CHAPTER I

INTRODUCTION

1.1   Background of the Study

Banking plays significant role in the economic development of a country. Bank is the resource for the economic development which maintains the self confidence of various financial institutes mainly dealing with the activities of trade, commerce, industry and agriculture that seek regular finance and other helps from them (banks) for growing and flourishing. The main objective of commercial bank is to mobilize idle funds.

Dividend policy remains a puzzle. A number of researchers have provided insights, theoretical as well as empirical, into the dividend policy puzzle. However, the issue as to why firms pay dividends is as yet unresolved. Several rationales for a corporate dividend policy have been proposed in the literature, but there is no unanimity, among researchers (Ross, 1976). Everyone however, agree that the issue is important, as dividend payment is one of the most commonly observed phenomena in corporations worldwide.

The issue of dividend policy is important for several reasons. First, researchers have found that a firm uses dividends as a mechanism for financial signaling to the outsiders regarding the stability and growth prospects of the firm. Secondly, dividends play an important role in a firm's capital structure. Yet another set of studies have established the relationship between firm dividend and investment decisions. According to the "residual dividend" theory, a firm will pay dividends only if it does not have profitable investment opportunities, i.e., positive net present value projects.

Further, a firm's stock price is affected, among other things, by the dividend pattern. Firms usually do not like to reduce or eliminate dividend payments hence they make announcements of dividend initiation or increases only when they are confident of keeping up with their good performance. Moreover, since the success of a financial manager is tied to the maximization of shareholders' wealth (and firm value), he/she must understand the dynamics of dividend policy. Indeed, the market value of a firm is dependent upon its stock price.

In the early 1980's, when government permitted establishment of foreign joint venture bank (JVBs) three JVBs namely Nepal Grind lays Bank (Ltd.), Nepal Arab Bank Ltd., and Nepal Indosuez Bank Ltd. were established. After the democratically elected government adopted the liberal and market oriented economic policy, the number of JVBs has increased dramatically of which Everest Bank Ltd is also the one.

In global prospective, joint ventures are the modes of trading through partnership among nations and also a form of negotiations between various groups of industries and traders to achieve mutual exchange of goods and services for sharing comparative advantages.

A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (industrials or commercial investment, production or trade).

In Nepal there are only few companies that pay dividend. But after establishment of joint venture companies there is new trend for distributing dividend. That has brought new hopes for productive mobilization of funds. So, major decisions of the firm are its dividend policy the percentage of earnings it pays in cash to its shareholders. Dividend payout of course reduces the total amount of internal financing. "By a dividend policy- we mean some kind of consistent approach to the distribution versus retention decision rather than making the decision on the purely

basis from period to period". Consequently, it must be considered in relation to the overall financing decision. The dividend payout ratio obviously depends on the way earnings are measured. Moreover in joint venture, they pay by cash where as in local usually shares are given instead of cash. But net earnings may not conform and may not be an appropriate measure of the ability of the firm to pay dividend. So, what and how much it is desirable to pay dividend is always a controversial topic because shareholders expect higher dividend but corporations ensure towards setting aside funds for maximizing the shareholder wealth. "In the decade since Modigliani Miller proclaimed that corporate dividend policy was a more detail in the context of their analysis the air has been filled with debate on the importance of dividends." There are again corporate laws that bind limitations on the distribution of dividends as corporation have to keep reserves for the protection of creditors overall interest. It is, therefore, a wise policy to maintain a balance between shareholders interest with that of corporate growth from internally generated funds. The return to shareholders should be better paid as dividends, since shareholders have investment opportunities to employ elsewhere. "Financial management is therefore concerned with the activities of corporations that affect the well being of stockholders. That well-being can be partially measured by the dividends received, but a more accurate measure is the market is the market value of stock."

Everest Bank Ltd. was established in 1994 by the distinguished business personalities of Nepal in partnership with the Punjab National Bank Ltd, one of the largest commercial bank in India having 112 years of banking his technology driven bank serving over 35 billion customers through a network branches spread all over the country with a total business of around INR 217. It was established with an authorized capital Rs 60 million. The bank is providing customer friendly services through a network of 22 branches. During the last financial year, the bank branches

namely Balaju in Kathmandu valley, Nepalgunj, Baglung and Birtamod. Everest Bank is first private bank having largest network. The bank has been conferred with "Bank of the year 2006, Nepal" by publication of financial times, London. The bank was bestowed with the "NICCI excellence award" by Nepal in commerce for its spectacular performance under finance sector.

The banking services like fixed saving and current deposit, credit by term loan, working capital letter of credit, bank guarantee retail finance remittance services, sale and purchases of rupees and dollars, travel Cheque, ATM/ debit card, etc are services offered by this bank.

Kumari bank Limited Located in Durbar Marg, Kathmandu in a short period of time has been successful in positioning itself as one of the preferred providers of complete financial service in Nepal. The Bank has an authorized capital of Rs. one billion and paid up capital of Rs. 625 million. The promoters of the bank hold 70% while the general public subscribed 30% of the shares. Adaptation of higher-end banking technology has enabled us to provide any of banking services tailored to meet the changing customer demands.

The bank has in existing branches in Kathmandu, Pokhara, Narayangadh, Birjung, Itahari, and Biratnagar. Five more branches are going to be established in the very near future

The customers are being offered a portfolio of modern competitive products for which the bank has received overwhelming responses. The portfolio includes retail product, internet banking, visa electron debit card, mobile banking, and remittance. Also services like Centralized banking system, Evening counter, Holidays banking, utility bill payment, and safe deposit locker, in addition to the normal banking practices are offered by Kumari bank.

Under the retail product, various products under saving account such account such as card account, normal saving, saving plus, advantage plus and Kumari saving etc. have been in produced by the Kumari Bank Limited. The bank has also been offering retail loans such as Home lone, Education loan, Vehicle loan and Personal loan etc. Kumari Bank is known as the pioneer bank for launching internet mobile banking service in the country. Customers can check their account, balance, view current account statement, and pay utility bills through the internet banking services.

1.2 Focus of the Study

The study is focused on analyzing the trend in dividend payment pattern, finding the determinants of dividend policy and analysis of target payout ratio of Nepalese commercial banks and joint venture banks. Commercial banks and joint venture banks are playing significant role in the development of national economy and are relatively more successful among the corporate firms listed in Nepal Stock Exchange. Their shares are the mostly traded ones in the Nepalese capital market. This study aims to find out what practices they follow in distribution of their earnings to the shareholders and the factors influencing their dividend decision.

1.3 Statement of Problem

Many of the financial institution are established these years. Dividend, the most inspiring factor for the investment on shares of the company is desirable from the stockholders point of view. The general problem toward which the study is direct is to analyze the dividend trend of Nepalese commercial and joint venture bank and the factors affecting their dividend decisions.

Dividend distribution is not matching with the earnings of the commercial and joint venture banks. Similarly no proper relationship between dividend and quoted market price of share exist. Returns of the listed companies lack the appropriate relationship with price. Companies with lower returns record rigid price whereas companies making sound returns does not rigid in price of share. Thus a return of the company is not reflecting the market price of shares.

The above facts inspire to study what are the factors that affect the dividend decision and valuation of the shares. Earnings are also treated as financing sources of the firm. When the firm returns it's earning, it will result in decreasing leverage ratio, expanding activities and increasing profit in succeeding years. Whereas, if the firm pays dividends it may need to raise capital through capital market which adulterate ownership control. In the later case, the firm takes loan or raises debenture which ultimately affect on risk characteristics of the firm. However, dividend is a must for the attraction of investors and it reflects firms' healthy position in the market. The study will be focused on revealing following specific problems:

) What is the relationship between dividends with earning per share, market price of share, book value of share, net profit and net worth, of KBL and EBL?

) Do both KBL and EBL have uniformity in dividend distribution?

) Do the dividend decisions affect the market price of the share differently in KBL and EBL?

) How to measure the target payout ratio?

) What factors influence the dividend policy?

1.4   Objective of the Study

The general objective of this study is to identify and analyze the dividend policy of Kumari Bank Limited and Everest Bank Limited. The specific objectives of the study are as follows:

- To highlight and compare relationship between dividends with earning per share, market price of share, book value of share, net profit and net worth, of KBL and EBL

- To analyze the uniformity in dividend distribution

- To examine whether the dividend decisions affect the market price of the share differently in KBL and EBL

- To measure the target payout ratio

- To analyze the factors influencing the dividend payment

1.5   Significance of the Study

Nepalese corporate sector is experiencing a slow growth. Capital market in Nepal is not well developed. Investors are unwilling to invest in shares. The return to investors in form of dividends is one of the major factors that induce higher investment in shares. The dividend policy of Nepalese firm still remains a puzzle. Although various studies have been carried out regarding dividend policies of corporate firms in Nepal, they have not been able to fully explain the factors influencing dividends. This study aims to provide an insight into determinants of dividend policy of commercial banks of Nepal.

The researcher is confident that the research will prove to be very useful for the management of Nepalese corporations as the findings will help them to formulate their dividend policy. The study will also be of great value for investors, stockholders, capital market, government, financial institutions, finance personnel and research students.

1.6   Limitations of the Study

This research has been done as a requirement of partial fulfillment of master's degree in management. The study is subject to the following limitations and delimitations:

-) Only cash dividends have been studied

-) This study is focused only on sample size of Everest Bank Limited and Kumari Bank Limited

-) Though this study is based on opinions of related persons, all the data are mainly secondary in nature

-) This study is mainly focused on financial activities of KBL and EBL

-) They study period covers only six years due to unavailability of data

-) The qualitative and external variable that effect dividend policy have not been considered in the study

-) The study is concerned with only KBL and EBL of Nepal

1.7   Organization of the Study

The study is organized into five chapters. Chapter one is the introductory chapter. It provides a brief background of the study, objectives, significance and limitation of the study.

Chapter two is devoted to the review of theories and previous research done in the study area. It includes a discussion on the conceptual framework regarding dividend policy and various empirical models developed. Past studies done in developed foreign capital markets on

dividend policy and studies done on the area by Nepalese scholars have also been presented. It also consists of a brief review of legal provisions regarding dividend practice in Nepal.

Chapter three describe the research methodology applied for the study. The population sample, sampling procedure and sources of data for the study are presented in this unit. It also consists of research design employed along with explanation of models, various financial statistical tools in the study.

Chapter four consists of presentation and analysis of data. The information obtained after processing data collected has been presented using figures, tables and the results of statistical analysis are interpreted in the unit. Finally, this chapter is concluded with the major findings of the research.

Chapters five, the last unit consists of summary and conclusions of the study. Summary and conclusion of the research are presented in this chapter along with the recommendation.

CHAPTER II

REVIEW OF LITERATURE

Dividend policy is an integral part of financial management decision of a business firm. The firm has to choose between distribution of profit to shareholders and ploughing them back into the business. So, there is a reciprocal relation between retained earnings and dividend. If retained earning is kept more, less will be the dividend and vice versa. Dividend policy affects the financial structure of the firm. There are so many books, journals and numbers of studies on dividend.

How much dividend is desirable to pay is always a controversial topic because shareholders expect higher dividend from corporation. In this chapter review of books, journals and past studies have been presented.

2.1 Theoretical Review

2.1.1 Concept of Dividend

The term dividend refers to the distributed earnings either in cash dividend or bonus shares to stockholders of the corporate firms in return to their stock investment. Stockholders supply equity capital with the expected future profit increase on their investments either directly or indirectly. When the corporate firm pays dividends, the stockholders are benefited directly. If the firms retain the earnings to exploit growth opportunities, the stockholders expect to benefit indirectly through price appreciation of stocks, called capital gain, in the stock market. Shareholders' wealth can increase either through dividend or capital gain. From the side of corporate

firm while corporate firm announces cash dividend, it reduces cash balance and issue of bonus share reduces retained earning with the effect of increase in share capital resulting from increase in number of shares outstanding.

There are two main functions of profits in modern corporate firm. They are firstly, payment of rewards in the form of cash dividend, and secondly, provision of fund sources in the form of retained earning for the maintenance and expansion of corporate business. The funds for dividends and funds for expansion and growth of business through retention of earnings largely depend on the profitability. The amount for expansion and growth from its earnings partly depends on the amount of tax, which it has to pay and partly on policy with regards to distribution of profits.

After a firm's profits after tax is measured, the problem starts regarding administrating profits between payment of dividend and retention of earnings. How much dividend corporate firms need to payout to its stockholders is prime anxiety of the corporate managers.

Dividend policy discusses about the division of earnings between payments to stockholders and reinvestment in the firm. This subject is relevant for all surroundings that mobilize funds in view of return and investment.[1] Dividend policy analyses the condition under which shareholders will be inclined to agree with management decisions on the allocation of earnings. Dividends provide a cheaper source of capital and, if wisely invested, will possibly increase capital gains and dividends in the future. Dividend policy has prompted many studies about the relationship between dividend payouts and share prices. Management makes decision on the basis of what is best for shareholders.

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[1] J.E. Weston & T.E. Copeland, *Managerial Finance*, 9th Ed. (New York: The Dryden Press, 1992).

2.1.2 Types of Dividends

If a company does not have sufficient profitable projects to consume its entire earnings and if the stockholders have a strong desire for dividends, the management should distribute the unutilized portion of the earnings as dividends.[2] Corporate firm chooses to make the payments of dividends in view of its objective, need and policies. Different types of dividends that the firm may choose to pay are briefly explained below:

Cash Dividend: Cash dividend is the proportion of earnings paid in cash to the shareholders in proportion to their shareholdings. Cash dividend drains out the cash and market price of the stock drops in most cases by the amount of cash dividend distributed.

Bond Dividend: Bond dividend is a payment of dividend in the form of its bond to the shareholders with a view to avoid cash outflow at present.

Property Dividend: In this type of dividend, observed rarely, the firm gives its own asset or property in the form of dividend other than cash. This form of dividend may be followed when there are assets or properties that are no longer necessary in the operation of the business.[3] Companies' own products and securities of subsidiaries are the examples that have been paid as property dividend.

