CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Nepal is enlisted in the list of the least developed countries of the world. Majority people here are engaged in their day to day survival various factors like landlocked situation, poor resource mobilization, lack of education as well as entrepreneurship, irrational government policy political instability are responsible for the regarding pace of development in Nepal. Nepal is a country trying to develop its economy through global trend and of course with country suited economic liberalization. Development in the financial terms is the efficient flow and generation of the funds in the most productive sectors *(Bhattrai; 2002:2).* In Nepal the growing influencing of economic liberalization and globalization first of all appeared in the form of Nepal's liberal policies in the banking sector. The encouraged the healthy competition in the financial sector as well as it allowed the entry of foreign banks in the Nepalese market in the form of joint venture banks. In other aspect, industrialization is an important factor for achieving the basic objective of country's economic and social progress. Now a day's industrialization is considered as an essential for the economic development of the country. It facilitates on effective mobilization of resource such as capital and skill.

The policy a company uses to decide how much it will pay out to shareholders in dividends is dividend policy. The price of share is extremely subjective by the company's dividend policy and the dividend decision itself is also exaggerated by other financial variables as well the predictable dividend of a company paying higher dividend is higher eventually the price of share of the company goes up but contradiction, a company paying higher cash dividends can suffer from the shortage of funds for financing the corporate growth as a result the share price comes down. The effect of dividend policy on stock price is developed stock market has also been extensively matched by finance scholars. They have stressed on the important of dividend performance by corporate firms. So need has been felt to study and understand corporate dividend behavior and practices of corporate firms in developing stock market like Nepal *(Bhattarai; 2002:1).*

In 1996 A.D the security exchange centre was converted into Nepal stock exchange (NEPSE) with the objective of providing free marketability and liquidity to the government and corporate securities by facilitating transactions in its own trading floor through the market intermediaries i.e. broker as well as market maker. Economic leaders at the present scenario are the countries which have been successfully collecting the wide spread funds and making investments in the good prospects. Capital market generates and liquidates securities as per requirements of the corporate groups *(Bhattarai; 2002:1).*

Resources market is place where financial claims and obligations are brought and sold that have maturity period more than one year. Nepalese capital market has not well-organized communication network even today. Even if capital market is in the early stage of development. In Nepal, Nepalese investors have heavily made investment of newly established companies especially in the financial sector. It is hoped that Nepalese capital market will be moving towards efficiently in the days to come. It has made capital market less efficient and efficiency in results the risk. Even though, it is hoped that Nepalese capital market will be moving towards efficiency in the days to come. In capital market all firms operate in order to generate earning, shareholders make investment in equity capital with the expectation of making earning either directly in the form of dividend or indirectly in the form of capital gains in future. The sole objective of each and every business is maximizing the shareholders wealth. Financial management is the heart of management and the numbers of decisions are made by the financial decision in order to run the company smoothly. The common stock represents ownership in a company. The common stocks are the permanent and vital sources of capital since they do not have maturity date. For the capital contributed by the shareholders by purchasing common stocks they are entitled to dividends. The amount or rate of dividend fixed by the company's board of directors. Most of investors are wise to invest their saving funds in stocks, with the expectation of future cash inflow as dividend and maximization of value of their holding in the market. The dividend and value of the firm are linked with the earning power of the firm, which ultimately affects the market price of shares.

The enlargement of commercial banks increased noticeably after the reinstatement of democracy when government adopted liberal and market oriented policy. There are 31 commercial banks in the country. This development has helped to accumulate the internal

resources as well as the external funds of foreign investors for the economic development of the nation. The economic development history of Nepal has very slow track record .It has very short history of industrial development. Nepal has very short history of security market. it was in 1937 A.D when the history of security market began with the flotation of shares by the first industrial body of the country. Biratnagar jute mill limited and the first commercial bank of Nepal, Nepal bank limited. In 1951 A.D company act-1951 was introduced followed by the issuance of government bond in 1964A.D for the first time. The security exchange centre limited was established in 1976A.D with the objective of facilitating and promoting the growth of capital market. Then it was the only capital market institution in the country undertaking the job of brokering underwriting managing public issues, market making for the government bond and other financial services *(Dongol; 2006:2)*.

In the background of Nepal, people are attractive with the views and prospect of more capital approval and dividend on stocks. But there are not any steadiness and regular practices of dividend statement in different firm. Lately commercial banks and some other public limited companies have showed new trend of paying dividend to the shareholders. Price of stock usually fluctuates with references to the sufficient information. No one can earn more in the efficiency and inefficiency is legally forbidden in order to regulate the security market in every nation. But being focused in this study, Impact of dividend on stock price, there should be conversation on different models and practices so as to end about the force of dividend policy on stock price, Dividend policy and price of stock are always correlated. If a company pays dividend market price of stock increases and vice versa, but in some cases dividend decision may have no impact at all upon the price of stock i.e. market price of stock may remain constant or even decrease sometimes in response to the dividend distribution. Therefore information gap also plays vital role in the analysis of market price of stock.

Every firm after making income either keep the money for further venture or distribute it among the shareholders. The profit made by the firm which is distributed to the shareholders is termed as dividend. The firm should decide whether to keep the money as retain earning or pay the dividend. The dividend policy is the policy followed by the firm regarding the dividend versus retention decision *(Dongol; 2006:1)*.

The price of share is highly influenced by the company's dividend policy and the dividend decision itself is also effected by other financial variables as well. Dividend policy may affect the areas such as financial structure of the firm funds flow, stock price, investors' satisfaction, growth of firm etc. Like other major decisions of the firm i.e. investment and financing decision the dividend decision has major role in any organization *(Regmi; 2006:2).*

According to duration result and arbitrage effect the dividend yield ands not the payout ratio is the relevant measure. The rate of return outcome implies that both dividend yield and payout ratio matters. Dividend policy may serve as a proxy for growth and investment opportunities. After the establishment of joint venture companies there is a new trend of distributing dividends. Dividend distribution trend has not only attracted the investors but has also made the management conscious about the policy regarding the payment of dividend. The present study attempts to analyze the dividend behavior of the joint venture and other major commercial banks. It will also try to justify the dividend decision adopted by the banks and to relate them on the ground of similar fiscal period.

1.1.1 Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Nepal Limited, formerly know as Nepal Grind lays Bank Limited was incorporated in the year 1985 and has been in operation since 1987. on 31 July, 2000, Standard Chartered Bank concluded that acquisition of ANZ Grind lays Bank from the Australia and New Zealand Banking Group Limited. With this acquisition 50% share of Nepal Grind lays Bank Ltd. (NGBL) previously owned by ANZ. Standard Chartered Bank Nepal Limited now owns grind lays with effecting from 16 July 2001. The equity composition of Standard Chartered Bank Nepal Ltd.

Standard Chartered Bank Nepal Ltd. Have Authorized Capital of Rs. 33548800.00, Issued Capital Rs. 339548800.00 and Paid –up Capital Rs. 339548800.00. The par value of share is Rs. 100 and No. Of shareholders are 5037. Its share listing on stock exchange was 1988. The Bank focuses mainly on corporate consumer and commercial banking providing services for international firms, as well as embassies, aid agencies, airline, hotels and government of corporations. The banking services range includes full trade finance capabilities as well as working capital and medium term loan facilities, remittances, deposit services, credit card and

ATM. For international firms, Standard Chartered Bank Nepal Limited specializes in foreign trade, bonding, remittances services and foreign exchange.

NABIL Bank Limited

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nepal Arab Bank known as NABIL was under technical service agreement with Dubai Bank Limited, which was later merged with Emirates Bank LTD, Dubai.

Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Telebanking system.

1.2 Statement of the Problem

Dividend policy though being one of the major decisions to be taken by firm has not become a well known occurrence or a matter or practice to a larger number of financial communities even today. Since long time back there has been heated controversy regarding relevancy and irrelevancy of dividend policy. Scholars have not been able to define simple and conclusive relationship between dividend policy and market price of the stock. Some experts stand with a belief that there is positive relationship between dividend distribution by a firm and its price of share where as at the same there are others who put upon their view against this. There is no relation at all in between dividend distribution and market price of stock. Walter's model and Gordon's model suggest relevant theory that reads dividend policy is an active variable that influences the value of firm measured in terms of market price per share. But Modigalni and Miller model advocates just contra to that done by Gordon and Walter *(Dongol; 2007:7).*

Dividend policy is most controversial type of decision making. Since long time back there has been heated controversy regarding relevancy and irrelevancy of dividend policy. Scholars have not been able to define simple and conclusive relationship between dividend policy and market price of stock. In Nepal different companies seem to hold different policies regarding dividend. There are only few companies that have sufficient earnings and are capable to pay dividend every year. Dividend distribution does not match with the earnings of the companies. "The harder we look at the dividend picture the more it seems like a puzzle with pieces that just don't fit together *(Black and Scholes; 1975:352).* The capital market is an important part of corporate development of a country. Even though the capital market is in the early stage of development in Nepal. Nepalese investors have heavily made investment a newly established company especially in financial sector.

Dividend decision is crucial as well as controversial area of financial management. Besides it is not clearly understood by a larger segment of the financial community .No matter how many studies have been conducted in this regard the effect of dividend policy on a corporation's market value has remained a subject of long standing controversy. The main focus of the study is to deal with the following problems;

1. What are the major factors affecting dividend policy of a firm?
2. Is DPS proportionate to the firm's EPS?
3. What is the impact of dividend policy on market price of stock?
4. Is there any consistency in EPS, DPS, MPS and DPR of the sample firms?
5. Is there significance relationship between dividend policy of SCBNL and Nabil ?

1.3 Objectives of the Study

The major objective of the study is to obtain the depth knowledge about the impact of dividend policy adopted by the firms to its market price of share as well as the overall valuation of the firm. The following are the specific objectives of this study.

a. To examine the impact of divided policy on market price of stock.
b. To analyze the comparative dividend policy of SCBNL and Nabil bank Ltd.
c. To explain the prevailing policies and practices regarding dividend in the Nepalese firms with reference to the sample joint venture commercial banks.
d. To explore various aspects of dividend policies and practices in Nepal carried outlay the banking sector.

e. To analyze if there is any uniformity in DPS EPS MPS and DPR of the sample joint venture banks.

1.4 Significance of the Study

Now a day's people are involved to invest in shares for the motive of receiving more return as well as to maximize their wealth. So the dividend policy has become as successful way to attract new investors, to keep present investors happy and to maintain goodwill of the company. The important aspect of the dividend policy is to determine the amount of earnings to distribute to the shareholders and the amount to be retained in the firm. The financial manager must very carefully decide the allocation of earnings between dividends and retain earnings as this decision affects the value of firm. The objective in choosing dividend policy should be to maximize the value of the firm to its shareholders.

The dividend is most responsive element in the area of investment in the common stock. If the market doesn't receive its predictable dosage, stock price will undergo. Dividend payout of course reduces the amount of earning keep in the firm and affects the total amount of internal financing. The study may deliver crucial information for those respective commercial banks are made. The main significance of study is as follows;

- The study aims to give significant and helpful information to the investor.
- It will be useful for the management.
- It will useful for stock broker, financial agencies, policy makers and various stakeholders.
- This study helps to formulate dividend policy to the policy maker while making their dividend policy.
- This study will beneficial also to those parties who are directly or indirectly related to the financial institution.

1.5 Limitation of the Study

Dividend policy is the vital aspect of the financial management. For a corporate manager it is the most challenging and crucial part of the decision making process because it has the signaling effect towards market price of stock. This study has been carried out with in certain limitations which are as follows.

- This study is based on especially on secondary data like annual reports of the banks under review, journals unpublished as well as published thesis works other published articles and reports and related materials from various websites.
- Data taken for analysis covers only five fiscal years i.e. 2007/2008 to 2011/12.
- The study covers only two joint venture commercial banks i.e. SCBNL and Nabil bank Ltd.
- The study only concentrate on dividend policy, it doesn't cover several other aspects of the commercial banks.
- The data of samples firms analyze limit tools and technique

1.6 Organization of the Study

The study has been organized into five chapters; each chapter deals some important factors of dividend behavior. The titles of each of these chapters are listed below:

Chapter -I   Introduction
Chapter -II   Review of Literature
Chapter -III   Research Methodology
Chapter -IV   Presentation and Analysis of Data
Chapter -V   Summary, Conclusion and Recommendation

Chapter – I: This is the introduction chapter of the study. This chapter includes general background, statement of problems, objectives of study, importance of the study and limitations of the study and organization of the study.

Chapter – II: This chapter is the review of literature deals with conceptual framework of the dividend policy. In this part research history of dividend policy will present in brief. Review of major studies will be also presented.

Chapter - III: This chapter contains the research methodology. This chapter deals with research design, sources of data, data collection techniques data processing and data analysis tools.

Chapter - IV: This chapter deals with the presentation and analysis and major findings of the study on dividend.

Chapter –V : This is the last chapter states the summaries, conclusions of the whole study and recommendations. It also offers several avenues for future research. The exhibits and bibliography are incorporated at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

Dividend policy affects the financial structure, the flow of fund, corporate liquidity requirement and investors attitude. Thus, it is one of crucial decision and firm attempts to maximize the value of firm's common stocks by means of dividend decision. Due to its increasing importance, many thoughts, provoking ideas in this area are upcoming which needs to review. This chapter highlights upon the literature that are concerned to this subject. Similarly, what others have said or written etc. about the dividend policy are reviewed, which provides useful input in this study. The review of literature is divided into two parts one is conceptual framework and other one is review of different studies.

2.1 Conceptual Framework
2.1.1 Meaning of Dividend:

Every investor invests their money to buy shares of firm with the hope of sharing profit earned by firm since they want to receive maximum returns on their investment. It depends upon management policy that how much total profit to distribute as dividend and how much to retain in the business. But this is fact that all the profit made by firms actually belong to stockholders. Whether profit are distributed in the firm of dividend or reinvested in the business, benefits go to shareholders directly or indirectly.

"Dividend decision can't be taken in isolation as well as in vacant, rather various factors like investment opportunities, financing decisions, shareholders expectation, and legal provisions is to be taken into consideration so that it maximizes the value of the firm or shareholders' wealth. There are two sources of financing in an existing firm." *(Gitman; 2004:27)*

    a. Internal source (i.e. retained earnings),
    b. External source of financing (i.e. external share, debenture)

But the retention of net profit widely effected by the dividend policy. If the firms adopt sound dividend policy, then less funds will be available. On the contrary, if the firms adopt tight dividend policy then excess fund will be available for financing. So, internal sources of

financing and external sources of financing affect the company's capital structure. Therefore controversial question arise of taking dividend decision for the financial manager.

In the course of retaining the portion of earning, how much of earnings to be retained to exploit growth opportunities of firm and how much earnings to be paid to the shareholders for their contribution in capital structure, to be decided. This is the difficult question in dividend policy.

"Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Retained earnings are one of the most significant sources of funds for financing corporate growth, but dividends constitute the cash flows that accrue to stockholders". *(Pandey; 2005:47)*

"Many variables influence dividends, however for example, a firm cash flows and investment needs may be two volatile for it to set a very high regular dividend. Yet, it may desire a high dividend payout to distribute funds not necessary for reinvestment. In such a case, the directors can set a relatively low regular dividend – low enough that it can be maintained even in low profit years or in years when a considerable amount of reinvestment is needed-and supplement it with an extra dividend in years when excess funds are available". *(Weston and Brigham; 1996:147)*

"Commercial banks are organized as a joint stock company system, primarily for the purpose of earning profit. They can be either of the branch banking types as we see in most of countries, with a large network branches like in Nepal or of the unit banking type, as we see in the United States where a bank's operations are confined to a single office or to a few branches within a strictly limited area". (Shekher ; 2007:167)

"In corporate finance, dividends represent a distribution of the book surplus, accompanied by a distribution of assets, or by a change in the form of equities, or an increase in the liabilities of the corporation. The corporate form of business organization entails separation between ownership and control of a company. The shareholders entrust their money to corporate Managers in expectation of a return on their capital. Dividend policies are determined by the

board of directors. But they have to take into consideration of a number of factors in determining their dividend policies and variations there in". *(Gilbert and Edwin; 2007:175)*

There are some legal considerations to distribute dividend to shareholders. The Board of Directors of company has to take the decision about dividend on the considerations various facts except concerned legal provisions. Except legal considerations, the various principles underlying the policies of dividend distribution are as follows:

a. Type of Industry

The nature of the business conducted by a company has an influence upon its dividend policy. Industries that are characterized by stability of earnings may formulate a more consistent policy as to dividends than those having an uneven flew of income. For instance, public utilities are in much better position to adopt a relatively fixed dividend rate than the industrial concerns.

b. Age of a Corporation

Instant related to the type of industry, the age of a company goes far to determine the dividend policy."Newly established enterprises require much of their earnings for plant improvement and expansion, while companies which have attained a longer earning experience can formulate a clear-cut dividend programmed and may even by liberal in the distribution of earnings". *(Mathur; 2000:56)*

c. Extent of Share Distribution

A closely held company is likely to get the acquiescence of the shareholders for the suspension of dividend or following a conservative dividend policy. But a company with a large number of shareholders and also with shareholders widely distributed would face a great difficulty in securing such asset. "Reduction in dividends can be effected but not ordinarily with the hearty Co-operation of the shareholders". *(Mathur; 2007:67)*

d. Need for Additional Capital

The company retained part of their earnings for strengthening their financial position. The extent to which the profits are ploughed back into the business has got a conditioning influence on the dividend policy. The income may be conserved for meeting the increased requirement of working capital or for future expansion. Small companies possessing no other alternatives to raise finance for their growth have to depend upon this source. *The source of financing to raise of fund by financing short term loan long term loan or by issuing shares and debentures etc.*

e. Trade Cycle

With the cyclic variation in the business, the earnings, demand for capital investment and money market conditions also vary from stage to stage. The dividend policy is adjusted in accordance with the business oscillations. During the boom, prudent corporate management creates good reserves for facing the crisis which follows the inflationary period. Higher rates of dividend are used as a tool for marketing the securities, otherwise depressed market. The dull years become easier to be weathered and financial solvency to be maintained more successfully if the adequate reserves have been built up through conservation of earnings.

f. Change in Government Policies

With the variation in the fiscal, industrial, labor, control and other government policies the earning capacity of the different enterprises is affected favorably or adversely. The dividend policy has to be modified accordingly. Sometimes government limits the rate of dividend declared by concerns in a particular industry or in all the spheres of business activity. In a capitalistic society such a step taken by Government leads to wasteful expenditure by the business unit besides discouragement of capital formation.

g. Taxation Policy

Management may decide retaining earnings as opposed to paid out as dividends. The process of paying at 'what's left' to shareholders is called dividend policy. High taxation is said to be the cause of lowering the earnings of the corporations and, consequently, their rates of dividend. Some recent studies have shown that the rates of dividend may not be affected by high rates of taxes because the incidence may be shifted to consumers. This is claimed to be the case in respect of some Indian companies where the indices of taxes and the rates of dividend move in similar directions to show that the dividend distribution was not adversely

affected by the alleged high rates of taxes. The tax preference theory recognizes that there are three tax-related reasons for believing that investors might prefer a low dividend payout to a high payout: i. capital gains are taxed at a low rate, whereas dividend income is taxed at a high rate. ii. Taxes are not paid on capital gains until the stock is sold. iii. If a stock is held by someone until he/she dies, no capital gains tax is due at all- the beneficiaries who receive the stock can use the stock's value on the death day their cost basis and thus escape the capital gains tax. If the tax preference theory is correct, the firm should set a low payout if it is to maximize its stock price. Therefore, the theories are in total conflict with one another. If the tax preference theory is correct, then as the firm pays more and more (and retains less and less), investors would perceive the firm to be getting riskier; hence Ks would increase.

