IMPACT OF DIVIDEND ON MARKET PRICE OF SHARE

(A Comparative Study of NABIL and KBL Bank Limited)

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INTRODUCTION

Background of the Study

One of the major reasons for which public are interested to invest money on the shares of banks or other institutions is for dividend. Dividend is a payment made by an entity to its beneficiaries in consideration of the capital employed by them. In other words, dividend is the distribution of profit to the shareholders by the company only if it reduces the value of the company's assets and liabilities. Capitalization of profit is excluded from dividend because it doesn't reduce the value of assets and liabilities. Dividend is paid out of current year profit or from retained earnings. It may be cash, share or combination of these.

There is no any uniformity in the dividend distribution practiced in Nepal among the different corporations. It is distributed only after meeting all obligation of company such as interest to depositor, operating expenses and tax etc. and retained certain portion for future expansion of as a part of dividend policy.

Dividend policy is one of the major decisions of financial management because it affects the financial structure, the flow of funds, corporate liquidity, growth of firm, price of share and investor's attitudes. After the successful completion of fiscal year having sufficient profit management decide to declare dividend to shareholders. The important aspect of dividend policy is to determine the amount of earning to be distributed to shareholders and the amount to be retained in the firm. It also determines the forms of dividend.

MPS is the value of stock which can be obtained by a firm from the market. Market value of a share is one of the variables which is a affected by the dividend per share and earning per share of the firm. If the earning per share and dividend per share are high, the market value per share will also be high. Market value of share may be higher or lower than book value per share. If the firm is growing concern and its earning power is greater than cost of capital, the market value of share will be higher than the book value. If the firm's earning capacity is lower than cost of capital MPS will also be lower. MPS is determined by capital market. Market price of stock usually fluctuates by adequate information. No one can earn more in the inefficiency and inefficiency is legally prohibited in order to regulate the security market in every nation. But being focused in this study, dividend policy and its impact on market price of stock, there should be discussed different models and practices which have significant effects in MPS or not. So, MPS and security valuation are integral parts in it. Without valuation no one can quote the price and there is no chance of trading.

Dividend policy and MPS has always correlation; if the company pays high dividend the MPS increases and vice-versa. But in some cases out of this interrelation, the price may remain constant or decrease too. Therefore the information lack or flow is the vital in the analysis of MPS.

Profile of Sample Bank

Kumari Bank Ltd(KBL)

KBL, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has authorized capital and paid up capital of Rs. 200 million and Rs. 1,603,800,000 of which 70% is contributed from promoters and remaining from public.

KBL has been providing wide - range of modern banking services through 29 points of representations located in various urban and semi urban part of the country, 20 outside and 9 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS Banking services in Nepal.

Nabil Bank Ltd (Nabil)

The first joint venture bank, Nabil bank Ltd was established with technical service agreement in the country in 1984 under the management of Dubai Bank Ltd., United Arab Emirates. Its ownership structure consists of 50% share from Dubai Bank Ltd., 20% share from financial institutions of Nepal and rest 30% share from the general public. Its initial paid up capital was Rs. 30 million.

At present, its capital structure consists with authorized capital Rs. 2100 Million, issued capital Rs. 2029.7694 Million and paid up capital Rs. 2029.7694 Million. 50% of the share is in the name of foreign partner NB International, Ireland,36.15% ordinary shareholder,9.67% National insurance corporation, 0.33% Nepal Stock Exchange. And rest of the 3.85% other promoter shareholder.

Focus of the Study

Economic development of a country largely depends upon the effective mobilization on the internal resources. Banks and other financial institutions play vital role in this regard banks have the objective of collecting the scattered resources and mobilize them in productive sectors. In this context, dividend decision is the key instrument, which reflects the firm's ability of internal financing. The dividend decision affects the overall financing decision of the firm and also affects the shareholders perception to the firm. The earning power, dividend and retention have a significant impact on market price of share. So, the main focus of the study is the commercial banks about the impacts of dividend policy on market price of share. For these purpose different other studies are going to be done i.e. comparison of earning per share(EPS),dividend per share

(DPS),market price per share (MPS) and others as per the requirement with respect to the sample firm. The relationship between different variables will be individually and combine analyzed in this study.