Stock Dividend: A stock dividend is paid in the form of additional shares of stock instead of cash and simply involves a book keeping transfer of retained earnings to capital stock account. It represents nothing more than a recapitalization of a company. Shareholders' proportional ownership remains unchanged. The number of shares outstanding is increased. It is also popularly known as bonus share.

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[2]A.,Smith, *The Wealth of Nations*, (New York: Random House Inc, 1937).
[3] Radhey M., Srivastava, *Financial Decision Making: Text, Problems and Cases*, (New Delhi: Sterling Publishers Pvt. Ltd, 1984).

Script Dividend: Dividend paid in the form of promissory notes promising to pay the shareholders at a specified later date is called script dividend. Under this type of dividend, the company issues and distributes transferable promissory notes to shareholders, which may be interest bearing or not.

Except cash dividend, other dividends are paid in order to avoid the outflow of cash. Cash dividend and stock dividend are frequently used and popular in the dividend practices. Only cash dividend has been considered in this study.

2.1.3 Books Related to Dividend Policy

Corporate finance, as a part of economics, was emerged in early 1900's as a distinct field of study. Finance is basically concerned with the management of (i) investing funds in assets and (ii) determining the best mix of financing and dividends in relation to company's overall valuation.[4] It was primarily descriptive study limited to the procurement of funds and external analysis of the firm.

The firm is valued by the stockholders and creditors who can influence the business. In a capital structure decision, each and every firm can obtain additional funds by issuing new equity and by retention of earning. So, after measuring the firms' profit, there is further problem of how much these profits should be distributed in terms of dividend. It is a major financial management decision because the firm has to choose between distributing the profits to the shareholders and reinvesting it to finance the business. Different firm adopt different approaches to distribute dividend according to their objectives. If the firms' objective is to maximize shareholders wealth the firm should use large amount of profit for payment

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[4] James C. Van Horne, *Goals and Function of Finance: Financial Management of Policy*, (New Delhi: Printice Hall of India Pvt. Ltd., 1994) p. 310.

of dividend. But if the firm's objective is to expand its business, the firm should retain profit to finance in investment programme. If the firm was formulated to retain larger share of earnings sufficiently larger resources would be available to the firm for its growth and modernization purposes. In view of improved earnings position and financial health of the enterprise the value of share will increase and a capital gain will result. Thus, shareholders earn capital gain in lieu of dividend income. But if the firms was followed to payout high dividend to shareholders; as a result of this the stockholder dividend earnings will increase but possibility of earning gains is reduced.

Since dividend would be more attractive to stockholders, one might think that there would be a tendency for corporation to increase distributions. But one might equally pressure that gross dividends would be reduced somewhat with an increase in net after tax dividends still available to stockholders and an increase in retained earnings for the corporations.[5] So, the firm should maintain a policy between distributing dividends and retained earnings. The funds that could not be used up due to lack of investment opportunity should be better paid as dividend since shareholder have investment opportunities to employ elsewhere.

Thus, it is evident that in retention of earnings lies a capital gain while distribution of income increases dividend earnings. Owing to varying notions and attitudes of shareholder due to differences with respect to age, sex, tax bracket, security, income habits, preferences and responsibilities some are primarily concerned with the short run returns, others think in terms of long range returns, still other seek a portfolio which balance their expectation over time.

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[5]Smith Dan Thorp, "Relief from Double Taxation of Dividend Income," **Harvard Business Review, Boston** (Jan-Feb 1977) pp. 90-91.

2.2   Review of Financial Journals

2.2.1 Nils H. Hakansson Study[6]

The study was conducted on daily share price changes around the announcement of a dividend change and has found the results consistent with a dividend announcement effect. Increases in dividend leading to positive excess returns and decrease in dividend to negative excess returns. The effect seems to be more applied for companies that previously over invested free cash flow in projects with returns less than what the financial market require. The firms paying dividend after a long interruption were found to earn significant excess returns and interpreted that dividend convey valuable information to investors over and above that available from other sources. The companies omitting dividends because of poor present earnings and future prospects suffer a decline share prices.

2.2.2 Gordon's Study[7]

Another popular model explicitly relating the market value of the firm to dividend policy was developed by Myron Gordon which explains that dividend policy affects the values of shares even in a situation where the return on investment and required rate of return are equal. This model explains that investors are not indifferent between current dividend and retention of earnings with the prospects of future dividends, capital gain and both. The conclusion of this study is that investor gives more emphasis to the present dividend more than future capital gain. His argument stresses that an increase in dividend payout ratio leads to increase in the stock price for the reason that investors consider the dividend yield (D1/po) in less risky than the expected capital gain.[8]   Hence, investors required rate of

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[6] Nils H. Hakansson, "*To Pay or Not To Pay Dividends*", (Berkeley: University of California, Nov. 1981), Finance Working p.124.

[7] Myron J., Gordon, ***The Investment, Financing and Valuation of Corporation***, (Homewood III. Richard D. Irwin, 1962).

[8] S. Pardhan, ***Basic of Financial Management***, (Kathmandu: Educational Enterprises Pvt. Ltd., 1992), p. 683.

return increases as the amount of dividend decreases. This means there exist positive relationship between the amount of dividend and the stock prices.

His model is based on the following assumptions-

⟩ The firm is an all-equity firm

⟩ Internal rate of return (r) and cost of capital (ke) are constant

⟩ The firm and its stream of earnings are perpetual

⟩ The corporate taxes do not exist

⟩ The retention ratio 'b' once decided upon, is constant. Thus the growth rate g = br is constant

⟩ 'ke' must be greater than 'g' (br)

⟩ No external financing is available, so retained earnings would be used to finance for any expansion.

Based on the above assumption, Gordon has provided following formula, to determine the market value of a share.

$$ P \quad X \frac{E(1-b)}{Ke - b.r} $$

Where,

P	=	Price of a share
E	=	Earning per share
b	=	retention ratio
1-b	=	Percentage of earnings distributed as dividends
E (1-b)	=	Dividend per share
ke	=	Capitalization rate or cost of capital
b.r	=	Growth rate

According to this model, the following facts reveal.

In the case of growth, firm share price tends to decline in correspondence with increase in payout ratio or decrease in retention ratio i.e. high dividend corresponding to earning to earnings leads to decrease in share prices. Therefore, dividends and stock prices are negatively correlated in growth form. But in the case of normal firm share value remains constant regardless to changes in dividend policies. It means dividend and stock prices are free from each other in normal firm i.e. r = k firm. In the case of declining firm share prices tend to rise in correspondence with rise in dividend and stock prices are positively correlated with each other in decline firm.

2.2.3 Patrick J. Hess Study[9]

Most tests regarding dividend is focused on the tax effect and on financing signaling. they cover the impact of other factors like flotation costs, transaction costs, institutional restrictions and preference for dividend. the companies that pay dividend establish an ex-dividend date, stocks transacted before that date carry the right to the dividend and stocks transacted after that date does not carry right to the dividend with it. They conclude that the value of stock decline by less proportionately than the value of dividend on the ex-dividend days because the investors value dividend is less than the capital gain. Another study by Elton and Gruber[10] found that on average a stock declined by 0.78 of the dividend on ex-dividend date. They interpret this result as consistent with a clientele effect where investors in high tax brackets show a preference for capital gain over dividends, and vice versa.

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[9] Patrick J. Hess, "The Ex-Dividend Day Behavior of Stock Returns: Evidence on Tax Effects", **Journal of Finance,** Vol. XXXVII, Number2, (May, 1982), pp. 445-456.
[10] Edwin, J. Elton and Martin J. Gruber, "Marginal Stockholder Tax Rates and the Clientele Effect", **Review of Economics and Statistics**, 52 (Feb. 1970), pp. 68-74.

2.2.4 Van Horne and Mc Donald Study[11]

Van Horne and Mc Donald conducted a most comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing on the market value of the firms common stocks. They are using a well-known valuation model, i.e. cross-section regression model. The required data are 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 COMPUSTAT industrial data tape.

By using different models or methodology, they compared the results obtained for firms which both pay dividends and engage in new equity financing with other firms in an industry sample. They conclude that for electric utility firm in 1968, share value is not adversely affected by new equity financing in the presence of cash dividend, except for those firms in the highest new issue group and it makes new equity a more costly form of financing than the retention of earnings.[12] They also indicate that the payment of dividend through excessive equity financing reduces share prices. For Electronics, Electronic-components industry, a significant relationship between new equity financing and value was not demonstrated.

2.2.5 Robert H. Lichtenberger and Krishna Ramashwamy Study

Litzenberger and Ramashwamy have found positive relationship between expected before tax returns and dividend yields. They have discovered that high dividend stocks providing higher expected before tax returns than low dividend stocks to offset the tax effect. However, adding default risk

[11] James C. Van Horne and John G. Mc Donald, "Dividend Policy and New Equity Financing",
Journal of Finance, (May 1971), pp. 507-519.
[12] Ibid, p.517.

premium variable to the extended capital assets pricing model shows the dividend coefficient is not significantly different from zero and concludes that the dividend yield measure is likely to be correlated with a number of economics phenomena. Thus, tax effect on dividend is in unsettled state. Another study of the relationship between dividend yields and stock returns by Black and Scholes indicates that stocks with high payout ratios did not provide returns significantly different from those with low payout ratios. So, they interpret these findings as consistent with the idea that dividend policy does not matter.

2.2.6 Modigliani Miller's Model (M-M's Model)

Modigliani and Miller (1961)[13] developed theory for irrelevance of dividends which are most comprehensive and logical. According to them, dividend policy does not affect value of a firm and is therefore, of no relevance. They are of the view that sum of the discounted value per share after dividend payment is equal to the market value per share before dividend is paid. It is the earning potentiality and investment policy of the firm than its pattern of distribution of earnings that affects the value of the firm.

M-M approach is based on some assumptions like existence of perfect capital market where all investors are rational. Information is available to all at number cost; there are no transaction and floatation costs. There is no such investor as could alone influence market value of shares. Taxes do not exist. Form's investment policy is well planned and is fixed for all the time to come. There is no uncertainty as to future investments and profits of the firm.

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[13] Merton H. Miller and France Modigliani, "Dividend Policy, Growth and the Valuation of the Share", **Journal of Business**, XXIV (Oct. 1961), pp. 411-433.

The crux of the M-M argument is that shareholders do not necessarily depend on dividends for obtaining cash. They can get cash by devising "home made dividend" from arbitrage process without any dilution in their wealth. According to M-M, the effect of dividend payments on shareholders wealth is offset exactly by other means of financing. M-M suggest that the sum of the discounted value per share after financing and dividends paid is equal to the market value. The stock's decline in market price because of external financing offsets exactly by the payments of the dividend. Thus, a stockholder is said to be indifferent between dividends and the retained earnings and subsequent capital gains.

M-M view that the market price of a share at the beginning of a period is defined as equal to the present value of the dividend paid at the end of the period plus the market price at the end the period.

Thus,

$$\text{Po} \quad = \frac{D_1 + P_1}{1 + K} \quad \dots \quad \dots \quad \dots \text{ (i)}$$

Where,

P_1 =   market Price of a share at the end of the year

D_1 =   Dividend paid at the end of the year

P_0 =   Price of a share at the beginning of the year

K   =   Cost of Capital

The value of the firm (V) if no new financing exits can be written as.

$$V \quad = np_0 = \frac{n\,(D_1 + P_1)}{1 + K} \dots \quad \dots \quad \dots \text{ (ii)}$$

where,

n   =   number of outstanding shares

If the firm sells 'M' number of new shares at time 1 at a price of P_1, the value of the firm at time 0 will be,

$$np_0 = \frac{nD_1 + (n+m)P_1 - mP_1}{1+k} \qquad \ldots \quad \ldots \quad \ldots \text{(iii)}$$

Thus, the total value of the firm as per equation (iii) is equal to the capitalized value of dividends to be received during the period plus the value of the number of shares outstanding at the end of the period less the value of the newly issued shares.

A firm can finance its investment program either by ploughing back its earnings or by issue of new shares or both. Thus, total amount of new shares that the firm will issue to finance its investment will be;

$$mp_1 = I - (x - nD_1) \qquad \ldots \quad \ldots \quad \ldots \text{(iv)}$$

Where,

mp = Total amount of funds raised by issue of new shares to finance investment projects

I = Total new investment during Period 1

x = Net Profit

If equation (iv) is substituted in equation (iii), we find the following equation

$$np_0 = \frac{(n+m)P_1 - I + X}{1+k} \ldots \qquad \ldots \quad \ldots \text{(v)}$$

Thus, the value of firm is unaffected by dividend policy. Because it is possible to restate the value of the firm in equation (v) without dividends D, which shows that dividends have no effect on value of the firm when

external financing is used M-M conclude that the current value of firm is independent of its current dividend decisions. What is gained by stockholders in increased dividends is offset exactly by the decline in the terminal value of their stock.

Dividend Relevance Theory

The conclusions derived by M-M are quite consistent and appealing but assumptions on which they are based are not well-founded and realistic (Ramacharran, 2001). MM's hypothesis therefore lacks practical relevance and has been criticized widely. Shareholders are not indifferent to dividends and capital gains and dividend does influence the value of firm. James E. Walter, Myran Gordon and John Lintner Van Horne, Patrick J. Hess, Nils H. Hakansson have conducted major studies to support relevancy of dividend which are explained above and below.

2.2.7 Walter's Model[14]

Walters model, one of the earlier theoretical models; clearly indicates that the choice of appropriate dividend policy almost always affects the value of firm. He has studied the significance of the relationship between the firm's internal rates of return, r (i.e. actual capitalization rate) in determining such dividend policy as will maximize the wealth of the stockholders (Shrivastava, 1984).

Walter's Model is based on the some assumptions like the firm finances its entire investments by means of retained earnings. New equity stock or debentures are not issued to raise funds. Internal rate of return (r) and cost of capital (k) of the firm remain constant. The firm's earnings are either distributed as dividends or reinvested internally. Beginning earnings and

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[14] James E. Walter, "Dividend Policies and Common Stock Prices", **Journal of Finance**, Vol. 11 (March 1966), pp. 29-41.

dividends of the firm never change. The firm has a very long or infinite life.

