IMPACT OF DIVIDEND ON MARKET PRICE OF STOCK
(A STUDY OF COMMERCIAL BANKS AND FINANCE COMPANIES)

A THESIS

Submitted By

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VIVA VOCE SHEET

We have conducted the viva voice examination of this thesis presented by

Hari Prasad Upadhaya

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And found the thesis to be original work of the student and written according
to the prescribed format. We recommended the thesis
To be accepted as partial fulfillment for
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DECLARATION

I hereby declare that the thesis entitled "**Impact of Dividend on Market Price of Stock (A Study of Commercial Banks & Finance Companies)**" submitted to the office of dean, Faculty of Management, Tribhuvan University is my original work. It has been prepared for the partial fulfillment of the requirements for the degree of Masters of Business Studies (MBS) under the supervision of Dr. Bihari Binod Pokharel and Mr. Umesh Kumar Koirala, Nepal Commerce Campus, Tribhuvan University, Kathmandu, Nepal

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Finally, I hope that this report will serve as a stepping stone to the student of business studies and to those who wish to make further research under this topic. I hope, I have attempted to bring the report errorless but the possible errors would be covered by the further researchers.

Hari Prasad Upadhaya

Nepal Commerce Campus

March, 2009

TABLE OF CONTENTS

LIST OF TABLES

LIST OF GRAPHS

LIST OF ABBREVIATIONS

AD	Anno Domini- abbr. of the Christian era
ATM	Automated Taller Machine
BOK	Bank of Kathmandu Limited
BPS	Book value Per Share
BS	Bikram Sambat
BVPS	Book value Per Share
CV	Coefficient of variation
DPS	Dividend Per Share
EBL	Everest Bank Limited
EPS	Earning Per Share
GMBFL	Guhaswori Merchant Banking & Finance Limited
GoN	Government of Nepal
HBL	Himalayan Bank Limited
KBL	Kumari Bank Limited
LFL	Lalitpur Finance Limited
Ltd.	Limited
MM	Modigliani and Miller
MPS	Market Price per Share
NABIL	Nabil Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NEPSE	Nepal Stock Exchange
NIBL	Nepal Investment Bank Limited
NRB	Nepal Rastra Bank
NSBL	Nepal SBI Bank Limited
P/E	Price Earning
PFL	Premier Finance Company Limited
ROE	Return on Equity
SCBL	Standard Charted Bank Limited
SD	Standard Deviation
SEBON	Security Board of Nepal
T.U.	Tribhuvan University
&	And

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Nepal ranks among the world's poorest countries with a per capita income of around $ 300. Development of the country means the strong economy background of the country as well as people of that country. Strong economy of any country will be, when the proper utilization of the available resources of the country made. Same as the under develop country means the economically worst country even they have the maximum level of resources.

Nepal is a small land lock country which is situated on the south Asia and economically poor but it has natural resources as well as the small scattered fund and also the lots of the investment opportunity.

If scattered funds collected and invested in to the big project with bearing the small cost of fund; it will results maximum level of economic benefit from its own resources. For this, it has to develop the corporate culture. In Nepalese business, culture here is few limited companies; where banking sector is more few steps ahead than other manufacturing and service companies. Still Nepalese business is dominated by the private company.

Nepal's Stock exchange or Securities Exchange Center, as it was known then, began in 1937 with Nepal Bank Ltd and Biratnagar Jute Mills Ltd contributing flotation shares. The Securities Exchange Center was established in this country in an attempt to encourage growth in the capital markets. It also took the part of providing financial services, underwriting, brokering, managing public issue, developing markets for government bonds and other similar services.

Current share market of the Nepal is small in size and its growth and expansion is needed to compete globally and for developing the overall capital market and the economy.
As this the era of globalization, industrialization and there is no any boundary for the development of stock market.

It was only later in 1993 that the Securities Exchange was converted to the Nepal Stock Exchange (NEPSE) and only in 1994 when it commenced trading on the trading floor. The NEPSE assists the government and corporate securities to a large degree in providing them with liquidity, marketability, providing intermediaries like market makers and brokers and facilitating transactions on the trading floor.

When company is fast growing; and for the meet target and competition is requires fund and it fulfill by the issue of financial instruments (Shares, debentures, preference shares etc.)

When investor investment in the financial instrument investor receive the return.

The dividend is the distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The amount of a dividend is quoted in the amount each share receives or in other words dividends per share.

Dividends may be in the form of cash, stock. Most secure and stable companies offer dividends to their stockholders. Their share prices might not move much, but the dividend attempts to make up for this.

High-growth companies don't offer dividends because all their profits are reinvested to help sustain higher-than-average growth.

A share of a company's net profits distributed by the company to a class of its stockholders. The dividend is paid in a fixed amount for each share of stock held. Although most companies make quarterly payments in cash (checks), dividends also may be in the form of property, scrip, or stock. Unlike interest on a debt, dividends must be voted on by the company's directors before each payment.

Dividends are payments made by a corporation to its shareholder members. When a corporation earns a profit or surplus, that money can be put to two uses: it can either be re-invested in the business (called retained earnings), or it can be paid to the shareholders as a dividend. Many corporations retain a portion of their earnings and pay the remainder as a dividend.

A cash dividend is a payment made by a company out of its earnings to investors in the form of cash (check or electronic transfer). This transfers economic value from the company to the shareholders instead of the company using the money for operations. However, this does cause the company's share price to drop roughly the same amount as the dividend. For example, if a company issues a cash dividend equal to 5% of the stock price, shareholders will see a resulting loss of 5% in the price of their shares. This is a result of the economic value transfer. Another consequence of cash dividends is that receivers of cash dividends must pay tax on the value of the distribution, lowering its final value. Cash dividends are beneficial, however, in that they provide shareholders with regular income on their investment along with exposure to capital appreciation.

A stock dividend, on the other hand, is an increase in the amount of shares of a company with the new shares being given to shareholders. For example, if a company was to issue a 5% stock dividend, it would increase the amount of shares by 5% (1 share for every 20 owned). If there are 1 million shares in a company, this would translate into an additional 50,000 shares. If you owned 100 shares in the company, you'd receive five additional shares.

This, however, like the cash dividend, does not increase the value of the company. If the company was priced at $10 per share, the value of the company would be $10 million. After the stock dividend, the value will remain the same, but the share price will decrease to $9.52 to adjust for the dividend payout. The benefit of a stock dividend is choice. The shareholder can either keep the shares or hope that the company will be able to use the money not paid out in a cash dividend to earn a better rate of return, or the shareholder could also sell some of the new shares to create his or her own cash dividend. The biggest benefit of a stock dividend is that shareholders do not generally have to pay taxes on the value. Taxes do need to be paid, however, if a stock dividend has and cash dividend option, even if the shares are kept instead of the cash.

Stock dividends are thought to be superior to cash dividends as long as they are not accompanied with a cash option. This is due to the choice that stock dividends offer compared to cash dividends. But this does not mean that cash dividends are bad, they just lack choice; a shareholder could still reinvest the proceeds from the cash dividend back into the company through a dividend reinvestment plan.

"Cash dividend is the dividend, which is distributed to the shareholders in cash out of the earnings of the company. When cash dividend is distributed both total assets and net worth of the company decrease as cash and earnings decrease. The market price of the share drops in most cases by the amount of the cash dividend distributed.

A stock dividend occurs when the board of directors authorizes a distribution of common stock to existing shareholders. Stock dividend increases the number of outstanding shares of the firm's stock. Although stock dividends do not have a real value firms pay stock dividend as a replacement for a supplement to cash. Under stock dividend, stockholders receive additional shares of the company in lieu of cash dividends. Stock dividend requires an accounting entry transfer from the retained earnings account to the common stock and paid in capital accounts

Rupees transferred from retained earnings= Number of shares outstanding x Percentage of stock dividend x Market price of the stock. There is no cash involved in a stock dividend. Net worth remains unchanged, and the number of shares is increased.[1]

Firms pay dividend following Procedures:

- **Declaration Date:-** This is the day on which the board of directors declares the dividend. At this time they set the amount of the dividend to be paid, the holder-of- record date, and the payment date.

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[1] Thapa, Kiran. (2062). *Fundamentals of Financial Management.* Asmita Books Publishers & Distributors, Kathmandu, Nepal p.14.3

- **Holders-of-record date**:- This is the date the company opens the ownership books to determine who will receive the dividend; the stockholders of record on this date receive the dividend.
- **Ex-dividend date**:- This date is four days prior to the record date. Shares purchased after the ex-dividend date are not entitled to the dividend.
- **Payment date**:- This is the day when dividend checks are actually mailed to each holders of record.[2]

Stock Market of Nepal

Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of NEPSE.

1.1.1 Introduction of Organizations under Study

Kumari Bank Limited

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank head office location is Darwarmarg, Kathmancud. The bank has paid up capital of Rs. 1078.272 million, of which 70 % is contributed from promoters and remaining from public.

Kumari Bank Ltd has been providing wide - range of modern banking services through 16 points of representations located in various urban and semi urban part of the country, 11 outside and 5 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS banking services in

[2] ibid, p.14.1

Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly the bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, utility bill payment services, inward and outward remittance services, and various other banking services.

Visa Electron Debit Card, which is accessible in entire VISA linked ATMs (including 18 own ATMs) and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customers.

The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission.

The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.[3]

Mission :

- Provide world class service to our customers at a higher satisfaction level.
- Practice total quality management and embrace good governance.
- Optimize our assets to achieve sound business growth.

[3] www.kumaribank.com

Vision :

- We are customer oriented. Client is always our first priority.
- Employees have direct input and control over work processes.
- Employees are treated equitably, with respect and good faith.
- We are transparent in our dealings and conduct.

Capital Structure:

Authorized Capital is – Rs. 1,000,000,000.00

Issued & Paid-Up Capital is – Rs. 750,000,000.00

Paid up capital is – Rs. 750,000,000.00

Stock market listing date is - B.S. 2061-04-14

Bank of Kathmandu Limited

Bank of Kathmandu Limited has become a prominent name in the Nepalese banking sector. The bank establishment date is March 12, 1995 and head office location is Kamaladi, Kathmandu. We would like to express our sincere gratitude to our customers, shareholders, employees and other stakeholders for their support and co-operation for leading the bank to the present height of achievements. We wish to reiterate here that whatever activity we undertake; we put in conscious efforts to glorify our corporate slogan, “We make your life easier”.

We would also like to elucidate that Bank of Kathmandu is committed to delivering quality service to customers, generating good return to shareholders, providing attractive incentives to employees and serving the community through stronger corporate social responsibility endeavor.

Bank of Kathmandu Limited (BOK) has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public.

BOK started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. BOK also aims to facilitate the nation's economy and to become more competitive globally. To achieve these, BOK has been focusing on its set objectives right from the beginning. To highlight its few objectives:

To contribute to the sustainable development of the nation by mobilizing domestic savings and channeling them to productive areas

- To use the latest banking technology to provide better, reliable and efficient services at a reasonable cost
- To facilitate trade by making financial transactions easier, faster and more reliable through relationships with foreign banks and money transfer agencies
- To contribute to the overall social development of Nepal

VISION

To become a significant contributor to the economic development of Nepal by distinguishing the bank as an efficient, competitive, safe and top quality financial institution.

MISSION STATEMENT

To offer financial services and becoming the “Bank of Choice” by dedicating to the progress and growth of the institution for the community, customers, employees, supervisors and stockholders by:

- Promoting economic growth and becoming a caring corporate citizen.
- Providing excellent customer services by offering personalized quality products and services.
- Inducing modern technologies of banking that adds value to customer service
- Following strict risk control mechanisms
- Enhancing shareholders value
- Providing challenging career and learning opportunities for employees

TECHNOLOGY

BOK's IT infrastructure has been designed, to facilitate, internal and customer convenience. Nationwide, all the branches are connected to the central database via Wide Area Network (WAN) powered by Finacle, state-of-the-art banking application software supported by hardware like SUN Fire V880 RISC server, VSAT etc. Internally, BOK relies on Information & Communication Technology (ICT), for a quick, reliable, efficient system. Banking operations are powered by Finacle, which is listed among the top 40 companies that have reshaped the global economy as per the Wired Magazine.

FINACLE

- BOK takes pride in using Finacle, banking application software, “The Banker” Technology Award 2004.
- Certified by Information Technology Association of using certified processes and methods
- One of the first banking products to be JAVAtised to enable to operate effectively, provide better customer services challenges of the internet paradigm.
- Is installed in more than 400 sites across the world.

INTERNET BANKING

With the aim of providing banking services at the customer's fingertips, BOK is starting Internet Banking and Alert Service very soon. In Internet Banking, BOK will provide Consumer e-banking (Core, Retail and Bill Payment) as well as Corporate e-banking facilities (Trade financing and web based Cash Management). [4]

Capital Structure:

Authorized Capital is – Rs. 1,000,000,000.00

Issued & Paid-Up Capital is – Rs. 603,141,300.00

Paid up capital is – Rs. 603,141,300.00

Stock market listing date is - B.S. 2054-04-12

[4] www.bok.com.np

Nabil Bank Limited

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 16, 1984, Head office is Kamaladi, Kathmandu. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Telebanking system.[5]

Capital Structure:

Authorized Capital is – Rs. 1,600,000,000.00

Issued & Paid-Up Capital is – Rs. 689,216,000.00

Paid up capital is – Rs. Rs. 689,216,000.00

Stock market listing date is - B.S. 2042-09-08

Guhaswori Merchant Banking & Finance Limited

Guhashwori Merchant Banking & Finance Limited is the finance company of Nepal. The finance company established in 2059/02/30 B.S. and Share market listing date is 2063/03/22 B.S. Its authorized capital is Rs. 10,00,00,000.00 (ten corer), issued

[5] www.nabilbank.com.np

capital is Rs 10,00,00,000.00, paid up capital is Rs. 9,86,90,000.00. Its Head office location is Pulchow Lalitpur.

Premier Finance Company Limited

Premier Finance Limited is the finance company of Nepal. The finance company established in may 8, 1997, head office location is Kumaripati, Lalitpur. Share market listing date is 2060-2-22 (B.S.). Authorized capital is Rs. 10,00,00,000.00 (ten corer), Issued capital is 2,88,00,000.00, paid up capital is 2,88,00,000.00 .

Lalitpur Finance Limited

Lalitpur Finance Limited (Bittiya Sanstha) is the first Finance Company of Lalitpur District owned by private sector. Established under the Finance Company Act 2042 and Company Act 2053 (December 12, 1995), LAFIN has been performing its functions effectively under the guidance of Nepal Rastra Bank (Central Bank). The financial result of the company reflects its strong strength. The company was listed in Nepal Stock Exchange on September 18, 1998 (2055/06/02). Its head office location is Lagankhel, Lalitpur. We are LAFIN - a diversified financial services company where speed, creativity, and responsiveness are the keys to our success.

Transparency, accountability, information disclosures and stringent ethics practiced at Lalitpur Finance Ltd.(Lafin), have now become its hallmark. The aforementioned principles have not only proven to be winning formulae, but in the years have also helped us win investor's confidence. LAFIN helps people in diverse businesses and family offering them innovative financial products and solutions. And of course, helping them materialize their dreams.

In the years that LAFIN has been in business, it has provided financing solutions to small and mid-sized companies in both traditional commercial finance markets and in specialized niche markets such as housing and retail financing. Having long association with these industries, our knowledge of these industries runs deep. We now clearly understand the chain that links supply and distribution and the associated capital challenges.[6]

1.2 Focus of the Study

This study deals with the current scenario of the share price of the sampled financial institutions after and before declared stock and cash dividend. The study has highlighted the major changes in market price and policy of the respective banks and financial institutions regarding of the respective financial institutions regarding the declare cash and stock dividend.

Among more than 25 commercial banks[7] and 79[8] Finance companies this study has taken 3 commercial banks and 3 finance companies which are as follows:

- Kumari Bank Limited.
- Bank of Kathmandu Limited.
- Nabil Bank Limited.
- Guheswori Merchant Banking and finance Limited.
- Premier Finance Company Limited.
- Lalitpur Finance Limited.

1.3 Statement of the Problem

Dividend offering announcement by company serves good news to its shareholders. A shareholder receive dividend as a cash or stock. A shareholder, whose name is in the company's book before the record date, there will be high demand of share.

On the other hand, for the existing shareholders there will be a temptation to sell there stock at a price much higher than currently prevailing in the market and still they do not want to sell their shares. The supply of share is decrease.

Stock dividend increases the share capital from its reserve fund so it is the common practice in Nepal for the capitalization of the retained profit.

