DIVIDEND DISTRIBUTION AND STOCK PRICE OF COMMERCIAL BANKS OF NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

by:

Mira Mudvari
Exam Roll No.: 14587/19
Campus Roll No.: 3908/075
T.U. Regd. No.: 7-2-406-112-2013
Shanker Dev Campus

Kathmandu, Nepal
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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Dividend Distribution and Stock Price of Commercial Banks of Nepal".** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

Mira Mudvari
Signature: ……..
Date: ……

REPORT OF RESEARCH COMMITTEE

Ms. Mira Mudvari has defended research proposal entitled **"Dividend Distribution and Stock Price of Commercial Banks of Nepal"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Ramesh Kumar Paudel and submit the dissertation for evaluation and viva voce examination.

Ramesh Kumar Paudel

Dissertation Supervisor

Signature: …….

Dissertation Proposal Defended Date:

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Dissertation Submitted Date:

……

Asso. Prof. Dr. Sajeeb Kumar Shrestha

Chairperson, Research Committee

Signature: …….

Dissertation Viva Voce Date:

……

APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled **"Dividend Distribution and Stock Price of Commercial Banks of Nepal"** presented by Mira Mudvari a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

……
Ramesh Kumar Paudel
Dissertation Supervisor

……
Internal Examiner

…….
Internal Expert

…….
External Expert

…….
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairperson, Research Committee

……
Asso. Prof. Dr. Krishna Prasad Acharya
Campus Chief

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This study entitled **"Dividend Distribution and Stock Price of Commercial Banks of Nepal"** has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models involving the use of quantitative aspect of dividend distribution and stock price of commercial banks of Nepal.

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Mira Mudvari

Date: ……

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ABBREVIATIONS

CB	:	Commercial Banks
DPS	:	Dividend per Share
DY	:	Dividend Yield
EBL	:	Everest Bank Limited
EPS	:	Earnings per Share
GDP	:	Gross Domestic Products
HBL	:	Himalayan Bank Limited
JVBs	:	Joint Venture Banks
LMPS	:	Natural Logarithm of Market Price per Share
LSIZE	:	Log of Total Assets
Ltd.	:	Limited
MPS	:	Market Price per Share
NABIL	:	Nabil Bank Limited
NRB	:	Nepal Rastra Bank
PER	:	Price Earnings Ratio
ROA	:	Return on Assets
SBI	:	Nepal SBI Bank Limited
SCB	:	Standard Chartered Bank Nepal Limited
SD	:	Standard Deviation
SIZE	:	Bank Size or Total Assets
TU	:	Tribhuvan University

ABSTRACT

This study investigates the dividend distribution and stock price of commercial banks of Nepal. Secondary data was gathered from commercial banks of Nepal for ten year periods (2013/14-2022/23). This study used descriptive, correlation and multiple regression analysis. This study shows that NABIL bank has to be highest and regular on offering dividend to shareholders. So, this bank is most profitable and the bank has highest profits to distribute to its shareholders. However, this study found that the highest market price per share of SCB means this bank is showing good performance over this period than the other banks. The correlation analysis reveals that dividend per share, earning per share and price earning share have significant positive relationship with market price of stock of sample banks. However, dividend yield has negative and significant relationship with MPS and bank size have significant negative relationship with market price of stock of commercial banks in Nepal. The regression analysis also shows that dividend per share has insignificant positive impact on stock price of the banks. At the same time, earning per share and price earning per share had significant positive impact on stock price. However, dividend yield had insignificant negative impact on stock price. In addition, bank size has insignificant negative impact on MPS of commercial banks in Nepal. Hence, there is insignificant effect of dividend distribution on stock price of commercial banks in Nepal.

Key words: Market price, dividend per share, earning per share, price earnings ratio, dividend yield.

CHAPTER - I
INTRODUCTION

1.1 Background of the Study

A dividend is a sum that is given to shareholders directly; it is typically paid in cash. Dividends undoubtedly make up a portion of revenue. Pradhan (2003) stated that since dividends usually boost owners' existing wealth, shareholders can see them favorably. Moreover, dividends indicate a consistent revenue stream for the business and can offer concrete proof of its capacity to produce liquidity (Dangol, 2016). Dividends are payments made to shareholders for their capital investment in shares, which is a percentage of earnings. The purpose of this monthly payment to shareholders is to mitigate the risk related to their investment and use of it. Dividend policy must thus be able to guarantee that payouts live up to the expectations of the vast majority of shareholders.

Dividend distribution is one of the most researched topics in finance, but whether or not dividend policy affects stock prices has long been a point of debate for academics, managers, and decision-makers. Dividend policy is important for investors, management, lenders, and other stakeholders. It matters to investors because, aside from being a source of income, they view dividends as a tool for assessing businesses from an investment standpoint. It's a way to figure out if the company may make money or not. The dividend yield, which is determined by dividing the current share price by the yearly dividend income per share, is a metric that many investors find interesting. The amount of income received in relation to the share price is measured by the dividend yield. A company's low dividend yield relative to other companies in its industry may indicate one of two things: either the market believes the company has promising future prospects and isn't overly concerned about the dividend payments, or the company is having financial difficulties and won't be able to pay reasonable dividends. In the latter case, the share price of the company may be high. However, a high dividend yield may also indicate a troubled business with a declining share price (Bhattarai, 2016).

Stock prices would be assessed using either technical or fundamental analysis. Technical analysis examines historical stock price data to forecast future stock prices

and evaluates price movement. Fundamental analysis is used to determine the business's intrinsic worth, which is then contrasted with the stock price. Dhakal and Shah (2018) argued that the share prices of different markets are influenced by internal characteristics such dividend, payout ratio, book value per share, size, age of banks, return on equity, return on assets, dividend yield, and retained profits. Investors will find it highly beneficial to understand how different fundamental factors affect share price, as this will enable them to make profitable investing selections.

The stock market is the primary means by which financial institutions raise money and invest in stocks. If any public institutions are listed, they can sell their shares on the market to raise money to expand their operations. It is necessary for businesses that were not listed on a stock market to initiate the process of an Initial Public Offering (IPO). The stock market serves as a mediator between buyers and sellers of these stocks since every firm that is listed contributes its shares. It may be argued that advancing the country's industrial and commercial development is the stock exchange's primary goal. The market is the main force behind the expansion of industry and commerce in the country since it plays a significant role in the expansion of the industrial sector (Adesina et al., 2017).

There are two different views about the dividend policy and stock price. Some argue that shareholders favor current returns above future ones and that dividend payouts are a good indicator of future earnings potential, which is why they believe dividends have a bigger impact on share price. The divergent opinions stem from the importance of retained profits. They argue that retained earnings are an indication of future investment opportunities. The stockholders can gain tax-wise from retained earnings. Tax-wise, retained money is not regarded as income until it is recognized (Brittain, 1966).

In Nepal, only a small proportion of companies pay dividends, and most of them don't pay them regularly. Some companies have never paid their shareholders a dividend. Dividends on shares are a crucial indicator of bank success that attracts investors. Investors examine the bank's dividend policy prior to making a stock market investment. However, investors cannot forecast the future cash flow from cash

dividends due to the volatility of Nepalese commercial banks' payout policy (Bhandari & Pokharel, 2012). It is believed that firms with growing dividends often see a gain in stock price, whereas companies with declining or nonexistent dividends tend to see a decline in stock price trend. Thus, it demonstrates that a dividend has an impact on the company's stock price; yet, a number of studies contend that the information on dividend payments has an impact on stock price. Actually, that dividend serves as a clear enough indicator of how management views the company's present situation and prospects for the future.

Selecting the proper dividend distribution is important because it affects the bank's capacity to invest in future projects and how much it pays to shareholders in dividends. If the company increases its dividend payments, there will be less money available for investments in future projects. The amount that a company declares as dividends is especially important to lenders because if it pays out more, it will have less money available to pay down its debt. Thus, the goal of the research is to determine how share prices on the Nepal stock exchange are impacted by dividend policy. In contrast to many other members, the dividend payment pattern is not the only factor that researchers will be focusing on in this study; ten commercial banks listed on the Nepal Stock Exchange will be used as a real-world sample to test whether the dividend policy has any bearing on the firm's share price determinants.

The share price of the bank is a concern for the management of commercial banks as well as other stakeholders including investors, employees, depositors, and borrowers. The stock price is often used to estimate a company's value. An increase in stock price will often result in an increase in investors' wealth. The stock values of commercial banks fluctuate significantly over time. It's important to project future stock prices sensibly and make plans for them. Bhattarai (2016) asserts that in addition to figuring out how much of the company's income need to be invested, managers should consider the possible effects of their decisions on share prices. An announcement to raise dividends could lead to unusually high stock returns, while an announcement to decrease dividends could lead to very poor stock returns. Therefore, share values may decrease if banks reduce the dividend distribution they make to their shareholders.

1.2 Problem Statement

Dividend decision is a fundamental area of managerial finance as well as controversial subject. The objective of equity capital investments made by shareholders is to increase their wealth. The type of returns that shareholders anticipate from their investment is known as a dividend. Nonetheless, choosing a payout is still a crucial and contentious aspect of management work. There have long been debates over the impact of dividend policies on share prices. However, there is currently no single, definitive finding about the connection between dividend payments and share market price. There is continuous discussion in the corporate finance literature on the relationship between share price, dividends, and retained earnings.

Abeyratna and Lonie (1996) argued that the abnormal returns of the relatively small group of companies in the dividend not change and earning increased category were caused by them. Their announcement of no dividend change was linked to positive abnormal returns that were even larger than those of the dividend increased and earning increased (DI-EI) category. Conversely, out of all the groups taken into consideration, the bad news businesses in the dividend decreased and earning dropped (DD-ED) group had the biggest negative anomalous returns.

Rashid and Rahman (2008) revealed that profits per share had a large positive impact on stock prices, whereas dividend yield and return on equity had a negative impact. Dhakal and Shah (2015) found that dividend yield and retention ratio had a significant negative impact on share price, although earnings per share had a significant positive influence. Bhattarai (2016) concluded that dividends had a significant positive impact on share price. Dongol (2016) found that the share price is significantly impacted by regular dividend announcements.

Adesina et al. (2017) found a strong positive link between market price and earnings per share. Pardhan and Gautam (2017) found that while dividend distribution was negatively connected with share price, dividend yield and size had a significant positive influence on share price volatility. Similarly, Baral and Pradhan (2018) mentioned that earnings per share and price-earnings ratio had a significant positive impact on stock price.

