**Significant at 5%**
Himalayan Bank	0.2518	0.0634	0.4506	Not Significant
NABIL Bank	0.3597	0.1294	0.6677	Not Significant
Everest Bank	0.1894	0.0359	0.3341	Not Significant
Bank of Kathmandu	0.3544	0.1256	0.6565	Not Significant

Source: Computed from Table No. 4.1 to 4.8

From the Table No. 4.9 it can be seen that the computed t- values of the Coefficient Correlation (r) between EPS and MPS of all the Four banks selected for the study are lower than the table values 3.182 at 5% level of significance. Therefore the Null Hypothesis (Ho) is accepted in case of all the four banks. This implies that there is no statistically significant correlation ship between EPS and MPS in the high majority of the Nepalese Commercial Banks. We also found that there are not any negative correlation ship between EPS and MPS.

4. B.1.2 Testing of Hypothesis on the basis of Dividend Yield

The following Null Hypothesis has been tested by applying the student t-test on the basis of Dividend Yield.

Ho: There is no significant correlation between Dividend per share defined in term of DPS and Market price of share defined in term of MPS.

Ha: There is significant correlation between Dividend per share defined in term of DPS and Market price per share defined in terms of MPS.

The following table (4.10) presents the correlation between MPS and DPS of the Nepalese Commercial banks related for the study and their calculated coefficient of determination and t-values.

<u>Table No. 4.10</u>

Correlation Coefficient between MPS and DPS of Sample Banks

Banks	r	r^2	t-values	significant at5%
Himilayan Bank	0.3877	0.1503	0.7285	Not Significant
Nabil Bank	0.6044	0.3653	1.3139	Not Significant
Everest Bank	0.3921	0.1537	0.7383	Not Significant
Bank of Kathmandu	0.505	0.2550	1.0134	Not Significant

Source: Computed from Table No. 4.1 to 4.8

From the Table No. 4.10 it can be seen that the computed t-values of the coefficient correlation (r) between MPS and DPS of Four banks selected for the study are lower than the table values 3.182 at 5% level of significance. Therefore, the Null Hypothesis (Ho) is accepted in case of all the Four commercial banks. This implies that there is no statistically significant correlationship between MPS and DPS in the high majority of the Nepalese Commercial Banks. All the Banks have positive correlationship between MPS and DPS. Positive correlationship implies that an increment in DPS decreases the share price. On the other hand, positive correlationship coefficient indicates that dividend payment positively affect in share prices.

4. B.1.3 Testing of Hypothesis on the basis of Dividend Cover

The following Null Hypothesis has been tested by applying the student t-test on the basis of Dividend Cover.

Ho: There is no significant correlation between Earning defined in term of EPS and Dividend Per Share defined in term of DPS

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Ha: There is significant correlation between Earning defined in term of EPS and Dividend Per Share defined in term of DPS.

The following Table (4.11) represents the correlation coefficient between EPS and DPS of the Nepalese Commercial banks related for the study and their coefficient of determination and calculated t-values.

Table No. 4.11

Correlation Coefficient between EPS and DPS of Sample Banks

Banks	r	r^2	t-values	significant at 5%
Himalayan Bank	0.9886	0.9773	11.3653	significant
Nabil Bank	0.9391	0.8819	4.7332	significant
Everest Bank	0.9626	0.9266	6.1542	significant
Bank of Kathmandu	0.9194	0.8453	4.0489	significant

Source: Computed from Table No. 4.1 to 4.8

From the Table No. 4.11 it can be seen that the computed t-values of the coefficient correlation (r) between EPS and DPS of all the four banks which are selected for the study are higher than table value 3.182 at 5% level of significance. Therefore the Alternative Hypothesis (Ha) is accepted for all the four banks. It can be noted that four banks have positive correlationship between EPS and DPS.

4. B.2.1 Testing of Hypothesis has been tested by applying the F-test on the basis of Earning per Share (EPS) of different Commercial Banks.

The following Null Hypothesis has been tested by applying the F-test.

Ho: There is no significant difference in EPS of concerned four banks.

