

**IMPACT OF DIVIDEND ON EQUITY SHARE PRICE IN NEPAL**

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***RECOMMENDATION***

This is to certify that the thesis

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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## DECLARATION

I hereby, declare that the work reported in this thesis entitled **“Impact of Dividend on Equity Share Price in Nepal”** submitted to Central Department of Management, University Campus, T.U., Kirtipur is my original piece of work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business studies under the supervision and guidance of Mr. Ajay Prasad Dhakal, Associate Professor, Central Department of Management.

.....

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## **ABBREVIATIONS**

CV	Coefficient of Variation
DCBL	Development Credit Bank Limited
DPR	Dividend Payout Ratio
DPS	Dividend Per Share
DY	Dividend Yield
EPS	Earning Per Share
EY	Earning Yield
FY	Fiscal Year
Govt.	Government
JVB	Joint Venture Banks
Ltd.	Limited
MPS	Market Price Per share
NEPSE	Nepal Stock Exchange Limited
NRB	Nepal Rastra Bank
NWPS	Net Worth Per Share
SD	Standard Deviation
SEBON	Security Exchange Board of Nepal
TU	Tribhuvan University

## CHAPTER -I

### INTRODUCTION

#### 1.1 Background of the Study

Investors in developing countries like Nepal mostly look at the profitability of the firm while purchasing equity shares from the secondary market. Since dividend paid to the shareholders is one of the best indicators of profitability, it is generally believed that dividend plays a crucial role in determining market price of the corporate share. Dividend is defined as that portion of the net earnings of the firm, which is distributed to the stockholders either in the form of cash or stock as per its dividend policy. A firm generally pays stock dividend if it plans to increase the capital so as to expand the business. The objective of dividend policy should be to maximize the shareholders return so that value of their investment is maximized. Dividend decision is one of the major decisions taken by the firm. The amount of dividend declared by a firm shows the actual position of the earnings of the firm.

The firm issues equity shares to raise ownership capital and the investors buy them, with the expectation to receive a share of profit. The value of the firm is said to be high when the market price of the company's common stock is higher. The wealth maximization principle also implies that fundamental objective of the firm should be to maximize the market price of the company's share. Firms that perform better than others have higher stock prices and can raise additional funds (both debt and equity) in more favorable terms. Therefore, it is important to identify the factors that determine the market price of equity shares of any organization. Financial institutions including the commercial banks, in Nepal are the institutions that mobilize resources in the society. Their survival and growth is very important for the growth of the nation. Thus, the study of the historical growth of capital market and the equity price behavior of commercial banks in Nepal is much relevant in the present context.

The history of capital market in Nepal is not very long. Biratnagar Jute Mills Ltd. was the first company to issue share to general public in 1937. Institutional development of securities market in Nepal started when Securities Exchange Centre (SEC) was established under the Companies Act in 1976. It was established with the joint capital contribution of Nepal Rastra Bank and Nepal Industrial Development Corporation.

The objective of the establishment of Securities exchange Centre was to facilitate and promote the growth of capital market in Nepal. It was converted into Nepal Stock Exchange (NEPSE) in 1993, with the establishment of Securities Board. It is a non-profit making organization operating under Securities Exchange Act 1983.

During 90's along with the economic liberalization in Nepal many joint venture banks established in private sector, which subscribed shares widely to the general public. Commercial banking appeared as the most profitable business and therefore in the beginning the price of shares of commercial banks continuously went up. However, the stock market had been much volatile in Nepal during the last decade because of internal conflict, political instability, insider trading and various other reasons.

## **1.2 Statement of the Problem**

Shareholders make investment in equity capital with the expectation of increasing their wealth. Dividend is a kind of earnings that the shareholders expect from their investment. But the dividend decision is will a fundamental as well as controversial area of managerial function. The affect of dividend policy on market price of share is a subject of long standing arguments. But, still there is no single conclusive result regarding the relationship between dividend payment and market price of the share. There is no controversy that when a firm gets much earning, when the shareholders would expect much dividend. But earnings are also treated as financing sources for the firm. If the firm retains the earnings, its repercussion can be seen in many factors such as decreased leverage ratio, expansion of activities and increase in profit in succeeding years whereas if the firm pays dividends, it may need to raise capital through capital market which may dilute the ownership control of existing shareholders. If the firm takes loan or raises debenture, it will affect on risk characteristics of the firm.

Dividend is most inspiring aspect for the investment in the shares of various companies for an investors, even if dividend affect the firm's value, unless management knows exactly how they affect value, there is not much that they can do to increase the shareholder's wealth. So it is necessary for the management to understand how the dividend policy affects the market value of the firm or market price of the stock or the wealth position of the shareholders.

Thus, this study seeks to answer the following question:

- ) What are the reasons behind market price of equity share increasing after the announcement of the dividend?
- ) What are the implications of dividend on market price of share?
- ) What are the factors that affect the dividend and value of the firm?
- ) Is there any consistency in EPS, DPS, MPS, NWPS and DPR?

### **1.3 Objectives of the Study**

The main objective of the study is to examine the effect of dividend on pricing system of the equity shares. Following are the major objectives of the study:

1. To analyze the impact of dividend per share (DPS) in equity share price behavior
2. To examine the relationship of Market price per share with other financial indicators such as Earnings Per Share, Dividend Payout Ratio and Net Worth per share
3. To carryout an empirical analysis in order to find out the impact of dividend on equity share pricing in Nepal.

### **1.4 Significance of the Study**

This study helps to know the impact of dividend on the market price of equity share of some financial institutions. This study will be useful to the concerned people like shareholders, management and policy makers. This study will be useful to all of the sampled financial institutions taken in this study. Equity share traders will take advantage of this thesis while trading shares in the secondary market. This study will be very helpful for students for further research to find more details on the related topic.

### **1.5 Limitation of the Study**

The study covers only the effect of dividend on equity share behavior of selected financial institutions only. It does not deal with market prices of other securities like preference shares and Government securities, bonds and debentures. It does not deal with economical and other factors which affect the market price of equity share. This

study does not cover the analysis of capital structures; the cost of capital and financial flows of capital in the market. The result of this study will be limited to the relationship between the dividend and the equity stock pricing behavior of commercial banks, finance companies, development banks, insurance company and hydropower companies. This study assumes that the individuals who respond to this survey are truthful. Since the data are mainly collected from the secondary source, the consistency of the findings is reliable upon the reliability of the secondary data and information.

## **1.6 Organization of the Study**

The study will be divided into the following chapters:

### **Chapter - I: Introduction**

The first chapter would include the general introduction, statement of problem, objectives, significance of the study and limitation of the study.

### **Chapter -II: Review of Literature**

The second chapter would deal with Review of Literatures, books, articles, Journals, reports and other relevant material.

### **Chapter -III: Research Methodology**

The third chapter would include Research Methodology. This chapter would include the methodology adopted for carrying out this research and sources of data and methods of data collection.

### **Chapter -IV: Data Presentation and Analysis**

The fourth chapter would contain presentation and analysis of Secondary as well as primary data. This chapter would be divided into two sections. The first section would attempt to analyze and evaluate data with the help of analytical tools and interpretation the results obtained. The second part would present the response of the individual share investors on the pricing behavior, their understanding of the market and other relevant aspects contain the presentation of primary data.

### **Chapter -V: Summary, Conclusion and Recommendations**

The last chapter will show the Summary, Conclusion and Recommendations of the study. This chapter would present the results obtained through the analysis and recommends some suggestions and lastly bibliography, appendix.

## **CHAPTER -II**

### **REVIEW OF LITERATURE**

This chapter reviews the literature related with the research topic, with more focus on the impact of dividend on equity share pricing. In this regard, an insight would be put on the theories, then on the researches conducted outside and inside the country. Furthermore, the theoretical underpinning of the concepts used during the analysis and the theories behind the share pricing would also be explained. While preparing this thesis, the researcher reviewed various magazines, journals, books, reports, etc and collected materials from different sources. The review of literature has been divided into three categories namely conceptual framework, theories related to the topic and review of articles, books and masters' level thesis.

#### **2.1 Conceptual Framework**

In this section, some of the basic literatures on dividend, dividend policy and stock price behaviour are reviewed. This section would broadly discuss the concepts related to the research topic. It includes following.

- ) Dividend
- ) Dividend Policy
- ) Equity Share

##### **2.1.1 Dividend**

After fulfilling the tax obligations, some part of the net earning of the firm is divided into retained earning for further investment and some part is distributed among its shareholders. Dividend is that portion of the firm's net earnings that is distributed to the shareholders. Dividend is distributed either in form of cash or in form of share. When the firm is heading towards expansion, it keeps the earning as retained earnings for expansion as cash is needed for the expansion of every business. When business has no more plan of expansion, it distributes its cash as a dividend to its shareholders.

## **A. Major forms of Dividend**

### **Cash Dividend**

When the company pays the dividend in form of cash, this is called cash dividend. This is the most common form of dividend and most preferred by the shareholders. When cash dividend is distributed, both total assets and net worth of the company decrease as cash and earnings decrease. The market price of the share drops in most cases as per the amount of the cash dividend distributed.

### **Stock Dividend**

Sometimes, when there is good investment opportunity for the company and the whole portion of the profit is needed for reinvestment, the company prefers to retain the whole portion of profit. But, in order to satisfy the shareholders the company should also pay the dividend. In such case, the company decides to pay the dividend in the form of stock. Such dividend is called stock dividend. When a firm pays stock dividend, the net worth of the share and total assets remains unaffected.

### **Interim Dividend**

Generally dividend is declared in the last of financial year. This is called regular dividend. Many times directors can declare the dividend before the end of the financial year. This is called interim dividend.

### **Bond Dividend**

Companies can give dividends in the form of bonds. These bonds can be long term bonds. These are given when the company is unable to take the burden of interest of loans.

### **Special Dividend**

When directors of the company do not want to change the dividend separately and when the companies have good cash and reserves. This dividend is given with the regular dividend but separately. (Weston, 1987; 210)

## **B. Theories of Dividend**

### **i. Dividends as Residual**

As long as the firm has investment projects with returns exceeding those that are required, it will use retained earnings and the amount of senior securities that increase in equity base will support, to finance these projects. When we treat dividend policy as strictly a financing decision, the payment of cash dividends is a passive residual. The amount of dividend payout will fluctuate from period to period in keeping with fluctuations in the amount of acceptable investment opportunities available to the firm. If these opportunities abound, the percentage of dividend payout is likely to be zero.

On the other hand, if the firm is unable to find profitable investment opportunities, dividend payout will be 100 percent. For situations between these two extremes, the payout will be a fraction between zero and one. The treatment of dividend policy as a passive residual determined solely by the availability of acceptable investment proposals implies that dividends are irrelevant; the investor is indifferent between dividends and retention by the firm. A residual theory of dividend policy does not necessarily mean that dividends need fluctuate from period to period in keeping with fluctuations in investment opportunities. A firm may smooth out actual payments by saving some funds in surplus years, in anticipation of deficit years. If forecasting is relatively accurate, the firm can establish its dividend payment at a level at which the cumulative distribution over time corresponds to cumulative residual funds over the same period. (Van, Horne, 1997; 340)

### **ii. Wealth Maximization Theory**

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

#### **2.1.2 Dividend Policy**

Dividend policy is one of the major decisions of the firm. The dividend payout ratio of the firm depends upon the way earnings are measured.



## **Factors Influencing Dividend Policy**

Company's firm's dividend policy is affected by various factors. Some of them are unique to that company, and some of the more general considerations are given below:

### **i. Legal Rule**

Certain rules may limit the amount of dividends a firm may pay. These legal constraints fall into two categories. First, statutory restriction may prevent a company from paying dividend. While specific limitations vary by state, generally a corporation may not pay a dividend.

- a. If the firm's liabilities exceed its assets.
- b. If the amount of the dividend exceeds the accumulated profits or retained earnings.
- c. If the dividend is being paid from capital invested in the firm. The second type of legal restrictions is unique to each firm and results from restrictions in debt and preferred stock contracts.

### **ii. Liquidity Portion**

The cash or liquidity portion of the firm influences its ability to pay dividends. A firm may have sufficient retained earnings, but if they are invested in fixed assets, cash may not be available to make dividend payment. Thus, the company must have adequate cash available as well as retained earnings to pay dividend.

### **iii. Need to Repay Debt**

The need to repay debt also influences the availability of cash flow to pay dividend.

### **iv. Rate of Asset Expansion**

Rate of asset expansion creates a need to retain funds rather than to pay dividends.

### **v. Profit Rate**

A high rate of profit on net worth makes it desirable to retain earnings rather than to pay them out if the investor will earn less on them.

## **vi. Control**

It is very important for every firm to maintain the control rate. These owners would prefer the use of debt and retained profits to finance new investments rather than issue new stock. As a result dividend payout will be reduced.

### **2.1.3 Equity Share**

Equity shares are normally called common stocks. They are issued by the firm to raise ownership capital and the investors buy them to with the expectation that they receive a share of profit periodically. The holders of common stocks, called shareholders or stockholders are the legal owners of a company. The equity shares are the permanent and vital source of capital residual claim, in the sense that creditors and preferred stock holders must be paid as scheduled before common stockholders can receive any payments.

#### **Features of Equity Share**

**Claim on Income:** The common stockholders have claim to residual income, which is earnings available for ordinary shareholders. After paying expenses, interest charges, taxes and preference dividends and retained earnings, Dividends are immediate cash flow to shareholders, whereas retained earnings are reinvested in the business. A company is not under any obligation to distribute dividends out the available earnings.

**Claim to Assets:** The equity shareholders have a residual claim on the companies' asset.

Out of the realized value of assets, first the claims to debt-holder and then preference shareholders are satisfied, and the remaining balance, if any, is paid to the common stockholders.

**Right to control:** The ordinary shareholders have the legal power to elect directors to the board, if the board fails to protect their interest, they can replace the directors. They are able to participate in the management of the company through their voting right and right to maintain proportionate ownership.

**Voting Right:** Common stockholders have the right to vote on stockholder matter, such as selection of board of directors, sale of fixed assets, merger of the company, amendment of corporate charter etc.

**Pre-emptive Right:** It does something before others. It is also a right of the stockholders. It gives holders of common stock the firstly option to purchase additional issues of common stock. The purpose of pre-emptive right is to protect the power of control of present stockholders.

**Limited Liability:** The common stock holders are the true owner of the company, but their liability is limited to the amount of their investment in shares. If a stockholder has already fully paid the issue price of shares purchased, he has nothing more to contribute in the event of financial distress or liquidation. The limited liability feature of share encourages unwillingly investors to invest their funds in the company which helps company to raise funds.

