

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Development of the country depends upon the economic development and for this banks and other financial institution play vital role. Bank is a resource mobilizing institution which mobilize idle scattered resources in productive sectors and there by earn reasonable profit. The concept of banking has been developed from the ancient history with the effort of ancient Gold Smiths who developed the practices of storing people's gold and valuables for safe keeping. Nowadays, Banks are those financial institutions, mainly dealing with financial activities of trade, commerce, industry agriculture etc. They have gained Para-amount trust in the public. Banks render a wide range of services to the different strata of society.

Capital market plays a vital role in economic sector. Capital market is the general barometer that measures the proper collection and canalization of saving for investment in productive and income generation assets (Shrestha: 2004, 11). Capital market is the market place through which the entrepreneurs collect the long term capital by mobilizing individual and institutional saving either directly or indirectly. In Nepal, the capital market is still small, emerging and disorganized. Profit could not be generated by Nepalese company that are both established and operated on public sector or private sector.

In Nepal, Banking activities were started after the establishment of Nepal Bank Ltd. in 1937A.D. It performed as a Central Bank until Nepal Rastra Bank was established in 1956A.D to regulate the banking activities and monetary policy of the nation. Before 1980, only government sector banks i.e. NBL and RBB operated as commercial banks. When government adopted policy of the globalization and liberalization, several financial institutions were established to mobilize scattered funds in the economy. Since then, many private commercial banks and Joint venture bank are established. The first joint venture bank, NABIL was established in 1984 A.D. Joint venture banks are the modes of trading through

partnership among nations and also a form of negotiation between various group of industries and traders to achieve mutual exchange of goods and services of sharing competitive advantages. "A Joint venture is the joining of forces between two or more enterprise for the purpose of carrying out a specific operation i.e. industries or commercial investment and production or trade (Gupta: 1984, 15-24).

After the establishment of joint venture banks in Nepal, it has brought new hopes for productive mobilization of funds. They are established to provide financial and other services primarily to commercial sector and occasionally to industrial and agricultural sector. Especially they collect required capital through the issue of primary share and debenture. The purchasers are the owner of the banks by investing their funds on share with the hope of capital gain and dividend.

The government is unable to receive dividends for the public enterprises. In capital market, all firms operate in order to generate earning. Share-holders make investment in equity capital with the expectation of making earning either directly in the form of dividend or indirectly in the form of capital gains in future. Thus shareholders wealth can be increased through either dividend or capital gain.

Dividend policies and practices refer to how the dividend has been paying in the concern organization. The policy of a company on the division of its profit between distribution to its shareholders and retention for its investment is known as dividend policy (Van Horne & Wachowicz: 1997; P-494). All the aspects and issues related to payment of dividend are contained in the dividend policy. A dividend policy that allows stockholders to get their share of the profit by always paying out a fixed percentage of earning tend to be preferred by over one that regularly pays stable or increasing dividend (Gitman: 1988, 602). Every business entity including bank required to set its profit target and formulated suitable policy regarding retention and distribution of earned profit. Dividend policy is an integral part of the firms financing decision (Van Horne & Wachowicz: 1997, 494). It affects the financial structure, the flow of funds, corporate liquidity and investors' attitude. By a dividend policy we mean some kind of coexistent approach to the

distribution versus retention decision rather than making the decision on the purely and hoc basis from period to period (William & Gordon; 1972, 405). So what and how much it is desirable to pay dividend is always controversial topic because shareholders always expect higher dividend, but management wants more amounts to retain to the company for investment purpose. Dividend policy decision is the major financial decision of the firm, which determines the further capital structure and the growth of the firm because retained earning is the internal source of financing which is the key factor to determine the amount if external financing. Retained earning is used for making investment in favorable investment opportunities which helps to increase the growth of the firm. Hence there should be an optimal dividend policy that can attract potential investors and finance for its growth and expansion.

In the Nepalese context, the history of dividend policy is not longer. There are few companies who pay regular dividend. But after the establishment of joint venture companies, there is new trend of distributing dividend to the shareholders. This dividend distribution trend has not only attracted the investor but also made management conscious about the policy regarding the payment of dividend. Dividends are the most important factors for attraction of new investors and reflect healthy position of the company. Dividend policy has the effect of dividing its net profit into two parts retained earning and dividends. The retained earning provides funds to finance the firm's long term growth. Dividend policy of the firm, thus, has its effect on both long term financing and wealth of shareholders (Pandey: 1999, 770). Hence the study on dividend policy and practices assumes greater significance.

At present, many joint venture banks are in operation. They contribute significantly in the formation and mobilization of internal capital and development efforts. They perform the function in different ways like accepting deposits, providing interest, granting loan etc that helps to remove the deficiency of capital. The main objective of joint venture bank is to earn profit by proper mobilization of resources. The decision regarding how much profit to distribute to the shareholders

as a dividend and how much to keep in the organization is the crucial decision of the managers. JVBs are the leading financial institutions in case of paying regular dividend. But the payment of dividend is most debated issue. The debate revolves around the dividend payout is relevance or irrelevance to the value of the firm and the investors. To sum up, this studies deals with the prevailing policies and practices of some Nepalese Joint venture banks.

## **1.2 Statement of the Problem**

Dividend decision affects the overall decision of the firm and also affects the shareholders perceptions to the firm. Dividend policy is an effective tool to attract new investor and to maintain the present ones. However dividend decision is still a crucial as controversial area of managerial finance. The scholars have not been able to define simple and conclusive relationship between the dividend and the market price of share. Some experts believes to have positive relationship between stock price and dividend where as other believes to have negative relationship between stock price and dividend. The effect of dividend policy on a corporation's market value is a subject of long standing controversy (Baker, Farrelly and Edelman: 1985, 78). Dividend is the most simulating factor for investment on share of the company and dividend makes the investor happy but payment of dividend decreases the internet financing required for making good investment opportunities. This will hamper the growth of the firm. There may be various factors responsible for the fluctuation in the share price. Thus dividend policy may affect such areas like financial structure, the flow of funds corporate liquidity, stock price, investor's satisfaction. Investors are investing their fund by trial and error method because of lack of evaluating skill and information related to companies in which they invest their fund.

In Nepal, it has been found that especially, the joint venture banks have been distributing regular dividend. But however, not a single, clear and convincing dividend policy that being followed is known yet.

There is no limit to identification of the problem about dividend practices that are visible in Nepalese JVBS. To sum up this study, the study deals with the following issues:

- ❖ What are the dividend policies adopted by JVBS of Nepal?
- ❖ What are the factors affecting the dividend policy?
- ❖ What is the relationship of dividend with EPS, MPS, net profit and net worth?
- ❖ Is there any consistency among dividend policies followed by JVBS?
- ❖ Do the companies paying larger dividend have good financial position?
- ❖ Is it possible to increase the value of stock by changing dividend policy or payout ratio?

### **1.3 Objectives of the Study**

The major objective of this study is to assess dividend policy and practices of joint venture banks in Nepal. The specific objectives of this study are:

- i. To study the dividend policies and practices of JVBs in Nepal.
- ii. To examine the relationship of dividend with stock price, EPS, and NWPS.
- iii. To identify the factors affecting the dividend policy of JVBs.

### **1.4 Significance of the Study**

Now a day, most of the investor are attracted to invest in share for the purpose of getting more return as well as to maximize their wealth. So dividend policy and practices have become an effective way to attract new investors, to keep present investors happy and to maintain good will of the company. While investing in shares, the investor forgoes the opportunity income that he could have earned in two ways, one is by means of dividend and another is by capital gains i.e. increase in share price. In the context of Nepal, the development and growth of capital market is in initial stage. People are investing their fund by using trial and error method because of lack of evaluating skill and information related to companies in which they invest their fund. It is necessary to establish clear conception about

return that results from investing in securities. The study may deliver crucial information for the policy makers of the companies and those people who are interested to invest in shares.

### **1.5 Limitations of the Study**

This study has been carried out within certain limitations, which are as follows:

- a. This study is confined only to the joint-venture banks.
- b. Only secondary data has been used in this study. So, the relevancy of the study will be affected by the reliability and truthfulness of the secondary data.
- c. The study covers a five-year period.
- d. Lack of research experience, lack of recent information, time and sources constraints are other limitations.
- e. The study has been conducted to fulfill for the partial requirements for MBS programme.
- e. Only cash dividend is considered.

The above limitations, no doubts have some impact on quality of the study but some impacts do not affect the usefulness of the study.

### **1.6 Organization of the Study**

This study has been organized in to five chapters, each devoted to some aspects of the study of dividend policy and practices followed by joint venture banks in Nepal.

#### **Chapter-1 Introduction**

It contain the background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

## **Chapter-2 Literature Review**

It contains conceptual frame work, major studies in general and reviews of major studies in Nepal.

## **Chapter-3 Research Methodology**

It describes the research methodology employed in the study. This chapter includes research design, population and sample, natures and sources of data, method of data analysis.

## **Chapter-4 Presentation and Analysis of Data**

This chapter deals to use data presentation and analysis of data presentation and analysis of data using various financial and statistical tools.

## **Chapter-5 Summary, Conclusion and Recommendation**

This chapter deals with major findings, conclusion and recommendation.

## **CHAPTER II**

### **LITERATURE REVIEW**

This chapter helps the researcher to explore what kind of research studies have already been conducted in his/her study. It includes the literature of previous studies and conceptual frame work for the studies on dividend policy, thus the chances of duplication can be minimized. Accounting and finance books, Articles, Journals are the backbone of literature review.

#### **2.1 Conceptual Framework**

Dividend is a part of net earning which is given to its shareholders either in cash or bonus share in return of their investment in share capital. "Dividend refers to that portion of a firms net earning, which are paid out to the shareholders (Khan and Jain: 1992, 543). Dividends are generally paid in the form of cash. So the payment of dividend reduces the cash balance of the company as well as the amount of retained earnings. In theory of finance, dividend decision plays a crucial role and it is also a controversial area of managerial finance. The policy of a company in the division of it's earning to its shareholders as dividend and retention for its investment is dividend policy. Dividend policy may affect the financial structure of the firm flow of funds, corporate liquidity, stock prices, investor's satisfaction, growth of the firms etc. Like other major decision, dividend decision has major role in all business organization.

Dividend policy refers to the guidelines that management uses in establishing portion of retained earning that is paid to the shareholders in the form of dividend (Mathur, and Iqbal: 1979, 297). It includes all the aspects related to the payment of dividend. There is reciprocal relationship between retained earning and cash dividend. If the company pays more dividends to its shareholders, these will be less amount of retained earning for making investment and vice-versa. Retained earning is one of the most significant sources of funds for financing corporate growth but dividend constitutes the cash flows that assure to the



stockholders. Thus dividend policy determines the division of earning between payment to stockholder and re-investment in the firm.

Among the three major decision of managerial finance, dividend decision, which the firm has to choose between distributing profit as dividend to the shareholders and retained earning for more profitable opportunities. It is better to pay dividend, if the payment will lead to the maximization of the wealth of owners. If not, it is better to retain them to finance for profitable investment opportunities. Thus, the relationship between dividend and the value of the firm is considered as the criterion for decision making. Capital gains and dividends are the expectation of shareholders from the purchase of common stock. Capital gain is the profit resulting from the sale of common stock where as dividend is the share in profit of the company. Shareholders of a company always aim to maximize their wealth. The shareholders wealth includes not only the market price of stock but also the dividend the company pay to them. But the dividend reduces the total amount of financing. Thus the dividend policy should be concerned with the well-being of the shareholders, which can be partially measured, by dividend received but more accurately measured in terms of market value of the stock (Dean: 1973, 01).

Since dividend would be more attractive to shareholders one might think that there would be a tendency for corporation to increase distribution of dividend. But one might equally pressure that gross dividends would be reduced some what with an increase in net after tax dividends still available to stock holders and increase in retained earning for the corporation (Throp: 1997, 90-91). What and how percentage of earning is to pay dividend is always a matter of dispute. Retention of earning is desirable for the growth of firm and dividends are desirable from the shareholders point of view, as it tends to increase their current wealth. These two objectives of dividend policy are always conflict.

Thus, dividend decision is one of the central and major decision area related to the policies seeking to maximize the value of firms common stock as well as the wealth of the shareholders.

## **2.2 Major Forms of Dividend**

Depending upon the objectives and policies, corporation needs to follow the various types of dividend to the shareholders. In Nepalese context, the types of dividend that corporations follow is partly of a matter of attitude of directors and partly a matter of shareholders preferences and also depending to the various circumstances and financial constraints that bound corporate plan and policies (Shrestha : 1980,670). Dividend is being distributed in several forms viz. cash dividend, stock dividend, script dividend, property dividend etc. But in Nepal, only cash and stock dividend are in practice. "The usual practice is to pay dividend in cash" (Pandey: 1988, 670).

### **Cash Dividend**

Cash dividend is the part of earnings paid to shareholders in cash. After the payment of cash dividend, both the total assets and net worth of the company reduced by the equal amount to the cash dividend. The market price of share drops in most case by the amount of cash dividend distributed (Hosting: 1966, 370). The payment of cash dividend reduces the cash account or the reserve account of the company. It may create liquidity problem. So the companies should wisely make decision regarding the payment of cash dividend.

