

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is an underdeveloped country having low per capita income and low corporate growth rate. During the Rana period, there was no any development in financial sector and other sectors which contribute to development of the country. After the Rana period there was a little development but it was not satisfactory for the economic development of nation. After the restoration of democracy in 1990 and universal echo of economic liberalization, Nepal has implemented liberal economic policy. As a result, many more companies are established in different sectors such as industrial, tourism, transportation, trade and mostly in financial sector which contributed to build up economic of the country. Nepal is country trying to develop its economy through global trend and corporation with developed countries. Development on the financial terms is the efficient flow and generation of the funds in the most productive sectors. The nation having effective fund collection of funds from the nook and corners of the country and investing them in the productive sectors are the developed and established countries the present world.

The development of an economy requires expansion of requires expansion of productive activities, which in turn is the result of the capital formation, which is the capital stock of the country. The change in the capital stock of the country is known as investment. Investment is key factor for capital formation. Investment promotes economic growth and contributes to a nation's wealth. Investor desire to earn some return from it investment, without any return there is no any investment. Investment is blocked, if there is not return. The total expected return include two components, one is capital gain and other is dividend.

In the capital market, all firms operate in order to generate earnings. Shareholders make investment in equity capital with the expectation of making earning either directly on the form of dividend or indirectly in the form of capital gains in future. Thus, shareholders wealth can increase through either dividends or capital gains. Once a company makes a profit, it should decide on what to do with the profit. It could be continued to retain the profit within the company, or it could pay out the profit to the owners of the company in the form of dividend. Dividends are payment made to stockholders from a firm's earning in return to their investment. Whether those earnings were generated in the current period or in previous period and policy refers to the decision about how much earning, at what form should be distributed. Thus, dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained or reinvestment in the firm. The objective of a dividend policy should be to maximize shareholder's wealth position.

The amount of net profits and dividend disbursement or withdraws are of interest of analyst as test of managerial capacity and conservation towards dividend policy as an adequate earning or exercise dividend payment may eventually destroy a sound asset structure shown by balance sheet. Dividend indicates people's expectation on higher return of investment in shares. Though the establishment of corporation on Nepal has been expedited in recent years, the real owners of the corporation are not adequately respected by paying dividend. Even government is unable to receive dividend from its investment in public enterprises.

The history of securities market began with the floatation of shares to the general public by Biratnagar Jute Mills Ltd. And Nepal Bank Ltd. In 1937. However, the development of securities market could not be a national policy for a long time. Then industrial policy of Nepal led to the development of securities markets with the established of Securities Marketing Centre (SMC) in 1976. Before the

establishment of SMC, there were no institutional arrangement to undertake and to manage the new issues of securities. Initial Public Offerings (IPOs) had to be made as per the provision of company Act, 1936, which were not adequate and relevant. The act had not even included preference share as corporate security. It was recognized as corporate security only by company Act, 1964.

SMC started secondary trading of securities in 1981, which was restricted to government bonds. Till 1983, the concept of well-structured secondary market had not evolved in Nepal. No separate Act existed to regulate the trading of securities. The Securities Exchange Act, 1983 was enacted in 1983. The Act restricted the exchange of unlisted securities. The SMC was renamed Securities Exchange Centre (SEC) in 1984. The SEC was the only institution at that time managing and operating primary and secondary markets of long-term government and corporate securities.

A need to develop different institutional mechanisms relating to securities market was strongly felt to avoid potential conflict of interest between the services provided. The first amendment in the Securities Exchange Act, 1983 in 1993 paved the way for the restructuring of securities market in Nepal, which led to the establishment of Securities Board of Nepal (SEBON) in 1993 with a mandate to regulate and develop the security market. SEBON started to register securities and grant approval for issuing securities to the public in 1993. The first amendment in the Act also led to conversion of SEC into Nepal Stock Exchange Ltd. (NEPSE) in 1993 with the objective of operating and managing secondary transaction of securities. The initial efforts led to the opening of a full-fledged stock exchange in January 13, 1994.

The second amendment in Securities Exchange Act, 1983 was made in 1997. This amendment made provision for registering securities business persons in SEBON.

As per the provision of the second amendment, SEBON provided licenses to the securities business persons in 1997. The amendment made mandatory provisions for the listed companies to submit annual and semi-annual report to SEBON. This amendment also required securities business persons to submit annual reports incorporating the securities transactions carried out by them to SEBON.

Presently, there are 23 brokers, two securities dealers, 11 issue managers and one stock exchange and 176 listed companies in the Nepal securities market.

There are two types of securities market one is primary market and another is secondary market. The term 'primary market is used to denote the market for original sale of securities by an issuer to the public. Primary market is the place where corporation and government issue new securities. All securities, whether in money market or capital market, are initially issued in the primary market. This is only market in which the company or government is directly involved in the transaction and receives direct benefits from issue. In the secondary market investors buy and sell securities themselves through broker. It is organized stock exchange where trading of securities is done under the set of rules and regulations for example NEPSE.

In the developing countries like Nepal, where security market is in infancy stage and is handled by few players, to pay a day prevailing price for stock investment is some time so risky. There are some companies which were earning profits and paid dividend during initial stage but after public investment they have continuously been showing operational losses even though increase was noticed in production and sales.

Nepalese capital market has crossed more than three decades; issue of cash/stock dividend is recent practice for Nepalese corporation firms, specifically after the

incorporation of joint venture banks in mid eighties as a result of government economic liberalization policy and gradual development of stock market.

In Nepal only few companies are paying dividend and the other companies are not stable in the payment of dividend. There are some companies who have never paid dividend to their investors throughout their historical background. It has been noticed that company who has risen dividend generally experience on increase its stock price and that a company don't pay dividend or lowers it's has a falling stock price trend. It seems to suggest that dividend so matter, in affecting the stock price of the company but several researchers argue that fact that dividend affect stock price, rather it is the informational contended of dividend that affect the stock price. It is fact that dividend serve as a simple comprehensive signal management's interpretation of the firm's recent performance and its future prospects.

1.2 Statement of Problem

Dividend policy is an integral part of financial management decision of a business firm. It is relevant in all institutions that funds in terms of return and investment. It has been accepted as a distinct discipline in the earlier stage of 21st century. Dividend refers to that portion of a firm's net earning which are paid out to the shareholders. Whether dividends have an influential on the value of the firm is the most critical question in dividend policy. If dividends are irrelevant, the firms should retain earnings only in keeping with its investment opportunities. If there are not sufficient investment opportunities providing expected returns in excess of the required return, the unused funds should be paid out as dividends. But Nepalese commercial bank has not been able to provide satisfactory result on dividend decision. Government policy is also partly responsible on the dividend decision. Commercial banks in Nepal have on consistency policy on dividend decision. Commercial banks in Nepal have no consistency policy on dividend decision and dividend distribution doesn't match with the earning as well as there

is no proper relationship between dividend and quoted market price of share. Procedure of dividend is also not well managed and declared in commercial bank. Top management declares the dividend haphazardly without following proper guideline. These commercial banks have no clear outline of the payment procedure in the dividend policy so that market knows when these banks declare dividend and pay, how they pay and when they pay.

Shareholders make investment in equity capital with the expectation of making earnings. Dividend is kind of earning that the shareholders expect from their investment. But the dividend decision is still a fundamental as well as controversial area of managerial finance. The effect of dividend on market price of stock is the subject matter of the study.

Theoretically, the share price should fall down after the book closure by an amount to the amount of dividend, in case the company is going to distribute dividend. For example, if the share price of XYZ Company on one day before the book closure was Rs.300 and the company had declared Rs.10 per share as dividend, which was to be formalized in the coming ACM. The price per share in the first transaction after the book closure should be around Rs. 290.

Is the price of share after dividend decline with the amount of dividend? What is the impact on market price of share after dividend? Which policy is the company following to pay dividend?

1.3 Objectives of the study:

In view of the significant role of the dividend policy, the corporate firm should follow the appropriate dividend policy. This study is benefited to the shareholders, brokers, managers and concerned authority for making future plans and policies in making financial decision. Also it was make the investor aware if the dividend

policy beneficial to those parties who are directly involved in the financial decision maker to the financial intuitions as well. There are many objectives for making the study. However, the main objectives of the study are:

1. To study and analyze the dividend practices in Nepal.
2. To evaluate the trend of dividend forecasting and payment by the Nepalese financial institutions.
3. To see and examine the impact of dividend on the MPS.
4. To assess the relationship between the DPS and MPS.
5. To provide suggestions on the basis of study findings.

1.4 Significances of the Study:

In the capital market the investor can earn return in two ways one is dividend and other is capital gain. The term dividend is defined as a return from investment in equity shares. So dividend is important factor for investor while investing in equity shares. This study helpful to investor to take rational decision like: - where to invest, how to invest, what portfolio should be made to obtain maximum profit from their investment. In Nepalese context, most of investors are investing in the stock without knowledge of company and performance and dividend policies. This study helps to aware the Nepalese investors.

This study is useful to the firms also. They know the investor objective's from this study there are basically two types of objective one is receive dividend and other is receive capital gain. Knowing the objective of investor they can develop their plan and policies.

Basically this study is conducted to help investor while investing in share capital. So that they can make correct decision at right time about impact of dividend in

market price and make investment. Objective of study is also to keep investor free from being cheated.

1.5 Limitations of the study:

There will be some limitations while undergoing this study. The main limitations of the study will be:

1. The study is mainly concentrated on the dividend practice in Nepal.
2. The study has ignored the price - level change.
3. The data present in the study are secondary in nature and completely historical.
4. The result and the interpretation are completely are rigid and from the view point of the researcher.
5. The study period comers data for only five fiscal years from 2005/06 to 2009/010
6. The study will be done for the partial fulfillment of MBS program of T.U.

1.7 Organization of the study:

The whole study has been divided into five chapters

Chapter I Introduction

This chapter deals with the introductory part of the study, which includes background of the study, statement of the problem, objective of study, significance and limitation of the study.

Chapter II Review of literature

This chapter deals with review of different literature in regard to the theoretical analysis and review of book, articles and thesis related to the study field. Therefore it includes conceptual framework and other related studies.

Chapter III Research Methodology

This chapter deals with research methodology used to carry out the research. It includes research design, population and sample, source and technique of data collection, data analysis tools.

Chapter IV Data Presentation and Analysis

This chapter is the main part of the study, which includes analysis and interpretation of the data using financial and statistical tools. Similarly this chapter also includes the major finding of the study.

Chapter V Summary, Conclusion and Recommendations

The whole study summarized and concluded in this final chapter: A list of recommendations derived from the analysis is also presented in this chapter. A list of bibliography will be presented; the necessary supplements and mathematical and statistical calculation are presented at various segments appendices.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual framework:

2.1.1 Meaning of dividend:

The term dividend is defined as a return from investment in equity shares. The profit made by the firm which is distributed to the shareholders termed as dividend. Every firm after making profit either retain the money for further investment or distribute it among the shareholder. The firm should decide weather to keep the money as retained earning or pay the dividend. The dividend policy is the policy followed by the firm regarding the dividend versus retention decision .it is not necessary that all business organization follow the same dividend policy. Dividend policy of different organization may same or different, but the policy followed by the fire should be suitable for both the shareholders as well as the firm itself.

Dividend means some kind of consistent approach to the distribution versus retention decision rather than making the decision on the purely adhoc basis from period to period. In ordinary share dividend implies to the pro distribution of earning either in the form at direct cash or additional stock in accordance with proportionate holdings. In fact dividend is the profit distributed to the shareholders by an institution. It may be in cash, share and combination of both. Dividend policy decision is on the three decisions of financial management because it affects the financial structure the flow of funds corporate liquidating and investors, attitudes. Dividend decision of the firm is a very crucial controversial area of financial management. The main aspect of dividend policy is to determine the amount of earning to be distributed to the shareholder and the amount to be retained in the firm. When a company pays out a portion of its earning to

shareholders in the firm of dividend the shareholder gets benefit directly. If the firm retains the fund to exploit other growth opportunities the shareholders can expect to benefit indirectly through future increase in the price of their stock. Thus shareholders wealth can be increase through either dividend or capital gains. The policy of the company on the dividend of its profits between distribution to shareholders as dividend and retention is known as dividend policy.

Investors buy shares of firm with the hope of sharing earned by firms. Since the motive of shareholder is to receive returns on their investment. Nothing please them more than knowing the fire earning more and more profits, more dividends coming in and the stock rice increasing.

In fact, fact, dividend is the portion of the net earnings, which is distributed to the shareholders by a company. After successfully completing the business activities of a company if the financial statement of shows the net profit, the Board of Directors (BOD) decides to declare dividend to shareholders. Therefore, the payment of corporate dividend is at the discretion of the BOD.

2.1.2 Theories Regarding Dividend:

I. Residual theory

When dividend policy is treated as a secondary decision and primary emphasis is given to investment policy than dividend policy is considered as residual theory of dividend. “The residual theory of dividend suggests that dividend paid by a firm should be viewed as a residual amount or left after all acceptable investment opportunities have been undertaken.” (Lawrence, 1991; 316). It is assumed that internal source of fund is cheaper than external source of fund, so the firms are more interested to retain the earning rather than distribution of cash dividend. “When we treat dividend policy as strictly as financing decision, the payment of cash dividend is a passive residual.” (Van Horne: 1997 ; 331)

Residual theory is that, in which the first priority is given to the profitable investment opportunities. If there are profitable opportunities, the firm invests in those and residual income (if any) is distributed to shareholders. Residual theory of dividends means, a theory that suggests that the dividend paid by the firm should be the amount left over after all acceptable investment opportunities have been undertaken, (Gitman, 1988;616). Using this approach the firm would treat the dividend decision in three steps as follows:

Step 1 Determine the optimum level of capital expenditure which would be the level generated by the point of intersection of the investment opportunities schedule (IOS) and weighted managerial cost of capital (WMCC) function.

Step 2 Using the optimal capital structure proportion, it would estimate the total amount of equity financing needed to support the expenditures generated in step 1.

Step 3 Because the cost of retained earnings is less than the cost of new common stocks; retained earnings would be used to meet the equity requirement determined in step 2. If retained earnings are inadequate to meet this need, new common stock would be sold. If the available retained earnings are in excess of this need, the surplus amount would be distributed as dividends (Bhattacharya, 2006; 349 – 350)

ii. Wealth maximization theory:

Large dividends are announced and distributed to shareholders in order to (or in hope with) maximize the wealth of the shareholders. Basically, it is applicable for those companies, which are just established and to those companies it will be beneficial whose financial profits are in decreasing trends. The main purpose of the wealth maximization theory of dividend is to make assurance to the stockholders that they are interested in the firm, which has not better market value.

2.1.3 Models regarding dividend policy.

Linter (1956) conducted a study, which is focused in the behavioral aspect of dividend policy. He investigated dividend pattern of 28 different companies of America and found that, firm generally predetermines the desired payout and tries to achieve it and rarely considers other factors. The model developed firm is his research is as follows

$$DIV *_t = pPES_t \dots \dots \dots (i)$$

$$\&, DIV_t - DIV_{t-1} = a + b(DIV *_t - DIV_{t-1}) + e_1 \dots \dots \dots (ii)$$

$$or, -DIV_t = a + bDIV *_t + (a + b)DIV_{t-1} + e_1 \dots \dots \dots (iii)$$

Where

t= Firm's desired payment

EPS= Earning per Share

p= Targeted pay-out rating

A= Constant relation to dividend growth

B= Adjustment factor relation to the previous period's dividend & new desire level or dividend where $b > 1$.