## **2.2 Theoretical Underpinnings**

Modigliani and Miller's (1961), gave the most comprehensive argument for the irrelevant of dividend in their article. In the history of finance, firstly, they declared that dividend policy does not affect the value of the firm, i.e. dividend has no effect on the share price of the firm. They argued that the value of the firm depends on the firm's earnings, which depends on its investment policy. M.M.'s hypothesis of irrelevance is based on the following assumption: The firm operates in perfect capital market in which all investors are rational, information is freely available, flotation costs do not exist, infinitely divisible securities and no investor is large enough to affect the market price (per share) of security.

1. Taxes do not exist.
2. The firm has a fixed investment policy of which is not subject to change
3. Risk of uncertainty does not exist.
4. They provided the proof in support of their argument in the following manner.

The market price of a share of the firm at the beginning of a period is defined as equal to the present value of dividend paid at the end of the period plus the market price at the end of the period, symbolically,

$$P_0 = \frac{D_1 + P_1}{1 + K_e} \dots \dots \dots (i)$$

Where,

$P_0$  = current market price per share

$K_e$  = cost of equity capital (The rate is assumed to be constant through out the time

$D_1$  = Dividend per share

$P_1$  = MPS (Market price of the share) at the end of the period

Assuming that the firm doesn't resort to any external financing the market value of the firm can be computed as follow: Multiplying both sides of eq-1 by the no. of shares outstanding ( $n$ ), we obtain the total value of the firm if no new financing exits.

$$nP_0 = \frac{n(D_1 + P_1)}{1 + K_e} \dots \dots \dots (ii)$$

Where,

$n$  = no. of equity shares at zero period.

If the firm's internal sources, financing its investment opportunities fall short of the funds required and  $nP_1$ . The value of the firm at time zero will be:

$$nP_0 = \frac{n(D_1 + P_1) + \Delta np - \Delta np_1}{1 + K_e}$$

$$nP_0 = \frac{nD_1 + P_{1+(n+\Delta n)} - \Delta np_1}{1 + K_e} \dots \dots \dots (iii)$$

Where,

$n$  = no. of shares at the beginning

$n$  = no. of equity shares issued at the end of the period If the investment proposals of a firm, in a given period of time, can be financed either by retained earnings or the issuance of new shares or both. Thus the amount of new issued will be formed by the given equation:

$$\Delta np_1 = I - (E - nD_1)$$

$$\text{or } np_1 = I - E + nD_1 \dots \dots \dots (iv)$$

Where,

$np_1$  = the amount obtained from the sale of new shares to finance capital budget.

$I$  = the total amount required of capital budget

$E$  = Earning of the firm during the period

$E - nD_1$  = Retained earnings

By substituting the value of  $np_1$  from equation (iv) to equation (iii) we get,

$$nP_0 = \frac{nD_1 + P_1 + (n+\Delta n) - I + E - nD_1}{1 + K_e}$$

$$nP_0 = \frac{P_1 + (n+\Delta n) - I + E}{1 + K_e}$$

Modigliani and Miller concluded that dividend policy has no effect on the share price. So, there is no role of dividend in above equation. [Since dividend doesn't appear directly in expansion and  $E$ ,  $I$ ,  $(n + \Delta n)$ ,  $p_1$  and  $k_e$  are assumed to be independent of dividend, MM concludes that dividend policy has no effect in the value of the firm. In this way according to Modigliani and Miller's study: "It seems that under condition of perfect capital markets, rational investors, absence of tax discrimination between dividend income and capital appreciation, given the firm's investment policy its dividend policy may have no influence on the market price of the shares.

Walter (1966), in study concluded that dividend policy almost always affects the value of enterprises. In his view, the investment policy of a firm is directly affected by dividend policy. Such concept is just opposite to Modigliani and Miller approach. He argues that the significant relationship between return of investment or internal rate of return and its cost of capital is the main argument of this model. They are the most important considering factor to retain profits and distribute dividend. As long as the internal rate is greater than the cost of capital, the stock price will be unchanged by retention and will vary inversely with dividend payout.

This model is based on the following certain assumptions in the determinants or firm's value.

1. The firm has perpetual life
  2. The value of EPS (initial earnings) and DPS (dividend a) are assumed to exist no change forever in determining a given value.
  3. The firm's internal rate of return (r) and cost of capital (k) is considered to remain constant.
  4. The firm distribution its entire earning or retains it for reinvestment immediately.
  5. The firm relies on internally generated funds to finance all investment opportunity that are debt or new equity is not issued for outside financing.
- Based on above assumption Walter's formula to determine the market price per share is as follows:

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

Where,

P= market price per share,

DPS = Dividend per share

EPS = Earning per share

r= Internal rate of return

k= cost of capital

Walter suggested different dividend policy for different nature of the firm. There are generally 3 natures.

### **Growth firm (r>k)**

Growth firms are those firms which expand rapidly because of ample investment opportunity, cost of capital or expected rate of return of shareholders. Those firms will maximize the value per share if they follow a policy of retaining all earnings for investment. Thus correlation between dividend and stock price is negative. For such firm optimal dividend payout ratio is zero.

### **Normal firm ( $r=k$ )**

The firm whose internal rate of return and cost of capital being equal is known to be normal firms. In such retention of earnings and distribution of dividend doesn't make change. The stock price does affect the share price.

### **Declining Firm ( $r < k$ )**

If a firm has not profitable investment opportunities, the shareholders will be better off if earnings are paid out to them so as to enable them to earn a higher return by using the funds elsewhere. In other words, if firm's rate of return ( $r$ ) is less than cost of capital ( $k$ ) the relation between dividends and stock price is positive i.e. increasing in DPS fields increasing in market price per share? Thus optimum pay out for declining firm is 100 %.

Gordon (1962), conducted a study which shows that the value of shares, even in a situation in which the revenue on investment is equal to the capitalization rate that is ( $r=k$ ). It is generally assumed that the investors preferred present dividend rather than the future capital gains. It specially stresses that an increase in dividend pay out ratio leads to increase in stock price for the reason that investors consider the dividend yield ( $D_1/P_0$ ) is less risky than the expected capital gain. Hence, investors required rate of return increases as the amount of dividend decreases. It is clear that there is positive relationship between the amount of dividend and stock prices.

### **Basic assumptions of this model are as follows:**

1. The internal rate of return ( $r$ ) and the cost of capital ( $k_e$ ) are considered to remain constant.
2. The firm as well as its stream of earnings is perpetual
3. The company operates in the world of no taxes.
4. The firm is assuming to be an all equity firm (i.e. not debt exists)
5. No external financing is available so retained earnings should be used to meet funds required.
6. The retention ratio ( $b$ ) once decided upon is constant thus growth rate  $g$  is the product of  $b$  and  $r$  is tend to remain unchanged
7. ' $k_e$ ' must be greater than ' $g$ ' to get meaningful value.

According to Gordon the market value of share is equal to present values of future streams of dividend. A simplified version of Gordon's model can be symbolically expressed as follows:

Gordon has provided the following formula, which is the simplified version of original formulae to determine the market value of share.

$$P = \frac{EPS(1-b)}{k_e - br}$$

Where,

p= price of a share

EPS = Earning per share

B= Retention Ratio

(1-b) = Dividend pay out ratio

k e = capitalization rate or cost of capital

b x r = Growth rate

According to this model following facts are revealed.

**Growth firm (r>ke)**

Share price had to decline in correspondence with increase in payout ratio or decrease in retention ratio i.e. high dividends corresponding to earning leads to decrease in share price. Therefore, dividends and stock prices are negatively correlated in growth firm.

**Normal firm (r=ke):** Share value remains constant regardless of change in dividend policies, which means dividends and stock prices are free from each other.

**Declining firm (r<ke):** Share price tends to rise in correspondence with rise in dividend payout ratio. It means dividends and stock price are positively correlated with each other in declining firm. Both Walter's and Gordon's model are based on the assumption given and 'k' being constant. Thus, both the model's conclusion about dividend policy is similar.



Van Horne and Mc Donald (1968), conducted a more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combine effect of dividend policy and new equity financing decision on the market value of the firm's common stock. They explored same basic aspects of conceptual framework, and empirical tests were performed during year-end 1968, for two industries, using a well- known valuation model, i.e. a cross section regression model. The required data were collected from 86 electric utility firms included on the COMPUSTAT utility data tape and 39 firms in the electronics and electronic component industries as listed on the Composted industrial data type.

They tested two regression models for the utilizing industry. From the study it was found that share value of electric firms in 1968 was adversely affected by new equity financing in the presence of cash dividends except for those firms in the highest new issue group and it made new equity financing in the presence of cash dividends except for those firms in the highest new issue group and it made new equity a more costly from financing that retention of earning. They also indicated that the payment of dividend through excessive equity financing reduces share prices (Van Horne; et. al; 507-519).

### **2.3 Review of Empirical Studies**

In order to make this study comprehensive some articles, researches and studies related to impact of dividend on equity share pricing are reviewed here under.

Pradhan's study, (Radheshyam Pradhan, 1993; P.P. 23-49)

He conducted the study of stock market behaviour in Nepal in 1992 colleting the data form 17 enterprises covering the year between 1986 to 1990.

The main objective of his study are written as; To assess the stock market behaviour in Nepal and to examine the relationship to the market equity, market value to book value, price earning and dividend with liquidity, profitability, leverage assets turn over and interest coverage.

From his study the conclusion can be written as; Higher the earning on the stock leads the longer the ratio of dividend per share to the market price per share have higher liquidity, liquidity position of stock, paying lower dividend also more variable as

compared to the stock paying higher dividend, stock with larger ratio of dividend per share to market price per share has higher liquidity and he also concluded that there was positive relationship between the ratio of DPS to MPS and interest coverage ratio, DPS and MPS, DPR and Profitability, DPR and turnover ratio, DPR and interest coverage.

Manandhar's study (Kamal Das manandhar, 1998; P.P. 15-20)

Manandhar conducted a study to test whether Nepalese corporate firms. Consider the lagged structure of dividend and different hypothesis on relationship of payment and other financial factors were tested. He carried out his study based on the dates taken from 17 Nepalese corporate firms and covered the period of 1987 to 1998. The conclusion of the study are as follows:

There is significant relationship between change in dividend policy in terms of DPS and change in lagged earnings. In overall there is positive relationship between change in lagged consecutive earnings and dividend per share. He also concluded there is relationship between lay profits and dividend. From his study he conclude Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share and corporate firms do not take into account that one year and two year lagged earning.

In overall Nepalese corporate firms are reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information continued progress and performance, sound financial strength, favourable investment environment, lower risk, ability to maintain dividend rate and finally to increase the market price of the stocks in the stock market.

#### **2.4 Review from Theses**

Ghimire's study (Prabin Kumar Ghimire, un published Master Degree Thesis, T.U., 2003)

Mr. Prabin Kumar Ghimire has conducted a study on dividend policy. A comparative study between commercial banks and insurance companies through data are collected from 1995/96 to 1999/2000 with three commercial banks and three insurance companies in 2002.

The main objectives of his study are written as; To examine the relationship between dividend and market price of stock, between dividend policy decision of banks and insurance companies and to identify the appropriate dividend policy followed by bank and insurance company.

Form his study, the conclusion can be written as follows. The average DPS and EPS of all concerned institution except NABIL seem to be satisfactory. There is largest fluctuation in EPS and DPS of the concerned institution and the DPR is not seem to constant in all institutions, it always fluctuating form year to year.

Bhatta's study (Prakash Chandra Bhatt; Unpublished Master's Degree Thesis, 2006)

Mr. Bhatt has conducted study on Dividend policy and its impact on market price of the share. He has selected seven commercial banks and collects the data from the year 1996/97 to 2002/2003.

The important objectives of his study are to highlight the dividend policy practices in Nepal, to identify of the variables that affect the dividend policy and to provide feedback to the policy makers and executives working in various commercial banks.

Form his study conclusion can be written as; the average EPS of the bank shows a positive result, but the EPS of the banks are not stable. Similarly, the DPS shows there is no regularity in payment of dividend. He conclude that the dividend per share is affected by EPS and retention ratio.

Rana's study (Sagun Rana, unpublished Master's Degree Thesis, 2007)

Sagun Rana has conducted his study on dividend behaviour of joint ventures banks in Nepal. His main objectives of the study are written as; to highlight the dividend behaviour of joint ventures banks. To analyze the relationship of dividend with EPS, MPS, Net profit and Net worth and to find whether dividend behaviour affect the MPS or not?

From his study, the conclusion can be written as; There is highest fluctuation in dividend of the banks. The average price earning ratio of JVB seems to be satisfactory and there is positive relationship between Dividend payout and profitability, dividend payout and turnover ratio, dividend payout and interest coverage.

Gurung's study (Dinesh Gurung, unpublished Master's Degree Thesis, 2008)

Dinesh Gurung has conducted his study on dividend pattern in Nepal of listed commercial banks in NEPSE. He put the objectives in his study are; To identify dividend policy practices in commercial banks and find out the policy is appropriate or not?, to test the relationship between EPS and DPS, EY and DY and EPS and MPS the another objective is to determine the impact of dividend on share price. From the study, he concluded that the average EPS and DPS of the banks are satisfactory, there is not consistency in dividend pay out ratio. The relationship between DPS and CR, earning yield and Dividend yield is significant in majority of the banks.

Bista's Study, (2009)

Bista conducted a research in 2009 on impact of dividend on Market price of shares of selected commercial banks, with the aim to highlight the various aspects of dividend policies and practices in Nepal and to analyze the variable such as DPS, DPR, dividend yield and their relation with market value. Collecting the data from secondary source of few year form 1996/99 to 2005/06, she analyzed and made the study using financial and statistical tools.

The conclusion of her study is written as; average EPS, MPS and DPS of commercial banks are fluctuating year by year, there seems to be positive relationship between EPS, DPS, EPS and MPS, DPR and MPS in the sampled banks. There exists negative relationship between dividend yield and MPS. At last multiple regression analysis of MPS on EPS and DPS reveals the positive relation between MPS with EPS and MPS with DPS.

Khatiwada (2009), conducted his Master's research on impact of dividend and earning announcement on shareholder's return and stock price in Nepal, with objectives of to analyze the affect of earning and dividend announcement on shareholders return, to identify the relationship between the return of individual securities, with market return and to identify the quality of systematic and unsystematic risk.