### **Stock Dividend and Stock Splits**

Stock dividend is the payment of dividend in the form of additional share of stock instead of cash dividend. The payment of stock dividend increases the number of outstanding share and reduces the reserve and surplus of the company. It is a recapitalization of the owners' equity position with the stock split the number of share is increased through a proportional reduction in the par value of stock (Van Horne: 1988, 373). It is also a kind of stock dividend where company

breaks shares through splitting the par value of the share. Each shareholder was benefited by a share for every twenty shares already owned. Stock split take place in two ways, they are straight split and reverse split. Stock dividend does not affect to the proportional claim of the existing shareholders or total value and total shareholders' equity amount but market price of each share of stock should decline in proportion to the number of new shares issued (Bhattarai: 2006, 382). Stock split is similar to stock dividend. As a result of stock split the common stock, paid in capital and retained earning accounts remained unchanged. Shareholders' equity also stays the same; the only change is in the par value of stock. In recent years some of the commercial banks and companies have adopted the policy of paying cash along with stock dividend.

### **Bond Dividend**

Band of the same company is given or distributed to the shareholder as a form of dividend generally to avoid the cash outflows is bond dividend. Regular interest in fixed time period is the attractive factor for accepting the bond dividend to the shareholders.

### **Stock Repurchase**

Stock repurchase is an alternative of cash dividend. It is buying back of some of its own stock. Under this plan, company distributes cash to the shareholders buying back some of its own outstanding stock, there by decreasing the number of shares, which would increase EPS and the stock price.

### **Scrip Dividend**

Scrip is a form of promissory note promising to pay the holder at specified later date. Transferable promissory notes are issues and distributes to the shareholders which may be interest bearing or not under the scheme of scrip dividend payment. The company declare scrip dividend when earning justifies dividends but the company's cash position is temporarily weak and does not permit for cash dividend.

### **2.3 Stability of Dividend**

Stability of dividend means regularity in paying some dividend annually even though the amount of dividend may fluctuate from year to year and may not be related with earning (Pandey: 1998, 302). Stability of dividends is considered as desirable policy by the management of most companies. It is an attractive feature to many investors. Shareholders are also in favor of this policy and value stable dividends higher than the fluctuating ones. If all other things are same, stable dividend has positive impact in market price of the share (Ibid, 302). There are some reasons to believe that stable dividend policy does lead to high stock price. First, investors are generally expected to value more highly dividends, they are more sure of receiving, since fluctuating dividend policy is likely to have a higher discount factor a stable dividend policy. This means that the company with stable dividend will have lower required rate of return or cost of equity capital than one whose dividend fluctuates. Second, many shareholders live on income received in the form of dividends and they will pay a premium for a stock with a relatively assured minimum dollar dividend. Third, from the stand point of both the corporation and its stock holders is that stability of dividend is desirable for the requirement of legal listing (Weston and Brigham: 1982, 681). These are distinct forms of such stability of dividend payments that the firm has a choice to follow these several dividend policies.

#### **i. Constant Dividend Per Share**

Under this policy, the fixed amount of dividend would be paid year after year irrespective of the fluctuation in the earning. Fluctuation would not affect the dividend payment: under this policy, the company should pay dividend to its shareholder even when it suffers losses. This policy does not imply that the dividend per share will never be increased. The annual dividend per share may be increased when the company reaches new level of earnings and expects to maintain it.

It is easy to follow this policy when earning is stable. If the earning pattern of the company shows wide fluctuations, it is difficult to maintain such policy. Investors who have dividend as the only one source of income prefer this policy.

## **ii. Constant Payment Ratio**

Under constant pay out ratio, companies pay dividend at constant rate of earning each year. Under this policy, the payout ratio remains constant but dividend fluctuates with earning fluctuations. The variability of dividend signals uncertainty of dividend in future to shareholders. It insures that dividends are paid when profits are earned and avoided when it incurs losses.

## **Low Regular Dividend plus Extra**

The low regular dividend plus extra policy is a compromise between the above explained two policies under this policy, the small amount of dividend is fixed to reduce the possibility of over missing a dividend payout. By paying extra dividend in periods of good profit, an attempt is made to prevent investor from expecting that the dividend represents an increase in established dividend amount. It gives the firm flexibility but it leaves investors some what uncertain about what their dividend income will be. This policy is appropriate when there is volatile earning.

## **Residual Theory of Dividend**

This policy of dividend suggests that dividend paid by a firm should be viewed as residual amount or left after all acceptable investment opportunities have been under taken. Under this policy dividends are paid out from left over earning. Dividend is therefore merely a residual remaining after all equity investment needs are fulfillment (Schall and Haley: 1991, 4789). If the firm has earning, they would have been distributed, if not no dividend to the shareholders. When the company treats dividend policy as strictly a financing decision the payment of cash dividend is a passive residual (VanHorne: 1997, 494).

## **2.4 Factor Affecting the Dividend Policy**

Various factors should be taken into consideration while establishing a corporate dividend policy. In practice, the financial executives consider the following factor when approaching a dividend decisions.

### **Liquidity Position**

The liquidity of the firm affect to the fraction of profit to be distributed to shareholders. As dividend symbolize cash out flow the greater its ability to pays a dividend regularly. If company may have sufficient retained earning but they are invested in fixed assets, cash may not available to make dividend payments. Thus rapidly growing firm with many profitable investment opportunities find it difficult to maintain adequate liquidity and pay less dividends at the time.

### **Earning Stability**

A firm that has relatively stable earning often able to anticipate approximately what its future earning will be such a firm is there fore more likely to pay out higher percentage of earning than a firm with fluctuating earnings. A company having fluctuating earnings pays fewer dividends to face its future financial difficulties.

### **Legal Restrictions**

Legal provision of the respective countries affects the dividend decisions of the firm. For example dividend should be paid only out of surplus. If there is no surplus or profit dividend cannot be paid. Dividend can't be paid when the firm is insolvent, company cannot borrow to pay dividend etc.

### **Contractual Restrictions**

A contract made with lender such as debt holders, creditors, preference shareholders may restrict to pay cash dividends. Such restrict may be pay certain

level of earning or not paying more than specified sum of amount or setting a side some percentage of earning to the investment.

### **Control**

The existing controlling group wanting to continue their position wants to retain more profit paying fewer dividends. The owners of the company would prefer the use of debt and retain profits to finance new investments rather than issue new stock to reduce the chances of diluting the control position.

### **Investment Opportunities**

The firms having enough investment opportunities may need greater amount of earnings to invest which may cause lower payment of dividends. Thus, the available investment opportunities of firm affect the dividend decision.

### **Access to Capital Market**

A large and well established firm with a record of profitability and stability of earning has easy access to capital market and other forms of external financing. In contrast, small and new firms are restricted to raise equity or debt funds from capital market. Thus a well established firm have higher payout ratio than that of a new or small firm.

### **Shareholders Preferences**

In a closely held corporation with relatively few stockholders, management may be able to set dividends according to the preferences of its stockholders. But in large corporation whose shares are widely held, it is nearly impossible for a financial manager to take individual shareholders' preferences into account when setting dividend policy.

## **Inflation**

Dividend decision also influenced by inflation. In price rise, the company may have to retain high percentage of earning because of inadequate funds generated from depreciation to replace equipments.

## **Need to Repay Debt**

When a firm has issued debt to finance expansion or to substitute other forms of financing. It has two alternatives. It can refund the debt at maturity by replacing it or making provision of paying debt. If the decision is to retire the debt, this will generally require retained earning (Weston & Copland: 1990, 659). In such case dividend decision will be affected.

## **2.5 Legal Provision Regarding Dividend Policy and Practices in Nepal**

In Nepal, Nepal Company Act 2006 has made certain legal provisions for dividend payments. These provisions play an important role on dividend practices.

Section 2 (P): States that bonus share (stock dividend) means shares issued in the form of additional shares to shareholders by capitalizing the surplus from the profits or the reserve fund of the company. The term also denotes an increase in the paid-up values of the shares after capitalizing surplus reserve fund.

Section 61 has prohibited company from purchasing its own shares. This section is subsection (1) states that no company shall purchase its own shares (buy back) or supply loans against the security of its own shares.

Section 179, bonus shares and sub section (2) states that the company must inform the shareholders before issuing bonus share under subsection (1), this may be done only according to a special resolution passed by the general meeting. Subsection (2) states that according to subsection (1) to inform the office before issuing bonus shares.

Section 182 dividends and subsections of this section are as follows:



Sub-Section (1): Except in the following circumstances, dividends shall be distributed among the shareholders within 45 days from the date of decision to distribute them.

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

Sub-Section (2): Without permission of government the fully owned shares or majority owned shares of government's institution can't distribute the dividend. Government can forward the direction to these organizations for distribution of dividend.

Sub-Section (3): In case dividends are not distributed within the time limit mentioned in Sub-Section (1); this shall be done by adding interest at the prescribed rate.

Sub-Section (4): Only the person whose name stands registered in the register of existing shareholders at the time of declaring the dividends shall be entitled to it.

The above rules indicated that the Nepalese law prohibits repurchase of stock which is against the theory of *fiancé*. The reason for this kind of provision is unknown.

## **2.6 Review of Major International Studies**

### **Walter's study**

Walter conducted a study on dividend and stock price in 1966. He argues that dividends are relevant to the value of firm. His argument is based on the company's reinvestment rate and cost of capital. These two factors are the determining factor to retain profit or distribute dividends. If the return on investment exceeds the cost of capital, the firm should retain the earnings, whereas it should distribute the earnings to shareholders in case the required rate of

return exceeds the expected return on the firm's investment. He holds that the choice of dividend policy almost affects the value of the firm. The basic assumptions of Walter's model are:

- ❖ All financing is done through retained earnings that is external source of financing is not used for new investment.
- ❖ The firm's internal rate of return 'r' and its cost of capital 'K' are constant.
- ❖ Earnings and dividends remain constant.
- ❖ The firm has perpetual life.
- ❖ All earnings are either distributed as dividend or reinvested internally.

Based on above assumptions, Walter developed model to determine the market price per share.

$$P = \frac{DPS + \frac{r}{Ke} (EPS - DPS)}{Ke}$$

or  $P = \frac{DPS}{Ke} + \frac{\frac{r}{Ke} (EPS - DPS)}{Ke}$

Where,

P = Market Price Per Share

DPS = Dividend Per Share

Ke = Cost of Capital

r = Internal Rate of Return

EPS = Earnings Per Share

According to the Walter model, the firm always is in the one situation out of the following.

### **Growth firm (r>k)**

Firms having r>k are referred as growth firm. Growth firms are assumed to have ample profitable opportunities. These firms reinvest earnings because they have a higher rate of return than the rate of return expected by the shareholders. It is

more beneficial to retain all earning for investment to maximize the value of growth firm.

### **Normal firm ( $r=k$ )**

If internal rate of return is equal to cost of capital, the dividend payout does not affect the value of share i.e. dividend policy is irrelevant whether the earnings are retained or distributed as dividend, the market value per share is not affected. Thus, there is no unique optimum payout ration for a normal firm.

### **Declining firm ( $r<k$ )**

There is a positive relation between dividends and stock price if the internal rate of return is less than cost of capital. By distributing the entire earning as dividend, the value of share will be at optimum value. Thus, the optimum payout ratio for declining firm has to be loose.

### **Gordon's Study**

The popular model explicitly relating the market value of the firm to dividend policy is developed by Myron Gordel. He concludes that dividend policy does affect the value of shares even when the return on investment and required rate of return are equal (Gordon: 1962). He holds that investor have strong preference for present dividends to future capital gain under the condition of uncertainty. It is assumed that current dividend is less risky than the expected capital gain. His argument stresses that an increase in dividend pay out ratio leads to increase in the stock price for the reason that investors consider the dividend yield ( $D_1/P_0$ ) is less than the expected capital gain (Pradhan: 1992, 383). If dividend payout ratio increases, the value per \share also increases. This means these exists positive relationship between the amount of dividend and stock prices. Basic assumptions of this model are as follows:

- ❖ The firm is an all equity firm.
- ❖ Rate of return ( $r$ ) and equity capitalization rate ( $K_e$ ) are constant.

- ❖ The firm has perpetual life.
- ❖ Retention ratio (b) and growth (g) are constant.
- ❖ The corporate tax rate do not exists.
- ❖ Equity capitalization (Ke) > growth rate (bxr or g)
- ❖ No external financing is available.

Based on the above assumptions, Gordon provided the following formula for finding out the market value per share.

$$P_o = \frac{EPS(1-b)}{K_e - br} = \frac{EPS(1-b)}{K_e - g}$$

Where,

P<sub>o</sub> = Price of Share

EPS = Earning per Share

b = Retention Ratio

K<sub>e</sub> = Capitalization Rate

g = Growth Rate

(1-b) = Dividend Pay Out Ratio

Incase of growth firms, firms with r>k, share price tends to enhance with increase in retention ratio (b) or decrease in payout ratio (1-b). So dividends and stocks prices are negatively correlated in growth in case of normal firm (r=k), share price firm remains constant regardless of changes in dividend policies. It means dividend and stock price are free from each other.

Incase of declining firms (r<k), share price tends to enhance with increase in payout ratio (1-b) or decrease in retention ratio (b). So dividends and stock prices are positively correlated with each other in declining firm.

### **Modigliani and Millers' Study**

Modigliani and Millers provides the most comprehensive argument for irrelevance of dividend in 1961. Dividend policy of firm is irrelevant as it does not

affect the value of the firm or the value of equity according to M.M. They propounded the "Irrelevance theory of Dividend" which theory argue that the value of firm depends on the earning power of the firm asset or investment policy. Thus when the investment decision of the firm is given, a firm's value is independent of dividend policy. The M.M. approach of irrelevance dividend is based on the following critical assumptions.

- ❖ Perfect capital markets in which all investors are rational
- ❖ Taxes do not exist.
- ❖ The firm has no flotation costs.
- ❖ Risk of uncertainty does not exist.
- ❖ Information are available at free of cost
- ❖ No transaction cost and infinitely divisible securities.