The formula used by Walter (1966) to determine the market price per share is:

$$P = \frac{D + \frac{r}{k} fE Z D A}{K}$$

Where,

P	=	Market Price per share
D	=	Dividend per share
E	=	Earning per share
r	=	Internal rate of return (Actual Capitalization rate)
k	=	Cost of Capital (Normal Capitalization rate)

Walter's model seeks to measure the effect of dividend on common stock by comparing actual and normal capitalization rate. Walter considered firm as growth firm if r/k is greater than 1. Such firms must reinvest retained earnings to finance investments. Larger the firms retains, higher the value of the firm. Optimum dividend payout ratio for such a firm will be zero. Normal firms comprise those firms whose r/k = 1. For such firm dividend policy will have no effect on the market value per share. Firms whose r/k is less than one are regarded as declining firms. In such firms, market value of the firm will tend to be maximum when it does not retain earnings at all (i.e. pays out all earnings as dividends).

Thus, in Walter's model, the dividend policy of the firm depends on the availability of investment opportunities and the relationship between the firm's internal rates of return 'r' and cost of capital 'k'. The firm should

use earnings to finance investments if r > k, should distribute all earnings when r < k and would remain indifferent when r = k. Thus, dividend policy is a financing decision when dividend policy is treated as a financing decision the payment of cash dividends is a passive residual.[15]

Limitations of Walter's Model

Walter has assumed that firm is financed by retained earnings; it can be applicable to only those firms who have financed all capital by equity. He has assumed that 'r' and 'k', earnings per share, and dividends per share are constant which is not applicable for Nepalese companies. Rate of return (r) changes with increase and decrease of investment and cost of capital (ke) changes with risk borne by the firms.

2.3   Factors Affecting Dividend Policy

Formulating a policy regarding determination of amount of dividends to be paid out to the stockholders requires careful consideration of a myriad of factors that come to bear upon dividend policy. It should be noted that although the factors may affect the payment of dividends, there is no necessary relationship between these factors and actual dividend policy. The factors affecting the extent to pay out dividends instead of retaining earnings are briefly outlined below:

1.   Legal Rules

The legal rules provide that dividends must be paid from earnings- either from the current year's earnings or from past years' earnings as reflected in the balance sheet account "retained earnings." The legal rules provide the framework within which dividend policies can be formulated. Legal rules emphasize three rules:

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[15] Soloman, Ezra, *The Theory of Financial Management*", (New York: Columbia Press, 1963), pp. 139-140.

i.   The net profit rule: This rule states that dividend must be paid from present and past retained earnings.

ii.   The capital impairment rules: This rule prohibits the payment of liquidating dividend (i.e. payment of dividend out of capital). Liquidating dividend would mean distributing dividend from investment rather than earnings.

iii.   The insolvency rule: This rule prohibits the payment of dividend while the firm is in insolvent condition where liabilities are greater than assets.

2.   Liquidity Position

Even if a firm has a record of earnings, it may not be able to pay cash dividends because of its liquidity position. Indeed, a growing firm, even a very profitable one, typically has a pressing need for funds. In such a situation the firm may elect not to pay cash dividends.

3.   Rate of Asset Expansion

A rapidly growing concern will have regular needs of long-term funds to seize upon favorable opportunities and for that purpose it may find it expedient to finance a greater part of its expansion. Such a decision will mean that dividend must be kept at a minimum. But a company, which does not need additional funds for expansion or for replacement of assets, may distribute a high portion of its earnings.

4.   Need to repay Debt

It also influences the availability of cash flow to pay dividends.

5.   Restrictions in debt Contracts

The dividend policy of corporate firms using debt is also affected by decision to repay debt on or before maturity which generally requires more retention of earnings, lowering the dividend rate. In a case of a company is in-debated with long-term debt, the provisions of debt agreements greatly influence dividend payments. There may be an agreement with lenders which may either prevent the payment of dividends entirely or limit the amount of dividends to be paid or disallow payment of dividend until certain conditions are fulfilled.

6.   Investment Opportunities and Stockholders' preferences

Appropriate dividend policy of a firm is one that is designed in the light of company's investment opportunities and stockholders' preferences. If the company has a host of profitable investment opportunity in hand and the stockholders have preference for long-term gains, the management has no alternative but to retain entirely or sizeable portion of its earnings to finance the investment projects. However, the management will be in dilemma if the company has a number of potential investment proposals requiring plentitude of funds and at the same time its stockholders have strong preference for dividend income. In such a situation the finance manager must balance the net preference of stockholders against the differential cost of retained earnings and net stock financing before deciding about the size of dividends to be distributed.

7. Stability of Dividends

Consistency in payment of dividend payment constitutes important aspect of dividend policy. There are three major types of dividend.

  i.   Constant payout ratio

ii. Constant dividend per share

iii. Stable rupee dividend plus extra dividend

) According to this form of dividend policy, the fixed percentage of earnings is paid as dividend. The dividend fluctuates proportionately to the volatility of earnings. Constant payout ratio reflects the ability of firms to pay dividend and policy to retain profits.

) The firms pay certain amount per share constantly as dividend per share. Fluctuation in the earnings do not affect the dividend payment. But when the firm maintains higher level of earnings, the amount of dividends also increased.

) Under this policy a sum of amount is paid regularly as dividend. In the boom period extra dividend is paid over and above the regular dividend and if the normal condition returns the firm cuts extra dividend per share and pays the regular dividend only.

8. Control

Control is also an important factor that influences the pattern of income distribution. The issue of additional common stocks for procuring funds dilutes control of the dominant group in that company while raising debt increases risk. In view of this, the present owners' desire to maintain control dictates the policy of withholding dividend payments to build up funds for growth and other purposes.

9. Access to capital market

A firm's access to capital market will be influenced by the age and size of the firm, therefore a well established firm is likely to have a higher payout ratio than a smaller, newer firm.

10. The **<u>tax position of stockholders</u>** also affects dividend policy:

⟩ Corporations owned largely by tax payers in high income tax brackets tend toward lower dividend payouts because the tax rate applied to dividends

⟩ Corporations owned by small investors tend toward higher dividend payouts

⟩ Sometimes there may be a conflict between stockholders in high income tax brackets and stockholders in lower tax brackets

    i. The dividend policy may be a compromise an intermediate payout ratio

    ii. If one group dominates, the members of the other group are likely to sell their shares, over time. Therefore, a firm's dividend policy dictates the type of stockholders it has and vice versa. This is called the clientele effect

11. **Tax position of the corporations**

In addition, the tax position of the corporations affects its dividend policies. Possible penalties for excess accumulation of retained earnings may induce higher payout ratios.

12. **A higher rate of assets expansion** creates a need to retain funds rather than to pay dividends.

13. **A higher 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.

2.4   Legal Provisions Affecting Dividend Policy in Nepal

Legal rules and procedure are imposed to make the corporate firms follow international accounting standard in maintaining accounts and distributing profits. Government policy, Company Act, Central Bank's rules and regulations, circulars issued from time to time and contractual restrictions govern not only the amount of dividend that can be legally distributed but also the procedural aspects of declaring dividend and dividend practices of corporate firms. These policies, rules and regulations are subject to change to suit the state of condition in the corporate sector and country's economy.

So far as legal rules and policy affecting dividend policy and behavior of corporate firms in Nepal is concerned, there are certain legal restrictions and regulations that seem to affect dividend policy, behavior and practice of corporate firms in financial sector in Nepal which are not adequate, clear and comprehensive as in other countries.

The underlying objectives such as maintaining the sound financial health by imposing legal restriction on dividend, maintaining the liquidity of the corporate firms to meet fixed obligations, strengthening the financial position of the corporate firms to assure increased net worth, and enabling the corporate firms to exploit opportunities for their continuous growth, survival and declaration of dividend, issue of bonus shares and repurchases of shares. Declaration of dividends is prohibited unless corporate firm is incorporated under Company Act or statute transfer necessary amount from net profit to reserves account as required by statutory provisions.

Commercial Bank Act 1972 (2031) section 18 (4th amendment 2046) has prohibited of dividend unless the following conditions are met:

-) Before writing off preliminary express
-) Before making provisions for previous years' losses

) Before maintaining adequate (a) capital fund, (b) provision for loan loss, and (c) reserve fund, 20% of the net profit should be appropriated till reserve fund reaches double of paid up capital.

Nepal Company Act, 1997 (2053B.S.) has made certain provisions on dividend payments. Legal rules and provisions, which seem to affect dividend practice, are mentioned below:-

Section 64; subsection 1 required corporate management to table on the agenda of audited financial statements in shareholder's annual general meeting for discussion and must be approved by them. Corporate management must send annual reports signed by at least one director to the shareholders within 21 days from the date of annual general meeting. Subsection 4 requires all the aspects of annual reports to be discussed and approved by shareholders' annual general meeting. However, it also prohibits discussing and increasing on the rate of dividend declared by Board of Directors in the annual general meeting.

Section 2 (m) of the act has defined the bonus share. The term 'bonus share' is defined as share issued in the form of additional share to the shareholders by capitalizing the surplus from the profit or the reserve fund of a company. The term also denotes an increase in the paid-up values of the shares after capitalizing surplus or reserve funds.

Section 42, subsection 5 allows issue of bonus shares from corporate firm's earning and reserve created out of profits and prohibits from the revaluation of assets.

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

Section 137, subsection 1 states that a special resolution must be passed by the general meeting for the issue of bonus shares and the same to be informed to the concerned authorities before issuing it.

Section 140 states about the dividend payment practice to be followed by the companies. Sub section 1 requires that the dividends declared to be distributed to the shareholders within 45 days from the date of decision to distribute them except in the following circumstances:

-) In case any law forbids the distribution of dividends

-) In case any right to dividend is disputed

-) In case dividends can't be distributed within the time limit mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company

Sub section 2 requires the corporate management to pay dividend adding interest at the prescribed rate if dividends are not distributed within the time limit mentioned in sub section 1. Sub section 3 states that only the person whose name is recorded in the register of existing shareholders at the time of declaring the dividend should be entitled to it.

2.5   Rules Regarding Dividend Policy

There is nothing stated in Nepal Company Act regarding dividend policy. The responsibility to undertake required actions to protect shareholders interest is given to stock exchange centre by then Securities Exchange Act of 1983-84. However, this organization is not competent enough to protect shareholders interest since attitude of the board of director's plays dominant role in management to public limited companies. In many cases, long-term debt in debentures and preferred stock agreements contain restrictions on the maximum common stock dividend that can be paid by a

firm. Such covenants are designed to protect senior claim holders from excessive withdrawals by residual owners.

In addition to covenants in debt and preferred stock agreements, many state laws place restrictions on dividend payment designed to give further protection to senior claim holders. Many states require that dividends be paid only out of retained earnings. The effect of such a restriction is to permit dividend payments only when retained earnings are positive figures. A few states permit dividends if current earnings, usually over the most recent 12 months, are positive, even though total cumulative retained is negative.

In present situation it is advisable to pass a separate shareholders protection act and safeguard shareholders rights and interests. A privately formed organization called shareholders association of Nepal is established in this regard which need to be recognized by the government.

Since the thesis should recommend improvements, it seems reasonable to review the provisions stated about the dividend payment in Company Act of India.[16] The government of India promulgated an ordinance putting some legal rules on payment of dividend on July 6, 1974. The rules were-

i. A Company could not distribute dividend more than $1/3^{rd}$ of its net profit

ii. The amount of total dividend to be paid was limited to preference dividend plus amount equal to 12% of the face value of equity share capital

The above rules continued till 5th July, 1977. Thereafter, certain rules were framed by the government under the Companies Act. These rules are-

) Companies (Transfer of Profits to Reserve) rules 1975

) Companies (Declaration of Dividend out of Reserves) Rules 1975

) These rules put the following restrictions:

1. A company shall not declare or pay dividend in any financial year until and unless it transfers a particular percentage of profits to reserves. These percentages are:

   a. At least 2.5% of the profits of a year if the dividend proposed for that year exceed 10% but not 12.5% of the paid-up capital.

   b. At least 5% of the profits of a year if the dividend proposed for that year exceed 12.5% but not 15% of the paid-up capital.

   c. At least 7.5% of the profits of a year if the dividend proposed for that year exceeds 15% but not 20% of the paid-up capital, and

   d. At least 10% of the profits of a year if the dividend proposed for that exceed 20% of the paid-up capital.

A company has the choice to transfer more than 10% of the profits to reserves if the dividend declared is not less than average rate of dividend for the past three years. But this choice is not available when the after tax profit is lower by 20% or more than the average after tax profits for the two immediately preceding financial years.

2. A company can declare dividends out of reserves. But the rate of dividend shall not be more than the average of the rates of dividends

in the three immediately preceding years, or 10% of the paid-up capital, whichever is lower.

3. Dividend can be declared out of reserves if the amount of dividend does not exceed 1/10 of the paid-up capital and free reserves.

4. Dividend can be declared out of reserves, if the amount of dividend drawn from reserves does not reduce the amount of reserves below 15% of the paid-up capital.

2.6   Review of Related Studies

This section is divided into two sections. In the first section, research undertaken on the study area in foreign countries is unveiled while in the second section, studies carried out on the problem in Nepalese context have been reviewed.