From his study the conclusion can be written in following manner. The announcement of earning and dividend do not affect the shareholder return in average and shareholders realized positive abnormal return from half of the sample banks.

## **2.5 Research Gap**

This thesis work reflects the following research gap between the previous researches. None of the previous thesis analyses the impact of dividend on equity share pricing in Nepal. Most of the masters level thesis work was done by analyzing secondary data. They do not have direct responses of the market. But this research work is mainly focused on analyzing the impact of dividend on equity share price. This thesis uses secondary data as well as primary data to analyze the impact of dividend in equity share pricing in Nepal. In the primary data presentation, Questionnaires were distributed among various secondary share traders working in various organizations and the response of the individuals who own shares on secondary market was considered.

## **CHAPTER -III**

### **RESEARCH METHODOLOGY**

This chapter attempts to present a basic structure of the methodology in which the research will be conducted.

#### **3.1 Research Design**

The main objective of the study is to analyze the impact of dividend on equity share price of some financial institutions listed in NEPSE. In this context, some recent financial tools as well as statistical tools were applied to examine the relevant facts. The study depended on secondary data as well as primary data in the study. It included all the process of collecting, verifying and evaluating of past evidence systematically and objectively to reach the final conclusion. The study has been divided into two sections. In the first part this research would explicitly examine the relationship between Market Price Per Share (MPS) and Dividend Per Share (DPS). For the comparative purpose the relationship of MPS with Dividend Payout Ratio (DPR), Net Worth Per Share (NWPS), Earning Per Share (EPS) will also be calculated and presented. In the second part which is primary analysis, the responses of primary respondent would be analyzed.

#### **3.2 Population and Sample of the Study**

All the companies listed in NEPSE are considered to be the total population of the study. Out of them Commercial Banks, Development Bank, Finance Companies, Insurance Companies, Hydropower companies and others companies listed and doing share transaction in NEPSE were considered as the sample of the study. The no. of listed companies reached 176 by the end of fiscal year 2009/10.

For the purpose of this study 23 commercial banks, 40 development banks, 19 insurance companies, 62 finance companies and 4 hydropower companies (i.e. total of 148) companies are considered as a sample population. The sample for this research would 15 financial institutions. For the basis of selecting companies under study, the market share in NEPSE has been considered. Among all companies listed in NEPSE commercial banks, development banks and finance companies were cover the

maximum part of trading. The table below clearly describes the sectorwise turnover in the NEPSE.

S.N.	Types of listed company	Turnover (Rs. in million)	Percentage
1	Commercial banks	7196.24	60.72
2	Development banks	1323.53	11.17
3	Insurance companies	1263.94	10.66
4	Finance companies	183.47	1.55
5	Manufacturing and processing companies	10.15	0.08
6	Hotels	37.74	0.32
7	Trading company	35.43	0.30
8	Other	1800.61	15.19
	Total turnover in Rs.	11851.11	100.00

Source: Annual report, SEBON, 2009/10.

From the above table we can clearly say that the maximum part of trading in NEPSE cover the commercial banks, development banks and finance companies i.e. 60.72%, 11.17%, 10.66% respectively. So the sample would include 5 commercial banks, 4 financial companies, 3 development banks, 2 insurance companies and 1 hydropower company. The names of the Sampled Financial Institutions are:

1. Nabil bank limited
2. Bank of Kathmandu
3. Everest bank limited
4. Nepal investment bank limited
5. Himalayan Bank Limited
6. Standard Finance Limited
7. Capital merchant banking and finance limited
8. Royal merchant banking and finance limited
9. Union finance limited
10. DCBL bank limited
11. ACE development bank ltd
12. Siddhartha Development Bank limited

13. Nepal insurance company limited
14. Sagarmatha insurance company limited
15. Butwal power company limited

### **3.3 Sources of Data**

#### **3.3.1 Secondary Data**

Data have been collected from secondary as well as primary sources. In secondary data, concerned banks, finance company concerned institutions, Nepal Stock Exchange Ltd. and Security Board of Nepal are providers of the data. The researcher collected various data from concerned institutions, NEPSE and SEBON in various dates in the month of march . The sample period covers 2006- 2010 for examining the relationship as well as for using different indicators. The data obtained are:

- The year ended data sheet showing MPS, EPS, NWPS, DPS, DPR, Balance sheet, Profit and loss a/c of the company.
- Information that is relevant to the study available on various websites (i.e. websites of NEPSE, Security Board of Nepal. Nepal Rastra Bank and other related banks, finance companies and institutions).
- Relevant Books, Journals, Magazines, Reports, Bulletins etc.
- Previous Thesis and Studies

#### **3.3.2 Primary Data**

An empirical finding has been carried out in order to obtain the impact of dividend on equity share pricing in Nepal. Questionnaire have been made and distributed to investors who purchase the share form secondary market. The responses of the respondents have been collected by distributing multiple choice questionnaires in the month of June in various dates. From the responses of primary respondent empirical analysis have been conducted in the second part of chapter four.

### **3.4 Analysis of Data**

#### **Dividend per Share (DPS)**

Dividend per share is the net distributed profit to the shareholders. It is the ratio of distributed profit to the number of ordinary shares. It is calculated as:



$$\text{DPS} = \frac{\text{Amount Distributed to Equity Shareholder}}{\text{Number of Equity Shareholder}}$$

Dividend per Share and the Dividend Payout Ratio depend upon the firms' dividend policy, which further depends on several internal factors such as fund needs of the firm, liquidity, ability to borrow, nature of shareholders, and market conditions.

### **Earnings per Share (EPS)**

Earning per share measures the profit of equity shareholders in terms of per unit of shares i.e. the amount that they have earned on every share held. It is calculated as the ratio of available profit to the number of outstanding shares.

$$\text{EPS} = \frac{\text{Net Profit}}{\text{Number of Existing Equity Shares}}$$

### **Dividend Payout Ratio (DPR)**

This ratio shows the percentage of profit distribution to the shareholders in the form of dividend. It is the ratio between DPS and EPS

$$\text{DPR} = \frac{\text{DPS}}{\text{EPS}}$$

### **Net Worth per Share (NWPS)**

Net Worth per Share is a measurement of the net worth of the company for each share of stock that has been issued. If this value is negative, this indicates that company's liabilities exceed its ability to pay them. An increasing net worth per share is a positive signal that the company has reduced its liabilities. The company may also have gone through a stock buy-back plan, reducing the number of shares, essentially making the net worth for each share more valuable.

### **Standard Deviation (SD)**

The standard deviation is commonly used to measure the risk. It shows the deviation of actual mean with average mean. The standard deviation measures the absolute dispersion of variability of a distribution. The greater the variability or dispersion the greater would be the magnitude of the deviation of the value from their mean. The smaller the dispersion or variability, smaller would be the standard deviation. There

would be high degree of uniformity in the observation and homogeneity in the series. Hence, the standard deviation is extremely useful in judging the representative ness of the mean we can find the Standard Deviation from the following formula.

$$S.D. = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2}$$

Where,

x = value of the variable

n = numbers of years.

Therefore, the standard deviation is used to analyze the stock position of financial companies and institutions. The SD of fifteen companies are calculated and analyzed under the study.

### **Coefficient of Variance (CV)**

The corresponding relative measure of dispersion is known as the coefficient of variation. The series for which the coefficient of variation is greater is said to be more variable or conversely less consistent or less uniform. On the other hand the series for which coefficient of variation is less is said to be less variable or more consistent or more uniform. It is denoted by CV and obtained as follows: Coefficient of Variance

$$C.V = \frac{S.D(\sigma)}{\bar{X}} \times 100$$

Where SD is the Standard Deviation and

$\bar{X}$  = Mean of the series defined as

$$\frac{\sum X}{n}$$

### **Karl Pearson's Coefficient of Correlation**

It is statistical tool for measuring the magnitude of linear relationship between the two variables. Karl Pearson's measure, known as Personian correlation coefficient between two variables series x and y, denoted by r(x,y) or rxy. r can be obtained as:

$$R = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

Where,

r = correlation coefficient

n = no. of years.

X = Sum of Series X

Y = Sum of Series Y

XY = Sum of the product of X and Y variables

X<sup>2</sup> = Sum of squares of Series X

Y<sup>2</sup> = Sum of squares of Series Y

The value of coefficient of correlation always lies between +1 & -1. When coefficient of correlation (r) = +1, it means there is perfect positive correlation between the variables, when (r) = -1, it means there is perfect negative correlation between the variables and (r) = 0 refers that there is no relationship between the given variables. The coefficient of correlation finds not only the magnitude of correlation but also its direction. The closer the value of 'r' to 1 or -1, the stronger will be the relationship between variables and the closer the 'r' to 0, weaker will be the relationship (Shrestha & Manandhar, 1999: 234).

### **Simple Regression Analysis**

Simple regression analysis helps the estimation or prediction of unknown variable on the basis of known value of other variable. It is used as a tool to determine the strength of relationship between two variables. Thus, it is a statistical device, with the help of which we can estimate or predict the value of one variable when the value of other variable is known. The unknown variables which we have to predict are called dependent variable and the variable whose value is known is called independent variable. The analysis used to describe the average relationship between two variables is known as simple regression analysis (B. C. Bajracharya).

## Line of Simple Regression

If there exists a relationship between two variables X and Y, the dots the scatter diagram will be concentrating around a certain curve and if the curve is a straight line, it is said to be the line of regression and the relationship between two variables as the linear regression. A line of regression gives the best estimate (in the least square sense) of one variable for any given value of other variable. So, there are two lines of regression referring as the line of regression of Y on X and the line of regression of X on Y respectively (B.C. Bajracharya, 2060:).

### Simple Regression Equation of X on Y

The simple regression equation is expressed as:

$$Y = a + bx$$

We shall get normal equations for estimating 'a' and 'b' as:

$$Y = na + b \sum x$$

$$\sum XY = a \sum X + b \sum x^2$$

Where,

Y = value of dependant variable

a = Y intercept

b = Slope of the trend line/coefficient of regression

X = Value of independent variable

### Coefficient of Simple Regression

The coefficient 'b', which is the slope of line of regression of y on x is called the coefficient of regression of y on x. It represents the increment in the value of dependent y for a unit change in the value of independent variable x. In other words, it represents the rate of change. The convenient way to calculate the variable of 'b' is as:

$$b = \frac{n\sum xy - \sum x \sum y}{n\sum x^2 - (\sum x)^2}$$

Similarly the value of Y-intercept can be computed as:

$$a = \frac{\sum x^2 \sum y - \sum x \sum xy}{n \sum x^2 - (\sum x)^2}$$

### Multiple Regression Analysis

Multiple regression analysis consists of the measurement of the relationship between the dependent variable and two or more independent variable. The procedure is similar to that for simple regression, with a different that other independent variables are added to the regression equation.

### Multiple Regression Equation

The multiple regression equation is expressed as:

Multiple regression equation X1 on X2, X3, X4 and X5.

$$X_1 = a + b_1x_2 + b_2x_3 + b_3x_4 + b_4x_5 \dots \dots \dots (i)$$

The values of constants a, b1, b2, b3 and b4 are determined by solving simultaneously following 5 normal equations obtained by the method of least squares.

$$\phi_{X_1} = na + b_1\phi_{X_2} + b_2\phi_{X_3} + b_3\phi_{X_4} + b_4\phi_{X_5} \dots \dots \dots (i)$$

$$\phi_{X_1X_2} = a\phi_{X_2} + b_1\phi_{X_2^2} + b_2\phi_{X_2X_3} + b_3\phi_{X_2X_4} + b_4\phi_{X_2X_5} \dots \dots \dots (ii)$$

$$\phi_{X_1X_3} = a\phi_{X_3} + b_1\phi_{X_2X_3} + b_2\phi_{X_3^2} + b_3\phi_{X_3X_4} + b_4\phi_{X_3X_5} \dots \dots \dots (iv)$$

$$\phi_{X_1X_4} = a\phi_{X_4} + b_1\phi_{X_2X_4} + b_2\phi_{X_3X_4} + b_3\phi_{X_4^2} + b_4\phi_{X_4X_5} \dots \dots \dots (v)$$

$$\phi_{X_1X_5} = a\phi_{X_5} + b_1\phi_{X_2X_5} + b_2\phi_{X_3X_5} + b_3\phi_{X_4X_5} + b_4\phi_{X_5^2} \dots \dots \dots (vi)$$

Where,

$X_1$  = value of dependent variable

$X_2, x_3, x_4, x_5$  = Independent variables

a = Point of intercept on y-axis

$b_1, b_2, b_3, b_4$  = Slope of trend line/coefficient of multiple regression

## **Statistical Analysis**

In this part, we will see the relationship between market price of the equity shares with earning per share, dividend per share, dividend pay out ratio, and net worth per share.

Amongst these four indicators, the study would evaluate which will affect the equity share price. In the calculation used by excel and SPSS.

## **CHAPTER-IV**

### **DATA PRESENTATION AND ANALYSIS**

In this chapter, the collected data are presented, analyzed and interpreted following the research methodology dealt in the chapter third. While analyzing, data gathered from various sources have been inserted in the tabulate form in annex. The basic objective of this chapter is to analyze and explain the collected data following the conversion of unprocessed data to an understandable presentation. Thus this chapter presents the analysis of impact of dividend on equity share price of various financial institutions.

#### **4.1 Presentation and analysis of secondary data**

##### **4.1.1 Introduction of the financial institutions under study**

Among the total number of financial institutions listed in Nepal stock exchange limited, this research carries only 15 financial institution .among them 5 commercial banks, 4 financial companies. 3 Development bank, 2 insurance companies and one hydropower company, are taken for this study .

##### Commercial banks

1. Nabil bank limited
2. Bank of Kathmandu
3. Everest bank limited
4. Nepal investment bank limited
5. Himalayan bank limited

##### Finance companies

1. Standard finance limited
2. Capital merchant banking and finance limited
3. Royal merchant banking and finance limited
4. Union finance limited.

##### Development banks

1. DCBL bank limited
2. ACE development bank ltd.
3. Siddhartha development bank ltd.

## Insurance companies

1. Nepal insurance company limited
2. Sagarmatha insurance company limited

## Hydropower Company

1. Butwal power company limited

### 4.1.2 Analysis of financial indicator

#### a. Earning per share (EPS)

Earning per share measures the profit of equity shareholders in terms of per unit of shares, i.e. the amount that they have earned on every share held. It is calculated as the ratio of available profit to the numbers of outstanding share.

