# CHAPTER-I
# INTRODUCTION

## 1.1 Background of the Study

Nepal has been striving to create an investment friendly environment on the profitable areas of investment such as hydropower, industrial manufacturing, services, tourism, construction, agriculture, minerals and energy. In such situation, commercial banks and other financial institutions have been playing a vital role in mobilizing the deposits through investing in such profitable areas and generate profit. A company can do three things with its profit – reinvest, retain or pay a dividend. When a portion of the profit is paid out to the shareholders, the payment is known as dividend. For many investors, these dividends are an important part of their strategy and heavily influence what companies they choose to invest in.

Dividend policy is a significant choice that involves with the return to shareholders for the sake of their investments. Each organization working in a given industry follows some kind of dividend policy or dividend payment pattern which clearly is a financial measurement of the firm. Thus, demand of the firm's share should be the matter of concern which depends on the dividend policy of the firm (Masum, 2014).

The policy of dividend is important for investors, managers, lenders and for other stakeholders. It is important for investors because investors consider dividends not only the source of income but also a way to assess the firms from investment points of view. It is the way of assessing whether the company could generate cash or not. Dividend policy is followed by shareholders, potential investors, employees and financial brokerage services as well as the management of the firm (Ajanthan, 2013).

Dividend policy is an approach of an organization on the portion of profit earned by them will circulate to their shareholders for the return on investment. The dividend related theories including behavioral theory, birds on the hands theory, agency cost theory, signaling effect theory, tax preference theory, firm cycle theory and clientele

effect has made sense on the impact on choosing an organization's dividend policy. Investors use dividend as the major factor on making investment decision on certain share. The fundamental goal of investing in the stock market is to maximize the expected return at low level of risk. Share price volatility then again is the systematic risk beard by equity capital holding investors. Investors are normally risk avoider and monitoring the volatility of their investment is significant as it estimates the degree of risk that they present to by holding share of recorded organizations (Zakaria, Muhammad, & Zulkifli, 2012).

The organization has realized that dividend returns are the closed attention of the investors to their dividend returns, and that the riskiness of their investments may affect the valuation of the firm's shares in the long run. This makes the share price volatility as vital to organization as it is to investors. In the area of finance, the dividend policy is perhaps the most generally researched topics. However, whether dividend policy affects stock prices still remains debatable among managers, policy makers and researchers. Numerous investors take the dividend yield into the account which is determined as the annual dividend income and share partitioned by the current share price (Masum, 2014).

The dividend yield estimates how much the amount of income is received by the shareholder with respect to the share price. In the event that an organization has a low dividend yield contrasted to other organizations in its area, it could indicate two things: the share price is high in light of the fact the market figures the company has better possibilities and isn't excessively stressed over the dividend payments of company, or the company is in a difficult situation and cannot stand to distribute sensible dividends. Simultaneously, a high dividend yield can flag a weak company with a discouraged share price. Since, retained earnings will be reinvested in extension open doors, providing the benefit to the shareholders as capital gains, dividend yield is important for the development companies (Ajanthan, 2013).

The adaptability to make investment on future projects relies on the dividend amount that the organization pays to their shareholders. Thus, choosing a reasonable dividend policy is a significant decision for the bank. On the off chance that the firm delivers

more dividends, less funds are accessible for investment in future projects. The loan providers are also intrigued by how much dividend that an organization proclaims, as additional sum is distributed as dividend implies less amount would be accessible to the organization to pay off their obligations. Thus, the study analyzes the dividend patterns and its effect on market share price of commercial banks listed in Nepal Stock Exchange (NEPSE). The study has examined whether the dividend policy has any impact on the bank's share price determinants as with dividend payment pattern. Dividend policy is only one specific factor that the study takes in an account. The broadly researched topic in the field of finance possibly is dividend policy. Despite, the inquiry whether dividend policy has any impact on stock prices still stays disputable for a long time among managers, policy makers and researchers. Hence, the study attempts to study dividend pattern and its impact on share price with five different commercial banks of Nepal.

**Nepal Investment Bank Limited (NIBL)**

Nepal Investment Bank is one of the leading commercial Bank in Nepal offering a comprehensive range of products and services through multichannel delivery networks. With its state of the art technology, wide range of distribution channels and energetic work force, the Bank continues to stay ahead of competition. The bank was laid out in 1986 as a joint venture between Nepalese and Credit Agricola Indosuez. Thus, the bank was previously recognized as Nepal Indosuez Bank Ltd. In 2001 AD, the Nepalese investor purchased the whole share of French company. Since then, the bank has been raised to one of the most trusted and famous bank in the country by Nepalese investors. As of 35$^{th}$ annual report of NIBL, the bank has been providing modern baking services of international class through its 82 branches, 16 Extension Counters, 110 ATM outlets, 10 Revenue Collection offices throughout the country.

**Sunrise Bank Limited (SBL)**

Sunrise Bank Limited, a leading financial institution, was established as the 23$^{rd}$ commercial bank in Nepal on 12 October 2007. Its corporate office is located at the Gairidhara Crossing, in Kathmandu. Sunrise Bank is driven by its motto "Rising to

Serve" and offers innovative products and services to all categories of clients. It also offers products that can contribute towards the economic development needs of the country. The bank's shares are publicly traded as an 'A' category in Nepal Stock Exchange. The bank currently has 106 branches, 29 branchless banking units, 4 extension counters and 121 ATM terminals.

**Agricultural Development Bank Limited (ADBL)**

Agricultural Development Bank Limited is an independent organization possessed by Nepal Government. The bank's majority portion of share (i.e. 51%) is controlled by of Government of Nepal and rest 49% by general public. The customers and employees of the bank cover a large portion of its shareholders. The bank has been operating as a major rural credit institution since the last 30 years, contributing an in excess of 67 percent of institutional credit supply in Nepal. Subsequently, rural finance is the essential functional area of ADBL. Besides, the bank has additionally engaged in commercial banking operations since 1984. It is spread all over the 7 provinces and 77 districts of the nation with 278 offices.

**Mega Bank Nepal Limited (MBNL)**

Mega Bank Nepal Limited is the second largest (in terms of paid-up capital) commercial bank in Nepal consistently living it's service pledge to conduct business by continually creating mutually beneficial relationship with all its stakeholders; customers, shareholders, regulators, communities and staffs. The bank realizes that its success is directly correlated with the pace at which it fosters its relationship with its stakeholders, so that in every step of its journey, both parties benefit, succeed and grow together. The bank is an 'A' class commercial bank licensed by Nepal Rastra Bank and has branches all across the nation with its head office in Kathmandu which provides entire commercial banking services. Currently, the bank has 207 branches, 25 extension counters and 140 ATMs throughout the country in addition to 60 branches less banking (BLB) centers and more than 3200 remit agents. It offers a wide range of banking products and financial services.

**Nabil Bank Limited (NABIL)**

Nabil has an achievement in the improvement of financial services industry in Nepal. The establishment of Nabil Bank in 1984 A.D. created the passage for private sector in the domestic banking industry. Up to that point products and services were restricted to financial intermediation, innovative mediation was basically non-existent and there was restricted community to monetary administrations. The bank endeavors to be a one-stop arrangements supplier by offering a total line of business banking items, for example, branch banking, depository, exchange, cards, settlement and speculation banking. The bank works through an organization of 135 branch workplaces, 183 ATMs, various POS terminals, settlement specialists spread the country over and more than 170 worldwide journalist banking connections.

## 1.2 Problem Statement

Various researchers have various perspectives about whether dividend policy tangibly influences the drawn out share prices. Dhanani (2005) who utilized a study way to deal with catch administrative perspectives and mentalities of corporate directors in regards to dividend policy reveled that dividend policy effectively improves corporate market esteem. In contrast, Farsio et al (2004) contends a causal relationship existing among dividends and earnings depend on brief timeframes and are thusly deceptive to likely financial backers. Hence, dividends have no illustrative ability to foresee future earnings. The study attempts to examine whether a relationship exists between dividend policy and price of share.

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

This study has deal with the following questions such as;

1. Does dividend have bearing on stock price?
2. What is the relationship between the earning and the dividend?
3. What is the relationship between the stock price and earnings per share?
4. Is there any relationship between the stock price and growth of assets?

## 1.3 Objectives of the Study

The basic purpose of this study is to examine the dividend pattern and its effects on stock price in the context of Nepalese commercial Banks. The following specific objectives are set to achieve the basic objectives.

1. To analyze the effect of dividend on stock price.
2. To examine the relationship between the earning and the dividend.
3. To examine the relationship between the stock price and earnings per share.
4. To assess the relationship between the stock price and growth of assets.

## 1.4 Rationale of the Study

The study covers dividend pattern and its impact on share price of Nepalese commercial banks with respect to the selected banks over the period of eight years from FY 2013/14 to 2020/21 AD. Similarly, relationship between earnings and dividend, stock price and earnings per share (EPS) as well as stock price and growth of assets has been studied. This can be significant for other researchers who want to get knowledge about the dividend policy and its impact on share price of sample banks along with the relationship between share price with earnings per share and growth in assets.

The study has given the real picture of the dividend policy and its impact on share price of commercial banks which might be significant to bankers, its shareholders, depositor and all general public who are interested on this current affair of banking industry. Besides, the study is equally important to the organizations for they can get valuable suggestions which may be fruitful in taking corrective actions if any deviation is found on the past performance regarding with dividend policy. The research might also be significant to different policy makers including the government and capital markets authority while formulating better regulations in the area of dividend policy.

Similarly, the study is equally significant to the scholars in various institutions of higher learning willing to carry out research on this field. The study would be important as it serves as literature review thereby adding to the existing body of knowledge in the area of the relationship between dividend policy and share prices. Moreover, the study helps to complete MBS level and to gain knowledge about of the dividend policy of the commercial banks Nepal and its impact on share price.

## 1.5 Limitations of the Study

The study is conducted for the partial fulfillment of Master of Business Studies (MBS). Although the efforts has been made to present and analyze the facts clearly, truly and within the boundary, some errors may arise due to reliability of tools, lack of research experience, lack of time, unavailability of adequate data, and so on.

The limitations of the study are as follows;

1. Though there are several factors affecting share price, the study focuses only few specific factors.
2. The study has observed only eight different year period covering from FY 2013/14 to 2020/21 AD.
3. The result of the study depends upon the availability of data.
4. The study is based on observation of only five commercial banks in Nepal.
5. All the aspects affecting share price of commercial banks in Nepal has not been studied.

## 1.6 Chapter Plan

The chapter plan is as per the requirements and guidelines for the preparation of MBS (semester) research project report by Tribhuvan University.

**Chapter I: Introduction**

The chapter includes background of the study, problem statement, objectives of the study, rationale of the study, limitations of the study, and chapter plan.

**Chapter II: Literature Review**

The review of various relevant past studies such as journals, theses, books; annual reports and research gap are included in this chapter. So, the previous researches are inspected to analyze what new can be added to make the study more pertinent. Theoretical review, empirical review and research gap are the main concern of the chapter.

**Chapter III: Research Methodology**

The chapter deals with the method that has been used in the research in collecting information and data, analyzing and interpreting with the help of different facts and figures. It covers research design, population and sampling, sources of data, data collection procedure, data processing procedure, methods of analysis, research framework and definition of variables.

**Chapter IV: Results and Discussion**

This section deals with the collection of data and information from various sources, presents and analyzes them. The chapter is the fundamental part of the study. Various statistical and financial tools and techniques such as mean, standard deviation, correlation coefficient, regression, earnings per share (EPS), dividend per share (DPS), market price per share (MPS) and growth in assets (GA) are used to analyze the data presented through table, bar graph, and trend lines.

**Chapter V: Summary and Conclusion**

The chapter deals with the summary, conclusion and implications of the study. Summary, conclusion and implications are the major part of the chapter. It is based on chapter four. The implications have been provided to policy makers, future researchers and others.

# CHAPTER-II
# LITERATURE REVIEW

A comprehensive study of such document and preparation of summary of such study on a topic is known as literature review. Review of previous studies is very important in academic research and it helps to complete the research work. Literature review can be either a part of a larger report of a research work or a thesis or a book that is published or unpublished. Literature review is done to understand research problem better and know the methodology that can be used in research. A researcher should study books, journals, dissertations, research reports, government publications and reports of financial and marketing activities to get information which are related to the topic under the study.

The chapter literature review is related to examine and review of some related books, article, published and unpublished different economic journals, bulletins, magazines, newspapers, yearly published balance sheet of respective banks, NEPSE survey, economic survey, previous thesis on related subject and subject related website search. This chapter includes two categories;

i. Theoretical Review
ii. Empirical Review

## 2.1 Theoretical Review

### 2.1.1 Bank

The word bank has been derived from the Latin word *Bancus*, Italian word *Banca*, and French word *Banque* which means a place of keeping, lending and exchanging money. The bank is financial institutions that accepts deposits and invest the amount in the leading activities and commercial service provide. It allows interest on the deposit made and charges interest on loans granted. Regarding the origin of bank in the world, the first bank called the *Bank of Venice* was established in Venice, Italy in 1157 A.D. Following this, the *Bank of Barcelona*, Spain was established in 1401 A.D as the second bank of the world. In addition, the first central bank, which was established in 1844 A.D was the *Bank of England*.

