BONUS SHARE PRACTICES
IN
NEPALESE CORPORATE FIRMS

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A Thesis

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the Requirements for the

Master Degree In Business Studies (M.B.S.)

Birgunj, Parsa, Nepal

May, 2009

RECOMMENDATION

This is to certify that the thesis

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BONUS SHARE PRACTICES
IN
NEPALESE CORPORATE FIRMS

Has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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DECLARATION

I hereby, declare that the work reported in this thesis entitled "Bonus Share Practices in Nepalese Corporate Firms ", submitted to the office of the Dean, Faculty of the Management, Tribhuvan University, is my original work, which is prepared as the partial fulfillment of the requirements for the degree of Master of Business studies (MBS) under the supervision of Mr.Sanjaya Shrestha, Lecturer, Thakur Ram Multiple Campus, Birgunj.

……………………….

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Researcher

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ACKNOWLEDGEMENT

In completion of his thesis, I got incisive and constancy guidance of many people. Many personal have kindly lent their helping hands in one way or other. It is my most sacred duty to acknowledge their kind help with my pride and delight. I express my gratitude to all those who have helped directly and indirectly in preparing my dissertation .Mostly I would like to express my warm appreciation to my respected Supervisor Mr. Sanjaya Shrestha, Lecturer, Thakur Ram Multiple Campus, Birgunj for his scholarly and constructive guidance , remarkable suggestion and continuous supervision . His continual inspiration and encouragement help me bringing out this dissertation.

I am also indebted to Mr Rajeshwor Shrestha for his valuable suggestion,guidelines and inspiration to complete this work.I am also grateful to express my sincere indebtedness to my all respected teachers and staff members of the Thakur Ram Multiple Campus.

I also express my sincere thanks to Mr Sagar Kumar Ghimire CEO Triveni Bikas Bank Ltd ,Mr Manohar Raj Uprety Branch Manager Laxmi Bank Ltd for their help and bold support in my effort .I would like to express my hearty thanks to my beloved wife Mrs Rinkey Pandey (Bhattarai) for her continuous support and encouragement for the completion of this thesis .

Last but not least,I am also thankful to Mr ……………….and Mr……………………….of …………………………………for supporting me in designing this into print and who have directly or indirectly helped in the exploration of the subject .

Needless to say,I am alone responsible for my deficiencies that may have remained in this work.

May, 2009

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ABBREVIATION

A.D.	=	After the Death of Christ
AGM	=	Annual General Meeting.
B.S.	=	Bikram Sambat.
BOD	=	Board of Director.
Co. Ltd	=	Company limited.
d.f.	=	Degree of Freedom.
D/P Ratio	=	Dividend Payment Ratio
DPS/DIV	=	Dividend per Share.
etc.	=	etcetera.
F/Y	=	Fiscal Year.
i.e.	=	That is.
MBS	=	Master in Business Studies.
MP	=	Market price
MPPS	=	Market price per share
NEPSE	=	Nepal Stock Exchange
NG	=	Nepal Government
NIC Bank	=	Nepal Industrial & Commercial Bank
No.	=	Number.
NRB	=	Nepal Rastra Bank.
NYSE	=	New York Stock Exchange.
Rs	=	Rupees.
S.N.	=	Serial Number
SEA	=	Securities Exchange Act.
SEBON	=	Securities Board of Nepal.
SEC	=	Securities Exchange Centre.
SMC	=	Security Market Centre.
T.U.	=	Tribhuvan University.
Viz	=	Namely.
Vs	=	Versus.
xb	=	ex- bonus ratio.
¡^{2}	=	chi- square.

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CHAPTER : I

INTRODUCTION

1.1 Background of the study

Every country wants to be a well-developed one. For the development, industrialization is the prime pillar, moreover, for the entire, development every sector should be strong. Among them capital market is one of the important part. A healthy capital market is a crucial element in the development of national economy. It develops economy by mobilizing long-term capital needed for productive sector. Development and expansion of capital market is essential for rapid economic growth of country.

Nepal is underdeveloped country with very low per capita income and very low corporate growth rate. The traditional concept of business and commerce is deep rooted in the consciousness of people and most people are unaware of modern form of commerce. The Nepalese capital market is in early stage of development. There are various things to be improved. The history of security market began with the flotation of share of Biratnagar Jute Mills Ltd. and government initiated Nepal Bank Ltd. in 1937 (Vaidya, 1999:67). Nepalese capital market was initiated by government. Later on, at the 7th national plan, the Nepalese capital market was established as" Security market Centre (SEC)" in 1976 for the creation and development of government securities. In 1984, the security market centre was renamed as "Security Exchange Center (SEC)." Again in 1993, under a program initiated to reform capital markets, converted Security Exchange Center into "Nepal Stock Exchange (NEPSE)." It is a non-profit organization and operating under Security Exchange Act 1983. It is only a secondary market of Nepalese corporate securities, which has opened its trading floor on 13th January 1994.

The basic objective of NEPSE is to impact free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries such as broker, market makers and securities dealers registered by Securities Board, Nepal (SEBON) .They have to get membership form the stock exchange for conducting securities business. SEBON established on 26 may 1993 under the provision of the Securities Exchange Act (SEA) 1983 and entrusted with the role of regulating primary market and monitoring the stock exchange. But the second amendment in the act has widened the horizon of SEBON by bringing the market intermediaries under its jurisdiction. The amendment made it mandatory for the market intermediaries to be registered with SEBON before doing securities business and to submit their financial and trading activities to SEBON. The amendment also made it mandatory for the listed companies to submit their annual report and semiannual progress report to SEBON.

In a capital market every corporate firm operate to generate profit. It can be retain or distributed to shareholders. The distributed profit to shareholder is known as dividend and the policy about the distribution of dividend is known as dividend policy.

Dividend is also interpreted as leftover earnings paid to the stockholders after financing all acceptable investment opportunities (Van Horne, 1981:448). Dividends refer to the signal of the sustainable income of the corporate firm (Watts, 1973:91). Dividends convey the management's expectation of future profitability and prosperity to the shareholders (Archer and D'Ambrosio, 1976:410). It is a tangible evidence of the firm's ability to generate liquidity (Martin, Pretty, Keown and Scott, 1979:484). Dividend can be distributed only from net profits and retained earnings. Dividend should meet the normal expectations of average shareholders.

In world's context, the present scenario of the capital market is dependent in capital appreciation base. But for capital improvement some sorts of dividend policy are practiced by a firm is vital.

Mainly the dividend policy is determined by the objective and financial situation of the firm. In Nepalese context, only two types of dividend are practiced i.e. cash and stock dividend (Bonus share). In general most of Nepalese corporate firm prefer to cash dividend. But now a days, the pattern of stock dividend is also increasing. Different kinds of provision and legal requirement of corporate management increasingly follow the practice of issuing bonus share.

1.2. Introduction of Bonus share

Bonus share is a form of dividend among cash dividend, bond dividend, scrip dividend, property dividend etc. In bonus dividend, company distributes shares as dividend to the existing shareholders either from past retained earnings or from net profit earned in the respective year.

Simply, a bonus share (known as stock dividend in USA) is payment of additional shares of stock instead of cash from retained earning or net profit. It is also understood synonymous to the stock dividends.

A stock divided simply the payment of additional stock to stockholders. It represent nothings move than a recapitalization of the company; a shareholder's proportional ownership remains unchanged (Van Horne, 2004:324). A bonus share "Divide the pie into smaller slices" without affecting the fundamental position of current stockholder (Brigham and Gapenski, 1999:680). A dividend payment made in the form of additional shares, rather than a cash payout(www.investopedia.com). Payment of corporate dividend in the form of stock rather than cash (www.thefinancialreference.com).

Theoretically, stock dividend is not a thing of value to investors. Because they receive additional stock certificates, but their proportional ownership of the company is unchanged (Van Horne, 2004:326). Bonus share issue increases the outstanding numbers of shares but does not change the shareholders proportional ownership pattern. Bones issue increases the paid-up capital and reduce the reserve and surplus (retained earnings) of the corporate firm. The total net worth is not affected by the bonus issue; only the balance of the paid-up share capital is readjusted. It is merely an accounting transfer from reserve and surplus to paid-up capital (Pandey, 1996:377). After bonus share issue, the market price of the stock should decline proportionately. So that the total value of their holdings stays the same. To illustrate with a example of stock dividend, suppose we have 10 shares of stock whose market price per share is Rs. 600, leading to the wealth for Rs.

6,000. After a 10 percent stock dividend, share price would be Rs. 545.54 (i.e. 6000/11 shares).The total value of our holdings would remain the same (545.458.11=6000).
In legal context of Nepal, the companies ordinance, 2005, chapter 1, section 2, clause q defines "Bonus share means a share issued as an additional shares to the shareholders by capitalizing saving earned form profit or reserve fund and also includes a circumstance where paid up value of the shares is increased by capitalizing the said surplus and reserve fund." Chapter 4, Section 56 sub-section 10 of ordinance further states that "The Company shall not increase its share capital or issue bonus share against revaluation of its assets except with the profit or reserve fund created out of the profit." Section 83 Clause (e) states the "Matter relating to issue of bonus share" should presented in the form of special resolution for decision in the general meeting of a company.

In Nepal, the commonly used dividend payment methods are cash dividends and stock dividends. In cash dividend direct cash or rupees is provided to the shareholders as a return to their share in the corporate firm. But in stock dividend number of stock is increased but the shareholders wealth remain the same. Some companies provide cash dividends and stock dividend together. Since bonus shares are dividends, these are studied under the dividend policy of a corporate firm. In Nepalese context, the term bonus share is most commonly used than the stock dividend, bonus share will be used afterward.

1.3. Statement of the problem

Nepalese corporate firms are increasingly followed the issuing of bonus share though it is recent phenomena practiced after the incorporation of joint venture banks in Nepalese management after Government's announcement of economic liberalization policy in mid 80s. There is no any such systematic mechanism to issue them (Shrestha and Manandhar, 1998:61). Such practice ignores the impact of bonus share on earning per shares (EPS), dividend per share (DUPES) and market price per share (MPPS) .It may finally affect the small shareholders and the value maximizations objective seems never to be achieved.

Whatever the theories say, it is not totally applicable in Nepalese context. Due to the dominance of non-financial factors, the stock price in market does not match to the intrinsic value. In efficient market, stock price used to be equal to the intrinsic value since the buyer and seller are fully informed about the financial factors. But in the case of Nepalese capital market, most of the investors do not know to interpret the information and therefore they cannot come to a rational decision regarding transaction of the share. Thus, the stock price in Nepal is determined by other factor rather than the financial performance of the concerned company. General investors are supplied wrong information may also lead them to wrong decision.

Many companies are distributing Bonus share to raise their capital in Nepalese capital market. Some companies are paying high rate of dividend where as other at low rate. In this situation what is the exact practice of the bonus share in Nepalese capital market?

Moreover, in Nepalese context, investors think that they receive extra share of same value as existing share value. Suppose after declaration of 1:1(100%) bonus share an existing shareholder having one shares of Rs. 600 will get another share of Rs. 600 and his wealth will increase to Rs. 1200 (i.e. Rs. 600+ Rs. 600). But in reality the market price of share should decrease by half of the before announcement price. So market price of share should Rs. 300 (i.e. Rs. 600/1+1 share). Thus the behaviour of Nepalese investors is quite optimistic towards bonus share (stock dividend), whatever the cause behind the stock dividend. That is why, where does these type of behaviour of the investor lead the capital market of Nepal?

This research seeks to analyze following question:

- Does practice of bonus share in Nepalese corporate firms are satisfactory or not?
- What is the relation between share price raise and bonus ratio?
- Is there any correlation between bonus ratio and share price increment?
- Does bonus share issue affect the stock price or not?
- Is quantum of dividend increase directly related to ratio of bonus issue?
- Are there any impacts of dividend quantum on stock price?
- Are there any policies to adopt bonus share announcement?

1.4. Objectives of the study

The main objectives of the study are to analyze the bonus share issue practice in Nepalese corporate firm.

The specific objectives are as follows:

- To examine and study the present practice of issue of bonus share in Nepalese corporate firm.
- To analyze the impact of bonus share issue on market price of common stock.
- To assess the managerial aspect about bonus share.
- To assess the shareholder's aspect about bonus share and their dividend behavior.
- To provide suggestions to the concern bodies.

1.5. Importance of the study

Corporate firms are those organizations that are established by a person or group for the purpose of business transaction and profitability motive. It is consider as a separate from its member; it is capable of expressing purpose and ideal of its own of owning property of contracting debts of suing and being sued. In today's rapidly growing economy, corporate firms are being the most popular forms of business enterprises.

In Nepalese context, most of shareholders do not know about exact effect of issue of bonus share. Only the perception of investor is 'higher the dividends better the company.' It means if investor gets attractive dividend per share (DPS), they does not think about earnings.

During the investment, shareholders can be benefited by two ways i.e. by means of dividend and by capital gain (increase in share price). But, due to the lack of knowledge, most of investors are haphazardly investing in shares, which shows that there is extreme necessity to establish clear conceptions about the return that yield from investing in securities. Despite investor's high exceptions, there are almost none of research conducted so far to improve this situation either. However, shareholder's democracy in terms of protections of their interest is maximization of share value of shares they hold (Shrestha, n:d).

The bonus share announcement is an important decision of a corporate firm for different point of view. Although it is a significant subject for the all concerned people of the capital market, there are very limited studies have been conducted. This can be said that this study is novel for the Nepalese capital market. It is hoped that the study will contribute some output on the field of nascent capital market, especially to the general investors and policy markers. The Nepalese corporate firms, intend to announce bonus share, also will be benefited. As the bonus share announcement affects earning per share, dividend per share and finally market price of share, it is very significant decision of financial management. The prevailing misconception about bonus share, if any, will be also tried to waive out. It is also benefited that the study will provide some valuable inputs for the further research scholars for this area.

1.6. Limitations of the study

Generally, every study has certain limitation. The main limitation of this study is that it is not able to cover all corporate firms of Nepal. The study only concentrated on listed companies in Nepal stock Exchange (NEPSE). I have tried my best to make the study more realistic though unavailability of data and resources is also another problem.

The limitations of the study are:

- This study is based on the period from 1992/93 to 2005/06.
- This study assumes that the related published documents and other related journals and articles are realistic.
- This study is only concentrated on bonus share issues of Nepalese listed companies.
- Share price of 7 point of time before and after ex-dividend date were taken to study.
- Shareholder and managers survey is limited with in aggressive members rather than passive.
- The study has been based specially on secondary data like annual reports of the corporate firms; journals, published as well as unpublished thesis work, other

published articles and reports and related materials from various websites; therefore, there might be reporting error.

1.7. Organization of the study

The over all study has been classified into three main categories named introductory framework, Analytical framework and suggestive framework. The introductory framework consist of three chapter Viz. 'Introduction',' Review of literature' and 'Research Methodology'. In the second part, data will be analyzed and presented the fact named 'Data presentation and Analysis' while third part is 'Summary, Conclusion and Recommendation'. The titles of each chapter are as follows:

Chapter I: Introduction

First chapter 'Introduction' consists of Background of the study, Introduction of bonus share, statement of problem, objective of the study, Importance of the study, limitation of the study and organization of the study itself.

Chapter II: Review of literature

Second chapter is 'Review of literature' which consist of conceptual framework (Reasons for issue of bonus share, legal and procedure aspect, condition for issue of bonus shares, criteria for issue of bonus share, accounting aspect, dividend policy, forms of dividend, factor affecting dividend decision, stock split, reverse split, right share issue, cash dividend, equity share issue, share repurchase, NRB directives and shock dividend) and Review of Major studies (review of international and national journal and articles, review of dissertations).

Chapter III: Research Methodology

This chapter consists of introduction of research methodology, research design, and source of data, population and sample and methods and tools of data analysis.

Chapter IV: Data Presentation and Analysis

Primary and secondary data were analyzed in this chapter. Mainly, present practices of issue of bonus share (trend analysis, periodic trend, Regular Bonus issuing company and consistency, average ratio of bonus issue to equity capital, sector wise distribution, ratios, regularity and frequency of Bonus issue, size of corporate firms and amount of bonus issues), impact of bonus issue, assessment of shareholders and managerial aspect and major findings.

Chapter V: Summary, Conclusion and Recommendation

It is the last chapter of the study, which consists of summary, conclusion and recommendation.

Bibliography and appendixes were also included at the end of this research study.

CHAPTER II

REVIEW OF LITERATURE

This chapter consists of review of related literature relevant to the practices of bonus share in Nepalese corporate firms. Mainly it covers review of different sources of literature such as books, journals, research paper and other studies related to the dividend policy. It has been expected that the review will help to make the research more effective and useful. The chapter has been divided mainly into two parts as conceptual framework and review of major studies.

2.1. Conceptual Framework

The issue of bonus share is a part of dividned policy. If any company generates profit or have, enough amount in reserve and surplus it should distribute those amount to its shareholders. The company either distributes cash dividend or bonus share to the shareholders. Bonus share announcement is a crucial decision, as it will have great impact on future dividend and market price of share as well.

Bonus share issue is nothing more than recapitalization of reserve and surplus with distribution of additional number of shares. The shareholder gets additional share certificates only but their wealth remains unchanged. That is why the shareholders proportionate ownership also remains constant. It may serve to keep the market price per share in a popular trading range. In practice, it is observed that immediately after the announcement of bonus issue, the market price of company's share change depending on the investor's exaction. In theory, bonus share is purely cosmetic (van Horne, 2004:326).

Shareholder's viewpoint:

Receiving bonus share has no extra value to shareholder. The market price of the stock should decline proportionately, so that the total values of their holdings remain same.

Only they receive additional no. of shares but the proportionate ownership remains unchanged.

If an investor wishes to sell a few shares of stock for income, bonus share may make it easier. Without bonus share, of course, shareholders could also sell a few shares of their original holdings far income. In either case, the sale of stock represents the sale of principal and is subject to the capital gain tax. It is probable that the certain investors do not look at the sale of additional stock resulting from a bonus share as a sale of principal. To them, the bonus share represents a windfall gain. They can sell the additional shares and retain their original holdings (Kuchhal, 1993:398-99).

Company's Viewpoint:

Bonus share is one of the attractive things to give to the shareholder without cash drain. If the company is growing rapidly then the management needs to develop financing alternatives to the investment. For that purpose, internal financing is the one of the easier and cheapest source through issue of bonus share. As long as the stockholder recognize that the firm is reinvesting it's earnings in a manner that should tend to maximize future earnings, the market value of the firm should at least remain unchanged. If the bonus share is paid so that cash can be retained to satisfy past-due bills, a decline in market value may result (Gitman, 19688: 627). In case of cost, bonus share issue is more costly than cash dividend but the advantages of bonus share offset those costs.

Advantages of Bonus issue:

The advantages of bonus share issue are as follows:

- **Tax advantage to the shareholders:**

  In case of bonus share received by investors, they can have tax enjoyment than that in cash dividend. It is because the cash dividend has added to his/her original income and that is taxed at ordinary income tax rate but stock dividend is tax- free.

- **To Conserve Cash:**

  Issuing of bonus share does not involve the payment of cash like in cash dividend. The bonus share allows the firm to declare a dividend without using up cash which may be needed for operations or expansion. Rather than seek additional external financing the firm can retain its fund that would otherwise be distributed to shareholders. This process is known as capitalization of profit.

- **Higher future profit:**

  Bonus share normally indicates the probability of higher future profit in the investors' point of view. Company issues, the bonus share when it is expected the rise in earnings to offset the additional outstanding shares and this practice build up the belief of investors that bonus share will/may give the higher profit in future.

- **Cash Conversion:**

  Bonus share have dual satisfaction between investors' as well as company. These shares are issued in place of cash dividend that means company can retain money for most probable investment opportunities. Similarly, it satisfies the shareholders, as they will have increased numbers of shares. Increased numbers of shares will produce both capital gain and accumulated dividend.

- **Attractive Share price:**

  Bonus share reduces the price of share and it is attractive when share price are not very high. High price attracts only the big investors therefore trading activities may not incur voluminously. But the issue of bonus share reduces the price and it will attract even the small investors.

- **Possibility of future dividend increase:**

  Bonus share accumulate the dividend for investor, if the company has the fixed dividend policy. Similarly, the increase in dividend may have significant impact on market price of share (hoped increase).

- **Financial difficulty and contractual restriction:**

  Bonus share became only means to company when they have to replace the cash dividend even though company's intention is not to retain earnings. It exist while company facing the crisis. Moreover, bonus issue is declared when the restriction to pay cash dividend are put under loan agreement.

- **Psychological value:**

  Bonus share issue may have favorable psychological effect because it increases the total share volume of shareholders. It makes them fell the real owner of the company. The shareholder can also sell a few shares of stock for income from additional shares and still retain their original holdings. These facility forces investors to accept bonus share positively and it could also be able to create the environment of market price of shares rise.

- **Increase the number of outstanding shares:**

  Bonus share issue obviously increases the number of outstanding shares, which again promotes the active trading in the stock market. Small investors may be unable to trade the minimum unit if this requires a large amount of money. A reduction in share price and holding additional numbers of shares enable them to trade and to diversity in their portfolios.

- **To fulfill the legal requirement:**

  Bonus share issue sometimes fulfills the legal requirement imposed by the authority. In the context of Nepalese Bank, Nepal Rastra Bank imposed legal requirement for increasing the equity base at certain standard level therefore the bonus share issue enthusiastically increased from 1992/93 by corporate firms listed in Nepal stock Exchange. To fulfill legal requirement, Nepalese corporate firms practiced of raising the additional capital from internal source because of the low cost of funds, to save the floatation cost and to avoid the difficulties in raising external equity.

- **To avoid external inconvenient:**

  Investment financed from external sources is subject to screening by outside agencies as to its related profitability but investment financed from internally generated funds is subject to no such check.

Limitations of Bonus Share:

Advantages of bonus share indicates the company's growth to shareholder. Therefore, they welcome bonus shares. But it has also some limitations. Without proper profit planning, issue of bonus share might invite over-capitalization. Some limitations are given below:

- Declaration of bonus share is a method of capitalizing the past earnings of the shareholders that they already own. Thus, it merely divides the ownership of the company into large number of share certificates.
- Issue of bonus shares leads to an increase in the capitalization of the corporation. It can be justified only if there is a proportionate increase in the earnings capacity of the company. Otherwise shareholders fail to realize that the bonus share do not affect their wealth.
- Some shareholder prefers cash dividend instead of bonus shares. Such shareholders may be disappointed.
- Issue of bonus share lowers the market value of existing shares and reduction in earnings per share too. They may possess negative impact of particular shares on capital market.
- From the company's point of view, the disadvantage is that they are more costly to administer then cash dividend (Van Horne, 2004: 2).
- Issue of bonus share results in more liability on the company in respect of future dividend. The bonus share issue can be disadvantageous if the company declares periodic small bonus shares.
- It deprives new investors from becoming the shareholder of the company. The control over the management of the company is not diluted and the present management may misuse its position.
- Frequently announcement of bonus share may distort the price earning to the downward.
- Shares are issued without any actual money coming in.

2.1.1. Reasons for Issue of Bonus Share:

Shareholders look forward to issue of bonus shares though it is more or less a financial gimmick without any real impact on the welfare to them. Why? Some of the reasons are (Chandra, 1994:675):

- The bonus issue tends to bring the market price per share within a more popular range.
- It increases the number of outstanding shares. This promotes more active trading.
- The share capital base increases and the corporate firm may achieve a more respectable size in the eyes of the investing community.
- Stockholders regard a bonus issue as good signals of firm's prospect and increased future dividend.
- It improves the prospects of rising the additional fund may require in future because of increase equity capital base.
- The nominal rate of dividend tends to decline. This may dispel the impression of profiteering.

2.1.2. Legal and procedural Aspect:

Legal Aspect:

Bonus share can be legally issued to the existing shareholder is governed by "Company Ordinance 2005 (2062 B.S.)" and in case of commercial banks and financial institution by the "Bank and Financial Institution Ordinance, 2004" and subsequent amendments there on in additions.

Company Ordinance, 2005:

Company ordinance 2005 is came with promulgation of ordinance in absence of House of Representative to establish and operate, make easy, simple and transparent on administration for the company. This ordinance substitute the previous company Act 1997 (2053 B.S.).

Section 20 deals with Article of Association, whose sub-section 2, clause (0) states that the provision dealing with alteration of share capital shall be specified in the articles of association. As per section 56, company's authority to alter its share capital. In the same section 56, sub-section (10) states the company shall not increase it share capital or issue bonus share against revaluation of its assets except with the profit or reserve fund created out of the profit.

As per section 83, clause (e), matter relating to issue of bonus share, shall be presented in the form of special resolution for decision in the general meeting of a company.

Bank and Financial Institution Ordinance, 2004

The government has replaced 'Commercial Bank Act 1974' by the Bank and Financial Institution ordinance, 2004, to provide economic welfare and facilities to the concern sector. The purpose behind the ordinance is to make easy to provide credit facilities on agriculture, industry and commerce.

Bank and Financial Institutions ordinance, 2004 chapter -5, section 40, and sub-section 1, states that "The minimum authorized capital, issued capital and paid-up capital of the licensed institution shall be as prescribed by the Rastra Bank from time to time". And sub-section 2, of the same section further states "Every licensed institution existing at the time of commencement of this ordinance must build up the capital structure mentioned in sub-sections (1) within five years from the date of commencement of this ordinance. With regards this, promulgation of this ordinance, NRB made necessary changes relating to paid up capital of new established commercial bank and existing bank effective from 15 may 2002. According to this provision, minimum paid up capital of Rs. 1 billion was required to establish a commercial bank in national level and the existing commercial banks or the bank having already license to operate will have to increase their capital according to the new provision by FY 2008/09. Considering this provision the sub-section 3, of same section 40, states that "Any licensed institution which fails to build up the capital structure mentioned in sub-section (1) with in the time-limit mentioned in sub-section (2) may not declare or distribute dividends or issue bonus shares until it does so."