Ha: There is significant difference in EPS of concerned four banks.

Table No. 4.12

EPS of HBL, NABIL, EBL and BOKL (2005/06-2009/10)

Year / Banks	HBL	NABIL	EBL	BOKL
2005/06	59.24	129.21	45.81	43.67
2006/07	60.66	137.08	57.22	43.50
2007/08	62.74	108.31	54.27	59.94
2008/09	61.90	106.76	76.15	54.68
2009/10	9.46	18.11	20.94	14.25

Source: Computed from Table No. 4.1 to 4.8

Computation of F-Test Statistic

Correction Factor (C.F) = 74896.56

Total Sum of Squares (TSS) = 24232.76

Sum of Squares between samples (SSB) = 10178.21

Sum of Squares within samples (SSW) = 14054.55

ANOVA TABLE:

Source of variation	Sum of squares (SS)	Degree of Freedom(D.F)	Mean sum of square(MS)	F-ratio
Between Groups	10178.21	4-1=3	3392.74	3.86
Within Groups	14054.55	20-4=16	878.41	
Total	24232.76	20-1=19		

Source: Appendix

Critical Value: the tabulated value of F at 5% level of significance for degree of freedom $\neg_1$=3 and $\neg_2$ = 16 is 3.24.

Decision: Since the calculated value of F (i.e. F_{cal}=3.86) is greater than its tabulated value (i.e F_{tab}=3.24) at 5% level of significance i.e. $F_{cal}>F_{tab}$. So, null hypothesis (H_0) is rejected. It means that Alternative Hypothesis (H_1) is accepted. Hence, we conclude that there is significant difference in EPS of commercial banks.

4.B.2.2 Testing of Hypothesis on the basis of DPS

The following Null Hypothesis has been tested by applying the F-test on the basis of Dividend per share (DPS) of concerned four banks.

Ho: There is no significant difference in DPS of concerned four banks.

Ha: There is significant difference in DPS of concerned four banks.

Table No. 4.13

DPS of HBL, NABIL, EBL and BOKL (2005/06-2009/10)

Year / Banks	HBL	NABIL	EBL	BOKL
2005/06	35	85	25	18
2006/07	40	140	40	20
2007/08	45	100	50	40
2008/09	43.56	85	60	47.37
2009/10	-	-	-	-

Source: Computed from Table No. 4.1 to 4.8

Computation of F- Test statistic

Correction Factor (C.F) = 38187.68

Total Sum of Squares (TSS) = 25502.71

Sum of Squares between samples (SSB) = 10051.22

Sum of Squares within samples (SSW) = 15451.49

ANOVA TABLE:

Sources of Variation	Sum of Squares (SS)	Degree of Freedom(df)	Mean Sum of Squares (MS)	F-ratio
Between Groups	10051.22	4-1=3	3350.41	3.47
Within Groups	15451.49	20-4=16	965.72	
Total	25502.71	20-1=19		

Source: Appendix

Critical Value: the tabulated value of F at 5% level of significance for degree of freedom $\neg_1 = 3$ and $\neg_2 = 16$ is 3.24.

Decision: Since, the calculated value of F (i.e. F_{cal} = 3.47) is greater than its tabulated value of F (i.e.F_{tab} = 3.24) at 5% level of significance i.e. $F_{cal} > F_{tab}$. So, null hypothesis (H_0) is rejected. It means Alternative Hypothesis (H_1) is accepted. Therefore, we can reasonably be concluded that there is significant difference in DPS of commercial banks.

4. B.2.3 Testing of Hypothesis on the basis of DPR

The following Null Hypothesis has been tested by applying the F- test on the basis of Dividend Payout (DPR) of the concerned four banks.

Ho: There is no significant difference in DPR of concerned four banks.

Ha: There is significant difference in DPR of concerned four banks.