Banking means the accepting for the purpose of lending and investment of deposits of money from the public, repayable on demand or otherwise and withdraws by cheque, draft or otherwise (Sayers, 2000). Bank refers to a corporate body which has been established and got permission to perform financial transactions. It is an institute which has obtained license pursuant to this Act for carrying on banking and financial transactions (Bank and Financial Institution Act, 2017)

### 2.1.2 Commercial Bank

The ordinary meaning of bank is commercial bank. Commercial banks are those financial institutions that collects the saving of the local area and sort out for their productive utilization. They supply the monetary requirements of present day business by different means. They collect deposits from general society on condition that they are repayable on demand or short notice. As such, a bank is a monetary mediator, a seller in credits and in obligations. It acquires from one bunch of individuals and grant loans to employing cash and recruiting out once more. A few banks draw their capital essentially from their investors, other's primarily from contributors. Some loan fundamentally to industry, others principally to government, focal and nearby. Some arrangement in short credits, borrowings and loaning for brief periods, others bargain in significant stretches. Anyway the matter of individual bank might contrast, their fundamental capability is to assemble saving and loan out what they gather. (Horne, 2005: 14-120) expresses a bank is a business association that gets and holds stores of assets others and makes credits or broadens credits and move finances by composed request of contributors. It is a vendor in cash and a substitute for cash, like check or bill of trade. It likewise gives different monetary administrations. The essential financial capability of the commercial bank is to hold request stores and to respect checks drawn upon them. To put it plainly, to give us, the economies, with the main part of the cash supply.

Commercial banks are those banks which are laid out under this demonstration to carry out commercial roles aside from those which are laid out for explicit reason like advancement banks, co-agents, and so on. (Commercial Bank Act, 2031).

### 2.1.3 Dividend

Dividend alludes to a part of earning, which is dispersed to investors consequently of their interest in share capital. It is the periodic installment to the investors to repay them for the utilization of fund and risk to their investment. The significant part of dividend policy is to decide how much profit to be disseminated to investors and the sum to be held in the firm. Retained earnings are the main wellsprings of supporting the development of the firm. Then again, dividends might be thought of as attractive according to investors' perspective as they will generally build their ongoing riches.

The company's choice to distribute dividends might be formed by two potential view focuses. At the point when dividend choice is treated as supporting choice, the net income of the firm might be considered as a wellspring of long haul reserves. With this methodology, dividend will be paid just whenever the firm doesn't have productive venture open doors. Then again, in view of market flaws and vulnerability, investors might give a higher worth to the close to dividends than the future dividends and capital additions. In this manner the installment of dividends may fundamentally influence the market cost of the offer. Higher dividends increment the worth of the offers and low dividends lessen the cost of offer. In other to amplify abundance under vulnerability, the firm should deliver an adequate number of dividends to fulfill financial backers (William, 1973).

The greater part of the financial backers anticipates that dividend should go on in every year as well as to get cost when they sell the stock. The normal last stock cost incorporates the profits of the first venture in addition to a capital increase. On the off chance that the stock is really sold at cost over its price tag, the financial backer will get a capital addition as such the investors expect an expansion in market worth of the normal stock over the long run. Simultaneously, they likewise anticipate company's procuring in a type of dividend. So the investors might fulfill with dividend or capital increases (Weston, 1989).

### 2.1.4 Forms of Dividend

By and large, dividends are paid in cash however when the organization can't distribute cash dividend they utilize various types of dividend installment for fulfilling investors. Such types of dividends are stock dividend, script dividend, property dividend, bond dividend and so forth. Be that as it may, in Nepalese setting, the vast majority of the organizations are paying cash and stock dividend.

#### i. Cash Dividend

Cash dividend is one type of dividend, which is dispersed to investors in type of money out of organization's benefit. "The money account and the save record of an organization will be diminished when the money dividend is paid. Hence, the absolute resources and total assets of the organization are decreased when cash dividend is dispersed. The market cost of the offer drops by and large by how much the money dividend disseminated (Pandey, 1979).

#### ii. Stock Dividend

On the off chance that extra offers are given to existing investors rather than cash dividend, it is known as stock dividend. "A stock dividend addresses circulation of offers notwithstanding the money dividend to the current investors." This expands the quantity of remarkable portion of the organization. The offers are conveyed proportionately. Consequently, the investors hold their proportionate responsibility for organization. The announcements of reward share builds the settled up share capital and lessen the stores and overflow of the organization. The absolute total assets isn't impacted by the issue of extra offers (Shrestha, 1980).

#### iii. Script Dividend

A dividend paid in promissory notes is called script dividends. "Script dividends are those paid in organization's guarantee to pay rather than cash." When procuring of the organization legitimize dividends however the organization's money position is briefly feeble and doesn't allow cash dividend, it might proclaim dividend as content. Script dividend might bear an unequivocal development date or it could be passed on

to the chiefs. Such dividends might be interest bearing or non-interest bearing (Miller and Modigliani, 1966).

**iv. Property Dividend**

Assuming payment of dividend made as property as opposed to cash, then it is called property dividend. This type of dividend might be followed when there are resources that are as of now excessive in activity of the business or in additional customary conditions. Organizations' own items and protections of auxiliaries are the models that have been delivered as property dividends (Gautam, 1998).

**v. Bond Dividend**

Bond Dividend is a dividend that is circulated to the investors in type of bond. At the point when the organization produces more benefit for quite a while, it is smarter to give a security which conveys specific loan cost. All in all, enterprise pronounces dividend in type of its own bond so as to stay away from cash flows.

### 2.1.5 Theories of Dividend

The following are common dividend theories:

1. Residual Theory of Dividend
2. Stability Theory of Dividend

#### 2.1.5.1 Residual Theory of Dividend

As indicated by one way of thinking, the residual theory of dividends recommends that the dividend paid by a firm ought to be seen as a lingering sum left after all satisfactory speculation open doors have been embraced. Dividend policy can be seen as one of a company's speculation choice. A firm that acts thusly is said to have confidence in the lingering dividends. As indicated by this theory, dividend policy is a buildup after venture whether an organization delivers dividends relies upon the accessibility of speculation opportunity.

The beginning stage in this theory is that financial backers like to have the firm hold and reinvest procuring, rather than delivering dividends, assuming the profit from

reinvestment is higher than the open door cost of asset for the financial backers. The dividend under residual theory of dividend policy approaches the sum left over from acquiring after speculation, no dividends are paid and new offers are offered to cover shortfall for venture that isn't covered. In the event that there isn't any venture opportunity then penny percent procuring is disseminated as dividend to the investors. Dividend is in this manner simply a buildup for example percent staying after all value venture needs bend satisfied (Irwin Friend and Marshall Pocket, 1964). The dividend distributed to shareholders addresses a dispersion of earnings that can't be productively reinvested by the firm. With this methodology, dividend choice is seen simply as a lingering choice.

**2.1.5.2 Stability Theory of Dividend**

The consistency in payment of dividend is dividend stability. As such, security of dividend implies consistency in delivering dividend despite the fact that how much dividend might vacillate from one year to another. Dependability of dividends is considered as a positive policy by the administration of most organizations. Shareholders additionally for the most part favor this policy and worth stable dividends higher than the fluctuating ones. Any remaining things being something similar, stable dividend might decidedly affect the market cost of the offer (Panday, 1995).

The theory emphasizes keeping up with the place of the company's dividend installments comparable to a pattern line, ideally one that is up inclining. There are a few motivations to accept that a steady dividend policy prompts higher stock costs.

To start with, investor are by and large expected to esteem all the more profoundly dividends they make certain of getting, since fluctuating dividends are less secure than stable ones. Likewise, a similar typical measure of dividend got under a fluctuating dividend policy is probably going to have a higher rebate factor applied to it than is applied to dividends under a steady dividend policy. This implies that the organization with stable dividend policy will have a lower required pace of return or cost of value capital than one whose dividend vacillates. Second, numerous investors

live on pay got as dividends. These investors are extraordinarily burdened by fluctuating dividends and they will pay a premium for a stock with a generally guaranteed least dollar dividend. Third, from the angle of both the enterprise and that's what its investors is, dependability of dividend is attractive for the necessity of legitimate posting.

There are three particular types of such steadiness of dividend installments. They are:
i. Constant dividend per share
ii. Constant dividend payout ratio
iii. Low regular dividend plus extra dividend

**i. Constant dividend per share**

The policy of constant dividend per share follows a policy of paying a specific fixed sum for each offer as dividend consistently regardless of the variances in the profit. This policy doesn't suggest that the dividend per offer or dividend rate won't ever be expanded. At the point when an organization arrives at new degree of profit and hopes to keep up with it, the yearly dividend per offer might be expanded (Panday, 1995).

The dividend policy of delivering a constant measure of dividend each year treats normal investors to some degree like inclination investors without considering the company's or alternately investors' venture open doors. Those financial backers who have dividends as the main wellspring of their pay lean toward the constant dividend policy. They are not really worried about the progressions in share costs. Over the long haul, such conduct assists with settling the market cost of the offer

**ii. Constant dividend payout ratio**

Payout ratio is a proportion of dividend to earnings. A few organizations might follow a policy of consistent payout ratio, for example paying a decent level of net income consistently. With this policy, the dividend amount will vary in direct extent to profit. This policy is connected with organization's capacity to deliver dividends. Assuming that the organization causes misfortunes, no dividends will be paid no matter what the

cravings of investors. Inner supporting with held income is programmed when this policy is followed. At any given payout proportion, how much dividends and augmentations to held income increments with expanding profit and diminishes with diminishing income. This policy improves on the dividend choice, and enjoys the benefit of safeguarding an organization against over or under installment of dividend. It guarantees that dividends are paid when benefits bend procured and kept away from when it causes misfortunes (Brandt, 1972).

**iii. Low regular dividend plus extra dividend**

As per this theory, the organization delivers fixed measure of stable dividend to the investors to diminish the chance of truly missing dividend installment and in long stretches of market flourishing; extra dividend is paid well beyond the standard dividend. At the point when typical condition returns, the organization cuts the additional dividend and returns in its generally expected dividend installment. This kinds of a policy empowers an organization to deliver consistent measure of dividend routinely without default and permits a lot of adaptability for enhancing the pay of investors just when the organization's profit are higher than the standard thing, without conceding to make enormous installments as a piece representing things to come fixed dividend.

### 2.1.6 Dividend Policy

The firm redirects its profit to its shareholders through one of the alternative i.e. dividend. Dividends can be paid in cash or through additional shares. For the situation where share dividend is paid, there is increment in outstanding number of shares and decrease in the price per share. In certain events, organizations in all actuality do give out exceptional dividends on top of the normal payout. Firms' previous dividends history, profit soundness, thought of effect on stock cost, determined current and future income and incomes are among the significant elements in forming the organizations' dividend policies (Chawla, 2008).

A huge negative relationship is found between dividend payout and obligation in Bangladesh (Rashid and Rahman, 2008). This contention is additionally upheld by

one more exploration that gives a negative connection among dividend and obligation in Indonesia (Erkaningrum, 2013). Research by El-Sady et al. (2012) propose that the most affecting element of dividend arrangements of Kuwaiti recorded organizations is the administration impression of the degree of current and future profit as well as liquidity imperatives. This is in accordance with our idea that profit is one of the huge determinants of dividend policy. The existence pattern of a firm likewise contributes a huge impact on the dividend policy. A research by Bulan et al. (2007) found that organizations start dividends while arriving at the development phase of life cycle.

Enormous and mature firms are fit for delivering higher dividends since they have more admittance to the capital market to raise reserve. Nonetheless, for the organizations encountering more development, a negative relationship exists between deals development to dividend per share (Alzomania and Alkhadhiri, 2013).

Government strategies on capital market, for example, financial policy and expense structure likewise pay a huge job on firms' dividend approaches. Firms are believed to increment dividends with the higher attribution tax credit. Taiwan is leaning to decline and stays stable a short time later after the reformation of the taxation system (Wang and Chang, 2011).

### 2.1.7 Dividend Irrelevant Theory

Miller and Modigliani have introduced the dividend irrelevant theory in 1961. Miller and Modigliani's (1961) have assumed that there is no transaction cost as well as no tax, or the tax rates are equivalent for both dividends and capital increases. It is likewise expected that an ideal capital market exists where the market cost can't be impacted by a solitary purchaser or merchant. Data about the market is accessible to everyone with no expense. The stocks are decently valued and directors go about as the best specialist of investors, intending that there is no organization issue.

### 1. Bird-in-Hand Theory

Investors might favor dividends over capital gains because of the assurance of dividends, contrasted with capital increases which are dubious. In the realm of vulnerability and data imbalance, dividends are esteemed uniquely in contrast to held profit. Presumptions are made that external financial backers are presented to blemished data about firms' productivity and that cash dividends are charged at a higher rate contrasted with capital increases. Under these limitations, such dividends capability as a sign of anticipated incomes (Bhattacharya, 1979).

### 2. Agency Cost Theory

Agency costs emerge when irreconcilable circumstances exist among the management and shareholders. The management might spend extravagantly on perquisites or overinvest to broaden the size of their organizations past the ideal size since leaders' remuneration is in many cases connected with firm. Obligation creation might diminish the organization cost of free income by decreasing accessible income for spending at the carefulness of the directors. Default on making obligation administration installments would go about as an inspiration power to make associations more successful (Jensen, 1986).

### 3. Signaling Theory

Because of flawed data, financial backers are delicate to the data declared by the organizations and would make an assessment on the organizations' future possibilities in view of dividend declaration, expected positive net present worth (NPV) tasks and others. The data content of dividends foresee that dividends can be utilized to flag company's future possibilities and just great quality firms can utilize such a gadget. Concentrate by Allen et al. (2000) reasoned that the quantity of exchanges expanded through the ex-dividend date after declaration of enormous dividends expanded for both individual and institutional financial backers.

**4. Clientele Effect**

Clientele effect is bunching the shareholders in organizations to match their speculation hunger. Investors under the low tax exempted or tax bracket often make investment on the firm that needs current cash flow and delivers high dividend. As a general rule, dividend yields decline as the duty disservices of dividends increment (Pettit, 1977). Another examination likewise offers help on customer base impact where the outcomes show that contrast between charge rate for capital additions and dividends affect financial backers' inclination for having high dividends or low dividends stocks in their portfolio (Scholz, 1992).

**5. Tax Preferences Theory**

Return based on stock either in conditions of cash dividends or share addition is exposed to its tax payment. Twofold taxation on dividends is likewise found in certain nations across the world. Again it is noticed that the investors favor capital additions to cash dividends under twofold tax assessment framework. A few nations are presenting halfway or full expense help to people who get dividends to remove double tax collection practice. A research led by Ince and Owers (2012) on various tax systems expressed that assuming dividend charge rate surpassed capital additions charge rate, dividend payout could to some extent offset esteem improving impacts of influence. Assuming the two rates are at a similar level, dividend payout loses its directing impact.

