

CHAPTER 1

INTRODUCTION

1.1 Background of the Study:

Banks & other financial institutions are playing important role in the economic development of the country. So, for the growth of economic development, there must be sufficient banking & financial facilities. The commercial banks play as important role to earn profit by mobilizing, savings & channeling them into productive investment for the development of trade, commerce & industry of the country. It is fairly safe to say that banks are not the outcome of the economic development but are the causes for it. Specially, commercial banks provide different facilities to the people engaged in trade, commerce & industry. So, they are being the mean for the uplifting the society. Commercial banks are also plays an important role in credit creation, & also function in different ways such as, accepting deposits, providing interest, granting loan that helps to remove the deficiency of capital, performing agency functions, which make life easier. When the economy is in boom, commercial banks increase interest rate which reduces the probability to inflation & in case of depression they reduce interest rate so that people are interested in investment. In an underdeveloped country like Nepal, economic development can be pulled with the help of savings of common people and through proper utilization of the funds, which can be possible by the help of the banks.

The main objective of commercial bank is to mobilize idle resources in particular related sector after collecting them from different sources. "Due to inadequate capital market, people in underdeveloped countries have a tendency to invest in non- productive assets (or sectors), such as land and other physical properties, jewelries, cash etc. Nepalese people also have similar tendency in investment process. Therefore, deposits in commercial banks are an important portfolio of public savings". In this regard commercial banks contribute significantly in the formation and have the responsibilities of public savings through investing in the capital market and in lending various sectors of the economy.

Banks use public money. This is why, banks should pay more attention whether their money is properly utilized or not & running at profit or loss. For the survival & growth of any business firm, the existence of profit is the foremost important. Business firm cannot run its business smoothly & unable to provide its facilities in the long run without profit. This profit which can be distributed among the owners is dividend.

In the early 1980s, when the government permitted to establish of foreign Joint Venture Banks, there Jobs namely, Nepal Arab Bank Ltd., Nepal Grind lays Bank Ltd., Nepal Indosuez Bank Ltd were established in 1984, 1985, 1986 respectively. After the democracy, the democratically elected government adopted liberal & market oriented economic policy, then number of Joint Venture Banks has been increased continuously. The main objectives of these JVBs are to collect deposit & provide loans to agriculture, commerce & industries & to provide modern banking services to the people. Joint Ventures Banks are the mode of trading to achieve mutual exchange of goods and services for sharing comparative advantages by performing joint investment schemes between Nepalese investor's financial and non-financial institution as well as private investors and their parents banks each supplying 50% of total investment. "A Joint Venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation". The target of JVBs to operate in Nepal is basically to encourage local traditionally run commercial banks to enhance their bankable capacity through competition, efficiency, modernization, and mechanization via computerization and prompt customer service.

"By a dividend policy- we mean distribution versus retention decision, rather than making the decision on the purely adhoc basis from period to period." The dividend decision or dividend policy of a firm is one of the three major decision making areas of the financial management. In simple words, dividend refers a portion of earning which is distributed to shareholders in return of their investment in share capital. While dividend policy refers to the guidelines that management uses in establishing portion of earning that is paid to the shareholders in the form of dividend. The firms adopt different approaches to distribute dividend according to their objectives. Given the objective of maximization of the wealth of the owners, the firm should use net profit for paying dividend to the shareholders.

Conversely, the firm should retain profit to finance investment programs if the objective is to expand the business. There is not yet consensus on whether the firms should follow certain pattern to distribute dividends & retain earnings.

The policy of a company on division of its profit between dividend & retention is known as dividend policy. All the aspects & question related with payments of dividend are contained in a dividend policy.

The dividend policy decision involves the choice between distributing the profits belonging to the shareholders and their retention by the firm. The selection would be influenced by the effect on the objective of the financial management of maximizing shareholders wealth.

In Nepal, most public enterprises are operating in loss. In such public enterprises, the problem are not distribution of dividend rather minimization of losses through utilization of capital. There are only few companies that pay dividend. But after the establishment of joint venture companies, there is new trend for distributing dividend, which has brought new hopes for productive mobilization of fund. That is why; the important decisions of the firm are its dividend policy, the percentage earnings it pays in cash to its shareholders. The dividend policy decision has two alternatives, which have their own impact, one is to pay in cash & another is to retain in company for the purpose of long term financing i.e. internal financing. If the investor could not get cash dividend, they would think their investment worthless. On the other side, management desires to retain dividend for internal financing which is essential for cooperate growth.

Thus, this study aims to focus on all the relevant factors, prevailing practices & policies of some Nepalese commercial banks regarding dividend, dividend policy and their payment.

1.2 Brief Profile of Sample Bank:

This research is concerned with dividend policy of some commercial banks of Nepal. So the sampled banks are briefly introduced below.

a) Everest Bank Limited(EBL):

EBL started its operation in 1994 with a view and objectives of extending professional and efficient banking services to various segment of the society. The bank is providing customer friendly services through a network of 35 branches. The bank has conferred with "Bank of the year 2006, Nepal" by the banker, a publication of financial times, London. The bank earning per share are Rs. 45.57, Rs. 32.47, Rs. 45.81, Rs. 57.22, Rs. 54.14 in fiscal year 2004, 2005, 2006, 2007 and 2008 respectively.

b) Himalayan Bank Limited(HBL):

Himalayan Bank Limited was established in 1993 in collaboration with Habib Bank Limited, Pakistan. It is fourth Joint venture bank in Nepal and it was listed in NEPSE in 1993. HBL has 26 branches all over Nepal. The bank's earning per share are Rs. 49.05, Rs. 47.91, Rs. 59.24, Rs. 60.66 and Rs. 64.57 in the fiscal year 2004, 2005, 2006, 2007 and 2008 respectively.

c) NABIL Bank Limited:

NABIL Bank Limited, the first foreign bank of Nepal, started operation in July 1984. NABIL was incorporated with the objective of extending international standard modern banking services to various sector of the society. Pursuing its objectives, NABIL provides a full range of commercial banking services through its 19 points of representation across the valley and over 170 reputed correspondent banks across the globe. The bank was listed in NEPSE in the year 1984 A.D. It has 25 branches all over Nepal. The banks earning per share is Rs. 92.61, Rs. 105.49, 129.21 Rs. 137.08 and Rs. 108.31 in fiscal year 2004, 2005, 2006, 2007 and 2008 respectively.

d) Nepal Investment Bank Limited(NIBL):

NIBL is the third joint venture bank of Nepal established in 1986 A.D. It was joint ventured with credit Agricole Indosuez, France but the share was transferred to group of Nepalese business house in 2001 A.D. since it on more belonged to Indosuez, the name also changed to Nepal Investment Bank Limited. It was listed in NEPSE in 1987 A.D. NIBL has more than 30 branches all over Nepal. The bank's earning per share are Rs.

51.7, Rs. 39.5, Rs. 59.35, Rs. 62.57 and Rs. 38.00 in the fiscal year 2004, 2005, 2006, 2007 and 2008 respectively.

e) Standard Chartered Bank Limited:

Standard Chartered Bank was established in 1987 as Nepal Grindlays Bank. This is the second Joint ventured bank after NABIL. Later after 2001, Grindlays left this bank and Standard Chartered group took this bank by purchasing 75% shares. The bank's earning per share are Rs. 143.55, Rs. 143.14, Rs. 175.84, Rs. 167.37 and Rs. 131.92 in the fiscal year 2004, 2005, 2006, 2007 and 2008 respectively.

1.3 Focus of the Study:

The corporate dividend behavior can be effective way to attract new investors along with keeping present investors happy & maintaining reputation of the corporation. When a new company sell share through capital market, numbers of invests apply for owner's certificate. This clearly seems that investors are expecting more return on their investment.

The present study is devoted to assess the prevailing dividend policy adopted by the commercial banks in Nepal. Thus, it provides important guidelines to the management in setting suitable dividend policies in their respective corporations. It also helps regularity body in counseling investors to make rational decisions while investing in shares. Similarly, the findings of this study will be useful to related persons, i.e. shareholders management & policy makers. This study is also useful to government for policy making, controlling, and supervision & monitoring. Last but not least, it will be helpful for relevant & relevant literature for further research on the area of dividend policy.

In the recent years, people are very much interested and attracted in investing in shares. The dividend policy is an effective tool to attract new investor, maintain present investor and insures the goodwill of the company. When the company floats shares through capital market large number gather to apply for owner's certificate. It indicated people expectation higher return of investment in shares. While investing in shares, the investor forgoes opportunity income that he could have earned. In capital market return can be earned in two ways: i. by

means of capital gains ii. by means of dividend. Due to lack of enough knowledge, people are investing hit or miss in shares. It is necessary to establish clear conceptions about the return that result from investing in securities.

Despite investors' high expectations, there are almost none of the companies adopting dividend policy in Nepal. Therefore, this study of the dividend policy in commercial banks in Nepal may be very rewarding.

"By dividend we mean some kind of consistent approach to the distribution versus retention decision, rather than making the decision on the purely adhoc basis from period to period." (Hunt Pearson, M. William, Charles and Donand, Garden 1972, p-405).

1.4 Statement of Problem:

Dividend decision is a curial as well as controversial area of managerial finance. It is more technical area of finance in the sense that is a complex one having numerous implications for the firm. Dividend, the most inspiring factor for the investment on shares of the company is thus desirable to commercial banks. But, the commercial banks of Nepal haven't satisfactory result about dividend decision.

It is also partly affected by the various government rules & regulations, acting & reacting in the banking operations. The problems about dividend policy can be clearly visible in Nepalese commercial banks.

There is no proper matching in dividend policy & earnings in commercial banks. Earnings of firm are taken as financing source. When the given retains its earnings, it will result in decreasing leverage ration, expanding activities & increasing profit in succeeding years where as if the firm pay dividends it may need to raise capital through capital market which reduce ownership control of the existing shareholders. On the condition the firm takes loan or raises debentures it will affect on risk characteristics of the firm. Because of the various reasons, different banks are adopting dividend decisions consistently. There is common trend that dividend is decided by company's management instead of by shareholder's meeting.

Thus this study will seek to answer the following questions:

-) What is the relationship of dividend with earning per share, market price of share, net profit & net worth?
-) What are the prevailing practices of commercial banks regarding their dividend policies?
-) What are the factors that affect dividend & the valuation of the firm?
-) What is the relationship between the factors affection dividend & valuation of firms?
-) Is it possible to increase the value of the stock by changing dividend policy or payout ration?

1.5 Objectives of the Study:

The main objectives of the dividend policy should be to maximize return on shareholders equity so that value of investment maximized. The specific objectives of this study are:

-) To highlight the various aspects of dividend policies & practices in Nepalese commercials banks.
-) To analyze the relationship of dividend with various such as earning per share, net profit, retained earnings, growth rate, net worth & others ingredients affecting it.
-) To find out the impact of dividend on share price.
-) To identify the uniformity of dividend distribution of different commercial banks.
-) To recommend valuable suggestions to concerned parties on the basis of findings.

1.6 Limitation of Study:

Dividend is the one of the most important topic in financial management. There are several aspects of decision that should be undertaken by financial manager to achieve the management goal. Areas of financial management decision are investment, capital structure, liquidity, leverage, dividend and others. Only dividend is selected in the study to make more specific. This study will be limited by following factors:

-) Only five Banks are taken as sample due to lack of time

-) The research should be done in very short period. We cannot analyze freely which restricts from minimizing error to full extend.
-) Data is not available easily.
-) It covers the study period of only five years
-) The study is based on secondary data might to not so much reliable
-) Lack of research experience and reliability of statistical tools.

1.7 Research Methodology:

Research Methodology is the research method used to test the hypothesis. It is the way to solve the research problem systematically. In designing methodology, following element should be taken into account.

-) Research design
-) Population and sample
-) Sources of data
-) Collection techniques
-) Presentation & analysis of data

Research design is the main part of thesis or any Research works. By research design overall frame work or plan for the collection and analysis of data. (Wolfe, H.K., & Pant, P.R. 2005, p74, p65)

The Financial and Statistical tools and techziques used to analyze the available data are as follows:

- I. Financial indicators and variables.
- II. Test of hypothesis
- III. Mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination, standard error of estimate, probable error and regression analysis.
- IV. Dividend per share, earnings per share, market price per share, dividend yield, earning ratio, retention ratio, dividend payout ratio, price earning ratio.

1.8 Organization of the Study:

Keeping the objectives in mind, the present study has been organized in the following five chapters.

1. Introduction:

Chapter one of these studies is an introductory part and explains the major issues to be dealt with including objectives of study and statement of the problems

2. Review of Literature:

Chapter two explains the theoretical analysis and review briefly the related and pertinent development of literature. It includes conceptual framework along with review of books, journals, research works and previous thesis etc.

3. Research Methodology:

Chapter three is about the methodology adopted in carrying out the present study. It explains the nature and sources of data, population and sample, data collection and processing techniques and methods of analysis.

4. Presentation and Analysis of Data:

Chapter four of this study deals with analysis and interpretation of data using the financial and statistical tools described in chapter three.

5. Summary of findings, Conclusion and Recommendations:

Chapter five, the last chapter deals with major findings, conclusions and recommendation of the study.

CHAPTER 2

REVIEW OF LITERATURE

The introductory part of this study has been presented in the first chapter. In this chapter, an attempt has been made to review the various relevant literatures in relation to support the study to receive some ideas for developing a research design.

2.1 Conceptual Framework:

The dividend decision or dividend policy of a firm is one of the three major decision making areas of the financial management. Dividends refer to that portion of a firm's net earnings, which are paid out to the shareholders. The dividend policy decision involves the choice between distributing the profits belonging to the shareholders and their retention by the firm. All aspects and questions related between retained earnings and cash dividend. If retained earning is kept more by the company, less will be dividend. Dividend policy affects the financial structure, the flow of funds, corporate liquidity.

The capital structure decision of the firm may require some portion of financing needs to be raised from common equity or support fixed income securities. Except for at the beginning, wherever the company decides to finance its needs, it has two options, sales of additional common stock or retention of earnings. When stockholders supply equity capital to the firm, they expect to share on earnings of the firms. If the company pays the earning as a dividend, they are benefited directly and if company retains in the business to finance the business opportunities, they are benefited indirectly through the increment of market price of share ie capital gain. In both the case shareholders get benefit but how much should be paid out and how much should be retained in business is not a simple question. "Since dividend would be more attractive to stockholder one might think that there would be a tendency for corporation to increase distribution of dividend. But one might equally pressure that gross dividend would be reduced somewhat with an increase in net after tax divided still available to stockholder and increased in retained earnings for the corporation."(Thorp, 1997:90-91)

It is therefore is wise policy of maintaining a balance between shareholders interest with that of corporate growth from internally generated funds, the fund that could not be used due to

lack of investment opportunities to employ elsewhere. "Financial management is therefore concerned with the activities of corporation that affects the wellbeing of shareholders. That will be partially measured by the dividend received but a more accurate measure is the market value of stock." (Dean, 1973:1)

"The important aspect of dividend policy is to determine the amount of earning to be retained in the firm. Retained earnings are the most significant internal sources of financing. On the other hand, dividend may be considered desirable from shareholder point of view as they tend to increase their current wealth." (I. M Pandey, 1997, p672.)