Statement of the Problems

In general, it is assumed that there is relationship between dividend and stock price but the relation is not known, in an underdeveloped capital market like Nepal. Dividend distribution is not matching with the earnings of the commercial bank. Similarly, no proper relationship between dividend and market price of share exist. Returns of the listed companies lack the appropriate relationship with price. Companies with lower return record rigid price where as companies making sound return do not rigid in price of share. Thus returns of the company are not reflecting the market price of share. It is fact that various organizations are running in Nepal and only some of them are paying dividend. Sometime, they pay low or high dividend in relation to profit. In this regard, there are no specific rules and regulations for payment of dividend in the country. It is a type of problem to the investors or shareholders for making decision on their long term investment.

Thus, there are many dimensions to be considered on dividend theories, policy and practices and still many questions unanswered and rose by the dividend policy.

The study seeks to answer such following questions.

- Are share prices affected by dividend per share in the sample banks?
- What type of dividend policies and practices are being adopted by the banks?
- Are the sample banks guided by the specific dividend policy?
- Why Banks with similar profit range have different dividend payment decision?
- Does the Dividend Policy affect DPS, EPS, DPR, PE Ratio, Liquidity Ratio and MPS in stated commercial banks?

Objective of the Study

The study primarily focuses on the dividend practice adopted by the sample banks and its relation to other financial indicators. The basic objective of the study is to make comparative analysis of dividend policy of selected banks. But the specific objectives are as follows.

- To analyze the relationship of financial indicators such EPS, DPS, MPS PE Ratio, DY and DPR .
- Find out the impact of dividend policy on market price per share.
- To provide suggestion and recommendations on the basis of major findings of the study.

Significance of the Study

The finding of this research will be of worth to the shareholders to see the dividend policy of the two banks in comparison. So, this may be helpful for them in identifying the productivity of their investment and justify the rationale of their investment decision. Then it will also benefited by the management to point out the loopholes and suggest the remedies about the appropriate dividend policy. Similarly, this research will also be beneficial to the policy makers from the comparative study of dividend policy. They can get important findings which are useful in policy making about dividend policy formulation.

Finally, the dividend policy of the joint venture banks are of great interest to the several outsider they are customers, financial agencies, stock brokers, interested person and scholars. I believe that except above, those JVBs will be benefited more since the study is conduct on their dividend policy.

Limitations of the Study

As every study has been conducted within certain limitations, the present study is not an exceptional. It has also some limitations. The main factor is time and vailability of the data. This study will be limited by the following factors:

- This study will be based on the secondary data which have been obtained from annual reports of concerned commercial banks and booklets, newspapers, magazines, books, security exchange, journals and bulletins of Nepal Rastra Bank etc.
- Only those factors like EPS, DPS, MPS PE Ratio, DY and DPR will be considered in this study.
- The result obtain from study can't generalized for all similar organization due to varying nature of their operation and business.
- This study period has been covered for 5 (Five) years from 2064/65 to 2068/69.
- The research has been carried out generally for academic purpose and thus, it lacks practical implication.

Organization of the Study

This study has been organized in five chapters; Introduction, Review of the Literature, Research Methodology, Presentation and Analysis of data, and Summary, Conclusion and Recommendation. A brief detail of each chapter has been defined below:

Chapter I: Introduction

The first Chapter deals with the subject matter of the study consisting of general background of the study, profile of sample bank, focus of the study, statement of the problem, objectives of the study, limitation of the study and organization of the study itself.

Chapter II: Review of Literature

The second chapter is concentrated upon review of literature. This chapter is subdivided into various sections such as conceptual framework, review from the different studies, review from journals, articles, magazines and review of previous master's thesis.

Chapter III: Research Methodology

The third Chapter explains about the research methodology which is used to evaluate the dividend policy of these banks. It consists of research design, sources of data, population and sample, data analysis tools. The Chapter also presents the results relating to dividend.

Chapter IV: Data Collection and Presentation

The fourth Chapter deals with the presentation and analysis of relevant data and information through a definite course of research design. The chapter also presents the results relating to dividend.

Chapter V: Summary, Conclusion and Recommendation

The last Chapter is concerned with the summary of the study. Various conclusions, suggestions and recommendations for improving the future performance have been drawn from the study.

Similarly, at the front part of the study table of contents, recommendation sheet, viva voice sheet, acknowledgement, list of table and figure and abbreviation are presented and bibliography and appendices are presented at the end of the study.