Section 44 is about General Reserve Fund, and sub-section 1 is "Every licensed institution must maintain a general reserve fund. At least 20 percent of the annual net profit must be credited to the fund every year until the amount of such fund reaches an amount double the paid-up capital." The sub-section (2) of the same section is about the amount credited to the reserve fund of a licensed institution under sub-section (1) may not be invested or transferred to any other head without the prior approval of the Rastra Bank.

Restriction on distribution of dividend is mention at section 46, whose sub-section 1 states "No licensed institution shall be entitled to declare or distribute dividends to its shareholders until it has recovers all its preliminary expenses and the losses sustained by it until the previous year, as well as until it fulfills the requirements relating to the capital fund, risk bearing fund and the general reserve fund to be fulfilled under section 44, and the shares set aside for public subscription are sold and fully paid-up." And in the sub-section 2 of same section states about every licensed institution must obtain the approval of the Rastra Bank before declaring and distributing dividends.

Procedural Aspects:

Company must follow certain rules and regulations as mentioned in company Act. In the case of Indian bonus issue must be approved by the controller of capital issue of India. In Nepalese context under company ordinance 2005, section 83, clause (e) states about the procedural requirement of declaring Bonus share by the company.

The important events and dates in the bonus shares payment procedure are as follow:

[i] Board Resolution:

Under company ordinance, 2062 a public company should all formal meeting of board of directors at least six times with in a year (section 97, sub-section 2), the bonus share decision is the prerogative of the board of directors. Therefore, the board of directors brings a special resolution for bonus issue. Board of directors of the company should be make application for issue of bonus share within one month of the bonus announcement (Khan and Jain, 1992:600).

[ii] Shareholder Approval:

The resolution of the board of directors to distribute the bonus share has to be approved by the shareholders in Annual general meeting. There is a very low chance that shareholder disapproves the resolution of the board of directors. But in the context of Nepal, a case can be found that a corporate did not distribute bonus share to the shareholders even after declaration of bonus share.

(iii) Record Date:

The bonus share is payable to shareholders whose name appears in the Register of Members as on the record date. If a shareholder sells shares before the record date, the buyer of the shares will receive bonus share. If a shareholder sells shares after the record date, the seller of the shares will receive bonus shares, because his/her name is recorded in the Register of members instead of buyer.

(iv) Bonus share payment:

Once a bonus share declaration has been made along with book close date for share transaction, company has to distribute bonus share within certain period to the shareholders. But the lack of information the investors are provided bonus shares even one year after bonus share issue. As we know that the Nepalese capital market is in still infancy period, the lack of awareness of the investors and inadequate practice and expertise may be the consequences of the situation.

Steps Involved in Issuing Bonus Shares (www.indiainfoline.com)

- As per the listing agreement, at least 7 days prior to the board meeting in which bonus will be considered, a notice has to given to each stock exchange where securities of the company are listed about the declaration of bonus shares.
- At the board meeting approve the following:-
    - ❖ Bonus ratio
    - ❖ Fixation of Record Date or Book closure notice.
    - ❖ Notice convening general meeting for increase in authorized share capital and capitalization of reserves and amendment in memorandum & articles of association there of.
- Intimate to such stock exchange on the same day about the result of the board meeting immediately after the closure of the market hours.
- Intimate at least 42 days in advance to such stock exchanges about the closure of register of member or fixing of record date fixed for allotting bonus shares to such shareholders.
- If the company intends to close its register of members at least 7 days prior to the book closure, a notice has to be issued in the newspaper circulating in the district in which registered office of the company is situated.

- Send at least 21 days clear notice to call such shareholders about the general meeting.
- Convene General meeting and pass resolutions for amending memorandum & Articles of Associations pertaining to increase in authorized share capital and capitalization of reserves.
- File form no. 23 with ROC regarding amendment made in memorandum & articles of Association along with certified true copy of the resolutions passed, explanatory statement and prescribed fees.
- For increase in authorized share capital, affix stamp duty as applicable on form no.5 and along with the prescribed fees file the same with Roc.
- Give effect to all the transfers received before the closure of register of member or fixing of record date.
- Convene a Board meeting to allot shares to those shareholders whose name appears in the register of members as on record date or at the time of closure of register of members.
- Make arrangements for the printing of share certificates. Issue share certificates in accordance with the rules prescribed for issuing share certificates. (See to it that common seal and stamp duty is affixed on it and signed by two directors and an authorized signatory as per the board resolution).
- File form no. 2 with ROC along with the list of shareholders and prescribed fees.

It is very important to note that Bonus shares have to be issued within a period of 6 months from the date of board meeting at which the bonus issue was declared.

2.1.3 Conditions for Issue of Bonus Shares:

In the case of Indian companies, they must get approved from controller of capital issues to issue of bonus share. In Nepalese context, there is a provision to take permission from NRB to the Bank and finance company to issue bonus share. A corporate firm should maintain following condition for the issue of bonus share.

- Bonus share can be issued in additional to cash dividend, but not in substitute of cash dividend.

- A company cannot declare bonus shares unless partly paid-up shares have been converted into fully paid-up capital as dividend capitalization.
- Bonus shares can be issued only out of profit and reserves created from profits but prohibited issuing bonus shares from increasing share capital by revaluation of company's assets.
- A company can declare bonus shares once in a year. The company may make a further application for issue of bonus shares only after twelve month from the date of sanction by the government of an earlier bonus issue, if any (khan and Jain, 1992:599).
- A resolution approving the proposal of the bonus issue, the company's shareholders on the occasion of annual general meeting should pass clearly indicating the rate of dividend payable on the increased capital.
- In the condition of bonus share in American cases, stock dividend cannot be issued through past-accumulated reserves and surplus. They only can issue stock dividend out of current reserves and surplus.
- At only one time, the total permitted to capitalize by issue of bonus shares out of free reserves shall not exceed the total amount of paid-up equity capital of the company.
- It should be ensured that the company has not defaulted in payment of interest or principal in respect of fixed deposits and interest on existing debentures o principal on redemption, thereof and it should be ensured that the company has sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity, bonus etc.
- If the company has already issued either fully convertible debentures or partly convertible debentures then in that case the company is required to extend similar benefits to such holders of securities through reservation to such convertible part. The Bonus shares so reserved may be allotted to such holders at the time of conversion.
- It should be checked whether Articles of Association contains the provision of capitalization of reserves. If no such provisions are, contained steps should be

taken by altering the Articles of Association by the consent of the member of the company.

- It should be checked whether the post bonus capital is within the limits of authorized share capital. If it is not so, steps be taken to increase the authorized share capital by amending memorandum and Articles of association.
- It is very important for a company to implement the bonus proposal within a period of six months from the date of approval at the meeting of the Board of Directors. The company has no option to change the decision.(www.indiainfoline.com)

2.1.4 Criteria for Issue of Bonus Share:

On the behalf of shareholder, there must be criteria to issue bonus share. In the context of India, there are two criteria must be satisfied with in the limit of the maximum ratio.

(i) Residual reserve criterion:

Under this criterion, reserve remaining after the account capitalized for bonus issue should be as least equal to 40% of the increased paid-up capital. But the amount from assets revaluation must not be included in computing the minimum residual reserve.

Pre-bonus Reserve - (pre-bonus paid up capital ×Bonus ratio) ≥ 0.4 (1+ Bonus ratio) ×pre-bonus paid up capital.

Or, $(R-sb) \geq 0.4s\,(1+b)$ …... (1)

Where,

R = Reserve before bonus declaration.

S = Paid-up share capital before bonus declaration.

b = bonus ratio.

(ii) Profitability criterion:

Under this criterion, 30% of the previous three years average pre-tax profit (PBT) should be at least equal to 10 percent of the increased paid-up capital.

0.3 Three years average $\overline{PBT} \geq 0.1$ (1+ Bonus ratio) × pre-bonus paid-up capitals

Or, 0.3 PBT ≥ 0.1s (1+b) ………….(ii)

where,

$\overline{PBT}$ = average profit before tax of the company in the previous 3 years.

S = Paid-up share capital before bonus declaration.

b = bonus ratio.

After computation of both Residual and profitability reserve criterion, lesser bonus ratio will be allow to declare bonus issue to the company.

2.1.5. Accounting Aspects:

A company declares appropriate bonus ratio according to its objectives and convenient to the management. If a company declares 1:1 bonus share, it means investor/shareholder having one original common share receives additional one share.

Theoretically, the market price of the stock should decline proportionately to the bonus ratio. Therefore, the total value of each shareholder holding remains the some but in practice, it is contradict to the doctrine under imperfect capital market.

The consequences of bonus issue are:

- The shareholders proportional ownership remains unchanged
- The book value per share, the earnings per share and the market price per share decreases.
- The numbers of outstanding shares increases.

Under bonus share issue, accounting aspect is the Transformation of amount from reserve and surplus to capital. Since it is the activity within shareholder's wealth, it cannot change the value of shareholder. In an accounting sense, the payment of a bonus share is a shifting of funds in capital account rather than a use of funds. A bonus issue will increase the paid up capital and reduce the reserve and surplus of the company but the total net worth is not affected by the bonus issue. It only reduces the retained earnings and correspondingly increases paid-up equity and share premium (if any).

Accounting treatment of bonus share can be divided into two categories, small-percentage stock dividend and large-percentage stock dividend.

[I] Small percentage stock dividend:

The accounting treatment portrayed holds for what is known as small-percentage stock dividends, usually a distribution of 20 percent or less of the number of common shares already outstanding (Van Horne, 2004:325). According to this type of stock dividend, transferring of an amount from retained earnings to common stock and additional paid in capital (share premium).

Suppose a company had total shareholder's equity (before issuing a stock dividend) as shown in the table 2.1.

TABLE: 2.1.1.

Equity portion before bonus issue:

Common stock (Rs. 5 per, 400,000 shares)	2,000,000
Additional paid in capital	1,000,000
Retained earnings	7,000,000
Total shareholders' equity	10,000,000

Company pays 5 percent (1:20) stock dividend, amounting to 20,000 additional shares of stock. The market value of the stock is Rs. 40 each. For each 20 share of stock owned, the stockholder receives an additional share. The equity portion of balance sheet of the company after the stock dividend is as shown in table 2.2 below.

TABLE: 2.1.2.

Equity portion after bonus issue

Common stock (Rs 5 per, 420,000 shares)	2,100,000
Additional paid-in capital	1,700,000
Rationed earnings	6,200, 000
Total shareholders equity	10,000,000

With a 5 percent stock dividend, Rs. 800,000 is transferred (Rs. 40×20,000 shares) from retained earnings to the common stock and paid-in capital accounts. Because the par value stays the same, the increase in number of shares is reflected in a Rs. 100,000 increase in the common stock account (Rs. 5 ×20,000 shares). The residual of Rs.

700,000 goes into the paid-in capital account. Shareholders equity of the company remains the same.

The earnings per share (EPS) of the company are reduced proportionately as increase of common stock. Let us suppose the net profit after taxes of the company is Rs. 800,000.

TABLE: 2.1.3.

Calculation of EPS before and after bonus issue

	Before stock Dividend	After stock Dividend
Net profit after tax	800,000	800,000
No. of common stock outstanding	400, 000	420,000
Earning per share (EPS)	Rs. 2	Rs. 1.9

Shareholders have more shares of stock after stock dividend but have lower earnings per share (EPS). In reality every shareholders proportionate ownership claim against total earnings available to common shareholders (no. of share holding ×EPS) remains unchanged.

[II] Large percentage stock Dividend:

If a stock dividend represents an increase of more then 20 percent or higher of existing outstanding common stock, it is known as large percentage stock Dividend. These types of stock dividend should treat differently in accounting purpose. Small percentage stock dividends are not expected to have much effect on the market value per share of stock. However, large percentage stock dividend are expected to materially reduce the market price per share of stock, the accounting be in terms of the par value of the additional share issued. Therefore, conservatism argues for reclassifying an amount limited to the par value of additional shares rather than an amount related to the pre-stock dividend market value of the stock.

In previous example, assume that the company decide to issue 100 percent (1:1) stock dividend instead of 5 percent (1:20) stock dividend, amounting to 400,000 additional shares. The capitalization accounts after a large-percentage stock dividend of this sort are:

TABLE: 2.1.4.

Equity portion after large percentage stock Dividend

Common stock (Rs. 5 par, 800,000 shares)	4,000,000
Additional paid-in capital	1,000,000
Retained earnings	5,000,000
Total shareholders equity	10,000,000

Thus, retained earnings are reduced only by par value of new shares issued as stock dividend.

2.1.6. Dividend:

Dividend is the periodic payment made to stockholders to compensate them for their wealth and investment funds. Dividends are pro-rate distributions to shareholders from retained earnings. They can be in the form of cash, stock or property. Generally, corporation can only declare dividends out of earnings, although some states laws and corporate agreements permit to declaration of dividends from sources other than earnings (Hawkins, 1997:650).

Dividend refers to the part of earnings made by the firm that is distributed to the shareholders as return of their investment over equity share where those earnings were generated in the current period or in previous periods. In other words, it is the rewards to shareholders for bearing the risk of uncertainty (Ghimire, 2002:8). The objective of the dividend policy should be to maximize the shareholders return so that value of his/her investment is maximized (Pandey, 1995:16).

In fact, dividend is the portion of the net earnings, which is distributed to the shareholders by a company. After successfully completing the business activities of a company, if the financial statement shows the net profit, the Board of Directors (BOD) decides to declare dividend to stockholders. Therefore, the payment of corporate dividend is at the discretion of the BOD.

Arguments Against Dividends (*www.investopedia.com*):

First, some financial analysts feel that the consideration of a dividend policy is irrelevant because investors have the ability to create "homemade" dividends. These analysts claim that this income is achieved by individuals adjusting their personal portfolio to reflect their own preferences. For example, investors looking for a steady stream of income are more likely to invest in bonds(whose interest payments don't change), rather than a dividend-paying stock(whose value can fluctuate). Because their interest payments won't change, those who own bonds don't care about a particular company's dividend policy.

The second argument claims that little to no dividend payout is more favorable for investors. Supporters of this policy point out that taxation on a dividend is higher than on capital gain. The argument against dividends is based on the belief that a firm who reinvests funds (rather than pays it out as a dividend) will increase the value of the firm as a whole and consequently increase the market value of the stock. According to the proponents of the no-dividend policy, a company's alternatives to paying out excess cash as dividends are the following:

Undertaking more projects, repurchasing the company's own shares, acquiring new companies and profitable assets, and reinvesting in financial assets.

Arguments For Dividends *(www.investopedia.com):*

In opposition to these two arguments is the idea that a high dividend payout is more important for investors because dividends provide certainty about the company's financial well being; dividends are also attractive for investors looking to secure current income. Also, there are many examples of how the decrease and increase of a dividend distribution can affect the price of a security. Companies that have a long-standing history of stable dividend payouts would be negatively affected by lowering or omitting dividend distributions; these companies would be positively affected by increasing dividend payouts or making additional payouts of the same dividends. Furthermore, companies without a dividend history are generally viewed favourably when they declare new dividends.

2.1.6.1. Dividend-Paying Methods *(www.investopedia.com):*

Now, should the company decide to follow either the high or low dividend method, it would use one of three main approaches: residual, stability, or a compromise between the two.

Residual

Companies using the residual dividend policy choose to rely on internally generated equity to finance any new projects. As a result, dividend payments can come out of the residual or leftover equity only after all project capital requirements are met. These company's usually attempt to maintain balance in their debt/equity ratio before making any dividend distributions. Which demonstrates that such a company decides upon dividends only if there is enough money leftover after all operating and expansion expenses are met.

For example, let's suppose that a company named CBC has recently earned $1,000 and has a strict policy to maintain a debt/equity ratio of 0.5(one part debt to every two parts of equity). Now, say this company had a project with capital requirement of $900. In order to maintain the debt/equity ratio of 0.5, CBC would have to pay 1/3 by using debt ($300) and 2/3 ($600) by using equity. In other words the company would have to borrow $300 and use $600 of its equity to maintain the 0.5 ratio, leaving a residual amount of $400 ($1,000-$600) for dividends. On the other hand, if the project had a capital requirement of $1,500, the debt requirement would be $500 and the equity requirement would be $1,000, leaving zero ($1,000-$1,000) for dividends. Should any project require an equity portion that is greater than the company's available levels, the company would issue new stock.

Stability

The fluctuation of dividends created by the residual policy significantly contrasts the certainty of the dividend stability policy. With the stability policy, companies may choose a cyclical policy that sets dividends at a fixed fraction of quarterly earnings, or they may choose a stable policy whereby quarterly dividends are set at a fraction of yearly earnings. In either case, the aim of the dividend stability policy is to reduce uncertainty for investors and to provide them with income.

Suppose our imaginary company CBC earned the $1,000 for the year (with quarterly earnings of $300, $200, $400). If CBC decided upon a stable policy of 10% of yearly earnings ($1,000*10%), it would pay $25 ($100/4) to shareholders every quarter. Alternatively, if CBC decided upon a cyclical policy, the dividend payments would adjust every quarter to be $30, $20, $10 and $40 respectively. In either instance, company's following this policy are always attempting to share earning with shareholders rather than searching for projects to invest excess cash.

Hybrid

The final approach is a combination between the residual and stable dividend policy. Using this approach, companies tend to view the debt/equity ratio as a long-term rather than a short-term goal. In today's markets, this approach is commonly used by companies that pay dividends. As these companies will generally experience business cycle fluctuations, they will generally have one set dividend, which is set as a relatively small portion of yearly income and can be easily maintained. On top of this set dividend, these companies will offer another extra dividend paid only when income exceeds general obtained levels.

2.1.6.2. Dividend Policy:

The policy which decides on how munch of the earnings a firm should retain for re-investment and how much it should pay to shareholders as dividend is known as dividend policy.

Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Retain earnings are one of the most significant sources of fund for financing corporate group, but dividends constitute the cash flow that accrue to shareholders (Weston & Copeland, 1991: 657).

The third major decision of the firm is dividend policy, the percentage of earnings it pays in cash to its stockholders. Dividend payout, of course, reduces the amount of earnings retain in the firm and affect the total amount of internal financing. The dividend payout ratio obviously depends on the way earnings and measured for case of exposition, we use account net earnings but assume that these earnings can form true economic earnings. In practice, net earning may not conform and may not be an appropriate major of the ability of firm to pay dividends (Van Horne, 2004:   ). The policy a company uses to decide how much it will payout to shareholders in dividends (www.investopedia.com).

In general, dividend policy is concerned with the following matters:

- Amount of dividend to be paid
- Form of dividend
- Payment procedure
- Stock repurchase and stock split (Pradhan, 1992:376).

Stability or regulatory of dividends is considered as a desirable policy by the management of companies.

Stability of Dividend *(www.finex.com.np):*

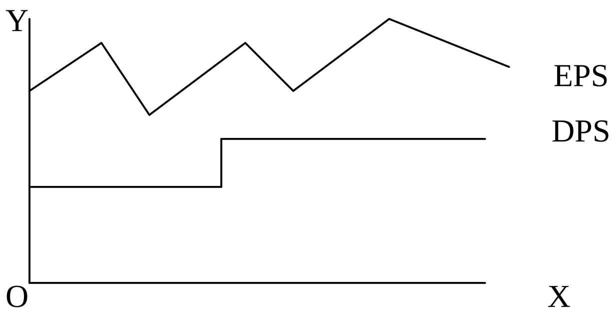
Stability or regularity of dividends is considered as a desirable policy by the management of most companies. Shareholders also generally favour this policy and value stable dividends higher than the fluctuating ones. All other things beings the same, stable dividend may have a positive impact on the market price of the share.

Stability of dividends sometimes means regularity in paying some dividend annually, even though the amount of dividend may fluctuate from year and may not be related with earning. More precisely, stability of dividends refers to the amounts paid out regularly. Four distinct forms are:

i. Constant dividend per share
ii. Constant payout ratio
iii. Constant dividend per share plus extra dividend
iv. Optimal dividend policy

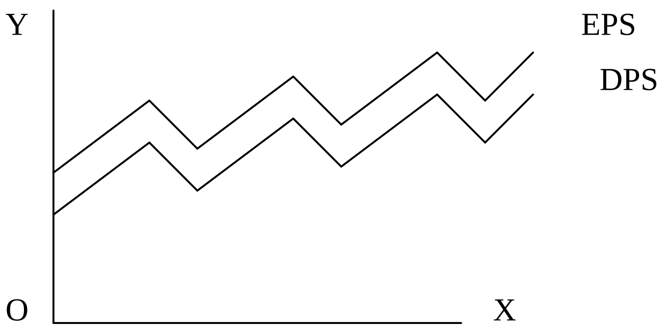
(i) Constant dividend per share

A fixed rupee per share dividend is stable for first few years and increase if the earning is in increasing trend. It also shows that dividend is indifferent to the earning.



(ii) Constant Payout Ratio:

The ratio of dividend to earnings is known as payout ratio. Constant payout refers to paying a fixed percentage of net earnings every year. With this policy the amount of dividend will fluctuate in direct proportion to earnings. If a company adopts a 40% payout ratio, then 40% of net income will be paid out as dividend.



(iii) Constant Dividend Per Share Plus Extra Dividend:

Under this policy, the amount of dividend is set at a high level, and the companies with stable earnings usually adopt this policy. For companies with fluctuating earnings, the policy to pay a minimum dividend per share with a step with a step up feature is desirable. The small amount of dividend is fixed and certain extra amount is given if the earning exceeds the certain amount.

(iv) Optimal Dividend Policy:

"The dividend policy that strikes the balance between current dividends and future growth which maximizes the firms stock price". Thus, to a large extent, the dividend policy of a company affects the value of the firms. Hence, by adopting an optimal dividend policy, shareholders' wealth can be maximizing.

2.1.6.3. Forms of Dividend:

Generally, most of investors prefer cash dividend. But now a day other kinds of dividends are also in practice. Kind of dividend can be decided by the policy situation and directors attitude towards dividend. The types of dividend that corporation follow is partly of a matter of attitude of directors and partly a matters of the various circumstances and financial constraints that bound corporate plan and policies (Shrestha 1980:670).

The major forms of dividend are as follows:

(I) Cash dividend:

It is the dividend, which is distributed to the shareholders in the form of cash out of the earnings of the company. When cash dividend is distributed, both total assets and net worth of the company are reduced by same amount. The market price of the share drops in most cases by the amount of the cash dividend distributed (Hosting, 1966:370).

The main objectives of the cash dividends are:

- To distributes the earnings to shareholders
- To build an image in the capital market
- To make distribution easy and to account easily.

(II) Stock dividend (Bonus Share):

A company can distribute additional common stock to its existing shareholders, which is called stock dividend or Bonus share. The shareholder's proportion of ownership in the firm remains unchanged after the stock dividend. Generally, when a firm is growing rapidly and needs internal financing to perpetuate this growth, a stock dividend is used.

The effect of issue of stock dividend are:

- The issue of the stock dividend increases the numbers of the outstanding shares.
- The stock dividend transfer retained earnings to the capital account.
- The net worth and the par value of the company do not change with the issue of stock dividend.
- The issue of the stock dividend does not affect the stockholders proportional ownership.
- The earning per share (EPS) will decrease if the total profit does not increase.

(III) Scrip Dividend:

Scrip dividend means payment of dividend in scrip or promissory notes. If the company's share has been successfully trading on the stock market for a long time, and the price has become very high, the company may make a scrip issue. It is issued to fulfill the temporary cash shortage. The scrip has the definite maturity date and may be of either interest bearing or not.

Scrip dividend can be summarized as following:

- It is the replacement of the dividend for short period.
- Scrip dividend may be of either interest bearing or not.

- These types of dividend does not change the total numbers of the stock but issued promissory note in the proportion of share held by the stockholders.
- Scrip dividend has relatively low psychological value in the stockholders perception than other forms of the dividend.

(IV) Property Dividend:

Property dividend means a payment of assets or property in the form of dividend other than cash to the shareholders. The assets that are not used in the operation of the business can distribute as a dividend to the shareholders. For example, a company can distribute its own product or the share of subsidiaries. Although this type of dividend is paid in the extra-ordinary situation, it is less attractive in the point of view of the investors in any cases. Similarly, the payment of the subsidiary company's shares in place of cash dividend could result the negative impact of 'this is not better than that'. Property dividend may have the following nature:

- It should match the requirements of the shareholders or it reduces the charming of cash dividend replacement.
- Perception value of property dividend cannot be as same as cash dividend.
- Property dividend is very least applied means to dividend; therefore sometimes it may have (not need) positive response of the investors.

(V) Bond Dividend:

If dividends are paid in the form of bond to shareholders, promising that it will mature in future date is known as bond dividend. Therefore, the intention and purpose of bond dividend is also the postponement of dividend payment for some time. The only difference between bond and scrip dividend is that bond carries relatively longer maturity date than scrip dividend. Bonds used to carry interest and it means that the company assumes the fixed obligation of interest payment annually and principal amount of bond at maturity date.

Bond dividends have the following characteristics:

- Bond dividends are the means to dividend postponement for sometime but more it is obligation.
- It could not bring back the psychological value as the cash dividend.

- Bond and scrip dividend are same, only the difference between these are maturity time i.e. scrip has relatively less maturity time than bond dividend.

(VI) Composite Dividend:

If the dividend is paid in two from i.e. partly in the form of cash and partly in the form of property then it is said to be composite dividend.

(VII) Optional Dividend:

A company can give option to its shareholders to take the dividend in cash or in property. In this practice, shareholders have option to choice anyone of them.

(VIII) Special Dividend:

If companies have enough cash and reserves, the directors of the company do not want to change the dividend separately. This dividend is given with the regular dividend but separately.