M.M. provides the proof in support to their argument in the following manner.

**Step-1** The market price of share of the firm in the beginning of the period is equal to the present value of dividend paid at the end of the period plus the market price of the share at the end of the period.

Symbolically,

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

Where,

$P_0$  = Current market price of a beginning.

$ke$  = Cost of equity capital (assumed constant).

$D_1$  = The dividend per share to be received at the end of the period 1.

$P_1$  = The market price of the share at the end of the period 1.

**Step-2** Multiply both sides of equation one by the number of shares outstanding to obtain the total value of the firm if no new financing exists.

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

Where,

n = No. of outstanding shares at zero period.

nPo = Total value of equity

**Step-3** If the firms internal source of financing, its investment opportunities fall short of funds required and  $\Delta n$  is the number of new share issued at the end of year 1 at price  $P_1$  then,

$$nP_o = \frac{nD_1 + P_1 (n + \Delta n) - \Delta nP_1}{1 + ke}$$

Where,

$\Delta n$  = No. of new share issued at the end of the period.

**Step-4** If the firms were to finance all investment proposals, the total amount of new shares issued will be,

$$\Delta nP_1 = I - (E - nD_1)$$

$$\text{or } \Delta nP_1 = I - E + nD_1$$

Where,

I = Investment needs

E = Earning available

$\Delta nP_1$  = Additional or new equity

$nD_1$  = Total dividend paid during the period

**Step-5** By substituting the value of  $\Delta nP_1$  from the equation of step 4 to equation 3, we get,

$$nP_o = \frac{nD_1 + P_1 (n + \Delta n) - I + E + nd_1}{1 + ke}$$

$$\text{or } nP_o = \frac{nd_1 + nP_1 + \Delta nP_1 - I + E + nd_1}{1 + ke}$$

$$nP_o = \frac{P_1 (n + \Delta n) - I + E}{1 + ke}$$

## Conclusions

From above, there is no role of dividend in equation, so Modigliani and Miller concluded that dividend policy has no effect on the share price or value of the firm. A firm that pays dividend will have to raise funds externally to finance its investment plans. M.M. holds that when the firm pays dividends, its advantage is offset by external finance. Thus dividend payment is irrelevant regarding the valuation of equity and firm. Hence, it seems that dividend policy may have no influence on the market price of share under several assumptions. Thus, the several assumptions may be the debated issue to apply this model in case of Nepal.

## Van Horne and Mc Donald's Study

Van Horne and Mc Donald conducted a comprehensive study on dividend policy and new equity financing. The basic purpose of this study was to highlight the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. They performed Empirical tests by using a well known valuation model i.e. cross-section regression model for two industries in 1968. For the investigation, the required data were collected from 86 electricity utility firms included on the COMPUSTAT utility data tape and 39 companies in the electronics and electric component industries as listed on the COMPUSTAT industrial tape.

Their empirical for utilities industries using two regression models are

### First model

$$P_o/E_o = a_0 + a_1(g) + a_2(D_o/E_o) + a_3(Lev) + u$$

Where,

$P_0/E_0$  = Closing market price in 1968 divided by average EPS for 1967 and 1968.

$g$  = Expected growth rate, measured by the compound annual rate of growth in assets per Share for 1960 through 1968.

$D_0/E_0$  = Dividend payout ratio measured by cash dividend in 1968 divided by earning in 1968.

$Lev$  = Financial risk, measured by interest charges divided by difference of operating revenues and operating expenses.

$U$  = Error term

### **Second model**

$$P_0/E_0 = a_0 + a_1(g) + a_2(D_0/E_0) + a_3(lev) + a_4(Fa) + a_5(Fb) + a_6(Fc) + a_7(Fd) + U$$

Where,

$fa$ ,  $fb$ ,  $fc$  and  $fd$  or dummy variables corresponding to "New issue ratio" (NIR) for groups A through D.

It is noted that they had grouped the firms in five categories A, B, C, D, and E by NIR. For each firm, the value of dummy variables representing its NIR group is one and the value of remaining dummy variables is zero. Again, they tested the following regression equation for electronics-electronic components industry.

$$P_0/E_0 = a_0 + a_1(g) + a_2(D_0/E_0) + a_3(lev) + a_4(OR) + U$$

Where,

$Lev$ =financial risk, measured by long term debt plus preferred stock divided by net worth as of the end of 1968.

$OR$ =operating risk, measured by standard error for regression of operating earnings per share on time for 1960 through 1968.

In addition, rests are as in first model above.



By using these models they concluded that the share value of electric utility firms in 1968 was not adversely affected by new equity financing in presence new cash dividends, except for those firms in the highest new issue group and it made new equity more costly from financing than the retention of earnings. They also indicated that the payment of dividend through excessive equity financing reduces the share prices.

### **Linters' Study**

Lintners (1956) made an important study on the behavioral aspects of dividends policy in the American context. In this study he investigated a partial adjustment model as he tested the dividends pattern of 28 companies. According to J. Lintners, dividend is the function of earnings of that year, existing dividend are, target pay out ratio and speed of adjustment.

He concluded that a major portion of a firm's dividend could be expressed in the following manner.

$$DIV_t^* = PEPS_t \dots \dots \dots (i)$$

$$\text{And } DIV_t - DIV_{t-1} = a + b (DIV_t^* - DIV_{t-1}) + e_t \dots \dots \dots (ii)$$

$$\text{or } DIV_t = a + b DIV_t^* + (1-b) DIV_{t-1} + e_t \dots \dots \dots (iii)$$

Where,

$DIV_t^*$  = Firm's desired payment

$EPS_t$  = Earning per Share

P = Target pay out ratio

a = Constant relating to growth

b = Adjustment factor relating to previous period's dividend and new desire level of dividends, where  $b < 1$

His findings our dividend policies were as follows:

- ❖ Firms generally think in terms of proportion of earnings to pay.

- ❖ Modifying the pattern of dividend behavior is not considered with investment requirements.
- ❖ Firms generally have target payout ratios in the view while determining changes in dividend per share.

### **Friend and Puckett's Study**

Friend and Puckett (1964) have conducted a study about the relationship between dividends and stock price through the regression analysis on the data of 110 firms from five industries in the year 1956 to 1958. These five industries were chemicals, electric utilities, electronics, food and steel. These industries were selected to permit a distinction made between the result for growth and non growth industries and to prove a basic for comparison with result by other author for earlier years. They also considered cyclical and non-cyclical industries which they covered. The study period covered a boom year for the economy when stock prices leveled off after substantial rise (1956) and some what depressed year for the economy when stock prices, however, rose strongly (1958).

They used dividends, retained earnings and price earning ratio as independent variable in their regression model of price function. They used supply function i.e. dividend function also. In their dividend function, earnings, last year's dividend price earning ratio are independent variables.

Symbolically, their price function and dividend supply function can be written as:

$$\text{Price function: } P_t = a + bD_t + cR_t + d(E/P)_{t-1}$$

Where,

$P_t$  = Per share price at time t.

$D_t$  = Dividends at time t.

$R_t$  = Retained earning at time t.

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

$$\text{Dividend supply function: } D_t = C + FE_t + fD_{t-1} + h(E/P)_{t-1}$$

Where,

$E_t$  = Earning per share at time t

$D_{t-1}$  = last year dividend

The study was based on the following assumptions:

- ❖ Dividend does not react to year to year fluctuation in earnings.
- ❖ Price does not contain speculative in earnings.
- ❖ Earnings fluctuations may not sum zero over the sample.

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

### **Baker and Phillips' Study**

H.K. Baker and Aaron L. Phillips surveyed management views on stock dividend. They addressed two major research questions in the survey. First, why do some managers continue to support stock dividends given the apparently limited benefits of these distributors to shareholders? Second, do management views about the issues and motive for stock dividends differ based on the firms trading location, the size of the stock dividend or the frequency of issuing stock dividends? Their sample contained all firms that paid at least one stock dividend between 1988 and 1990 i.e. NYSE/AMEX Firms and 26 NASDAQ firms.

The questionnaire used by them has two parts. Part I contained 15 closed end questions on issues drawn from the finance literature about stock dividends Part II contained seven questions about stock dividend decision and four questions about the respondent's profile.

The findings were:

- ❖ Managers strongly agree that stock dividends have a positive Psychological impact on investors receiving them.

- ❖ 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.
- ❖ The dominant motive for paying stock dividends is to maintain the firm's historical practice.
- ❖ Management views on issues and motives about stock dividends differ little based on the firms trading location or the size of stock dividends.

### **Robert H. Litzenberger and Krishna Ramishwamy's Study**

Litzenberger and Ramishwamy have found positive relationship between expected before tax returns and dividend yields. They have discovered that high dividend stocks providing higher expected before tax return than low dividend stocks to off set the tax effects. However adding default risk premium variable to expended capital assets pricing models shows the dividend co-efficient is not significant different from zero and concludes that the dividend yield measure is likely to be correlated with the number of economics the relationship between dividend yields and stock return by black and scholes, indicates that stock with high pay out ratio did not provide returns significantly different from those with low payout ratios. So they provide the idea that dividend policy does not matter.

## **2.7 Review of Major Studies in Nepalese Perspective**

In Nepal, there are a few studies which have looked into corporate dividend behaviors. Some of them which are related in this research are reviewed in this section.

### **Shrestha's Study**

Prof. Dr. Manohar Krishna Shrestha has conducted a study about "Public Enterprise: Have they dividend paying ability?" in 1981, which gives short glimpse of dividend performance of some public enterprises of that time in Nepal (Shrestha: 1981, 23).

Dr. Shrestha has focused the following issues in the article:

- i. They should be self-supporting in a position to pay minimum dividend.
- ii. The public enterprises should be self-supporting in financial matters in future year to come, but none of these both objectives are not achieved by public enterprises.

One reason for this inefficiency is caused by excessive governmental interference over daily affairs. On the other hand, high - ranking officials of Nepal government appointed as directors of board do nothing but simply show their bureaucratic personalities. Bureaucracy has been the enemy of efficiency and thus led corporation to face losses. Losing corporation is, therefore, not in position of paying dividends to government.

Another reason of this is the lack of self-criticism and self-consciousness. Esman has pointed out that lack of favorable leadership is one of the biggest constraints to institution building. Moreover corporate leadership comes, as managers are not ready to have self-criticisms. In fact, all so called managers of corporation have not been able to identify themselves regarding what they can contribute as managers of corporations. so Nepal Government must be in a position to develop a financial target in corporate investment by imposing financial obligation on corporation.

The article point out the irony of government biasness that government has not allowed banks to follow an independent dividend policy and focused to have pressurized on dividend payment in case of Nepal bank Ltd. regardless of profit. But, it has allowed to Rastriya Banijya Bank to be relieved from dividend obligation in spite of considerable profit.

The improvement suggestions by author are:

- i. Adopt criteria - guided policy to drain resources from corporations through the medium of dividend payment.

- ii. Realization by managers about cost of equity capital and dividend obligation.

If Nepal government wants to tap resources through dividend, the following criteria should be followed:

- i. Proper evaluation of public enterprises in terms of capability of paying dividend should be made through corporation co-ordination committee.
- ii. Imposition of fixed rate of dividend by government on financially sound public enterprises.
- iii. Circulation of information about minimum rate of dividend to all public enterprises.
- iv. Specifying performance targets in terms of profit priorities on timings and plans and development of strategic plans that bridges the gap between aspiration and reality.
- v. Identification of corporate objectives under corporation Act, company Act or special charters so as to clarify public enterprises managers regarding their financial obligation to pay dividend to the government.

### **Pradhan's Study**

Prof. Dr. Radheshyam Pradhan has conducted a study on stock market behavior in small capital market in the year 1992. He collected the data of 17 companies from the year 1986 to 1990 by inspiration of following objectives:

- ❖ To assess the stock market behavior in Nepal.
- ❖ To examine the relationship of market equity (ME), market value to book value, price earning and dividends with liquidity, profitability, leverage, assets turnover and interest coverage.

The following model was employed:

$$V = b_0 + b_1LIQ + b_2LEV + b_3EARN + b_4TURN + B_5COV + Vi$$

Where,

V = chosen for the study ME, MV/BV, PE, DPS/MPS and DPS/EPS

LIQ = current ratio (R) or quick ratio (QR)

LEV = long term debt to total assets (LTD/TA)

EARN = Return on assets i.e. earning before tax to total assets or earning before tax to net worth.

TURN = Fixed assets turn over i.e. sales to average fixed assets or total assets turnover, i.e. sales to average total assets.

COV = Interest coverage ratio, i.e. Earning before tax to interest.

U = Error term

He has found the following findings as observed by him in connection with dividend behavior:

- ❖ Higher earnings on stock, larger the ratios of dividend per share to market price per share.
- ❖ Stocks with larger ratio of dividend per share to market price per share have lower leverage ratios.
- ❖ Positive relationship between the ratios of DPS to MPS and interest coverage.
- ❖ Positive relationship between dividend payout and liquidity.
- ❖ Positive relationship between dividend payout and profitability ratios.
- ❖ Positive relationship between dividend payout and turnover ratios.
- ❖ Positive relationship between dividend payout and interest coverage ratios.
- ❖ DPS and MPS were positively correlated.

### **Manandhar's Study**

The main statement of the problem of the study is to test whether Nepalese corporate firms consider the lagged earnings and dividend paid to pay the dividend in current year.