### 2.1.8 Impact of Dividend Policy on Share Price

There are various researches inspected the relationship between dividend policy and volatility of share price. Allen and Rachim (1996) in Australia, Nazir et al. in Pakistan (2010) and Hussainey et al. (2011) in UK tracked down a significant negative realtionship between the payout ratio and dividend yield with the share price unpredictability. Baskin (1989), then again, found that payout isn't connected with stock price unpredictability. Furthermore, Rashid and Rahman (2008) concentrating on Dhaka stock trade found a positive yet irrelevant outcome between stock value

instability and dividend yield. Asghar et al. (2011) examined the positive significant relationship between share price and dividend policy in Karachi stock exchange.

### 2.1.9 Determinants of Share Price

The variables impacting share price might be sorted as either micro or macro environment factors:

#### i. Micro-financial environment factors

These are factors that are inside the firm and the business in which it works. They might incorporate the association's dividend policy, execution with regards to benefit, and the executive's quality and income proportions among others. High dividend policy might draw in expensive stocks while low dividend policy might draw in low evaluated stocks.

#### ii. Macro-monetary environment factors

These are factors influencing the entire economy inside which the firm works. These elements incorporate loan fees, expansion rate, and monetary measures taken by the public authority in dealing with the economy and unfamiliar trade rates among others. The political component is one of the significant determinants of offer cost of commercial banks as opposed to shrewdly comprehension of major and specialized examination by the investor in developing nations like Nepal.

## 2.2 Empirical Review

The study of previous work brought clear guidelines in the preparation of the study. Previous journals, reports and theses related to the topic of the study provided many techniques, methods, information, ideas, tools, and so on that passed light in the preparation of the study. The past researchers make the path for present and future study. Thus, related paths have been found after the study of previous work on the similar or related topics.

The study's review of previous work covers the following:

i. Review of Articles in the Journal
ii. Review of Previous Theses

### 2.2.1 Review of Articles in the Journal

Mausam (2014) analyzed the relationship between the dividend policy and market share price of the commercial banks listed in Dhaka Stock Exchange from 2007 to 2011. Different theories of dividend policy are tried in different regions of the planet with various outcomes and discoveries. Different articles were audited, written in Bangladesh and abroad to see the meaning of dividend policy on the stock prices and to contrast the consequences of this exploration and those directed before. Test size was huge for example every one of the recorded commercial banks of Dhaka Stock Exchange so the outcomes were dependable and legitimate. Board information approach was utilized to make sense of the connection among dividends and stock prices subsequent to controlling the factors like earnings per share, return on equity, retention ratio have positive connection with stock prices and altogether make sense of the varieties in the market prices of shares, while the dividend yield and profit after tax has negative, immaterial connection with stock prices. Generally speaking the study demonstrated that dividend policy has a positive and significant impact on market price of share.

Ordu et al. (2014) examined the impact of dividend policy on share market price of cited firms in Nigeria from the period 2003 to 2011. The study has identified dividend per share, dividend yield and dividend payout ratio as the independent variables measuring the dividend policy and market price per share as the dependent variable. The study closed and suggested that profit stay the main determinant of dividend payment moderately; consequently it has critical impacts available worth of public possessed firms in Nigeria and the world everywhere. With the sample of 17 cited firms; the review gives both exact and factual proof on the connection between dividend installment and firms' aggregate share prices. The outcome shows that there is a significant positive relationship between dividend policy and share price.

Ullah et al. (2015) investigated the relationship between dividend payout and the share price as well as the impact of dividend payment on share price of listed organizations in Karachi Stock Exchange. The information was gathered from Karachi Stock Exchange with the observation of time period from 2003 to 2008. The study has taken a sample of five firms from textile industry purposively. Stock price was dependent variable while dividend payout ratio the independent varaible. The size of firm, procuring unpredictability and development were chosen as controlled factors. Various relapse models were utilized to investigate the relationship of ward with free factors. Results showed that general models were solid match displayed by coefficient of assurance values. Dividend payout proportion was essentially influencing the stock price. Different factors planted blended brings about certain models were seen as critical. The study concluded that dividend payout ratio and its impact on stock price have been proved to be influential for the time period of 2003-2008. This suggests that dividend payout ratio have a significant impact on stock price. Moreover, among the control variables; earning volatility and growth were also found significant in some of the regression models.

Hooi et al. (2015) examined the relationship between stock price volatility and dividend policy instruments in the Malaysian market taking a sample of 319 companies from Kuala Lumpur Stock Exchange. Dividend yield and dividend payout has negatively relationship with share price and were significant. Firm size and share price were also related. Positive and significant relationship between growth in assets and market price of share were distinguished as hypothesized. Be that as it may, there was no critical relationship found between development in resources and price unpredictability in the Malaysian market. Different elements affecting dividend policy choices might in any case exist. Nonetheless, a portion of the variables are difficult to be estimated and to be incorporated. Components like flagging impact, customers impact, charge inclination and others are undeniably considered while deciding dividend policy choice for a firm. Notwithstanding, there are troubles in estimating the level of the above impacts numerically and in this way, hard to incorporate them into the relapse model.

Şamiloğlu et al. (2017) investigated the impact of dividend payout policy on selected firms' share price listed in Istanbul Stock Exchange (BIST) observed the period 2006 -2015. Using available financial data, this study focused on 37 regular dividend paying firms that are selected from the different sectors in BIST. Based on the findings of this paper dividend, cash dividend amount has a positive and statistically significant relationship with share price. The independent variables; dividend profitability and cash dividend amount significantly affect firm share's price. The research indicated that the subsequent increase in the dividend payments to the shareholders has a negative effect on the shareholders wealth. The result of this investigation also shows that there is no significant relationship between gross dividend payout, net dividend payout and share price.

Baral and Pradhan (2018) analyzed the effect of dividend policy on the share price of commercial bank in Nepal led the review in view of pooled cross sectional information of 10 commercial banks. Banks were chosen based on their presentation on financial performance, for example top gainers and top washouts and information are gathered from Nepalese commercial banks recorded in NEPSE from the F/Y 2012/13 to F/Y 2019/20. The paper researched the connection between dividend declaration, EPS, P/E proportion, DPR, on stock price by utilizing Descriptive Statistics, Correlation and Regression, ANOVA and Wilcox on Signed Rank Test. The article reasoned that aside from DPR, different variables like EPS, P/E proportion have positive relationship with stock price among them P/E is the most grounded factor that influences the share price if there should be an occurrence of top gainer commercial banks while EPS, P/E proportion and DPR have positive impact on stock price among them DPR is the most grounded factor that influences the share price in the event of top failure bank. Since, there are subjective qualities like the political variables, legitimate elements. Additionally, quantitative elements like organization size, age, generosity, market to book esteem, CEO residency, and CEO duality among others which can impact the share price separated from the dividend, the article has proposed further specialists study ought to decide their consolidated impact and their relationship with the share price.

Almanaseer (2019) analyzed the relationship between dividend policy and share price of listed insurance companies in the Amman Stock Exchange. The study has selected 20 organizations out of 23 insurance companies listed in the Amman Stock Exchange as a sample. The ongoing review utilized two primary estimations of dividend policy, dividend yield, and payout proportion, by applying various direct relapses for the period 2008 to 2017. The principal relapse model was changed by adding control factors including firm size, profit unpredictability, monetary influence and development in resources. The review found a significant negative relationship between share price and dividend yield and payout ratio. However, dividend yield was the most effective variable on share price.

Budagaga (2020) analyzed the connection between cash dividend on its share price of banks recorded in Middle East and North African (MENA) arising nations during the period between 2000 and 2015. The review has used residual income approach followed by Ohlson's valuation model. By testing different factual procedures, fixed impact is applied on board information for (144) banks recorded on 11 MENA financial exchanges. Besides, extra tests have been applied to affirm the essential outcomes. The examination uncovers that ongoing dividend payouts and dividend yield has not give data applicable to the foundation of market values in MENA developing business sectors; in this manner, they physically affect MENA banks' fairly estimated valuations. This absence of current dividend installment impact is predictable dividend unimportance supposition: there is no proof of either an educational or genuine money inflow impact of current dividend installments. The discoveries of this study can be ascribed to the way that MENA banks might be compelled to put more accentuation on allotting cash for speculation as opposed to delivering dividends given them they are dependent upon liquidity necessities for venture, development, general tasks and consistence with guidelines. Solely after large number of financial requirements is covered, the cash dividend at any point be dispersed from the portion of surplus. Consequently, cash dividends address earnings residual instead of a functioning decision variable that influences a company's reasonable worth.

Bhatt and Jain (2021) examined the relationship between dividend policy and share price of banks recorded in Nepal Stock Exchange. The study has selected 19 commercial banks covering a period of time from 2009 to 2020 as a sample. Based on Baskin's basic model, the review has utilized three numerous board information relapse models by embracing 3 logical variable of dividend policy; dividend per share, dividend payout proportion and dividend yield independently and controlling for bank size, resource development, monetary influence and procuring unpredictability. The observational finding proved that dividend yield appears to the main indicator of share price unpredictability in commercial financial area alongside their size and acquiring unpredictability. There was negative impact of dividend yield and bank size though earnings per share affects share price instability.

### 2.2.2 Review of Previous Theses

Chapagai (2010) examined the relationship between dividend policy and share price of 10 commercial banks operating in Nepal. The study was based on the observation of five fiscal years from FY 2004/05 to 2008/09 AD. It has identified earnings per share (EPS), price earnings ratio (P/E), and dividend payout ratio (DPR) as the independent variables affecting the market price per share (MPS). The correlation analysis and multiple regression models were used to examine the impact of dividend policy on share price. The study depicted that there is positive relationship between price earnings, earnings per share , and share market price of commercial banks of Nepal whereas negative relationship with dividend payout ratio (DPR) through regression and correlation analysis.

Bhattarai (2011) investigated the trend of market share price of joint venture banks traded on the secondary market from FY 2005/06 to 2009/10 and analyzed the determinants of share price. A sample of two joint venture banks i.e. Himalayan Bank Limited (HBL) and Nepal SBI Bank Limited (NSBI) have been selected for the study. The study has used correlation, multiple regression analysis, coefficient of determinants, and t-test static as statistical tools. The review sorted out the connection among DPS and EPS was insignificant but positive. The review has recognized different variables adjacent to EPS to influence MPS and the development pace of

dividend is conflicting. Expansion rate in late year was diminishing and the market price of share was expanding. By and by, the organizations can't give expected pace of return to the financial backers. There was negative connection between price of share and dividend policy.

Budhathoki (2012) analyzed the effect of dividend policy on the share price of the Nepalese commercial banks. The review depended on the perception of five commercial banks for the time of FY 2005/06 and 2009/10 AD. Income per share (EPS), dividend per share (DPS) and dividend payout ratio (DPR) were the factors influencing the market price per share (MPS) of commercial banks. The investigation depended on multiple regression panels. The profit per share of the Nepalese commercial banks showed a positive relationship with share price (MPS). In any case, a negative connection between dividend payout and piece of the pie price (MPS) has been sorted out. DPS irrelevantly affects market price per share (MPS).

Joshi (2012) researched the elements influencing piece of the pie price of commercial banks in Nepal. Required data was collected from three commercial banks i.e. Rastriya Banijya Bank Limited (RBBL), Himalayan Bank Limited (HBL) and Laxmi Bank Limited (LBL) from FY 2006/07 to 2010/11. Stock price was dependent variable while the independent variable was dividend payout ratio (DPR and dividend per share (DPS). Multiple regression models was employed to explore the relationship of dependent with independent variables. The review found DPS as a spurring factor in the Nepalese monetary area which is sufficiently able to increment market price per share of the banking and non-banking firms. The money dividend can't be said as a sole element to influence price of share. In any case, there are a few different variables like procuring power, reward share, data worth of dividend choice and so forth that additionally cause the share price change. The review sorted out the impact of DPR likewise was positive on market price per share. Dividend payout ratio was significantly influencing the stock price.

Paudel (2014) analyzed whether MPS of recorded organizations, particularly chosen organizations under the review and how much the gamble is associated with the speculation of common stock. There was no consistency in the relationship of MPS

with different monetary signs of the tested organizations. It was viewed as the premise of the typical information throughout recent years. MPS of six monetary establishments has higher positive connection with major monetary pointers, for example, EPS and DPS and such relationship was significant. The Nepalese securities exchange was not adequately proficient to decide MPS as per particular monetary execution. The market price of share in Nepal was not demonstrative of an organization's monetary execution in securities exchange. There were changes in the dividend installment by the commercial banks of Nepal. There was no steadiness in the dividend payout ratio of the commercial banks. Hence, it was prescribed the investor to think about the high benefit of organizations for buying shares.

Karki (2015) inspected a connection between dividend payout ratio and share price volatility. The review informed that the higher dividend payout ratio, the lesser unpredictable share price and the higher dividend yield keeps an eye on re-duce the change of share price both in genuinely significant way. There is backwards connection between firm size and share price instability. The greater part of the large firms will generally balance out their development rates (for example in phase of mature and declining, the interest of extra capital utilized for speculations would be lower in contrast with the period of starting and serious turn of events), so they normally deliver higher dividend as opposed to reinvesting the greater part of their profit into new tasks. Furthermore, the solidness of those large organizations is by all accounts protected by their high and different experience of the board and operation. Measurably, the coefficient of dividend yield additionally showed that it has the best impact on share price instability among tried factors. The review has recommended the elements (dividend payout, dividend yield, firm size, profit unpredictability, long haul obligation ratio and development in resources) influence share price instability to have proper venture judgment and choices. Additionally, to be more exact in monetary ways of behaving, further examinations ought to be directed by analyzing directing jobs of long haul obligations and development in resources factors.