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6 www.lalitpurfinance.com.np
7 http://bfr.nrb.org.np/List_Banks_n_Non_Banks.htm#saving
8 www.nrb.org.np

Cash dividend decrease retained earning from its reserve fund so it is the common practice in Nepal for the actual cash received of investor.

Theoretically price of share increases after the dividend offering and decrease after the distribution of dividend. Primary observation has shown mixed results. So this research focuses to the impact on the market price of shares of financial institutions after the declaration of stock dividend and cash dividend.

More specifically, this study seeks to solve the answer of following questions.

1) What is the impact of dividend market price of share in Nepalese Share Market?
2) Is the market price of share affected only by dividend?
3) What is the magnitude of correlation between dividend and market price of share?
4) What are the other major qualitative factors that shape the market price of the Nepalese financial market?

1.4 Objectives of the Study

The study aims to identify the impact of dividend market price of stock through examination of the relationship between dividend and market price of share. To fulfill this motive following objectives have been formulated.

1) To study and evaluate the relationship between dividend and market price of stock.
2) To identify and analyze the changes in market price per share after cash dividend and stock dividend.
3) To examine the preference of investor on cash dividend & stock dividend.
4) To assess the preference of investor on dividend return or capital gain.
5) To provide suggestions the concerned organizations on the basis of study findings.

1.5 Significance of the Study

This study specially highlighted to the Cash dividend and stock dividend provided by the financial institutions and its effect to market price of the stock.

Share markets are still immature and investor has not analytical view for price of market what make goes the price high and what brings the price fall. This study helps to the new investor who wants to invest on secondary markets and to new researcher who wants to know the Nepalese share markets.

Some facts that, comes out from research in any topic is important in it self. The topic that researcher have chosen is probably a new topic in the context of Nepal. Thus, effort to study on cash dividend and stock dividend of share provide practices in Nepal can be beneficial for other new researchers and many companies. This study will analyze the impact of cash and stock dividend announcement on shares price that will be quite important information for the shareholders and companies practicing cash dividend and stock divided, and also for those which are not practing but are planning to do it.

The dividend announcement is an important decision of a corporate firm for different point of view. Although it is a significant subject for the all concerned people of the capital market, there are very limited studies have been conducted. It is hoped that the study will contribute some output on the field of nascent capital market, especially to the general investors and policy makers.

1.6 Limitations of the Study

This study is related to the study of share price movement due to cash dividend and stock dividend announced by Nepalese Financial Market. Therefore the scope is limited within the listed companies having dividend announced. This study fulfils the partial requirement of MBS degree. Being a thesis for academic requirements this study has following limitations.

1) This study has analyzed and evaluates the data for the last five years as far as possible.

2) For analyzing the data simply market price rated on the Nepal stock exchange within the first month of before and after the dividend distribution.
3) This study is based mostly on secondary data and use primary data also.
4) Only the six dividends distributed financial institutions are consider for the study.
5) Time factor is the major limitation of this study.

1.7 Organization of the Study

Title of this study will be **Impact of Dividend on Market price of stock** (With Reference to Nepalese Financial Institutions). This study has to be completed within the format provided by the T.U. so, the research is divided in to following chapters:

- **Chapter One:** Includes general background of the study statement of problem, objectives of the study and statement of hypothesis.
- **Chapter Two**: This chapter includes review of literature. The researchers have divided this chapter into two parts one is theoretical framework and second is review of previous studies.
- **Chapter Three**: Research methodology consists of research design and research tools. Secondary data is used for this study as far as possible primary data also consider for study.
- **Chapter Four**: Fourth chapter of this study includes data presentation and analysis. This is main part of the study. Obtained data are presented in the tabular and other forms obtained data has been analyzed by using various statistical tools.
- **Chapter Five:** This is last chapter of the study & it includes conclusion, findings and some recommendations.

CHAPTER- II

LITERATURE REVIEW

2.1 Introduction

A literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the literature helps the researcher to develop a thorough understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigation problems that have already been definitely answered. Thus a literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest. The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to do. The primary purpose of literature review is to learn not to accumulate. It enables the researcher to know.

- What research has been done in the subject?
- What others have been done in the study?
- What theories have been advanced?
- The approach taken by the other researchers
- Area of agreement or disagreement
- Whether there are gaps that can fill through the proposed research? [9]

2.2 Conceptual Framework

"Dividend refers to that portion of firms net earning, which are paid out of shareholders"[10] Dividend are generally paid in the from of cash. So the payment of dividend reduces the cash balance of company as well as the amount of retained earnings. In theory of finance, dividend decision plays a very crucial role. Dividend

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[9] Adhikari, Prativa. (2008). *Determinants of Interest Rate on Nepalese Market.* Unpublished Master Degree Thesis, Nepal Commerce Campus p. 22

[10] Khan, M Y & K Jain P.K. (1992). *Dividend Policy Decision, Financial Management Text and Problems Second Edition*. New Delhi Tata McCraw- Hill publishing company Ltd. P. 543

decision however is still a crucial as well as controversial areas of managerial finance. It is more technical area of finance is the since that it is complex on having numerous implications for the firm. Dividend policy may affect the area such as financial structure of the firm flow of funds corporate liquidity, stock prices investors' satisfactions, growth of the firm etc. Like other major decision, the dividend decision has major role in all business organizations.

Dividend is the any institution regarding the division of its profit between shareholders as divided policy includes all aspects related to payment of dividend.

Dividend decision is one of three major decision of managerial finance. The firm has to choose between distributing profitable opportunities. It is better to pay the dividend if the payment will lead to the wealth maximization. If not it is better to retain them for financial investment thus the relationship between dividend and market price of stock.

Shareholders of a company always aim to maximize their wealth. The Shareholders wealth includes not only the market price of the stock but also the current dividend the company pays to them. But the dividend payout 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 the market value of the stock.

Most of he Shareholders want to maximize their wealth in two forms i.e. capital gain and cash dividend. Capital gain is the profit resulting from sale of the common stock where as dividend is the share in profit of the company. The shareholders in one hand they also expect an increase in market price o the share and in the other hand they also expect distribution of firms earning in the forms of dividend. From the firm having stable image in the market the investors expect regular dividend. Thus this priority takes over the desire to retain earning for financial expansion and growth. Thus Shareholders expectation can be fulfilled either through capital gain or dividends.

Since dividend would be more attractive to stock holder one might think that there would be a tendency for corporation to increase distribution to increase distribution dividends but one might equally pressure that gross dividend would be reduced.

Some what with an increase in net after tax dividends still available to stockholders and increase in retained earnings for the corporation. It is thus very important to maintain balance between the shareholders interest and corporate growth resulting from internal financing is amount retained. Financial Management is therefore concerned with the activities of the corporation that affect the well being of stockholders. That well being can be partially measured by the dividend received but more accurate measure is the market value of stock.

2.3 Major Forms of Dividend

Depending upon the objective and policies institution can give various type of dividend to shareholders. Before adopting any dividend the firm must ensure the smooth growth of the institution as well as satisfy the expectation of the Shareholders there should be consistency in dividend policy and financial plans Shareholders preference and attitude of the director. The corporations in Nepal are in the early stages of development due to which they need to pay extensive concentration in the dividend. The empirical observation incase of public limited companies in Nepal shows that only few corporations are paying dividend to the government due to suffering from regular losses and not having Rick of ownership transfer. Some of the major dividends forms are as bellows:

2.3.1 Cash Dividend

The portion of earning paid in form of cash to the investor in proportion their share of the institutions is known as cash divided. After the payment of dividend to the shareholders both the total assets and net worth of the institution decrease by the amount equal to the cash dividend. For the payment of dividend institution should sustain adequate balance of cash. In case of Insufficiency of the cash balance for the payment of dividend funds to be borrowed for this purpose if difficult. Thus a institution should regularly perform cash planning for maintaining a stable dividend policy mostly adopted by many institution. However it can be said the volume of cash dividend depends on the earning of the organization attitude of management, situation of the market cost etc.

2.3.2 Stock Dividend

Stock dividend refers to the payment of additional stock to the stockholders. A stock dividend is paid in additional shares of the stock instead of in cash and simply involves a bookkeeping transfer from retained earning to the capital stock account. In simple words the simple payment of stock dividends results into the transfer of amount for accumulated earning to shares capital account. When from need to retain high percentage of earning they issue stock so that the stockholders of the firm are not disgruntled.

A 10% of stock dividend means that one shares of stock for every ten shares already owned is given to each shareholder. Would be given one additional shares of stock for every shares already owned, thus it will be doubles the number of shares owned by each of the shareholders. Same of the joint venture companies of Nepal have adopted the policy of paying cash along with stock dividend.

One of the most common forms of stock dividend referred as bonus share are the subscription receipt (scrip) provided to the shareholders as additional shares. Bonus share has the attribute to buoyancy so that it is more preferred by the shareholders.

2.4 Developing Dividend Policies

Even though most firm seem to have a policy of paying stable amount of dividend or a stable dividend payout ratio this is not only the policy. There are three major types dividends payout schemes:

2.4.1 Constant Dividend per Share

According to this form of stable dividend policy, a company follows a policy of paying in certain fixed amount per share as dividend. The fixed dividend amount would be paid year after year irrespective of the fluctuation in the earning. In other words fluctuations in earning would not affect t he dividend payment. In fact when a company follows such a dividend policy it will pay dividend to the shareholders even when if suffer soles. It should be clearly noted that this policy does not imply that the dividend per share or dividend rate will never be increase. The dividend per share is increased over the years when the company reaches new levels of earning and expects to maintain it. Of course, if the increase is expected to be temporary the annual dividend per share is not changed and remains at the existing level.

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

2.4.2 Constant Payout Ratio

Constant target payout ratio is another from of stable dividend policy followed by some companies. The term payout ratio refers to the ratio of dividend to earning or the percentage share of earning used to pay dividend. With constant target payout ratio, a firm pays a constant percentage of net earning as dividends to the shareholders. Thus, amount of dividend will fluctuate in direct proportion in the earning of the company.

This policy is related to a company's ability to pay dividends shall be paid regardless of the desires of shareholders. Internal financing with retained earning is automatic when this policy is followed. At any given pay out the ratio the amount of dividend and the additions to retained earning increase with increased earning and decrease with decreased earning. This policy simplifies the dividend decision and has the advantage of protecting a company against over and under payment of dividend. It ensures that dividends are paid when profits are earned and avoided when it incurs losses.

2.4.3 Stable Rupee Dividend plus Extra Dividend (or low Regular Dividend plus Extras)

A policy of paying a low regular dividend plus a yearend extra in good years is a compromise between the previous two policies. Under this policy a firm usually pay fixed dividend to the shareholders and in year of market prosperity, additional or extra dividend is paid over and above the regular dividend and pays the normal dividend per share.

It gives the firm flexibility, but it leaves investors somewhat uncertain about what their dividend income will be if a firm earning and cash flows are quite volatile however, this policy may well be the best choice.

2.5 Review of Major International Studies

2.5.1 Modigliani and Miller's Study's

Miller and Modigliani (MM, hereafter) have advanced the view that the value of a firm depends solely on its earnings power and is not influenced by the manner in which its earnings are split between dividends and retained earnings. This view, referred to as the MM "dividend irrelevance" theorem is presented in their celebrated 1961 article.[11] In this article MM constructed their argument of the following assumptions.[12]

- Capital markets are perfect and investors are rational: information is freely available, transactions are instantaneous and costless, securities are divisible, and no investor can influence market prices.
- Flotation costs are nil.
- There are no taxes.
- Investment opportunities and future profits of firms are known with certainty (MM drop this assumption later).
- Investment and dividend decisions are independent.

[11] M.H. Miller and F. Modigliani. (1961). *Dividend policy, Growth and the Valuation of Shares.* Journal of Business, Vol. 34 PP 411 -433

[12] Chandra, Prasanna. (2002). *Financial Management Theory and Practice.* Tata McGraw-Hill Publishing Company Limited, New Delhi, p482

The substance of MM argument may be stated as follows: If a company retains earnings instead of giving it out as dividends, the shareholder enjoys capital appreciation equal to the amount of earnings retained. If it distributes earnings by way of dividends instead of retaining it, the shareholder enjoys dividends equal in value to the amount by which his capital would have appreciated had the company chosen to retain its earnings. Hence, the division of earnings between dividends and retained earnings is irrelevant from the point of view of the shareholders.

To prove their argument MM begin with the simple valuation model:

$$P_0 = \frac{1}{(1+\rho)}(D_1 + P_1) \qquad (2.1)$$

Where P_0 = Market price per share at time 0

D_1 = Dividends per share at time 1

P_1 = Market price per share at time 1

ρ = Discount rate applicable to the risk class to which the firm belongs (this rate is assumed to remain unchanged).

From Eqn(2.1) the expression for the value of outstanding equity shares of the firm at time 0 is obtained:

$$nP_0 = \frac{1}{(1+\rho)}\left[nD_1 + (n+m)p_1 - mp_1\right] \qquad (2.2)$$

Where n = number of outstanding equity shares at time 0.

nP_0 = Total market value of outstanding equity shares at time 0.

nD_1 = Total dividends in year 1 payable on equity shares outstanding at time 0.

m = number of equity shares issued at time 1 at price p_1(the prevailing market price at time 1)

$(n+m)p_1$ = Total market value of all outstanding equity shares at time 1.

mp_1 = Market value of shares issued at time 1.

ρ = Discount rate

What is the total amount of new equity stock issued at time 1, mp_1, equal to ? It is equal to the total investment at time 1 less the amount of retained earnings. In symbols:

$$mp_1 = I - (X - nD_1)$$

Where I = Total investment at the end of year 1

X = Total net profit of the firm for year 1

Substituting the above value for mp_1 in Eqn (2.2), MM get

$$nP_0 = \frac{1}{(1+\rho)}\left[(n+m)P_1 - I_1 - X_1\right] \qquad (2.3)$$

As D_1 is not found in this equation and as $(n+m)P_1$, I_1, X_1 and ρ are independent of D_1, MM reach the conclusion that the value of the firm does not depend on its dividend decision.

Note that $(n + m) P_1$, the value of the equity of the firm at the end of year 1 is in no way affected by the dividend paid at the end of the year (D_1). Why ? the reason is simple: D_1 influences P_1 and m in a mutually offsetting manner. If the firm pays more D_1, P_1 decreases but m increases; on the other hand, if the firm pays less D_1, P_1 increases but m decreases. A numerical example may be given to demonstrate this point. Suppose Zeta Company currently has 1,000 equity shares outstanding selling at Rs 10 a share (n = 1,000 and P_0 = Rs 10). Zeta's expected earnings and investment need for the next year are Rs 1,000 and Rs 1,110 respectively (X 1 = Rs 1,000 and I_1 = Rs 1,110). If Zeta pays a dividend of Re 1 per share next year (D_1 = Rs 1), its P_1 will be Rs 10 and it will have to issue 111 shares at Rs 10 per share to finance its investment need of Rs 10 per share to finance its investment need of Rs 1,110. This means

$$(n + m) P_1 = (1{,}000 + 111) \text{ Rs } 10 = \text{Rs } 11{,}110$$

On the other hand, if Zeta does not pay any dividend next year ($D_1 = 0$), its P_1 will be Rs 11 and it will have to issue just 10 shares at Rs 11 each to supplement its retained earnings of Rs 1,000 to support an investment of Rs 1,100. This means:

$$(n + m) P_1 = (1{,}000 + 10) \text{ Rs } 11 = \text{Rs } 11{,}110$$

Thus irrespective of what D_1 is $(n + m) P_1$ will be Rs 11,110
Two points may be emphasised here:

- MM " dividend irrelevance" theorem rests on their " leverage irrelevance" theorem. In our above analysis we assumed that external finance is raised by issuing additional equity. Since the real cost of debt and equity as per MM " leverage irrelevance" theorem is the same, the above analysis is not vitiated if the firm raised external finance by issuing debt or a combination of equity and debt.
- There is no conflict between the dividend capitalization approach to valuation advocated earlier and the MM " dividend irrelevance" theorem. MM "dividend irrelevance" theorem does not imply that the value of an equity share is not equal to the present value of future stream of dividends expected from its ownership. It merely says that even though the dividend policy of the firm may influence the timing and magnitude of dividend payments it cannot change the present value of the total stream of dividends.

Criticisms of MM position[13]

The critics of MM agree that under the assumptions made by MM dividends are irrelevant. They, however, dispute the validity of the ' dividend irrelevance' theorem

[13] Chandra, Prasanna. (2002). *Financial Management Theory and Practice*. Tata McGraw-Hill Publishing Company Limited, New Delhi, p484

by challenging the assumptions used by MM. According to them dividends matter because of the uncertainty characterizing the future, the imperfections in the capital market, and the existence of taxes. The implications of these features are discussed below. For this discussion we consider one feature at a time.