Research Gap

There have been several researches done in the past regarding dividend policy and its impact of various banks and financial institutions taking considerations of various financial and statistical tools. In this thesis, only two sample banks Nabil and KBL were considered out of the total population of 34 commercial banks operating presently in the market. Similarly, only secondary data were considered in mainstream. The study has covered the data of fiscal year 2064/65 to 2068/69. Similarly, the trend of MPS and EPS over the study period and forecast of these financial indicators for next three years were predicted which might be one of the differences from the other studies thesis. Other studies referred were found to apply various financial and statistical tools such as: regression analysis, hypothesis whereas only simple trend analysis, correlation analysis, measures of central tendency and dispersion were used in this thesis. Despite of its limitations mentioned above, the study would be able to provide a general overview of the dividend practices and the relationship of dividend with earnings and market price of the sample banks. It finally helps to various stakeholders to be acquainted with the major financial indicators of the leading two banks in the country.

Research Methodology

Research Methodology describes the methods and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view. So the purpose of this chapter is to outline the methods and sequential steps adopted in analyzing the problem with the stated objectives in mind.

Research Design

A research design is the arrangement of conditions for collection and analysis of data that aim to combine relevance to the research purpose with economy in procedure. Research design in the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to objective of this study. To achieve the objective of this study, descriptive and analytical research design has been used. It is the process which gives us an appropriate way to reach research goal. It includes definite procedures and techniques which guide in sufficient way for analysing and evaluating the study. This study is carried out by using both quantitative and qualitative analysis methods. Mostly, secondary data has been used for analysis, but the discussion and personal interview with the concerned employees of the selected banks are also used for qualitative analysis. Hence, research design of this study is based on descriptive and analytical method.

Sources of Data

The study is based on secondary data. The data required for the study purpose has been collected from various sources. The main sources of data are Nepal Stock exchange (NEPSE) publications, annual reports of the sample banks and websites of the sample banks and publications of Security Board of Nepal (SEBON).

Population and Sample

There are many banks whose shares are traded activity in stock market; hence it is not possible to study all of them regarding the study topic. Therefore sampling will be done selecting from population. The Sample to be selected are as follows.

1. NABIL Bank Ltd.
2. Kumari Bank Ltd. (KBL)

Rationale Behind Sampling These Banks

Quite formal and regular dividend policy can be seen in banks and other few large corporate houses. Therefore, researcher selected the banks to conduct this study. A comprehensive study collecting data from all banks is really impossible due to other constraints along with time and cost. Basically, the researcher wants to make this study representative study of dividend policy of banks in Nepal. Based on the performance in the latest years, a good performing bank, an average performing bank and a poor performing bank are selected to complete this study and to make this study representative.

Data Analysis Tools

Various financial and statistical tools have been used in this study. The analysis of data will be done according to pattern of data available. Mainly the analysis will be done by using financial tools and simple regression analysis. The relationship between different variables related to study topic will be drawn out using financial and statistical tools. The collected data have been organized, tabulated, processed and analysed using various statistical and financial tools as described below.

Financial Tools

Considering research objective, to analyse the impact of dividend on various key variables such as EPS, DPS, MPS PE Ratio, DY and DPR are considered. Following financial indicator tools related to objectives are also considered.

Earning Per Share (EPS)

It is a type of ratio, which refers total earnings available to common shareholders or total number of outstanding common shares. It measures the profit available to the equity shareholders on per share basis. It reflects the earning power of a company. Higher EPS represents greater net profit.

$$\text{EPS} = \frac{\text{Total Earning Available for Distribution}}{\text{Number of Common Share Outstanding}}$$

Dividend Per Share (DPS)

Financial sound companies can distribute dividends to its shareholders. Higher DPS attracts investors to invest in shares of company and maintains goodwill in the market. It is calculated by dividing net earnings paid to the common shareholders (after payment of preference dividend) by number of common share outstanding.

$$\text{DPS} = \frac{\text{Net Earnings Distributed to Common Shareholders}}{\text{Number of common share Outstanding}}$$

Market Price per Share (MPS)

MPS is that value of stock, which can be obtained by a firm from the sale of a share in the market. MPS is one of the variables, which is affected by DPS of the firm. If the earning per share and dividend per share are high, the market value of the share will also be high. The capital market determines MPS. In this study the market price of share means the rupees value of one share indicated in NEPSE index.