Singh and Tandon (2019) show that dividend policies have a major effect on a company's stock price. . Tahtamouni (2020) found a significant positive relationship between stock price and dividends. Shrestha (2020) revealed that dividends had a major effect on stock prices. Kimani and Olweny (2021) concluded that both firm size and dividend payout ratio had a beneficial impact on stock price volatility. Agustina (2022) stated that dividend policy, earnings per share, and return on assets had no effect on stock returns. Ahmed, Kabir, and Ibrahim (2023) came to the conclusion that the dividend price ratio, dividend payout ratio, firm growth, and firm age had a negative impact on the share price. Therefore, the purpose of this study is to objectively evaluate Nepalese commercial banks' dividend distribution and stock price.

For that reason, the following research topics have been raised by this study:

- What is the existing pattern of dividend per share, earning per share, price earnings ratio, dividend yield, bank size and stock price of commercial banks in Nepal?
- What is the relationship between dividend distribution and stock price of commercial banks in Nepal?
- What is the impact of dividend per share, earning per share, dividend yield, price earning ratio and bank size on stock price of commercial banks in Nepal?

1.3 Objectives of the Study

The major objective of this study is to examine the impact of dividend distribution on stock price of commercial banks in Nepal. The other specific objectives are:

- To examine the pattern of dividend per share, earning per share, price earnings ratio, dividend yield, bank size and stock price of commercial banks in Nepal.
- To evaluate the relationship between dividend distribution and stock price of commercial banks in Nepal.
- To analyze the impact of dividend per share, earning per share, dividend yield, price earning ratio and bank size on stock price of commercial banks in Nepal.

1.4 Research Hypotheses

The following hypotheses were developed to break down the above research questions. Therefore, this research work attempted to test the following hypotheses in the case of commercial banks in Nepal.

1. H_1: Dividend per share has significant impact on stock price of commercial banks in Nepal.
2. H_2: Earning per share has significant impact on stock price of commercial banks in Nepal.
3. H_3: Dividend yield has significant impact on stock price of commercial banks in Nepal.
4. H_4: Price earnings ratio has significant impact on stock price of commercial banks in Nepal.
5. H_5: Bank size has significant impact on stock price of commercial banks in Nepal.

1.5 Rationale of the Study

The dividend strategy works effectively to draw in new capital, keep the ones you already have, and satisfy them. It also helps to keep the goodwill and desired control over the firm's management. People in Nepal are making random stock investments since they don't know enough about the market. Insufficient study has been done thus far to make things better. Therefore, it's critical to get a clear understanding of the return that comes with stock investments. This thesis will, in part, close this gap and is quite significant. Here are some reasons why the study is important:

- This study offers important insights into how dividends affect market pricing.
- This study offers recommendations and suggestions that will be beneficial for investors and other researchers.
- This study aids in the formulation of appropriate dividend policies by management and policy makers.
- The government may find this report helpful in regulating, overseeing, and monitoring policies.

1.6 Limitations of the Study

The study has some limitations. The main limitations of the study are as follows:

- There are 20 commercial banks operating in Nepal so far, but only five commercial banks HBL, EBL, NABIL, SCB and SBI are taken for the proposed study.
- This study concentrates only dividend distribution and stock price of commercial banks.
- This study covers past ten years from fiscal year 2013/14 to 2022/23.
- The study is basically based on secondary data, articles, publication and journals of the respective banks.

CHAPTER - II
LITERATURE REVIEW

A crucial and essential step in every research project is the review of the literature. It entails going over research papers or other pertinent claims in the relevant field of study in order to become aware of all previous studies, their shortcomings, and their findings so that new research may be carried out. Examining and reviewing a few relevant books, articles, published and unpublished articles in various economic journals, magazines, newspapers, the yearly balance statement of the relevant banks, prior theses on related subjects, and subject-related online searches are all connected to this chapter. The theoretical review and the empirical review are the two sections that make up this chapter.

2.1 Theoretical Review

2.1.1 Theories of Dividend

Even though each bank may have its own unique strategy, a review of the general theories of dividend might help to provide light on how banks really pay their dividends in this part. The following are the dividend theories:

2.1.1.1 Dividend Relevance Theory

The problem of dividend relevance theory is not new. It dates back to the early 1900s, when Williams (quoted in Manon et al., 2015) asserted that the selling price of a share and the present value of its future dividend define its worth. Graham and Dodd (1951), who underlined that earnings and dividends have an impact on a share price, have endorsed this assertion. Gordon (1959), referenced in Manon et al. (2015), who created a model based on the distribution of dividends to corporate share value, also backed the assertion. Dividend policy, therefore, plays a significant role in figuring out the firm's worth.

The dividend relevance theory posits that a thoughtful payout policy can have a favorable impact on a company's stock market standing. While lower payouts will have the opposite impact, higher dividends will raise the value of the company. A large dividend payout would cause the market price to rise, whereas a low payout

would cause it to fall. Therefore, it is possible to implement an ideal dividend policy that maximizes the firm's worth, however it is still up for debate how this may be done. The dividend relevance hypothesis, which contends that investors consider dividend policy a crucial component in determining the certainty of a company's profit and perceive dividend distribution as an indication of managerial prowess, is pertinent to the current investigation. Therefore, a firm with a high and regular dividend policy is probably going to do well. Consequently, a high dividend payout rate indicates the company's general financial stability.

2.1.1.2 Dividend Irrelevance Theory

Miller and Modigliani formulated this hypothesis in 1961. As its name suggests, it turned out that the firm's dividend policy had no bearing on the firm's value. Put another way, a company's dividend policy has no bearing on its value, regardless of whether it pays out a high or low payout. These academics contend that a firm's earning potential alone determines its worth. Research on the relationship between dividends and stock price was done in order to test the MM irrelevance theory of dividends (Black & Scholes, 1974), but the results showed no such relationship. Finally, they came to the conclusion that business value is unaffected by dividend policy. Financial researchers and practitioners have disputed with the MM thesis, arguing that it is predicated on assumptions about the perfect capital market that do not exist in the real world of business, in contrast to irrelevance theory.

The way a company allocates its earnings between internal retentions and dividend payments to shareholders is irrelevant, according to M&M's irrelevancy argument. According to the dividend irrelevance argument, a company's cost of capital or market value are unaffected by its dividend policy. Miller and Modigliani (1961) proposed the dividend irrelevance thesis, which states that investors are in charge of their return on investment regardless of a stock's dividend. If the dividend surpassed the investor's expectations, they may use it to buy more stock. Because they can replicate a company's homemade dividend, investors are consequently uninterested in a company's dividend policy. Their hypothesis, which was based on the idea that capital structure was irrelevant, was based on similar underlying assumptions.

2.1.1.3 Pecking Order Theory

According to the pecking order idea, certain companies would rather announce dividends and use internal capital to find investment possibilities. Similarly, if a company generates less money internally, it will favor debt over outside equity. Nonetheless, a great deal of prior scholarly research has contended that there are two opposing viewpoints about the reasons why some firms choose the pecking order theory; Donaldson and Preston (1995) presented the first viewpoint. The authors contend that because businesses wish to avoid the expenses associated with debt and floatation, they choose internally generated money over debt. Furthermore, because debt has lower costs than external financing, some businesses choose to raise cash through debt rather than external equity. However, Myers and Majluf (1984) presented the other viewpoint. According to their own perspective, the advantages of debt financing in terms of financial crisis risk and tax shield outweigh the benefits of the expenses associated with debt and flotation. Additionally, they contend that businesses aim to increase the wealth of their present stockholders. Furthermore, they hold the opinion that certain businesses would rather raise money through debt than from outside sources. This is because it goes against the interests of present shareholders to sell new shares, which will have a detrimental impact on the price of existing shares. They also hold the alternative opinion that risk-free debt has no impact on shareholder value.

2.1.1.4 Bird in the Hand Theory

Gordon proposed the "bird in hand" idea in 1959. According to this theory, dividends have a substantial impact on and are connected to a company's value. The name of the notion may be easily found thanks to the aphorism "A bird in hand is worth more than two in the bush". However, because they are risk conservative, most investors would rather have cash on hand than potential financial gains. According to this theory, the bush symbolizes future financial riches and the bird in hand indicates monetary payouts. Additionally, Gordon (1959) argues that companies who pay dividends appear to be making a lot of money, which makes it easier for them to access the capital markets. Additionally, paying dividends has an impact on a company's valuation.

2.1.1.5 Residual Theory of Dividend

The residual theory of dividends, according to one school of thinking, contends that a company's payout should be seen as the amount that remains after all reasonable investment possibilities have been taken advantage of. One way to think of a company's dividend policy is as an investing choice. This kind of behavior is indicative of a corporation believing in residual dividends. This theory holds that a corporation's dividend policy is an after-investment residue, and that the availability of investment opportunities determines whether a company pays dividends or not. The theory's premise is that, in cases where the return on reinvestment exceeds the investors' opportunity cost of funds, investors would rather see the company keep and reinvest earnings rather than distribute dividends. Under the residual dividend policy, new shares are sold to make up the shortfall for unpaid investments, and the dividend is equal to the amount remaining after investment. In the event that there are no investment opportunities, the shareholders receive a dividend equal to one-tenth of the earnings. Dividends are therefore only a residue, or the percentage that remains after all requirements for equity investments have been met (Rashid & Rahman, 2008).

2.1.1.6 Agency Theory

According to the agency cost hypothesis, agency costs resulting from ownership and control dispersion impact dividend policy. It is possible that managers will occasionally select for a dividend policy that optimizes their own gains above one that maximizes value for shareholders. DeAngelo, DeAngelo, and Stulz (2006) suggest that managers should prioritize maximizing shareholder wealth instead of spending money for personal gain by reducing free cash flows through dividend payments. Firms expose themselves to the scrutiny and discipline of these markets in an effort to draw in fresh equity.

Business managers are prone to operate in a non-value-maximizing (NVM) way, claims agency theory. Jensen and Meckling's (1976) argument states that the agency costs that NVM managers bear would lower the firm's value. However, if a manager's personal wealth was linked to the value of the company's common stock, these agency costs may be reduced. Thus, managerial ownership of shares, or insider holdings, may lower agency costs and increase the firm's worth.

2.1.1.7 Stability Theory of Dividend

The term "dividend stability" describes the dividend stream's consistency. Stated differently, dividend stability refers to the dividend being paid on a consistent basis, even while the exact amount varies annually. The majority of businesses' management see dividend stability as a good policy. Additionally, consistent dividends are often valued more highly by shareholders than fluctuating ones, and they support this approach. If all else remains the same, a consistent dividend could raise the share's market price (Pandey, 1995).