**Table 4.1**  
**Analysis of earning per share of the financial institution for (FY 2005/06-2009/10)**

Institutions	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	SD	CV
Nabil bank	129.21	137.08	108.31	106.76	78.61	111.99	22.81	20.37
Bank of Kathmandu	43.67	43.50	59.94	54.68	43.08	48.97	7.84	16.002
Everest bank	62.78	78.42	91.82	99.99	100.16	86.63	16.006	17.196
Nepal investment bank	59.35	62.57	57.87	37.42	52.55	53.95	9.93	18.39
Himilayan bank	59.24	60.66	62.74	61.90	31.80	55.27	13.19	23.86
Standard finance ltd.	6.13	33.05	45.96	7.58	5.66	19.68	18.68	94.94
Capital merchant banking & finance ltd.	13.44	16.46	10.55	11.21	6.69	11.67	3.62	30.99
Royal merchant banking & finance ltd.	11.11	27.30	29.38	16.30	24.71	21.76	7.76	35.65
Union finance ltd.	(41.32)	18.38	63.14	12.12	9.53	12.37	37.09	299.89
DCBL bank ltd.	13.68	16.78	4.96	6.23	9.07	10.14	4.99	49.26
ACE development. bank ltd.	27.94	6.72	12.96	6.92	10.62	13.03	8.74	67.03
Siddhartha development bank ltd.	6.25	25.50	15.79	5.46	7.54	12.11	8.55	70.59
Nepal insurance company ltd.	0.02	(66.49)	0.67	46.27	37.53	3.6	44.46	1234.94
Sagarmatha insurance ltd.	30.13	14.72	15.09	41.80	49.86	30.32	15.72	51.86
Butwal power company ltd.	34.37	30.13	42.18	34.75	24.29	33.14	6.58	19.85



The table 4.1 shows the earning per share of all of the financial institutions taken in this study. The table also shows the standard deviation as well as coefficient of variation of the EPS covering the period from FY 2005/06 to FY 2009/10.

In this table, among the commercial banks, Nabil bank has the highest EPS throughout the study period. The average EPS of Nabil is 111.99, SD is 22.81 and CV is 20.37 which shows that there is a low degree of fluctuation in EPS of Nabil bank. There is very low fluctuation in EPS of bank of Kathmandu, which SD is 7.84 and CV is 16.002 EPS of Everest bank limited goes on increasing till 2009/10.

Among the finance companies, the average EPS of Royal merchant banking and finance ltd. is highest than others, which is 21.76. Capital merchant banking and finance ltd. has lowest EPS than others, but it has low degree of fluctuation in EPS than other finance companies. The EPS, SD and CV of capital merchant banking and finance are 11.67, 3.62, and 30.99 respectively. Union finance ltd has SD of 37.09 and CV of 299.89, which shows the very high degree of fluctuations in EPS of union finance than others.

Form the group of development banks, Ace development bank limited has highest EPS through out the study period, which is 13.03. In the EPS of DCBL bank has low fluctuation than Ace development bank and Siddhartha development bank.

Nepal insurance company limited has an average EPS of 3.6, SD of 44.46 and CV of 1234.94, which is one of the highest fluctuations of EPS among the financial institutions in the table. Sagarmatha insurance has average EPS of 30.32, SD of 15.72 and CV of 51.86.

Butwal Power Company limited has an average EPS of 33.14, SD of 6.58 and CV of 19.85, which shows the it also lies in the group of low fluctuation in their EPS.

#### **b. Market price per share (MPS)**

Market price per share (MPS) is a prevailing price of the equity share trading in secondary market. The price listed in the stock exchange is the actual market price of equity shares. The analysis of the market price of the equity shares of the financial institutions are presented below.

**Table 4.2**  
**Analysis of market price per share of the financial institutions for (FY 2005/06-2009/10)**

Institution	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	SD	CV
Nabil bank	2240	5050	5275	4899	2384	3969.60	1519.90	38.29
Bank of Kathmandu	850	1375	2350	1825	840	1448	649.68	44.87
Everest bank	1379	2430	3132	2455	1630	2205.20	704.50	31.95
Nepal investment bank	1260	1729	2450	1388	705	1506.40	643.60	42.72
Himalayan bank	1100	1740	1980	1760	816	1479.20	495.30	33.48
Standard finance ltd.	111	243	930	340	178	360.40	329.44	91.41
Capital merchant banking & finance ltd.	98	175	1290	680	216	491.80	501.01	101.87
Royal merchant banking & finance ltd.	122	185	535	550	265	331.40	199.30	60.15
Union finance ltd.	105	175	805	520	451	411.20	281.98	68.57
DCBL bank ltd.	390	800	855	460	260	553	261.38	47.27
ACE development bank ltd.	320	459	856	588	280	500.60	232.89	46.52
Siddhartha development bank ltd.	100	310	1525	253	193	476.20	591.43	124.19
Nepal insurance company ltd.	400	390	429	367	360	389.20	27.59	7.09
Sagarmatha insurance ltd.	210	227	306	252	311	261.2	45.72	17.51
Butwal power company ltd.	540	1000	1559	1270	1090	1091.80	375.15	34.36

The table 4.2 shows the market price of each of the financial institutions taken for this study. Among the commercial banks, the average market price of Nabil bank limited is highest i.e. Rs. 3969. It has a standard deviation of 1519.9 and coefficient of variation is 38.29. Bank of Kathmandu has a lowest average MPS i.e. 1448. The CV of Everest bank limited is 31.95, which shows lowest fluctuation in the market price

where as CV of Bank of Kathmandu is 44.87, which shows the highest fluctuation in the market price.

Among finance companies, capital merchant banking & finance limited has higher average MPS of Rs. 491.8. But is has also higher CV i.e. 91.41 which shows the highest fluctuation in the market price. Royal merchant banking and finance limited has lowest average EPS, SD and CV than other finance companies, which show the lowest fluctuation in the market price.

From the group of development banks DCBL Bank Limited has highest average MPS of 553,SD of 261.38 and CV of 47.27 .Ace development Bank Limited has CV of 46.52, where as CV of Siddhartha development bank is 124.19, which shows the highest fluctuation in the MPS.

Nepal Insurance Company Limited has higher average MPS than Sagarmatha Insurance Company. The SD and CV of NICL has 27.59 & 7.09 respectively , which shows the very low degree of fluctuation in MPS than sagarmatha insurance which are 45.72 and 17.51 respectively.

The average MPS of Butwal power company has 1091.8 SD of 375.15 and CV of 34.36.

### **c. Dividend per share (DPS)**

Dividend per share indicates the proportion of earning distributed to the share holders on per share basis. Generally higher DPS creates positive attitude among the shareholders toward the organization, which accordingly helps to increase the market value of shares. The dividend per share of the financial institutions under study is stated in the following table.

**Table 4.3**  
**Analysis of Dividend per share of the financial institution for (FY 2005/06-2009/10)**

Institution	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	SD	CV
Nabil bank	85	140	100	85	70	96	26.79	27.90
Bank of Kathmandu	48	20	42.11	47.37	30	37.49	12.16	32.43
Everest bank	25	40	50	60	60	47	14.83	31.56
Nepal investment bank	55.46	30	40.83	20	25	34.23	14.14	41.28
Himilayan bank	35	40	45	43.56	36.84	40.08	4.26	10.63
Standard finance ltd.	10.53	10.53	31.58	0	0	10.53	12.89	122.46
Capital merchant banking & finance ltd.	10.53	15.83	8.42	8.42	5.26	9.69	3.91	40.38
Royal merchant banking & finance ltd.	15.79	10.53	12	10.53	15	12.77	2.49	19.47
Union finance ltd.	0	0	21.17	10	10.53	8.34	8.82	105.77
DCBL bank ltd.	12.63	12.63	0	5.26	10.53	8.21	5.49	66.87
ACE dev.bank ltd.	42.11	5.26	10.53	5.5	8.5	14.38	15.66	108.87
Siddhartha development bank ltd.	10	15.79	10	5	6	9.36	4.26	45.48
Nepal insurance company ltd.	0	0	0	0	5.26	1.052	2.35	223.6
Sagarmatha insurance ltd.	0	0	10.68	10.53	0	4.24	5.81	136.94
Butwal power company ltd	30	25	30	30	30	29	2.24	7.71

The table 4.3 shows the Dividend paid by the financial institutions during the year 2005 to 2010. The average Dividend paid by Nabil bank limited is the highest (96) among the financial institution listed in the above table .Everest bank has the second highest i.e. 47. Among commercial banks, the CV of Himalayan bank is lowest i.e. 10.63 which show a lowest fluctuation in DPS during the period of study.

Among finance companies standard finance limited & Union finance limited has highest CV i.e. 122.46, 105.77 respectively, which shows the highest fluctuation in dividend paid.

Siddhartha development bank limited has lowest CV (45.48) than DCBL bank (66.87) and Ace development bank (108.87).

The CV of Nepal insurance company limited (223.60) is the highest among all of the financial institution listed n the above table. It has not paid dividend for four years as a result the fluctuation is high. Sagarmatha Insurance Company also has a highest CV (136.94), which has not paid dividend for three years.

From the all of financial institutions Butwal power company has very lowest CV i.e. 7.71, which shows the very low degree of fluctuation in dividend per share during the study period.

#### **d. Dividend payout ratio (DPR)**

Dividend payout ratio shows the percentage of profit distributed to the share holder. It depends upon earning of organization. Greater the earning, more ability to pay dividend. The dividend payout ratio (DPR) of the financial institutions is stated in the table as follows:

**Table 4.4**  
**Analysis of Dividend payout ratio of sampled financial institutions of (FY**  
**2005/06 2009/10)**

Institution	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	SD	CV
Nabil bank	65.78	101.59	92.33	79.62	89.05	85.67	13.61	15.89
Bank of Kathmandu	109.92	45.98	70.25	86.63	69.64	76.48	23.65	30.92
Everest bank	39.82	51.01	54.45	60.01	59.9	53.04	8.31	15.68
Nepal investment bank	93.45	47.95	70.55	53.45	47.57	62.59	19.62	31.34
Himalayan bank	59.08	65.94	71.72	70.37	115.85	76.59	22.49	29.37
Standard finance ltd.	171.78	31.86	68.71	0	0	54.57	71.43	131.14
Capital merchant banking & finance ltd.	78.35	96.17	89.81	75.11	78.62	83.61	8.96	10.71
Royal merchant banking & finance ltd.	142.12	38.57	40.84	64.60	60.70	69.37	42.29	60.96
Union finance ltd.	0	0	33.53	82.51	110.49	45.31	49.69	109.68
DCBL bank ltd.	92.32	75.27	0	84.43	116.09	73.62	43.85	59.56
ACE development .bank ltd.	150.72	78.27	81.25	79.48	80.04	93.95	31.75	33.79
Siddhartha development bank ltd.	160	61.92	63.33	91.58	79.58	91.28	40.32	44.17
Nepal insurance company ltd.	0	0	0	0	14.02	2.80	6.27	223.61
Sagarmatha insurance ltd.	0	0	70.78	25.19	0	19.19	30.83	160.63
Butwal power company ltd	87.29	82.79	71.12	86.33	123.51	90.24	19.68	21.81

In the table 4.4 the average dividend payout ratio(DPR) of Nabil bank (85.67) is the highest from the group of commercial banks. It means that Nabil generally pays 85.67 % of its total earning as dividend to its shareholders. Everest bank limited has a lowest DPR of 53.04. The coefficient of variation in the DPR of Everest bank is the

lowest i.e. 15.68 which shows a lowest fluctuation in DPR, where the CV of Nepal Investment bank limited is highest than other banks i.e. 31.34.

Among financial companies, capital merchant banking and financial limited has a highest DPR of 83.61, where as union finance has a lowest i.e. 45.31. The CV of standard finance limited and union finance limited are 131.14, 109.68 respectively, which are highest than others. The CV of Capital Merchant banking and finance is only 10.71 which show the very low fluctuation in DPR.

The DCBL bank limited has CV of 59.56. It has not paid dividend for the year 2007/08. The CV of Ace development bank & Siddhartha development bank are 33.79 and 44.17 respectively. The CV of Nepal Insurance company limited (223.61) is the highest among the financial institutions listed in the above table. It has not paid dividend for four years.

Sagarmatha insurance company also has a highest CV of 160.63. It has not paid dividend for three years. Butwal power company limited has a average DPR of 90.24,SD of 19.68 and CV of 21.81 .The SD of standard finance limited is 71.43, which is highest than others.

#### **d. Net worth per share (NWPS)**

Net worth per share is a measurement of the Net worth of the company of each share of stock that has been issued. The Negative NWPS indicates that company's liabilities exceed its ability to pay them. An increasing net worth per share is a positive signal that company has reduced its liabilities. The analysis of NWPS of the financial institutions is presented below.

**Table 4.5**  
**Analysis of Net worth per share of sampled financial institutions for (FY**  
**2005/06- 2009/10)**

Institution	2005/06	2006/07	2007/08	2008/09	2009/10	Mean	SD	CV
Nabil bank	381	418	354	324	265	348.40	58.07	16.67
Bank of Kathmandu	230.67	164.68	222.51	206.25	175.40	199.90	28.89	14.45
Everest bank	218	281	322	345	332	299.60	51.52	17.19
Nepal investment bank	240	234	223	162	190	209.80	32.97	15.72
Himalayan bank	228.72	204.74	264.74	256.52	226.79	244.94	16.79	6.85
Standard finance ltd.	125.06	145.97	177.30	128.14	104.85	136.26	27.19	19.95
Capital merchant banking & finance ltd.	122.19	120.93	112.89	107.34	104.64	113.59	7.87	6.92
Royal merchant banking & finance ltd.	107	129	119	125	126.80	121.36	8.85	7.28
Union finance ltd.	117.27	120.33	156.76	94.69	76.31	113.07	30.28	26.78
DCBL bank ltd.	126.68	129.25	110.33	112.94	116.37	119.11	8.41	7.06
ACE development .bank ltd.	201	112	122	108	110	130.60	39.72	30.41
Siddhartha development bank ltd.	105	115	113	103	104	108	5.57	5.16
Nepal insurance company ltd.	190.41	123.91	127.93	171.52	203.81	163.52	36.21	22.15
Sagarmatha insurance ltd.	260.64	171.11	159.16	189.95	211.02	198.38	39.97	20.15
Butwal power company ltd	207.85	224.29	237.41	269.83	253.64	238.60	24.26	10.17

The table 4.5 describes the Net worth per share of the financial institutions. Among the all, Nabil bank limited has the highest average NWPS i.e. 348.4 . It is a positive



signal that the bank has reduced its liabilities and the bank may also have gone through a stock buy back plan, reducing the number of shares, essentially making the net worth of each share more valuable. Everest bank, Himalayan bank, Butwal Power Company also shows a very positive position. although, standard finance ltd., Capital merchant banking and finance ltd., Royal merchant banking and finance ltd., Union finance ltd., DCBL bank ltd., Ace development bank ltd., Siddhartha development bank ltd., show a low NWPS , all of their position is good as the average NWPS is positive.