2.6.1   Review of Foreign Research

Black (1976) tried to answer the question, "Why do corporations pay dividends?" He also tried to answer the second question, "Why do investors pay attention to dividends?" He found that although the answers to these questions may appear obvious, he concludes that they are not. The harder we try to explain the phenomenon, the more it seems like a puzzle, with pieces that just do not fit together. After over two decades since Black's paper, the dividend puzzle persists.[16]

Baker and Farrelly (1988) reported similar results for dividend achievers, which they defined as companies having an unbroken record of at least ten consecutive years of dividend increases. They also conducted a survey of institutional investors. Their findings showed that these sophisticated

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[16] F. Black, "The Dividend Puzzle," **Journal of Portfolio Management**, (1976) II (II). pp.5-10.

investors believe that dividend policy affects stock prices and that, in line with Lintner's behavioral model, dividend consistency is very important.[17]

Lee and Ryan (2002) analyzed the dividend signaling-hypothesis and the issue of direction of causality between earnings and dividends-whether earnings caused dividends or vice versa. For a sample of 133 dividend initiations and 165 dividend omissions, they found that dividend payment is influenced by recent performance of earnings, and free cash flows. They also found evidence of positive (negative).Earnings growth preceding dividend initiations (omissions).[18]

Benartzi, Michaely and Thaler (1997) analyzed the issue of whether dividend changes signal the future or the past. For a sample of 7186 dividend announcements made by NYSE or ANEX firms during the period 1979-91, they find a lagged and contemporaneous relation between dividend changes and earnings. Their analysis also shows that in the two years following dividend increases, earnings changes are unrelated to the sign and magnitude of dividend changes.[19]

Lintner (1956) was the first to investigate the partial- adjustment model of dividends. His behavioral model suggests that the change in dividends is a function of the target dividend payout less the last period's dividend payout multiplied by the speed of an adjustment factor. The target dividend payout is a fraction of the current period's earnings. Lintner found that the most important determinant of a company's dividend decisions was a major change in earnings "out of line" with existing dividend rates. Because many managers believe that shareholders prefer a steady stream of dividends, firms tend to make periodic partial adjustments toward a target

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[17] H.K., Baker & E.F., Gail, "Dividend Achievers: A Behavioral Perspective." **Akron Busnies and Economic Review**. (1988) XIX: 79-92.

[18] H.W.., Lee & P.A. Ryan, "Dividend and Earning Revisted: Cause or Effect?", **American Business Review.** (2002) XX (I): 177-122.

[19] S. Benartizi, R., Michaely & Thaler Rs. "Do Chagnes in Dividends Single the Future or the Past?" **Journal of Fiance**. (1997) LII (IX): 1007-1034.

payout ratio rather than dramatic changes in payout. Thus, managers smooth dividends in the short run to avoid frequent changes. Lintner tested his propositions and found that the partial adjustment model predicted dividend payments more accurately than "naive" models. In fact, he found that the model explained 85% of the changes in dividends for his sample of companies.[20]

Rozeff (1982) was among the first to explicitly recognize the role of insiders as one of monitoring the managers. He finds that dividend policy for unregulated firms is negatively related to its level of insider holdings. One interpretation of his result is that firms with higher levels of insider holdings have less need to signal firm value through dividends than comparable firms with lower levels of insider holdings.[21]

Pruitt and Gitman (1991) surveyed financial managers of the 1,000 largest US firms about the interplay among the investment, financing, and dividend decisions in their firms. Their evidence suggests that important influences on the amount of dividend of dividends paid are current and past years' profits, the year-to-year variability of earnings, and the growth in earnings. Pruitt and Gitman also found that prior years' dividends are an important influence on current dividends. These findings suggest that respondents attempt to maintain a high degree of consistency in the level of their firms' dividends. In addition, Pruitt and Gitman found managers make the dividend decision independently of the firm's investment and financing decisions.[22]

Bond and Mougoue (1991) examined whether the speed of adjustment and target dividend payout rates implied in the partial adjustment model

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[20] J., Linter, "Disbribution of Incomes Corporation Among Dividends. Retained Earings and Taxes." **American Economic Reveiw.** (1956) XLVII (II): 97-113.

[21] M.S., Rozeff, "Growth Beta and Agency Costs as Determinants of Dividend Payout ratios." **The Journal of Financial Research.** (1982) V:249-259.

[22] C., Pruitt & M.P., Gitman, *Revlution in Corporate Finance,* 2nd ed. (Blackwell Publishers Ine: Cambridge, Massachusents, 1994).

are an accurate characterization of corporate dividend policy. They base their empirical tests on 430 US manufacturing firms reporting positive earnings and having paid dividends every year over the 1968-1987 periods. They found that two potential problems exist when using the partial adjustment model to characterize the dividend policy of the individual firm. The first of these is that high degree of correlation between the independent variables of the partial adjustment model may affect the empirical results of such a model. The second potential problem is that auto correlated earnings of firms produce many combinations of target rates and speeds of adjustment that will produce the same stream of cash dividend over time. Bond and Mougoue concluded that the partial adjustment model does not generate unique measures of the dividend policy of the individual firm.[23]

Fama and Babiak (1968) examined several other models for explaining dividend behavior. Their results support Lintner's view that managers prefer a stable dividend policy, and are reluctant to increase dividends to a level that cannot be sustained. Therefore, these researchers concluded that changes in per share dividends are largely a function of a target dividend payout based on earnings and the last period's dividend payout.[24]

Modigliani and Miller (1961) advanced the view of dividend policy in their most celebrated study about dividend policy growth and the valuation of shares, that, the value of firm depends solely on its earnings power and is not influenced by the manner in which its earnings are split between dividends and retained earnings. They found that dividend payment as irrelevant. According to them, the investor is indifferent between dividend payment and capital gains.

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[23] J., Bond & R.T., Mougoue, "An Examination of the Empirical Relationship between the Dividend and Investment Decisions." **The Journal of Finance**. (1991) XXXVIII: 1659-1667.

[24] E.F., Fama & H. Babiak, "Dividend Policy: An Empirical Analysis American Statistical Association. **Journal.** (1968) XII: 1132-1161.

Baker, Veit and Powell (2001) studied the factors that have a bearing on dividend policy decisions of corporate firms treated on the NASDAQ. The study, based on a sample survey (1999) response of 188 firms out of a total of 630 firms that paid dividends in each quarter of calendar years 1996 and 1997, found that the following four factors have a significant impact on the dividend decision; pattern of past dividends, stability of earnings, and the level of current and future expected earnings. The study also finds statistically significant differences in the importance that managers attach to dividend policy in different industries such as financial versus non-financial firms.[25]

2.6.2 Review of past study (Research in Nepalese Context)

Shrestha (1984)[26] conducted a study on paying ability of public enterprises which gives short glimpse on the dividend performance of some public enterprises of that time in Nepal. He pointed out that public enterprises even if they have capacity to pay dividend had neglected to pay dividend up to the expected level because of the lack of leadership and inefficiency on the part of management. He pointed out that the causes attributable to non-dividend paying culture by most of the enterprises were non imposition by HNG/N to adhere to dividend payment obligation to public enterprises not paying dividend although capable of it, and HMG/N not allowing public enterprise to follow independent dividend policy. He emphasized firstly, on the need to persuade and circulate instructions to pay minimum fixed rate of dividend to financially sound enterprises and secondly to determine preference criteria in terms of target profits, sales, dividend payout etc.

[25] H.K., Baker, E.T. Viet & G.E. Powell, "Factors Influencing Dividend Policy Decisions of Nasdaw Firms. **The Financial Review**. XXXVI (III): 19-38.

[26] M.K. Shrestha, "Public Enterprises: Have They Dividend Paying Ability?" PRASHASAN*, The Nepalese Journal of Public Administration* , 30 (March 1984) pp.3-4.

Poudel (2000) conducted a study on dividend policy of listed finance companies. He found that all sample companies had increasing dividend payment trend. His study revealed positive relative between NPAT and DPS. Significant effect of earnings per shares was seen on dividend per share in all sample firms.

Adhikari (2003) surveyed views of 135 managers on dividend policy of large Nepalese enterprises. The results revealed that dividend payout affects the price of a common stock. Managers felt that the major motive for paying cash dividends is to convey information to shareholders that the company is doing good. Managers believed that stockholders are not indifferent towards dividend and retained earnings. The main purpose of paying stock dividend by enterprises was revealed to be the conservation of cash. Similarly, the major factors affecting corporate dividend policy in order of their significance were observed to be earnings. Availability of cash, past dividends, and concern about increasing stock price, most managers did not believe that dividend is a residual decision.

Gautam (1998)[27] studied the dividend policy in commercial banks with the objectives of reviewing dividend policy followed by joint venture banks, examining impact of dividend on share price, finding relationship between DPS and financial indicators such as DPS, EPS and DPR. He found wide variation in DPR, P/E ratio DY. DPS was not explained by EPS, EPS_{t-1} and CR. Based on these findings, he emphasized on need to relate significantly between earning and dividend in following dividend policy. He further emphasized the need of policy of regular dividend payment to maximize shareholders wealth. He added, on the one hand corporate firms dividend policy needs to match with the expectations of the

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[27] R. Gautam, "Dividend Policy in Nepalese Commercial Banks." Master diss., Central Department of Management, Tribhuvan University, 1998.

shareholders and, on, the other hand, match with the growth prospect of the firm.

Aryal (1997) studied on dividend practices of joint venture banks in Nepal. He studied a sample of 4 firms for the period of 7 years. He found that the relationship between dividend per share and earning per share is positive. He revealed that most of the sample firms followed irregular dividend policy which was based on current earnings. He observed that changes in dividend affected share prices significantly.

Pradhan (2003)[28] attempted to explain the effect of dividend payment and retained earnings on market price of share in the context of Nepalese Companies using pooled cross section data of 29 companies from 1994 to 1999 with a total of 93 observations. The results indicated the customary strong dividends and very weak retained earnings effect on market price of share as opposed to findings of a majority of earlier studies conducted in USA that indicated strong retained earning effect as compared to dividend effect given investment opportunities. Similar India evidence showed that their stock market has also started recognizing the impact of retained earnings. The study showed a predominant influence of dividends and an absence of retained earning effect on share price. Dividends were found relatively more attractive among investors. The study concludes that the investors are therefore, not indifferent between dividends and retained earnings.

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[28] R.S. Pradhan, *Research in Nepalese Economics,* (Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd., 2003). pp.16-20.

Poudel (**2004**)[29] carried out a study on dividend policy of commercial banks in Nepal. He conducted the study on 8 samples banks covering a period of 1994 to 2001. He found that the commercial banks of Nepal didn't have any strategic dividend policy. He observed large variation and instability in dividend payment is not consistent with earnings and market prices of the shares do not truly reflect the actual dividend paid.

Timilsena (**1997**)[30] made a study on dividends and stock prices. He concluded that the relationship between dividend per share and stock prices is positive in the sample companies. He found that dividend per share affects the share prices variedly in different sectors. Changing the dividend policy or dividend per share seemed to help increase the market price of share. The relationship between stock price and retained earnings per share were observed to be less prominent. The relationship between stock prices and earning price ratio was found to be negative.

Although various empirical studies have been carried out regarding dividend policy, practices and its effect on market price of the shares in Nepalese context, however lack of a through study in the area of factors influencing dividend policy using appropriate dividend models is felt.

[29] P.R. Poudel, "Dividend Behaviour of Commercial Banks in Nepal." Master diss., Central Department of Management, Tribhuvan University, 2000.

[30] S. Timilsena. "Dividends and Stock Prices: An Empirical Study. Master diss., Central Department of Management, Tribhuvan University, 1997.

CHAPTER III

RESEARCH METHODOLOGY

3.1   Introduction

Background information regarding commercial bank and joint venture bank has already streamlined in the earlier chapter. Besides, the review of literature with possible reviews of relevant ideas, theories and research findings has also been added. Finally, these study and analysis has become a major tool of comfort to come to the choice of research methodology. This is useful to reflect the dividend policy practices of joint venture banks. Thus, the basic objectives of this study are to analyze the dividend policy of commercial banks and Joint Venture Banks (JVB) in Nepal and to find out the factors that affect dividend policy. It also tries to find out the relationship between dividend with market price of share, net profits, earnings per share, and net worth of the banks. To accomplish these objectives, the study follows the research methodology described in this chapter. "Research methodology refers to various sequential steps to adopt by a researcher in studying a problem with certain objectives in view". In other words research methodology describes the methods and processes applied in the entire aspect of the study.

3.2   Research Design

The research design is more prescriptive rather than descriptive and the historical secondary data have been employed to analyze the variables used, which is related to dividend practices of JVB's. For the analytical

purpose, the annual reports published by the relative banks and financial statements of the banks published by Nepal Stock Exchange Ltd. were collected for the year (2059/60 to 2064/65) More about this will be elaborated and explain in the following pages.

3.3 Source of Data

Mainly the study is conducted on the basis of secondary data. The data relating to the dividend policy are directly obtained from concerned banks. The supplementary data and information sources have been taped from number of institutions and regulating authorities like Rastra Bank, Security Exchange Board, Ministry of Finance and National Planning Commission etc.

3.4 Population and Sample

According to Keshab Thapa, manager of Nepal Rastriya Bank. There are 25 commercial banks, 59 development banks, 78 finance and 12 micro credits banks. Hence, it is not possible to study all of them regarding the study topic; sampling must be done by selecting the best one from these populations. Some of the populations are mentioned below:

⟩ Bank of Kathmandu Limited

⟩ Everest Bank Limited

⟩ Himalayan Bank Limited

⟩ Kumari Bank Limited

⟩ Machhapuchhre Bank Limited

⟩ Nepal Agricultural Development Bank

⟩ Nepal Arab Bank Limited

〕 Nepal Bangladesh Bank Limited

〕 Nepal Bank Limited

〕 Nepal Indosuez Bank Limited

〕 Nepal SBI Bank Limited

〕 Rastriya Banijya Bank

〕 Standard Chartered Bank Limited

The samples selected are :

〕 Everest Bank Limited

〕 Kumari Bank Limited

The reasons behind selecting these samples from many banks are

1. To analyze the comparative analysis for commercial and joint venture bank. Kumari bank is commercial bank where as Everest bank is joint venture.

2. Here, one commercial bank and one joint venture bank need to be considered regarding the study topic. Since the data of Everest Bank limited, a joint venture bank, Kumari Bank limited, a local commercial bank, were easily available, the two banks were chosen as the best alternatives from the population.