(IX) Interim Dividend:

In general, dividend is distributed at the end of the financial year, which is known regular dividend. But, some times directors can declare the dividend before the end of the financial year, which is called interim dividend.

A dividend payment made before a company's AGM and final financial statements. This declared dividend usually accompanies the company's interim financial statements. This is used more frequently in the UK, where it is usual for dividend payments to occur semi-annually. The interim dividend is generally the smaller of the 2 payments made to shareholders (www.investopedia.com).

(X) Synthetic Dividend (www.investopedia.com):

A type of incoming cash flow that an investor creates with certain financial securities to produce a dividend-like payment stream that resemble the periodic cash receipts from a dividend paying stock.

For example, suppose an investor owns shares in a company that does not pay a quarterly dividend. In order to create a cash-flow stream from the shares, the investor could write covered call options on the underlying stock. By doing so, he or she would receive the option premiums as an incoming cash flow, but would be obligated to sell the shares to the option buyer should that person choose to exercise the option.

Whatever about the form of dividend, in Nepalese context, only cash dividend and stock dividend are practiced.

2.1.6.4. Factors Affecting Dividend Decision

Earnings and dividend has positive correlation (most of the times), therefore when earning increase the dividend is also increase and vice versa. But the challenge of the financial managers is to bring balance between company's fund requirement (need) and stockholders expectations (desires).There are many practical factors, which are vital in dividend decision. To maintain the balance between both company's need as well as investor's expectation, the following majors' factors should be considered.

[I] Shareholders' Expectations:

Shareholders may have different expectations as per their economic status and effect of tax differential on dividend and capital gain. In broad sense, shareholders expectations can be dividend into two categories.

A. Closely Held companies:

In case of closely held companies, the body of shareholders in small and homogeneous and management usually knows the expectation of the shareholders. Therefore, they can easily adopt a dividend policy, which satisfies most shareholders. If most of shareholders in high tax bracket and have preference for capital gains to current dividend income. The company can establish a dividend policy of paying less or no dividend and retaining the earning within the company.

B. Widely Held companies:

It is a formidable task to ascertain the preference of shareholders in a widely held company. The numbers of shareholders is very large and they may have diverse desires regarding dividends and capital gains. Shareholders of widely held company may be divided in four groups.

- Small shareholders
  - They prefer high dividend payment.
- Retired and old person
  - They prefer regular and liberal dividends.
- Wealthy Investors

- They are in high tax brackets and the dividend received in cash by them would be taxed at high rate; so they prefer capital gain.

- Institutional Investors
  - They prefer regular cash dividend payment.

[II] Financial Need of the company:

The financial need of the company may conflict with the desires of the shareholders. Management prudence requires giving more weighted to the financial need of the company. However, retain earnings should be used as profitable investment opportunities. If shareholders themselves have better investment opportunities the earnings should distributed to them so that they may be able to maximize their wealth. When company has internal rate of return is greater than required by the shareholders, it would be advantage to shareholders and allow the re-investment of earnings by the company.

When the company does not have profitable opportunities and earns a rate on investment, which is lower than the required rate of shareholders, it is not better to retain earnings.

[III] Dividend Paying Constraints:

Most of the shareholders have desire to receive dividend though some of them interested in capital gain. But a critical question is that, how much dividend should a company pay? Decision regarding to amount of earnings to be distributed as dividend depends upon a numbers of factors, which are described as following:

[A] Legal Provision:

Dividend declaration is not only the concern of shareholders and company, but it is also the issue of the government regulation. Therefore, the government may put some criteria to the company for the announcement of the dividend. So the company must consider the provision made either in company act or by government.

[B] Liquidity Position:

The liquidity position of a company is prime consideration in dividend decision. It represent a cash out flow, if the company has higher liquidity position, it has higher ability to pay a dividend. A company that is growing and profitable may not be liquid because its funds may go into the fixed assets and permanent working capital, May not able to pay cash dividend.

[C] Investment opportunities:

If the company has good investment projects, the company may not provide more dividend even the earning of the company is high. If the cost of capital for the company is less than the expected rate of return on proposed project will be better to reinvest the profit in those projects rather than to pay dividends to the shareholders.

[D] Access to the capital Market:

A firm's access to capital market will be influenced by the age and size of the firm, therefore a well-established firm is likely to have a higher payout ratio than smaller new firm. Capital market reputation of a firm always make easy to raise funds and funds availability helps to meet both requirement of the shareholders (dividend)and firm's obligation.

[E] Control:

If external finance is raised through a public issue of equity capital, the existing shareholders will have to share control with new shareholder. Internal financing by the way of retained earnings, on the other hand, lends to no dilution of control. Hence, if the shareholders and the management of a company are averse to dilution of control, the firm should rely more on retain earnings.

[F] Restriction in loan Agreement:

Lender may generally put restriction on dividend payment to protect their interest when the firm is experiencing low liquidity or low profitability. As such the firm aggrees a part of a contract with a lender to restrict the dividend payment. Therefore, when the restriction of this type is put, the company is forced to retain the earnings and have low payout ratio. The newcomer firms and the firm having low liquidity and inefficient funds basically apply it.

[G] Ability to Borrow:

A liquid position is not to provide for the financial flexibility and thereby protect against uncertainty. If a firm has the ability to borrow on comparatively short notice, it may be relatively financial flexible. The greater the ability of the firm to borrow, the greater its financial flexibility, and the greater its ability to pay the cash dividend with ready access to debt fund, management should be less concerned with the effect that cash dividends has on its liquidity.

[H] Inflation:

Some company may have followed the policy of paying the high dividend at the time of inflation in order to protect the shareholders from the erosion of the real valve of the dividend. But the company with falling result cannot follow this policy. This policy not only tries to suit the inflation but also in the lower economic growth, it helps to create the capital market for the investment opportunities.

[I] Stability of Earning:

A firm that has relatively stable earnings will generally pay a large potion of its earning as dividend. But the unstable firm is likely to retain a high proportion of current earnings.

[J] Rate of assets expansion:

The more rapid growth firm needs to expansion its assets. Thus, they retains fund rather than to pay dividend, which reduced the dividend payout.

2.1.7. Stock split:

With a stock split, the number of shares is increased through a proportional reduction in the par value of the stock (van Horne, 2004:325). A stock split is a method to increase the number of outstanding shares through a proportional reduction in the par value of share (Pandey, 1996:380).

The capital structure of a company before a 2-to -1 stock split was

Common stock (Rs 10 par, 100000 shares)	1,000,000
Additional paid-in capital	500,000
Rational earnings	3,500,000
Total shareholder's equity	5,000,000

After the split the capital structure is

Common stock (Rs. 5 par, 200,000)	1,000,000
Additional paid-in capital	500,000
Retained earning	3,500,000

Total	5,000,000

The common stock, paid-in capital and retained earnings accounts remains unchanged. Shareholders equity, of course, also stays the same; only change is in the par value of the stock.

The following are the reasons for splitting of a firm's ordinary shares (Pandey, 1996: 381).

[I] To make a share attractive:

The main purpose of stock split is to bring share price into more popular trading range through reduction on market price. Thus, the reduction in the market price, caused by the share split, motivates more investors particularly those with low purchasing power. This helps in increasing the marketability and liquidity of the company's shares.

[II] Indication of higher future profits:

The management of the company used the stock split as a mean to inform to investors that the company is expected to earn higher profits in future. The market price of high-growth firm's shares increase very fast. If the shares are not split periodically, they fall outside the popular trading range. Therefore, these companies resort to stock split from time to time.

[III] Increases Dividend:

If the company is not going to change its dividend per share after stock split, the total dividend of shareholder will increases. The increased dividend may favourably affect on the after split market price of the share.

2.1.7.1. Bonus share Vs stock split:

In case of Bonus share, the par value is not reduces, where as in case of stock split, it is. Except in accounting treatment, the stock dividend and stock split are very similar. A stock split, however, is usually reserved for occasions when a company wishes to achieve a substantial reduction in the market price per share. Bonus share and stock split both change the number of outstanding shares but does not change the total net worth. In stock split, all the old shares are destroyed and new ones are issued with a new par value but after bonus issue, existing shareholders receive additional shares according to bonus ratio.

Under accounting treatment, in the case of bonus shares, the balance of the reserves and the surplus account decreases due to a transfer to the equity capital and the share premium accounts. The transfer amount must be equal to market value of the share at the time of the bonus share announcement multiply to the number of new (additional) share issued. Therefore, the par value remains unaffected. With a share split, the balance of the equity accounts does not change, but the par value per share changes.

For identical treatment, the New York stock exchange has adopted a rule calling all distribution of stock under 25% of outstanding share to be a bonus share and any distribution if 25% or more a stock split (Francis, 1992:54). A stock split is similar to a bonus issue from the economic point of view, though there are some differences from the accounting point of view. A comparison between a bonus issue and a stock split is given below.

Bonus Issue	Stock Split
A part of reserve is capitalized.	There is no capitalization of reserve.
The par value of the stock is unchanged.	The par value of the stock is reduced.
The stockholders' proportional ownership remains unchanged.	The stockholders proportional ownership remains unchanged.
The book value per share, the earnings per share and the market price per share decline.	The book value per share, the earnings per share and the market price per share decline.
The market price per share is brought with a more popular trading range.	The market price per share is brought with in a more poplar trading rang

2.1.7.2. Reverse Split:

When the market price of share of a company is falling gradually then the reduction of the number of outstanding shares by increasing per share par value is known as reverse split. A healthy company simply wanting to place its stock in a higher trading range should think twice before under taking a reverse stock split (van Horne, 2004: 328). The reverse split is generally an indication of financial difficulty, and is therefore intended to increase the market price per share (west and Roulettes 1990:12-17). Reverse stock splits are employed to increase the market price per share when the stock is considered to be selling at too low a price.

2.1.8. Right Share Issue:

If the new common stocks are issued giving the rights to purchase first by the existing shareholders then it is called right share issue (right offering). Each stockholder is issued an option to buy a certain number of new shares and the terms of the option are contained on a piece of paper called a right. Each stockholder receives one right for each shares of stock owned.

Right issue is a privileged given to the existing shareholders that helps them to keep their control position proportionately equal and the issuing price will also be lesser than the market price. This lower price would help to maximize the capital gain of the shareholders. A shareholders, whose name is in the company's book before record date is entitles to have a proportionate number of new shares at a price below market. Hence, before record date there will be a great demand of shares attached with rights. The holders of rights has three choices (van Horne 2004:570):

[I] Exercise them and subscribe for additional shares,

[II] Sell them because they are transferable, or

[III] Do noting and let them expire.

Generally, the subscription period runs about 3 weeks to thirty days. A stockholder who wishes to buy a share of additional stock but does not have the necessary number of rights may purchase additional rights.

Rights have the following characteristics:

- Number of share equal to number of rights i.e. one share equal to one right.

- Rights are negotiable. The holder of rights can sell them.
- Rights have expiration date, i.e. rights can be exercised only during a fixed period of time.
- The price of additional share is called subscription price.
- Number of rights required to purchase one additional share is determined by the issuing company.

The procedure of rights offering is similar to the non-right issue. In Nepalese context, company should take permission from securities Board Nepal (SEBON) before rights offering and also should register their shares.

2.1.8.1. Bonus share Vs Right share Issue:

In the company's point of view, both bonus share and right issue raise the equity capital. Bonus share simply involves a transfer of retained earning to the capital stock account while in right issue; funds are raised through new ordinary shares issued to the existing shareholders on pro-rata basis. Bonus share is internal source of financing where as right share issue involves floatation cost brokerage fees and under wrirlng commission etc. Thus right issue is costly than bonus issue to the company. On the other hand small shareholders may stand to suffer from right offering of the company because of their ignorance to take timely decision to exercise or renounce their rights. The shareholders have to be alert to exercise rights with in the given time and bear financial liability whereas bonus issue is a means of dividend in which shareholders does not need to manage the funds for additional shares of stock.

2.1.9. Cash Dividend:

Cash dividend is simply the dividend paid in cash or the proportion of net earnings, which are distributed to shareholders as cash, in proportion to their shares of company. Actually, it is most popular and widely used form of dividend all over the globe.

Generally, stockholders have strong preference for cash dividend. Both the total assets and net worth of the company are reduced by same amount, when the cash dividend is announced or distributed. Moreover, the share price will fall (or may not) after the cash dividend. For the better cash dividend stability, cash planning, budgeting and control mechanism are suggested or required. Cash dividend has the direct impact on the shareholders. The volume of the cash dividend depends upon earnings of the firm and on the management's attitude or policy.

Cash dividend has the psychological value for stockholders. Each and everyone like to collect their return in cash rather then non-cash means. So cash dividend is not only a way to earnings distribution but also a way of perception improvement in the capital market.

The objectives of the cash dividend are:

- To distributes the earnings to shareholders, as they hold the proportion of the shares,
- To build an image in the capital market so as to create favourable condition to raise the fund at the needs,
- To make distribution easy and to account easily.

2.1.9.1. Bonus Share Vs Cash Dividend:

The distribution of stock dividend in various circumstances becomes an effective method of conveying to the shareholders an assurance about the profitable reinvestment of the retained profits. The stock dividend represents a certificate indicating the amount of reinvestment made on behalf of each shareholder (Baumol, 1965;55). But there is no obligation on the management to ensure that the reinvestment of past-accumulated profits and reserve (retained income) Via issue of bonus share yields a reasonable return for shareholders. Therefore, most investors express serious doubt about the retained earnings.

Moreover, unless there are special tax considerations (e.g. an exceptionally high proportion of shareholder are surtax payers hence making retained earning specially advantageous) shareholders may be justifiable suspicious of companies which retain an exceptionally high proportion of earnings and thus decline to submit to the financial scrutiny and discipline involved in raising external equity (Merret and Sykes. 1966:46).

The markets assign several times more weight to dividend rather than to retained income. But if management is able to assure or convey to the share holders about the profitable reinvestment of the retained profit via increase in the quantum of dividend, bonus share or retained income may be preferable.

- **Liquidity position:**

  A company with weak liquidity position should not distribute cash dividend. To conserve the outflow of cash it can issue bonus shares to shareholders and that may also prevent from dissatisfaction of shareholders. Through bonus share announcement a company can improve its liquidity crisis and also satisfy its shareholders.

- **Degree of accumulated retained earnings:**

  A company with abundance accumulate retained earnings has higher share price than the poplar range. Having good opportunities and high tax investors a company do not want to distribute cash dividend and also want keep share price with in the popular trading range, then it must issue bonus share, A higher share price leads its stock illiquidity, because that cannot facilitate trading in the stock by small investors. A increase in the number of investors holding a security should increase the company's value.

- **Legal requirement to increase paid-up capital:**

  If a company wants to increase its paid up capital to meet legal requirement, it may go through bonus share issue. if the company has healthy liquidity position and earning , it will be better to issue bonus share rather than other alternatives like right issue etc.

  The question 'which is better a cash dividend or a stock dividend?', the site www.investopedia.com states "stock dividends are though to be superior to cash dividends as long as they are not accompanied with a cash option. This is due to the choice that stock dividends offer compared to cash dividends. But this does not mean that cash dividends are bad, they just lack choice; a shareholder could still reinvest the proceeds from the cash dividend back into the company through a dividend reinvestment plan."

2.1.10. Equity share Issue:

Equity share issue is also known as common stock issue. It is a long-term source of financing of an organization. The fund raised from equity share is also known as equity capital. The rights and responsibilities attached to equity consist two considerations: positive (in come and control) and negative (risk).

Equity share represents the ownership of an organization, therefore, the equity stockholders are the owner. As the owner of the company, equity holders have many rights, some of these rights are specified by the law and some are specified the by the company's charter.

The following are the rights of equity shareholders:

- **Collective rights:**
  - The right to elect the directors of the corporation.
  - The right to authorize the sale of fixed assets.
  - The right to adopt and amend by laws.
  - The right to enter into merger.
  - The right to issue preferred stock, debentures, bonds and other securities.
  - The right to change the amount of authorized capital.
  - The right to amend the corporate charter.
- **Specific rights:**
  - The right to sell their stock certificate and to transfer the ownership.
  - The right to vote in the manner prescribed by the corporate charter.
  - The right to share proportionately the residual amount of assets at the time of liquidation.
  - The right to share proportionately in any new stock sold.
  - The right to share equally on a per share basis in any distribution of corporate earnings in the form of dividends.
  - The right to inspect the corporate books.

2.1.10.1. Bonus share Vs New Equity Share Issue:

The bonus share differs from an issue of a new equity share. If a firm needs to finance it can also obtain fund by selling new shares. To sell new shares in market a company must bear flotation costs. If a company is concerned about maintaining control and flotation costs are high, it might be reluctant to sell new common stock. Therefore, to save the flotation cost and to avoid the difficulties in raising external equity, a company practices raising the additional capital from internal source. A company can use bonus share as less expensive source of capital.

2.1.11. Share Repurchase:

Repurchasing of share is considering as the part of dividend policy. It is also said that share repurchase is an alternative of cash dividend. If a firm has excess cash and insufficient profitable investment opportunities at that lime the firm have two alternatives to distribute cash, whether repurchase of shares or increase cash dividend. In the absence of personal income taxes and transaction costs, the two alternatives, theoretically, should make no difference to stockholders (Van Horne, 2004:321-22). In USA, in 1984 alone, 600 firms spent $ 26 billion in repurchasing their own stock.

The company can repurchase its outstanding shares through

- Fixed-price tender offer
- Dutch-auction tender offer
- Open-market repurchases

Some reasons for stock repurchase:

- To have share available for the acquisition of other companies
- Wishing to 'go private' by purchasing all of the outstanding shares.
- Having full intention of retiring it.
- To serve as a tax advantageous substitute for dividend payout. In the case share price rise, shareholder can be taxed at the capital gain instead of ordinary tax for cash dividend.
- For positive signaling effect at the share undervalued situation.
- To change its capital structure.

2.1.11.1. Bonus Share Vs Share Repurchase:

The numbers of outstanding shares are increased through bonus share but stock repurchase helps to reduce the outstanding shares. Share repurchase has inverse objective than the bonus share. Share repurchase is the buy back of the share by the issuing company. With repurchase, fewer shares remain outstanding and earning per share (EPS) and ultimate, dividend per share (DPS) rise. As the result, the market price per share (MPPS) rises as well.

2.1.12. NRB directives and stock dividend:

Nepal Rastra Bank (NRB) has issued directives several times to keep monetary environment on track. As same concern they published directives on A.D. 2004 where they ask commercial Banks, Development Banks, Finance Companies and Insurance Companies to rise their paid up capital. NRB tell them, they all have to meet this target within A.D. 2009.

TABLE : 2.1.5

Paid Up Capital Should Meet by Different Sectors Within A.D. 2009

Companies	Paid up capital (in Rs.)
Commercial Bank	1 billion
Development Bank	32 million
Finance Companies	10 million
Insurance Companies (life)	25 million
Insurance Companies (non-life)	10 million

The trend of issue bonus share of commercial banks, development banks, finance and insurance companies were increasing after the provision made by NRB.

2.2. Review of Major Study:

The Review of Major Study consist of 'Review of Journals and Articles' and 'Review of Dissertations.'

2.2.1. Review of Journals And Articles:

The Review of Journals and Articles is classified into two parts, Review of International Studies and Review of National Studies. The main study related to this topic are presented as follows:

2.2.1.1. Review of International Studies:

Barker, C. Austin's Study:

Barker (1958) studied the effect of stock dividend and stock spilt on common stock ownership during four years period from period from 1950-53.

The study is concentrated on following parameters:

- Do stock dividends have any long run effect on market price ?
- Do stock dividends benefit the investor more than the company ?
- Do stock dividends help to conserve cash for expansion ?

On the basis of the empirical work he conclude that stock dividend and stock spilt result larger increase in stock ownership. This work revealed the fact that the use of stock dividend and spilt effectively increases the sock ownership. He remarked that investors see stock spilt and stock dividend for what they are simply additional pieces of paper called share certificates. They are of the view that only if stock dividend accompanied by higher earnings and cash dividends then investors will bid up the price of the stock, if not the dilution of earnings and dividend per share causes share price to fall by the same percentage as the sock dividend. Stock dividend itself is not the cause of market price change in the market. Therefore, research concluded that stock dividend is simply a piece of paper not representing true income unless accompanied by dividend increase(Barker, 1958:99-114).

The major findings of Mr. Barkers study were as follows:

- Percentage increase was highest of 30% because of stock spilt of 5 for 4 or above.
- The stock dividend of 5% to 25% resulted 17% increase in common stockowners. The increase in common stock ownership was only 5% in case of the corporate firm, which did announce the stock dividend or spilt.
- The empirical study by Barker revealed that when stock dividend was associated with cash dividend increase the value of the company stock 6 month after stock dividend were not accompanied by cash dividend increase stock value fell by 12% during the subsequent 6 month period.
- Each annual cash dividend rate at the base was converted to the equivalent dilution rate to make meaningful cash dividend per share comparisons before and after the stock dividend.

- Growing ranks of small shareholders are one the bull works in expending free enterprise economy.
- Large or small percentage of stock dividend alone, produce no lasting gains in market price. Shareholders are not a means of avoiding double taxation of dividends, nor are they customarily employed to conserve cash.
- Plan for regularize issuance of stock dividends are extremely difficult to carry out, because of the fluctuating market price limitation on earned surplus transfer imposed by accounting requirements.
- Stock dividends are also more expensive to issue then stock-split distribution, and all considered, and inconvenience to shareholder.
- A cost conscious management will try to avoid the extremely small size stock dividend and particularly the so-called multiple issue type of dividend involving two, three or four issue annually. Where it is desirable to bring the common stock into a more popular price range, management may find it economically preferable to issue infrequent, larger size stock dividends or, particularly. If earned surplus is insufficient for that purposed, to undertake a stock split up.
- Stock dividend or stock split are equally operate under whatever market conditions may prevail at the moment bull, bear or normal.

M. Richard Sussman's Study(1962)

M. Richard Sussman (1962) conducted a study on **" The Stock Dividend: An analysis of its concept, its influence on stock prices and its uses by corporate management."** He raise three basic questions for which the attempts are made to get answer are as follows:

- What is conceptual nature of a stock dividend?
- How do stock dividend influence stock prices?
- Why are stock dividend issued by corporate management?

As a basis for considering the nature of a stock dividend, concepts expressed by authorities in the fiduciary, the tax, the accounting and the regulatory areas were examined. In almost every instance, these authorities considered stock dividend to be merely additional evidences of existing ownership interests.

The influence of stock dividend on stock prices was investigated by a statistical study of eighty- seven stock dividend issued in 1958 by companies listed on the New York Stock Exchange. Adjustments stock prices as well as for those factors which might have influenced specially the stock prices of the companies being studied. No clearly representative result was produced by this study. Stock dividend appeared to influence the share prices of each company in varying degrees as well as in different directions. However, there was an indication that relatively small stock dividend did have a very general tendency to enhance slightly the entire market value of the distributing corporations shares.

Management objectives in issuing stock dividend were examined by means of a questionnaire, which was sent to officers of 120 corporations. Of the 814 replies received approximately, 76% indicated that their primary objective was to conserve cash. In spite of the extreme emphasis upon this objective, as well as the apparent existence of many other goals, we conclude that stockholder relations were the primary basic consideration is issuing stock dividend. Stock dividend were issued to maintain existing stockholder relations or to improve them.

L.C. Gupta's study:

Gupta (1973) conducted an empirical study on Bonus Share, "A study of the Dividend and price Effects of Bonus Share Issues." This study is concentrated about the effect of bonus share issue on dividends and share prices. It attempts to test some popularly held beliefs about the effect of bonus share issue on dividends and share prices. It examines the practice among Indian companies regarding the making of bonus issues and explores the interest controversy whether, and to what extent, such issues represent real gain to their recipients. This study also tries to examine the governments taxation and regulating policies and managerial decision making relating to bonus issue.

The period of study extends over twenty-four years from 1948-71. The coverage is restricted only to companies quoted on stock exchanges. The study covers a total 919 (+225) bonus issue during the study periods. The data for this study were collected mostly from primary source, including records available with controller of capital issued and the annual reports of companies. To study and analyze the data, Gupta used simple statistical tools like percentage, frequency distribution, average and standard deviation.

The objectives of the study were as follows:

- To study the effect of bonus share issues on dividends and share price changes associated with bonus issue.
- To examine how far bonus shares represent a real addition to the shareholders' wealth and income.
- To investigate the characteristics features of bonus issues by the Indian Companies.
- To analyze some of the widely held misconceptions about bonus shares.
- To examine managerial decision- making relating to bonus issues. Does the widely held belief that management tries to maintain the existing dividend rate even after bonus issue have any validity?
- To suggest the implication of the findings for the Government and regulatory policies and managerial decision relation to bonus issue.

Some of the important specific questions to which this study concentrate to analyze the effect of bonus share issue on dividend and share price change are:

i. To what extend can bonus issue announcement be regarded as indicating the management is increasing of increasing the dividend distribution in the near future?

ii. An increase in the dividend quantum does follow a bonus issue?

iii. What is the magnitude of dividend increase and is this magnitude directly related to the ratio of bonus issue?

iv. Whether the aggregate market valuation of a company's equity capital increases as a result of bonus issues? For this question the study examine the immediate, as also the long- term, effect of bonus issue of the market valuation of a company's equity after adjusting specifically for the general market movement in share prices.

The study makes available for the first time a factual analysis of the prevailing practices amid Indian Companies regarding the issue of bonus shares. The examination throws light on several aspects of corporate financial polices and practices regarding bonus issues, such as bonus ratios, the frequency and regularity of such issues by individual companies, and the relation of bonus issue to the size and age of companies.