Among all financial institution, there is a maximum fluctuation in the NWPS of Ace development bank than others. But it is not a very high degree of fluctuation .Siddhartha development bank has a lowest variation in the NWPS i.e. 5.16. Himalayan bank limited, capital merchant banking and finance limited, Royal merchant banking & finance limited, DCBL bank limited Butwal Power Company limited have also low fluctuation in the NWPS.

The standard deviation of the Nabil bank limited is the highest i.e. 58.07 than others, higher the standard deviation shows a high risky stock position .Capital merchant banking & finance, Royal merchant banking and finance ,DCBL bank limited, Siddhartha development bank limited has a low risky position as their standard deviation is lower than others.

#### **4.1.3 Analysis of correlation and regression coefficient**

Correlation coefficient measures the degree of relationship between two variables where as the regression analysis is used to estimate the likely value on one variable from the known value of the other variable, i.e. in regression analysis we establish a kind of average irreversible functional relationship between two variables. The cause and effect relationship is clearly indicated through regression analysis than by correlation.

#### **Interpretation of correlation coefficient**

- i. It lies always between +1 and -1
- ii. Where  $r=+1$ , there is a perfect positive correlation.
- iii. Where  $r=-1$  , there is negative correlation
- iv. Where  $r= 0$  , there is no correlation

- v. Where  $r$  lies between 0.7 to 0.999 (-0.7 to -0.999), then a high degree of positive (or negative) correlation.
- vi. Where  $r$  lies between 0.5 to 0.699, there is moderate degree of correlation
- vii. Where  $r$  is less than 0.5, there is a low degree of correlation.

Here, we present and analyze the relationship between market price per share and other financial indicators DPS, DPR, EPS and NWPS.

**Table 4.6**

**Analysis of Correlation coefficient and Regression coefficient between MPS and DPS of the sampled financial institutions for (FY 2005/06-2009/10)**

S. No	Financial institution	Correlation coefficient (r)	Regression Coefficient	
			Constant(a)	Slope(b)
1	Nabil bank	0.631	51.85	0.011
2	Bank of Kathmandu	0.235	31.12	0.004
3	Everest bank	0.363	30.17	0.008
4	Nepal investment bank	0.251	25.95	0.006
5	Himalayan bank	0.888	28.78	0.008
6	Standard finance ltd.	0.831	-1.19	0.119
7	Capital merchant banking & finance ltd.	-0.294	10.82	-0.002
8	Royal merchant banking & finance ltd.	-0.554	15.06	-0.007
9	Union finance ltd.	0.989	-4.39	0.031
10	DCBL bank ltd.	-0.438	13.29	-0.009
11	Ace development .bank ltd.	-0.375	27.01	-0.025
12	Siddhartha development bank ltd.	0.128	8.92	0.0009
13	Nepal insurance company ltd.	-0.591	20.67	-0.050
14	Sagarmatha insurance company ltd.	0.359	-7.68	0.046
15	Butwal power company ltd	0.137	28.11	0.0008

The table 4.6 clearly shows the degree of relationship between MPS and DPS. The degree of relationship between MPS and DPS seems to be significant except some institutions, i.e. Capital Merchant banking & Finance , Royal merchant banking & finance ,DCBL bank ltd., Ace development bank ltd & Nepal insurance company limited. Where correlation coefficient recorded as, capital merchant = -0.294, Royal merchant = -0.554, DCBL bank = - 0.438, Ace development bank = - 0.375 and Nepal insurance company = - 0.591 .Besides these institutions Bank of Kathmandu = 0.235, Everest bank = 0.363, NIBL = 0.251, Siddhartha development bank = 0.128, Sagarmatha insurance = 0.359, Butwal power company =0.137 has a low degree of positive correlation. Nabil bank has (0.631) moderate degree of correlation. Himalayan an bank, Standard finance, Union finance has high degree of positive correlation between MPS and DPS.

The above table also depicts the major output of simple regression between MPS and DPS of sampled companies. The regression equation of Nabil bank i.e.  $MPS = 51.86 + 0.011DPS$  implies that when DPS become zero MPS would be equal to Rs. 51.86. If DPS is increases by Rs. 1 MPS will increase by Rs. 0.011. Similarly, when DPS increases by Rs. 1 in bank of Kathmandu, Everest Bank, Nepal Investment Bank, Himalayan Bank, Standard Finance Ltd., Union Finance Ltd., Siddhartha Development Bank, Sagarmatha Insurance Companies and Butwal Power Company it leads to increase in MPS by Rs. 0.004, 0.008, 0.006, 0.119, 0.031, 0.0009, 0.046 and 0.0008 respectively. In the same way, if DPS increases by Rs. 1 in capital Merchant banking and Finance, Royal Merchant Baking and Finance, DCBL Bank and Nepal Insurance Company, it leads to decrease in MPS by Rs. 0.002, 0.007, 0.009, 0.025 and 0.050 respectively and vice-versa.

**Table 4.7****Analysis of Correlation coefficient and Regression coefficient between MPS and EPS of the financial institutions for (FY 2005/06-2009/10)**

S. No.	Financial institution	Correlation coefficient	Regression Coefficient	
			Constant(a)	Slope(b)
1	Nabil bank	0.293	92.71	0.004
2	Bank of Kathmandu	0.943	32.51	0.011
3	Everest bank	0.404	66.39	0.009
4	Nepal investment bank	0.288	47.25	0.004
5	Himalayan bank	0.807	23.51	0.021
6	Standard finance ltd.	0.795	3.42	0.045
7	Capital merchant banking & finance ltd.	-0.251	12.56	-0.002
8	Royal merchant banking & finance ltd.	0.256	18.46	0.009
9	Union finance ltd.	0.833	-32.72	0.109
10	DCBL bank ltd.	0.034	9.79	0.001
11	ACE development .bank ltd.	-0.302	18.70	-0.011
12	Siddhartha development bank ltd.	0.327	9.86	0.005
13	Nepal insurance company ltd.	-0.438	278.16	-0.705
14	Sagarmatha insurance ltd.	0.253	7.57	0.087
15	Butwal power company ltd	0.418	25.15	0.007

The table 4.7 shows the degree of relationship between MPS and EPS. The degree of relationship between MPS and EPS seems to be highly positive in Bank of Kathmandu, Himalayan bank limited, Standard finance limited and Union finance limited. In capital Merchant banking and finance, Ace development bank, Nepal insurance company limited it is Negative. Besides this Nabil bank limited, Everest bank limited, Nepal investment bank limited, Royal merchant banking & finance ltd., DCBL bank limited, Siddhartha development bank limited , Sagarmatha insurance and Butwal power company it is positive correlation between MPS and EPS.

The above table also shows the regression equation drawn between MPS and EPS of the 15 sampled institutions. Here EPS is independent variable and MPS is the dependent variable. With the help of these indicators, we can obtain the slope (b) and

intercept (a) of the equation  $y = a + bx$ . Here y is MPS. The regression equation of Nabil bank, Bank of Kathmandu, Everest Bank, Nepal Investment Bank, Himalayan Bank, Standard Finance, Royal Merchant Banking and Finance, Union Finance, DCBL, Bank, Siddhartha Development Bank, Sagarmatha Insurance Limited and Butwal Power Company Limited implies that when EPS increases by Re. 1, it leads to increase in MPS by Rs. 0.004, 0.011, 0.009, 0.004, 0.021, 0.045, 0.009, 0.109, 0.001, 0.005, 0.087 and 0.007 respectively. In the same way, If EPS of Capital Merchant Banking and Finance, Ace Development Bank and Nepal Insurance Company increases by Re. 1, it leads to decrease in MPS by Rs. 0.002, 0.011 and 0.705 respectively and vice-versa.

**Table 4.8**

**Analysis of Correlation coefficient and Regression coefficient between MPS & DPR of the sampled financial institutions, for (FY 2005/06-2009/10)**

S. No.	Financial institution	Correlation coefficient	Regression Coefficient	
			Constant(a)	Slope(b)
1	Nabil bank	0.596	64.49	0.005
2	Bank of Kathmandu	-0.251	89.69	-0.009
3	Everest bank	0.408	42.41	0.005
4	Nepal investment bank	0.193	53.71	0.006
5	Himalayan bank	-0.591	116.33	-0.027
6	Standard finance ltd.	-0.079	60.65	-0.017
7	Capital merchant banking & finance ltd.	0.157	82.23	0.003
8	Royal merchant banking & finance ltd.	-0.504	104.82	-0.107
9	Union finance ltd.	0.474	10.94	0.084
10	DCBL bank ltd.	-0.835	151.17	-0.140
11	ACE development .bank ltd.	-0.416	122.36	-0.057
12	Siddhartha development bank ltd.	-0.493	107.29	-0.034
13	Nepal insurance company ltd.	-0.591	55.09	-0.134
14	Sagarmatha insurance ltd.	0.521	-72.61	0.351
15	Butwal power company ltd	-0.250	104.58	-0.013

The table 4.8 shows the degree of relationship between MPS and DPR. In positive correlation, if independent variable increases then it causes to increase dependent variable by 100% and vice-versa. Here, Mps is dependent variable and DPR is independent variable.

The degree of relationship between MPS and DPR of Nabil bank limited is moderate. Bank of Kathmandu , Himalayan bank limited, standard finance limited, Royal merchant banking &finance limited , DCBL bank limited, Ace development bank limited, Siddhartha development bank limited, Nepal Insurance company limited and Butwal power company limited have negative correlation . Such a situation is not a healthy financial environment for the bank and financial institutions in Nepal.

The above table also shows the regression equation drawn between MPS and DPR of the sampled financial institutions. Here, DPR is independent variable and MPS is the dependent variable. With the help of these indicator, we can obtain the slope (b) and the intercept (a) of the equation  $y=a+bx$ . Here y is MPS.

The regression equation of Nabil bank, Everest bank, Nepal Investment Bank, Capital Merchant Banking and Finance, Union Finance and Sagarmatha Insurance Company indicate that when DPR increases by Rs. 1, MPS will be increase by Rs. 0.005, 0.006, 0.003, 0.084 and 0.351 respectively. Similarly, if DPR decreases by Re. 1 in Bank of Kathmandu, Himalayan Bank, Standard Finance, Royal Merchant Banking and Finance, DCBL Bank, Ace Development Bank, Siddhartha Development Bank, Nepal Insurance Company and Butwal Power Company, it leads to decrease in MPS by Rs. 0.009, 0.027, 0.017, 0.107, 0.140, 0.057, 0.034, 0.0134 and 0.013 respectively and vice-versa.

**Table 4.9****Analysis of Correlation coefficient and Regression coefficient between MPS and NWPS of the sampled financial institution, for (FY 2005/o6-2009/10)**

S.No	Financial institution	Correlation coefficient	Regression Coefficient	
			Constant(a)	Slope(b)
1	Nabil bank	0.384	290.11	0.015
2	Bank of Kathmandu	0.291	181.16	0.013
3	Everest bank	0.528	214.41	0.039
4	Nepal investment bank	0.376	180.77	0.019
5	Himalayan bank	0.845	202.57	0.029
6	Standard finance ltd.	0.863	110.59	0.071
7	Capital merchant banking & finance ltd.	-0.316	116.04	-0.005
8	Royal merchant banking & finance ltd.	0.261	117.52	0.012
9	Union finance ltd.	0.314	99.18	0.034
10	DCBL bank ltd.	-0.00048	119.12	-0.000016
11	ACE dev.bank ltd.	-0.336	159.28	-0.057
12	Siddhartha development bank ltd.	0.566	105.46	0.005
13	Nepal insurance company ltd.	-0.628	484.38	-0.824
14	Sagarmatha insurance ltd.	-0.452	301.61	-0.395
15	Butwal power company ltd	0.639	193.49	0.041

The above table 4.9 depicts the major output of correlation between MPS and NWPS of the sampled companies. There is a high degree of positive correlation between MPS and NWPS of Himalayan bank limited and standard finance limited. All of the commercial banks have positive correlation. Among finance companies capital merchant banking and finance limited has negative correlation. From the development banks Ace development bank & DCBL bank limited have negative correlation except Siddhartha development bank. From the group of insurance companies, Nepal insurance company has negative correlation & Sagarmatha insurance company has

positive correlation. Butwal power company limited has a moderate degree of positive correlation i.e. 0.639.

The above table also presents the regression equation drawn between MPS and NWPS, of the 15 sampled institutions. Here NWPS is independent variable and MPS is the dependent variable. The regression equation of Nabil Bank, Bank of Kathmandu, Everest Bank, Nepal Investment Bank, Himalayan Bank, Standard Finance, Royal Merchant Banking and Finance, Union Finance, Siddhartha Development Bank and Butwal Power Company, deficit that when NWPS increases by Re. 1, the MPS will be increases by Rs. 0.015, 0.013, 0.039, 0.019, 0.029, 0.071, 0.012, 0.034 and 0.005 respectively. In the same way, if NWPS of Capital Merchant Banking and Finance, DCBL Bank, Ace Development Bank, Nepal Insurance Company and Sagarmatha Insurance Company decreases by Re. 1. It leads to increase in MPS by Rs. 0.005, 0.000016, 0.057, 0.824 and 0.395 respectively and vice-versa.