3. Recently establishing banks may not have sufficient data. So, fully established banks were chosen.

4. Even it the analysis will be more accurate if more samples are studied, taking time and other requirement into consideration, these two banks have been chosen.

3.5   Method of Analysis

In this study, various financial and statistical tools have been used. The analysis of data was done according to pattern of data available. Mainly the analysis was done by using financial tools, simple regression analysis.

Using financial and statistical tools, the relationship between different variables related to study topic was drawn out. The various calculated results obtained through financial and statistical tools were tabulated under different headings. Then, they were compared with each other to interpret the results. In this study simple regression analysis has been used to study the influences of independent variables on dependent variables. It helps in studying the effect and the magnitude of the effect of single independent variables on one dependent variable. To determine whether the variable of earning per share is related to dividend decision, the following regression model has been applied.

$$y = a + bx_1$$

Where,

y   =   Dividend Value

a   =   intercept

x_1 =   Earning per share

b   =   intercept

This model has been applied to examine the relationship between the EPS and DPS of the companies in the current fiscal six years from (2059/2060 to 2064/2065). Similarly the following regression model has been applied to determine whether the variable of net profits, average market price of share, and net worth of the company is related to dividend per share.

Correlation analysis tells the direction of movement but it does not tell the relative movement in the variables under study.

Regression analysis helps us to know the relative movement in the variables. Regression Analysis of the following variables have been calculated and interpreted.

1. **DPS on EPS**

     y   =   a + bx

Where,

     y   =   Dividend per share

     a   =   Regression Constant

     b   =   Regression Coefficient

     x   =   Earning Per Share

The analysis enables to know whether EPS is the influencing factor of dividend per share or not. At what extent it explains the variation.

2. **DPS on NP**

     y   =   a +bx

Where,

     y   =   Dividend per Share

     a   =   Regression constant

     b   =   Regression coefficient

     x   =   Net Profit

This model tests the DPS on NP.

3. MPPS on DPS

$$y \quad = \quad a + bx$$

Where,

$y \quad = \quad$ Market Price Per Share

$a \quad = \quad$ Regression Constant

$b \quad = \quad$ Regression Coefficient

$x \quad = \quad$ Dividend per Share

This model tests the dependency of MPPS on DPS.

Hence in operating the regression line, we follow the approach that the sum of squared deviations is minimum and on these basis workout the values of its constants viz 'a' and 'b' or that is known as the intercept and the relation. This has been done with the help of two normal equations which are listed below:

$$y \quad = \quad a + b x$$
$$x y \quad = \quad a \quad x + b \quad x^2$$

where,

a and b are unknown

$n \quad = \quad$ number of observation in the sample

3.6   Tools Defined About Certain Financial Indicators

Earning per share

EPS calculations made over the years indicate whether the banks earning power on per share basis have changed over the period or not.

EPS is calculated by dividing the net profit after taxes by the total number of the common shares outstanding.

$$\text{EPS} = \frac{\text{Net profit after taxes}}{\text{Number of common shares outstanding}}$$

Market value per Share to Book value per share

This ratio indicates the price. The market is paying for the price that is reported from the net worth of the banks, or in other words, it is the price of the outsiders which are paying for each rupee reported by the balance-sheet of the banks. It is calculated by dividing the market value per share by the book value per share.

$$\text{MBPS} = \frac{\text{Market value per share}}{\text{Book value per share}}$$

Return on Net Worth:

Net Worth refers to the owner's claim in the assets of a bank. It can be found by subtracting total liabilities from total assets (excluding intangible assets and accumulated losses). This ratio indicates how well the banks have used the resources of the owners. It is calculated by dividing net profit after taxes by net worth. The formula used is as follows:

$$\text{RNW} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

Dividend Per Share:

DPS indicates the part of earning distributed to the shareholders on per share basis. It is calculated by dividing the total dividend to equity shareholders by the total number of equity shares.

$$\text{DPS} = \frac{\text{Net profit after interest and performance dividend paid to ordinary shareholder}}{\text{Number of ordinary shares outstanding}}$$

Dividend Payout Ratio

This ratio reflects what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks. It is calculated by dividing the dividend per share by the earning per share.

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

Dividend Yield Ratio:

It is a percentage of dividend per share on market price per share.

$$\text{Dy} = \frac{\text{DPS} \mid 100}{\text{MPPS}}$$

Price-Earning Ratio:

This ratio reflects the price currently paid by the market for each rupee of currently reported earning per share. It is calculated by dividing the market value per share by earning per share.

$$\text{P/E Ratio} = \frac{\text{Market value per share}}{\text{Earning per share}}$$

3.7 Statistical Tools Used

Standard Deviation

The measurement of the scatterings of the mass of figures in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. The grater the amount of dispersion, the greater is standard deviation. It is the square root of the average of the squared distances of the observations from the mean mathematically,

$$= \sqrt{\dagger^2}$$

where,

$=$ Standard deviation

^{2} $=$ Variance

In this study, standard deviation is calculated for selected dependent and independent variables specified in the models presented above.

Coefficient of Correlation (r)

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another.[31] The Coefficient of Correlation measures the degree of relationship between two sets of figures. In this study, simple Coefficient of Correlation is used to determine the relationship of different factors with dividend and other variable. The data related to dividend over different years are tabulated and their relationship with each others are drawn out.

Coefficient of Determination (R^2)

The Coefficient of determination is the square of the Correlation Coefficient and it measures the extent of association between the two variables. It is a measure of the degree of linear association or Correlation between two variables, one of which happens to be independent and other being dependent variables. In other word R2 measures the percentage total variation in dependent variable explained by independent variables. The Coefficient of determination value can have ranging from zero to one. A value of 1 can occur only if the unexplained variation is zero which simply

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[31] Richard I Levin and David S. Rubin, *Statistical for Management*, (New Delhi : Prentice Hall of India Pvt. Ltd., 1991), p. 505,

means that all the data points in the scatter diagram fall exactly on the regression line.

Multiple correlations

Multiple correlations are the study of three or more variables at a time. In case of partial correlation we study the relationship between two variables by keeping the other variables constant whereas in case of multiple correlations the effect of all the independent variables on a dependent variable is studied.

Regression Constant (a)

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

Regression Coefficient (b)

The Regression Coefficient of each independent variable indicates the marginal relationship between that variable and value of dependent variable, holding constant the effect of all other independent variables in the regression model. In other words the coefficients describe how changes in independent variables affect the values of dependent variables estimate.

Standard Error of Estimate (SEE)

With the help of regression equations perfect prediction is practically impossible. The standard error of estimate measures the dispersion about an average line. It also measures the accuracy of the estimated figures. The

smaller the value of S.E. of estimate the closer will be the dots to the regression line and the better the estimates based on the equation for this line. If standard error of estimate is zero, then there is no variation about the line and the correlation will be perfect. Thus with the help of standard error of estimate, it is possible for us to ascertain how well and representative the regression line is as a description of the average relationship between two series.

t-Statistics

To test the validity of our assumption, if sample size is less than 30, t-test is used.32 For applying t-test in the context of small sample, the t value is calculated first and compared with the table value of 't' at a certain level of significance for given degree of freedom. If the calculated value of 't' exceeds the table value (say 0.05) we infer that the difference is significant at 5% level. But if 't' is less than the concerning table value of the 't' the difference is not treated as significant.

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32 C.R. Kothari, *Quantitative Techniques*, (New Delhi: VIkas Publishing House Pvt. Ltd., 1984, Reprint 1994), p. 143

CHAPTER IV

ANALYSIS AND INTERPRETATION OF DATA

The basic objectives of the study have already been mentioned in the first chapter- Introduction. In order to achieve these objectives several analytical tools and techniques are employed which are defined in the third chapter- Research and Methodology. Now, in this chapter the effort has been made to analyze the comparative dividend decision of joint venture banks and commercial banks in Nepal and the attitude of management towards the optimum dividend decision. This analysis is highly supported by the practices of dividend distribution by the joint venture and commercial banks. That is why, I have taken data of joint venture and commercial banks for elaboration, explanation, and to come to a conclusion. These are explained below.

4.1 Background of the Banks

The Everest Bank

Everest Bank Limited, the joint venture commercial bank was incorporated in 1994 by the joint investment of Punjab National Bank Ltd., one of the largest commercial bank in India, with a view and objective of extending professionalized and efficient banking services to various segments of the society. It was established with an authorized capital of Rs. One Hundred Twenty million and issued capital of Rs. Sixty million.

Against the paid up capital by shareholders of Rs. 378 million, the shareholder amount has increased to Rs. 1198.70 millions with core capital base of Rs. 816.70 millions. Earning has surged from Rs. 62.78 to Rs. 54.22. The local Nepalese promoters hold the bank's equity, while 20% of the equity is contributed by joint venture partner and the remaining 30% is held by the public.

The Bank's performance under all parameters have been outstanding during the fiscal year 2063/064 after providing income tax and statutory provisions there was a disposal net profit of Rs. 300.60 millions compared to Rs. 237.30 millions of the previous year- an increase of 26.68%. The bank was able to increase its operating profit by 31.9%, deposit by more than 38% and advances by 39% during that year corresponding to the previous year figures.

In sum, it can be concluded that the net profit of the bank is constantly increasing. The bank had paid 40% dividend for the year 2063/064 consisting 10% cash dividend and 30% stock dividend to satisfy the needs of shareholders and refinance the growth of the bank.

Kumari Bank

Kumari Bank Limited is a proactive bank working with corporate institutional and private clients with an integrated business model that ensures value addition to its clients. Established in 2000 AD, the bank made the paid up capital of Rs 750 million which comprises 70% promoters share and 30% public share including staff share. The bank has planned to increase the capital as per statutory requirement of Rs Two billion by 2069/070. The bank has a total asset of Rs 1502.659 million in the year 2064/065 which is 26.08% greater than that of previous year. The net profit of the bank for the year 2064/065 was Rs 174.930 million against Rs 170.263 million. The bank's deposit base increased to Rs 12,744.28

million in the fiscal year 2064/065 with a growth rate of 21% compared to the previous year figure. The bank's deposit showed a constantly growing nature. The bank had been able to maintain a healthy return on share holder's equity at 16.60% in the fiscal year 2064/065. The increase in return on share holders equity and earning per share has resulted to 2.25 times the increase in market capitalization in fiscal year 2063/064 compared to the previous fiscal year.

4.2   Analysis of Financial Indicators/ Variables

4.2.1 Earning per share

Normally the performance and the achievement of the business organization are measured in terms of its capacity to generate earning. Higher earning shows higher strength while lower earning shows lower strength of the business organization.

All the details relating to total earnings, original number of share added by Kumari bank and earnings per share are presented in the table below:

Table 4.1

Earning, Number of Share and Earning per Share for Kumari Bank

Year	Paid up value Rs.	Earning after tax Rs. (in Million)	No of shares	Earning per share Rs. (in Million)
059/060	100	12.47	3500000	3.65
060/061	100	48.69	5000000	9.74
061/062	100	87.88	5000000	17.58
062/063	100	103.67	6250000	16.59
063/064	100	170.26	7500000	22.7
064/065	100	174.93	10700000	16.35
		Average Earning Per Share		14.435

Source: Annual Report of Kumari Bank.

In the fiscal year 2059/060, total earning of Kumari Bank was Rs 12.47 millions and earning per share was Rs. 3.65. There was approximately four

times increase in total earning per share i.e. from Rs 12.47 million to Rs 48.69 million and consequently the earning per share has reached Rs. 9.74. Kumari Bank, in the fiscal year 2061/062 had earned Rs. 87.88 million, thus nearly doubling the previous year's earning and hence doubling the earnings per share too to Rs. 17.54 per share. Earning exceeded even the paid up capital which ultimately had become highly favourable to the bank. The profit in the bank increased every year. Though the total earning increased in the fiscal year 2062/063 also, but owing to the fact that the bank issued 1250000 more number of shares, there was a slight decrease in the earning per share. Since the fiscal year 2062/063, the bank increased its number of shares but the paid up capital had remained constant throughout the study period.

In the fiscal year 2063/064, Kumari bank made the total earning of Rs. 170.26 million and the earning per share was RS. 22.70. it was however not an attractive figure as compared to the previous years' statistics, but the bank was able to make a slight increase in the total earnings despite of the added number of share issued. In the fiscal year 2064/065 the bank issued a total of 10700000 numbers of shares. This increase in share number dropped the earning per share from Rs. 22.70 to a rather low value of Rs. 16.35. The rate of earning decreased greatly in the later years. The bank enjoyed the highest rate of increase in earning in the year 2060/061 and the lowest in the year 2064/065 which was only Rs. 4.67 million greater than the previous year. Since number of shares is increased Kumari Banks' earning per share of Rs. 16.35 cannot be underestimated.

The table below depicts all about total earning, paid up capital, number of shares and earning per share from the fiscal year 2059/060 to 2064/065 of Everest Bank Limited.

Table 4.2

Earning, Number of Share and Earning per Share for Everest Bank

Year	Paid up value Rs	Earning after tax Rs. (in Million)	No of shares	Earning per share Rs(in Million)
059/060	100	94.18	3150000	29.9
060/061	100	134.57	3150000	45.58
061/062	100	170.81	3150000	54.22
062/063	100	237.29	3780000	62.78
063/064	100	296.41	3780000	78.4
064/065	100	451.2	4914000	91.82
		Average Earning Per Share		60.45

Source: Annual Report of Everest Bank.