Maintaining the position of the company's dividend payments with respect to a trend line ideally an upward-sloping one is what we mean by stability. There are a few grounds for thinking that rising stock prices are a direct result of a consistent dividend policy. First, since variable dividends are riskier than stable ones, investors are typically expected to place a higher value on dividends they can be certain of getting. As a result, a bigger discount factor will probably be applied to the same average dividend amount received under a changing dividend policy than it will be for payouts under a stable dividend policy. This implies that compared to a firm whose dividend fluctuates, one with a steady dividend policy will have a lower necessary rate of return or cost of equity capital. Secondly, dividend income is a major source of income for many stockholders. These investors will pay more for a stock that has a comparatively certain minimum dollar payout since they are very inconvenient with variable payments. Third, from the perspective of the company and its investors, dividend stability is preferred in order to meet legal listing requirements. Dividend payment stability comes in three different kinds. They are low regular dividend plus extra dividend, consistent dividend payout ratio, and constant dividend per share.

2.1.1.8 Efficient Market Hypothesis Theory

The efficient market hypothesis (EMH), sometimes referred to as the efficient market theory, is a theory that holds that consistent alpha production is impossible and that share prices accurately represent all available information. On the other hand, this theory is called into question by observable market abnormalities.

Fama (2000) delivered a seminal study on the efficient market that concentrated on an in-depth analysis of the theory and went beyond it to empirical research. Market

efficiency, according to the author, is simply described as a system in which prices consistently properly represent all available information. Fama identified three levels of nested information sets: historical pricing, information that is accessible to the general public, and all information, including private information. In terms of the availability of the three aforementioned information sets, efficient market hypothesis is classified into three stages: weak form, semi-strong form, and strong form.

According to Bodie et al. (2007), a weak version of efficiency asserts that the present stock prices already take into account all historical market data, including previous prices and trade volumes. The claim that the price varies independently over time is in line with the results of studies on the random walk hypothesis, which is the weak form of efficiency. According to the semi-strong form of efficiency, security prices should fully reflect all publicly available information, in addition to historical prices. This information includes fundamental data on the firm's product line, earnings forecast, dividend, stock split announcements, management quality, balance sheet composition, number of patents held, accounting practices, etc. Therefore, applying the markets semi-strongly efficient fundamental analysis will not yield higher profits. According to the strong form of efficiency, market prices take into account all available information, including past prices, publicly available information, and private information. Prices would always be reasonable in such a market, and no investor not even traders could outperform the market.

2.1.1.9 Free Cash Flow Theory

According to Jensen's (1986) proposal, companies often produce and hold onto large amounts of cash flows even in the absence of lucrative initiatives or expansion prospects. As a result, the management of these companies may abuse the surplus cash by making excessive investments or investing in businesses that have a negative net present value, even when these actions are not in the best interests of the shareholders. This lowers the firm's worth and future profitability. Jensen (1986) argues that the management can lower the agency cost that comes with large levels of free cash flows by providing debt financing and dividend payouts. This argument goes on to say that rather than paying out dividends on extra cash, the management of these companies would want to maintain an excess level of cash flows in order to increase the quantity of liquid assets under their control.

Drobetz and Grüninger (2007) stated that management may have a large amount of cash on hand due to a variety of reasons, including a dislike of debt financing or a desire to avoid paying dividends, which indicates a correlation between retained earnings and cash reserves. This implies that in order to maintain a high amount of capital within the company, management may decide to reduce or eliminate the dividend distribution. Therefore, as this study looked at the impacts and validity of profitability and liquidity on dividend distribution, free cash flow theory is deemed important in this context. This theory explains how liquidity and profitability may help investors make informed investment decisions, which further improves the study variables.

2.1.1.10 Life Cycle Theory

Typically, businesses are founded by individuals who want to make money off of an inventive and enterprising idea. Businesses first devote all of their available funds to developing the novel concept. After starting off slowly, these businesses expand quickly, reach maturity, and finally begin to deteriorate (Bulan & Subramanian, 2009). Companies that successfully complete this shift start to pay dividends, indicating their maturity. Investment prospects often decrease as a company becomes older, while profitability typically rises. Additionally, cash resources often rise, enabling a company to start paying out or raise its present dividends. Positive empirical data supports the life cycle idea. Large, successful companies are often dividend payers, whereas smaller companies with more investment options are non-payers. DeAngelo, DeAngelo, and Stulz (2006) found that the contributed capital mix tended to be correlated with the dividend payment behavior as well. According to their research, dividend payers are often larger and more lucrative than non-payers.

2.1.1.11 Signaling Theory

The signaling theory was initially proposed by Brennan and Copeland in 1988, according to Aduda and Chemarum (2010). The idea states that changes in dividend payments usually correspond with changes in a company's stock price. The signaling notion states that when dividend payments are declared, new information is disclosed to the market. Ramiro and Agustin's (2017) research indicates that signals have the power to sensitize the market, which influences consumer preference indirectly. The authors assert that regular dividend payments made by a corporation to its

shareholders over an extended period of time may have an effect on the share prices of that company. An increase in dividends indicates management's expectation of stronger cash flows in the future.

Azoff (1994) offered factual support for the signaling theory. According to the author, a rise in dividend payments typically results in an increase in shareholder wealth. Since the company will appear to be generating consistent positive earnings and income (even if this is untrue), many investors will be enticed to purchase company shares, increasing the stock price and the firm's final market value. Investors utilize dividends as a clue regarding the firm's prospects (Jackson, 2001). By looking at the displacement features of payouts, their study on the signaling hypothesis proved these conclusions.

2.1.2 Types of Dividend Policy

Stable Dividend Policy

Managers typically prefer steady dividend policies, and banks typically smooth dividends in relation to earnings (Lintner, 1956). Gradual increases in dividends and infrequent reductions in dividends result in lower dividend fluctuation relative to earnings variability. If a corporation has a steady dividend policy, it attempts to pay out consistently each year, regardless of how the business has performed. Stable dividend policies are more strongly correlated with long-term prospects and forecasts than they are with banks's short-term performance. The ultimate goal of the policy is to increase dividends at a pace that closely matches long-term earnings growth. A stable policy is often constructed using a target payout ratio, which indicates the portion of the policy's earnings that will be distributed to shareholders throughout the medium to long term.

Payouts under a stable dividend policy are dependable and steady, even in the event that the bank experiences brief unrest. Even in the event of a poor year, a corporation will make an effort to pay the dividend; if profits are insufficient, it will draw from cash reserves, offering a sort of safety net for investors. However, it may alter the strategy or rebase the dividend if it thinks its poor performance will last longer. This implies that in the event that a bank does better than anticipated, shareholders won't see a significant increase in payouts because the corporation will probably choose to

keep onto the cash. A consistent dividend strategy requires dedication. Investors want payouts to stay stable even in the event that the business experiences a downturn. Companies are free to retain capital, but they are not required to give it back to investors.

Residual Dividend Policy

If a corporation has a residual dividend policy, it pays out whatever cash is left in the business after all expenses have been met. This implies that once the bank has paid for things like working capital, investments, and capital expenditures, the remaining funds are distributed to the shareholders.

A dividend becomes an incidental payment if only the investment policy is followed. Businesses implement this kind of policy because their managers believe that high retention leads to greater bank growth and because they are more dependent on internally generated money and are unwilling to acquire fresh capital to save floatation and other fees connected with issuing debt. This kind of policy may lead to a dividend structure that is zero. In order to prevent investors from different clienteles from being driven away by a rigid enforcement of the policy, organizations may need to adjust this policy (Miller & Rock, 1985).

Alternative Policies to Paying Cash

In order to provide shareholders an option between dividends and fresh shares, the bank may decide to buy back shares. This is a buyback of shares or stock. In terms of taxes, this offers the stockholders a big benefit. While dividends are fully taxed like regular income, stock buybacks and repurchases are not taxed until the shares are sold and the shareholder realizes a profit or capital gain (Rashid & Rahman, 2008).

Zero Dividend Policy

Companies may decide to pay out no dividends at all. This is particularly prevalent in recently founded businesses that need funding to expand their initiatives or because they may face severe financial challenges and be unable to pay dividends. So which corporation keeps its profits in order to grow its business? This type of strategy naturally attracts investors who prefer capital gains over dividends because of the taxation. Additionally, all of the expenses related to dividend payments can be easily

avoided and operated (Watson & Head, 2010). This payout policy's main benefit is that it's simple to use and won't require the administrative expenses related to paying dividends (Watson & Head, 2010).

A Constant or Fixed Policy

Businesses that have embraced a continuous payout strategy distribute a fixed portion of their profits as dividends, and they do it consistently over an extended period of time. In accordance with this strategy, the banks retain its annual fixed dividend for consideration for an extended period of time, notwithstanding fluctuations in the bank's earnings. The main issue with companies that have adopted a constant payout policy is that if they experience earnings decrees or a period of time when they record losses rather than profits, the dividend may not be paid or may be paid less than usual, which could have a negative impact on the bank's stock price as dividends are frequently seen as indicators of bank's future performance. This sort of policy provides the possibility for shareholders to know how much dividend they may anticipate from their investments in the banks. But as Watson and Head (2010) point out, the strategy might be devastating for businesses whose earnings are erratic or unpredictable.

2.1.3 Provisions Regarding Dividend Practice in Nepal

Nepal Company Act- 2063 makes some legal provisions for dividend payment in Nepalese firms/organizations. These provisions are as follows.

Section 2(m) states bonus shares are defined as shares that are capitalized of a company's reserve or excess earnings and awarded to shareholders as additional shares. The word also denotes an increase in capitalized excess or reserve funds.

Under Section 47, the corporation is not allowed to purchase its own shares. This provision prohibits a company from purchasing its own stock or utilizing the security deposits of its own stock as collateral for loans.

Section 137 is regarding bonus share 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 by passing special resolution by the general meeting.

Sub-Section (1): Dividends are to be paid to shareholders within 45 days of the decision to distribute them, unless the following situations apply.

a) In case any law forbids the distribution of dividends.

b) In case the right to dividend is disputed.

c) If, for reasons outside of anyone's control and without the company's fault, dividends are not able to be delivered within the previously specified time frame.

Sub Section (2): If the dividends are not disbursed by the deadline specified in sub-section (1), interest at the specified rate will be added.

Sub-section (3): The only individual to whom dividends are intended is the one whose name is on file with the register of current shareholders at the time of declaration.

The aforementioned clauses and subsections of the Company Act of 1997 make it clear that Nepalese companies are not allowed to repurchase their own shares. The sections solely cover concerns related to bonus shares. This Act is insufficient in terms of dividend policy. The government of Nepal made a decision about the government corporations' dividend payments.