Pradhan & Gautam (2016) determined dividend as the deciding factors to change the wealth of the shareholders in the case of Nepalese commercial banks. The study has observed 18 different commercial banks over the five year period from 2009-2014.

The independent variables were earnings per share (EPS), dividend per share (DPS), price earnings ratio (P/E), dividend yield (DY), growth in assets (GA) and dividend payout ratio (DPR) whereas market price per share was dependent variables. The findings revealed that there is significant negative relationship between dividend yield and share price volatility, dividend per share, dividend payout and size have significant positive influence on volatility of share price. Growth and earnings volatility has negative and insignificant relation with price volatility. The review reasoned that aside from dividend yield and development in resources, different variables like DPR, EPS, P/E ratio have positive relationship with stock price.

Neupane (2018) analyzed the effect of dividend policy embraced by the chosen organizations to its market price of shares and the general valuation of the organizations has noticed six different commercial banks in Nepal over the time of FY 2010/11 to 2017/18. The analyst has decided income per share (EPS), dividend per share (DPS), dividend payout ratio (DPR), procuring yield ratio (EYR), and dividend yield ratio (DYR) as free factors to anticipate the portion of the overall industry price (MPS). Plausible blunder (PE) has been utilized to decide the dependability of the worth of coefficient and to cross actually look at the legitimacy of the outcome. Additionally, Standard mistake of gauge (SEE) has been use since relapse conditions don't assist with consummating forecast in down to earth. The standard blunder of the gauge estimates the precision of the assessed figures. It likewise gauges the scattering about a normal line. The review has presumed that piece of the pie price has positive connection between profit per share, dividend per share and dividend payout ratio. On other hand, MPS has negative connection between procuring yield ratio, and dividend yield ratio. The insignificant connection among DPS and different factors has shown that dividend policy of Nepalese commercial banks was bad. The coefficient of variety showed that there was no consistency of EPS. There was no consistency in dividend installment and the dividend payout ratio (DPR) of the banks was not steady. The typical market price showed that there was very elevated degree of fluctuation.

Maharjan (2019) investigated the impact of dividend yield (DY), retention ratio (RR), earnings per share (EPS), dividend per share (DPS), return on equity (ROE), and

profit after tax (PAT) on price of share (MPS) of the commercial banks in Nepal. The review has chosen seven different commercial banks in Nepal north of five monetary years from FY 2015/16 to FY 2019/20. It has accepted MPS as the reliant variable while DY, RR, EPS, DPS, ROE, and PAT are taken as free factors. The review has seen from the outcomes that ROE is emphatically associated with any remaining factors aside from RR, which is viewed as adversely corresponded. Likewise, EPS shows a high sure relationship while DPS shows a moderate positive connection with MPS. DPS is profoundly emphatically related with EPS and RR is adversely corresponded with EPS. DY and ROE are emphatically connected with DPS. The arbitrary impact (RE) relapse model examination demonstrated that how much dividend paid per share affects MPS of the stock. DY was found to adversely affect MPS. The review inferred that EPS decidedly affects MPS; DPS and RR no affect MPS while DY, ROE and PAT adversely affect MPS from RE relapse model examination. The consequence of relationship demonstrated that DY adversely affects MPS while different factors, for example, EPS, DPS, return on profit and RR are decidedly corresponded with MPS.

Hamal (2020) analyzed the effect of dividend policy on the share price of commercial bank in Nepal. The review depends on pooled cross sectional information of 5 commercial banks. Banks were chosen based on possession, for example government, private and joint endeavors. RastriyaBanijya Bank Limited (RBBL) is an administration bank; Nabil Bank Limited (NBL) and Himalayan Bank Limited (HBL) is the joint endeavors bank; and Sunrise Bank Limited (SBL) and Mega Bank Limited (MBL) is the confidential banks taken as the example for the review. The necessary information are gathered from yearly reports of the concerned commercial banks from FY 2015/16 to FY 2019/20. The review researched the connection between dividend DPS, EPS, P/E ratio, DPR, on stock price by utilizing descriptive statistics, correlation and multiple regression models. The study concluded that other factors other than DPR; like DPS, EPS and P/E ratio have positive relationship with share price. Among them, the strongest factor affecting the share price was P/E ratio.

## 2.3 Research Gap

The review of above relevant literature conducted by various researchers on dividend pattern, dividend policy, and its impact on stock price on journals, unpublished thesis, articles, and so on has contributed to enhance the fundamental understanding and knowledge. The review of literature has made the study meaningful and purposeful. In order to conduct the study, researchers have used various financial and statistical tools, and various models and theories. The past researches in determining the effect of dividend policy on share price of commercial banks have been focused on earnings per share (EPS), dividend per share (DPS), dividend yield (DY), and dividend payout ratio (DPR) as independent variables. However, in this research growth in assets (GA) has also been studied which most of the researchers have ignored.

The earlier reports have derived more or less universally acceptable conclusions and have proved to be significant to different sectors in their own place. However, effect of growth in assets on stock price which has been ignored by most researchers has been included the study. At present, many rapid changes have been taking place in financial markets in Nepal and it is necessary to be up to date and validated.

# CHAPTER-III
# RESEARCH METHODOLOGY

Research methodology is the method which is used in the research in collecting information and data, analyzing and interpreting with the help of different facts and figures. It covers data analyzing tools as well. It drives the researcher and keeps the researcher on the right track from selecting the topic to work till implications.

## 3.1 Research Design

Research design is an overall plan or framework for the collection and analysis of data. It provides the framework for the study, guidelines for the collection and analysis of data. Among different research designs such as; descriptive research design, causal comparative research design, and experimental research design, the study has used descriptive research design. The research design is selected to ascertain the relationship between market share price and other independent factors through collection and presentation of facts and figures such as bar graph, pie-chart, and trend line. Mean, standard deviation, correlation, regression, etc. are used to analyze the data, facts and figures.

## 3.2 Population and Sampling

The study is about dividend pattern of commercial banks and its effect on stock price. As of July, 2021 A.D. 27 ‘A’ class commercial banks are listed by NRB which is the population of the study. Out of 27 commercial banks, only 5 commercial banks (that represents 18.52%) are selected for the purpose of the study through using judgmental sampling method. The selected banks include Agriculture Development Bank Limited (ADBL), Nabil Bank Limited (NABIL), Nepal Investment Bank Limited (NIBL), Mega Bank Limited (MBL) and Sunrise Bank Limited (SBL). Agriculture Development Bank Ltd. is one of the government banks; Nabil Bank Ltd. is a joint venture bank, and the rest Nepal Investment Bank Limited (NIBL), Mega Bank Limited (MBL) and Sunrise Bank Limited (SBL) are the private commercial banks operating in Nepal.

### 3.3 Sources of Data

The study has used secondary sources of data. The required data has been retrieved from annual reports and websites of 5 selected commercial banks in Nepal over eight year's periods from FY 2013/14 to FY 2020/21 AD. Other required data are collected from annual report of SEBON, websites of Nepal Stock Exchange Ltd, Nepal Rastra Bank and other official and unofficial publications.

### 3.4 Data Collection Procedure

The study is based on secondary data. The researcher has collected data from annual reports and websites of selected banks, related books of different authors, unpublished theses, journals, magazines, bulletins published by NRB, websites of Nepal Stock Exchange (NEPSE), etc through the help of internet and also has visited TU central library.

### 3.5 Data Processing Procedure

The collected data has been classified and Microsoft Excel has been used for further calculations. The data are processed through various statistical tools such as mean, standard deviation, correlation coefficient (r), regression, probable error (PE), and standard error of r SE(r), and financial tools such as earnings per share (EPS), dividend per share (DPS), growth in assets (GA), and market price per share (MPS).

### 3.6 Methods of Analysis

The collected data from above stated sources are classified, tabulated, presented on various diagrams, and interpreted to make study easy and meaningful. Various statistical and financial tools and techniques such as mean, standard deviation, correlation coefficient, regression, probable error (PE), and standard error of r SE(r), earnings per share (EPS), dividend per share (DPS), growth in assets (GA), and market price per share (MPS) are used to analyze the data.

### 3.6.1 Research Framework and Definition of Variables

The study deals with the impact of dividend policy on share price of Nepalese commercial banks. After reviewing the previous theses conducted by the various past researchers, the study has identified earnings per share (EPS), dividend per share (DPS) and growth in assets (GA) as independent variables and share price as a dependent variable. The study has assumed earning per share (EPS), dividend per share (DPS), and growth in assets (GA) as independent variables whereas; market price of share (MPS) is a dependent variable.

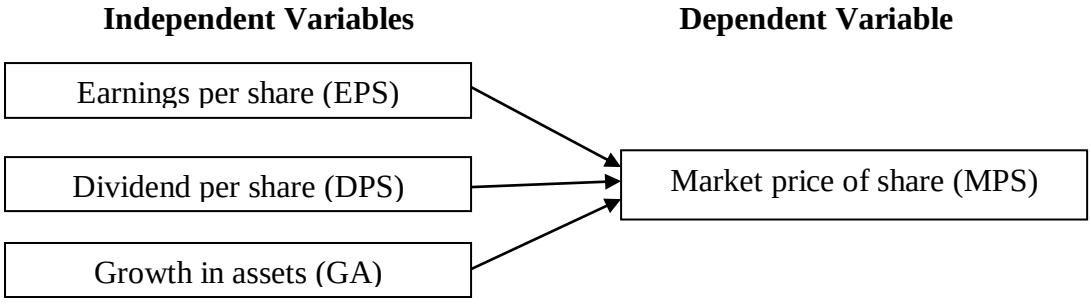


*Figure 3.1* Independent Variables and Dependent Variable

**A. Dependent Variables**

Dependent variable refers to the variable which is influenced or is to be predicted. The important aspect of the study is to analyze an impact of dividend policy on share price. Therefore, dependent variable will be share price.

**Market Price per Share (MPS)**

Market price per share means the recent price at which the stock is purchased or sold. Market price is the function of the recent and expected future dividend of the firm and the assumed risk of the stock on the part of investors. Nepal Stock Exchange (NEPSE) has been trading market share price on closing MPS. Therefore the researcher has applied the MPS as closing MPS.

## B. Independent Variables

The variable which influences the values or is used for prediction is called independent variable. To analyze an impact of dividend policy on share price, the study will consider earnings per share (EPS), dividend per share (DPS) and growth in assets (GA) as independent variables.

### Earnings per Share (EPS)

The earnings per share is one of the determinant that influence the dividend strategy and stock cost of an association. It shows the productivity of the firm according to value share premise. Higher EPS makes sense of the greater dividend as is the market cost. Along these lines, it is accepted as free factor to decide market cost of stock. It is determined by partitioning the acquiring accessible to the normal shareholder by the absolute number of normal shares remarkable.

$$\text{EPS} = \frac{\text{Earnings Available to Common Shareholders}}{\text{Number of Common Stock Outstanding}}$$

### Dividend per Share (DPS)

The acquiring circulated to the shareholders out of EPS is known as DPS. It additionally influences the market cost of stock. Assuming that EPS is more noteworthy, DPS will be more noteworthy. It is determined by partitioning all out dividend to value shareholders by the absolute number of the value shares.

$$\text{DPS} = \frac{\text{Total Dividend to Common Shareholders}}{\text{Number of Common Stock Outstanding}}$$

**Growth in Assets (GA)**

Growth is measured as percentage change in book value of assets of a firm. Growth is calculated as change in book value of assets in current year as compared to its book value of assets of previous year. Then, the change in assets is divided by previous amount of assets.

$$\text{GA} = \frac{\text{Total Assets of Current Year} - \text{Total Assets of Previous Year}}{\text{Total Assets of Previous Year}}$$

### 3.6.2 Statistical Tools

**Arithmetic Mean (A.M.)**

Arithmetic mean or just "mean" is a bunch of perception is the amount of all the perception separated by the quantity of perception (Bajaracharya, 1996). As such, amount of an assortment of numbers partitioned by the quantity of the assortment is math mean. It is known as mean or normal. It is indicated by $\overline{X}$ .

$$\text{Arithmetic Mean } (\overline{X}) = \frac{\sum X}{n}$$

where,

$\overline{X}$ = Arithmetic mean

$\sum x$ = Sum of all the values of the variable X

n = Number of observations

**Standard Deviation (S.D.)**

Standard deviation is a tool that is utilized to measure how much variety or dispersion of a bunch of information values (Bajaracharya, 1996). It is supposed to be the best proportion of dispersion as it fulfills a large portion of the necessities of a decent proportion of dispersion. Standard deviation is characterized as the positive square foundation of the mean of square of the deviation takes from the number juggling

mean. Higher the standard deviation higher will be the changeability as well as the other way around. It is meant by the Greek letter sigma σ or SD.

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{1}{n}\sum\left(X - \overline{X}\right)^2}$$

**Coefficient of Variation (C.V.)**

Standard deviation is the outright proportion of dispersion. The general proportion of dispersion in light of the standard deviation is known as the coefficient of standard deviation (Bajaracharya, 1996). Less the C.V, more will be the consistency, consistency and so on and more the C.V less will be the consistency, consistency and so forth. It is indicated by C.V.

$$\text{Coefficient of Variation (CV)} = \frac{\sigma}{\overline{X}} \times 100\%$$

**Correlation Analysis**

Correlation analysis is the measurable devices that can be utilized to depict how much one variable is linearly connected with another. In the review both single and multiple correlations have been utilized. Correlation coefficient between the following financial variables have been determined and interpreted.

**Simple correlation coefficient**

i. Between earnings per share and dividend per share.
ii. Between current market price per share and earnings per share.
iii. Between current market price per share and dividend per share.
iv. Between growth in assets and current market price per share.
v. Between growth in assets and earnings per share.
vi. Between growth in assets and dividend per share.

**Multiple Correlation Coefficients**

i. Between earning per share, dividend per share, growth in assets and current market price of share.