The Everest bank had maintained the constant paid up value through out the study period. In the fiscal year 059/060 the bank had issued 3,150,000 shares only. The total earning of the bank was Rs. 94.18 millions and the earning per share remained Rs. 29.90. this figure is fairly high than that of Kumari Bank in the same fiscal year, however Kumari bank issued slightly more number of shares that year. In the fiscal year 2060/061, Everest Bank was able to increase the total earning to Rs. 134.57 million which was Rs. 40.39 million higher than the previous year and consequently the earning per share increased from Rs 29.90 to Rs 45.58. Thereafter, in the year 2061/062, the earning per share increase to Rs. 54.22 and the total earning was Rs 170.81 million. The same year Kumari Bank made only Rs 87.88 millions which is approximately half than that of Everest Bank. The total earning gradually increased from Rs. 170.81 million in the year 2061/062 to Rs 451.2 million in the final year 2064/065 and consequently the earning per share also gradually increased from Rs. 54.22 in the year 2061/062 to Rs 91.82 in the final year 2064/065 of the study considered. Everest Bank enjoyed the largest profit in the fiscal year 2064/065 which was almost 35% higher than that of the previous year while in the same year Kumari Bank made the lowest profit i.e. only of nearly 3% than that

of the previous year. However Kumari Bank was concerned in issuing more number of shares by giving bonus shares.

In aggregate term, average earning per share of Everest Bank Limited (Rs 60.45) is higher than that of Kumari Bank Limited (Rs. 14.42). In the run, Everest Bank was more successful in maintaining its average EPS than Kumari Bank.

4.2.2 Dividend per Share

Table 4.3

Dividend Per Share

Banks	2059/060	2060/061	2061/062	2062/063	2063/064	2064/065	Average
Kumari (Rs.)	-	5.26	-	21.05	21.05	10.53	9.648333
Everest (Rs.)	20	20	20	25	40	50	29.16667

Source: Annual Report of Kumari Bank and Everest Bank.

It is important at this stage to look over the reverent data on dividend for the purpose of my analysis. On investigation in all the years taken for study, I have established dividend per share paid by both the banks up to the period of six years. But it is found to be fluctuating from year to year. However, on average, the dividend per share of Kumari Bank is Rs. 9.64833 and that of Everest Bank comes to be Rs. 29.16667. Comparison of average dividend paid showed that Everest Bank is ahead of Kumari Bank. Likewise, I have seen the trend of dividend per share between these two banks. Kumari Bank had paid the dividend of Rs. 5.26 per share in the year 2060/061 and Rs. 21.05 per share in the year 2062/063. The same dividend is paid in the year that followed but it was decreased to only Rs. 10.53 in the F/Y 2064/065. After that, the bank had announced stock dividend in the year 2062/063 in the ratio of 10:2 as expected by the shareholders in relation to the overall market sentiments. So, only 20 percent of the issued share capital is distributed as dividend. In the year

2064/065 amount of dividend is decreased to Rs. 10.53 thus averaging to Rs. 9.6483.

The Everest Bank shows an increasing trend of dividend per share. Though for the first three years of study the dividend per share remained constant, it started to increase from the year 2062/063 and finally reached a value of 50 in the year 2064/065 thus averaging to Rs. 29.166. The Everest Bank paid the highest dividend per share in the year 2064/065. The bank announced stock dividend in the ratio of 10:3 as expected by the shareholders in relation to the market sentiments.

If we analyze the growth rate of cash dividend paid, we will find difference in amount of dividend. Cash dividend in the year 060/061 for Kumari Bank was Rs 5.26 and in the year 2064/065 was Rs. 10.53 per share.

Thus dividend in the base year 2060/061 (Do)   =   Rs 5.26

Dividend in the final year 2064/065 (Dy)   =   Rs. 10.53

No. of years (n)   =   5

So,

$$Dy = Do(1+g)^n$$
$$10.53 = 5.26(1+g)^4$$
$$g = 0.1894$$

If Kumari Bank had followed stable dividend policy, growth rate of every year should have been 18.94% in the past five years i.e. 2060/061 to 2064/065.

The following table shows the amount of dividend based on growth rate and actual amount of dividend paid.

Table 4.4

Dividend based on growth rate and actual amount of dividend paid for Kumari Bank

Year	Cash Dividend Payable (based on growth rate) <a> (%)	Actual Cash Dividend Paid <b> (%)	Difference <c>=<a-b> (%)
2059/060	-	-	-
2060/061	5.26	5.26	-
2061/062	6.25	-	6.25
2062/063	7.44	21.05	-13.61
2063/064	8.85	21.05	-12.20
2064/065	10.53	10.53	-

Source: Annual Report of Kumari Bank.

The computed growth rate of 18.94% is not followed by the bank in the past five years because the difference was positive in 2061/062 while negative in rest of the years. It shows that the bank has neither followed the system of stable cash dividend nor constant payout dividend.

Kumari Bank was able to earn only nominal profit in the year 2059/060 but it did not declare any dividend for that period due to its initial phase of operation. But in the 2060/061, the bank had distributed 5.26% per share as dividend. And in the year 2061/062 again, the bank did not distribute any dividend. After this year Kumari satisfied its shareholders with 21.05% per share. The dividend per share remained same the following year too and was decreased to 10.53% per share in the final year.

If we analyze the growth rate of cash dividend paid, we will find difference in amount of dividend. Cash dividend in the year 2059/060 for Everest Bank was Rs 20 and in the year 2064/065 was Rs. 50 per share.

Thus dividend in the base year 2060/061 (Do) = Rs 20
Dividend in the final year 2064/065 (Dy) = Rs. 50

No. of years (n) = 6

So,

$$Dy = Do(1+g)^n$$
$$50 = 20(1+g)^5$$
$$g = 0.2011$$

If Everest Bank had followed stable dividend policy, growth rate of every year should have been 20.11% in the past six years i.e. 2059/060 to 2064/065.

The following table shows the amount of dividend based on growth rate and actual amount of dividend paid.

Table 4.5

Dividend based on growth rate and actual amount of dividend paid for Everest Bank

Year	Cash Dividend Payable (based on growth rate) $<a>$ (%)	Actual Cash Dividend Paid $<b>$ (%)	Difference $<c>=<a-b>$ (%)
2059/060	20	20	0
2060/061	24.02	20	4.02
2061/062	28.85	20	8.85
2062/063	34.657	25	9.657
2063/064	41.62	40	1.62
2064/065	50	50	0

Source: Annual Report of Everest Bank.

The computed growth rate is 20.11% for Everest Bank in the past six years' period for payment of dividend because it is positive in all the years. It shows that the bank has followed the system of paying stable cash dividend and constant payout ratio.

Everest Bank declared 20% dividend per share in the year 2059/060 and the bank continued to distribute the same amount as dividend for the next

two years. And in the year 2062/063, the bank increased the dividend per share to 25%. After this year Everest satisfied its shareholders by distributing 40% dividend per share. The dividend per share was increased to 50% the next year.

In sum, due to the lack of sustainable strategic dividend policy, the dividend payment of both the banks is fluctuating. However, in aggregate term, average dividend per share paid by Everest is higher than Kumari. Higher dividend per share creates positive attitude towards the bank which consequently helps to increase the market value of shares. It is the indicator of better performance of the bank's management. In this regard Everest is better than Kumari.

4.2.3 Dividend Payout Ratio

Earning determines the amount of dividend. The greater the earning, the more is the ability of banks to pay dividend. This ratio expresses the amount of dividend as a percentage of earning available for equity shares after meeting all the charges. The rate of earnings which banks can maintain is a single beat measure of enhancing the dividend payout ratio.

Table 4.6

Dividend Payout Ratio

Banks	2059/060	2060/061	2061/062	2062/063	2063/064	2064/065	Average
Kumari	-	54%	-	133.21%	97.36%	58.70%	57.21%
Everest	66.89%	43.88%	36.89%	39.82%	51.02%	54.45%	48.83%

Source: Annual Report of Kumari Bank and Everest Bank.

The above table depicts the average yearly payout ratio of Kumari Bank and Everest Bank. The average dividend payout ratio of Kumari is 57.21% whereas that of Everest is only 48.83%. The highest percentage of dividend payout ratio of Kumari Bank is 133.21% in the year 2062/063

and 66.89% for Everest Bank in the year 2059/060. However, the fluctuation trend of dividend payout ratio of Kumari is higher than Everest. Kumari did not distribute dividend cash or stock in the years 2059/060 and 2061/062. Instead it capitalised reverses to make every shares fully paid up.

Kumari was not able to maintain its average dividend payout ratio for the year 2059/060, 2060/061 and 2061/062. Likewise, Everest was unable to maintain its average dividend payout ratio for the years 2060/061, 2061/062 and 2062/063. On the basis of dividend payout ratio, it is clear that both the banks were not able to follow a strategic dividend payout policy. Thus, it is necessary to have a clear cut policy for dividend distribution of the banks. Moreover the banks have to know about how much portion of its earning has to be retained for internal financing and how much amount is to be allocated for distribution of the dividend to shareholders, so that it will balance between company's growth and shareholders' interest.

4.2.4 Price earning ratio

Table 4.7

Price earning ratio

Banks/Year	2059/060	2060/061	2061/062	2062/063	2063/064	2064/065	Average
Everest	14.88	14.92	16.05	21.97	30.99	34.1	22.15
Kumari	--	--	20.99	26.7	36.56	61.47	24.28

Source: Annual Report of Everest Bank and Kumari Bank.

The above table depicts the year to year comparison of P/E ratio of both the banks and shows the fluctuating trend. The average price earning ratio of Everest for the period of Six years was 22.15 whereas the ratio of Kumari bank was 24.28 for the period of four years

So the above analysis give the performance and market appraisal of the two banks. Data shows the performance of Kumari is better than Everest. The higher the PE ratio, the better it is for the owner.

4.2.5 Dividend Yield Ratio

Table 4.8

Dividend Yield Ratio

Banks/Year	2059/060	2060/061	2061/062	2062/063	2063/064	2064/065	Average
Everest	4.49	2.94	2.29	1.81	1.65	1.59	2.46
Kumari	--	--	--	4.75	2.54	1.105	2.79

Source: Annual Report of Everest Bank and Kumari Bank.

Dividend yield ratio highly influences the market value per share because a change in dividend per share can bring effective change in the market value of that share. Therefore, before allocation of dividend to shareholders the impact of the market scenario and price fluctuation must be studied and evaluated for the long smooth survival of the bank.

Above table depicts that the average dividend payout ratio of Everest Bank is higher than that of Kumari Bank. The average dividend payout ratio of Everest was found out to be 2.46 and that of Kumari was found out to be 1.39. Everest Bank to maintain the average dividend yield ratio for three times in the years 2062/063, 2063/064, and 2064/065 and Kumari to maintain its average value for four times i.e. in the years 2059/060, 2060/061, 2061/062, and 2064/065. In aggregate, seems to be Everest is more efficient than Kumari for distribution of dividend on the basis of market price of share.

4.2.6 Market Value per Share to Book Value per Share Ratio

Table 4.9

Market Value Per Share to Book Value Per Share Ratio

Banks/Year	2059/060	2060/061	2061/062	2062/063	2063/064	2064/065	Average
Everest	2.7	2.81	3.94	6.34	8.3	9.73	5.64
Kumari	--	--	2.61	2.97	5.58	7.85	3.17

Source: Annual Report of Everest Bank and Kumari Bank.

Market value per share to book value per share ultimately is the means to evaluate the net present value of shares in the market. In both the banks, the market value per share to book value per share is in increasing order throughout the study period. But this ratio is higher in case of Everest Bank than in the case of Kumari Bank. This has given higher capital gain to Everest shareholders.

In each bank the ratios are fluctuating over the years Everest is lesser than that of Kumari. But above analysis helps to conclude that in terms of market value per share to book value per share ratio, Everest's performance is better than Kumari.

4.3 Analysis of Mean, Standard Deviation and Correlation Matrix

The financial ratios have given a true picture of the dividend practices between these banks. But more elaborative and the extensive research is considered fruitful to make the analysis more research oriented. Thus, dividend payment as followed by the Everest Bank and Kumari Bank can be better explained through the use of statistical tools to provide meaningful relationship among the various interrelated variables. So, first of all, it is useful to determine the degree of correlation between any two variables and the means and the standard deviations of all the variables used in the regression analysis. The means, standard deviations and zero

order correlation coefficients of Everest Bank and The Kumari Bank are presented in table 4.10.

Table 4.10 indicates that Everest Bank is paying more dividends than Kumari Bank. Also the net profit after tax is higher in Everest Bank than in Kumari Bank and the variability in net profit is also higher in Everest Bank than in Kumari Bank. So, all variables including dividend are higher in Everest Bank compared to the figure of the Kumari Bank.

It is clear from the above correlation matrix that the dividends per share are positively correlated with earning per share as well as net profit after tax in both the banks. Similarly, the average stock price and net worth (Rs. In million) are positively correlated with dividend per share. However, not even a single variable is significantly correlated with dividend per share at 5% level of significance.

Table 4.10

Means, Standard Deviations and Correlation Matrix

Sectors	Variables	Cases	Mean	S.D.	Correlation with				
					Dt	Et	Pt	Np	Nw
	Dividends (Dt)	6	29.167	12.813	1.00	0.915	0.985	0.956	0.972
	Earnings (Et)	6	60.450	128.673		1.00	0.968	0.971	0.9596
Everest	Stock Price (Pt)	6	1489.333	415.246			1.00	0.765	0.7142
	Net Profit (Np)	6	232.243	1070.010				1.00	0.996
	Net Worth (Nw)	6	869.333	22.383					1.00
	Dividends (Dt)	6	14.47250	7.893890	1.00	0.663	0.590	0.669	0.655
	Earnings (Et)	6	14.42000	6.735277		1.00	0.782	0.864	0.754
Kumari	Stock Price (Pt)	6	661.75000	305.331923			1.00	0.978	0.973
	Net Profit (Np)	6	99.65000	64.814841				1.00	0.972
	Net Worth (Nw)	6	847.65167	362.031193					1.00

Source: Annual Report of Everest Bank and Kumari Bank.

The important point to be noted here is that the relation of the dividend per share to earnings per share and net profit exists while other variables held constant. Clearly, it shows that it has positive relationship in both the banks. It all indicates that the payments of dividend decision depend upon the net profit after tax and earning per share. On the other hand, it indicates that the prices of Nepalese stocks and net worth of the company depend upon dividend payments. So, this result suggests that high net profit after tax and earning per share might be able to increase the stock prices and net worth in both the banks.