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

$$P0 = \frac{D1}{Ks - g}$$

Or,

$$\frac{D0(1 + g)}{Ks - g}$$

Where,

P0= Current market price per share

D0= Current dividend per share

D1= Expected dividend per share at the end of yr.1

G= Dividend growth rate

Ks= Investor's required rate of return

Or,

P0 = Risk free rate of return + Inflation rate + Market risk premium

Or,

Present Price = PV of dividends during supernormal growth period + Value of stock price at the end of supernormal growth period discounted back to present.

Or,

$$\text{Price} = \frac{\text{Dividend}}{\text{Capitalization rate}}$$

Price Earning Ratio (P /E Ratio) / Earning Multiplier

Price-earning ratio is also called the earnings multiplier. Price-earning ratio is the ratio between market price per share and earning per share. In other words, this represents the amount which investors are willing to pay for each rupee of the firm's earnings. The P / E ratio measures investor's expectation and market appraisal of the performance of the firm. The higher P/E ratio implies the high market share price of a stock given the earning per share and the greater confidence of investor in the firm's future. This ratio is computed by dividing earning per share to market price per share.

Thus,

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

Dividend Yield (DY)

Dividend Yield is a percentage of dividends per share on market price per share .It measure the dividend in relation to market value of share. So, dividend yield is the dividend received by the investors as a percentage of market prices per share in the stock market. This ratio highly influences the market price per share because a small change in dividend per share can bring effective change in the market value of the share. The share with higher dividend yields is worth buying. Thus the price of higher dividend yields increase sharply in the market. Dividend has important guidance to commit funds for the buying of shares in the secondary market. This ratio is important for those investors who are interested in the dividend income. This ratio is calculated by dividing dividend per share by market price of the stock.

Thus,

$$\text{DY Ratio} = \frac{\text{Dividend Per Share}}{\text{Market Price Per Share}}$$

Dividend Payout Ratio (DPR) and Retention Ratio

DPR indicates as to what portion of EPS has been used for paying dividend and what has been retained for plaguing back. This ratio is very important from shareholders point of view as it tells him that if a company has used whole or substantially the whole of its earnings for paying dividend and retained nothing for future growth and expansion purposes, then there will be very dim chances of capital appreciation in the price of shares of such company. DPR is used to evaluate the financing practice and dividend distribution practice of the company. Dividend payment and retained earning both have certain impact on MPS. But the relation of dividend and retained earning is inverse each other. It means one factor has positive impact on MPS and another has negative impact and relation with MPS. In this research, it enables the researcher to make comparison of different banks. Moreover, it a variable affecting MPS, so, the relation of MPS and DPR will be another part of the study. It is calculated by using the following formula.

$$\text{DPR} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

And, Retention Ratio = (1-Dividend payout ratio) = (1-DPR)

Statistical Tools

Statistical tools are used to analyse the relationship between two or more variables and to find how these variables are related. In this study, following statistical tools are used.

Arithmetic Mean or Average

The mean or average value is a single value within the range of the data that is used to represent all the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. It is calculated by:

$$\text{Mean}\,(\overline{X}) = \frac{\sum X}{N}$$

Where,

$\overline{X}$ = Arithmetic Mean

$\sum x$= Sum of values of all items, and,

N = Number of items

Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean denoted by Greek letter’s (read as sigma), standard deviation is extremely useful for judging the representatives of the mean. Standard deviation is calculated as;

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

Where,

σ = Standard Deviation

$\Sigma(X - \bar{X})^2$ = Sum of squares of the deviations measured from arithmetic average.

N = Number of items

Coefficient of Variation (C.V)

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk.The larger the coefficient of variation, the greater the risk relative to the average. Mathematically,

$$CV = \frac{\sigma}{\bar{X}}$$

Where,

CV = Coefficient of Variation

σ = Standard Deviation

$\bar{X}$ = Arithmetic Mean

Coefficient of Correlation (r)

The correlation analysis is the technique used to measure the closeness of the relationship between the variables. Correlation is an analysis of the covariance between two or more variables and correlation analysis deals to determine the degree of relationship between variables (Pant and Choudhary; 2053:299). It is a tool that can be used to describe the degree to which one variable is linearly related to another. It describes not only the magnitude of correlation, but also its direction. The coefficient of correlation is a number, which indicated to what extent two variables are related with each other and to what extent variations in one leads to the variations in the other. The value of coefficient of correlation always lies between ± 1.