For the test, 17 sample Nepalese corporate firms have been taken and different hypothesis have been tested. The conclusions drawn by the study are:

- ❖ There is relationship between distributed lag profits and dividend.
- ❖ There is significant relationship between change in dividend policy in terms of DPS and change in lagged earnings.
- ❖ In overall there is positive relationship between change in lagged consecutive earnings and dividend per share.
- ❖ There is relationship between distributed lagged consecutive earnings and dividend per share.
- ❖ When change in lagged consecutive earnings is greater than zero in 65% the cases change in dividend per share.
- ❖ Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share.
- ❖ When change in lagged consecutive earnings is greater than zero in 65% the cases change in dividend per share.
- ❖ Overall increase in EPS (t) has resulted to the increase in the dividend pay out in 66.60% of the cases while in others decreases in EPS that resulted decreases in dividend payments.
- ❖ Corporate firm do not take into account that one-year and two year lagged earnings.

In overall Nepalese corporate firm are reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information contents and signaling effect of dividend relating to firms, continued progress and performance, sound financial strength, favorable investment environment, lower risk, ability to maintain dividend rate and finally to increase the market price of the stocks in the stock market.

### **Sadakar Timilsena's Study**

A study entitled "Dividend and stock price" Was carried out by Sadakar Timilsena in 1997. For this purpose he took 16 enterprises as sample by using the data through 1990 to 1994. The major objectives of this study were as follows:

- ❖ To determine the impact of dividend policy on Stock prices.



- ❖ To test the relationship between dividend per share and stock prices.
- ❖ To identify whether it is possible to increase the market value of stock changing dividend policy or payout ratio.

To explain the price behavior the study used simultaneous equation model as developed by Friend and Puckett (1964). The findings drawn by the study are as follows:

- ❖ Dividend per share affected the market share price differently in different sectors.
- ❖ The relationship between dividend per share and stock price was positive in the sample companies.
- ❖ The relationship between stock prices and related earnings per share was not prominent.
- ❖ The relationship between stock price and lagged earnings price ratio is negative.
- ❖ Changing the dividend policy or dividend per share might help to increase the market price of shares.

### **Nabraj Adhikari's Study**

Nabraj Adhikari in his master's degree dissertation on corporate dividend practices in Nepal has analyzed and examined the relationship between dividends and stock price. The study has covered the period from 1990 to 1996 with total observation of 47 in financial sector. This study has used both primary and secondary data.

- ❖ The major objective of this study was to assess corporate dividend practices in Nepal.
- ❖ To survey the opinion of financial executives on corporate dividend practices.
- ❖ To examine the relationship between dividend and stock prices.
- ❖ To analyze and find out the properties or portfolios formed on dividends.

The main conclusion drawn by the thesis writer through his study was as follows:

It is observed that there are differences in financial position of high dividend paying and low dividend paying companies. Other things remaining the same, financial position of with dividend paying companies are comparatively better than that of low dividend paying companies are comparatively better than that of low dividend paying companies. Thus dividends affect the market price share is the major conclusions of this study. Besides it other findings are given below:

- i. There is positive relationship between stock prices and dividend.
- ii. Nepalese shareholders were not really indifferent towards payment or non-payment of dividend.
- iii. The majority of the respondents feel that the major motives to pay cash dividend was to convey information to shareholder that the company is in good position.
- iv. As regards dividend as a residual decision the majority of the respondents feel that it was not a residual decision.
- v. The price of common stock was induced by dividend payout ratio.
- vi. Stocks with larger ratio of dividend per share to book value per share have higher liquidity.

With respect to factors affecting corporate dividend policy, the majority of the respondents give the first priority to 'earnings', the second priority to 'availability of cash', the third priority to 'Past dividends' and fourth priority to 'concern about maintaining or increasing stock price'.

### **Bishnu Hari Bhattarai's Study**

The study of dividend decision and its impact on the stock valuation was carried out by business Bishnu Hari Bhattarai in 1996, using 10 companies of various sectors. The basis objective of the study was to identify the relationship

between dividend and the stock price. The specific objectives of this study can be shown as follows:

- ❖ Analyze the variables such as profit, dividend, retained earning, growth rate and relevant variables to show the relationship between the value and other ingredients affecting it.
- ❖ Highlight various aspects of dividend policy and its practices in Nepal.
- ❖ Provide feed back to the financial decision maker on the basis of his findings.

The major findings or conclusion drawn by the researcher through his study can be shown as follows:

- i. There is no stable dividend paid by the companies over year also no companies adapting constant pay our ratio.
- ii. Dividend paid was inadequate to cover the required rte of return of the investors.
- iii. Market price considerable higher than actual net worth.
- iv. There is positive relationship between liquidity position and dividend payment.
- v. The company's while paying dividend generally neglect shareholder's expectation.
- vi. Dividends were paid only in profitable years.
- vii. Generally, the joint venture companies are paying regular dividends than the companies invested by the Nepalese investors.
- viii. There was positive impact of dividend on valuation of shares.
- ix. The net profit and dividend per share positively correlated.
- x. The correlation between cash balance and dividend payment was positive.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

Research methodology is a way of solving a research problem systematically (Kothari: 1990, 10). In other word, research methodology describes the methods and process applied in the entire aspects of the study. It is the methods, steps, guidelines which are to be used in analysis. The basic objective of the study is to analyze the dividend policy and practices of Nepalese joint venture banks and the factors that affect it. It also tries to find out the relationship of dividend with earning per share, market price per share, and net worth per share. So in this study research methodology has paid due attention to achieve the objectives of the study.

#### **3.1 Research Design**

Generally, Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control actual variance (Kerlinger: 2002, so). The logical planning and directing a piece of research is research design. It is the conceptual structure in which research is conducted. The research design is descriptive but more prescriptive because the historical secondary data have been employed to analyze the used variables which are related to dividend policy and practices of JVBS, in Nepal.

Hence, a research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

#### **3.2 Natures and Sources of Data**

The whole study of JVBS is carried out basically from secondary sources. The data relating to the dividend policy are obtained from Nepal stock exchange. The supplementary data and information are obtained from annual reports, financial statements of concerned banks, annual reports of SEBO/N, reports and

publication of NRB, unpublished thesis, central library, T.U., Journals, books and newspapers. Moreover electronic websites of SEBO/N, NEPSE etc has also been used.

### 3.3 Population and Sample

There are some JVBs whose shares are actively traded in the stock market. The lists of the JVBs which are in operation currently are follows:

#### **List of Joint Venture Banks in Nepal**

S.N.	Name of the Bank	Date of Operation (B.S.)	Corporate Office
1.	Nepal Arab Bank Ltd. (NABIL)	2041/03/29	Kathmandu
2.	Standard Chartered Bank Nepal Ltd. (SCBNL)	2043/10/16	Kathmandu
3.	Himalayan Bank Ltd. (HBL)	2049/10/05	Kathmandu
4.	Nepal Bangladesh Bank Ltd. (NBB)	2050/02/23	Kathmandu
5.	State Bank of India Nepal Ltd. (NSBI)	2050/03/23	Kathmandu
6.	Everest Bank Ltd. (EBL)	2051/07/01	Kathmandu

From the above joint venture banks, it is not possible to study the dividend behavior of NBB due to the lack of availability of data. Hence, other five joint venture banks are under the study.

### 3.4 Method of Data Analysis

Various financial and statistical tools have been applied to analyze the data collected from various sources. The relationship between different variables relating to study topic are drawn out by using financial and statistical tools. They are briefly explained as:

- i. Financial analysis
- ii. Statistical analysis

### 3.4.1 Financial Analysis

#### a. Earning Per Share (EPS)

EPS calculation is helpful to know whether the banks earning power on per share basis have changed over the period or not. EPS is calculated by dividing net profit after tax by the total number of common shares outstanding.

$$EPS = \frac{\text{Net profit after taxes}}{\text{No. of common shares outstanding}}$$

#### b. Dividend Per Share (DPS)

DPS indicates that part of net earning distributed to the shareholders on per share basis and calculated by dividing the total amount declared as dividend to equity shareholders by total number of equity share.

$$DPS = \frac{\text{Total amount of profit that is distributed as dividend}}{\text{No. of common shares outstanding}}$$

#### c. Dividend Payout Ratio (DPR)

DPR is calculated to indicate percentage of the profit on share that is distributed as dividend. DPR can be calculated using the following formula.

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

#### d. Market Price Per Share (MPS)

MPS is that value of stock, which can be obtained by a firm from the market. Market value of share is one of the variables which are affected by the dividend per share and earning per share of the firm. If the EPS and DPS are high, value of share will also be high. It may be higher and lower than book value. If the firm is growing concern and its earning power is greater than cost of capital, the market value of share will be higher than the book value. If firms earning capacity

is lower than the cost of capital, the market price of share will also be lower. MPS is determined by capital market.

**e. Dividend Yield Ratio (DYR)**

Dividend yield shows the relationship between dividend per share and market value per share. Market value per share is highly influenced by the dividend yield because a change in DPS can bring effective change in the MPS. It is calculated by dividing DPS by market value per share.

$$DYR = \frac{\textit{Dividend per share}}{\textit{Market value per share}}$$

**f. Earning Yield (EY)**

This ratio shows the relationship between earning per share and market value per share. It is calculated by dividing earning per share by market value per share.

$$EY = \frac{\textit{Earning per share}}{\textit{Market value per share}}$$

**g. Market Value Per Share to Book Value Per Share (MVPS/BVPS)**

The ratio shows the relation between market value per share and book value per share. It indicates the price that the market is paying for the share that is reported from the net worth of the banks. It is calculated by dividing the market value per share by the book value per share.

$$MVPS / BVPS = \frac{\textit{Market price per share}}{\textit{Book value per share}}$$

#### **h. Net Worth Per Share (NWPS)**

It is a rupee value per share. It is calculated by dividing book value of net worth by total number of shares outstanding.

$$NWPS = \frac{\text{Net worth}}{\text{No. of Shares outstanding}}$$

### **3.4.2 Statistical Analysis**

#### **Statistical Tools Used**

##### **a. Standard Deviation**

The measurement of scatterness of the data from mass of figures in a series about an average is known as Dispersion. The standard deviation measure the absolute dispersion. The greater the amount of dispersion, the greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and vice versa. It is expressed in terms of the units of the variables. Standard deviation is calculated as:

$$\dagger = \sqrt{\frac{\Sigma(X - \bar{X})^2}{N}}$$

Where,

X = Observation

$\bar{X}$  = Mean

N = Number of items in the series

† = Standard Deviation

##### **b. Mean or Average**

Mean is the set of observation that presents the entire data, its value lies some where in between the extremes. For this reason an average is frequently



referred to a measure of central tendency. The data related to dividend are tabulated and drawn out average (mean) over different years.

$$\text{Arithmetic mean } (\bar{X}) = \frac{\sum X}{n}$$

Where,

$\sum X$  = Sum of all observations

$n$  = Number of elements in the sample

**c. Coefficient of determination ( $R^2$ )**

Coefficient of determination is measure of the degree of linear association or correlation between two variables, one of which happens to be independent and the other being dependent variable. In other words  $R^2$  measures the percentage total variation in dependent variable explained by independent variables. The coefficient of determination can have a value ranging from zero to one. A value of one can occur only if the unexplained variation is zero which simply means that all the data points in the scatter diagram fall exactly on the regression line.

**d. Co-efficient of Variation**

Coefficient variation is calculated for the purpose of comparison or relative measures of dispersion. It relates the standard deviation and the mean by expressing the standard deviation as a percentage of the mean. We can calculate the CV by using this formula.

$$CV = \frac{\dagger}{\bar{X}}$$

Where,

$\dagger$  = Standard Deviation of sample

$\bar{X}$  = Mean of sample

**e. Regression analysis**

Regression analysis is a statistical device with the help of which we are in a position to determine the value of unknown variables from two or more known variables. Simple regression analysis has been used in this study to determine whether the variable of EPS is related to dividend decision of the company or not. Simple regression analysis of the following variables are calculated and interpreted in this study.

**1. Dividend Per Share on Earning Per Share**

For this, the following model is used:

$$DPS = a + b \text{ EPS}$$

Where,

DPS = Dividend per share (Dependent variable)

a = Regression constant (y-intercept)

b = Slope of the line (regression coefficient)

EPS = Earning per share (Independent variable)

This analysis enables to know whether EPS is influencing factor of dividend per share or not.

**2. Market Price Per Share on Dividend Per Share**

For this, the following model is used:

$$MPS = a + b \text{ DPS}$$

Where,

MPS = Market Price Per Share

a = Regression constant

b = Regression coefficient

DPS = Dividend Per Share

This model has been constructed to examine the relationship between MPS (dependent variable) and DPS (independent variable).

### **3. Market Price Per Share on Earning Per Share**

For this, the following model is used:

$$\text{MPS} = a + b \text{ EPS}$$

Where,

MPS = Market Price Per Share

a = Regression constant

b = Regression coefficient

EPS = Earning Per Share

This model helps to test the dependency of MPS on EPS.

### **4. Net Worth on Dividend Per Share**

For this, the following model is used:

$$\text{NWPS} = a + b \text{ DPS}$$

Where,

NWPS = Net worth (Dependent variable)

a = Regression constant

b = Regression coefficient

DPS = Dividend Per Share (Independent variable)

This model tests the dependency of Net worth on Dividend per share.

### **5. Multiple Regressions of MPS on EPS, DPS and NWPS**

For this, the following model is used:

$$\text{MPS} = a + b_1 \text{ EPS} + b_2 \text{ DPS} + b_3 \text{ NWPS}$$

Where,

MPS = Market Price Per Share

EPS = Earning Per Share

DPS = Dividend Per Share

NWPS = Net Worth Per Share

In regression analysis following statistics have been calculated and interpreted accordingly:

**a. Regression constant (a)**

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

**b. Regression Coefficient (b)**

The regression coefficient of each independent variable indicates the marginal relationship between that variable and value of dependent variable, holding constant the effect of all other independent variables in the regression model. In other words, the coefficients describe how changes in independent variables affect the value of dependent variables estimate.