"Corporate taxes affect dividends, both directly and indirectly – directly, in as much as they reduce the residual profits after tax available for shareholders, and indirectly, as the distribution of dividends beyond a certain limit is itself subject to tax. For instance dividends beyond 10 percent of the paid-up capital are subject to 7.5 percent by way of dividend tax". *(Ross;2004:123)*

After examining the various factors which determine the dividend policy of the companies, we may study the importance of stability in the rate of dividend. The regularity of dividend payment and the stability of its rate are the two main objectives made at by the corporate management. They are accepted as desirable for the corporation's credit standing and for the welfare of shareholders. High earnings may be used to pay extra dividends but such dividend distributions should be designated as 'extra' and care should be taken to avoid the impression that the regular dividend is being increased. A stable dividend policy should not be taken to mean an inflexible or rigid policy. On the other hand, it entails the payment of a fair rate of return, taking into account the normal growth of the business and the gradual impact of external events. A stable dividend records makes future financing easier. It not only enhances the credit standing of the company but also stabilizes market value of the securities outstanding. The confidence of shareholders in the corporate management is also strengthened.

2.1.2 Types of Dividend

The firm uses different types of dividend to the shareholders to implement their objectives and policies. Before distribute the dividend, they first ensure that what is the current situation of the firm? What is the growth rate of the firm? How much dividend will need to meet the expectation of the shareholders? "The type of dividend that corporation follow is partly a matter of attitude of directors and partly a matter of a various circumstances and financial constraints that bound corporate plans and policies" *(Shrestha, 2009)* some of the major types of dividends are as follows.

a. Cash Dividend

The portion of earnings paid in cash to the investors in the proportion of their share is called cash dividend. In other words, cash dividend is the dividend, which is distributed to the shareholders in cash out of the earnings of the company. When cash dividend is distributed both total assets and net worth of the company decreases as cash and earning decreases. The market price of share decreases drops in most of the case by the amount of the cash dividend distributed. Most of the firms pay dividend in cash. The cash account and reserve account of company will be reduced when cash dividend is paid. Both the total assets and net worth of the company are reduced when the cash dividend is distributed. The company has to maintain required level of cash for distribution of cash dividend, otherwise it may be difficult and fund must be borrowed for this purpose. When the company follows stable dividend policy, they use to prepare cash budget to indicate necessary funds which would be needed to meet regular dividend payment of company. When unstable dividend policy is followed, it is difficult to manage cash.

In the context of Nepal, Cash dividend is the most popular form of dividend so it is very popular in commercial banks and other firms. However it depends upon the earning of firm, management decision, Government policy, Nepal Rastra Bank policy and other various internal and external factors.

b. Stock Dividends

A stock dividend occurs when the board of directors authorizes a distribution of common stock to existing shareholders. Stock dividend increases the number of outstanding shareholders. If additional shares are issued to existing shareholders instead of cash dividend,

it is known as stock dividend. Stock dividend is only the paying stock equaling to the dividend that is to be received by shareholders. In stock dividend, additional shares are issued to existing shareholders instead of cash dividend. A stock dividend represents a distribution of shares in lieu of cash dividend.

A stock dividend is paid in additional shares of stock instead of in cash and simply involves a book-keeping transfer from retained earnings to the capital stock account. Firm pays stock dividend instead of cash dividend. It represents nothing more than a bookkeeping shift within the share holders' equity account on the firm's balance sheet, a shareholder's proportional ownership in the firm remains unchanged. It is simply the payment of additional shares of common stock to shareholders. Stock dividend increases the number of shares as a result; EPS, DPS and market price of share of company decrease. Accounting authorities make a distinction between small-percentage stock dividends and large-percentage stock dividends.

i. Small-Percentage Stock Dividends
If a stock dividend represents an increase of less than 10 percent of the previously outstanding common stock, it is referred to as a small-percentage stock dividend. Accounting for this type of stock dividend entails transferring on amount from retained earnings to common stock and additional paid-in capital.

ii. Large-Percentage Stock Dividends
Large-percentage stock dividends (typically 20 percent or higher of previously outstanding common stock) Must be accounted for differently while small-percentage stock dividends are not expected to have much effect on the market value per share of stock, large-percentage stock dividends are expected to materially reduce the market price per share of stock. In the case of large percentage stock dividends, therefore, conservatism argues for reclassifying an amount limited to the par value of additional shares rather than an amount related to the pre-stock dividend market value of the stock.

The effects of stock dividend are as follows.

   i.   Firm's assets or liabilities are same, it doesn't change

   ii.   It doesn't affect the shareholders proportional ownership.

   iii. Theoretically it is valueless to shareholders.

c. Bond Dividend

"It is a kind of dividend in which stockholders receive bond. It is distributed only that condition when the company declares dividend in the form of its own bond. Bond dividend helps to postpone the payment of cash. These are given when the firms are unable to take the burden of interest of loans". *(Van Horne; 2002:189)*

d. Property Dividend

"Property dividend is a kind of dividend which is given in the form of property instead of cash. This method is rarely used in practical. Company is own products and securities of subsidiaries are the examples that have been paid as property dividend". *(Van Horne; 2002:189)*

e. Interim Dividend

"Generally dividends are declared in the end of the financial year. This is called regular dividend. But when management declares dividend before the end of financial years, it is called interim dividend". *(Van Horne; 2002:189)*

f. Script Dividend

"Script dividend is a form of promissory note promising to pay the holder at a specified later date. The script may be interest bearing or not. Issuing of this note indicates that the company has shortage of cash to distribute as a dividend. This type of dividend is very unpopular to use". *(Van Horne; 2002:189)*

2.1.2.1 Types of Dividend Policy:

The dividend paid out of profit by company, is guided by dividend policy that is followed by company. Generally, dividend policy can be categories as conservative, liberal, moderate and progressive dividend policy. Whatever dividend policy followed by the corporate firm, it is the concept that resolves the apparent conflict by finding optional dividend payout that balance the need of shareholders for their current incomes and expected future growth of the firm so as to

maximize the value of firm. The optional dividend policy is the dividend policy that sticks a balance between current and future growth and maximizes the firm's stock price.

2.1.2.2 Residual Theory of Dividend

This theory assumes that external sources of finance are not available or even if it is available, the same cannot be used due to its excessive cost. Accordingly, how much dividend a company should distribute will be depended on how much investment opportunities it has available at present. If there are positive NPV projects available then instead paying dividends to shareholders, the same can be used in financing the positive projects. In the case, shareholders wealth is maximized by reducing dividend or not paying dividend at all. Shareholders will be compensated for this reduction on nil dividends now by a gain in the form of higher dividend in the future.

Dividends are thus residual payment in the sense that this is paid provide sufficient earnings are retained in the company to finance new investments. Thus residual theory treats dividends as a passive decision which is completely depended on how much amount or whether company employs earnings is in financing profitable projects. Thus the divided will vary from year to year. But such fluctuations in dividend have no effect on shareholders as they are compensated of present loss, if any, of dividend by future capital gain.

2.1.2.3 Dividend Stability

The major aspect of the dividend policy of a firm is the stability of dividends. Stability of dividend payments is an attractive feature to many investors. The investors favor a stable dividend as much as they do the payment of dividends (D/P ratio). By stability we mean maintaining the position of the firm's dividend payments in relation to a trend line.

"Preferably one that is upward sloping. All other things being the same, a share of stock may command a higher price of it pays at a fixed percentage of earnings. The term dividend stability refers to the consistency or lack of variability in the stream of dividends" *(Van Horne; 2002:190)*

In more precise terms it means that a certain minimum amount of dividend is paid out regularly. The stability of dividends can be any of the following three forms.

i. Stable Dividend Per Share

According to this form of stable dividend policy, a company follows a policy of paying a certain fixed amount per share as dividend. For instance, on a share of face value of Rs. 10, a firm may pay a fixed amount of, say, Rs. 2.50 as dividend. This amount would be paid year after year, irrespective of the level of earrings. In other words, fluctuations in earnings would not affect the dividend payment. In fact, when a company follows such a dividend policy, it will pay dividends to the shareholders even when it suffers losses. It should be clearing noted that a stable dividend policy in terms of a fixed amount of dividend per share does not mean that the amount of dividend is fixed for all times to come. The dividends per share are increased over the years when the earnings of the firm increase and it is expected that the new level of earnings can be maintained. The relationship between the earnings per share (EPS) and dividends per share (DPS) with a constant dividend policy per share is shown in Figure 2.1

Figure: 2.1

Stable dividend per share (In Rupees)
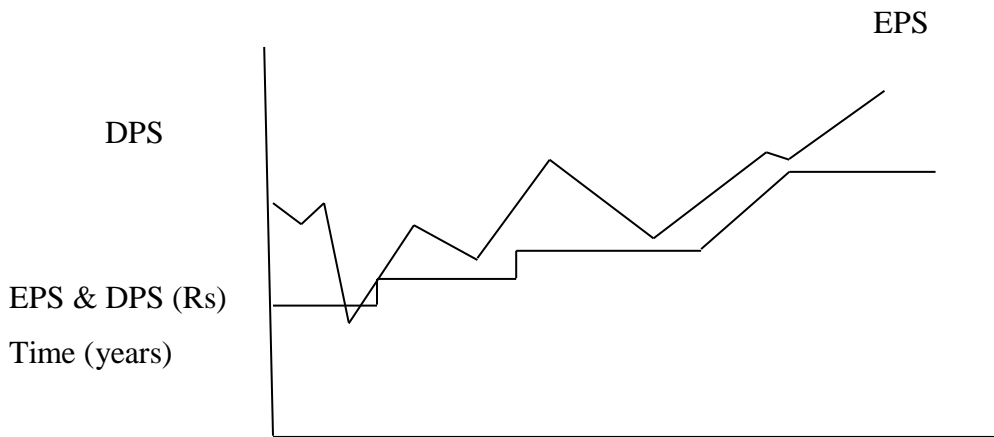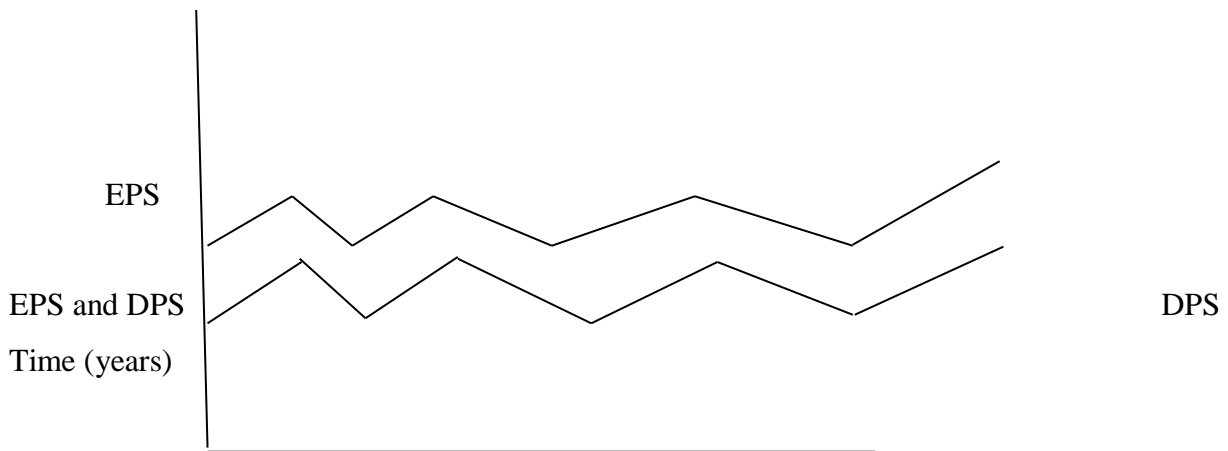

(Source: Paudel, & Gautam ;2007:500)

It can, thus, be seen that while the earning, may fluctuate from year to year, the dividend per share is constant. To be able to pursue such a policy, a firm whose earnings are not stable would have to make provisions in years when earnings are higher for payment of dividends in lean years.

ii. Constant Payout Ratio

Another form of stable dividend policy is constant/target payout ratio. The term payout ratio refers, as already mentioned, to the ratio of dividend to earnings or the percentage share of

18

earnings used to pay dividend. A stable dividend payout ratio implies that the percentage of earnings paid out each year is fixed. Accordingly, dividends would fluctuate proportionately with earnings and are likely to be highly volatile in the wake of wide fluctuations in the earnings of the company. As a result, when the earnings of a firm decline substantially or there is a loss in a given period, the dividends, according to the target payout ratios, would be low or nil. To illustrate, if a firm has a policy of 50% target payout ratios, its dividends will range between Rs. 5 and zero per share on the assumption that the earnings per share are Rs. 10 per share and zero (or loss) per share respectively. The relationship between the earnings per share (EPS) and dividend per share (DPS) under the policy of constant payout ratio is shown in Figure 2.2

Figure: 2.2

Constant Payout Ratio

(Source: Paudel, &. Gautam,;2007:501)

iii.   Low Regular plus Extra

Under this policy, both dividend policy (constant dividend per share and constant dividend payout ratio) are included. Under this policy, a firm usually pays a constant dividend to the shareholders and when profits of the firm swell, additional or extra dividend is paid over and above the regular dividend. In normal condition the firm cuts the extra dividend and pays normal dividend per share. Generally this type of policy is mostly followed by those companies whose stockholders prefer at least a certain account of regular dividends.

2.1.3. Factors Influencing Dividend Policy

Dividend decision is the critical decision for the management. Various factors should be considered while taking dividend decision. Following factors influenced in dividend policy decision directly or indirectly.

a. Legal Rules

The legal rules are important in establishing the legal boundaries with in which a firm's finalized dividend policy can operate. These rules have to do with capital impairment, insolvency and undue retention of earnings.

i. Capital Impairment Rule

Some states define capital as the total par value of the common stock. If a firm's shareholders' equity consists of $4 million in common stock (at par), $3 million in additional paid-in capital and $ 2 million in Retained earnings, total capital would be $ 4 million. This company could not pay a cash dividend to telling more than $ 5 million without impairing capital (i.e., reducing shareholders equity below $ 4 million).

Other states define capital to include not only the total par value of the common stock but also the additional paid in capital. Under such state statutes, dividends can be paid only to the extent of retained earnings. Notice, we did not say that dividends can be paid 'Out of retained earnings'. A Company pays dividends 'Out of cash', while incurring a corresponding reduction in the retained earnings account.

ii. Insolvency Rule

Some states prohibit the payment of cash dividends if the company is insolvent. Insolvency is defined either in a legal sense, as total liabilities of a company exceeding its assets 'at a fair valuation' or, in an 'equitable' (technical) sense, as the firm's inability to pay its creditors as obligations come due. As the firm's ability to pay its obligations is dependent on its liquidity rather than on its capital, the equitable (technical) insolvency restriction gives creditors a good deal of protection. When cash is limited, a company is restricted from favoring shareholders to the determent of creditors.

iii. Undue Retention of Earnings Rule

The internal Revenue code prohibits the undue retention of earnings. Although undue retention is vaguely defined, it is usually though to mean retention significantly in excess of the present and future investment needs of the company. The purpose of the law is to present companies from retained earnings for the sake of avoiding taxes.

b. Liquidity Position of company

Profits held as retained earnings are generally invested in assets required for the conduct of the business, retained/earnings from preceding years are already invested in plant and equipment, inventories, and other assets; they are not held as cash. Thus, even if a firm has a record of earnings, it may not be able to pay cash dividends because of its liquidity position. Indeed, a growing firm, even a very profitable one, typically has a pressing need for funds, in such a situation the firm may elect not to pay cash dividends.

c. Need to Repay Debt

When a firm has issued debt to finance expansion or to substitute for other forms of financing, it is faced with two alternatives. It can refund the debt at maturity by replacing it with another form of security, or it can make provisions for paying off the debt. If the decision is to retire the debt, this will generally require the retention of earnings.

d. Restrictions in Debt Contracts

Debt contracts, particularly when long-term debt is involved, frequently restrict a firm's ability to pay cash dividends such restrictions, which are designed to protect the position of the lender, usually state that (1) future dividends can be paid only out of earnings generated after the signing of the loan agreement (that is, they cannot be paid out of past retained earnings) and (2) that dividends cannot be paid when net working capital (current assets minus current liabilities) is below a specified amount. Similarly, preferred stock agreements generally state that no cash dividends can be paid on the common stock until all accrued preferred dividends have been paid.

e. Stability of Earnings

A firm that has relatively stable earnings is often able to predict approximately what its future earnings will be such a firm is therefore more likely to pay out a higher percentage of its earnings than is a firm fluctuating earnings. The unstable firm is not certain that in subsequent years the hoped-for earnings will be realized, so it is likely to retain a high proportion of current earnings. A lower dividend will be easier to maintain if earnings fall off in the future.

f. Profit Rate

The expected rate of return on assets determines the relative attractiveness of paying out earnings in the form of dividends to stockholders (who will use then elsewhere) or using them in the present enterprise.

g. Rate of Asset Expansion

The more rapidly a firm is growing, the greater its needs for financing asset expansion. The greater the future need for funds, the more likely the firm is to retain earnings rather than pay then out. If a firm seeks to raise finds externally, natural sources are the present share holders, who already know the company. But if earnings are paid out as dividends and are subjected to high personal income tax rates, only a portion of them will be available for investment.

h. Access to the Capital Markets

A large, well established firm with a record of profitability and stability of earnings has easy access to capital markets and other forms of external financing. A small, new, or venturesome firm, however, is riskier for potential investors. Its ability to raise equity or debt funds from capital markets is restricted, and it must return more earnings to finance its operations. A well established firm is thus likely to have a higher dividend payout rate than is a new or small firm.

i. Control

Another important variable is the effect of alternative sources of financing on the control situation of the firm. As a matter of policy, some corporations expand only to the extent of their internal earnings. This policy is defended on the ground that raising funds by selling additional common stock dilutes the control of the dormant group in that company. At the same time, selling debt increases the risks of fluctuating earnings to the present owners of the company. Reliance on internal financing in order to maintain control reduces the dividend payout.

j. Inflation

"In an indirect way inflation can act as a constraint on playing dividends. Out accounting system is based on historical costs. Depreciation is charged on the basis of original cost at which assets were acquired as a result, when prices rise, funds saved on account of depreciation would not be Adequate to replace assets or to maintain the capital intact and preserve the earning power of the fine earning would be retained" *(Wilson and George; 1982:203)*

2.1.3.1 Rules Regarding Dividend Practices in Nepal

In Nepal company act always has some legal provisions for dividend payment. Nepal Company Act 2063 has some provisions about payment of dividend of company. Those provisions are mentioned as below:

Section 2 (Q) sates that bonus share (stock dividend) mean share issued in the form of additional shares to share holders by capitalizing the surplus from the reserve find or the profit of the company. The term also indicates an increase in the paid up values of the shares after capitalizing surplus or reserve funds.