<u>Table No. 4.14</u>

Dividend Payout Ratio of Sample Banks (2005/06-2009/10)

Years / Banks	HBL	NABIL	EBL	BOKL
2005/06	59.08	65.78	54.57	41.22
2006/07	65.94	102.13	69.91	45.98
2007/08	71.72	92.33	92.13	66.73
2008/09	70.37	79.62	78.79	86.63
2009/10	-	-	-	-

Source: Computed from Table No. 4.1 to 4.8

<u>Computation of F –Test Statistic</u>

Correction Factor (C.F) = 65314.45

Total Sum of Squares (TSS) = 20573.48

Sum of Squares between samples (SSB) = 1082.11

Sum of Squares within samples (SSW) = 19491.37

ANOVA TABLE:

Sources of Variation	Sum of Squares (SS)	Degree of Freedom(df)	Mean Sum of Squares (MS)	F-ratio
Between Groups	1082.11	4-1=3	360.70	0.30
Within Groups	19491.37	20-4=16	1218.21	
Total	20573.48	20-1=19		

Source: Appendix

Critical Value: the tabulated value of F at 5% level of significance for degree of freedom $\neg_1 = 3$ and $\neg_2 = 16$ is 3.24.

Decision: Since, the calculated value of F (i.e.F_{cal} = 0.30) is less than the tabulated value of F (i.e. F_{tab} = 3.24) at 5% level of significance i.e. $F_{cal} < F_{tab}$. So, null hypothesis (H_o) is accepted. It means Alternative Hypothesis (H_1) is rejected. Therefore, we can reasonably be concluded that there is no significant difference in EPS of commercial banks.

4. C Major Findings of the Study

Major findings which are obtained from the above analysis are as follows:

1. The average mean value of EPS of Nabil Bank Ltd. looks satisfactory among the selected four banks. Bank of Kathmandu Ltd. has the lowest mean value of EPS during the study period. It. also has the lowest standard deviation and coefficient of variation which shows it is less risky than the other three banks.
2. The average value of Market price per share is quite higher in Nabil Bank than the other three banks. Bank of Kathmandu Ltd. has the lowest average MPS during the study period. Similarly, among the selected four banks Himalayan Bank Ltd. has the lowest standard deviation and coefficient of variation.
3. The average of dividend per share of Nabil Bank Ltd. is much better than the other three banks. Bank of Kathmandu Ltd. has the lowest mean DPS during the study period. Among the selected four banks, Nabil Bank is more risky as it has highest standard deviation and coefficient of variation.
4. Bank of Kathmandu Ltd. has the highest mean REPS and Everest Bank Ltd. has the lowest mean REPS during the study period.
5. P/E ratio of Nabil Bank looks better than other three banks. But, consistency is lower because the value of standard deviation and coefficient of variation of price earning ratio in Nabil Bank is higher.
6. The average dividend pay out ratio of Nabil Bank is higher as compared to the other three banks. It shows that Nabil Bank pays more part of earning as dividend to its shareholders.

7. Bank of Kathmandu Ltd. has the highest mean dividend cover and Nabil Bank Ltd. has the lowest mean dividend cover during the study period.
8. The average dividend yield is higher in HBL. It shows the dividend gain to shareholders is higher in case of HBL in comparison to the Nabil, EBL, and BOKL, but this analysis shows more inconsistency in dividend yield in HBL.
9. Himalayan Bank Ltd. has the highest mean earning yield and Everest Bank Ltd. has the lowest mean earning yield during the study period.
10. BOKL has the highest mean retention ratio and Nabil bank has the lowest mean retention ratio during the study period.
11. Correlation analysis between market price per share and earning price per share shows there is low degree of correlation between these two variables in case of all the four selected banks.
12. Correlation analysis between market price per share and dividend per share shows there is moderate relationship between MPS and DPS in case of Nabil Bank and Bank of Kathmandu, but in case of HBL and EBL, there is very weak relationship between market price per share and dividend per share. It shows dividend has very little impact to change in market price per share of HBL and EBL.
13. Correlation analysis between earning per share and dividend per share shows there is strong positive relationship between the earning and dividend payment in case of all the four banks.
14. The test hypothesis of earning per share (EPS) shows that there is a significant difference between earning per share of sample commercial bank at 5% level of significance.
15. The test hypothesis of dividend per share (DPS) shows that there is a significant difference in DPS of sample commercial banks at 5% level of significance.
16. The test hypothesis of dividend payout ratio (DPR) shows that there is no significant difference between DPR of sample commercial banks at 5% level of significance.