His study was wide coverage and immense on bonus share. The original report was subsequently revises and simplified to make it of wider interest without altering the basic framework and the major conclusions. The major findings observed in his research were as follows:

- The majority of the bonus issue in India are in relatively high ratios of 20 percent (i.e. 1:5)
- The bonus issue made by Indian Companies seem to have been no regular and consistent policy in terms of bonus ratio and time intervals.
- The analysis shows that small companies in general tend to issue bonus share in higher ratio as compared to large companies.
- The increase in dividend distribution was not quite as universal as is commonly believed and almost. One-third of the cases sowed no increase in the quantum of dividend distribution following the bonus issue.
- He concluded that the company which did increase the quantum of dividend distribution after the bonus issue, the magnitude of the increase was unrelated to the ratio of bonus issue and varied over a wide range.
- His analysis shows that increase in the quantum of dividend distribution after bonus issue were more universal among companies with lower nominal dividend rates than among those with high rates before the bonus issue.
- His analysis disclose that relatively sharp jumps in dividends are far more common than gradual increases among Indian companies.
- The relationship between bonus ratio and the magnitude of dividend increase is in any case extremely weak.
- There is no systematic relation exists between the bonus ratio on the one hand and the percentage of dividend increase on other.
- The analysis concluded that higher bonus ratio were found more often among companies paying high dividend rates, and lower ratios more often among companies paying low dividend rates.

- In his analysis that the speculative price rise appears, which occurred immediately after bonus announcement was frequently based not so much on a realistic appraisal of the fundamental factors governing profit and dividend as on rumors and psychology.
- The analysis shows that the immediate of bonus announcements on the share price is almost invariably favorable, the reason being that a bonus announcement is usually interpreted as indicating the management's intention to increase the dividend distribution in the immediate future.
- The analysis shows that price at the end of one year from bonus announcement was less universal than the price rise immediately after such announcement.
- The immediate response of the market to the bonus announcement seems to have been haphazard and does not accord with the subsequent dividend performance.
- There is no case for taxing companies on the basis of the amount of bonus issues, specially because such a tax will bear more heavily on the smaller companies.
- In this research, he concluded that the real motives for a bonus issue are generally hidden from the public and the shareholders are left in the dark about the companies dividend policy after the bonus issue.

H.K. Baker and L. Philips' Study

Baker and Philips (1992) studied the management views on stock dividend during three years period from 1988 to 1990. They raised two major questions in this study are as follows:

- Why do some managers continue to support stock dividends given the apparently limited benefits of these distributions to shareholders?
- Do management views about the issues and motives for stock dividends differ based on the firms trading location, the size of the stock dividend, or the frequency of issuing stock dividends.

They took all the firms as a sample at least one stock dividend paid during the study period, 100 NYSE/Amex firms and 26 Nasdag firms. The source of their stock dividend firms was the CRSP, Nasdag and combined NYSE/Amex master files. There are two reasons for choosing the period 1988-90. They are:

- They wanted the study period to span several years to avoid any potential bias of using a single year.
- They wanted a period long enough to provide a large sample size, but short enough to ensure getting someone knowledge about the firms most recent stock dividend to answer the questionnaire.

There are two parts in the questionnaire used by them. The first part contained 15 closes-end questions on issues drawn from the finance literature about stock dividends. And the second part contained seven question about stock dividend decision and questions about the respondent's profile.

They sent a survey questionnaire and a cover letter to the highest ranking financial officer of each firm in early November 1991. Non- respondents received a follow-up survey and another cover letter one month later of the initial 312 questionnaires miles, only 299 questionnaires were delivered. Of those 299 questionnaires, 136 firms completed and returned them, giving a response rate of 45.6%.

The major findings of this study were as follows:

- Managers believe that stock dividends enable them to express their confidence in the firm's future prospects, suggesting that stock dividends may have some information content.
- Managers strongly agree that stock dividends have a positive psychological impact on investors receiving them.
- The dominant motive for paying stock dividends is to maintain the firm's historical practice.
- Management views on issue and motive about stock dividends differ little based on the firm's trading location or the size of the stock dividends.

Batchelor and Orakcioglu's study:

Professor Roy Batchelor and Ismail Orakcioglu did a study of "The Impact of Stock Dividend in Turkey". In this study, they examines the behaviour of the prices of leading share traded on the Istanbul Stock Exchange (ISE) in the weeks before and after the payment of stock dividends. They apply an event study methodology using pooled crosssectional and time series data, with the novel twist that price movements through the event window are assumed to follow a mixture of GARCH processes. Which allows to measure and test the significance of stock dividends for both the level and volatility of share prices, and to control for the effects of the simultaneous payment of cash dividends?

Main output of the study:

- In Turkey, almost all major listed companies, regardless of performance, split their stock each year by means of stock dividends, which are typically paid alongside cash dividends and often company a right issue.
- There is not significant effects on returns from stock dividends either before or after their payment, but very large price volatility on the ex dividend day, presumable reflecting investor confusion as to proper post-split value of the share.
- Real increases and decrease in cash dividends do cause returns to rise and fall after the dividend payment date rather than after the earlier announcement date, and we find evidence that firms and investors treat cash and stock dividends as substitutes. This suggests some degree of money illusion and irrationality in market reactions to dividend payments on the ISE.
- There is a very strong association between rights issue and stock dividend. which suggests that stock dividends are used by companies in hope of reducing the apparent price to shareholder of the new stock?
- Stock dividend payment on the ISE are not motivated by the same factors such as past or prospective out performance-which trigger stock splits in more developed markets. They are largely driven by accounting and regulatory considerations. However, the presence of stock dividend payments on the ISE do appear to lead investors to behave irrationally, to treat the stock dividends as substitutes for cash dividends and as an effective discount on the price of rights issues.
- Cash dividend payments do have a significant impact on excess returns. There is no systematic movement in price in the weeks before the dividend payment date. But after the dividend date, the price of shares, which pay in

improved dividend, rise, and the prices of shares, which pay a lower dividend, fall.

Walter's Model:

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

- The firm finances all investment through retained earnings; that is debt or new equity is not issued.
- The firm's internal rate of return, r and its cost of capital, k, are constant.
- All earnings are either distributed as dividends or reinvested internally immediately.
- Beginning earnings and dividends never change. The values of the earnings per share, EPS, and the dividend per share, DIV, may be changed in the model to determine results, but any given values of EPS/DIV are assumed to remain constant forever in determining a given value.
- The firm has a very long of infinite life.

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

$$p = \frac{DIV}{k} + \frac{r(EPS - DIV)/k}{k} \quad or, P = \frac{DIV + r(EPS - DIV)/k}{K}$$

Where,

p	=	market price per share
DIV	=	dividend per share
EPS	=	earning per share
r	=	internal rate of return (average)
k	=	cost of capital or capitalization rate

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

Growth Firms, r > k

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

Normal Firm, r = k

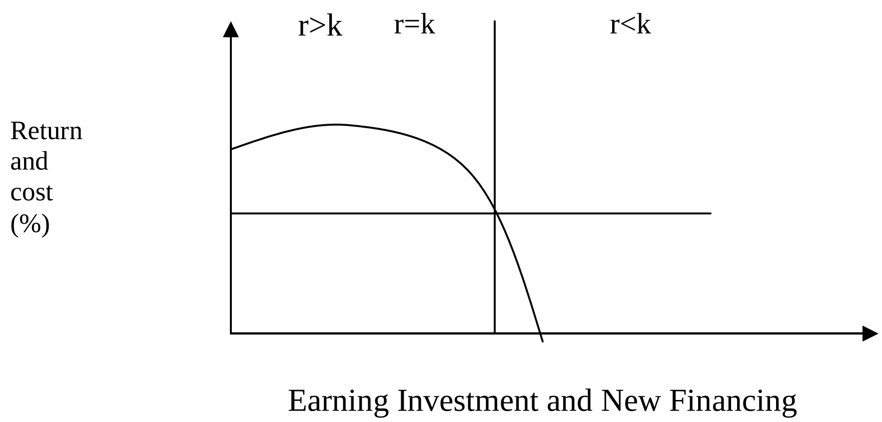
Firm having r = k may be referred as normal firm. There is no unique optimum payout ratio for a normal firm. One dividend policy is as good as the other. The market value per share is not affected by the payout ratio when r = k.

Declining Firms, r < k

Firm having r < k may be referred as declining firm. The optimum payout ration for a declining firm is 100 percent. The market value per share, p, increases as pay out ratio increases as pay out ratio increases when r < k.

Figure: 2.1

Earning, Investment and New Financing under Walter's Model



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

Gordon's Model:

Myron Gordon develops one very popular model explicitly relating the market value of the firm to dividend policy. Myron Gordon made a study on the dividend policy and market price of the stock and concluded that the dividend policy of a firm influences the market value of stock. This is a relevant theory similar to the Walter's model. In the study conducted in 1953, he explained, "the investors prefer present dividend rather than future capital gains". He further explained that the dividend policy has direct relationship with the value of stock even if the internal rate of return is equal to required rate of return.

Gordon's model is based on the following assumptions (Pandey, 1995:745:746):

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

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

Thus:

$$P_o = \frac{D_1}{(1+k)} + \frac{D_2}{(1+k)^2} + \dots\dots\dots\dots + \frac{D_n}{(1+k)^n}$$

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

$$P = \frac{EPS(1-b)}{ke-br}$$

Where,

p	=	Market price per share
EPS	=	Earning per share
b	=	Retention ratio
K_e	=	Cost of capital
1-b	=	Payout ratio
br	=	Growth rate

Gordon's relevant theory is a popular theory of dividend. As investors prefer current dividend earnings rather than expected higher future income so as to eliminate the risk associated with future capital gain, Gordin stressed that the higher payout increases the dividend yield and hence increases the value of stock. But the assumptions of this model are also far from the reality.

Modigliani and Miller's Model:

According to Modigliani and Miller (M-M), dividend policy of a firm is irrelevant, as it does not affect the wealth of the shareholder. They argue that the value of the firm depends on the firm's earnings, which result from its investment policy. Thus, when investment decision of the firm is given, dividend decision-the split of earnings between dividends and retained earnings - is of no significance in determining the value of the firm. M-M's hypothesis of irrelevance is based on the following assumptions (Pandey, 1995:751-752):

- The firm operates in perfect capital markets where investors behave rationally, information is freely available to all and transactions and floatation costs do not exist. Perfect capital markets also imply that no investor is large enough to affect the market price of a share.

- Taxes do not exist; or there are no differences in the tax rates applicable to capital gains and dividends. This means that investors value a rupee of dividend as much as rupee of capital gains.
- The firm has a fixed investment policy.
- Risk of uncertainty does not exist. That is. investors are able to forecast future prices and dividends with certainty, and one discount rate is appropriate for all securities and all time periods. Thus, r =k =kt for all t.

Modigliani and miller provide following model to prove their theory (Niraula, 2003:25-26):

Market value of share:

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

$$P_o \,\Gamma\, \frac{D_1 \,\Gamma\, P_1}{1 \,\Gamma\, k_e} \text{...}(i)$$

Where,

P_o	=	Market price of share at the beginning of the period.
D_1	=	Dividend per share at the end of the period.
P_1	=	Market price per share at the end of the period.
K_e	=	Cost of equity capital

No external financing

If new external financing exists, the market value of a firm can be computed by multiplying both sides by the number of outstanding share as follows:

$$\text{nPo X} \frac{\text{n}(\text{D}_1 \,\Gamma\, \text{P}_1)}{1 \,\Gamma\, \text{ke}} \text{.......................................(ii)}$$

Where,

n = Numbers of outstanding shares

New shares

If retained earning is not sufficient to finance the investment opportunities issuing new shares is the other alternatives. Assuming that m is the number of newly issued equity share at the price of P_1 the value of firm at time 0 will be:

$$nPo = \frac{nD_1 + P_1(n+m) - mp_1}{1+k_e} \text{..........................(iii)}$$

Where,

n = Number of shares at the beginning

m = Number of shares issued at the end of the period

Total numbers of shares

A firm can pay dividends and raise funds to undertake the optimum investment policy. If the firm finances all investment opportunities either by issue of new equity of retained earnings, the total numbers of new shares can be computed on the following way:

$$MP_1 = I - (E - nD_1) \text{..(iv)}$$

Where,

MP_1 = Amount obtained from the sales of new shares

I = Amount required for new investment during the period

E = Total earnings during the period

nD_1 = Total dividend paid

$E\text{-}nD_1$ = Retained earning

Substituting the value of mP1 of equation (iv) to equation (iii) we get,

$$NPo = \frac{nD_1 + P_1(m+n) - I + E - nD_1}{1+k_e}$$

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

A firm, which pays dividends, will have to raise funds externally to finance its investment plans. M-M's argument, that dividend policy does not affect the wealth of the shareholders, implies that when firm pays dividends, external financing offsets its advantage. This means that the terminal value of the share declines when dividends are paid. Thus, the wealth of the shareholders-dividends plus terminal price-remains unchanged. As a result, the present value per share after dividends and external financing is equal to the present value per share before the payment of dividends. Thus, the shareholders are indifferent between payment of dividends and retention of earnings (Pandey, 1995: 753-754)

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

Linter's Study:

J. Linter conducted a study in 1956, which is focused in the behavioral aspect of dividend policy. He investigated dividend pattern of 28 different companies of America and found that, firm generally predetermines the desired payout and tries to achieve it and rarely considers other factors. The model developed from his research is as follows:

D_t =P, EPSt

D_t-D_{t-1} + a+b (D_t-D_{t-1}) +e

Where,

D_t = Desired dividend

EPS_t = Earning per share

P = Targeted payout ratio

a = Constant relating to dividend growth

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

Major findings of this study are as follows:

- Firms generally prefer desired proportion of earning to be paid as dividend.
- Investment opportunities are not considered for modifying the pattern of dividend behavior.
- Firm generally have target payout ratios in view while determining change in dividend per share.

According to www.investopedia.com, this model of dividend policy has two parameters: (1) the target payout ratio and (2) the speed at which current dividends adjust to the target.

Website has further stated that in 1956 John Linter developed this theory based on two important things that the observed about dividend policy:

1] Companies tend to set long-run target dividends-to-earnings ratios according to the amount of positive net-present value (NPV) projects they have available.

2] Earnings increases are not always sustainable. As a result, dividend policy is not changed until managers can see that new earnings levels are sustainable.

2.2.1.2. Review of National Studies:

Pradhan's study:

Dr. Radhe S. Pradhan studied the market behavior of stock in Nepal in 1992. In his study, the data were collected from 17 enterprises covering the years 1986 to 1990. His conclusion can be listed below:

i. There was higher liquidity on stock with large ratio of dividend per share to market per share.
ii. There was lower language ratio on stocks with larger ratio on dividends per share to market per share.
iii. There was higher earning on stock price per share with large ratio of dividends per share to market per share.
iv. Ratio of dividends pre share to market price per share was positively correlated.
v. There was positively relationship between dividends pay out with liquidity ratio and profitability.
vi. The relationship between dividend payouts and turnover ratio was observed to be positive.
vii. Dividend payouts and interest coverage were positively correlated.

Although Pradhan's study considered a landmark investigation in the field of dividend policy in Nepal, it was conducted more than a decade ago when the Nepalese capital market was in an infant stage. However, with the passage of time Nepalese capital market has come long way towards perfection. Therefore, it can be said that the result depicted from his study may not be relevant today and a new study is necessary. Moreover, he has not calculated the test of hypotheses, especially ANOVA test. Therefore, whether the financial indicators such as EPS, DPS and DPR results obtained values are significant or not cannot be said and validity of the result is doubtful.

Shrestha and Manandhar's Study:

Professor M. K. Shrestha & K.D.Manandhar (1998) conducted empirical study on bonus share issue practices in Nepalese corporate firms. The study is concentrated on factual analysis of the prevailing practices among Nepalese corporate firm regarding the issue of bonus shares. Besides issue of bonus share is characterized by Adhocism and imperfect and under-developed capital market, the study fulfills the research gap and inputs to financial literatures relating to this topic.

The period of study covered ten years from 1988/89 to 1997/98. They used simple statistical tools to analyze and interpret the data. Used statistical tools are percentage, frequency distribution and average.

Their main objectives of the study are as follows:

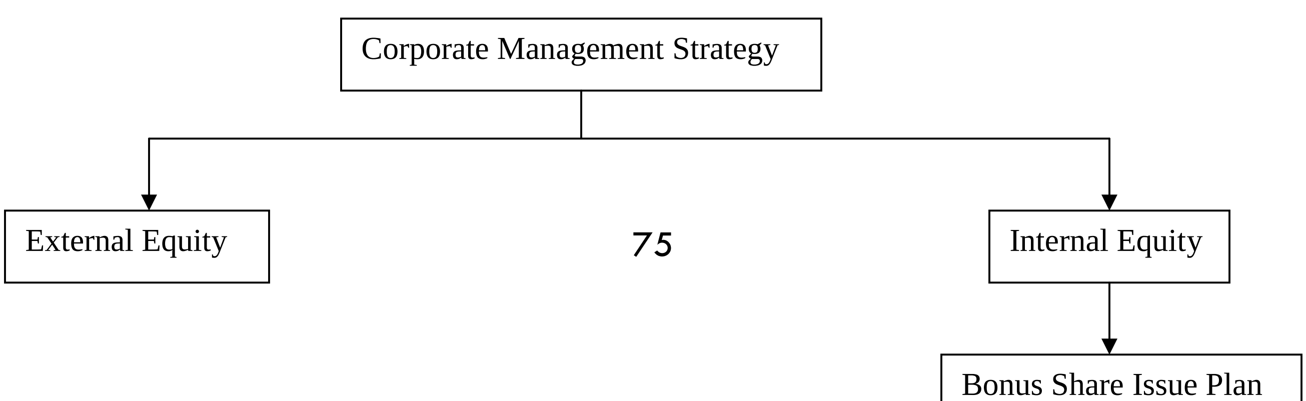
- To study and analyze the frequency of bonus share issue.
- To study and analyze the regularity of bonus share issue.
- To identify the most popular bonus share issue ratio.
- To study and analyze the relation of bonus share issue to the size and age of the corporate firms.

The study's selected samples are related to commercial banking, Insurance, Finance, trading and service sectors. On the base of analysis of 12 bonus issuing corporate firms, following findings were observed on the bonus share issue practices in Nepal:

- The most popular bonus ratios prevalent in Nepalese corporate practices are 1:2, and 1:5, But 1:2 ratios overwhelmingly dominated.
- The number of bonus issue tended to rise from 1992/93 and enthusiastic increase number of bonus share issue in the fiscal year 1994/95.
- The amount of bonus issue showed increasing trend during the period of study.
- There is a trend to raise the additional equity capital by capitalization the reserves and net profit by issuing bonus shares and stock dividend.

- In the later years the importance of 1:2 bonus decreased and importance of other ratios less than 1:2 increased which are 1:5 and 1:4. The ratio bonus share is considered high as compared to widely prevalent practice in American corporate.
- The overall average of 3 bonus issues is noticed among Nepalese corporate practice during the study period.
- Nepalese corporate firms are found depended in internal equity rather than external equity for additional capital.
- There is no consistency in bonus issue ratio observed among Nepalese corporate firm.
- Though capitalizing the retained profit by issuing the bonus shares is the prevalent practice, the average growth rate in increase in equity capital between the commercial banking group and non-banking group differed widely.
- The large corporate firms are found to issue bonus shares more times than the small size corporate firms.
- Corporate firms over than 20 years are found to have issued bonus share more time compared to other corporate firms with lesser age.

Based on the study and analysis the model suggested for bonus share issue is given below:



Manandhar's Study:

Mr. Kamal Das Manandhar conducted a study to test the lagged structure of dividend and different hypotheses on relationship of dividend payout and other financial factors were tested. He carried out his study based on the data taken from Nepalese corporate firms and covered of 1987 to 1998. The conclusions of his study are as follows (Manandhar, K.D.: 2000):

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

2.2.2. Review of Dissertations:

Gharti's study (2001):

Mr. Padam Gharti conducted a study on "Bonus share announcement and its impact on stock price of Nepalese corporate firms" at 2001. His analysis is based on 16 bonus issue of 10 companies with in 5 years duration from 1995/96 to 1999/2000. Out of 16 bonus announcement during the study period, 9 were banking sector and remaining were non banking sector.

The objectives of the study are as follows

- To examine the relation of dividend quantum change and stock price.
- To examine the relation between share price rise and bonus ratio.
- To evaluate the relation of bonus share announcement and stock price.
- To remove some of the widely-held misconception about bonus share.
- To point out suggestion to the related bodies.

He used secondary data for the study, and his effort, of course, a milestone for other researcher.

Major findings of the study are as follows:

- The immediate share price rise after bonus announcement is significant.
- Before officially announcement, the intention of board of directors on the issue of bonus share is leaks out, which rise the share price one month before the actual announcement.

- ❖ In most of the cases, the share price does not decrease after distribution of bonus share according to bonus ratio as theory says.
- ❖ The share price of non-banking sector is more risky than the banking sector.
- ❖ Long-term effect of bonus issue as well as immediate, is significantly positive.
- ❖ Most of the corporate firm do not maintain their dividend quantum and dividend rate.
- ❖ Nepalese capital market is speculative oriented, therefore it takes more consciously bonus share announcement then the cash dividend announcement.
- ❖ The companies announce bonus share without frequently cash dividend distribution, ultimately faces drastic fall in their share prices.
- ❖ The Nepalese capital market did not show any response that whether the company is intend to increase future dividend (returns) or not.
- ❖ During the study period, the bonus ratio 1:2 and 1:5 was found most popular.
- ❖ Relation between bonus ratio and immediate price rise is found +ly correlated.
- ❖ The bonus ratio 1:2 has good response even one year after bonus announcement, which has least standard deviation.

Pathak's study (2004):

Mr. Rajendra Pathak conducted the empirical study in partial fulfillment of the requirements of the degree of Master of Business Studies (M.B.S.) on "BONUS SHARE ISSUE AND ITS IMPACT ON MARKET PRICE OF COMMON STOCK IN NEPALI CORPORATATE FIRM". This study is concentrated on impact of bonus share issue on market price of stock and has analyzed the cause of impact. His analysis is based on 14 bonus share issue from 1995/96 to 2002/03 and both the primary and secondary data are used in this study. Aggressive 60 shareholders are taken to study on the shareholder perception on bonus share and their dividend behaviour.

The main objectives of the study are as follows:

a) To study the existing situation of bonus share issue in Nepal.
b) To analyze the impact of bonus share issue on market price of common stock.
c) To do an empirical study on the shareholders perception on bonus share and shareholder's dividend behaviour.

d) To provide recommendations about stock dividend and dividend policy on the basic of this study.

In this study only the simple statistical tools such as percentage, frequency distribution and mean are used. Through his analysis, the major findings of the study are as follows:

a) About 45 no. of bonus shares have been issued in Nepal, the trend is upward.
b) Share price decrease after cash and stock dividend (after ex-dividend date). There is maximum decrease in price of salt trading limited in fiscal year 1994/95 which is 37.06% and where minimum decrease is for Sagarmatha Insurance in 2002/03 which is 2.68%.
c) The impact of bonus issue on market price of stock found positive. In overall from the sample study, market price of stock found 10.01% above the theoretical price after bonus share issue. Maximum and minimum positive impact found for NHMFCL in 2002/03 which is 38.36% and UFCL in 2002/03 which is 4.00% respectively. The impact for STL (1994/95) and NICL (1997/98) were found negative.
d) There is significance difference between theoretical and actual market price of stocks after bonus issue. The hypothesis actual market price after bonus issue are higher than the theoretical price after bonus issue is accepted on t-test.
e) While analyzing the causes of interest in investing in stock, expectation of increase in market price was ranked first. Expectation of bonus share ranked second and expectation of cash dividend ranked third. Similarly, no investment opportunities in other field and less risk compared to other field were ranked fourth and fifth respectively.
f) The analysis about the causes of selling stocks by shareholders ranked market price reached to the maximum first, stock investment becoming second, because of no bonus shares third, cash dividend not up to the expectation fourth and market price not increased fifth.
g) The analysis about the causes of holding stocks by shareholders ranked expectation of bonus share first, expectation of future increased return second, higher return comparing to other field third, expectation of increase in market price fourth and trading liquidity fifth.
h) The analysis about form of dividend preferred by shareholders ranked stock

dividend / bonus shares first, both cash and stock dividend together second and cash dividend third.

i) The analysis about causes of expecting bonus shares by shareholders ranked capital gain in future first, tax benefit over cash dividend second, increment in market value of shareholders third, more dividend in future fourth and increase in number of shares fifth.

j) Among the respondents, 83.33%, 8.34% and 8.33% are found agree, neutral and disagree respectively on the proposition that market price of stock is affected by the dividend policy followed by the corporate firms.

k) Among the respondents, 73.33%, 16.67% and 10% are found agree, neutral and disagree respectively on the proposition that market price of stock decreases if corporate management did not pay dividend.

l) Among the respondents, 46.67%, 23.33% and 30% are found agree, neutral and disagree respectively on the proposition that shareholders' interest are seemed to protected by higher dividend.

m) The statement corporate management issue bonus share not only to increase base capital but also reduce the market price within the most popular trading range is accepted.

2.3 Research Gap

Since the Nepalese capital market is in early stage and small in size, few researches have been conducted in this title. Though impact of bonus issue on market price and to some extent shareholders behavior were studied previously but now, in recent period, it is felt that bonus share practices in Nepalese corporate firm should be analyzed in various dimensions. So, to fulfill research gap, this research have been conducted associated with trend analysis of no. of bonus issue (with forecasted data), trend of average bonus rate, average ratio of bonus issue to equity capital, sector wise distribution of bonus issues ratios of bonus issues, size of corporate firm and amount of bonus issues, regularity and consistency of bonus issue, impact of bonus issue on market price, assessment of shareholders and management aspect.

So, this study will be fruitful to those interested person, parties, scholar, business man, government for academically as well as policy perspective.