**c. Standard Error of Estimate (SEE)**

With the help of regression equations perfect prediction is practically impossible. Standard error of estimate is a measure of the reliability of the estimating equation, indicating the variability of the observed around the regression line, that is the extent to which observed values differ from their predicted values on the regression line. The smaller the value of SEE, the closer will be the dots to the regression line and the better the estimates based on the equation for this line. If SEE is zero, then there is no variation about the line and the correlation will be perfect. Thus with the help of SEE, it is possible for us the

ascertain how good and representative the regression line is as a description of the average relationship between two series.

**f. T-Statistic**

To test the validity of our assumption, if sample size is less than 30, t-test is used (Kothari: 1994, 143). For applying t-test in the context of small sample, the 't' value is calculated first and compare with the table value of 't' at a certain level of significance for give degree of freedom (in this study the 't' values are computed with the help of computer). If the calculate value of 't' exceeds the table value 9say  $t_{0.05}$  we enter that the difference is significant at 5% level but if 't' value is less than the concerning table value of the 't' the difference is not treated as significant.

**g. F-test**

To test the validity of our assumption, we can use f-test also. The differences between two sample means can be studied through t-test whereas to examine the significance of the differences between more than two sample means at one and the same time, f-test is used. F-test i.e. the technique of analysis of variance enables us to test the significance of differences between more than two sample means. Using this technique, one will be able to make inferences about whether his regression equation provides statistically significant result or not.

## **CHAPTER IV**

### **PRESENTATION AND ANALYSIS OF DATA**

To fulfill the objectives of the study mentioned in introduction chapter, several analytical tool and techniques have been presented in research methodology chapter. In this chapter, the effort has been made to interpret the dividend policy and practices of Nepalese commercial joint venture banks. The whole research is based on analysis and interpretations of collected data from secondary sources. All the tools and techniques mentioned in earlier chapter are helpful to carry out the analysis upon the secondary data in order to achieve the objectives.

This chapter of data presentation and analysis on dividend policy and practices of joint venture banks begins with the analysis of DPS, EPS, MPPS, D/P Ratio, etc. These financial indicators of concerned banks are compared with the help of statistical tools like mean, standard deviation, coefficient of variation, regression analysis which are calculated and interpreted. The data are also presented in table.

#### **4.1 Analysis of Financial Variable**

##### **4.1.1 Earning Per Share (EPS)**

The earning of any business firm helps to evaluate the performance. EPS calculation helps to know whether the banks earning power on per share shows the profitability of the banks on per share shows the profitability of the banks on per share basis. It EPS is calculated by dividing net profit after tax by the total number of common shares outstanding. The following table shows all the details relating to EPS of respective banks.

**Table 4.1**  
**EPS of Respective Banks**

Years	Banks				
	NABIL	SCBNL	HBL	NSBI	EBL
2002/03	84.66	149.30	49.45	11.47	29.90
2003/04	92.61	143.55	49.05	14.26	45.58
2004/05	105.49	143.14	47.91	13.29	54.22
2005/06	129.21	175.84	59.24	18.27	62.78
2006/07	137.08	167.37	60.66	39.35	78.40
Mean	109.81	155.84	53.26	19.33	54.18
S.D.	22.13	14.90	6.41	11.47	18.19
C.V.	0.21	0.096	0.12	0.59	0.336

Source: SEBO/N

The above table shows the EPS of concerned banks from 2002/03 to 2006/07.

The EPS of NABIL ranges between Rs. 84.66 to Rs. 137.08 during the period of study. The average EPS of the bank is Rs. 109.81 and its standard deviation is 22.73. The coefficient of variation is 0.21 i.e. there is 21% fluctuation in EPS of NABIL bank during the study period.

The EPS of SCBNL range between Rs. 143.14 to Rs. 175.84 during the study period. The average EPS of the bank is Rs. 155.84 and the standard deviation is 14.90. The coefficient of variation is 0.096 i.e. there is 9.6% fluctuations in EPS of SCBNL during the study period.

HBL has the EPS range between Rs. 47.91 to Rs. 60.66 during the study period. The average EPS of the bank is Rs. 53.47 and the standard deviation is 6.41. The coefficient of variation 0.12 indicates that there is 12% fluctuation in EPS.

The average EPS of NSBI is Rs. 19.33 and the EPS of the bank range between Rs. 11.37 to Rs. 39.35. The standard deviation of variation is 11.47 during the study period and the coefficient of variation of 0.59 means there is 59% fluctuation in EPS.

The EPS of EBL range between Rs. 29.90 to Rs. 78.40 during the study period. The average EPS of the bank is Rs. 54.18 and the standard deviation is 18.19. The coefficient of variation of 0.336 indicates that there is 33.6% fluctuation in EPS of the EBL during the study period.

On average, the EPS of SCBNL Rs. 155.84 is highest among the five banks, and NSBI has the lowest average EPS. Similarly, NABIL has the highest standard deviation and it is lowest for the SCBNL. A small standard deviation measure a high degree of uniformity of observation as well as rate of fluctuation is preferable to state with the help of C.V. of above data. Here C.V. of NSBI is the highest and it is lowest for SCBNL. By analyzing the all factors, it can be concluded that SCBNL has the most consistent and higher EPS among the five joint venture banks.

#### **4.1.2 Dividend Per Share (DPS)**

DPS indicates the part of earning distributed to the shareholders on per share basis and calculated by dividing the total dividend to equity shareholders on per share basis and calculated by dividing the total dividend to equity shareholders by the total number of equity shares outstanding. Generally, the higher DPS creates the positive attitude among the shareholders towards the organization, which accordingly helps to increase the market value of share.

**Table 4.2**  
**DPS of Respective Banks**

Years	Banks				
	NABIL	SCBNL	HBL	NSBI	EBL
2002/03	50	110	0.32	8	20



2003/04	65	110	0	0	20
2004/05	70	120	11.58	0	0
2005/06	85	130	30	5	25
2006/07	100	80	15	12.59	10
Mean	74	110	11.58	5.118	15
S.D.	19.17	18.71	12.15	5.398	10
C.V.	0.2591	0.1701	1.049	1.0547	0.67

The cash DPS of NABIL ranges between Rs. 50 to Rs. 100 during the study period. The average of DPS OF NABIL is Rs. 74 and its standard deviation is 19.17. The C.V. of DPS of NABIL is 0.2591 which indicates the 25.91% fluctuation in DPS of NABIL during the study period.

In case of SCBNL, the average DPS is Rs. 110 the highest cash DPS is Rs. 130 and the lowest for it is Rs. 80. The standard deviation for SCBNL is 18.71 and it's coefficient of variation is 0.1702 which indicates that there is 17.01% fluctuation in DPS of SCBNL during the study period.

HBL has paid the highest DPS of Rs. 30 and the lowest DPS of Rs. 1.32 during the period of study and has not paid cash dividend in the year 2003/04. The average DPS of HBL is Rs. 11.58 and its standard deviation is 12.05. The C.V. of HBL is 1.049 which indicates that there is a 104.9% fluctuation in DPS of HBL.

In case of NSBI, the average DPS is Rs. 5.118 with standard deviation of 5.398. The highest DPS of SBI is Rs. 12.59 which is in the year of 2006/07 and Rs. 8 for the year 2002/03. No dividend is paid in the year 2003/04 and 2004/05. The C.V. which indicates the fluctuation in DPS is 105.47% is the highest fluctuation than other banks which are under the study.

Lastly, the average DPS of EBL is Rs. 15 with the standard deviation of 10. The DPS of EBL range between Rs. 25 to Rs. 10 during the study period and has not paid a cash dividend in the year 2004/05. The C.V. of EBL is 0.1844 which indicates that there is a 19.44% fluctuation in DPS during the study period.

From the above calculation and analysis, it can be observed that SCBNL has the highest average DPS and it is lowest for the NSBI. The standard deviation of NABIL is the highest and it is lowest for NSBI. Similarly, the C.V. of NSBI is the highest among other banks, which indicates the highest fluctuations in DPS. It can be concluded that SCBNL has the most consistency in paying dividend.

#### 4.1.3 Market Price Per Share (MPPS)

It is value of share paid by market. MPPS is fixed in the stock market on the basis of demand and supply of shares. MPPS has the positive relation to the firm's return and also to the DPS so high MPPS is desirable. Following table shows the MPPS of joint venture banks.

**Table 4.3**  
**MPPS of Respective Banks (In Rs.)**

Years	Banks				
	NABIL	SCBNL	HBL	NSBI	EBL
2002/03	740	1640	836	255	445
2003/04	1000	1745	840	307	680
2004/05	1505	2345	920	335	870
2005/06	2240	3775	1100	612	1379
2006/07	5050	5900	1740	1176	2430
Mean	2107	3081	1087.2	537	1160.8
S.D.	1741.81	1791.01	380.28	383.14	788.45
C.V.	0.8267	0.5813	0.3498	0.7134	0.6792

Source: SEBO/N

From the above table, it can be observed that, NABIL has an average MPS of Rs. 2107 with standard deviation of 1740.81 during the study period. The fluctuation in MPPS of NABIL is 82.67% which is indicated by C.V. in the table.

In case of SCBNL, the MPS ranges between Rs. 1640 to Rs. 5900 during the study period. The average MPPS of SCBNL is Rs. 3081 with standard

deviation of 1791.01. The C.V. shows the fluctuation of 58.13% in MPPS of SCBNL.

The range of MPS of HBL is between Rs. 836 to Rs. 1740. The average MPPS of HBL during the study period is Rs. 1087.2 with standard deviation of 380.28. The fluctuation in MPPS of HBL is 34.98% which is indicated by C.V. in the above table.

SBI has the range MPPS of Rs. 255 to Rs. 1176. The average MPS of NSBI is Rs. 537 with standard deviation of 383.14 during the study period. The C.V. of MPPS is 0.7134 which is the fluctuation in MPPS i.e. 71.34%.

Lastly, the average MPPS OF EBL is Rs. 1160.8. It is stated within the range of Rs. 445 to Rs. 2430. The standard deviation of MPPS is 788.45 with the C.V. of 67.92% which indicates the fluctuation in MPPS of EBL.

In conclusion, the average MPS of SCBNL is the higher and it is lowest for the NSBI. NABIL has the highest fluctuation in MPPS and HBL has the lowest fluctuation in MPPS among all joint venture banks during the period of study.

#### 4.1.4 Dividend Yield (DY)

DY is the percentage of DPS on MPS. Dividend highly influences the market value per share. Dividend yield measures the dividend in relation to market value of share. Therefore before allocation of dividend to shareholders the impact on market scenario and price fluctuation is to be studied and evaluated for the long run survival of the bank. Dividend yield of the banks under study is presented in the table below:

**Table 4.4**  
**DY of Respective Banks (In %)**

Years	Banks				
	NABIL	SCBNL	HBL	NSBI	EBL
2002/03	6.76	6.71	0.16	3.14	4.49

2003/04	6.50	6.30	0.00	0.00	2.94
2004/05	4.65	5.12	1.25	0.00	0.00
2005/06	3.79	3.44	2.72	0.82	1.81
2006/07	1.98	1.35	0.86	1.07	0.41
Mean	4.74	4.58	0.998	1.006	1.93
S.D.	1.98	2.21	1.09	1.29	1.85
C.V.	0.4177	0.4825	1.092	1.282	0.9586

Source: SEBO/N

The DY of NABIL is in decreasing rate. The DY for this bank ranged from 1.98% to 6.76% over the years. The bank has average DY of 4.74% which is the highest among the sample joint venture banks with the standard deviation of 1.98% to 6.76% over the years. The bank has average DY of 4.74% which is the highest among the sample joint venture banks with the standard deviation of 1.98. There is 41.77% fluctuation in DY which is the lowest among the banks during the study period.

SCBNL has the average DY of 4.58% with the standard deviation of 2.21. There is 48.25% fluctuation in DY of SCBNL which is moderate fluctuation among the banks under the study period.

Similarly, the average DY of HBL and NSBI are 0.998% and 1.006% with the standard deviation of 1.09 and 1.29 respectively. There is highly fluctuation in DY of these banks i.e. 109.2% and 128.2% respectively.

At last, EBL has the average DY of 1.93% with the standard deviation of 1.85. There is 95.86% fluctuation in DY of EBL during the study period.

After analyzing the above data, we can conclude that NABIL has the highest average DY and it is lowest for the HBL. The HBL has no DY in the year 2003/04 and EBL for 2004/05 because of not paying cash dividend. Similarly, NSBI lacks the DY for two years because of not paying cash dividend. NABIL has

the minimum fluctuation in DY and it is highest for the SBI bank. Hence, we can say that NABIL has the sound DY than others during the study period.

#### 4.1.5 Dividend Payout Ratio (DPR)

DPR reflects what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the bank. It is calculated by dividing the DPS by EPS.