Information About Prospects In a world of uncertainty the dividends paid by the company, based as they are on the judgment of the management about future, convey information about the prospects of the company. A higher dividend payout ratio may suggest that the future of the company, as judged by management, is promising. A lower dividend payout ratio may suggest that the future of the company as considered by management is uncertain. This view has been So shares with higher current dividends, other things being equal, command a higher price in the market. eloquently expressed by Gordon. An allied argument is that dividends reduce uncertainty perceived by investors. Hence investors prefer dividends to capital gains.

MM do not dispute the information content of dividends. They maintain that dividends merely serve as proxy for the expected future earnings which really determine value. Hence, they argue, dividend policy per share is irrelevant.

Uncertainty and Fluctuations Due to uncertainty, share prices tend to fluctuate, sometimes rather widely. When share prices fluctuate, conditions for conversion of current income into capital value and vice versa may not be regarded as satisfactory by investors. Some investors who wish to enjoy more current income may be reluctant to sell a portion of their shareholding in a fluctuating market. Such investors would naturally prefer, and value more, a higher payout ratio. Some investors would prefer, and value more, a lower payout ratio.

Offering of Additional Equity at Lower Prices MM assume that a firm can sell additional equity at the current market price. In practice, firms following the advice and suggestions of merchant bankers offer additional equity at a price lower than the current market price. This practice of ‘under pricing' mostly due to market compulsions, ceteris paribus, makes a rupee of retained earnings more valuable than a rupee of dividends. This is because of the following chain of causation:

Issue cost The MM irrelevance proposition is based on the premise that a rupees of dividends can be replaced by a rupee of external financing. This is possible when there issue cost. In the real world where issue cost is incurred, the amount of external finance has to be greater than the amount of dividend paid. Due to this, other things being equity is advantageous to retain earnings rather than pay dividends and resort to external finance.

Transaction Costs In the absence of transaction costs, current income (dividends) and capital gains are alike - a rupee of capital value can be converted into a rupee of current income and vice versa. In such a situation if a shareholder desires current income (from share) greater than the dividends received, he can sell a portion of his capital equal in value of additional income sought. Likewise, if he wishes to enjoy current income lesser the dividends paid, he can buy additional shares equal in value to the difference between dividends received and the current income desired. In the real world, however, transaction costs are incurred. Due to this, capital value cannot be converted into an equal current income and vice versa. For example, a share worth Rs 100 may fetch a net amount Rs 99 after transaction costs and Rs 101 may be required to buy a share worth Rs 100 Due transaction costs, shareholders who have preference for current income, would premium higher payout ratio and shareholders who have preference for deferred income would prefer a lower payout ratio.

Differential Rates of Taxes MM have assumed that the investors are indifferent between rupee of dividends and a rupee of capita appreciation. This assumption is true when rate of taxation is the same for current income and capital gains. In the real world, the effective tax on capital gains is lower than that for current income. Due to this difference investors may prefer capital gains to current income.

Rationing: Self-imposed or market- imposed MM have assumed that the investment position of firms is independent of their financing policy and firms, rational as the are, investment use the point where rate of return is equal to cost of capital. In the real world, however investment policy of firms may be subject to certain constraints, self-imposed or market imposed. Some firms do not, as a general policy, investment more than their retained earning other words their investment policy is linked with their dividend policy. Many firms unable to obtain the required finances for their proposed investments. Due to these restrictions, dividend policy may become relevant.

Conclusion

These examined several points of view on the relationship between dividend policy and share valuation. These points of view may be divided into two broad schools of thought. The first school, the perfect market school to which MM belong, maintains that the dividend policy of the firm is irrelevant because investment and financing decisions are independent, the cost of internal and external financing are equal, and investors and firms are rational. The second school, the imperfect market school, subsuming the other four point of view discussed above, argues that the dividend policy of the firm influences the value of its shares though there are sharp differences within this school as to how the dividend decision influences valuation. This school harps on the imperfections obtaining in the real world: investor preference for current dividends, interdependency between dividend and investment decisions, existence of floatation and transaction costs, irrational behavior of investors and firms, differential taxation of dividends and capital gains, and under pricing of equity issues. The relationship between dividend policy and share price depends on the combined effect of these factors.

2.5.2 Walter's Study

James Walter has proposed a model of share valuation which supports the view that dividend policy of the firm has a bearing on share valuation. His model is based on following assumptions: [14]

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[14] Chandra, Prasanna. (2002). *Financial Management Theory and Practice*. Tata McGraw-Hill Publishing Company Limited, New Delhi, p476

- The firm is an all-equity financed entity. Further, it will rely only on retained earning to finance its future investments. This means that the investment decision is dependent on the dividend decision.
- The rate of return on investments is constant.
- The firm has an infinite life.

Valuation Formula Based on the above assumptions, Walter put forward the following valuation formula:

$$P = \frac{D + (E - D)r/k}{k} \qquad \text{(Equation 2.4)}$$

Where P = Price per equity share

D = Dividend per share

E = Earnings per share

(E-D) = retained earnings per share

r = rate of return on investments

k = Cost of Capital

As per Eq. (2.4), the price per share is a sum of two components:

$$\frac{D}{K} + \frac{(E - D)r/k}{k} \qquad \text{(Equation 2.5)}$$

The first component is the present value of an infinite stream of dividends; the second component is the present value of infinite streams of returns form retained earnings.

Find that as per the Walter model:

- When the rate of return is greater than the cost of capital (r > k), the price per share increases as the dividend payout ratio decreases.
- When the rate of return is equal to the cost of capital (r = k), the price per share does not vary with changes in dividend payout ratio.
- When the return of return is lesser than the cost of capital (r < k), the price per share

Thus the Walter model implies that:

- The optimal payout ratio for a growth firm (r > k) is nil.
- The optimal payout ratio for a normal firm (r = k) is irrelevant.
- The optimal payout ratio for a declining firm (r < k) is 100 percent.

Clearly these policy implications lead to very extreme courses of action which make limited sense in the real world. Despite this simplicity or naivete, the Walter model is a useful tool to show the effects of dividend policy under varying profitability assumptions.

2.5.3 Gordon's Study

Myron Gordon proposed a model of stock valuation using the dividend capitalization approach. His model is based on the following assumptions: [15]

- Retained earnings represent the only source of financing for the firm. Thus, like the Walter model the Gordon model ties investment decision to divided decision.
- The rate of return on the firm's investment is constant.
- The growth rate of the firm is the product of its retention ratio and its rate of return.

This assumption follows the first two assumptions.

- The cost of capital for the firm remains constant and it is greater than the growth rate.
- The firm has a perpetual life.
- Tax does not exist.

Valuation Formula Gordon's valuation formula is

$$P_0 = \frac{E_1(1-b)}{k-br} \qquad (2.6)$$

Where,

[15] Gordon, Myron J. (1962). *The Investment Financing and Valuation of Corporation.* Homewood 111. Richard D. inein. (Source: www.edunepal.com.np)

P_0 X Price per share at the end of year 0

E_1 X Earning per share at the end of year 1

(1-b) = fraction of earnings the firm distributes by way of dividends

b = fraction of earnings the firm ploughs back

k = rate of return required by the shareholders

r = rate of return earned on investments made by the firm

br = growth rate of earnings and dividends

Find that as per the basic Gordon model:

- When the rate of return is greater than the discount rate (r > k), the price per share increases as the dividend payout ratio decreases.
- When the rate of return is equal to the discount rate (r = k), the price per share remains unchanged in response to variations in the dividend payout ratio.
- When the rate of return is less than the discount rate (r< k), the price per share increases as the dividend payout ratio increases.

Thus the basic Gordon model leads to dividend policy implications as that of the Walter model:

- The optimal payout ratio for a growth firm (r > k) is nil.
- The payout ratio for a normal firm is irrelevant.
- The optimal payout ratio for a declining firm (r < k) is 100 percent.

2.5.4 Graham and Dodd Study

According to the traditional position expounded eloquently by B. Graham and D.L. Dodd, in 1951 in New York McGraw Hill the stock market places considerably more weight on dividends than on retained earnings. According to them:[16]

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[16] Chandra, Prasanna. (2002). *Financial Management Theory and Practice*. Tata McGraw-Hill Publishing Company Limited, New Delhi, p480

" ... the stock market is overwhelmingly in favor of liberal dividends as against niggardly dividends."[17]

Their view is expressed quantitatively in the following valuation model advance teem:

P= m (D+ E/3) (Equation 2.7)

Where P = Market price per share

D = Dividend per Share

E = Earning Per share

m = a multiplier

According to this model, in the valuation of shares the weighted attached to dividend equal to four times the weight attached to retained earnings. This is clear from the following version of Eq. (2.7) in which E is replaced by (D+R)

$$P \, \mathrm{X} m \;\; D \, \Gamma \frac{D \, \Gamma \, R}{3}$$

The weights provided by Graham and Dodd are based on their subjective judgment and not derived from objectives, empirical analysis. Notwithstanding the subjectivity of weights, the major contention of the traditional position is that a liberal payout policy favorable impact on stock price.

Empirical Evidence

Advocates of the traditional position cite the results of cross-section regression analysis the following:

PRICE = a + b DIVIDEND + c RETAINED EARNINGS (2.8)

Typically, in such a regression analysis the dividend coefficient, b, is much higher the retained earnings coefficient, c. So the advocates of traditional position claim that hypothesis is empirically vindicated.

However, a careful look at the above regression suggested that the conclusion reached the traditionalists is unjustified for the following reasons:

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[17] B. Graham and D.L Dodd. (1951). *Security Analysis: Principles and Techniques, 3rd edn*. New York, McGraw Hill, P. 432.

1. Eqn. (2.8) is mis-specified because, inter alia, it omits risk which is an important determinant of price. A better specified regression equation is:

$$\text{PRICE} = a + b \text{ DIVIDEND} + c \text{ RETAINED EARNINGS} + d \text{ RISK} \quad (2.9)$$

2. Measurement error distorts the results. It is well known that the measurement earnings is almost invariably subject to error. The dividend figure, however, is given precisely. So the measurement error in earnings is fully transmitted to retained earnings which are simply earnings minus dividends. In regression analysis, when variable (in our case, retained earnings) is subject to measurement error, its coefficient is biased downward.

   To sum up, omission of risk imparts an upward bias to b, the coefficient of dividend and measurement error characterizing retained earnings imparts a downward bias to c, the coefficient of retained earnings. Hence the claim of traditionalists that b > c implies that a higher payout dividend payout ratio increases stock value cannot be vindicated.

2.5.5 James C. Vanhorn Study

Negative Dividend Effect

Differential tax on dividends and capital gains may results in a yield tilt. That is, a dividend-paying stock will need to provide a higher expected before-tax return than will a non-dividend-paying stock of the same risk. This is said to be necessary to offset the tax effect on dividends. According to this notion, the greater the dividend yield of a stock, the higher its expected before-tax return, all other things being the same. Thus, security markets would equilibrate in terms of systematic risk, dividend yield, and, perhaps, other

However, investors do not necessary experience the same taxation on the two types of income. Institutional investors, such as retirement and pension funds, pay no tax on either dividends or capital gains. For corporate investors, intercompany dividends are taxed at a rate below that applicable to capital gains. For example, if Laurel Corporation owns 100 shares of Hardly Corporation, which pays $1 per share dividend, 70 percent of the dividend income is tax exempt. In other words, Laurel Corporation would pay taxes on $30 of dividend income at the corporate tax rate. The overall tax effect will be less than if Hardly Corporation had share appreciation of $100 and all of this were taxed at the capital gains rate. Accordingly, there may be a preference for current dividends on the part of the corporate investors. [18]

Despite these exceptions, for many investors there exists a differential in tax rate between a dollar of dividend and a dollar of retained earnings. If these investors dominate at the margin, there would need to be an inducement to them to accept dividends. This inducement is simply a higher before-tax return so that after taxes they are as well off. According to this notion, paying dividends has a "negative" effect of value.

Dividend Neutrality

Even with a tax "wedge" between dividend and capital-gains income, it is not clear that investor at the margin are those that prefer capital gains to dividends. With different tax situations, clienteles of investors may develop with distinct preferences for dividend - or not-dividend-paying stocks. Many corporate investors will prefer dividend-paying stocks, whereas wealthy individual investors may prefer stocks that pay no dividends. Tax-exempt investors will be indifferent, all other things the same. If dividend-paying stocks were priced in the marketplace to provide a higher return than non-dividend-paying stocks, however, they would not be indifferent. They would prefer dividend-paying stocks.

If various clienteles of investors have dividend preferences, corporations should adjust their dividend payout to take advantage of the situation. Expressed differently, corporations should tailor their dividend policies to the unfulfilled desires of investors and thereby take advantage of the situation. Expressed differently, corporations should tailor their dividend policies to the unfulfilled desires of investors and thereby take advantage of an incomplete market. Suppose two fifths of all investors prefer a

[18] Van horne, James C., (2000). *Financial management and policy (eleventh edition)*. Prentice-Hall of India Private Limited, New Delhi -110 001 p309

zero dividend payout, one fifth prefer a 25 percent payout, and the remaining two fifths prefer a 50 percent payout. If most companies pay out low percent of their earnings in dividends, there will be excess demand for the shares of companies paying zero dividends and for the shares of companies will recognize this excess demand and adjust their payout ratios in order to increase share price. The action of these companies eventually will eliminate the excess demand.

In equilibrium, the dividend payouts of corporations will match the desires of investor groups. At this point, no company would be able to affect its share price by altering its dividend. As a result, even with taxes, dividend payout would be irrelevant. The neutral position is largely based on corporations adjusting the supply of dividends to take advantage of any mispricing of stocks in the marketplace.

However, another argument against clientele effects is that investors can use combinations of put and call options to isolate movements in stock price. By so doing, the investor effectively strips the dividend form the capital gains component of the stock. If investors are able to separate dividends from capital gains to suit their needs, the tax-induced clientele argument for particular stock is weakened. Thus, both supply and demand forces may drive the equilibrium toward investors at the margin being indifferent, tax wise, between dividends and capital gains.

Positive Dividend Effect

Apart from tax issues, we must recognize an argument for a positive dividend effect. This is the possibility of a preference for dividends on the part of a sizable number of investors. The payment of dividends may resolve uncertainty in the minds of some. Also, such payments may be useful in diversification of investments in an uncertain world. If in fact investors can manufacture homemade dividends, such a preference is irrational. Nonetheless, sufficient statements from investors make it difficult to dismiss the argument. Perhaps, for either psychological or inconvenience reason, investors are unwilling to manufacture homemade dividends.

Shefrin and staatman reason that some investors are reluctant to sell shares because they will experience regret if the stock subsequently rises in price. For them, dividends the sale of stock for income are not perfect substitutes. A second argument the authors advance is that while many investors are willing to consume out of dividend income they are unwilling to "dip into capital" in order to do so. Again, dividends and the sale of stock are not perfect substitutes for these investors. For psychological reasons, then, certain investors prefer dividends. Whether they are numerous enough to make a difference is an empirical question, about to be addressed.

Ultimately, the question of whether a negative, neutral, or positive dividend effect prevails is an empirical matter. we investigate this later in the chapter. First, however, we need to consider other influences on dividends. [19]

Value to Investors of Stock Dividends and Splits

Theoretically, a stock dividend or stock split is not a thing of value to investors. They receive additional stock certificates, but their proportionate ownership of the company is unchanged. The market price of the stock should decline proportionately, so that the total value of their holdings stays the same. To illustrate with a stock dividend, suppose you held 100 shares of stock worth $40 per share, or $4,000 in total. After a 5 percent stock dividend, share price should drop by $40(1-1.00/1.05), or $1.90. The total value of your holdings then would be $38.10x105, or $4,000. Under these conditions, the stock dividend does not represent a thing or value to you. You merely have an additional stock certificate evidencing ownership. In theory, the stock dividend or split is purely cosmetic.

To the extent that the investor wishes to sell a few shares of stock for income, the stock dividend may make it easier to do so. Without the stock dividend, of course, stockholders could also sell a few shares of their original holdings for income. In either case, the sale of stock represents the sale of principal and is subject to the capital gains tax. Some investors however, may not look on the sale of a stock dividend as a sale of principal. To them, the stock dividend represents a windfall gain; they can sell it and still retain their original holdings. The stock dividend may have a favorable psychological effect on these stockholders. In efficient markets, however, we would not expect a favorable impact on share price.