Section 61 has prohibited company form purchasing, its own share. This section states that no company shall purchase its own shares or supply loans against the security of its own shares.

Section 179 is about bonus share bonus. Under subsection (1) of this section, this may be done only according to a special resolution passed by the general Meeting.

Subsection (2) of same section states that the company must inform the office of company registrar before issuing bonus shares.

Section 182 is about dividends and sub section of this section as follows:-

Sub section (1) states that except in the following circumstances, dividends shall be distributed among the shareholders within 45 days from the date of decision to distribute them.

- In case of any law forbids the distribution of dividends.
- In case of the right to dividend is disputed.
- In case of dividend cannot be distributed within the time limit mentioned above owing, the circumstances beyond any one's control and without any fault on the part of the company.

Sub section (3) in case dividends are not distributed with the time limit, mentioned in sub section (1) this will be done by adding interest at the prescribed rate sub section (3) states only the person whose have stands registered in the register of existing shareholders at the time of declaring the dividend shall be entitled to it.

Sub section (4) states that dividend will be paid to the registered shareholders in the book of the company at the time of decision of the dividend or right holders as per the law.

Subsection (5) states that dividend can be paid to shareholders after deducting depreciation, payments/ provisions as per the law and all the loss of previous years. Dividend can be distributed without reserves or provisions as per existing law.

2.2 Review of Related Studies

2.2.1 Review of Journals /Articles –

Robert and Nardin (2010) wrote in the journal of Financial Economics, entitled "*Commonality in the Determinants of Expected Stock Returns",* they presented with evidence that the determinants of the cross section of expected stock return were stable in their identify and influence from period to period and from country. The determinants were related to risk, liquidity, price level, growth potential and stock price history. Out Of sample predications of expected returns, using moving average values for the pay-offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their paper form others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously of lower risk than the stocks with lower returns. Second, they found that the important determinants of-expected stock returns were strikingly common to the major equity markets of the world. Given the nature of the texts, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis.

Shrestha (2011) wrote an article entitled *"NRB Monetary Policy awl Stock Market Impact".* According to him monetary policy directly affects stock prices. Taking all example of monetary policy announcement in 2004/05, he writes "NRB Monetary Policy had an impact on the performance of stock market as investors were lured into buying shares of commercial banks at higher market price with the expectation that banks would issues bonus shares to increase its capital base to Rs. 100 million. As a result, there had been tremendous demand for shares of commercial banks in every day transaction raising stock market index to unexpected highs.

Muhammad & Abdul (2012) in his studies "*Impact of dividend policy on the share price volatility of the Malaysian listed construction and material companies*" published in international journal of economics and management sciences. This study presents the results on the impact of dividend policy on the share price volatility of the Malaysian listed construction and material companies using the least square regression method after controlling for debt, firm size, investment growth and earnings' volatility. The study found only 43.43 percent of the changes in the share prices are explained by dividend yield (DY), dividend payout ratio(DPR), and investment growth(Growth), size of the firm), leverage (Lev) and earnings volatility (EV). These companies recorded 94.41 percent share price volatility during

2005 until 2010. Dividend payout ratio significantly influences the changes in share price. The greater the size of the company, the more significant impacts the volatility of share price would be. Dividend yield, investment growth and earnings volatility insignificantly influence the changes in the company's share prices. Leverage is negatively influence the movement of the share price. The objective of this study is to examine the impact of firm's dividend policy (DY) and dividend payout ratio (DPR) on the share price of the Malaysian listed construction and material companies. The study covers for a period of six year (2005 to 2009). However there is only 43.43 percent of the variation in the changes in the share price is explained by the model. The volatility of the share price of the construction and material companies is higher with 94.41 percent. Their study differs from most of the previous researchers because their study is based on all listed companies in the exchange. The empirical result suggests there is a significant positive relationship between the DPR of a firm and share price volatility. DY is insignificant and negatively related to the movement of stock prices.

Dangol (2012) wrote an article about *"Unanticipated Political Events and Stock Returns"*. According to him Nepalese capital market is consistent with information content hypothesis, i.e. market reflects all political events concerned with capital market. Concluding the study he writes, "File study has provided the evidence that the good-news leads to the positive average prediction error. Similarly, the bad-news drills the negative prediction error on the post announcement period. Finally the data present important evidence on the speed of adjustment of market prices to new political information, i.e. in as many as 2 to 3 days from the announcement date. Thus the Nepalese stock market may be inferred to inefficient, but there is strong linkage between political uncertainty and common stock returns generation."(*Dangol; 2012: 42 The Republica Daily*)

Shrestha (2013)   in his article *"SEBON'S MOVE TO curb money laundering" published* in The Himalayan Times on Jaunuary 9, 2013. According to the researcher, Stockbrokers and merchant brokers will now have to scrutinize their clients for any instance of money laundering. Securities Boar of Nepal (SEBON) the capital market regulator has issued the anti money laundering and counter –terrorist financing directive 2069 in order to prevent any illegal fund from entering the capital market for laundering purpose. Nepal Rastra Bank's financial information unit (FISU) and department of money laundering investigation require

stockbrokers to inform the authorities regarding any suspicious transaction exceeding Rs. One million, under the Anti money laundering act 2008. According to the current directive, securities business persons have to report any transaction undertaken by a person or fixed exceeding Rs. One million in a single day to the FISU. SEBON has defined securities businessperson as stockbrokers, portfolio managers, asset managers and merchant bankers managing any share issue. Securities businesspersons also need to maintain separate documents on client conducting business higher than Rs. One   million and have to ask the client regarding the source of the money. It is commendable that the regulator is working towards preventing the capital market from becoming a place to launder illegal money but since the Nepali stock market is not connected to the global market or is not open to international investor, we have little to worry about in that issue," said the stockbroker at NEPSE. Since the last three years in order to prevent the Nepali financial sector from aiding any sort of placing or layering of illegal money, authorities have asked financial institutions, insurance companies, accountants and cooperatives to report any suspicious transaction exceeding Rs. one million.

2.2.2 Review of Unpublished Dissertation

These are few studies made in context of Nepal with regards to dividend and stock prices, because of information lack of experts, the studies is limited in this regards. Even though, some studies are made which are going to be reviewed here.

Dhungel   (2010) conducted "*A study on Dividend Policy of Everest Bank Limited and Bank of Kathmandu"*. The researcher had used only secondary data and simples mean , standard deviation and regression are used to analyze the secondary data. The main objectives and major findings of this study are as follows:

Objectives:

- To identify what type of dividend policy being followed by selected banks.
- To highlight dividend practices of Bank of Kathmandu and Everest Bank Limited.
- To analyze the relationship between dividend per share and other important variables such as earning per share, net profit, net worth and stock prices.

Research tools:

The researcher used ratio analysis, mean, standard deviation, coefficient of variation and correlation.

Major findings:

- EBL has higher earning capacity than BOK and paying more dividend than BOK.
- On the basis of DPR, it can be considered that BOK has paid higher portion of its earnings as dividend since average DPR of BOK is higher than that of EBL.
- Average earning yield ratio of BOK is greater than that of EBL, which means BOK is more efficient to generate earning on the basis of market price.
- EBL remained more successful than BOK in satisfying its shareholders through distributing cash and bonus share dividend, generating higher amount of earning per share, maintaining higher market value of its share.

Silwal (2010) conducted "*A study on Dividend Policy of Commercial Banks in Nepal and It's Effect to Market Price of Share".* The researcher had taken NABIL Bank, Standard Chartered Bank Nepal Limited, Everest Bank Limited, Nepal Industrial and Commerce Bank Limited and Bank of Kathmandu as Sample considering the data period FY 2006/07 to 2008/09. The researcher had analyzed the mean, standard deviation, coefficient of variation and regression analysis. The main objectives and major findings of this study are as follows:

Objectives:

- To examine whether, the commercial banks are following the suitable dividend policy or not.
- To analyze and evaluate the application of dividend decision on selected banks.
- To analyze the relationship of dividend policy with various financial indicators like EPS, DPS, MPS, DPR, P/E ratio and net profit of sample banks.

Research tools:

The researcher used ratio analysis, mean, standard deviation and correlation.

Major findings:

- DPS of sample banks in average shows that there is not regularity in dividend payment.
- The average highest DPR is 68.57% of SCBNL and lowest is 11.25% of NIC. The analysis of CV of DPR indicates that SCBNL has least fluctuation i.e. 17.02% and NIC has most fluctuation i.e. 146.13% among the sample banks.

- The study of impact of cash dividend on market price of share revealed that DPS has positive impact on MPS in NABIL, SCBNL and EBL. But negative impact has been found in BOK, NIC and bank pooled average, which indicates the MPS of NIC and BOK is influenced by any other factors.

- With respect to impact of DPR on valuation of share, negative impact has been found of sample commercial banks. DPR affects the market price of stock differently.

- The DPS and EPS are positively correlated in sample banks which mean higher the EPS higher will be DPS.

Timilsina (2011) conducted *"A Study on Dividends and stock prices"* taking 16 enterprises as sample from 1998 through 2010 has made followings objectives and major findings: This research is also made only on secondary data analysis.

Objectives:
- To find out the relationship between dividend per share and stock price.
- To find out whether change in dividend policy affect the market price of share or not.

Research tools:

The researcher used ratio analysis, mean, standard deviation, percentage, coefficient of variation and correlation.

Major findings:
- The relationship between dividend per share and stock prices is positive in the sample companies.
- Dividend per share affects the share prices variedly in different sectors.
- Changing the dividend policy or dividend per share might help to increase the market price of shares.

Shrestha (2012) conducted on"*The Public Response to Primary Issue of Shares in Nepal* has made followings objectives and major findings:

Objectives:
- To identify the scope of primary marketing.
- To find the growth of the primary market.
- To analyze the public response to the IPO.

Research tools:

The researcher used ratio analysis, mean, standard deviation and coefficient of variation.

Major findings:

- The scope of primary market is recent days in burgeoning by leaps and bounds. Even the general investors are boisterously pumping up their savings in the new issue of shares causing over subscription to a great deal.

- The growth of the primary market is encouraging since many public limited companies including joint venture Banks have been successful in tapping capital through the floatation of shares to the companies is a direst manifestation of the growing public confidence in the primary market.

- Each and every company that came into the market has been successful in tapping the capital from the market and the issue closed within the minimum stipulated time of seven days with huge over subscriptions.

- Issues of some foreign collaboration banks were oversubscribed to an extent of 19 times and this became simply overwhelming to the company concerned as well as to the issue managers which lead to delays in allotment of shares, refunding and distribution of share certificates to the allotted public.

Rouniyar (2013) conducted on *"Liquidity & profitability Analysis of Listed of Four Commercial Banks (with reference to NABIL, SCBNL, EBL and SBI)"* has made following objectives and major findings:

Objectives:

- To assess the profitability and liquidity position of the commercial banks,

- To evaluate the relationship between selected dependent and independent variables regarding liquidity and profitability of the banks.

Research tools:

The researcher used ratio analysis, mean, standard deviation, coefficient of variation and correlation, trend analysis, t- test for testing hypothesis.

Major findings:

- From the ten years analysis i.e. fiscal year 2001/02 to 2010/11 return on equity is highest of SCBNL and lowest of SBI among the four sample banks. SBI has more risky that is highest CV 36.31% than other sample banks.

- In the same way, return on capital fund or employed to risked assets for SBI is more volatile than other sample banks.
- SBI has not managed its profitability to maintain capital adequacy than other sample banks. NABIL is more uniformity which has less CV than others.
- Net profit to total deposit ratio for the bank is satisfactory i.e. well management in earning profit. Net profit to total loan and advances ratio is highest of SCBNL
- Cash and Bank Balance to Current Assets for the bank is satisfactory i.e. to generate the liquidity. This ratio is highest of EBL and lowest of SCBNL.

2.3 Research Gap

There have been several previous studies in dividend policy and practices of various banks and financial institutions taking consideration of various financial and statistical tools. In this context, previous studies cannot be ignored because they provide the foundation of the present study. The purpose of this study is to the comparative dividend policy of joint venture Nepalese commercial special reference to SCBNL and NABIL receives some new ideas, knowledge and suggestions in relation. It is expected that the uncovered area of past research will be studied in this research. The previous study does not cover the analysis of dividend policy of joint venture commercial banks i.e. similar nature. This study is contains the examine dividend policy and practices in Nepalese Joint Venture Commercial banks, examine the relationship between earnings, dividends, retained earnings and market price of stocks, dividend payout ratio, dividend yield and liquidity ratio and analyze the effect of dividend in share price etc. So this study on dividend policy in the context of Nepalese commercial banks is based on secondary data of three joint venture banks.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology describes the method and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view. So the purpose of this chapter is to outline the methods and sequential steps adopt in analyzing the problem.

3.1 Research Design

Research design refers to a series of stage in conducting study. The research design of this study will be more exploratory and analytical, using various phenomena related and influencing the dividend decision and market price of stock. Descriptive and analytical research design is used in this study. The annual reports published by the related banks and the financial statements of banks published by Nepal stock exchange Ltd. were collected from the year 2007/08 to 2011/12 to analyze, interpret and get the conclusion.

3.2 Population and Sample

There are 32 commercial banks incorporated and doing their transactions in Nepalese Financial Market. Due to constraints of time and resources, out of six joint venture commercial banks only two of these are selected as sample in this study.

Selected sample banks of this study are as follows:

1   Standard Chartered Bank Nepal Ltd. (Joint Venture with Standard Chartered Bank Ltd U.K.)

2   NABIL Bank Ltd.(Joint Venture with Dubai bank)

3.3 Sources of Data

The study is mainly based on secondary data however; some data are collected from primary source. The required data has been collected from the 'Financial Statement of listed companies published by Nepal Stock Exchange Limited' and the annual reports published by concerned banks. For the meaningful research basically secondary and primary data are very important and fundamental thing too. The primary data is collected on the basis of a questionnaire spread

over to different financial sectors. The basic purpose of the distributing the questionnaire was to obtain a knowledge on the various aspects of the dividend policy especially the view point of Academicians, Banking officer, NRB officials, Lecturer and investor as how to they regard the dividend policy in Nepal. For the questionnaire, 60 number of sample is drawn.

3.4 Method of Analysis

Various financial and statistical tools have been used in this study. The analysis of data will be done according to pattern of data available. Financial tools, simple Regression Analysis I.e. trend Analysis have been used in the study. The relationship between different variables related to study topic would be drawn out using financial and statistical tools. The main financial indicators EPS, DPS, D/P Ratio, Retained Earnings, MVPS, DY Ratio and P/E have been used in the study; likewise statistical tools Arithmetic Mean, Standard Deviation, Coefficient of Variation, Simple Regression Analysis have been used in the study.

3.5 Data Analysis Tools

3.5.1 Financial Tools

Under the financial tools, the following ratios has been calculated and interpreted:

3.5.1.1 Earnings Per Share (EPS)

The profitability of common shareholder's investment can be measured in many other ways. The income of per common share can be known from Earning per Share. EPS calculations made over the years indicate whether the banks earning power on per share basis have changed over the period or not. EPS is calculated by dividing the net profit after tax by the total number of common share outstanding.

$$\text{EPS} = \frac{\text{Net profit after tax}}{\text{No. of stock outstanding}}$$

3.5.1.2 Dividend Per Share (DPS)

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

$$DPS = \frac{Total\ Divedend\ to\ Equiti\ Shares}{No.of\ ordinary\ shares}$$

33

3.5.1.3 Dividend Payout Ratio (D/P Ratio

D/P ratio is percentage of profit that is distributed as dividend. This ratio reflects percentage of profit is distributed as dividend and what percentage of profit is remained as reverse & surplus for the growth of the company. It is calculated by DPS divided by the EPS.

$$\text{D/P Ratio} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

3.5.1.4 Market Values Per Share (MVPS)

Market value per share means to evaluate value of shares in the market. A company's MVPS is defined as the company's assessed market value divided by the total number of shares held by stock owners in the company. The market value simply the price for which a share that company trades on the stock market. In the view point of importance, knowing the MVPS (and market value more broadly) of a business in many situations. This includes situations involving transfer of shares as a result of inheritance or divorce.

$$MVPS = \frac{Dividen\ per\ share}{Dividen\ Yield\ Ratio}$$

3.5.1.5 Dividend Yield Ratio (D/Y Ratio)

This ratio shows the relationship between dividend per share and market value per share. It is very useful for the investors. It is calculated by dividing dividend per share by market value per share.

$$\text{Dividend Yield Ratio} = \frac{\text{Dividend per share(DPS)}}{\text{Market value per share(MVPS)}}$$

3.5.1.6 Price Earnings Ratio (P/E Ratio)

This ratio reflects the price currently paid by the market for each rupee of current reported earnings per share (EPS). It is also very useful to prospective investors. It is calculated by dividing the market value share (MVPS) by earning per share.

$$\text{P/E Ratio} = \frac{\text{Market Value Per share}}{\text{Earnings per Share}}$$

3.5.2 Statistical Tools

In the present study, certain statistical tools have been used to compare the Figures and draw

one meaningful conclusion there from. Short descriptions of the statistical tools have been presented here.

3.5.2.1 Mean

The most popular and widely used measure of representing the entire data by one variable is the arithmetic mean. It is calculated by dividing sum of all items by the total number of items. Mean values of the different variable represent the average value for the study period.

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

3.5.2.2 Standard Deviation

Dispersion is the degree of the variation of the individual items about a central value.

