CHAPTER -I

INTRODUCTION

1.1 Background of the Study

The world is changing at a fastest rate. Developed and leading countries like USA, China, Japan, Europe, India etc. are the leading examples of this. Intense competition, globalization, standardization, free Trade policy, different human rights, development in technology is the crucial factor for change. One of the main factors to measure the development of a country is economic factor.

Nepal is a landlocked country with agro-based economy. The country is divided into Mountains, hills, Terai regions with its geographical nature. Economic status of our country is growing very slowly and Nepal is known as very poor country all over the world. Development of the different institution is equally essential for the rapid economic development of the country like trade, commerce, and industry and agricultural.

Nepal is an agro dominated country where the majority of the people are farmers. The landlocked and complex geographical situation has further worsened to develop the country. The poor resources mobilization, lack of entrepreneurship, lack of institutional commitment, erratic government policies and poor governance are responsible for slow pace of development. However, the prospects is not so despair because the country is rich in natural resources, the market economy is becoming strong due to globalization and liberalization. Economic liberalization and policy reforms are the present needs since the market economy is becoming strong Worldwide. 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 the financial sector whose contribution in economy has great significance.

Development in the financial terms is the efficient flow and generation of the funds in the most productive sectors. The nation having effective funds collection from the each and every corner of the country and investing them in the productive areas are the economic heroes at the present scenario.

Financial institution plays vital role for the economic development of a country. However, Nepal has not been able to achieve the desired income which is due to the poor capital market situation and initial stage of modern economy.

Among these circumstances, capital market and its extensity also play great roles. Capital market generates and liquidates the security as per the requirements. So is the reason, extension of capital market is only the way to productive mobilization of the funds. But unfortunately, Nepalese capital market has not efficient communication network even today. It has made capital market less efficient and inefficiency result the risk. Even though it is hoped that Nepalese capital market will be moving towards efficiency in the days to come.

The history of securities market began with the floatation of shares by Biratnagar jute Mills Ltd. and Nepal Bank Ltd. in 1937.Introduction of the company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Centre Ltd. in1976 were other significant development relating to capital markets. When security exchange centre converted into Nepal Stock Exchange (NEPSE) in 1993, the objectives of this institution become; to import free marketability and liquidity to the government and corporate securities by facilitating transactions in its only trading floor through market intermediaries' i.e. brokers as well as market makers.

Nepal Stock Exchange, in short NEPSE, is a non –profit organization, operating under securities Exchange Act, 1983.NEPSE opened its trading floor on 13th

January 1994. Member of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 27 member brokers and 2 market maker, who operate on the trading floor as per the securities Exchange Act, 1983, rules and by-laws.

At present Nepal have so many banks and insurance companies performing different tasks. It shows there is perfect competition between these institutions. Commercial banks are working more effectively. It is because, the banks have highly skilled personnel, modern banking services, and international network and country suited services. However, two big banks namely, Nepal Banks Ltd. and Rastriya Banijya Bank are going to be run by contracted management, which shows still Nepalese commercial banks have some practical problems and limitations.

Besides all these, banks are performing various functions such as money creation and generation, deposit collection, credit extension, credit card issue and cheque transaction, import letter of credit, traveler cheque, export bill, issue of draft, telex transfer and safe keeping of value.

If a company has surplus cash, it can buy back outstanding numbers of shares, which is known as repurchase of shares. In the developed capital market, corporations are allowed to buy shares back for better utilization of their unused cash. However, Nepalese company acts 1997, section 47 has prohibited company from purchasing its own shares and supply loans against the security of its own shares

People invest their money for satisfactory and expected return. To these objectives, firms distribute the earnings to their shareholders. Earning is that amount which remains after deducting all operational and non operational expenses. Shareholders expectations may vary with their investment priorities. Some invest for capital appreciation of stock and some for earning as dividend.

In the capital market, all firms operate in order to generate earnings. Shareholders make investment in equity capital with the expectation of making earnings either directly in the forms of dividend or indirectly in the forms of capital gains in future. Shareholders wealth can be increased through either dividends or capital gains. The main focus of investors is the dividend. But there is not any consistency and regular practice of dividend announcement in different firms. They are extremely different as per their dividend policies. Similarly in secondary market the declaration of the dividend or the dividend policy of the firm changes the market price of the shares. Therefore it is expected that there is some impact of dividend policy over the market price of the stock.

Dividend Policy & Market Value Per Share (MVPS)

Once a company makes a profit, it should decide on what to do with the profit. It could continue to retain the profit within the company, or it could payout the profit to the owners of the company in the form of dividend. Dividends are payments made to stockholders from a firms earning in return to their investment, whether those earnings were generated in the current periods and policy refers to the decision about how much earnings 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 reinvested in the firm. The objective of a dividend policy is maximization of shareholders wealth position.

Dividend policy however is still a crucial as well as controversial area of managerial finance. It is more technical area of finance in the sense that it is complex on having numerous implications for the firm. Dividend policy may affect the areas such as financial structure of the firm, funds flow, stock prices, investors' satisfaction, growth of the firm etc like other major decision of the firm, i.e. investment and financing decision, the dividend decision has major role in any organization. Dividend policy reflects the firm's decision to pay out earnings or to retain them for reinvestment in the firm. The dividend decision is the choice

between retention and investment of earnings on the other hand and the payout of earnings to the shareholders as dividend. It determines the division of earnings between payments to stock holders and reinvestment in the firm

In practice, company pays whole earnings as dividend at the beginning to create better image and existence in the financial market but later they may change their policy and announce a certain percentage of dividend payout term.

The dividend payout ratio may be different but the common dividend payout ratio (D/P ratio) is 40% as the different studies reveal. Keeping all these things into consideration, it could be said that the actual owner of the firm or company are not treated rightly by not giving sufficient and reasonable dividend. Moreover in some companies dividend is not announced. But recently the trends of the dividend payment are increasing.

In the Nepalese context, dividend policy is less balanced. Theoretical & Practical deviation has proved everything as written is not practiced and everything practice is not of actual theory. Therefore dividend policy is the practice, strategy or decision made by a firm as per their requirements to establish market reputation as well as to meet general expectations of the shareholders.

The payment of the corporate dividend is at the discretions of the Board of Directors. Most corporations pay dividend quarterly. Dividend may be paid in cash, stock or merchandise. Cash dividend is the most common, merchandise dividends are the least Common, Stockholders are not premised a dividend but he/she grows to expect certain payment on historical dividend pattern of the firm. Before dividend are paid to common stockholders the claims of creditors, the government and preferred stockholders must be satisfied.

The regularity of dividend payment and the stability of its rate are the two main objectives aimed by the corporate management. They are accepted as desirable for corporation's credit standing and for the welfare of shareholders. High earning

may be used to pay extra dividend, but such dividend should be designated as extra and care should be taken to avoid the impression that the regular dividend is being increased. A stable dividend should not be taken to mean inflexible or rigid policy. On the other hand, it entails the payment of fair rate of return, taking into account the normal growth of the business and the gradual impact of external event. Higher the value of dividend higher will be the market value of the share.

Market value per share (MVPS) is the trading price of the stock listed in authorized or legal stock exchange. In context of Nepal, MVPS is the price that is coated for purchasing or selling under Nepal Stock Exchange Act or related laws and regulations, on the stock exchange floor.

MVPS is the value of stock, which can be obtained by a firm from the market. Market value of a share is one of the variables, which is affected by the dividend per share and earning per share of the firm. If the earning per share and dividend per share is high, the market value per share will also be high. Market value of the share may be high or low than the book values. If the firm is growing concern and it's earning power is greater than cost of capital, the market value of the share will be higher than the book value. If the firm's earning capacity is lower than cost of capital MVPS will also be lower. MVPS is determined by capital market.

Market price of the stock usually fluctuates by the adequate information. No one can earn more in the inefficiency and inefficiency is legally prohibited in order to regulate the security market in every nation. But being focused in this study, dividend policy and its impact on market price of stock, there should be discussed different models and practices which have significant effects in MVPS or not. So MVPS and security valuation are integral parts in it. With out valuation no one can coat the price there is no chance of trading.

Every day in newspaper one can see the market price of the different shares from different companies. The trading of the share definitely requires the MVPS which can be obtained by the stock valuation.

Share valuation is an economic process generates rational securities prices. Although the price fluctuations may appear to be chaotic, they are random fluctuations that result from the random arrival of the new information. Dividend policy and MVPS has always correlation; if the company pays high dividend the MVPS increases and vice-versa. But in some cases out of this interrelation, the price may remain constant or decrease too. Therefore the information lack or flow is also vital in the analysis of MVPS.

1.2 Focus of the Study

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

1.3 Statement of the Problems

Shareholders make investment in equity capital with the expectation of making earnings. Dividend is a kind of earnings that the shareholders expect from their investment. But There are many studies on dividends and stock prices, for

example, Modigliani and Miller (1961) Linter(1962), Gordan (1963), Friend and Puckett (1964),Walter(1966),Elton and Gruber (1970), Black and Scholes (1974) Lichtenberger and Ramaswamy (1982), Chawla and Srinivasan (1987). However, no simple and conclusive relationship exits between the dividend pay and the market price of share. There was considerable controversy concerning the relationship between dividend and common stock prices. The affect of dividend policy on corporation's market value or market price of share is a subject of long standing argument but there no single conclusive result regarding the relation between the dividend payment and market price of the share.

There is no doubt that when firm got much earning, shareholders would also expect much dividend. But earning is also treated as financing sources for the firm. If the firm retains earning then it decreased leverage ratio, expansion of activities and increase in profit in succeeding years whereas if firm pays dividend, it may need to raise capital through capital market which may dilutes the ownership control of the existing shareholders. On condition debenture, it will affect on risk characteristic of the firm. Therefore, there are many dimensions to be considered on dividend theories, policies and practices.

The capital market is an important part of corporate development of a country. Even though capital market is in the early stage of development in Nepal, Nepalese investors made more investment on newly established companies, especially in the financial sector. Dividend is the most inspiring aspect for the investment in the share of various companies for an investor. Even if dividends affected the firm's value, unless management knows exactly how they affect, there is not much that they can do to increase shareholders wealth. So, it is necessary for management to understand how the dividend policy affects the market price of the stock or the wealth position of the shareholders.

Thus this study seeks to answer the following question:

- What are the factors that affect the dividend and valuation of the firm?

- What is the stock price behavior after the announcement of dividend?

1.4 Objective of the Study

The main objective of the study is to obtain in depth the knowledge about the impact of dividend policy adopted by the selected companies to its market price of shares as well as the overall valuation of the firms. The specific objectives are as follows:

- To highlight the various aspects of dividend policies and practices in Nepal Carry out by the selected banks.
- To analyze the variables such as profit, dividend per share, dividends pay out ratio, dividend yield and relation with market value.
- To provide suggestion to the policy maker management of select commercial banks for improvements

1.5 Significance of the Study

As dividend is one of the crucial factors in every organization and dividend policy decision is one of the most important decisions, this might serve to be important information for these respective firms taken as sample. Besides, the shareholders and financial institutions may also be benefited from this study. This study will support the future researcher by providing valuable information. Especially the significance of this study can be summarized in the following points:

- Helpful for the further researcher in this field.
- The study helps to the management, shareholders and policy maker in setting and making a suitable dividend policy.
- To raise public awareness about dividend policy and market price of share relation in order to help them for rational decision of their investment.
- It covers the partial fulfillment of the requirement of MBS, TU.

1.6 Limitation of the Study

Basically the research is done for the partial fulfillment of MBS. But the research has its own limitation which is listed below:

- The study covers the relevant data and information for only five years 2006/07 to 2010/11.
- The major portion of analysis &interpretation has been done on the basis of available secondary data & conclusion is strictly depending upon the reliability of secondary data & information.
- Time and financial constraints are the major limitation of the study. The report has to submit within the time period.
- The researcher being the beginner in this area, this report cannot remain without flaws. Best effort has been done to make this report with minimum error; existence of unnoticed errors is also a major limitation of the study.
- Among many commercial banks only two banks are selected for the study Himalayan Bank and NABIL Bank.

1.7 Organization of the Study

This study is divided into five chapters, which are as follows:

Chapter 1: Introduction

Includes the introduction & general background, statement of problem, objectives of the study, significance of the study and limitation of the study.

Chapter 2: Review of Literature

Includes review of literature, in this chapter the review from books, journals thesis and independent studies are taken into account.

Chapter 3: Research Methodology

In Research Methodology. It includes the research design, data collection procedure, tools for analysis and method of analysis and presentation.

Chapter 4: Data Presentation and analysis

Is data presentation and analysis part; it is the main body of our research. It includes data presentation, interpretation and analysis.

Chapter 5:Summary Recommendation and Conclusion

Includes the summary and conclusion of the research. And finally suggestion and recommendations are given.

CHAPTER -II

REVIEW OF LITERATURE

This chapter contains the review of different sources of literature such as books, journals, research paper and other studies related to the dividend policy. It has been expected that the review will help to make the research more effective and useful. The chapter has been divided mainly into two parts as: Conceptual Framework and Review of Previous Studies on these relevant fields.

2.1 Conceptual Framework

2.1.1 Dividend

Dividend refers to the part of earnings made by the firm that is distributed to the shareholders as return of their investment over equity share whether those earnings were generated in the current period or in previous periods. In other words, it is the rewards to shareholders for bearing the risk of uncertainty *(Ghimire; 2002:8)*. Once a company makes a profit, it should decide on what to do with the profit. It could continue 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. Every firm prefers to make somewhat rational balance between these two alternatives. The firm adopts different approaches to distribute dividend according to their objectives. Given the objective of maximization of shareholders wealth, the firm should use net profits for paying dividends to the shareholders. Conversely, the firm should retain profit to finance the investment opportunities if the objective is to expand the business

The objective of a dividend policy should be to maximize the shareholder's return so that value of his investment is maximized *(Pandey; 1995:739).*Return consists of two components: dividends and capital gains. Dividend policy has a direct influence on these two components of return. The impact of dividend policy on future capital gain is however complex. Capital gains occur in distant future, and therefore, are uncertain. Normally, it is said that the low payout policy accelerates earnings growth; investors of growth companies will realize their return mostly in the form of capital gains. But, it is not certain that low payout policy will lead to higher prices in reality. It is quite difficult to clearly identify the effect of payout on share price. Share price is a reflection of so many factors that the long-run effect of payout is quite difficult to isolate.

A high payout policy means less retained earnings, which will consequently result in slower growth and perhaps lower market price per share. A low payout policy will result into higher growth, higher capital gains and perhaps higher market price per share. Capital gains are, however, more uncertain than current dividends, but current dividends are taxed more than capital gain. Therefore, it is quite plausible that some investors would prefer high- payout companies while others may prefer low-payout companies. Thus, the relationship between dividend and the value of the share is not clear cut *(Pandey; 1995:740).* There is different decision models developed to analyze the situation and come to a conclusion as a decision. However, these decision models are still conflicting. One school of thought argues that dividend payment has no impact on valuation.