#### 4.1.4 Analysis of Multiple Regression

Multiple regression analysis of  $x_1$ (MPS) on  $x_2$  (DPS ) ,  $x_3$  (NWPS), $x_4$  (EPS),  $x_5$  (DPR)

**Table 4.10**

**Multiple regression equation  $x_1 = a + b_1x_2 + b_2x_3 + b_3x_4 + b_4x_5$**

S.N	Financial institution	Regression coefficient				
		Constant(a)	b1	b2	b3	b4
1	Nabil bank	331972.64	51.13	17.67	-56.65	-36.06
2	Bank of Kathmandu	-9851.64	-4.68	1.07	2.39	2.77
3	Everest bank	-10020.75	-5.69	4.68	1.19	0.27
4	Nepal investment bank	-112418	-80.63	-3.52	33.18	67.19
5	Himalayan bank	-2731.91	0.65	0.24	66.20	-0.34
6	Standard finance ltd.	-615.47	1.54	0.72	-1.22	-0.82
7	Capital merchant banking & finance ltd.	-1834.26	-6.01	-1.03	5.47	1.79
8	Royal merchant banking & finance ltd.	8473.93	1.04	-2.03	-3.15	-5.77
9	Union finance ltd.	-5882.89	-3.31	5.43	-0.19	5.75
10	DCBL bank ltd.	4359.16	-2.26	-1.27	3.23	0.12
11	ACE development .bank ltd.	132.55	-113.03	6.41	-0.42	-6.38
12	Siddhartha development bank ltd.	-30147.59	-1.09	2.89	-1.42	0.07
13	Nepal insurance company ltd.	445.83	0	-0.42	-0.004	-0.33
14	Sagarmatha insurance ltd.	307.21	-1.38	-0.65	1.11	1.76
15	Butwal power company ltd	-5697.59	-1.69	0.74	3.68	3.10



The table 4.10 presents the multiple regression equation of MPS on DPS, NWPS, EPS and DPR of 15 sampled companies. Here, MPS is dependent variable and DPS, NWPS, EPS and DPR are independent variables.

The multiple regression equation MPS of Nabil bank limited on DPS , NWPS, EPS and DPR is represent by the folowing equation.

$$\text{MPS} = 331972.64 + 51.13 \text{ DPS} + 17.67 \text{ NWPS} - 56.65 \text{ EPS} - 36.06 \text{ DPR}$$

The above equation gives the result on MPS due to joint effect on DPS, NWPS, EPS and DPR . MPS intercept i.e. multiple regression constant as shown in the equation equals to 331972.64. It implies that when DPS, NWPS, EPS and DPR become zero , MPS would be equal to Rs. 33197264. The constant for DPS is 51.13 meaning that when DPS increases by Rs. 1 MPS will increases by RS. 51.13 keeping NWPS, EPS and DPR constant. In the same way if DPS, EPS and DPR holds constant and NWPS increases by Re.1, MPS will increase by Rs. 17.67.

Constant for EPS is -56.65 which mean that when EPS decreases by Re.1, MPS will increases by Rs. 56.65 keeping DPS, NWPS and DPR constant .The constant for DPR is -36.06 meaning that when DPR decreases by Re.1 , MPS will increases by 36.06 keeping DPS, NWPS, and EPS as constant and vice-versa.

The multiple equation of Bank of Kathmandu is:

$$\text{MPS} = -9851.64 - 4.68 \text{ DPS} + 1.07 \text{ NWPS} + 2.39 \text{ EPS} + 2.77 \text{ DPR}$$

From the above equation we can say that when DPS, NWPS, EPS and DPR become zero , MPS would be equal to Rs. – 9851.64. The constant for DPS is -4.68 meaning that when DPS increases by Re. 1, MPS will decreases by Rs. 4.68 keeping NWPS, EPS & DPR as constant . In the same way, if NWPS increases by Re. 1, MPS will increases by Rs. 1.07 keeping other variables constant . The constant for EPS is 2.39 means that if EPS increases by Re.1, MPS will be increases by Rs. 2.39 keeping DPS, NWPS and DPR constant. Similarly, constant for DPR equals to 2.77 means if DPS, NWPS and EPS holding constant and DPR increases by Re. 1, MPS will increases by Rs. 2.77.

The multiple regression equation of Everest bank limited is as follows;

$$\text{MPS} = -10020.75 - 5.69 \text{ DPS} + 4.68 \text{ NWPS} + 1.19 \text{ EPS} + 0.27 \text{ DPR}$$

The above equation gives the result of MPS due to the joint effect on DPS, NWPS, EPS and DPR. MPS intercept i.e. multiple regression constants shown in the equation equals to – 10020.75. It implies that when MPS, NWPS, EPS and DPR become zero, MPS would be equal to – 10020.75. The constant for DPS is – 5.69 means that when DPS decreases by Re1. MPS will be increase by Rs. 5.69 keeping other variables as constant. Similarly if NWPS increases by re. 1, MPS will increases by Rs. 4.68 keeping DPS, EPS and DPR constant. In the same way when EPS increases by Re. 1, MPS increases by Rs. 1.19 keeping DPS, NWPS and DPR constant. If, DPS, NWPS and EPS holding constant and DPR increases by Re.1, MPS will increases by Rs. 0.27.

The multiple regression equation of Nepal investment bank limited is drawn as follows;

$$\text{MPS} = -112418 - 80.63 \text{ DPS} - 3.52 \text{ NWPS} + 33.18 \text{ EPS} + 67.19 \text{ DPR}$$

From the equation, MPS intercept is equal to -112418, implies that when DPS, NWPS, EPS and DPR become zero MPS would be equal to -112418. The constant for DPS is – 80.63 indicate that when DPS decreases by Re.1, MPS will increases by Rs. 80.63 and vice- versa holding NWPS, EPS and DPR constant. The constant for NWPS is equal to – 3.52, meaning that when NWPS decreases by Re.1, MPS will increase by Rs. 3.52 and vice versa keeping DPS, EPS and DPR constant. If DPS, NWPS and DPR remain constant and EPS increases by Re.1, MPS will increase by Rs. 33.18. In the same way, the constant for DPR equal to 67.19 means if DPS, NWPS and EPS holding constant and DPR increases by Re.1, MPS will increases by Rs. 67.19

**The multiple regression equation for Himalayan bank limited is drawn as:**

$$\text{MPS} = -2731.91 + 0.65 \text{ DPS} + 0.24 \text{ NWPS} + 66.20 \text{ EPS} - 0.34 \text{ DPR}$$

In the above equation MPS intercept i.e. multiple regression constant is equal to -2731.91. It indicate that when DPS, NWPS, EPS and DPR become zero, MPS would be equal to Rs. -2731.91. The constant for DPS is 0.65 means that when DPS increase by Re. 1, MPS will increases by Rs. 0.65 keeping other variables as constant. In the same way, the constant for NWPS equal to 0.24 means if DPS , EPS and DPR holding

constant and NWPS increases by Re. 1 ,MPS will increase by Rs. 0.24. Similarly, the constant for EPS is 66.20 meaning that when EPS increase by Re.1, MPS will increase by Rs. 66.20 keeping DPS, NWPS, and DPR constant.

If, DPS, NWPS and EPS remain constant and DPR decreases by Re1, MPS will increase by Rs. 0.34 and vice –versa.

**The multiple regression equation of Standard Finance Limited is:**

$$\text{MPS} = -615.47 + 1.54 \text{ DPS} + 0.72 \text{ NWPS} - 1.22 \text{ EPS} - 0.82 \text{ DPR}$$

The above equation depicts the result on MPS due to the joint effect on DPS, NWPS, EPS and DPR. MPS intercept i.e. multiple regressions constant as shown in the equation equals to – 615.47. It implies that when DPS, NWPS, EPS and DPR become zero, MPS would be equal to – 615.47. The constant for DPS is 1.54 indicate that when DPS increase by Re.1, MPS will increase by Rs. 1.54. Similarly ,the constant for NWPS is 0.72, which means that when NWPS increases by Re.1, it leads to increase in MPS by Rs. 0.72 holding rest variables constant. In the same way the constant for EPS is – 1.22 say that when EPS is decreases by Re.1, MPS will increase by Rs. 1.22 and vice versa keeping DPS, NWPS and DPR constant. If, DPS, NWPS and EPS remain constant and DPR decreases by Re. 1, MPS will increase by Rs. 0.82 and vice- versa.

**The multiple regression equation for another company Capital merchant banking and finance is drawn as:**

$$\text{MPS} = - 1834.26 - 6.01 \text{ DPS} - 1.03 \text{ NWPS} + 5.47 \text{ EPS} + 1.79 \text{ DPR}.$$

The above equation gives the result on MPS due of the joint effect on DPS, NWPS, EPS and DPR. MPS intercept i.e. multiple regressions constant as shown in the equation equals to – 1834.26. It implies that when DPS, NWPS EPS and DPR become zero, MPS would be Rs. – 1834.26. The constant for DPS is – 6.01 means the when DPS decreases by Re.1, MPS will increase by Rs. 6.01 and vice- versa holding rest variables NWPS, EPS and DPR constant. Similarly, the constant for NWPS is – 1.03, indicate that when NWPS decreases by Re.1, the MPS will increase by Rs. 1.03 and vice-versa keeping DPS, EPS and DPR constant. In the same way the constant for EPS is 5.47, which means that if EPS increases by Re.1, it leads of increase in MPS by Rs.

5.47 keeping DPS, NWPS and DPR constant. If DPS, NWPS and EPS remain constant and DPR increases by Rs. 1, it leads to increase in MPS by Rs. 1.79.

**The multiple regression equation for Royal merchant banking and finance is drawn as:**

$$\text{MPS} = 8473.93 + 1.04\text{DPS} - 2.03 \text{NWPS} - 3.15 \text{EPS} - 5.77 \text{DPR}$$

The above equation gives the result on MPS due to joint effect on variables DPS, NWPS, EPS and DPR. MPS intercept as shown in the equation equals to 8473.93. It indicates that when DPS, NWPS, EPS and DPR become zero, MPS would be equal to 8473.93. The constant for DPS is 1.04 means that when DPS increases by Re. 1, MPS will increase by Rs. 1.04 keeping NWPS, EPS and DPR as constant. In the same way, the constant for NWPS is -2.03, which indicates that when NWPS decrease by Re.1, it leads to increase in MPS by Rs. 2.03 and vice versa holding DPS, EPS and DPR constant. Similarly, the constant for EPS is -3.15, which means that if EPS decreases by Re.1, MPS increases by Rs. 3.15 and vice versa, keeping MPS, NWPS and DPR constant. The constant for DPR equal to -5.77 means if DPS, NWPS and EPS holding constant and DPR decreases by Re.1, MPS will increase by 5.77 and vice versa.

**The multiple regression equation of Union finance limited is drawn as;**

$$\text{MPS} = -5882.89 - 3.31 \text{DPS} + 5.43 \text{NWPS} - 0.19 \text{EPS} + 5.75 \text{DPR}$$

The above equation depicts the result on MPS due to joint effect on variables DPS, NWPS, EPS and DPR. MPS intercept (a) as shown in the equation is equal to -5882.89. It implies that when DPS, NWPS, EPS and DPR becomes zero, MPS would be equal to -5852.89. The constant for DPS is -3.31, meaning that when DPS decreases by Rs. 1, MPS increases by Rs. 3.31 and vice-versa holding other variables constant. Similarly, the constant for NWPS is 5.43, which indicates that when NWPS increases by Re.1, it leads to increase in MPS by 5.43 keeping DPS, EPS and DPR constant. In the same way, the constant for EPS equals to -0.19 means if DPS, NWPS and DPR holding constant and EPS decreases by Re.1, MPS will increase by Rs. 0.19 and vice-versa. If, DPS, NWPS and EPS remain constant and DPR increases by Re.1, it leads to increase in MPS by Rs. 5.75.

**The multiple regression equation for DCBL bank limited is;**

$$\text{MPS} = 4359.16 - 2.26 \text{DPS} - 1.27 \text{NWPS} + 3.23 \text{EPS} + 0.12 \text{DPR}.$$

The above multiple regression equation gives the result on MPS due to the joint effect on DPS, NWPS, EPS and DPR. MPS intercept (a) as shown in the equation equals to 4359.16, which implies that when DPS, NWPS, EPS and DPR becomes zero, MPS would be equal to Rs. 4359.16. The constant for DPS is equal to – 2.26, which means that if DPS decreases by Re. 1. It leads to increase in MPS by Rs. 2.26 and vice- versa keeping NWPS, EPS and DPR constant. In the same way the constant for NWPS is – 1.27 , indicates that when NWPS decreases by Re.1, MPS will increases by Rs. 1.27 and vice- versa keeping DPS, EPS and DPS constant. similarly, if DPS , NWPS and DPR remain constant and EPS increases by Re. 1, MPS will increases by Rs. 3.23 .The constant for DPR equals to 0.12 means if DPR, NWPS and EPS holding constant and DPR increases by Re.1, it leads to increase in MPS by Rs. 0.12.

**The multiple regression equation of Ace development bank limited is;**

$$\text{MPS} = 132.55 - 113.03 \text{ DPS} + 6.41 \text{ NWPS} - 0.42 \text{ EPS} - 6.38 \text{ DPR}$$

The above equation gives the result on MPS due to joint effect on variables DPS, NWPS, EPS & DPR. MPS intercept i.e. multiple regression constant as drawn in the equation equals to 132.55. It implies that when DPS, NWPS, EPS and DPR become zero, MPS would be equal to Rs. 132.55. Here, the constant for DPS is – 113.03 meaning that when DPS decreases by Re1, MPS increases by 113.03 and vice- versa keeping the variables NWPS , EPS and DPR as constant. Similarly , the constant for NWPS is 6.41, which means that if NWPS increases by Re. 1, it leads to increase in MPS by 6.41 keeping rest variables constant. In the same way, the constant for EPS equals to -0.42 means if DPS, NWPS and DPR holding constant and EPS increases by Re.1, MPS will decreases by RS. 0.42 and vice versa. If DPS, NWPS and EPS remain constant and DPR decreases by Re. 1, it leads to increase in MPS by Rs. 6.38 and vice-versa.

**The multiple regression equation of Siddhartha development bank is drawn as;**

$$\text{MPS} = - 30147.59 - 1.09 \text{ DPS} + 2.89 \text{ NWPS} - 1.42 \text{ EPS} + 0.07 \text{ DPR}.$$

The above equation gives the result on MPS due to joint effect on DPS, NWPS EPS and DPR. It implies that when DPS, NWPS, EPS and DPR become zero, MPS would be Rs. – 30147.59. The constant for DPS is – 1.09 meaning that when DPS increases by Re.1, MPS will decreases by Rs. 1.09 and vice- versa holding the variables NWPS,

EPS & DPR constant. In the same way, the constant for NWPS equals to 2.89, which means if DPS, EPS and DPR holding constant and NWPS increases by Re.1, it leads to increase in MPS by Rs. 2.89. Similarly, if DPS, NWPS and DPR remain constant and EPS is decrease by Re. 1, then it leads to increase in MPS by Rs. 1.42 and vice versa. Again, the constant for DPR is equal to 0.07 which meaning that when DPR increases by Re.1, MPS will increase by Rs. 0.07 keeping DPS, NWPS and EPS constant.

