# A STUDY ON DIVIDEND POLICY AND ITS IMPACT ON MARKET PRICE OF STOCK



Submitted By:

#### **SABIN CHHETRI**

Shanker Dev Campus Campus Roll No.: 368/059 TU Reg. No.: 5-1-033-0190-96

#### **A THESIS**

Submitted To:

Office of the Dean Faculty of Management Tribhuvan University

In partial fulfillment of the requirement for the Degree of MASTERS OF BUSINESS STUDIES (M.B.S.)

Kathmandu, Nepal 2010

### RECOMMENDATION

This is to certify that the thesis Submitted by:

#### **SABIN CHHETRI**

Campus Roll No.: 368/059 TU Reg. No.: 5-1-033-0190-96

#### Entitled

# A STUDY ON DIVIDEND POLICY AND ITS IMPACT ON MARKET PRICE OF STOCK

has been prepared as approved by this department in the prescribed format of the Faculty of Management, Tribhuvan University. This thesis is forwarded for examination.

Thesis Supervisor	
Mr. Pritiraj Adhikari	Campus Chief
(Lecturer)	(Campus Chief)
Mrs. Snehalata Kafle	
(Associate Professor)	
Date:	

### ACKNOWLEDGEMENT

This thesis is the partial fulfillment of requirements for Masters Degree of Business Studies (MBS) and I have gained a lot of knowledge while preparing it. This thesis is of course the result of mine self endeavor and hard working but this would not have been completed with our helpful hand of intellectuals.

I am highly grateful and indebted to my honorable supervisor **Mr. Pritiraj Adhikari**, Lecturer and **Mrs. Snehalata Kafle**, Associate Professor, Shanker Dev Campus for their guidance, encouragement and possible help in the smooth conduct of this study. Thanks are also due to Tribhuvan University for providing opportunity to conduct this research and the staff of NIC Bank Limited, Machhapuchhre Bank Limited and Kumari Bank Limited for providing necessary data and information without which the completion of this research could be impossible.

I would like to express my profound gratitude towards all the teachers of the management. I am thankful to staffs of department library and Management .

I would like to thank my family for their generous support. I would like to thank my friend Binju Sitaula and Dinesh Karki, who helped me collecting the data.

Last, but not the list I would like to express my gratitude to my friend Mahesh Dumaru, who helped me from beginning to end while preparing this thesis.

Sabin Chhetri

Campus Roll No.: 368/059 TU Registration No.: 5-1-033-0190-96

## TABLE OF CONTENTS

Reco	ommendation	
Viva	a-Voce Sheet	
Decl	laration	
Ackı	nowledgement	
List	of Tables	
List	of Figures	
List	of Abbreviations	
Tabl	le of Contents	
CHA	APTER ONE	Page No.
	Introduction	1-8
1.1	Background of the study	1
1.2	Focus of the study	3
1.3	The Statement of Problem	3
1.4	Objectives of the study	5
1.5	Importance & Significance of the study	5
1.6	Limitation of the study	6
1.7	Organization of the study	7
CHA	APTER TWO	
	<b>Review of Literature</b>	9-50
2.1	Conceptual Framework	9
	2.1.1 Introduction to dividend	9
	2.1.2 Dividend Payment Process	10

	2.1.3	Forms of payment	11
	2.1.4	Theories of dividend	14
	2.1.5	Overview: Dividend Policy	16
	2.1.6	Dividend-Reinvestment Plans	19
	2.1.7	Factors influencing Dividend Policy	20
	2.1.8	Conflicting theories of Dividend Policy	24
	2.1.9	Role of Expected Dividend on Stock Value	24
	2.1.10	Review of Company Act	26
2.2	Empiri	cal Review	28
	2.2.1	Review of Major Studies	28
	2.2.2	Review of Major Studies on Nepalese Context	40
2.3	Review	of Master's Degree Thesis	43
2.4	Researc	ch Gap	49
CHA	PTER T	HREE	
	Research Methodology		51-60
	Introdu	uction	51
3.1	Resear	rch Design	51
3.2	Source	es of Data	52
3.3	Population and Sample		53
3.4	Data Collection Procedure		54
3.5	Data A	analysis Tools	54
	3.5.1	Financial Tools	55
	3.5.2	Statistical Tools	57