2.1.2 Theories of dividend

A. Residual Theory

Residual theory of dividend suggests that the first priority should be given to the profitable investment opportunities *(Gitmen;1988:616).*If there are any profitable opportunities, the firm invests in those and than only the residual (remaining) amount of earnings (if any) would be distributed to the shareholders. Under this

theory the firm first determines the optimum level of investment opportunity schedule (IOS) and weighted average cost of capital (WACCA). Using the optimum capital structure proportion, the firm estimates the total equity-financing requirement to undertake the investment opportunities. Since the cost of internal equity (retained earnings), K_r, is less than the cost of new common stock, K_e, retained earnings would be used to meet the equity financing requirement. If retained earnings are not sufficient to meet the requirement, new common stocks are to be sold. Any retained earnings left this would be distributed as dividend *(Bhattarai; 2002:19-20).*

B. Wealth Maximization Theory

Larger dividend is announced and distributed to shareholders under this theory in order to maximize their wealth. This theory is generally adopted by the newly established and declining companies to upkeep it's image and retain the shareholder's positive attitude towards the company's stock *(Bhattarai; 2002:20).*

2.1.3 Forms of Dividend

The usual practice is to pay dividends in cash. Other options for distributing earnings are also available to the company, which are follows:

A. Cash Dividend

Cash dividend is the dividend paid in cash. It is the most popular and widely used form of dividend all over the world. Everyone likes to collect their return in cash rather than non cash means. So, cash dividend is not only a way to distribute earnings, but also a way to improve perception of the capital market. A company should have enough cash in its bank account when cash dividends are declared. If the company does not have enough bank balance at the time of paying cash dividend, arrangement should be made to borrow funds. When the company follows a stable dividend policy, it should prepare a cash budget for the coming period to indicate the necessary funds which would be needed to meet the regular

dividend payments of the company. It is relatively difficult to make cash planning in anticipation of dividend needs when an unstable dividend policy is followed *(Pandey; 1995:775).* The cash account and the reserves account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed *(Hastings; 1996:370).*

B. Bonus Shares

An issue of bonus shares represents a distribution of shares in lieu of or in addition to the cash dividend (also know as stock dividend) to the existing shareholders. This has the effect of increasing the number of outstanding shares of the company. The shares are distributed proportionately. Thus, a shareholder retains his proportionate ownership of the company. The declaration of the bonus shares will increase the equity share capital and reduce the reserves and surpluses (retained earnings) of the company. The total net worth is not affected by the bonus issue. In fact, a bonus issue represents a recapitalization of the owners' equity portion, i.e., the reserves and surpluses *(Pandey; 1995:775-776).*

C. Scrip Dividend

When earnings of the company justify dividends, but the company's cash position is temporarily week and does not permit cash dividend, it may declare dividend in the form of scrip or notes promising to pay the dividend within the specified future period of time (maturity). In this method of dividend, company issues and distribute to shareholders transferable promissory notes which may be interest bearing or not. Scrip dividends are justified only when the company has really earned profit and have only to wait for the conversion of other current assets into cash in the course of operation.

D. Property Dividend

If the company pays the dividend in the form of property or assets rather than cash, it is known as property dividend. When the company has unnecessary or useless assets for the operation of the business, it is distributed to the shareholders as property dividends. In some cases, the company pays subsidiary company's shares as dividend. Property dividends are least used practice and only used when extra ordinary circumsubstances exist. Similarly the payment of dividend as subsidiary company's shares in place of cash dividend could result the negative impact as the shareholders may feel the shares that are paid to them are of less value therefore they are paid .

E. Bond Dividend

If dividends are paid in the form of bond, promising that is will mature in the future data, it is known as bond dividend. Similar to scrip dividend the intention and purpose of bond dividend is to postpone the dividend payment for sometime but is has more obligations. Bond divided carries relatively longer maturity period than that of scrip dividend.

2.1.4 Dividend Policy

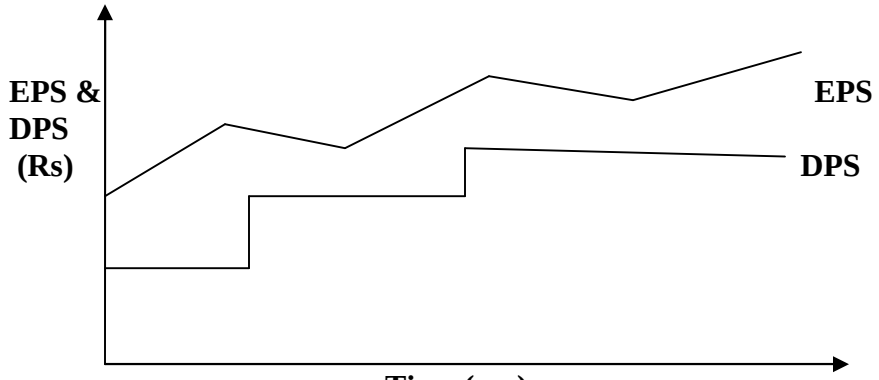
The policy, which decides on how much of the earnings a firm should retain for reinvestment and how much it should pay to shareholders, as dividend is known as dividend policy. It is the third major decision of a firm, which aims at maximization of shareholders wealth. Dividend policy determines the division of earnings between reinvestment in the firm and payments to shareholders. Retained earnings are one of the significant for financing corporate growth, but dividends refer to the cash flow that accrues to shareholders (Weston and Copeland; 1991:657). Stability or regularity of dividends is considered as a desirable policy by the management of companies. Three of the more commonly used dividend policies are:

I. Constant Dividend Policy

Constant dividend policy is based on the payment of affixed Rupees. Dividend in each year/period. A number of companies follow the policy of paying fixed amount per share as dividend every year, without considering the fluctuation in the earning of the company. The policy does not imply that the dividend per share of dividend rate will never be increased. When the company reaches new level of earnings and expects to maintain it the annual dividend per share may be increased.

Figure No. 2.1

Constant Dividend per Share



Constant dividend per share policy

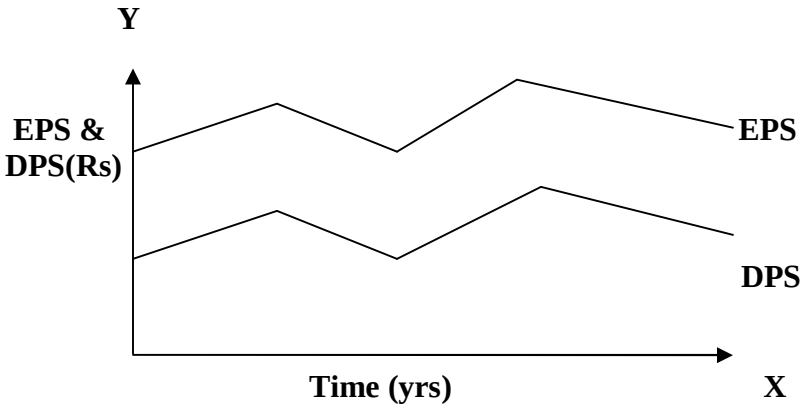
Investors who have dividends as the only source of their income prefer the constant dividend policy.

II. Constant Payout Ratio

The ratio dividend to earning is known as payout ratio. When fixed percentage of earnings is paid as dividend in every year, the policy is called constant payout ratio. Since earning fluctuates, following this policy necessarily means that the Rs. Amount of dividend will fluctuate. It ensures that dividends are paid when profits are earned and avoided when it incurs losses, regardless of the desire of the share holders

Figure No.: 2.2

Constant payout ratio policy



Constant payout ratio policy

iii. Low Regular Dividend plus Extras

The low regular dividend plus extras policy is a compromise between the first two. It gives the firm flexibility, but it leaves investors somewhat uncertain about what their dividend income will be. If a firm's earnings are quite volatile, however, this policy may be best policy.

2.1.5 Factors Influencing Dividend Policy.

Many considerations may affect a firm's decision about its dividends. Some of the more general considerations are given subsequently *(Gautam and Thapa; 2003:251-253):*

I. Legal Rules

A firm may be legally restricted from declaring and paying dividends. Such legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividends. Generally, a corporation may not pay a dividend (i) if the firm's liabilities exceeds its assets, (ii) if the amount of the dividend exceeds the accumulated profits (retained earnings), and (ii) if the dividend is being paid from capital invested in the firm. The second type of legal restrictions

is unique to each firm and results from restrictions in debt and preferred stock contracts.

II. Liquidity Position

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

III. Need to Repay Debt

Debt can be used as a source of financing but it should be refunded at maturity by replacing it with another form of security, or it can make provisions for paying off the debts. If the decision is to retire the debt, it will require the retention of earning rather than pay dividend.

IV. Restrictions in Debt Contracts

Debt contract may restrict a firm to pay cash dividend. Restrictions in debt contracts may specify that dividends may be paid only out of earnings generated after signing the loan agreement and only when net working capital is above a specified amount. Also, preferred dividends take precedence over common stock dividends.

V. Rate of Assets Expansion

The more rapidly growing firm requires more fund for expansion of assets. The greater the future need of fund, the more parts of profit retained into firm rather than pay dividend. A firm with more investment opportunities will pay a lower fraction of its earnings as dividends than a stable firm.

VI. Profit Rate

The expected rate of return on assets determines of paying out earnings in the form of dividends to stock-holders or using retained earnings to acquire assets for the

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

VII. Stability of Earnings

It is easy to predict approximately future earnings if the firm's earnings is stable. The more stable the income stream, higher the dividend payout ratio, than the firm with fluctuating earnings. The firm with stable earnings is more confident of maintaining a higher payout ratio but the unstable firm is not certain for future earnings, so it is likely to retain a high proportion of current earnings.

In case dividends cannot be distributed with in the time limit mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company.

Subsection 2: In case dividends are not distributed with in the time limit mentioned in subsection (1), adding interest at the prescribed rate shall do this.

2.2 Review of empirical studies

2.2.1 Review of Major empirical studies:

Walter's Model:

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

- The firm finances all investment through retained earnings; that is debt or new equity is not issued.
- The firm's internal rate of return, r and its cost of capital, k, are constant.

- All earnings are either distributed as dividends or reinvested internally immediately.
- Beginning earnings and dividends never change. The values of the earnings per share, EPS, and the dividend per share, DIV, may be changed in the model to determine results, but any given values of EPS/DIV are assumed to remain constant forever in determining a given value.
- The firm has a very long or infinite life.

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

$$P = \frac{DIV}{K} + \frac{r\,(EPS - DIV)}{K}$$

$$= \frac{DIV + r\,(EPS - DIV) / K}{K}$$

Where,

P = market price per share

DIV = Dividend per share

EPS = Earning per share

r = internal rate of return (average)

k =Cost of capital or capitalization rate

In Walter's model, the optimum dividend policy depends on the relationship between the firm's internal rate of return, r and its cost of capital (k). Walter's view on the optimum dividend-payout ratio can be summarized as follows:

Growth Firms > k

Firm having r>k may be referred as growth firm. The optimum payout ratio for a growth firm is zero. The market value per share, p, increase as payout ratio declines when r>k.

Normal Firms = k

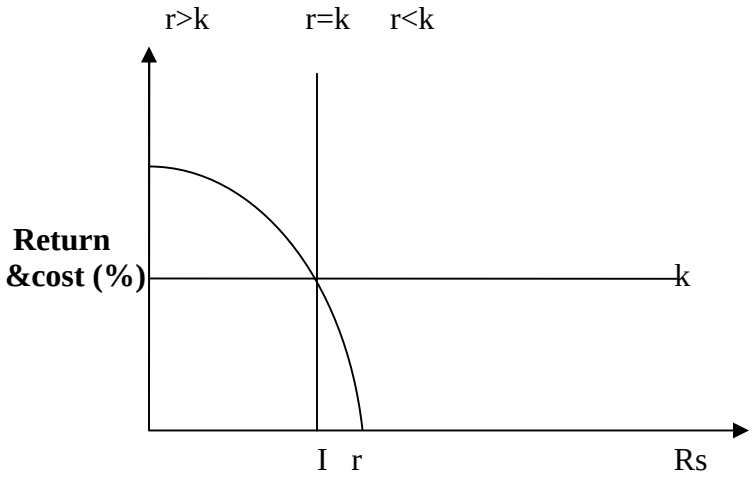
Firm having r=k may be referred as normal firm. There is no unique optimum payout ratio for a normal firm. One dividend policy is as good as the other. The market value per share is not affected by the payout ratio when r=k.

Declining Firms > k

Firm having r>k may be referred as declining firm. The optimum pay out ratio for a declining firm is 100 per cent. The market value per share, increases as pay out ratio increases when r>k.

Figure No.: 2.3

Earning, Investment& New Financing Under Walter's Model



Earning investment and new financing

Thus, in Walter's model, the dividend policy of the firm depends on the availability of investment opportunities and the relationship between the firm's internal rates of return (r) and its cost of capital (k). The firm should use earnings to finance investments if r>l; should distribute all earnings when r<k and would remain indifferent when r=k. Thus, dividend policy is treated as a financing decision; the payment of cash dividends is a passive residual (Solomon; 1963:139-140).

Gordon's Model

One very popular model explicitly relating the market value of the firm to dividend policy is developed by Myron Gordon. Myron 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. This is a relevant theory similar to the Walter's model. In the study conducted in 1963, he explained that "the investors prefer present dividend rather than future capital gains". He further explained that the dividend policy has direct relationship with the value of stock even if the internal rate of return is equal to required rate of return.

Gordon's model is based on the following assumptions *(Pandey; 1995:745-746)*.

- The firm is an all equity firm.
- No external financing is available. Consequently retained earning would be used to finance any expansion.
- The internal rate of return, r of the firm is constant. This ignores the diminishing marginal efficiency of investment.
- The appropriate discount rate k for the firm remains constant. Thus, Gordon's model also ignores the effect of a change in the firm's risk-class and its effect on k.
- The firms and its stream of earnings are perpetual.
- The corporate taxes do no exist.
- The retention ratio b, once decided upon, is constant. Thus the growth rate, g=br, is constant forever.
- k>br=g. If this condition is not fulfilled, we cannot get a meaningful value for the share.

According to Gordon's dividend-capitalization model, the market value of a share is equal to the present value of an infinites stream of dividends to be received by the share. Thus:

$$P_0 = \frac{D_1}{(1+K)^1} + \frac{D_2}{(1+K)^2} + \frac{D_3}{(1+K)^3} + \text{----------} + \frac{D_n}{(1+K)^n}$$

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

$$P = \frac{EPS\ (1- b)}{K_e - b_r}$$

Where,

P =Market price

EPS =Earning price per share

b =Retention ratio

K_e =Cost of capital

1-b =Payout ratio

b_r =Growth rate

Gordon's relevant theory is a popular theory of dividend. As investors prefer current dividend 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 increases the value of stock. But the assumptions of this model are also far from the reality.

Modigliani and Miller's Model:

According to Modigliani and Miller (M-M), dividend policy of a firm is irrelevant as 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, dividend decision- the split of earnings between dividends and retained earnings- is of no significance in determining the value of the firm. M-M's hypothesis of irrelevance is based on the following assumptions *(Pandey; 1995:751-752):*

- The firm operates in perfect capital markets where investors behave rationally, information is freely available to all and transactions and flotation costs do not exist. Perfect capital markets also imply that no investor is large enough to affect the market price of a share.
- Taxes do not exist; or there are no differences in the tax rates applicable to capital gains and dividends. This means that investors value of rupee of dividend as much as a rupee of capital gains.
- The firm has a fixed investment policy.
- Risk of uncertainty does not exist. That is, investors are able to forecast future prices and dividends with certainty, and one discount rate is appropriate for all securities and all time periods. Thus $r = k = k_t$ for all t.

Modigliani and Miller provided following model to prove their theory

Market Value of Share

The market value of a share at the beginning of the period is equal to the present value of dividend paid at the end of the period plus the market price of the share at the end of the period. Symbolically,

$$P_0 = \frac{D+P_1}{1+K_e} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{ (i)}$$

Where,

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

D_1 =Dividend per share at the end of the period

K_e =Cost of equity capital

No external financing

If no new external financing exists the market value of a firm can be computed by multiplying both sides by the number of outstanding shares as follows:

$$nP_0 = \frac{nD_1+P_1}{1+K_e} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(ii)}$$

Where,

n = number of outstand shares

New Shares

If retained earning is not sufficient to finance the investment opportunities, issuing new shares is the other alternative. 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:

$$nP_0 = \frac{nD_1+P_1(n+m)-mP_1}{1+K_e} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(iii)}$$

Where,

n = No. of shares at the beginning

m =No. of shares issued at the end of the period

Total numbers of Shares

A firm can pay dividends and raise funds to undertake the optimum investment policy. If the firm finances all investment opportunities either by issue of new

equity of retained earnings, the total numbers of new shared can be computed on the following way:

$MP1 = I - (E - nD1)$…… (iv)

Where,

MP1	=	Amount obtained from the sale of new shares
I	=	Amount required for new investment during the period
E	=	Total earnings during the period
E-nD1	=	Retained earning
nD1	=	Total dividend paid

Substituting the value of mP_1 of equation (IV) to equation (III) we get,

$$nP0 = \frac{nD_1 + P_1(n+m) - I\,(E - nD_1)}{1+K_e}$$

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

A firm which pays dividends will have to raise funds externally to finance its investment plans. M-M's argument, that dividend policy does not affect the wealth of the shareholders, implies that when the firm pays dividends, its advantage is offset by external financing. This means that the terminal value of the share declines when dividends are paid. Thus, the wealth of the shareholders- dividends 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 dividends. Thus, the shareholders are indifferent between payment of dividends and retention of earnings *(Pandey; 1995:753-754)*

M-M assert that their hypothesis of dividend irrelevance is not affected if the firm raises external funds by issuing debt instead of shares. When external financing involves debt M-M invoke their indifference hypothesis with respect to leverage *(Pandey; 1995:754)*

Linter's Study:

J. Linter conducted a study in 1956, 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 from his research is as follow:

$D^*_t = P.EPS_t$

$D_t - D_{t-1} = a + b\,(D^*_t - D_{t-1}) + e$

Where,

D^*_t =Desired dividend

EPS_t =Earning per share

P =Targeted payout ratio

a =Constant relating to dividend growth

b =Adjustment factor relating to previous period's dividend an desired level of dividend (b>1).