A value of -1 indicates a perfect negative relationship between the variables and a value of +1 indicates a perfect positive relationship. A value of zero indicates that there is no relation between the variables. The zero correlation coefficient means the variables are uncorrelated. The closer r is to +1 or -1, the closer the relationship between the variables and closer r is to zero(0), the less close relationship. The algebraic sign of the correlation coefficient indicates the direction of the relationship between two variables, whether direct or inverse, while the numerical value of the coefficient is concerned with the strength, or closeness of the relationship between two variables.

Thus, in this study, the degree of relationship between market price and other relevant financial indicators such as dividend per share, earning per share, dividend payout ratio etc. is measured by the correlation coefficient. The correlation coefficient can be calculated as:

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{\left[\left\{n\sum X^2 - \left(\sum X\right)^2\right\} x \left\{n\sum Y^2 - \left(\sum Y\right)^2\right\}\right]}}$$

$$r = \frac{COV(X, Y)}{\sigma_x \sigma_y}$$

Coefficient of Determination

Coefficient of correlation between two variables series is a measure of liner relationship between them and indicates the amount of variation of one variable which is associated with or is accounted for by another variable. A more useful and readily comprehensible measure for this purpose is the coefficient of determination which gives the percentage variation in the dependent variable that is accounted for by the independent variable. In other words, the coefficient of determination gives the ratio of the explained variance to the total variance. The coefficient of determination is given by the square of the correlation coefficient i.e., r^2 (Gupta, 2002: 585).

Its formula is;

Coefficient of Determination (r^2) = Explained Variance - Total Variance

Simple Regression Analysis

Francis Galeton was the first person to introduce the concept of regression. Regression refers to an analysis, which involves the fitting of an equation to a set of data points, generally by the method of least square. In other words, the regression is a statistical method for determining relationships between the variables by the establishment of an approximate functional relationship between them. It is used to determine that whether the dependent variable is influenced by the given independent variable or not. It is considered as a useful tool for determining the strength or relationship between two (Simple Regression) or more (Multiple Regression) variables. It is also used to predict value of one variable given the value of other variables. Simple Linear regression analysis is used to find the relationship between variables. In this study, the following simple regressions have been analysed.

(a) Market Price per Share on Earning Per Share

MPS = a + b EPS

Where,

a and b are regression coefficient

MPS = Dependent variable

EPS = Independent variable

This model has been constructed to examine the relationship between market Price per Share (dependent Variable) and Earning per Share (independent variable).

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

MPS = a + b DPS

Where,

a and b are regression coefficient

MPS = Dependent variable

DPS = Independent variable

This model has been constructed to examine the relationship between market Price per Share (dependent variable) and Dividend per Share (independent variable).

(c) Market Price Per Share on Dividend Payout Ratio

MPS = a + b DPR

Where,

a and b are regression coefficient

MPS = Dependent variable

DPR = Independent variable

This model has been constructed to examine the relationship between market Price per Share (dependent variable) and Dividend Payout Ratio (independent variable).

(d) Market Price per Share on Dividend Yield

MPS = a + b DY

Where,

a and b are regression coefficient

MPS = Dependent variable

DY = Independent variable

The relationship between dividend per share (dependent variable) and earning per share (independent variable) can be explained through this model.

(e) Market Price per Share on Price Earning Ratio

MPS = a + b P/E ratio

Where,

a and b are regression coefficient

MPS = Dependent variable

P/E = Independent variable

The relationship between MPS (dependent variable) and Price Earning Ratio (independent variable) can be explained through this model.

a. Regression Constant (a)

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

b. Regression Coefficients (b_1, b2, b3)

The regression coefficients of each independent variable shows the relationship between that variable and value of dependent variable, holding the effects of all other independent variables of the regression model constant. In other words, these coefficients explain how changes in independent variables affect the values of dependent variables estimate.

c. Standard Error of Estimate (S.E.E)

Practically, the perfect prediction is not possible with the help of regression equation. Standard Error of Estimate is used to measure the reliability of the estimating equation. It measures the variability, or scatter of observed values around the regression line. It also measures the reliability of the estimating equation, Indicating the variability of the observed value differ from their predicted values on regression line.