**Table No. 4.5**  
**DPR of Respective Banks (In %)**

Years	Banks				
	NABIL	SCBNL	HBL	NSBI	EBL
2002/03	59.06	73.87	2.67	69.75	66.89
2003/04	70.19	76.63	0.00	0.00	43.88
2004/05	67.36	83.84	24.16	0.00	0.00
2005/06	65.78	73.93	50.64	27.37	39.82
2006/07	72.95	47.79	24.73	32.00	12.77
Mean	66.87	71.21	20.44	25.82	12.67
S.D.	5.25	13.71	20.48	28.74	26.51
C.V.	0.0785	0.1925	1.002	1.113	2.092

Source: SEBO/N

From the above table, it can be observed that the average DPR of NABIL is 66.87% which means the bank pays 86.87% of its earnings as a dividend for equity shareholders. The standard deviation and coefficient of variation are 5.25 and 7.85% respectively. The value of C.V. indicates that the bank's behavior on dividend payment is very nominal over the period of study among the sample banks.

The average DPR of SCBNL is 71.21%. The standard deviation and C.V. of the bank are 13.7 and 0.1925. The C.V. of 0.1925 indicates that there is 19.25% fluctuation in DPR which is moderately varied among the sample banks.

In average, 20.44% dividend is paid by HBL. The fluctuation in dividend payment is 100.2% which is indicated by C.V. in the table. The standard deviation is 20.48 during the period of study.

NSBI has average DPR of 25.82%. The bank has paid dividend only for three years during the study period. It has not paid dividend for two years during the study period. So, there is more fluctuation in DPR i.e. 111.3% which is indicated by C.V. in above table. The standard deviation of DPR is 28.74.

In average, 12.67% dividend is paid by EBL. The fluctuation in dividend payment is 209.2% which is indicated by C.V. in the table. The standard deviation of DPR is 26.51.

In summary, it is clear that SCBNL has sound DPR because its DPR is higher than other banks, but C.V. of NABIL is lower than other banks. The DPR of EBL, NSBI and HBL are varied widely.

#### **4.1.6 Earning Yield (EY)**

EY is expressed in terms of market value per share. It is the important profitability ratios from the point of view of the ordinary shareholders. The earning yield may be defined as the ratio of earning per share to the market value per ordinary share. Earning Yield of the banks under study is presented in table.

**Table 4.6**  
**EY of Respective Banks (In %)**

Years	Banks				
	NABIL	SCBNL	HBL	NSBI	EBL
2002/03	11.44	9.10	5.92	4.49	6.72
2003/04	9.26	8.23	5.84	4.46	6.70
2004/05	7.01	6.10	5.21	3.97	6.23
2005/06	5.77	4.65	5.39	2.99	4.55
2006/07	2.71	2.84	3.49	3.35	3.23

Mean	7.24	6.18	5.17	3.89	5.49
S.D.	3.33	2.56	0.9854	0.7125	1.54
C.V.	0.4599	0.4142	0.1906	0.1832	0.2805

Source: SEBO/N

The average earning yield of NABIL is 7.24%. Its EY ranges between 2.71% to 11.44%. The standard deviation of EY of NABIL is 3.33 and C.V. is 45.99%.

The highest and lowest EY of SCBNL is 9.10% and 2.84% respectively. The average EY of SCBNL is 6.18%. During the period of study the standard deviation of SCBNL is 2.56 and the coefficient of variation is 41.42%, it indicates that there is 41.42% fluctuation in EY of SCBNL.

HBL has the EY range between 3.49% to 5.92%. The average EY of HBL is 5.17%. The standard deviation of HBL is 0.9854 and the coefficient of variation is 19.06% which indicates the 19.06% fluctuation in EY of HBL during the period of study.

For NSBI, the average EY is 3.89% which is the lowest EY among the banks which are under the study. The EY of NSBI ranges between 2.99% to 4.6%. In the period of study, the NSBI has the standard deviation of 0.7125 which is also lowest among the banks and the coefficient of variation is 18.32% which indicates the minimum fluctuation in EY among the sample banks.

The average EY of EBL is 5.4%. For EBL the EY range between 3.23% to 6.72%. The standard deviation is 1.54 and C.V. is 0.2815, which indicates that there is 28.05% fluctuation in EY of EBL during the study period.

By observing the above analysis, we can conclude that the average EY of NABIL is the highest and it is lowest for the NSBI. From this; we can say that there is no uniformity in EY of these joint venture banks. Similarly, there is highest fluctuation in EY of NABIL, and it is lowest for the NSBI than other bank which is under the study.

#### 4.1.7 Market Value Per Share (MVPS) to Book Value Per Share (BVPS)

This ratio indicates the price the market is paying for the price that is reported for the net worth of banks. The higher ratio presents to conclude that the better performance of joint venture banks in terms of market price per share to book value per share. It is calculated by dividing the market value per share by book value per share.

**Table 4.7**  
**MVPS & BVPS of Respective Banks**

Years	Banks				
	NABIL	SCBNL	HBL	NSBI	EBL
2002/03	2.75	4.07	3.37	1.90	2.96
2003/04	3.32	3.37	3.40	2.09	5.13
2004/05	4.46	5.55	3.84	2.10	5.14
2005/06	5.87	8.06	4.81	3.99	7.42
2006/07	12.08	11.52	6.57	6.60	8.30
Mean	5.70	6.51	4.40	3.34	5.79
S.D.	3.76	3.32	1.35	2.01	2.11
C.V.	0.6596	0.5099	0.3068	0.6017	0.3644

Source: SEBO/N

The NABIL has the average ratio of MVPS to BVPS is 5.70. The standard deviation of the ratio is 3.76. The coefficient of variation is 0.6596. The value of C.V. indicates that there is only about 65.96% fluctuation in the ratio of MVPS to BVPS of the bank over the study period.

For SCBNL, the average ratio of MVPS to BVPS is 6.51. The standard deviation is 3.32. The coefficient of variation is 0.5099. The value of C.V. indicates that there is only about 50.99% fluctuation in the ratio of MVPS to BVPS of the bank over the study period.



In case of HBL and NSBI, the average ratio of MVPS to BVPS is 4.40 and 3.34 respectively. The standard deviations of the ratio are 1.35 and 2.01 respectively. Similarly, the C.V. of HBL and NSBI is 0.3068 and 0.6017 respectively. The value of C.V. indicates the fluctuations in the ratio are 30.68% and 60.17% respectively for the study period.

During the study period, the average ratio of MVPS to BVPS of EBL is 5.79 and its standard deviation is 2.11. The C.V. of EBL is 0.3644 which indicates that there is an only about 36.44% fluctuation in the ratio of MVPS to BVPS of EBL.

By observing above calculation the average ratio of MVPS to BVPS of SCBNL is the highest among the banks under the study while, this ratio is lowest for the NSBI. The C.V. of the ratio of MVPS to BVPS shows consistency of HBL and wide fluctuation of NABIL.

#### 4.1.8 Net Worth Per Share (NWPS)

Net worth is the value of shareholders capital plus any money retained from profit. It is the value per share of total net worth in book value and calculated by dividing the total net worth by number of share outstanding.

**Table 4.8**  
**NWPS of Respective Banks (In Rs.)**

Years	Banks				
	NABIL	SCBNL	HBL	NSBI	EBL
2002/03	267.30	40.3.16	247.82	134.05	150.10
2003/04	301.37	399.24	246.93	146.80	171.53
2004/05	337.16	422.37	239.59	159.54	169.15
2005/06	381.36	468.22	228.72	151.78	217.67
2006/07	418.00	512.11	264.74	178.04	292.75
Mean	341.04	441.02	245.56	154.04	200.24
S.D.	60.36	48.27	13.17	16.30	57.37

C.V.	0.1770	0.1094	0.0536	0.1058	0.2865
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Source: SEBO/N

The NABIL has the average NWPS of Rs. 341.04 and its NWPS range between Rs. 267.30 to Rs. 418.00. The standard deviation of NABIL is 60.36, which is highest among the banks and coefficient of variation is 0.1770 which indicates that there is 17.70% fluctuation in NWPS of NABIL during the study period.

For SCBNL, the average NWPS is Rs. 441.02. The NWPS of SCBNL range between Rs. 399.24 to Rs. 512.11 during the study period. Standard deviation is 48.27 and coefficient of variation is 0.1094 which indicates that there is 10.94% fluctuation in NWPS among the banks which are under the study.

Similarly, the NWPS of SBI is ranged between Rs. 134.05 to Rs. 178.04. The average is Rs. 154.04. The standard deviation is 16.30 and its coefficient of variation 0.1058 indicates that there is 10.58% fluctuation in NWPS of NSBI.

Likewise, the range of NWPS of EBL is Rs 150.10 to Rs. 292.75 and the average NWPS of EBL is Rs. 200.24. The standard deviation of NWPS is 57.37 and its coefficient of variation 0.2805 indicates that there is 28.65% fluctuation in NWPS of EBL.

In conclusion, the above analysis shows that, the average NWPS of SCBNL Rs. 441.02 is the highest and it is lowest for the NSBI which is Rs. 154.04. HBL has the lowest C.V. which is 5.36% in comparison of other banks, so it indicates the highest consistency in NWPS of HBL than other four joint venture banks which are under the study.

## **4.2 Company Wise Analysis of Financial Variables**

### **4.2.1 Nepal Arab Bank Ltd. (NABIL)**

**Table 4.9**  
**Financial Situation of NABIL**

Variables	Max	Min	Mean	S.D.	C.V.
EPS	137.8	84.66	109.81	22.73	21
DPS	100	50	74	19.17	25.91
MPPS	5,050	740	2107	1,741.81	82.67
EY	11.44	2.71	7.24	3.33	45.99
DY	6.76	1.98	4.74	1.98	41.77
DPR	72.95	59.06	66.87	5.25	7.85
MVPS/BVPS	12.08	2.75	5.70	3.76	65.96
NWPS	418	267.30	341.04	60.36	17.70

Source: SEBO/N

The overall performance of the NABIL can be taken as satisfactory during the period of study. The bank has the average EPS of Rs. 109.81, range between Rs. 84.66 to Rs. 137.08 and the fluctuation in EPS is 21%. NABIL has distributed 86.87% of its profit to the common shareholders on an average and 13.13% of its profit is retained in the bank to meet other financing requirements. The dividend yield of this bank is moderate fluctuating i.e. 41.77. Remaining other financial variables of this bank is supposed to be good which are mentioned in the above table but the MPPS has more fluctuated i.e. 82.67% due to the market condition.

#### 4.2.2 Standard Chartered Bank Nepal Ltd. (SCBNL)

**Table 4.10**  
**Financial Situation of SCBNL**

Variables	Max	Min	Mean	S.D.	C.V.
EPS	175.84	143.14	155.84	14.90	9.6
DPS	130	80	110	18.71	17.01
MPPS	5900	1640	3081	1791.01	58.13
EY	9.10	2.84	6.81	2.56	41.42

DY	6.71	1.35	4.58	2.21	48.25
DPR	83.84	47.79	71.21	13.71	19.25
MVPS/BVPS	11.52	3.37	6.51	3.32	50.99
NWPS	512.11	399.24	441.02	48.27	10.94

Source: SEBO/N

The average EPS of SCBNL is Rs. 155.84. The EPS has the minimum fluctuation i.e. 9.6%. DPS of SCBNL has ranged between Rs130 andRs80 and its average DPS is Rs110 which is the highest among other banks during the period of the study. The average DY and DPR of this bank are 4.58% and 71.21% respectively. The fluctuation in DY is 48.25% and the deviation is low i.e. 2.21. SCBNL has distributed 71.21% on average as a dividend to its shareholders; remaining 28.79% are retained for external financing. The fluctuation in DPR is normal i.e. 19.25%. The MPPS has more fluctuated i.e. 58.13%. The overall performance of this bank is assumed to be best than other bank during the period of study.

#### 4.2.3 Himalayan Bank Ltd. (HBL)

**Table 4.11**  
**Financial Situation of HBL**

Variables	Max	Min	Mean	S.D.	C.V.
EPS	60.66	47.91	53.26	6.41	12
DPS	30	0	11.58	12.15	104.9
MPPS	1740	836	1087.2	380.28	34.98
EY	5092	3.49	5.17	0.9854	19.06
DY	2.72	0	0.998	1.09	109.2
DPR	50.64	0	20.44	20.48	100.2
MVPS/BVPS	6.57	3.37	4.40	1.35	30.68
NWPS	264.74	228.72	245.56	13.17	5.36

Source: SEBO/N

The average EPS of HBL is Rs. 53.26, it ranges between Rs. 60.66 and Rs. 47.91 for the period of study. The fluctuation in EPS is 12% which is indicated by C.V. is in normal condition. HBL's average DPS, DY and DPR are Rs. 11.58, 0.98% and 20.44% respectively. It's DPR of 20.44% shows that the bank has distributed 20.44% of its earning as a dividend and remaining 79.56% retained in the bank for future betterment. Dividend yield of the bank is low and fluctuation is very high i.e. 109.2%. The average MPPS, EY, NWPS and MPPS/BVPS of this bank are Rs. 1087.2, 5.17%, Rs. 245.56 and 4.40 times respectively. The fluctuation in EY is low which is better for the company. The others are in moderate fluctuation. The overall performance of this bank is assumed to be good for the study period.

#### 4.2.4 State Bank of India Nepal Ltd. (NSBI)

**Table 4.12**  
**Financial Situations of NSBI**

Variables	Max	Min	Mean	S.D.	C.V.
EPS	39.35	11.47	19.33	11.47	59
DPS	12.59	0	5.118	5.398	105.47
MPPS	1176	225	537	383.14	71.34
EY	4.64	2099	3.89	0.7125	18.32
DY	3.14	0	1.006	1.29	128.2
DPR	69.75	0	25.82	28.74	111.3
MVPS/BVPS	6.60	1.90	3.34	2.01	60.17
NWPS	178.04	134.05	154.04	16.30	10.58

Source: SEBO/N

The average EPS of a NSBI is Rs. 19.33 and its fluctuation in EPS is very high i.e. 59%. NSBI has not paid the cash dividend for two years during the study period. The DPS of NSBI has ranged from Rs. 0 to Rs. 12.59 and average DPS is Rs. 5.118. The C.V. of DPS 105.47% which indicates 105.47% fluctuation in DPS of NSBI which is very high. The average DY and DPR are 1.006% and 25.82%

respectively, and their C.V. is 128.2% and 111.3% respectively which are very high. The average MPPS, EY, NWPS and MPPS/BWPS of this bank are Rs. 537, 3.89%, Rs. 154.04 and 3.34 times respectively. The fluctuation in EY is very low which better for the company. The bank has not paid the dividend so DPS, DY, DPR have fluctuated very much.