Major findings 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.

2.3 Summary and focus of previous studies as per time period:

2.3.1 Review of Journals and Article

Shrestha (1992) presented a paper on "Shareholder's Democracy and Annual General Meeting Feedback" on fifth annual general meeting of Nepal Arab Bank Ltd, which has been presented here.

In his view, the common problems and constraints of the shareholders are as follows:

- The cost-push inflation at exorbitant rate has made the shareholders to expect higher return from their investment.
- Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequence of it.
- Erosion in the purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholder's purchasing power by raising dividend payment ratio on the basis of both earnings and cost theory.
- Indo-Nepal trade and transit deadlock has become a sort of economic welfare putting rise in the cost of living index to a considerable extent. This is the reason, which made shareholders to expect higher demand for satisfactory dividend.
- The waiting of 5 years with payment of dividend in previous years is equally a strong enforceable reason of the bank's shareholders to expect handsome dividend already assumed and committed in various reports of the earlier annual general meeting.
- One way to encourage risk taking ability and preference is to have proper risk return trade off by bank's management board is a way that higher return must be the investment rule for higher risk takers that comprise bank's shareholders.

Pradhan ***(1993)*** conducted a landmark study in the field of dividend policy in Nepal. He studied stock market behavior of 17 firms covering the period 1986 to 1990 with the following objectives:

- To access the stock market behavior in Nepal.
- To examine the relationship of market equity, market value, price earning and dividend with liquidity, profitability, leverage, assets turnover and interest turnover.
- Findings of his study are as follows:
- Higher earnings in stock leads to the larger ratio of dividend per share.
- Stock with larger ratio of dividend per share to market price have lower leverage ratio.
- Stock with larger ratio of dividend per share to market price has higher liquidity.
- Positive relationship between the ratio of dividend per share to market price and interest coverage ratio.
- Dividend per share and market price per share are positively correlated.
- Positive relationship of dividend payout with liquidity, profitability, assets turnover and interest coverage ratios.

Manandhar ***(2000)*** conducted a study on "Bonus Share and Dividend Changes empirical Analysis in Nepalese Context" to test the lagged structure of dividend and different hypothesis on relationship of dividend payout and other financial factors were tested. He carried out his study based on the data taken from 17 Nepalese corporate firms and covered the period of 1987 to 1998. The conclusions of his study are as follows:

- There is significant relationship between changed in dividend policy in terms of DPS and change in lagged earnings.
- There is relationship between distributed lagged profits and dividends.
- In overall there is a positive relationship between in lagged consecutive earnings and dividend per share.
- When change in lagged consecutive earnings is greater than zero, in 65% cases, change in DPS

2.3.2 Review of Previous Thesis:

There are numerous thesis reports for the partial fulfillment of Master of Business Administration, Master of Business Studies and Master in Arts in Trivuban University. Among those thesis reports some are related to the Dividend Policy and its Effects on Stock Price. Some of these thesis reports are viewed here.

Gautam *(1996)* conducted his master's research on "A Comparative Study of

Dividend Policy of Commercial Banks" by using the secondary data of three banks in 1996 has the following objectives for identify what type of dividend policy is being followed and find out whether the policy followed is appropriate or not, to examine the impact of dividend on share prices, to identify the relationship between DPS and other financial indicators and to know if there is any uniformity among DPS, EPS and DPR of the three sample commercial banks.

After the studies have been done he found the major findings as average earning per share and dividend per share of all concerned banks are satisfactory. Analysis indicates the largest fluctuations in earning per share and dividend per share. No banks exhibit constant dividend payout ratio. Likewise, he made conclusion that no commercial banks seen to be guided by cleanly defined dividend strategy in spite of the good earnings and potentials, shares of the financial institution are

actively traded and market prices are increasing and correlation between DPS and EPS of all sample banks is fairly positive. But it is fairly safe to say that the relationship is not significant.

Another thesis work done by **Timilsina *(1997)*** conducted his master's research on "Dividends and Stock Prices: An Empirical Study" conducted by using the data of 16 enterprises for the period f 1990 to 1994.

The research work has been done with some objectives, such as: to test the relationship between DPS and Stock Prices, to determine the impact of dividend policy on stock prices, to identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio, to explain the behavior, he used multiple regression models of three independent variables as developed by Friend and Puckett. Further he tired to highlight the relationship between stock price and other independent variables setting separate simple linear regression equations:

Mr. Timilsina has found the major conclusions such as the relationship between DPS and stock prices is positive in the sample companies, the DPS affects the share prices variably in different sectors, changing the dividend policy of dividend per share might help to increase the market price of share, the relationship between stock prices and retained earnings per share is not prominent, the relationship between stock prices and lagged earnings price ratio is negative.

Another research entitled " *Dividend Policy and its impact on Market Price of Stock" by* **Yadav *(2007)*** has conducted a research on "based on two commercial banks and two insurance company listed in the NEPSE they are NABIL, HBL and HGICL, UICNL .The analysis of data from 2001 to 2006 by using various tools to study the prevailing practices and effort made in dividend policy among the firms, to find the impact of dividend policy on market price of stock, to analyze the uniformity among DPS, EPS, MVPS and DPR, to provide suggestions and recommendations.

Mr. Yadav concluded that there is no consistency in dividend policy, most of the Nepalese firm does not have profit planning and investment strategy, dividend payout ratio is almost 40% each year, MPS is affected by the financial and dividend payment, the lack of the financial knowledge and the market inefficiency has affected the market price of share.

Bhattarai *(2009)* has conducted a research on "Dividend Practice of Commercial Banks and Its impact on Stock Price" and the data are taken from six banks they are SCBL, HBL, EBL, BOKL and DCBL and analysis of data from 2003 to2008 by using various statistical and financial tools to analyze the impact of dividend on stock price, to identify the determinant DPS and MVPS. Likewise, the research has been organized to analyze the relationship of DPS with EPS and MVPS and to compare dividend practices of selected commercial banks.

Mr. Bhattarai has made conclusion that the higher the dividend payout ratio indicates that the firm is paying higher dividend to its shareholder and lower DP ratio implies that the firm is retaining its profit to profitable investment opportunities, MPS trend of all banks is in increasing trend over the sample period, higher dividend implies that it is performing better, Correlation matrix of some banks shows that the positive correlation between DPS and MVPS but they are statistically insignificant.

Prasain *(2010)* has conducted a research on "*Impact of dividend on market price of share*" and the data are taken from the NABIL Bank, Siddhartha Bank and NCC Bank and analysis of the data from 2004 to 2009 by using various tools to analyze the impact of dividend policy on market price of share, to examine the direction and magnitude of relation between financial variables of selected banks. On the same way Prasain tried to analyze and explain the relation of MPS with EPS and retained earning of the selected commercial banks.

The thesis reports suggest us that Significant difference in DPS among the selected bank. It is also found that dividend payment is neither consistent nor regular in

these banks, there is positive correlation of MVPS with other variables except RR. the relation of MVPS with DPS is more significant than other, the simple regressions between sample banks are not statistically significant but they correlated in positive direction.

2.4 Research Gap

There have been many national and international studies in the field of Dividend Policy to date. Those studies have tried to find out the relationship between dividend policy and market price of the stock. But, as the Nepalese capital market is in the early stage of development, the conclusion made by the international studies may not be relevant in the Nepalese context. So far the Nepalese studies concerned, there are some studies done, like Gautam's and Bhattarai's, which can be considered to be landmark in the field of dividend policy; but many more changes have taken place in Nepalese capital market in last few years and the validity of the past results are doubtful in the present context. Besides this, some researchers have taken only few.

Firms of the same sector as sample and so, the results drawn from those studies may not be accurate to represent the present practices and efforts made in the Nepalese capital markets. So, it is necessary to carryout a fresh study related to dividend pattern of Nepalese companies.

In this study, it is tried to carryout the distinct from other previous studies in items of sample size, nature of the sample firms, and methodology used. The study has covered 2 banks. Five years latest data have been analyzed with due consideration of EPS, DPS, DPR and MVPS. Analyses of financial indicators, standard deviation, regression analysis etc. are used as the main models in the study with a view to obtain the relevant and accurate results. So, it has been believed that this study is different than earlier one.

CHAPTER -III

RESEARCH METHODOLOGY

Research methodology indicates the methods and processes employed in the entire aspects of the study. In other words, research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives. So, it is the methods, steps, and guidelines, which are to be followed in analysis, and it is the way of presenting the collected data with meaningful analysis.

The main purpose of this chapter is to discuss the research methodology such as research design, population and sample, data collection techniques and analytical tools of the research study. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is most important tool for advancement of knowledge and accomplishment of purposes.

3.1 Research Design

The research design refers to the conceptual structure within which the research is conducted (Kothari; 1978:22). A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Selltiz; 1962,:50). Fed N. Krelings has defined it in his book foundation of Behavioral research as “Research Design is the plan, structure and strategy of investigation concerned so as to obtain answers to research questions and to control variances”. In simple language, it’s just a planning for a research .It is purposeful scheme of action proposed to be carried out in a sequence during the process of research. Research design helps researcher to enable him to keep track of action and to know whether he was moving in the right direction to achieve his goal.

This study research is designed so as to find out the impact on the market price of common stock of a company when dividend is paid to shareholders and also how the market price respond when dividend is not paid to the shareholders .In other words, the study is related to the dividend policy and its impact on the share-price and wealth position of the shareholders .Therefore, the descriptive as well as the analytical approach are adopted here. To make the analysis more effective, financial statements, statistical tools and testing models are also use

3.2 Sources of Data

The study is mainly depending upon the secondary data of the selected companies, whose sources may include the Annual Reports of the corresponding companies under study Economic Report published by Nepal Rastra Bank ,the stock price for the whole year listed in the Nepal stock exchange (NEPSE),Economic Survey published from HMG\N, Ministry of Finance, Financial Reports published by NEPSE and Securities Exchange Board, financial and others relevant data regarding the dividend policies and practices of the Banks. Besides this, the data are also collected from various newspapers, magazines booklets and journals published by the concerned governmental and non-governmental organizations.

3.3. Population and Sample

There are more than hundred fifty companies that have shares trading actively in stock market; hence, it does not seem reasonable to study all the companies regarding the study topic. Due to the limited time and resource factors too, it is possible to study two of them; so sampling will be done. There should be no confusion with parameters and size of the companies since the topic is not related to comparison of sizes, but the dividend policy and its effect on market price of shares or simply, the valuation of shares .This study has covered altogether two commercial banks as follow:

1) Himalayan Bank Ltd.

2) NABIL Bank Ltd.

We found till last March 2011 more than 32 Commercial Bank got a permission to work. They are as follows:

Table No: 3.1

Lists of Licensed Commercial Banks (Up to last-Feb 2012)

S.N.	Commercial Banks	Estd. (B.S.)	Head Office
1.	Nepal Bank Ltd.	1994	Kathmandu
2.	Rastriya Banijya Bank	2022	Kathmandu
3.	Nabil Bank Ltd	2041	Kathmandu
4.	Nepal Investment Bank Ltd.	2042	Kathmandu
5.	Standard Chartered Bank Nepal Ltd.	2043	Kathmandu
6.	Himalayan Bank Ltd.	2049	Kathmandu
7.	Nepal SBI Bank Ltd.	2050	Kathmandu
8.	Nepal Bangladesh Bank Ltd.	2050	Kathmandu
9.	Everest Bank Ltd.	2051	Kathmandu
10.	Bank of Kathmandu Ltd.	2051	Kathmandu
11.	NCC Bank Ltd.	2053	Siddhartha Nagar
12.	Lumbini Bank Limited.	2055	Narayanghat
13.	Nepal Industrial & Commercial Bank Ltd.	2055	Biratnagar
14.	Machapuchhre Bank Ltd.	2057	Pokhara
15.	Kumari Bank Ltd.	2056	Kathmandu
16.	Laxmi Bank Ltd.	2058	Birgunj
17.	Siddhartha Bank Ltd.	2058	Kathmandu
18.	Agriculture Development Bank	2062	Kathmandu
19.	Global Bank Limited	2063	Birgunj
20.	Citizens Bank International Limited	2063	Kathmandu
21.	Prime Commercial Bank limited	2064	Kathmandu
22.	Bank Of Asia Nepal Limited	2064	Kathmandu
23.	Sunrise Bank Limited 2064	2064	Kathmandu
24.	DCBL Bank Ltd.	2057	Kathmandu
25.	NMB Bank Ltd.	2064	Kathmandu
26.	Kist bank Ltd.	2059	Kathmandu
27.	Janata Bank Nepal Ltd.	2066	Kathmandu
28.	Mega Bank Nepal Ltd.	2066	Kathmandu
29.	Commerz and Trust Bank Nepal Ltd.	2067	Kathmandu
30.	Civil Bank Ltd.	2067	Kathmandu
31.	Century Commercial Bank Nepal Ltd.	2067	Kathmandu
32.	Sanima Bank Ltd	2059	Kathmandu

Sources: NRB

3.4 Data Processing Technique:

Collected data, relevant facts and figures are systematically tabulated under the different heads for the purpose of analysis. So far as computation is concerned; it has done with the help of scientific calculator and computer

3.5 Data Analysis Tools:

Data collected from various sources have been properly organized, analyzed and presented in appropriate tables and formats. Such tables and formats are subjected to interpretation and explanation as necessary. Specific financial tools and statistical tools are used to analyze variables. Mainly, the analysis has been done using following tools and method:

3.5.1 Financial Tools:

Financial tools are those, which help to study the financial position of the firms. The financial tools used in the study are as follows:

i. Earning Per Share (EPS):

Earning per Share refers to the rupee amount earned per share of common stock outstanding. It measures the profitableness of the shareholders investment. It shows the profitability of the companies on a per share basis. The higher earning indicates the better achievements in terms of profitability of the companies by mobilizing their funds and vice versa. EPS is computed by dividing net profit after taxes by the total number of common stocks outstanding. Thus,

$$\text{Earning per share (EPS)} = \frac{\text{Earning available to common share holders}}{\text{No of common stock outstanding}}$$

ii. Dividend Per Share (DPS):

Dividend per share indicates the rupee earnings distributed to common stockholders per share held by them. It measures the dividend distributed to each

equity shareholder. Generally, higher DPS creates positive attitude to the shareholders toward the company's common stock, which consequently helps to increase the market value of the share. And, it also works as the indicator of better performance of the company management. It is calculated by dividing the total dividend distributed to equity shareholders by the total number of equity shares outstanding. Thus,

$$\text{Dividend Per Share (DPS)} = \frac{\text{Total amt of dividend paid to ordinary shareholders}}{\text{No of ordinary shares outstanding}}$$

iii. Dividend Payout Ratio (DPR):

It is the proportion of earning paid in the form of dividend. This ratio shows what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the companies. The dividend payout ratio of a company depends upon the earnings made by it. Higher earning enhances the ability to pay more dividends and vice versa.