Major finding of this study are as follows:

- Firm generally prefer desired proportion of earning to be paid as dividend.
- Investment opportunities are not considered for modifying the pattern of dividend behavior.
- Firm generally have target payout ratios in view while determining change in dividend per share.

Walter (1957) argues that the choice of dividend policies almost always affect the value of enterprises. His model, one of the earlier theoretical works shows clearly the importance of the relationship between the firm's internal rate of return, r , and its cost of capital, k , in determining the dividend policy that will maximize the wealth of shareholders. Walters's model is based on the following assumptions (pendey, 1975:741).

- The firm finances all investment through retain earnings, that is debt or new equity is not issued.
- The firm's internal rate of return, r , and its cost of capital, k is constant.
- All earnings are distributed as dividend or reinvested internally immediately.
- Beginning earnings and dividends never change. the value of the for share, EPS, DPS may be changed in the model to constant for ever in determining the given value.
- The firm has a very long infinite life.

Walter's formula to determine the market price per share is as follows.

$$p = \frac{DPS}{K} + \frac{r(DPS - EPS)/kx^2}{K} = \frac{(DPS + r(EPS - DPS)/k)}{K}$$

Where

- P = Market price per share
 DPS = Dividend per share.
 EPS = Earning per share
 r = internal rate of return. (Average)
 K = Cost of capital/capitalization rate.

Walter's view of the optimum dividend payout ratio can be summarize as follows:

Growth firm $r > k$

Firm having $r > k$ may be referred as growth firm. The optimum payout ratio for a growth firm is 0. The market values per share p increases as payout ratio declines when $r > k$.

Normal Firm $r = k$

Firm having $r = k$ may be referred as normal firm. There is no unique optimum payout ratio for a normal firm. One dividend policy is as good as the other. The market values per share is not affected by the payout ratio when $r = k$.

Declining Firm $r < k$.

Firm having $r < k$ may be referred as declining firm. The optimum payout ratio for a declining firm is 100%. The market values per share p increases as payout ratio increases when $r < k$.

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 rate of return, r , and its cost of capital, k .

The firm should use earnings to finance investment if $r > k$, should distribute all earnings when $r < k$ and would remain indifferent when $r = k$. Thus dividend policy is the financing decision. When dividend policy is treated as a financing decision, the payment of cash dividend is a passive residual (Solomon, 1963:139-140).

Modigliani and Miller's (1961) model (M-M) dividend policy of the firm is irrelevant. It doesn't affect the wealth of the shareholder. They argue that the value of the firm depends on the firm's earnings, which result from its investment policy. Thus, when investment decision of the firm is given the dividend decision- the split of earnings between dividends and retained earnings is of no significance in determining the value of the firm. Modigliani and Miller's model hypothesis of irrelevance is based on the following assumptions (Panday, 1995:751-752).

- The firm operates in perfect capital markets where investors behave rationally, information freely available to all and transaction and flotation

cost do not exist. Perfect capital markets also imply that no investor is large enough to affect the market price of share.

- Taxes do not exist or there is no difference in the tax rate applicable to the capital gains and dividends. This means that investors value a rupee of dividend as much as a rupee of capital gains.
- Taxes do not exist or there is no difference in the tax rate applicable to the capital gains dividends. This means that investors value a dividend as much as rupee of capital gains.
- The firm has a fixed investment policy.
- Risk of uncertainty does not exist i.e. investors are able to forecast future prices and dividend with certainty and one discount rate is appropriate for all securities and all time periods. Thus, $r=k=kt$ for all t .

Modigliani and Miller's Model provide falling model to prove their theory.

Market Value of Share

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

Symbolically,

$$P_0 = \frac{D_1 + P_1}{1 + Ke}$$

Where

P_0 = Market price of share at the beginning of the period

D_1 = Dividend of the share at the end of the period

P_1 = Market price per share at the end of the period

Ke = Cost of the equity capital

Market price of share at the beginning of the period. Dividend of the share at the end of the period. Market price per share at the end of the period. Cost of the equity capita.

No External Financing

If no external financing exist, the market value of firm can be computed by multiplying both sides by member of outstanding shares as follows:

$$nP_0 = \frac{n(D_1 + P_1)}{1 + Ke}$$

Where

n = number of outstanding share.

New shares

If retain earning is not sufficient to finance the investment opportunities, issuing new shares is the other alternatives. Assuming that m is the number of newly issued equity share at the price of P1 the value of firm at time 0 will be:

$$np_0 = \frac{(nD_1 + p_1)(n + m) - m(p_1)}{1 + Ke}$$

Where

n = Number of shares at the beginning

m = Number of shares issued at the end of the period.

Total numbers of shares

A firm can play dividends and raise funds to undertake the optimum investment policy. If the firm finances all investment opportunities either by issue of new equity or retains earnings, the total number of new shares can be computed on the following way:

$$MP_{1=I-(E-nD_1)}$$

Where

MP_1 = Amount obtained from the sales of new shares

I = amount required for new investment during the period

E = Total earning during the period

$E - nD_1$ = Retained earning

nD_1 = total dividend paid

Substitution MP_1 of equation (iv) to equation (iii) we get

$$np_0 = \frac{(nD_1 + p_1)(n + m) - 1 + (E - nD_1)}{1 + Ke}$$

A firm, which pays dividends, will have to raise funds externally to finance its investment plans. Modigliani and Miller's arguments, that dividend policy doesn't affect the wealth of the share holders, imply that when firm pays dividend, external financing offsets its advantage. This means that the terminal value of the share decline when dividends are paid. Thus, the wealth of shareholders-dividend plus terminal price-remains unchanged. As a result, the present value per share after dividends and external financing is equal to the present value per share before the payment of dividend. Thus the shareholders are different between payments of dividend and retention of earnings.

Gordon (1962) develops own very popular model explicitly relation the market values of the firm to dividend policy. Gordon made a study on the dividend policy and market price of the stock and concluded that the dividend policy of a firm influences the market value of stock. He explained, 'the investor's preferred present dividend rather than future capital gains. He further explained that the dividend policy has direct relation with the value of stock even if the internal rate of return.

Gordon's model is based on the following assumptions:

- The firm is an all equity firm.
- No external financing is available. Consequently retain earning would be used to financial expansion.
- The internal rate of return, r , of the firm is constant. This ignores the diminishing marginal efficiency of the investment.
- The appropriate discount rate, k , for the firm remains constant. Thus, Gordon's models also ignore the effect of a change in the firms risk class and its effects of k .
- The firm and its stream of earnings are perpetual.
- The corporate taxes do not exist.
- The relation ration b , ones decide upon, is constant. Thus the growth rate $g=br$, each constant forever.
- $K > br = g$. if this condition is not fulfilled we can't get a meaningful value for the share.

According to Gordon's Dividend Capitalization Model the market value of share is equal to the present value of an infinite stream of dividend to be received by the share. Thus:

$$P_0 = \frac{D_1}{(1+K)^1} + \frac{D_2}{(1+k)^2} \dots \dots \dots \frac{D_n}{(1+K)^{n1}}$$

Gordon has further developed the following equation for the computation of the market value of stock.

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

Where

- P = market price per share
- EPS = earning per share
- b = retention ratio
- ke = cost of capital

1-b = payout ratio

br = growth rate

Gordon's relevant theory is a popular theory of dividend as investor's prefer current dividends earnings rather than expected higher future income so as to eliminate the risk associated with future capital gain. Gordon stressed that the higher payout increases the dividend yield and hence increase the value of stock. But the assumption of this model is also far from the reality (Panday, 1995:745-746).

Friend and Puckett (1964) conducted a study on the relationship between dividend policy and price of stock by running regression analysis on the data taken from 110 firms from five industries in the year 1956 to 1958. Industries taken as samples were chemicals, electric utilities, food, steels, and electronics. These industries were selected to permit a distinction made between the results for growth and non-growth industries and to provide a basis for comparison with the results by other authors for earlier years. They also considered cyclical and non-cyclical industries in their study. The study period covered a boom year for the economy when stock prices leveled off after rise (1956) and a depressed from the economy when stock prices, however rose strongly (1958). They used dividends, retained earnings and price earning ratio as independent variable in their regression model of price function and dividends as supply function are as follows:

Their study based on the following assumption:

- Dividends react with year-to-year fluctuation in earnings
- Price doesn't contain speculative components
- Earnings fluctuation may not sum zero over the sample

The regression results based on the equation of: $P_t = a + b D_t + c R_t + dh(E/P)_{t-1}$ shows the customary strong dividend and relatively weak retained earning in three of the

five industries, i.e. chemicals, foods and steels. They again tested other regression equation by addition of lagged earning price ratio to the above equation and result the following equation:

$$P_t = a + bD_t + cR_t + d(E/P)_{t-1}$$

Where

P_t = Per share price at time t

D_t = Dividend at time t

R_t = Retain earning at time t

$(E/P)_{t-1}$ = legged earning price ratio

They found that more than 80% of the variation in the stock price could be explained by three independent variables. Dividends have predominant influence of stock price in the same three out of five industries but they found the difference between the dividend and retained earnings coefficient are not quite so marked as in the first sit of regression. They also found that the dividend and retained earning coefficient are closer to each other for all industries in the both the years except for steels en 1956 and the correlations are higher again except for steels.

They also calculate the dividend supply equation $(D_t = e + fE_{t-1} + d(E/P)_{t-1})$ and derived price equation for four industry group in 1958. The derived price equation showed that there were no significant changes from those obtained in the single equation

Approach as explained above. They argued that the stock price or more accurately the price-earning ratio does not seem to have a significant effect on dividend payout. On the other hand they noted that the retained earnings effect increased relatively in the three of the four cases tested. Further their result suggested, price effects on dividend supply are probably not a serious source of bias on the customary deviation of dividend and retained earnings effects of short-term income movement are sufficiently great. Further they used lagged price as a

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

2.1.4. Types of Dividend:

Keeping these theories into considerations, dividend can be paid in different forms. Among them some are discuss below:

a. Stock Dividend/Bonus Share:

Stock dividend or bonus shares represent a distribution of shares in addition to the cash dividend to the existing shareholders. A stock dividend occurs when the board of director authorized a distribution of common stock to the existing shareholders. Its payment simply involves transferring a portion of retained earning to the capital stock account. Stock dividend is simply a means of recapitalization of earning by making the shareholders feel that they are getting something of value. Under stock dividend each stockholder receives additional shares of stock but the proportionate holding of each remains the same. This has the effect of increasing the number of outstanding shares of the company as a result the decrease in EPS which effect the reduction in the market price of the share. Since the shares are distributed proportionately, share holders retain his proportionate ownership of the company.

Although the declaration of a stock dividend is within the power of the directors, the matter may have to be submitted to the stockholders if the corporation has to amend the certificate of incorporation to increase the amount of capital stock. Most companies issue enough un-issued stock to declare stock dividend at a moderate rate.

There are several aspects of a stock dividend: conserves cash, Indicates higher future profit, Raises future dividend for investors and has high psychological value and enhances prestige (Clifton and Richard, 1975; 243)

b. Property Dividend:

Any assets or any part of any assets if physical divisible may be paid as dividend, if there is a legal source of dividend i.e. surplus. Occasionally a corporation has been known to pay dividend in the form of merchandise owned or produced by it. Stockholder cannot be compelled to the property distributable to him on account of dividend. If stockholder refuse to take property dividend, the company may retain it in trust for him or possibly sell it for his benefit. He doesn't have option to receive equivalent amount of cash in lieu of a property dividend. But, in Nepal there is no any practice of paying property dividend.

c. Scrip Dividend:

A scrip dividend is a distribution of surplus to the stockholders in the form of notes or promises to pay the amount of dividend at a certain time. The notes are called 'dividend certificates' or scrip. Sometime companies need cash generated by business earning to meet business requirements or with-hold the payment of cash dividend because of temporary shortage of cash. In such circumstance the company may issue scrip dividend payable at future dates.

d. Bond Dividend:

With the theory and concept of scrip dividend, if dividends are paid in the form of bond (to shareholders), promising that it will mature in future date is known as bond dividend. Therefore the intention the purpose of bond dividend is also the postponement of dividend payment for some time. The only difference between bond and scrip dividend is that bond carries relatively longer maturity date than scrip dividend. Bonds used to pay carry interest and it means that the company assumes the fixed obligation of interest payment annually and principal amount of bond at maturity date. Bond dividend possesses the following characteristics:

- Bond dividends are the means to dividend postponement for a while but more it is obligation.
- It couldn't bring back the psychological value as the cash dividend.
- Bond and scrip dividend are same, only the difference between these are maturity time i.e. scrip has relatively less maturity time than bond dividend.

e. Straight Split and Reserve Split:

Stock split as already mentioned would be the adjustable cash dividend replacement. It helps to satisfy the following three reasons:

- To make the share more attractive, the company may practice stock split.
- Stock split would increase the transaction value share.
- Stock split is itself the indication of higher profit in future.

When the market price of share of a company is falling gradually, the company may adopt reserve split which may increase the market price of share and help to maintain efficient situation of the company. The reduction of the number of outstanding shares by increasing per share values known as reserve split.

f. Stock Repurchase:

It is the process of repurchasing back outstanding share of any company. A corporation's repurchase of its stock can serve as a tax advantages substitute for dividend payout. Repurchase have the effect of raising share prices so that shareholders can be tax at the capital gain rate instead of ordinary dividend rate on cash dividend. Company can repurchase its shares in two ways.

- Open market repurchase
- Tender (Offer) repurchase

Open market repurchase usually (but not always) involve gradual programs to buy back shares over a period of time. In tender offer, the company usually specifies the number of shares it is offering to repurchase, a tender price and a period of time during which the offer is in effect. If the number of shares actually tendered by the shareholders exceeds the maximum number specified by the company, then the purchases are usually made on a pro-rata basis. Alternatively, if the tender offer is under subscribed the firm may decide to cancel the offer or extend to expiration date. Share tendered during the extension may be purchased on either pro-rata or FCFS (First Come First Served) basis (Weston and Copeland, 1991; 682-683).

The repurchase of stock holds major three reasons i.e. for stock option, for acquisition and for retiring the stock. However, Nepalese Company Act 1997, section 47 has prohibited company for repurchasing its own shares, it states that no company shall purchase its own shares or supply loans against the security of its own shares.

Stock is repurchased specially when the firm has abnormally high profits and is not in a position to effectively utilize surpluses. By repurchasing stocks, the remaining stockholders receive future benefits instead of current high dividend.

The point to be noted whether the benefits of repurchase out weights the portion of profits the remaining stockholders are to give up for repurchasing stocks.

The repurchase effects are as follows:

- The stock repurchases reduce the number of outstanding stocks.
- It increases EPS and also DPS if the payout ration is not changed,
- It increases the proportional ownership of existing stockholders.
- It increases the stock price as net worth per share increases.

g. Cash Dividend:

The most common way to pay dividend is in the form of cash. Cash dividends are ordinarily plain form retained earning. Most of shareholders investing in corporations desire to have cash dividend out of earnings. A company should have enough cash in its bank account when cash dividends are declared. If the company doesn't have enough bank balance at the time of paying cash dividend, arrangement should be made to borrow funds. Payment of cash dividend shouldn't lead liquidity of corporations. The current liquidity and management's standard regarding cash dividend should be properly considered in cash dividend decision.