The standard deviation measures the absolute dispersion. The greater the amount of dispersion greater the standard deviation. The small standard deviations mean a high degree of uniformity of the observation as well as homogeneity of a series and vice-versa. In this study, standard deviation calculated for earning per share, dividend per share, dividend payout ratio, retained earnings, market value per share, dividend yield ratio and price earnings ratio.

$$\text{S.D } (\sigma) = \sqrt{\frac{\Sigma(X - \overline{X})^2}{N}}$$

3.5.2 3 Coefficient of Variation

The coefficient of variation is the relative measure of dispersion, comparable across which is defined as the ratios of the standard deviation to the mean expressed percent.

$$\text{C.V.} = \frac{\sigma}{\overline{X}} \times 100\%$$

3.5.2 4 Correlation Analysis

Correlation analysis is the statistical tools that can be used to describe the degree which one variable is nearly related to another. In the present study simple correlation has been used. Correlation co-efficient between the following financial variables has been calculated and presented in matrix form and thereby interpreted thoroughly.

$$\text{Correlation coefficient } (r) = \frac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} - \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

Simple correlation coefficient

- Between Earning Per Share and Dividend Per Share.
- Between Earning Per Share and Market Value Per Share.
- Between Dividend Payout Ratio and Market Value Per Share.
- Between last year dividend per share and Market Value Per Share.

3.5.2.5 Regression Analysis

Correlation analysis tells the direction of movement but it does not tell the relative movement in the variables under study. Regression analysis helps us to know the relative movement in the variables. Regression analysis of the following variable.-, have been calculated and interpreted.

3.5.2.6 Coefficient of Determination (r^2)

The coefficient of determination is a measure of the degree of liner association or correlation between two variable one of which happens to be independent and other being dependent variable. In other word r measures the percentage total variation in dependent variables. The coefficient of determination value can have ranging from zero to one. A value or one can occur only if the unexpected variation is zero which simply means that all the data point in the scatters diagram fall exactly on the regression line.

3.5.2.7 Regression Constant (a)

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

3.5.2.8 Regression Coefficient (b)

The regression coefficient of each independent variable indicates the marginal relationship between the variable and value of dependent variable, holding constant the effect of all other independent variables in the regression model. In other words the coefficient describes how change in independent variables affects the values of dependent variables estimative.

Simple Regression Analysis

I.   Market Value Per Share on Earning Per Share.

This analysis enables us to know whether EPS is the influencing factor of market value per share or not. At what extent the EPS affects the MVPS.

$$Y = a + bX$$

Where,

Y = market value per share

a = Regression constant

b = Regression coefficient

X = Earning per share

II.   Market Value Per Share on last year Dividend Per Share

This analysis is examined the market value per share as depended variable on last year dividend per share as independent variable.

$$Y = a + bX$$

Where,

Y = Market value per share

a = Regression constant

b = Regression coefficient

X = Last year Dividend per share

III. Dividend per Share (DPS) on Earning per Share (EPS)

This analysis is examined the dividend per share as depended variable on earning per share as independent variable.

$$Y = a + bX$$

Where,

Y = Dividend per share

a = Regression constant

b = Regression coefficient

X = Earnings per Share

Limitations of Methodology

- The analysis is based on secondary data. However, some questionnaires are also made in this study. Hence, both secondary data and primary tools are used.
- Calculation based on only five years data.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

The presentation and analysis of data is the major part of the research study. The analysis of data has been done according to the available data. The analysis includes several tools and techniques such as financial tools and statistical tools and attitude of management towards dividend decision.

In this chapter, collected data and other information on dividend policy and its impact on market price of stock of commercial banks are presented. This chapter concentrated in presentation and analysis of data as important financial indicators. This chapter attempts to analyze of Earning per share, Dividend per share, Dividend payout ratio, Retained earning analysis, Market value per share, dividend yield ratio, a Price earnings ratio, Correlation between Financial variables and trend analysis of Financial variables of selected commercial banks. In order to achieve our objective of the study, we analyze the data with the help of above financial and statistical tools. This chapter will attempt to make a comparison among the concerned banks.

4.1 Analysis of Financial Indicators of Sample Banks
4.1.1 Earning Per Share (EPS) Analysis
All the business firms always seek to have and more earning so that they could sustain efficiently in the competitive market. The following table shows all the details relating to earning per share of respective banks.

Table 4.1

Earning Per Share

(In Rs.)

Year	SCBNL	NABIL
2007/08	131.92	115.86
2008/09	109.99	113.44
2009/10	77.65	83.81
2010/11	69.51	70.67
2011/12	72.60	83.57
Average	92.33	93.47
S.D.	24.52	17.95
C.V (%)	26.56	19.20

Source: Annual Report of concerned banks & Appendix I

Figure 4.1

Earnings Per Share
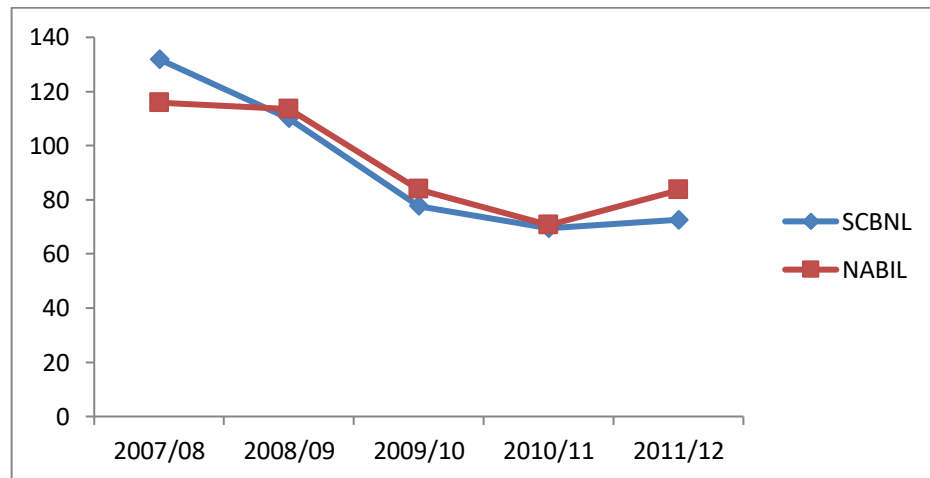
Table 4.1 and figure 4.1 shows that EPS of the concerned banks from 2007/08 to 2011/12. Normally, the performance and the achievement of business organization are measured in terms of its capital to generate earning. Higher earning shows higher strength while lower earning shows weaker strength of business organization. The table shows that the EPS of SCBNL is decreasing till the fiscal year 2010/11 from 2007/08. But in FY 2011/12 EPS of SCBNL is slightly increasing to Rs. 72.60 from Rs.69.51 in FY 2010/11. Likewise, the EPS of

NABIL   is decreasing till FY 2010/11 and increasing in FY 2011/12 is RS. 83.57 Which is higher than SCBNL.

The average mean EPS of SCBNL and NABIL are Rs. 92.33 and Rs. 93.47 respectively. The standard deviation of SCBNL is the highest (24.52%) and EBL is the lowest (17.95%) among two banks for five years. In same way, CV of SCBNL is 26.56% which is higher than NABIL 19.20%. Thus, EPS of SCBNL is less uniformity than EBL.

4.1.1.1 Dividend Per Share Analysis

The study topic concerned to the dividend of the banks. It has taken the dividend paid by two sample banks for the five fiscal years. Under this, only cash dividend per share (Rs) is analyzed but stock dividend also concerned and analyzed in total DPS heading. So it is very important at this stage to look over the relevant data on dividend for the purpose of this analysis.

Table:4.2

Dividend Per Share

(In Rs.)

Years	SCBNL	NABIL
2007/08	80.00	60.00
2008/09	50.00	35.00
2009/10	55.00	30.00
2010/11	52.00	30.00
2011/12	45.00	40.00
Average	56.4	39.00
S.D.	12.24	11.13
C.V. (%)	21.70	28.53

Source: Annual Report of concerned banks & Appendix I

Table 4.2 shows the impact on dividend per share of the concerned JVCB from the year 2007/08 to 2011/12. In analysis period, SCBNL has paid the highest than NABIL to its shareholders in average. In this period, SCBNL has paid Rs. 56.4 as DPS and NABIL has paid Rs. 39.00 DPS in average. Both the banks DPS is in decreasing trend but in last FY 2011/12

NABIL has increased the DPS to Rs. 40. In same way, CV of SCBNL is 21.70% which is lowest than NABIL i.e. 28.53% among the sample banks. This shows that DPS of SCBNL is more consistent and stable than other NABIL. It is also shown in following figure.

Figure 4.2

Dividend per Share
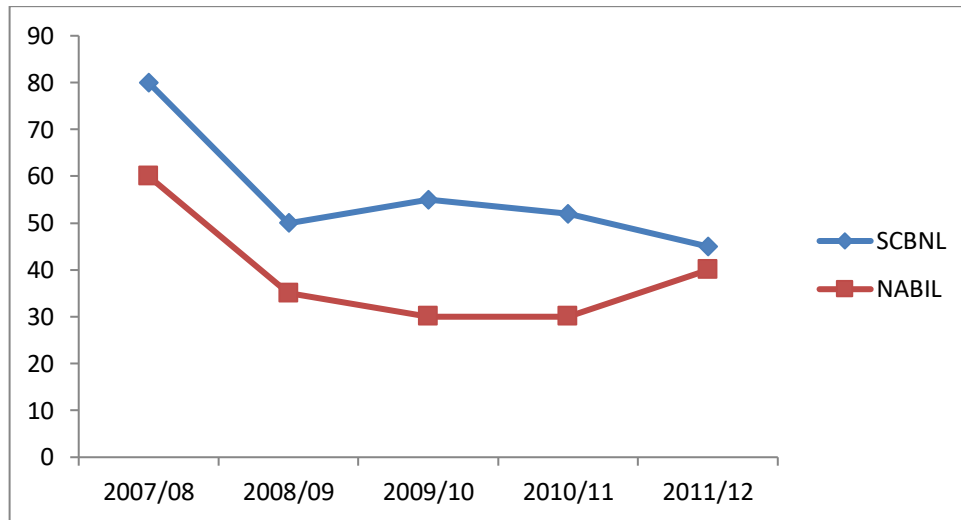
4.1.1.2 Analysis of EPS and Total DPS

All earnings of business are not distributed as dividend. The organization should have to retain the earnings and create different types of funds for future growth and risk management. In this study, how much earnings are distributed by selected JV banks to their shareholders. The following table shows the relationship between earning per share and dividend per share of selected companies.

a) **Analysis of EPS and Total DPS of SCBNL**

Table 4.3

Analysis of EPS and total DPS of SCBNL

Year	EPS	DPS cash	Stock dividend	Total DPS
2007/08	131.92	80.00	50.00	130.00
2008/09	109.99	50.00	50.00	100.00
2009/10	77.65	55.00	0.00	55.00

2010/11	69.51	52.00	0.00	52.00
2011/12	72.60	45.00	15.00	60.00

Source: Annual Reports of the concerned banks

Above table 4.3 shows the analysis of EPS and DPS of SCBNL of analysis period. In the year 2007/08 EPS of SCBNL is Rs.131.92 and it gives Rs.80 cash dividend per share and 50 stock dividend. After FY 2007/08 , EPS and DPS has decreased to Rs. 69.51 and gives cash dividend of Rs.52 per share and no stock dividend in 2010/11. In this fiscal year 2011/12, EPS of company is increased to Rs. 72.60 and DPS also increased to Rs. 60 consisting Rs. 45 cash dividend and 15 % stock dividend. In same way, company has taken the decision to distribute dividend as per its earnings. There may be the cause of SCBNL could not to pay the sufficient dividend to its shareholder because of the financial crisis in Nepal.

b) Analysis of EPS and total DPS of EBL

Table 4.4

Analysis of EPS and total DPS of NABIL

Year	EPS	DPS cash	Stock dividend	Total DPS
2007/08	115.86	60.00	40.00	100.00
2008/09	113.44	35.00	50.00	85.00
2009/10	83.81	30.00	40.00	70.00
2010/11	70.67	30.00	0.00	30.00
2011/12	83.57	40.00	20.00	60.00

Source: Annual Reports of the NABIL

The above table 4.4 shows the analysis of EPS and DPS of NABIL during the period 2007/08 to 2011/12. In the year 2007/08 EPS of NABIL is Rs.115.86 and it gives 40% of stock dividend and Rs.60 per share cash dividend. Likewise EPS has decreased till the FY 2010/11 i.e. Rs.115.86 to Rs.113.44, Rs.83.81 and Rs.70.67 in subsequent years respectively. During this period, NABIL has reduced both stock and cash dividend to its shareholders. In FY 2010/11 EPS of NABIL is decreased to Rs. 70.67 and company could not pay stock dividend and cash dividend to Rs. 30 per share to its shareholders. The EPS of NABIL is increased to Rs. 83.57 in FY 2011/12 and company has also succeed to pay both cash dividend Rs. 40.00 and 20% stock dividend and total dividend reached to Rs.60 per share. There is legal provision to increase the paid up capital of commercial banks up to Rs. 2000 million. So,

company has distributed the stock dividend and cash dividend as per earnings of company in last three fiscal years respectively.

4.1.1.3 Dividend payout Ratio Analysis

Dividend payout ratio is percentage of profit that is distributed as dividend. This ratio reflects percentage of profit is distributed as dividend and what percentage of profit is remained as reverse and surplus for the growth of the company. It is calculated by DPS divided by the EPS.
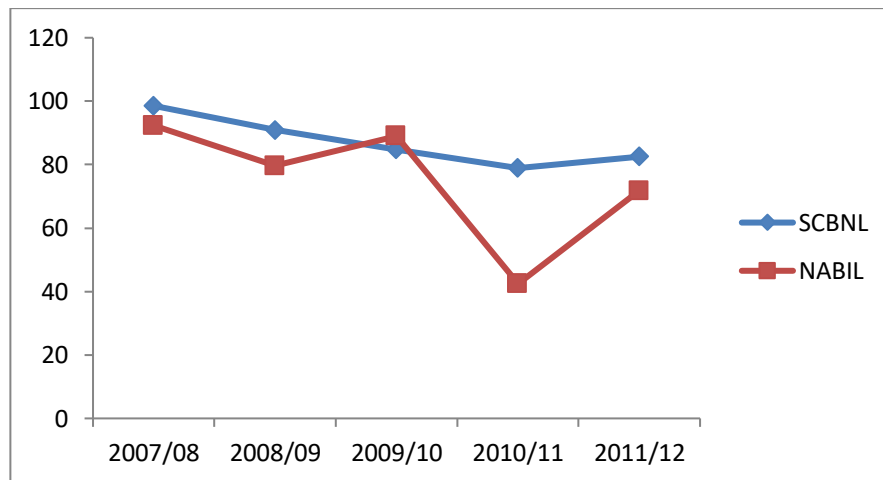
Table 4.5

Dividend Payout Ratio   **(In %)**

Year	SCBNL	NABIL
2007/08	98.54	92.33
2008/09	90.91	79.62
2009/10	84.82	89.05
2010/11	78.91	42.45
2011/12	82.54	71.80
Average	87.14	75.05
S.D.	6.91	17.83
C.V. (%)	7.93	23.75

Source: Annual Report of concerned banks & Appendix I

The table 4.5 shows that the dividend payout ratio of the two sample banks from the FY 2007/08 to 2011/12. In the year 2007/08 SCBNL & NABIL have paid 98.54% and 92.33% respectively. After FY 2007/08, dividend payout ratio of SCBNL is decreasing and reached to 78.91% except in FY 2011/12. Likewise, dividend payout ratio of NABIL is decreasing and increasing   alternatively i.e. more fluctuating. The dividend payout ratio of NABIL is lowest among the sample banks that are 71.80% in FY 2011/12. The average dividend payout ratio of SCBNL and NABIL are 87.14% and 75.05% respectively. Among them, average dividend payout ratio of SCBNL is highest than NABIL. After analyzing the average D/P ratio, it can be concluded that SCBNL has paid the highest amount as dividend to its shareholders from its earning than NABIL among the sample banks. The calculation of the coefficient of variation of the D/P ratio of two banks suggests that D/P of NABILL is less consistent (i.e. 17.83% deviation) with 23.75% CV. Whereas C.V. of SCBNL is 7.93% in

analysis period.

Figure 4.3

Dividend Payout Ratio

4.1.2 Market Value per Share Analysis

Table 4.6

Market Value Per Share

(In Rs.)

Year	SCBNL	NABIL
2007/08	6830.00	5275.00
2008/09	6010.00	4899.00
2009/10	3279.00	2384.00
2010/11	1800.00	1252.00

|		
2011/12	1799.00	1355.00
Average	3943.00	3033.00
S.D.	2108.90	1727.27
C.V.(%)	53.48	56.95

Source: Annual Reports of the concerned bank

Table 4.6 shows that the market price per share of the concerned banks from the year 2007/08 to 2011/12. Market value per share means to evaluate value of share in the market. In the year 2007 /08 MVPS of SCBNL & NABIL are Rs.6830 and Rs. 5275 respectively. Then after MVPS of SCBNL is decreasing and reached to   Rs. 1799 in FY 2011. Likewise, MVPS of NABIL is also decreasing upto Rs. 1252 in FY 2010/11 and slightly increased to Rs. 1355 in FY 2011/12. The average MVPS of SCBNL and NABIL are Rs. 3943 and Rs. 1868 in analysis period.

The coefficient of variation analysis shows that MVPS of SCBNL is more consistent among than NABIL since the C.V. of SCBNL is 53.48% which is less than CV of NABIL i.e. 56.95%. It is also clear from the following figure.

Figure 4.4

Market value per share analysis
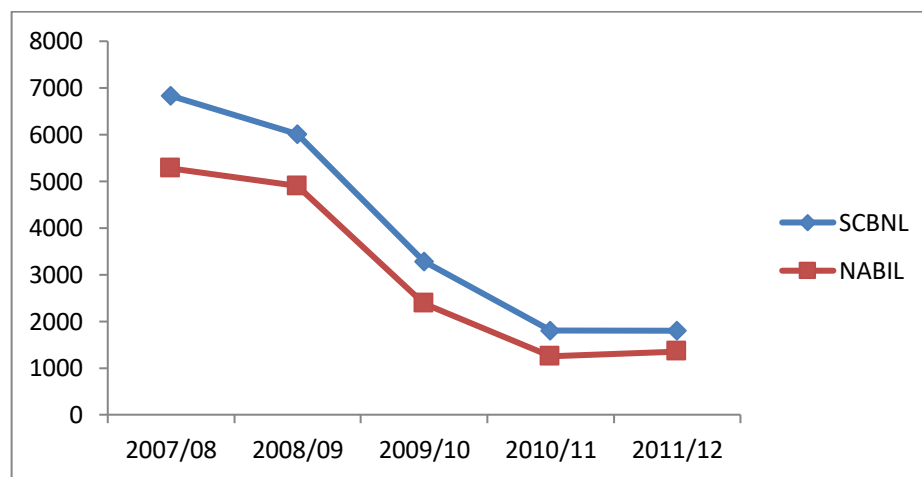
4.1.2.1 Dividend Yield Ratio Analysis

This ratio shows the relationship between dividend per share and market value per share. It is calculated by dividing dividend per share by market value per share. Dividends yield ratio is highly influences by the market value per share. The ratio highly influences the market value per share because change in dividend per share can bring effective change in market value of

that share. Therefore, before allocation of a market scenario and price fluctuation it is to be studied and evaluated for the long run survival of the company.