"Generally a firm which has easy access to external sources of finance may feel less constrained in its dividend decision. For such a firm, its dividend decision is somewhat independent of its investment decision as well as liquidity position.

2.1.1 Forms of Dividend

Generally dividends are paid in cash but when the company is unable to pay cash dividend. They use different forms of dividend payment for satisfying stockholders. Such forms of dividend are stock dividend, scrip dividend, property dividend, bond dividend and stock repurchase.

(a) Cash dividend:

Cash dividend may be termed as portion of earning paid in cash to owner of the firm as return on their equity investment. If company does not have enough cash at the time of dividends payment, company seeks to arrange funds, which will be managed by borrowing. 'When the company follows stable dividend policy, they use to prepare cash budget to indicate the necessary funds which would be needed to meet regular dividend payment of the company' (Pandey, I.M. 1995; P. 309).

'The cash account and the reserve account of the company will be reduced when cash dividend is paid. Thus, both total assets and net worth of the company are reduced when cash dividend is distributed. Market price of share drops in most cases by the amount of cash dividend distributed. (Hastings, P.G, 1996:370)

(b) Stock Dividend:

A stock dividend represents a distribution of share in lieu of cash dividends. 'When stockholder receive stock dividend, the number of share increase but as it is paid to existing shareholders on their proportion of their shareholding, it doesn't affect the ownership of the company. Stock dividend increases number of share as a result, EPS, DPS and Market price of share of the company decreases'.

(c) Script Dividend:

If companies have no sufficient amount of cash for dividend payment, company may issue script or notes promising to pay dividend within the maturity period. So script dividend is those paid in the company promises to pay instead of cash. These dividends may be interest bearing. When the company has sufficient cash then it is distributed to stock holders.

(d) Property Dividend:

If payments are made in the form of property or assets rather than cash, it is called property dividend. This form of dividend may be followed when there are assets that are no longer necessary in operation of the business or in extra ordinary circumstances. Companies own products and subsidiaries are examples that have been paid as property dividend.

(e) Bond Dividend:

When the company generates more profit for a long time, it is better to issue bonds, which carries certain interest rates. But there should be other constraints to issue bonds. It is issued in the form of bond dividend for the existing shareholder.

(f) Stock Repurchase:

Stock repurchase is a method, in which a firm buys back shares of its own stock, thereby decreasing shares outstanding, increasing EPS, and, often increasing the price of stock. Stock repurchase are an alternative to dividends for transmitting cash to stockholders.

2.1.2 Theories of Dividend

- I. Residual Theory of Dividend
- II. Stability of Dividend

I. Residual Theory of Dividend

Residual theory of dividend suggests that only residual earning should be distributed as dividend, which is left after accepting all profitable investment opportunities, which depend upon the investment policy of the firm. According to this theory, the dividend is distributed if there exists a balance of earning after paying fixed obligations and investment opportunities (**Ibid p-537**). If the firm has investment opportunity with higher return than required, the firm will invest the earning to that project, and if there is only earning left after accepting all the investment opportunities then it will be distributed to stock holders as cash dividend.

When the firm has opportunity of investment in profitable sector at first they prefer the internally generated fund (Residual earnings) rather than externally generated fund which is comparatively expensive due to the floatation cost and other. So, the amount of dividends fluctuates time in keeping with availability of acceptable investment opportunity of the firm. "Although the residual theory of dividends appears to make further analysis of dividend policy unnecessary, it is not clear that dividends are solely a means of distributing excess funds."(**Rao, Ramesh K. 1992 p-458**)

II. Stability of Dividend:

Stability of dividend refers to the regularity in paying dividend even though the amount of dividend may fluctuate from period to period. 'Stability or regularity dividend is considered as desired policy by the management of most companies. Most of the shareholder also prefer stable dividends because all other things being the same, stable dividends have a positive impact on the market price of the share (Pandey, I.M., 1995, p-302).

By stability we mean maintaining its position in relation to a trend lines preferably one that is up ward sloping.

There are three major types of dividend policies developed (established) under dividend stability, which are as follows.

a) Constant Dividend per Share:

The company which follows this policy pays a fixed amount per share as dividend every year, irrespective of the fluctuations in the earning. It is easy to follow this policy when earnings are stable but if it fluctuates, the company faces difficulties to maintain such polices. This policy does not imply that the dividend per share will never be increased. When the company reaches new level of earnings and expects to maintain it the annual dividend per share may be increased.

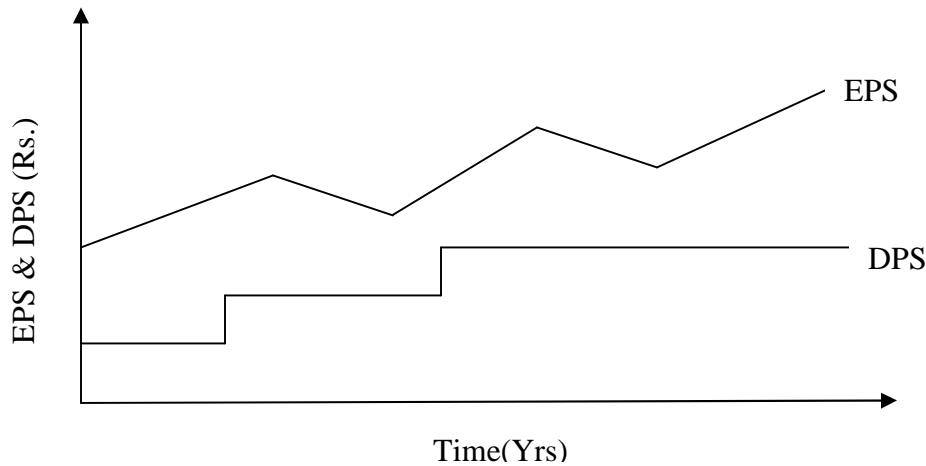


Figure: 2.1 Constant Dividend per Share Policy

"The dividend policy of paying a constant amount of dividend per year treats common share holders without giving any consideration to investment opportunities within the firm and opportunities available to shareholders. (*Brandit, Louis K 1972, P 7*).

'This policy is generally preferred by those persons and institutions that depend upon dividend income to meet their living and operating expenses because of the constant amount of dividend they receive'.

(b) Constant payout ratio

Constant payout ratio refers to the paying a fixed percentage of net earnings every year as dividend. Under this policy, the amount of dividend fluctuates with direct proportion of earning. If the company incurs losses no dividend shall be paid regardless of the desire of shareholders. Internal financing with Retained earnings is automatic when this policy is

followed. At any payout ratio the amount of dividend and the additions to retained earnings increase with increasing earnings and vice versa.

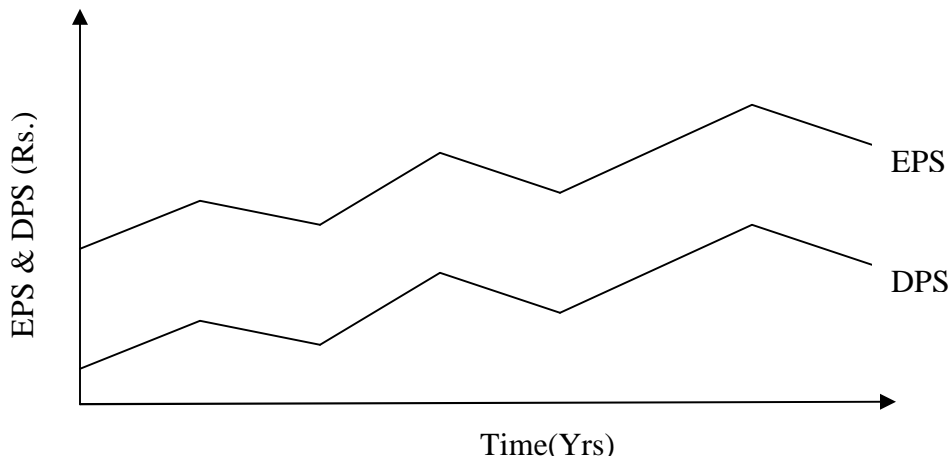


Figure: 2.2 Dividend Policy of Constant Payout Ratio

**(c) Small Constant dividend per share plus extra dividend:
(Low Regular Dividend per share plus extra)**

The policy of paying a low regular dividend plus extra is a compromise between a stable dividend or stable growth rate and a constant payout ratio rate. Such policy gives the firm flexibility, yet investors can count on receiving at least a minimum dividend. It is often followed by firms with relatively volatile earnings from year to year. The low regular dividend can usually be maintained even when earnings decline and extra dividends can be paid when excess funds are available.

2.1.3 Factor Affecting Dividend Policy:

Many considerations may affect a firm's decision about its dividend. Some of them are unique to that company, and some of the more general considerations are given subsequently.

I. Legal Rules

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

- If the firm's liability exceeds its assets.
- If the amount of dividend exceeds the accumulated profit (retained earnings).
- If the dividend is being paid from capital invested in the firm.

The second type of the legal restrictions is unique to the firm and results from restrictions in debt and preferred stock contracts.

II. Desire of Shareholders:

Shareholders may be increased either in dividend income or capital gains. Wealthy Shareholders in a high income tax bracket may be increased in capital gains as against current dividends. A retired and old person, whose source of income is dividend would like to get regular dividend.

In a closely held company, management usually knows the desires of Shareholders. So, they can easily adopt a dividend policy that satisfies all Shareholders. But in a widely held company, number of Shareholders is very large and they have diverse desires regarding dividends and capital gains. Some Shareholders want cash dividends, while others prefer bonus share.

III. Liquidity Position:

Liquidity position (Availability of cash) of the firm is an important consideration for dividend payment. Although a firm may have adequate earnings to declare dividend, it may not have sufficient cash to pay. The dividend payment means cash outflows. Thus greater cash position overall liquidity of a company, the greater ability to pay dividend. Generally growing firm faces the problem of liquidity even though it makes a good profit but it needs funds for its expansion. So they cannot declare dividend.

IV. Investment Opportunities:

The dividend policy is also influenced by the financial needs of the company. If any profitable project found, company invests its earnings to that project rather than paying dividend. "Growing firm gives precedence to the retention of earnings over the payment of

dividend in order to finance its expanding activities. But the firm having stable earning trend will prefer to pay a large portion of its earnings as dividend". When the investment opportunities arise frequently, company follows a policy of paying dividend and raises external funds when the investment opportunity occurs.

V. Access to Capital Market:

A company having insufficient cash can pay dividends, if it is able to raise fund in capital market because they can generate fund from the capital market whenever it is required. 'Easy accessibility to the capital market provides flexibility to the management in paying dividends as well in meeting corporate obligation. Thus, greater the ability of the firm to raise funds in the capital market, the greater will be its ability to pay dividend even it is not liquid'.

VI. Control:

For many small firms, and certain large ones, maintaining the controlling votes is very important. These owners would prefer the use of the debt and retained profit to finance new investments rather than issue of new stock. As result dividend payout will be reduced.

VII. Stability of Earning:

A firm that has stable earnings trend will generally pay a large portion of its earnings in dividends. If earnings fluctuate significantly, a large amount of the profits may be retained to ensure that enough money is available for investment projects when needed.

VIII. Restriction in debt contracts:

Restriction in debt contracts may specify that dividend may be paid only out of earnings generated after signing the loan agreement and only when net working capital is above the specified amount, also preferred dividends take precedence over common stock dividends.

IX. Past Dividends:

The firm has to maintain its past dividend payout rate. If current dividend payout ration is less than past year rate, the market price of stock will decline.

X. Inflation:

This is also important constraint for dividend payment. Cost of replacing assets increases substantially due to inflation and the funds generated by depreciation would be inadequate to replace the assets. So, greater profit retention may be required for the companies in order to make replacement or to maintain the capital intact which will reduce dividend payment.

XI. Need to repay debt:

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

XII. Rate of asset expansion:

A high rate of asset expansion creates a need to retain funds rather than to pay dividends.

XIII. Profit:

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

XIV. Tax position of shareholders:

The tax position of stockholder also affects dividend policy. Corporations owned by largely taxpayers in high income tax bracket tend toward lower dividend payout where as corporations owned by small investors tend toward higher dividend payout.

2.1.4 Legal Provision Regarding Dividend Practice in Nepal

"Nepal company Act-1997" makes some legal provision for dividend payment, these provisions may be seen as under:-

Section 2: States that bonus shares (stock dividend) means share issued in the form of additional shares to the stockholders by capitalizing the surplus from the profit or the reserve fund of a company. The term also denotes as increase in the paid up values of the shares after capitalizing surplus or reserves.

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

Section 137: Bonus shares and sub Section (1) states that the company must inform the office before issuing bonus shares under sub Section (1). This may be done only according to special resolution passed by the general meeting.

Section 140: Dividends and sub Sections of this Section are as follows:

Sub Sections (1): Except in the following circumstances dividend shall be distributed among the shareholders within 45 days from its date of decision to distribute them:

- a. In case any law forbids the distribution of dividends.
- b. In case the right to dividend is disputed.
- c. In case dividends cannot be distributed within the time limit.

Mentioned above owing to circumstances beyond anyone control and without any fault on the part of the company.

Sub Sections (2): In case dividend are not distributed within the time limit mentioned in Sub Sections (1), this shall be done by adding interest at the prescribed rate.

Sub Sections (3): explains that only the person whose name stands registered in the registrar of existing Shareholders at the time of declaring the dividend shall be entitled to it.

2.2 Review of Major Studies on Dividend Policies:

In this part the major studies on dividend stock prices, management views on dividend policy, and management view on stock dividends have been reviewed.

2.2.1 Linter's Study:

J. Linter Conducted a study in 1956, which is focused in the behavioral aspect of dividend policy in the American context. He investigated a partial adjustment model as he tested the dividend pattern of 28 companies. He concluded that a major portion of the dividend of a firm could be expressed in the following way:

$$DIV^*_t = pEPS_t \dots \dots \dots (i)$$

$$\text{And } DIV_t - DIV_{t-1} = a + b (DIV^*_t - DIV_{t-1}) + e$$

Where,

DIV^*_t = Firm desired payment

EPS_t = Earning per share

p = Targeted pay Out ratio

a = Constant relating to dividend growth

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

Major findings of this research are as follows:

-) Firms generally think in terms of proportion to be paid as dividend.
-) Investment requirement are not considered for modifying the pattern of dividend behavior.
-) Firms generally have target payout ratio in view while determining change in dividend per share.

2.2.2 E. Modigliani and M.H. Miller's Study:

Modigliani and Miller (Miller & Modigliani, 1991: p. 411-433) advocated that dividend policy did not affect the value of the firm. It implies that dividend policy has no effect on the share price of the firm. They argued that the value of the firm depend on the firm earnings, which depend on its investment policy. Therefore as per MM theory, a Firm's value is independent of dividend policy.

Their study of irrelevance of dividend is based on the following critical assumptions:

-) The firm operates in perfect capital market. Information is costless and readily available to all investor. Transaction cost and flotation cost do not exist. All securities are infinitely divisible. Investors are assumed to rational and to behave accordingly.
-) There are no taxes.
-) The firm has fixed investment policy.
-) Risks of Uncertainty do not exist.

Modigliani and Miller provided the proof in support to their agreement in the following manner.