The cash account and the reserves account of a company will be reduced when the cash dividend is paid. Both the total assets and the net worth of the company are reduced by the distribution of cash dividend. Beside the market price of the share affected in most cases by the amount of cash dividend distributed.

Cash dividend is simply the dividend paid in cash or the proportion of net earnings, which are distributed to shareholders, as cash in proportion to their shares of company. Actually, it is most popular and widely used form of dividend, all over the globe.

Generally, stockholders have strong preference for cash dividend. Both the total assets and net worth of the company are reduced by some amount, when the cash dividend is announced or distributed. Moreover, the share price will fall (or may not) after the cash dividend. Therefore, the need is that, the firm should have sufficient fund for the distribution of the cash dividend among shareholders or if the firm does not have sufficient fund for the distribution, it should borrow from

any source. For the better cash dividend stability, cash dividend has the direct impact on the shareholders. The volume of the cash dividend depends upon earnings of the firm and on the management attitude or policy.

Cash dividend has psychological value for stockholders. Each and everyone like to collect their return in cash rather than non-cash means. So cash dividend is not only a way to earnings distribution but also a way of perception improvement in the capital market. The objectives of the cash dividend are:

- To build an image in the capital market so as to create favorable condition to raise the fund at the needs.
- To distribute the earnings to shareholders, as they hold the proportion of the share.
- To make distribution easy and to account easily.

2.1.5. Dividend policy:

Dividend policy determines the decision of earnings between payment to stockholders and reinvestment in the firm. Retain earnings are not of the most significant sources of fund for financing corporate group, but dividends constitute the cash flow the accrued to stockholders (Weston and Copeland, 1991; 657).

The third major decision of the firm is its dividend policy, the percentage of earnings it pays in cash to its stockholders. Dividend payout, of course, reduces the amount of earnings retain in the firm and affect the total amount of internal financing. The dividend payout ration obviously depends on the way earnings are measured for case of exposition, we use account net earnings but assume that these earning can form true economic earnings. In practice, net earning may not conform and may not be an appropriate major of the ability of firm to pay dividends (Van Horne, 2000; 350)

Dividend policy refers to the issue of how much of the total profit a firm should pay to its stockholders and how much to retain for investment so that the combined present and future benefits maximize the wealth of stockholders. The dividend policy, however, not only specifies the amount of dividend, but also form of dividend, payment procedure etc.

In general, dividend policy is concerned with the following matters.

- Amount of dividend to be paid-the policy outlines the basis to determine the amount of dividend to be paid.
- Form of dividend-cash dividend or stock dividend.
- Payment procedure
- Stock repurchases and stock splits (Pradhan, 1992; 376)

Dividend policy according to the application could be categorized as follows:

a. Stable dividend policy:

When the firm constantly pays a fix amount of dividend and maintains it for all times to come regardless of fluctuations in the level of its earnings, it is called a stable dividend policy. In this dividend policy, the dividend will be paid regularly. A consistent dividend policy is to enhance the share price by satisfying the firm's clientele and by providing consistently positive signal about future earning prospects. This policy is applicable in the line having regular and stable income. But this policy does not refer to fix income every year of periods. It can be changed proportionately with the change in company's earnings. This policy has three forms:

i. Stable dividend per share:

When a firm pays a fix amount of dividend per share over the year and does not change it with fluctuation in the level of earnings, it is said to have persuade a relatively stable dividend policy. The most popular kind of dividend policy is one

that pays a regular steady dividend. This policy is completely rational policy and poses the strategic financial management; therefore, it is related to the company's ability to pay dividends.

ii. Stable payout ratio:

If the firms distribute a certain percentage of its profit as dividend in every year is known as stable payout ratio. The ratio of dividend to earning is called payout ratio. If the firm simply applied the target payout rate to each year earnings, dividend could fluctuate widely.

iii. Low regular plus extra policy:

If the company usually pays dividend constantly to stockholders at a fix rate and do not change the payment ratio unless it is believed that the changes in earnings are permanent. When the earning of a firm is swelling, it may have decided to distribute a part of increased earnings as extra dividend. It is known which earnings exceed annual dividend requirement by some given amount and it will be skipped subsequently, when business earning will drop to normal level. It could be the better policy to that company whose stockholders prefer at least a certain amount of regular income or return.

b. No immediate dividend policy:

If the company does not declare dividend unless the company earn large income is called no immediate dividend policy. In other words, if there is not any hurry about dividend payment and if it could be only when the company earns more profit is known as no immediate dividend policy. This policy is usually pursued the following circumstances:

- When the firm is new and rapidly growing concern, which seeds tidy amount of funds to finance its expansion program,
- When the firms excess to capital market is difficult,

- When availability of funds is costlier,
- When stockholders have agreed to accept higher shares.

c. Regular stock dividend policy:

If the company regularly pays dividends to its shareholders in stock instead in cash, then it is called regular stock dividend policy. Regular stock dividend policy is also designated as bonus shares. Such policy should follow under the following circumstances:

- When the firm needs cash generated by earning to cover its modernization and expansion of projects.
- When the firm is deficient in cash despite high earning, this is particularly true when the firm's sale is affected through credit and entire sales proceeds are tied in receivables.

d. Irregular dividend policy:

It is the policy in which, the firm does not pay any fixed amount of dividend every year or dividend varied in correspondence with change in level of earning, i. e. higher earnings means higher dividend and vice-versa. The firm with unstable earnings also adopts this policy, when there are investable opportunities the company retains more and when there is not any investable opportunities, the company distributes the earning as dividend or there is not regularity of dividend payment therefore it is the most used type of dividend policy in the Nepalese context at present.

2.1.6. Factors affecting Dividend Policy:

2.1.6.1 Legal Requirements:

Legal rules specify those conditions under which dividend must not be paid.

a) Capital impairment Rules:

The firm cannot pay dividend out of its paid up capital. If it does so there would be reduction in the capital. The purpose of this law is to protect creditors of a corporation.

b) Insolvency Rule:

This rule states that cash dividend should be prohibited, if the company is insolvent. Insolvency in the legal services defined as the situation when the recorded value of liabilities exceeds the recorded value of assets. Similarly in the technical sense, the firm's inability to pay its current debt. The main objective of this rule is to restrict the company from far country shareholders to the detriment of creditors when cash is limited.

c) Undue retention of earning Rule:

Undue retention of earnings means retention significantly in excess of the present and future investment and of the company. A firm may deliberately retain a large portion of its earnings in order to defer income tax payment. The purpose of the law is to prevent companies from retaining earnings for their sake of avoiding taxes and enforce them to pay dividend. It is because shareholders are required to pay taxes on dividend received but they are not taxed on the capital gains unless the shares are actually sold.

d) Net profits Rule:

It states that dividend must be paid from present or past retained earnings. A firm can not pay cash dividend greater than due amount of current profits plus the accumulated balance of retained earnings.

2.1.6.2 Liquidity Position/Solvency Position:

Company dividend policy will have important implications on its liquidity position, because dividend represents a cash overflow. The greater cash position and overall liquidity a company has the greater its ability to pay dividend. If a

company pays out as dividend most of what earns, then for business requirement it has to depend upon outside resources. A growing and profitable company may not be liquid since its funds may get into fixed assets and permanent working capital. Similarly solvency position of the company is also affected by the dividend policy. A continuous retention of earning reduces the need for outside funds and the risk of insolvency. But in the other hand retained earnings would steadily increase the cost of capital of the firm when all the borrowed funds are being replaced by internally generated funds; cost of the funds of the funds would be the cost of equity.

2.1.6.3 Ability to Borrow:

Though a company is not sufficient liquid, but it can borrow the funds at the time of need. Such firms can pay high dividend to its investors. A well established, reputed and profitable firm has easy accessibility to the management in paying dividend.

2.1.6.4. Repayment of Debt:

Firms may have the policy to extinguish its past debts by means of retained earning. If such alternative are being adopted then such firm will retain more pays less a dividend.

2.1.6.5. Restrictions in Debt Contracts:

At the time of raising long-term debt there may be provisions of debt here may be provisions of debt agreements, which may prevent the payment of dividend entirely, or to a certain conditions are fulfilled. Such sort of restriction has made the management's freedom to decide about dividend payments limited.

2.1.6.6 Age of firm.

A new young growing concern requires large amount of funds to finance its growth requirements. Therefore the management must follow consecutive dividend policy to plough larger earnings. But an old and established company having reached saturation point may follow high dividend pay-out policy.

2.1.6.7. Growth rate of firm:

A rapidly growing concern will have constant needs long term funds to size favorable opportunities for which it has to retain more and pays less dividend.

2.1.6.8. Clientele:

Different dividend policies attract different types of investors or different clienteles high and stable payoffs attract investors specially pensioner, widows and other who prefer a large economically weaker persons proportion of their total return in current income on the other hand. Wealthy individuals and employed person on top salary income brackets may not benefit by current dividend incomes received, due to the differential in tax rates on capital gains and dividend

2.1.6.9 Control

Dividend policy may also be strongly influenced by the shareholder or management control objective. If the company pays substantial dividend, it may be need to raise capital through the issue of common stock, by which the controlling interest of the company maybe diluted. In order to hold the company may prefer a low dividend payoff

2.1.6.10 internal investment opportunity:

When the firm has opportunities to earn, returns greater those available to shareholder outside the firm retention and reinvestment is appropriate (Weston & Copeland, 1992. 659-660).

2.1.7. General payment of Dividend:

In common sense 'dividend' is the receipt by the shareholder of parts of profits of the company; it refers to the share of the net profits of a joint stock company payable to each shareholders or members. Thus, dividend can only be paid out of profits.

A trading company is formed for the purpose of earning profit and such as the power to declare dividend is inherent or implied in the case of a trading company. It need not be expressly provided for in its memorandum or articles

It is for the board of directors to recommend the rate of dividend to be declared. The shareholders can't enforce the distribution of the profit and no shareholder can claim the declaration of dividend unless the directors fraudulently decline to pay them.

How much to the profit shall be distributed to the shareholder in the form of dividend is a matter of internal management of the company and it is for the shareholders and director to decide the issue the court will not interfere with their decision.

The board of directors recommends the rate of dividend at the annual general meeting, which is to be approved by the shareholders. The shareholders may reduce the rate of dividend but in no case they have the right to increase the rate recommended by the directors. Dividend become payable only when a resolution is shareholder at the meeting.

Dividend may be declared and paid out of the profits of the financial year in year respect which the dividend is declared or out of the profit of previous years. companies are not entitled to pay any dividend unless appropriate rate of

depreciation on the assets of the company has not provided depreciation provision for any previous fiscal years, that should be deducted from the profits.

If the company incurred any loss in any previous financial years, such loss should be deducted from profits.

A dividend becomes a debt from the date on which it is declared and becomes payable the shareholder entitled to it can enforce its payment through court. Dividend can be declared only at the annual general meeting. Once a company has declared a dividend for a financial year at an annual general meeting, a further dividend can not be declared in respects of the same year at a subsequent general meeting.

Dividend can be declared only in respect of the particular financial year for which the annual general meeting has been converted. The profit earned in past year and remaining accumulated maybe paid as dividend in respect of the financial year for which the annual general meeting has been convinced.

No dividend can be paid out of capital. Such payments ultra virus, even if sanctioned by the memorandum or the articles. The directors who are guilty of such payment are bond to repay the amount to the company.

2.1.8. Payments procedure followed by companies:

The actual payments procedure is of some importance, and the following is an outline of the payment sequence.

1. **Declaration date:** After the meeting of board of directors, they declare the regular dividend. they issue a statement containing percent of dividend record of holder –day, payment date

2. ***Holder of record date:*** In that data, the company closes its stock transfer books and make up a list of the shareholders as of that day. If the date is notified of the sale or transfer of some stock before holder of record date, the new owner receives a dividend. If notification is received after the holder of record data. The old stockholder gets the dividend.
3. ***Ex-dividend Date:*** The date when the right to the dividend leaves the stock is called the Ex_ dividend date. In this case, the ex-dividend date each four days before of record date. Therefore if someone wants to receive the dividends, he/ she must buy the stock four day before the holder of records day.
4. ***Payment date:*** the company should pay dividend, which was decided in the deceleration date and percent dividend (Weston and &Copeland, 1992; 658).

2.2 Review of Empirical Works

There are so many studies made by the different persons and institution for dividend charge and stock price. There are two options relating to dividend payout and market price of shares. The first point of views argues that dividend payment do not affect the market value of the share. The other viewer argues that dividends are relevant and the amounts of dividend paid affect the market value of shares.

Always a critical and confused question has arisen, whether dividend changes affect the market value of the shares or not. To put light in these matter different studies made by different international scholars and researcher should be over view. First Linter (1956), performed the pioneering study on the determinants of a firm's dividend policy. Linter found that the primary factor of a change in dividend policy was a firms earning. Farther more, he suggested that firms attain to maintain a steady stream of dividend and therefore, they tend to make periodic partial adjustment to a target payout ratio rather than diametrically changing their payout when a change in earning occurs. A bit later, Modigliani and Miller (1961),

indicated that dividends are irrelevant, as it does not affect the value of the firm. It is popularly known as MM approach, which is sometimes termed as dividend irrelevance. They argue that the value of the firm depends on the firm's earnings which result from its investment policy. Thus, when investment decision of the firm is given dividend decision the split of earnings between dividends and retained earnings is of no significance in determining the value of the firms. The Gordon in his study of 1962, he reached that dividend policy is irrelevant where $r = k$, when all other assumptions are held valid. But when the simplifying assumption is modified to conform more closely to reality. Gordon concludes that dividend policy does affect the value of a share even when $r = k$. This view is based on assumption that under condition of uncertainty, investors tend to discount distant dividend (capital gain) at a higher rate than they discount near dividend. Investors, behaving rationally is risk averse, therefore, have a preference for near dividends to future dividends. This arguments stress that an increase in dividend payout ratio leads to increase the dividend yield (d/p_0) is less risky than the expected capital gains. Friend and packet (1964), concluded that it is possible that management might be able to least, in some measure, by raising dividends and in growth industries by greater retention. Walters (1960), argued that the choice of dividend policy almost always affect the value of the firm The main which he emphasize is that there is a significant relationship between the internal rate of return and cost of capital are determining factors to retain profit or distribute dividends. As long as internal rate of return (r) is greater than the market return (K), the stock price will be enhanced by retentions and will very inversely with dividend payout. Van Horne and McDonald (1971), define that the purpose of investigating the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stock, conclude that for electric utility firms in. 1968, share value not adversely affected by new equity financing in the presence of cash dividends, except for those in the highest new issue group.