Table 4.7

Dividend Yield Ratio

(In %)

Year	SCBNL	NABIL
2007/08	1.90	1.90
2008/09	1.66	1.74
2009/10	1.56	2.94
2010/11	1.47	2.40
2011/12	3.34	4.43
Average	1.99	2.68
S.D.	0.69	0.97
C.V. (%)	34.67	36.19

Source: Annual Report of concerned banks & Appendix I

Table 4.7 shows dividend yield ratio analysis for the year 2007/08 to 2011/12. In the year 2007/08 dividend yield of SCBNL & NABIL are 1.90% and 1.90% respectively. In next year's, this ratio is decrease for SCBNL, DY ratio of this bank is 1.66%, 1.56% and 1.47% in analysis period. But this ratio is increased to 3.34% in FY 2011/12 which is highest. In same way DY of EBL is also decreased in FY 2008/09 i.e. 1.74% then decreased and again increasing trend. After 2007/08 increased in 2008/09 i.e. 2.44% then increased and decreased. The DY ratio of NABIL is 2.94%, 2.40% and 4.43% respectively in 2009/10, 2010/11 and 2011/12.

In average, NABIL dividend yield ratio i.e. 2.68% which is highest than SCBNL i.e. 1.99%. The coefficient of variation analysis shows that the DY of SCBNL has least fluctuation with least CV value of 34.67% than NABIL with CV of 36.19%. It is also clear from the following figure.

Figure 4.5

Dividend Yield Ratio
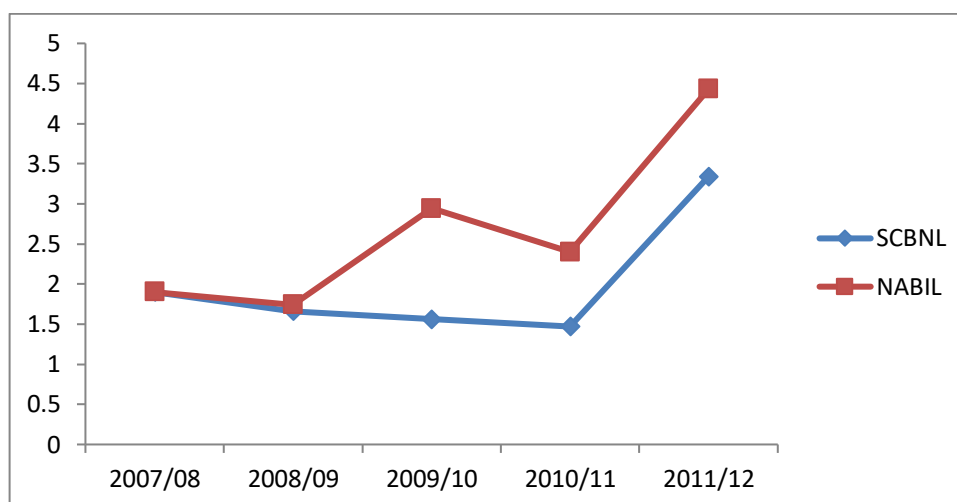
4.1.2.2 Price Earnings Ratio Analysis

This ratio reflects the price currently paid by the market for each rupee of current reported Earning per share (EPS). It is calculated by dividing the market value share (MVPS) by earning per share. PE ratio is the investor's exception towards the company's financial performance. It gives the knowledge of financial protection towards owner which also indicates the market appraisals of the different banks.

Table 4.8

Price Earning Ratio

(In times)

Year	SCBNL	NABIL
2007/08	51.77	45.53
2008/09	54.64	43.19
2009/10	42.23	28.45
2010/11	25.90	17.72
2011/12	24.78	16.21
Average	39.86	30.22
S.D.	12.56	12.31
C.V.	31.51	40.73

Source: Annual Report of concerned banks & Appendix I

The table 4.8 describes the price earnings ratio of the two sample banks. This study helps us to study the relationship between earning per share and market value per share. PE ratio of selected banks is grown up rapidly. The PE ratio of SCBNL is 51.77, 54.67, 42.23, 25.90 and 24.78 times in 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. This ratio of NABIL is 45.53, 43.19, 28.45, 17.72 and 16.21 times respectively in this study period. In year 2009/10 and 2010/11 due to the financial instability P/E ratio is decreased of sample banks. In the FY 2011/12 both banks P/E ratios are below 25 times. During this period P/E ratio of SCBNL and EBL are 39.86 and 30.22 times respectively.

The coefficient of variation analysis shows that the PE ratio of SCBNL is least fluctuation i.e. 31.51%. than NABIL i.e. 40.73%. It is also presented in following figure.

Figure 4.6

Price Earnings Ratio
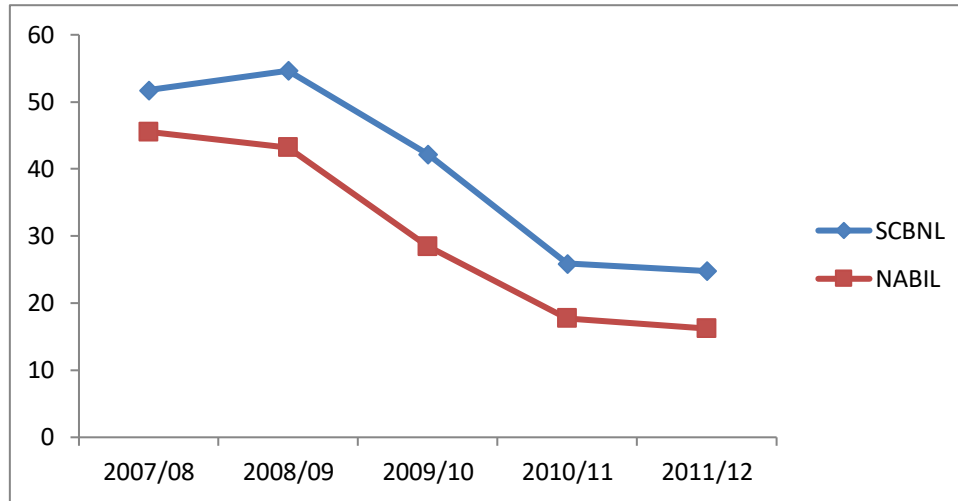
4.1.3 Correlation Analysis

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to other variables. Its value is limited between the range +1 and -1. Thus, if the variable were perfect correlated, returns on these would move up and down together. The variable of such would be exactly as risky as the individual stocks.

The variable negatively correlated would more perfectly together but in exactly opposite direction. In this audition, risk can be eliminated completely. But perfect negative correlation almost never find in the real world. The correlation between different variables, their coefficients, probable errors and interpretation are presented in following tables.

4.1.3.1 Correlation between EPS and DPS

Table 4.9

Correlation between EPS and DPS

Name of Bank	Correlation coefficient (r)	Coefficient Determinant (r²)	Probable Error (PE)	6 PE	Result
SCBNL	0.9926	0.9853	0.0044	0.0264	Significant
NABIL	0.9299	0.8647	0.0041	0.0246	significant

Table 4.9 shows the relationship between EPS and DPS of two sample banks. It is observed that correlation coefficient(r) between EPS and DPS of sample banks is positive. Correlation coefficient of sample banks is all positive which indicates that EPS and DPS of banks are positive correlated. The coefficient of determinant is more precise measure of strength of the relationship between two variables and trends itself to more precise interpretation because it can be presented as a portion or as a percentage. The coefficient determinant between EPS and DPS of SCBNL is 0.9926, which means that the EPS determines 99.26% of variation in DPS. In same way, EPS determines 92.99% variation in DPS of NABIL respectively.

The Probable Error (PE) is used to measure the reliability and test of significance of correlation coefficient. PE is used in interpretation whether the calculated value of r is significant or not. If r < 6 P.E., it is insignificant i.e. there is no evidence of correlation. If r> 6 P.E., it is significant. In table 4.9 both SCBNL and NABIL bank correlation coefficient is significant between DPS and EPS.

4.1.3.2 Correlation between EPS and MVPS

Table 4.10

Correlation between EPS and MVPS

Name of Bank	Correlation coefficient (r)	Correlation Determinant (r²)	Probable Error (PE)	6 PE	Result
SCBNL	0.9739	0.9485	0.0155	0.093	Significant
NABIL	0.9736	0.9479	0.0023	0.0138	Significant

Table 4.10 shows the relationship between EPS and MVPS of two sample banks. It is observed that correlation coefficient(r) between EPS and MVPS of two banks are positive. Correlation coefficient of SCBNL is 0.9739 i.e. highly correlated. Coefficient of determinant is more precise measure of strength of the relationship between two variables and trends itself to more precise interpretation because it can be presented as a portion or as a percentage. The coefficient determinant between EPS and MVPS of SCBNL is 0.9739, which means that the

EPS determines 97.39% of variation in MVPS. In same way, EPS determines 97.36% variation in MVPS of NABIL.

The Probable Error (PE) is used to measure the reliability and test of significance of correlation coefficient. PE is used in interpretation whether the calculated value of r is significant or not.   If r < P.E., it is insignificant i.e. there is no evidence of correlation. If r> 6 P.E., it is significant. In table 4.10, correlation coefficient of EPS and MVPS of both SCBNL and NABIL are significant since value of r is greater than 6 P.E.

4.1.3.3 Correlation between D/P ratio and MVPS

Table 4.11

Correlation between D/P ratio and MVPS

Name of Bank	Correlation coefficient (r)	Correlation Determinant (r^2)	Probable Error (PE)	6 PE	Result
SCBNL	0.9578	0.9174	0.0249	0.1494	Significant
NABIL	0.6606	0.4364	0.1700	1.02	Insignificant

Source: Appendix IV

Table 4.11 shows the relationship between D/P ratio and MVPS of sample banks. It is observed that correlation coefficient(r) between D/P ratio and MVPS of sample banks is positive. The coefficient of determinant is more precise measure of strength of the relationship between two variables and trends itself to more precise interpretation because it can be presented as a portion or as a percentage. The coefficient determinant between D/P ratio and MVPS of SCBNL is 0.9578, which means that the D/P ratio determines 95.78% of variation in MVPS. In same way, D/P ratio determines 66.06% variations in MVPS of NABIL i.e. less interference.

The Probable Error (PE) is used to measure the reliability and test of significance of correlation coefficient. PE is used in interpretation whether the calculated value of r is significant or not. If r < P.E., it is insignificant i.e. there is no evidence of correlation. If r> 6 P.E., it is significant. In above table 4.11, correlation coefficient between D/P ratio and MVPS

of SCBNL is more than 6 PE and NABIL is less than 6PE. So, correlation coefficient of D/P ratio and MVPS of SCBNL is significant and NABIL is insignificant.

4.1.4 Regression Analysis

The regression is used to determine the statistical relationship between two or more variable and to make predicates of one variable on the basis of the others. The regression can analyze simple regression. When we take only one independent variable and predict the value of the dependent variable through the appropriate regression line the analysis is known as simple regression analysis. The availability of the data has been taken for the five years.

4.1.4.1 Market Value per Share (MVPS) on Earning per Share (EPS)

Table 4.12

Simple Regression equation of MVPS on EPS

Banks	Constant (a)	Regression Coefficient (b)	R	r^2	t-value (Calculated)
SCBNL	-3792.14	83.78	0.9739	0.9485	7.433
NABIL	-5723.27	93.68	0.9736	0.9479	7.387

Source: Appendix III

Above table 4.12 describes the major output of simple regression analysis between earning per share (EPS) independent variable and market value per share (MVPS) dependent variables of the concerned banks. As for the regression EPS and MVPS in concerned with regression coefficient (beta coefficient) of the SCBNL is 83.78, which indicate that one rupees change in EPS leads to increase in market price of Rs.83.78 holding other variable constant. The correlation coefficient between these two variables of SCBNL is also positive.

The beta coefficient of NABIL is 93.68, which indicates that one rupees increase in EPS leads to average of Rs.93.68 increase in market price. Coefficient of determinations (r^2) of SCBNL and NABIL is 0.9485 and 0.9479 respectively. This indicates that 94.85%, and 94.79% MVPS variation are explained by variation in EPS of SCBNL and NABIL respectively.

Since the calculated 't' value of both SCBNL of 7.433 and NABIL of 7.387 which is higher than tabulated value of 't' i.e. 3.182 for two tailed test at 5% level of significance. So, the result is statistically significant at 5% level of significance.

4.1.4.2 Dividend per Share (DPS) on Earning per Share (EPS)

Table 4.13

Simple Regression equation of DPS on EPS

Banks	Constant (a)	Regression Coefficient (b)	R	r^2	t-value (Calculated)
SCBNL	-35.09	1.24	0.9926	0.9853	14.16
NABIL	-45.96	1.23	0.9299	0.8647	4.378

Source: Appendix II

Above table 4.13 describes the major output of simple regression analysis between earning per share, the independent variable and dividend per share (DPS) dependent variables of the concerned banks. As for the regression EPS and DPS in concerned with regression coefficient (beta coefficient) is positive which indicates the positive correlation is exist between variables. This indicates that one rupees increase in EPS causes Rs. 1.24 and Rs. 1.23 increase in the DPS of SCBNL and NABIL respectively holding other variables constant. Coefficient of determinations (r^2) of SCBNL and NABIL is 0.9853 and 0.8647 respectively. This indicates that 98.53% and 86.47% DPS variation are explained by variation in EPS. Since the calculated' value of SCBNL and NABIL is 14.16 and 4.378 which is greater than tabulated value 't'i.e.3.182 at 5% level of significance. So the result of't' of both SCBNL   and NABIL is statistically significant at 5% level of significance.

4.2 Presentation and Analysis of Primary Data

The primary data is collected on the basis of a questionnaire spread over to different financial sectors. The basic purpose of the distributing the questionnaire was to obtain a knowledge on the various aspects of the dividend policy especially the view point of academicians, Banker, NRB officials, lecturer and investor as how to they regard the dividend policy in Nepal. Questionnaire for the collection of primary data was distributed to 50 respondents from different fields.   After the distribution of list of questionnaires to different respondents, following result is achieved.

4.2.1 Preference of Divined Option

In the first question, for the preference of the dividend option, following answer is collected from the respondents.
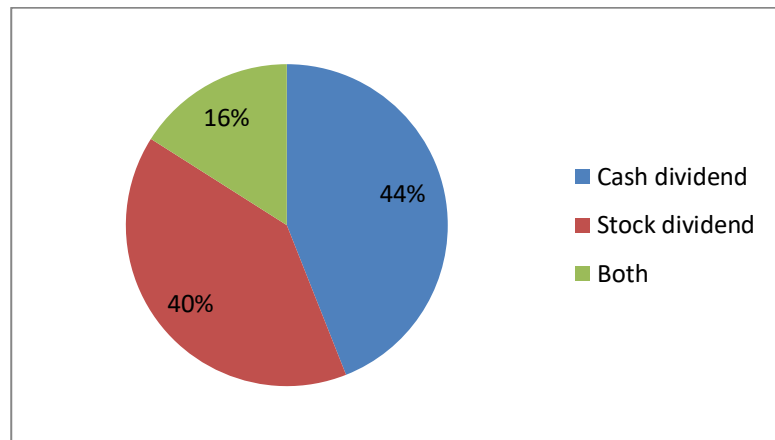
Table 4.14

Preference of Dividend Option

Option	No of Respondent	% of respondent
Cash dividend	22	44
Stock dividend	20	40
Both	8	16
Total	50	100

Source: Field survey February, 2013

Most of the investors, 44% as per this survey, preferred cash dividend. Among the 50 respondents, 40% respondent preferred stock dividend and 16% preferred both i.e. cash dividend and Stock dividend. It is also shown in following figure.

Figure 4.7

Preference of Dividend Option

In the second question, factors considered by the investors while selecting the Financial Institution are summarized below:

4.2.2 Factors considered by the investors while selecting the Financial Institution

Table 4.15

Factors considered by the investors while selecting the Financial Institution

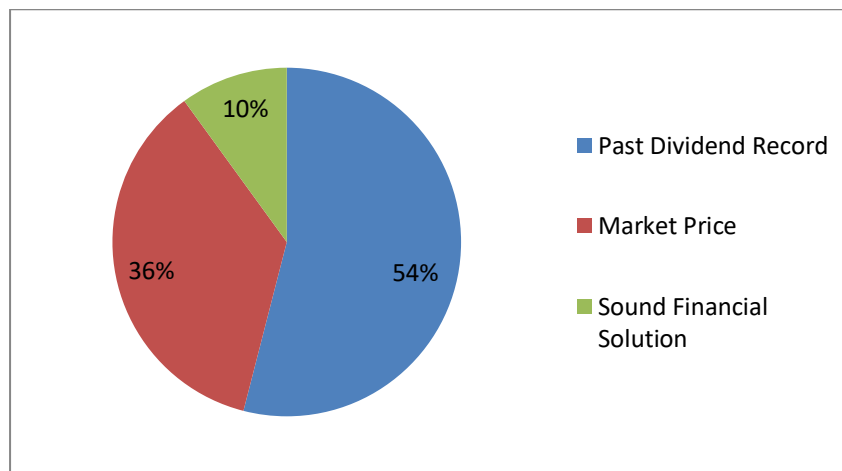| Option	No of Respondent	% of respondent
Past Dividend Record	27	54

Market Price	18	36
Sound Financial Solution	5	10
Total	50	100

From the above table 4.15 Most of the investors, 54% as per this survey, considered the past dividend record of the firm while investing them. Among the 50 respondents, 18 i.e. 36% considered market price and only 5 i.e.10% considered the sound financial position while investing. It is also presented in following figure.