[19] Van horne, James C., (2000). *Financial management and policy (eleventh edition)*. Prentice-Hall of India Private Limited, New Delhi -110 001 p309

Effect on Cash Dividends The stock dividend or stock split may be accompanied by an increased cash dividend. For The former, suppose an investor owns 100 shares of a company paying a $1 dividend. The company declares a 10 percent stock dividend and, at the same time, announces that the cash dividend per share will remains unchanged. The investor then will have 110 shares, and total cash dividends will be $110 rather than $100, as before. In this case, a stock dividend increases the total cash dividends. Whether this increase in cash dividend has a positive effect on shareholder wealth will depend on the valuation of dividends, which we discussed earlier. Clearly, the stock dividend in this case represents a decision by the firm to increase modestly the amount of cash dividends. However, it does not need the stock dividend to do so.

Sometimes a stock dividend is employed to conserve cash. Instead of increasing the cash dividend as earnings rise, a company may desire to retain a greater portion of its earnings and declare a modest stock dividend. The decision then is to lower the dividend-payout ratio, for as earnings rise and total cash dividends remain approximately the same, the payout ratio will decline. Whether shareholder wealth in increased by this action will depend on considerations taken up in an earlier section. The decision to retain a higher proportion of earnings, of course, could be accomplished without a stock dividend. However, the stock dividend may tend to please certain investors by virtue of its psychological impact. But the substitution of stock for cash dividends involves a sizable administrative cost. Stock dividends simply are much more costly to administer than are cash dividends, and this out-pocket expense works to their disadvantage.

Informational or Signaling Effect

The declaration of a stock dividend or a stock split may convey information about future earnings to investors. As taken up earlier in this chapter and in the previous chapter, there may be asymmetric information between management and investors. As with capital-structure and cash dividend changes, a stock dividend or split may cannot more convincingly management's belief about the favorable prospects of the company. In this sense, the stock dividend or split is an attention-getting device.

Whether these signals are more convincing is an empirical question. Here there has been a number of event types of studies. As we know, such studies attempt to isolate the abnormal return associated with a particular event -in this case, a stock dividend or split. The abnormal return is simply the residual after risk-adjusted market movements (beta), and perhaps other factors, have been taken into account. If stock dividends and splits have a positive signaling effect, there is a run-up in the cumulative abnormal return, after which the higher level of security price persists owing to the favorable information effect.

The empirical evidence is consistent with an information or signaling effect; namely, that the stock is undervalued and should be priced higher. Of course, the company must eventually deliver improved earnings if the stock is to remain higher. The underlying cause for the increase in market price is perceived future earnings, not the stock dividend or split itself.[20]

2.6 Review of Major Studies in Nepal

The review of studies regarding dividend policy can be broadly classified into two categories.

2.6.1 Review of Books and Journals in Nepalese Perspective

Various articles relating directly and indirectly published in Nepal about Dividend and Stock price. Some of them, which are significant in this study, are reviewed in this section. Keshar J. Baral & Surya Kumar Shrestha has conducted a **Daily stock Price Behavior of Commercial Banks in Nepal**. For this study Sample banks are as Himalayan Bank Ltd., Nepal SBI, Bank Ltd., Bank of Kathmandu Ltd., Lumbani Bank Ltd., Nepal Industrial and commercial Bank Ltd., Kumari Bank Ltd. and Laxmi Bank Ltd. The Journal of Nepalese Business Studies Vol III No. 1 Dec. 2006. This study was as follows:[21]

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[20] ibid p 321

[21] Baral, Keshar J. & Shrestha, Surya Kumar. (2006). *The Journal of Nepalese Business Studies Vol. III No. 1: Daily stock price Behavior of Commercial Banks in Nepal.* Faculty of Management, Prithivi Narayan Campus, Tribhuvan University, Pokhara, Nepal p100-107

The securities market plays an important role in mobilizing saving and channeling them into productive investment for the development of commerce and industry in the country. It assists the capital formation and economic growth in the country. But, the Nepalese securities market still is in growing stage. Its further development is crucial. There are two approaches of predicting stock price behavior: the technical analysis and fundamental analysis. Briefly, technical analysis explains and forecasts changes in security prices by studying the market data. The technical analysts believe that the forces of supply and demand are reflected in the pattern of price and volume of trading while fundamental analysts do that economic environment and earning power are reflected in the pattern of market prices (Fischer and Jordan 2000). Technicians predict the stock price behavior by analyzing the pattern of price and volume of trading. But the fundamentalists predict the stock price behavior by analyzing earning power and the economic environment in the risk-return framework. The fundamentalists believe that at any point in time every share has an intrinsic value which should be in principle be equal to the present value of the future stream of income from that share discounted at an appropriate risk related rate of interest (Bhalla 1999). Thus, the actual price of the security is considered a function of a set of anticipated capitalization rate.

In Nepal, the major constituent of the securities market is the shares of commercial banks and behavior of price of commercial banks influences the Nepal Stock Exchange (NEPSE) index. This study examines the stock price behavior of listed commercial banks by using the daily price movements of 7 commercial banks sampled randomly in the fiscal year 2005/06.

Theoretical Framework: Random Walk Hypothesis (RHW)

We discussed that there are two approaches to predict the stock price behavior. Random walk hypothesis is the third approach to predict the stock price behavior and this is a weak form of the efficient-market hypothesis. This theory raises the question on the belief of technicians. It, contradictory to the contention of technicians, pleads that pattern of stock price and volume of trading does not aid to predict the stock price behavior.

In more generalized term, random walk hypothesis states that previous price changes or changes in return are useless in predicting further price or return changes. In other words, this model implies that an attempt to predict future prices using only historical price- Change information is not successful. More precisely, this theory contends that successive price changes are independent and prices at any time, on the average, reflect t he intrinsic value of security (Fischer an Jordan 2000)

New information about the performance of the company comes out randomly. Different investors evaluate the available information differently and have different insight into future prospects of the firm. So, temporary stock price may deviate from its fair value. Professional investors and well informed nonprofessional investors also seize the advantages arising from the random deviation from the intrinsic value. In other words, active selling and buying takes place in the markets to seize the advantages of deviation of market price from intrinsic value of the stock. This active selling and buying of stock in question forces the price back to its equilibrium position.

Analysis of Stock price Behavior

This is the alternative approach to predict the stock price behavior. This approach is used as supplementary to the fundamental analysis of stock price behavior. Unlike fundamentalists, technicians consider the pattern of the price to predict the stock price behavior. By examining the historical pattern of the stock prices, technicians predict whether prices are moving higher or lower. In addition, technicians predict by how much price will increase or decrease in future. Technical analysis is useful or timing a buy or sell order. Investors put off the buy a share if technicians predict that stock prices are further dropping in future. Conversely, investors postpone the selling order if technicians predict that prices further are increasing in near future.

In this noteworthy that the stock prices of all sampled banks have dipped in the month of April and started to recover at the end of May. The fundamental reason behind this is the fear of political instability form the second popular movement 2006 (2062/063) and expectation of political stability after overcoming the autocratic kingship and restoration of democracy in the third time in the country. After the end of second popular Movement, stock price of all banks have shown the tendency of recovery in the markets.

<u>Test of Random Walk Hypothesis</u>

As stated in methodology, independency so successive price is tested using the serial correlation and run tests. In this section, first, results of serial correlation are analyzed and then of run tests.

Analysis of the Result of Serial Correlation: Out of the seventy computed serial correlation coefficients, only five coefficients are greater than two times but less than three times of their S.E. Similarly, seven coefficients are equal to three or greater than three times of their S.E. However, the large number (fifty- eight) of coefficient fall in the category of less than or equal to two times of S.E. These coefficients are significantly deviated from zero an not statistically significant. It implies that the successive price change is dependent. Thus, H_0 stated in Methodology has been rejected and H_A been accepted. This result corroborates with the findings of the previous studies (pradhan and Upadhya 2004 and Paudel 2005)

Analysis of the Result of Run test: Positive sign has dominated the computed value of Z, standardized normal variate. Similarly, the negative sign has dominated the computed values of K. The negative results are due to the reason of higher expected number of runs over the observed number of runs. To verify the runs test result, the percentage of deviation has been computed.

Out of seven equity shares, two are less than five percent and five are greater than five percent. The percentage differences for half of the equity shares are greater than ten percent. In general, results show that there is a significant difference between the expected and actual number of runs in the series of price changes. It implies that the RWH does not hold true in the context to Nepalese stock market. This evidence too, corroborates with the results of the previous studies (Pradhan and Upadhay 2004, and Paudel 2005)

Conclusion

Observations of daily stock prices of sampled banks indicate that there is a large variation in their stock prices in the fiscal year 2005/06. They are not doing well in Nepalese stock market. Most of the serial coefficients are significantly deviated from zero and statistically insignificant. It signifies that the successive price change are dependent. Therefore, the Nepalese stock market is inefficient in pricing the shares. Runs test results also show that the percentage of deviation between the observed and actual number of runs in the series of price changes is significant. It is obvious that the successive price changes are not random. Thus, RWH does not hold true in the context of Nepalese stock market.

2.6.2 Review of Previous Thesis

Bishnu Hari Bhattarai's Study

Bishnu Hari Bhattarai carried out the study of dividend decision and its impact on the valuation, in 1996 using 10 companies of various sectors. The basic objective of the study was to identify the relationship between dividend and the stock price. The major objectives of this study can be stated as follows:[22]

(i) Highlight various aspects of dividend policies and practices in Nepal.

(ii) Analyze the variables such as profit, dividend, retained earning, growth rate and relevant variable to show the relationship between the value and other ingredients affecting it.

(iii) Provide feedback to the policy makers and executive working in various companies chosen for study based on the findings of the analysis.

The major findings of this study are as follows:

(i) The companies while paying dividend generally neglect shareholder's expectations.

[22] Bhattaria, Bishnu Hari. (1996). *Dividend Decision and its impact on Stock Valuation*. Unpublished Master's Thesis, Tribhuvan University, Shankar Dev Campus, Kathmandu.

(ii) Dividends were paid only in profitable years.

(iii) In aggregate, there was no stale dividend paid by the companies i.e. instability of dividend.

(iv) There were no criteria to adopt a certain payout ratio. There is haphazard payout ratio in the companies under study.

(v) Cash balance and dividend payment was positively correlated.

(vi) Mostly the joint venture companies were paying dividend.

(vii) There was positive impact of dividend on valuation of shares.

(viii) Dividend paid was inadequate cover the required rate of return of the investors.

(ix) Market price considerably higher than actual net worth.

Sushil Achaya's Study

Sushil Acharya carried out the study of the impact of information on share price, in 2007 using 5 cases. The general objective of this research is to analyze the impact of information on common stock's market price. The specific objectives are as follows:[23]

(i) To determine the impact of dividend declaration on share price.

(ii) To analyze the effect of dividend declaration on share price.

(iii) To determine the impact of ROE on share price.

(iv) To determine the impact of Nepal Rastra Bank's directives on share price.

The major findings of this study are as follows:

(i) Among five cases of paired t-test carried out for SCBL, there are four significant cases, which imply that there is significant difference in the mean share price immediately after dividend declaration. Moreover, there are three significant cases of share price decrease among four significant cases.

(ii) Four cases of paired t-test of NIBL shows that share price differs significantly immediately after dividend declaration. However, one case shows that there is no effect of dividend declaration on share price. Moreover, there are two significant cases of share price decreases among four cases.

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[23] Acharya, Sushil. (2007). *The Impact of Information on Share Price.* Unpublished Master's Thesis, Tribhuvan University, Nepal Commerce Campus, New Baneshwor, Kathmandu.

(iii) Out of five cases of paired t-test carried out for NSBL, there are also four significant cases, which indicate that share prices have either increased or decreased after dividend declaration.

(iv) Four cases out of five cases of pair t-test carried out for HBL shows that there is significant difference in the mean share price immediately after dividend declaration.

(v) In the case of NBBL, out of there cases of pair t-test, all cases are found significant. Furthermore there are two significant cases of share price increases and case of share price decreases.

(vi) According to the result of paired t-test carried out for analyzing NRB's directives issued in 7-5-2062 and share price, it is found that share prices of SBSL, NSBL, HBL and NBBL have decreased significantly immediately after the issuance of the directive. However, there is no effect of directives on share price of NIBL.

(vii) According to the result of paired t-tests carried out for analyzing NRB's directive issued in 5-9-2062 and share price, It is found that share prices of the sampled banks have decreased significantly after the issuance of the directive.

(viii) MPS of SCBL is positively correlated with DPS and ROE but negatively correlated with EPS. The relationship is statically insignificant at the level of 5%.

(ix) MPS of NSBL is negatively correlated with EPS, DPS and ROE respectively. However the relationship is statistically insignificant at the level of 5%.

(x) MPS of NSBL is also negatively correlated with EPS, DPS and ROE. However, the negative relationship of MPS with DPS is significant at the level of 5% in the case of NSBL.

(xi) HBL's MPS has negative relationship with EPS, DPS and ROE. Hover, the relationship is statistically insignificant level of 5% in the case of HBL.

(xii) There is higher positive relationship between MPS and EPS of NBBL, which is statistically significant at the level of 5%. However, its MPS has insignificant negative relationship with DPS. Similarly, its MPS has insignificant positive relationship with ROE.

(xiii) The regression analysis of MPS on EPS of NBBL shows positive regression coefficient and negative constant term. It implies an increase in EPS leads to an increase in MPS but MPS should not go below Rs. 102.316 to maintain positive value. The relation so explained by the regression is statistically significant of NBBL at level of 5% whereas it is insignificant for other sampled banks.

(xiv) The relationship between MPS and DPS as explained by the simple regression analysis is significant at the 5% level only for NSBL. Therefore, the model explains that NSBL's MPS highly depends upon DPS.

(xv) According to the regression analysis of MPS on ROE, the regression coefficients of SBCL and NBBL are positive indicating that an increase in ROE also leads to an increase in MPS. But the relationship it not significant. On the other hand, the regression coefficient of NIBL, NSBL and HBL is negative. This relationship sounds quite ridiculous and contradictory.

(xvi) According to the multiple regressions analysis of MPS on EPS, DPS and ROE, there is no significant relationship of MPS with EPS, DPS and ROE for SCBL, NIBL, HBL and NBBL. However, the relationship is significant at the level of 5% for NSBL. It means EPS, DPS and ROE explains the variation in MPS of NSBL.

Sandeep Kumar Upadhayay's Study

Sandeep Kumar Upadhayay carried out the study of determinants of stock price in Nepal stock exchange with special focus to joint venture banks in 2007. The basic objective of the study was to identify the factors responsible for determinants of stock price and their relationship with the stock price. The major objectives of this study can be stated as follows:[24]

(i) To identify qualitative as well as quantitative factors affecting the stock price in NEPSE with focus to joint venture banks.

(ii) To determine the effect of earnings and book value to the stock price.

(iii) To determine the effect of dividend to the stock price.

(iv) To make appropriate recommendations/suggestions for the betterment of the stock market and so on.

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[24] Upadhayay, Sandeep Kumar. (2007). *Determinants of Stock Price in Nepal Stock Exchange with Special focus to Joint Venture Banks.* Unpublished Master's Thesis. Tribhuvan University, Nepal Commerce Campus, New Baneshwor, Kathmandu.

The major findings of this study are as follows:

Findings from secondary data analysis:

(i) For NBL, MPS is positively correlated with DPS, BPS and EPS respectively. However, the relationship is not significant and 95% level of significance. DPS, BPS and EPS as well as MPS are less volatile. It is revealed from analysis that NBL has good performance in last six years.

(ii) For EBL, MPS is positively correlated with DPS, BPS and EPS respectively. The t-test explains that MPS is not significantly correlated to DPS at 95% level of significance; moreover, MPS is significantly correlated to BPS & EPS at 95% level of significance respectively. MPS is a bit more volatile where as DPS is more volatile which is not good. In overall, the good performance of EBL is lacked by lower mean of independent variables in the last six years period.

(iii) For NIB, MPS is positively correlated with DPS, BPS and EPS respectively. However, these degrees of correlation are not significant at 95% level of significance. BPS has good performance and EPS and MPS are less volatile than DPS.

(iv) From the viewpoint of multiple correlations, it is known that independent variables (DPS, BPS and EPS) are positively correlated to NBL, EBL and NIB respectively. However; MPS is significance, whereas insignificantly affected at 95% level of significance.

Findings from primary data analysis

(i) MPS is significantly affected by company's performance such as earnings, cash dividends payment, book value, risk associated with the company and growth rate at 95% level of significance.