Litnerberger and Ramaswainy (1979), focused that there is positive relationship between expected common stocks returns and dividend yields. They extended the Brennan (1970) model to allow for margin constraint and firm income related constraints on borrowing

They found that, there is positive but new linear association between common stock 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 premium, variable to extended capital assets pricing model shows the dividend coefficient is not significantly different from zero measures is likely to be correlated with a number of economics phenomena. Thus tax effect of dividend is in unsettled state. Baker Farrell and Edleman in their survey of 562 NYSE firms concluded small result. Furthermore, here are some studies made recently in this issue

Like the earlier study Brickley (1983), they found that stock prices react positively to the announcements of specially designated dividends. In addition their empirical evidence indicates that bond price is not affected by specially designated dividends announcements. This suggests that the announcement of such dividends conveys value-increasing information to the market. All the gains from this positive information accrue to stockholders. Similarly Handjinicolaou Kalay (1984), argued that bond prices are not affected by dividends increases but react negatively to dividend reduction but their evidence, however does not contradict the information content hypothesis. Jayaraman and Shastri (1988), conducted that with the hypothesis that dividend changes convey information. The purpose of that paper was to test the information content hypothesis for specially designated dividends by analyzing stock and bond price reactions to specially designated dividends announcements. They selected 154 specially designated dividends announcements specially designated dividends announcements to test the behavior

of stock prices to specially designated dividends announcement. They have presented the behavior of stock prices around the announcement of specially designated dividends for different sub samples of their complete sample of 2023 events. From their analysis they fail to reject the hypothesis that announcements of specially designated dividends have no effect on bond prices. The next study by Dhillon and Johnson (1994), examined stock and bond price reaction to announcement of large dividend change is opposite to the stock price reaction to announcements of large dividend changes is opposite to the stock price reaction. Result of their article drew conclusion that a positive reaction to large dividend increases in the bond market which different from the result of Handjinicolaou and Kalav (1984 Dhillion and Johnson have further specified about the reason of deviation of their result with Handjinicolaou and Kalay. According to them the result can differ for several seasons." First Handjinicolaou and Kalay examined a much shorter period than they did. Second, after simultaneous announcements could obscure the effect. Third the methodological for the two papers were not identical. Fourth and possibly most important, they concentrated on the important dividend increase and decreases"

Moichaely, Richard and Kent L Womack's (1995), conducted that the market reaction to initiation and omission of cash dividend payment to investigate market reaction to initiation and omission of cash dividend payment. They also investigate the immediate three-day reaction to initiation or omission announcement and the long-term post announcement price performance. For the study they collect all NYSC, AMEX Companies that' initiated dividends during 1964 to 1988.

By using different statistical tools, they conclude that, the short run price impact of dividend is negative and the initiation is positive. Initiation reactions are half the magnitude of the market reaction of omission announcements. It is apparent that both the immediate and the long-term reaction to omission announcement are

greater, in absolute value, than no initiation. They were become able to explain short run reaction but cannot find any explanation for the long-term differences in price behavior between initiation and omission.

The study of walter (1996), argued that the choice of dividend policies almost always affect the value of the firm. So the dividend is relevant. In those cases where firm announced an increase in their dividend there is a significant positive reaction in their stock price. Conversely in those cases when the fin announced the decrease in their dividend, there is the significant negative reaction in their stock price. Walter model clearly shows the importance of the relationship between the firm's rate of return and its cost of capital (K), in determining the dividend policy that will maximize the wealth of shareholders.

They devoted a large part of their article to testing these two predictions of the signaling model they used both categorical analysis as well as regression analysis to see whether the dividend announcement helps to explain future earnings. At the first step of their investigation, they performed the categorical analysis. They gathered enough that evidence that dividend change are strongly correlated with concurrent earnings change but did not find any hint of a positive relationship between the size of a dividend increase and future unexpected earning. The regression model BMT used includes past earning information and change in dividend. They captured past earnings information through nine dummy variables. These variables enabled them to control for the information contained in the past earning pattern. University as well as multivariate regression model were used. Some major findings among others were future earning change were not related to dividend change, dividend reacts to current and past earning change rather than acting as a predictor future earning, the association between concurrent earning and dividend change was positive because earning leads dividend, not vice versa, dividend increase firms were less likely to have subsequent earnings decrease than

those firms do not change their dividend, to provide a direct test of the signaling effect of specially designated dividends announcement, Gomola and Iie 1991 examined change in analysts' ex ante earnings forecasts, which they used as a proxy for the market's expectation of future earnings. Their results strongly support the signaling hypotheses. They found a significant upward revision on analysts' forecast of earnings associated with specially designated dividends announcements that are consistent with the observed significant, positive stock price reaction to the announcement. They also found significant, positive relation between the revision in analysts' forecast of current year earning and the stock price reaction to the announcement. These results provide direct evidence that supports the signaling hypothesis:

They defined a specially designated dividend as a cash dividend that management has labeled as a special, extra, or year end dividend. To identify truly unexpected specially designated dividends announcements, they only choose firms that had not paid a dividend of this type for at least two years and they eliminate any subsequent announcements. Application of these criteria produces 350 specially designated dividends announcements by 350 firms. Of these 154 are eliminated because data necessary to calculate Tobin's q are not available. The remaining sample of 196 announcements is used to examine the stock price reaction to the announcement and is referred to as the stock price analysis sample, here after.

Balaclandran Cadle and Theobaid (1999), defined that the price reactions to interim dividend reductions for the study, the samples of all non-financial companies were extracted from Micro view plus Database for accounting periods ending between 1986 and 1993. They concluded that interim dividend reductions lead to statistically price declines. Initial dividend "reductions, led to stronger price reactions than interim dividend reductions, subsequent to a prior final dividend reduction. The price reaction is weaker when the subsequent interim dividend reduction is less than the prior final reduction.

Recently, to investigate whether dividend changes convey new information about future profitability, Nissim and Ziv (2001) conducted an investigation. They first used a similar approach and find, like prior studies, that dividend changes are not positively related to future earning changes. They then modified the regression model to address two specification issues related n to the estimation of unexpected earnings: measurement error and omitted correlated variables. With the modified model, they demonstrated that dividend changes are positively associated with earnings changes.

Freeman, Olson. And Penman (1982) Vowed that an important predictor of earnings change was the ratio of earning to the book value of equity (ROE). Specifically, they showed that since ROE was mean reverting, high (low) ROE implied and expected decrease (increase) in earnings and vice versa (Fama and French, 2000). Since dividend changes are positively correlated with current ROE, the expected change in earnings is likely to be negatively correlated with the dividend change. To address this omitted correlates variable problem, they include ROE as an additional explanatory variable. And to examine whether dividend change contain information on future earnings changes, incremental to the earnings change in the dividend change year. In addition they allowed for different coefficients on dividend increase decrease. They provide strong evidence in support of the information context of dividend hypothesis, after controlling for the expected change in future earnings, dividend change are positively related to earnings changes in each of the two years following the dividend changes, the findings are not asymmetric for dividend increases and decreases. Dividend increase is associated with future profitability for at least four years after the dividend change where as dividend decrease is not related to future profitability after controlling and expected profitability, lack of association between dividend decrease and future profitability is due to accounting conservatism.

Adhikari (1999), concluded that the relation of liquid by (LIQ), Leverage (or) ratios with dividend (DIV). An analysis of properties of portfolio framed on dividend was carried out and a regression equation was tested keeping dividend as dependent variable. His study found that, paying cash dividend conveys information to shareholders than the company is doing good, the relation of dividend per share to book value per share ratio with liquidity, profitability turnover and interest coverage is positive, but its relation with leverage ratio is negative, the relation of dividend pay out with current ratio, earning before to total assets ratio, turnover ratio and interest coverage ratio positive, negative with quick ratio and earnings before tax to worth ratio, dividend per share to market price per share has positive relationship with Liquidity, profitability, turnover and interest coverage but negative relationship with leverage.

Balampaki (2002), focused that to examine the relationship of dividend yield, capital gain yield and total yield with fundamental variables (i.e. Earning yield (E/P), size (LS) or natural logarithm of market capitalization, book to market equity ratio (B/M) and cash flow yield (C/P) Some major-findings of the study were, there is positive relationship of dividend yield with earnings yield, book to market equity ratio and cash flow yield, whereas, negative relationship with size the Small, large and aggregate enterprises, the relationship of capital gain is positive with earning yield and size, whereas, it has negative relationship with book to market value of equity ratio and cash flow Yield for the small, large and aggregate enterprises total yield keeps positive relationship to earnings yield and size, but it does have negative relationship to book to market equity ratio and cash flow yield.

Subedi (2002), explained that the dividend per share affects the stock prices differently in different sectors and by changing the dividend policy or dividend per share might help to increase the stock prices in most of the listed companies. Another interesting conclusion that can be drawn from this study was that, the relationship between dividend per share and stock prices are positive in banking, insurance and finance, manufacturing and processing, and trading sectors but negative in service sector and the stock prices of service can increase by more retention. Lastly, the relationship between stock prices and retained earnings was not prominent however the relationship between stock prices and lagged price earning ratio was another recent study, by Dr Pradhan, R.S. (2003) studied the "Effects of Dividend, on Common Stock Prices" with the objectives of explaining share price, dividend, and retained earnings relationship in context of Nepal. This study also attempts to ascertain the effect of dividend payment and retained earnings on market price of share. The required data for the study have been taken from Financial Statements of listed companies. The study is based on pooled cross section data of 19 companies' form 1994 to 1999 with a total of 93 observations as indicated above.

Khadka,(2003),examined the relationship between Dividend change and Future profitability. The objectives of the study were (1) to assess the trend in dividend payment and profitability (2) to examine the role of dividend change on stock price (3) to de determine the impact of dividend change of on liquidity, profitability, turnover coverage and other variable. He has included 31.03 percent enterprises i.e. 36 enterprises as sample size from among 116 Nepalese enterprises selected in the Nepal Stock Exchange. Khadka has made Categorical Analyses and econometric Models have been tested. There is strong positive relation between concurrent earning changes and dividends Changes, but the predictive power of these changes in weak, relation between dividend changes and future earning is not significant indicating there is only little evidence, findings are not symmetric

for dividend increases and decrease dividend increases are positively associated with earnings change for two years, where as dividend decreases are positively associated with earnings changes for one year only after the dividend Changes and relationship between dividends and stock price is in conformity with the relationship i.e. Market price of share is positively affected by dividend changes.

Pradhan and Adhikari (2004), made a study based on pooled cross sectional data of 99 observation including 33 companies listed in Nepal stock exchange and traded on stock market. The result of cross sectional analysis indicated that stock with larger ratio of dividend per share to book value per share have higher liquidity lower leverage, higher earning higher assets turnover and higher interest coverage. Likewise, the stocks with larger dividend per share to market price per share have higher liquidity lower leverage, higher earning, higher assets turnover, interest coverage. It also indicated that liquidity, assets turn over, interest coverage, leverage, and -earnings are more variable for the stocks paying higher dividend.

Adhikari.(2010),defined that the dividend clientele effect and analyzed ex-dividend date effect and stock price behavior near the ex-dividend date in Nepal. The dividend clientele effect was examined using survey data retrieved from 126 responding investors while ex-dividend date effect and stock price behavior were analyzed using secondary data of 52 and 40 cash dividend announcements respectively. The descriptive, correlation and causal comparative research designs were adopted in the study. The study revealed that there is non-existence of dividend clientele effect and the stock price drop-off is 68.5% of cash dividend on ex-dividend date. The study of behavior of stock price near the ex-dividend date revealed that the pre-dividend anticipatory price rise tends to be more concentrated in a week before the ex-dividend date. This finding implies that the last one week before the ex-dividend date is a gold time for an investor to buy stocks other things remaining the same.

From the literature reviewed above, in our context, reveals that there is positive correlation between stock price and dividend. As explained above our market is growing rapidly and investors are growing their interest towards capital market. So the question arises, whether the same trend is followed in recent year or not .Is the dividend payment more important as compared to retained earning in these days, also? These are to be tested with recent data's in our context.

Dividends are the returns paid for the shareholders for the perpetual use of their money. Dividend seems to be very interesting factor for the shareholders decision. The decision of payment reveals as the foundation for the pricing of stock in market. However, there are many factors that give pressure for the dividend change decision. The increase in the dividend signals positive in the market and the stock price increases and vice versa

Various study made in big and organized capital market concluded that specially designed dividends have signaling effect. And the positive change in dividends makes positive increment in stock price. This result is' support by the study of Jayaraman and Shastri (1988), Brickley (1983), Dhillon and Johnson (1994), Benartzi, Michaely and Thaler (1997), Gomola & Lie (1999). Walet disclosed that as long as the internal rate is greater than the cost of capital, the share price will be enhanced by retention and will vary inversely with dividend payment. Study of Brickley (1983) and Dhillon and Johnson (1994) reveal that the result is not true in context of bond. More than this the conclusion can be made that there is association between concurrent earnings and dividend change is positive from the study of Benartzi, Michaely and Thaler (1997), & Nissim and Ziv (2001). And the negative price reductions can be observed from the reductions in interim dividends from the study of Balachandran, Cadle and Theobald (1999).

In context of Nepal the result seem to be same as these studies reveals the positive relationship between stock price and dividends. Attentions have been also given to test the effect of retained earning on stock prices. And as concluded by Manandhar (1998), Adhikari (1999), pradhan and Adhikari (2002), pradhan (2003), pradhan and Adhikari (2004) dividends have greater influence than retained earnings on stock price. Although, various research have been conducted incorporating the effect of dividend changes on stock price in context of developed capital markets, consistency of these research is yet to be tested in our context. Again up to date information in this context is to be made because our capital market is rapidly growing and the trading volume have also been decreased.

2.3. Review of previous thesis:

1. Bhatta,(2006) has made a study about “Dividend policy its impact of the shares”. The basic objectives of this study were dividend policy practices in Nepal, identify and analysis of the variables that are affecting the dividend policy. He has taken commercial banks as detail study. He used secondary data. He has used statistical & financial tools for analysis data. The study shows a positive result of average earning per share. The study also shows that dividend policy is practice in Nepal. The dividend policy affected by various factors as rules and regulations, political situations, competition and growth rate of firm etc.

2. Bhatta,Robin, (2006) carried out a study on the assessment of the performance of listed companies in Nepal. He indicates that effective performance give effort to distributed dividend. He has take only ten companies as sample based on secondary data. He used different statistical tools for calculation dividend yield. He concluded that capital market to run efficiency requires continuous flow of information and there is serious deficiency of such information in the market, investors are depressed in the market by rules and regulations and bureaucratic set up of the companies.

3. Rana,(2007) has submitted the thesis on “Dividend behavior of joint venture banks in Nepal.” The study has shown the some specific objectives like dividend behavior of Nepalese joint venture banks and analysis the relationship of dividend with earning per share, stock price, net profit & net worth. He used secondary data and used statistical tools for calculation of relationship between EPS & MPS. The study shows that EPS of joint venture bank is positive. Average DPS shows that there is no regularity in dividend payment. It shows that DPR of banks are not stable.

4. Gurung (2008) has submitted the thesis on “Dividend pattern in Nepal; a case study of listed commercial banks in NEPSE” and his study has based on secondary data. He also used financial tools as well as statistical tools. The study has tested that to determine the impact of dividend of share price, the relationship between EPS vs DPS, EY vs DY EPS vs MPS, to identify what types of dividend policy being followed. The study shows that EPS and DPS has fluctuation consistent amount, Dividend payout ratio is the indication of dividend policy by the banks. However, banks have not payout ratio, the correlation coefficient between earning yield and dividend yield of all banks are positive and the correlation coefficient between MPS and EPS, DPS and DPR are positive of all case.

5. Shrestha,(2009) has submitted the thesis on “Cash and stock dividend practice in commercial banks.” Her study has tested that cash and stock dividend practices in commercial banks, examine the market capitalization of cash and stock dividend, analyses the effect of MPS by dividend. She used secondary data. She used statistical and financial tools for analysis the data. She selected only three commercial banks. There are standard chartered bank, Nabil and Himalayan banks. The standard chartered bank has the comparatively highest earnings than other banks. So standard chartered bank distributed dividend. The research shows that none of those bank have well dividend and appropriate policy regarding dividend and payment. The dividend affects the MPS as positively.