There is an inverse relationship between dividends and retained earnings. The higher the dividend payout ratio, the lower will be the proportion of retained earnings and vice versa. The capacity of internal financing of the firm is checked by the retention ratio. DPR is calculated by dividing DPS by EPS. Thus,

$$\text{Dividend payout ratio (DPR)} = \frac{\text{Dividend per share (DPS)}}{\text{Earning per share (EPS)}}$$

iv. Price Earning Ratio (P/E Ratio)/earning multiplier

Price earning ratio is also called the earnings multiplier. Price earning ratio is the ratio between market price per share and earning per share. In other word, this represents the amount which investors are willing to pay for each rupee of the

firms earnings. The P/E ratio measures investor's expectation and market appraisal of the performance of the firm. The higher P/E ratio implies the high market share price of a stock given the earning per share and the greater confidence of investor in the firm's future. This ratio is computed by dividing market price per share by earning per share of the firm. Thus,

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

v. Earning yield (EY)

Earning yield is the percentage of earning per share to market price per share in the stock market. In other words, it is a financial ratio relating to earning per share to the market price per share at a particular time. It measures the earning in relation to market value of share. It gives some idea of how much an investor is earning for his money. The sharer with higher earning yield is worth buying. It is calculated as:

$$\text{Earning yield (EY)} = \frac{\text{Earning per share}}{\text{Market price per share}}$$

vi. Dividend Yield (DY)

Dividend Yield is a percentage of dividends per share on market price per share. It measures the dividend in relation to market value of share. So, dividend yield is the dividend received by the investors as a percentage of market prices per share in the stock market.

This ratio highly influences the market price per share because a small change in dividend per share can bring effective change in the market value of the share. The share with higher dividend yields is worth buying. Thus, the price of higher dividend yields increase sharply in the market. Dividend has importance guidance

to commit funds for the buying of shares in the secondary market. This ratio is calculated by dividing dividend per share by market price of the share. Thus,

$$\text{Dividend Yield (DY)} = \frac{\text{Dividend per Share}}{\text{Market price per Share}}$$

vii. Market Value Per Share (MVPS) to Book Value per Share (BVPS):

This ratio measures the market price per share in the competitive open market with respect to book value per share of the share issuing company. This ratio indicates the price that the market is paying for the share that is reported from the net worth of the company.

This is important to compare the market share price of different stocks on the basis of the book value per share. It shows the market price of a stock as a percentage of book value per share and the effect of later on the former. The higher ratios represent to conclude the better performance of the company in terms of market price per share to book value per share. This ratio can be derived by dividing market price per share by book value per share. Thus,

$$\text{MVPS to BVPS Ratio} = \frac{\text{Market value per share}}{\text{Book value per share}}$$

viii. Net Worth per Share:

It is a rupee value per share. It is calculated by dividing Book Value of Net Worth (or Net Worth) by total numbers of Shares outstanding. Thus,

$$\text{Net Worth per Share} = \frac{\text{Net worth}}{\text{No. of shares}}$$

ix. Market value per Share (MVPS):

MVPS is that value of stock, which can be obtained by a firm from the sale of a share in the market. MVPS is one of the variables, which is affected by DPS of the

firm. If the earning per share and dividend per share are high, the market value of the share will also be high. The capital market determines MVPS. In this study the market price of share means the rupees value of one share indicated in NEPSE index. Theoretically calculated current price of the share can be derived by using the following formulas:

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

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

Where,

P_0 =Current market price per share

D_0 =Current dividend per share

D_1 =Expected dividend per share at the end of yr.1

g =Dividend growth rate

K_s =Investor's required rate of return

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

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

3.5.2 Statistical Tools:

Besides the financial tools, various statistical tools have been used to conduct this study. The result of analysis has been properly tabulated, compared, analyzed and

interpreted. In this study, the following statistical tools are used to analyze the relationship between dividend and other variables.

i. Arithmetic Mean:

An average is the value, which represents a group of values. It depicts the characteristic of the whole group. It is an envoy of the entire mass of homogeneous data. Generally, the average value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is also known as simple average.

In general, X_1, X_2, X_3..... X_n are the given "n" observations. Then their arithmetic mean, usually denoted by X is given by:

$$\overline{X} = \frac{\sum X}{N}$$

Where,

$\sum X$ =Sum of the sizes of the items

n =Number of items.

II. Standard Deviation (S.D)

The measurement of the scatter of the mass of figures in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion of a distribution. The greater the amount of dispersion, the greater the standard deviation will be, i.e. greater will be the magnitude of the deviations of the values from their mean. 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 opposite. Standard deviation is denoted by a Greek letter 'σ " (Sigma) and is calculated as follows:

Standard deviation (S.D) = $\sqrt{\frac{\sum (\overline{X} - X)\,2}{N}}$

Where,

$\overline{X}$ =Mean

X =Variable

n =No. of items in the series

III. Coefficient of Variation (CV)

The coefficient of variation reflects the relationship between standard deviation and mean. It is the relative measure of dispersion, comparable across, which is defined as the ratios of the standard deviation to the mean expressed in percent. The series with higher coefficient of variation is said to be more variable, less consistent, less stable and less homogenous. On the contrary, the series with less coefficient of variation is said to be less variable, more consistent, more uniform, and more stable and more homogenous. It is denoted by C.V. and is obtained by dividing the standard deviation by arithmetic mean. Thus, in symbol

$$C.V\ X\frac{\pm}{\overline{X}}\ |100$$

Where,

σ = Standard deviation

$\overline{X}$ = Mean

IV. Coefficient of Correlation (r):

The correlation analysis is the technique used to measure the closeness of the relationship between the variables. Correlation is an analysis of the covariance between two or more variables and correlation analysis deals to determine the degree of relationship between variables. It is a tool that can be used to describe

the degree to which one variable is linearly related to another. It describes not only the magnitude of correlation, but also its direction. The coefficient of correlation is a number, which indicated to what extent two variables are related with each other and to what extent variations in one leads to the variations in the other.

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

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

Correlation Coefficient (Simply, r) = $\frac{n \sum xy - \sum x \sum y}{\sqrt{\left[n \sum x^2 - \left(\sum x\right)^2\right]\left[n \sum y^2 - \left(\sum y\right)^2\right]}}$

Correlation analysis describes the relationship between variables i.e. positive or negative. It helps to determine the following.

- A positive or negative relationship exists.
- The relationship is significant on insignificant.
- Establish cause and effect relation if any.

The statistical tool-correlation analysis is used in the study to measure the relationship between variables in determining within the relationship is significant or not. For the purpose decision making interpretation are based on the following terms.

1. When, r = 1, then is perfect positive correlation.
2. When, r = 1, then is perfect negative correlation.
3. When, r = 0, then is no correlation.
4. When, 'r' lies between 0.7 to 0.999 (-0.7 to 0.999), then is high degree of positive (or negative) correlation.
5. When, 'r' lies between 0.5 to 0.6999 there is moderate degree of correlation.
6. When, 'r' is less than 0.5, there is low degree of correlation.

V. Coefficient of Determination (R^2):

The coefficient of determination is the primary way to measure the extent, or strength of the association that exists between two variables, X and Y. It refers to a measure of the total variance in a dependent variable that is explained by its linear relationship to an independent variable. The coefficient of determination is denoted by R^2 and the value lies between zero and unity. The closer the R^2 to unity, the greater the explanatory power. A value of one can occur only if the unexplained variation is zero, which simply means that all the data points in the scatter diagram fall exactly on the regression line. The R^2 is always a positive number. It can't tell whether the relationship between the two variables is positive or negative. The R^2 is defined as the ratio of explained variance to the total variance. Thus,

$$\text{Coefficient of Determination } (R^2) = \frac{\text{Explained Variance}}{\text{Total Variance}}$$

Unexplained variance

$$R^2 = 1 - \frac{\text{Unexplained Variance}}{\text{Total Variance}}$$

VI. Regression Analysis:

The Regression refers to an analysis or a statistical method for determining relationships between the variables by the establishment of an approximate functional relationship between them. It is a statistical device used to estimate or predict the variable or interest from the known values of other variable. In the words of Johnson and Siskin, "The technique of regression analysis is used to determine the statistical relationship between two (or more) variables and to make prediction of one variable on the basis or the other(s). It is considered as a useful tool for determining the strength of relationship between two (Simple Regression) or more (Multiple Regression) variables. It is also used to predict value of one variable from the given value of other variable(s).

Simple linear analysis is used to find the relationship between two variables. In this study, the following simple regressions have been analyzed:

a. Market Price per share on Earning per Share

$y = a + bx$

Where,

y =Market Price per Share

a =Regression Constants

b =Regression coefficient

x =Earning per share

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

b. Market Price per Share on Dividend per Share

$y = a + bx$

Where,

y = Market Price per Share

a =Regression Constant

b =Regression Coefficient

x =Dividend per Share

This model has been constructed to examine the relationship between market price per share (dependent variable) and dividend per share (independent variable).

c. Market Price per Share on Dividend Percent

$y = a + bx$

Where,

y =Market Price per Share

a =Regression Constant

b =Regression Coefficient

x =Dividend Percent

This model has been constructed to examine the relationship between market price per share (dependent variable) and dividend percent (independent variable).

d. Market Price per Share on Dividend Payout Ratio

$y = a + bx$

Where,

y =Market Price per Share

a =Regression Constant

b =Regression Coefficient

x =Dividend Payout Ratio

This model has been constructed to examine the relationship between market price per share (dependent variable) and Dividend payout Ratio (independent variable).

e. Market Price per share on Dividend Yield

$$y = a + bx$$

Where,

y =Market Price per Share

a =Regression Constant

b =Regression Coefficient

x =Dividend Yield

This model has been constructed to examine the relationship between market price per share (dependent variable) and dividend yield (independent variable).

In order to obtain the value of 'a' and 'b', we have the following two normal equations:

$$\sum y = na + bx$$

$$\sum xy = a\sum x + = b\sum x^2$$

Where,

a =Regression Constant

b =Regression Coefficient

n =Number of observation in the sample.

Regression Constant (a)

The regression constant (a) which is the intercept of the model, represents the average level of dependent variable when independent variable has a value of zero. In other words, it indicated the mean or average effect on dependent variable if all the variables omitted from the mode. This term has practical meaning only if a zero value for the independent variable is possible.

Regression Coefficient (b)

The regression coefficient (b) is a parameter which indicates the marginal relationship between independent variable and value of dependent variable holding constant the effect of all other independent variables in the regression

model. The coefficient specifies a part of change in the dependent variable regarding part of change in the independent variables.

vii) Probable error P.E(r)

Probable error of the correlation coefficient denoted by P.E(r) is the measure of testing the reliability of the calculated value of 'r'.

1. If r<P.E(r), it is insignificant. So, perhaps there is no evidence of correlation.
2. If r<P.E. (r), it is significant. The P.E. (r) of correlation coefficients may be used to determine the limits within the population correlation lies. Limits for population correlation coefficient are r ± P.E(r).

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS

In this chapter, the relevant and the available data/information regarding dividend policy of the sample Commercial Banks have been presented and analyzed according to the research methodology as mentioned in the previous chapter.

4.1 Analysis of Financial Indicators

Earnings per share, dividend per share, market price per share and dividend payout ratio are some of the most important financial indicators of a firm. Detailed analysis of these financial indicators along with their mean, standard deviation and coefficient of variation is presented below with the help of the results obtained in appendix 1.

4.1.1 Earning Per Share (EPS)

Generally, the performance and achievements of business organization are measured in term of their capacity to generate earnings. Earnings per share refers the rupee amount earned per share of common stock outstanding. It measures the profitableness of the shareholder's investment. It measures the profitableness of the shareholders investment on a per share basis .It is computed by dividing net profit after taxes by the total number of common stocks outstanding. The higher earning indicates the better achievements of the profitability of the banks by mobilizing their funds and vice versa. The earnings per share of the concerned banks under study is tabulated as follows;

Table No. 4.1

Earnings per Share of Concerned Banks

Bank	HBL	NABIL
2006/07	60.66	137.08
2007/08	62.74	115.86
2008/09	61.9	113.44
2009/10	31.8	83.81
2010/11	44.66	70.67
Mean	**52.35**	**104.17**
S.D	**13.69**	**26.66**
C.V	**26.15**	**25.59**

Source: Appendix-1

That comparative table has shown the earning per share of two commercial banks with their pooled average as well as the standard deviation and coefficient of variation of the EPS covering the period from fiscal Year 2006/07 to 2010/11 Here, NABIL, has the highest EPS throughout the study period where as HBL has the lowest EPS during the same periods.

Comparatively, the earning position of NABIL is better than that of HBL, but it is above the average EPS of commercial banks throughout the period and so we can say that the earning capacity of NABIL is at the satisfactory level.

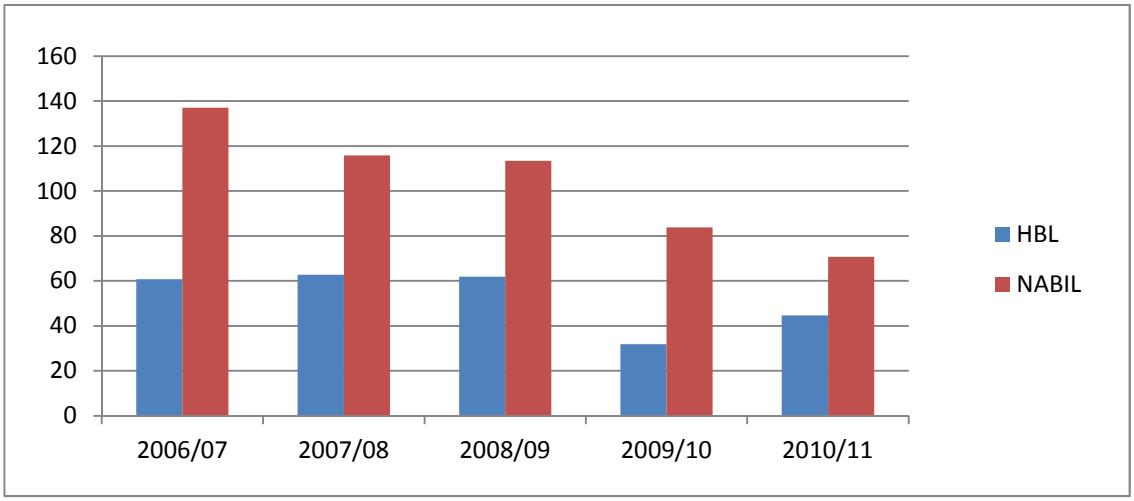
HBL's EPS for the first years are above the pooled average EPS but rest of the year from 2008/09 to 2010/11, it has been come down significantly.

NABIL EPS during 2006/07 to 2008/09 are greater than pooled average. Its EPS is going rest of the year come down significantly.

The comparative EPS of the selected commercial banks can be presented with the help of bar diagram and graph as follows:

Figure No. 4.1

Earnings Per Share of Concerned Banks



4.1.2 Dividend Per Share (DPS)

Dividend per share is that amount, which is paid to common shareholders on a per share basis. DPS shows the portion of earning distributed to the shareholder on per share basis. Generally, the higher DPS creates positive attitude among the shareholder towards the bank, which accordingly helps to increase the market value of shares. It also works as the indicator of better performance of the bank management. The dividends per share of the banks under study are stated in the table below

Table No. 4.2

Dividend Per Share of Concerned Bank

Bank	HBL	NABIL
2006/07	40	140
2007/08	45	100
2008/09	43.56	85
2009/10	36.84	70
2010/11	36.84	30
Mean	40.45	85.00
S.D	3.76	40.31
C.V	9.30	47.43

Source: Appendix-2

NABIL Bank has paid highest DPS Rs.140 and lowest DPS is Rs. 30 during the period of study. The average DPS of NABIL Bank has Rs. 85 .The standard deviation and coefficient of variation of the bank is 40.31 and 47.73% respectively during the period of study. The C.V. 47.43% indicates that there is moderate fluctuation in DPS of NABIL Bank during the period mentioned FY's.