2.2 Empirical Review

Bhattarai (2016) analyzed effect of dividend payment on stock prices of commercial banks in Nepal: Panel approach. The primary objective of the research was to find out how dividend payments affected Nepalese commercial banks' stock values. Six commercial banks' panel data were gathered from their annual reports between 2010 and 2016, a span of seven years. The Fixed Effect Model, Random Effect Model, and Pooled OLS Model were used to analyze the data. In this study, the market price per share serves as the dependent variable, whereas the independent factors are the dividend per share, bank size, and profitability indicators like return on assets. This study found that dividend per share had significant positive effect on market price of stock with the beta coefficient of 26.23 and sig. value is 0.02. However, profitability (ROA) had insignificant negative impact on market price of stock of commercial banks in Nepal with coefficient value is -7.83 and sig. or p-value is 0.99. Moreover, bank size had significant positive effect on market price of stock with the coefficient value is 166.85 and p-value is 0.56. The R square is 0.353 which means the model fits for 35.30 percent on regression MPS or 35.30 percent of the variation in the dependent variable (MPS) is explained by the independent variables (dividend per share, profitability and bank size).

Dhakal and Shah (2016) examined dividend policy, share price and future profitability: Case of commercial banks in Nepal. The main objective of the study was to analyze how Nepali commercial banks' dividend policies affected their share prices and prospective profitability. The link between the variables is investigated using regression and correlation analysis. The retained ratio, earnings per share, profit after taxes, dividend yield, and return on equity are the independent variables, while the market price (MP) is the dependent variable. This study revealed that dividend yield had significant negative impact on market price per share with the coefficient value -0.239 at 5 percent level of significance. Similarly, retained ratio had significant negative effect on market price of stock with the beta coefficient of -0.150 at 5 percent level of significance. At the same time, profit after tax had insignificant negative impact on market price of stock with coefficient value is-0.031 at 5 percent level of significance. Besides these, earnings per share had significant positive effect on market price of stock with the coefficient value is 0.789 at 5 percent level of significance. Moreover, return on equity had insignificant positive effect on market price of stock with the beta coefficient of 0.022 at 5 percent level of significance. The R square is 0.813 which indicates that 81.30 percent of the dependent variable i.e. market price of stock is explained by independent variable.

Adesina et al. (2017) analyzed dividend policy and share price valuation in Nigerian banks. The main objective of the study was to assess the dividend policy and share price valuation of Nigerian banks. In this study, the Ordinary Least Square (OLS) regression model was used to examine the data that were obtained. In this study, the independent parameters are earning per share, dividend yield, retention ratio, and dividend per share, whereas the dependent variable is market price per share (MPS). This study revealed that earning per share had significant positive impact on market price per share with the coefficient value 5.976 and p value is 0.000 whereas, dividend per share had insignificant negative effect on market price of stock with the beta coefficient of -0.003 and sig. value is 0.923. Likewise, dividend yield had significant negative impact on market price of stock with coefficient value is -1.061 and sig. or p-value is 0.000. In addition, retention ratio had significant negative effect on market price of stock with the coefficient value is 0.270 and p-value is 0.000. The R square is 0.600 which indicates that 60.00 percent of the dependent variable i.e.

market price of stock is explained by independent variable i.e. earning per share, dividend per share dividend yield and retention ratio.

Pardhan and Gautam (2017) analyzed the dividend policy and share price volatility: a case of Nepalese commercial banks. The main purpose of the research was to evaluate how Nepalese commercial banks' dividend policies affected the volatility of their share prices. To determine the significance and effect of dividend policy on the volatility of Nepalese commercial banks' share prices, regression models are estimated. Market price per share is the dependent variable, whereas size, leverage, assets growth, dividend yield, dividend payout, and earnings volatility are the independent factors. This study revealed that dividend yield had significant positive impact on market price per share with the coefficient value 5.75 at 1 percent level of significance whereas; dividend payout had insignificant negative effect on market price of stock with the beta coefficient of -0.16 at 5 percent level of significance. At the same time, size had significant positive impact on market price of stock with coefficient value is 23.95 at 5 percent level of significance. Besides these, leverage or debt ratio had insignificant positive effect on market price of stock with the coefficient value is 0.31 at 5 percent level of significance. Likewise, assets growth had insignificant positive effect on market price of stock with the beta coefficient of 0.34 at 5 percent level of significance. Finally, earning volatility had insignificant positive impact on market price of stock with coefficient value is 9.78 at five percent level of significance. The R square is 0.41 which indicates that 41.00 percent of the dependent variable i.e. market price of stock is explained by independent variable.

Baral and Pradhan (2018) analyzed impact of dividend policy on share price of commercial bank in Nepal. This study aimed to investigate how dividend policies affected Nepalese commercial banks' stock prices. Ten commercial banks' combined cross-sectional data sets served as the study's foundation. ANOVA, Wilcoxon Signed Rank Test, correlation and regression, and descriptive statistics. The market price of shares is the dependent variable in this study, whereas earnings per share, the dividend payment ratio, and the price-earning ratio are the independent factors. This study found that earning per share had significant positive effect on market price of stock with the beta coefficient of 21.939 and sig. value is 0.00. At the same time, price earning per share had significant positive impact on market price of stock of

commercial banks in Nepal with coefficient value is 55.548 and sig. or p-value is 0.00. Finally, dividend payout ratio had significant positive effect on market price of stock with the coefficient value is -262.113 and p-value is 0.03. The R squared is 0.947 which shows the model explanatory power depicted that 94.7 percent of the changes in the share price in top gainer commercial banks be explained by the announcement of dividend while the remaining percentage can be explained by other factors excluded in the model.

Singh and Tandon (2019) examined the effect of dividend policy on stock price: Evidence from the Indian Market. The primary objective of this research was to look into how dividend policies affected the market values of Nifty 50 firms' shares that were listed on the National Stock Exchange (NSE) between 2008 and 2017. Multiple panel data regression methods, including pooled regression, fixed effect models, and random effect models, have been used to examine the data. The best regression model has been recommended using the Hausman test. To investigate the impact of dividend policy on stock price, the dependent variable is market price per share (MPS), while the independent variables are earning per share, dividend per share, dividend yield, retention ratio, return on equity, and profit after tax. This study revealed that earning per share had significant positive impact on market price per share with the coefficient value 32.48 and p value is 0.00. Similarly, dividend per share had insignificant positive effect on market price of stock with the beta coefficient of 5.38 and sig. value is 0.31. However, dividend yield had significant negative impact on market price of stock with coefficient value is -171.01 and sig. or p-value is 0.00. Besides these, retention ratio had insignificant negative effect on market price of stock with the coefficient value is -0.15 and p-value is 0.79. Then, return on equity had significant negative effect on market price of stock with the beta coefficient of -9.51 and sig. value is 0.05. Finally, profit after tax had significant negative impact on market price of stock with coefficient value is -0.05 and sig. or p-value is 0.00. The R square is 0.75 which indicates that 75.00 percent of the dependent variable i.e. market price of stock is explained by independent variable.

Ayunku and Apiri (2019) analyzed dividend policy impact on market value of quoted commercial banks in Nigeria (2004-2018). The primary aim of the research was to evaluate the influence of dividend policy in Nigeria on the market value of

commercial banks that are quoted. The study covered the period from 2004 to 2018.The ADF test was performed in the study, and the Johansen Co-integration test was used to determine if two long-term co-integrating connections between the variables would exist. The market value of the stock is the dependent variable in this study, and the explanatory factors are the dividend yield, retention ratio, and payout ratio. This study found that dividend payout had significant positive effect on market price of stock with the beta coefficient of 3.328222 and sig. value is 0.0074. However, retention ratio (RTR) had significant negative impact on market price of stock of quoted commercial banks in Nigeria with coefficient value is -4.041634 and sig. or p-value is 0.0299. Moreover, dividend yield had significant positive effect on market price of stock with the coefficient value is 6.000505 and p-value is 0036. The R square is 0.6397 which means the model fits for 63.97 percent on regression MPS or 63.97 percent of the variation in the dependent variable (MPS) is explained by the explanatory variables (dividend payout ratio, retention ratio and dividend yield).

Shrestha (2020) examined effect of dividend on stock market price: a panel data approach. The main objective of the study was to look into how dividends affected Nepalese companies' stock market prices. The results of the Hausman test indicated that the Random Effect model is inappropriate for the data utilized in this study, while the Breusch and Pagan Lagrangian multiplier test revealed that the Pooled Regression model is inappropriate. Consequently, the Fixed Effect model was used in this study to examine how dividends affect stock market price. In this study, the market price of stock (MPS) is the dependent variable, while the independent variables are return on equity, earnings per share, return on assets, and cash dividend. This study revealed that cash dividend had significant negative impact on market price per share with the coefficient value -22.1385 and p value is 0.000. Then, stock dividend had significant positive effect on market price of stock with the beta coefficient of 6.1588 and sig. value is 0.027. However, ROA had significant negative impact on market price of stock with coefficient value is -33.8022 and sig. or p-value is 0.002. Besides these, earning per share had insignificant negative effect on market price of stock with the coefficient value is 30.8022 and p-value is 0.00. Moreover, return on equity had significant negative effect on market price of stock with the beta coefficient of -33.4311 and sig. value is 0.018. The R square is 0.4160 which indicates that 41.60

percent of the dependent variable i.e. market price of stock is explained by independent variable i.e. CD, SD. ROA, EPS and ROE.

Tahtamouni (2020) examined the effect of dividends policy on the stock prices: the Jordanian listed commercial banks case. The main objective of the study was to examine the impact of dividend policy on the fair value of stock prices of Jordanian commercial banks that are listed on the Amman Stock Exchange (ASE). The association matrix between the independent variables was analyzed through person relations, and the study hypotheses were evaluated using multiple linear regression. The payout ratio, dividend yield, dividend per share, and plowback ratio are the independent variables, and the stock price's fair value is the dependent variable. This study revealed that dividend per share had significant positive impact on market price per share with the coefficient value 0.850 and p value is 0.000 whereas, dividend yield had significant negative effect on market price of stock with the beta coefficient of -0.552 and sig. value is 0.000. Then, payout ratio had significant positive impact on market price of stock with coefficient value is 0.177 and sig. or p-value is 0.045. Finally, plowback ratio had significant positive effect on market price of stock with the coefficient value is 0.169 and p-value is 0.002. The R square is 0.720 which indicates that 72.00 percent of the dependent variable i.e. market price of stock is explained by independent variable i.e. dividend per share, dividend yield, payout ratio and plowback ratio.