2.4. Legal provision regarding dividend practice in Nepal

Company ordinance, 2005 makes some legal provision for dividend payment in Nepal. These provisions may be seemed as under.

Dividends and subsections of this section are as follows:

Section 46: Shareholder & Debenture-holder Register Book

Subsection (1)

Every company should establish shareholder & debentureholder register book as prescribed by law at company registrar office.

Subsection (2)

1. Following description should be clearly mentioned in the shareholders' register book:
 - a) Shareholder's full name & address.
 - b) No. of shares holding by7 shareholder.
 - c) Total amount paid by shareholder & remaining balance if any.
 - d) Registered date of Shareholder's Certificate.
 - e) Cancellation date of Shareholder's Certificate.
 - f) Ownership right on share after the death of registered shareholder.

Section 182: Dividend

Subsection (1)

Expect in the following circumstances, dividend shall be distributed among the shareholders within 45 days from the date of decision to distribute them.

- a) In case any law forbids the distribution of dividends.
- b) In case of right to dividend is disputed.
- c) In case dividends cannot be distributed within the time limit mentioned above owing to circumstance beyond anyone's control and without any fault on the part of the company.

Subsection (2)

Government owned companies either fully or partly can't issue dividend without permission of government and also necessary direction in the matter of dividend.

Subsection (3)

In case dividends are not distributed with the time limit mentioned in subsection (1), adding interest at prescribed rate.

Subsection (4)

Only the person whose name stands registered in the register of existing share holders at the time of declaring the dividend shall be entitled to it.

Subsection (5)

The company can't issue any form/amount as dividend expected separate reserve amount for the distribution of dividend.

Subsection (6)

The Company should deduct the operation cost, deprecation amount, payable, adjustment for previous year's losses by-law before distribution dividend from profit.

Subsection (7)

Under this section company can distribute interim dividend if it is provisioned in rules & if the dividend is verified by audit report & attested by the BOD.

Subsection (8)

Except the amount declared from AGM, the company cannot distribute dividend from fund affection the company's reserve.

Subsection (9)

If the shareholder does not come to take the dividend within the 5 F/Y from the declaration date, the amount would be safe guarded according to section 186 of company act,

Subsection (10)

If any shareholder comes to take the dividend amount according to section 183 within 1 months of before the expiry date, the notice should be published publicly in national daily.

Subsection (11)

After the dividend declared from AGM, the company should establish separate book if account within 45 days & distribute to the shareholders & the amount should not be used for other purpose by the company.

2.5. Research Gap:

The topic of dividend policy & practice has been a controversial subject for a long time. Although dividend policy is not a new area of research, it is still attraction the attention of financial economists & for many researchers it remains one of the most interesting & puzzling topics in modern corporate finance.

The examination of dividend policy in Nepal has been much more limited. It has been observed that the extent studies in this area have not focused on what determines dividend policy of Nepalese publicly listed companies. Few of them have attempted to study comprehensively based on primary & secondary data but the factors incorporated in the studies are too limited. Therefore, the lack of comprehensive studies on the dividend policy especially on cash dividend practice in Nepalese capital market does not provide strong justification for the current study. They focused on overall dividend policy implemented by the companies or they tested the dividend payment practices on few international theories or principles.

This study is different from the previous studies on the following ground:

- This study is mainly based on secondary data.

- Cash dividend payment practices have been more emphasized in this study.
- The study tries to examine the homogeneity in the dividend payment by various sectors.
- The study has attempted to establish the relationship between the theoretical & empirical issues about dividend policy in general.
- The study has tried to find the relationship between the MPS & the dividend.

CHHPTER – III

RESEARCH METHODOLOGY

A systematic study needs to follow a proper methodology to achieve predetermined objective, research methodology refers to the various sequential steps to adopt by researcher in studying a problem with certain objectives in view. Research methodology describes the methods and process, which has been applied in the entire aspect of the study. So, in this study, research methodology has been paid due attention to achieve the objective of the study.

3.1 Research Design

Research design is a series of stages or tasks in planning or conducting a study. It is a consideration, which enters into making a decision regarding what, where, when, how much, by what means constitute a plan of study design. Research design specifies the methods, procedures and strategies for acquiring the information needed which guide to a sufficient way of analyzing and evaluating the study.

In this study, mainly secondary data are collected. Five years time series data from fiscal year 2005/2006 to 2009/2010 are taken for analysis by the help of financial and statistical tools.

3.2. Population and sample.

Mainly the cash dividend paying companies and financial institutions listed at Nepal stock exchange (NEPSE) is the population samples selected for the study. The sample used in this research is purposive in nature. These are 176 companies listed at NEPSE currently of which 18 financial institutions are taken. Normally the financial and non-financial sector can be divided into the total listed companies of which commercial banks, development banks, and finance companies, insurance companies are under the financial sectors whereas manufacturing and processing

companies trading companies, hotels and hydropower companies are under non-financial sectors.

The sample companies are taken are:

- Commercial Banks:
 - i. Nabil Bank Ltd.
 - ii Nepal Investment Bank Ltd.
 - iii Standard Chahrtred Bank Ltd.
 - iv Himalyan Bank Ltd.
- Development Bank:
 - i. Nirdhan Utthan Bank Ltd.
 - ii. Chimeki Bikas Bank Ltd.
 - iii. Pashchimancha Bikas Bank Ltd.
- Finance Companies:
 - i. Nepal finance & Saving Co. Ltd.
 - ii. Arnapurna Finance Co. Ltd.
 - iii. Nepal Abas Bikas Bitta Co. Ltd.
 - iv. Goodwill Finance Co. Ltd.
- Insurance Companies:
 - i. Himalyan Genaral Insurance Co.Ltd.
 - ii. Prudencial Insurance Co. Ltd.
- Hotel:
 - i. Soaltee Hotel Ltd.
- Manufacturing and Processing companies:
 - i Botters Nepal Ltd.
 - ii Unilever Nepal Ltd.
- Trading and Hydropower Companies:
 - i Salt Trading Corporation Ltd.
 - ii Chilime Hydropower Co. Ltd.

3.3 Source of Data:

This research is based on secondary data. Required data is collected from NEPSE, SEBON bulletin and reports of periodically published by various organization, previous theirs and dissertation and published by various organization. The basic source of data used is as follows:

- a. Annual report of SEBON
- b. Published materials from concerned financial institutions.
- c. Financial statements of concerned financial institution.
- d. Annual report of related companies.
- e. Related banks, journals and articles.

3.4 methods of data analysis:

Methods of data analysis are the raw data processing technique to find out the result for making decision. Financial tools as well as statistical tools are used in the method of data analysis.

3.4.1. Financial tools:

Financial tools are used to find the financial indicators which basically represent ratio analysis. In this study the following financial tools are used which are described below:

a. Computation of Dividend:

Dividend is an important cash inflow for the common stockholder. So in order to calculate holding period rate of return calculation of the dividend is and important task. In this research paper stock dividend is converted into cash dividend. The model used to convert stock dividend into cash dividend.

b Earning per share:

Earning per share is calculated by dividing the net profit after taxes by number of common stock share outstanding. It is calculated to know the earning per capacity and to malice comparison between concerned companies.

c. Market value per share and book value per share Analysis:

This ratio reflects to the price of the market are paying for each rupee of currently or reported by the company. It is calculated by dividing the market value per share.

3.4.2. Statistical Tools:

a. Arithmetic Mean (A.M):

The mean is the figure we get when the total of all the values in a distribution is divided by the number of values in distribution. The arithmetic mean is also known as the average, It should, however, be remembered that the mean can only be calculated for numerical data. The mean is an appropriate term than only be calculated for numerical data. The mean is an appropriate term than saying average. The mean of data is biased toward extreme values. The mean is suitable when the scores are distributed symmetrically about the center of the distribution. This is calculated by using following formulae:

$$\therefore \text{Mean (A.M.)} = \bar{X} = \frac{\sum X}{n}$$

b. Standard Deviation (S.D.):

The measurement of the scatter ness of the mass of figure in a series about an average is known as the dispersion. The standard deviation measures the absolute dispersion. The greater amount of dispersion, greater the standard deviations. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series: a large standard deviation means just the opposite. This is calculated as follows:

$$\frac{\sqrt{\sum(X - \bar{X})^2}}{n}$$

c. Coefficient of variation (CV):

The coefficient of variance is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. It is calculated as follows:

$$\therefore \text{Coefficient of Variation (CV)} = \frac{\text{S.D.}}{\text{Mean}} \times 100$$

d. Karl parson's Correlation coefficient (r):

If two quantities vary in such a way that movements in the one are accompanied by movement in other, these quantities are correlates. The degree of relationship between the variables under consideration is measure through the correlation analysis. Correlation analysis only helps in determining the extent to which the two variables are correlated but it does not tell us about cause and effect relationship.

$$\therefore \text{Coefficient of Variation (CV)} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

The value of "r" lies between -1 to +1. When r=0, then there is no correlation between two variables.

e. T-statics

If the sample size is less than 30, t-test is used. For applying t-test in context of sample the t-value is calculated first and compared with the t-value on table at certain level of significance for given degree of freedom. If calculated value of "t" exceeds the table value (say 0.05) we can say that the difference is significant at 5% level, but if calculated value is less then the concerning values the difference is not treated as significant. The value is calculated by using following formula:

f. F-statistics:

The analysis of variance frequently referred to by the contraction, ANOVA is a statistical technique especially designed to test whether the means of more than two quantitative populations are equal. It is applied to find out whether the two samples may be regarded as drawn from the normal populations having the same variance. The value of “F” is calculated as:

$$\therefore F = \frac{\text{Larger estimate of variance}}{\text{Smaller estimate of variance}}$$

The calculated value of “F” is compared with the table value for V_1 & V_2 at 5% or 1 % level of significance.

g. Z-statistics:

Z-test is used to test the significance of parametric tests for sampling of variables and sampling of attributes. The sampling of variables comprises the test of significance of a single mean and test of significance of difference between two means. The z-test is used under the following assumption:

- When the sample size is 30 or more.
- The samples have been drawn from normal population.
- The population standard deviation (or variance) is known.
- The samples are independent.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

The main purpose of this chapter is to carry out presentation and analysis of secondary data. First attempt is made to analyze secondary data to analyze the dividend payment of companies listed at NEPSE. In this section, different statistical tools like average, standard deviation, coefficient of variation, correlation coefficient, test of hypothesis etc are used to analyze the dividend payments of various sectors companies. To find the answer of research problem, the collected data are necessary to present and analyze by processing .for the data analysis and interpretation, we are taking 5 years old data of 18 different companies of different sectors.

4.1. Patterns of Dividend paying listed companies:

Table no 4.1

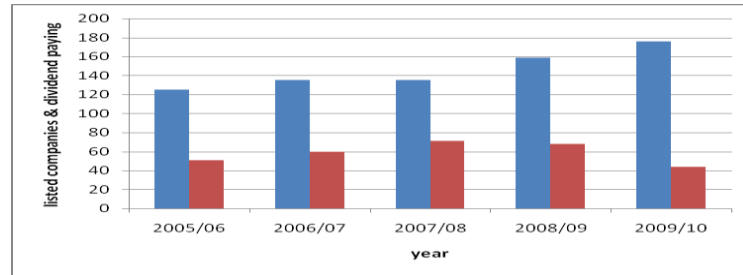
Patterns of Dividend paying listed companies:

F/Y	Total listed companies	Dividend declared companies			Total dividend declared companies
		Cash	Stock	Cash & stock	
2005/06	125	26	13	12	51
2006/07	135	21	21	18	60
2007/08	135	14	30	27	71
2008/09	159	15	35	18	68
2009/10	176	12	14	18	44

Source: Annual report of SEBON

Figure No. 4.1

Total listed and dividend paying companies



The no. of Nepalese listed companies that are paying the dividend is seen increasing past few years. But currently dividend paying companies are decreasing. Among the 125 listed companies in the fiscal year 2005/6, 51 companies declared dividend. Out of these companies, 26 companies declared cash dividend, 13 stock dividends and 12 companies' stock and cash dividend. In the fiscal year 2006/7, 135 companies are listed in NEPSE, out of listed companies 60 companies declared dividend out of 60 companies, 21 companies declared cash dividend 21 declined stock dividend and 18 companies declared both cash and stock dividend. Among the 135 listed companies in the f/y 2007/08 out of these companies 71 companies declared dividend which is liquidity increase than f/y 2006/07. In this fiscal year 2008/09, 159 companies are listed in NEPSE. Out of 159 companies 68 companies declared dividend. The listed companies are increase but dividend declared companies slightly decrease than f/y 2007/08. Among the 176 listed companies in f/y 2009/10, only 44 companies declared dividend. Out of these companies 12 companies declared cash dividend, 14 companies declared stock dividend, and 18 companies declared both cash and stock dividend which is less then other fiscal years.

From the correlation calculation we come to conclusion that there is the low degree of negative correlation between the total no. of listed companies and no. of dividend paying listed companies. Through, the general publics are highly attracted towards the sharer of the CBs of the country as they are performing well at the secondary market similarly they are providing the stock dividend to the

shareholders. But the financial performance of the institutions under others sectors is not show good.

NOTE: for table 4.1 detail calculation see Annex-I

4.1.1 Sector wise dividend paying through listed companies:

Table No. 4.2

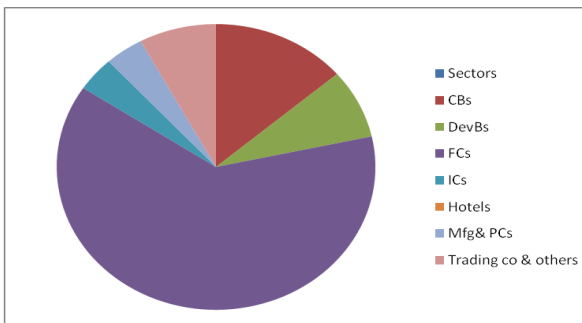
Sector wise dividend paying through listed companies:

f/y Sectors	2005/06	2006/07	2007/08	2008/09	2009/10	Total	In%
CBs	7	10	12	13	13	55	18.71
DevBs	4	4	12	10	9	39	13.27
FCs	32	37	35	33	16	153	52.04
ICs	2	4	6	3	1	16	5.44
Hotels	-	-	-	1	1	2	0.68
Mfg& PCs	2	1	1	3	1	8	2.72
Trading co & others	4	4	5	5	3	21	7.14
Total	51	60	71	68	44	294	100%

Source: SEBON

Figure no .4.2

Sector wise dividend paying companies



Large portion of the dividend is paid by the FCs in every year. So, in total also 52.04% of the total dividend paying companies is covered by FCs. Another highest number of dividend companies were from the CBs side worth 18.71% of the total composition. The hotels sectors company has been able to pay dividend since f/y 2008/09. Before the f/y 2008/9 the hotels sectors not declared dividend. ICs and trading as well as others companies have covered likely same ratio with 5.44 and 7.14%. The DevBs sectors covered 13.27% of the total composition and mfg & PCs have also covered 2.72% of the total composition. Through hotels have very least portion covering just 0.68% of the total composition.