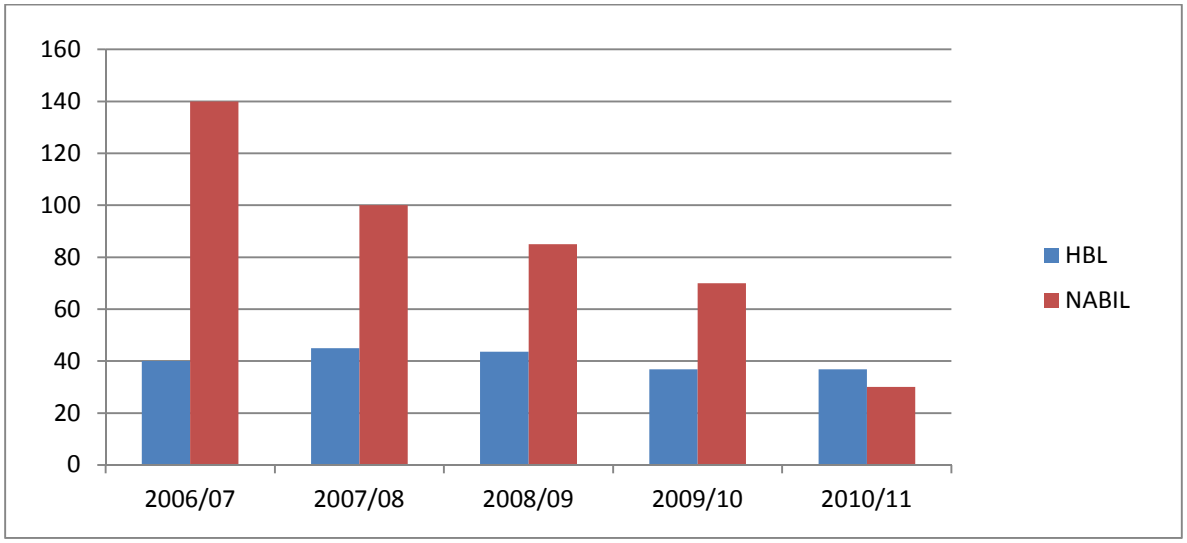
Himalayan Bank Ltd. (HBL) has paid the highest DPS Rs.45 and lowest DPS is Rs.36.84 during the period of study. The average DPS of HBL has Rs.40.45 .The standard deviation and coefficient of variation of the bank is 3.76 and 9.30 respectively during these FY's. The C.V. of HBL of 9.30% indicates it has also little fluctuation in the DPS during the period of study.

As seen by above calculation there is consistency in paying dividend by the HBL where as the DPS of NABIL is most highly fluctuating during the period of study among two Banks of Nepal.

The dividends per share of concern bank under the study period of are present in the graphical form as follows:

Figure No. 4.2

Dividend Per Share of Concerned Bank



4.1.3 Dividend Payout Ratio

Dividend payout ratio (DPR) is the proportion of earning paid in the form of dividend. This ratio shows what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the companies. It is calculated by dividing DPS by EPS. The following table shows the DPR of the sample banks.

Table No. 4.3

Dividend Payout Ratio of Concerned Bank

Bank	HBL	NABIL
2006/07	65.94	102.13
2007/08	71.72	92.33
2008/09	70.37	79.62
2009/10	115.85	89.05
2010/11	82.49	42.45
Mean	81.27	81.12
S.D	20.26	23.06
C.V	24.93	28.43

Source: Appendix-3

The above table shows the comparative DPR of the two commercial banks for five years period with their pooled average for each year as well as the standard deviation and coefficient of variation for corresponding DPR series. As seen in the table, DPR of both banks is in fluctuating trend from year to year. NABIL has maintained the highest payout ratio in the first fiscal year i.e. in FY 2006/07 but thereafter the DPR of the NABIL has been decreasing throughout the remaining period up to 2010/11. NABIL has got success to keep itself above the pooled average throughout the observed periods except in the last FY 2010/11. Likewise, the DPR of HBL is highest in the FY 2009/10 and the lowest in the FY 2008/09. HBL has maintained the average DPR of 81.27 with the standard deviation of 20.26 during the period of study.

Generally, we divide payout ratio in three categories as Conservative (0-20%), Moderate (21-50%) and Aggressive (51-100%). If we analyze above data using this criteria, both bank has adopted the aggressive dividend policy throughout the study period.

There is an inverse relationship between dividends and retained earnings. The higher the dividend payout ratio, the lower will be the proportion of retained earnings and vice versa. The capacity of financing of the firm is checked by the retention ratio. It is calculated as the percentage of the percentage of the profit that is distributed as dividend.

The dividend payout ratio of concern bank under the study period of is present in the graphical form as follows:

Figure No. 4.3

Dividend Payout Ratio of Concerned Bank

4.1.4 Dividend Percent (DP)

Dividend percentage (DP) is the ratio of DPS to the paid of price (face value) per share. It is measured in percentage. The dividend percent during the period of study are presented in the following table.

Table No. 4.4

Dividend Percent of Concerned Banks on face value

Bank	HBL	NABIL
2006/07	40	140
2007/08	45	100
2008/09	43.56	85
2009/10	36.84	70
2010/11	36.84	30
Mean	40.45	85.00
S.D	3.76	40.31
C.V	9.30	47.43

Source: Appendix-4

All the banks under the study have same paid up price of Rs.100 per share but the DPS is different. From the above data, NABIL has paid the highest percent dividend on the face value of share as compared to HBL. The standard deviation of DP of the NABIL and HBL is 40.71 and 3.76 which shows the DP of NABIL is in highly fluctuating trend as compared to HBL.

Figure No. 4.4

Dividend Percent of Concerned Banks on face value

4.1.5 Market Value Per Share (MVPS)

MVPS is that value of stock which can be obtained by a firm from the sale of a share in the market. The capital market determines MVPS. The following table shows the market price of the sample firms as indicated in NEPSE index.

Table No. 4.5

Market value per Share of concerned Banks

Bank	HBL	NABIL
2006/07	1740	5050
2007/08	1980	5275
2008/09	1760	4899
2009/10	816	2384
2010/11	575	1252
Mean	1,374.20	3,772.00
S.D	632.45	1,832.99
C.V	46.02	48.59

Source: Appendix-5

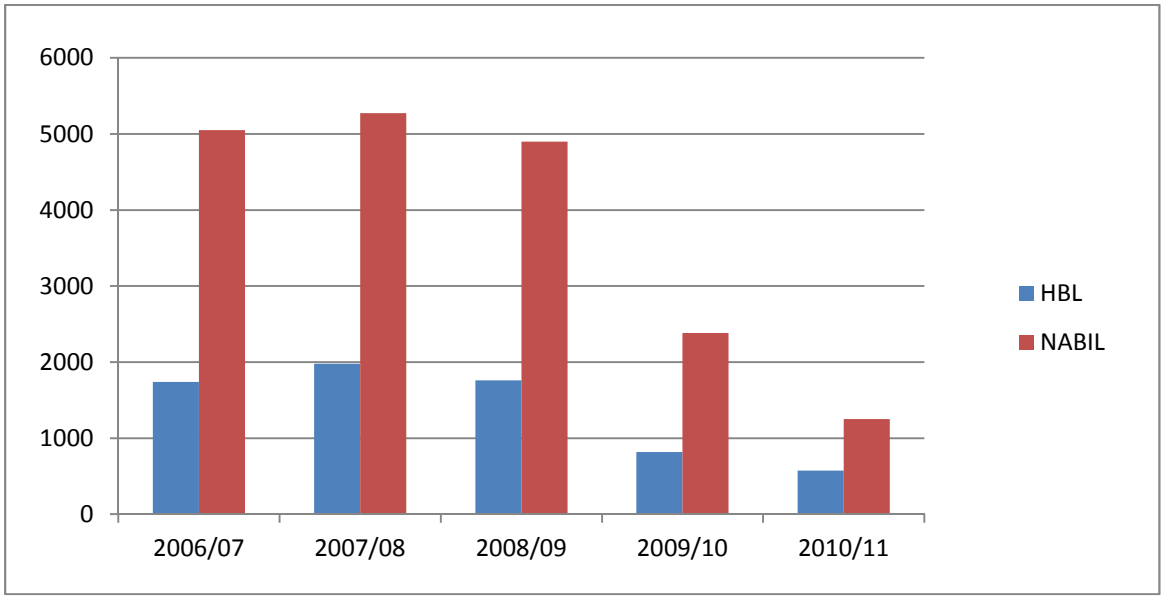
The average MVPS of NABIL Bank Ltd. is Rs 3772.00 during the last five fiscal years. This consists the range of Rs 2240 to Rs 5275. The CV of MVPS is 48.59% during the study years which indicates the moderate fluctuation in the MVPS of the Bank.

Similarly, Himalayan Bank Ltd. has an average MVPS of Rs 1,374.20 during the last five years which consists highest MVPS of Rs 1980 to lowest MVPS of 575. The standard deviation of MVPS is 632.45 and the CV is 46.02% during these years which indicates the moderate fluctuation in the MVPS of the Bank during the study period than other four.

From the above data and calculation, it can be seen that the average MPS of NABIL is highest and HBL is the Lowest. The standard deviation of NABIL is the highest and that of HBL is lowest. The coefficient of variation of these banks shows that there is moderate level of fluctuation in MVPS. Also the MVPS of the banks NABIL and HBL reaches in the highest point in FY 2007/08 during the period of study. Now, the MVPS of both bank are rapidly decreases due to some problems in the Nepalese Economy.

Figure No. 4.5

Market value per Share of concerned Banks



4.1.6 Dividend Yield (DY)

Dividend Yield is the ratio of DPS and MVPS it measures the dividend in relation to market value of share .This ratio highly influences the market price per share because a small change in dividend per share can bring effective change in market price of share in secondary market.

Table No. 4.6

Dividend Yield of Concerned Banks

Bank	HBL	NABIL
2006/07	2.3	2.77
2007/08	2.27	1.9
2008/09	2.48	1.74
2009/10	2.51	2.94
2010/11	6.41	2.4
Mean	3.19	2.35
S.D	1.80	0.52
C.V	56.38	22.33

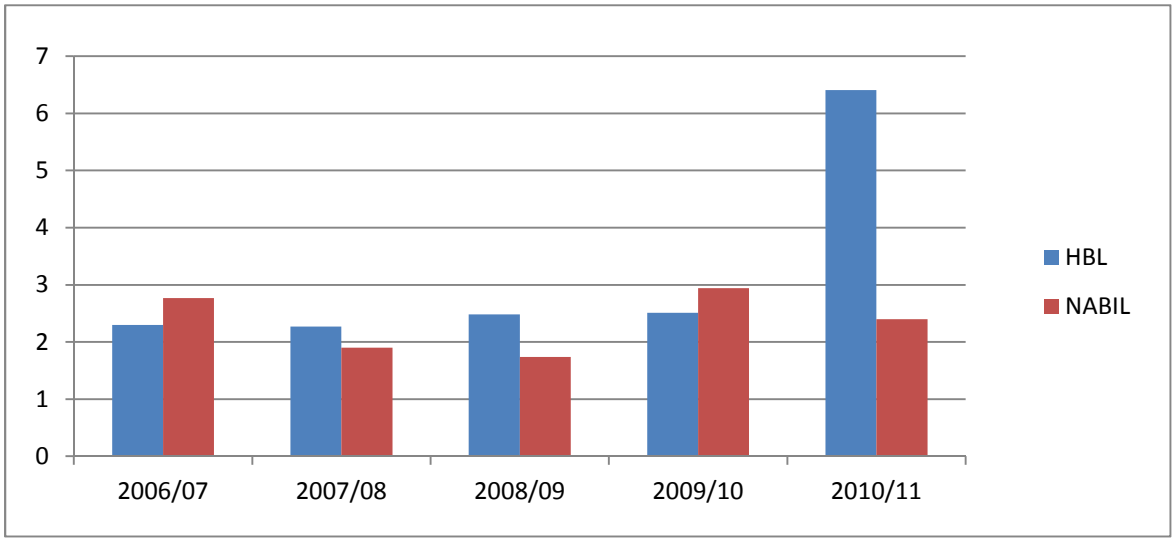
Source: Appendix-6

The above table no.4.6 shows the dividend yield of the selected commercial banks with their pooled average dividend yield as well as the standard deviation and the coefficient of variation of the DY over the period from fiscal year 2006/07 to 2010/11.

The DY of NABIL Bank Ltd. ranges from 1.90% to 2.94% during the period of study. The average DY of NABIL is 2.35%. The standard deviation of DY is 0.52 whereas the coefficient of variation is 22.33%. The CV indicates the lower fluctuation in the DY of NABIL during the study period.

The average DY of Himalayan Bank Ltd. is 3.19% with standard deviation of 1.80. The DY ranges between 2.30% to 6.41% during the studied years. The coefficient of variation of 56.38% indicates that there is most fluctuation during the period of study. The comparative DY is clearly presented in the following bar diagram as in figure no.4.6.

Figure No. 4.6
Dividend Yield of Concerned Banks



4.1.7 Net Worth Per Share (NWPS)

The Net Worth per Share is the value per share of total net worth in book value. It is calculated dividing total net worth by total no. of share outstanding. This is stated in the table as follows.

Table No. 4.7
Net Worth Per Share (NWPS) of Concerned Banks

Bank	HBL	NABIL
2006/07	264.74	418
2007/08	247.95	354
2008/09	256.52	324
2009/10	226.79	265
2010/11	199.77	225
Mean	239.15	317.20
S.D	26.16	75.48
C.V	10.94	23.79

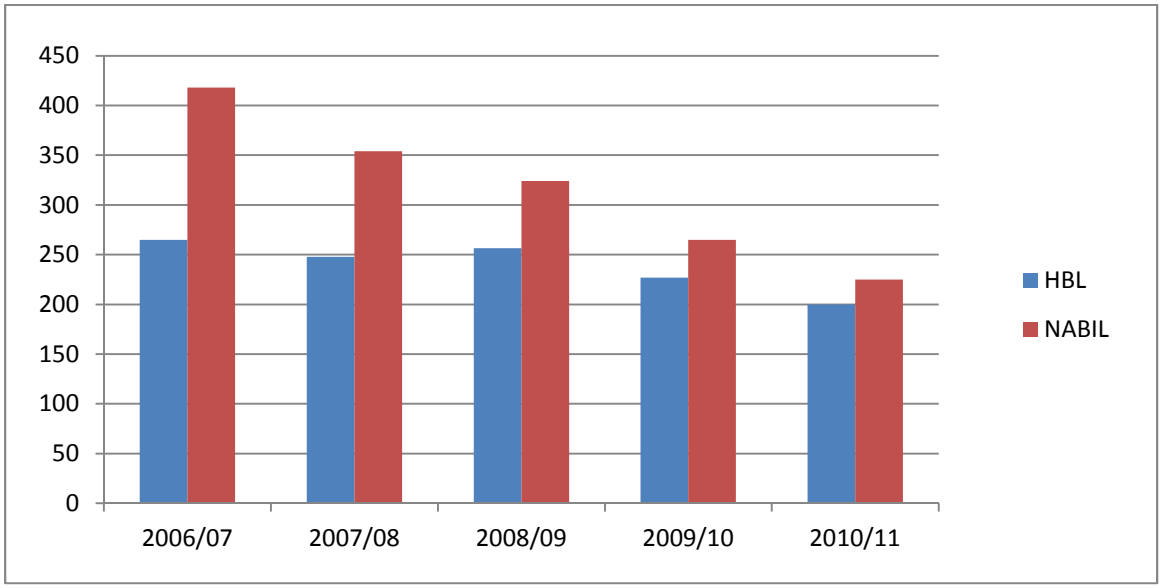
Source: Appendix-7

The net worth per share of NABIL bank ltd has average NWPS is 317.20 which consists the ranges between Rs 225 to Rs 418. The standard deviation of NWPS of NABIL is 75.48 whereas the coefficient of variation is 23.79 which show that lowest fluctuation on NWPS during the period of study.

Similarly, the NWPS of HBL is ranges between Rs 264.74 to Rs 199.77 and average NWPS is found to be Rs.239.15. The standard deviation and coefficient of variation of NWPS of HBL is 26.16 and 10.14% which indicates that there is lowest fluctuation in NWPS of HBL during the period of study.

Figure No. 4.7

Net Worth Per Share (NWPS) of Concerned Banks



4.1.8. Market Value per Share (MVPS) to Book Value Per Share (BVPS):

From this table the data is important to compare share price of different stocks on the basis of book value per share .It shows the market share price of a stock as a percentage of book value per share and the better performance of joint venture banks in terms of market value per share to book value per share .The MVPS to BVPS ratio of the banks under study are presented in the table as follows.