CHAPTER – V

Summary, Conclusion and Recommendation

This chapter presents summary, conclusion and recommendation. This chapter focuses on summarizing the study held with the researcher's analysis. Also, this chapter helps to show dividend policy of different banks taking reference of these sample banks. This may help in the practices of dividend and to formulate new policies in the future. This study is depended only on secondary data of a few banks. So, this chapter focuses to find certain result oriented findings and has included some recommendations.

5.1 Summary

Dividend Policy decision is one of the major decision of financial management. It affects the financial structure, the flow of funds, corporate liquidity and investor's attitude. It is related to overall financing decision as dividend payout reduces the amount of retained earnings in the firm and affects the total amount of internal financing.

Dividend payment to shareholders is an effective way to attract new investors to invest in shares. Dividend is a life of firms because it helps to develop the firm by attracting the investors. Investors are always profit oriented and dividend shows a simple comprehensive signal of management interpretation of the firm's recent performance and future prospectus. When a new company intends to raise its capital, issuing shares through capital market, a large number of investors apply for owner's certificate. It indicates that people have expected good return. While investing in shares, the return can be earned in two ways (1) by means of dividend and (2) by means of capital gain i.e. increase in share price. The division of earnings of a company between dividend payout and retention of earnings whether affects or does not affect the market price of shares of a company is a crucial question.

This study is mainly focused to access the dividend practices of different banks. It covers some specific objectives mainly to find out the relationship between other financial indicators and also to find out the appropriate dividend policies of different banks. Only few Bank's in Nepal pay dividends to their shareholders. There are Banks in Nepal, which are not paying dividend to shareholders and there are Banks which pay regular dividends to their shareholders. The study mainly aims to access the prevailing behavior of listed Bank's regarding dividend payment. Its specific objectives are:

- To analyze the trend of dividend behavior of Nepalese Commercial Bank's during the five year's period of 2005/06 to 2009/10.
- To examine the relationship between EPS,DPS and REPS.
- To examine the relationship between DY and EY.
- To know whether there is any uniformity among EPS, DPS, and DPR of the Samples Commercial Bank's or not.
- To point out the suitable suggestion based on the findings for the future improvement.

The study has used both accounting and statistical tools for the analysis. In accounting tools P/E, DY and DC were computed to represents different ratios. In statistical tools Arithmetic Mean, Standard Deviation, Coefficient of Variation, Student t-test, ANOVA test and growth rate analysis of the sampled banks were obtained from their respective websites. This study covers a period of five years from 2005/06 to 2009/10.

The study is based on the Descriptive and Inferential Analysis. Descriptive analysis involved relationship analysis and compare among EPS, MPS, DPS and REPS. Inferential analysis involved the coefficient of correlation (r) and coefficient of determination between different ratios and testing the Null Hypothesis and Alternative Hypothesis with the help of Karl Pearson correlation coefficient and t-test. Similarly, F-test with the ANOVA.

5.2 Conclusions

The study is basically related to find out the dividend behavior of the Nepalese Commercial Bank. We look equity share data of Four Commercial Bank's and analysis data are our requirements. The researcher wants to draw the conclusion on the basis of analysis of the collected information through various financial indicators and statistical tools of all the sample banks.

1. Above mentioned major findings led this study concludes that the earnings of bank said to be satisfactory in Nepalese context. Among sample banks NABIL is in leading position in terms of earning followed by HBL, EBL, and BOK respectively.
2. It is found from the study that there is no consistency found in distribution of dividend in all sample companies. The research shows that none of these companies have well defined and appropriate policy regarding dividend payment. NABIL is paying higher dividend than other sample banks.
3. It is also found from the study that there is positive and significant relationship between market price of share and earning per share for all sample banks. It means that there is positive effect of earning to the market price of stock in Nepalese Commercial Banks.
4. There is positive relationship between market price per share and dividend per share for all the sample banks. There is negligible effect on the market price of stock due to dividend.
5. The insignificant relationship between EPS and DPS, DPS and P/E ratio indicates that the dividend policy of all these companies is unscientific and unrealistic.
6. By analyzing the dividend policy of the sample commercial banks, it can be concluded that the bank that pays high dividend will have better financial position than the bank which pays low dividend.