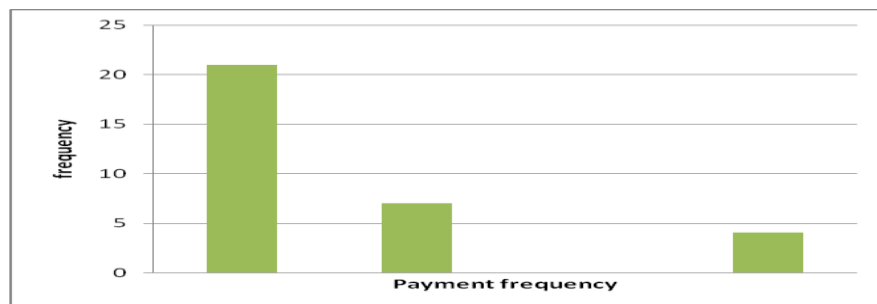
Table No. 4.3

No. of Payments by listed companies

No. of payments	Range	Frequency
Less than 10	0-10	21
Less than 20	10-20	7
Less than 30	20-30	0
Less than 40	30-40	4

Figure No. 4.3

No. of payments by listed companies:



From the Karl Pearson's coefficient of skewness the distribution is found to be positively skewed.

Note: for table 4.3 detail calculation see Annex-II.

4.1.2. Listed companies dividend rate-wise Analysis

Table No. 4.4

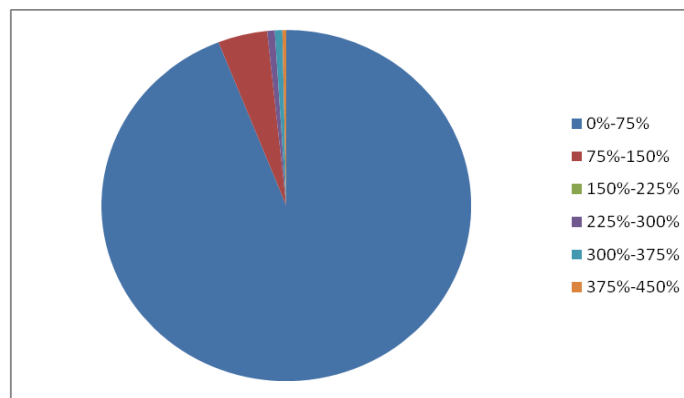
Dividend rate-wise Analysis

F/Y	2005/06	2006/07	2007/08	2008/09	2009/10	Total	In %
Dividend rate							
0%-75%	48	58	67	67	43	283	94.02
75%-150%	3	4	5	1	-	13	4.32
150%-225%	-	-	-	-	-	-	0.00
225%-300%	-	1	1	-	-	2	0.66
300%-375%	-	-	-	1	1	2	0.66
375%-450%	1	-	-	-	-	1	0.34
Total	52	63	73	69	44	301	100%

Source: SEBON.

Figure 4.4

Dividend rate-wise proportion



Large numbers of listed companies were providing the dividend at the range of 0% - 75%. More than 94% of the total dividends paid are covered within this range. Mainly large no. of FCs and some CBs come under this range. Very few companies are seen paying the dividend at the rate higher than 100%. Renowned joint venture banks or multinational mfg. and PCs are seen to be the listed companies paying the dividend at the rate more than 100% to their shareholders. The rate ranges of 75% - 150% seen only 4.32% but the rate range of 150% - 225% is not seen. The range of 225% - 300% and 300 - 375% are seen same rate 0.66%. The rate range of 375% - 450% seen only 0.34%

4.2. Dividend payment situation of sector wise financial institutions.

4.2.1. Dividend payment situation of CBs (In RS)

Table no. 4.5

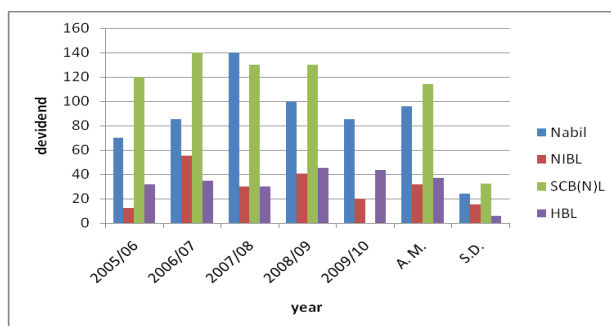
Dividend payment situation of CBs (In Rs)

F/y	Nabil	NIBL	SCB(N)L	HBL
2005/06	70	12.58	120	31.5
2006/07	85	55.46	140	35
2007/08	140	30	130	30
2008/09	100	40.83	130	45
2009/10	85	20	50	43.56
A. M.	96	31.77	114	37.01
S.D.	23.96	15.19	32.62	6.17
C.V.	24.96%	47.80%	28.61%	16.67%

Source: SOBON

Figure No. 4.5

Dividend payment situation of CBs



The situation of the Nabil Bank is seen well. It has also been distribution dividend regularly. The average dividend payment is seen 96% i.e. Rs. 96 per share of Rs 100 face value.

Large amount of dividend paying ‘A’ class CB of the sample is seen SCB (N) L. The average payment of dividend by SCB (N)L was RS. 114 per share of Rs 100 Face value. In other word it paid average 114% dividend in average to its shareholders. The least average percent was of NIBL with only 31.37% and it’s near 37.01 was HBL dividend. Therefore NIBL and HBL have not distributed large amount of dividend but they declared few amount of dividend regularly.

The C.V. of the HBL is the least among the sample CBs with 16.67%, Show the dividend payment of the bank is most consistent than other CBs. The situation of NIB2 is also not good; its C.V. is also seen higher than other sample CBs. The situation of Nabil and SCB(N)L bank is seen slighter well lesser C.V. than of NIBL.

4.2.2. Dividend payment situation of DevBs,

Table No. 4.6

Dividend payment situation of DevBS (in Rs)

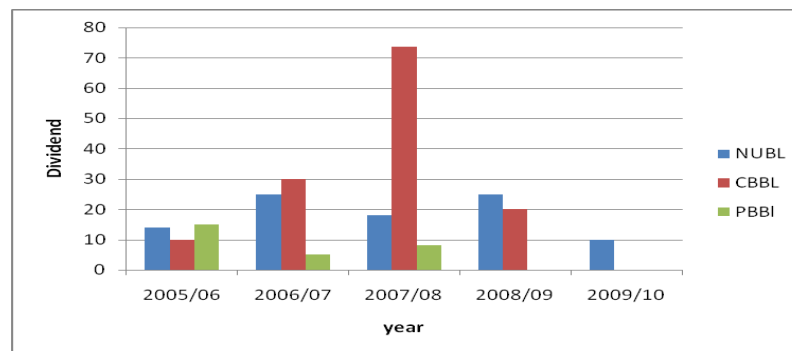
F/y	NUBL	CBBL	PBBI
2005/06	14	10	15
2006/07	25	30	5
2007/08	18	73.68	8

2008/09	25	20	DND
2009/10	10	DND	DND
A.M	18.4	26.74	5.6
S.d.	5.95	25.51	5.6
c.v.	32.35%	95.41%	100%

Source: SEBON

Figure No. 4.6

Dividend payment station of DevBs



Being categorized as an 'A' class development banks by NEPSE, the situation of dividend paying of these bank is not good. Only NUBL has been paying the dividend regularly since past five years. But the amount is seen very minimal with Rs. 18.4 per share. Similarly CBBL has been also paying dividend up to f/y 2008/09. But f/y in 2009/10 CBBL is not declared dividend. The bank declared high dividend in f/y 2007/08. So that the average dividend seen of the CBBL with Rs. 26.74 per share of Rs. 100 face value. Similarly PBBL declared dividend up to f/y 2007/08, but currently PBBL not declared dividend. From the C.V. calculation NUBL is seen more consistent than other DevBs in the distribution.

4.2.3 Dividend payment situation of FCs

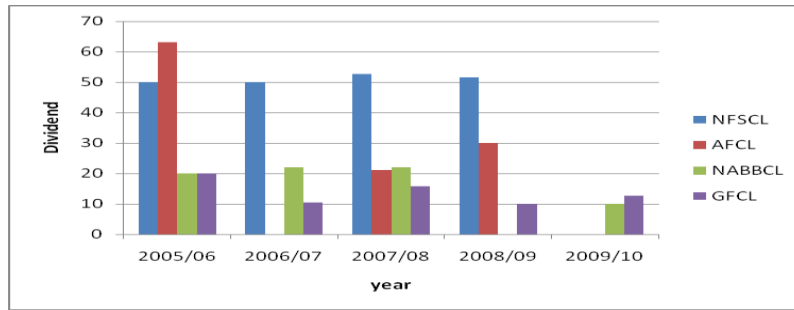
Table no 4.7

Dividend payment situation of FCs

F/y	NFSCCL	AFCL	NABBCL	GFCL
2005/06	50	63.158	20	20
2006/07	50	10.53	22	10.53
2007/08	52.63	21.05	22	15.79
2008/09	51.62	30	DND	10
2009/10	DND	DND	10	12.63
A.M.	40.85	24.95	14.8	13.79
S.D.	20.44	21.59	8.63	3.71
C.V.	50.06	86.54	58.34	26.90

Figure no 4.7

Dividend payment situation of FCs



There is large no. of FCs operating in Nepal with the permission on NRB. But most of them are not able to operate in an efficient ways. The performance of the share at the secondary market is also not as good as banking sector’s shares.

Therefore, being categorized as an ‘A’ class financial institution also they are not being capable of declaring dividend to their shareholders. Only one of the financial company has been paying dividend namely GFCL with average of Rs. 13.79 only in past five years. NFSCl has paid dividend since past four years. But current it has not paid dividend. Even it has not declared dividend currently, NFSCl has highest average dividend of Rs 40.35 from the above study, GFCL has been paying dividend more consistently than other financial companies.

4.2.4. Dividend payment situation of ICs and Hotels

Table No. 4.8

Dividend payment situation of ICs & Hotels

F/y	HGICL	PICL	SHL
2005/06	DND	DND	DND
5	DND	6	DND
2007/08	110	DND	DND
2008/09	5.26	DND	21.5
2009\10	DND	5	31.58
A.M.	23.05	2.2	10.53
S.D.	43.34	2.71	13.32

C.V.	188.03%	123.32	126.45%
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The average payment of dividend by HGICL was RS. 23.05 Per share of RS. 100 face value. In other word it paid average 23.05% dividend in average to its share holders. The HGICL declared dividend only in 2007/08. 2008/o9 f/y. PICL and SHL have not been declaring and paying the dividend regularly to the shareholders. The amounts they have paid as a dividend are also very small with average of Rs 2.2 and 10.53 respectively. However SHL declared dividend since past two years regularly. The dividend payment situation of insurance and hotels is not satisfactory because of the covariance is more than 100%.

4.2.5 Dividend payment situations of mfg, and processing co, trading co. and other companies.

Table no 4.9

Dividend payment situations of mfg, and processing co, trading co. and other companies

F/y	BNL	UNL	STCL	CHCL
2005/06	DND	400	20	20
2006/07	DND	250	20	25
2007/08	DND	275	20	30
2008/09	DND	325	25	35
2009\10	DND	325	5	DND
A.M.	0	315	18	22
S.D.	0	51.48	6.78	12.08
C.V.	0%	16.34%	37.68%	54.92%

BNL have not been declaring and paying the dividend to its shareholders to its shareholder to now. Therefore the situation of the BNL is seen not seen well. The

situation of the UNL is seen very well. It has also been distributing dividend regularly. The average dividend is seen 315% i.e. Rs 315 per share of 100 face value. The situation of STCL is seen well because it dividend and paying dividend regularly with very small amount of dividend. The average dividend is seen only RS. 18 per share of Rs. 100 face value. CHCL is declared dividend since past four years but currently it has not declared dividend. The C.V. of the UNL is the least among the sample mfg and processing and trading companies with 16.34% show the dividend payment of the companies is most consistent than other mfg and processing ,trading companies.

4.3 Test of hypothesis

Under this topic, an effect has been made to test the significance regarding the parameter of the population based on drawn from the population. Generally the following steps are followed for the test of hypothesis.

- A. Formulation of Hypothesis.
 - a. Null hypothesis.
 - b. Alternative hypothesis
- B. Computation of test statistic
- C. Fixing the level of significance
- D. Deciding the criteria region
- E. Deciding the two tailed or one tailed test
- F. Making decision.

4.3.1: Test Hypothesis on average no. of dividend companies:

Null Hypothesis (H_0): $\mu=20$ i.e. the average no. of dividend paying financial institutions listed on NEPSE is 20 years.

Alternative hypothesis (H_1): $\mu \neq 20$ i.e. the average no. of dividend paying financial institutions listed on NEPSE is not 20years.

Decision: Since the calculated value of t is less than tabulated value of t (i.e. $2.41 < 2.776$), the null hypothesis is accepted. Therefore the average no of dividend paying financial instructions listed on NEPSE IS 20 years.

Note: For Detail Calculation See Annex-VI

4.3.2 Test of Hypothesis on dividend payments of CBs:

Null Hypotheses: $(H_0): \mu_1 = \mu_2 = \mu_3 = \mu_4$ i.e. Then is no significant difference among mean dividend payment of CBs i.e. dividend payment of CBs is homogenous.

Alternative Hypothesis $(H_1) = \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$ there is a significant difference among mean dividend payment of CBs.

Critical value: The tabulated value of f at 5% level of significance for 5 and 16 d.f is 2.62.

Decision: since calculated f is greater than tabulated value, the null hypothesis H_0 is rejected .Hence the alternative hypothesis H_1 is accepted. Therefore we conclude that there is a significant difference among mean dividend payment of CBs.

Note: For Detail Calculation See Annex-VII

4.3.3 Test of hypothesis on dividend payments of DevBs.

Null hypothesis $(H_0): \mu_1 = \mu_2 = \mu_3$ i.e. there is no significant difference among mean dividend payment of DevBs i.e dividend payment of DevBs are homogenous.

Alternative hypothesis $(H_1): \mu_1 \neq \mu_2 \neq \mu_3$ i.e there is a significant difference among mean dividend payment of DevBs.

Critical value: The tabulated value of f at 5% level of significance for 5 and 12 d.f. is 3.11.

Decision: since calculated f is lesser than tabulated value, the null hypothesis H_0 is accepted and hence the alternative hypothesis H_1 is rejected. Therefore, we conclude that there is no significant difference among mean dividend payment of DevBs i.e. dividend payment of DevBs are homogenous.

Note: For Detail Calculation See Annex-VIII

4.3.4 Test of hypothesis on dividend payment of FCs:

Null hypothesis (H_0): $\mu_1 = \mu_2 = \mu_3 = \mu_4$ i.e. there is no significant difference among mean dividend payment of FCs i.e. dividend payment FCs are homogenous.

Alternative hypothesis (H_1) = $\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$ i.e. there is a significant difference among dividend payment of FCs.

Critical value: The tabulated value of f at 5% level of significance for 5 and 16 d.f is 2.62.

Decision: Since calculated f is lower than tabulated value, the null hypothesis H_0 , is accepted. Hence here the alternative hypothesis H_1 is rejected; therefore, we conclude that there is no significant difference among mean dividend payment of FCs.

Note: For Detail Calculation See Annex-IX

4.3.5 (i) Test of hypothesis on correlation between MPS and DPS.

Null Hypothesis (H_0): $\rho=0$ i.e. MPs and DPs are not correlated.