(ii) When looking at, the other relevant factors to share price such as interest rate, retention ratio, and cost of equity etc., do not affect significantly whereas stock dividend significantly affects the share price at 95% level of significance.

(iii) Similarly, the political, economic and environmental factors such as instability of government, strike and demonstrations, cease-fire, national economy, tax rate, etc. significantly affect the share price where as global economy insignificantly affect the share price where as global economy insignificantly affect the share price at 95% level of significance.

(iv) From other factors, gold prices, value of US$ exchange rate, seasonal factors like summer and winter, day of the week, change in management have insignificant impact on the share price.

(v) Similarly size of the company, demand and supply, rumors and whims etc significantly affect the share price.

(vi) While analyzing, the response, capital market is not well developed in Nepal, Listed companies are not serious about shareholder's interest and NEPSE and SEBO are not able to protect share holders interest has shown significant implication at 95% level of significance.

Dinesh Gurung Study

Dinesh Gurung carried out the dividend pattern in Nepal, a case study of the listed commercial banks in NEPSE, in 2008 using commercial banks. The more specific objectives of the study have been the followings:[25]

(i) To identify what types of dividend policy being followed and find out whether the policy is appropriate or not in selected commercial banks.

(ii) To test the relationship between EPS and DPS; EY and DY; EPS and MPS; $DPS_{t-1;}$ Pt and D_{t-1}; P_t and R_{t-1} and DPS and CR.

(iii) To determine the impact of dividend on share price.

(iv) To determine the impact of EPS, D_{t-1} and CR on DPS

(v) To know whether there is any uniformity among EPS, DPS and DPR of the selected banks or not.

The major findings of this study are as follows:

(i) The average earning per share of related banks is satisfactory. In which SCBNL is in highest (i.e. Rs. 140.96) position among four banks but NIBL is in lowest (Rs. 39.50) position among these banks. On the other hand NABIL (Rs. 79.45) and HBL (Rs. 60.05) is the middle position from highest to lowest.

(ii) Dividend per share is also satisfactory. SCBNL paid highest (Rs. 108) average dividend per share but NIBL paid only Rs. 9.50 as dividend per share, and it is

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[25] Gurung, Dinesh. (2008). *Dividend Pattern in Nepal, A Case Study of Listed Commercial Banks in Nepal.* Unpublished Master's Thesis, Tribhuvan University, Nepal Commerce Campus, Kathmandu.

followed by NABIL add HBL from highest to lowest dividend per share to its shareholders.

(iii) Earning per share and dividend per share of HBL has largest fluctuation and EPS and DPS of SCBNL has lowest fluctuation consistent among four banks. EPS of NABIL and NIBL is followed the high fluctuation. Similarly DPS of NIBL and NABIL is followed the high fluctuation from highest to lowest.

(iv) Dividend payout ratio of selected banks points that the SCBNL is highest (76.67%) and HBL has lowest (19.54%) in rank. It shows that SCBNL takes the aggressive dividend policy and HBL takes the conservative dividend policy among the selected four banks.

(v) Fluctuation in dividend percentage is highest in case of NIBL (98.55%) while consistent in case of 6.26% of SCBNL among concerned banks.

(vi) The P/E ratio of NIBL is highest (23.16) but the P/E ratio of SCBNL is lowest (13.50). However the average P/E ratio of all banks is almost to close to each other.

(vii) Fluctuation of P/E ratio of NABIL and consistent of P/E ratio of HBL.

(viii) The earning yield of NABIL and SCBNL are almost to close each other. Where NABIL has the highest the earning yield and NIBL has the lowest the earning yield.

(ix) The dividend yield of SCBNL (5.83) has the highest in the rank but in case of NIBL and HBL are almost to close to each other (i.e. lowest value in rank of 1.14. and 1.15 respectively).

(x) Fluctuation of earning yield of NABIL has highest and HBL has consistent. Similarly fluctuation of dividend yield of NIBL and SCBNL has consistent.

(xi) Dividend pay out ratio is the indication of dividend policy adopted by banks. However, these sampled banks have not constant pay out ratio. Here SCBNL has highest payout ratio and more consistent then other. HBL has lowest payout ratio and NIBL has more fluctuation.

(xii) The growth rate analysis only gives the tentative idea of growing rate of dividend because the growth in dividend is not consistent and not having consistent dividend payout ratio.

(xiii) The correlation between EPS and DPS of NABIL, NKBL, NIBL, SCBNL and HBL is 0.9697, 0.67744 respectively, the relation of all banks has positive. But only NABIL has the significant relationship at 5% level of significance but the relationship of significance of rest three banks have not significant at 5% level of significance at testing of ‘t’ test.

(xiv) The correlation coefficient between earning yield and dividend yield of all banks is positive but the relationship is significant in all cases except the HBL.

(xv) Correlation coefficient between EPS and MPS is positive in case of NABIL and HBL and negative in case of NIBL and SCBNL and significant in case of HBL at 5% level of‘t’ test.

(xvi) The correlation coefficient between P_t and D_{t-1} is positive in case of all banks and the relationship is significant in case of all banks at 5% level of‘t’ test.

(xvii) The correlation coefficient between P_t and R_{t-1} is positive in case of NABIL, SCBNL and HBL but in case of NIBL the relation is negative. And the relationship is not significant in case of all banks of‘t’ test.

(xviii) The correlation coefficient between D_t and D_{t-1} is positive in case of NABIL, SCBNL and HBL but in case of NBIL the relation is negative. And the relationship is no significant in case of all banks of‘t’ test.

(xix) Correlation coefficient between DPS and CR is positive in all cases and the relationship in insignificant in all cases of‘t’ test.

(xx) The regression coefficient of EPS, dependent variable MPS on EPS, D_{t-1} and R_{t-1} of HBL (15.255) has positive but in the same case of NABIL (-2.401), NIBL (-13.364) and SCBNL (015.834) have negative. In the same case, the regression coefficient of Dt-1 of is positive in cases of all banks except HBL. Similarly in case of R_{t-1} the regression coefficient is positive in case of NABIL but in case of rest three banks (NIBL, SCBNL and HBL) is negative. Statistically significant explanation of variation on MPS due to EPS, D_{t-1} and R_{t-1} in case of NABIL, NIBL but do not significant in case of SCBNL and HBL.

(xxi) In case of dependent variable DPS on EPS, D_{t-1} and CR, Regression coefficient of EPS is positive in case of all banks, similarly regression coefficient of D_{t-1} and CR is positive in case of only NABIL and NIBL and SCBNL respectively. The statistically significant explanation of variation on DPS due to EPS, D_{t-1} and CR at 5% level of significance.

(xxii) ‘F’ test suggest that EPS, DPS and DPR of the concerned four banks are significantly different at 5% level of significance.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well-designed quantitative and qualitative research in very clear and direct way using both financial and statistical tools. Detail research methods are described in the following headings;

3.1 Research Design

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates what information is to be collected, form which sources and by what procedures.[26] "The research design is the conceptual structure within research is conducted; it constitutes the blue print for the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data."[27] On this regard the research design followed for this study is historical, descriptive and analytical approach and statistical and financial tools used for numerical data.

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[26] Kothari, C.R. (1994). *Research Methodology, Methods and Techniques.* Vikash publication House Pvt. Ltd, New Delhi, P. 19

[27] Kothari, C.R. (2002). *Research Methodology, Methods and Techniques.* Wisha Prakashan, Delhi, p.39

3.2 Population and Sample

By the end of November 2008, The population comprises the 25 commercial banks(including government owned, private and joint venture), 58 development banks, 79 Finance companies, 12 Micro Credit Development Banks, 16 Saving and Credit Cooperatives (Limited Banking Activities) and 47 NGOs(Financial intermediaries) total 235 financial institutions.[28] In our study 25 commercial banks are the population and 3 commercial banks are sample and 79 finance companies are the population and 3 finance companies are sample. The total variables/observation is simply called population & the process of selecting the sample out of population is called sampling. Commercial banks and finance companies who have already allocated by cash dividend and stock dividend.

The sample of the study is 6 financial institutions, which are as follows

S. No.	Name
1.	Kumari Bank Limited.
2.	Bank of Kathmandu Limited.
3.	Nabil Bank Limited.
4.	Guheswori Merchant Banking & Finance Limited.
5.	Premier Finance Company Limited.
6.	Lalitpur Finance Limited.

3.3 Nature & Sources of Data

This research study mainly based on the secondary data, Secondary data are used to analysis the dividend policy adopted by the selected commercial banks and finance companies and this analysis also examine the impact of dividend on market price of stock of selected financial institutions. The secondary data have been acquired from various sources as like follows.

1. Annual report published by those institutions.
2. Http://www.Nepalstock.com (website)

[28] www.nrb.np

3. Financial report published by Nepal stock exchange.
4. Economic report published by NRB
5. Http://www.nrb.com.np (website)
6. News paper, journals & magazines.
7. Primary data collection from questionnaire

3.4 Data Collection Procedure

Data have been obtained from primary data and secondary sources. The required primary data have been collected through the questionnaire and the observation of researcher A variety of questions were asked to the respondents in order to examine the impact of dividend on market price of stock for this study, mainly secondary data are used. These secondary data are collected mainly from published sources like annual report, prospectus, balance sheet, newspaper, journal, Internet and other sources. Besides this in some case, primary data can also be used, (Primary data are collected questionnaire sent through enumerator to related banks, financial institutions and stock market as well as staffs and investors) they are collected through direct interview and observation. For data collection, personal visit on respective organization, bulletin of NRB, and web sites can be used more frequently. Primary data are collected through personal interview of related departments.
Besides, more questions will be included as per the requirement of the study.

Since the research topic is **Impact of Dividend on Market Price of Stock** various groups as like manufacturing industry, insurance industry, Banking industry, Finance industry Tourism industry, Hotel industry and others are the member of population study. The population for the study comprises various sectors and various institutions. Among the various total populations only some selected institutions are taken as sample on random basis. From Banking sectors three Commercial banks out of 25 commercial banks have been selected – i.e. Kumari Bank Ltd., Bank of Kathmandu Ltd. and Nabil Bank Ltd. and 3 Finance Companies have been selected out of 79 finance companies i.e. Guheswori merchant banking and finance limited., Premier finance company Ltd. and Lalitpur finance limited. Since price manipulations largely occurs on shares of Financial Institution. So, banks and finance companies have been selected for the study.

3.5 Data Processing and Presentation

Data collected for the study can be presented in various forms. Most of the secondary data will be presented in tabular form and some graphical presentations can also be used. Since the primary data collected are more subjective they can be presented in tables and graphs and conclusions can be drawn. So far as the computation is concerned, it will be done with the help of scientific calculator and computer software program.

3.6 Data Analysis Tools

As per requirement of the study and its objectives, available data will be analyzed using following statistical tools:

Arithmetic Mean:

$$\text{Mean } \bar{X} = \frac{\sum X}{n}$$

Where,

$\bar{X}$ = Mean

$\sum X$ = Sum of all the Variable X

n = Variable involved

Standard Deviation:

$$S.D(\sigma) = \sqrt{\frac{1}{n}\sum (X - \bar{X})^2}$$

Where,

σ = Standard deviation

X= Observation

$\bar{X}$ = Mean of observation

n= No of observation

Coefficient of Variation (C.V.): Coefficient of variation is a useful measurement of risk, which is the standard deviation divided by the expected return. It shows the risk per unit of return and provides a more meaningful basis for comparison when the expected returns on two alternatives are not the same. The coefficient of variation captures the effects of both risk and return, it is a better measure for evaluating risk in situations where investment differ with respect to both their amounts of total risk and their expected return. Coefficient of variation following formula drawn:

Coefficient of Variation $(C.V.) = \frac{\pm}{\bar{x}}$

Where,

$\pm$ = Standard deviation

$\bar{X}$ = Mean of observation

Coefficient of Correlation:

$$\text{Simple Corrélation (r)} = \frac{n \sum X1X2 - \sum X_1 \sum X_2}{\sqrt{n \sum X_1^2 - (\sum X_1)^2}\ \sqrt{n \sum X_2^2 - (\sum X_2)^2}}$$

Where,

n = No of observation

X1 = First observation

X2 = Second observation

$\sum X1$ = Submission of first observation

$\sum X2$ = Submission of second observation

$\sum X1X2$ = Submission of first and second observation

Financial Tools:

Earning Per share

The earning per share (EPS) is the share of a stock on the earning of the company.

$$\textbf{EPS} = \frac{\text{Net profit}}{\text{number of shares out standing}}$$

Dividend Per Share

The DPS is the amount paid as dividend to the holder of one share of the stock.

$$\textbf{DPS} = \frac{\text{Total Dividend Paid}}{\text{No. of shares Outstanding}}$$

Market Price per Share

The MVPS is amount in which a share of the stock is traded in the market.

$$\textbf{MPS} = \frac{\text{Total Market Capitalization}}{\text{No. of Share Outstanding}}$$

Where,

MPS= Market Price per share.

Market Price per share After Stock Dividend= $\frac{\text{MPS before stock dividend}}{(1 + \text{stock dividend in fraction})}$

MPS after cash dividend= MPS before cash dividend – cash dividend per Share

Earnings per Share are the net profit a company makes divided by the total number of its shares. The purpose of this ratio is to tell you how well the company is doing.

PE = market price/ EPS

The Price Earnings ratio of a stock is the market price divided by its EPS. This tells you how other investors view the stock.

A company will have a high PE if investors hope their earnings from the stock will increase; this is why they buy the share. This increase in demand will result in the share's market price rising.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with he presentation, analysis and interpretation of data collected through primary and secondary sources, in order to fulfill the objective of the study. This chapter is the backbone of the research. In this chapter, both the primary and secondary data are presented in systematic manner. The source of data was institution brochure, annual reports, NEPSE website, SEBO/N website and library, and different institutions and investors (questionnaire). Those collected data are presented in systematic formats and analyzed using different appropriate tools and techniques. In this chapter, in addition to that the relationship of the variable is presented in graphs and figures. The analysis of data consists of organizing, tabulating and performing statistical analysis. In this chapter, the secondary as well as primary data, collected from different sources are presented in understandable form and analyzed separately using both qualitative and quantitative measures whichever is appropriate.

4.2 Presentation of Financial Variables

Under this heading the financial variables have been presentation and analyzed as following.

4.2.1 Earning Per Share

Earning Per share refers the rupee amount earned per share of common stock outstanding it measures the profitableness of the shareholders investment. The EPS shows the profitableness of the institutions on per share basis. The higher earning indicates the better achievement of the profitability of the institutions by mobilizing their funds and vise-versa.

Table No. 4.1.1

EPS of the institutions are tabulate as follows

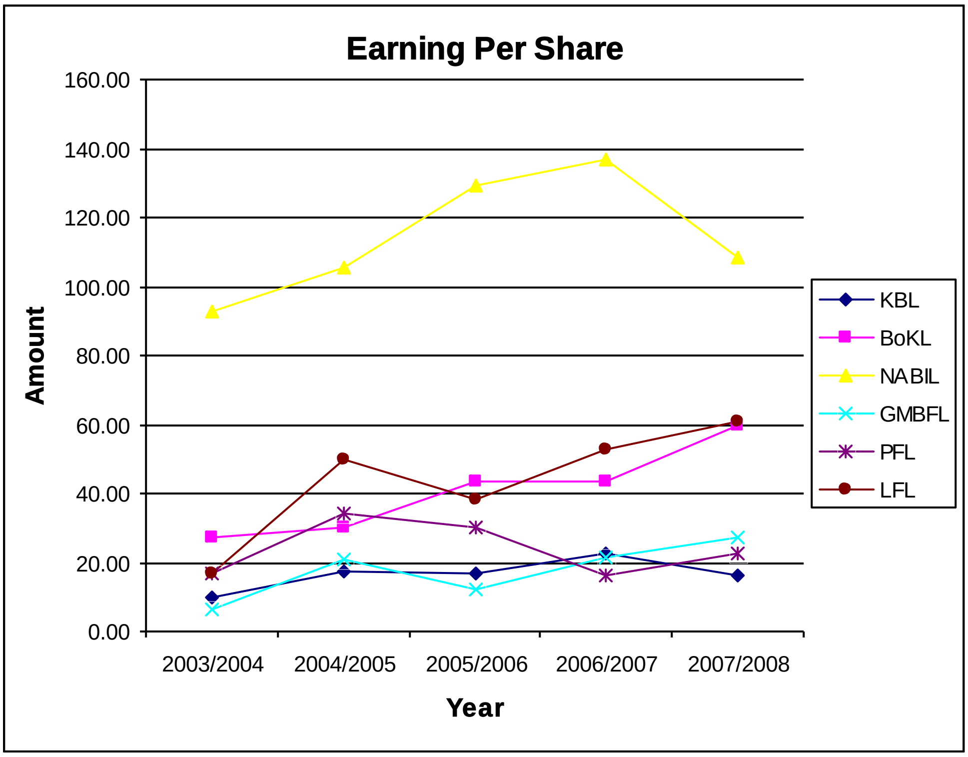
(in NRs)

Year/Banks	KBL	BoKL	NABIL	GMBFL	PFL	LFL
2003/2004	9.74	27.50	92.61	6.32	16.90	17.00
2004/2005	17.58	30.10	105.49	20.69	34.09	50.00
2005/2006	16.56	43.67	129.21	12.24	30.30	38.00
2006/2007	22.70	43.50	137.08	21.35	16.28	53.00
2007/2008	16.35	59.94	108.31	27.44	22.65	61.00
Mean	16.59	40.94	114.54	17.61	24.04	43.80
Std. Dev	4.62	12.97	18.20	8.31	7.96	17.11
C.V.	0.28	0.32	0.16	0.47	0.33	0.39

Source: Annual Report of Organizations

Graph No. 4.1.1

EPS of the institutions are graph as follows



The EPS of KBL range Rs. 9.74 to Rs. 22.70 during the study and the average EPS of KBL is 16.59. The standard deviation of EPS is 4.62 where as the coefficient of variation is 0.28. It shows the fluctuation in the EPS of the bank.