**Regression Analysis**

Correlation analysis tells the heading of development however it doesn't tell the general development in the variables under study. Regression analysis assists us with knowing the general development in the variables, Regression analysis of the following variables have been determined and interpreted.

**Multiple Regression Analysis**

In multiple regression analysis, at least two independent variables are utilized to foresee the worth of a dependent variable, for example instead of one independent variable; at least two independent variables are utilized to foresee the worth of a dependent variable. The review has expected earnings per share (EPS), dividend per share (DPS), and growth in assets (GA) as independent variables though; market price of share (MPS) is a dependent variable.

i. Market price of share (MPS) on earnings per share (EPS), dividend per share (DPS), and growth in assets (GA).

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

Where,

Y = Market Price per Share

a = Regression constant

$b_1$ = Regression coefficient of EPS variable

$b_2$ = Regression coefficient DPS variable

$b_3$ = Regression coefficient GA variable

$X_1$ = Earnings per share

$X_2$ = Dividend per share

$X_3$ = Growth in assets

This model assists with predicting in what degree EPS, DPS and GA influence MPS. In correlation and regression analysis, following measurements have been determined and interpreted accordingly.

**i. Coefficient of Correlation (r)**

Correlation Analysis is the measurable instruments that we can use to depict how much one variable is linearly connected with another (Bajaracharya, 1996). Coefficient of correlation is the estimation of the level of connection between two nonchalantly related sets of figures whether positive or negative. Karl Pearson's coefficient of correlation estimates the level of linear connection between two variables. Let X and Y are two variables, the Karl Pearson's correlation of coefficient among X and Y is defined as:

$$r = \frac{\sum(X-\bar{X})\,(Y-\bar{Y})}{\sqrt{\sum(X-\bar{X})^2}\,\sqrt{\sum(Y-\bar{Y})^2}}$$

The coefficient of correlation lies between -1 and +1, and interpretation of correlation coefficient (r) is as follows:

i. When, r = +1, there is perfect positive relationship
ii. When, r is close to 1, there is strong positive relationship
iii. When, r is close to 0 but positive, there is low degree of positive relationship
iv. When, r = 0, there is no relationship
v. When, r is close to 0 but negative, there is low degree of negative relationship
vi. When, r is close to -1, there is strong negative relationship
vii. When, r = +1, there is perfect positive relationship

In this review, coefficient of correlation is utilized to examine the relationship of various elements with dividend and different variables. The information regarding dividend over various years are arranged and their relationship with one another are somewhat long.

### ii. Regression Constant (a)

The worth of steady, which is the intercept of the model, indicated the typical degree of dependent variable when independent variable is zero. In another words, it is smarter to comprehend that 'a' (steady) indicates the mean or normal impact on dependent variable of the multitude of variables overlooked from the model.

### iii. Regression Coefficient (b)

The regression coefficient of every independent variable indicates the marginal connection between that variable and worth of dependent variable, holding steady the impact of any remaining independent variables in the regression model. At the end of the day, the coefficient portrays what changes in independent variables mean for the worth of dependent variables gauge.

### Coefficient of Multiple Determinations ($R^2$)

The coefficient of multiple determinations addresses the piece of the minor departure from dependent variable that is explained by the arrangement of independent variables. Normally, bigger upsides of $R^2$ are viewed as the better since they indicate a more grounded connections among the variables utilized in the regression model.

### Standard Error of Estimate

To measure the reliability of the estimating equation, statisticians developed the standard error of estimate. The standard deviation around the line of regression is called the standard error of estimate. The larger the standard error of estimate, the greater the variability of observed values around the regression line implying that estimating equation is not a true predictor of the dependent variable. If the standard error of estimate value is zero, the estimating equation is a perfect estimator of the dependent variable. In that case, all the observed values would lie on the regression line.

# CHAPTER-IV
# RESULTS AND DISCUSSION

The chapter deals with presentation, analysis and interpretation of collected data through various financial and statistical tools. The main sources of data are secondary data. In this chapter, collected data related to dividend pattern and its impact on share price of Nepalese commercial banks such as Agriculture Development Bank Limited (ADBL), Nabil Bank Limited (NABIL), Nepal Investment Bank Limited (NIBL), Mega Bank Limited (MBL) and Sunrise Bank Limited (SBL) over eight year's periods from FY 2013/14 AD to FY 2020/21 AD are presented in different tables and diagrams to make the analysis simple and easy to understand.

## 4.1 Data Presentation and Analysis

The collected data are analyzed by using different statistical and financial tools and techniques and presented on various diagrams such as line graph. Mean, standard deviation, correlation coefficient, regression, probable error (PE), and standard error of r SE(r) are statistical tools. Similarly, earnings per share (EPS), dividend per share (DPS), growth in assets (GA), and market price per share (MPS) are the financial tools used to analyze the data.

### 4.1.1 Earnings per share (EPS)

Earnings per share (EPS) measure the earnings accessible to value shareholders. It shows the productivity of the firm according to value share premise. One of the elements influences the dividend strategy and stock price of a firm. EPS computation will be useful to know whether the association's earning power on per share premise. In the event that EPS is more noteworthy the dividend will be bigger as is the market price. In this way, it is expects as independent variable to determine the dividend and market price of stock.

Table 4.1

*Earnings per share (EPS)*

| FY | Banks | | | | |
|---|---|---|---|---|---|
| | NIBL | SBL | ADBL | MBNL | NABIL |
| 2013/14 | 40.70 | 11.03 | 35.19 | 13.11 | 83.68 |
| 2014/15 | 30.90 | 19.27 | 78.83 | 13.27 | 57.24 |
| 2015/16 | 29.30 | 23.93 | 52.79 | 17.00 | 59.27 |
| 2016/17 | 29.30 | 16.76 | 31.59 | 17.31 | 59.86 |
| 2017/18 | 35.70 | 18.13 | 36.91 | 12.81 | 51.84 |
| 2018/19 | 26.40 | 20.94 | 42.88 | 15.68 | 50.57 |
| 2019/20 | 17.00 | 15.16 | 31.45 | 13.44 | 36.16 |
| 2020/21 | 22.00 | 15.25 | 29.13 | 15.93 | 33.57 |
| Mean | 28.91 | 17.56 | 42.35 | 14.82 | 54.02 |
| SD | 7.42 | 3.96 | 16.61 | 1.86 | 15.61 |
| CV | 0.2566 | 0.2254 | 0.3921 | 0.1255 | 0.2889 |

*Source.* Annual Reports of Concerned Banks, 2013/14-2020/21

Table 4.1 and Figure 4.1 show earnings per share (EPS) of NIBL, SBL, ADBL, MBNL, and NABIL during different eight years period from FY 2013/14 AD to FY 2020/21 AD. The highest and the lowest EPS of NIBL are Rs 40.70 and Rs 17 in FY 2013/14 and FY 2019/20 respectively. SBL have the highest and the lowest EPS of Rs 23.93 and Rs 11.03 in FY 2015/16 and FY 2013/14 respectively. Similarly, ADBL has the fluctuation of EPS from the lowest EPS Rs 29.13 to the highest EPS Rs 78.33 in FY 2020/21 and FY 2014/15 respectively. The highest and the lowest EPS of MBNL are Rs 17.31 and Rs 12.81 in FY 2016/17 and FY 2017/18 respectively. NABIL have the highest and the lowest EPS of Rs 83.68 and Rs 33.57 in FY 2013/14 and FY 2020/21 respectively.

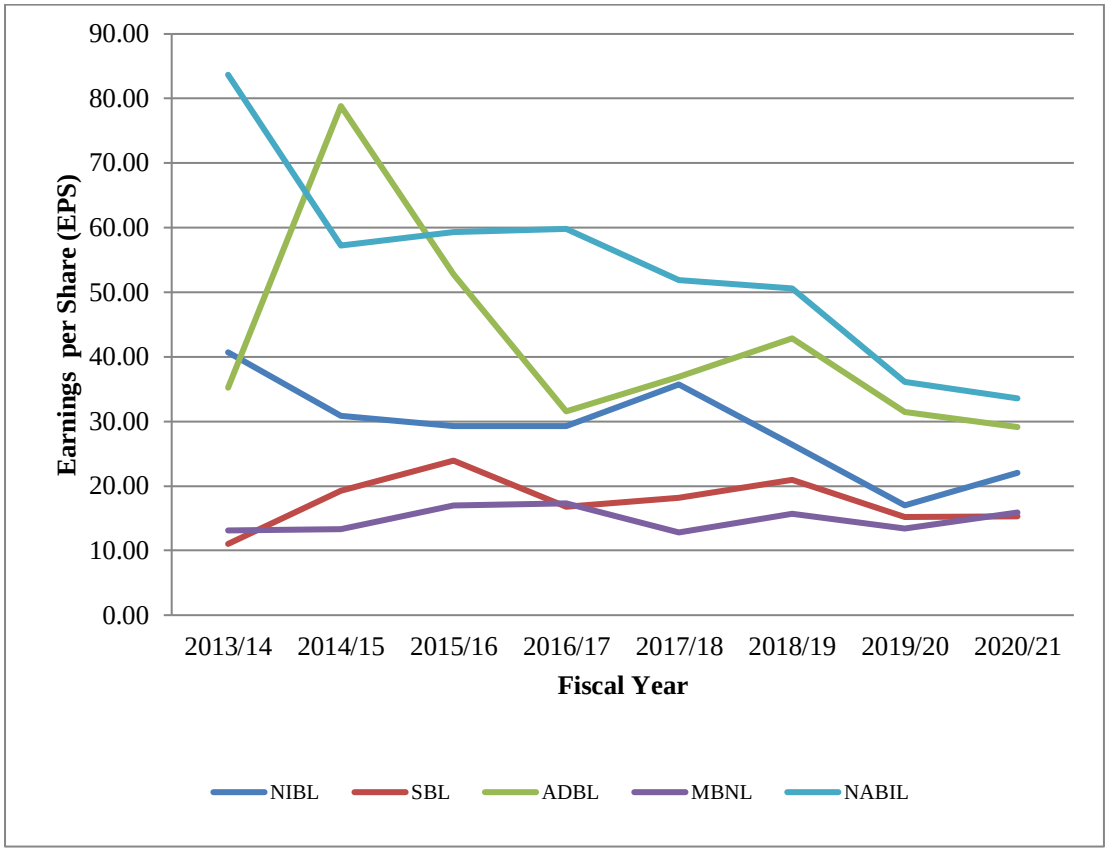


*Figure 4.1* Earnings per share (EPS): 2013/14-2020/21

Figure 4.1 shows EPS trend line of NIBL, SBL, ADBL, MBNL, and NABIL during eight different fiscal years from FY 2013/14 to FY 2020/21 AD. The EPS of all banks are in fluctuating trend except NABIL. NABIL has decreasing trend of EPS. The EPS trend of ADBL is more fluctuating than other banks (highest CV), which is not a good indication for the equity shareholders. On other hand, the EPS trend of MBNL is less fluctuating (lesser CV) than other banks, which indicates the bank is less risky for the equity shareholders in terms of availability of earnings.

### 4.1.2 Dividend per share (DPS)

Dividend per share is how much dividend which is conveyed to the shareholders of the single unit of share. By and large the higher dividend per share makes uplifting outlook among the shareholders towards the bank, which accordingly assists with increasing the market worth of shares.

Table 4.2

*Dividend per share (DPS)*

| FY | Banks | | | | |
|---|---|---|---|---|---|
| | NIBL | SBL | ADBL | MBNL | NABIL |
| 2013/14 | 40.00 | 0.00 | 15.79 | 12.63 | 65.00 |
| 2014/15 | 34.70 | 22.63 | 15.79 | 10.53 | 36.84 |
| 2015/16 | 41.00 | 33.33 | 20.00 | 17.27 | 45.00 |
| 2016/17 | 40.00 | 15.00 | 20.00 | 15.21 | 48.00 |
| 2017/18 | 40.00 | 11.50 | 6.00 | 6.85 | 34.00 |
| 2018/19 | 19.00 | 15.80 | 6.00 | 11.75 | 34.00 |
| 2019/20 | 18.50 | 8.28 | 15.00 | 13.05 | 35.26 |
| 2020/21 | 16.00 | 7.00 | 20.00 | 0.00 | 38.00 |
| Mean | 31.15 | 14.19 | 14.82 | 10.91 | 42.01 |
| SD | 11.22 | 10.25 | 5.83 | 5.38 | 10.62 |
| CV | 0.3603 | 0.7225 | 0.3934 | 0.4933 | 0.2529 |

*Source.* Annual Reports of Concerned Banks, 2013/14-2020/21

Table 4.2 and Figure 4.2 show dividend per share (DPS) of NIBL, SBL, ADBL, MBNL, and NABIL during different eight years period from FY 2013/14 AD to FY 2020/21 AD. The highest and the lowest DPS of NIBL are Rs 41 and Rs 16 in FY 2015/16 and FY 2020/21 respectively. SBL have the highest and the lowest DPS of Rs 33.33 and Nil in FY 2015/16 and FY 2013/14 respectively. Similarly, ADBL has the fluctuation of DPS from the lowest DPS Rs 6 to the highest DPS Rs 20 respectively over the study period. The highest and the lowest DPS of MBNL are Rs 17.27 and Nil in FY 2015/16 and FY 2020/21 respectively. NABIL have the highest DPS in FY 2013/14 with Rs 65 and the lowest DPS of Rs 34 in FY 2017/18 and FY 2018/19.