Kimani and Olweny (2021) investigated relationship between dividend policy and stock price volatility among listed commercial banks in Kenya. The purpose of this study was to investigate, with the firm's size serving as a control variable, the link between the dividend payout ratio and stock price volatility of Kenya's listed commercial banks. Using a multiple regression model, the study employed the primary data analysis approach, which necessitates testing fundamental assumptions prior to doing the analysis. Market price is the dependent variable, whereas business size, dividend payment, and dividend yield are the independent factors. This study found that dividend payout had significant negative effect on market price of stock with the beta coefficient of -0.0599 and sig. value is 0.0299. Similarly, dividend yield had insignificant negative impact on market price of stock of commercial banks in Nepal with coefficient value is -0.0555 and sig. or p-value is 0.1770. Moreover, firm

size had significant negative effect on market price of stock with the coefficient value is -0.1040 and p-value is 0.0133. The R square is 0.4581 which means the model fits for 45.81 percent on regression MPS or 45.81 percent of the variation in the dependent variable (MPS) is explained by the independent variables (dividend payout, dividend yield and firm size).

Agustina (2022) investigated the effect of fundamental factors, earning per share and exchange rate on stock returns with dividend policy as intervening variables. The main objective of this research was to examine the impact of exchange rates, dividend policy, and fundamental reasons on profits per share as intervening variables on stock returns. Multiple regression analysis and correlation were employed in this investigation. In this study, return on assets, debt to equity ratio, exchange rate, and dividend payout ratio are independent factors, while stock return is the dependent variable. This study revealed that return on assets had insignificant positive impact on market price per share with the coefficient value 0.180632 and p value is 0.0664. Likewise, debt to equity ratio had significant positive effect on market price of stock with the beta coefficient of 0.047567 and sig. value is 0.0263. However, EPS had insignificant negative impact on market price of stock with coefficient value is -8.29000 and sig. or p-value is 0.6551. At the meantime, exchange rate had significant negative effect on market price of stock with the coefficient value is -0.000328 and p-value is 0.0152. Moreover, payout ratio had insignificant negative effect on market price of stock with the beta coefficient of -0.000659 and sig. value is 0.8456. The R square is 0.0574 which indicates that 5.74 percent of the dependent variable i.e. market price of stock is explained by independent variable i.e. return on assets, debt to equity ratio, exchange rate and dividend payout ratio.

Ahmed, Kabir and Ibrahim (2023) analyzed dividend policy and share price of listed deposit money banks in Nigeria: moderating effect of inflation rate. This study evaluated at how the inflation rate affected the link between the share price of Nigerian listed deposit money banks and their dividend policy. Correlation, descriptive statistics, and hierarchical moderated multiple regression analysis were employed in this investigation. In order to analyze the study, the market price is the dependent variable while the dividend price ratio, dividend payout ratio, firm age, firm growth, and inflation rate are the independent factors. This study revealed that

dividend price ratio had insignificant negative impact on market price per share with the coefficient value -1492.72 and p value is 0.79. Similarly, dividend price ratio had insignificant negative effect on market price of stock with the beta coefficient of -9.76 and sig. value is 0.07. However, inflation rate had insignificant positive impact on market price of stock with coefficient value is 13.86 and sig. or p-value is 0.82. Likewise, firm age had insignificant positive effect on market price of stock with the coefficient value is 12.35 and p-value is 0.87. In addition, firm growth had insignificant negative effect on market price of stock with the beta coefficient of -0.12 and sig. value is 0.27. The R square is 0.1584 which indicates that 15.84 percent of the dependent variable i.e. market price of stock is explained by independent variable.

2.3 Research Gap

From the review of the relevant literature relating to the impact of dividend distribution on market price of stock, it's possible to see the existence of knowledge gap or concluding remarks. The effect of dividend yield has statistically significant negative effect on MPS of sample banks as per Dhakal and Shah (2018); Singh and Tandon (2019) whereas Pardhan and Gautam (2017) concluded that dividend yield has insignificant positive impact on MPS of the banks. Likewise, Baral, and Pradhan (2018) found that dividend payout ratio has statistically significant positive influence on the MPS of sample banks. However, it contradicts with the findings of Pardhan and Gautam (2017). At the meantime, Bhattarai (2016) revealed size has insignificant positive relation with MPS but contradicts of findings of Pardhan and Gautam (2017). Therefore, the empirical evidence has demonstrated that a mixed relationship between dividend and market price of stock of commercial banks. This study has tried to investigate the impact of dividend indicators such as dividend per share, earning per share, dividend yield, price earnings ratio and bank size on market price of stock of commercial banks in Nepal by using recent data up to 2022/23 and also tries to explore the missing findings of previous studies.

CHAPTER - III
RESEARCH METHODOLOGY

Research methodology establishes the approach, protocols, and strategies employed in carrying out research. It is a roadmap for reaching the objective. It includes research design, population and sample, sampling design, nature and sources of data and data collection instruments, research framework and definition of variables and method of analysis.

3.1 Research Design

The research design outlines the procedures and techniques for obtaining the necessary data. It talks about what information has to be collected, where to get it, and how to do it. A clearly specified research design ensures that data are collected in an objective, economical manner and are relevant to the research topics. The study has employed both descriptive and causal relationship research designs to achieve its specific objective. Descriptive design is used to analyze the pattern and status of dividend and stock price. Causal research design is used to measure the impact of dividend distribution on stock price of commercial banks in Nepal.

3.2 Population and Sample, and Sampling Design

At present, there are 20 commercial banks operating in Nepal. They constitute the population. Among of them, only five commercial banks are selected namely; HBL, EBL, NABIL, SCB and SBI as a sample for the study of the dividend and stock price of commercial banks. This study has applied random sampling technique for this study because there is equal and fair probability of being chosen.

3.3 Nature and Sources of Data, and Instruments of Data collection

Secondary data for this study were gathered from linked offices' webpages and annual reports. Therefore, published sources such as financial statements of commercial banks that are representative of the sample, numerous prior studies and associated bulletins, NRB reports, and periodic publications from various government organizations are the main sources and types of data. Research conducted using adequate data collection equipment enhances the legitimacy and worth of research

findings, according to consistent and reliable research. As a result, structured document review will be employed in this study to gather the necessary data that are pertinent to achieving the study's goals. Data is gathered from a variety of NRB periodicals and publications, as well as audited financial statements (profit and loss account and balance sheet) of all commercial banks in the sample. Every year, all of the data were gathered, and the variables' numbers could be found on July 31 of that particular year. Panel data from five commercial banks in Nepal with a combined ten-year banking service history, spanning from 2013/14 to 2022/23, is used in the study.

3.4 Method of Analysis

The researcher employs the following categories of analytical instruments in order to increase the study's specificity and dependability:

Descriptive Analysis

Mean ($\bar{X}$)

The simple mean, or arithmetic mean, of a collection of data is calculated by dividing the total number of observations by the sum of all the observations. It will be utilized to determine the optimal value, which will indicate to the group as a whole what the arithmetic average of a variable is. It is computed as follows:

$$\text{Mean } (\bar{X}) = \frac{X_1 + X_2 + X_3 + X_4 \ldots\ldots\ldots\ldots + X_n}{n} \text{ or, } \bar{X} = \frac{\Sigma X}{n}$$

Where,

$\bar{X}$ = Arithmetic Mean return

$X_1, X_2, X_3, X_4 \ldots\ldots\ldots\ldots X_n$ = Set of Observation

ΣX = Sum of given Observation

n = Total number of Observations

Standard Deviation

The standard deviation is defined as the square of the variance derived from the arithmetic mean, or the positive square root of the mean. The ranges and sizes of departures from the mean or center are shown. It measures the dispersion exactly. A higher standard deviation The variability will be higher and vice versa. The amount that the data vary from the center value is measured by dispersion. Stated differently,

it is useful to assess the variability of the data to determine its quality. It is calculated in this way:

Standard Deviation (S.D.) = **Error!**

Correlation Coefficient (r)

The relationship between an independent variable and another independent variable is known as the correlation coefficient. It is a technique for ascertaining how these two variables are related to one another. A correlation coefficient is present when there is a strong relationship between the two variables, meaning that changes in the independent variable's value also affect the dependent variable's value. It is denoted by small 'r'.

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

Where,

r = coefficient of correlation

ΣXY = Sum of product of two series.

ΣX^2 = Sum of squared in X series

ΣY^2 = Sum of squared in Y series

n = number of years

This coefficient's value can never be less than -1 or greater than + 1. Therefore, the limits of this coefficient are + 1 and -1. Positive correlation between variables is indicated by a value of r = + 1, and vice versa. Zero indicated no association at all.

Multiple Regressions Analysis

Multiple linear regression seeks to forecast the relationship between two or more explanatory factors and a response variable by fitting a linear equation to observed data. Every value of the independent variable x corresponds to a value in the dependent variable y. Regression analysis will be used to look at the relationship between the explanatory factors and the dependent stock price. The explanatory variables are independent characteristics such as earnings per share, price-earnings ratio, dividend yield, dividend per share, and bank size.

Model Specification

The model used in this study makes the assumption that certain variables affect the stock price. As a result, the link and effect of the research variables have been examined using the model that follows.

$MPS_{it} = \beta + \beta_1 DPS_{it} + \beta_2 EPS_{it} + \beta DY_{it} + \beta_4 PER_{it} + \beta_5 SIZE_{it} + e_{it}$

Where:

MPS_{it} = Market price of stock of finance company i^{th} for the time period t

DPS_{it} = Dividend per share of finance company i^{th} for the time period t

EPS_{it} = Earnings per share of finance company i^{th} for the time period t

DY_{it} = Dividend yield of finance company i^{th} for the time period t

$PER_i t$ = Price earnings ratio of finance company i^{th} for the time period t

$SIZE_{it}$ = Total assets of finance company of finance company i^{th} for the time period t

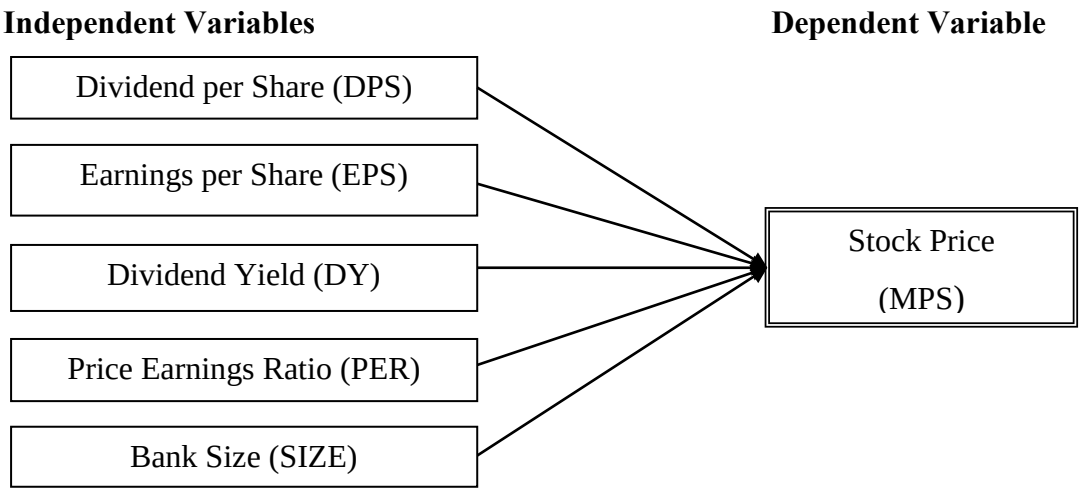
β_0 = The intercept (constant)

β_1, β_2, β_3, β_4, β_5, β_5, = The slope which represents the degree with which market price per share changes as the independent variable changes by one unit variable.

e = error component

3.5 Research Framework and Definition of the Variables

The researcher develops the following conceptual framework for the study based on reviews of the theoretical and empirical literature.