Figure 4.8

Factors considered by the investors while selecting the Financial Institution

4.2.3 Factors to be considered while adopting dividend policy

In the third question, what factors should be considered while adopting dividend policy, the answer of respondents is presented as follows:

Table 4.16

Factors to be considered while adopting dividend policy

Option	No of Respondent	% of respondent
Legal Restriction	25	50
Liquidity position	17	34
Borrowing Capacity of the firm	8	16
Total	50	100

The table 4.16 depicts the factors to be considered while adopting dividend policy. Most of the investors i.e. 50% as per this survey, considered the legal restriction of the firm while distributing the dividend policy. Likewise, 34% respondent accepted the liquidity position affect the dividend policy whereas only 16% accepted the borrowing capacity of the firm. It is also clear from the following figure.

Figure 4.9

Factors to be considered while adopting dividend policy
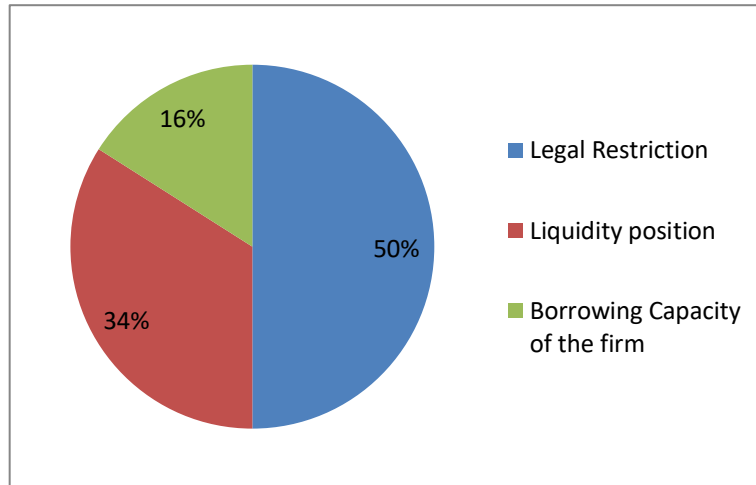
4.2.4 Reason of investing in the share capital

In the fourth question, the respondents are asked why people invest in the share capital, the answered of respondents is as follows:

Table 4.17

Reason of investing in the share capital

Option	No of Respondent	% of respondent
To utilize surplus money	23	46
To receive dividend	18	36
Best method to invest	9	18
Total	50	100

Source: Field survey February, 2013

According to the above table 4.17, among the 50 respondents, 46% invested to utilize their surplus money, 36% invested their money in the share capital to gain dividend and remaining 18% thought it is the best method to invest. It is also shown in following figure.

Figure 4.10

Reason of investing in the share capital
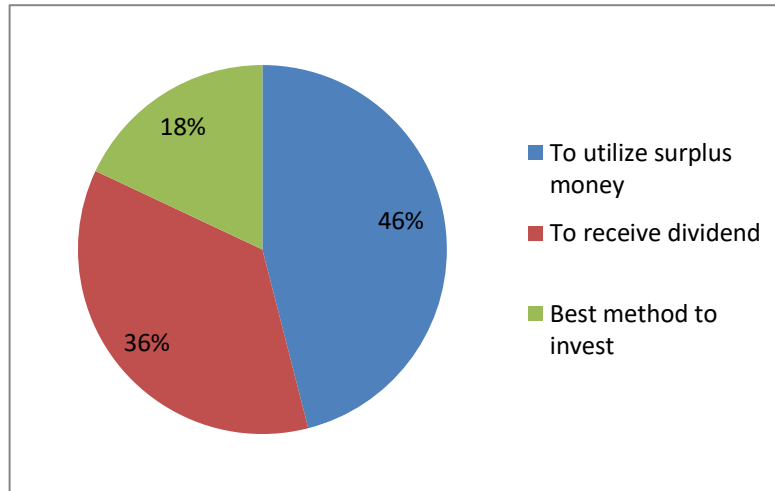
4.2.5 Received Cash or Stock Dividend

Whether the investors have received cash or stock dividend till date is asked in the fifth question. The answered of respondents can be summarized as follows.

Table 4.18

Cash or Stock Dividend

Option	No of Respondent	% of respondent
Cash dividend	22	44
Stock dividend	21	42
Both	7	14
Total	50	100

Source: Field survey February, 2013

Among the 50 respondents 22 i.e. 44% have received cash dividend from the company, 21 i.e. 42% have received stock dividend and remaining 7   i.e. 14% have received both cash and stock dividend. It is also clear from the following figure.

Figure 4.11

Received Cash or Stock Dividend
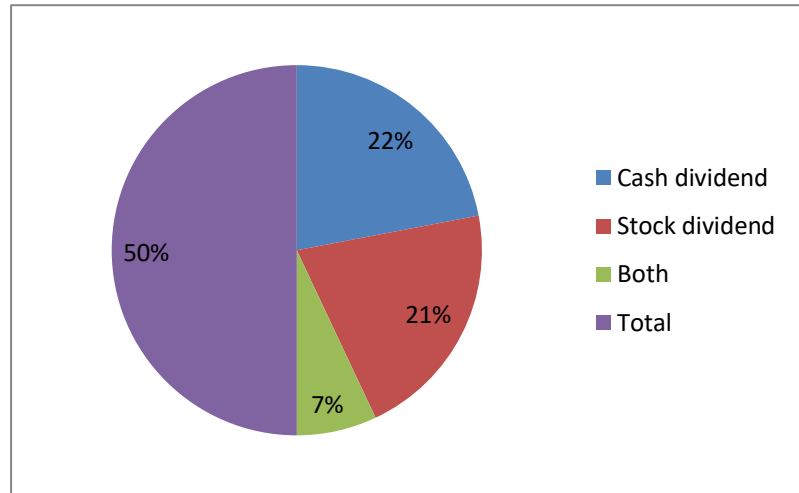
4.2.6 Suggestions if there is no cash to pay cash dividend

Suggestions to the company if the company does not have cash to pay cash dividend is asked with the respondents in the sixth question, which is answered in the following way by the respondents.

Table 4.19

Suggestions if there is no cash to pay cash dividend

Option	No of Respondent	% of respondent
Pay next years	21	42
Pay stock dividend	25	50
Don't pay both	4	8
Total	50	100

Source: Field survey February, 2013

The above table 4.19 reflects that 42% of the respondents want that the company pays dividend next year, 50% of the respondents want that the company pays stock dividend instead of cash dividend and remaining 8% says not to pay the both this year. It is also clear from the following figure.

Figure 4.12

Suggestions if there is no cash to pay cash dividend
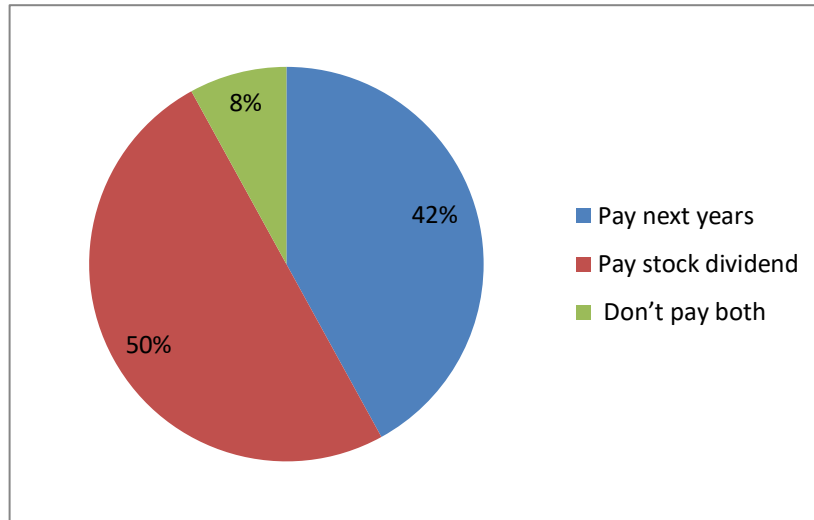
4.2.7 Major motive of cash dividend by the banks

Respondents are asked about the major motives of cash dividend by the banks in the seventh question. They have answered it as follows:

Table 4.20

Major motive of cash dividend by the banks

Option	No of Respondent	% of respondent
Convey information that the company is doing well	13	26
Draw attention from the investment community	23	46
Increase the market value of the firm's stock	14	28
Total	50	100

Source: Field survey February, 2013

According to the above table 4.20, 26% of the respondents think that the motive of the company to distribute the cash dividend is to convey the information that the company is doing well, 46% think company pays dividend to draw the attention of the new investors and 28% respondents company pays cash dividend to increase the market value of the firm's stock

among 50 respondents. It is also shown in following figure.

Figure 4.13

Major motive of cash dividend by the banks
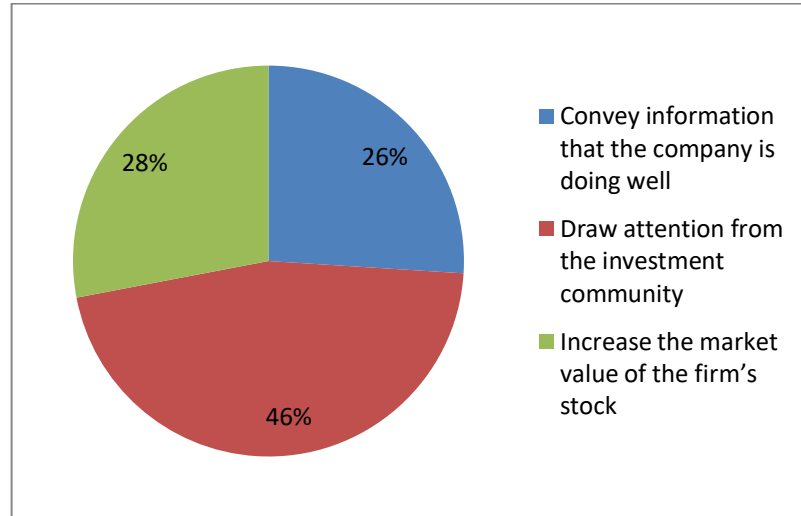
4.2.8 Effectiveness of Cash Dividend by the banks

Respondents are asked about the cash dividend by the banks in the eighth question. The answered of respondents are summarized as below.

Table No. 4.21

Effectiveness of Cash Dividend by the banks

Option	No. of Respondent	% of Respondent
Effective	21	42
moderate	19	38
Poor	10	20
Total	**50**	**100**

Source: Field survey February, 2013

The above table 4.21 reflects that 42% respondents said cash dividend is effective by the banks, 38% respondents said cash dividend is ineffective by the banks and remaining 20% said cash dividend is poor by the banks. It is also presented in following figure.

Figure 4.14

Cash Dividend by the banks
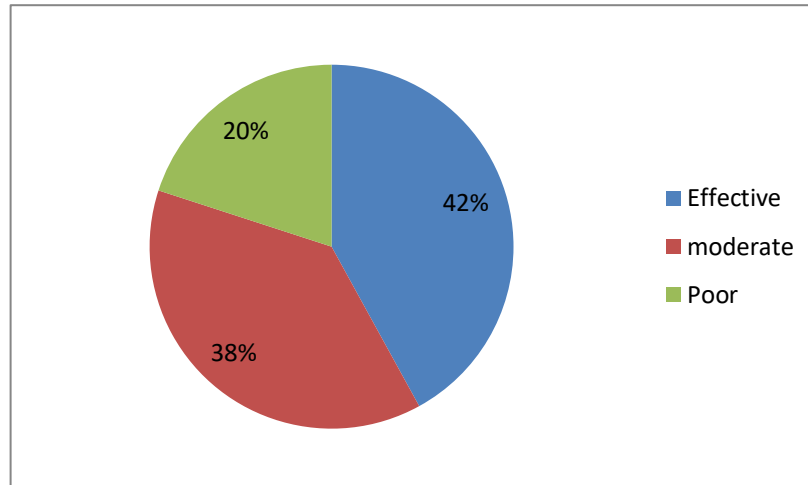
4.2.9 Sector wise Payment of Dividend

Respondents are asked about the dividend payment sector wise in the ninth question. The answer can be summarized as below.

Table 4.22

Sector wise Payment of Dividend

Option	No. of Respondent	% of Respondent
Banking	24	48
Manufacturing	11	22
Hydropower	8	16
Financial	5	10
Others	2	4
Total	**50**	**100**

Source: Field survey February, 2013

According to the table 4.22, 48% respondents said banking sectors, 22% respondents said manufacturing sector, 16% respondents said hydropower sector, 10% respondents said financial sector and remaining 4% respondents said other sector pay dividend pay mostly. It is also clear from the following figure.

Figure 4.15

Sector wise Payment of Dividend

- Banking — 48%
- Manufacturing — 22%
- Hydropower — 16%
- Financial — 10%
- Others — 4%
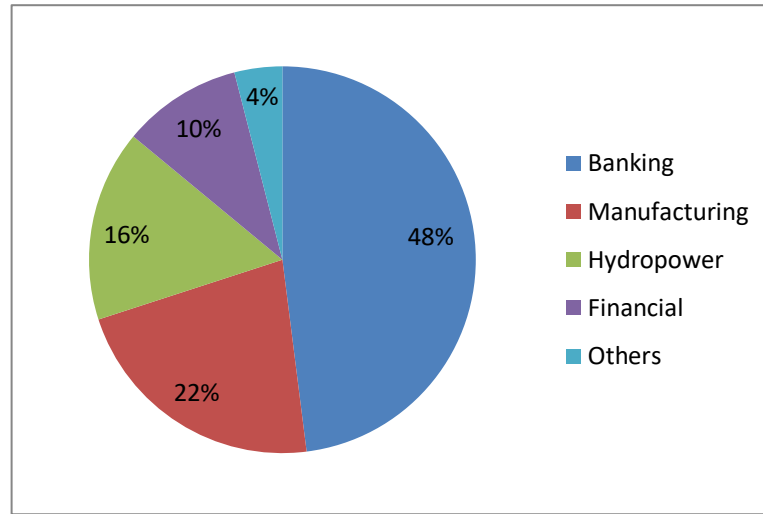
4.2.10 The most important factor to select securities to invest

The most important factor to select securities to invest in the tenth question. The answered of respondents are summarized as follow.

Table 4.23

The most important factor to select securities to invest

Option	No. of Respondent	% of Respondent
Earning	15	30
Availability	9	18
Rumors	4	8
Company's overall performance	20	40
Other	2	4
Total	**50**	**100**

Source: Field survey February, 2013

The table 4.23 presents the most important factor to select securities to invest. Out of 50 respondents, it is found that 30 percent of the investor said as Earning, 18 percent of Availability, 8 percent of the investor said as rumor and 40 percent of the investor as Company's overall performance and 4 percent of the investor as other. Following table 4.22

66

and figure 4.9 represents clear of more above analysis. It is also clear from the following figure.

Figure 4.16

The most important factor to select securities to invest
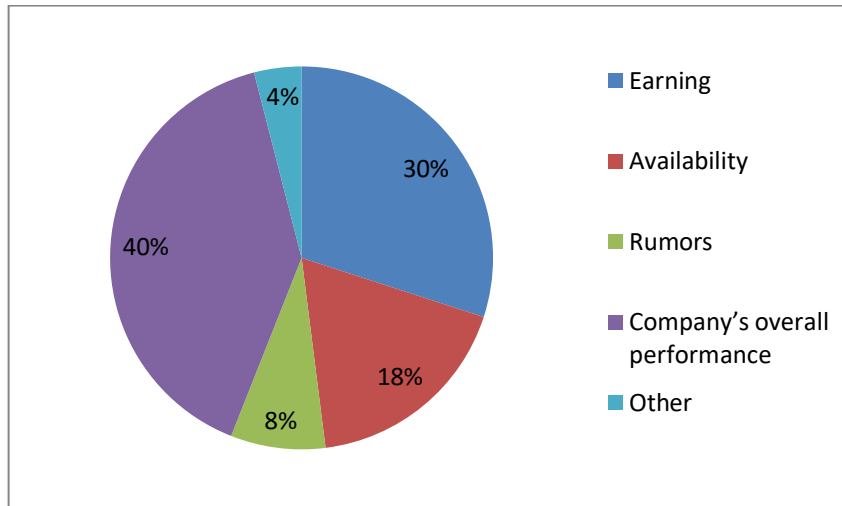
4.2.11 Responsible for hike of stock pricing

Respondents are asked about the responsible for hike of stock pricing in the eleventh question. Their answered is summarized as follows.

Table 4.24

Responsible for hike of stock pricing

Option	No. of Respondent	% of Respondent
Government	22	44
Investor	8	16
Brokers	15	30
NEPSE	5	10
Total	**50**	**100**

Source: Field survey February, 2013

Out of 50 respondents, it is found that hike of stock pricing is responsible for 44 percent said as government, 16 percent of investor, 30 percent said as brokers and 10 percent as NEPSE. It is also shown in following figure.

Figure 4.17

Responsible for hike of stock pricing
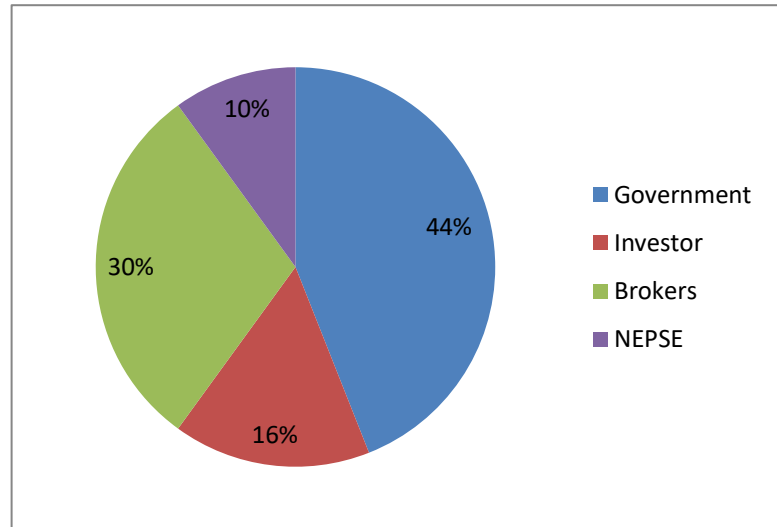
4.2.12 Suggestions for the change in policy

Respondents are asked about for the change in policy in the thirteenth question. The respondents answered are summarized as below.

Table 4.25

Suggestions for the change in policy

Option	No. of Respondent	% of Respondent
NRB	7	14
SEBON	10	20
NEPSE	9	18
All of them	24	48
Total	**50**	**100**

Table 4.25 depicts the suggestion for the change in policy. As per above table 14% respondents suggested that NRB is responsible, 20% respondents suggested that SBON is responsible, 18% respondents suggested that SEPSE is responsible and remaining 48% respondents suggested that all of them are responsible to change the policy. It is also clear from the following figure.