Step I

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

Symbolically:

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

Where,

- P_0 = Market price at the beginning or at the zero period.
- D_1 = Dividend per share to be received at the end of the period.
- P_1 = Market price of share at the end of the period.
- ke = Cost of equity capital (Assume Constant)

Step II

Assuming that the firm does not resort to any external financing the market value of the firm can be computed as follows:

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

where,

n = Number of equity shares at zero period.

Step III

If the firm's Internal sources of financing on its investment opportunities fall short of the funds required and ζn is the number of new shares issued at the end of year 1 at price P_1 .

Then,

$$nP_0 = \frac{nD_1 \Gamma P_1 (n \Gamma \zeta n) Z \zeta n P_1}{1 \Gamma ke}$$

Step IV

If the forms were to finance all investment proposals, the total amount of new share issued would be given the following equation:

$$\zeta n P_1 \times I \times Z (E \times n D_1)$$

$$\zeta n P_1 \times I \times Z E \Gamma n D_1$$

Where,

$\zeta n P_1$ = the amount obtained from the sale of new shares to finance capital budget.

I = the total amount of required budget.

E = Earning of the firm during the period.

$(E \times n D_1)$ = Retained Earnings.

Step V

By substituting the value of $\zeta n P_1$, from equation of step IV to equation of step II, we find,

$$NP_0 \times \frac{nD_1 \Gamma p(n \Gamma \zeta n) Z I \Gamma E \times n D_1}{1 \Gamma ke}$$

OR,

$$nP_0 \times \frac{p(n \Gamma \zeta n) Z I}{1 \Gamma ke}$$

Step V1

The above equation gives the value of the firm; there is no role of dividend in the equation. So Modigliani and Miller concluded that dividend policy has no effect on the shares price. In the way according to Modigliani and Miller study, it seems that under condition of perfect capital market, rational investors, absence of tax discrimination between dividend income and capital appreciation, given the firm's investment policy, its investment policy may have no influence in the market price of the share.

2.2.3 Myron Gordon's Study:

Myron Gordon in his study concluded that dividend policy of a firm affect its value. In this model, he plead that investor were not indifferent between current dividend and retention of earnings. The conclusion of this study is that investors value the present dividend more than the future capital gains. His argument insisted that an increase in dividend payout leads to increase in the stock price. (Myron, J. Gorden, 1962 vol. 3)

Hence investors required rate of return increase as the amount a dividend decrease. This means there is a positive relationship existing between the amounts of dividend and the stock prices.

His model is based on the following assumptions:

-) The firm is an all-equity firm.
-) No external financing is available.
-) Internal rate of return (r) and appropriate discount rate (k_e) are constant.
-) The firm and its stream of earning are perpetual.
-) The corporate taxes do not exist.
-) Retention ration (b), once decided upon is constant.

Thus, growth rate (g) = br , is constant forever.

The discount rate is greater than growth rate, $K > br = g$.

Based on the above, Gordon had provided the following formula (which is simplified version of original formula) to determine the market value of share.

$$p = \frac{D(1-b)}{K-br}$$

where,

p = price of share.

E = earnings per share.

b = retention ratio.

1-b = percentage of the earning distributed as dividend.

K = Capitalization rate or cost of capital

Br = Growth rate r i.e. rate of return on investment of all equity firm.

E (a-b) = Dividend per share.

This model shows the following facts:

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

2.2.4 Walter's Study:

Professor James E. Walter conducted a research in 1966 regarding dividend policy, in which he argues that value of the firm always affected by the dividend policy adopted by the firm. In this approach, investment policy of the firm is directly affected by the dividend policy adopted by the firm. In this approach, investment policy of the firm is directly affected by the dividend policy which is opposite to Modigliani and Miller approach.

His study is mainly focused to find out the relationship between internal rate of return and firm's cost of capital. By analyzing these two factors firm can allocate the total earning to dividend and retained earnings.

His model is based on the following assumptions.

-) The firm finances all investment through retained earning i.e. Debt or new equity not issued.
-) All earning are either distributed as dividend or reinvested immediately, i.e. no earning should be retained in the form of cash.
-) The firm's internal rate of return and cost of capital are constant. Beginning earning per share and dividend never change.
-) Firm has very long or infinite life. (*James E Walter, March 1966, p. 29-41*)

Based on this assumption, Walter formulated the related factors to determine the Market price of share.

$$P = \frac{DPS}{K} + \frac{r}{k} \frac{EPS}{K}$$

where,

P = Market price per share.

DPS = Dividend per share.

EPS = Earnings per share.

r = Internal rate of return

k = cost of capital.

According to Walter's Model, the optimum dividend policy depends on the relationship between IRR and its cost of capital. His view on the optimum dividend payout ratio can be summarized as follows:

(1) Growth firm:

If the internal rate of return is higher than the firm's cost of capital these firms are said to be growth firm. These firms assumed to have sufficient profitable investment opportunities. Such firms can maximize the value of the share by retaining all earnings for internal investment. Thus, the optimum payout ratio for a growth firm is zero.

(11) Normal firm:

The firm having equal internal rate of return and cost of capital is known as normal firm. For these firms dividend policy does not affect the market value of the share. 'There is no unique optimum payout ratio for a normal firm. One dividend policy is as good as other. Market value per share is not affected by the payout ratio'. (Ibid p. 280)

(III) Declining Firm:

Declining firms have lower IRR than firms cost of capital. Generally this firm's don't have any profitable investment opportunities. So, for these firms it is better to distribute all the earnings as dividend. Thus optimum payout ratio for declining firm is 100%. The market value per share increases as payout ratio increases.

2.2.5 Van Horne and Mc Donald's study:

Van Horne and Me Donald conducted more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. They explored some basic aspect of conceptual framework and empirical tests were performed during year 1968 for two industries, using a well known valuation model, i.e. across section regression model. The required data were collected from 86 electric utility firms on the COMPUSTAT utility data tape and 39 firms in the electronic and electronic component industries as listed on the COMPUSTAT industrial data tape. (Van Home and Mc.Donald, 1971, p.507-519)

They tested two regressions for the utility industrial. By using these models, they compared the result obtained for the firms that both pay dividends and engage in new equity financing

with other firms in an industry sample. They concluded that for electric utility firms in 1968, shares value was no adversely, except for those in the equity financing in the presence of cash dividends, except for those on the highest new issue group and it made new equity a more costly form of financing than the recantation of earning. They also indicate that the payment of dividend through excessive equity financing reduce share price. For electronics, electronic components industry, a significant relationship between new equity financing and the value was no demonstrated.

2.2.6 Mark E. Holder, Frederick W. Langreher and J. Lawrence Hexter's study:

Mark E. Holder, Frederick W. Langreher and J. Lawrence Hexter's investigated the influence of stakeholders on firm's dividend policy by examining the interaction between the dividend and investment policies. They proposed that both non- investor stakeholder and capital suppliers had an impact on firm's dividend policy. To test the preposition, they used more direct measures of free cash flow as way to relate dividend and agency costs and an objective smoothing procedure on the dividend payout ratio. Their results indicate that an interaction between the dividend and investment policies of a firm does exist.

They describe their econometric model and the variable used in the study. They used the regression equation below as the basis for testing their hypothesis of relationship between the Net Organization Capital (NOC) of a firm and its dividend payout. To specify the model more fully, they included other variables based on previous research.

$$DP_{it} = \alpha_0 + \alpha_1 FS_{it} + \alpha_2 LSALES_{it} + \alpha_3 INS_{it} + \alpha_4 LC SHR_{it} + \alpha_5 FCF_{it} + \alpha_6 GROW_{it} + \alpha_7 SID_{it} + E_{it}$$

where,

DP_{it} = Smooth dividend payout ratio for firm i in fiscal year t.

FS_{it} = Measure of the focus of firm i in yare t.

$LSALES_{it}$ = Natural log of sales of firm i in year t.

INS_{it} = Residual of insider ownership for firm, i in year t regressed on LSALES.

$LC SHR_{it}$ = Residual of natural log number of common shareholder for

firm I in year t regressed on LSALES.

FCF_{it} = Free cash flow for firm i in year t.

$GROW_{it}$ = sales growth of firm i for year t using the prior five year.

STD_{it} = Standard deviation of monthly returns of firm i in year t.

Finding of the study are as follows:

-) The corporate focus is negatively related to dividend payout ratios.
-) More focused firms (with fewer lines of business) tend to have lower dividend payout ratios.
-) The larger firms tend to have higher payout ratios than the smaller firms.
-) When considering the influences of agency cost on payouts, they find that the greater the degree of inside ownership the Lower the payout; the larger the number of share holder, the higher the dividend payout ratio; and greater the free cash flow the higher the payout ratio.
-) When looking at transaction cost payout ratios are lower for firm that have higher standard deviation of returns and for the higher sales growth firms.

2.2.7 Deepak Chawla and G. Srinivasan's Study:

This study is also focused on the impact of dividend and retention market price of stock. They estimated cross sectional relationship of 18 chemical and 13 sugar industries for the year 1963 to 1973. The basic objectives of the study are: (Chawla, Deepak & Srinivansan G., 1987, p. 137-140)

- I. To set a model which explain the relationship between share price, dividend and retained earning.
- II. To test the dividend and retained earning hypothesis.
- III. To examine the structural changes in the estimated relations overtime.

To achieve the about objectives they used simultaneous equation model as developed by Friend and Puckett in 1964.

The unspecified form of model is as follows.

Price function:

$$P_t \times F(D_t, R_t, P/E_{tZl})$$

Dividend Supply Function:

$$D_t \times F(E_t, D_{tZl} P/E_{tZl})$$

Identity, $E_t = D_t + R_t$,

Where,

P = Market Price of Share

D = Dividend per Share

R = Retained Earnings per Share

E = Earnings per Share

P/E = Deviation from the Sample, average of price earnings ratio

t = Subscript for time.

They used two stage least square techniques for estimation. They found that the estimated coefficient had a correct sign and coefficient of determination of all equation was higher in case of chemical industry which implies that the stock price and dividend paid variation can be explained by their independent variables. But in case of sugar industry the sign for retained earnings is negative.

From their study they concluded that both dividend and retained earnings significantly explain the variations in share price of the industry.

2.2.8 Friend and Puckett's Study.

Friend and Puckett (1964) conducted a study on the relationship between dividends and stock prices, by running regression analysis on the data of 110 firms from five industries in the year 1956 to 1958. These five industries were chemicals, electric utilities, electronics, food and steels. These industries were selected to permit a distinction made between the result for growth and non growth industries and to prove a basis for comparison with result by other

authors for earlier years. They also considered cyclical and non-cyclical industries which they covered. The study periods covered a boom year for the economy when stock prices leveled off after rise (1956) and somewhat depressed year for the economy when stock prices however rose strongly (1958). (Irwin, Fried and Marshall, Puckett, 19964, p. 656-682)

They used dividends, retained earnings and price earnings ratio as independent variables in their regression model of price function. They used supply function, i.e. dividend function also. In their dividend function, earnings, last year's dividend and price earnings ratio are independent variables. They quoted that the dividend supply function was developed by adding to the best type of relationship developed by Linter.

Symbolically, their price function and dividend function are,

Price function:

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

Where,

P_t = Share price at time t.

D_t = Dividend at time t.

R_t = Retained earnings at time t.

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

Dividend Supply functions:

$$D_t = e + fE_t + gD_{t-1} + h(E/P)_{t-1}$$

Where,

E_t = Earnings per share at time t

D_{t-1} = Last year dividend

This study was based on the following assumptions:

- i. Dividends do react to year to year fluctuations in earnings.
- ii. Price doesn't contain speculative components.
- iii. Earnings fluctuations may not sum zero over the sample.

Their regression results based on the equation of $P_t = a + bD_t + CR_t$ showed the customary strong dividend and relatively weak retained earnings effects in three of the five industries, i.e., chemicals, foods and steel. Again they tested other regression equations by adding lagged earning price ratio to the above equation and added the following equation.

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

In this equation, they found the following result; they found that more than 80% of the variation in stock prices can be explained by three independent variables. Dividends have a predominant influence on stock prices in the same three out of five industries but they found the differences between the dividends and retained earnings coefficient are not quite so marked as in the first set of regressions. They also found that the dividends and retained earnings coefficient are closer to each other for all industries in both years except for steels in 1956, and the correlation are higher, again except for steels.

They also calculated dividends supply equation i.e.,

$D_t = e + fE_t + gD_{t-1} + h(E/P)_{t-1}$ and the dividend price equation for four industry groups in 1958. In their derived price equation it seems that there was no significant changes from those obtained from the single equation approach as explained above. They argued that the stock prices or more accurately the price earnings ratio does not have a significant effect on dividend payout. On the other hand, they noted that the retained earnings effect is increased relatively in three of the four cases tested. Further, they argued that their result suggests price effect on dividend supply are not a serious source of bias in the customary derivation of dividend and retained earning effects on stock prices, though such a bias might be marked if the disturbing effect of short run income movements are sufficiently great.

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

Similarly, they tested the regression equation of $P_t = a + bD_t + CR_t$ using normalized earning again. They obtained normalized retained earnings by subtracting dividends from normalized earnings. That normalized procedure was based on the period 1950-1961. Again they added prior year's normalized earning price variable and they compared the result. Comparing the result, they found that there was significant role of normalized earnings and retained earnings but effects of normalized price earnings ratio were constant. When they examined the later equation, they found that the difference between dividend and retained earnings coefficient disappeared. Finally they concluded that management might be able to increase prices somewhat by raising dividends in food and steel industries.

They conducted more detailed examination of chemical samples. That examination disclosed that the result obtained largely reflected the under regression weighting given the three firms with price deviating most from the average price in the sample of 20 firms and retained earnings as a price determinant.

Finally, Friend and Puckett concluded that, it is possible that management might be able, at least in some measure, to increase stock prices in non growth industries by raising dividends and in growth industries by greater retention i.e. low dividends.

2.2.9 H.K. Baker, G.E. Farrelly and Richard B. Edelman's Study:

H.K. Baker, Gail E. Farrelly and Richard B. Edelman surveyed management view on dividend policy (H. Kent Baker, Gail E. Farrelly, Richard B. Edelman, 1985, p. 78-84). They asked corporate financial managers what they considered most important in determining their firm's dividend policy. The objectives of their survey were as follows:

1. To compare the determinants of dividend policy today with Linter's behavioral model of corporate dividend policy and to assess managements agreements with Linter's findings.
2. To examine managements perception of signaling and client effect.
3. To determine whether manager in different industries share similar views about the determinants of dividend policy.

The firms they surveyed were listed on the New York stock exchange and classified four digit standard industrial classification codes. Total of 562 NYSE firms were selected from three industrial groups, Utility (150), Manufacturing (309) and wholesale/ retail (103).

They mailed questionnaire to obtain information about corporate dividend policy. The questionnaire consisted of three parts.

- (i) 15 closed end statements about the importance of various factors that each firm used in determining its dividend policy.
- (ii) 18 closed end statements about theoretical issues involving corporate dividend policy and
- (iii) A respondent's profile including such items as the firm's dividend and earnings per share.

They send the final survey instrument to the chief financial officer of 562 firms, followed by the second complete mailing to improve the response rate and reduce potential non-response bias. Their survey yielded 318 usable responses (56.6% response rate), which were divided among the three industry groups as follow: 114 utilities (76%), 147 manufacturing firms (47.6%) and 57% wholesale/retail (5.3%). Based on dividend and earnings per share data

provided by the respondents, the average dividend payout ratios were computed. They found that payout ratio of the responding utility (70.3%) was considerably higher than for manufacturing (36.6%) and wholesale/retail (36.1%).