7. Most of the companies do not seem to follow the optimum dividend policy of paying regular dividend as per shareholder's expectation. It might cause uncertainty among stockholders.
8. From the analysis it is found that the market price of stock is affected by other variables which indicate about the rational behavior of investors.
9. Besides dividend other factors also play a major role in determining the MPS.
10. There is no uniformity of dividend payment policy in Nepal. All the sample commercial banks are inconsistently paying dividend to their shareholders.
11. The major findings have also led to conclude that the companies are neglecting the major factors like earning position of the firm, liquidity position while paying dividend.
12. The study deals with only examining and analyzing the dividend practices of four sample banks for a period covering 5 years from 2005/06 to 2009/10 due to limited time period. If a large sample is taken for the whole population the result might vary and be more accurate and absolute. So, dividend policy may be subject of further study which can be more appropriate.

Thus, it can be concluded that none of the sample banks have systematic dividend behavior with their shareholders to distribute the dividend and also there is no any formal and scientific dividend policy adopted by the commercial banks which reasonably affect the market price of the company.

5.3 Recommendation

Based on the above analysis and findings, the following suggestions are recommended for improving the financial performance and growth of the firms.

- Nepalese Commercial Banks are paying dividend without adopting any appropriate policy. It seems impossible to increase shareholder's wealth. Banks are advised to adopt fixed dividend policy to boost up the wealth of shareholders
- Most of the investors are expecting a quick return on their investment rather than long term return due to declining economic condition of Nepal. They prefer dividend in form of cash rather than stock. So, the cash dividend should be distributed to satisfy the stockholders of the company
- The legal rules and regulations must be in favor of investors to exercise the dividend practice and to protect the shareholders right.
- The management unable to pay dividend feels itself safe to accuse the interference of government for poor performance. Therefore, there should be certain program to improve the efficiency of management and reduce the government interference in daily affair. Similarly, managers should be alerted to perform their duties and responsibilities to protect shareholders interest but not for operation of company desired by themselves.
- The decision regarding dividend payment should not be biased and it should always in favor of the prosperity of the company.
- Analysis shows that the sample companies are ignoring the liquidity position of the company while making dividend decision. They should consider the liquidity ratio rather than neglecting it before making dividend decision.
- The efficient and perfect capital market should be established to attract the investor.
- In most of the situation, the banks have been providing inconsistent dividend payment. This really dissatisfies their shareholders. In this situation all companies should follow constant dividend policy to satisfy their shareholders.

- The companies should follow the proper dividend policy. Dividend payment as a financing decision needs the formulation of a comprehensive long term financial policy and optimal dividend policy to fulfill the investor's expectation and interest.
- There should be some precise rules and regulations regarding the treatment of the earning and its distribution or retention. Despite having enough earning in certain fiscal year the banks had not paid any dividend. So, it is better for the government to formulate policies for fixing minimum and maximum dividend payout ratio for profit making companies.
- Bank's in Nepal are not paying adequate dividend to there shareholders even they are operating in profitable situation. There are no legal rules regarding the payment of dividend for the Nepalese Commercial banks. So, the bank should pay regular and adequate dividend to their shareholders to stabilize its capital through the retention of shareholder's wealth.
- The fluctuation in Earning per share and Dividend payout ratio of all the banks seem higher. It may be a case of confusion to the investors or shareholders. In this situation banks are advised to have target of earning and target payout ratio that will help banks to build good image in stock market and investors will be in case of making investment decisions.
- Dividends affect individual shareholders on the one hand and the whole economic development of the nation on the other hand. Hence, it may be pertinent to suggest the researcher of finance to develop on the subject of dividend. And, it is hoped that present study helps them.