Source: Bhattarai (2016); Adesina et al. (2017); Singh and Tandon (2019); Tahtamouni (2020)

Figure 1 Research Framework

Dependent Variable

Stock Price (MPS)

The objective of the current study is to determine what factors affect banks' prices on the Nepalese stock market. Researchers like Bhattarai (2016) and Singh and Tandon (2019) have noted that shifts in buying and selling pressure can cause the stock price to fluctuate minute by minute. Selecting which market price to regress as a dependent variable measure becomes challenging as a result of these developments. The market price is represented in this study by using the closing price of the bank's stock at the conclusion of its fiscal year. In this study, the dependent variable is the market price.

Independent Variables

Dividend per Share (DPS)

Dividends per share are computed using a financial indicator known as net income. It is calculated by dividing the net income available to common stockholders by the total number of outstanding common shares. Even in the absence of the customer effect, the market value of the company's shares will increase if it increases cash dividend payments. In the same token, Singh and Tandon (2019) found dividend per share had on positive relation between no effects on the market price of stock. However, Tahtamouni (2020) found that dividend per share, payout ratio and plowback ratio have significant positive impact on stock price.

Earnings per Share (EPS)

The profitability of a business is shown by its earnings per share. A high market price is typically the outcome of rising earnings per share. Shrestha (2020); Baral and Pradhan (2018) state that there is a positive correlation between market price and earnings per share that is, the greater the earnings per share, the higher the market price.

Price Earnings Ratio (PER)

It has to do with contrasting market value and earnings per share. The price-to-earnings ratio shows how much each share's earnings are covered by its price. It indicates if a company's share price is overvalued, undervalued, or reasonably valued. When compared to banks with a lower P/E, a high P/E often indicates that investors are anticipating more profits growth in the future. In the same time, Baral and Pradhan

(2018) indicated that price-earnings ratio have a significant positive association with firm’s stock price.

Dividend Yield (DY)

A stock's dividend yield shows how much a corporation distributes as a percentage of its stock price. It is determined as a percentage of the company's yearly dividends on stock price. According to Rashid and Rahman (2008), Adesina et al. (2017), and Singh and Tandon (2019), dividend yield is a crucial variable that is utilized to explain how dividend policy affects stock market values. Each of these experts discovered a favorable correlation between stock price and dividend yield.

Bank Size (SIZE)

The natural logarithm of the total asset is used to assess one of the control variables, which is size (Bhattarai, 2016). Previous empirical data has confirmed that a firm's size may have an impact on its share price. According to Pardhan and Gautam (2017), share price volatility was significantly positively impacted by bank size. Bhattarai (2016), however, came to the conclusion that there is a negative correlation between size and share price. These empirical data support the expectation that size and share price will positively correlate.

CHAPTER - IV
RESULTS AND DISCUSSION

As the researcher discussed in the previous chapters the major objective of this study is to investigate the impact of dividend distribution on stock price of commercial banks in Nepal. Since, this chapter, which is divided into three sections, deals with the findings and their analysis. The study's variables were analyzed descriptively and by correlation in the first portion, which also included the dividend structure and stock price. The second section demonstrated the fulfillment of the assumptions made by the linear regression model, and the third piece outlined the discussion. For additional statistical analysis, the ratio of the designated dependent and independent variables as well as the ratio scale measurement were computed using data analysis techniques.

4.1 Results

This section use statistical analytical methods, including multiple regression analysis, correlation analysis, and descriptive statistics, to analyze the impact of dividends on the share prices of commercial banks.

4.1.1 Position of Dividend Variables and Market Price of Stock

Financial indicators are used to analyze the performances of particular banks. A bank that performs well has the highest market value, highest earnings, and highest dividend disbursed. In addition to the stock price of commercial banks in Nepal, dividend variables or indicators such as dividend per share, earning per share, price earnings ratio, dividend yield, and bank size are examined here.

4.1.1.1 Analysis of Dividend per Share

The portion of the profit that is prepared to be given to shareholders is referred to as the dividend and is paid to the holder of one share of stock. It is calculated by taking the entire dividend paid to common shareholders and dividing it by the total number of outstanding shares. Table 1 shows the dividend per share for the sample banks.

Table 1

Dividend per Share

(In Rs.)

Year	NABIL	SBI	EBL	SCB	HBL
2013/14	65.00	22.07	62.00	51.50	21.05
2014/15	36.84	28.42	35.00	44.21	42.11
2015/16	45.00	29.53	70.00	35.09	31.58
2016/17	48.00	16.34	33.00	105.26	26.32
2017/18	34.00	15.79	20.00	17.50	15.79
2018/19	34.00	16.84	25.00	22.50	22.00
2019/20	35.26	9.47	10.53	11.84	20.00
2020/21	38.00	5.31	10.32	13.06	26.00
2021/22	30.00	10.53	20.68	16.51	19.11
2022/23	11.00	10.55	20.53	19.00	0.00
Mean	37.71	16.49	30.71	33.65	22.40
SD	13.79	8.09	20.33	28.58	10.88
CV	36.56	49.08	66.22	84.95	48.57

Source: Appendix-I

Table 1 shows that the dividend per share of commercial banks in Nepal during the study period. In the 2016/17 fiscal year, SCB distributed the largest dividend distribution, at Rs.105.26 percent per share. The HBL paid out no dividend at all and the lowest dividend per share in the fiscal year 2022/23. For NABIL, the highest average DPS is Rs.37.71. SBI has the lowest average DPS of any bank, at 16.49%. It suggests that NABIL has the largest and most consistent earnings when it comes to paying dividends to shareholders. A growing dividend per share may indicate the management of the firm thinks the growth can go on. Out of all the sample banks, SBI has the lowest standard deviation, indicating that it is the least risky. NABIL has shown the highest level of consistency among the ratios, with the lowest coefficient of variation (CV) of 36.56 percent.

4.1.1.2 Analysis of EPS

Profits per share is equivalent to any profitability or ratio related to market prospects. In general, a higher ratio of earnings to shares indicates that the company is more prosperous and can afford to pay out more profits to its shareholders. An increase in a company's stock price is frequently correlated with a higher earnings per share ratio, even if many investors don't give it much thought. Given the multitude of variables that might affect this ratio, investors typically consider it but do not allow it to

significantly impact their choices. The sample commercial banks' earnings per share are displayed in Table 2.

Table 2

Earning Per Share

(In Rs.)

Year	NABIL	SBI	EBL	SCB	HBL
2013/14	76.12	34.83	86.04	65.57	33.10
2014/15	57.24	34.84	78.04	57.38	33.37
2015/16	59.27	36.78	40.33	45.96	43.03
2016/17	59.86	33.46	32.48	35.49	33.55
2017/18	51.84	25.16	32.78	27.00	23.11
2018/19	50.57	27.13	38.05	30.39	32.44
2019/20	36.16	17.23	29.71	24.81	27.60
2020/21	33.57	10.15	19.91	16.32	28.07
2021/22	18.64	16.67	26.30	23.92	18.26
2022/23	23.67	19.44	31.43	36.75	9.18
Mean	46.69	25.57	41.51	36.36	28.17
SD	18.11	9.35	22.18	15.64	9.45
CV	38.78	36.56	53.43	43.01	33.55

Source: Appendix-I

Table 2 shows that the earning per share of commercial banks in Nepal. The highest earnings per share for EBL during the research period is Rs.86.04 in the 2013/14 fiscal year. HBL's earnings per share for the fiscal year 2022/23 are the lowest at Rs.9.18. NABIL is leading the group with an average earnings per share of Rs.46.69, while SBI has the lowest average earnings per share, at Rs.25.57. It suggests that NABIL is the most profitable and that the bank is able to provide the highest payout to its investors. Out of all the sample banks, SBI has the lowest standard deviation, indicating that it is the least risky. Based on the data, it can be concluded that HBL has the lowest coefficient of variation (CV) in the ratio, measuring 33.55 percent.

4.1.1.3 Dividend Yield

A financial ratio known as the dividend yield compares the amount of cash dividends paid to common shareholders to the share's market value. Investors use the dividend yield to demonstrate how their stock investment is producing cash flows in the form of dividends or improvements in asset value due to stock appreciation.

Table 3

Dividend Yield

(In percent)

Year	NABIL	SBI	EBL	SCB	HBL
2013/14	2.56	1.72	2.36	1.84	2.24
2014/15	1.93	3.20	1.65	2.28	5.18
2015/16	1.92	1.57	2.07	0.97	2.11
2016/17	3.15	1.77	2.44	4.59	2.97
2017/18	3.69	3.16	3.02	2.32	2.87
2018/19	4.25	3.59	3.75	3.30	3.99
2019/20	4.61	2.18	1.56	1.84	3.70
2020/21	2.80	1.30	1.40	2.21	5.37
2021/22	3.64	3.73	4.71	4.17	6.39
2022/23	1.84	3.09	3.65	3.58	0.00
Mean	3.04	2.53	2.66	2.71	3.48
SD	1.00	0.92	1.10	1.15	1.87
CV	32.81	36.13	41.21	42.41	53.68

Source: Appendix-I

Table 3 shows that the dividend yields of commercial banks in Nepal during the study period. HBL has the highest dividend yield for the fiscal year 2021/22, coming in at 6.39 percent. With a 0 percent dividend yield, HBL has the lowest payout for the fiscal year 2022/23. The maximum average DY for HBL is 3.48 percent. SBI has the lowest average DY, at 2.53 percent. It implies that HBL distributes the largest cash dividends to its common stockholders. Of all the sample banks, NABIL has the lowest standard deviation, indicating that it is the least risky. At 32.81 percent, NABIL has the lowest coefficient of variation (CV) and the highest degree of consistency.