CHAPTER: III

RESEARCH METHODOLOGY

3.1. Introduction:

Research Methodology refers the various steps that are generally adopted by researcher in studying his/her research problem along with the logic behind it. Thus, research methodology is a systematic and organized effort to investigate a specific problem that needs a solution (Wolf and Pant, 1999:203). Every research should be out lined in the systematic manner and for that reason research methodology is one of the most important part.

This chapter explains not only the research method, but also consider the logic behind the methods, which are used in the context of research study. In this regard, the chapter Research Methodology consists of research design, source of data, population and sample, methods and tools of data analysis.

3.2. Research Design:

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and control variance (Kerlinger, 1986:275). The research design refers to the conceptual structure within which the research is conducted (Kothari, 1978:220). Research design describes the general plan for collecting, analyzing and evaluating data after identifying (1) What the researcher wants to knows and (2) What has to be dealt with in order to obtain the required information.

The research design of this study is designed as to fulfill its objectives. Both analytical and descriptive methods are used as needed for mainly primary or secondary data. Statistical tools percentage, average etc. are used to analyze the bonus share practices and hypothesis is used to test shareholder and managerial aspect. So, in one sentence the research design of this study is the combination of analytical and descriptive methods with primary and secondary data.

3.3. Source of Data:

Mainly the source of data can be classified into two categories-

- Primary source
- Secondary source

Primary source of data are based on questionnaire survey, 2006, on managerial and shareholders aspect. Two set of questionnaire have been developed to collect different information regarding shareholders and managerial aspect so that some difficulties and problems faced by corporate firms and investors could be found out.

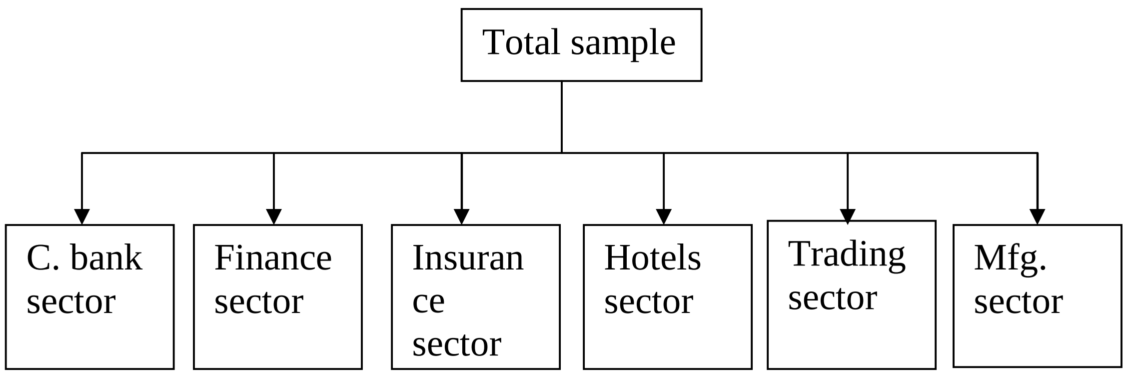
Secondary source of data are based on published and unpublished documents. It is collected mainly from records available at NEPSE, SEBON and annual reports of corporate firms. The main sources of secondary data are as follows:

- Annual Reports of NEPSE,
- Trading Reports of NEPSE,
- Financial statement of listed companies,
- Annual Reports of SEBON,
- Annual Reports of concerned firms,
- Related Magazines and Newspaper,
- Related websites,
- Out side published material directly related to Bonus share and its impact on stock price

3.4. Population and sample:

The total listed companies of NEPSE are 135. Out of them, some companies issued bonus share. This study have been made by making a sample of companies of issuing bonus share from 1992 to 2005/06. Total 50 corporate firms were issued bonus share during the study period. Among them 11 companies are from banking, 24 companies are from finance and 7 companies are from insurance, 2 from Hotels, 3 from Trading and 1 from manufacturing sector.

Classification of sample companies:



The following corporate firms are selected as sample of this study period in each group:

Commercial Banking sector:

1] Nabil Bank Ltd.

2] Nepal Investment Bank Ltd.

3] Standard Chartered Bank Ltd.

4] Nepal Bank Ltd.

5] Himalayan Bank Ltd.

6] Nepal SBI Bank Ltd.

7] Nepal Bangladesh Bank Ltd.

8] Everest Bank Ltd.

9] Bank of Kathmandu Ltd.

10] Nepal Industrial & Commercial Bank Ltd.

11] Nepal Indosuez Bank Ltd.

Finance sector:

1] Kathmandu Finance Co. ltd

2] National Finance Co. ltd.

3] Union Finance Co. ltd.

4] Paschimanchal Finance Co. ltd.

5] Nepal Housing and Merchart Finance Co. ltd.

6] Narayani Finance Ltd.

7] Annapurna Finance Ltd.

8] Central Finance Co. Ltd.

9] Lalitpur Finance Co. Ltd.

10] Nepal Finance and Saving Co. Ltd.

11] Nepal Housing and Development Finance ltd.

12] Nirdhan Utthan Bank Ltd.

13] Shree Investment & Finance Co. Ltd.

14] Mahalaxmi Finance Ltd.

15] Nepal Awas Bikas Bitta Co. Ltd.

16] General Finance Ltd.

17] Premier Finance Co. Ltd.

18] Siddhartha Finance Ltd.

19] Cosmic Merchant Banking & Finance Ltd.

20] Butwal Finance Ltd.

21] Nava Durga Finance Co. Ltd.

22] Janaki Finance Co. Ltd.

23] Alpic Everest Finance Ltd.

24] Ace Finance Co. Ltd.

Insurance sector:

1] Nepal Insurance Co. Ltd

2] Rastriya Beema Sansthan

3] Everest Insurance Co. Ltd.

4] Sagarmatha Insurance Ltd.

5] National Life and G. Insurance

6] Alliance Insurance Co. Ltd.

7] Neco Insurance Co. Ltd.

Hotels sector:

1] Soaltee Hotel

2] Yak & Yeti Hotel

Trading sector:

1] Nepal United Co. Ltd.

2] Bishal Bazar Co. Ltd.

3] Salt Trading Corporation

Manufacturing sector:

1] Nepal Lube Oil Ltd.

On other hand, there are primary data, collected by questionnaire survey from shareholders, managers and to some extent from investment and managerial expert. Total 90 respondent have been taken on both shareholders and managerial survey.

3.5. Methods and Tools of Data Analysis:

To make this study more realistic, some features of the methodology and technical aspect have been used to analyze the practices and price impact of bonus share issued are as follows:

- **Leakage of information:**

Information about the directors' intention to issue bonus share may leak out in many cases some weeks before the directors meeting. It may be happen when agenda paper is circulated. If this happens, the price may rise before the directors' actual decision. For this reason, the true price effect of the bonus issue decision can be measured only by going back at least some weeks before the formal announcement of the board's decision. Considering all factors, it is decided to go back three months from the date of directors' decision to recommend a bonus issue as a base date for measuring the relative change in share price.

- **Removing the Effect of the General Market Movement:**

In real ground of practice, a particular share price is affected by the general price movement i.e. share price in general moves up and down within a period of time. If a particular share is found to rise by certain percent since bonus announcement, this can not be caused by the bonus if the general movement of share price is also by some or more percent, during same period. But if a particular share price just remains unchanged in the face of a declining market trend, the strength may be due to a bonus issue. Hence the isolation of the effect of a bonus issue necessarily requires the elimination of the general market movement. The method of removing the effect of the general market movement is explained below:

a) Seven different points of time are selected for observing of the price movement of a particular share price. The selected points are:

(i) Three months before the announcement date. This will be the base date for price comparison.

(ii) One month before the announcement date.

(iii) The date of announcement.

(iv) One month after the announcement date.

(v) Three months after the announcement date.

(vi) Six months after the announcement date.

(vii) One year after the announcement date.

Although price movement overall the seven points of time will be observed, this analysis will focus on the price change from the base date to the one month after the announcement date, and one year after the announcement date which are represented by (iv) and (vii) respectively.

b) Price quotations for each share are collected for all the seven points of time or reasonably close to them. Price quotation before bonus issue and after bonus issue can not comparable. Thus, Ex-bonus quotations will be changed to Cum-bonus on the basis of bonus ratio. For instance, if the rate of bonus issue i.e. 1:5, the relation between the ex-bonus and cum-bonus price can be expressed in terms of the following equation:

$$\text{Cum-bonus price} = \frac{6}{5} \times \text{Ex - bonus price}$$

Then after the price quotation will be converted into price relatives on the basis of point (i) as the base date. Finally the series of comparable share price is obtained, after elimination of general market movement.

- **Tools of Data Analysis**

This study about bonus share issue employs various statistical tools to analyze the data collected from various sources. The analysis of data will be done according to pattern of data available. Simple statistical tools such as percentage, frequency distribution, average, standard deviation and least square method (Y = a+bx) are used to study and analyze the bonus share issuing practice in Nepalese corporate firms.

For the purpose of measuring the price import of bonus issue decision, the crucial date is the date of directors decision to recommend a bonus issue. The date of recommendation will be known as the announcement date of the bonus share issue decision of the corporate firm.

Test of Hypothesis:

Hypothesis is usually considered as the principal instrument in research. It can also be considered as suggested solution of the research problems. Its main function is to suggest new experiment and observation. It may not be proved absolutely but in practice, it is accepted if it has with stood a critical testing. Usually, the statistical hypothesis is tested at 1 percent, 5 percent and 10 percent level of significance.

In testing of hypothesis, chi square (χ^2) has been tested. Calculated values of χ^2 are calculated by applying following formula:

$$\chi^2 = \frac{\sum (O-E)^2}{E}$$

Where,

O = observed frequency

E = Expected frequency

And, Expected frequencies are calculated by,

$$E = \frac{O}{n}$$

Where,

n = number of observation.

Hypothesis Setting:

The following managerial and shareholders aspect has been developed and tested through the setting of hypothesis.

Shareholders Hypothesis:-

Formulation of Hypothesis One:-

Null Hypothesis (H_o): There is no significant difference between the observed and expected frequency. In other word, there is no significant difference between the causes of interest in investing on stock.

Alternative Hypothesis (H_1): There is significant difference between observed and expected frequency, In other word, there is significant difference between opinion regarding the causes of interest in investing on stock.

Formulation of Hypothesis Two:-

Null Hypothesis (H_o): There is no significant difference between observed and expected frequency regarding the preference of from of dividend. In other word, there is no significance difference between the options regarding the form of preference of dividend.

Alternative Hypothesis (H_1): There is significant difference between observed and expected frequency regarding the preference of form of dividend. In other word, there is significant difference between the options regarding the form of preference of dividend

Formulation of Hypothesis Three:-

Null Hypothesis (H_o): There is no significant difference between observed and expected frequency. In other word, there is no significant difference between opinions regarding the expectation of bonus share.

Alternative Hypothesis (H_1): There is significant difference between observed and expected frequency. In other word, there is significant difference between opinion regarding the expectation of bonus share.

Formulation of Hypothesis Four:-

Null Hypothesis (H_o): There is no significant difference between observed and expected frequency. In other word, there is no significant difference between options regarding the perception of bonus share.

Alternative Hypothesis (H_1): There is significant difference between observed and expected frequency. In other word, there is significant difference between opinions of regarding the perception of bonus share.

Formulation of Hypothesis Five:-

Null Hypothesis (H_o): There is no significant difference between observed and expected frequency. In other word, there is no significant difference between opinions regarding the impact of bonus share on market price of stock.

Alternative Hypothesis (H_1): There is significant difference between observed and expected frequency. In other word, there is significant difference between opinions regarding the impact of bonus share on market price of stock.

Managerial Hypothesis

Formulation of Hypothesis One:-

Null Hypothesis (H_o): There is no significant different between the observed and expected opinion regarding the preference on kind of dividend. In other word, there is no significant different between the cash dividend and other options.

Alternative Hypothesis (H_1): There is significant difference between the observed and expected opinion regarding the preference on kind of dividend. In other word, there is significant difference between the cash dividend and other options.

Formulation of hypothesis Two:-

Null Hypothesis (H_o): There is no significant difference between observed and expected opinion regarding to the reason of payment of cash dividend instead of stock dividend/bonus share. In other word, the payment of cash dividend instead of stock dividend is not depend on reasons.

Alternative Hypothesis (H_1): There is significant difference between observed and expected opinion regarding to the reasons of payment of cash dividend instead of stock dividend. In other word, the payment of cash dividend instead of stock dividend is depends on reasons.

Formulation of hypothesis Three:-

Null Hypothesis (H_o) : There is no significant difference between the observed and expected opinion regarding the purposes of bonus share issue.

Alternative Hypothesis (H_1): There is significant difference between the observed and expected opinion regarding the purposes of bonus share issue.

Formulation of hypothesis Four:-

Null Hypothesis (Ho): There is no significant difference between observed and expected opinion regarding the causes of issue of bonus share.

Alternative Hypothesis (H1): There is significant difference between observed and expected opinion regarding the causes of issue of bonus share.

Formulation of hypothesis Five:-

Null Hypothesis (Ho): There is no significant difference between the observed and expected opinion regarding the affecting factors in practices of bonus share.

Alternative Hypothesis (H1): There is significant difference between observed and expected opinion regarding the affecting factor in practices of bonus share.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

Data collected from primary and secondary sources are analyzed in this chapter to achieve the objectives stated in chapter one (I), in accordance to the research methodology described in chapter III.

4.1. Present practice of Issue of Bonus Share

The practice of bonus share issue in Nepalese corporate firms have analyzed in this sub chapter. Mainly, trend analysis, average ratio of bonus issue to equity capital, sector wise distribution of bonus share issue, ratios of bonus issues, regularity and frequency of bonus issue and size of corporate firms and bonus issue.

4.1.1. Trend Analysis:

4.1.1.1. Trend of Bonus Issues and Average Rate of Bonus Share:

For the analysis of bonus issue trend and Average rate of bonus issue trend, data has presented year wise basis as follows:

TABLE: 4.1.1

Bonus Share Announcement in F/Y 1992/93

S.N.	Corporate Firm	Bonus share rate
1.	Nabil Bank Ltd.	30%
2.	Nepal Investment Bank Ltd.	100%
3.	Nepal Insurance Company Ltd.	25%
	Average Bonus Share rate	51.67%

Source: Annual report of SEBON

In year 1992/93, Nepalese corporate firms started to distribute bonus share. Among three corporate firms, two from banking sector and one from insurance company, made a milestone for this type of dividend policy.

In the initial year of bonus share, the rate of bonus share is minimum 25 percent to maximum 100 percent were distributed. The average bonus share rate was 51.67 percent, which clearly shows the positive symbol of bonus share issue in Nepalese corporate firms.

TABLE: 4.1.2

Bonus Share Announcement in F/Y 1993/94

S.N.	Corporate firm	Bonus share rate
1.	Standard Chartered Bank Ltd.	100%
2.	Nepal Bank Ltd.	200%
3.	Nepal United Company Ltd.	100%
4.	Nepal Insurance Company Ltd.	12.49%
5.	Nepal Housing and Development Finance Ltd.	20%
	Average Bonus Share rate	86.5%

Source: Annual report of SEBON/NEPSE

In the year 1993/94, second year of history of bonus share issues, Five companies declared bonus share. This year also banking sector had a dominant position on number and percentage of bonus rate. The highest and lowest bonus share rate were 200 percent and 12.49 percent of Nepal Bank Ltd. and Nepal Insurance Co. Ltd. respectively. The average Bonus Share rate was 86.5 percent. It means that the bonus share rate has been increased than previous year.

TABLE: 4.1.3

Bonus Share Announcement in F/Y 1994/95

S.N.	Corporate firm	Bonus share rate
1.	Bishal Bazar Co. Ltd.	30%
2.	Nabil Bank Ltd.	100%
3.	Nepal Investment Bank Ltd.	50%
4.	Himalayan Bank Ltd.	100%
5.	Nepal Bank Ltd.	150%
6.	Nepal Insurance Company	20%
7.	National Life and General Insurance	50%
8.	Nepal Housing and Development Finance Ltd.	4.2%
	Average Bonus Share rate	63.03%

Source: Annual report of SEBON/NEPSE

In this year number of bonus share issuing company were increased. Although the banking sector had dominance position in issue trend, the insurance sector also came to follow. The maximum bonus share rate was 150 percent where as minimum rate decreased to 4.2 percent. The average bonus share rate was 63.03 percent. It indicates that the trend of bonus share issue is increasing.

TABLE: 4.1.4

Bonus Share Announcement in F/Y 1995/96

S.N.	Corporate firm	Bonus share rate
1.	Salt Trading corporation	50%
2.	Standard chartered Bank Ltd.	50%
3.	Soaltee Hotel Ltd.	33.34%
4.	Nepal Insurance company	20%
5.	Nepal United co. Ltd.	10%
6.	United Insurance co. Ltd.	10.9%
	Average Bonus Share rate	29.04%

Source: Annual report of SEBON/NEPSE

Six corporate firms declared bonus share in this year, the series of 4^{th} year of bonus share practice in Nepalese corporate firms. In this year, the bonus share rates were more consistency than the previous year. The maximum bonus share rate was 50% and the minimum 10% of salt trading corporation/ standard chartered bank and Nepal United Company Ltd. respectively. The average bonus share rate was 29.04 percent. This consistent figure shows towards the balancing practice of Nepalese corporate firms.

TABLE: 4.1.5

Bonus Share Announcement in F/Y 1996/97

S.N.	Corporate firms	Bonus share rate
1.	Bishal Bazar Co. Ltd.	20%
2.	Nabil Bank Ltd.	100%
3.	Nepal Insurance Company	20%
4.	Nepal Cube Oil Ltd.	20%
	Average Bonus share rate	40%

Source: Annual report of SEBON/NEPSE

In the year 1996/97 four corporate firms were distributed bonus share to its shareholders. Regarding to the bonus share rate, Nabil bank Ltd. had highest 100 percent and remaining other three corporate firms had 20 percent. The average bonus share rate was 40 percent. Nepal Lube Oil Ltd. had issued bonus share only once during the study period. The trend of issue of bonus share decreasing (short term) as lower number of companies were declared bonus share.

TABLE: 4.1.6

Bonus Share Announcement in F/Y 1997/98

S.N.	Corporate firm	Bonus share rate
1.	Nepal Grindlays Bank Ltd. (Presently Std. Chartered Bank)	50%
2.	Himalayan Bank Ltd.	60%
3.	Nepal Insurance Co. Ltd.	20%
4.	Lalitpur Finance Co. Ltd.	50%
5.	Paschimanchal Finance Ltd.	20%
6.	Narayani Finance Ltd.	10%
7.	Bishal Bazar Co. Ltd.	40%
	Average Bonus share rate	35.7%

Source: Annual report of SEBON/NEPSE

Seven corporate firms issued bonus share in F/Y 1997/78. Out of them 2 were from banking sector, 3 from financial sector, 1 from Insurance sector and 1 from trading sector. The range of bonus share issue rate was 10 percent to 60 percent. Average bonus share rate was 35.7 percent.

TABLE: 4.1.7

Bonus Share Announcement in F/Y 1998/ 99

S.N.	Corporate firm	Bonus share rate
1.	Himalayan Bank Ltd.	25%
2.	Narayani Finance Ltd.	10%
	Average Bonus Share Rate	17.5%

Source: Annual report of SEBON/NEPSE

It was the year of lowest no. of companies issued bonus share in its history. In this year Himalayan Bank Ltd. declared maximum rate of 25 percent while Narayani finance ltd. declared minimum rate of 10 percent. The average bonus share rate was 17.5 percent.

TABLE: 4.1.8

Bonus Share Announcement in the F/Y 1999/00

S.N.	Corporate firm	Bonus share rate
1.	Bank of Kathmandu Ltd.	30%
2.	Everest Bank Ltd.	20%
3.	Himalayan Bank Ltd.	25%
4.	Nepal Indosuez Bank Ltd.	25%
5.	Nepal Bangladesh Bank Ltd.	100%
6.	Nepal SBI Bank Ltd.	20%
7.	Lalitpur Finance Co. Ltd.	25%
8.	Annapurna Finance Co.Ltd.	100%
9.	Nepal Finance & Saving Co. Ltd.	100%
	Average Bonus Share rate	49.44%

Source: Annual report of SEBON/NEPSE

In F/Y 1999/2000, nine corporate firms declared bonus share. Among them 6 firms were from banking sector and 3 firms were from finance sector. Regarding the range of bonus share rate, the maximum rate was 100 percent and minimum rate was 20 percent. The average bonus share rate was 49.44 percent. The increased no. of bonus issuing company indicates the increasing trend of bonus issue.

TABLE: 4.1.9

Bonus Share Announcement in F/Y 2000/01

S.N.	Corporate firm	Bonus share rate
1.	Everest Bank Ltd.	20%
2.	Himalayan Bank Ltd.	18%
3.	Nepal Bangladesh Bank Ltd.	50%
4.	Nepal Insurance Co. Ltd.	25%
5.	Soltee Hotel Ltd.	33.33%
6.	Yak & Yeti Hotel Ltd.	50%
Average Bonus Share rate		32.72%

Source: Annual report of SEBON/NEPSE

In this year total six corporate firms were declared bonus issue. Out of them 2 firm declared bonus share and 4 declared cash dividend plus bonus share. The maximum and minimum rate of bonus issue were 50% and 20% percent respectively. Average bonus share issue rate was 32.72 percent. Short term decreasing trend has shown in this year

TABLE: 4.1.10

Bonus Share Announcement in F/Y 2001/02

S.N.	Corporate firm	Bonus share rate
1.	Himalayan Bank Ltd.	10%
2.	Nepal Investment Bank Ltd.	30%
3.	Lalitpur Finance Company Ltd.	50%
4.	Everest Bank Ltd.	20%
	Average Bonus Share issue rate	27.5%

Source: Annual report of SEBON/NEPSE

Four corporate firms declared bonus share in F/Y 2001/02. The range of bonus share rate was 10 percent to 50 percent of Himalayan Bank Ltd. and Lalitpur finance Co. Ltd. respectively. Average bonus share rate was 27.5 percent. The decreased no. of issuing companies indicates the decreasing trend of bonus share issue.

TABLE: 4.1.11

Bonus Share Announcement in F/Y 2002/03

S.N.	Corporate firm	Bonus share rate
1.	Standard Chartered Bank Ltd.	10%
2.	Himalayan Bank Ltd.	10%
3.	Narayani Finance Ltd.	20%
4.	National Finance Co. Ltd.	20%
5.	Ace Finance Co. Ltd.	15%
6.	Union Finance Co. Ltd.	10%
7.	Kathmandu Finance Ltd.	50%
8.	Alpic Everest Finance Ltd.	20%
9.	Everest Insurance Co. Ltd.	100%
10.	Sagarmatha Insurance Co. Ltd.	10%
11.	National Life & G. Insurance Co. Ltd.	100%
	Average Bonus Share issue rate	33.182%

In year 2002/03, 11 corporate firms declared bonus share. Among them, 9 corporate firms declared only bonus share and 2 declared cash dividend and bonus share. The range of bonus share rate was 10 percent to 100 percent and figure the trend of bonus share rate was 33.182. According to the figure the trend of bonus share issuing companies are increasing.

TABLE: 4.1.12

Bonus Share Announcement in F/Y 2003/04

S.N.	Corporate firm	Bonus share rate
1.	Himalayan Bank Ltd.	25%
2.	Annapurna Finance Ltd.	50%
3.	Narayani Finance Ltd.	18.767%
4.	Union Finance Company Ltd.	10%
5.	National Finance Company Ltd.	20%
6.	Central Finance Company Ltd.	20%
7.	Alliance Insurance Company Ltd.	10%
8.	Neco Insurance Co.	10%
9.	Janaki Finance Co. Ltd.	33.33%

10.	Nepal Housing & Merchant Fin. Co. Ltd.	10%
11.	Pashchimanchal Finance Co. Ltd.	10%
	Average Bonus Share issue rate	19.74%

Source: Annual report of SEBON/NEPSE

In F/Y 2003/04 also 11 corporate firms declared bonus share. Out of them 7 corporate firms declared bonus share while 4 corporate firms declared cash dividend and bonus share. Finance sector has the dominance number on issue trend. The average bonus share rate was 19.74 percent. Range of bonus issue were 10 percent to 50 percent which shows consistency in bonus rate.

TABLE: 4.1.13

Bonus Share Announcement in F/Y 2004/05

S.N.	Corporate firm	Bonus share rate
1.	Himalayan Bank Ltd.	20%
2.	Annapurna Finance Ltd.	60%
3.	Narayani Finance Ltd.	20%
4.	Nepal Housing and Merchant Finance co. Ltd.	10%
5.	Paschimanchal Finance Co. Ltd.	15%
6.	National Finance Co. Ltd.	10%
7.	Kathmandu Finance Co. Ltd.	10%
8.	Everest Bank Ltd.	20%
9.	N I C Bank Ltd.	20%
10.	Nirdhan Utthan Bank Ltd.	10%
11.	Pashchimanchal Bikas Bank Ltd.	10%
12.	Shree Investment & Finance Co. Ltd.	20%
13.	Pokhara Finance Ltd	100%
14.	Mahalaxmi Finance Ltd	20%
15.	Nepal Awas Bikas Bitta Co. Ltd.	20%
16.	Lalitpur Finance Co. Ltd	50%
17.	General Finance Co. Ltd	10%
18.	Premier Finance Co. Ltd	20%

19.	Nepal Finance & Saving Co. Ltd.	50%
20.	Siddhartha Finance Ltd.	30%
21.	Cosmic Merchant Banking & Finance Ltd.	25%
22.	Butwal Finance Ltd.	15%
23.	Navadurga Finance Co. Ltd	10%
24.	Janaki Finance Co. Ltd	33.33%
25.	Everest Insurance Co. Ltd.	50%
	Average Bonus Share Issue Rate	26.33%

Source: Annual report of SEBON/NEPSE

Twenty-five corporate firms declared bonus share in F/Y 2004/05, the highest no. of bonus share issued during the study period. The dominance number of issuing companies were from finance sector which indicates the growing situation of financing company in Nepal. The maximum bonus share rate was 100 percent and minimum rate was 10 percent regarding the range of bonus rate. The average bonus share rate was 26.33 percent. The increased no. of bonus issuing company shows that the issue trend of bonus share is increasing.