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APPENDICES

Appendix – B

HBL

Year	EPS (Rs.)	MPS (Rs.)	DPS (Rs.)	REPS (Rs.)
2005/06	59.24	1100	35	24.24
2006/07	60.66	1740	40	20.66
2007/08	62.74	1980	45	17.74
2008/09	61.90	1760	43.56	18.34
2009/10	9.46	1495	-	9.46
$\overline{X}$	50.8	1615	32.71	18.09
¢	20.70	295	16.72	4.88
C.V..	40.75%	18.27%	51.12%	26.98%

NABIL Bank Ltd.

Year	EPS (Rs.)	MPS (Rs.)	DPS (Rs.)	REPS (Rs.)
2005/06	129.21	2240	85	44.21
2006/07	137.08	5050	140	-2.92
2007/08	108.31	5275	100	8.31
2008/09	106.76	4899	85	21.76
2009/10	18.11	2880	-	18.11
$\overline{X}$	99.89	4068.8	82	17.89
¢	42.54	1254.17	45.67	15.70
C.V..	42.59%	30.82%	55.70%	87.76%

EBL

Year	EPS (Rs.)	MPS (Rs.)	DPS (Rs.)	REPS (Rs.)
2005/06	45.81	1379	25	20.81
2006/07	57.22	2430	40	17.22
2007/08	54.27	3132	50	4.27
2008/09	76.15	2455	60	16.15
2009/10	20.94	2390	-	20.94
$\overline{X}$	50.88	2357.2	35	15.88
¢	17.96	560.92	20.98	6.11
C.V..	35.30%	23.80%	59.94%	38.48%

BOKL

Year	EPS (Rs.)	MPS (Rs.)	DPS (Rs.)	REPS (Rs.)
2005/06	43.67	850	18	25.67
2006/07	43.50	1375	20	23.5
2007/08	59.94	2350	40	19.94
2008/09	54.68	1750	47.37	7.31
2009/10	14.25	1605	-	14.25
$\overline{X}$	43.21	1586	25.07	18.13
¢	15.81	489.32	16.88	6.65
C.V..	36.59%	30.85%	67.33%	36.68%

Appendix – B

Correlation Coefficient between EPS and MPS

Banks	r	r^2	t- values
Himalayan Bank	0.2518	0.0634	0.4506
NABIL Bank	0.3597	0.1294	0.6677
Everest Bank	0.1894	0.0359	0.3341
Bank of Kathmandu	0.3544	0.1256	0.6565

Correlation Coefficient between MPS and DPS

Banks	r	r^2	t- values
Himalayan Bank	0.3877	0.1503	0.7285
NABIL Bank	0.6044	0.3653	1.3139
Everest Bank	0.3921	0.1537	0.7383
Bank of Kathmandu	0.505	0.2550	1.0134

Correlation Coefficient between EPS and DPS

Banks	r	r^2	t- values
Himalayan Bank	0.9886	0.9773	11.3653
NABIL Bank	0.9391	0.8819	4.7332
Everest Bank	0.9626	0.9266	6.1542
Bank of Kathmandu	0.9194	0.8453	4.0489

Appendix – B

ANOVA

Source of variation	**Sum of squares (SS)**	**Degree of Freedom(D.F)**	**Mean sum of square(MS)**	**F-ratio**
Between Groups	10178.21	4-1=3	3392.74	3.86
Within Groups	14054.55	20-4=16	878.41	
Total	24232.76	20-1=19		

ANOVA

Sources of Variation	**Sum of Squares (SS)**	**Degree of Freedom(df)**	**Mean Sum of Squares (MS)**	**F-ratio**
Between Groups	10051.22	4-1=3	3350.41	3.47
Within Groups	15451.49	20-4=16	965.72	
Total	25502.71	20-1=19		

ANOVA

Sources of Variation	**Sum of Squares (SS)**	**Degree of Freedom(d.f)**	**Mean Sum of Squares (MS)**	**F-ratio**
Between Groups	1082.11	4-1=3	360.70	0.30
Within Groups	19491.37	20-4=16	1218.21	
Total	20573.48	20-1=19		