The average EPS of BoKL during this period of study is Rs. 40.94. The EPS of BoKL range between 27.50 to 59.94 during the study period. The standard deviation of the

EPS under the period of study is 12.97 and the C.V. of 0.32. It indicates fluctuation of EPS of the BoK during the study period.

The average EPS of NABIL during this period of study is Rs. 114.54. The EPS of NABIL range between 92.61 to 137.08 during the study period. The standard deviation of the EPS under the period of study is 18.20 and the C.V. of 0.16. It indicates fluctuation of EPS of the NABIL during the study period.

The average EPS of GMBFL during this period of study is Rs. 17.61. The EPS of GMBFL range between 6.32 to 27.44 during the study period. The standard deviation of the EPS under the period of study is 8.31 and the C.V. of 0.47. It indicates fluctuation of EPS of the GMBFL during the study period.

The average EPS of PFL during this period of study is Rs. 24.04. The EPS of PFL range between 16.28 to 34.09 during the study period. The standard deviation of the EPS under the period of study is 7.96 and the C.V. of 0.33. It indicates fluctuation of EPS of the PFL during the study period.

The average EPS of LFL during this period of study is Rs. 43.80. The EPS of LFL range between 17 to 61 during the study period. The standard deviation of the EPS under the period of study is 17.11 and the C.V. of 0.39. It indicates fluctuation of EPS of the LFL during the study period.

4.2.2 Dividend Per Share

Dividend per share is the rupee earning distributed per share to common stockholders. Dividend per share shows the portion of earning distributed to the shareholders an per share basis. Generally the higher DPS creates positive attitude among the shareholders towards the institutions. Which rewardingly helps to increase the market value of shares it also marks as the indicator of better performance of the institution management. The dividend per share of the institutions under study are stated in the table below.

Table 4.1.2

DPS of the institutions are tabulate as follows

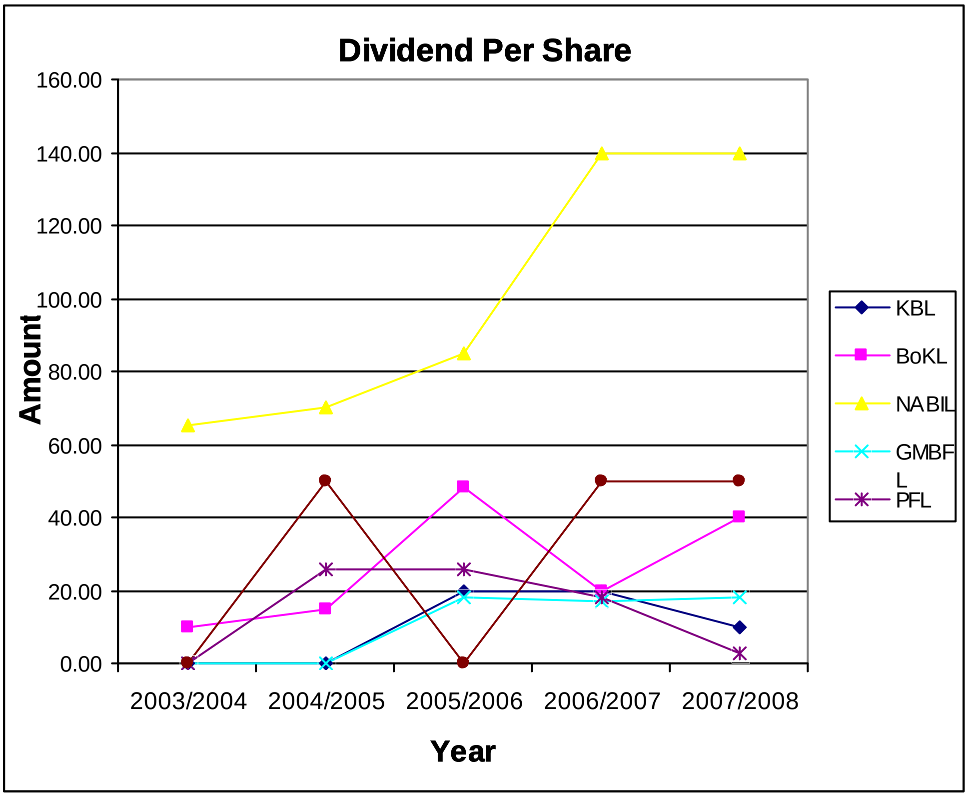
(in NRs)

Year/Banks	KBL	BoKL	NABIL	GMBFL	PFL	LFL
2003/2004	0.00	10.00	65.00	0.00	0.00	0.00
2004/2005	0.00	15.00	70.00	0.00	26.00	50.00
2005/2006	20.00	48.00	85.00	18.00	26.00	0.00
2006/2007	20.00	20.00	140.00	17.00	18.00	50.00
2007/2008	10.00	40.00	140.00	18.00	3.00	50.00
Mean	10.00	26.60	100.00	10.60	14.60	30.00
Std. Dev	10.00	16.52	37.25	9.69	12.44	27.39
C.V.	1.00	0.62	0.37	0.91	0.85	0.91

Source: Annual Report of Organizations

Graph No. 4.1.2

DPS of the institutions are graph as follows



The average DPS of KBL during this period of study is Rs. 10. The DPS of KBL range between Rs. 0.00 to 20.00 during the study period. The standard deviation of the DPS under the period of study is 10 and the C.V. of 1. It indicates more fluctuation of DPS of the KBL during the study period.

The average DPS of BoKL during this period of study is Rs. 26.60. The DPS of BoKL range between Rs. 10 to 48 during the study period. The standard deviation of the DPS under the period of study is 16.52 and the C.V. of 0.62. It indicates fluctuation of DPS of the BoKL during the study period.

The average DPS of NABIL during this period of study is Rs. 100. The DPS of NABIL range between Rs. 65 to 140 during the study period. The standard deviation of the DPS under the period of study is 37.25 and the C.V. of 0.37. It indicates fluctuation of DPS of the NABIL during the study period.

The average DPS of GMBFL during this period of study is Rs. 10.60. The DPS of GMBFL range between Rs. 0.00 to 18.00 during the study period. The standard deviation of the DPS under the period of study is 9.69 and the C.V. of 0.91. It indicates fluctuation of DPS of the GMBFL during the study period.

The average DPS of PFL during this period of study is Rs. 14.60. The DPS of PFL range between Rs. 0.00 to 26.00 during the study period. The standard deviation of the DPS under the period of study is 12.44 and the C.V. of 0.85. It indicates fluctuation of DPS of the PFL during the study period.

The average DPS of LFL during this period of study is Rs. 30.60. The DPS of LFL range between Rs. 0.00 to 50.00 during the study period. The standard deviation of the DPS under the period of study is 27.39 and the C.V. of 0.91. It indicates fluctuation of DPS of the PFL during the study period.

4.2.3 Price Earning Ratio

Price earning ration is the ratio between market price per share and earning per share it is also called earning multiplier. The price earning ratio is of the institutions under study are stated in the table and graph as follows.

Table 4.1.3

Price Earning Ratio of the institutions are tabulate as follows

Year/Banks	KBL	BoKL	NABIL	GMBFL	PFL	LFL
2003/2004	NA	10.73	10.80	NA	6.92	13.82
2004/2005	20.99	14.29	14.27	NA	3.61	5.00
2005/2006	26.75	19.46	17.34	NA	3.96	6.45
2006/2007	36.56	31.61	36.84	6.98	14.43	6.23
2007/2008	50.76	39.21	48.70	31.52	32.45	14.10
Mean	33.77	23.06	25.59	19.25	12.28	9.12
Std. Dev	13.03	12.00	16.40	17.36	12.09	4.46
C.V.	0.39	0.52	0.64	0.90	0.98	0.49

Source: Annual Report of Organizations

Graph No. 4.1.3

Price Earning Ratio of the institutions graph as follows

The average PER of KBL during this period of study is 33.77. The PER of KBL range between 20.99 to 50.76 during the study period. The standard deviation of the PER under the period of study is 13.03 and C.V. is 0.39. It indicates fluctuation of PER of the KBL during the study period.

The average PER of BoKL during this period of study is 23.06. The PER of BoKL range between 10.73 to 39.21 during the study period. The standard deviation of the PER under the period of study is 12.00 and the C.V. of 0.52. It indicates fluctuation of PER of the BoKL during the study period.

The average PER of NABIL during this period of study is 25.59. The PER of NABIL range between 10.80 to 48.70 during the study period. The standard deviation of the PER under the period of study is 16.40 and the C.V. of 0.64. It indicates fluctuation of PER of the NABIL during the study period.

The average PER of GMBFL during this period of study is 19.25. The PER of GMBFL range between 6.98 to 31.52 during the study period. The standard deviation of the PER under the period of study is 17.36 and the C.V. of 0.90. It indicates fluctuation of PER of the GMBFL during the study period.

The average PER of PFL during this period of study is 12.28. The PER of PFL range between 3.61 to 32.45 during the study period. The standard deviation of the PER under the period of study is 12.09 and the C.V. of 0.98. It indicates fluctuation of PER of the PFL during the study period.

The average PER of LFL during this period of study is 9.12. The PER of LFL range between 5.00 to 14.10 during the study period. The standard deviation of the PER under the period of study is 4.46 and the C.V. of 0.49. It indicates fluctuation of PER of the LFL during the study period.

4.2.4 Market Price per Share

Market price per share is the price of share on which share are traded in the secondary market. The average market price per share of the institutions under study is presented in the table and in the graphical form as follows.

Table 4.1.4

MPS of the institutions are tabulate as follows

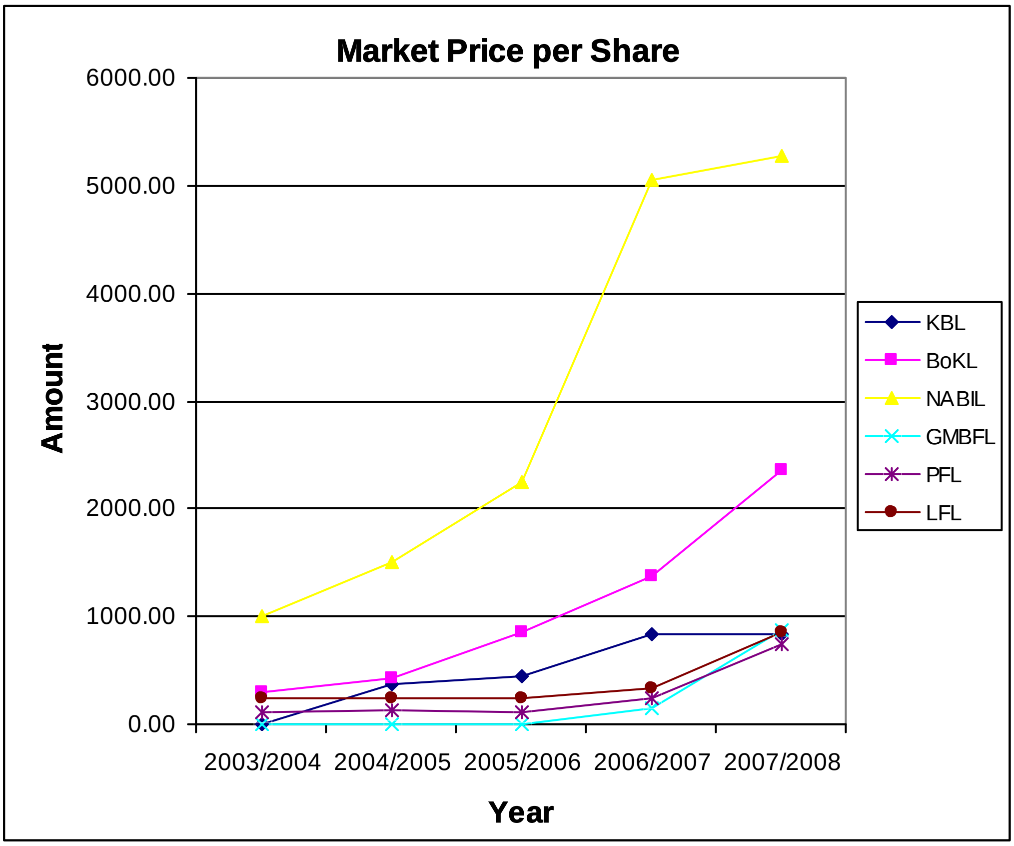
(in NRs)

Year/Banks	KBL	BoKL	NABIL	GMBFL	PFL	LFL
2003/2004	NA	295.00	1000.00	NA	117.00	235.00
2004/2005	369.00	430.00	1505.00	NA	123.00	250.00
2005/2006	443.00	850.00	2240.00	NA	120.00	245.00
2006/2007	830.00	1375.00	5050.00	149.00	235.00	330.00
2007/2008	830.00	2350.00	5275.00	865.00	735.00	860.00
Mean	618.00	1060.00	3014.00	507.00	266.00	384.00
Std. Dev	246.65	835.10	2011.83	506.29	266.87	268.78
C.V.	0.40	0.79	0.67	1.00	1.00	0.70

Source: Annual Report of Organizations

Graph No. 4.1.4

MPS of the institutions are graph as follows



The average MPS of KBL during this period of study is Rs. 618. The MPS of KBL range between Rs. 369 to 830 during the study period. The standard deviation of the MPS under the period of study is 246.65 and the C.V. of 0.40. It indicates fluctuation of MPS of the KBL during the study period. In fiscal year 2003/2004 market price not available on the annual report.

The average MPS of BoKL during this period of study is Rs. 1060. The MPS of BoKL range between Rs. 295 to 2350 during the study period. The standard deviation of the MPS under the period of study is 835.10 and the C.V. of 0.79. It indicates fluctuation of MPS of the BoKL during the study period.

The average MPS of NABIL during this period of study is Rs. 3014. The MPS of NABIL range between Rs. 1000 to 5275 during the study period. The standard deviation of the MPS under the period of study is 2011.83 and the C.V. of 0.67. It indicates fluctuation of MPS of the NABIL during the study period.

The average MPS of GMBFL during this period of study is Rs. 507.00. The MPS of GMBFL range between Rs. 149 to 865 during the study period. The standard deviation of the MPS under the period of study is 506.29 and the C.V. of 1. It indicates more fluctuation of MPS of the GMBFL during the study period.

The average MPS of PFL during this period of study is Rs. 266. The MPS of PFL range between Rs. 117 to 735 during the study period. The standard deviation of the MPS under the period of study is 266.87 and the C.V. of 1. It indicates more fluctuation of MPS of the PFL during the study period.

The average MPS of LFL during this period of study is Rs. 384. The MPS of LFL range between Rs. 235 to 860 during the study period. The standard deviation of the MPS under the period of study is 268.78 and the C.V. of 0.70. It indicates fluctuation of MPS of the LFL during the study period.

4.2.5 Market Price per Share before and after Dividend

Market price per share before dividend is the price of share on which share are traded in the secondary market before allocation dividend and MPS after allocation of dividend is the price of share on which share are traded in the secondary market after allocation of dividend. The MPS of institutions before and after allocation of dividend are presented as below:

4.2.5.1 Market Price per Share before and after Dividend of Kumari Bank Limited.

Table No 4.2.1

Market Price per Share before and after Dividend of Kumari Bank Limited.