The results for this survey on the aspect of determinants of dividend policy were as follows:

The first highly ranked determinants are the anticipated level of firm's future earnings and the second factor is the pattern of the past dividends. They found the high ranking of these two factors is consistent with Linter's findings.

A third factor cited as important in determining dividend policy is the availability of cash.

A fourth determinant is concerned about maintaining or increasing stock price. They found this factor is particularly strong among utilities that ranked this second in importance.

Similarly, the results of their survey on the aspect of attitudes on theoretical issues were as follows:

-) Respondents from all three industry groups agreed relatively strongly the dividend payout affects common stock prices.
-) The respondents from all three industry groups agreed, on average, that dividend payout provide a signaling device of future company prospects and that the market uses dividend announcements as information for assessing security value.
-) The respondents also demonstrated a high level of agreement that the reason for dividend policy changes should be adequately disclosed to investors.
-) Respondents from all three industry groups thought that investors have different perceptions of the relative risks of dividends and retained earnings and hence are not indifferent between dividend and capital gain returns.

2.3 Review of Journal and Articles:

Radhe Shyam Pradhan

Radhe Shyam Pradhan conducted an outstanding study related to stock market behavior (Pradhan, Radheshyam, 1993, p23-49). In this study he collected the data of 17 enterprises from the year 1986 to 1990. The objectives of the study are:

- i. To access the stock market behavior in Nepal.
- ii. To examine the relationship of market equity, market value, price earnings and dividend with liquidity, profitability, leverage assets turnover and interest turnover.

The conclusion of the study related to dividend behavior is as follows:

- i. Higher earning on stock leads the larger ratio of DPS.
- ii. Stock with larger ratio of dividend per share to market price have lower leverage ratio.
- iii. Positive relation between the ratios of DPS to market price and interest coverage.
- iv. Positive relationship between dividend payout and turnover ratios.
- v. Positive relation between dividend payout and liquidity.
- vi. Positive relationship between dividend payout and profitability.
- vii. DPS and MPS are positively correlated.

Manohar K. Shrestha Study

Manohar K. Shrestha's study on 'Shareholder's democracy and annual general meeting feedback' deals with the policies and financial performance of some financial institution of Nepal, which contains Dr. Shrestha's view expressed in annual general meeting of financial institutions. The paper presented by him on fifth annual general meeting of Nepal Arab Bank has been presented here.

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

- i. The cost plus inflation at exorbitant rate has made the shareholders to expect higher return from their investment.
- ii. Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequence of it.
- iii. Erosion in purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholder's purchasing power by raising dividend payment ratio on the basis of both earnings and cost theory.
- iv. Indo-Nepal trade and transit deadlock has become a sort economic welfare putting rise in the cost of living index to a considerable extent. This is a reason which made shareholders to expect higher demand for satisfactory dividend.

- v. The waiting of 5 years with payment dividend in previous years is equally a strong enforceable reason of bank's shareholder to expect handsome dividend already assumed and committed in various reports of the earlier annual general meeting.
- vi. One way to encourage risk taking ability and preference is proper risk return trade off by bank's management board is a way that higher return must be the investment rule. For higher risk takers that compromise bank's shareholders.

At the end of the paper, Mr. Shrestha states that the banks are trying its best to satisfy shareholders and employees as well.

K.D. Mananadhar Study

Another article published by **K.D. Manandhar** describes about the relationship of dividend payout to other financial factors based on the data of 7 commercial banks, 5 finance and insurance companies, 2 trading companies, 2 service oriented companies and 1 manufacturing company for the year 1987 to 1998. (Manandhar K.D., 2000 P. 5-12).

Following are the major findings of the study.

- i. Significant relationship is found between change in dividend policy in terms of dividend per share and change in lagged earnings.
- ii. There is relationship between distributed lagged profit and dividend.
- iii. The difference is found significant between overall proportion of change dividend and due to increase and decrease in EPS during the study period.
- iv. In overall increase in EPS has resulted to increase in the dividend payment in 66.6% of the case while decrease in EPS resulted decrease in dividend payments, which come to equal to 33.3% of the cases.
- v. It is found that Nepalese corporate firms have followed the practice of maintaining constant dividend payments per share in EPS as reflected by the total percentage of constant and increase dividend payment of 78.33% of the cases. In other words firms are reluctant to decrease dividend payment.
- vi. In overall Nepalese corporate firms are found reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information

contents and signaling effects of dividend relating to the firm's continued progress and performance sound financial strength favorable investment environment, lower risk, ability to maintain sustained dividend rate and finally to increase the market price of the stocks in the stock market.

Mahesh Bhattarai's Study (2004):

Mahesh Bhattarai (2004), in the study entitled “ An Examination of the effects of Dividend Policy on the Market Price of Shares” conducted an examination of the effect of the dividend policy on MPS in five commercial banks with the objectives:

- a) To analysis, examine and interpret the stock price movement after announcing the dividend decisions by the selected banks.
- b) To highlight the various aspects of dividend policies and practices in Nepal carried out by the banking sector.

The major findings of the study are as follows:

- a) From the analysis, it was been found that none of the sample banks had followed consistent dividend policy as a result a high degree of fluctuation is observed in DPS.
- b) Although the payout ratio of the sample firms in fluctuating from year to year, there is no rational approach in deciding the payout. All the firms should analyze the internal rate of return and the cost of capital in deciding DPR, which helps to maximize the shareholders wealth.
- c) The legal rules and regulations must be in favor of investors to exercise the dividend practice and to protect the shareholders right.
- d) The decision regarding dividend payments should not bias and it should always in favor of the prosperity and betterment of the company.

Devkota's Study:

Jayaram Devkota has also conducted a research work on A study on dividend policy and practices a comparative study in insurance co. of Nepal listed under group ‘A’ in NEPSE companies, the importance given to financing and dividend decision has changed from the past researcher it has been found that the financing and dividend decision have given the

place of second and third importance respectively. But this study shows (according to the response of question) that the mixed decision regarding financing and dividend decision.

The sampled insurance companies are not adopting fixed or defined the dividend policy; they are adopting the dividend policy according to their requirement with the change in time.

Almost sampled insurance companies are practicing cash dividend. But they are also in the favor of stock dividend and scrip dividend and some of insurance companies also used stock dividend in the past.

For those companies, which are financing strong dividend is not only a factor that affects the market price of share. These are other factors to affect the market price of share. But those companies, which are just earning in the field of insurance. Dividend is a major factor in determination of MPS i.e. dividend payment impact negatively on MPS. And those companies that finally strong and have a long exercise in the field of insurance dividend payment impact negatively impact on MPS.

The financial executives of insurance companies in the decision of dividend payment are not uniform. Their opinions are different from one to another. Some of the executives of insurance companies are still ignoring the dividend policy.

In the sampled insurance companies, there is no uniformity in payment of dividend.

Manandhar's Study (1996):

Mr. K.D. Manandhar (1996), professor of financial management, Shankar Dev Campus, faculty of Management, TU has conducted a study titled 'Dividend Policy and value of the firm in small stock market': A case of Nepal. This study was aimed at identifying some of significant financial variable that are significant to the value of the firm.

Nepalese Stock market is characterized by very slow growth in terms of trading, market value of stocks and declining participation of security investors in the secondary market. In this study the author attempt to study and understand only the relevance or irrelevance of different financial variables by studying the relationship between different financial variables

as EPS, DPS, P/E ratio etc and market value of the firm to be represented by market capitalization and implication of dividend policy based on Nepalese Stock market data. His study was based on the secondary financial data of top ten companies of the year 054/055 (1995/96) on the basis of traded amount.

Since market capitalization represent the market value of the firms, the market capitalization data are assumed as dependent variable and DPS, EPS, D/P, P/E and ROE data relating to the sample companies are assumed as independent variable. The result of regression equation states that DPS and ROE has the impact on market capitalization while EPS, P/E and D/P has negative impact on market capitalization. The ROE also found to be positively related to market capitalization.

The analysis concludes that DPS, ROE and D/P are significant determinant of market capitalization.

-) Dividend policy is relevance in stock valuation based on DPS
-) DPS,ROE and D/P have significant impact whereas ROE and P/E is found having no significant impact on market value.

2.4 Review from the Thesis

There are few theses available which have looked into corporate dividend behavior. The available thesis reviewed as follows:

A comparative study of dividend policy in commercial banks conducted by Mr. Rishi Raj Gautam was carried out by using the secondary data of three commercial banks in 1998.

Objectives of the study are as follows:

-) To identify what type of dividend policy is being followed and find out whether the policy followed is appropriate or not.
-) To examine the impact of dividend on share prices.
-) To identify the relationship between DPS and other financial indicators.

-) To know if there is any uniformity among DPS, EPS and DPR of the three sample commercial banks.

Major findings of the research are as follows:

- I. Average earnings per share and dividend per share of all concerned banks are satisfactory.
- II. Analysis indicates that there is the largest fluctuation in EPS and DPS, on the other hand have relatively more consistency dividend per share in all the sample banks.
- III. No commercial banks seen to be guided by cleanly defined dividend strategy in spite of the good earnings and potentials.
- IV. Share of financial institution are actively traded and market prices are increasing.
- V. Commercial banks represent a robust body of profit earnings organization in comparisons to the other sectors such as manufacturing, trading etc.
- VI. The most striking findings of this study have clearly defined dividend strategy on the other hand there is significant relationship perceives between earnings and dividend of expansion program.
- VII. It is necessary to research about the dividend policy in joint venture commercial banks take large number of sample and do wide spread analysis in above variables.

Prerana Laxmi Rajbhandari has conducted a study on dividend policy. A comparative study between banks and insurance companies through data collected from 1994/95 to 1998/99 with joint venture commercial banks and 3 insurance companies in May, 2001.

The main objectives of the research were:

-) To examine the relationship between dividend and market price of the stock.
-) To identify the appropriate dividend policy followed by the banks and insurance companies.
-) To analyze the relationship between dividend policy decision of banks and insurance companies.

Major findings are as follows:

- i. The average DPS and all concerned institution except NABIL and EPS of all sample institution seem satisfactory.
- ii. The analysis of coefficient of variation shows that there is the largest fluctuation in EPS and DPS. Other companies have seemed to be relatively more consistent.
- iii. The analysis of dividend payout ratio shows, none of the banks or insurance companies has constant payout ratio each year.

Bishnu Hari Bhattarai has conducted study on "Dividend decision and its impact on stock valuation" in 1996. The main findings of these studies are as follows:

There is positive relationship between cash flow and current profit and dividend percentage of share. The degree of relationship is almost perfect.

- I. Basically there are no criteria to adopt payout ratio and it is observed that there is negative relationship between payout ratio and valuation of share.
- II. In aggregate, dividend paid by the company is not stable.
- III. Inflation ratios in recent years are decreasing and the market price of share is increasing. Nevertheless the companies are not able to give required rate of return to the investors.
- IV. There was positive relationship observed on foreign investors and payout of dividend i.e. the companies invested by Nepalese. There was negative relationship observed between paying dividend and percentage of public shareholder and percentage of shareholder by HMG/N.

A study on "Impact of Dividend and Earnings announcement on shareholders return and stock prices in Nepal" by **Narayan Prasad Khatiwada** in May 2001 through data collected from 053/54 to 055/56 for 6 joint venture banks.

Objectives of the study are as follows:

-) To analyze the impact of earning and dividend announcement on shareholders return.

-) To see the correlation between the return of the individual securities with market return.
-) To identify the quality of systematic risk and unsystematic risk.

The major findings of the study are as follows:

- i. Announcement of dividend and earnings did not affect the shareholders return in average.
- ii. Other banks except Nepal SBI Bank Ltd. having different dividend rates did not provide significant abnormal return to the shareholders.
- iii. Shareholder realized positive abnormal return from NB, SBI and Grindlays.

Hari Ram Aryal has performed a thesis on dividend policy. The comparative studies between NABIL and SCBNL with eight year's data relating to dividend policy are from 1987/88 to 1995/95.

His main objectives of the work are as follows:

-) To highlight dividend practices of the bank.
-) To analyze the relationship of dividend with various important variables.

The major findings of the study are as follows:

- i. The relationship between DPS with EPS, Net Profit, Net Worth and stock prices are positive in sample banks
- ii. A change in DPS affects the share prices differently in different banks.
- iii. There is not uniformity in dividend distribution policy in both the banks.

A research on "Corporate dividend practices in Nepal" carried out by **Navaraj Adhikari** using primary as well as secondary data.

The objectives of the study are:

-) To analyze the properties of portfolios formed on dividend.

-) To examine the relationship between dividend and stock prices.
-) To survey the opinions of financial executives on corporate dividend practices.

Major findings of the study are as follows:

- i. There are differences in financial position of high dividend paying and low dividend paying companies.
- ii. The stocks with longer ratio of per share to book value per share have higher liquidity. It has more variable as compared to stock paying lower dividends. Other thing remaining the same. Financial position of high dividend paying companies is comparatively better than that of low dividend paying companies.
- iii. Another interesting conclusion is that market price of stock is affected by dividend for finance and non finance sectors differently.
- iv. There is positive relationship between dividend and stock price.
- v. There is negative relationship between dividend payout and earnings before than to net worth.
- vi. Stocks with larger ratio of DPS to book value per share have higher profit ability. These profitability ratios of stocks paying large dividends are also some variable as compared to stocks paying smaller dividends.
- vii. The companies paying higher dividend are reluctant to employ high degree of leverage is their capital structures.
- viii. The stocks with larger ratio of dividend per share to book value per share have also higher turnover ratio and higher interest coverage.

Some findings through primary data:

-) With respect to factors affecting corporate dividend policy, the majority of the respondents give the first priority to "earnings", the second to availability of cash and the third to past dividend and fourth to concern about maintaining or increasing stock price.
-) Dividend payout affects the price of common stock.
-) As regards dividend as a residual decision, the majority of the respondents feel is not a real residual decision.

-) With respect to major motives for paying cash dividend, the majority of the respondent feels that it is to convey information to shareholders that the company is doing good.
-) Nepalese shareholders are not really indifferent towards payout or nonpayment of dividend.
-) One of the major findings is that earning announcement helps to increase the market price of share.

The study on dividends and stock prices conducted by **Sadakar Timilsina** was carried out by using the data for 16 enterprises from 1990 to 1994.(Timilsina, Sadakar, 1998)

Objectives of the study are as follows:

- i. The relationship between DPS and Stock Price is positive in the sample companies.
- ii. DPS affects the share prices variability in different sectors.
- iii. Changing the dividend policy or dividend per share might help to increase the market price of share.
- iv. The relationship between stock prices and retained earnings per share is not prominent.
- v. The relationship between stock prices and lagged earning price ratio is negative

Though there are above mentioned studies related to dividend behavior in Nepalese context. It has now become necessary to find out where their findings are still valid or not. So it is necessary to carry out a fresh study related to dividend pattern of Nepalese companies. In this study, it is tried to carry out the latest data for different companies for analyzing the dividend policies of Nepalese companies. The earlier studies on dividends have become old and need to be updated and validated because of the rapid changes taking place in financial market of Nepal.