The dividend per share (DPS) of NIBL, SBL, ADBL, MBNL, and NABIL during different eight years period from FY 2013/14 AD to FY 2020/21 AD can be presented in the trend line as:

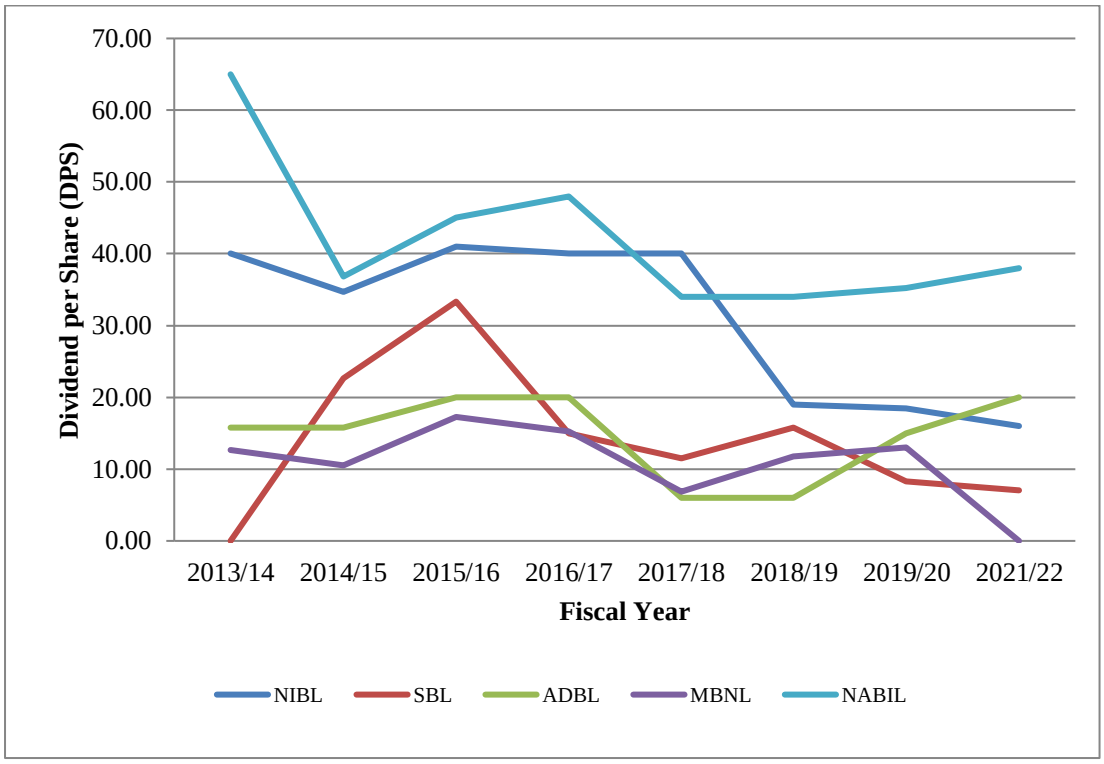


*Figure 4.2* Dividend per share (DPS): 2013/14-2020/21

Figure 4.2 shows DPS trend line of NIBL, SBL, ADBL, MBNL, and NABIL over eight different fiscal years from FY 2013/14 to FY 2020/21 AD. The DPS of all banks are in fluctuating trend. However, the DPS trend of SBL is more fluctuating than other banks, which is not a good indication for the equity shareholders. The bank has been distributing dividend to the equity shareholders in the most fluctuating way which has generated more risk to the equity shareholders in receiving dividends, and result in poor dividend distribution. On other hand, the DPS trend of NIBL is less fluctuating than other banks, which indicates the bank is less risky for the equity shareholders in terms of dividend distribution.

### 4.1.3 Growth in Assets (GA)

Firm growth shows how firms behave once they enter the market, their market opportunities and level of efficiency. Growth in assets implies expansion of firm's assets which is important for survival, and increase shareholders' equity. Growth is measured as growth of the book value of assets of a firm. Growth is calculated as change in book value of assets in current year as compared to its book value of assets of previous year. Then, the change in assets is divided by previous amount of assets.

Table 4.3

*Growth in Assets (in percentage)*

| FY | Banks | | | | |
|---|---|---|---|---|---|
| | NIBL | SBL | ADBL | MBNL | NABIL |
| 2013/14 | 0.1780 | 0.1352 | 0.1482 | 0.1817 | 0.1916 |
| 2014/15 | 0.2109 | 0.2605 | 0.1402 | 0.2011 | 0.3600 |
| 2015/16 | 0.2438 | 0.5662 | 0.1076 | 0.6135 | 0.0725 |
| 2016/17 | 0.1621 | 0.2202 | 0.1349 | 0.1449 | 0.1024 |
| 2017/18 | 0.1397 | 0.1585 | 0.0674 | 0.7980 | 0.1471 |
| 2018/19 | 0.0811 | 0.1429 | 0.1184 | 0.1916 | 0.2495 |
| 2019/20 | 0.0925 | 0.2292 | 0.1840 | 0.5896 | 0.1817 |
| 2020/21 | 0.1227 | 0.1846 | 0.2405 | 0.1658 | 0.2246 |
| Mean | 0.1538 | 0.2372 | 0.1426 | 0.3608 | 0.1912 |
| SD | 0.0563 | 0.1401 | 0.0519 | 0.2614 | 0.0903 |
| CV | 0.3662 | 0.5908 | 0.3638 | 0.7244 | 0.4722 |

*Source.* Appendix 6

Table 4.3 and Figure 4.3 show growth in assets (GA) of NIBL, SBL, ADBL, MBNL, and NABIL during different eight years period from FY 2013/14 AD to FY 2020/21 AD. The highest and the lowest GA of NIBL are 24.38% and 8.11% in FY 2015/16

and FY 2018/19 respectively. SBL have the highest and the lowest GA of 56.62% and 13.52% in FY 2015/16 and FY 2013/14 respectively. Similarly, ADBL has the fluctuation of GA from the lowest GA 6.74% to the highest GA 24.05% in FY 2017/18 and FY 2020/21 respectively. The highest and the lowest GA of MBNL are 79.80% and 14.49% in FY 2015/16 and FY 2020/21 respectively. NABIL have the highest GA in FY 2014/15 with 36% and the lowest GA of 7.25% in FY 2015/16.

The growth in assets (GA) of NIBL, SBL, ADBL, MBNL, and NABIL during different eight years period from FY 2013/14 AD to FY 2020/21 AD can be presented in the trend line as:

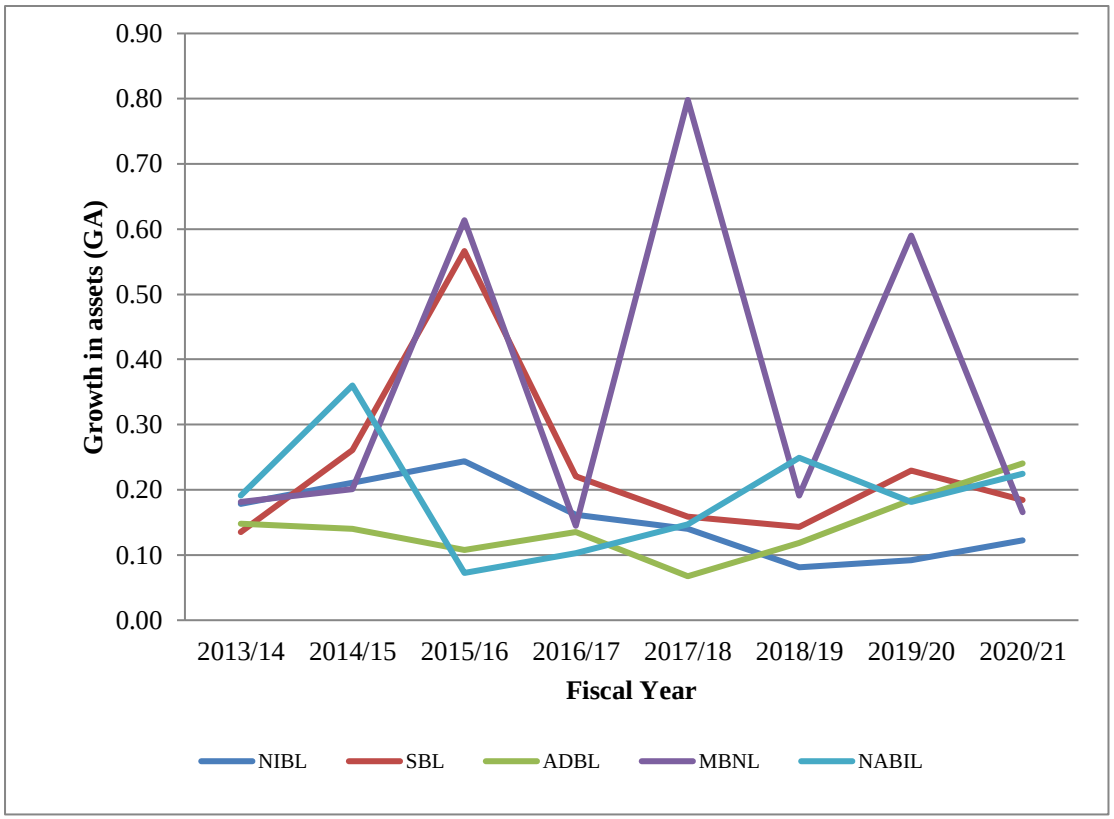


*Figure 4.3* Growth in assets (GA): 2013/14-2020/21

Figure 4.3 shows GA trend line of NIBL, SBL, ADBL, MBNL, and NABIL over eight different fiscal years from FY 2013/14 to FY 2020/21 AD. The GA of all banks is in fluctuating trend. However, the GA trend of MBNL is more fluctuating than other banks, which is not a good indication for the firm as well as equity shareholders.

On other hand, the GA trend of NIBL is less fluctuating than other banks, which indicates sound growth in assets.

### 4.1.4 Market price per share (MPS)

Market price per share is the ongoing price at which the stock is exchanged. Market price of normal stock is the capability of the current and anticipated future dividend of the organization and the perceived gamble of the stock with respect to investors. Nepal Stock Exchange (NEPSE) has been trading market share price on closing MPS. Subsequently the analyst has applied the MPS as closing MPS.

Table 4.4

*Market price per share (MPS)*

| FY | Banks | | | | |
|---|---|---|---|---|---|
| | NIBL | SBL | ADBL | MBNL | NABIL |
| 2013/14 | 960 | 510 | 756 | 449 | 2535 |
| 2014/15 | 704 | 395 | 432 | 395 | 1910 |
| 2015/16 | 1040 | 748 | 768 | 565 | 2344 |
| 2016/17 | 770 | 396 | 435 | 458 | 1523 |
| 2017/18 | 621 | 230 | 314 | 163 | 921 |
| 2018/19 | 519 | 248 | 409 | 213 | 800 |
| 2019/20 | 431 | 234 | 385 | 201 | 765 |
| 2020/21 | 460 | 363 | 479 | 366 | 1359 |
| Mean | 688.1 | 390.5 | 497.3 | 351.3 | 1,519.6 |
| SD | 225.50 | 174.62 | 170.16 | 144.37 | 690.18 |
| CV | 0.3277 | 0.4472 | 0.3422 | 0.4110 | 0.4542 |

*Source.* Annual Reports of Concerned Banks, 2013/14-2020/21

The market price per share (MPS) of NIBL, SBL, ADBL, MBNL, and NABIL during different eight years period from FY 2013/14 AD to FY 2020/21 AD can be presented in the trend line as:

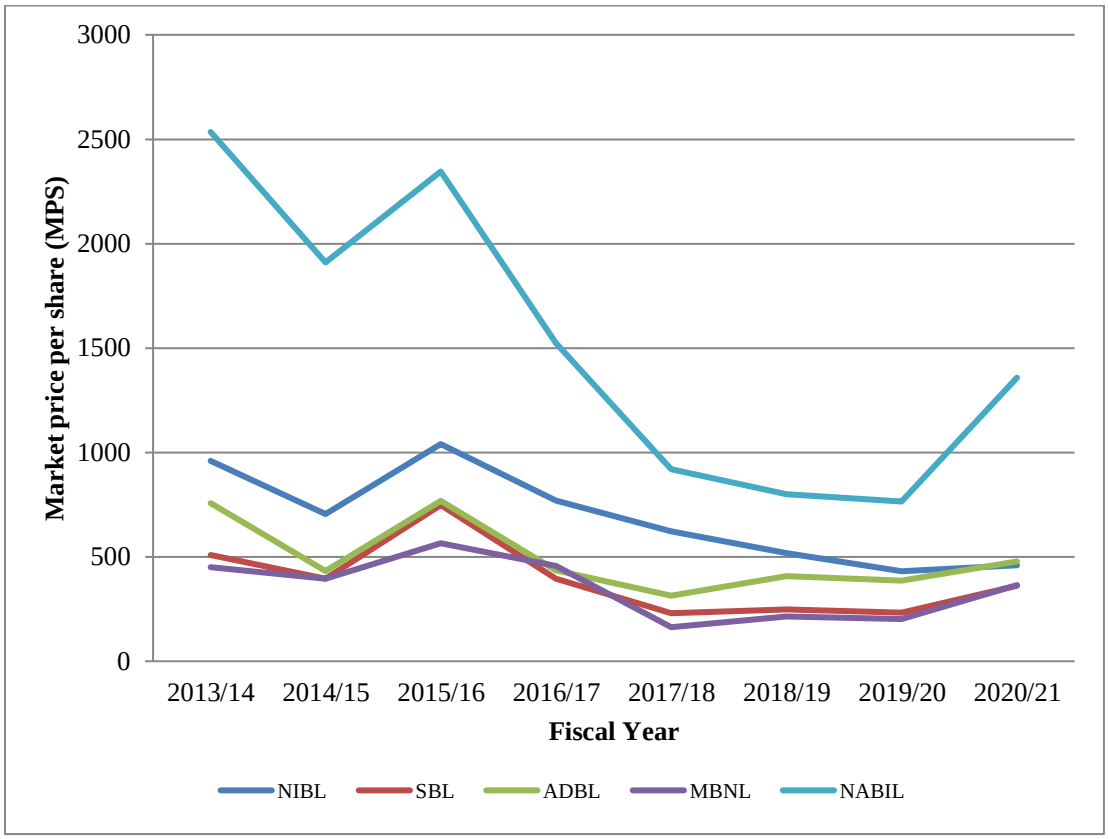


*Figure 4.4* Market price per share (MPS): 2013/14-2020/21

Table 4.4 and Figure 4.4 show market price per share (MPS) of NIBL, SBL, ADBL, MBNL, and NABIL during different eight years period from FY 2013/14 AD to FY 2020/21 AD. The highest and the lowest MPS of NIBL are Rs 1,040 and Rs 431 in FY 2015/16 and FY 2019/20 respectively. SBL have the highest and the lowest MPS of Rs 748 and Rs 230 in FY 2015/16 and FY 2017/18 respectively. Similarly, ADBL has the fluctuation of MPS from the lowest MPS Rs 314 to the highest MPS Rs 768 in FY 2017/18 and FY 2015/16 respectively. The highest and the lowest MPS of MBNL are Rs 565 and Rs 163 in FY 2015/16 and FY 2017/18 respectively. NABIL have the highest MPS Rs 2,535 in FY 2013/14 and the lowest MPS of Rs 765 in FY 2019/20.