Table No. 4.8

Market Value Per Share to Book Value Per Share of Concerned Banks

Bank	HBL	NABIL
2006/07	6.57	12.08
2007/08	7.99	14.90
2008/09	6.86	15.12
2009/10	3.60	9.00
2010/11	2.88	5.56
Mean	5.58	11.33
S.D	2.22	4.07
C.V	39.72	35.94

Source: Appendix-8

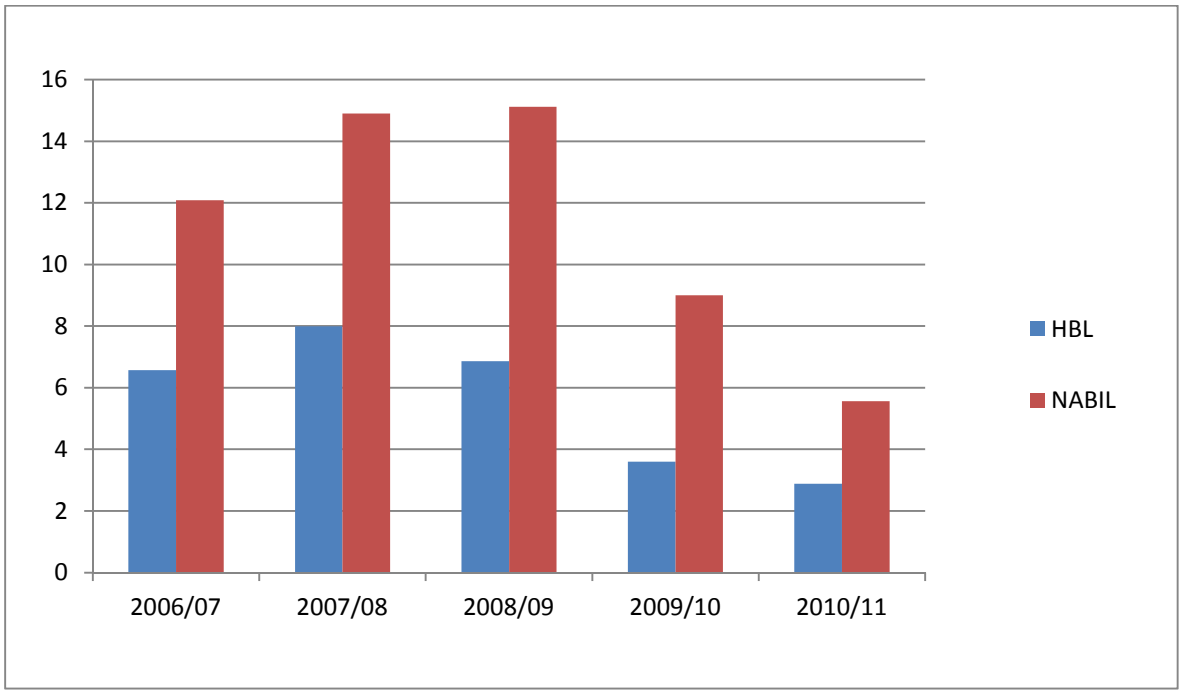
The average ratio of MVPS to BVPS of NABIL bank is 11.33 with standard deviation of 4.07. The coefficient of variation of the ration is 35.94 during the period of study which shows that there is least fluctuation on the MVPS to BVPS.

Similarly, the average ratio of MVPS to BVPS of HBL has 5.58 with standard deviation of 2.22 whereas the coefficient of variation is 39.72% during the period of study which indicates that there is least fluctuation on the MVPS to BVPS.

The above calculation shows the average ratio of MVPS to BVPS of NABIL has highest among the banks under the study and HBL has the lowest ratio as compared to NABIL.

The MVPS to BVPS ratio of concern bank under the study period of is present in the graphical form as follows:

Figure No. 4.8
Market Value Per Share to Book Value Per Share of Concerned Banks



4.1.9 Price Earnings Ratio (P/E Ratio)

The Price Earnings Ratio is the ratio between Market Price per Share and Earning Per share. PE Ratio is also known as earning multiplier. The PE Ratio used to evaluate the performance of any organization by investor for security analysis point of view. It indicates investor's expectation toward firm's performance. Managerial level of firm's also watching this ratio for find out the performance and find the causes if the PE Ratio declines. The Price Earnings Ratio of the banks under study is presented in table as follows

Table No. 4.9
P/E Ratio of concerned Banks

Bank	HBL	NABIL
2006/07	28.69	36.84
2007/08	31.56	45.53
2008/09	28.43	43.19
2009/10	25.66	28.45
2010/11	12.88	17.72
Mean	25.44	34.35
S.D	7.33	11.41
C.V	28.80	33.22

Source: Appendix-9

The average P/E Ratio of NABIL during the period of study is 34.35. It is ranging between 17.72 to 45.53. The standard deviation is 11.41 and its coefficient of variation is 33.22% during the period of study. The C.V. indicates the P/E Ratio of NABIL is quite fluctuating.

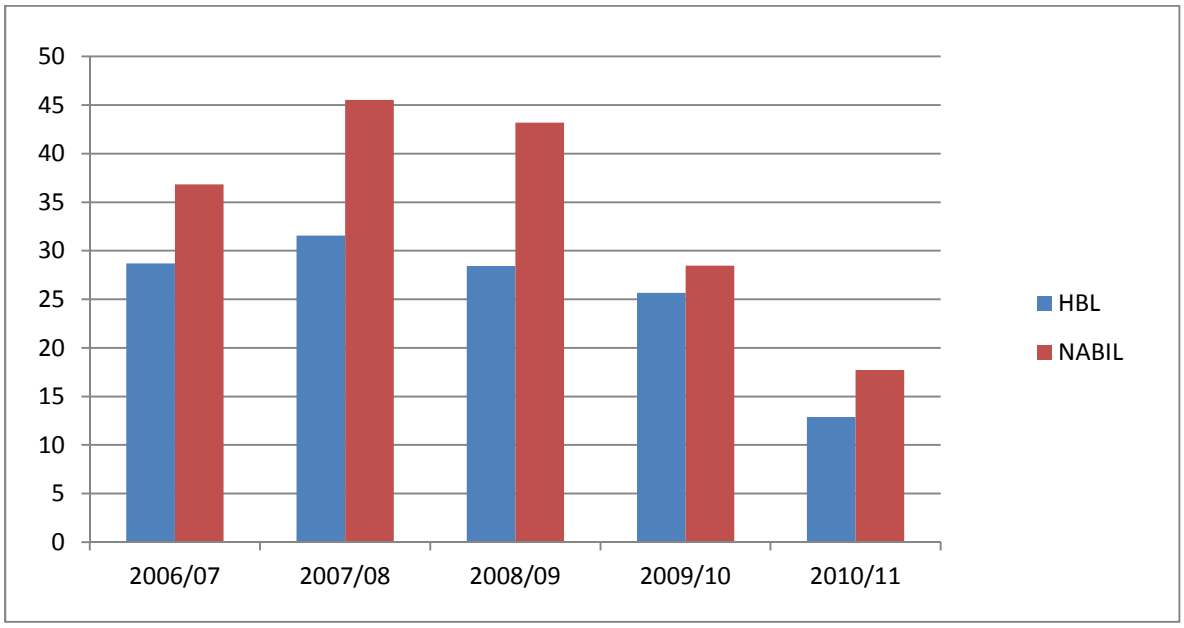
Likewise, the average P/E Ratio of HBL during the period of study is 25.44 which is ranges between 12.88 to 31.56. The standard deviation is 7.33 and its coefficient of Variation is 28.80%. The C.V. indicates the P/E Ratio of HBL is in least fluctuating nature.

By the above data analysis, we observed that the average P/E Ratio of the NABIL has highest and the HBL has lowest .The standard deviation of NABIL has highest the HBL has the lowest. Similarly, the coefficient of variance of these banks shows that there is a moderate fluctuation in P/E Ratio of Both banks under study.

The P/E ratio of concern bank under the study period of is present in the graphical form as follows:

Figure No. 4.9

P/E Ratio of Concerned Banks



4.1.10 Earning Yield (EY)

The Earning Yield evaluates the shareholder's return in relation to the market value of share. Earning Yield is the percentage of earnings per share to the market price per share. It gives the result for investor how much they can get from their invested rupee. The share with higher earning yield is worth buying earning yield of the banks under study is presented in the table below.

Table No. 4.10

Earning Yield of Concerned Banks

Bank	HBL	NABIL
2006/07	3.49	2.71
2007/08	3.17	2.20
2008/09	3.52	2.32
2009/10	3.9	3.52
2010/11	7.77	5.64
Mean	4.37	3.28
S.D	1.92	1.42
C.V	43.89	43.25

Source: Appendix-10

The average earning yield of NABIL Bank Ltd. has 3.28% with the standard deviation of 1.42%. The highest and lowest Earning Yield is 5.64% and 2.20% during the fiscal year 2010/11 and 2007/08 respectively. The coefficient of variation is 43.25% during the period of study which shows the moderate fluctuating trend of EY of NABIL during the period of study.

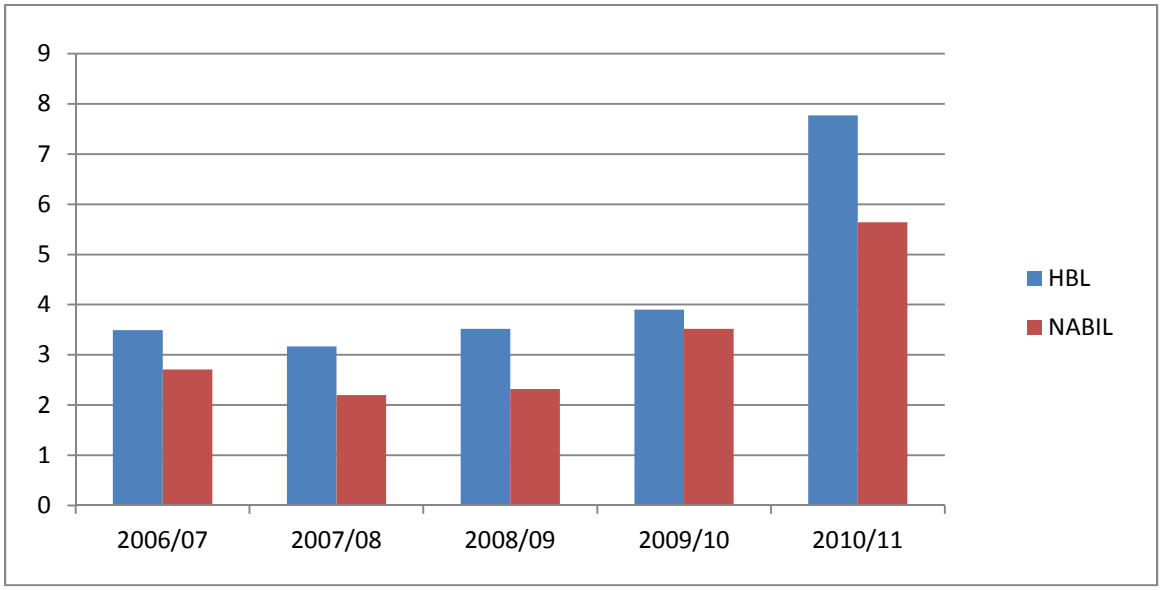
Himalayan Bank Ltd. has an average EY of 4.37%. The EY ranging from 3.17% to 7.77%. The standard deviation is 1.92% and the coefficient of variation is 43.89% which indicates the moderate fluctuation in EY of HBL than other bank during the period of study.

From the above data analysis, we can show that HBL has highest EY and lowest of NABIL. Similarly, the standard deviation of NABIL Bank Ltd. has highest and HBL has lowest under the study. In the same way the C.V. of NABIL has highest and HBL has lowest than other bank during the study period.

The EY ratio of concern bank under the study period of is present in the graphical form as follows.

Figure No. 4.10

Earning Yield of Concerned Banks



4.2 Company Wise Analysis:

In the earlier section, the different types of financial variables of the concerned banks have been presented. For keep in mind, the need for more elaborate and extensive analysis of these financial indicators, the company wise analysis has been presented in this section.

4.2.1 NABIL Bank Ltd.

Table no. 4.11

NABIL Bank Ltd.

Variables	Min.	Max.	Mean	S.D.	C.V.
EPS	70.67	137.08	104.17	26.66	25.59
DPS	30	140	85	40.31	47.4
DP Ratio	42.45	102.13	81.12	23.06	28.43
MPS	1252	5275	3772	1832.99	48.59
PE ratio	17.72	45.53	34.35	11.41	33.22
EY	2.2	5.64	3.28	1.42	43.25
DY	1.9	2.94	2.35	0.52	22.33
NWPS	225	418	317.2	75.48	23.79

Source: Appendix-11

The average EPS of NABIL Bank Ltd. has Rs.104.17 and it ranges between Rs.70.67 to Rs.137.08. The standard deviation of EPS is 26.66 and the CV is 25.59%. The CV indicates the little fluctuation in EPS. The DPS of NABIL is range between Rs.30 to Rs 140 with the average Rs 85. The standard deviation of DPS is 40.31 and CV is 47.40%. The CV of 47.40% is indicating the moderate fluctuation in DPS. The DP ratio of the NABIL is ranges from 42.45% to 102.13% with an average of Rs 85.78. The standard deviation of DP ratio is 23.06 with the CV of 28.43% during the period of study. The CV shows the higher consistency in DP ratio of NABIL.

The average MVPS of NABIL is Rs 3772.00 which ranges from Rs 1252 to Rs 5275. The standard deviation of MVPS is 1832.99 and CV is 48.59%, which indicate the moderate fluctuation of MVPS of the NABIL Bank. The average of PE ratio is 34.35 and the standard deviation and CV of PE ratio of NABIL bank is 11.41 and 33.22% respectively.

Similarly, the average of earning yield (EY) of NABIL is ranges between 2.20% to 5.64% with the average of 3.28%. The standard deviation and CV of EY is 1.42% and 43.25% which shows that there is moderate fluctuation of EY of NABIL bank. The dividend yield (DY) of NABIL ranges from between 1.9% to 2.94% with an average of 2.35%. The standard deviation of DY of this bank 0.52% whereas the coefficient of variation is 22.33% which indicates the moderate level of fluctuation. The average of Net worth per Share is Rs. 317.20 which is ranges between Rs. 225 to Rs 418. The standard deviation of NWPS is 75.48 and the CV of NWPS is 23.79%. The CV of 23.79% of NABIL shows the higher consistency in NWPS during the period of study.

From the above table analysis we can see that relationship of dividend per share (DPS) and Market value per Share (MVPS) is Positive. Increasing DPS as well as increasing in MVPS and vice versa.

4.2.2 Himalayan Bank Ltd. (HBL)

Table No. 4.12

Financial Situation of HBL

Variables	Min.	Max.	Mean	S.D.	C.V.
EPS	31.8	62.4	52.4	13.69	26.15
DPS	36.84	45	40.5	3.76	9.3
DP Ratio	65.94	115.85	81.3	20.26	24.93
MPS	575	1980	1374	632.45	46.02
PE ratio	12.88	31.56	25.4	7.33	28.8
EY	3.17	7.77	4.37	1.92	43.89
DY	2.3	6.41	3.19	1.8	56.38
NWPS	199.77	264.74	239	26.16	10.94

Source: Appendix-12

As seen from the above table, HBL has an average EPS of Rs.52.40 which is ranges between Rs.31.08 to Rs. 62.40. The standard deviation of EPS is 13.19 whereas the CV is 26.15% which shows least fluctuation of EPS of HBL during the period of study. The DPS is ranges between Rs.36.84 to Rs. 45 with an average of Rs 40.50. The standard deviation of DPS is 3.76 with CV of 9.30%. The CV is indicating that there is lower fluctuation in DPS. During the period of study, the average DPR is 81.30% with the standard deviation of 20.26% and the CV of DPR is 24.93% which indicates there is also lower fluctuation in DPR.

The MVPS is ranges between Rs 575 to Rs 1,980.00 with an average of 1,374.00. The standard deviation of MVPS is 632.45 and the CV is 46.02% during the period of study. The CV indicates that there is moderate level of fluctuation in MVPS of HBL. The PE Ratio is ranges from between 12.88 to 31.56 and its average is 25.40 during the period of study. The standard deviation and CV of PE Ratio during the study period is 7.33 and 28.80% respectively. The CV of 28.80% shows the lower fluctuation in the PE ratio of HBL during the period of study.

Similarly, the average of earning yield (EY) is 4.37%, which is ranges between 3.17% to 7.77%. The standard deviation and CV of EY during last five fiscal years is 1.92 and 43.89% which shows there is moderate fluctuation in the EY of HBL. The DY ranges between 2.30% to 6.41% with an average of 3.19%. The standard deviation of DY is 1.80% whereas its coefficient of variation of 56.38% is indicating the moderate fluctuation in DY during the period of study. The NWPS of HBL ranges between Rs 199.77 to Rs 264.74 with an average 239. The standard deviation and CV is 26.16 and 10.94% respectively of NWPS of HBL. The CV of HBL during the period of study shows the least fluctuation in the NWPS.