Year	Book Close Date	Dividend Type & Percentage		Average MPS as per Annual Report	MPS 8 days before Book Close Date	%Increase MPS	Actual Market price 5 days after book Close Date	Theoretical MPS after dividend*	Increase (Decrease) Actual MPS than theoretical MPS	% Decrease MPS after dividend
		Stock	Cash							
1	2	3	4	5	6	7=(6-5)/5*100	8	9	10=8-9	11=(6-8)/6*100
2005/06	22-Feb-07	20%	-	443	817	84%	617	680	-63	24%
2006/07	25-Dec-07	20%	-	830	1505	81%	1300	1254	46	14%

Source: Annual Report of Organizations and www.nepalstock.com

* Theoretical MPS of after dividend = $[\frac{MPS\ of\ Before\ Stock\ Dividend}{1 \Gamma Stock\ Dividend\ Rate\ in\ Fraction}] Z\, Amount\ of\ Cash\ Dividend$

20 percent of stock dividend declared in 2005/06 and 2006/07. It increase market price of stock by 84% and 81% before 8 days of book close date. After the distribution of dividend market price of share decreases by 24% and 14% distribution after 5 days of book close date.

4.2.5.2 Market Price per Share before and after Dividend of Bank of Kathmandu Limited.

Table No 4.2.2

Market Price per Share before and after Dividend of Bank of Kathmandu Limited.

Year	Book Close Date	Dividend Type & Percentage		Average MPS as per Annual Report	MPS 8 days before Book Close Date	%Increase MPS	Actual Market price 5 days after book Close Date	Theoretical MPS after dividend*	Increase (Decrease) Actual MPS than theoretical MPS	% Decrease MPS after dividend
		Stock	Cash							
1	2	3	4	5	6	7=(6-5)/5*100	8	9	10=8-9	11=(6-8)/6*100
2003/04	2-Jan-05	-	10%	295.00	287.00	-3%	284.00	277.00	7.00	1.05%
2004/05	12-Jan-06	-	15%	430.00	552.00	28%	550.00	537.00	13.00	0.36%
2005/06	15-Dec-06	30%	18%	850.00	1045.00	23%	1045.00	785.00	260.00	0.00%
2006/07	16-Jan-08	-	20%	1375.00	2037.00	48%	1738.00	2017.00	-279.00	14.68%
2007/08	3-Dec-08	40%	-	2350.00	1862.00	-21%	1404.00	1860.00	-456.00	24.60%

Source: Annual Report of Organizations and www.nepalstock.com

* Theoretical MPS of after dividend = $\left[\frac{MPS\ of\ Before\ Stock\ Dividend}{1+Stock\ Dividend\ Rate\ in\ Fraction}\right] - Amount\ of\ Cash\ Dividend$

10 percent of cash dividend declared in 2003/04, 15 percent cash dividend declared in 2004/05, 30 percent stock and 18 percent cash dividend declared in 2005/06, 20 percent cash dividend declared in 2006/07 and 40 percent stock dividend declared in 2007/08. It increase market price of stock by 3%, 28%, 23%, 48% and -21% respectively before 8 days of book close date. After the distribution of dividend market price of stock decreases by 1.05%, 0.36%, 0.00%, 14.68% and 24.60% respectively after 5 days of book close date.

4.2.5.3 Market Price per Share before and after Dividend of Nabil Bank Limited.

Table No 4.2.3

Market Price per Share before and after Dividend of Nabil Bank Limited.

Year	Book Close Date	Dividend Type & Percentage		Average MPS as per Annual Report	MPS 8 days before Book Close Date	%Increase MPS	Actual Market price 5 days after book Close Date	Theoretical MPS after dividend*	Increase (Decrease) Actual MPS than theoretical MPS	% Decrease MPS after dividend
		Stock	Cash							
1	2	3	4	5	6	7=(6-5)/5*100	8	9	10=8-9	11=(6-8)/6*100
2003/04	27-Dec-04	-	65%	1000.00	1225.00	23%	1190.00	1160.00	30.00	2.86%
2004/05	4-Dec-05	-	70%	1505.00	1655.00	10%	1615.00	1585.00	30.00	2.42%
2005/06	27-Oct-06	-	85%	2240.00	2325.00	4%	2323.00	785.00	1538.00	0.09%
2006/07	23-Sep-07	40%	100%	5050.00	5837.00	16%	4900.00	4069.00	831.00	16.05%
2007/08	3-Dec-08	40%	100%	5275.00	5888.00	12%	4100.00	4105.00	-5.00	30.37%

Source: Annual Report of Organizations and www.nepalstock.com

* Theoretical MPS of after dividend = $\left[\frac{MPS\ of\ Before\ Stock\ Dividend}{1 + Stock\ Dividend\ Rate\ in\ Fraction}\right] - Amount\ of\ Cash\ Dividend$

65 percent of cash dividend declared in 2003/04, 70 percent cash dividend declared in 2004/05, 85 percent cash dividend declared in 2005/06, 40% stock and 100% cash dividend declared in 2006/07 and 40% stock and 100% cash dividend declared in 2007/08. It increase market price of stock by 23%, 10%, 4%, 16% and 12% respectively before 8 days of book close date. After the distribution of dividend market price of stock decreases by 2.86%, 2.42%, 0.09%, 16.05% and 30.37% respectively after 5 days of book close date.

4.2.5.4 Market Price per Share before and after Dividend of Guheswori Merchant Banking & Finance Limited.

Table No 4.2.4

Market Price per Share before and after Dividend of Guheswori Merchant Banking & Finance Limited.

Year	Book Close Date	Dividend Type & Percentage		Average MPS as per Annual Report	MPS 8 days before Book Close Date	%Increase MPS	Actual Market price 5 days after book Close Date	Theoretical MPS after dividend*	Increase (Decrease) Actual MPS than theoretical MPS	% Decrease MPS after dividend
		Stock	Cash							
1	2	3	4	5	6	7=(6-5)/5*100	8	9	10=8-9	11=(6-8)/6*100
2005/06	28-Dec-06	10%	8%	104.00	104.00	0%	104.00	86.00	18.00	0.00%
2006/07	14-Dec-07	12%	5%	149.00	177.00	19%	103.00	153.00	-50.00	41.81%
2007/08	5-Jan-09	18%	-	865.00	689.00	-20%	800.00	583.00	217.00	-16.11%

Source: Annual Report of Organizations and www.nepalstock.com

* Theoretical MPS of after dividend = $\left[\frac{MPS\ of\ Before\ Stock\ Dividend}{1\,\Gamma\, Stock\ Dividend\ Rate\ in\ Fraction}\right] Z\ Amount\ of\ Cash\ Dividend$

10 percent stock and 8% cash dividend declared in 2005/06, 12% stock and 5% cash dividend declared in 2006/07 and 18% cash dividend declared in 2007/08. It increase market price of stock by 0%, 19% and -20% respectively before 8 days of book close date. After the distribution of dividend market price of stock decreases by 0.00%, 41.81% and -16.11% respectively after 5 days of book close date.

4.2.5.5 Market Price per Share before and after Stock Dividend of Premier Finance Company Limited.

Table No 4.2.5

Market Price per Share before and after Stock Dividend of Premier Finance Company Limited.

Year	Book Close Date	Dividend Type & Percentage		Average MPS as per Annual Report	MPS 8 days before Book Close Date	%Increase MPS	Actual Market price 5 days after book Close Date	Theoretical MPS after dividend*	Increase (Decrease) Actual MPS than theoretical MPS	% Decrease MPS after dividend
		Stock	Cash							
1	2	3	4	5	6	7=(6-5)/5*100	8	9	10=8-9	11=(6-8)/6*100
2003/04	20-Dec-04	-	-	117.00	126.00	8%	106.00	126.00	-20.00	15.87%
2004/05	NA		-	-	-	-	-	-	-	-
2005/06	22-Mar-07	20%	6%	120.00	154.00	28%	108.00	122.00	-14.00	29.87%
2006/07	26-Dec-07	15%	3%	235.00	235.00	0%	120.00	201.00	-81.00	48.94%

Source: Annual Report of Organizations and www.nepalstock.com

* Theoretical MPS of after dividend = $\left[\frac{MPS\ of\ Before\ Stock\ Dividend}{1 + Stock\ Dividend\ Rate\ in\ Fraction}\right] - Amount\ of\ Cash\ Dividend$

20 percent stock and 6% cash dividend declared in 2005/06 and 15% cash and 3% stock dividend declared in 2006/07. It increase market price of stock by 28% and 0% before 8 days of book close date. After the distribution of dividend market price of stock decreases by 29.87% and 48.94% after 5 days of book close date.

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4.2.5.6 Market Price per Share before and after Dividend of Lalitpur Finance Limited.

Table No 4.2.6

Market Price per Share before and after Dividend of Lalitpur Finance Limited.

Year	Book Close Date	Dividend Type & Percentage		Average MPS as per Annual Report	MPS 8 days before Book Close Date	%Increase MPS	Actual Market price 5 days after book Close Date	Theoretical MPS after dividend*	Increase (Decrease) Actual MPS than theoretical MPS	% Decrease MPS after dividend
		Stock	Cash							
1	2	3	4	5	6	7=(6-5)/5*100	8	9	10=8-9	11=(6-8)/6*100
2004/05	28-Dec-05	50%	-	250.00	252.00	1%	211.00	168.00	43.00	16.27%
2006/07	25-Dec-07	50%	-	330.00	345.00	5%	315.00	230.00	85.00	8.70%
2007/08	2-Jan-09	50%	-	860.00	1090.00	27%	1190.00	726.00	464.00	-9.17%

Source: Annual Report of Organizations and www.nepalstock.com

* Theoretical MPS of after dividend = $\left[\frac{MPS\ of\ Before\ Stock\ Dividend}{1 + Stock\ Dividend\ Rate\ in\ Fraction}\right] - Amount\ of\ Cash\ Dividend$

50 percent stock dividend declared in 2004/05, 50% stock dividend declared in 2006/07 and 50% stock dividend declared in 2007/08. It increase market price of stock by 1%, 5% and 27% respectively before 8 days of book close date. After the distribution of dividend market price of stock decreases by 16.27%, 8.70% and -9.17% respectively after 5 days of book close date.

4.3 Presentation of Statistical Variables

Under this heading the statistical variables have been presented and analyzed as following.

4.3.1 Correlation between Dividend and Market Price of Stock According to Annual Report.

The correlation coefficient measures the relation between two or more variable, it also measure the extent to which one variable effect the other one. The correlation coefficient lies between lies between +1 and -1, +1 correlation coefficient indicates that the variables due perfectly positive correlated and -1 correlation coefficient indicates that the variables are perfectly negative correlated. And if the correlation coefficient is 0 it means that variables due not related to each other. The negative correlation indicates that increase in value of one variables leads to decrease in the value of the other and positive correlation indicates that increase in value of one variables leads to increase in the value of the other variables also. The numbers indicate the degree of correlation between the variables. Correlation between dividend and market price of stock from F.Y. 2003/04 to 2007/08 calculated value and results are tabulated below:

Table No. 4.3

Correlation between dividend and market price of stock

Name of Institutions	Test of	Calculated value	Interpretation
Kumari Bank Ltd.	r	0.65	Moderate positive correlation
Bank of Kathmandu	r	0.56	Moderate positive correlation
Nabil Bank Ltd.	r	0.99	Highly positive correlation
Guheshwori Banking & Finance Ltd.	r	0.46	Poor positive correlation
Premier Finance Ltd.	r	-0.50	Moderate negative correlation
Lalitpur Finance Ltd.	r	0.49	Poor positive correlation

4.4 Analysis of Primary Data

To know the response and relevant information of respondent about the **impact of dividend on market price of stock** different types of questionnaires has been prepared and distributed to selected institutions staffs and share market investors. To collect the relevant data the questionnaires have been distributed to the respondents on simple sampling basis. All together 60 sets of questionnaires were presented to the respondents. To get the quick and full response all the questions are in objective types. Out of 60 questionnaires 41 were responded.

1. Knowledge of Dividend, Stock Price and Share Market

Out of 41 respondents 20 (48.78%) respondents perfectly known about the subject matter, 18 (43.90%) respondents partial known, 1 (2.44%) respondent partial unknown and 2 (4.88%) respondent were unknown about dividend, stock price and share market. This information is presented in the table 4.4.1.

Table 4.4.1

Knowledge of Dividend, Stock Price and Share Market

Response	No. of respondents	Percentage(%)
Perfectly Known	20	48.78
Perfectly Unknown	0	0.00
Partial known	18	43.90
Partial unknown	1	2.44
Unknown	2	4.88
Total	41	100

2. Which dividend has more impact on market price of stock

Out of 41 respondents 8 (19.51%) respondents think that cash dividend has more impact on market price of stock and 33 (80.49%) respondents thinks that stock dividend has more impact on market price of stock.

Table 4.4.2

Dividend has more impact on Market Price of Stock

Response	No. of respondents	Percentage(%)
Cash	8	19.51
Stock	33	80.49
Total	41	100

3. Important factor to determine market price of stock

Third question was asked important factor of determine market price of stock. Out of 41 respondents 7 (17.07%) respondents favor of Dividend, 13 (31.71%) Earning price per share, 10 (24.39%) Political stability, 5 (12.20%) Economic growth, 3 (7.32 %) Volume of transaction and 3 (7.32%) Rumors. This information presented in table no 4.4.3.

Table 4.4.3

Important factor to determine market price of stock

Response	No. of respondents	Percentage(%)
Dividend	7	17.07
Earning price per share	13	31.71
Political stability	10	24.39
Economic growth	5	12.20
Volume of transaction	3	7.32
Rumors	3	7.32
Total	41	100

4. Better opportunity of investment sector

The fourth question was asked better opportunity of investment sector. Out of 41 respondents, 32 (78.05%) respondents fill banking, 4 (9.76 %) respondents fill Finance, nobody fill Insurance, 4 (9.76%) respondents fill manufacturing and 1 (2.44%) respondent fills others.

Table 4.4.4

Better opportunity of investment sector

Response	No. of respondents	Percentage(%)
Banking	32	78.05
Finance	4	9.76
Insurance	0	0.00
Manufacturing	4	9.76
Others	1	2.44
Total	41	100

5. Future trend of stock market in Nepal

The fifth question was asked future trend of stock market in Nepal. Out of 41 respondents 16 (39.02%) respondents choose good, 3 (7.32%) respondents choose very good, 17 (41.46%) respondents choose moderate, 3 (7.32%) choose bad and 2 (4.88 %) respondents choose very bad.

Table 4.4.5

Future trend of stock market in Nepal

Response	No. of respondents	Percentage(%)
Good	16	39.02
Very good	3	7.32
Moderate	17	41.46
Bad	3	7.32
Very bad	2	4.88
Total	41	100

6. Leading market price of stock

The sixth question was asked leading market price of stock. Out of 41 respondents 39 (95.12%) respondent select banking, 1 (2.44%) respondent select finance, nobody respondent select insurance and manufacturing and 1 (2.44%) respondent select others.

Table 4.4.6

Leading market price of stock

Response	No. of respondents	Percentage (%)
Banking	39	95.12
Finance	1	2.44
Insurance	0	0.00
Manufacturing	0	0.00
Others	1	2.44
	41	100

7. Relationship between dividend and market price of stock

The seventh question was asked relationship between dividend and market price of stock. Out of 41 respondents 4 (9.76 %) respondents think no relation, 32 (78.05%) respondents think perfect positive relation, nobody think perfect negative relation and 5 (12.20%) respondents think sometimes relation.

Table 4.4.7

Relationship between dividend and market price of stock

Response	No. of respondents	Percentage (%)
No relation	4	9.76
Perfect positive relation	32	78.05
Perfect negative relation	0	0.00
Sometimes relation	5	12.20
Total	41	100

8. Right share has more influence on market price of stock than stock dividend

The eighth question was asked right share has more influence on share price than stock dividend. Out of 41 respondents 23 (56.10%) respondent agree and 18 (43.90 %) don't agree.

Table 4.4.8

Right share has more influence on market price of stock than stock dividend

Response	No. of respondents	Percentage (%)
Agree	23	56.10
Don't agree	18	43.90
Total	41	100

9. Which dividend fluctuate the market price of stock

The ninth question was asked which dividend fluctuate the market price of stock. Out of 41 respondents 33 (80.49%) respondents select stock dividend and 8 (19.51%) respondent select cash dividend.