The larger the value of S.E.E the grater the scattering or dispersion of points around regression line, conversely, if S.E.E is equals to zero, then there is no variation about the line and the correlation will be perfect. So, we expect the estimating equation to be a 'perfect' estimator of the dependent variable. In that case, all the data points would lie directly on the regression line and no points would be scattered around it. Similarly, the smaller the S.E.E, the closer will be the dots to regression line and better the estimates based on the equation for this line. Thus, with the help of standard error of estimate, it is possible for ascertaining how well and representative the regression line is a description of the average relationship between two series.

Results and Major Findings

The major findings led this study to conclude that there are difference in financial position of high dividend paying and low dividend paying banks. Other things remaining the same, financial position of high dividend paying banks is comparatively better than that of low dividend paying banks. Another interesting conclusion that can be drawn from this study is that market price of share is affected by dividends. Lastly, a dividend as a residual decision in Nepalese banks is rejected by banking executives of Nepal.

There are plenty of space for the future research in the area of banking dividend and market price of share in Nepal. In the context of Nepal, Capital and Stock markets are getting wider and wider than before Nepalese bankers and other companies are adopting developed capita market structure, and it give new generation more opportunities to research. One extension of the present study is to examine the performance of the key financial ratios of regular versus occasional dividend paying banks. A second avenue of research is to make study by adding additional years and the number of banks to get greater insight into the effect of dividend policy on value. A third research avenue is to find out other relevant variables which will explain the variation in stock price besides the variables presented in the models the variation in earning price ratio and normalized retained earning. A fourth avenue of research is to estimate a better model in explaining the Banking dividend behaviour in Nepal from among the various models available in the literature. A final direction of research is to survey the opinions of shareholders on banking dividend practice and share value in Nepal.

Finally, it is recommended that in a world of market imperfections, the best policy is to view separately the net preference of investors for dividends or for capital gains and the fact the new equity financing is more costly than the retention of earnings.

Summary, Conclusion And Recommendation

This chapter focuses on summarizing the study held with the researcher's conclusion. The next attempt in this chapter will be made for the recommendations on the basis of findings. For this whole purpose the chapter is sub divided into summary, conclusion and recommendation as following:

Summary

This paper is a complementary study to determine the effect of dividend policy on market price of share. Dividend policy is major financial policy of organization which determines not only the sustainability and growth but also reflect the image of organization in the market. Every investor expects handsome earnings on their share investment. Company paying higher dividend with high earning has good public image and market price is also high in Nepalese stock market but the company with poor earning and poor dividend payment has less interest and expectation of shareholders. Therefore, market price seems also very small in the market.

In Nepal, only few listed companies pay regular dividends however, they do not have stable dividend policy. Numbers of companies is just in growing stage and therefore, pay a small dividend and some companies do not any dividend to their shareholders. In the amidst of these firms, researcher picked up Nabil Bank (regular dividend paying company) and Kumari Bank (growing and just dividend paying company) for the study and conducted this study. The objective was to examine the impact of dividend policy on market price of share for two banks. For this purpose, various financial and statistical tools were developed to analyse the data from banks. Using the pooled cross section data of two banks from fifteen observations, researcher attempted to determine the impact of different variables in determining the market price of share.

The findings indicate the share value is affected by earning, dividend payments and retained earning. The positive relation of market price of share with EPS and DPS shows the higher dependability of MPS on EPS and DPS. Together with this, the relation of MPS with retained earning is negative which shows the opposite relation of retained earning and the market price. The importance of dividend is higher than the importance of retained earning is a major conclusion of this study which is consistent with the results of previous studies conducted on this topic. Similarly, paper concluded that more or less dividend policy depends on earning of the company since there is always certain positive correlation between EPS and DPS.

Similarly, MPS is also depending on DPS. From the study it is also found that market price of the company can be increased with increase in DPS. In other words, management can be able to increase stock price in the market by increasing dividends to some extent.

Conclusion

This paper examines the valuation of shares in the market for two different banks. It attempts to determine relative importance of dividend policy, earnings and retained earning in determining market price of shares. The summary and conclusions of this study are as follows.

- There is not any consistent dividend policy of the banks. Therefore, result of different analysis accept the theoretical assumptions and sometimes do not.
- The researcher concludes that major determinant of dividend policy is earning of the banks. Dividend distribution is also depends upon the earning capacity of the banks.
- Another conclusion of this study is that Nepalese investors give more priority and importance to the dividend distribution rather than retained earning.