It is found that no research has been conducted by taking the sample companies, which the researcher has selected in this research. So, it is believed that this study will be different than earlier research.

CHAPTER-THREE

RESEARCH METHODOLOGY

3. Introduction:

Research methodology is the research method used to test the hypothesis. In designing methodology for a thesis project the following element should be taken into account. They are research design, population and sample, sources of data, data collection technique and presentation and analysis of data. Research methodology is the way to solve the research problem systematically.

"Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective in view"

"Research methodology is a vital and absolutely indispensable part of social scientific and educational research. Without research methodology modern social scientific and educational research would still be in the dark age."

3.1 Research Design:

Research design is the main part of thesis or any research work. "By research design we mean an overall frame work or plan for the collection and analysis of data". Research design presents a series of guide posts to enable the researcher to progress in right direction in order to achieve the goals. The study tries to evaluate the dividend policy of some selected joint venture banks.

"Research design is the plan, structure and strategy of investigation concerned so as to obtain answers to research questions and to control variances". Research design is conceptual structure within which a research is conducted. It is a purposeful scheme of action proposed to be carried out in sequence during the process of research. This study is descriptive, analytical and comparative employing various historical secondary data for the analysis of dividend pattern of Nepalese commercial banks.

3.2 Population and Sample:

The term "Population" or "Universe" for research means all the members of any well defined class of people, events or objects, organization or firms. The population means aggregate or the entire group. Population consists of large group. Due to its large size it is difficult to collect detailed information. So a sub-group is chosen that is believed to be representative of the Population. The sub group is called a sample. The sample allows the researchers more time to make an intensive study of a research problem. Good sampling techniques can save the researchers time and money. There are twenty five commercial banks in Nepal, since it is very difficult to study of them, only five sample banks has been taken for research. Total commercial banks in Nepal are as follows:

S.N.	Name of Bank	Established Date	Head Office
1.	Nepal Bank Ltd.	1994/07/30	Kathmandu
2.	Rastriya Banijya Bank Ltd	2022/10/10	Kathmandu
3.	Nepal Arab Bank Ltd.(NABIL)	2041/03/29	Kathmandu
4.	Nepal Investment Bank Ltd.	2042/11/16	Kathmandu
5.	Standard Charter Bank Nepal Ltd. (Previously Nepal Grindlays Bank Ltd.)	2042/11/16	Kathmandu
6.	Himalayan Bank Ltd.	2049/10/05	Kathmandu
7.	Nepal Bangladesh Bank Ltd.	2050/02/23	Kathmandu
8.	Nepal State Bank of India (NSBI)	2050/03/23	Kathmandu
9.	Everest Bank Ltd.	2051/07/01	Kathmandu
10.	Bank of Kathmandu	2051/11/28	Kathmandu
11.	Nepal Credit and Commerce bank Ltd. (NCC)	2053/06/28	Siddharthanagar
12.	Nepal Industrial and Commercial Bank Ltd.	2055/04/05	Biratnagar
13.	Kumari Bank Ltd.	2056/08/24	Kathmandu
14.	Lumbini Bank Ltd.	2057/06/11	Narayangadh
15.	Machhapuchhre Bank Ltd.	2057/06/17	Pokhara
16.	Laxmi Bank Ltd.	2058/06/11	Birjung
17.	Siddhartha Bank Ltd.	2058/06/12	Kathmandu
18.	Agriculture Development Bank Ltd.	2062/03	Kathmandu
19.	Global Bank	2063/09/20	Bijung
20.	Citizens Bank	2064/01/07	Kathmandu
21.	Prime Bank	2064/06/07	Kathmandu
22.	Sunrise Bank	2064/06/25	Kathmandu
23.	Bank of Asia	2064/06/25	Kathmandu
24.	Development Credit Bank Ltd.	2065/02/12	Kathmandu
25.	NMB Bank Ltd.	2065/02	Kathmandu
26.	KIST Bank Ltd.	2066/ 01	Kathmandu

Sample bank selected for analysis is as follows:

- 1) Everest Bank Limited
- 2) Himalayan Bank Limited
- 3) NABIL Bank Limited
- 4) Nepal Investment Bank Limited.
- 5) Standard Chartered Bank Ltd.

3.3 Source of data:

There are two types of source of data

- (a) Primary source
- (b) Secondary source

This study on dividend policy "Dividend policy of commercial banks of Nepal" is based on Secondary source of data. The required data have been collected from Nepal stock exchange i.e. from the web page www.nepalstock.com. Other information is collected from different books, Annual reports, and web pages of concerned Banks, Library and newspapers as required.

3.4 Data Collection Procedure:

Data required for this research is collected through published statistical report, available books, journals, newspapers and WebPages. Similarly, the relevant data and the important information have been collected from the T.U Center Library and references of Patan Multiple campus, Patan Dhoka, Lalitpur. Other necessary information has been taken from the individual investors, related organizational officials, NEPSE staffs and other related personalities as well. Beside this, related websites like www.nepalstock.com, www.fncci.com and www.nrb.org are also used for data collection.

3.5 Method of Analysis:

Specific financial and statistical tools are used in this research. The analysis of data is done according to pattern of data available. The relationship between different variables related to study topic would be drawn out by financial and statistical tools. The calculated results are tabulated under different heading for ease of reading and then they are compared with each

other to interpret results. In this study simple regression analysis has been used to analyze the effect of independent variable on dependent variable. It helps in studying the effect and magnitude of the single independent variable in one dependent variable to determine whether the variable of DPS is related to dividend decision.

3.6 Data Analysis Tools

3.6.1 Financial tools used for Analysis

1) Earnings per share (EPS):

EPS is calculated to know the earning capacity and to make comparison between concerned companies.

It is defined as the result received by dividing net profit after taxes by number of common stock outstanding.

$$\text{EPS} = \frac{\text{Net profit available to equity shareholder}}{\text{Number of common shares outstanding}}$$

2) Dividend per share (DPS):-

The part of earnings distributed to the shareholders as per share basis is known as DPS. It is the amount calculated by dividing the total dividend with total numbers of share outstanding.

$$\text{DPS} = \frac{\text{Total Dividend}}{\text{Number of common share outstanding}}$$

3) Dividend in percent:

Dividend in percent indicates the ratio of dividend per share to the paid up price per outstanding share. It is obtained by dividing dividend per share by paid up price per share.

$$\text{Dividend in percent (\%)} = \frac{\text{Dividend per share}}{\text{paid up price per share}}$$

4) Dividend Pay-out Ratio (DPR):

The percentage of the profit on share that is distributed as dividend is called dividend payout ratio (DPR). It is the result received by dividend DPS by EPS.

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

5) Price Earnings Ratio (P/E Ratio):

P/E Ratio expresses the amount currently paid to each rupee of currently reported by the balance sheet of company's earnings per share by the market. It is calculated using the following formula.

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

6) Dividend Yield:

Dividend yield may define as the ratio of dividend per share to the market value per share. It is also expressed in terms of the market value per share. IT is the result obtained by dividing DPS by the MVPS.

$$\text{Dividend Yield} = \frac{\text{Dividend per share (DPS)}}{\text{Market Value Pre Share (MVPS)}}$$

7) Market Value per Share to Book value per share Ratio:

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

$$= \frac{\text{Market Value Pre Share (MVPS)}}{\text{Book value per share (BVPS)}}$$

8) Liquidity Ratio:

This ratio is calculated through dividing total assets by total liability.

$$\text{Liquidity Ratio} = \frac{\text{Total Assets}}{\text{Total Liability}}$$

9) Profitability Ratio:

Profitability ratio shows the combined effects of liquidity asset management and debt management on operating result. It measures the earning of the company for a certain period.

Profitability ratio is calculated by dividing net asset to capital employed.

$$\text{Profitability ratio} = \frac{\text{Net Asset}}{\text{Capital Employed}}$$

3.6.2 Test of hypothesis:

A hypothesis is supposition made as a basic for reasoning in testing of hypothesis; an assumption is about the population parameter.

To test whether the assumption of hypothesis is tight or not; a sample is selected from the population, sample statistic is obtained, observed the difference between the sample mean and the population hypothesized value, and test whether the difference is significant or in significant. Smaller difference, the sample mean is close to the hypothesized value, and larger the difference, the hypothesized value has low chance to be correct. The hypothesis of this research work as follows:

(I) Hypothesis First:

Null Hypothesis (H₀):

There is no significant difference in DPS on Sample joint venture banks.

Alternative Hypothesis (H₁):

There is significant difference in DPS on Sample joint venture banks.

(II) Hypothesis Second:

Null Hypothesis (H₀):

There is no significant difference in EPS on Sample joint venture banks.

Alternative Hypothesis (H₁):

There is significant difference in EPS on Sample joint venture banks.

(III) Hypothesis third:

Null hypothesis (H₀):

There is no significant difference in DPR on Sample joint venture banks.

Alternative Hypothesis (H₁):

There is significant difference in DPR on Sample joint -venture banks.

3.6.3 Statistical Tools Used:

The research holds many Statistical Tools which are as follows:

(i) Mean or Average (\bar{x}):

Mean or Average value is a single value within the range of the data that is used to represent all of the value in the series. Since the average is somewhere within the range of the data, it is also called a measure of central tendency. In this study, the data related to dividend are tabulated and drawn out average over different year.

$$\text{Mean } (\bar{x}) = \frac{\text{Sum of the values of Observation(} \sum X)}{\text{Total number of Observation(N)}}$$

(ii) Standard Deviation (†):

Standard Deviation (†) is the most important and widely used measure of study dispersion. It measures the absolute dispersion. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series, and vice-versa. The data related to dividend of sample joint venture banks are tabulated and observed the uniformity and homogeneity of the series after obtaining their respective standard deviation.

$$\text{Standard Deviation}(\dagger) = \sqrt{\frac{(x - \bar{x})^2}{N}}$$

where,

- † = standard deviation
- $(x - \bar{x})^2$ = sum of mean deviation square
- N = Total number of Observation

(iii) Coefficient of Variation (CV)

Coefficient of Variation is the most commonly used measure of relative Variation. It is used in such problems where we want to compare the Variability of the two or more than two series. The series for which the coefficient of Variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the other hand, the series for which coefficient of Variation is less is said to be less variable or more consistent, more homogeneous. Coefficient of Variation is denoted by C.V. and is obtained as follows.

$$\text{C.V.} = \frac{\dagger}{\bar{x}} \times 100\%$$

where,

- C.V. = Coefficient of Variation
- † = Standard deviation
- \bar{x} = Arithmetic Mean.

Less the C.V. more will be the uniformity; consistency and more the C.V. less will be the uniformity, consistency.

(iv) Correlation coefficient (r):

The correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variable. "Correlation Analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another". It is the measurement of the degree of relationship between two casually related sets of figures whether positive or negative. Its value lies somewhere ranging between -1 to +1. If both variables are constantly changing in similar direction, the value of correlation coefficient will be +1 indicative of perfect positive correlation. When the coefficient will be -1 two variable takes place in opposite direction. The correlation is said be perfectly negative.

In this study, simple correlation coefficient in used to examine the relationship of different factors with dividend and other variable. The data regarding dividend over different years are tabulated and their relationship with each others are drawn out. In practical life, the possibility of obtaining either perfect positive or perfect negative correlation is very remote.

It is calculated as follows:

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

where,

- r = correlation coefficient
- X = independent variable
- Y = dependent variable
- N = number of periods.

(v) Coefficient of Multiple Determinations (r²):

The coefficient of Determinations is a measure of the degree of linear association or correlation between two or more independent variable. If r² has a zero value then, it indicates

that there is no correlations which means all the data points in scattered diagram fall exactly on regression line. If it has a value equal to 1 then it indicates that there is perfect correlation and as such the regression line is a perfect estimator. But in most of the cases the value of r^2 will lie somewhere between these two extremes of 1 and 0. One should remember that r^2 close to 1 indicates a strong correlation between two variables and r^2 near to zero means there is a little Correlation. It is symbolically indicated as r^2 . Though some would prefer to put to as R^2 the coefficient of determination value can have ranging between zeros to one. A value of one can occur only if the unexplained variation is zero which mean that all the data points in the scatter diagram fall exactly on the regression line. If r^2 is 70% , it indicates that the independent variable explain 70% of the total variation in the dependent variable.

$$R^2 = \frac{1 - \text{unexplained variation}}{\text{Total variation}}$$

(vi) Regression Analysis:

Regression Analysis is widely used statistical tools. Simply, using the relation-ship between a known variable (independent) and an unknown (Dependent) variable to estimate the unknown one is termed as regression analysis. But in real life, so many independent variables do affect the dependent variable and any study of correlation must take all variables into consideration. Such relationship between a single dependent variable and number of independent variable in combinations is known as multiple regressions. The regression line describes the average relationship existing between x and y variables, i.e. it display mean values of x for given value of y, the equation of this line, as the regression equation provides estimates of the dependent variables when values of the independent variable are inserted into the equation.

The regression equation y on x is expressed as;

$$Y = (a + bX)$$

where,

Y = Dependent Variable

X = independent variable

- a = y-intercept or regression constant
- b = slope of line or regression coefficient

Both 'a' and 'b' in the equation are called numerical constant because for any given straight line, their value does not change, the value of 'a' and 'b' are obtained by solving the following simultaneous equation.

$$\sum y = N a + b \sum x \dots\dots\dots(I)$$

$$\sum xy = a \sum x + b \sum x^2 \dots\dots\dots(II)$$

I. Regression Constant (a)

Regression constant (a) is also called the intercept because its value is the point at which the regression line crosses the axis. It indicates the average. The Regression constant (a) which is the intercept of the model, represents the average level of dependent variable which independent variable has a value of zero. In other words, it can be termed as an indicator which specifies average effect on dependent variable if all the variables are omitted from the model. This term has practical meaning only if a zero value for the independent variable is possible.

II. Regression Coefficient (b)

The regression coefficient (b) is a parameter which indicates the marginal relationship between independent variable and the value of dependent variable holding constant the effect of all other independent variable in the regression model. The coefficient specifies a part of change in the dependent variable regarding part of change in the independent variable.

(vii) T-Test:

In case of small sample where 'n' is less than 30, we make use of 't' distribution. It is used for finding more appropriately the two limits where in the estimate would probably lie. For applying t- test first of all 't' value should be calculated and compared with the table value of 't'. At a certain level of significance for given degree of freedom, if the calculated value of 't'

exceeds the table value (say 0.5), we know that the difference is significant at 5% level, but if 't' is less than the concerning table value of the 't' the difference is not treated as significant.

(viii) F-Test:

F-Test is a technique which is generally known as the variance ratio and is mostly used in context of analysis of variables. F-test is used to identify the significance of difference between more than two sample means from same normal population with equal variance. In case of F-test, there is no assumption of equality of variances as it was in case of t-test. So one way ANOVA is used to examine the equality between sample variances.