TABLE: 4.1.14

Bonus share announcement in F/Y 2005/06

S.N.	Corporate Firm	Date	Bonus share rate
1.	Union Finance Ltd.		10%
2.	Nepal Insurance Co. Ltd.		30%
3.	Neco Insurance Co. Ltd.		10%
4.	Shree Investment & Finance Co. Ltd.		20%
5.	Pokhara Finance Ltd.		100%
6.	Everest Bank Ltd.		14%
7.	National Finance Co. Ltd.		10%
8.	Siddhartha Finance Ltd.		30%
9.	NIC Bank Ltd.		20%
10.	Himalayan Bank Ltd.		20%

11.	Annapurna Finance Co. Ltd.		60%
12.	Nepal Housing & Merchant Finance Ltd.		10%
13.	Nirdhan Utthan Bank Ltd.		12.22%
14.	Narayani Finance Ltd.		20%
15.	Nepal Aawas Bikas Bitta Co. Ltd.		16.5%
16.	Pashchimanchal Finance Co. Ltd.		15%
17.	General Finance Ltd.		10%
18.	Butwal Finance Ltd.		17.7%
19.	Primier Finance Ltd.		20%
20.	Lalitpur Finance Ltd.		50%
21.	Cosmic Merchant Banking & Fin. Ltd.		25%
	Average Bonus share rate		25%

Source: Annual report of SEBON/NEPSE

Twenty - one corporate firms declared bonus share in this F/Y 2005/06, among them 3 from banking sector 16 from finance sector, 2 from Insurance sector. Total 135 companies were listed in NEPSE, out of them 15.55 percent (21) companies issued bonus share in this share. The range of bonus share rate was 10 percent to 100 percent. Average bonus share rate was 25 percent.

TABLE: 4.1.15

Year wise no. of bonus issue

S.N.	Year	No. of bonus issue
1	1992/93	3
2	1993/94	5
3	1994/95	8
4	1995/96	6
5	1996/97	4
6	1997/98	7
7	1998/99	2
8	1999/00	9

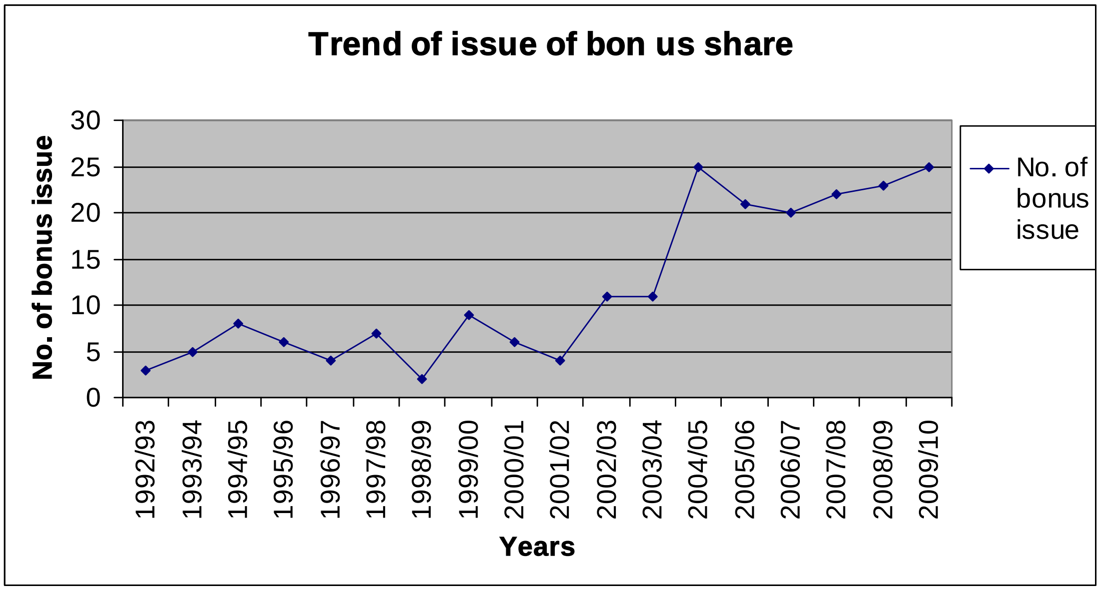
9	2000/01	6
10	2001/02	4
11	2002/03	11
12	2003/04	11
13	2004/05	25
14	2005/06	21
Total		122
Forecasted Data		
15	2006/07	20
16	2007/08	22
17	2008/09	23
18	2009/10	25

Source: Annual report of SEBON/NEPSE

Forecasted data were calculated by fitting of trend line through list squire method

To calculate the forecasted data, list squire method (Y = a + b x) and 11 years sample (1995/96 to 2005/06) have been used. By the forecasting it is found that in 2006/07 total 20, in 2007/08 total 22, in 2008/09 total 23 and in 2009/10 total 25 corporate firm will declare bonus share.

Figure : 4.1.1



From the above diagram, the practices of bonus share issue in Nepalese corporate firms are not regular and consistent. It gives zigzag trend of practice in Nepal. Up to 1994/95 it has upward trend and from that point it came to downward trend up to 1998/99 of 2 number of issuing company. But in 1999/00 it grew to 9 corporate firms, then it came to down position of 4 corporate firms in 2001/02. Then, in 2002/03 it reached to 11 number of corporate firms which continued to next year 2003/04 by issuing 11 corporate firms. In 2004/05 it grew up to 25 corporate firms and then in 2005/06 decreased to some extent to 21 corporate firms.

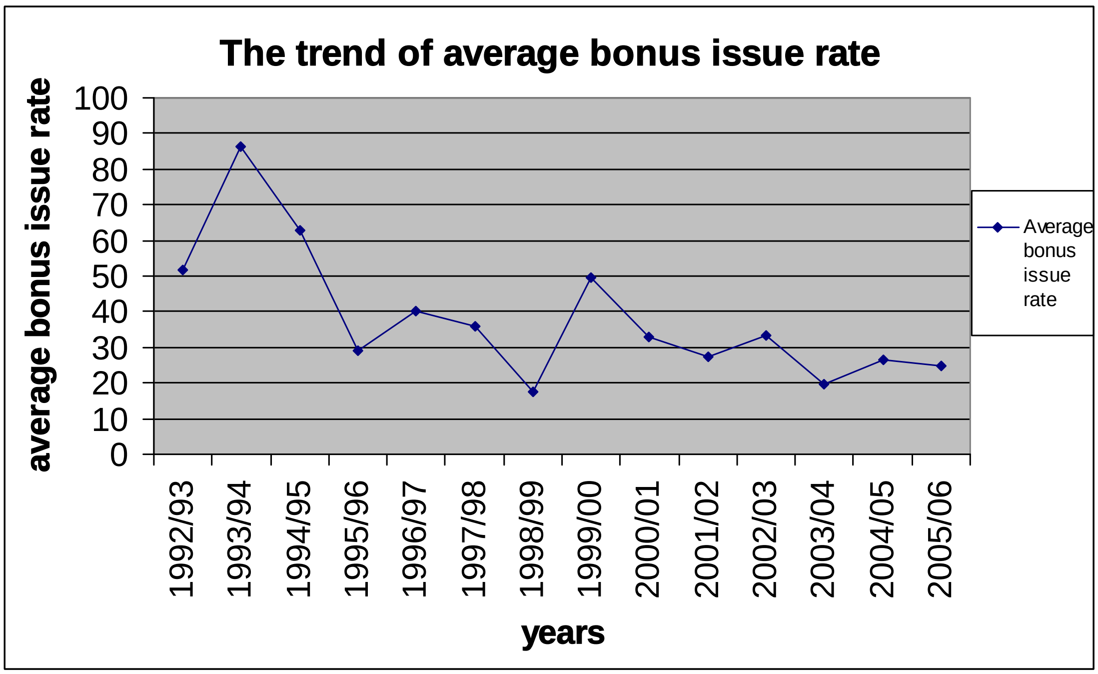
TABLE : 4.1.16

Year wise Average bonus share rate:

S.N.	Year	Average bonus share rate
1	1992/93	51.67
2	1993/94	86.5
3	1994/95	63.03
4	1995/96	29.04
5	1996/97	40
6	1997/98	35.7
7	1998/99	17.5
8	1999/00	49.44

9	2000/01	32.72
10	2001/02	27.5
11	2002/03	33.18
12	2003/04	19.74
13	2004/05	26.33
14	2005/06	25

Figure: 4.1.2



The trend of Average Bonus Share issue rate is also zigzag Average rate in the beginning years seems high. After 1995/96 its trend seems consistent to some extent, but after 2000/01 it has more consistency in trend. The average bonus share rate of six year lies in between 19% to 33%, which indicates that in aggregate Nepalese corporate firms have average bonus share rate of 19% to 33% since 2000/01. It means that the Nepalese corporate firms have some experience about bonus rate which led to consistent bonus issue rate.

4.1.1.2 Periodic Trend of Bonus Share Issue:

For the purpose of periodic analysis of bonus issue, the periods were classified with first 4 and then 5 year class- interval i.e. 1992/93 to 1995/96, 1996/967to 2000/01 and 2001/02 to 2005/06.

TABLE : 4.1.17

Periodic Trend in Bonus Issue, 1992/93 to 2005/06

Year	No. of bonus issue	Amount of bonus issue (Rs. in million)	Amount of equity share capital before each Bonus issue (Rs.in million)	Average ratio of bonus issue to equity capital (col.2 ⌉col.3 = 4)
	(1)	(2)	(3)	(4)
1992/93-95/96	22	499.67	761.58	0.53
1996/97-00/01	28	948.78	2547.7	0.37
2001/02-05/06	72	1327.29	6836.48	0.19
All years	122	2775.73	10145.76	0.27

In the class 1992/93-1995/96, 22 corporate firms issued bonus share amounting of Rs. 499.67 million while the amount of equity share capital before each bonus issue was Rs. 761.58 millions. The four years average ratio of bonus issue to equity capital is 0.53.

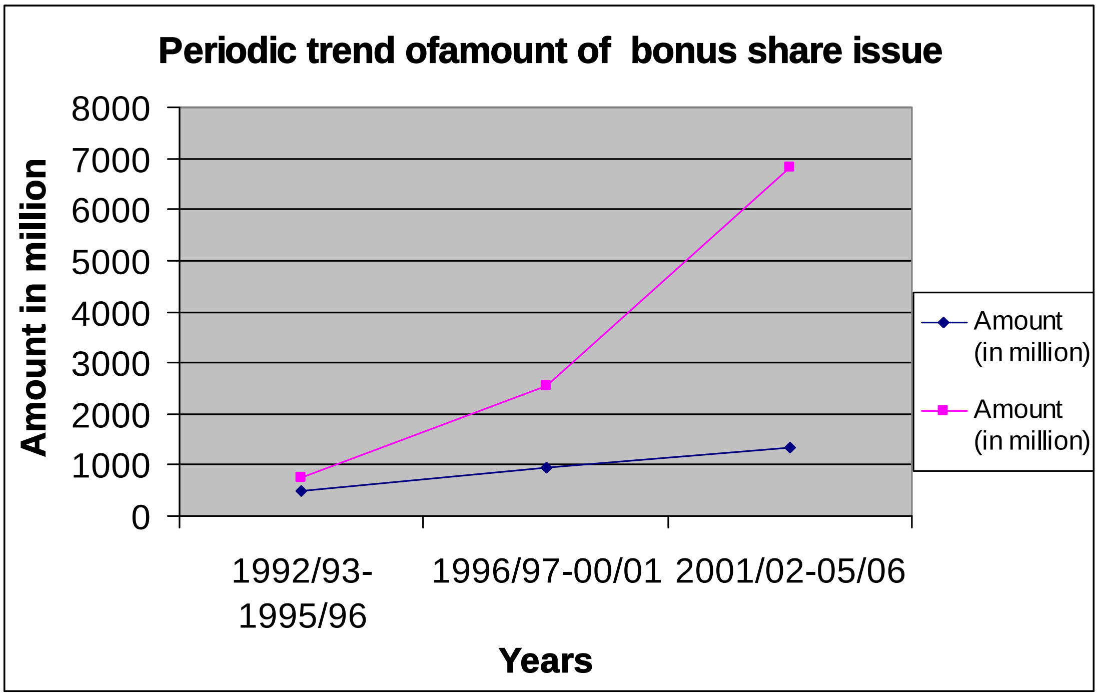
In the second-class 1996/97-2000/01, 28 companies were issued bonus share amounting of Rs. 948.78 million. While the amount of equity share capital before each bonus issue was Rs. 2547.7 million. The five years average ratio of bonus issue to equity capital is 0.37.

Again, in the third class 2001/02-2005/06, 72 corporate firms were issued bonus share amounting of Rs. 1323.536 million while amount of equity share capital before each bonus issue was Rs. 6825.227 million. The five years average ratio of bonus issue to equity capital is 0.19.

In totality amount of bonus share issue and amount of equity share capital before each bonus issue are in increasing trend but the average ratio of bonus issue to equity capital is in decreasing trend. The last five years average ratio of bonus issue to equity capital was lesser then others because of the increasing size of corporate firms. Average ratio of bonus issue to equity capital for all years is 0.27 which indicates that the smaller firms are issuing more bonus share than the larger firms.

Figure : 4.1.3

Periodic Trend in Bonus Share Issue



The figure of periodic trend of bonus issue clearly shows that the amount of bonus issue and amount of equity capital before each bonus issue are increasing but the increasing trend of amount of equity share capital before each bonus issue is more. In third period of 2001/02 to 2005/06 the gap of amount of bonus issue and amount of equity capital before each bonus issue is very large than previous class.

4.1.1.3. Analysis of Regular Bonus Issuing Company and Consistency

In the early stage of bonus share history, Nepal Insurance Company Ltd. had issued regular bonus share while in latest time, Himalayan Bank Ltd. used to issue regular bonus share.

TABLE: 4.1.18

Regular Bonus Share Issuing Company

Nepal Insurance Co. Ltd.			Himalayan Bank Ltd.		
S.N.	Year	Bonus share rate	S.N.	Year	Bonus share rate
1	1992/93	25%	1	1997/98	50%
2	1993/94	12.49%	2	1998/99	25%
3	1994/95	20%	3	1999/00	25%
4	1995/96	20%	4	2000/01	20%
5	1996/97	20%	5	2001/02	10%
6	1997/98	20%	6	2002/03	10%
			7	2003/04	25%
			8	2004/05	20%
			9	2005/06	20%
Average rate		19.58 %	Average rate		22.78%

Source : Annual report of NEPSE

In the starting year 1992/93 to 1997/98, the Nepal Insurance Company Ltd. issued regular bonus share. The rates of bonus issue were 25%, 12.49%, 20%, 20%, 20% and 20% of the year 1992/93 to 1997/98 respectively. This company has consistency in bonus share rate. Moreover, from 1994/95 the company gave same percent (i.e. 20%) in each year afterward. The company have average bonus issue rate of 19.58 percent.

Himalayan Bank ltd is the company which regular issued bonus share for 9 year. The first issue was in 1994/95 of 100 percent (not shown in table) bonus share rate. After breaking 3 year, it declared 50 percent bonus rate in 1997/98. Then after and until now it has issued regular bonus share. In totality, it has laser consistency in bonus share rate than

Nepal Insurance Company Ltd because of the upper and lower limit of the issue range was 50% and 10% respectively. The total average bonus issue rate 22.78 percent.

4.1.2. Average Ratio of Bonus Issue to Equity Capital

The amount of bonus share issue and the amount of equity share capital before each bonus issue are analyzed in this sub-chapter. The amount of bonus issue is analyzed with respect to their equity capital before each bonus issue. The average ratio of bonus share issue to equity capital is calculated dividing amount of bonus share issue by amount of equity share capital before each bonus issue.

The table below shows the total equity share capital of all the bonus-issuing companies, taken together; immediately preceding the bonus issued of each year and the average bonus ratio. This study covers all total 75 issues of Nepalese corporate firms amounting Rs 2336.29 million during the 4 period 1992/93 to 2004/05. The table also shows the no. of bonus issue in year wise basis.

TABLE: 4.1.19

Calculation of Average Ratio of Bonus Share Issue to Equity Capital

Year	No. of bonus issue	Amount of bonus share issue	Amount of Equity share capital before each bonus issue	Average ratio of bonus issue to equity capital (co.2÷col.3)
	(1)	(2)	(3)	(4)
1992/93	3	50.84	101.65	0.50
1993/94	5	99.38	117.42	0.85
1994/95	8	266.6	331.34	0.80
1995/96	6	82.85	211.17	0.39
1996/97	4	146.67	209.79	0.70
1997/98	7	169.01	347.11	0.49
1998/99	2	49.64	202.91	0.24
1999/00	9	335.3	948.17	0.35

2000/01	6	248.163	839.72	0.30
2001/02	4	126.23	718.07	0.18
2002/03	11	140.864	983.548	0.14
2003/04	11	157.9	756.05	0.21
2004/05	25	422.38	1973.94	0.1
2005/06	21	479.83	2404.87	0.20
Total	122	2775.73	10145.76	0.27

Source: Financial statements of listed companies (NEPSE)

The number of bonus issuing company in first three year was increased and the amount of bonus share issue and amount of equity share capital before each bonus issue were also increased. Then after, no. of bonus issuing company decreased zigzag up to 1998/99. But the amount of equity share capital before each bonus issue was in increasing trend. In accordance with the budget speech of the F/Y 1996/97, NRB issued the directive on Nov. 25, 1996, which required old commercial banks with low capital base to raise their capital funds to the level of Rs 500 million in 5 years period. That provision may have direct impact on the no. of bonus issue in the year 1997/98.

Again, in 2004 A.D., Nepal Rastra Bank (NRB) made a provision to increase paid up capital of commercial Bank, Development Bank, finance companies and Insurance companies which reflected the issuance of bonus share in large volume, in 2003/04 onward. In F/Y 2004/05, 25 corporate firms were issued bonus share. In aggregate, number of bonus issue and amount of bonus share is almost increasing trend.

The bonus issue to equity capital ratio is seems to be fluctuating nature. The highest ratio is 0.85 of F/Y 1993/94 and lowest rate is 0.14 of F/Y 2002/03. The aggregate bonus issue to equity capital ratio (Total amount of bonus issue divide by total amount of equity share capital before each bonus issue) is 0.27. This aggregate bonus issue to equity capital ratio is considered as satisfactory figure for developing Nepalese capital market in the context of south Asia (during the period 1948 to 1967, India has 0.38 total average ratio of bonus issue to equity capital, Gupta, 1973:6)

4.1.3. Sector Wise Distribution of Bonus Share Issue:

For the purpose of sector wise study, Six sector has been made named banking, Finance Companies, Insurance companies, Hotels, Trading companies and Manufacturing companies. The number of bonus issue sector wise and year wise data were presented in the table below.

TABLE: 4.1.20

Sector wise distribution of number of bonus issue

Sector/ Years	Banking	Finance	Insurance	Hotel	Trading	Mfg. co.	Total
1992/93	2		1				3
1993/94	2	1	1		1		5
1994/95	4	1	2		1		8
1995/96	1		2	1	2		6
1996/97	1		1		1	1	4
1997/98	2	3	1		1		7
1998/99	1	1					2
1999/00	6	3					9
2000/01	3		1	2			6
2001/02	3	1					4
2002/03	2	6	3				11
2003/04	1	8	2				11
2004/05	4	20	1				25
2005/06	3	16	2				21
Total	35	60	17	3	6	1	122

Source: Financial statements of listed companies (NEPSE)

Table: 4.1.20 shows the number of corporate firm, which has issued the bonus share to its shareholder. The finance sector has the dominance number of firms followed by banking sector, Insurance companies and Hotels. The banking sector has regularity in issuing bonus share while in the latest time finance sector has increasing tendency to bonus issue.

Only one manufacturing firm has been issued bonus share during the period. The one of the interesting things is that, from 1998/99, no corporate firms has issued bonus share from the trading and manufacturing sector.

TABLE: 4.1.21

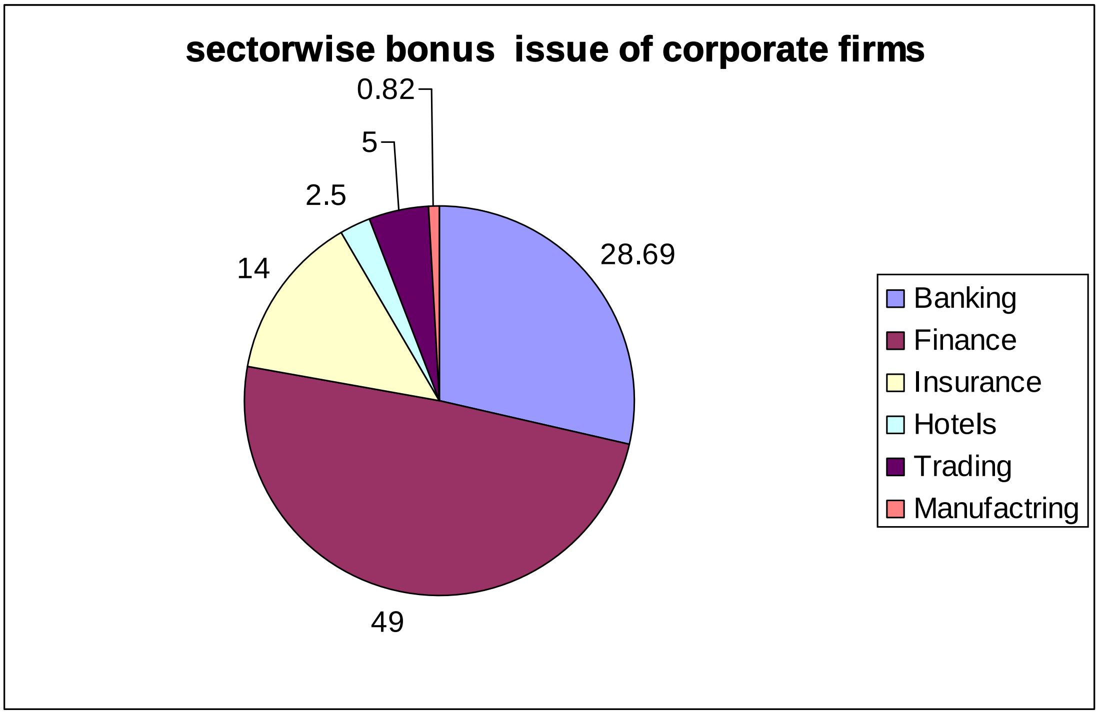
Percentage of sector wise number of bonus issue

S.N.	Sector	No. of issue	Percentage
1	banking	35	28.69
2	Finance companies	60	49.00
3	Insurance companies	17	14.00
4	Hotels	3	2.5
5	Trading companies	6	5
6	Mfg. companies	1	0.82
	Total	122	100

Source: Financial statements of listed companies (NEPSE)

Figure: 4.1.4

Pie chart of Percentage of sector wise bonus share issuing corporate firm



In 14 years period total 122 corporate firms declared bonus issue. Out of them 28.69% from banking, 49 percent from finance companies, 14 percent from Insurance Companies, 2.5 percent from Hotels, 5 percent from Trading Companies and 0.82 percent from Manufacturing Companies.

The sector wise distribution of amount of bonus issue during the period is as in the following table.

TABLE : 4.1.22

Sector wise distribution of Amount of Bonus Issue (Rs. in million)

Sector / Years	Banking	Finance	Insurance	Hotels	Trading	Mfg.	Total
1992/93	45.43		5.41				50.84
1993/94	90	3.6	3.38		2.4		99.38
1994/95	245.42	0.9	16.08		4.2		266.6
1995/96	50		7.8005	16.31	8.74		82.85
1996/97	130.85		8.79		3.64	3.39	146.67
1997/98	147.00	6.909	7.3		7.8		169.01

1998/99	48.00	1.64					49.64
1999/00	315.8	19.5					335.3
2000/01	158.55		12.64	76.97			248.16
2001/02	117.9	8.333					126.23
2002/03	69.87	36.36	34.636				140.864
2003/04	107.25	37.9	9.09				154.23
2004/05	268.23	134.15	20.00				422.38
2005/06	291.7	159.43	28.7				479.83
Total	2086.00	408.72	153.83	93.28	26.78	3.39	2772.73

Source: Financial statements of listed companies (NEPSE)

In the sector wise distribution of amount of bonus issue of Banking sector has dominance position of Rs. 2086.00 million followed by Finance Companies sector of Rs. 408.72, Insurance Companies sector of Rs. 153.83 million, Hotels sector of Rs. 93.28 million, Trading Companies sector of Rs. 26.78 million, and Manufacturing sector of Rs. 3.39 million. The banking sector has regularity in issuing of bonus share as sector wise distribution.