- The market price of share is a function of numerous variables such that EPS, DPS, DPR, P/E ratio, DY and others. Basically, EPS, DPS, DPR, P/E ratio are positively correlated and hence positive impact is seen in the market price whereas DY is negatively correlated with market price and hence negative impact is seen.
- However, there is not statistically significant relation of EPS and DPS on market price. It shows that EPS and DPS are not the major determinants of market value. The association of other variables is equally important in determining the market value.
- Higher importance of dividend among Nepalese investors signifies that management can increase the market price of stock by raising dividend to some extent.
- The earning capacity of the fund in different bank is significantly different though these all are of A class financial institutions.
- The market price per share is affected by the dividend related financial variables i.e. DPS and DPR either positively or negatively. The nature of effect is different for each banks. In case of some banks, there exists positive relation between dividend and market price per share while for other there is negative relation. Besides this the market price per share largely depends upon the dividend, which has been shown by the coefficient of multiple-determination.
- There is lack of legal obligation that abides the companies to pay dividend when they are running at profit. There is not clear provision in Company Act 2053, Commercial Bank Act 2031 and other regulating acts regarding the dividend policy.

Thus, it may be concluded that earning and dividend payment is more important as compared to retained earning in Nepal. If the company retains more earning, the market price of share may decline. In this connection, it is more interesting to note that market price of the share is the determination of earning, dividend and retained earning. The earning and dividend yields positive impact on market price whereas retained earning has negative impact on market price. The results indicate the customary strong dividend and weak retained earnings effect on market price of share. The study shows a predominant influence of dividend and an absence of retained earning effect on share price. Dividends are found relatively more attractive among Nepalese stockholders. They are, therefore, not indifferent towards dividend and retained earning.

Recommendations

The recommendation is based on the empirical findings of the study and observation of the MVPS with DPS and other variables of sampled commercial banks and the empirical view of its impact of dividend on share price by the financial performance. The following recommendations are made;

- The DPS analysis shows that there is not any consistency of dividend policy in all the sample banks. Therefore, these banks need to create somehow paying reasonable DPS every year, it is because higher DPS creates positive attitude of shareholders & investors as the psychological value of shareholders is also valued as the assets of banks.
- The sample banks have great fluctuation in DPS, EPS, DPR, Dividend Yield, Share Price and PE Ratio. The fluctuations should be controlled and the consistency in the variables has become most necessary.
- The practices of dividend payment adopted by the banks are not stable. In many cases a small amount of dividend are paid without considering the risk free rate of return. Further the price of share on which the dividend is not paid on upward trend, this creates the problem to judge the true value of share in the market. Therefore, the clear policy on payments of DPS should

be developed and dividend should be control and stable as to pay and judge properly.

- Payment of dividend is neither static nor constantly growing. It is highly decreasing. Such way of paying dividend could not impress the market positively. So, these banks are advised to follow either static or constantly growing dividend payment policy. It would be better to fix and declare the amount of dividend in general meeting. This is not important only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of bank, efficient management and socially acceptable distribution of income.
- All the firms must accept one major fact that EPS is to be considered for determining dividend amount. The analysis shows the condition of not being able to say either significant or insignificant relationship between EPS and DPS in average. It is important to consider earning rather than neglecting it while making dividend decision.
- It is necessary to enact legal rules that bind companies to pay dividend. The legal rule for the treatment of dividend is most for the smooth growth of the enterprises as well as growth of national economy. For this purpose, NEPSE, SEBON, NG and other concerned parties should work together.
- Banks should have target rate of earnings i.e. profit planning and target payout ratio because the fluctuation in EPS and DPR may cause confusion in the mind of shareholders.
- Each and every company should provide information regarding their activities and performance, so that investors can analyse the situation and invest their money in the best company.

Finally, after making this study, it is realized that there is a necessity of legal provisions and rules for prescribing certain policy regarding the dividend payment in the banking sector. For this purpose the concerned authority i.e.

Nepal Government, Nepal Rastra Bank, Security Board and Nepal Stock Exchange should be conscious about the formulation and implication of rule regarding dividend payment. This will help to regularize the dividend policy of the financial sector in Nepal.