#### 4.2.5 Everest Bank Ltd. (EBL)

**Table 4.13**  
**Financial Situation of EBL**

Variables	Max	Min	Mean	S.D.	C.V.
EPS	78.40	29.90	54.18	18.19	33.6
DPS	25	0	15	10	67
MPPS	2430	445	1160.8	788.45	67.92
EY	6.72	3.23	5.49	1.54	28.05
DY	4.49	0	1.93	1.85	95.86
DPR	66.89	0	12.67	26.51	209.2
MVPS/BVPS	8.30	2.96	5.79	2.11	36.44
NWPS	292.75	150.10	200.24	57.37	28.65

Source: SEBO/N

EBL has not paid a cash dividend for one year during the period of study. The DPS of this bank range from Rs. 25 to Rs. 0, its average DPS is Rs. 15 with 67% fluctuation. The average DPR is 12.67% which indicates that the bank has paid 12.67% of its earning as dividend to the shareholders and the remaining is retained for future betterment. The fluctuation in DPR is 209.2% because of not paying cash dividend. The average EPS is Rs. 54.18 with 33.6% fluctuation. The average MPPS, EY, NWPS and MVPS to BVPS are Rs. 1160.8, 5.49%, Rs. 200.24 and 5.79 times respectively. The overall performance of the bank is considered as good for the period of study.

### 4.3 Regression Analysis

The regression is used to determine the statistically relationship between two or more variable and to make prediction of one variable on the basis of others. The regression analyses can either simple regression or multiple regressions. Here, for the simple regression. We analyze DPS on EPS, MPS on EPS, MPS on DPS and NWPS on DPS and for multiple regression analysis we analyze MPS on DPS EPS and NWPS respectively.

#### 4.3.1 Simple Regression Analysis

##### 4.3.1.1 Dividend Per Share on Earning Per Share (DPS on EPS)

Regression Equation:

$$\text{DPS} = a + b \text{ EPS}$$

The following table shows the regression analysis of DPS on EPS:

**Table 4.14**  
**Regression Result of DPS on EPS**

Banks	Constant (a)	Regression Coefficient of EPS (b)	R <sup>2</sup>	SEE	F-Value
NABIL	-16.21 (-1.320)	0.822 (-7.471)*	0.949	4.99	55.81*
SCBNL	122.79 (1.085)	-0.082 (-0.0113)	0.004	21056	0.04
HBL	-66.99 (-1.650)	1.47 (1.946)	0.558	9.33	3.79
NSBI	-1.64 (-0.412)	0.350 (1.922)	0.552	4.17	3.69
EBL	23.19 (1.344)	-0.151 (-0.495)	0.76	11.10	0.245

Source: SEBO/N

- Note: 1. Figures in parentheses are t-value.  
2. \* Denotes that the result are significant at 5% level of significance.

The above table depicts the major output of simple regression analysis between dividend per share (DPS) dependent variable and independent variable earning per share (EPS) of concerned banks. This analysis shows that change in the value of earning per share may affect the dividend per share or not. Among the banks, SCBNL and EBL have negative regression coefficient which indicated that increase in EPS would lead to decrease in DPS if other variable remain constant and other three banks, NABIL, HBL, and NSBI have positive regression coefficient. The positive regression coefficient indicates that increase in EPS would lead to increase in DPS, if all other variable remain constant. The regression coefficient of SCBNL and EBL indicates that one rupee increase in EPS would lead to average Rs. 0.082 and Rs. 0.151 decrease in DPS respectively. For the banks, NABIL, HBL and NSBI, the regression coefficient of EPS (b) are 0.822, 1.47 and 0.350 respectively. It indicates that one rupee increase in EPS would lead to average Rs. 0.822, Rs. 1.47 and Rs. 0.350 increase in DPS if other variable remain constant.

Coefficient of determination ( $R^2$ ) of NABIL, SCBNL, HBL, NSBI and EBL are 0.949, 0.004, 0.558, 0.552 and 0.76 respectively. This is indicating that, 94.9%, 0.4%, 55.2% and 76% variation is explained in DPS due to change in value of EPS of the bank.

The regression constant (a) of all banks indicate the average effect on dependent variable (DPS), if all independent variables (EPS) are omitted form the model. The SEE measures the variability of actual values from the predictive value. 4.99, 21.56, 9.33, 4.17, 11.10 are the SEE of NABIL, SCBNL, HBL, NSBI and EBL respectively.

#### **4.3.1.2 Market Price Per Share (MPPS) on Dividend Per Share (DPS)**

Regression equation:



$$\text{MPS} = a + b \text{ DPS}$$

**Table 4.15**  
**Regression Result of MPS on DPS**

Banks	Constant (a)	Regression Coefficient of EPS (b)	R <sup>2</sup>	SEE	F-Value
NABIL	-4092.89 (-2.655)	83.78 (4.128)*	0.850	778.21	17.04*
SCBNL	9213.50 (1.843)	-55.75 (-1.241)	0.339	1681.29	1.54
HBL	932.09 (3.593)*	13.40 (0.820)	0.183	396.88	0.673
NSBI	266.30 (1.385)	52.89 (1.935)	0.555	295.04	3.74
EBL	1377.74 (1.763)	-14.46 (-0.323)	0.034	894.97	0.104

Source: SEBO/N

Note: 1. Figures in parentheses are t-value.

2. \* Denotes that the result are significant at 5% level of significance.

The above table shows the output of simple regression analysis between MPS and DPS of concerned joint venture banks.

The regression coefficient (b) of three banks NABIL, HBL and NSBI are positive. It implies that one rupee increase in DPS leads to an average increase in MPS of Rs. 83.78, Rs. 13.40 and Rs. 52.89 respectively. But it is negative for SCBNL and EBL which implies that one rupee increase in DPS would leads to an average decrease in MPS of Rs. 55.75 and Rs. 14.46 respectively.

The coefficient of determination (R<sup>2</sup>) of NABIL, SCBNL, HBL, NSBI and EBL are 0.850, 0.339, 0.183, 0.555 and 0.034 respectively. This means that 85% variation in MPS is explained by variation in EPS. R<sup>2</sup> is lowest for the EBL and it is highest for the NABIL.

The regression constant (a) of all banks indicate the average effect on dependent variable MPS, if all independent variable omitted form the regression line. SEE measure the variability of actual values from the predictive values for the concerned banks. The larger the SCE value, greater the variation of point around the regression line.

#### 4.3.1.3 Market Price Per Share (MPS) on Earning Per Share (EPS)

Regression Equation:

$$\text{MPS} = a + b \text{ EPS}$$

**Table 4.16**  
**Regression Result of MPS on EPS**

Banks	Constant (a)	Regression Coefficient of EPS (b)	R <sup>2</sup>	SEE	F-Value
NABIL	-5269.68 (-2.218)	67.18 (3.157)	0.769	967.38	9.97
SCBNL	-11234.09 (-1.605)	91.86 (2.052)	0.584	1333.95	4.21
HBL	-1656.97 (-1.569)	51.52 (2.613)	0.695	242.64	6.82
NSBI	-99.41 (-1.384)	32.93 (10.028)*	0.971	75.30	100.55*
EBL	-1053.60 (-2.241)	40.87 (4.917)*	0.890	302.49	24.18*

Source: SEBO/N

Note: 1. Figures in parentheses are t-value.

2. \* Denotes that the result are significant at 5% level of significance.

The above table shows the out put of simple regression analysis between market price per share and earning per share of concerned banks.

The regressions coefficient (b) of all banks which are under the study are positive i.e. 67.018, 91.86, 51.52, 32.93 and 40.47 respectively. It implies that, one rupee increase in EPS leads to an average increase in MPS of Rs 67.18, Rs. 91.86, Rs. 51.52, 32.93 and Rs. 40.47 for the banks NABIL, SCBNL, HBL, NSBI and EBL respectively.

The coefficient of determination ( $R^2$ ) of NABIL, SCBNL, HBL, SBI and EBL are 0.769, 0.584, 0.695, 0.971 and 0.890 respectively. This means that 76.9%, 58.4%, 69.5%, 97.1% and 89% variation on MPS is explained by variation in EPS in case of NABIL, SCBNL, HBL, NSBI and EBL.

The value of constant 'a' is relatively high for SCBNL, which indicates that MPS is affected by several other factors besides EPS. The value of SEE which measure the variability of actual value from the predictive value, for the banks NABIL, SCBNL, HBL, NSBI and EBL are 967.88, 1333.95, 242.64, 75.30 and 302.49 respectively, for the concerned banks.

#### 4.3.1.4 Net worth Per Share (NWPS) on Dividend Per Share (DPS)

Regression Equation:

$$NWPS = a + b \text{ DPS}$$

**Table 4.17**  
**Regression Result of NWPS on DPS**

Banks	Constant (a)	Regression Coefficient of EPS (b)	$R^2$	SEE	F-Value
NABIL	110.14 (5.939)*	3.12 (12.780)*	0.982	9.36	163.32*
SCBNL	580.50 (4.021)*	-1.27 (-0.977)	0.242	48.54	0.95
HBL	251.12 (28.179)*	-0.48 (0.856)	0.196	13.63	0.73

NSBI	148.29 (13.019)*	1.12 (0.694)	0.138	17.48	0.48
EBL	208.35 (3.618)*	-0.54 (-0.164)	0.009	65.95	0.03

Source: SEBO/N

Note: 1. Figures in parentheses are t-value.

2. \* Denotes that the result are significant at 5% level of significance.

The above table shows the output of simple regression analysis between Net worth per share (NWPS) and DPS of concerned banks.

The regression coefficient of DPS (b) of NABIL and NSBI are positive i.e. 3.12 and 1.12 respectively. The positive regression coefficient indicates that one rupee increase in dependent variable Net worth per share by Rs. 3.12 only 1.12 for the bank NABIL and NSBI respectively. But, the regression coefficient (b) of SCBNL, HBL and EBL are -1.27, -0.48 and -0.54 respectively. This means that one rupee in crease in independent variable DPS would lead to decrease in NWPS by Rs.1.27, Rs. 0.48 and Rs. 0.54 respectively for the banks.

The coefficient of determination ( $R^2$ ) of NABIL, SCBNL, HBL, NSBI and EBL are 0.982, 0.242, 0.196, 0.138, and 0.009 respectively. This means that 98.2%, 24.2%, 19.6%, 13.8% and 0.9% variation on NWPS is explained by variation in DPS of respective banks.

The coefficient of 'a' of five joint venture banks shows that NWPS will not fall below Rs. 110.14, Rs. 580.50, Rs. 251.12, Rs. 148.29, and Rs. 208.35 respectively, even if the DPS is zero. The standard error which measures the dispersion of the banks are 9.36, 48.54, 13.63, 17.48 and 65.95 with respect to NABIL, SCBNL, HBL, NSBI and EBL respectively.

### 4.3.2 Multiple Regression Analysis

#### 4.3.2.1 Market Price Per Share on Earning Per Share (EPS), Dividend Per Share (DPS) and Net Worth Per Share (NWPS)

Regression equation:

$$\text{MPS} = a + b_1 \text{EPS} + b_2 \text{DPS} + b_3 \text{NWPS}$$

**Table 4.18**  
**Regression Result of MPPS on EPS, DPS and NWPS**

Banks	Constant (a)	Regression Coefficient of			R <sup>2</sup>	SEE	F- Value
		EPS (B <sub>1</sub> )	DPS (B <sub>2</sub> )	NWPS B <sub>3</sub>			
NABIL	-2423.26 (-0.207)	-17.93 (-0.082)	139.44 (0.512)	-11.20 (-0.080)	0.860	1302.06	2.053
SCBNL	-11005.92 (-9.069*)	-6.05 (-0.484)	-9.77 (-1.496)	36.51 (8.258*)	0.998	156.09	175.20*
HBL	-6380.70 (-10.962*)	-0.810 (-0.072)	27.77 (4.423*)	29.28 (7.480*)	0.996	47.23	86.09*
NSBI	-533.548 (-0.354)	25.84 (1.083)	8.26 (0.297)	3.43 (0.284)	0.974	124.64	12.26*
EBL	-1451.33 (-9.713*)	3.19 (0.529)	-6.04 (-1.422)	12.63 (6.834*)	0.998	73.68	152.33*

Source: SEBO/N

Note: 1. Figures in parentheses are t-value.

2. \* denotes that the result are significant at 5% level of significance.

The above table depicts the output of multiple regression analysis of joint venture banks between MPS, EPS, DPS, and NWPS on the basis of pooled data of concerned banks taken together. MPPS is the dependent variable and other three EPS, DPS and NWPS are the independent variable in the regression line.