Alternative hypothesis (H_1): $\rho > 0$ i.e. MPS and DPS are positively correlated.

Level of significance, $\alpha=0.05$

Critical value: we see the critical value at 5% level of significance for right tail test is +1.645

Decision: since the calculated value of Z is less than tabulated value of z, the null hypothesis is accepted. Therefore, MPS and DPS are not correlated.

Note: For Detail Calculation See Annex-X

(ii) Test of Hypothesis on correlation between MPs and DPS.

Null Hypothesis (H_0): $\rho=0$ i.e. MPs and DPS are positively correlated

Alternative hypothesis (H_1): $\rho > 0$ i.e. MPS and DPS are positively correlated.

Level of significance $\alpha=0.05$

Critical value we see the critical value of 5% level of significance for right failed test is + 1.645.

Decision: since the calculated value of z is less than tabulated value of Z, the null hypotheses is accepted. Therefore MPS and DPS not correlated.

Note: For Detail Calculation See Annex-XI

4.4 Major Finding of the Study;

1. The no. of dividend paying companies listed at NEPSE is seen increasing past few years. But currently no. of dividend paying companies are decreasing.
2. From the correlation calculation we came to conclusion that there is the low degree of negative correlation between the total no. of listed companies and the no. of dividend paying listed companies.
3. Large portion of the dividend is paid by the FCs in every F/y. so in total also 52.04% of the total dividend paying companies is covered by FCs. Another highest no. of dividend companies was from the CBs side with 18.71% of the total composition. ICs and trading companies have covered 5.44% and 7.14% respectively. And Mfg and PCs and hotels have covered only 2.72% and 0.68% respectively.
4. Large number of listed companies was providing the dividend at the range of 0%-75%. More than 94% of the total dividends paid are covered within this range. Very few companies are seen paying the dividend in the rate higher than 100%.
5. Large amount of dividend paying CB of the sample is seen SCB(N)L. the average payment of dividend by SCB(N)L was Rs 114per share of Rs100 face value. But other banks have paying the dividend less than SCB(N)L. But the

- C.V. of the HBL is the least among the sample CBs with 16.67% saw the dividend payment of the bank is most consistent then other CBs.
6. Only NUBL has been paying the dividend regularly since past five fiscal years. But the amount is seen very minimal with Rs 18.4 per share. Other DevBs are not consistent to payment dividend regularly.
 7. Most of the FCs is not being capable of declaring dividend to their shareholder. Only one of the FCs has been paying dividend namely GFCL with average of Rs 13.79 only in past five f/y. Other FCs is not consistent to payment dividend regularly.
 8. Most of the ICs are not being capable of declaring and paying dividend to their shareholders. Currently HGICL paid dividend to their shareholders since past two F/y.
 9. Under hotels, the SHL paid dividend to shoulders since past two F/Y years with average of Rs. 10.53 per share of Rs 100 face value.
 10. Under mfg. and PCs, trading and others sectors have not distributed dividend to its shareholders satisfactory except UNL. UNL is seen very well companies over the all listed in NEPSE. UNL has been paying dividend regularly since past five f/y. With average of Rs.315 per share of Rs 100 face value. UNL is the most consistent companies over the listed companies to payment dividend.
 11. From the test of hypothesis on average no of divided companies the value of t is less than tabulated value, so null hypothesis is accepted. Therefore the average no. of dividend paying financial institutions listed on NEPSE is 20 every f/y. And there id a significant difference among mean dividend payment of CBs But there is no significant difference among mean dividend payment of DevBs and FCs.
 12. Since the calculate value of Z is less than tabulated value of Z, the null hypothesis is accepted, Therefore MPS and DPS are correlated.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is an underdeveloped country having low per capita income about \$.310 and low corporate growth rate. During the Rana period, there was no any development in financial sector and other sector which contribute to development in financial sector and other sector which contribute to development of the country. After the restoration of democracy in 1990 and universal echo of economic liberalization, Nepal has implemented liberal economic policy. As a result, many more companies are established in different sectors such as industrial, tourism, transportation, trade and mostly in financial sectors who contribute to build up economic of the country. Nepal is a country tray global trend and cooperation with develop countries. Development on the financial terns is the efficient flow and generation of the funds in the most productive sectors, the nation having effective fund collection of funds from the nook and corners of the country and investing them in the productive sectors are the developed and established country in the present world.

The primary objective of investors investing in stocks is dividend. But the earning of shareholders can be dividend need where as increase in market price of stock increases capital gain. High payout satisfies the dividend need where as increase in market price of stock increases capital gain. A dividend implies to the portion of earnings that is harmony with the proportionate share holding. Therefore, firm should make a proper balance between dividends and retained earning. In Nepalese perspective, both are in practice. But majority of the companies listed are practicing stock dividend more than the cash dividend. For the increase in the required amount of paid up capital by the CBs & DevBs also they are more interested on issuing stock dividend by them.

Dividend distribution is the very important factor to any organization for effective goal achievement to satisfy the shareholders. Actually, paying dividend to shareholders is an effective way to attract new investors to invest in shares. Due to decision of earnings of a company between dividend pay out & retention of earnings of a company between dividends pay out & retention of earnings, its effect on market value of shares is a crucial question. So, a wise policy should be maintained between shareholders interest & corporate growth from internally generated funds. The funds sometimes could not be used in case of lack of investment opportunities. In such a situation distribution of dividend to shareholders is taken as the best because shareholders have greater investment opportunities to employ elsewhere.

Dividend serves as a simple, comprehensive signal of management's interpretation of the company's recent performance & its future prospects. Dividend refers to that portion of a firm's net earning which are paid out to the shareholder in return of their investment. Paying dividend to shareholder is an effective way to attract new investors to invest share. Many factors are responsible to affect the dividend

policy of companies such as earning, liquidity position, legal restrictions, liquidity, financial condition, access to the capital market, investment opportunity and so on.

In Nepal there is more practice of stock dividend than cash dividend. The trend has also shown that the corporate sectors are more providing stock dividend or bonus shares than the payment of the cash dividend to their shareholders. The situation of the payment of dividend by the financial institutions except few banks & finance companies is seen well but from other sectors the situation is worst.

Thus, the study attempts to determine the impact of dividend on stock price. For these whole purpose different descriptive, financial and statistical analyses was done using various methodologies.

5.2 Conclusions:

Different types of dividend are paid by the companies operating all over the world. They may be in different forms. The main reason of the dividend payment is to provide the benefit to the shareholders of the company, wealth maximization & to make them they are the part of the company. In Nepal, there is a practice of providing either stock dividend or cash dividend by the companies to their shareholders. But in past recent years, the corporate sectors of Nepal are more interested on providing stock dividend to their shareholders than cash dividend. The reason behind this was for the wealth maximization & increases the capital amount & meets the standard requirement as prescribed by the central bank of the country.

From the study we find out that mainly the CBs of the Nepal are seen the regular dividend paying financial institutions. Similarly on the basis if paying companies the large percent of FCs have occupied in the dividend paying listed companies.

About 52% of the total dividend paying companies FCs occupies them. More than 94% of the listed companies are paying dividend under 0%-75% dividend rate range during each F/Y. Similarly, we know that the companies having the good earning record can only provide the dividend to its shareholders. So, in Nepalese context, CBs have the Good and fair earning track record thus, the majority dividend paying companies in Nepal are seen CBs mainly.

From Karl Pearson correlation analysis we found, there is a very low degree of negative correlation between total listed companies & dividend paying companies.

Similarly, from the CV calculation for comparative study among the respective sector's companies, also we saw that the companies paying the dividend are also not paying consistently.

Renowned CBs like Nabil & HBL have a good consistency record of paying dividend to their shareholders. Similarly, NUBL is also more consistent on dividend payment than the other DevBs. UBL is more consistent on dividend payment over the listed financial institutions. Some emerging companies under finance companies under finance companies & development banks in Nepal have also been paying the dividend regularly to its shareholders.

From the hypothesis calculation we found the average no. of dividend paying financial institutions listed in NEPSE is 20 every F/Y under t-statistics. From f-statistics test we found, there is a significant difference among mean dividend payment of CBs, there is no significant difference among mean dividend payment of DevBs i. e. dividend payment of DevBs are homogenous. And similarly, there is significant difference among mean dividend payment of dividend payment of FCs. From Z-statistic test, we found that MPS & DPS are not correlated.

5.3. Recommendations:

From the above study made some recommendation are forwarded. And it supposed that it will be helpful to improve existing conditions.

1. Proper co-ordination among the GON, NRB, insurance board, SEBON & NEPSE should be maintain while making laws, acts, rules & regulation, rating to the dividends. And there is lack of legal provisions regarding dividend payment. The concerning central bank and government should pay proper attention.
2. Shareholders should be given an option to choose between stock dividend & cash dividend instead of declaring stock or cash dividend arbitrary. For this, dividend declaration should be proposed to the AGM of shareholders for approval.
3. Proper inspection & directions should be given from the central bank insurance board & GON regarding the payment of dividend by the financial institutions.
4. The NEPSE & SEBON should properly handle, guide & inform the shareholders & the related companies about the MPS increase or decrease from the impact of dividend declaration.
5. Don't make investment in the stock of insurance companies, hotel, development banks and other sector on the basis of dividend. And the commercial bank should have long-term policy/ strategy regarding the adoption of suitable dividend policy.
6. Each & every company should provide the information regarding the activities & performance, so that investors can analyze the situation & invest their money in the best company. On the other hand, NEPSE should provide all the necessary information regarding the company's activities.
7. Having seen the history of dividend paying companies, it is seen that the net profit after tax is the main base for distribution the dividend. Thus, it is suggested that investor who want to purchase the equity share & immediate return should invest the share of higher profit earning companies.
8. Any change in dividend is an important as well as relevant factor in affection stock prices. So firms should avoid any irregularities in dividend payment.

9. Nepalese companies should publish financial statements regularly and in time. It will resolve the uncertainty about the companies among shareholder.
10. There should be optimum retention for excellent expansion and modernization.
11. It is also recommended that further incentive research and in depth study be undertaken, with recent data's to prove the changing nature of investor.

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Annex -I

Karl Pearson's correlation Coefficient (r):

Correlation coefficient between total listed companies and dividend paying listed companies.

F/Y	Total listed companies(x)	Total dividend paying listed co (y)	$x=x-\bar{x}$	$y=(y-\bar{y})$	x^2	y^2	Xy
2005/06	125	51	-21	-7.8	441	60.8	163.2
2006/07	135	60	-11	1.2	121	1.44	-13.2
2007/08	135	71	-11	12.2	121	148.8	-134.2
2008/09	159	68	13	9.2	169	84.6	119.6
2009/10	176	44	30	-14.8	900	219.04	-444
N=5	$\sum x=730$	$\sum y=294$	$\sum x=0$	$\sum y=0$	$\sum x^2 =1752$	$\sum y^2 = 514.68$	$\sum xy=-308$

$$\begin{aligned} \bar{X} &= \frac{\sum x}{N} = \frac{730}{5} = 146 \\ \bar{y} &= \frac{\sum y}{N} = \frac{294}{5} = 58.8 \\ \therefore r &= \frac{\sum xy}{\sqrt{\sum x^2} \cdot \sqrt{\sum y^2}} \\ &= \frac{-308}{\sqrt{1752} \cdot \sqrt{514.68}} \\ &= -0.324 \end{aligned}$$

Findings:

There is a very low degree of negative correlation between total listed companies & dividend paying companies.

Annex-II

Karl Pearson's coefficient of skewness for dividend paying listed companies

f/y Sectors	2005/06	2006/07	2007/08	2008/09	2009/10	Total
CBs	7	10	12	13	13	55
DevBs	4	4	12	10	9	39
FCs	32	37	35	33	16	153
ICs	2	4	6	3	1	16
Hotels	0	0	0	1	1	8
Mfg&Pcs	2	1	1	3	1	8
Trading co & others	4	4	5	5	3	21
Total	51	60	71	68	44	294

No. of payments	Range	Mid- value	(f) frequency	c.f.	$d' = \frac{x - 25}{n}$	fd'	fd'^2
Less than 10	0-10	5	21	21	-2	-44	1936
Less than 20	10-20	15	7	28	-1	-7	49
Less than 30	20-30	25	0	28	0	0	0
Less than 40	30-40	35	4	32	-1	4	16
			N=32			$fd' = -47$	$fd'^2 = 2001$

Here h=10, assumed mean (A) =25

Mode is the value which occurs most frequently in a set of observations and around which the other items of the set cluster densely. By inspection, range 0-5 is the modal range with highest frequency of the 21.

Thus

$$\sum X h$$

$$\sum X 10$$

$$= 6$$

Karl Pearson's coefficient of skewness.

Conditions:

- i. If $=0$, the distribution is symmetrical
- ii. If >0 , the distribution is positively skewed
- iii. If <0 , the distribution is negatively skewed

So, >0 , i.e. $0.056 >0$, thus the distribution is positively skewed

Annex – III

Calculation of mean, standard deviation and co-variance (X., c.v) as under:

Nabil Bank

F/y	Dividend (x)	(x- \bar{x})	\bar{x}
2005/06	70	-26	676
2006/07	85	-11	121
2007/08	140	44	1936
2008/09	100	4	16
2009/10	85	-11	121
N=5	$\sum X=480$		$\sum \quad =2870$

=96

=

= 23.96

-

Calculation of X, σ and C.V. of other financial institutions as same manner.