Figure 4.18

Suggestion if there is change the policy that is responsible
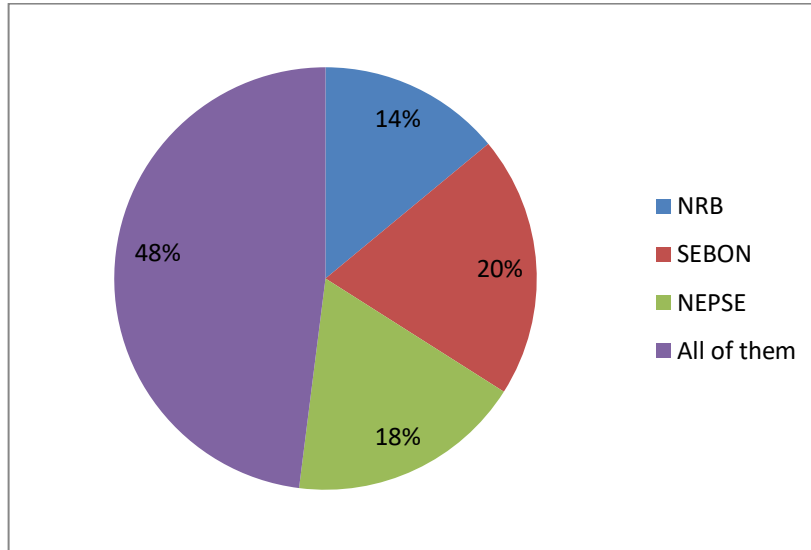
4.3 Major Findings

The major findings of this study are as follows:

- The EPS of SCBNL is decreasing till the fiscal year 2010/11 from 2007/08. But in FY 2011/12 EPS of SCBNL is slightly increasing to Rs. 72.60 from Rs.69.51 in FY 2010/11. Likewise, the EPS of NABIL is decreasing till FY 2010/11 and increasing in FY 2011/12 is RS. 83.57 Which is higher than SCBNL. The average mean EPS of SCBNL and NABIL are Rs. 92.33 and Rs. 93.47 respectively. The standard deviation of SCBNL is the highest (24.52%) and EBL is the lowest (17.95%) among two banks for five years. In same way, CV of SCBNL is 26.56% which is higher than NABIL 19.20%. Thus, EPS of SCBNL is less uniformity than NABIL.

- In analysis period, SCBNL has paid the highest than NABIL to its shareholders in average. In this period, SCBNL has paid Rs. 56.4 as DPS and NABIL has paid Rs. 39.00 DPS in average. Both the banks DPS is in decreasing trend but in last FY 2011/12 NABIL has increased the DPS to Rs. 40. In same way, CV of SCBNL is 21.70% which is lowest than NABIL i.e. 28.53% among the sample banks. This shows that DPS of SCBNL is more consistent and stable than other NABIL.

- In the year 2007/08 EPS of SCBNL is Rs.131.92 and it gives Rs.80 cash dividend per share and 50 stock dividend. After FY 2007/08, EPS and DPS has decreased to Rs. 69.51 and gives cash dividend of Rs.52 per share and no stock dividend in 2010/11. In this fiscal year 2011/12, EPS of company is increased to Rs. 72.60 and DPS also increased to Rs. 60 consisting Rs. 45 cash dividend and 15 % stock dividend.

- In the year 2007/08 EPS of NABIL is Rs.115.86 and it gives 40% of stock dividend and Rs.60 per share cash dividend. Likewise EPS has decreased till the FY 2010/11 i.e. Rs.115.86 to Rs.113.44, Rs.83.81 and Rs.70.67 in subsequent years respectively. During this period, NABIL has reduced both stock and cash dividend to its shareholders. In FY 2010/11 EPS of NABIL is decreased to Rs. 70.67 and company could not pay stock dividend and cash dividend to Rs. 30 per share to its shareholders. The EPS of NABIL is increased to Rs. 83.57 in FY 2011/12 and company has also succeeded to pay both cash dividend Rs. 40.00 and 20% stock dividend and total dividend reached to Rs.60 per share.

- Dividend payout ratio of the two sample banks from the FY 2007/08 to 2011/12. In the year 2007/08 SCBNL & NABIL have paid 98.54% and 92.33% respectively. After FY 2007/08, dividend payout ratio of SCBNL is decreasing and reached to 78.91% except in FY 2011/12. Likewise, dividend payout ratio of NABIL is decreasing and increasing alternatively i.e. more fluctuating. The dividend payout ratio of NABIL is lowest among the sample banks that are 71.80% in FY 2011/12. The average dividend payout ratio of SCBNL and NABIL are 87.14% and 75.05% respectively. Among them, average dividend payout ratio of SCBNL is highest than NABIL. After analyzing the average D/P ratio, it can be concluded that SCBNL has paid the highest amount as dividend to its shareholders from its earning than NABIL among the sample banks. NABILL is less consistent than SCBNL since the CV is higher.

- The average MVPS of SCBNL and NABIL are Rs. 3943 and Rs. 1868 in analysis period. In the year 2007 /08 MVPS of SCBNL & NABIL are Rs.6830 and Rs. 5275 respectively. Then after MVPS of SCBNL is decreasing and reached to Rs. 1799 in FY 2011. Likewise, MVPS of NABIL is also decreasing up to Rs. 1252 in FY 2010/11 and slightly increased to Rs. 1355 in FY 2011/12. The coefficient of variation analysis shows that MVPS of SCBNL is more consistent among than NABIL since the C.V. of SCBNL is 53.48% which is less than CV of NABIL i.e. 56.95%.

- In average, NABIL dividend yield ratio i.e. 2.68% which is higher than SCBNL i.e. 1.99%. The coefficient of variation analysis shows that the DY of SCBNL has least fluctuation with least CV value of 34.67% than NABIL with CV of 36.19%. It is also clear from the following figure.

- The PE ratio of SCBNL is 51.77, 54.67, 42.23, 25.90 and 24.78 times in 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. This ratio of NABIL is 45.53, 43.19, 28.45, 17.72 and 16.21 times respectively in this study period. In year 2009/10 and 2010/11 due to the financial instability P/E ratio is decreased of sample banks. In the FY 2011/12 both banks P/E ratios are below 25 times. During this period P/E ratio of SCBNL and EBL are 39.86 and 30.22 times respectively. The coefficient of variation analysis shows that the PE ratio of SCBNL is least fluctuation i.e. 31.51% than NABIL i.e. 40.73%.

- It is observed that correlation coefficient(r) between EPS and DPS of sample banks is positive. Correlation coefficient of sample banks is all positive which indicates that EPS and DPS of banks are positive correlated. The coefficient determinant between EPS and DPS of SCBNL is 0.9926, which means that the EPS determines 99.26% of variation in DPS. In same way, EPS determines 92.99% variation in DPS of NABIL respectively. Both SCBNL and NABIL bank correlation coefficient is significant between DPS and EPS.

- Correlation coefficient of SCBNL is 0.9739 i.e. highly correlated. Coefficient of determinant is more precise measure of strength of the relationship between two variables. The coefficient determinant between EPS and MVPS of SCBNL is 0.9739, which means that the EPS determines 97.39% of variation in MVPS. In same way, EPS determines 97.36% variation in MVPS of NABIL. Likewise, correlation coefficient of EPS and MVPS of both SCBNL and NABIL are significant since value of r is greater than 6 P.E.

- The coefficient determinant between D/P ratio and MVPS of SCBNL is 0.9578, which means that the D/P ratio determines 95.78% of variation in MVPS. In same way, D/P ratio determines 66.06% variations in MVPS of NABIL i.e. less interference. The correlation coefficient between D/P ratio and MVPS of SCBNL is more than 6 PE and NABIL is less than 6PE. So, correlation coefficient of D/P ratio and MVPS of SCBNL is significant and NABIL is insignificant.

- As for the regression EPS and MVPS in concerned with regression coefficient (beta coefficient) of the SCBNL is 83.78, which indicate that one rupees change in EPS leads to increase in market price of Rs.83.78 holding other variable constant. The correlation coefficient between these two variables of SCBNL is also positive. Likewise, the beta coefficient of NABIL is 93.68, which indicates that one rupees increase in EPS leads to average of Rs.93.68 increase in market price. Coefficient of determinations (r^2) of SCBNL and NABIL is 0.9485 and 0.9479 respectively. This indicates that 94.85%, and 94.79% MVPS variation are explained by variation in EPS of SCBNL and NABIL respectively. Since the calculated 't' value of both SCBNL of 7.433 and NABIL of 7.387 which is higher than tabulated value of 't' i.e. 3.182 for two tailed test at 5% level of significance. So, the result is statistically significant at 5% level of significance.

- As for the regression EPS and DPS with beta coefficient, one rupees increase in EPS causes Rs. 1.24 and Rs. 1.23 increase in the DPS of SCBNL and NABIL respectively holding other variables constant. Coefficient of determinations (r^2) of SCBNL and NABIL is 0.9853 and 0.8647 respectively. This indicates that 98.53% and 86.47% DPS variation are explained by variation in EPS. Since the calculated' value of SCBNL and NABIL is 14.16 and 4.378 which is greater than tabulated value 't' i.e.3.182 at 5% level of significance. So the result of 't' of both SCBNL and NABIL is statistically significant at 5% level of significance.

4.3.1 Major Findings of Primary data

- Most of the investors preferred   cash dividend.
- Majority of the investors considered the past dividend record.
- Most of the investors considered the legal restriction of the firm while distributing the dividend policy rather than liquidity position and borrowing capacity of the firm.
- Among the 50 respondents, 46% invested to utilize their surplus money, 36% invested their money in the share capital to gain dividend and remaining 18% thought it is the best method to invest.
- Among the 50 respondents, most respondents have received cash dividend i.e. 44% , 42% have received stock dividend and remaining 14% have received both cash and stock dividend from the company.
- 42% of the respondents want that the company pays dividend next year, 50% of the

respondents want that the company pays stock dividend instead of cash dividend and remaining 8% says not to pay the both this year.

- Among 50 respondents, mostly 46% think company pays dividend to draw the attention of the new investors, 26% of the respondents think that the motive of the company to distribute the cash dividend is to convey the information that the company is doing well and 28% respondents Company pays cash dividend to increase the market value of the firm's stock.

- Most of the respondents said cash dividend is effective.

- 48% respondents said banking sectors pay dividend mostly.

- The most important factor of investor's to select securities to invest is found the Company's overall performance i.e.40 percent.

- Out of 50 respondents, it is found that hike of stock pricing is responsible for mostly i.e. 44 percent said as government, 16 percent of investor, 30 percent said as brokers and 10 percent as NEPSE.

- 48% respondents suggested that NRB, SEBON, and SEPSE are responsible to change the policy.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

In this chapter, the summary of the study with conclusions and recommendations on the basis of analysis of data and findings of study have been presented.

5.1 Summary

Dividend refers to the portion of net earning which is paid out to shareholders. Hence, dividend is the earning or profit distributed to the shareholders by a company. It may be in cash, shares and securities or a combination of these. Dividend decision is the major financial decision of management because firm has to choose one alternative between distributing earnings to its shareholders or retained the earning for reinvesting in the firm. Dividend is normally paid in cash to the shareholders. When the company is incapable to pay dividend in cash, different forms of dividend payment models are used to satisfy its shareholders. The different types of dividend mainly cash dividend, stock dividend and both are discussed in this study. In same way, different types of dividend policies like stable dividend policy, regular plus extra dividend policy, irregular dividend policy, fixed dividend per share policy, mixed policy etc are briefly discussed in this study. Dividend policy of firm may be affected by different factors such as earning, liquidity position, net worth, investing opportunities, expectation of shareholders and policies followed by other companies, legal provision of nation etc. Considering all these factors, management has to take the appropriate dividend policy to satisfy existing shareholders with maintaining financial soundness of company.

The main objectives of the study is to analyze the dividend policy and its impact on market price of stock and examine the relationship between earnings and dividends, market price of stocks and dividend payout ratio, market price of stock and earnings, earnings and dividend yield. Because of various limitations only two Nepalese joint venture commercial banks i.e. SCBNL and NABIL (leading banks)   are selected as sample for this study.

This study is mainly based on secondary data of selected sample banks. However, some data are collected from primary source through different questionnaire. The source of data is the annual reports published by related banks in different fiscal year and data available at site of Nepal Stock Exchange.

Both financial and statistical tools are used to find out appropriate relationship between dividend and other financial variables of banks which helps to make the study reliable and realistic. The relationship between variables is statistically tested at 5% level of significance. All available data are presented and analysis with using different financial and statistical tools and summarize the findings of analysis in chapter four. In this final chapter, an attempt has been made to present summary, conclusions and recommendations.

5.2 Conclusion

Above mentioned major findings led this study concludes that the earning of banks is satisfactory in Nepalese context. Among sample banks, SCBNL is in leading position in terms of earning and DPS followed by NABIL in analysis period. It is found that there is no consistency in dividend distribution in sample banks. The research shows that these companies have no defined policy regarding distribution of the dividend payments. However both banks have distributed certain amount of cash dividend and certain percent of stock dividend in analysis period. Among sample banks, SCBNL has paid the higher dividend than NABIL in an average during five year period. In the FY 2011/12 both banks P/E ratios are below 25 times. The average P/E ratio of SCBNL and NABIL are 39.86 and 30.22 times respectively. Likewise, NABIL dividend yield ratio i.e. 2.68% which is higher than SCBNL i.e. 1.99% in an average. Dividend payout ratio of SCBNL and NABIL are 87.14% and 75.05% respectively. This indicates that the market price of share seems high considering its earnings and dividend payment. Though there is positive and significant relationship between market value per share and last year's dividend. NABIL has lower positive correlation among the financial variables. As for the regression EPS and DPS in concerned with regression coefficient (beta coefficient) is positive which indicates the positive correlation is exist between variables. This indicates that one rupees increase in EPS causes Rs. 1.24 and Rs. 1.23 increase in the DPS of SCBNL and NABIL respectively holding other variables constant. Coefficient of determinations (r^2) of SCBNL and EBL is 0.9853 and 0.9479 respectively. This indicates that 98.53% and 94.79%

DPS variation are explained by variation in EPS. By testing t-test, Since the calculated 't' value of both SCBNL of 7.433 and NABIL of 7.387 which is higher than tabulated value of 't' i.e. 3.182 for two tailed test at 5% level of significance. So, the result is statistically significant at 5% level of significance. From this study, it has been found that the market price of stock is affected by other variables than earnings which indicate the rational behavior of investors. The EPS and DPS of sample banks are highly correlated. It means the dividend per share of company is increased when the earning of banks is increased. There is significance difference in EPS and DPS of sample banks in analysis period. At last, this study examines and analyses the dividend policy and its impact on market price of stock of SCBNL and NABIL for the period of five years from 2007/08 to 2011/12 due to the limitation of time and other constraint.

5.3 Recommendations

Based on major findings and conclusion drawn, some recommendations are provided below, hoping that these will be helpful to overcome the issues in dividend practices in Nepal.

- Banks should consider the existing conditions and expectations of shareholders while distributing dividends so that distributed dividend should meet the expectation of the shareholders as far as possible.

- In Nepalese context, there are only two forms of dividend used in practice i.e. stock dividend and cash dividend. If shareholder wants to take another form of dividend instead of offered dividend, at this moment company has to provide the opportunity to choose the alternatives. There are other forms of dividend like bond dividend, property dividend, script dividend etc. These forms of dividend would propose to the shareholders in annual general meeting for approval, if possible.

- Nepalese commercial banks are not applying specific dividend policy like stable dividend, constant pay out, low regular and extra policy etc. So, there is uncertainty in dividend distribution to general shareholders. To reduce that uncertainty and maintain certain level of MVPS, companies should have declared the particular dividend policy and dividend payout policy for short term and long term.

- In this study, average dividend yield ratio in analysis period is less than 3.00%. This indicates that one shareholder who has purchased the share from market can get only 3% return of his investment. But the interest rate of deposits is more than 7% at present in our

market. This situation has demotivated the new investors to enter in financial market. So, companies should increase their performance and amount of dividend to maintain the market price of share and not reduce the worth of existing shareholders.

- The capital market of Nepal is going down day by day in this time. So, most of the investors are expecting a quick return on their investment rather than long term return. They prefer dividend in form of cash rather than stock. So, cash dividend should be distributed to satisfy the existing shareholders of company.

- Some regulating acts are silent on these matters most of the companies are paying dividend less than interest rate paid by commercial banks. In this situation, GON, NEPSE, SEBON, NRB and other concerned parties should do work together.

- The directors and managers of companies are selected or appointed to do the work on behalf of shareholders. So, managers and directors have to fulfill their duties and responsibilities to protect and fulfill the shareholders' interest. They should not operate the organization on the desired of themselves.

BIBLIOGRAPHY

Books,

Bhattarai, R. (2002*). Corporate Financial Management.* Kathmandu: Buddha Publication & Distribution Pvt. Ltd.

Dangol, R. (2007). *Banking and Insurance Management.* Kathmandu: Taleju Prakashan.

Gilbert M.N. and Edwin P.K. (2007). *Dividend Policy decision: Financial Management Text and Problems.* (2nd Edition). New Delhi: Tata Mc Graw-Hill Publishing Company Ltd.

 Gitman, L. (2004). *Principles of Management Finance.* (3rd Edition). New York: Harper and Row Publishers.

Pandey, I.M.(1995). *Financial Management.* New Delhi. Vikash Publishing House Pvt. Ltd.

Paudel, S.N. & Gautam, R. (2007). *Fundamental Financial Management.* Kathmandu: Asmita Publication & Distribution Pvt. Ltd.

Rose, S. (2004). *Fundamentals of Corporate Finance.* Bombay: Richard D. Irwin Inc.

Shekher, .J. (2007). *The investment, Financing & Valuation of Corporation.* New Delhi: Practice Hall of India.

Shrestha, H.P (2009*). Principles of Banking and Insurance.* Katmandu: Taleju Publication.

Van Horn, J.C. (2002). *Fundamentals of Financial Management.* New Delhi: Prentice Hall of India.

Weston, B. & Bringham, H. (1996*). Managerial Finance.* (11th Edition). USA: Dryden Publication.

Wilson, J., & George, M. (1982). *Fundamentals of Financial Management.* New Delhi: Prentice Hall of India.

Journals And Periodicals

Dangol, J. (2012). *Unanticipated Political Events and Stock Returns.* Economic Review, Vol. 20 (15p).

Mathur, K.D. (2000). *Preliminery Test of Lagged Structure of Dividend, Empirical Test, Case of Corporate Firms in Nepal. Management Dynamics*, Vol. 3.

Mathur, K.D. (2007). *Preliminery Test of Lagged Structure of Dividend, Empirical Test, Case of Corporate Firms in Nepal. Management Dynamics*, Vol. 10.