#### **CHAPTER FOUR**

	Presen	tation & Analysis of Data	60-102
	Introdu	ction	61
	Present	ation of Data	61
4.1	Analysi	is of financial indicators	62
	4.1.1	DPS of Selected Banks	62
	4.1.2	SDPS of Selected Banks	64
	4.1.3	EPS of Selected Banks	67
	4.1.4	MPS of Selected Banks	69
	4.1.5	DPR of Selected Banks	72
	4.1.6	P/E Ratio of Selected Banks	75
	4.1.7	D/Y Ratio of Selected Banks	78
	4.1.8	E/Y Ratio of Selected Banks	80
	4.1.9	NWPS of Selected Banks	83
	4.1.10	MV/BV of Selected Banks	86
4.2	Simple	Correlation and Regression Analysis	88
	4.2.1.1	Correlation between DPS and MPS	88
	4.2.1.2	Regression Analysis between DPS and MPS	89
	4.2.2.1	Correlation between EPS and MPS	91
	4.2.2.2	Regression Analysis between EPS and MPS	92
	4.2.3.1	Correlation between EPS and DPS	93
	4.2.3.2	Regression Analysis between EPS and DPS	94
4.3	Test of l	Hypothesis	96
	4.3.1	Test of DPS among the Sample Banks	96
	4.3.2	Test of EPS among the Sample Banks	97
	4.3.3	Test of DPR among the Sample Banks	99
4.4	Major F	indings	100

#### **CHAPTER FIVE**

	Summary, Conclusions & Recommendations	103-106
5.1	Summary	103
5.2	Conclusions	104
5.3	Recommendations	105

### Bibliography

### Appendices

# LIST OF TABLES

Table No.	Details	Page No.
4.1.1	Analysis of Dividend Per Share	62
4.1.2	Analysis of Stock Dividend Per Share	65
4.1.3	Analysis of Earning Per Share	67
4.1.4	Analysis of Market Price of Share	70
4.1.5	Analysis of Dividend Payout Ratio	72
4.1.6	Analysis of Price Earning Ratio	75
4.1.7	Analysis of Dividend Yield Ratio	78
4.1.8	Analysis of Earning Yield Ratio	81
4.1.9	Analysis of NWPS	84
4.1.10	Analysis of MV/BV Ratio	86
4.2.1.1	Correlation Analysis between DPS & MPS	89
4.2.1.2	Regression Analysis between DPS & MPS	90
4.2.2.1	Correlation Analysis between EPS & MPS	91
4.2.2.2	Regression Analysis between EPS & MPS	92
4.2.3.1	Correlation Analysis between EPS & DPS	93
4.2.3.2	Regression Analysis between EPS & DPS	94
4.3.1	Test of Hypothesis - DPS	96
4.3.1.1	One-Way ANOVA Table for DPS	97
4.3.2	Test of Hypothesis - EPS	98
4.3.2.1	One-Way ANOVA Table for EPS	98
4.3.3	Test of Hypothesis - DPR	99
4.3.3.1	One-Way ANOVA Table for DPR	100

## **LIST OF FIGURES**

Figure No.	Details	Page No.
4.1.1	Analysis of Dividend Per Share	64
4.1.2	Analysis of Stock Dividend Per Share	66
4.1.3	Analysis of Earning Per Share	69
4.1.4	Analysis of Market Price of Share	71
4.1.5	Analysis of Dividend Payout Ratio	74
4.1.6	Analysis of Price Earning Ratio	77
4.1.7	Analysis of Dividend Yield Ratio	80
4.1.8	Analysis of Earning Yield Ratio	83
4.1.9	Analysis of NWPS	85
4.1.10	Analysis of MV/BV Ratio	88

### LIST OF ABBREVIATIONS

ANOVA - Analysis Of Variance

CV - Coefficient of Variation

DPR - Dividend Payout Ratio

D/P Ratio - Dividend Payout Ratio

DPS - Dividend Per Share

DY - Dividend Yield

EPS - Earning Per Share

EYR - Earning Yield Ratio

FY - Fiscal Year

KBL - Kumari Bank Limited

MBL - Machhapuchhre Bank Limited

MPS - Market Price per Share

NEPSE - Nepal Stock Exchange

NIC - Nepal Industrial & Credit Bank Limited

NRB - Nepal Rastra Bank

NWPS - Net Worth Per Share

PE - Probable Error

P/E - Price Earning Ratio

SD - Standard Deviation

SDPS - Stock Dividend Per Share

SE - Standard Error

SEE - Standard Error of Estimate

SEBO - Securities Board Of Nepal