Appex-IV

Dividend declared of selected financial intuitions

S. N	f/y banks	2005/06			2006/07			2007/08			2008/09			2009/10		
		C.D.	S.D	T.D.	C.D.	S.D.	T.D.	C.D.	S.D.	TD.	C D	S.D.	T.D	C.D.	S. D.	T.D
Commercial Banks																
1.	Nabil	70	-	70	85	-	85	100	40	140	60	40	100	35	50	85
2.	NIBL	12.58	-	12.58	20	35.46	55.46	5	25	30	7.5	33.33	40.83	20	-	20
3.	SCBWJL	120	-	120	130	40	140	80	50	130	80	50	130	-	50	50
4.	HBL	11.5	20	31.5	30	5	35	15	15	30	25	30	45	12	31.56	43.56
Development Banks																
1.	NUBL	4	10	14	5	20	25	8	10	18	-	25	25	-	10	10
2.	CBBL	10	-	10	30	-	30	-	73.68	73.68	20	-	20	-	-	-
3.	PBBL	5	10	15	-	5	5	8	-	8	-	-	-	-	-	-
Finance Companies																
1.	NFSCCL	-	50	50	-	50		2.63	50	52.63	1.62	50	51.62	-	-	-
2.	AFCL	3.158	60	63.158	0.53	10	10.53	1.05	20	21.05	-	30	30	-	-	-
3.	NABBCL	-	20	20	12	10	22	12	10	22	-	-	-	-	10	10
4.	GFCL	20	-	20	10.53	-	10.53	5.79	10	15.79	-	10	10	7.63	5	12.63

Insurance Companies																	
1.	HGICL	-	-	-	-	-	-	-	-	110	110	5.2 6	-	5.2 6	-	-	-
2.	PICL	-	-	-	6	-	6	-	-	-	-	-	-	-	5	-	5
Hotel																	
1.	SHL	-	-	-	-	-	-	-	-	-	-	11. 5	10	21. 05	11.58	20	31.58
Mfg and processing Trading and others companies																	
1.	BNL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.	UNL	400	-	400	250	-	250	275	-	275	325	-	325	325	-	325	
3.	STCL	20	-	20	20	-	20	20	-	20	15	10	15	5	-	5	
4.	CHCL	20	-	20	25	-	25	30	-	30	35	-	35	-	-	-	

Annex-v

Annual General meeting

Dividend/Bonus Share Declaration

S.No	Name of the company	Dividend (Rs)				
		2005/06	2006/07	2007/08	2008/09	2009/10
	Commercial Bank					
1.	Nabil Bank Ltd.	70	85	140	100	85
2.	Nepal Investment Bank Ltd.	12.58	55.46	30	40.83	20
3.	Standard Chartered Bank (Nepal) Ltd.	120	140	130	130	50
4.	Himalyan Bank Ltd.	31.5	35	30	45	43.55
5.	Nepal SBI Bank Ltd.	-	5	45	-	42.11
6.	Nepal Bangladesh Bank Ltd	-	-	-	-	-
7.	Everest Bank Ltd.	20	25	40	50	60
8.	Bank of Kathmandu Ltd.	15	48	20	42.11	47.37
9.	Nepal Industrial & Commercial Bank Ltd.	30	10	21.05	20	15.79
10.	Machhapuchhere Bank Ltd.	-	15	-	12.50	-
11.	Laxmi Bank Ltd.	-	-	-	20	7.0
12.	Kumari Bank Ltd.	-	20	21.05	10	-
13.	Lumbini Bank Ltd	-	-	-	-	-
14.	DCBL Bank Ltd.	-	-	12.63	-	-
15.	NMB Bank Ltd.	-	-	-	10	-
16.	Global Bank Ltd	-	-	-	-	-
17.	Kist Bank Ltd.	-	-	-	5	3.5
18.	Bank of Asia Nepal Ltd.	-	-	-	-	5
19.	Citizens Banks International Nepal Ltd.	-	-	-	-	10
20.	Prime commercial bank Ltd.	-	-	-	-	10.5
21.	Sunrise Bank Ltd.	-	-	-	-	-
Development Bank LTD						
1.	Mirdhan Uthan Bank Ltd.	14	25	18	25	10
2.	Chhimek Bikash Bank Ltd.	10	30	73.68	20	-
3.	Pashehimanchal Bikash Bank Ltd.	15	5	8	-	-
4.	Gandaki Biaka Bank Ltd.	-	-	-	-	-
5.	Bhrikuti Bikas Bank Ltd.	-	-	20	-	-
6.	Sidhartha Dev. Bank Ltd.	-	-	15.5	10	-
7.	Sanima Bikash Bank Ltd.	-	-	-	-	5
8.	Narayani Dev. Bank Ltd.	-	-	25	-	-
9.	Sahayogi Bikash Bank Ltd.	-	-	3.50	20	25
10.	Gorkha Bikash Bank Ltd.	-	-	-	-	-
11.	Annapurna Bikash Bank Ltd.	-	-	-	-	15
12.	Swabalamwan Bikas Bank Ltd.	-	-	30	10	-
13.	Acc Dev. Bank Ltd.	-	-	5.26	10	-
14.	Himchuli Bikash Bank Ltd.	-	-	-	14	-
15.	Excel Development Bikas Bank Ltd.	-	-	-	-	-
16.	Biratlaxmi Bikas Bank Ltd.	-	-	-	10	-
17.	Infra structure dev bank.	-	-	-	-	15

18.	MDEP Dev. Bank Ltd.	-	-	-	-	6.67
19.	Subechha Bikas Bank Ltd.	-	-	-	-	-
20.	Tibeni Bikas Bank Ltd.	-	-	-	-	10
21.	Clean Energy Bikas Bank Ltd.	-	-	-	-	-
22.	Pashupati Bikas Bank Ltd.	-	-	-	-	-
23.	Mahakali bikas Bank Ltd.	-	-	-	-	-
24.	Miteri Development Bank Ltd.	-	-	-	-	-
25.	Vivor Bikas Bank Ltd.	-	-	-	-	-
Finance Company						
1.	Nepal finance & Saving Co. Ltd.	50	50	52.63	51.62	-
2.	NIDC Capital Markets Ltd.	-	35	41	10	-
3.	Nepal Share Markets Finance Ltd.	10	10.53	-	-	-
4.	Annapurna Finance Co. Ltd.	63.16	10.53	21.05	30	-
5.	Kathmandu finance Ltd.	10.53	10	15	-	-
6.	Peoples finance Ltd.	10	10	-	20	-
7.	Union Finance co. ltd.	-	-	-	20	-
8.	Citizen Investment Trust	15.79	68.42	36.05	25	-
9.	Nepal Aawas Bikas Bitta Co. Ltd .	20	20	35	-	-
11.	Yati finance Co. Ltd.	-	-	-	-	-
12.	Gorkha Finance Co.Ltd.	10	21.05	-	-	15
13.	Universal Finance Ltd	26	35.09	20	20	-
14.	Nepal Housing & Merchant finance Ltd.	15	20	28	31.50	-
15.	General Finance Ltd.	10	10	-	-	-
16.	Mahalaxmi Finance co. Ltd.	30	20	22.33	20	24
17.	Lalitpur Finance Co. Ltd.	50	-	52.65	52.63	-
18.	Goodwill Finance co. Ltd.	20	10.53	15.79	10	12.63
19.	Paschimanchal Finance Ltd.	25	10	29.66	-	-
20.	Pokhara finance Co. Ltd.	100	-	-	-	31.58
21.	Lumbani Finance & Leasing Co. Ltd.	23.53	5.26	50	33.33	-
22.	Siddhartha Finance Ltd.	30	10	30	29.47	-
23.	Alpic Everest Finance Ltd.	-	33.33.	10	15	-
24.	International Leaving & Finnce Ltd.	10	15	21.05	-	26.32
25.	United Finance Co.Ltd.	7.5	10	36.84	10	12.5
26.	Shree Investment & Finance Co. Ltd.	30	28.07	28.95	-	25.26
27.	Central Fin. Co. Ltd.	10	39.65	12.50	31.57	-
28.	Nepal Srilanka Merchant & Finance Co.Ltd.	-	23.08	-	-	-
29.	Premier Finance Co.Ltd.	26	26	15	15	-
30.	Navadurga finance Co.ltd.	16	31.58	15	15	-
31.	Butwal Finance Ltd.	15	10.53	-	18.75	-
32.	Janaki finance ltd.	33.33	25	20	25	-
33.	OM Finance ltd	10	40	.	35	-
34.	Fewa finance ltd	-	-	-	-	-
35.	World merchant banlings finance co. ltd.	-	12	10	20	-
36.	Birguni finance ltd.	-	10	12	17.5	-
37.	Standard finance ltd.	21	10	10	30	-

38.	Capital merchant Banking ltd.	-	10	15	8	-
39.	Everest finance ltd.	-	-	-	-	-
40.	Prudential Bittiya sanstha ltd.	-	-	10	9	10.53
41.	Royal merchant banking & finance ltd.	25	15.79	10	12	-
42.	Guheswory merchant banking & finance ltd	-	-	17	-	12
43.	IME finance institution ltd	-	-	-	25	5.1
44.	Patan finance co. ltd.	-	-	-	-	-
45.	Impereal finance institution ltd	-	-	-	-	-
46.	Civil marchant bittiya sansthan ltd	-	-	-	-	-
47.	ICFC bittiya santhan ltd.	-	-	7	10	10
48.	Nepal express finance ltd.	-	-	-	-	-
49.	Kuber merchant banking finance ltd.	-	-	-	-	-
50.	Prabhu finance co. ltd.	-	-	-	5.26	10.53
51.	Lord Buddha finance ltd	-	-	-	-	-
52.	Sagarmatha merchant banking finance ltd	-	-	-	-	10
53.	Kaski finance ltd	-	-	-	-	-
54.	Kist merchant finance co ltd.	10.53	10.53	10	-	-
55.	Reliable investment bittiya ltd.	-	-	-	-	30
56.	Sikhar bittiya sansthan ltd	-	-	-	-	-
Insurance co.						
1.	Nepal insurance co. ltd.	-	-	-	-	-
2.	Himalyan general insurance co. ltd.	-	-	110	5.26	-
3.	Everest insurance co. ltd.	50	-	12.50	-	-
4.	Alliance insurance co. ltd.	-	-	-	-	-
5.	Sagarmatha insurance co ltd.	-	40	50	-	-
6.	Life insurance corporation ltd	-	20	-	-	-
7.	Prudential insurance co lte.	-	6	-	-	5
8.	Lumbini general ins. Co ltd	-	-	-	5.26	-
9.	NB insurance co .ltd	10	-	-	-	-
10.	United insurance co ltd	-	-	20	-	-
11.	Premir insurance co ltd	-	100	100	-	-
12.	Neco insurance ltd	-	-	-	-	-
13.	Shikhar ins. Co.ltd	-	-	-	-	-
14.	Rastriya bema sansthan	-	-	-	50	-
Hotel						
1	Soastee hotel ltd.	-	-	-	21.05	31.58
2.	Oriental hotels ltd.	-	-	-	-	-
3.	Taragoan regency hotel ltd	-	-	-	-	-
4.	Yak and yeti hotel ltd.	-	-	-	-	-
Menu factoring \$ processing companies						
1.	Bottlers Nepal (balaju) ltd	-	-	-	-	-
2.	Gorakhali rubber udyog ltd.	-	-	-	-	-
3.	Bottlers Nepal ltd.	-	-	-	-	-
4.	Unilever bazaar co. ltd.	400	250	275	325	325
5.	Jyoti spinning mills ltd	-	-	-	-	-

6.	Khadhya udyog ltd.	-	-	-	-	-
7.	Nepal banaspati ghee udyog ltd.	-	-	-	-	-
8.	Shree raghupati jute mills ltd.	-	-	-	-	-
9.	Nepal bitamin & barrel udyog ltd.	-	-	-	10	-
Trading companies						
1.	Bishal bazaar co.ltd	90	100	100	50	25
2.	Salt trading corporation ltd.	20	20	20	25	20
Other companies & hydropower companies						
1.	Nepal film div. co. ltd.	-	-	-	-	-
2.	National hydropower co. ltd.	-	-	6	-	35
3.	Butwal power co. ltd.	-	30	25	20	30
4.	Chilime hydropower co. ltd.	20	25	30	35	-
5.	Nepal Telecom CO LTD.	-	-	-	25	-
6.	Arun valley hydro power dev. Co. ltd.	-	-	-	-	-

Annex-VI

Let \bar{x} denotes the average no. of dividend paying financial institutions listed on NEPSE.

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X	d=X-A(71)	
51	-20	400
60	-11	121
71	0	0
68	-3	9
44	-27	729
n=5	$\sum d = -61$	$\sum d^2 = 1259$

$$= 11.34$$

Text statistics,

$$= -2.41$$

$$(t) = 2.41$$

Degree of freedom (d.f) = $n-1=5-1=4$

Level of significance (α) = 0.05

Annex-VII

Test of Hypothesis on dividend payments of CBs:

70	12.58	120	31.5	4900	158.26	14400	992.25
85	55.46	140	35	7225	3075.81	19600	1225
140	30	130	30	19600	900	16900	900
100	40.83	130	45	10,000	1667.08	16900	2025
85	20	50	43.56	7225	400	2500	1897.47

One-way ANOVA table for dividend payment of CBs

Source of variation	Sum of Square	d.f.	Mean Square.	
Between Sample	SSC= 25805.34	k-1 4-1=3		
Within sample(error)	SSE= 9533.49	n-k 20-4 =16		
Total	T.S.S=35338.83	n-1 =19		F=14.44

Annex-VIII

Test of hypothesis on dividend payments of DevBs.

14	10	15	196	100	225
25	30	5	625	900	25
18	73.68	8	324	5428.74	64
25	20	0	625	400	0
10	0	0	100	0	0

T.S.S=

=1133.44

S.S.E

One-way ANOVA table for dividend payment of DevBs.

Source of variation	Sum of square	d.f.	Mean square	
Between sample	SSC=1133.44	K-1 3-1=2		
Within sample(error)	SSE=3589.07	n-k 15-3=12		
Total	TSS=4722.51	n-1=14		F=1.89

Annex-IX

Test of hypothesis on dividend payment of FCs:

50	63.158	20	20	2500	3988.93	400	400
50	10.53	22	10.53	2500	110.88	484	110.88
52.63	21.05	22	15.79	2769.92	443.10	484	249.32
51.62	30	0	10	2664.62	900	0	100
0	0	10	12.63	0	0	100	159.52
	= 124.74	= 74	=68. 95		= 5442.91	=1468	= 1019.72

=4863.52

One-way ANOVA table for dividend payment of FCs.

Source of variation	Sum of square	d.f.	Mean square	F:ratio
Between sample	SSC:2365.28	$k-1=4-1=3$		
Within sample (error)	SSE: 4863.53	$n-k$ $20-4$ $=16$		
Total	TSS=7228.8	$n-1=19$		F=2.59

Annex-X

Calculation of Karl Pearson's correlation coefficient between MPS and DPS.

MPS(x)	DPS(y)					
5 Null Hypothesis (Ho): p < 0.05	140	3317.57	75.07	11006270.7	5635.50	249049.98
2450	30	492.57	-34.93	242625.2	1220.16	-17205.47
6830	130	4872.57	65.07	23741938.4	4234.10	317058.13
1980	30	22.57	-34.93	509.40	1220.16	-788.37
134	18	-1823.43	-46.93	33741938.4	2202.42	85573.57
551	8	-1406.43	-96.93	1978045.35	9395.42	136325.26
475	52.63	-1482.43	-12.3	2197598.71	151.29	18233.89
1470	21.05	-487.43	-43.88	2197588	1925.45	21388.43
710	22	-1247.43	-42.93	1556081.6	1842.98	53552.17
1191	22.33	-766.43	-42.60	587414.9	1814.76	32649.92
345	110	-1612.43	45.07	2599930.5	2031.30	-72672.22
4100	275	2142.57	210.07	4590506.2	44129.40	450089.68
331	20	-1626.43	-44.93	2645274.5	2018.70	73075.50
1562	30	-395.43	-34.93	156364.88	1220.10	12812.37

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Annex-XI

Calculation of Karl Pearson's correlation coefficient between MPs and DPS.

MPS(X)	DPS(Y)	-	-			
4899	100	3259.93	37.59	10627143.6	1413	12540.8
1388	40.83	-251.07	-21.58	63036.14	465.7	5418.09
6010	130	4370.93	67.59	19105029.06	4568.41	295431.16
1760	55	120.93	-7.41	14624.06	4568.41	295431.16
183	25	-1456.07	-37.41	2120139.8	1400	54471.57
328	20	-1311.07	-42.41	1718904.5	1798.6	55602.48
400	51.62	-1239.07	-10.79	1535294.5	116.42	13369.6
970	30	-669.07	-32.41	447654.7	1050.41	21684.55
625	10	-1014.07	-52.41	1028337.96	2746.8	53147.4
285	5.26	-1354.07	--57.15	1833505.6	3266.1	77385.10
207	21.05	-1432.07	-41.36	2050824.5	1710.65	59230.42
4250	325	2610.93	262.59	6816955.5	68953.5 1	685604.41
346	25	-1293.07	-37.41	1672030.02	1400	48373.75
1296	35	-343.07	-27.41	117697.02	751.31	9403.55