The multiple regression constant of all the banks are -2423.26, -11005.92, -6380.70, -533.55 and -14451.33 with respect to NABIL, SCBNL, HBL, NSBI and EBL respectively, which suggests that when EPS, DPS and NWPS are zero, MPS would be 2423.26, -11005.92, -6380.70, -533.55 and -1451.33 for the respective banks. It means the MPS will not fall below Rs. -2423.26, Rs. -11005.92, Rs. -

6380.70, Rs. -533.55, and Rs. -1451.33 for the NABIL, SCBNL, HBL, NSBI and EBL respectively even if the EPS, DPS and NWPS are zero.

For the banks namely, NABIL, SCBNL, and NSBI, one rupee increase in EPS leads to the average amount of Rs. 17.93, Rs. 6.05 and Rs. 0.810 decrease in stock price respectively, holding the DPS and NWPS variable constant. For NSBI and EBL, one rupee increase in EPS would lead to the average amount of Rs. 25.84 and Rs. 3.19 increase in stock price respectively. Similarly, one rupee increase in DPS for the bank, NABIL, HBL and NSBI band ltd. would lead to average amount of Rs. 139.44, Rs. 27.77 and Rs. 8.26 increase in stock price respectively and for the bank SCBNL and EBL one rupee increase in DPS would lead to average amount of Rs. 9.77 and Rs. 6.04 decrease in stock price holding EPS and NWPS constant. Likewise, in case of NWPS, one rupee increase in NWPS would leads to the average amount of Rs. 36.51, Rs. 29.28, Rs. 3.43 and Rs. 12.63 increase in stock price for the bank SCBNL, HBL, NSBI and EBL respectively and for the bank NABIL, one rupee increase in NWPS would leads to average amount of Rs. 11.20 decrease in stock price holding the variable EPS and DPS instant.

The values of multiple coefficient of determination ( $R^2$ ) of all banks are 0.860, 0.998, 0.996, 0.974, and 0.998 with respect to NABIL, SCBNL, HBL, NSBI and EBL respectively. It is lower for the bank NABIL and higher for the bank SCBNL and EBL i.e. 86%, 99.8% and 99.8% respectively. The standard error of estimate (SEE) measures the relative dispersion. The large the value of SEE shows greater variation around the regression line. The t-value of coefficient of EPS for all the sample banks is statistically insignificant at 5% level of significance. The t-values of coefficient of DPS for HBL are significant at 5% level of significance but others are not significant at 5% level of significance. The t-values of coefficient of NWPS for SCBNL, HBL and EBL are statistically significant at 5% level of significance.

The F-statistics for the regression are significant at 5% level of significance indicating that the regression equation provide statistically significant explanation of variation in stock price of SCBNL, HBL, NSBI and EBL but F-statistic is not significant for NABIL at 5% level of significance.

From the above analysis, it has been clearly seen that coefficient of different variables are both positive and negative. Incase of any regression result, the positive result and indicates that these is positive result and indicates that there is positive relationship other hand; the negative result indicates that there is negative relationship between the dependent and independent variables. In multiple regression result the  $R^2$  values for the banks are almost one. In conclusion, it can be said that earning per share affects the dividend differently in different joint venture banks and dividend affects the stock price and net worth differently. Similarly, EPS affects MPS differently in different joint venture banks which can be seen clearly in the above analysis and the dividend behavior of joint venture banks are not seen uniform in Nepal.

## **CHAPTER V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

Dividend refers to the distributed earnings either in cash or bonus share to stockholders of the corporate firms in return to their stock investment. It is the most inspiring factor for the investment on the share of any organization. Dividend decision is the major factor of managerial finance. It is such a price sensitive factor that has directly influenced in liquidity. It also helps to boost investors' confidence by fulfilling their expectations of the investment in share. Since, dividend seeks to maximize the value of common stock so; dividend decision is one of the major decisions of an organization.

Dividend practice we mean the way of implementing its dividend policy that includes paying out dividend to its shareholders, determining ratio of retained earnings for reinvestment, the rate of dividend, the trend of dividend payment, the form of dividend determining target payout ratio etc. Since, dividends serve as a simple, comprehensive signal of management's interpretation of the firm's recent performance and its future prospects so; the improved corporate dividend practice is thus an essential means to solve the problem of symmetric information between Nepalese investors who have poured their funds there it. It seems that dividend practice affects on the one hand liquidity and financial structure and on the other hand investor's attitudes and expectations of return for their investments.

There are the different factors that affect dividend such as earnings, liquidity position, degree of leverage, assets turnover and interest coverage. These factors indicate the financial position of a firm. If a firm has good performance in terms of these factors, it will be able to provide returns in the form of dividends to the shareholders. The study mainly aims to assess dividend policy and practices of joint venture banks. Its specific objectives are (i) to study the dividend policies and practices in Nepalese joint venture banks (ii) to examine the relationship of



dividend with stock price, earning per share and net worth (iii) to identify the factors affecting the dividend policy of Nepalese joint venture banks.

This study covers all the joint venture banks except and the Nepal Bangladesh Bank and The five years data form 2002/03 A.D. to 2006/07 A.D. are taken. It has been based on the secondary data collected from published and unpublished journals, articles, trading report of SEBO/N, the website of NEPSE Ltd., and website of SEBO/N. To accomplish the above mentioned objectives different financial and statistical tools are used. The accuracy of the secondary data determines the reliability of the conclusion of the study.

The stockholders have high desire and expectation that market price of share will be significantly higher than net worth and getting high percentage of dividend from earnings. The joint venture banks are not following and appropriate dividend policy. This means that the management of the banks is not serious on the matter of dividend policy and practices.

### **Summary of Major Findings**

From the analysis of secondary data, following major findings are drawn out:

- ❖ The earning per share (EPS) of Nepalese joint venture is positive. The average EPS of SCBNL is highest and it is lowest for the NSBI. The joint venture banks ranged form 9.6% to 59%. The EPS of SCBNL is almost stable i.e. 9.6% fluctuation but in case of other banks there in no stability in EPS.
- ❖ In paying cash dividend there is not seen regularity. The NSBI, EBL and HBL have not paid cash dividend for two years and one year respectively during the study period.
- ❖ The SCBNL paid comparatively high dividend per share among the banks and also has the highly consistency in paying cash dividend whereas the DPS of NSBI is highly fluctuating.

- ❖ The SCBNL has sound DPR but NABIL has lower fluctuation. There is higher fluctuation in DPR of EBL.
- ❖ The average market price per share (MPS) of SCBNL is higher than other joint venture banks. MPS is in increasing trend for almost all the banks in succeeding years. MPS of joint venture has fluctuated minimum 34.98% for HBL to maximum 82.67% for NABIL.
- ❖ The average earning yield (EY) of NABIL is higher than other banks. There is no uniformity in EY of joint venture banks. The NSBI has the lowest fluctuation whereas NABIL and SCBNL have the highest fluctuation among the banks.
- ❖ Since the higher and sound dividend yield (DY) is desirable, the NABIL has the higher average dividend yield but it has the lower fluctuation. So, it can be said that NABIL has the sound DY. The NSBI and HBL have lower DY and higher fluctuation so it is not desirable for the inventors.
- ❖ The ratio of MVPS to BVPS of SCBNL is the highest among the banks under study while this ratio is lowest for NSBI. The ratio is consistent for HBL but wide fluctuation for NABIL.
- ❖ The SCBNL has the highest average NWPS but NSBI has the lowest. The fluctuation in NWPS is highest of EBL and lowest in case of HBL.
- ❖ From the regression result of DPS on EPS, it is found that the SCBNL and EBL have negative regression coefficient of EPS (b) which indicates the negative relationship between DPS and EPS. The other banks have more or less positive rate of relationship between DPS and EPS. The t-value of regression coefficient (b) is significant for NABIL and also F-value is significance for NABIL only at 5% level of significance.
- ❖ According to the regression result of MPPS on DPS, regression coefficient of DPS (b) is positive for NABIL, HBL and NSBI but negative for SCBNL and EBL. The t-value of regression coefficient (b) and F-value both are significant for NABIL.
- ❖ As far as the regression result of MPPS of EPS is concerned, the regression coefficient of EPS (b) is positive for all banks. The t-value of regression

coefficient (b) and the F-value are significant for all banks at 5% level of significance except for SCBNL, NABIL and HBL.

- ❖ With respect to regression result of NWPS on DPS, the regression coefficient of DPS (b) is positive for NABIL and NSBI the t-value of regression coefficient (b) and the f-value both are significant only for NABIL, at 5% level of significance.
- ❖ The multiple regression result of MPPS on EPS, DPS and NWPS clarify that the regression coefficient of EPS ( $b_1$ ) is positive for EBL and NSBI but for other banks it is negative. The regression coefficient of DPS ( $b_2$ ) is positive for HBL, NABIL and NSBI. The regression coefficient of NWPS ( $b_3$ ) is positive for all sample banks except for NABIL. The f-value is significant at 5% level of significance for SCBNL, EBL, HBL and NSBI.

## **5.2 Conclusion**

The above mentioned major findings led this study to conclude that there is no uniformity in dividend policy and practices followed by Nepalese joint venture banks. Dividends are distributed as an ad-hoc or situational basis. The dividend payment is not consistent with earning and there is a greater fluctuation on the trend of dividend payment. Dividend affects the market price of stock but the nature of effect would be different for different banks. There are also other factors that affect the market price of stock viz. earning per share, price earning ratio, information value of dividend decision etc. However, the MPPS do not truly and uniformly reflect the actual dividend paid by joint venture banks under study. There is no significant relationship of DPS with MPPS in almost all of the banks.

## **5.3 Recommendation**

The study has found many findings and conclusions from the presentation and analysis of the various data. Based on this study the following recommendation and suggestions can be prescribed regarding dividend policy and practices of Joint venture banks.

- ❖ There seems lack of term vision regarding earning and dividend payout ratio in joint venture banks which is essential for future betterment. Leaving the dividend as residual, banks should choose whether to adopt stable dividend policy or constant payout ratio.
- ❖ The shareholders should be well informed by the management about the dividend policy. More specifically, whether cash dividend or stock dividend is fruitful or them since stock dividend decreases market value of stock and earning per share.
- ❖ The shareholders should be well informed by management about the dividend policy. More specifically, whether cash dividend or stock dividend is fruitful for them since stock dividend decreases the market value of stock and earning per share.
- ❖ There is no consistency in the dividend payout behavior in many cases; for example, small amount of dividend has been paid despite sufficient earnings without considering the rate of return. Further the price of shares seems to increase even in years when the dividend was not paid. This is the result of market imperfection. To come out from this undesired situation; government, Nepal Rastra Bank and Nepal stock exchange must work together.
- ❖ The legal rules regarding dividend policy should be clear for the smooth growth of the enterprises as well as growth of the national economy. Some of the banks are able to pay dividends, some are suffering from loss and there is an effort to minimize loss rather than payment of dividend. So, the government should act in favor of investors and bind these banks by special rules. For this, government shouldering legal provision in favor of shareholders.
- ❖ Most of the banks seem to ignore the dividend expectation of the minority shareholders. It seems necessary to be organized to promote and protect shareholders right as regard dividend.

- ❖ The organization formed by conscious shareholders like 'Shareholder's Association of Nepal' should be encouraged to work against the management ignorance.
- ❖ Due to lack of information about securities market, the potential investors are not stimulated properly. So, seminars, workshops should be organized and information's should be delivered to shareholders as well as potential investors to develop efficient securities market in Nepal.

## APPENDIX

### List of DPS, EPS, MPS, NWPS, DY, DPR, EY and MPPS/BVPS of Five Joint Ventures

Banks	Years	DPS	EPS	MPS	NWPS	DY	DPR	EY	MPPS/BVPS
NABIL	2002/03	50	84.66	740	267	6.76	59.06	11.44	2.75
	2003/04	65	92.61	1000	301	6.50	70.19	9.26	3.32
	2004/05	70	105.49	1505	337	4.65	66.36	7.01	4.46
	2005/06	85	129.21	2240	381	3.79	65.78	5.77	5.87
	2006/07	100	137.08	5050	418	1.98	72.95	2.71	12.08
SCBNL	2002/03	110	149.30	1640	403.16	6.71	73.87	9.10	4.07
	2003/04	110	143.55	1745	399.24	6.30	76.63	8.23	3.37
	2004/05	120	143.14	2345	422.37	5.12	83.84	6.10	5.55
	2005/06	130	175.84	3775	468.22	3.44	73.93	4.65	8.06
	2006/07	80	167.37	5900	512.11	1.35	47.79	2.84	11.52
HBL	2002/03	1.32	49.45	836	247.82	0.16	2.67	5.92	3.37
	2003/04	0	49.05	840	246.93	0.00	0.00	5.84	3.40
	2004/05	11.58	47.91	920	239.59	1.25	24.18	5.21	3.84
	2005/06	30	59.24	1100	228.72	2.72	50.64	5.39	4.81
	2006/07	15	60.66	1740	264.74	0.86	24.73	3.49	6.57
NSBI	2002/03	8	11.47	255	134.05	3.14	69.75	4.49	1.90
	2003/04	0	14.25	307	146.80	0.00	0.00	4.64	2.09
	2004/05	0	13.29	335	159.54	0.00	0.00	3.97	2.10
	2005/06	5	18.27	612	151.78	0.82	27.37	2.99	3.99
	2006/07	12.59	39.35	1176	178.04	1.07	32.00	3.35	6.60
EBL	2002/03	20	29.90	445	150.10	4.49	66.89	6.72	2.96
	2003/04	20	45.58	880	171.53	2.94	43.88	6.70	5.13
	2004/05	0	54.22	870	169.15	0.00	0.00	6.23	5.14
	2005/06	25	62.78	1379	217.67	1.81	39.82	4.55	7.42
	2006/07	10	78.40	2430	292.75	0.41	12.77	0.79	8.30

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