### 4.1.5 Descriptive Statistics

The descriptive statistics section explains the impact of DPS, EPS, and GA on the market share price (MPS) of commercial banks in Nepal.

Table 4.5

*Descriptive Statistics of EPS, DPS, GA, and MPS*

| Variables | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| EPS | 40 | 11.03 | 83.68 | 31.53 | 18.25 |
| DPS | 40 | 0 | 65 | 22.62 | 2.35 |
| GA | 40 | 0.0674 | 0.798 | 0.2171 | 0.025 |
| MPS | 40 | 163 | 2375 | 689.35 | 86.57 |

Table 4.5 shows descriptive statistics of five sampled commercial banks during eight different years from FY 2013/14 to FY 2020/21 AD. The total number of observation (N) was 40 for variable. The statistics explains that the mean of the EPS is Rs. 31.53 with standard deviation of Rs. 18.25 and goes from Rs. 11.03 to Rs. 83.68. This infers that worth of EPS can fluctuate on the two sides by Rs. 18.25. Additionally, the mean of the DPS is Rs. 22.62 with standard deviation of Rs. 2.35 and goes from Rs. 0 to Rs. 65. This suggests that worth of DPS can differ on the two sides by Rs. 2.35. In like manner, the mean of the GA is 21.71% with standard deviation of 2.5% and goes from 6.74% to 79.8%. This suggests that worth of GA can fluctuate on the two sides by 2.5%. The mean of the MPS is Rs. 689.35 with standard deviation of Rs. 86.57 and goes from Rs. 163 to Rs 2,375. This suggests that worth of MPS can change on the both sides by Rs. 86.57.

### 4.1.6 Correlation among Variables

The study has identified four variables. Correlation analysis involves analyzing whether there exist a positive or a negative relationship between two variables. It furthermore implies whether there is significant or insignificant relationship. Thus,

correlation analysis is used in this study to measure the relationship between MPS, EPS, DPS, and GA.

Table 4.6

*Correlation among EPS, DPS, GA, and MPS*

| | EPS | DPS | GA | MPS |
|---|---|---|---|---|
| EPS | 1 | | | |
| DPS | 0.6485* | 1 | | |
| GA | -0.2782 | -0.0697 | 1 | |
| MPS | 0.7178* | 0.8193* | -0.1242 | 1 |

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

Table 4.6 represents the correlation between various determinants of market share price of Nepalese commercial banks. The major emphasis is given to EPS, DPS, GA, and MPS. DPS and MPS have highest influences in each other with a positive 0.8193 correlation score and the correlation is significant with P-value of 0.0000000001. EPS and MPS have strong positive correlation score 0.7178 resulting a significant influence over each other with P-value 0.00000019. Likewise, DPS and EPS also have significant strong positive correlation 0.6485 with P-value of 0.0000060. There is low degree of negative correlation between GA and DPS with correlation value of -0.0697 and P-value 0.669198424. GA and EPS have weak insignificant negative correlation of -0.2782 with P-value of 0.0821769. Similarly, MPS and GA have low degree of negative correlation with value of -0.1242 and are insignificant with P-value of 0.445237.

### 4.1.7 Regression Analysis

In coefficient analysis, at least two independent variables are utilized to gauge the worth of dependent variables while in the basic regression analysis single independent variable is utilized to assess the upsides of a dependent variable. Multiple regression analysis assists with knowing relative development in the variable.

Table 4.7

*Regression Model Summary of EPS, DPS, GA, and MPS*

| R | R Square | Adjusted R Square | Standard Error | Observations |
|---|---|---|---|---|
| 0.855182 | 0.731337 | 0.708948 | 295.3848 | 40 |

Table 4.7 represents the model summary of regression analysis between the market share price and EPS, DPS, and GA of sampled commercial banks in Nepal. The R square is 0.7313 which implies the model explanatory power portrayed that 73.13% of the progressions in the share price in business banks be explained by the three variables (EPS, DPS, and GA) while the remaining percentage can be explained by different elements prohibited in the model. The changed R square was 70.89% which shows the model logical power with the avoidance of the steady variable in the regression model. Furthermore, the coefficient for R is 0.8552 which shows the serious level of positive correlation between the market price and the EPS, DPS, and GA. Since, the coefficient was 0.8552 it portrays that there is areas of strength for a connection between EPS, DPS, and GA and the market share price. In this way, increase in EPS, DPS, and GA increase the market share price as well as the other way around. The standard blunder of appraisals shows the typical deviation from the linear of best among the variables being scrutinized.

Table 4.8

*ANOVA Table*

| | df | Sum of Square | Mean Square | F | Significance F |
|---|---|---|---|---|---|
| Regression | 3 | 8550437 | 2850146 | 32.66562 | 0.00000000022 |
| Residual | 36 | 3141078 | 87252.16 | | |
| Total | 39 | 11691515 | | | |

The F statistics is used as a test for the model goodness of fit, F=32.6656, P-value of 0.00000000022 < 0.05 shows that there is a significant relationship between market price per share and the EPS, DPS, and GA of sampled commercial banks. The

regression sum of squares shows the sum of the squared deviation from the line of best fit to the respective observed variables, residual sum of squares shows the sum of squared deviations which cannot be explained by the model while the total sum of squares shows the sum of squared deviations which has been explained and unexplained by the regression model. The degrees of freedom (df) for the regression model was 3 corresponding with the number of independent variables (EPS, DPS, and GA) and 39 in overall corresponding with the response rate minus 3 while the degrees of freedom for residual were 36 (39-3).

In coefficient analysis, at least two independent variables are utilized to gauge the worth of dependent variables though in the straightforward regression analysis single independent variable is utilized to assess the upsides of a dependent variable. Multiple regression analysis assists with knowing relative development in the variable. To appraise the connection among dividends and stock prices, the hypothetical assertion of the model is that the price of the stock would rely upon dividend per share, earnings per share, and growth in assets. The theoretical statements formed above may be stated as:

Table 4.9

*Regression Coefficient*

| Model | Un-standardized Coefficients | | Standardized Coefficients | t Stat | P-value |
|---|---|---|---|---|---|
| | B | Standard Error | Beta | | |
| Intercept* | -133.139 | 131.886 | | -1.00950 | 0.31947 |
| EPS | 9.761 | 3.577 | 0.325 | 2.72834 | 0.00978 |
| DPS | 22.464 | 4.236 | 0.609 | 5.30364 | 0.000006 |
| GA | 30.540 | 316.904 | 0.009 | 0.09637 | 0.92376 |

*Note*. *Dependent Variable: MPS

The regression coefficients show the nature of the relationship between EPS, DPS, GA and the share price of commercial banks. The findings of the study explained that positive significant relationship exists between the DPS and the share price of

commercial banks since the P value is lower than 0.05 at 5% level of significance. On other hand, there is positive insignificant relationship between EPS, GA and market share price. Since, the tabulated test statistics t at 5% level of significance and df = 39 for two tailed test is 2.022; there is insignificant relationship between GA and MPS because the calculated t-value of this variable (i.e. 0.0964) is less than tabulated t-value.

The regression model/line is given by following equation:

$$Y = -133.139 + 0.325\ X_1 + 0.609\ X_2 + 0.009\ X_3$$

Where,

Y = Market Price per Share (MPS)

a = Regression constant

$b_1$ = Regression coefficient of EPS variable

$b_2$ = Regression coefficient DPS variable

$b_3$ = Regression coefficient GA variable

$X_1$ = Earnings per share

$X_2$ = Dividend per share

$X_3$ = Growth in assets

The regression model shows that a unit changes in the EPS, DPS and GA leads to 0.325, 0.609 and 0.009 changes in share price of sampled commercial banks in Nepal. The market price per share (MPS) of commercial banks in Nepal is highly influenced by dividends per share (DPS), but firm's growth (GA) and earnings per share (EPS) has very low influence on market price of the commercial banks in Nepal.

## 4.2 Major Findings

The study is concerned with dividend pattern of commercial banks in Nepal and its effect on stock price over the eight different years from FY 2013/14 to FY 2020/21 AD. The secondary sources have been used to collect required data and information to meet the objectives of the study. Annual reports provided by the concerned banks, and websites of NEPSE are the main sources of secondary data used in the study. The data are processed through various statistical tools such as mean, standard deviation,

correlation coefficient (r), regression, probable error (PE), and standard error of r SE(r), and financial tools such as earnings per share (EPS), dividend per share (DPS), growth in assets (GA), and market price per share (MPS). The data has been tabulated and presented in various diagrams such as trend lines.

After analyzing various data through using different financial and statistical tools and techniques, and presenting them on various diagrams, following major findings have been found:

1. The highest and the lowest EPS of NIBL are Rs 40.70 and Rs 17 in FY 2013/14 and FY 2019/20 respectively. SBL have the highest and the lowest EPS of Rs 23.93 and Rs 11.03 in FY 2015/16 and FY 2013/14 respectively. Similarly, ADBL has the fluctuation of EPS from the lowest EPS Rs 29.13 to the highest EPS Rs 78.33 in FY 2020/21 and FY 2014/15 respectively. The highest and the lowest EPS of MBNL are Rs 17.31 and Rs 12.81 in FY 2016/17 and FY 2017/18 respectively. NABIL have the highest and the lowest EPS of Rs 83.68 and Rs 33.57 in FY 2013/14 and FY 2020/21 respectively.

2. The highest and the lowest DPS of NIBL are Rs 41 and Rs 16 in FY 2015/16 and FY 2020/21 respectively. SBL have the highest and the lowest DPS of Rs 33.33 and Nil in FY 2015/16 and FY 2013/14 respectively. Similarly, ADBL has the fluctuation of DPS from the lowest DPS Rs 6 to the highest DPS Rs 20 respectively over the study period. The highest and the lowest DPS of MBNL are Rs 17.27 and Nil in FY 2015/16 and FY 2020/21 respectively. NABIL have the highest DPS in FY 2013/14 with Rs 65 and the lowest DPS of Rs 34 in FY 2017/18 and FY 2018/19.

3. The highest and the lowest GA of NIBL are 24.38% and 8.11% in FY 2015/16 and FY 2018/19 respectively. SBL have the highest and the lowest GA of 56.62% and 13.52% in FY 2015/16 and FY 2013/14 respectively. Similarly, ADBL has the fluctuation of GA from the lowest GA 6.74% to the highest GA 24.05% in FY 2017/18 and FY 2020/21 respectively. The highest and the lowest GA of MBNL are 79.80% and 14.49% in FY 2015/16 and FY 2020/21 respectively. NABIL

have the highest GA in FY 2014/15 with 36% and the lowest GA of 7.25% in FY 2015/16.

4. The highest and the lowest MPS of NIBL are Rs 1,040 and Rs 431 in FY 2015/16 and FY 2019/20 respectively. SBL have the highest and the lowest MPS of Rs 748 and Rs 230 in FY 2015/16 and FY 2017/18 respectively. Similarly, ADBL has the fluctuation of MPS from the lowest MPS Rs 314 to the highest MPS Rs 768 in FY 2017/18 and FY 2015/16 respectively. The highest and the lowest MPS of MBNL are Rs 565 and Rs 163 in FY 2015/16 and FY 2017/18 respectively. NABIL have the highest MPS Rs 2,535 in FY 2013/14 and the lowest MPS of Rs 765 in FY 2019/20.

5. The minimum and maximum EPS among the 40 observations is Rs. 11.03 to Rs. 83.68 respectively. The mean of the EPS is Rs. 18.25 with standard deviation of Rs. 20.2889. The minimum and maximum DPS is Rs. 0 to Rs. 65 respectively with the mean Rs. 22.62, and standard deviation Rs. 2.35. Likewise, the mean of the GA is 21.71% with standard deviation of 2.5% and ranges from 6.74% to 79.8%. The mean of the MPS is Rs. 689.35 with standard deviation of Rs. 86.57 and ranges from Rs. 163 to Rs 2,375.

6. The EPS of all banks are in fluctuating trend except NABIL. NABIL has decreasing trend of EPS. The EPS trend of ADBL is more fluctuating than other banks (highest CV), which is not a good indication for the equity shareholders. On other hand, the EPS trend of MBNL is less fluctuating (lesser CV) than other banks, which indicates the bank is less risky for the equity shareholders in terms of availability of earnings.

7. The DPS of all banks are in fluctuating trend. However, the DPS trend of SBL is more fluctuating than other banks, which is not a good indication for the equity shareholders. The bank has been distributing dividend to the equity shareholders in the most fluctuating way which has generated more risk to the equity shareholders in receiving dividends, and result in poor dividend distribution. On other hand, the DPS trend of NIBL is less fluctuating than other banks, which

indicates the bank is less risky for the equity shareholders in terms of dividend distribution.

8. The GA of all banks is in fluctuating trend. However, the GA trend of MBNL is more fluctuating than other banks, which is not a good indication for the firm as well as equity shareholders. On other hand, the GA trend of NIBL is less fluctuating than other banks, which indicates sound growth in assets.