From the analyzing the above table we found that the bank paying dividend continue but there is little fluctuation in paying dividend. We can see that relationship of dividend per share (DPS) and Market value per Share (MVPS) is Positive. Increasing DPS as well as increasing in MVPS and Vice-versa.

4.3 Statistical Analysis

The statistical tools are used as follows;

4.3.1 Simple Correlation and Regression Analysis

The correlation coefficient may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. It also measures the extent to which one variable affects the other one. The correlation coefficient lies between +1 and -1. If the +1 correlation Coefficient indicates that the variables are perfectively positive correlated and -1 correlation coefficient indicates that the variables are perfectively negative correlated. If the correlation coefficient is 0, it means that the variables are not related to each other. The negative correlation indicates that increase in value of one variables lead to decrease in the value of the other positive correlation indicates that increase in the value of one variables lead to increase in the value of the other variables also. The number indicates that the degree of correlation between the variables.

(i) Simple Correlation and Regression Analysis Between EPS and DPS:

Table No. 4.13

Simple Correlation and Regression Analysis Between EPS and DPS

Banks	**Regression model**	**a**	**b**	**SE_e**	**R**	**r^2**	**PE(r)**	**Sig/Insig**
NABIL	Y=a+bx	-2.22	0.88	20.58	0.747	0.558	0.133	Insig.
HBL		30.92	0.166	4.22	0.513	0.263	0.222	Insig.

Source: Appendix-13

The above table no.4.15 has contained the different indicator helpful to analyze the simple correlation and regression between EPS and DPS of the observed two commercial banks. Where EPS is independent Variable and DPS is the dependent variable with the help of these indicators.

NABIL

The regression constant or intercept coefficient (a) -2.22, which shows that the average DPS would be Rs -2.22 if the EPS were zero. The result shows that the slop of the regression line (b) is 0.88, which indicates that positive correlation exists between EPS and DPS of NABIL bank. One rupee increase in EPS causes Rs 0.558, increase in the dividend per share distributed by the bank. The coefficient of determination (r^2) is 0.558, which indicates that 55.8% of the variation in DPS is affected of determined by the explanatory variable EPS. The simple correlation coefficient (r) between EPS and DPS is 0.747 which indicates that there is a strong positive relationship between EPS and DPS of NABIL Bank. Here, 'r' is less than 6*P.E(r) =6*0.133=0.798, the value of 'r' is considered to be insignificant.

HBL

The regression constant or intercept coefficient (a) is 30.92 which show that the average DPS would be RS 30.92 if the EPS were zero. The result shows that the slope of regression line (b) is 0.166 which indicates that positive correlation exist between EPS and DPS of HBL .One rupee increase in EPS cause Rs 0.166 increase in the dividend per share distributed by the bank. The coefficient of determination (R^2) is 0.263 which indicates that only 26.3% of the variation in DPS is affected or determined by the explanatory variables EPS. The simple correlation coefficient (r) between EPS and DPS is 0.513 which indicates that there is a moderate positive relationship between EPS and DPS of HBL. Since 'r' is less than 6*P.E(r) =6*0.222=1.33 we can say the correlation is insignificant.

(ii) Simple Correlation and Regression Analysis Between EPS and MVPS:

Table No. 4.14

Simple Correlation and Regression Analysis Between EPS and MVPS

Banks	Regression Model	a	b	SE_e	R	R^2	PE(r)	Sig/insig
NABIL	Y=a+bx	1785.52	19.501	1678.22	0.293	0.0857	0.276	Insig
HBL		-32681.7	618.09	2003.40	0.807	0.650	0.105	Sig

Source:Appendix-14

The above table no.4.16 has contained the different indicator helpful to analyze the simple correlation and regression between EPS and MVPS of the observed two commercial banks. Where EPS is independent variable and MVPS is dependent variable with the help of these indicators.

NABIL

The regression constant or intercept coefficient (a) is 1785.52, which shows that the average MVPS would be Rs 1,785.52 if EPS were zero. The result shows that the slope of the regression line (b) is 19.501, which indicates that positive correlation exists between EPS and MVPS of NABIL. One rupee increase in EPS causes Rs 19.501 increase in the market price of stock of the bank. The coefficient of determination (R^2) is 0.0857, which indicates that only 8.57% of the variation of the stock price is affected or determined by the explanatory variable EPS. The simple correlation coefficient (r) between EPS and MVPS is 0.293, which indicates that there is positive relationship between EPS and MVPS of NABIL, since 'r' is less than 6*P.E (r)= 6*0.276 = 1.656, we can say the correlation is not significant.

HBL

The regression constant or intercept coefficient (a) is -32681.70, which shows that the average MVPS would be Rs -32681.70 if EPS were zero. The result shows that the slope of the regression line (b) is 618.09 which indicate that positive correlation exists between EPS and MVPS of HBL. One rupee increase in the EPS causes Rs 618.09 increase in the market price of stock of the bank. The coefficient of determination R^2 is 0.650, which indicates that 65.00% of the variation of stock price is affected or determined by the explanatory variable EPS. The simple correlation coefficient (r) between EPS and MVPS is 0.807, which indicates that there is a strong positive relationship between EPS and MVPS of HBL. But, since 'r' is more than 6* P.E = 6*0.105 = 0.63, we say that the correlation is significant.

(iii)Simple Correlation and Regression Analysis Between DPS and MVPS:

Table No. 4.15

Simple Correlation and Regression Analysis Between DPS and MVPS

Banks	Regression Model	A	b	SE_e	r	r^2	PE(r)	Sig/insig
NABIL	Y=a+bx	531.43	35.814	1361.31	0.631	0.398	0.181	Insig
HBL		-2657.18	103.20	263.15	0.888	0.788	0.063	Sig

Source: Appendix-15

The above table No.4.17 has contained the different indicators helpful to analyze the simple correlation and regression between DPS and MVPS of the observed two commercial banks, where DPS is independent variable and MVPS is the dependent variable. With the help of these indicators, we found.

NABIL

The regression constant or intercept coefficient (a) is 531.43, which shows that the average MVPS would be Rs 531.43 if the DPS were zero. The result shows that the slope of the regression line (b) is 35.814, which indicates that positive

correlation exists between DPS and MVPS of NABIL. One rupee increase in DPS causes Rs 35.814 increase in the market price of stock of the bank. The coefficient of determination R^2 is 0.398 which indicates that only 39.80% of the affected or determined by the explanatory variable DPS. The simple correlation coefficient (r) between DPS and MVPS is 0.631 which indicates that there is a positive relationship between DPS and MVPS of NABIL. Since 'r' is less than 6*P.E =6*0.181 = 1.086. The value of 'r' is insignificant.

HBL:

The regression constant or intercept coefficient (a) is -2,675.18, which shows that the average MPS would be -2,675.18, if the DPS were zero. The result shows that the slope of the regression line (b) is 103.20, which indicates that positive correlation exists between DPS and MVPS of HBL. One rupee increase in DPS causes Rs 103.20 increase in the market price of stock of the bank. The coefficient of determination R^2 is 0.787 which indicates that 78.80% of the variation of stock price is affected or determined by the explanatory variables DPS. The simple correlation coefficient (r) between DPS and MVPS is 0.888 which indicates that there is a moderate positive relationship between DPS and MVPS of HBL. But since 'r' is greater than 6*P.E(r)= 6*0.063 = 0.378, we can say the correlation is significant.

(iv) Simple Correlation and Regression Analysis Between DPR and MVPS

Table No. 4.16

Simple Correlation and Regression Analysis Between DPR and MVPS

Banks	**Regression model**	**a**	**b**	**SE_e**	**r**	**R^2**	**PE(r)**	**Sig/insig**
NABIL	Y=a+bx	64.59	0.0053	12.56	0.598	0.358	0.1936	Insig
HBL		116.36	-0.027	21.06	-0.589	0.348	0.1968	Insig

Source: Appendix-16

The above table No.4.18 has contained the different indicators helpful to analyze the simple correlation and regression between DPR and MVPS of the two commercial banks, where DPR is independent variable and MVPS is the dependent variables. With the help of these indicators, we found.

NABIL

The regression constant or intercept coefficient (a) is 64.59, which shows that the average MVPS would be Rs 64.59 if the DPR were zero. The result shows that the slope of the regression line (b) is 0.0053 which indicate that positive correlation exists between DPR and MPS of NABIL. One percent increases in DPR causes Rs 0.0053 increase in the market price of the stock of the bank. The coefficient of determination (R^2) is 0.358 which indicates that 35.80% of the variation of the stock price is affected or determined by the explanatory variable DPR. The simple correlation coefficient (r) between DPR and MPS is 0.598, which indicates that positive relationship between DPR and MVPS of NABIL. But, since 'r' is less than 6*P.E(r) =6*0.1936 =1.1616. we can say the correlation is not significant.

HBL

The regression constant or intercept coefficient (a) is 116.36, which shows that the average MVPS would be Rs 116.36 if the DPR were zero. The result shows that the slope of the regression line (b) is -0.027 which indicates that there is negative correlation exit between DPR and MVPS of HBL. One percent increases in DPR causes Rs 0.027 decrease in the market price of stock of the bank. The coefficient of determination R^2 is 0.348, which indicates that 34.80% of stock price is affected or determined by the explanatory variable DPR. The simple correlation coefficient (r) between DPR and MVPS is -0.589, which indicates that there is a strong negative relationship between DPR and MVPS of HBL. But since 'r' is less than 6* P.E(r) =6*0.1968=1.1808, the value of 'r' is insignificant.

(v) The Simple Correlation and Regression Analysis between DPS and NWPS

Table No. 4.17

The Simple Correlation and Regression Analysis between DPS and NWPS

Banks	Regression model	a	b	SE_e	r	R^2	PE(r)	Sig/insig
NABIL	Y=a+bx	175.70	1.799	37.42	0.829	0.688	0.094	Sig
HBL		137.482	2.681	14.21	0.680	0.463	0.162	Insig

Source: Appendix-17

The above table No.4.19 has contained the different indicators helpful to analyze the simple correlation and regression between DPS and NWPS of the observed two commercial banks, where DPS is independent variable and NWPS is dependent variable. With the help of these indicators, we found.

NABIL:

The regression constant or intercept coefficient (a) is 175.70, which shows that the average NWPS would be Rs 175.70 if the DPS were zero. The result shows that the slope of the regression line (b) is 1.799, which indicates that positive correlation exists between DPS and NWPS of NABIL One percent increase in DPS causes Rs 1.799 increase in the NWPS of the bank. The coefficient of determination R^2 is 0.688, which indicates that 68.80% of the variation of stock price is affected or determined by the explanatory variable DPS. The simple correlation coefficient (r) between DPS and NWPS is 0.829. It indicates that there is a high degree of positive relationship between DPS and NWPS of NABIL. Here, since r is more than 6*P.E(r) =6*0.094=0.564, the correlation is significant.

HBL

The regression constant or intercept coefficient (a) is 137.482, which shows that the average NWPS would be Rs 137.482 if the DPS were zero. The result shows that the slope of the regression line (b) is 2.681, which shows that positive correlation exists between DPS and NWPS of HBL. One percent increase in DPS causes Rs 2.681 increase in the market price of stock of the bank. The coefficient of determination R^2 is 0.463, which indicates that only 46.30% of the variation of stock price is affected or determined by the explanatory variable DPS. The simple correlation coefficient (r) between DPS and NWPS is 0.680, which indicates that there is a medium positive relationship between DPS and NWPS of HBL. But, since 'r' is less than its 6*P.E(r) =6*0.162=0.972, the value of 'r' is not significant.

4.4 Major Findings:

From the analysis of financial variables by using financial tools mean, standard deviation and coefficient of variation, the following finding has been drawn.

- The average earning per Share (EPS) of the banks under study shows a positive result. But the coefficient of variation indicates that EPS of the banks are not stable. The CV range from between 25.59% to 26.15% among the bank under study. NABIL has highest average EPS as compared to HBL.
- The average Dividend per Share (DPS) of the banks under study shows a positive result. But the coefficient of variation shows that DPS of the banks are not stable. The CV range from between 9.30% to 47.43% among the banks under study, NABIL has highest average DPS with higher fluctuation. The HBL has average DPS is Rs. 40.45 and its average fluctuation is 9.30%.
- The average Dividend Percent (DP) of the concerned banks shows the highest average DP and highly fluctuation in DP of NABIL with comparatively than HBL.

- The average Dividend Payout Ratio (DPR) is positive. But the coefficient of variation of concerned banks shows that the DPR is not stable of selected banks. In the study of both banks we know that the NABIL has highest average DPR as well as higher fluctuation than HBL.
- The Average Market value per Share (MVPS) of selected commercial banks is ranges between Rs 1374.20 to Rs 3772.00. The NABIL has greater average MVPS i.e. 3,772.00 than HBL i.e. 1374.20. The coefficient of variation indicates that the Market Price of Banks is not stable. The fluctuation in MVPS of HBL is quite lower than NABIL.
- The Average Price Earnings Ratio of the banks range from between 25.44 to 34.35 during the last five years. The coefficient of variation indicates the P/E ratios of the banks are in fluctuation nature. The CV ranges from between 28.80% to 33.22% of selected banks. Among the banks under study, NABIL has the highest average of PE ratio than HBL as well as the higher fluctuation in the PE ratio during the period of study.
- The average Earning Yield (EY) of the concerned banks ranges from 3.28% to 4.37%. Likewise, the CV indicates that the Earning Yield (EY) of the banks is not stable. The range of CV of concerned banks is 43.25% to 43.89%. The HBL has highest average EY and higher fluctuations in EY than NABIL Bank.
- The average Dividend Yield (DY) ranges from between 2.35% to 3.19%. Likewise, the coefficient of variation of mentioned banks ranges from 22.33% to 56.38% during the study period which indicates that DY of the banks is not stable. The study shows that the average DY of HBL is higher than the average DY of NABIL likewise the DY of HBL is also highly fluctuating than the DY of NABIL.

- The average NWPS of NABIL and HBL has Rs. 317.20 and Rs. 239.15 respectively and CV is 23.79% and 10.94% respectively which shows NABIL has the highest NWPS than HBL. Likewise, the fluctuation in NWPS of HBL has lowest as compared to NABIL.
- The average MVPS to BVPS ratio is 11.33 and 5.58 of NABIL and HBL respectively. The CV ranges from between 35.94% to 39.72%. From the above study the fluctuation in MBPS to BVPS ratio of HBL is higher than NABIL.

From the analysis of major statistical tools i.e. correlation and Regression. We can summarize the relationship of various variables as follows.

- The correlation between Dividend per Share (DPS) and Market Price per Share (MVPS) of NABIL and HBL has positive. NABIL has moderate correlation which is insignificant. Likewise, HBL has highly positive correlation and it has significant.
- There is a moderate positive correlation between EPS and DPS of the sample firms in average and the obtained value of correlation coefficient is statistically insignificant.
- There is a low rate of positive correlation between EPS and MPS of NABIL and highly positive correlated in case of HBL.
- There is a moderate positive correlation between DPR and MPS of the NABIL and moderate negative correlation of HBL. It indicates that if the NABIL want to increase their stock price, then they should increase DPR and vice versa.
- The correlation between Dividend Per Share (DPS) and Net Worth Per Share NABIL has significant and HBL has insignificant.

CHAPTER -V

SUMMARY CONCLUSION AND RECOMMENDATION

This chapter focuses on summarizing the study held with the conclusions and some recommendation on the basis of findings. For this purpose, the chapter has been divided into three parts as summary, conclusion and recommendation.

5.1 Summary

Dividend policy decision is one of the crucial decisions of the financial management. It is an important decision it affects shareholder wealth and value of firm. Dividend policy is an integral part of the firm's financing decision as it provides internal financing. While making dividend decision, the financial manager should consider the preference of shareholders as well as the investment opportunities available within the firm. Dividend decision is an effective way of attract new investor and maintain current investors. It is important to have clearly defined and effectively managed dividend policy, So as to fulfill the shareholder's expectations and corporate growth.