**The multiple regression equation for Nepal insurance company limited is drawn as;**

$$MPS = 445.83 + 0 \text{ DPS} - 0.42 \text{ NWPS} - 0.004 \text{ EPS} - 0.33 \text{ DPR}$$

From the above equation we can say that when DPS, NWPS, EPS and DPR becomes zero, MPS would be Rs. 445.83. There is no effect of DPS on the MPS in the above equation due to the constant of DPS is zero. The constant for NWPS is equal to - 0.42, which means when NWPS decreases by Re.1, MPS will increase 0.42 and vice-versa keeping EPS and DPR constant. In the same way, the constant of EPS is - 0.004 which indicates that if EPS decreases by Rs.1, it leads to increase in MPS by Rs. 0.004 and vice-versa holding NWPS and DPR constant. Similarly, if NWPS and EPS remain constant, and DPR decreases by Re.1, MPS will increase by Rs. 0.33 and vice versa.

**The multiple regression equation for Sagarmatha insurance company limited is;**

$$MSP = 307.21 - 1.38 \text{ DPS} - 0.65 \text{ NWPS} + 1.11 \text{ EPS} + 1.76 \text{ DPR}.$$

The above equation gives the result on MPS due to the joint effect on DPS, NWPS, EPS and DPR. MPS intercept i.e. multiple regressions constant as shown in the equation equals to 307.21. It implies that when DPS, NWPS, EPS and DPR become zero, MPS would be equal to Rs. 307.21. The constant for DPS is - 1.38, that means when DPS decreases by Re.1, MPS will increase by Rs. 1.38 and vice-versa keeping NWPS, EPS and DPR constant. In the same way the constant for NWPS is - 0.65, which indicates that if NWPS decreases by Re.1, it leads to increase in MPS by 0.65 and vice-versa holding the variables DPS, EPS and DPR constant. Similarly, if DPS, NWPS and DPR remain constant and EPS increases by Re.1, MPS will increase

by Rs.1.11. The constant for DPR equals to 1.76 means if DPS, NWPS and EPS holding constant and DPR increases by Re. 1 it leads to increase in MPS by Rs. 1.76.

**At last the multiple regression equation for Butwal Power Company limited is shown as follows;**

$$\text{MPS} = -5697.59 - 1.69 \text{ DPS} + 0.74 \text{ NWPS} + 3.68 \text{ EPS} + 3.10 \text{ DPR}.$$

The above equation gives the result on MPS due to joint effect on DPS, NWPS, EPS and DPR. MPS intercept (a) as shown in the above equation is equal to  $-5697.59$ , which implies that when DPS, NWPS, EPS and DPR become zero, MPS would be equal to Rs.  $-5697.59$ . The constant for DPS is  $-1.69$  meaning that when DPS decreases by Re.1, MPS will increase by Rs. 1.69 and vice-versa keeping NWPS, EPS and DPR constant. Similarly, the constant for NWPS is 0.74 which indicates that if NWPS increases by Re.1, it leads to increase in MPS by Rs. 0.74 holding DPS, EPS and DPR constant. In the same way, the constant for EPS equals to 3.68 means if DPS, NWPS and DPR holding constant and EPS increases by Re.1, MPS will increase by Rs. 3.68. If, DPS, NWPS and EPS remain constant and the DPR increases by Re.1, it leads to increase in MPS by Rs. 3.10.

## **4.2 Presentation and analysis of primary Data**

### **4.2.1 Response of Individuals**

An empirical study was carried out to receive a response of the individuals who own equity shares. A questionnaire was used to collect the view to the equity share holders. The questionnaire was distributed to 50 persons who invest in the equity share in Nepal. The responses of only 40 responses were used for the purpose of analysis as these respondents had purchased equity shares from the secondary market. Others had purchased shares from the primary market. The questionnaire focused on the behavior of the investors while purchasing the equity shares from the secondary market. The questionnaire examines if the investors analyses financial health of the institution or not, if the investor cares the overall market or not and several other aspects that a good investor is supposed to look at.

The number of respondents is shown in the table below.

**Table 4.11**  
**Responses of the questionnaire**

S. No.	Descriptions	Number	Percentage
1.	Respondent by sex	40	100
	Male respondent	32	80
	Female respondent	8	20
2.	Respondent by age		
	Age less than 25	6	15
	Male respondent	6	
	Female respondent	-	
	Age 25 to 50	25	62.5
	Male respondent	17	
	Female respondent	8	
	Age above 50	9	22.5
	Male respondent	9	
	Female respondent	-	
3.	Respondents by owning shares		
	In only one financial institution	8	20
	In multiple financial institution	32	80

(Source: field survey)

The table 4.11 describes the respondents by their sex and age. We can see that the investors are mostly male investors. Investors of the age less than 25 and above 50 do not include female investors. Investors of age more than 50 were those who were very experienced in trading of the equity shares and these who want to invest their fund all the way through the equity share investment. Most of the investors turn out to be holding the shares of more than one financial institution. The investor, who is aware of investing in equity share, goes on searching prospect to invest more in shares. The above table shows that there are more respondents who invest in multiple financial institutions rather than only one institution.

The responses of the questionnaire given by equity share investors are analyzed below.



The first question was “what inspired you to invest in the equity shares in secondary market?” The response is shown in the following table.

Option	No. of response	Percentage
Lack of alternative investment	6	15
Prospects of higher share prices in future	19	47.5
Future benefits from the institutions	12	30
Prevailing share prices	3	7.5
Total	40	100

(Source: Field survey)

Most of the responses were on behalf of prospects of higher share price in future. This shows that these people were looking for capital gains from equity shares. Such respondent counted at 47.5 percent of the total respondent. Furthermore, 7.5 percent of the respondent’s quoted prevailing market price of the equity shares as major reason for purchasing equity shares. Out of total respondents, 15 percent of the respondent said they purchases shares due to lack of alternative investment in the country and the remaining 30 percent said that they purchased shares with a hope that they can gain benefits from the organization in the form of bonus shares, right shares and cash dividends.

The second question dealt on the fact if the investors care for the financial health of the company or not. The question reads, “while investing, were you aware of the financial health of the institution?” the response is shown in the following table.

Option	No. of responses	% of total
(a) yes	35	87.5
(b) No	5	12.5
Total	40	100

(Source: Field survey)

From the total respondents 87.5 percent said that they care for the financial health of the company. When asked “What you see on the financial health amongst profits, earning per share (EPS) , dividend per share (DPS) , Net worth per share (NWPS) , dividend pay out ratio (DPR) and others if any ?” the response was as:

Option	No. of responses	% of total
profitability	15	37.5
Earning per share	6	15
Dividend per share	12	30
Net worth per share	3	7.5
Dividend payout ratio	2	5
Other specify	2	5
Total	40	100

(Source: field survey)

37.5 percent of the respondents said they would look at the profitability of the company as financial health. amongst them 30 percent said, they would also care for dividend per share, 15 percent said they would care for earning per share, 7.5 percent would care for net worth per share and 5 percent would see dividend pay out ratio, rest 5 percent of the respondents point out other financial indicators that include the management to the company and etc.

Another question was further asked with the same topic. The question read, “What factor amongst the financial health inspired you purchase the equity shares in the secondary market?” the response to this question was shown as follow:

Option	No. of responses	% of total
profitability	16	40
Earning per share	6	15
Dividend per share	11	27.5
Net worth per share	3	7.5
Dividend payout ratio	3	7.5
Other specify	1	2.5
Total	40	100

(Source: field survey)

40 percent of the respondents quoted the profitability behind their motive to buy equity share in the secondary market and 27.5 percent of the respondents said they are

interested in dividend per share. They expressed their hope verbally that the bank would offer bonus shares in the future. All those who said they look at net worth per share, dividend pay out ratio and other factors such as management and future growth while seeing financial health of the company, said that each of these factors were also the motives for the purchase of the equity shares.

Amongst those who said they do not care for financial health while purchasing equity shares in the secondary market , there was one supporting question, that is read as, “If you were not aware of the financial health of the institution , why did you invest in the equity shares in secondary markets?”

[Respond if your answer to Q is no.] The response of 5 respondents who say no to question number 2, is shown in the following table.

Option	No. of responses	% of total
Influences from the family	2	40
Demonstration effect	1	20
Market priced	2	40
Others	0	-
Total	5	100

(Source: Field survey)

Among these respondents who did not care the financial health, 40 % of them said that the market price of the bank and influences from family were equal factors that made them invest in the equity shares. 20 % of the respondents bought equity shares from the secondary market due to the demonstration effect their friends and close relatives were purchasing equity shares quite regularly.

Another question asked , “If the investor were aware of other financial indicators such as NEPSE index , share market growth and others.”

Most of the responses were yes. There was a total of 70 percent (28 responses) positive response.30% of (12 response) the response was no indicating that these group of respondents are not bothered with the other financial indicators in the share markets. Amongst those who cared for other financial indicators the following are the indicators that they look into.

Option	No. of responses	% of total
Yes		
Share market growth	15	37.5
NEPSE index	13	32.5
Others	0	-
No	12	30
Total	40	100

(Source: field survey)

32.2 percent of the respondents said they look NEPSE index and 37.5 percent said that they look for the share market growth.

Another question that is on the share investors perception regarding the prices of the equity shares. This question was intended to see if the investors think that the share price that they are paying is just right or not. The response showed that a total of 62.5 percent (25 respondents) thought that the share prices were not just right and thus does not correspond to the financial health of the institution. Among these respondents 60 percent said the market price is overvalued, 24 percent said it is under valued and 16 percent said they cannot answer this. The questions and their responses are shown in the following table.

The question read as “do you think the price that you pay correspond the financial health of the institution? “

[Respond if your answer Q. 2 is yes]

Option	No. of responses	% of total
Yes	15	37.50
No	25	62.50
Total	40	100

For those respondents who chose option ‘No’ to question 7 .

Another question is: You think the market price is .....

	No. of responses	% of total
Over value	15	60
Under value	6	24
Don't know	4	16
Total	25	100

(Source: field survey)

This question was on the awareness of the share investors on all directives issued by the Nepal Rastra Bank, Securities board, Nepal stock exchange and relevant institutions. The question asked, “are you aware of the notice, information and directives issued by the securities board, Nepal stock exchange and Nepal Rastra Bank?” the response showed that 70 percent were aware of these things and 30 percent were not aware of this information.

The another question was on “How share investors rated the risk – factor in the share market?” The response is shown in the following table.

Option	No. of responses	% of total
Very high	5	12
High	12	30
Normal	6	15
Low	2	5
Very low	1	2
Don't know	14	35
Total	40	100

(Source: Field survey)

35 percent of the respondents were unaware of the risk – factor in the share investment. Their response simply turned out to be I don't know. There was a mixed answer to this question. Most of the respondents who said they had some idea on the associated risk responded that the risk factor is higher (12 percent + 30 percent = 42 percent). 15 percent of the responses were in favour of normal risk. Only seven percent of the responded said the risk is lower. Other some specific questions said on

dividend and dividend policy that are as follows. Another question is “what is a main factor that affects the market price of equity share?” the response is shown in the following table.

Option	No of response	% of total
Dividend per share	18	45
Profitability of the firm	12	30
Net worth per share	10	25
Total	40	100

Source: Field study

45 percent of the respondent said that the DPS affects the market price of equity share where as 30 percent said profitability and 25 percent of the respondents said that the Net worth per share affects the market price of equity share.

Another question was said “in your opinion which is more preferable, cash dividend or stock dividend?” 60 percent (i.e. 24 percent) of the total respondents prefer cash dividend and rest 40 percent (that is 16 percent) prefer the stock dividend.

And the last question was asked “is increase in cash dividend increases the market price of equity share?” 70 percent (i.e. 28 percent) of total respondents said “yes” and rest 30 percent (i.e. 12 people) said “no” to this question. That means maximum respondents believe that increase in cash dividend increases the market price of equity share.

#### **4.3 Major Finding of the Study**

1. Among the commercial banks Nabil bank limited has the highest EPS throughout the study period. The average EPS of Nabil bank is 111.99, SD is 22.81 and CV is 20.37, which shows that there is low fluctuations in EPS of Nabil bank limited.
2. Among the finance companies, the average EPS of Royal merchant banking and finance is highest i.e. 21.76 with the SD and CV of 7.76, 35.65 respectively.

3. Among the all of institutions listed in our study, Nepal insurance company limited has lowest EPS i.e. 3.6 with SD and CV of 44.64 and 1234.94 respectively. Which shows very high fluctuation in EPS of the company.
4. Among the all of institutions, the average market price of Nabil bank limited is highest i.e. 3969.60 with standard deviation of 1519 .9 and coefficient of variation of 38.29. Where as sagaramatha insurance company has lowest average MPS of 261.2 with SD and CV of 45.72 and 17.51 respectively. There is very low fluctuation in the MPS of Nepal insurance company limited.
5. The average dividend paid by Nabil bank limited is highest i.e. 96, among the all financial institutions listed in the above table. Everest bank limited has the second highest.
6. Average DPR of Ace development bank is 93.95, which is the highest DPR from the sampled institutions. It means that Ace development bank generally pays 93.95% of its total earning as dividend to its shareholders. Nepal insurance company has lowest DPR of 2.80.
7. Among the all, Nabil bank limited has the highest average NWPS. Everest bank, Himalayan bank, Butwal power company, Nepal investment bank also shows a very positive position. Although some others show a low NWPS , all of their position is good as the average NWPS is positive.
8. The degree of relationship between MPS and DPS seems to be significant in all of the above listed institutions except in case of Capital merchant banking and finance, Royal merchant banking and finance, DCBL bank limited, Ace development bank limited and Nepal insurance company limited, where correlation coefficient recorded as – 0.294, -0.554, -0.438, -0.375 and -0.591 respectively.
9. The simple regression equation of Nabil bank , bank of Kathmandu , Everest bank, Himalayan bank, standard finance, Union finance, Siddhartha development bank, Sagarmatha insurance company and Butwal power company indicate that if DPS increases by Re. 1, MPS will be increases by Rs. 0.011, 0.004, 0.008, 0.006, 0.008, 0.119, 0.031, 0.0009 0.046 and 0.0008 respectively. Whereas the regression equation of Capital Merchant Banking and Finance, Royal merchant banking & finance, DCBL bank limited, Ace development bank limited and Nepal insurance company limited implies that

if DPS decreases by Re. 1, it leads to increase in MPS by Rs. 0.002, 0.007, 0.009, 0.025 and 0.050 respectively and vice-versa.