(ix) Standard Error of Estimate (SEE):

Standard Error of Estimate measures the line variability or scatter of the observed values around the regression line. It also measures the reliability after finding the regression. If the Standard Error of Estimate happens to be zero, then there is cent percent estimator. In other words, the estimating equation of the dependent variable is a perfect estimator. It is possible for us to ascertain how good and representative the regression line is as description of the average relationship between two series. It is worked out as under. The square root of the Se is also known as the variance of the error term, which is the basic measure of the reliability.

$$Se = \sqrt{\frac{e^2}{nZ2}}$$

where,

e = the error term

Se = Standard Error

N = Number of observation

(x) Probable Error (PE):

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

$$PE = 0.6745 \times \frac{1 Z r^2}{\sqrt{n}}$$

- i. if $r < P.E.$, it is insignificant. So perhaps there is no evidence of correlation.
- ii. if $r > 6P.E.$, it is significant.
- iii. If $P.E < r < 6P.E$, nothing can be concluded.
- iv. The P.E of correlation coefficient may be used to determine the limits which the population correlation lies. Limit for the population correlation coefficient are $r \pm P.E.$

3.6.4 Limitation of Methodology:

- i. The analysis is based on secondary data.
- ii. Only five commercial banks are taken as sample companies.

CHAPTER- FOUR

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 data available. The analysis includes several tools and techniques such as financial and statistical tools plus the attitudes of management towards dividend decision. The basic objectives of the study have been already mentioned in Chapter-1, Introduction. In the same way in Chapter -11, Review of Literature, past studies are reviewed and conceptual framework based on this study has been already done. In order to achieve those objectives several tools and techniques are implied that are defined in chapter - III, Research Methodology. The presentation and analysis of data is a core of the research which leads to the major findings and helps to fill up the existing gaps. The main focus of the study on dividend policy is the joint venture commercial banks in Nepal. Here, related data had been taken for description analysis, comparative analysis and inferential analysis.

This chapter begins with the analysis of Dividend per share (DPS), Earning per share (EPS), Price Earning Ratio (P/E Ratio), Dividend Payout Ratio (D/P Ratio), Market Value per share (MPS), and Dividend Yield (D/Y). The statistical tools i.e. Mean, Standard Deviation and coefficient of variation are calculated and interpreted with the help of which financial indicators of concerned banks are compared. The tests of hypothesis on significance of DPS, EPS and D/P Ratio on sample commercial banks are done. At the end of this chapter correlation and regression analysis of some specific components have been made.

4.1 Analysis of Financial Indicators and Variables

4.1.1 Earning Per Share (EPS) and Dividend Per Share (DPS) Analysis

Table 4.1(a) EPS of Respective Banks

Years	EBL	HBL	NABIL	NIBL	SCBNL	Pooled Average
2003/04	45.57	49.05	92.61	51.7	143.55	76.50
2004/05	32.47	47.91	105.79	39.5	143.14	73.76
2005/06	45.81	59.24	129.21	59.35	175.84	93.89
2006/07	57.22	60.66	137.08	62.57	167.37	96.98
2007/08	54.14	64.57	108.31	57.87	131.92	83.36
Average	47.042	56.286	114.6	54.198	152.364	84.90
St. Dev.	8.60	6.62	16.25	8.15	16.47	9.21
C.V.%	18.29	11.76	14.18	15.04	10.81	10.84

Source: www.nepalstock.com

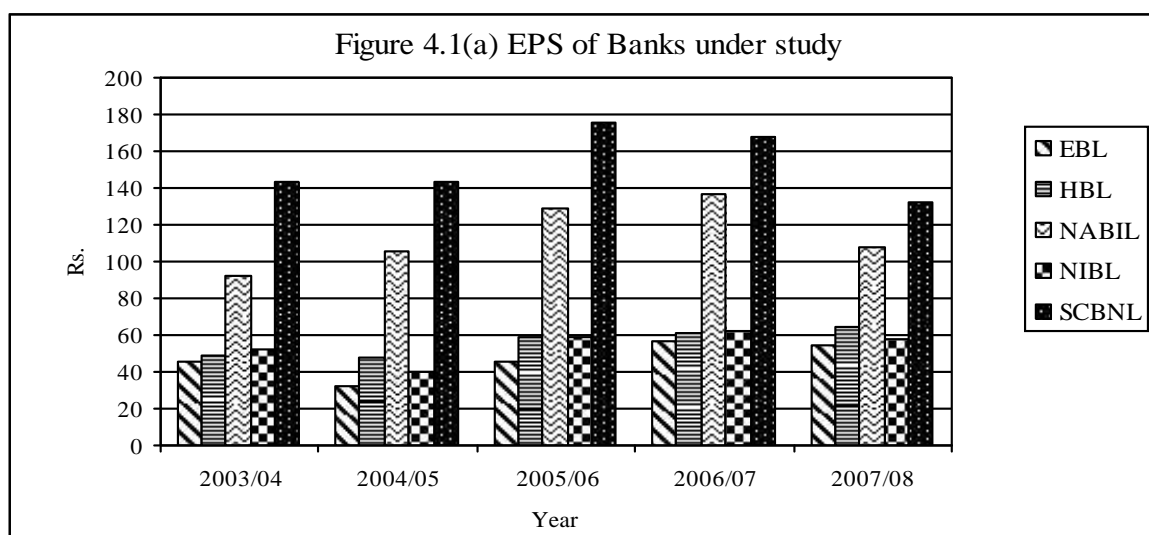
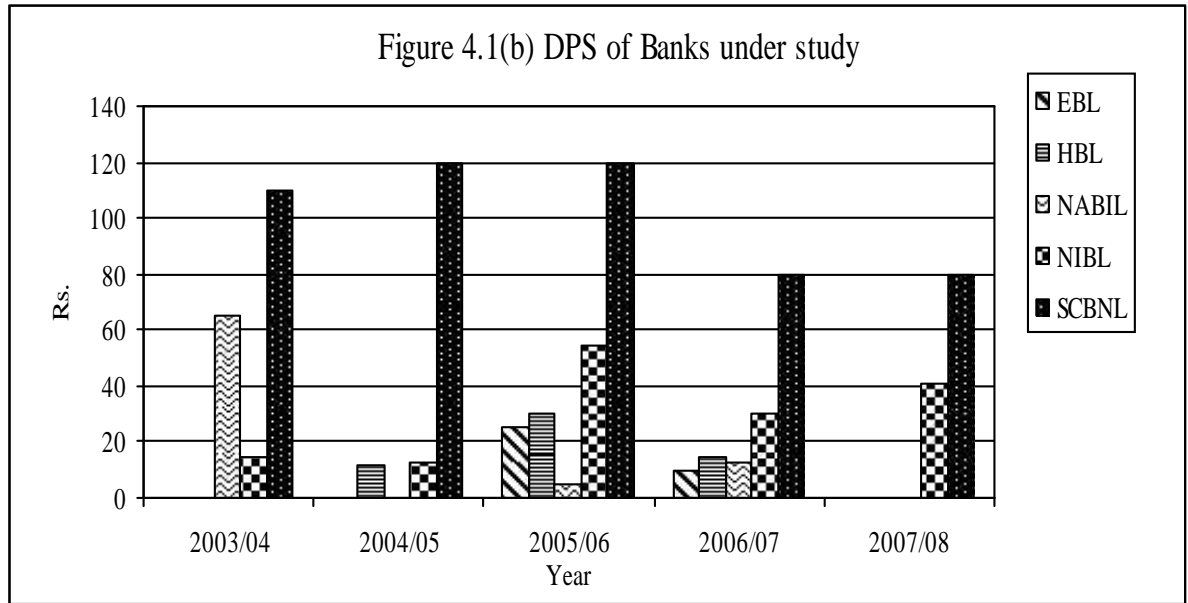


Table 4.1(b) DPS of Respective Banks

Years	EBL	HBL	NABIL	NIBL	SCBNL	Pooled Average
2003/04	0	0	65	15	110	38
2004/05	0	11.58	0	12.5	120	28.816
2005/06	25	30	5	54.46	120	46.892
2006/07	10	15	12.59	30	80	29.518
2007/08	0	0	0	40.83	80	24.166
Average	7.00	11.32	16.52	30.56	102.00	33.48
St. Dev.	9.80	11.13	24.68	15.78	18.33	8.06
C.V.%	139.97	98.31	149.38	51.64	17.97	24.06

Source: www.nepalstock.com



Above table shows the amount of earning per share and dividend per share paid by the banks from the year 2003/04 to 2007/08.

Starting from the year 2003/04, SCBNL has the highest EPS than other banks, which paid higher dividend also in comparison with other banks. The lowest earning made by EBL and paid 0 amount of dividend.

In 2004/05 shows the decrease in EPS except NABIL. The amount of dividend is increased in case of HBL and SCBNL. EBL haven't paid dividend this year.

It can be observed he remarkable increase in EPS of all the five banks in the year 2005/06, as a result DPS of four banks increase but SCBL has paid constant dividend in comparison with previous year.

In the year 2006/07 also, the EPS of all the five banks increase but DPS of four banks go on decrease except NABIL bank's pay high DPS that last year.

In 2007/08 year shows the decrease in EPS expect HBL and EBL, HBL and NABIL haven't paid dividend in this year, SCBNL paid constant dividend and NIBL paid higher dividend than previous year.

On the average, SCBNL has the highest EPS and NABIL, HBL, NIBL and EBL come respectively after SCBNL. The pooled average is 84.90 which is quite satisfactory. Since the average of EPS of SCBNL is highest among all five banks it has been able to pay considerably higher amount of dividend to its shareholder in comparison with other four banks. HBL have the lowest EPS in average among all five banks.

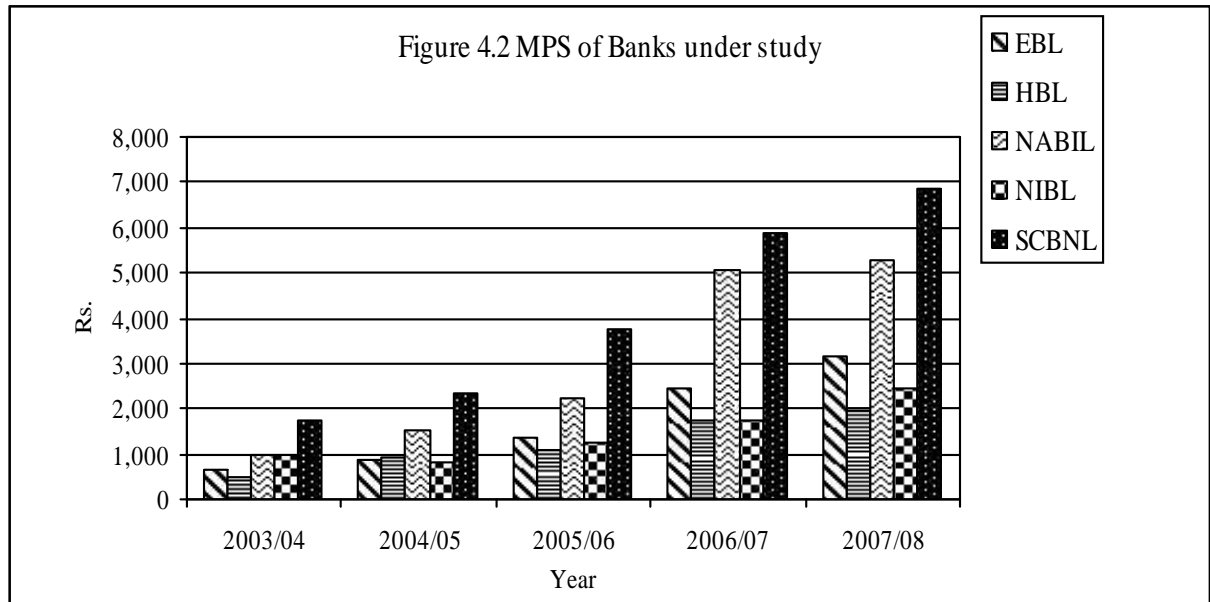
With considering the rate of fluctuation the analysis of EPS and DPS cannot be completed, for this we can observe the coefficient of variation. It can be observed that the CV of SCBNL is lowest (10.81%) in comparison with other banks and the CV of EBL is higher than that of other four banks which shows the great fluctuation in EPS of EBL while HBL has the lower degree of fluctuation in EPS in comparison with these two banks.

4.1.2 Market Price Per Share (MPS) Analysis

Table 4.2 Market Price Per Share of Respective Banks

Years	EBL	HBL	NABIL	NIBL	SCBNL	Pooled Average
2003/04	680	480	1,000	970	1,745	975
2004/05	870	920	1,505	800	2,345	1288
2005/06	1,379	1,100	2,240	1,260	3,775	1950.8
2006/07	2,430	1,740	5,050	1,729	5,900	3369.8
2007/08	3,132	1,980	5,275	2,450	6,830	3933.4
Average	1698.20	1244.00	3014.00	1441.80	4119.00	2303.40
St. Dev.	939.77	547.20	1799.43	594.39	1970.93	1158.80
C.V.%	55.34	43.99	59.70	41.23	47.85	50.31

Source: www.nepalstock.com



Above the table shows the amount of market price per share of the banks from the year 2003/04 to 2007/08.

Starting from the year 2003/04, SCBNL has the highest MPS than other banks and HBL has the lowest MPS in compared to other 4 banks.

The data related to the year 2004/05 shows the increase in MPS except NIBL. It can be observed from the remarkable increase in MPS of all other five banks in the year 2005/06, 2006/07 and 2007/08 respectively.

On the average, SCBNL has the highest MPS, NABIL, EBL, NIBL and HBL come after SCBNL respectively. The average of pooled average is 2303.40 which is quite satisfactory.

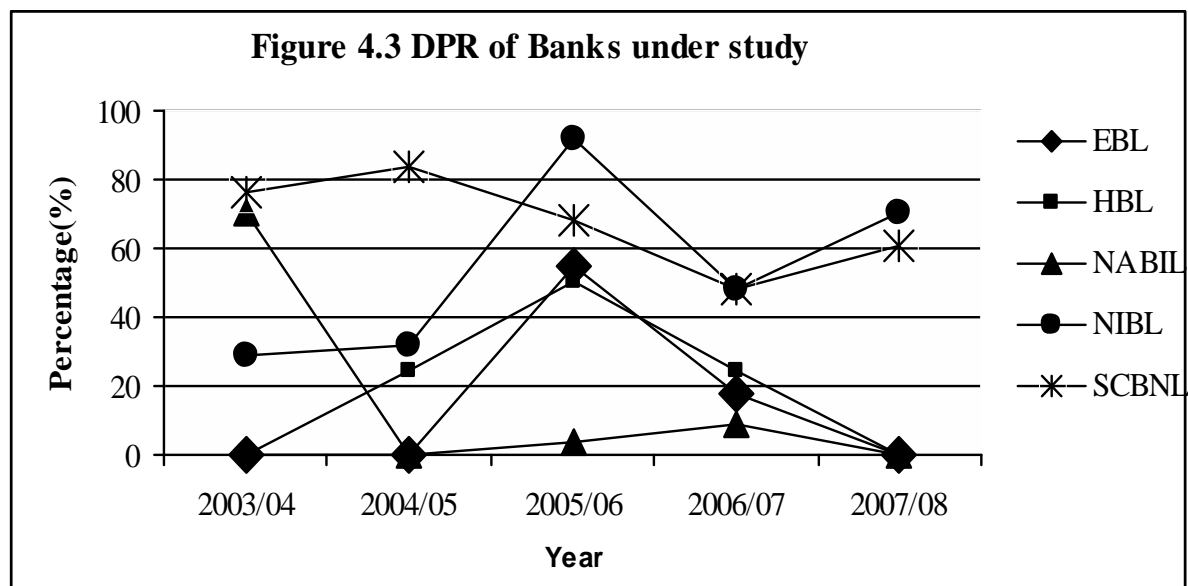
Without considering the rate of fluctuation, the analysis of MPS cannot be completed, for this we can observe the coefficient of variation. It can be observed that the CV of NIBL is lowest ie. 41.23% in comparison with other banks and the CV of NABIL is highest ie to 59.70%. This shows the great fluctuation in MPS of NABIL and NIBL has the low fluctuation in comparison with other banks.