4.1.1.4 Price Earnings Ratio

The relationship between a company's stock price and earnings per share (EPS) is known as the price earnings ratio, or P/E ratio. It is a well-liked ratio that helps investors understand the bank's worth. The price you must pay per unit of current earnings (or future earnings, as the case may be) is represented by the P/E ratio, which displays market expectations. Because investors want to know how lucrative a bank is and will be in the future, earnings play a significant role in valuing a bank's shares. Furthermore, the P/E may be seen as the number of years it will take the bank to recoup the money paid for each share assuming it doesn't grow and its present level of profits stays the same.

Table 4

Price Earning Ratio

(In percent)

Year	NABIL	SBI	EBL	SCB	HBL
2013/14	33.38	36.75	30.58	42.75	28.43
2014/15	33.37	25.40	27.17	33.86	24.36
2015/16	39.55	50.98	83.94	78.33	34.86
2016/17	25.44	27.64	41.66	64.67	26.40
2017/18	18.60	19.83	20.23	27.62	23.84
2018/19	15.82	17.29	17.50	22.44	17.02
2019/20	21.15	25.24	22.72	26.00	19.57
2020/21	40.48	40.30	37.06	36.16	20.57
2021/22	44.21	16.93	16.69	16.56	16.39
2022/23	25.31	17.54	17.91	14.42	23.18
Mean	29.73	27.79	31.55	36.28	23.46
SD	9.87	11.47	20.30	20.71	5.57
CV	33.21	41.26	64.34	57.09	23.74

Source: Appendix-I

Table 4 shows that the price earnings ratio of commercial banks in Nepal during the study period. In the 2015/16 fiscal year, EBL had the highest price–earnings ratio at Rs.83.94. EBL's price-earnings ratio for the 2017/18 fiscal year is the lowest at Rs.12.48. At Rs.36.28, SCB has the highest average PER overall. HBL has the lowest average, at Rs.23.46 for PER. The idea behind this is that businesses with the greatest P/E ratio are seen as growth corporations. This implies that SCB will do well in the future, and as a result, investors are willing to pay a premium for the company's potential earnings growth. HBL has the lowest standard deviation of all the sample banks, making it the least risky. The data shows that HBL has the best degree of consistency in the ratio, with the lowest coefficient of variation (CV) of 23.74 percent.

4.1.1.5 Bank Size

The natural logarithm of total assets is the bank's size. Because it affects the bank's performance, bank size has been included as a bank-specific internal independent variable in this study. Performance has a good or negative relationship. If managing a bank becomes more challenging as its size increases. On the other hand, because of the economies of scale that come with size, it has been determined that larger banks can raise capital more cheaply. It is therefore one of the key markers of the bank's financial performance.

Table 5

Size of Banks

(Rs. in million)

Year	NABIL	SBI	EBL	SCB	HBL
2013/14	87275	61073	70445	53324	73590
2014/15	115986	59277	99153	64927	82802
2015/16	127300	78515	113885	65186	99863
2016/17	140332	99752	116510	77409	107255
2017/18	169076	102539	144818	83095	116462
2018/19	201139	118314	170077	93264	133151
2019/20	237680	132402	185023	116438	155885
2020/21	291066	137809	211650	114739	178491
2021/22	419818	153103	225381	123356	216286
2022/23	481204	185958	250090	151378	332393
Mean	227087.60	112874.20	158703.20	94311.60	149617.80
SD	133057.84	40835.52	59386.13	31289.60	77895.62
CV	58.59	36.18	37.42	33.18	52.06

Source: Appendix –I

Table 5 represents that the bank size of sample banks in Nepal. In the fiscal year 2022/23 NABIL had the biggest bank size, with total assets of Rs.481204 million; in the fiscal year 2013/14, SCB had the lowest bank size, with total assets of Rs.53324. The largest average bank size, held by NABIL, is Rs.227087.60 million, while the smallest average bank size, held by SCB, is Rs.94311.60 million. It demonstrates that NABIL has the average bank size throughout the study period was the biggest, according to NABIL. The bank can save costs as a result of the economies of scale that arise from this. Large banks can also raise funds more affordably. Among the sample banks, SCB has the lowest standard deviation, indicating that it carries the least amount of risk. Based on the coefficient of variation of the ratios, it can be deduced that SCB has demonstrated the highest degree of consistency, with the lowest CV of 33.18 percent.

4.1.1.6 Market Price per Share

The value of stock that a company or equity holders may purchase by selling it on the capital market is known as the share price. The MPS is set by the stock market. The closing market price of the sample banks' NEPSE Index is represented by MPS in this research. The market price of stock (MPS) of the sample banks is displayed in table 6.

Table 6

Market Price per Share

(In Rs.)

Year	NABIL	SBI	EBL	SCB	HBL
2013/14	2535	1280	2631	2799	941
2014/15	1910	887	2120	1943	813
2015/16	2344	1875	3385	3600	1500
2016/17	1523	925	1353	2295	886
2017/18	921	499	663	755	551
2018/19	800	469	666	682	552
2019/20	765	435	675	645	540
2020/21	1359	409	738	590	484
2021/22	824	282	439	396	299
2022/23	599	341	563	530	213
Mean	1358.00	740.20	1323.30	1423.50	677.90
SD	699.58	509.76	1032.11	1145.53	373.41
CV	51.52	68.87	78.00	80.47	55.08

Source: Appendix-I

Table 6 shows that the market price per share of commercial banks in Nepal. The highest market price per share of SCB is Rs.3600 in the 2015/16 fiscal year. For the fiscal year 2022/23, HBL's lowest MPS is Rs.213. The highest average market price for SCB is noted at Rs.1423.50 per share. With an average market price per share of Rs.677.90, HBL has the lowest pricing. This suggests that SCB has performed better than the other banks over this period. HBL has the lowest standard deviation of all the sample banks, making it the least risky. With the lowest coefficient of variation (CV), 51.52 percent, NABIL has shown the highest degree of stability among the ratios.

4.1.2 Descriptive Statistics of Variables

Table 7 displays the descriptive statistics for the explanatory and explained factors in this study. Its foundation is a panel data collection arranged by three commercial banks that were active in the Nepalese financial sector between 2013/14 and 2022/23. When examining them broadly, the data show that there is a great deal of variation in the commercial bank stock price and dividend indicators.

Table 7

Descriptive Statistics of Variables of Sample Banks

Variables	N	Minimum	Maximum	Mean	Std. Deviation
DPS	50	.00	105.26	28.1888	18.85109
EPS	50	9.18	86.04	35.6600	17.09077
DY	50	.00	6.39	2.8846	1.24879
PER	50	14.42	83.94	29.7620	14.84692
LSIZE	50	4.73	5.68	5.1145	.21702
MPS	50	213.00	3600.00	1104.5800	841.30218

Source: Appendix - II

Table 7 shows that the descriptive statistics of three sampled commercial banks listed on NEPSE from 2013/14 to 2022/23. The dividend per share can vary by 18.85109 between 0.00 and 105.26, with a standard deviation of 18.85109 and a mean value of 28.1888. Additionally, it demonstrates that the EPS runs from Rs. 9.18 to Rs. 86.04 and has a mean of 35.6600 and a standard deviation of 17.09077. This shows that the EPS value may fluctuate 17.09077 on either side, and the average dividend yield, which ranged from 0.00 to 6.39 percent, is 2.8846 percent. The low standard deviation (1.24879) suggests that the commercial banks in Nepal are less volatile. The PER has a mean of 29.7620, a standard deviation of 14.84692, a range of 14.42 to 83.94, and the ability to differ by 14.84692 on both sides. The range of total assets used to define the bank's size is 4.73 to 5.68, resulting in an average of 5.1145 and a standard deviation of 0.21702. Lastly, the market prices per share have a minimum of Rs.213.00 and a maximum of Rs.3600. The market price per share is probably average at Rs.1104.5800, with a standard deviation of 841.30218.

4.1.3 Correlation Analysis

This study aimed to determine the fundamental relationship between the dependent variable, the "stock price," and the independent factors, which include dividend per share, dividend yield, EPS, price earnings ratio, and bank size. The many variables listed above were examined and noted. A correlation value of 0 signifies the absence of a linear relationship between the two variables. The correlation coefficient between two variables goes from +1, which represents a perfect positive link, to -1, which represents a perfect negative relationship. The correlation matrix is shown in Table 8 as follows.

Table 8

Pearson Correlation Coefficients of Study Variables

	DPS	EPS	DY	PER	LSIZE	LMPS
DPS	1					
EPS	.657**	1				
DY	.150	-.126	1			
PER	.560**	.185	-.416**	1		
LSIZE	-.379**	-.439**	.203	-.323*	1	
LMPS	.779**	.786**	-.328*	.709**	-.536**	1

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Source: Appendix - III

Table 8 reveals the correlation test between both dependent and independent variables using correlation coefficient matrix. The correlation test shows that dividend per share (DPS) has significant positive correlation with MPS. Likewise, earnings per share (EPS) has significant positive relation with market price per share in 5 percent level of significance with correlation coefficients 0.786. However, there is significant negative correlation between dividend yield (DY) and MPS i.e. -0.328. Then, correlation between price earning ratio (PER) and MPS is significant positive correlations. Moreover, Size has significant negative relation with MPS at 5 percent level of significance.

4.1.4 Results of Regression Analysis

A broad variety of modeling and analysis techniques are used when the relationship between a dependent variable (MPS) and independent variables (dividend per share, dividend yield, EPS, price earnings ratio, and bank size) is the main emphasis.

Table 9

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.975[a]	.950	.944	.07125

a. Predictors: (Constant), LSIZE, DY, EPS, PER, DPS

Source: Appendix-IV

The R square is 0.950. The implication therefore is that, 95.00 percent of the variation in the dependent variable (MPS) is explained by the independent variables (LSIZE, DY, EPS, PER, DPS). In this study, the R statistic is 0.975, indicated that there is strong relationship between study variables. This implies that the ROA was highly influenced by its independent variables. Standard error of estimate is flawlessly associated with regression analysis.

Table 10

Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.223	5	.845	166.393	.000[b]
	Residual	.223	44	.005		
	Total	4.447	49			

a. Dependent Variable: LMPS

b. Predictors: (Constant), LSIZE, DY, EPS, PER, DPS

Source: Appendix-IV

The analysis of variance (The overall fitness of the regression model for the data is shown in Table 10. With a p-value of 0.000, less than.05, it was found that dividends significantly predict stock price.

Table 11

Regression Coefficient of Independent Variables with MPS

Variables	Coefficients	t-statistics	Sig.-value
(Constant)	2.687	8.971	.000
DPS	.001	.435	.666
EPS	.011	10.093	.000
DY	-.003	-.247	.806
PER	.011	8.141	.000
LSIZE	-.094	-1.731	.090

Source: Appendix-IV

Table 11 presents the regression coefficient of independent variables such as dividend per share, dividend yield, EPS, price earnings ratio and bank size of sample banks and the intercept value of dependent variable MPS. It shows that tolerance values were above 0.1 and VIF below 10. That's why, there is no multicollinearity in the model.