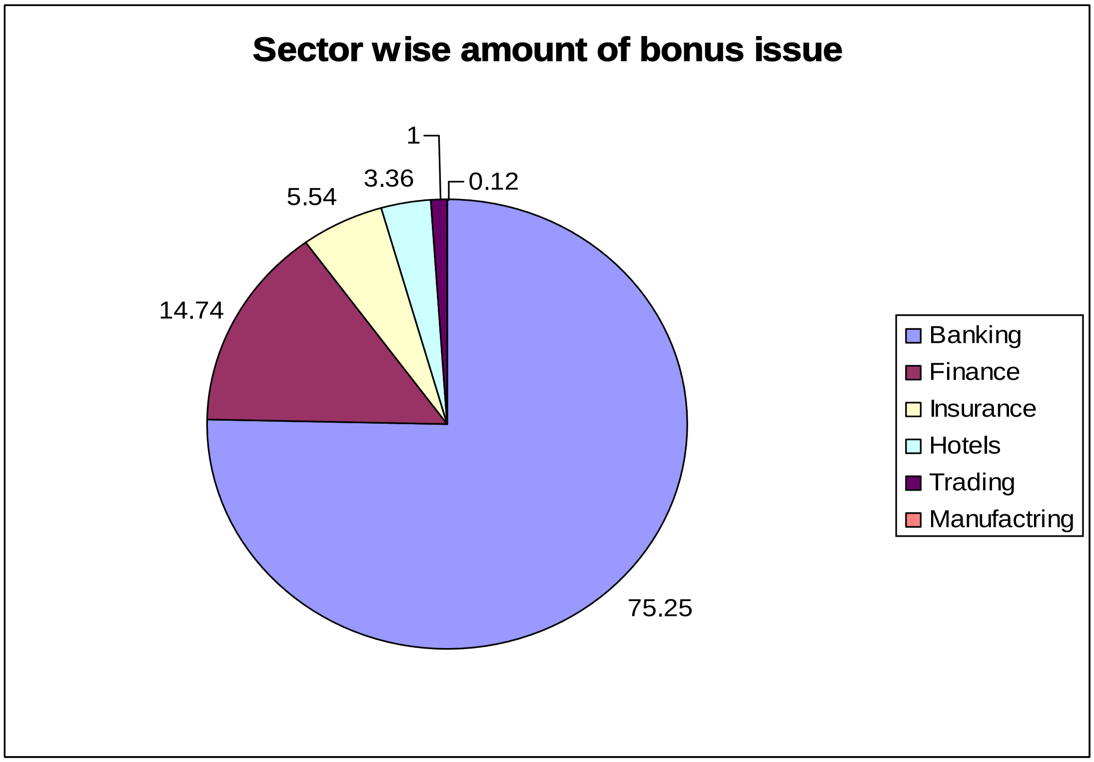
TABLE: 4.1.23

Percentage of sector wise amount of bonus issue

S. N.	Sector	Amount of bonus issue	Percentage
1	Banking sector	2086.00	75.25
2	Finance Companies	408.71	14.74
3	Insurance Companies	153.83	5.54
4	Hotels	93.28	3.36
5	Trading Companies	26.78	1.00
6	Mfg. Companies	3.39	0.12
Total		2772.73	100.00

Source: Financial statements of listed companies (NEPSE)

Figure: 4.1.5



The banking sector has not only dominated position but also its 28.69 percent bonus issue covered 75.25 percent of bonus amount. Except banking sector, nominal amount of bonus share were issued.

4.1.4. Ratios of Bonus Issues

The table below gives some more popular ratios in Nepalese corporate firms. The five most popular ratios and percentage of total number of bonus issues are as follows:

TABLE: 4.1.24

Most popular Bonus Ratios

S.N.	Bonus ratio	Percentage of all Bonus Issues
1	1:1 (100%)	10.66
2	1:2 (50%)	12.30
3	1:4 (25%)	7.38
4	1:5 (20%)	26.23

5	1:10 (10%)	21.31
	Total	77.88

Source: Financial statements of listed companies (NEPSE)

During the study period 1992/93 to 2005/06 the popular bonus share ratios are 1:1, 1:2, 1:4, 1:5 and 1:10 which have 10.66%, 12.30%, 7.38%, 26.23% and 21.31% of total no. of bonus issue. These popular bonus share ratios cover 77.88% of total bonus issues. If we drop a most popular ratio than it will be 1:5 (20%) in Nepalese corporate firms.

The table 4.1.23 shows that 77.88% of total bonus issue covers by five (5) popular ratios, and remaining 22.12% of total bonus issue covers other ratios.

TABLE: 4.1.25

Frequency Distribution of Bonus Issue Ratio

S.N.	Ratio of bonus issue to outstanding equity	Number of bonus issues	Percentage
1	2:1	1	0.82
2	3:2	1	0.82
3	1:1	13	10.66
4	3:5	3	2.45
5	2:5	1	0.82
6	1:2	15	12.3
7	1:3	4	3.28
8	3:10	7	5.74
9	1:4	9	7.38
10	1:5	32	26.23
11	3:20	7	5.74
12	1:8	2	1.64
13	1:10	26	21.31
14	1:24	1	0.82
	Total	122	100.00

Source: Financial statement of NEPSE

The table shows that the ratio 2:1, 3:2, 3:5, 2:5, 1:3, 3:10, 3:20, 1:8 and 1:24, have only 22.12% of total number of bonus issue while other five ratio have 77.88% of total number of bonus issue.

4.1.5. Regularity and Frequency of Bonus Issue:

Under the regularity and frequency of bonus issue, how much time bonus share have been issued by each company during the study period has analyzed. The table below gives the information about the frequency of bonus share issues by same company.

TABLE: 4.1.26

Frequency Distribution of Corporate firms issuing Bonus share.

Number of Bonus Issue (1)	Number of Companies (2)	Total Number of Bonus Issue (1×2 =3)
1	14	14
2	22	44
3	6	18
4	3	12
5	2	10
6	1	6
7	0	0
8	1	8
9	0	0
10	1	10
Total	50	122

Source: Financial statements of listed companies (NEPSE)

Total 50 corporate firms have issued 122 times bonus share. Among them 14 corporate firms have issued once, 22 issued twice 6 issued thrice, 3 issued 4 times, 2 issued 5 times, 1 issued 6 times, 1 issued 8 times and 1 issued 10 times.

From the above table we can clearly see that 36(14+22) or 72% corporate firms issued more than or equal to 2 times, while 14(6+3+2+1+1+1)) or 28% of total corporate firms issued 1 times. Thus, there is no consistency in frequency of bonus share issue in Nepalese corporate firms.

Corporate firms which made 2 or more bonus issue

Since Nepalese capital market is in early stage, the company which made 2 or more bonus issue are accounted to study of issuing practice.

TABLE: 4.1.27

Corporate Firms Which Made 2 or More Bonus Issues

S.N.	Corporate firm	No. of Bonus Issue
1	Himalayan Bank Ltd.	10
2	Nepal Insurance Company	8
3	Narayani Finance Ltd.	6
4	Lalitpur Finance Co. Ltd.	5
5	Everest Bank Ltd.	5
6	Standard chartered Bank Ltd.	4
7	Annapurna Finance Ltd.	4
8	National Finance Co. Ltd.	4
9	Bishal Bazar Co. Ltd.	3
10	Nabil Bank Ltd.	3
11	Nepal Investment Bank Ltd.	3
12	Union Finance Co. Ltd.	3
13	Nepal Housing and Merchant Finance Ltd.	3
14	Pashchimanchal Finance Ltd.	3
15	Soaltee Hotel	2
16	Nepal Bank Ltd.	2
17	Kathmandu Finance Ltd.	2
18	National Life and General Insurance	2
19	Nepal United Company	2
20	Nepal Housing and Development Finance Ltd.	2
21	Nepal Bangladesh Bank Ltd.	2

22	Shree Investment and finance Co. Ltd.	2
23	Siddhartha finance Ltd.	2
24	Nepal Industrial & Commercial Bank Ltd.	2
25	Nepal Awas Bikas Bitta Co. Ltd.	2
26	General Finance Ltd.	2
27	Cosmic Merchant Banking & Finance Ltd.	2
28	Nepal Finance & Saving Co. Ltd.	2
29	Janaki Finance Co. Ltd.	2
30	Everest Finance Co. Ltd.	2
31	Nirdhan Utthan Bank Ltd.	2
32	Pokhara Finance Ltd.	2
33	Primier Finance Ltd.	2
34	Butwal Finance Ltd.	2
35	Neco Insurance Co. Ltd.	2
36	Shree Investment & Finance Co. Ltd.	2
	Total	108

Source: Financial statements of listed companies (NEPSE)

Total 36 corporate firms have been issued bonus share 2 or more time, in which 2 times have majority. Himalayan Bank issued 10 times, the maximum time of bonus share issue, followed by Nepal Insurance company with 8 times. One corporate firm issued 6 time, two corporate firms issued 5 times, 3 corporate firm issued 4 times 6 corporate firms issued 3 times and 22 corporate firms issued 2 times.

4.1.6. Size of Corporate Firms and Amount of Bonus Issues:

Whether large corporate firms tended to issue bonus shares in higher ratios as compared to small corporate firms was a question to be examined.

To analysis the size of corporate firm and amount of bonus issue, all bonus issue during the period were broken down according to the size of equity capital of the issuing company immediately before each bonus issue. Average bonus ratios were then computed for each size-class dividing amount of bonus share issue by amount of equity share capital before each bonus issue.

TABLE: 4.1.28

Average Bonus Ratios For Companies of Different Sizes

Size of company Measured by Equity share capital before Bonus Issue (Rs. in million)	1992/93 to 1998/99		1999/00 to 2005/06		All Years (1992/93 to 2005/06)	
	No. of Bonus issue	Bonus Ratio	No. of Bonus issue	Bonus Ratio	No. of Bonus issue	Bonus Ratio
Under 10	4	0.21	1	1.00	5	0.36
10 to Under 20	10	0.55	18	0.37	28	0.43
20 to Under 50	10	0.30	36	0.38	46	0.43
50 to Under 100	6	0.90	10	0.19	16	0.47
100 and over	5	0.54	22	0.22	27	0.25
All classes	35	0.26	87	0.22	122	0.27

Sources: Financial statement of listed companies, NEPSE

The above table shows that the smaller company under 10 million issued relatively better ratio in all years 1992/93 to 2005/06, so that they can increase their capital base. And another interesting finding is that the companies of 50 to under 100 million class are more anxious to reach a size which looks respectable in the eyes of the investor. Strengthening of the capital base seemed to be an important objective of bonus issues by small companies.

Since the ratio has neither ascending nor descending order, the ratios of bonus issues are not determined by the size of the corporate firms. However 50 to under 100 million size has the highest bonus ratio which indicates that the middle sized firms are anxious to reach a respectable (large) size.

4.2. Impact of Bonus Issue on Market Price

For the purpose of study of impact of bonus share issue on market price of common stock, total 29 bonus issues had taken during the period 1999/00 to 2003/04. Out of 29 issue 15 issues have chosen from Banking sector, 10 from Finance and 4 from other sector.

TABLE: 4.2.1

Group wise list of sample firm

Group I

S.N.	Banking Sector	No. of Bonus Issues
1	Nabil Bank	1
2	Nepal Investment Bank Ltd.	2
3	Standard Chartered Bank Ltd.	1
4	Himalayan Bank Ltd.	5
5	Nepal SBI Bank Ltd.	1
6	Nepal Bangladesh Bank Ltd.	2
7	Everest Bank Ltd.	2
8	Bank of Kathmandu Ltd.	1
	Total no. of bonus issue	15

Group II

S.N.	Finance Sector	No. of bouns issue
1	Nepal Finance & Saving Co. Ltd.	1
2	National Finance Ltd.	1
3	Annapurna Finance Ltd.	1
4	Kathmandu Finance Ltd.	1
5	Union Finance Ltd.	1
6	Narayani Finance Ltd.	2
7	Lalitpur Finance Ltd.	2
8	Central Finance Ltd.	1
	Total	10

Gooup III

S.N.	Other	No. of Bonus Issue
1	National Life and G. Insurance Co.	1
2	Everest Insurance Co.	1
3	Soaltee Hotel Pvt. Ltd.	1
4	Sagarmatha Insurance Co.	1
	Total	4

Source: Financial statements of listed companies (NEPSE)

Seven different points of time were selected for observation of the price movement, with the announcement date as the point of reference. The selected points are:

I. Three month before the announcement date.
II. One month before the announcement date.
III. The date of announcement.
IV. One month after the announcement date.
V. Three month after the announcement date.
VI. Six month after the announcement date.
VII. One year after the announcement date.

As mention above, the date of board's decision has been considered as the date of bonus share announcement.

Immediate Impact

Under immediate impact the share price of the corporate firm who issued bonus share have been observed after one month of directors recommendation (date of announcement).The immediate impact means the impact of the bonus issue announcement as soon as the director's decision has been made public for easy and reliable impact, one mouth after announcement date have been taken in the study.

The effect of bonus issue announcement on market price of common stock on an average is shown in table: 4.2.2. The table presents the average of adjusted price relatives at all seven point of time of group I, II and III named Banking, Finance and other sector and in combined as well.

TABLE: 4.2.2

The effect on Share Price of Bonus Issue Announcement made on the basis of average of adjusted price relatives During 1999/00 to 2003/04

Sector wise Bonus Issue Announcement	No. of Bonus Issue	Selected Point of Time						
		I (Base Date)	II	III	IV	V	VI	VII
Banking Sector	15	100	119.33 (29.97)	134.32 (79.57)	126.79 (92.26)	134.21 (40.8)	140.63 (90.51)	130.29 (76.1)
Finance Sector	10	100	96.33 (17.28)	98.01 (22.76)	103.74 (38.75)	131.05 (21.98)	132.69 (27.180	123.20 923.53)
Other Sector	4	100	104.9 (9.28)	103.55 (10.43)	93.03 (17.84)	119.88 (35.22)	122.33 (41.42)	126.72 (49.1)
Combined	29	100	109.41 (24.07)	117.56 (58.89)	114.19 (70.46)	131.14 (34.62)	130.79 (68.58)	127.36 (59.32)

Source : Monthly Market Price of Listed Company, NEPSE

Figure within parenthesis represents standard deviation.

One month before bonus issue announcement of average market price of common stock of banking sector has significant increased. And again it increased to 34.32 percent on the date of bonus issue announcement. After one month of announcement it slightly decreased. On the finance sector, the average market price one month before and on the month of announcement is decreased. One month after announcement, its average market price slightly increased to 103.74, while other sector's average market price on one month after announcement is decreased to 93.03.

The increased stock price on one month before and on the month (date) of bonus issue announcement implies that the investors were pre-informed about bonus issue. So, we can say that the information about bonus issue might have been leaked out to the investor.

According to the table above, the combined market price of stock before one month of announcement is increased by 9.41 percent. On the month of (date of) bonus issue announcement the combined market price of stock is increased to 17.56 percent. How ever after one month of bonus issue announcement, the combined average market price of stock is decreased by 3.37. That means, immediate impact on combined market price of stock due to the bonus issue announcement is negative i.e. market price decreased by 2.87 percent but not in the ratio of theoretical value. So, MPPS is higher than theoretical value. Then, after three month of announcement average combined common stock price increased significantly.

Six Month After Announcement

After three month of bonus issue announcement every sector's average market price have been increased and followed the increasing tread up to six month. The banking sector increased to 40.63 percent, Finance sector increased to 32.69 percent and other sector increased to 22.33 percent in compare to base date. The combined average market price of all issues after three month of announcement is increased to 31.14 percent while the average market price of six month after announcement is increased to 30.79 percent compare to base date.

One Year after Announcement

After one year of bonus issue announcement, the other sector's average market price is increased but the banking and finance sector are decreased than the MP of six month after announcement. In totality, the banking sector increased to 30.29 percent (decreased by 7.35% than six month after announcement), finance sector increased to 23.20 percent (decreased by 7.15 percent then six month after announcement), and other sector increased to 26.72 percent (increased by 3.59% than six month after announcement)

The combined average market price of all issue after one year is increased to 27.36 percent than base date. But in compare to six month after enouncement price it is decreased by 2.62 percent. So, we can say that after one year of announcement the average market price is decreasing in trend.

Standard Deviation of market price

The standard deviation of banking sector is higher than other sector. There are 29.97 to 92.26 standard deviation in banking sector, 17.28 to 38.75 standard deviation in finance sector and 9.28 to 49.1 standard deviation in other sector. The highest standard deviation 92.26 is of banking sector's market price of one moth after bonus issue announcement date and the lowest standard deviations 9.28 is of other sector's market price of one month before the announcement date of bonus issue

The range of combined standard deviation is 24.07 to 70.48. The highest standard deviation 70.48 is of market price of one month after the announcement date of bonus issue. So, this indicates that the fluctuation of price of one month after the announcement is higher then other time period.

Relation between Bonus Ration and Price Rise

The relation between bonus ratio and price rise has analyzed with taking 29 bonus issues and for easier study ratios were classified into four categories.

1] 0 to 20% bonus ratio

2] 20 to 30% bonus ratio

3] 30 to 50% bonus ratio

4] Above 50% bonus ratio

TABLE : 4.2.3

The Effect of Bonus Ratio on the Magnitude of Price rise

Ratio of Bonus Issue	No. of Bonus Issue	Average of Adjusted Price Relatives				
		3 month before announcement	1 month before announcement	1 month after announcement	6 month after announcement	1 year after announcement
		I	II	IV	VI	VII
0 to 20 %	9	100	113.87	135.17	145.76	121.33
20% to 30%	9	100	116.86	113.68	125	124.03
30% to	6	100	106.37	104.97	138.42	137.95

50%						
above 50%	5	100	91.76	88.4	134.28	131.46

Source: Financial statements of listed companies (NEPSE)

(I, II, IV, VI and VII were selected point of time)

The ratio 0 to 20% and 20 to 30% have better position of market price of 1 month before announcement and one month after announcement of bonus issue than other ratios. After 6 month of announcement of bonus issue, all ratios have highest market price. The ratio 0 to 20% has 145.76 average market price followed by 30 to 50% ratio of 138.42 average market price and 20 to 30% ratio has last position of 125 average market price.

After 1 year of the bonus issue announcement, all ratios decreased compare to average price of 6 month after announcement. 1 year after average price of 30 to 50% bonus ratio has highest price of 137.95 followed by above 50% ratio of 131.46. Which shows that after 1 year, greater bonus ratio reflects positive correlation between bonus ratio and price rise. While on the immediate impact, the bonus ratio reflects negative correlation on average market price rise.

TABLE : 4.2.4

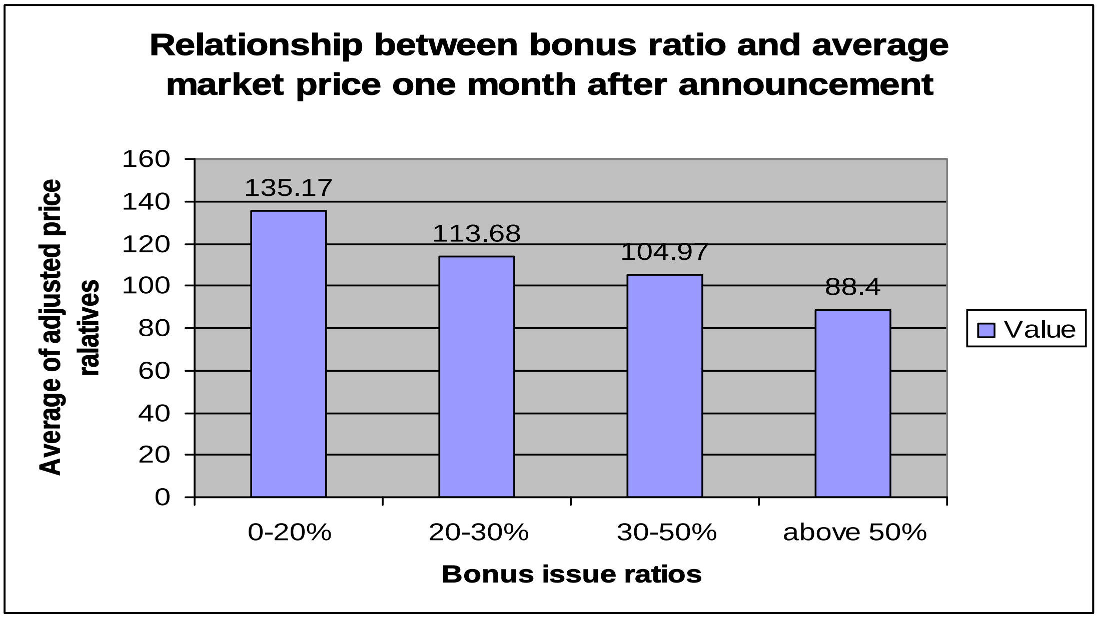
Impact of Bonus Ratio on Market Price

Time period	Correlation	Bonus ratio	Average M.P.
1 month after announcement	Negative	↑	↓
1 year after announcement	Positive	↑	↑

Source: Financial statements of listed companies (NEPSE)

Relationship between Bonus Ratio and average market price

Figure: 4.2.1



The above bar diagram clearly shows that the after 1 month of bonus issue announcement, the average market price of stock falls if the bonus ratio increases.

Figure: 4.2.2

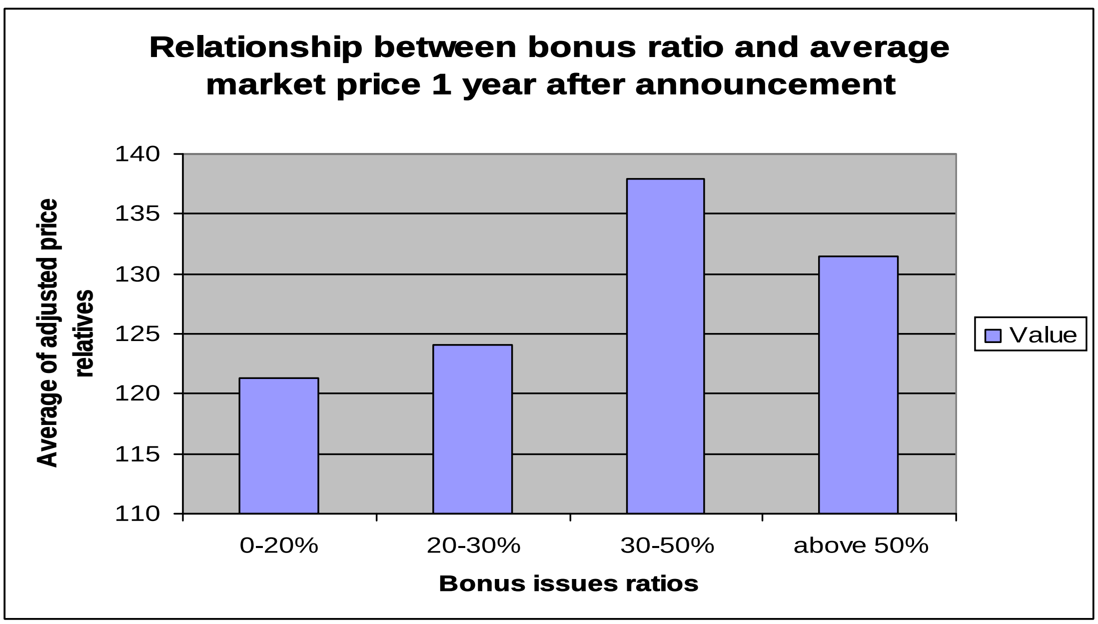


Figure: 4.2.2 Shows that when the ratios are increase the average of adjusted price relatives increases. So, the bonus ratio and average market price has almost positive correlation after 1 year of bonus issue announcement.

4.3. Assessment of shareholder's Aspect

This section of research represents the analysis of primary data collected from questionnaire surrey to meet the objectives of the study and set forth a logical and qualitative framework to recommend solution to the shareholder's aspect. The survey of shareholder aspect regarding bonus share is conducted through a set of questionnaire which contains 5 question related to bonus share issue practice in Nepalese corporate firm. The questionnaire includes the shareholder's aspect related to interest in investing in stock, preference of dividend, expectation of bonus share, perception and impact of bonus share on market price of stock.

In this study, all-together 90 respondents are included to collect primary data. The respondents are mainly aggressive shareholders and some share brokers too. The summary of the response are given below.

4.3.1. Test of Shareholder's Hypothesis

The shareholders aspect regarding the bonus share is tested by chi-square (χ^2) test to find out various facts hidden in the investors of Nepalese corporate firm.

Test of shareholder's Hypothesis one

In 90 random samples of respondents, it contains the following result noted on the basis of related field. This test is related to draw the cause of interest in investing on stock.

TABLE : 4.3.1

Causes of interest in investing on stock

Option	For expectation of cash dividend	For expectation of bonus share	For expectation of increase in MPPS (capital gain)	Having no other investment opportunity	Total
Frequency	22	18	36	14	90

Source: Field survey, 2006

Formulation of Hypothesis

Null Hypothesis (H_o): There is no significant difference between the observed and expected frequency. In other word, there is no significant difference between the causes of interest in investing on stock.

Alternative Hypothesis (H_1): There is significant difference between observed and expected frequency, In other word, there is significant difference between opinion regarding the causes of interest in investing on stock.

Level of significance: The level of significance is 5%

Test statistic

$$\chi^2 = \frac{(O Z E)2}{E} = 12.222$$

Where, O = Observed frequency

E = Expected frequency ($\frac{Eo}{n}$)

Degree of freedom: n-1 = 4-1 = 3

Critical value: The tabulated value χ^2 at 5% level of significance for 3 d.f. is 7.82

Decision: Since the calculated value on χ^2 is greater than tabulated value, the null hypothesis (H_o) is rejected. Therefore, there is significance difference between observed and expected frequency. It means the investing on stock is depends on the cause of investors. Here main cause is for the expectation of increase in MPPS (capital gain).

Test of Shareholder's Hypothesis Two:

In 90 random samples of respondent contains the following response regarding the preference of form of dividend.

TABLE : 4.3.2

Preference of form of dividend

Option	Cash dividend	Stock dividend / Bonus share	Cash plus bonus share	other	Total
Frequency	27	27	36	0	90

Source: field survey, 2006

Formulation of Hypothesis:

Null Hypothesis (H_o): There is no significant difference between observed and expected frequency regarding the preference of from of dividend. In other word, there is no significance difference between the options of preference of dividend.

Alternative Hypothesis (H_1): There is significant difference between observed and expected frequency regarding the preference of form of dividend. In other word, there is significant difference between the options of preference of dividend.