4.1.3 Dividend Payout Ratio Analysis

Table 4.3 Dividend Payout Ratio of Respective Banks

Years	EBL	HBL	NABIL	NIBL	SCBNL	Pooled Average
2003/04	0	0	70	29	76.63	35.17
2004/05	0	24	0	32	83.83	27.93
2005/06	55	51	4	92	68.24	53.82
2006/07	17	25	9	48	47.80	29.43
2007/08	0	0	0	71	60.64	26.24
Average	14.41	19.91	16.65	54.18	67.43	34.52
St. Dev.	21.19	18.86	26.98	23.92	12.54	10.11
C.V.%	147.06	94.74	162.06	44.14	18.59	29.28

Source: www.nepalstock.com



The above table shows the dividend payout ratio of five sample banks, which is the percentage dividend paid out of the total earning made. Before analyzing the DPR we can segregate the DPR of these companies into three differently categorize policy.

Policy	DPR
Conservative dividend=	less than 20%
Moderate dividend=	20% to 50%
Aggressive dividend=	More than 50%

In the year 2003/04, NABIL and SCBNL have got aggressive dividend policy as 70% and have got Conservative dividend policy as 0% respectively. The pooled average was 35.17% which shows the Moderate dividend policy according to the assumption.

In the year 2004/05, SCBNL which has highest dividend payout ratio and HBL has only increased its dividend payout ratio. The NABIL and NIBL have decreased its dividend average shows moderate dividend policy as 27.93%.

In the year 2005/06, all the four banks except the SCBNL bank increased its dividend payout ratio to 55%, 51%, 4%, 92% respectively but SCBL is 68.24%. The pooled average shows aggressive dividend policy as 53.82%.

In the year 2006/07, all the four banks except the NABIL bank decreased its dividend payout ratio to 17%, 25%, 48%, 47.80% respectively but NABIL is 9%. In this year the pooled average is 29.43% which shows the moderate dividend.

In 2007/08, NABIL and SCBNL has got aggressive dividend policy as 71% and 64% respectively but other banks have got 0% dividend payout ratio which is conservative dividend policy. Its pooled average shows the moderate dividend policy as 26.24%.

The average dividend payout ratio of NIBL and SCBNL has got aggressive dividend policy , and EBL, NABIL & HBL has got conservative dividend policy. The coefficient of variation of the DPR suggests that the DPR of NABIL & EBL banks are more fluctuating than other four banks. The C.V. of SCBNL shows less fluctuating in different years. The average of C.V is 29.28% which shows fluctuating condition is very less.

4.1.4 Analysis of P/E Ratio:

Table 4.4 P/E Ratio of Respective Banks

Years	EBL	HBL	NABIL	NIBL	SCBNL	Pooled Average
2003/04	15	10	11	19	12.16	13.28
2004/05	27	19	14	20	16.38	19.37
2005/06	30	19	17	21	21.47	21.74
2006/07	42	29	37	28	35.25	34.18
2007/08	58	31	49	42	51.77	46.27
Average	34.43	21.38	25.58	26.04	27.41	26.97
St. Dev.	14.63	7.57	14.68	8.69	14.45	11.80
C.V.%	42.51	35.41	57.37	33.37	52.74	43.77

Source: www.nepalstock.com

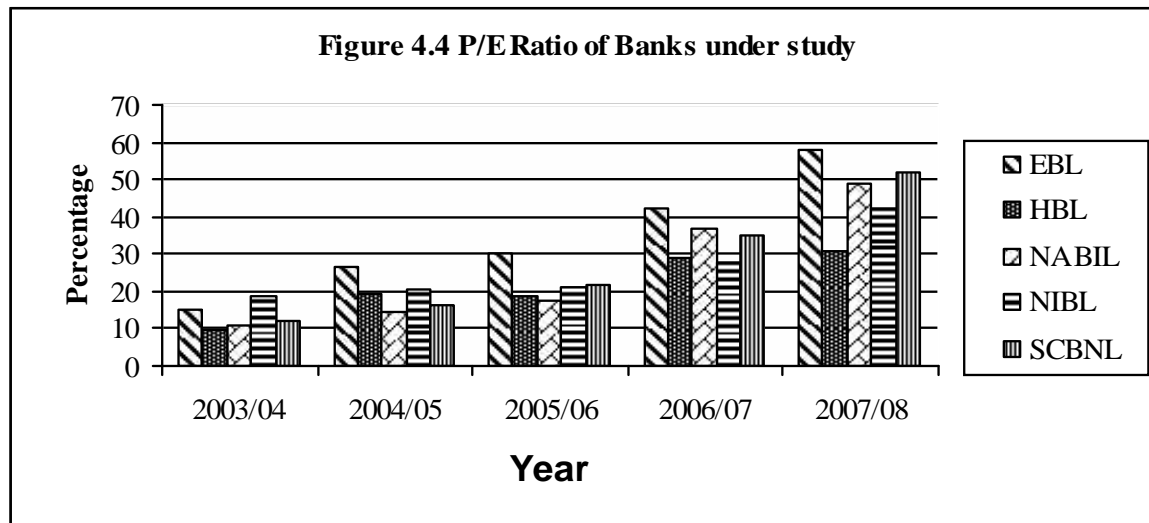


Table 4.4 shows the P/E Ratio of sample banks. The ratio describes the relationship between EPS and MPS.

In the year 2003/04, the P/E ratio of EBL, HBL, NABIL, NIBL and SCBNL is 15, 10, 11, 19, 12.16 respectively where NIBL has got highest P/E ratio among these five banks and HBL has \got lowest P/E ratio. The pooled average is 26.97%

In the year 2004/05, the P/E Ratio of all the banks increases to 27, 19, 14, 20, 16.38 respectively and EBL has highest P/E ratio. The pooled average is 19.37.

In the year 2005/06, the P/E ratio of EBL, NABIL, NIBL and SCBNL has increased but HBL is constant to 19. The pooled average is 21.74.

The year 2006/07 also follows increasing trend in P/E ratio, the highest P/E ratio among all five banks is EBL which is 42. The pooled average in this year is 34.18.

In the year 2007/08 also, the trend of increases follow in P/E ratio which is the highest of all five banks in comparison with previous five years. The pooled average in this year is 46.27.

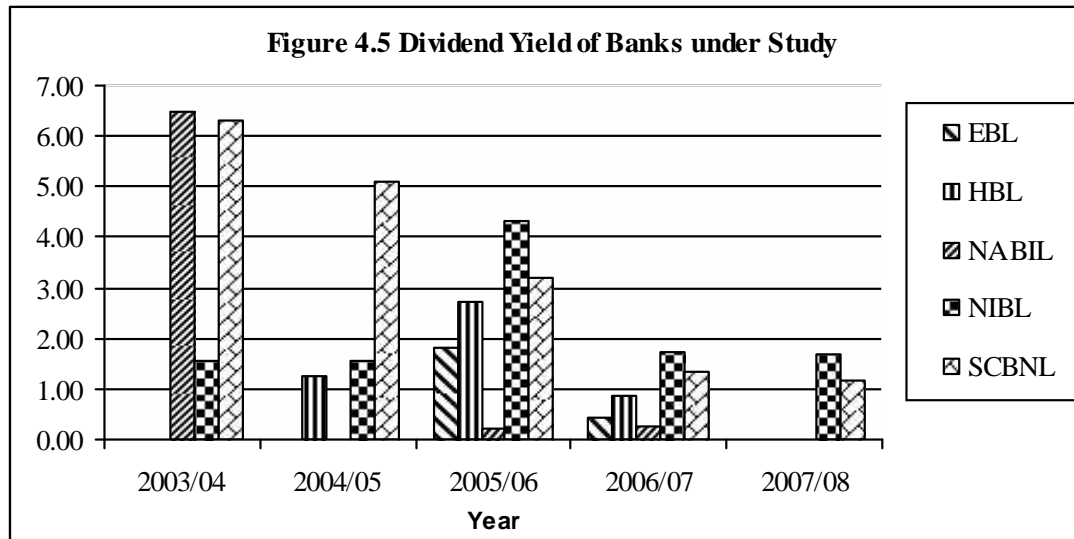
The C.V. analysis shows that NIBL is more consistent than other banks and NABIL is more fluctuating of the P/E ratio.

4.1.5 Dividend Yield Analysis:

Table 4.5 Dividend Yield of Respective Banks

Years	EBL	HBL	NABIL	NIBL	SCBNL	Pooled Average
2003/04	0.00	0.00	6.50	1.55	6.30	2.87
2004/05	0.00	1.26	0.00	1.56	5.12	1.59
2005/06	1.81	2.73	0.22	4.32	3.18	2.45
2006/07	0.41	0.86	0.25	1.74	1.36	0.92
2007/08	0.00	0.00	0.00	1.67	1.17	0.57
Average	0.44	0.97	1.39	2.17	3.43	1.68
St. Dev.	0.70	1.01	2.55	1.08	2.03	0.88
C.V.%	157.87	103.80	183.22	49.85	59.22	52.11

Source: www.nepalstock.com



The table 4.5 shows the dividend yield analysis of five sample banks for the years 2003/04 to 2007/08.

In the year 2003/04, NABIL has the highest dividend yield ie 6.50 and SCBNL, NIBL EBL HBL come after the NABIL whose dividend yield is 6.30, 1.55, 0 and 0 respectively. In the year 2004/05, all the banks are decrease expect HBL The pooled average is 1.59 in this year. In the year 2005/06, EBL, HBL NIBL and NABIL are increased but SCBNL is decreased to 3.18 and the pooled average is 2.45 which is increased than previous year. In the year 2006/07, there is decreasing trend of all the banks and in 2007/08 also all the banks decrease. On the average, SCBNL has the highest dividend yield and EBL has the lowest dividend yield.

Thus, the above analysis shows that the DY of sample banks has greater amount of inconsistency.

4.2 Correlation Analysis:

Correlation Analysis helps to determine the strength of the linear relationship between two variables. In other words, as to how strongly are these two variables correlated. It helps to determine whether a positive or negative relationship exists between two variables and the relationship is significant or not.

In this study, the correlation analysis is referred to identify the relationship between DPS and other variables like MPS, EPS, CR, D_{t-1} and the relationship is significant or not.

4.2.1 Correlation between EPS and MPS

Table 4.6: Correlation between EPS and MPS

Bank	r	Relationship	r²	Probable Error	Sig/Insig.
EBL	0.78	Positive	0.61	0.12	Significant
HBL	0.89	Positive	0.79	0.06	Significant
NABIL	0.53	Positive	0.28	0.22	-
NIBL	0.65	Positive	0.42	0.17	-
SCBNL	0.00	Positive	0.00	0.30	Insignificant

Above table 4.6 shows the relationship between EPS and MPS of five sample banks. It is observed that the correlation coefficient of EBL, HBL, NABIL, NIBL and SCBNL, they have positive correlations and the values are nearly equal to 1. It can be said that EPS and MPS of these banks are strongly correlated with each other.

The relationship between EPS and MPS whether they are significant or not can be measured by calculating the probable error of the correlation coefficient. Through the correlation coefficient of NIBL and NABIL are positive, it is lesser than 6PE. But in case of EBL and HBL, it is greater than 6PE where EPS is the key factor to determine MPS due to significant relationship between DPS and EPS.

The coefficient of determination 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 proportion or as a percentage. The coefficient of determination between EPS and MPS of HBL is 0.79, which means that the dependent variable (EPS) explain 79% of the variation in MPS. It shows that the change in EPS has a significant effect on the variable of MPS.

In case of EBL, the variation of EPS determines 61% variation in MPS, which is highly remarkable. In case of NABIL, NIBL and SCBNL, it is just 28%, 17% and 0% respectively.

4.2.2. Correlation between EPS and DPS

Table 4.7: Correlation between EPS and DPS

Bank	r	Relationship	r²	Probable Error	Sig/Insig.
EBL	0.17	Positive	0.03	0.29	Insignificant
HBL	0.16	Positive	0.02	0.29	Insignificant
NABIL	-0.54	Negative	0.29	0.22	Insignificant
NIBL	0.72	Positive	0.51	0.15	-
SCBNL	0.20	Positive	0.04	0.29	Insignificant

Above table 4.7 shows the relationship between EPS and DPS of five sample banks. It is observed that the correlation coefficients of four banks are positive except NABIL. So it is concluded that there is positive relationship between EPS and DPS of EBL, HBL, NIBL and SCBNL and correlation coefficient of NIBL banks are higher than 6PE, there is significant relationship between EPS and DPS and correlation coefficient of other four banks are lesser than PE, there is insignificant relationship between EPS and DPS.

4.2.3 Correlation between MPS and last year's Dividend (D_{t-1}) of Banks

Table 4.8: Correlation between MPS and D(t-1)

Bank	r	Relationship	r²	Probable Error	Sig/Insig.
EBL	0.26	Positive	0.07	0.28	Insignificant
HBL	0.78	Positive	0.61	0.12	Significant
NABIL	0.35	Negative	0.12	0.26	-
NIBL	0.54	Positive	0.29	0.21	-
SCBNL	-0.46	Positive	0.21	0.24	Insignificant

In above table 4.8, EBL and SCBNL have negative correlation coefficient and HBL has positive correlation coefficient but the correlation coefficient of NABIL and NIBL are less than 6PE and HBL is greater than 6P.E.

4.3 Regression Analysis:

Regression Analysis is a very powerful tool in the field of statistical analysis in predicting the value of one variable, given the value of another variable, when these two variables are related to each other. It describes about the effect to the dependent variable due to change in independent variable. The regression analysis either will be simple regression or multiple regressions. In simple regression analysis only one independent variable is taken for the prediction of the value of dependent variable. But multiple regression analysis involves two or more independent variables forming the basis for estimating the values of dependent variables. In this research, simple regression analysis is used to establish relationship between the dependent variable and single independent variable on dividend sample company where as in the multiple regression analysis is used to show the combined relationship of dependent variable to independent variable of all sample companies.

4.3.1 Simple Regression Analysis:

In this analysis, it is tried to show the relationship of dependent variable to the independent variable.

i. Dependent variable market price per share (P_t) and independent variable last year's dividend (D_{t-1}),

Regression Equation: $P_t = a + bD_{t-1}$

Table 4.9: Simple Regression Analysis between MPS and D_{t-1}

Bank	Constant 'a'	Reg. Coefficient	Standard Error	r²	SEE	t' value
EBL	1438.66	23.59	0.42	0.07	1172.80	0.458758
HBL	788.15	39.37	0.17	0.61	440.32	2.172944
NABIL	7.74	0.33	0.39	0.12	29.85	0.645867
NIBL	885.35	21.08	0.32	0.29	645.20	1.115113
SCBNL	10815.00	-62.00	0.35	0.21	2256.20	-0.90308

The above table 4.9 describes the output of simple regression analysis between the market price of stock and last year's dividend of EBL, HBL, NABIL, NIBL, and SCBNL.