Muhammad, A. & Abdul, J. (2012). *Impact of dividend policy on the share price volatility of the Malaysian listed construction and material companies.* International Journal of Economics & Management Sciences, Vol.15 (34p).

NABIL Bank Limited, *Annual Reports (from 2007/08 to 20011/12).*

Robert, A. H. & Nardin, L.B. (2010). *Commonality in the Determinants of Expected Stock Returns",* The Journal of Financial Economics.

Shrestha (2013) *SEBON'S MOVE TO curb money laundering* (The Himalayan Times Vol.XII No.48 Kathmandu Wednesday 9th January 2013).

Shrestha ,N. (2011) *NRB Monetary Policy awl Stock Market Impact.* Economic Review, Vol. 9 (19 p).

Standard Chartered Bank of Nepal Ltd. *Annual Report (from 2007/08 to 2011/12).*

Unpublished Thesis

Dhungel, K. (2010) "*A study on Dividend Policy of Everest Bank Limited and Bank of Kathmandu".* An Unpublished Master's Thesis, Nepal Commerce Campus, Faculty of Management, Tribhuvan University.

Rouniyar, D. P. (2013) conducted on *"Liquidity & profitability Analysis of Listed of Four Commercial Banks (with reference to NABIL, SCBNL, EBL and SBI)"* An Unpublished Master's Degree Thesis, Shanker Dev Campus**,** Faculty of Management, Tribhuvan University.

Shrestha, S. (2012) conducted on"*The Public Response to Primary Issue of Shares in Nepal* An Unpublished Master's Degree Thesis, Central Campus**,** Faculty of Management, Tribhuvan University.

Silwal, S.S. (2010). *A study on Dividend Policy of Commercial Banks in Nepal and It's Effect to Market Price*. An Unpublished Master's Degree Thesis, Shanker Dev Campus**,** Faculty of Management, Tribhuvan University.

Timilsina, R. (2011) "*A Study on Dividends and stock prices*" An Unpublished Master's Degree Thesis, Shanker Dev Campus**,** Faculty of Management, Tribhuvan University.

Website

www.nepalstock.com (July)

www.nrb.org.np (July)

www.sebonp.com (July)

www.nabilbankltd.com

www.standeredchartered.com/np

www.google.com

APPENDIX

Appendix -I

Calculation of Mean, S.D. and C.V. of different financial variables of SCBNL and NABIL.
SCBNL

Year	EPS (X)	X- 92.33	(X-92.33)2
2007/08	131.92	39.59	1567.368
2008/09	109.99	17.66	311.8756
2009/10	77.65	-14.68	215.5024
2010/11	69.51	-22.82	520.7524
2011/12	72.6	-19.73	389.2729
Total /SUM	461.67	0.02	3004.771

SCBNL	$\overline{X} = \dfrac{461.67}{5}$ $= 92.33$	$(\sigma) = \sqrt{\dfrac{\Sigma\,(x-\overline{x})^2}{n}} = \sqrt{\dfrac{3004.771}{5}} = 24.52$	$(C.V.) = \dfrac{\sigma}{\overline{x}} \times 100$ $= \dfrac{24.52}{92.33} \times 100$ $= 26.56\%$

NABIL

Fiscal Year	EPS (X)	X- 93.47	(X-93.47)2
2007/08	115.86	22.39	501.3121
2008/09	113.44	19.97	398.8009
2009/10	83.81	-9.66	93.3156
2010/11	70.67	-22.8	519.84
2011/12	83.57	-9.9	98.01
Total /SUM	467.35	0.02	1611.2786

NABIL	$\overline{X} = \dfrac{467.35}{5}$ $= 93.47$	$(\sigma) = \sqrt{\dfrac{\Sigma\,(x-\overline{x})^2}{n}} = \sqrt{\dfrac{1611.2786}{5}} = 17.95$	$(C.V.) = \dfrac{\sigma}{\overline{x}} \times 100$ $= \dfrac{17.95}{93.47} \times 100$ $= 19.20\%$

Note: Other sum of values is presented in the same manner & results are presented below.

SCBNL

Year	DPS Rs. (X)	X- 56.4	(X-56.4)2
2007/08	80	23.6	556.96
2008/09	50	-6.4	40.96
2009/10	55	-1.4	1.96
2010/11	52	-4.4	19.36
2011/12	45	-11.4	129.96
Total /SUM	282	0	749.2
$\overline{X}$	56.4		
S.D.	12.24		
CV (%)	21.70		

NABIL

Fiscal Year	DPS (X)	X- 39	(X-39)2
2007/08	60	21	441
2008/09	35	-4	16
2009/10	30	-9	81
2010/11	30	-9	81
2011/12	40	1	1
Total /SUM	195	0.02	620
$\overline{X}$	39		
S.D.	11.13		
CV (%)	28.53		

SCBNL

Year	DPR (X)	X- 87.14	(X-87.14)2
2007/08	98.54	11.4	129.96
2008/09	90.91	3.77	14.2129
2009/10	84.82	-2.32	5.3824
2010/11	78.91	-8.23	67.7329
2011/12	82.54	-4.6	21.16
Total /SUM	435.72	0.02	238.4482
$\overline{X}$	87.14		
S.D.	6.91		
CV (%)	7.93		

NABIL

Fiscal Year	DPR (X)	X- 75.05	(X-75.05)2
2007/08	92.33	17.28	298.5984
2008/09	79.62	4.57	20.8849
2009/10	89.05	14	196
2010/11	42.45	-32.6	1062.76
2011/12	71.8	-3.25	10.5625
Total /SUM	375.25	0.02	1588.8058

$\overline{X}$	75.05
S.D.	17.83
CV (%)	23.75

SCBNL

Year	MVPS (X)	X- 3943	(X-3943)2
2007/08	6830	2887	8334769
2008/09	6010	2067	4272489
2009/10	3279	-664	440896
2010/11	1800	-2143	4592449
2011/12	1799	-2144	4596736
Total /SUM	19718	3	22237339

$\overline{X}$	3943
S.D.	2108.90
CV (%)	53.48

NABIL

Year	MVPS (X)	X- 3033	(X-3033)2
2007/08	5275	2242	5026564
2008/09	4899	1866	3481956
2009/10	2384	-649	421201
2010/11	1252	-1781	3171961
2011/12	1355	-1678	2815684
Total /SUM	15165	0.02	14917366

$\overline{X}$	3033
S.D.	1727.27
CV (%)	56.95

SCBNL

Year	DYR(X)	X- 1.99	(X-1.99)2

2007/08	1.9	-0.09	0.0081
2008/09	1.66	-0.33	0.1089
2009/10	1.56	-0.43	0.1849
2010/11	1.47	-0.52	0.2704
2011/12	3.34	1.35	1.8225
Total /SUM	9.93	-0.02	2.3948
$\overline{X}$	1.99		
S.D.	0.69		
CV (%)	34.67		

NABIL

Year	DY ratio (X)	X- 2.68	(X-2.68)2
2007/08	1.9	-0.78	0.6084
2008/09	1.74	-0.94	0.8836
2009/10	2.94	0.26	0.0676
2010/11	2.4	-0.28	0.0784
2011/12	4.43	1.75	3.0625
Total /SUM	13.41	0.02	4.7005
$\overline{X}$	2.68		
S.D.	0.97		
CV (%)	36.19		

SCBNL

Year	P/E(X)	X- 39.86	(X-39.86)2
2007/08	51.77	11.91	141.8481
2008/09	54.64	14.78	218.4484
2009/10	42.23	2.37	5.6169
2010/11	25.9	-13.96	194.8816
2011/12	24.78	-15.08	227.4064
Total /SUM	199.32	0.02	788.2014
$\overline{X}$	39.86		
S.D.	12.56		
CV (%)	31.51		

NABIL

Year	P/E ratio (X)	X- 30.22	(X-30.22)2
2007/08	45.53	15.31	234.3961

2008/09	43.19	12.97	168.2209
2009/10	28.45	-1.77	3.1329
2010/11	17.72	-12.5	156.25
2011/12	16.21	-14.01	196.2801
Total /SUM	151.1	0.02	758.28

$\overline{X}$	30.22
S.D.	12.31
CV (%)	40.73

APPENDIX – II

Calculation of Correlation coefficient, coefficient determinants, P.E., regression coefficient, regression constant and t values between EPS and DPS.

SCBNL

Year	EPS (X)	DPS (Y)	XY	X2	Y2
2007/08	131.92	130	17149.6	17402.89	16900
2008/09	109.99	100	10999	12097.8	10000
2009/10	77.65	55	4270.75	6029.523	3025
2010/11	69.51	52	3614.52	4831.64	2704
2011/12	72.6	60	4356	5270.76	3600
Total /SUM	461.67	397	40389.87	45632.61	36229

Correlation coefficient, r $= \dfrac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} - \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$

r $= \dfrac{5 \times 40389.87 - 461.67 \times 397}{\sqrt{5 \times 45632.61 - (461.67)^2} - \sqrt{5 \times 36229 - (397)^2}} = 0.9926$

Coefficient Determinants, r² $= (0.9926)^2 = 0.9853$

Probable Error, P.E. $= 0.6745 \times \dfrac{1 - r^2}{\sqrt{n}} = 0.6745 \times \dfrac{1 - 0.9853}{\sqrt{5}} = 0.0044$

Regression coefficient, b $= \dfrac{n\sum XY - \sum X \sum Y}{n\sum X^2 - (\sum X)^2}$

$= \dfrac{5 \times 40389.87 - 461.67 \times 397}{5 \times 45632.61 - (461.67)^2}$

$= 1.24$

Regression constant, a $= \dfrac{\sum Y - b\sum X}{n} = \dfrac{397 - 1.24 \times 461.67}{5} = $ -35.09

t - value, t $= \dfrac{r \times \sqrt{n-2}}{\sqrt{1-r^2}} = \dfrac{0.9926 \times \sqrt{5-2}}{\sqrt{1-(0.9926)^2}} = 14.16$

NABIL

Year	EPS (X)	DPS (Y)	XY	X2	Y2
2007/08	115.86	100	11586	13423.54	10000
2008/09	113.44	85	9642.4	12868.63	7225
2009/10	83.81	70	5866.7	7024.116	4900
2010/11	70.67	30	2120.1	4994.249	900
2011/12	83.57	60	5014.2	6983.945	3600
Total /SUM	**467.35**	**345**	**34229.4**	**45294.48**	**26625**

Correlation coefficient, r = $\dfrac{n\Sigma XY - \Sigma X\Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} - \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$

r = $\dfrac{5\times 34229.4 - 467.35\times 345}{\sqrt{5\times 45294.48 - (467.35)^2} - \sqrt{5\times 26625 - (345)^2}}$ = 0.9299

Coefficient Determinants, r² = $(0.9299)^2 = 0.8647$

Probable Error, P.E. = $0.6745 \times \dfrac{1-r^2}{\sqrt{n}}$ = $0.6745 \times \dfrac{1-0.8647}{\sqrt{5}}$ = 0.0041

Regression coefficient, b= $\dfrac{n\sum XY - \sum X \sum Y}{n\sum X^2 - (\sum X)^2}$

$= \dfrac{5\times 34229.4 - 467.35\times 345}{5\times 45294.48 - (467.35)^2}$

$= 1.23$

Regression constant, a = $\dfrac{\sum Y - b\sum X}{n}$ = $\dfrac{345 - 1.23\times 467.35}{5}$ = -45.96

t - value, t = $\dfrac{r\times\sqrt{n-2}}{\sqrt{1-r^2}}$ = $\dfrac{0.9299\times\sqrt{5-2}}{\sqrt{1-(0.9299)^2}}$ = 4.378

Appendix -III

Calculation of Correlation coefficient, coefficient determinants, P.E., regression coefficient, regression constant and t values between EPS and MVPS
SCBNL

Year	EPS (X)	MVPS (Y)	XY	X2	Y2
2007/08	131.92	6830	901013.6	17402.89	46648900
2008/09	109.99	6010	661039.9	12097.8	36120100
2009/10	77.65	3279	254614.4	6029.523	10751841
2010/11	69.51	1800	125118	4831.64	3240000
2011/12	72.6	1799	130607.4	5270.76	3236401
Total /SUM	461.67	19718	2072393	45632.61	99997242

Correlation coefficient, r $= \dfrac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} - \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$

$r = \dfrac{5 \times 2072393 - 461.67 \times 19718}{\sqrt{5 \times 45632.61 - (461.67)^2} - \sqrt{5 \times 99997242 - (19718)^2}} = 0.9739$

Coefficient Determinants, r² $= (0.9739)^2 = 0.9485$

Probable Error, P.E. $= 0.6745 \times \dfrac{1-r^2}{\sqrt{n}} = 0.6745 \times \dfrac{1 - 0.9485}{\sqrt{5}} = 0.0155$

Regression coefficient, b $= \dfrac{n\sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$

$= \dfrac{5 \times 2072393 - 461.67 \times 19718}{5 \times 45632.61 - (461.67)^2}$

$= 83.78$

Regression constant, a $= \dfrac{\sum Y - b \sum X}{n} = \dfrac{19718 - 83.78 \times 461.67}{5} = -3792.14$

t - Value, t $= \dfrac{r \times \sqrt{n-2}}{\sqrt{1-r^2}} = \dfrac{0.9739 \times \sqrt{5-2}}{\sqrt{1 - (0.9739)^2}} = 7.433$

NABIL

Year	EPS (X)	MVPS (Y)	XY	X2	Y2
2007/08	115.86	5275	611161.5	13423.54	27825625
2008/09	113.44	4899	555742.6	12868.63	24000201
2009/10	83.81	2384	199803	7024.116	5683456
2010/11	70.67	1252	88478.84	4994.249	1567504
2011/12	83.57	1355	113237.4	6983.945	1836025
Total /SUM	**467.35**	**15165**	**1568423**	**45294.48**	**60912811**

Correlation coefficient, r = $\dfrac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} - \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$

r = $\dfrac{5 \times 1568423 - 467.35 \times 15165}{\sqrt{5 \times 45294.48 - (467.35)^2} - \sqrt{5 \times 60912811 - (15165)^2}}$ = 0.9736

Coefficient Determinants, r² = $(0.9736)^2$ = 0.9479

Probable Error, P.E. = $0.6745 \times \dfrac{1-r^2}{\sqrt{n}}$ = $0.6745 \times \dfrac{1-0.9479}{\sqrt{5}}$ = 0.0023

Regression coefficient, b= $\dfrac{n\sum XY - \sum X \sum Y}{n\sum X^2 - (\sum X)^2}$

$= \dfrac{5 \times 1568423 - 467.35 \times 15165}{5 \times 45294.48 - (467.35)^2}$

= 93.68

Regression constant, a = $\dfrac{\sum Y - b\sum X}{n}$ = $\dfrac{15165 - 93.68 \times 467.35}{5}$ = -5723.27

t - value, t = $\dfrac{r \times \sqrt{n-2}}{\sqrt{1-r^2}}$ = $\dfrac{0.9736 \times \sqrt{5-2}}{\sqrt{1-(0.9736)^2}}$ = 7.387

Appendix-IV

Calculation of Correlation coefficient, coefficient determinants, P.E., regression coefficient, regression constant and t values between DPR and MVPS
SCBNL

SCBNL

Year	DPR(X)	MVPS (Y)	XY	X2	Y2
2007/08	98.54	6830	673028.2	9710.132	46648900
2008/09	90.91	6010	546369.1	8264.628	36120100
2009/10	84.82	3279	278124.8	7194.432	10751841
2010/11	78.91	1800	142038	6226.788	3240000
2011/12	82.54	1799	148489.5	6812.852	3236401
Total /SUM	435.72	19718	1788050	38208.83	99997242

Correlation coefficient, r = $\dfrac{n\Sigma XY - \Sigma X\Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} - \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$

r = $\dfrac{5\times1788050 - 435.72\times19718}{\sqrt{5\times38208.83 - (435.72)^2} - \sqrt{5\times99997242 - (19718)^2}}$ = 0.9578

Coefficient Determinants, r² = (0.9578)² = 0.9174

Probable Error, P.E. = 0.6745 × $\dfrac{1-r^2}{\sqrt{n}}$ = 0.6745 × $\dfrac{1-0.9174}{\sqrt{5}}$ = 0.0249

Regression coefficient, b = $\dfrac{n\sum XY - \sum X\sum Y}{n\sum X^2 - (\sum X)^2}$

$= \dfrac{5\times1788050 - 435.72\times19718}{5\times38208.83 - (435.72)^2}$

$= 292.49$

Regression constant, a = $\dfrac{\sum Y - b\sum X}{n}$ = $\dfrac{19718 - 292.49\times435.72}{5}$ = -21545.15

t - Value, t = $\dfrac{r\times\sqrt{n-2}}{\sqrt{1-r^2}}$ = $\dfrac{0.9578\times\sqrt{5-2}}{\sqrt{1-(0.9578)^2}}$ = 5.772

NABIL

Year	DP ratio(X)	MVPS (Y)	XY	X2	Y2
2007/08	92.33	5275	487040.8	8524.829	27825625

2008/09	79.62	4899	390058.4	6339.344	24000201
2009/10	89.05	2384	212295.2	7929.903	5683456
2010/11	42.45	1252	53147.4	1802.003	1567504
2011/12	71.8	1355	97289	5155.24	1836025
Total /SUM	**375.25**	**15165**	**1239831**	**29751.32**	**60912811**

Correlation coefficient, r = $\dfrac{n\Sigma XY - \Sigma X \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} - \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$

r = $\dfrac{5 \times 1239831 - 375.25 \times 15165}{\sqrt{5 \times 29751.32 - (375.25)^2} - \sqrt{5 \times 60912811 - (15165)^2}}$ = 0.6606

Coefficient Determinants, r² = (0.6606)² = 0.4364

Probable Error, P.E. = $0.6745 \times \dfrac{1 - r^2}{\sqrt{n}}$ = $0.6745 \times \dfrac{1 - 0.4364}{\sqrt{5}}$ = 0.1700

Regression coefficient, b= $\dfrac{n\sum XY - \sum X \sum Y}{n\sum X^2 - (\sum X)^2}$

$= \dfrac{5 \times 1239831 - 375.25 \times 15165}{5 \times 29751.32 - (375.25)^2}$

$= 64.00$

Regression constant, a = $\dfrac{\sum Y - b \sum X}{n}$ = $\dfrac{15165 - 64.00 \times 375.25}{5}$ = -1770.2

t - value, t = $\dfrac{r \times \sqrt{n-2}}{\sqrt{1 - r^2}}$ = $\dfrac{0.6606 \times \sqrt{5 - 2}}{\sqrt{1 - (0.6606)^2}}$ = 1.524