10. The degree of relationship between MPS and EPS seems to be highly positive in Bank of Kathmandu, Himalayan bank limited, Standard finance limited and Union finance limited. In capital merchant banking and finance ,Ace development bank and Nepal insurance company limited it is negative .There is positive correlation between MPS and EPS in Nabil bank, Everest bank, Nepal investment bank , Royal merchant banking and finance, DCBL bank, Siddhartha development bank, Sagarmatha insurance company and Butwal power company limited.
11. The simple regression equation of Nabil bank, Bank of Kathmandu, Everest bank, Standard finance, Royal merchant banking & finance, Union finance limited, DCBL bank limited,Siddhartha development bank, Sagarmatha insurance company and Butwal power company limited depicts that if EPS increases by Re. 1 it leads to increase in MPS by 0.004, 0.011, 0.009, 0.004, 0.021, 0.045, 0.009, 0.09, 0.001, 0.005, 0.087 and 0.007 respectively. Beside these the regression equation of Capital merchant banking & finance, Ace development bank and Nepal insurance company limited indicate that if EPS increases by Re. 1, the MPS will be increases by Rs. 0.002, 0.011 and 0.705 respectively and vice-versa.
12. Among all of the institutions, the correlation coefficient between MPS and DPR of Bank of Kathmandu, Himalayan bank ltd., Standard finance ltd., DCBL bank ltd., Ace development bank ltd., Siddhartha development bank, Nepal insurance company and Butwal power company is negative. Which indicate that there exists negative relationship between MPS and DPR. Such type of situation is not a healthy financial environment for the banks and financial institutions.
13. The simple regression equation of Nabil bank, Everest bank, Nepal investment bank, Capital merchant banking and finance, Union finance and Sagarmatha insurance company indicate that when DPR increases by Re. 1, the MPS will be increase by Rs. 0.005, 0.005, 0.006, 0.003, 0.084 and 0.351 respectively. But regression equation of Bank of Kathmandu, Himalayan bank limited, Standard finance ltd., Royal merchant banking and finance, DCBL bank, Ace development bank, Siddhartha development bank , Nepal insurance company



and Butwal power company implies that if DPR decreases by Rs. 1, it leads to increase in MPS by Rs. 0.009, 0.027, 0.017, 0.107, 0.140, 0.057, 0.034, 0.134 and 0.013 respectively and vice-versa.

14. There is high degree of positive correlation between MPS and NWPS of Himalayan bank limited and Standard finance limited. The relationship between MPS and NWPS for Everest bank, Butwal Power Company and Siddhartha development bank is moderate. There is low degree of positive correlation between MPS and NWPS in Nabil bank, Bank of Kathmandu, Nepal investment bank, Royal merchant banking and finance and Union finance limited. There also negative correlation in Capital merchant banking and finance, DCBI bank limited, Ace development bank ltd. ,Nepal insurance company and Sagarmatha insurance company limited.
15. The simple regression equation of Nabil bank, Bank of Kathmandu , Everest bank, Nepal investment bank, Himalayan bank, Standard finance, Royal merchant banking and finance and Butwal power company limited shows that if NWPS increases by Re. 1 it leads increase in MPS by Rs. 0.015, 0.013, 0.039, 0.019, 0.029, 0.071, 0.012, 0.034, 0.005 and 0.041 respectively. Similarly, the regression equation of Capital merchant banking and finance, DCBL bank limited, Ace development bank limited, Nepal insurance company limited and Sagarmatha insurance company limited indicate that when NWPS increases by Re. 1, the MPS will be decreases by Rs. 0.005, 0.000016, 0.057, 0.824 and 0.395 respectively and vice-versa.
16. Multiple regression analysis gives the result on MPS due to the joint effect on variables DPS, NWPS, EPS and DPR. It reflected that NWPS and DPR explained the equally best of the market price compared to other variables DPS and EPS . DPS seems to more volatile than other variable. it seems not a good indicator of stock price.
17. From the analysis of primary data, 87.5 percent of the share investors cared on the financial health of the company before purchasing equity shares from the secondary market. Amongst the financial health 37.5 percent of respondents cared for the profitability of the institution. It was found that 30 percent of the respondents cared for dividend per share and 15 percent of respondent care for earning per share. 45 percent of respondents believe that DPS affects the market price of equity share where as 30 percent said that the profitability of

firm affects the MPS and 25 percent of the respondent said NWPS affects the market price of equity share.

## CHAPERR-V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

Every firm is established to earn profit. Among the total net profit earned each firm .divides its net earnings into retained earnings and dividend. Dividend is defined as that portion of the net earnings of the firm, which is distributed to the stock holders either in the form of cash or stock as per its dividend policy. General public invest in equity share with an expectation and motive of good returns in future in the form of capital gains, dividends of growth inters of share holding. The financial performance of the institutions and other economical and financial factors mostly affects the decision to invest in equity shares. Other factor like market imperfection, lack of awareness of the investors, lack of skill to analyze the financial health and unhealthy market competition may lead to fake decision while purchasing equity shares.

The market price of equity shares is affected by various financial indicators like dividend per share, earning per share, net worth per share and dividend payout ratio. Therefore this study mainly examines the relationship between market price of the equity share with dividend per share, earning per share, and net worth per share and dividend payout ratio. This study is mainly focused on whether dividend per share of the company affects market price of share or not?

It has been noticed that there is a significant fluctuations in prices of corporate shares even without significant exchanges in profitability situation of the company. Amongst the listed companies in the Nepal stock exchange, Commercial Banks always hold a big position in overall trading. The trading in terms of volume and amount of the commercial banks make up to 60 percent of total transactions. Development banks and finance companies hold second and third share in the trading in volume as well in the amount. Manufacturing and Hydropower Company also hold some share in the market. Here, there fore study of 15 Financial Institutions was expected to reflect the overall stock market in Nepal. This research encloses 5 Commercial banks, 4 Finance companies, 3 development banks, 2 Insurance companies and 1 Hydropower company .

Both Empirical analysis and statistical observation had been performed to carryout this study. The secondary data was collected primarily from the annual reports of securities Board Nepal. The data was studied in order to obtain various financial performances, annual meetings, MPS, DPS, NWPS, EPS, and DPR of the sampled financial institutions. The analysis of MPS, NWPS, DPR, DPS, and EPS was done which showed that Nabil bank limited has the highest EPS, MPS and DPS through out the study period. From the group of finance companies capital merchant banking and finance company has the highest MPS. Butwal Power Company limited has the average MPS of 1091.80. Nepal insurance company limited has very lowest DPS of 1.052, which has not paid dividend for first four years.

Sagarmata insurance company has also not paid dividend for 3 years. Among the all institutions, Ace development bank has highest DPR. Siddhartha development bank and Butwal Power Company have second and third highest DPR. From all, Nabil bank limited has the highest NWPS. Everest bank and Himalayan bank also show a very positive position. For the purpose of statistical analysis of the entire sample banks, simple correlation and regression analysis and multiple regression is used to interpret the results. The data obtained were analyzed to run the separate set of regression analysis taking market price as the dependent variable and EPS, DPS NWPS and DPR has been taken as independent variable.

Simple regression analysis between the market price and other financial indicators (DPS, EPS, NWPS and DPR) reflected that net worth per share explained the best of the market prices compared to other indicators. dividend per share and earning per share were equally explanatory, where as dividend pay out ratio was not a good indicator of stock pricing. The result showed that market price corresponds to the earning per share at a greater extent and then to dividend per share and net worth per share.

Multiple regression analysis between the market price and other financial indicators (MPS on DPS, NWPS, EPS and DPR) reflected that NWPS and DPR explained the best of the market price compared to other indicators, DPS and EPS. DPS seems not a good indicator of stock price.

When carrying out individual analysis of the commercial banks, the result drawn was that market prices of different banks correspond to different financial indicators. While market price of equity shares of some of the commercial banks was high with dividend per share, some had high correlation coefficient between market price and net worth per share. Correlation coefficient was significant between dividend pay out ratio and market price in some of the cases. The empirical analysis was carried out on the basis of the responses of 40 share investors. The result of which is shown as follows. Most of the respondents were male respondents investing in more than one financial institution. They invest with an expectation of gaining more on future. They were more concerned with the purchase and sale of shares rather than holding for a longer period of time expecting dividend and bonus share returns.

Among the total respondents, 87.5 percent to the share investors cared on the financial health of the company before purchasing equity shares from the secondary market. Amongst the financial health most of the investors care for the profitability of the institution. It was found that 30 percent of the respondents care for dividend per share.

About 13 percent of the respondents who did not care for financial health of the company were mainly due to ignorance rather than due to his knowledge. This group of people bought share mainly because those in the close circles were purchasing shares. They had little knowledge but were investing in the shares mainly as a result of demonstration effect. There was little concern on other financial indicators, risk factors and directives issued by central bank, Nepal stock exchange, securities board and concerned commercial banks.

## **5.2 Conclusion**

From the study, it has been concluded that there is not a single financial indicator that has a dominated role to determine MPS. One financial indicator that has significant for one company is not significant for another company. Dividend practices of all financial institutions are neither stable nor constantly growing. Dividend practices also seen a important indicators in determining market price somehow. Haphazard way of distribution in growing trend is seemed in practice.

## **5.3 Recommendation**

1. The findings of the study reveals that market prices of the equity shares are overvalued when compared to the earning per share, which is the primary

indicator of the financial status of the concerned financial institution. This was mainly due to ignorance and improper access to financial health of the company. It is recommended that the investors should be conscious while purchasing equity shares. Then regulatory bodies should play greater role to disclose the financial status of the company on a regular basis. This can help to investors for proper judgment of the situation and for the calculation of expected market prices.

2. As a empirical study revealed that there are significant number of share investors who do not know about the functioning of the securities market and are unaware of the market price setting mechanism, an intensive program to aware this group of share investors must be carried out by Nepal stock exchange and securities board Nepal. The present efforts to educate share investors have remained at low level. Since the access to internet in Nepal is quite low, it is recommended that Nepal stock exchange and securities board take on other measure such as printing leaflets and other information brochures to educate the share investors.
3. The presence of rating agencies and disclosing the ratings to financial institutions on a regular basis can also help strengthen the equity market, as the market prices for high rated institutions would increases when compared to those having low level of ratings. As this study has not considered the external factors such as investment climate, economic growth, growth of financial system and others, it is recommended that a detailed study be carried out to observe the market price behavior in Nepal. This study can help identify the real factors that affect market price of equity shares, other than the financial health of the company itself.

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## **ANNEX-I**

### **Questionnaire**

**1. What inspired you to invest in the equity shares in secondary market?**

- a) Lack of alternative investment
- b) Prospects of higher share prices in future
- c) Future benefits from the institution
- d) Prevailing Prices

**2. While investing, were you aware of the financial health of the institution?**

- a) Yes
- b) No

**3. While investing, were you aware of the other financial indicators?**

- a) Yes
- b) No

**4. [Respond if your answer to question 2 is Yes]**

**What did you see on the financial health?**

- a) Profitability b) Earning per Share
- c) Dividend per Share d) Net Worth per Share
- e) Dividend Payout Ratio f) Others (Specify) .....

**5. [Respond if your answer to question 2 is Yes] What factor amongst the financial Health inspired you to purchase the equity shares in the secondary market?**

- a) Profitability
- b) Earnings per Share
- c) Dividend per Share
- d) Net Worth per Share
- e) Dividend Payout Ratio
- f) Others (Specify) .....

**6. [Respond if your answer to question 2 is Yes] Do you think the price that you pay correspond the financial health of the institution?**

- a) Yes
- b) No

**7. [Respond if your answer to question 6 is No] You think that the market price is**

- a) Overvalued
- b) Undervalued
- c) Don't know

**8. [Respond if your answer to question 2 is No] If you were not aware of the Financial health of the institution, why did you invest in the equity shares in Secondary markets?**

- a) Influence from the family

- b) Demonstration effect (purchase of shares in the close circles)
- c) Market Prices
- d) Others

**9. [Respond if your answer to question 3 is Yes] What did you see on other financial indicators?**

- a) Share market Growth
- b) NEPSE Index
- c) Others

**10. Are you aware of the notice, information and directives issued by the Securities Board, Nepal Stock Exchange and Nepal Rastra Bank?**

- a. Yes
- b. No

**11. how do you rate the risk factors?**

- a. very high
- b. high
- c. normal
- d. Low
- e. very low
- f. don't know

**Specific questions on dividends and dividend policy.**

**12. What is a main factor that affects the market price of equity share?**

- a. dividend per share
- b. profitability of the firm
- c. net worth per share

**13 in your opinion which is more preferable?**

- a. Cash dividend
- b. Stock dividend

**14 in creases in cash dividend increase the market price of equity share?**

- a. Yes
- b. No

## ANNEX-II

### CORRELATION COEFFICIENT AND REGRESSION COEFFICIENT ANALYSIS BETWEEN MPS AND DPS

**Nabil Bank**

Year	MPS (x)	DPS (y)	x <sup>2</sup>	xy	y <sup>2</sup>
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2005/06	2240	85	5017600	190400	7225
2006/07	5050	140	25502500	707000	19600
2007/08	5275	100	27825625	527500	10000
2008/09	4899	85	24000201	416415	7225
2009/10	2384	70	5683456	166880	4900
n = 5	19848	480	88029382	2008195	48950

$$r_{xy} = 0.631$$

$$a = 51.845$$

$$b = 0.01112$$

The value of r, a and b are calculated using the following formula:

$$r_{xy} = \frac{n \sum xy - \sum x \cdot \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$= \frac{5 \mid 2008195 \mid 19848 \mid 480}{\sqrt{5 \mid 88029382 \mid (19848)^2} \sqrt{5 \mid 48950 \mid (480)^2}}$$

$$= 0.631$$

$$a = \frac{\sum x^2 \cdot \sum y - \sum x \cdot \sum xy}{n \sum x^2 - (\sum x)^2}$$

$$= \frac{88029382 \mid 480 \mid 19848 \mid 2008195}{5 \mid 88029382 \mid (19848)^2}$$

$$= 51.845$$

$$b = \frac{n \sum xy - \sum x \cdot \sum y}{n \sum x^2 - (\sum x)^2}$$

$$= \frac{5 \mid 2008195 \mid 19848 \mid 480}{5 \mid 88029382 \mid (19848)^2}$$

$$= 0.011123$$