4.4 Bivariate Regression Analysis

Same financial data are used to determine how one variable is related to other variables in terms of knowing the impacts of the dividend policy followed by these banks. One of the commonly used statistical tools is the simple regression analysis. For this dividend per share and earning per share, dividend per share and net profit, dividend per share and net worth, and dividend per share and stock prices are taken to see how dividend variable interact with other variables. The result is either positive or negative.

Under stated table presents the usual simple linear relationships between the usual simple linear relationships between dividends per share and net profits, dividends per share and earnings per share, average stock prices and dividends per share, net worth and dividends per share. The major outputs of simple regression model of the banks based on the data are given below.

Simple Regression Results of Dividend Per Share on Earning Per Share

$$(Dt = a+bEt)$$

Table 4.11

Simple Regression Results of Dividend Per Share on Earning Per Share

Sectors (Sample Size)	Regression Coefficients				
	a	b	S.E.	R^2	t (0.05)
Everest N=6	-2.489	0.524 (0.0943)	5.786	0.837	5.55
Kumari N=6	-4.063	0.951 (0.438)	8.079	0.440	2.17

Note: Figures in parenthesis are standard errors of regression coefficients.

Dividend per Share and Earning Per Share are represented by Dt and Et respectively.

The result of the regression equation of the Everest Bank and the Kumari Bank are outlined in the following paragraphs.

As far as the regression of dividend per share on earning per share is concerned, beta coefficient is positive in both the banks. In case of Everest, beta coefficient (0.524) indicates that one rupee increase in earning per share leads to the average about Rs.0.524 increased in the dividend per share holding other variable constant, while in case of Kumari, beta other variable constant, while in case of Kumari, beta coefficients (0.951) indicates that 1 rupee increase in earning per share leads to the average about Rs.0.951 increase in the dividend per share holding other variable constant. Hence, from above analysis it can be said that Kumari bank can pay more dividend if one rupee of earning per share is increased in both the banks. However the value of R^2 is too small in case of Kumari. This indicates that only 44% in dividend variation explained by earning variable. However this result is not statistically significant at 5% level of significance since value of t is also small (2.17). But in case of Everest,

the value of R^2 is (0.837), this indicates that 83.7% of dividend variation explained by earning variable. But this result is statistically significant of 5% level of significance since value of t is high (5.55).

Simple Regression Results of Dividend Per Share on Net Profits

$$(Dt = a+bNp)$$

Table 4.12

Simple Regression Results of Dividend Per Share on Net Profits

Sectors (Sample Size)	Regression Coefficients				
	a	b	S.E.	R2	t (0.05)
Everest N=6	7.068	0.095 (0.0119)	4.221	0.913	7.98
Kumari N=6	-0.294	0.100 (0.045)	8.018	0.448	2.22

Note: Figures in parenthesis are standard errors of regression coefficients.

Dividend per share and net profit are represented by Dt and Np respectively.

With respect to the above regression result of dividend per share on net profit, beta coefficients are positive in both the banks. In case of Everest Bank, beta coefficient 0.095 indicates that one rupee increase in net profit leads to average of about Rs. 0.095 increase in the dividend per share holding other variable constant. While in case of Kumari Bank, beta coefficient 0.10 indicates that one rupee increase in net profit leads to average of about Rs. 0.10 increase in the dividend per share holding other variable constant. From above analysis it is clear that if one rupee of net profit will increase in both the banks, Kumari Bank might be able to pay higher dividend than Everest Bank. The value of R^2 of Kumari Bank is smaller than that of Everest Bank. In case of Kumari Bank, the value of R^2 is 0.438 which indicates that only 43.8% of dividend variation can be explained by net profits variable. However, this result is statistically significant at 5% level of significance because the value of t is fairly high (2.17). But in case of Everest Bank, the value of R^2 is 0.913 which

indicates that almost all i.e. 91.3% of dividend variation can be explained by net profit variable. However, this result is statistically significant at 5% level of significance since value of t is high i.e. 5.55.

Similarly, table 4.13 presents the relationship between dividends and average stock prices.

Simple Regression Results of Average Stock Price on Dividend Per Share

$(Dt = a+bPt)$

Table 4.13

Simple Regression Results of Average Stock Price on Dividend Per Share

Sectors	Regression Coefficients				
(Sample Size)	a	b	S.E.	R2	t (0.05)
Everest N=6	11.595	0.012 (0.00083)	2.447	0.971	14.42
Kumari N=6	3.600	0.014 (0.0076)	8.716	0.348	1.842

Note: Figures in parenthesis are standard errors of regression coefficients.

Dividend per share and Average Stock Price are represented by Dt and Pt respectively.

So far the regression of average stock prices on dividend per share is concerned, beta coefficients are positive in both the banks. In case of Everest Bank, beta coefficient 0.012 indicates that one rupee increase in average stock price leads to average of about Rs. 0.012 increase in the dividend per share holding other variable constant. While in case of Kumari Bank, beta coefficient 0.014 indicates that one rupee increase in average stock price leads to average of about Rs. 0.014 increase in the dividend per share holding other variable constant. Hence it might be concluded that if one rupee of dividend per share is increased in both the banks at the same time Everest Bank's average stock price will increase

faster than that of Kumari Bank. In fact, it increases by three times if taken in ratio. The value of R^2 in both the banks have positive results. The value of R^2 of Kumari Bank is smaller than that of Everest Bank. In case of Kumari Bank, the value of R^2 is 0.348 which indicates that only 34.8% of dividend variation can be explained by average stock price. However, this result is statistically significant at 5% level of significance. But in case of Everest Bank, the value of R^2 is 0.971 which indicates that almost all i.e. 97.1% of dividend variation can be explained by average stock price. However, this result is statistically significant at 5% level of significance since value of t is high i.e.14.42.

Simple Regression Results of Net Worth on Dividend Per Share

$$(Dt = a+bNw)$$

Table 4.14

Simple Regression Results of Net Worth on Dividend Per Share

Sectors (Sample Size)	Regression Coefficients				
	a	b	S.E.	R2	t (0.05)
Everest N=6	3.082	0.030 (0.0029)	3.341	0.946	10.34
Kumari N=6	-5.171	0.017 (0.0082)	8.153	0.430	2.073

Note: Figures in parenthesis are standard errors of regression coefficients.

Dividend per share and Net Worth are represented by Dt and Nw respectively

When the regression of dividend per share on net worth is concerned, the beta coefficients in case of Everest Bank is 0.030 which indicates that one rupee increase in net worth leads to the average of about Rs. 0.030 increase in dividend per share. However in the case of Kumari Bank, the beta coefficient is 0.017 which indicates that one rupee increase in net worth leads to the average of about Rs. 0.017 increase in dividend per share. The value of R^2 for Everest Bank is larger than that for Kumari Bank 0.430. In

case of Everest Bank, the value of R^2 is 0.946so the net worth variable can be explained as 94.60% variation in dividend per share of the company. This result is statistically significant at 5% level of significance. But in case of Kumari Bank the value of R^2 is 0.430 i.e. net worth can explain 43% variation in dividend per share of the company. So, this result is statistically significant at 5% level of significance.

Making the inference of the result of different regression results so far, it can clearly be observed that the coefficients of dividends are positive as expected in both the banks. The coefficients of dividend are significant at 5% level of significance in most of the regression equation described above. The values of coefficients are higher in Everest Bank than Kumari Bank. This alludes to the positive relationship between dividend and other variables i.e. earnings, net profits, net worth and stock prices.

However, from the above analysis of regression results it is obvious that the coefficient of determination R^2 is less than one-half for Kumari Bank, however, the values are very high in case of Everest Bank. This means the running regression results have not satisfactorily explained the variation in dividend in case of Kumari Bank whereas, the running regression results have satisfactorily explained the variation in dividend in case of Everest Bank. Despite all these, there is a positive relationship between dividends per share with earning per share, net worth, stock prices and net profits. By performing the analysis, it seems that earnings per share and net profits affects the dividend differently in different banks and dividend affects the share prices differently in different banks.

4.5   Major Findings

4.5.1 Dividend payment is not regular phenomena in Nepalese companies. The net profit and dividend per share was positively correlated in both the banks which means higher the current profit higher will be the dividends and vice versa.

4.5.2 On the basis of dividend payout ratio, Everest Bank is paying higher percentage of its earnings as dividends than Kumari Bank.

4.5.3 Simple regression analysis of dividend per share on earning per share shows that Everest Bank might be able to pay higher dividends per share than Kumari Bank if one rupee of earnings per share is increased in both the banks at the same time.

4.5.4 Up to the year 059/060 number of original shares of 3,150,000 is increased to 3,780,000 by the end of 2063/064 and face value of Rs. 100 per share by Everest Bank whereas number of original shares of 3,500,000 is increased to 7,500,000 during the same time and face value of Rs. 100 by Kumari Bank for the same period.

4.5.6 Though earning per share in original number of share increasing every year, it is fluctuating in the present number of share. It is so because of issue of bonus shares.

4.5.7 As far the bivarate regression analysis of DPS on EPS was concerned, beta coefficients are positive for both the banks. The positive sign for beta coefficient of EPS indicates that, among others, DPS increases with higher earnings per share.

4.5.8 However, there is not stable dividend paid by both the banks over years. They are paying fluctuating dividend since 062/063 to 2064/065. Similarly, there are also no criteria to adopt payout ratio. So, it clearly reveals that there is no long-term vision in regard with dividend decision.

4.5.9 Market price is fairly higher than the actual net worth in case of Everest Bank. In some case market price shares is twice the net worth. The huge gap can be seen in the year 2064/065 in the Everest Bank. But the market price is lower than the actual net worth in case of Kumari Bank and it falls largely in the year 2062/063. This clearly indicates investors do not have adequate knowledge and how to evaluate value of shares before investing on it.

4.5.10 In case of Everest Bank, earning per share in one original share of Rs. 100 is Rs.29.9 in the year 2059/060 while it has reached to Rs.91.82 in 064/065. On the other hand, earning per share of Kumari Bank in one original share of Rs. 100 is only Rs.3.56 in the year 2059/060 while it has reached to Rs. 16.35 in 2064/065 which has fallen from Rs. 22.70 of the previous year. Issue of bonus share has decreased earning per share of the present share of 2064/065 at Rs. 16.35.

4.5.11 The pattern of dividend payout ratio of both the banks demonstrated the conservative dividend policy followed by the banks. Relationship between the earnings, dividend payment and growth and expansion programmed of the companies did not exist. Practices of low dividend payout ratio without having growth and diversification schemes lead to have check on maximization of the shareholders wealth.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Most of the things about dividend decision and a brief introduction of this study have been already presented in the first chapter. In the second chapter the available literature on dividend decision are reviewed. Moreover, research methodology is described in third chapter. All the available data are presented and analyzed in the fourth chapter relating to dividend decision by sorting out issues of dividend policy in these banks.

In this concluding chapter an attempt has been made first to present issues and gaps, future guidelines, summary and conclusion. These findings certainly have shown necessity for the improvement of existing conditions. The findings highlighted are as follows:

5.1   Summary

The study was concluded with objectives to analyze the trend and determinants of dividend policy in Nepalese commercial and JVBs over the period of six years from 2059 to 2066. The sample for the study comprises of 2 banks listed in Nepal Stock Exchange. The study is based on secondary data and the data obtained were analyzed using various descriptive statistical tools, correlation analysis and multiple regression models and various financial tools.

Paying dividend to shareholders is an effective way to lure new investors to invest in shares. Due to the division of earnings of a company (between dividend payout and retention of earnings) its effect on the market price of

shares is a crucial question. It is therefore, necessary that a wise policy should be maintained to have a balance between shareholders interest with that of corporate growth from internally generated funds. The funds that could not be used due to lack of investment opportunities should be better paid as dividends, since shareholders have investment opportunities to employ elsewhere. In the changed context of encouraging secondary market it is time to study about influence of other factors on dividend and implication of dividend on market price of shares. The study has tried to cover some such factors. However, it is not enough due to some limitations.

Dividend paying companies have been selected for the study, so that references can be made about implication of dividend. There are vague practices on distribution of dividend in Nepalese companies. Shareholders have a high expectation that market price of shares will be significantly higher than net worth; however the dividend is paid only in profitable years end in most of the years shareholders expectations are not met. Instability of dividend and inconsistent payout ratio is the most applied phenomena of Nepalese dividend distribution practices. But the companies invested by foreigners (JVBs) are paying dividend more attractively than the companies promoted by indigenous promoters. However, JVBs companies are also not guided by an appropriate dividend policy. This will actually affect the market price as well as goodwill of all such companies in the long existence.

No uniformity in dividend distribution policy of the banks was found. The banks are declaring high dividend return on paid up capital. The trend analysis showed that the banks are increasing the cash dividends synchronizing with their increasing net profits. It also revealed that DPS, DYR, DPR as well as earnings of the banks are in increasing trend.

The theoretical statement of the study was that dividend decision should depend upon earning per and net profit. Similarly, prices of stock and net worth should depend on dividend decision.

At the first stage, different financial indicators tools of both the banks showed that average dividend per share of Everest Bank is higher than Kumari Bank which means Everest Bank is paying higher portion of its earnings as dividend to its shareholders. But on the basis of average earnings per share Everest Bank is more successful than Kumari Bank. Similarly, average price-earning ratio of Everest Bank is higher than Kumari Bank which means Everest Bank has better performed for enchancing the wealth of shareholders. Moreover, on the basis of market value per share to book value per share ratio Everest Bank's Performance is better than Kumari Bank because increasing trend of market value per share is higher in Everest Bank on the basis of book value per share.

At the second stage bivarate regression analysis is used to interpret the results. As far the bivarate regression of dividend per share on earning per share and net profit is concerned, beta coefficient is positive in both the banks. The positive sign for beta coefficients of earning per share and net profit indicates that, among other, dividends per share increase with higher earning per share and net profit in both the banks. But, earnings per share have greater influence on variation in dividends per share which is higher in Everest Bank than in Kumari Bank, whereas net profit has greater influence on variation in dividends per share which is higher in Everest Bank than Kumari Bank.