A positive correlation between MPS and dividend per share (DPS) is indicated by a coefficient estimate of 0.001. This shows that sample banks' MPS increases by 0.001

percent when DPS increases by one percent while maintaining other independent variables constant, and DPS's p value is 0.666. After testing at the five percent significance threshold and finding a higher p-value, the null hypothesis is accepted and it is shown that dividend per share positively affects the sample banks' MPS in a statistically insignificant way.

The findings of the regression model indicated a positive correlation between MPS and profits per share (EPS), with a coefficient estimate of 0.011. This means that a one-unit increase in EPS, MPS will increases by 0.011 in the banks', providing all other parameters stay the same. Additionally, at the five percent significance level, the p value of EPS 0.000 denotes statistical significant. As a result, earning per share has significant positive effect on MPS of Nepalese commercial banks.

The dividend yield (DY) and MPS have a negative association, according to the dividend yield regression result, with a coefficient estimate of -0.003. This indicates that, when other independent variables are held constant, a one percent increase in dividend yield (DY) results in a -0.003 percent decrease in the banks' MPS. The p value of DY, which is 0.806, indicates that this effect is statistically insignificant at the five percent significance level. Hence it can be concluded that dividend yield has statistically significant effect on MPS of sample banks.

Price-earnings ratio (PER) and MPS have a positive link, according to the regression result, with a coefficient estimate of 0.011. With other independent variables held constant, this indicates that a one percent increase in PER results in a 0.011 percent increase in the banks' market price per share (MPS). Furthermore, the p value of PER is 0.000, indicating that the price earning ratio has a statistically significant positive effect on market price per share at the five percent significance level.

The findings of the regression model show that there is a negative correlation between MPS and bank size (LSIZE), with a coefficient estimate of -0.094. This shows that an increase in bank size of one unit results in an MPS increase of -0.094 units for the banks when all other independent variables are held constant. At the five percent significance level, this rise is statistically insignificant, according to the bank size's p

value of 0.090. Hence, this is insignificant negative effect of bank size on MPS of commercial banks in Nepal.

4.2 Discussion

The main purpose of the study is to know the dividend distribution and stock price of commercial banks of Nepal. The correlation test shows that dividend per share (DPS) has significant positive correlation with MPS which is consistent with the findings of prior empirical studies of Bhattarai (2016); Singh and Tandon (2019). Likewise, earnings per share (EPS) has significant positive relation with market price per share in 5 percent level of significance which is consistent with the findings of prior empirical studies of Shrestha (2020); Baral and Pradhan (2018). However, there is significant negative correlation between dividend yield (DY) and MPS which supports the findings of Dhakal and Shah (2018) and significant positive relationship between PER and MPS. This is consistent with the findings of Baral and Pradhan (2018). Moreover, Size has significant negative relation with MPS which is not consistent with the findings of Bhattarai (2016).

The regression analysis shows that the dividend per share (DPS) has insignificant positive influence on the MPS of sample banks. This is consistent with the findings of Singh and Tandon (2019). In addition, this finding is similar with the findings of Bhattarai (2016) which observed that dividend has positive impact on market price of stock of the banks. The results of regression found that earnings per share (EPS) has a significant positive effect on MPS of commercial banks in Nepal. This result is consistent with the results identified by Shrestha (2020), Adesina et al. (2017), Singh and Tandon (2019) and Baral and Pradhan, 2018). At the same time, dividend yield (DY) has a negative relationship with MPS and it is statistically insignificant at 5 percent level of significance. Accordingly, the result supports the working hypothesis that dividend yield has statistically insignificant negative effect on MPS of sample banks. This result is consistent with the findings of Dhakal and Shah (2018), Adesina et al. (2017), Singh and Tandon, (2019).

According to the regression result of price earnings ratio (PER) has a positive and significant impact on MPS of sample banks. This result is in line with Baral and Pradhan (2018) conclusion. The results of regression model indicated that the

relationship between bank size (LSIZE) has a negative and insignificant impact on MPS of commercial banks in Nepal. Empirical study of Bhattarai (2016), had also found that size is an important factor affecting MPS and it had positive impact of commercial banks in Neal. This is consistent with the finding of Kimani and Olweny (2021) concluded that size had significant negative effect on market price of stock. However, this finding is not consistent with the results of the studies by Pradhan and Gautam (2017).

CHAPTER - V
SUMMARY AND CONCLUSION

5.1 Summary

Dividends on shares are a crucial indicator of bank success that attracts investors. Investors study the dividend policies of banks before investing in the stock market. They have seen that the stock prices of firms with increasing dividends usually rise, while the stock prices of companies with decreasing or nonexistent payouts usually trend downward. It thus shows that a dividend affects the stock price of the company; yet, some studies claim that the stock price is affected by information about dividend payments. In fact, that dividend is a rather transparent indication of management's outlook for the company's current state and future prospects.

The major objective of this study is to examine the dividend distribution and stock price of commercial banks in Nepal. The other specific objectives are to examine the pattern of dividend and stock price of commercial banks in Nepal, to evaluate the relationship between dividend (dividend per share, earning per share, dividend yield, price earning share and bank size) and market price of stock of commercial banks in Nepal and to analyze the impact of dividend per share, earning per share, dividend yield, price earning share and bank size on market price of stock of commercial banks in Nepal. To achieve the specific objective of the study, descriptive and causal research design has been carried out in terms of dividend distribution and stock price of commercial banks in Nepal. Descriptive research design is used for analyzing current position of dividend distribution and stock price whereas causal research design is followed to measure the impact of dividend variables on stock price of commercial banks in Nepal. There are 20 commercial banks operating in Nepal, which are assumed to be the population of the study but only five commercial banks, namely NABIL, EBL, HBL, SBI and SCB have been taken as sample on the basis of random sampling method. For this study, secondary data are taken from annual reports of related office and their websites. Data is collected from audited financial statements (balance sheet and profit and loss account) of each commercial banks included in the sample and various journals and publications of NRB etc. All data were collected on annual base covering ten year periods, i.e. from the fiscal year

2013/14 to 2022/23. The study used descriptive statistics, correlation and multiple regression analysis by using SPSS version 26.

This study found that NABIL bank has to be highest and regular on offering dividend to shareholders. So, this bank is most profitable and the bank has highest profits to distribute to its shareholders. However, this study found that the highest market price per share of SCB means this bank is showing good performance over this period than the other banks. The correlation analysis reveals that dividend per share, earning per share and price earning share have significant positive relationship with market price of stock of sample banks. However, dividend yield has negative and significant relationship with MPS and bank size have significant negative relationship with market price of stock of commercial banks in Nepal. The regression analysis found that the coefficient value of dividend per share (DPS) is 0.001. This means that holding other independent variables constant and when one percent increases in DPS, as a result it increases MPS of sample banks by 0.001 percent and the p value of DPS is 0.666. Hence, dividend per share has insignificant positive impact on stock price of the banks. The coefficient value of earnings per share (EPS) is 0.011 and the p value is 0.000 discloses that it is statistically significant at 5 percent level of significance. Hence earning per share has significant positive effect on MPS of commercial banks in Nepal. However, dividend yield (DY) has a negative relationship with MPS by a coefficient estimate of -0.003 and the p value of DY is 0.806 reveals that it is statistically insignificant at 5 percent level of significance. Hence it can be concluded that dividend yield has statistically significant effect on MPS of sample banks. The coefficient value of price earnings ratio (PER) is 0.011 and p value is 0.000 reveal that price earning ratio has statistically significant positive effect on market price per share at 5 percent level of significance. Moreover, the coefficient value is -0.094 for bank size (LSIZE) and the p value of bank size is 0.090 discloses bank size has statistically insignificant negative impact on MPS at 5 percent level of significance.

5.2 Conclusion

This study concluded that all the sample banks seem to be highest and regular on offering dividend to shareholders but it has fluctuating trend. Having a growing dividend per share can be a sign that the company's management believes that the growth can be sustained. The EPS is same thing. It indicates that Nepalese

commercial bank is most profitable and the bank has highest profits to distribute to its shareholders. However, there is highest dividend yield of banks have the highest amount of cash dividends distributed to common shareholders relative to the market value per share. As per PER, The high PER of banks means a positive future performance of the sample banks, and investors have higher expectation for future earnings growth and are willing to pay more for them. Then, the bank size of commercial banks is increasing trend. This study also concluded that there is high market price per share in previous year but there is low stock price in last couple of years showing that not good performance in last couple of years.

The correlation analysis shows that dividend per share, earning per share and price earning share have significant positive relationship with market price of stock of sample banks. However, dividend yield has negative and significant relationship with MPS and bank size has also significant negative relationship with market price of stock of commercial banks in Nepal.

The multiple regression analysis concluded that dividend per share has insignificant positive impact on stock price of the banks. At the same time, earning per share and price earning per share had significant positive impact on stock price. However, dividend yield had insignificant negative impact on stock price. In addition, bank size has insignificant negative impact on MPS of commercial banks in Nepal. Hence, earning per share and price earing share are the major factors of stock price of the banks.

5.3 Implications

The implications that follow are based on the summary and conclusion mentioned above;

- This study found that earning per share and price earnings ratio has significant positive impact on stock price of banks. In this regard, it is expected that the study's conclusions would provide additional information on the impact of dividend distribution on stakeholders and the stock prices of Nepal's commercial banks. In conclusion, managers acting as internal users as well as regulatory bodies and other external users would both benefit immensely from

this information when making decisions on the impact of dividends on bank stock prices.

- The stock market price of Nepalese commercial banks is negatively impacted by dividend yield, according to this study. It demonstrates that a lower stock price would correspond with a higher dividend yield. Therefore, in order to raise the stock market price and the firm's value, management of the company should attempt to boost the stock dividend rather than the cash dividend.
- The size of the bank has little bearing on stock price, according to this study as well. The study's conclusion implies that, in the setting of an imperfect stock market like Nepal, a rational investor should take into account signaling, asymmetric information, business size, profitability, and money supply before making an investment decision.
- Taking everything into account, the dividend distribution has minimal impact on the price of Nepalese commercial banks' stock. Based on the findings, bankers should focus on modifying the dividend distribution rate to influence changes in the earnings of the related year. However, the dividend distribution revisions would not help in the upcoming years. Therefore, in order to positively influence their future profitability, commercial banks need to focus on other aspects in addition to dividend policy.
- The results of the research are helpful to investors and upcoming scholars. Future researchers will find this publication to be a useful resource.