Level of significance: The level of significance is 5% test statistic,

Test statistic

$$\chi^2 = \frac{(O \, Z \, E)2}{E} = 32.4$$

Where, O = Observed frequency

E = Expected frequency ($\frac{Eo}{n}$)

Degree of freedom: n -1 = 4 -1 = 3

Critical value: The tabulated value of χ^2 at 5% level of significance for 3 d.f. is 7.82.

Decision: Since the calculated value of χ^2 is greater than tabulated value, the null hypothesis Ho is rejected. Therefore, there is significant difference between observed and expected frequency regarding the preference of form of dividend.

Test of shareholders hypothesis Three

In 90 random samples of respondent, the following response regarding the expectation of bonus share have been recorded.

TABLE : 4.3.3

Expectation of bonus share

Option	Because of tax benefit	For expectation of increase future dividend	For capital gain in future	To make respectable size of company	Total
frequency	14	30	40	6	90

Source: field survey, 2006

Formulation of Hypothesis

Null Hypothesis (H_o): There is no significant difference between observed and expected frequency. In other word, there is no significant difference between opinions regarding the expectation of bonus share.

Alternative Hypothesis (H_1): There is significant difference between observed and expected frequency. In other word, there is significant difference between opinion regarding the expectation of bonus share.

Level of significance: The level of significance is 5%.

Test statistic

$$\chi^2 = \frac{(O \, Z \, E)2}{E} = 31.421$$

Where, O = Observed frequency

E = Expected frequency ($\frac{Eo}{n}$)

Degree of freedom: n -1 = 4 -1 =3

Critical value: The tabulated value of χ^2 at 5% level of significance for 3 d.f., is 7.82.

Decision: Since the calculated value of χ^2 is greater than the tabulated value, the null hypothesis H_o is rejected. Therefore, there is significant difference between opinion regarding the expectation of bonus share.

Test of shareholder's Hypothesis Four

In 90 random samples of respondents, the following figure has drawn regarding the perception of bonus share.

TABLE : 4.3.4

Perception of bonus share

Option	As wind fall gain	As no thing more than re-capitalization	As means to increase market price per share	As means to increase outstanding number of share	Total
frequency	14	27	31	18	90

Source: field survey, 2006

Formulation of Hypothesis

Null Hypothesis (H_o): There is no significant difference between observed and expected frequency. In other word, there is no significant difference between options regarding the perception of bonus share.

Alternative Hypothesis (H_1): There is significant difference between observed and expected frequency. In other word, there is significant difference between opinions of regarding the perception of bonus share.

Level of significance: The level of significance is 5%.

Test statistic

$$\chi^2 = \frac{(O\,Z\,E)2}{E} = 5.556$$

Where, O = Observed frequency

E = Expected frequency ($\frac{Eo}{n}$)

Degree of freedom : n-1 = 4-1 = 3

Critical value: The tabulated value of χ^2 at 5% level of significance for 3 d.f. is 7.82.

Decision: Since the calculated value of χ^2 is less than tabulated value, the null hypothesis H_o is accepted. Therefore, there is no significant difference between opinions regarding the perception of bonus share.

Test of shareholder's Hypothesis Five:

In 90 random sample of respondent, it contains the following response regarding to the impact of bonus share on market price of stock.

TABLE : 4.3.5

Impact of bonus share on market price of stock

Option	Bonus issue increases market price of stock	Bonus issue decreases market price of stock	Bonus issue has no effect on market price of stock	Others	Total
frequency	36	27	18	9	90

Formulation of Hypothesis:

Null Hypothesis (H_0): There is no significant difference between observed and expected frequency. In other word, there is no significant difference between opinions regarding the impact of bonus share on market price of stock.

Alternative Hypothesis (H_1): There is significant difference between observed and expected frequency. In other word, there is significant difference between opinions regarding the impact of bonus share on market price of stock.

Level of significance: The level of significance is 5%.

Test statistic

$$\chi^2 = \frac{(O\,Z\,E)2}{E} = 18$$

Where, O = Observed frequency

E = Expected frequency ($\frac{Eo}{n}$)

Degree of freedom: n -1 = 4 -1 = 3

Critical value: The tabulated value of χ^2 at 5% level of significance for 3 d.f. is 7.82%.

Decision: Since the calculated value of χ^2 is greater than tabulated, the null hypothesis is rejected. In other word, there is significant difference between opinions regarding the impact of bonus share on market price of stock.

4.3.2. Analysis and interpretation of Shareholders Hypothesis

Interest in investing on stock

In this question, there are four options a] for expectation of cash dividend b] for expectation of bonus share c] for expectation of increase in MPPS and d] having no other investing opportunity. Out respondents 24.44 percent score obtained by option (a) 20 percent obtained by option (b) 40 percent obtained by option (c)and 15.56 percent obtained by option.(d) Hence by hypothesis test it is proved that the option.(c) for expectation of increase in MPPS (capital gain) is the most dominant cause than other.

Preference of form of Dividend

About the preference of form of dividend, shareholders have been asked a question. out of 90 respondent the option (a) Cash dividend obtained 30 percent score, option (b) Stock dividend/ bonus share obtained 30 percent, option (c) Cash plus bonus share obtained 40 percent and option (d) Other obtained 0 percent score and by testing hypothesis the option (c) Having 40 percent of score is significant different than other. It means, the cash plus bonus share is the preference of shareholder regarding the form of dividend.

Expectation of bonus share

To 90 respondents it has been asked about expectation of bonus share to the shareholders and brokers providing four options. The option (a) because of tax benefit obtained 15.56 percent score, option (b) For expectations of increase future dividend obtained 33.33 percent, option (c) for capital gain in future obtained 44.44 percent and option (d) to make respectable size of company obtained 6.67 percent. Thus, by testing hypothesis we concluded that the option (c) has dominated position in the eye of Nepalese investors/ shareholders.

Perception of bonus share

It has been asked to the shareholder, how you perceive bonus share with providing four options. Out of 90 respondents, (a) as wind fall gain obtained 15.56 percent score, option (b) as no thing more re- capitalization obtained 30 percent, option (c) As means to increase market price per share obtained 34. 44 percent and options (d) As means to increase outstanding number of share obtained 20 percent score. Thus, by testing hypothesis it is proved that there is no significant difference between given four options of perception of bonus share to Nepalese shareholders.

Impact of bonus share on market price of stock

The fifth question of questionnaire survey of shareholders was about impact of bonus share on market price of stock with four options. Out of total 90 respondents option a] Bonus issue increases market price of stock obtained 40 percent score, option b] Bonus issue decrease market price of stock obtained 30 percent, option c] Bonus share has no effect on market price of stock obtained 20 percent and option d] if other (please mention) obtained 10 percent score. After testing hypothesis, we can conclude that bonus issue increases market price of stock in the eye of Nepalese investors.

4.4. Assessment of managerial Aspect

For managerial assessment a questionnaire survey having five questions of managerial aspect has been developed. The data collected from survey with the support of 90 respondents were tabulated and classified in to desirable format.

The questionnaire contains preference on kind of dividend, causes of payment of cash dividend instead of stock dividend, purpose of bonus share issue, causes of issue of bonus share and most affecting factors in practices of bonus share. The information were collected from senior manager, directors, experts. The data were presented and analyzed through hypothesis testing specially chi-squire (χ^2) test as below.

4.4.1. Test of Managerial Hypothesis

The managerial aspects about the issue of bonus share has analyzed by chi-square (χ^2) test on various categories of samples to find out the major problems and difficulties faced by Nepalese corporate firm.

Test of Managerial Hypothesis One

In 90 random of respondents, it contains the following distribution which was noted on the basis of related fields. The test is to draw the managerial preference on kind of dividend.

TABLE : 4.4.1

Preference on kind of dividend

Option	Cash dividend	Bonus share/ Stock dividend	Cash plus bonus share	Others	Total
frequency	37	21	23	9	90

Source: Field survey, 2006

Formulation of Hypothesis

Null Hypothesis (H_o): There is no significant different between the observed and expected opinion regarding the preference on kind of dividend. In other word, there is no significant different between the cash dividend and other options.

Alternative Hypothesis (H_1): There is significant difference between the observed and expected opinion regarding the preference on kind of dividend. In other word, there is significant difference between the cash dividend and other options.

Level of significance: The level of significance is 5%

Test statistic:

$$\chi^2 = \frac{(O\,Z\,E)2}{E} = 17.654$$

Where, O = Observed frequency

E = Expected frequency ($\frac{Eo}{n}$)

Degree of freedom: n-1 = 4-1 = 3

Critical value: The tabulated value of χ^2 at 5% level of significance for 3 d.f. is 7.82.

Decision: Since the calculated value of χ^2 is greater than tabulated value, the null hypothesis is rejected. Therefore, there is significant difference between opinion regarding the preference on kind of dividend.

Test of Managerial Hypothesis Two

In 90 random samples of respondents, it contains the following distribution which was noted on the basis of related fields, the test is to draw the reasons that the corporate firms pay cash dividend instead of stock dividend.

TABLE : 4.4.2

Reasons for payment of cash dividend instead of stock dividend/ bonus share.

Option	Most of share holder prefer cash dividend	Bonus share creates more liability to the company in respect of future dividend	Bonus issue is more costly to administration than cash dividend	Having no profitable investment	Total
frequency	35	26	18	11	90

Source: Field survey, 2006

Formulation of Hypothesis:

Null Hypothesis (H_o): There is no significant difference between observed and expected opinion regarding to the reason of payment of cash dividend instead of stock dividend/bonus share. In other word the payment of cash dividend instead of stock dividend is not depend on reasons.

Alternative Hypothesis (H_1): There is significant difference between observed and expected opinion regarding to the reasons of payment of cash dividend instead of stock dividend. In other word, the payment of cash dividend instead of stock dividend is depends on reasons.

Test statistic:

$$\chi^2 = \frac{(O \, Z E)2}{E} = 14.266$$

Where, O = Observed frequency

E = Expected frequency ($\frac{Eo}{n}$)

Degree of freedom: n-1 = 4-1 -3

Critical value: The tabulated value of χ^2 at 5% level of significance for 3 d.f. is 7.82

Decision: Since the calculated value of χ^2 is greater than the tabulated value, the null hypothesis H_o is rejected. There fore we conclude that the payment of cash dividend instead of stock dividend is depends on the reasons.

Test of Managerial Hypothesis Three

In 90 random samples of respondents, it contains the following distribution. The test is to draw the purpose of bonus share issue.

TABLE : 4.4.3

Purpose of Bonus Share Issue

Option	To increase share capital	To bring the market price of share within most popular range	To increase the number of outstanding share	To raise future dividend for share holders (capital gain)	Total
Frequency	30	25	19	16	90

Source: field survey, 2006

Formulation of Hypothesis:

Null Hypothesis (H_o) : There is no significant difference between the observed and expected opinion regarding the purposes of bonus share issue.

Alternative Hypothesis (H_1): There is significant difference between the observed and expected opinion regarding the purposes of bonus share issue.

Level of significance: The level of significance is 5 %.

Test statistic

$$\chi^2 = \frac{(O\,Z\,E)2}{E} = 5.2$$

Where, O = Observed frequency

E = Expected frequency ($\frac{Eo}{n}$)

Degree of freedom: n-1 = 4-1 = 3

Critical value : The tabulated value of χ^2 at 5 % level of significant for 3 d.f. is 7.82

Decision : Since the calculated value of χ^2 is less than the tabulated value, the null hypothesis (H_o) is accepted. Therefore, we can conclude that there is no significant difference between observed and expected frequencies (opinion) regarding the four purposes of bonus share issue.

Test of Managerial Hypothesis Four

In 90 random sample of respondents on fourth question contains the following distribution which was noted on the basis of related fields. The test is to draw the cause of issue of bonus share.

TABLE : 4.4.4

Cause of issue of bonus share

Option	To reward the shareholder	To re-capitalization of profit & reserve	To retain existing control	To conserve cash	Total
Frequency	22	34	18	16	90

Source: Field survey, 2006

Formulation of Hypothesis:

Null Hypothesis (Ho): There is no significant difference between observed and expected opinion regarding the causes of issue of bonus share.

Alternative Hypothesis (H1) : There is significant difference between observed and expected opinion regarding the causes of issue of bonus share.

Level of significance: The level of significance is 5 %

Test statistic

$$\chi^2 = \frac{(O\,Z\,E)2}{E} = 8.667$$

Where, O = Observed frequency

E = Expected frequency ($\frac{Eo}{n}$)

Degree of freedom : n-1 = 4-1 = 3

Critical Value : The tabulated value of χ^2 at 5 % level of significance for 3 d.f. is 7.82.

Decision : Since the calculated value of χ^2 is greater than tabulated value, the null hypothesis (Ho) is rejected. Therefore, the alternative hypothesis is accepted and we can conclude that there is significance difference between observed and expected opinion regarding causes of issue of bonus share. That means the main cause of issue of bonus share is to re-capitalization of profit and reserve.

Test of Managerial Hypothesis Five

In 90 random samples of respondents, it contains the following distribution which was noted on the basis of related field. The test is to draw the most affecting factor in practices of bonus share.

TABLE : 4.4.5

Affecting factors in practices of bonus share

Option	Rules and Regulation	Shareholders interest	Financial performance of company	Others (mgmt)	Total
frequency	29	24	20	17	90

Source : Field survey, 2006.

Formulation of Hypothesis:

Null Hypothesis (Ho): There is no significant difference between the observed and expected opinion regarding the affecting factors in practices of bonus share.

Alternative Hypothesis (H1): There is significant difference between observed and expected opinion regarding the affecting factor in practices of bonus share.

Level of significance: The level of significance is 5 %

Test statistic

$$\chi^2 = \frac{(O - E)2}{E} = 3.6$$

Where, O = Observed frequency

E = Expected frequency ($\frac{Eo}{n}$)

Degree of freedom: n-1 = 4-1 = 3

Critical Value: The tabulated value of χ^2 at 5 % level of significance for 3 df is 7.82.

Decision : Since the calculated value of χ^2 is less than the tabulated value, the null hypothesis Ho is a accepted. Therefore there is no significant difference between observed and expected opinion regarding the affecting factors in practices of bonus share.

4.4.2. Analysis and interpretation of Test of Managerial Hypothesis:

Preference on kind of Dividend.

The first question of managerial survey was about preference on kind of dividend with four options. Out of 90 respondents, the option (a) Cash dividend obtained 25.56 percent score, option (b) Stock dividend/ bonus share obtained 23.33 percent, option (c) Cash plus bonus share 41.11 percent and option (d) others obtained 10 percent score. After testing hypothesis we can conclude that there is dominant effect of option (a) Regarding the preference on kind of dividend. So that cash dividend is the main kind of dividend chosen by corporate management.

Reasons for payment of cash dividend instead of bonus share

It has been asked to the 90 managerial person that why most of the corporate firms pay cash dividend instead of stock dividend. Out of 90 respondents option (a) most of shareholder prefer cash dividend obtained 38.89 percent score, option (b) bonus share creates more liability to the company in respect of future dividend obtained 28.89 percent, option (c) bonus issue is more costly to administration than cash dividend obtained 20 percent and option (d) having no profitable investment obtained 12.22 percent score. So, after hypothesis testing there is significant difference between options. It means option (a) is the powerful reasons among others.

Purpose of bonus share issue

The purpose of bonus share issue behind managerial aspect has been asked to 90 respondents. Out of 90 respondents, the option (a) to increase share capital obtained 33.33 percent score, option (b) to bring the market price of share within most popular range obtained 27.78 percent, option (c) To increase the number of outstanding share obtained 21.11 percent and option (d) to raise future dividend for share holders (capital gain) obtained 17.78 percent score. So, by testing hypothesis there is no significant difference between four options. No single option has dominated position on purpose of bonus share issues.

Causes of issue of bonus share

It has been asked to the managerial person that why management of company issue the bonus share. Out of 90 respondents, option (a) to reward the shareholder obtained 24.44 percent score, option (b) to recapitalization of profit & reserve obtained 37.78 percent, option (c) to retain existing control obtained 20 percent and option (d) to conserve cash obtained 17.78 percent score. After testing hypothesis, it has been found that there is significant difference between the option. It means there is not a single cause that recapitalization of profit and reserve is the main cause of issue of bonus share.

Affecting factors in practice of bonus share

In this question, out of 90 respondents option (a) rules and regulation obtained 32.22 percent, option (b) shareholders interest obtained 26.67 percent, option (c) Financial performance of company obtained 22.22 percent and option (d) others obtained 18.89 percent score. Thus by using this data, hypothesis is tested and through that test we can conclude that there is no significant different between the options. It means all options were affecting in practice of bonus share. Moreover there is no single most affecting factor in deed.

4.5. Major Findings

A. Findings from secondary data:

- The practice of bonus share issue in Nepalese corporate firms are not regular and consistent though Himalayan Bank Ltd. have been issued 10 times and Nepal insurance company have been issued 8 times during the study period. (4.1.1.3)
- The trend of bonus share practice is zigzag, but in recent time it is gradually increasing. (4.1.1.1)
- The trend of average bonus share rate is also zigzag. Average rate in the beginning years seems higher. After 1995/96 its trend seems consistent to some extent within the range of 20 % to 50 % (4.1.1.1).
- In periodic trend, the amount of bonus share issue and the amount of equity share capital before each bonus issue are in increasing trend but the average ratio of bonus issue to equity capital is in decreasing trend (4.1.1.2).
- The bonus issue to equity capital ratio is seems to be fluctuating nature. The highest ratio is 0.85 of F/Y 1993/94 and lowest ratio is 0.14 of F/Y 2002/03. The aggregate bonus issue to equity capital ratio is 0.27. This aggregate bonus issue to equity capital ratio is considered as satisfactory figure for developing Nepalese capital market in the context of South Asia.
- In the sector wise distribution of number of bonus issue the Finance sector has dominance position of 60 issues followed by Banking sectors of 35 issues, Insurance sector of 17 issues, Trading companies sector of 6 issues, Hotel sector of 3 issues and manufacturing sector of 1 issue.
- In the context of sector wise distribution of bonus share issue, the commercial banking sector has been issued regularly and dominance position on amount of issue followed by Finance Companies, Insurance Companies Hotels and Trading companies.
- Total 14 bonus issue ratios are practiced in Nepalese corporate firms. Among them 1:5 (20%) is most popular ratio which occupied 26.23% of total ratios. The most popular five ratios are 1:5, 1:1, 1:2, 1:4 and 1:10.
- In frequency of bonus issue, total 50 corporate firms issued 122 bonus issue. Among them 1 company issued 10 times, 1 company issued 8 times, 1 companies issued 6 times, 2 companies issued 5 times, 3 company issued 4 times, 6 corporate firms issued 3 times, 22 companies issued 2 times and 14 companies issued 1 times bonus share.

- Since the average bonus ratios for companies of different sizes have neither ascending nor descending order, the ratio of bonus issues are not determined by the size of corporate firms. However, 50 to under 100 million size has the highest bonus ratio which indicates that the middle sized firms are anxious to reach a respectable size.
- The immediate impact on combined market price of stock due to the bonus issue announcement is negative i.e. market price decreased by 2.87 percent. But not in the ratio of theoretical value. So, market price per share is higher than theoretical value. Then after three month of announcement, average combined stock price increased significantly.

B. Findings from primary data:

Shareholder's survey:

- On share holders survey, the question about causes of interest in investing on stock, most of shareholder's response as for expectation of increase in MPPS (capital gain) is the main cause. Therefore, there is significant difference between causes regarding the interest in investing on stock.
- Most of respondent regarding the preference of form of dividend gave their opinion on cash plus bonus share.
- Most of respondent regarding the expectation of bonus share gave their opinion on for capital gain in future.
- By the questionnaire survey and Hypothesis test regarding the perception of bonus share, the options are not significant difference. It means the given four option have equal weight with 5 % level of significance.
- In the question about of impact of bonus share on market price of stock, most of respondent gave their opinion on option (a) bonus issue increases market price of stock.

Managerial survey:

- On Managerial survey of question about preference on kind of dividend, most of respondents (managers) gave their empathizes on cash dividend.
- On the reasons for payment of cash dividend instead of stock dividend/bonus share, there is a significant difference between given option. It means the option (a) most of shareholder prefer cash dividend has dominance position among the Nepalese corporate managers.
- The four options of purpose of bonus share issue are not significant different. That is the options are equal for the purpose of bonus share at 5% level of significance.
- To recapitalization of profit and reserve is the most dominance cause of issue of bonus share.
- On the question about most affecting factor in practices of bonus share, managers gave their opinion equal to the four options. That is there is no significant difference between four options.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter has focused on summarizing the study held with conclusions and some recommendation on the basis of findings. For this purpose, the chapter has been dividend into three sub-chapters as summary, conclusion and recommendation.

5.1. Summary:

The practice of issue of bonus share is in early stage in Nepalese corporate firms. So, it is a recent phenomena specially practiced after the incorporation of joint venture banks in Nepalese Management after Government's announcement of economic liberalization policy in mid 80s.

Nepalese investors do not know even advantages and disadvantage of bonus share. They think that the extra number of share means extra value to their net worth. In this situation, this study has been conducted to analyze the bonus share issue practice based on 50 corporate firms 122 bonus issue during the period 1992/93 to 2005/06. The study has been focused on the trend of bonus issue, trend of amount of bonus issue, periodic trend of bonus issue, analysis of regular bonus issue and consistency, average ratio of bonus issue to equity capital, sector wise distribution, ratios of bonus issue, regularity and frequency and assessment of shareholder's and managerial survey.

The practices of bonus share issue in Nepalese corporate firms are not regular and consistent. The trend of no. of bonus issue is increasing and average bonus share rate is decreasing. But the notable fact is that in periodic trend, the amount of bonus share issue and the amount of equity share capital before each bonus issue are in increasing trend. The bonus issue to equity capital ratios are seems to be fluctuating nature with in the range of 0.14 to 0.85 while the aggregate bonus issue to equity capital ratio is 0.27. The sector wise distribution of number of bonus issue is dominated by finance sector while sector wise distribution of amount of bonus issue are dominated by banking sector. Most popular ratio is 1: 5 among the 14 ratios practiced in Nepalese corporate firms. Most of companies are repeating their frequency except 14 companies by issuing bonus share. The ratios of bonus issues are not determined by the size of corporate firms. The market price of stock after bonus issue did not decreased as the bonus ratio. Only small amount decreased due to bonus issue resulting which market price per share is very high than theoretical value. For a valid comparison, the ex-bonus price has to be converted to a cum-bonus basis.

On shareholders survey, most of shareholder response for the expectation of increase in MPPA (capital gain) as the cause of interest in investing on stock. At preference on form of dividend, they gave their opinion on cash plus bonus share. Capital gain in future is the main factor for the expectation of bonus share. About the impact of bonus share on market price of stock, most of respondent gave their opinion that the bonus issue increases market price of stock.

On managerial survey, most of manager gave preference on cash dividend as kind of dividend and they further justified about the reason behind it was that most of shareholder prefer cash dividend. The four options of purpose of bonus share issue are not significant different. To recapitalization of profit and reserve is the most dominance cause of issue of bonus share. On most affecting factor in practices of bonus share, they gave their opinion equal to the four options.

5.2. Conclusion:

Bonus share issue has became an important phenomena in Nepalese corporate firm. Its practice is increasing day by day because of lower cost of financing and to meet legal requirement made by Nepal Rastra Bank as well. The bonus share issue is one of the best way to reward the shareholders which also protect the cash drain form the organization. Thus, it has been emerged as a popular method of capitalizing earning to raise capital base and rewarding shareholders. However, there is no regular and consistent policy regarding bonus issue in terms of bonus ratios and time interval between one issue to another. Nepalese investors/shareholders perceive bonus share as a additional value to their net worth, positive signal of better performance and increase profit in future. Therefore if the firm is growing or expansion of business or service, issue of bonus share to increase capital base is better than any other source for corporate management and shareholders as well.

One another interesting fact is that the corporate managers think that shareholder prefers cash dividend but shareholder actually prefer cash dividend plus bonus share. Nepalese shareholders also thinks that bonus share issue increase market price of stock and in practice it is true in Nepalese capital market. Nepalese corporate firms are facing problem from the regulator to get approval for the bonus issue.

5.3. Recommendation:

On the basis of this research, following points are the recommendation to concerned authorities:

To the corporate firm:

- Bonus share should not be issued on adhoc basis. Therefore, corporate firm must have profit and growth planning. Corporate firm must formulate a policy on issue of bonus share regarding bonus ratio, purpose of bonus share issue, impact on market price, time interval of bonus issue etc on behalf of shareholders.

- Impact of bonus share issue on stock market and on stock price must be studied because market price below par is generally interpreted as a sign of financial weakness.
- Corporate firms must explain their purpose of bonus share issue clearly.
- The record date, book close date and bonus rate should be clearly approved by board meeting.
- The leakage of information before the actual announcement of bonus share must be prohibited and immediate action should be taken against the insiders.
- Corporate firms must maintain it's future dividend and earnings after the bonus share issue otherwise the price will fall ultimately and deteriorate the firms image.

To the shareholders:

- Nepalese shareholders perceive bonus share as means to increase market price per share but they should know that theoretically, the market price per share after bonus issue decreases as per the bonus ratio.
- Shareholders should be award that the bonus share issue can not change their total net worth.
- Impact of bonus share issue on future dividend should be interpreted before investment.

To the policy maker:

- It must be observed that bonus share announcement procedure i.e. board resolution, shareholders approval, record date and book close date are fairly implemented or not and during the period shareholders were informed clearly or not.
- The corporate firm who has no profit and growth planning should not be permit to issue bonus share.
- Investors awareness program should be lunch through publishing the matters related to capital market, seminar, workshop and trainings.

- Legal rules and regulation should be improved to suit the corporate firm's requirement for the protection of shareholder's interest and inappropriate exercise.

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