9. The MPS of all banks is in fluctuating trend. However, the MPS trend of SBL is more fluctuating than other banks, which is not a good indication for the firm as well as equity shareholders. On other hand, the MPS trend of NIBL is less fluctuating than other banks.

10. DPS and MPS have highest influences in each other with a positive 0.8193 correlation score and the correlation is significant with P-value of 0.0000000001. EPS and MPS have strong positive correlation score 0.7178 resulting a significant influence over each other with P-value 0.00000019. Likewise, DPS and EPS also have significant strong positive correlation 0.6485 with P-value of 0.0000060. Low degree of negative correlation can be traced between GA and DPS with correlation value of -0.0697 and P-value 0.669198424. GA and EPS have weak insignificant negative correlation of -0.2782 with P-value of 0.0821769. Similarly, MPS and GA have low degree of negative correlation with value of -0.1242 and are insignificant with P-vale of 0.445237.

11. The coefficient for R is 0.8552 which shows the high degree of positive correlation between the market price and the EPS, DPS, and GA. Thus, increase in EPS, DPS, and GA increase the market share price and vice versa. The standard error of estimates shows the average deviation from the linear of best among the variables under investigation.

12. The coefficient of multiple determination ($R^2$) is 0.7089 which shows the model explanatory power depicted that 70.89% of the changes in the share price in

commercial banks be explained by the three variables (EPS, DPS, and GA) while the remaining percentage can be explained by other factors excluded in the model.

13. A unit changes in the EPS, DPS and GA leads to 0.325, 0.609 and 0.009 changes in share price of sampled commercial banks in Nepal. The market price per share (MPS) of commercial banks in Nepal is highly influenced by dividends per share (DPS), but firm's growth (GA) and earnings per share (EPS) has very low influence on market price of the commercial banks in Nepal.

### 4.3 Discussion

The study has observed dividend patterns as well as its impact on commercial banks in Nepal with the references of five different commercial banks in Nepal i.e. Agriculture Development Bank Limited (ADBL), Nabil Bank Limited (NABIL), Nepal Investment Bank Limited (NIBL), Mega Bank Limited (MBL) and Sunrise Bank Limited (SBL) during different years from FY 2013/14 to FY 2020/21 AD. The study has identified market price per share (MPS) as a dependent variable, and earnings per share (EPS), dividend per share (DPS), and growth in assets (GA) as independent variables. The correlation coefficient and regression analysis have been used to find out the impact of DPS, EPS and GA on MPS. The following discussion can be made after major findings of the study:

The result of the study is consistent to Baral and Pradhan (2020), Ullah et al. (2015), Mausam (2019), Maharjan (2020), and most of other empirical studies that the earnings per share (EPS), dividend per share (DPS), and growth in assets (GA) are in fluctuating trend. However, the result is contrary to Şamiloğlu et al. (2017) who found the increasing trend of growth in assets. The study has also found the fluctuating trend of market price per share (MPS) over the eight study periods which is consistent to the empirical studies that the researchers undertaking EPS, DPS and GA as independent variables has examined the same results on the fluctuation of MPS of commercial banks.

The study has found insignificant and positive impact of growth in assets on market share price of the commercial banks in Nepal. The result is contrary to Pradhan and Gautam (2016) who found growth in assets have insignificant negative influence on market share price. On other hand, Karki (2015) and Hooi et al. (2015) have supported on a non significant positive impact on market share price. The study is consistent to Baral & Pradhan (2020), Ullah et al. (2015), Ordu et al. (2014), Mausam (2014), and Neupane (2018) who empirically verified that EPS and DPS has significant positive effect on the market share price of the commercial banks under the study. However, the result is contrary with the previous studies of Şamiloğlu et al. (2017) who investigated no significant relationship between dividend per share, earnings per share and share price.

Therefore, the results discussed above confirm that the firms' dividend policy in the commercial banks affect market share price. The results report a positive and insignificant association between growth in assets demonstrating an increase in market share price due to a increase in growth in assets and vice versa. The study has determined the dividend per share and earnings per share have significant positive impact on market share price which has been supported by most of the empirical studies.

The study has shown that the impact of EPS, DPS and GA on share price of commercial banks is similar to the findings mentioned by the previous literatures. The previous researchers have found significant relationship between MPS and other variables such as EPS and DPS, and insignificant relationship between MPS and GA which has been supported by the study. Similarly, the study supports other findings that DPS have high impact on share price than other variables.

# CHAPTER-V
# SUMMARY AND CONCLUSION

## 5.1 Summary

The significant choice of the financial management under the three dimensions is dividend policy. The dividend implies to that part of the company's net earnings, which is distributed to the shareholders as a return of their investments. The operation and flourishing of the firm are affected by dividend decision. Dividend can be utilized as a viable apparatus to draw the attention of the new investors and keep up with the current ones. There are other people who contend that dividend policy influences esteem because of vulnerability factor. Many variables influence the dividend installment relying on the financial backers' need and inclination on one hand and the supporting need of the monetary foundation to the possible speculation then again. The dividend choice, in one hand influences the organization's design. In other hand it has a data worth to the financial backers. The effects on share price are each other impact of dividend choices (Masum, 2014). There are different variables influencing the piece of the pie price of the commercial banks. Nonetheless, the review has recognized just three variables for example EPS, DPS and GA. As such, profit per share (EPS), dividend per share (DPS), and development in resources (GA) were recognized as independent factors while; market price of share (MPS) is a dependent variable.

The study has given the real picture of the dividend policy and its impact on share price of commercial banks which might be significant to bankers, its shareholders, depositor and all general public who are interested on this current affair of banking industry. Besides, the study is equally important to the organizations for they can get valuable suggestions which may be fruitful in taking corrective actions if any deviation is found on the past performance regarding with dividend policy. The research might also be significant to different policy makers including the government and capital markets authority while formulating better regulations in the area of dividend policy. On other hand, the study is equally significant to the scholars in

various institutions of higher learning willing to carry out research on this field. The study would be important as it serves as literature review thereby adding to the existing body of knowledge in the area of the relationship between dividend policy and share prices.

The study has presented and analyzed the facts clearly, truly and within the boundary. However, some errors may arise due to reliability of tools, lack of research experience, lack of time, unavailability of adequate data, and so on. Though there are several factors affecting share price, the study focuses only few specific factors. The study has observed only eight different year period covering from FY 2013/14 to 2020/21 AD which may not result the accurate impact of dividend on share price. The result of the study depends upon the availability of data. The study is based on observation of only five commercial banks in Nepal out of 27 existing commercial banks. There are various aspects affecting the share price of the commercial banks but all the aspects affecting share price of commercial banks in Nepal has not been studied.

The past researches in determining the effect of dividend policy on share price of commercial banks have been focused on earnings per share (EPS), dividend per share (DPS), dividend yield (DY), and dividend payout ratio (DPR) as independent variables. However, in this research growth in assets (GA) has also been studied which most of the researchers have ignored. The study has used P-value and t-test to test the significance of relationship between dependent (MPS) and independent variables (DPS, EPS and GA).

The study has examined the effect of DPS, EPS and GA on share price of the commercial banks. Based on the empirical results, the result has found dividend per share (DPS) most significant positive attribute leading share price volatility for commercial banks in Nepal. The rest variables; EPS and GA have insignificant but positive impact on share price of commercial banks. There is very low impact of GA on share price among these three variables. The coefficient of determination of MPS on EPS, DPS and GA ($R^2$) was 0.7313 which implied the model explanatory power depicted that 73.13% of the changes in the share price in commercial banks be

explained by the three variables (EPS, DPS, and GA) while the remaining percentage can be explained by other factors excluded in the model.

The study is consistent to Baral & Pradhan (2020), Ullah et al. (2015), Ordu et al. (2014), Mausam (2014), and Neupane (2018) who empirically verified that EPS and DPS has significant positive effect on the market share price of the commercial banks under the study. However, the result is contrary with the previous studies of Şamiloğlu et al. (2017) who investigated no significant relationship between dividend per share and share price. The study has found insignificant and positive impact of growth in assets on market share price of the commercial banks in Nepal. The result is contrary to Pradhan and Gautam (2016) who found growth in assets have insignificant negative influence on market share price.

## 5.2 Conclusion

The study aimed to analyze the impact of dividend on market share price of the commercial banks. The impact of dividend on stock price has been proved to be influential for the time period of FY 2013/14 – FY 2020/21. The study has found the significant positive impact of dividend per share (DPS) on share price of the commercial banks in Nepal. DPS is the most significant factor among the three identified factors affecting the share price. The study has supported the conclusion of Baral & Pradhan (2020), Ullah et al. (2015), Ordu et al. (2014), Mausam (2014), and Neupane (2018) that the dividend per share (DPS) has positive and significant impact on share price of commercial banks in Nepal. It can be concluded that the dividend per share (DPS) has significant positive impact on share price of the commercial banks.

The study also has aimed to examine the relationship between earnings per share (EPS) and dividend per share (DPS). The correlation analysis between various factors has resulted that DPS and EPS have highest influences in each other with a positive 0.8193 correlation score and the correlation is significant with P-value of 0.0000000001. The correlation score is the highest positive score among the various correlations. Maharjan (2019), Hamal (2020), Bhatt & Jain (2021) and Budaga (2020)

have the consistent conclusion regarding the relationship between earnings and dividend. However, the conclusion of Baral & Pradhan (2018), and Budhathoki (2012) regarding the relationship between EPS and DPS are contrary. Therefore, it can be concluded the earnings and the dividend may or may not be significant but have positive relationship.

The relationship between stock price and earnings per share was another concerned objective of the study. The result of the study has found the relationship between earnings per share (EPS) and share price of the commercial banks exists. The study has investigated positive but insignificant relationship between EPS and share price. Şamiloğlu et al. (2017) who investigated, no significant relationship between earnings per share and share price has supported the study. However, the result is contrary to Baral and Pradhan (2020), Ullah et al. (2015), and Mausam (2019) who concluded significant relationship between EPS and share price. Thus, the study has concluded the positive relationship between EPS and share price of the commercial banks either significant or insignificant.

The study has aimed to assess the relationship between the stock price and growth of assets. The study has found the growth in assets (GA) has insignificant relationship with the share price of the commercial banks. The growth in assets (GA) has negligible positive impact on share price. The result is contrary to Pradhan and Gautam (2016) who found growth in assets have insignificant negative influence on market share price. On other hand, Karki (2015) and Hooi et al. (2015) have supported on a non significant positive impact on market share price. Therefore, the study has concluded insignificant positive or negative relationship between growth in assets and share price of the commercial banks.

The market price per share (MPS) of commercial banks in Nepal is highly influenced by dividends per share (DPS) but firm's growth (GA) and earnings per share (EPS) have very low influence on market price of the commercial banks in Nepal. The study has taken advantage of statistical model in comparison with other previous studies in the same context, and has supported the findings. Thus, the research findings are highly valid and reliable. It does not only fill out the theoretical gaps for dividend

policy in the context of emerging markets like Nepal in different time period, but also helps the managers establish and adjust the dividend policy in order to achieve their stock price target or other related strategies by basing on those findings.

The study has concluded that there is significant positive relationship between DPS and MPS through both P-value and t-test method; significant positive impact of EPS on share price (under t-test) and insignificant positive impact of EPS on share price (under P-value), and insignificant relationship between firm's growth (GA) and MPS through both tests.

## 5.3 Implications

The study has concluded that there exists significant positive impact of dividend per share (DPS) on share price of the commercial banks in Nepal. This type of finding has a great deal of importance for policy makers, bank management and investors. They should be cautioned while changing dividend policy because the change will directly affects the share price of commercial banks. Managers may use dividend policy to affect market risk arising from share price. Similarly, investors could develop appropriate strategies and techniques for mitigation and diversification of such risk. Further, growth in assets negligibly affects share price, so they are recommended to give priority to dividend policy rather than size of the bank before making investment decision.

The study has also concluded the positive relationship between the earnings per share (EPS) and dividend per share (DPS). It could be either significant or insignificant. The commercials banks, investors, board of directors and head of finance department of Nepalese commercial banks can give consideration to dividend announcement for increasing the value of share price. The result of this study suggests investors, board of directors and head of finance department of Nepalese commercial banks to give consideration to dividend announcement, EPS, DPS before they invest and set the dividend policy. This will help to decide whether firms should keep retained earnings for future projects, for debt settlement, and/or for dividend decisions which is an efficient, effective, and reasonable dividend payout decision.

There exists the positive relationship between EPS and share price of the commercial banks as per the conclusion of the study. The investors can make the purchase decision through studying the earnings per share of the commercial banks. The commercial banks can make the strategy of increasing the EPS in order to increase the share price of the banks. Earnings per share is the matter of concern for the investors, stakeholders, competitors, and others who are directly or indirectly associated with the success of the commercial banks. Since, EPS has the positive impact on the share price of the commercial banks; the investors can make purchase decision on the share of commercial banks distributing higher EPS.

The study has concluded negligible insignificant positive relationship between growth in assets and share price of the commercial banks. It means the growth in assets don't have main role on affecting the share price. The investors can give emphasize on other factors before making purchase decision. The commercial banks having high assets do not indicate the bank with high market share price (MPS). The commercial banks may or may have high growth in assets but could have high market share price.

The future researchers who have interest on share price volatility area can conduct their research reviewing the study. The study would be important as it provide theoretical as well as conceptual framework of different aspect of dividend policy and its impact on share price. The study has observed eight different fiscal years from FY 2013/14 to FY 2020/21 AD. The future researcher can further carry out their research on upcoming fiscal years. Further studies should be conducted by examining moderating roles of long-term debts and growth in assets factors to be more accurate in financial behaviors. Psychology-related variables also appear interesting to take into consideration for further studies of dividend policy and share price volatility. Thus, the implication of the study would be seen in future as a literature review for the future researchers as well. Further studies could be conducted in other sectors during longer periods with adding variables like interest prices, level of inflation, dividend yield, P/E ratio, dividend payout ratio (DPR) and gross domestic product in an attempt to clarify comprehensively share price volatility.

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