Deciding how much to pay to shareholders by way of dividend and how much to retain in the business is dividend decision. Dividend paying ability of any business organization reflects the financial position of organization reflects the financial position of organization in market. It helps to attract the new investor from the market. Due to the division of earning between dividend payout and retention ratio the market price of the share also is affected, which is also crucial for the organization. So, the funds that could not be used due to the lack of investment opportunities would be better as dividend, since shareholders have investment opportunities elsewhere.

Shareholders have high expectation that market price of share will be significantly higher than net worth. The organization promoted by foreign entity are paying higher dividend than the companies promoted by the indigenous promoters. However, joint venture banks are also not followed by an appropriate dividend policy. This policy affects the market price but goodwill of such banks in the long run.

Dividend paying banks are analyzed to show the implication of dividend policy they have adopted in their market price per share. Even market price per share is directed by various factor, this study is made to analyze one of the important factor i.e. dividend. The study covers only two banks i.e. NABIL and HBL and only for the last five fiscal year from 2006/07 to 2010/11. The available secondary data have been analyzed using various financial and statistical tools the primary data has been analyzed by using collection of various answer of the questionnaire. So the reliability of the conclusions of this study is determined on the accuracy of secondary and primary data.

5.2 Conclusions

The result of this analysis is strong enough to establish the relationship between dividend policy and Market Price per Share of listed commercial banks. However this analysis cannot give as whole conclusion of present dividend scenario of the bank. After analyzing the data by using financial and statistical indicators of all the sample banks, following conclusion are drawn.

- The market price per share is affected by the dividend related financial variable i.e. DPS, DP, DY and DPR either positively or negatively. The nature of effect is different that might be positively or negatively. In case of same banks there exist positive relation between dividend per share and market price per share, which for other exist negatively relationship. Therefore the Market Price per Share is highly depends upon the dividend, which has been shown by coefficient of multiple determinations.

- After the study important of cash dividend on the Market Price per Share revealed that generally dividend per share has positive impact on market price per share in all banks.
- Dividend policy practices of sample banks are neither stable nor consistency growing. Dividend is distributed as an ad-hoc or situational basis.
- Beside dividend , other factors also effects the market price per share i.e. size of earning , liquidity position, net worth per share, price earning ratio, information value of dividend decision etc; their effect is differ for different banks.
- Market value per share (MVPS) to Book value per share (BVPS) ratio greater than 1 for all banks in all FY under study. In other word the MVPS of sample banks are higher than BVPS .This indicates that the investors are concern about BVPS but they are only concern with the transaction price per share. This shows the low consciousness and knowledge of shareholders.
- Dividend per Share is affected by earning per share, retention ratio and net profit per share.
- The situation of capital market of Nepal is improving day by day. As a result, the capital market seems to be more efficient than previous years. But it is reality that capital market of Nepal is still immature.
- Due to adequate time period, no. of sample is taken few from large population the result might be not representing wholesome. Hence, if large samples are taken from the whole population the result might have produced more accurate and absolute results.

5.3 Recommendations

On the basis of study of the different commercial banks the following recommendation made for the further applications of dividend of the banking

sector. We found that there is lack of consistent dividend paying practices of sample joint venture bank of Nepal. This occurs due to lack of legal obligation toward shareholders. There is not clear provision was made in company and commercial act Nepal, and regulation act regarding the dividend policy.

- The uniformity and regularity in dividend payment practices should be adopted by the companies. In many cases, a small amount of dividend is paid without considering what is adequate or desired by the investors. This helps to investor in deciding whether to invest or not.
- Banks should have long-term vision regarding earning and dividend payment that helps to manage challenging competitive situation of present world various types of internal and external factor should be considered before taking decision.
- Shareholder should given 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 annual general meeting of shareholders' for approval.
- The legal rules and regulation must be in favors of investors to exercise the dividend practice and protect the shareholders rights.
- EPS is to be considered for determining dividend amount. It is important to consider earning rather than neglecting it while making dividend decision.
- The dividend payout ratio of the sample firm is fluctuating from year to year; there is no rational approach in deciding the pay out. All the firms should analyze the internal rate of return cost of capital in deciding DPR, which helps to maximize the shareholders wealth
- The firm should follow the proper dividend policy. Dividend payment as a financing decisions need the formation of a comprehensive long term

financial policy and optimal dividend policy to fulfill the investor's expectation and interest.

- Government, Nepal Rastra Bank, security exchange board and Nepal Stock Exchange should be conscious in discouraging market imperfection in dividend payment practices.
- Most of the banks seem to ignore the dividend expectation of the minority shareholders' association of Nepal should be encouraged to work against the management ignorance.
- The all information and policies should be transparent and within reach of the shareholder.
- If correlation between MVPS and DPS is negative .The bank should search investment opportunity rather than increasing DPS.

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Appendix-1
Earnings Per Share of Concerned Banks

Bank	HBL	NABIL
2006/07	59.24	129.21
2007/08	60.66	137.08
2008/09	62.74	108.31
2009/10	61.90	106.76
2010/11	31.80	78.61
Mean	55.27	111.99
S.D	13.19	22.81
C.V	23.87	20.37

Appendix-2
Dividend Per Share of Concerned Bank

Bank	HBL	NABIL
2006/07	35	85
2007/08	40	140
2008/09	45	100
2009/10	43.56	85
2010/11	36.84	70
Mean	40.08	96.00
S.D	3.81	23.96
C.V	9.51	24.96

Appendix-3
Dividend Payout Ratio of Concerned Bank

Bank	HBL	NABIL
2006/07	59.08	65.78
2007/08	65.94	102.13
2008/09	71.72	92.33
2009/10	70.37	79.62
2010/11	115.85	89.05
Mean	76.59	85.78
S.D	20.00	12.00
C.V	26.11	13.99

Appendix-4
Dividend Percent of Concerned Banks on Face Value

Bank	HBL	NABIL
2006/07	35	85
2007/08	40	140
2008/09	45	100
2009/10	43.56	85
2010/11	36.84	70
Mean	40.08	96.00
S.D	3.81	23.96
C.V	9. 2451	.96

Appendix-5
Market Price Per Share of Concerned Banks

Bank	HBL	NABIL
2006/07	1100	2240
2007/08	1740	5050
2008/09	1980	5275
2009/10	1760	4899
2010/11	816	2384
Mean	1479.20	3969.60
S.D	3.81	23.96
C.V	0.26	0.60

Appendix-6
Dividend Yield of Concerned Banks

Bank	HBL	NABIL
2006/07	3.18	3.79
2007/08	2.30	2.77
2008/09	2.27	1.90
2009/10	2.48	1.74
2010/11	2.51	2.94
Mean	2.95	2.63
S.D	0.01	0.01
C.V	0.34	0.38

Appendix-7

Net Worth Per Share (NWPS) of Concerned Banks

Bank	HBL	NABIL
2007/08	264.74	418
2008/09	247.95	354
2009/10	256.52	324
2010/11	226.79	265
2010/11	199.77	225
Mean	239.15	317.20
S.D	26.16	75.48
C.V	10.94	23.79

Appendix-8

Market Value Per Share to Book Value Per Share of Concerned Banks

Bank	HBL	NABIL
2007/08	6.57	12.08
2008/09	7.99	14.90
2009/10	6.86	15.12
2010/11	3.60	9.00
2010/11	2.88	5.56
Mean	5.58	11.33
S.D	2.22	4.07
C.V	39.72	35.94

Appendix-9
P/E Ratio of Concerned Banks

Bank	HBL	NABIL
2006/07	18.57	17.34
2007/08	28.68	36.84
2008/09	31.56	48.70
2009/10	28.43	45.89
2010/11	25.66	30.33
Mean	26.58	35.82
S.D	4.12	11.32
C.V	15.50	31.60

Appendix-10
Earning Yield of Concerned Banks

Bank	HBL	NABIL
2006/07	5.39	5.77
2007/08	3.49	2.71
2008/09	3.17	2.05
2009/10	3.52	2.18
2010/11	3.90	3.30
Mean	3.89	3.20
S.D	0.78	1.36

Appendix-11
Nabil Bank Ltd. (NABIL)

Variables	**Min.**	**Max.**	**Mean**	**S.D.**	**C.V.**
EPS	78.61	137.08	111.99	22.81	20.37
DPS	70	140	96	23.96	24.96
DP Ratio	65.78	102.13	85.78	12.00	13.99
MPS	2240	5275	3969.60	23.96	0.26
PE ratio	17.34	48.70	35.82	11.32	31.60
EY	2.05	5.77	3.20	1.36	42.47
DY	1.74	3.79	2.63	0.01	0.36
NWPS	265	418	348	51.94	14.91

Appendix-12
Financial Situation of HBL

Variables	Min.	Max.	Mean	S.D.	C.V.
EPS	31.80	62.74	55.27	13.19	23.87
DPS	35	45	40.08	3.81	9.51
DP Ratio	59.08	115.85	76.59	20.00	26.11
MPS	816	1980	1479.20	3.81	0.26
PE ratio	18.57	31.56	26.58	4.12	15.50
EY	3.17	5.39	3.89	0.78	20.05
DY	2.27	4.51	2.95	0.01	0.34
NWPS	226.79	264.74	244.94	15.02	6.13

Appendix-13
Simple Correlation and Regression Analysis between EPS and DPS

Banks	Regression model	a	b	SE_e	R	R^2	PE(r)	Sig/insig
Nabil	Y=a+bx	-2.22	0.88	20.58	0.747	0.558	0.133	insig
HBL		30.92	0.166	4.22	0.513	0.263	0.222	insig

Appendix-14
Simple Correlation and Regression Analysis between EPS and MPS

Banks	Regression model	a	b	SE_e	r	R^2	PE(r)	Sig/insig
Nabil	Y=a+bx	1785.52	19.501	1678.22	0.293	0.0857	0.276	insig
HBL		-32681.7	618.09	2003.40	0.807	0.650	0.105	sig

Appendix-15
Simple Correlation and Regression Analysis between DPS and MPS

Banks	Regression model	a	b	SE_e	r	R^2	PE(r)	Sig/insig
Nabil	Y=a+bx	531.43	35.814	1361.31	0.631	0.398	0.181	insig
HBL		-2657.18	103.20	263.15	0.888	0.788	0.063	sig

Appendix-16
Simple Correlation and Regression Analysis between DPR and MPS

Banks	Regression model	a	b	SE_e	r	R^2	PE(r)	Sig/insig
Nabil	Y=a+bx	64.59	0.0053	12.56	0.598	0.358	0.1936	insig
HBL		116.36	-0.027	21.06	-0.589	0.348	0.1968	insig

Appendix-17
The Simple Correlation and Regression Analysis between DPS and NWPS

Banks	Regression model	A	b	SE_e	r	R^2	PE(r)	Sig/insig
Nabil	Y=a+bx	175.70	1.799	37.42	0.829	0.688	0.094	sig
HBL		137.482	2.681	14.21	0.680	0.463	0.162	insig

Appendix-18

Correlation and Regression results between DPS and MPS of NABIL

year	DPS(X)	MPS(Y)	XY	X2	Y2
2006/07	85	2240	190400	7225	5107600
2007/08	140	5050	707000	19600	25502500
2008/09	100	5275	527500	10000	27825625
2009/10	85	4899	416415	7225	24000201
2010/11	70	2384	166880	4900	5683456
n =5	∑X=480	∑Y=19848	∑XY=2008195	∑X2=48950	∑Y2=88029382

$\sum X = 480$
$\sum Y = 19848$
$\sum XY = 2008195$
$\sum X2 = 48950$
$\sum Y2 = 88029382$

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

$$= \frac{480}{5} = 96$$

$$\text{Mean}(\bar{Y}) = \frac{\sum Y}{n}$$

$$= \frac{19848}{5} = 3969.60$$

$$\text{Coefficient of correlation } (r) = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2}\ \sqrt{n\sum Y^2 - (\sum Y)^2}}$$

$$= 0.631$$

Coefficient of determination (R^2)= 0.398

$$\text{Probable error of correlation coefficient (PE)} = 0.6745 * \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.181$$

Independent variable (predictor): DPS (Say X)

Dependent variable (predictor): MPS (Say Y)

Regression equation of YonX is,

$$Y = a + bx$$

Where,

a =Regression constant

b =Regression coefficient (slope of Regression line)

According to the principle of least squares two normal equation for estimating two numerical constant a & b are given by,

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

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

Solving these two normal equations we get,

$$b = \frac{n\sum XY - \sum X \sum Y}{n\sum X^2 - (\sum X)^2}$$

$$= 35.814$$

$$a = \overline{Y} - b\overline{X}$$

$$= 531.4286$$

Standard error of the Estimate,

$$SE_e = \sqrt{\frac{\sum Y^2 - a\sum Y - b\sum XY}{n - 2}}$$

$$= 1361.313$$

Appendix-19

Correlation and Regression results between EPS and DPS of HBL

year	EPS(X)	DPS(Y)	XY	X^2	Y^2
2006/07	59.24	35	2073.40	3509.378	1225
2007/08	60.66	40	2426.40	3679.636	1600
2008/09	62.74	45	2823.30	3936.308	2025
2009/10	61.9	43.56	2696.364	3831.61	1897.474
2010/11	31.80	36.84	1171.512	1011.24	1357.186
n =5	∑X=276.34	∑Y=200.40	∑XY=11190.98	$\sum X^2$=15968.17	$\sum Y^2$=8104.659

∑X=276.34

∑Y=200.40

∑XY=11190.98

$\sum X^2$=15968.17

$\sum Y^2$=8104.659

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

$$= 55.27$$

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

$$= 40.08$$

$$\text{Coefficient of correlation (r)} = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2-(\sum X)^2}\ \sqrt{n\sum Y^2-(\sum Y)^2}}$$

$$= 0.5129$$

Coefficient of determination (R^2)= 0.263

$$\text{Probable error of correlation coefficient (PE)} = 0.6745 * \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.222$$

Independent variable (predictor): EPS (Say X)

Dependent variable (predictor):DPS (Say Y)

Regression equation of Y on X is,

$$Y = a + bx$$

Where,

a =Regression constant

b =Regression coefficient (slope of Regression line)

According to the principle of least squares two normal equation for estimating two numerical constant a & b are given by,

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

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

Solving these two normal equations we get,

$$b = \frac{n\sum XY - \sum X \sum Y}{n\sum X^2 - (\sum X)^2}$$

$$= 0.1658$$

$$a = \overline{Y} - b\overline{X}$$

$$= 30.919$$

Standard error of the Estimate,

$$SE_e = \sqrt{\frac{\sum Y^2 - a\sum Y - b\sum XY}{n-2}}$$

$$= 4.2237$$

Appendix-20

Correlation and Regression results between MPS and DPR of HBL

Year	MPS(X)	DPR(Y)	XY	X^2	Y^2
2006/07	1100	59	64900	1210000	3481
2007/08	1740	66	114840	3027600	4356
2008/09	1980	72	142560	3920400	5184
2009/10	1760	70	123200	3097600	4900
2010/11	816	116	94656	665856	13456
n =5	$\sum X$=7396	$\sum Y$=383	$\sum XY$=540156	$\sum X^2$=11921456	$\sum Y^2$=31377

$\sum X = 276.34$

$\sum Y = 200.40$

$\sum XY = 11190.98$

$\sum X^2 = 15968.17$

$\sum Y^2 = 8104.659$

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

$$= 1479.20$$

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

$$= 76.60$$

$$\text{Coefficient of correlation } (r) = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2}\ \sqrt{n\sum Y^2 - (\sum Y)^2}}$$

$$= -0.58967$$

Coefficient of determination (r^2)= 0.3477

Probable error of correlation coefficient (PE)= $0.6745*\frac{1 - r^2}{\sqrt{n}}$

$=0.1967$

Independent variable (predictor): MPS (Say X)

Dependent variable (predictor):DPR (Say Y)

Regression equation of YonX is,

$$Y=a+bx$$

Where,

a =Regression constant

b =Regression coefficient (slope of Regression line)

According to the principle of least squares two normal equation for estimating two numerical constant a & b are given by,

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

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

Solving these two normal equations we get,

$$b = \frac{n\sum XY - \sum X \sum Y}{n\sum X^2 - (\sum X)^2}$$

$= -0.02688$

$$a = \overline{Y} - b\overline{X}$$

$=116.3616$

Standard error of the Estimate,

$$SE_e = \sqrt{\frac{\sum Y^2 - a\sum Y - b\sum XY}{n - 2}}$$

$=21.056$