As far as the Everest Bank bivarate regression of average stock prices and net worth on dividends per share is concerned beta coefficients are positive for both the banks. The positive sign for beta coefficient of dividends per

share indicates that among others, average stock prices and net worth increases with higher dividend per share in both the banks. But, dividends per share have greater influence on variation in stock prices and net worth is higher in Everest Bank than in Kumari Bank.

From the findings of the study, following conclusions are drawn.

) The relationship between dividend per share with earning per share, net profit, net worth and stock prices are positive in these sample banks.

) A change in dividend per share affects the share prices differently in different banks.

) There is not uniform of dividend distribution policy in both the banks.

5.2   Conclusions

Based on the findings, following conclusions have been drawn:

5.2.1   The banks have started practice of increasing dividend payments over time. Most of the banks have followed the irregular dividend payout policy. They have increased dividend payments when earnings have increased and decreased dividend payments when earnings have decreased. Both the banks have paid no dividends in case of decrease in earnings below some level. It shows that they have not followed stable dividend policy. No uniformity was seen in the dividend payout policy of the banks.

5.2.2   The dividend per share of both the commercial and JVBs of Nepal is based on current earnings. The banks are following earning based dividend policy.

5.2.3   The banks have high target payout ratio. The banks have no policy of maintaining fixed dividend payout ratio.

5.2.4   The retention of profits is decreasing which shows the lack of favorable investment opportunities for the banks in recent years.

5.2.5   The percentage of banks' paying dividends is in increasing trend.

5.2.6   The major factors influencing dividend payout of the banks are size and profitability. Dividends were also found to be influenced by liquidity position and opportunities.

5.2.7   Dividends are increased when there is an increase in the market capitalization, profitability and liquidity position. In the presence of growth opportunities, the dividends are decreased. The banks are not considering the need to repay the debt in dividend decisions.

The objectives of the study have been achieved as the study was successful in analyzing trends and determinants of dividend policy of listed commercial and JVB of Nepal. However, the study is bound by some limitations as illustrated in the first chapter and hence, more studies in the area are required for the full solution of the dividend puzzle in Nepalese corporate firms.

5.3   Recommendations

Although, this study was concerned with dividend decision, it may be appropriate to provide a package of suggestion in the light of findings, issues and gaps. However, these guidelines may also have some repercussion, but there is no doubt of these measures to improve the existing conditions. These guidelines are explained below:

5.3.1   The legal rule for the treatment of dividend is must for the smooth growth of the enterprises as well as growth of national economy. Some of the companies are in position to pay dividend while considered some cases. But some companies are suffering loss and there are efforts to minimize loss rather than payment of dividend. Therefore, the government should act. In favor of investors and bind these companies by a distinct rules.

5.3.2 Payment of dividend is neither static nor constantly growing. It is highly fluctuating. Such way of paying dividend could not impress the market positively. So, these banks are advised to follow either static or constantly growing dividend payment policy. It would be better to fix the amount of dividend in the general annual meeting. This is important not only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of bank, efficient management and socially acceptable distribution of income.

5.3.3 Shareholders should be given a choice whether they prefer stock dividend or cash dividend. They should be well informed that issue of stock dividend decreases market value per share and earning per share. As number of shares are increased, total earning to shareholders will be the same. Issues of cash dividend increase both market value per share and earning per share but it does not increase the number of shares.

5.3.4 As banks are playing on the public money, I recommend for this bank to chalk out target rate of return every year. On this basis the bank should plan profit by linking its activities with income generating programmers whether fund whether fund based or non fund based.

5.3.5 Formulation of dividend policy will clearly guide the way on how to follow dividend distribution. The policy should determine whether the company is going to adopt stable dividend policy, constant payout ratio or low regular plus extra dividends. What should be the long-run dividend payout ratio, either it is pure residual dividend policy should have been clearly explained by the dividend policy. The tendency of doing as, management interference in policy matters about dividend decision should be eliminated.

5.3.6   One organization formed by the conscious shareholders is working in favor of Nepalese investors which should be recognized by the government. The government should encourage this kind of organization to promote the activities and to protect the interest of investors' interest. Therefore, consideration a thoughtful is required in this connection.

5.3.7   The management unable to pay dividend feels itself safe to accuse the interference of government for poor performance. Therefore, there should be certain programmed to improve the efficiency and reduce the government interference in daily affair. Similarly, the managers should be alerted about their duties and responsibilities and to protect shareholders interest but not for operation of company desired by themselves.

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APPENDIX

APPENDIX-A: EVEREST BANK LIMITED

Year	DPS	EPS	Mkt. (Avg.) (Per share)	Net Profit (in Million)	Book Value (Per share)	Net Worth (in Million)
059/060	20.00	29.9	445.00	94.18	214.89	472.80
060/061	20.00	45.58	680.00	143.57	241.90	540.30
061/062	20.00	54.22	870.00	170.81	221.00	692.60
062/063	25.00	62.78	1379.00	237.29	217.67	822.80
064/065	40.00	78.40	2430.00	296.41	292.75	1106.60
065/066	50.00	91.82	3132.00	451.20	321.77	1581.20

A.1. Variables Used in Analysis

Year	059/060	060/061	061/062	062/063	063/064	064/065
X	29.9	45.58	54.22	62.78	78.40	91.82
y	20.00	20.00	20.00	25.00	40.00	50.00

Note: Values Of x represents Earnings per share.

Values of y Represent Dividends per Share.

Output of Regression Results:

a	=	-2.4889	$\overline{X}$	=	60.45
b	=	0.523	$\overline{Y}$	=	29.167
x^2	=	24430.1556	y	=	12.81
x	=	362.7	r	=	0.915
y	=	175	SE	=	5.786
y^2	=	5925	t	=	5.5377
xy	=	11890.5	R^2	=	0.837
x	=	22.38	n	=	6

Bivarate regression results of DPS	=	-2.4889 + 0.523 EPS
Where, DPS	=	Dividend Per Share
EPS	=	Earning Per Share
Then, Coefficient of Determination (R2)	=	0.837
Standard Error of Regression Coefficient (S. E.)	=	5.786
t- value	=	5.5377

A.2. Variables Used in Analysis

Year	059/060	060/061	061/062	062/063	063/064	064/065
X(DPS)	94.18	143.57	170.81	237.29	296.41	451.20
Y (NP)	20.00	20.00	20.00	25.00	40.00	50.00

Note: Value of x represent net Profits (NP) (Rs. in Million)

Value of y represents Dividend per Share (DPS)

Output of Regression Results:

a	=	7.06756	$\overline{X}$	=	60.45
b	=	0.0951	$\overline{Y}$	=	29.167
x2 =		406405.356	y	=	12.81
x	=	1393.46	r	=	0.915
y	=	175	SE	=	4.221
y^2	=	5925	t	=	7.938
xy	=	48519.85	R^2	=	0.91315
x	=	117.461	n	=	6

Bivarate regression results of DPS		=	7.06756+0.0951 NP
Where,	DPS	=	Dividend Per Share
	Np	=	Net Profits
Then, Coefficient of Determination (R2)		=	0.91315
Standard Error of Regression Coefficient (S. E.)		=	4.221
t- value		=	7.938

A.3. Variables Used in Analysis

Year	059/060	060/061	061/062	062/063	063/064	064/065
X	445.00	680.00	870.00	1379.00	2430.00	3132.00
Y	20.00	20.00	20.00	25.00	40.00	50.00

Note : Value of X represent Average Stock Per Share (Rs. in Million)

Value of Y represents Dividend per Share (DPS)

Output of Regression Results:

a	=	11.595	$\bar{X}$	=	1489.33
b	=	0.012	$\bar{Y}$	=	29.167
$x2$	=	5925	y	=	12.81
x	=	175	r	=	0.985
y	=	8936	SE	=	2.447
y^2	=	5925	t	=	14.42
xy	=	32817.5	R^2	=	0.971
x	=	1070.01	n	=	6

Bivarate regression results of DPS	=	11.595 + 0.012 (Pt)
Where, DPS	=	Dividend Per Share
Pt	=	Average St. Price
Then, Coefficient of Determination (R2)	=	0.971
Standard Error of Regression Coefficient (S. E.)	=	2.447
t- value	=	14.42

A.4. Variables Used in Analysis

Year	059/060	060/061	061/062	062/063	063/064	064/065
X	20.00	20.00	20.00	25.00	40.00	50.00
Y	472.80	540.00	692.60	822.80	1106.60	1581.20

Note : Value of X represent Dividend per Share (DPS)

      Value of Y represents Net Worth (Rs. in Million)

      Output of Regression Results.

a	=	3.082	$\bar{X}$	=	29.167
r	=	0.030	$\bar{Y}$	=	869.38
b	=	6.4552	y	=	415.19
x^2	=	5925	SE	=	3.341
x	=	175	t	=	10.34
y	=	5216	r^2	=	0.03961
y^2	=	5396591.44	n	=	6
xy	=	157432.00			
x	=	12.81			
r	=	0.972			

      Bivarate regression results of DPS   =   3.082 + 0.030 NW

Where,   DPS   =   Dividend Per Share

                          NW   =   Net Worth

Then, Coefficient of Determination (R^2) =   0.03961

Standard Error of Regression Coefficient (S. E.)   =   3.341

                          t- value   =   10.34

APPENDIX-B

KUMARI BANK LIMITED

Year	DPS	EPS	Mkt. (Avg.) (Per share)	Net Profit (in Million)	Book Value (Per share)	Net Worth (in Million)
059/060	-	3.56	-	12.47	112.00	392.88
060/061	5.26	9.74	-	48.69	114.00	570.15
061/062	-	17.58	369	87.88	141.00	705.53
062/063	21.05	16.59	443	103.67	149.00	932.62
064/065	21.05	22.70	830	170.26	149.00	1115.21
065/066	10.53	16.35	1005	174.93	128.00	1369.60

B.1. Variables Used in Analysis

Year	059/060	060/061	061/062	062/063	063/064	064/065
X	3.56	9.74	17.58	16.59	22.70	16.35
y	-	5.26	-	21.05	21.05	10.53

Note: Values Of X represents earnings per share.

Values of y Represent Dividends per Share.

Output of Regression Results:

a	=	-4.063		$\overline{X}$	=	16.345
b	=	0.951		$\overline{Y}$	=	14.47
x^2	=	1474.44		y	=	7.894
x	=	86.52		x	=	5.294
y	=	57.89		r	=	0.831
y^2	=	1024.75		SE	=	8.079
xy	=	1050.45		t	=	2.17
r^2	=	0.440		n	=	6

Bivarate regression results of DPS   =   -4.063 + 0.951 EPS

Where,   DPS   =   Dividend Per Share

EPS   =   Earning Per Share

Then, Coefficient of Determination (R2)   =   0.440

Standard Error of Regression Coefficient (S. E.)   =   8.079

t- value   =   2.17

B.2. Variables Used in Analysis

Year	059/060	060/061	061/062	062/063	063/064	064/065
X	12.47	48.69	87.88	103.67	170.26	174.93
y	-	5.26	-	21.05	21.05	10.53

Note: Values of X represents Net Profits.(NP)

Values of y Represent Dividends per Share.(DPS)

Output of Regression Results:

a	=	-0.294	$\overline{Y}$	=	14.47
b	=	0.100	y	=	7.89389
x^2	=	80585.55	x	=	60.0504
x	=	597.9	r	=	0.467
y	=	57.89	SE	=	8.018
y^2	=	1024.75	t	=	2.22
xy	=	7864.35	R^2	=	0.448
$\overline{X}$	=	124.8375	n	=	6

Bivarate regression results of DPS	=	–0.294 + 0.100 NP
Where, DPS	=	Dividend Per Share
NP	=	Net Profits
Then, Coefficient of Determination (R2)	=	0.218
Standard Error of Regression Coefficient (S. E.)	=	8.018
t- value	=	2.22

B.3. Variables Used in Analysis

Year	059/060	060/061	061/062	062/063	063/064	064/065
X	-	-	369.00	443.00	830.00	1005.00
y	-	5.26	-	21.05	21.05	10.53

Note: Values of X represents Average Stock Price (Pt)

        Values of y Represent Dividends per Share.(DPS)

Output of Regression Results:

a	=	3.600			
b	=	0.014	$\overline{Y}$	=	14.47
Y^2	=	2031335.00	y	=	7.89389
Y	=	2647.00	x	=	305.332
X	=	57.89	r	=	0.740
X^2	=	1024.75	SE	=	8.716
xy	=	37379.3	t	=	1.842
$\overline{X}$	=	661.75	R^2	=	0.348
			n	=	6

Bivarate regression results of DPS   =   3.600 + 0.014 Pt

Where,   DPS   =   Dividend Per Share

                                     Pt   =   Average Stock Price

Then, Coefficient of Determination   (R^2)   =   0.348

Standard Error of Regression Coefficient (S. E.)   =   8.716

                            t- value   =   1.842

B.4. Variables Used in Analysis

Year	059/060	060/061	061/062	062/063	063/064	064/065
X	392.88	570.15	705.53	932.62	1115.21	1369.60
y	-	5.26	-	21.05	21.05	10.53

Note: Values of X represents Average Stock Price Net Worth

   Values of y Represent Dividends per Share. (DPS)

   Output of Regression Results:

a	=	–5.171	$\overline{Y}$	=	707.77
b	=	0.017	y	=	428.13
x^2	=	1024.75	x	=	8.81
x	=	57.89	r	=	0.554
y	=	4246.63	SE	=	8.81
y^2	=	4105393.23	t	=	2.073
xy	=	60527.70	R^2	=	0.430
$\overline{X}$	=	9.65	n	=	6

Bivarate regression results of DPS		=	(–5.171) + 0.017 NW
Where,	DPS	=	Dividend Per Share
	NW	=	Net Worth
Then, Coefficient of Determination (R^2)		=	0.430
Standard Error of Regression Coefficient (S. E.)		=	8.153
t- value		=	2.073