The regression coefficient of all sample banks is positive except SCBNL bank which indicate that positive correlation exists between MPS and D_{t-1} . One rupee increase in dividend cause Rs. 23.59, 39.37, 0.33, and 21.08 increase in the price of stock of EBL, HBL, NABIL, and NIBL respectively but in case of SCBNL there is negative correlation exists between MPS and D_{t-1} . The regression coefficient indicates that one rupee increase in dividend leads an average of Rs. 62 decrease in MPS of SCBL. The coefficient of determination of HBL is quite high which indicates 61% stock price variation is explained by the variation in dividend and EBL is quite low which indicates 7% stock variation can be explained by the variation in dividend.

Since the 't' value of HBL (2.173) is higher than the tabulated 't' value (2.132), the results are statistically significant at 5% level of significance. But the 't' value of all four banks calculated are less than the tabulated 't' (2.132) the results are not statistically significant at 5% level of significant.

ii. Dependent variable market price per share (MPS) on Earning Per Share (EPS)

Regression Equation: $P_t = a + bE_t$

Table 4.10: Simple Regression Analysis between MPS and EPS

Bank	Constant 'a'	Reg. Coefficient	Standard Error	r2	SEE	t' value
EBL	-2317.6428	85.3672	0.1741	0.6106	757.0657	2.1690
HBL	-2889.6286	73.4397	0.0944	0.7889	324.5347	3.3488
NABIL	-3744.67	58.98	0.32	0.28	1966.40	1.09
NIBL	-1131.4970	47.4796	0.2575	0.4242	582.2941	1.4866
SCBNL	4061.2814	0.3788	0.4472	0.0000	582.2941	0.0055

Above table 4.10 describe the output of simple regression analysis between MPS and EPS of five banks. In the above table, the regression coefficient of EPS and MPS of five banks are positive. It means that one rupees increase in EPS leads the average about Rs. 85.37, 73.44, 58.98, 47.47, and 0.38 increases in MPS in EBL, HBL, NABIL, NIBL and SCBNL

respectively. The highest coefficient of determination of HBL (0.7889) indicates that 78.89% variation on MPS due to change in EPS.

Since the 't' value of EBL(2.17), and HBL(3.35) is higher than the tabulated 't' value (2.132), the results are statistically significant at 5% level of significance. But in case of NABIL(1.09), NIBL (1.49) and SCBNL (0.005) calculated 't' value is less than the tabulated 't' value(2.132), the results is not statistically significant at 5% level of significance.

iii. Dependent Variable Dividend Per Share (DPS) on Earning Per Share (EPS)

Regression Equation: $D_t = a + bE_t$

Table 4.11: Simple Regression Analysis between DPS and EPS

Bank	Constant 'a'	Reg. Coefficient	Standard Error	r ²	SEE	t' value
EBL	-2.02	0.19	0.44	0.03	12.47	0.30
HBL	-3.39	0.26	0.09	0.02	14.19	0.27
NABIL	109.73	-0.81	0.32	0.29	26.90	-1.10
NIBL	-44.52	1.39	0.22	0.51	14.23	1.78
SCBNL	67.68	0.23	0.43	0.04	23.17	0.36

The above table 4.11 describes the output of simple regression analysis between the EPS and DPS of EBL, HBL, NABIL, NIBL, and SCBNL.

The regression coefficient of four banks is positive except NABIL bank which indicates that positive correlation exists between EPS and DPS. One rupee increase in dividend cause Rs. 0.19, 0.26, 1.39 and 0.23 increase in the DPS of EBL, HBL, NIBL, and SCBNL respectively but in case of NABIL there is negative correlation exists between DPS and EPS. The regression coefficient indicates that one rupee increase in dividend leads an average of Rs. 0.81 decrease in EPPS of NABIL. The coefficient of determination of NIBL is quite high which indicates 51% DPS variation is explained by the variation in EPS and HBL is quite low which indicates 2% DPS variation can be explained by the variation in EPS.

The't' value of all banks' calculated are less than the tabulated 't' (2.132) which show the results are not statistically significant at 5% level of significant.

4.4 Test of Hypothesis:

The null and alternative hypothesis have been formulated to test whether the difference between mean value of MPS, DPR and EPS of sample banks are statistically significant or not.

4.4.1 First Hypothesis:

Dividend per share

Table 4.12 Dividend per share of respective banks

Years	EBL	HBL	NABIL	NIBL	SCBNL
2003/04	0	0	65	15	110
2004/05	0	11.58	0	12.5	120
2005/06	25	30	5	54.46	120
2006/07	10	15	12.59	30	80
2007/08	0	0	0	40.83	80

Null Hypothesis (H_0): There is no significant difference between DPS of EBL, HBL, NABIL, NIBL and SCBNL.

i.e. $\sim_1 X \sim_2 X \sim_3 X \sim_4 X \sim_5$

Alternative Hypothesis (H_1): There is significant difference between DPS of EBL, HBL, NABIL, NIBL and SCBNL.

i.e. $\sim_1 | \sim_2 | \sim_3 | \sim_4 | \sim_5$

Computation of test statistics 'F'

Correlation Factor (CF) = 28,020.08

Total sum of square (TSS) = 266.672.11

Sum of Square between samples (SSC) = 30,918.36

Sum of Square within samples (SSW) = 235,753.75

ANOVA TABLE

Table 4.13

Source of Variation	Sum of Squares	d.f.	Mean sum of squares	F-ratio
Between samples	30,918.36	5-1=4	7,729.59	0.66
Within Samples(Error)	235,753.75	24-4=20	11,787.69	
Total	266,672.11	25-1=24		

Critical Value of degree of freedoms:

The tabulated value of F at 5% level of significance for 4 and 20 d.f. is 2.87.

Decision: Since the calculated F (0.66) is less than tabulated value of F (2.87), the null hypothesis H_0 is accepted. Therefore, we conclude that there is no significant difference between DPS of EBL, HBL, NABIL, NIBL and SCBNL.

4.4.2 Second hypothesis

Dividend payout ratio:

This analysis is based on the pooled data for five years of five sample banks.

Table 4.14 Dividend payout ratio of respective banks

Years	EBL	HBL	NABIL	NIBL	SCBNL
2003/04	0	0	70	29	76.63
2004/05	0	24	0	32	83.83
2005/06	55	51	4	92	68.24
2006/07	17	25	9	48	47.80
2007/08	0	0	0	71	60.64

Null Hypothesis (H_0): There is no significant difference between DPR of EBL, HBL, NABIL, NIBL and SCBNL.

i.e. $X_1 \sim X_2 \sim X_3 \sim X_4 \sim X_5$

Alternative Hypothesis (H1): There is significant difference between DPR of EBL, HBL, NABIL, NIBL and SCBNL.

i.e. $\sim_1 \mid \sim_2 \mid \sim_3 \mid \sim_4 \mid \sim_5$

Computation of test statistics 'F'

Correlation Factor (CF) = 29,783.75

Total sum of square (TSS) = 179,311.03

Sum of Square between samples (SSC) = 12,035.21

Sum of Square within samples (SSW) = 167,275.83

ANOVA TABLE

Table 4.15

Source of Variation	Sum of Squares	d.f.	Mean sum of squares	F-ratio
Between samples	12,035.21	5-1=4	3,008.80	0.36
Within Samples(Error)	167,275.83	24-4=20	8,363.79	
Total	179,311.03	25-1=24		

Critical Value of degree of freedoms:

The tabulated value of F at 5% level of significance for 4 and 20 d.f. is 2.87.

Decision: Since the calculated F (0.36) is less than tabulated value of F (2.87), the null hypothesis H0 is accepted. Therefore, we conclude that there is no significant difference between DPR of EBL, HBL, NABIL, NIBL and SCBNL.

4.5 Major Findings:

Major findings from the secondary data analysis are stated as follows:

1. The average of earning per share of banks is satisfactory. SCBNL lies in top position and it is followed by NABIL, HBL, NIBL and EBL respectively. The C.V of EBL is higher than other banks in compared to other banks and SCBNL has lowest C.V. It means common stock of EBL has higher riskier and SCBNL has less riskier because of high C.V of EBL and low C.V of SCBNL. The common stock of NABIL, HBL, NIBL has lower risk than EBL but higher than SCBNL.
2. The DPS analysis shows that the DPS of SCBNL is greater and EBL is lowest among the sample banks. Higher dividend per share creates positive attitude of shareholders towards the company which consequently helps to increase the market value of shares. It shows that CV of DPS of NABIL is greater and SCBNL is lowest. It indicates that SCBNL has the highest consistency in paying of dividend whereas NIBL, HBL, EBL and respectively followed NABIL have fluctuation of dividend.
3. The analysis of MPS shows that the average MPS of SCBNL is highest and average MPS of HBL is lowest. NABIL has the highest C.V and NIBL has lowest C.V among the sample banks. It indicates that NABIL has greater variability in MPS and its capital increasing rate is higher than others. But EBL, SCBNL, HBL and NIBL have less variability in MPS respectively.
4. The average of dividend payout ratio of SCBNL is higher and EBL has lowest DPR which indicates that SCBNL is following aggressive dividend policy and it has the ability to pay the dividend stronger than others and EBL has weak ability to pay the dividend. The C.V of DPR of NABIL is highest and SCBNL is lowest which indicates that SCBNL's D/P ratio to common shareholders is much better than other sample banks.

5. The average of P/E ratio of EBL is highest and HBL is lowest in compared to other banks. The C.V. of P/E ratio of NABIL is highest which indicates that there are more fluctuation than other banks. The lowest C.V. of NIBL indicates that it has highest consistency in P/E ratio.
6. Dividend Yield of SCBNL is higher and EBL has lowest DY among all the banks. It indicates that the share of SCBNL is worth buying. The C.V. of DY of NABIL is highest and NIBL has got lowest C.V. of DY. which indicates that NIBL has the highest consistence followed by SCBNL and DY of NABIL is highly fluctuating followed by EBL and HBL respectivley.
7. The correlation between EPS and MPS is Positive for all five banks. EBL and HBL have the significant relationship at 5% level of significance. The relationship of significance of NIBL and NABIL cannot be determined due to low degree of correlation.
8. The correlation between EPS and DPS is positive of all four sample banks except NABIL but the relationship of significance of NIBL cannot be determined due to low degree of correlation. and EBL, HBL, NABIL and SCBL have the no significant relationship at 5% level of significance.
9. The correlation coefficient between market price of stock and last year's dividend are positive of all four banks except NABIL. Only HBL has statistically significant relationship between their earnings and last year's dividend. The NABIL and NIBL cannot be determined.
10. Simple regression analysis of MPS and last year's dividend concluded that the four sample banks have positive relationship between MPS and last years dividend except SCBNL. But HBL only has the significant relationship between MPS and last year dividend at 5% level of significance.

11. Simple regression analysis of MPS and EPS concluded that all five banks have positive relationship between MPS and EPS. But EBL and HBL have significant relationship between MPS and EPS at 5% level of significance. But NABIL, NIBL and SCBNL have the insignificant relationship at level of significance.

12. The regression analysis of EPS and DPS shows that there is positive relationship as the regression coefficient of all the five samples banks are positive. EBL, HBL, and SCBNL have significant relationship between MPS and EPS at 5% level of significance. But NABIL and NIBL have the insignificant relationship at level of significance.

13. Test of hypothesis of DPS shows that there is no significant difference between DPS of sample banks at 5% level of significance.

14. Test of hypothesis of DPR shows that there is no significant difference between DPR of sample banks at 5% level of significance.

CHAPTER- FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter focuses on summarizing the study held with the researcher's analysis. Also, this chapter includes conclusion of the study based on major findings. The next attempt in this chapter will be made for the recommendations on the basis of findings and conclusions. For this purpose, the chapter is subdivided into summary and conclusion of the research, which will be followed by some recommendation.

5.1 Summary

Dividend refers to distributed earnings to the shareholders of the company in return to their investment. Dividend decision is a major financial management decision because the firm has to choose between distributing the profit to the shareholders or reinvesting it to finance the business.

The dividend may be affected by different factors such as earning of the firm, liquidity position of the firm, net worth etc. These factors indicate the financial position of the company. If a firm has good performance in terms of these factors, it will be able to provide return in the form of dividend.

This study is mainly focused to access the dividend practices of different banks. It covers some specific objectives mainly to find out relationship between other financial indicators and also to find out the appropriate dividend policies of different banks.

This study is mainly based on the secondary data of five commercial banks which are listed in NEPSE. This study covers a five years period from 2003/2004 to 2007/08.

To make the research reliable, many more analysis are conducted to find out the appropriate relationship between dividend and other variables, which affects the dividend. The consistency of dividend distribution of different companies is also analyzed by using statistical tools. The relationship is also statistically tested at 5% level of significance.

5.2 Conclusion:

From the analysis of various financial indicators and statistical tools of all the sample banks, following conclusions are drawn:

- ✓ Above mentioned major findings led this study concludes that the earnings of banks are satisfactory in Nepalese context. Among sample banks SCBNL is in leading position in terms of earning followed by NABIL, HBL, NIBL and EBL respectively.
- ✓ It is found from the study that there is no consistency found in dividend distribution in all sample companies. The research shows that none of these companies have well defined and appropriate policy regarding dividend payments. SCBNL is paying higher dividend than other sample banks.
- ✓ It has been found from the study that there is positive and significant relationship between market price of share and earnings per share for all sample banks. It means that there is positive effect of earning to the market price of stock in Nepalese commercial banks.
- ✓ Though there is positive relationship between market price of share and last dividend for all sample banks. There is negligible effect on market price of stock due to dividend.
- ✓ From the analysis it has been found that the market price of stock is affected by other variables which indicate about the rational behavior of investors.
- ✓ Most of the companies don't seem to follow the optimum dividend policy of paying regular dividend per shareholder's expectation. It might cause uncertainty among stockholders.
- ✓ The major findings have also led to conclude that the companies are neglecting the major factors like earning position of the firm, liquidity position while paying dividend.

- ✓ The study deals with only examining and analyzing the dividend practices of 5 sample banks for a period covering 5 years from 2003/04 to 2007/08 due to limited time period.

5.3 Recommendation:

Based on the findings of the research, following recommendations are made for the better application of the dividend policy to have the strong MPS in the capital market

-) From the analysis it is found that HBL, NIBL and EBL haven't followed a relevant and appropriate dividend policy. The DPS of these companies are highly fluctuating. These companies are neither following fixed dividend policy nor constant payout ratio policy. This fluctuation in dividend distribution may cause uncertainty among stockholders. So, all sample companies to satisfy investors and to create goodwill of the company should follow the constant dividend payout ratio policy.
-) Most of the investors are expecting a quick return on their investment rather than long term return due to declining economic condition of Nepal. They prefer dividend in form of cash rather than stock. So, the cash dividend should be distributed to satisfy the stockholders of the company.
-) All companies must accept one major fact that EPS is to be considered for determining dividend amount. The analysis shows the insignificant relationship between EPS and DPS except NABIL. This indicates that EPS is not taken in account for declaration of dividend. So, it is important for the companies to consider earning rather than neglecting it while making dividend.
-) Banks are playing on the public money. So in this regard, they advised to have target rate of return (earnings) and target payout ratio that will help the banks to build good image in stock market and investors will be benefited on making investment decision.

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