Table 4.4.9

Which dividend fluctuate the market price of stock

Response	No. of respondents	Percentage (%)
Stock dividend	33	80.49
Cash dividend	8	19.51
Total	41	100

10. Share price fluctuates with the same proportion as dividend declared

The tenth question was asked share price fluctuates with the same proportion as dividend declared. Out of 41 respondents 12 (29.27%) respondents choose yes, 10 (24.39%) respondents choose Don't no, 8 (19.51%) respondents choose more than proportion and 11 (26.83 %) respondents choose less than proportion.

Table 4.4.10
Share price fluctuates with the same proportion as dividend declared

Response	No. of respondents	Percentage (%)
Yes	12	29.27
Don't No	10	24.39
More than proportion	8	19.51
Less than proportion	11	26.83
Total	41	100

11. Different sectors respondent gives different suggestions about stock market of Nepal, there are below.

- Investment should be done with own decision and according to performance of the company.
- We have to rise our voice for this unknown and instability of share market. We need following sectors, banking, insurance etc.
- Stock market of Nepal is in just beginning stage it can be fluctuates any time any reasons so investment should be causeful while invest in stock.
- Political instability causes negative impact on stock market of Nepal. So, stable politics and effective directives need for positively of stock market in Nepal.
- Stock market has been effected by rumors hence in should not be like that. There should be fair as well as visible competition so that investors can benefit their investment after a certain period of time.
- As I think stock market of Nepal is running on rumor. So, investors should be very careful to invest in stock market.
- NEPSE calculation has to be more scientific online buy and sell of the stock.
- The new Government needs to speak out in favor of investor.
- Government of Nepal should take positive decision about share market of Nepal.

- Mostly rumors are the acting as the market price.
- Need monetary policies and regulatory policy change.
- Stock market of Nepal is still in initial stage. People (investor) are unaware of dynamics of share market.

4.5 Major Findings of the Study

Having completed the basic analysis required for this study, the final and the most important task of the researcher is to conclude with the desired results. A comprehensive summary of the major findings of this study is presented as below;

4.5.1 Findings from Secondary Data Analysis

- According to EPS analysis, the average EPS of all institutions under the study are positive and consistent. The standard deviation of all institutions range between 4.62 to 18.20 and coefficient of variation range between 0.16 to 0.47
- According to dividend per share analysis, average dividend of all institutions between 10% to 100%, standard deviation of dividend between 9.69 to 37.25 and coefficient of variation between 0.37 to 1.00. It means dividends of the institutions are more fluctuating.
- According to price earning ratio analysis. KBL has highest average price earning ratio i.e. 33.77 and LFL has lowest price earning ratio i.e. 9.12.
- According to market price per share analysis. NABIL has highest average price per share i.e. Rs. 3014 and PFL has lowest average price per share i.e. Rs. 266.00, highest standard deviation NABIL has 2011.83 and lowest standard deviation KBL 246.65 and highest C.V. GMBFL and PFL is 1 and lowest c.v. of KBL 0.40. It means less fluctuation of market price of stock of KBL.
- According to market price per share before and after dividend analysis.
  - When 20% stock dividend has been declared then MPS increase up to 84% and 81% and after dividend distribution market price per share decreases by 24% and 14% of KBL. It has been presented on the table no 4.2.1.
  - BoK declared cash dividend and stock dividend on different fiscal years 2003/04 to 2007/08 as 10%, cash dividend, 15% cash dividend, 18% cash dividend and 30% stock dividend, 20% cash dividend, 40% stock dividend

respectively. It affects on the market price of stock before 8 days of book close date. Market price of stock increases by -3%, 28%, 23%, 48% and -21% respectively. After 5 days of book close date MPS decreases by 1.05%, 0.36%, 0%, 14.68% and 24.60% respectively. It means dividend affect on market price of stock.

- NABIL declared 65% cash dividend in 2003/04, 70% cash dividend in 2004/05, 85% cash dividend in 2005/06, 40% stock and 100% cash dividend declared in 2006/07 and 2007/08. It affects on the market price of stock before 8 days of book close date. Market price of stock increases by 23%, 10%, 4%, 16% and 12% respectively. After 5 days of book close date MPS decreases by 2.86%, 2.42%, 0.09%, 16.05% and 30.37% respectively. It means dividend is also determination factor of market price of stock.
- GMBFL declared 10% stock and 8% cash dividend in 2005/06, 12% stock and 5% cash dividend in 2006/07 and 18% stock dividend in 2007/08. It affects on the market price of stock before 8 days of book close date. Market price of stock increases by 0%, 19% and -20% respectively. After 5 days of book close date MPS decreases by 0.00%, 41.81% and -16.11% respectively. It means dividend fluctuation of market price of stock.
- PFL declared 20% stock and 6% cash dividend in 2005/06 and 15% stock and 3% cash dividend in 2006/07. It affects on the market price of stock before 8 days of book close date. Market price of stock increase by 28% and 0% respectively. After 5 days of book close date MPS decrease by 29.87% and 48.94% respectively. It means dividend is a important factor of market price determination.
- LFL declared 50% stock dividend in 2004/05, 2006/07 and 2007/08. It affects on the market price of stock before 8 days of book close date. Market price of stock increase by 1%, 5% and 27% respectively. After 5 days of book close date MPS decrease by 16.27%, 8.70% and -9.17% respectively. It means market price of stock dependent also dividend.

❖ Correlation analysis between dividend and market price of stock of financial institutions are, correlation of KBL, BoK, NABIL, GMBFL, PFL and LFL are 0.65, 0.56, 0.99, 0.46, -0.50 and 0.49 respectively. It shows all financial institutions correlation is positive expect PFL.

4.5.2 Findings from Primary Data Analysis

- It has been revealed from the questionnaire survey that people's knowledge about dividend, stock price and share market shows 48.78% perfectly known, 43.90% partial known, 2.44% partial unknown and only 4.88% respondents unknown. It means large number of respondents known about dividend, stock price and share market.
- The response on which dividend has high impact upon market price of stock shows 80.49% respondents stock dividend and 19.51% cash dividend. It means stock dividend has more impact upon market price of stock.
- So far the important factors to determine market price of stock is concerned 31.71% are favor of earning per share, 24.39% favor of political stability, 17.07% favor of dividend, 12.20% favor of economic growth, 7.32% favor of volume of transactions and 7.32% favor of rumors. It means earning per share, political stability and dividend has direct impact upon market price of stock.
- According to the respondents 78.05% respondents feel that banking sector is better to investment, 9.76% respondent saw better opportunity of investment in finance and manufacturing and 2.44% respondents think other sectors is better to invest. It means banking has best opportunity for investment.
- The respondent response about future trend of stock market in Nepal is as follows: 41.46% response as moderate, 39.02% response as good, 7.32% response as very good and 7.32% response as bad. It means future stock market of Nepal has shows moderate.
- According to 95.12% respondent, banking sector is leading the market price of stock and 2.44% respondents think that financial sector is leading the market price of stock. It means banking sector is leading the market price of the stock.
- 78.05% respondents response on the relationship between dividend and market price of stock is perfectly positive, 9.76% respondents think that there is no relationship between dividend and market price of stock and 12.20% respondents thins sometimes there is a relations between dividend and market price of stock. It means dividend and market price of stock has perfect positive relationship.
- 56.10% respondents agree that right share has more influence on share price than stock dividend and 43.90% respondents disagree. It means right share has more influence on share price than stock dividend.

- 80.49% respondents think that stock dividend fluctuate the market price of stock and 19.15% respondents think that cash dividend fluctuate the market price of stock. It means stock dividend fluctuate the market price of stock than cash dividend.
- The response on the question that is the share price fluctuates with the same proportion as dividend declared 29.27% respondents response is yes, 24.39% respondent don't know about the question, 26.83% respondents response that it fluctuate less than proportion and 19.51% respondents response that it fluctuate more than proportion. It means market price per share fluctuate in the same proportion as dividend declared.

CHAPTER-V

SUMMARY, CONCLUSION & RECOMMENDATIONS

This is the final chapter that involves summary, conclusions and recommendations of the research work. The facts and findings from primary and secondary data analysis are presented in this chapter. Besides summary and concluding research work, recommendations are made to concerned persons and organizations.

5.1 Summary

Dividend is the earning between payment to stockholder and reinvestment in the firm, but it is still a fundamental as well as controversial area of Managerial Finance. The impact of dividend on market price of stock is sometimes positive and sometimes negative impact. According to the secondary data analysis, correlation, average, standard deviation, coefficient of variation analysis has more impact of dividend on market price of the stock and primary data analysis also more impact of dividend on market price of stock.

Is a subject of long standing argument? But still there is no single conclusive result regarding the relation between the dividend payment and market price of the stock. Dividend decision is one of the three major decisions of financial management. The dividend affects on the operation and prosperity of the organization i.e. capital structure decision and investment decision, an investor expects two types of return namely capital gain and dividend by the investing in equity or ordinary share, so payment of dividend to shareholder is an effective way to attract new investors and retain present investors. It is important to have clearly defined and effectively managed dividend, so as to fulfill the shareholders expectations and corporate growth.

Paying dividend can be taken as an important tool to attract new investors. Besides this dividend paying ability reflects the financial position of the organization in the market. Due to the division of earning between dividend payout and retention ratio the market price of the share may also affected, when is also crucial for the organization. So, the funds that could not be used due to the lack of investment opportunities would be better as dividend since shareholder have investment opportunities elsewhere cash dividend and stock dividend growth of market price of stock and value of the firm.

5.2 Conclusion

Dividend paying institutions have been analyzed to show the implication of dividend impact of market price of stock. Even market price is governed by various factors, this study is made to analysis one of the important factors i.e. stock and cash dividend. The study covers three commercial banks and three finance companies (KBL, BoK, NABIL, GMBFL, PFL & LFL) and only for the 5 fiscal year from 2003/04 to 2007/08. The analysis is made by using various financial and statistical tools.

So, dividend decision is undoubtedly one of the three major decisions of financial management. From study, it is obvious to say that dividend factor affects on market price of stock of the financial institutions because it has power to influence other factors. Basically, an investor has expected two types of return namely capital gain and dividend by investing in stock. Dividend is also two of type cash dividend and stock dividend. When return is received from cash is called cash dividend. When dividend as a share certificate received is called stock dividend. So, payment of dividend to shareholder is the effective way to attract new investors and retain current investors who invest in share. So it is justified to hold that a clearly define and effectively managed dividend is required in all the studying institutions to comply shareholders expectations with that of corporate growth form internally generated funds. Normally in the case of Nepal if dividend percentage increase market price of share also increase. So, the fund that could not be used due to the lack of investment opportunities should be better declared stock dividend than cash dividend. Correlation between dividend and market price of stock are highly positive except one institution negative correlation has during the study period analysis.

5.3 Recommendations

Based on the major findings of this study, some recommendations have been made so as to overcome some shortfalls regarding the issues of dividend of the institutions.

- There is lack of proper legal provision regarding the dividend. The central bank of Nepal should pay their attention in this matter for prescribing certain provisions and rules regarding the percentage of earning as payment of dividend.
- There is inconsistency in dividend payment. The dividend is neither static nor growing. This may create misconception about the organization regarding its financial position. Due to high degree of risk and uncertainty, the market price per share may be adversely affected. So, the financial institutions should follow their static or growing dividend policy.
- The studying institutions should declare stock dividend to increase market price of stock.
- The stock dividend has more impact on market price of stock than cash dividend
- The relationship between dividend and market price of stock are highly positive. So, dividend has positive impact on market price of stock.
- According to primary data analysis, various respondents refers stock dividend than cash dividend. Stock dividend increases return on capital gain.

At last, after making this study it is realized that there is a necessity of legal provisions and rules for prescribing creation policy regarding the dividend payment in the financial sectors. For this purpose the concerned GoN, NRB, SEBON, NEPSE should be conscious about the formulation and implication of rule regarding dividend declaration. It will help to declare dividend of financial institutions in Nepal.

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Annex- 1

Financial Indicators of Kumari Bank Limited

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	C.V.
EPS (Rs)	9.74	17.58	16.59	22.70	16.35	16.59	4.62	0.28
DPS (Rs)	0.00	0.00	20.00	20.00	10.00	10.00	10.00	1.00
MPS (Rs)	NA	369.00	443.00	830.00	830.00	618.00	246.65	0.40
P/E		20.99	26.70	36.56	50.76	33.76	13.04	0.39

Financial Indicators of Bank of Kathmandu Limited

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	C.V.
EPS (Rs)	27.50	30.10	43.67	43.50	59.94	40.94	12.97	0.32
DPS (Rs)	10.00	15.00	48.00	20.00	40.00	26.60	16.52	0.62
MPS (Rs)	295.00	430.00	850.00	1375.00	2350.00	1060.00	835.10	0.79
P/E	10.73	14.29	19.46	31.61	39.21	23.06	12.00	0.52

Financial Indicators of Nabil Bank Limited

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	C.V.
EPS (Rs)	92.61	105.49	129.21	137.08	108.31	114.54	18.20	0.16
DPS (Rs)	65.00	70.00	85.00	140.00	140.00	100.00	37.25	0.37
MPS (Rs)	1000.00	1505.00	2240.00	5050.00	5275.00	3014.00	2011.83	0.67
P/E	10.80	14.27	17.34	36.84	48.70	25.59	16.40	0.64

Financial Indicators of Guheswori Merchant Banking and Finance Limited

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	C.V.
EPS (Rs)	6.32	20.69	12.24	21.35	27.44	17.61	8.31	0.47
DPS (Rs)	0.00	0.00	18.00	17.00	18.00	10.60	9.69	0.91
MPS (Rs)	NA	NA	NA	149.00	865.00	507.00	506.29	1.00
P/E	NA	NA	NA	6.98	31.52	19.25	17.36	0.90

Financial Indicators of Premier Finance Company Limited

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	C.V.
EPS (Rs)	16.90	34.01	30.30	16.28	22.65	24.03	7.93	0.33
DPS (Rs)	0.00	26.00	26.00	18.00	3.00	14.60	12.44	0.85
MPS (Rs)	117.00	123.00	120.00	235.00	735.00	266.00	266.87	1.00
P/E	6.92	3.62	3.96	14.43	32.45	12.28	12.09	0.98

Financial Indicators of Lalitpur Finance Limited

Year	2003/04	2004/05	2005/06	2006/07	2007/08	Average	S.D	C.V.
EPS (Rs)	17.00	50.00	38.00	53.00	61.00	43.80	17.11	0.39
DPS (Rs)	0.00	50.00	0.00	50.00	50.00	30.00	27.39	0.91
MPS (Rs)	235.00	250.00	245.00	330.00	860.00	384.00	268.78	0.70
P/E	13.82	5.00	6.45	6.23	14.10	9.12	4.46	0.49

Annex-2

Questionnaire

I am a Hari Prasad Upadhaya, student of Master of Business Studies (MBS) at Nepal Commerce Campus, Faculty of Management, Tribhuvan University. I am conducting in the topic of "**Impact of Dividend on Market Price of Stock**" in partial fulfillment of the requirement of the Degree of Master of Business Studies (MBS). So, I would like to request you to answer the following questions related to my study topic & help me to get the research objectives. I assure that your response will be kept strictly confidential.

1. Do you know about dividend, stock price and share market?

   Perfectly Known　　Perfectly unknown

   Partial Known　　Partial Unknown

   Unknown

2. Do you know which dividend has more impact on Market price of stock?

   Cash　　Stock

3. Which among the following is the most important factor which determines market price of stock according to your experience?

   Dividend　　Earning price per share　　Political stability

   Economic growth　　Volume of transaction　　Rumors

4. In which sectors do you think better opportunities for investment?

   Banking　　Finance　　Insurance

   Manufacturing　　Others

5. In your experience, what is the future trend of stock market of Nepal?

   Good　　Very Good　　Moderate

   Bad　　Very bad

6. In your opinion, which sector is leading market price of stock?

   Banking   Finance   Insurance

   Manufacturing   Others

7. In your opinion, What is the relationship between dividend and market price of stock?

   No Relation   Perfect positive Relation

   Perfect Negative Relationship   Sometimes Relation

8. Do you agree? " Right share has more influence on share price than stock dividend"

   Agree   Don't agree

9. Which dividends fluctuates the market price of stock?

   Stock dividend   Cash dividend

10. Does share price fluctuate with the same proportion as Dividend declared?

    Yes   Don't No

    More than proportion   Less than proportion

11. Please, give any suggestion about stock market of Nepal?

    ………… ………………………………………….. ……………………. …………..

    …………….. ……………………………. ………………………………. ………

    Signature:

    Name:

    Designation:

    Address:

    Date: