

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 General Background**

The development of the nation depends upon the economic development of the country and the economy development is always supported by the financial infrastructure of the country. Bank occupies an important segment in the financial infrastructure and hence plays a significant role to the development of national economy. Bank came into existence mainly with the objective of collecting the idle funds and mobilizing them to productive sector causing overall economic development which finally leads to the national development of the country. Bank is a financial institution, which deals with money by accepting various types of deposits, disbursing loan and rendering various types of financial services. It is the intermediary between the deficit and surplus of the financial resources however it has been defined by many experts in their own versions. In the modern economy, banks are to be considered not as dealers in money but as the leaders of development.

Commercial banks collect deposit from the public and the largest portion of the deposited money is utilized in disbursing loans and advances. Hence deposit covers a major portion in the Liabilities where as Loan and advances cover a major portion in the Assets side of the balance sheet.

As per commercial bank Act, commercial banks means banks which deals in exchanging currency, accepting deposit, giving loan or doing commercial transactions. Due to complexity in operation of modern banking, it is difficult to define the functions of a commercial bank.

The following are the functions of commercial banks in Nepal.

- Accepting various types of deposits manually or using electronic device.
- Lending money in various productive sectors.
- Letter of Credit, Guarantee, Bills and Remittance.
- Collection of Cheques and Securities.
- Merchant banking underwriting of shares and debentures, handling new issues etc.

### **1.1.1 History of Commercial Banking in Nepal**

The first commercial bank, Nepal Bank Ltd was established in 1937 A.D. for economic growth in the country as a semi government organization without existence of a central bank. The concept of financial institutions in Nepal started after its opening. Fifty one percent of the paid up capital of NBL is owned by government and 49% owned by the public. Because of the non-existence of a central bank in the country, the commercial bank had to act as its own central bank & Keep enough resources in hand for its requirement.

On April 26<sup>th</sup> 1995 A.D., Nepal Rastra Bank, central bank was established with an objective of supervising, protecting, directing and controlling the functions of commercial banking activities in the country.

Rastriya Banijya Bank, another commercial bank fully owned by the government was established in 1966 A.D.

First joint venture bank namely Nepal Arab Bank Ltd was established with new concept of computerized banking system in 1984 A.D which opened the doorstep for the other private sector commercial banks in Nepal.

### **1.1.2 Joint Venture Banks (JVB)**

Joint venture banks are a made of trading through partnership among nations and also a form of negotiations between various group of Industries and traders to achieve mutual exchange of goods and services for sharing comparative advantage.

A joint venture is defined as “the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment production of trade).

### **1.1.3 Profile of sample banks**

#### **EVEREST BANK LIMITED**

Everest Bank Limited was registered on November17, 1992 and come into operation on October 18, 1994 with an objective of extending professionalized and efficient banking services to various segments of the society. The bank had an initial paid up capital of Rs 3 Crore. Today the bank has grown to become one of the leading banks in Nepal.

PNB joined hands with EBL as a Joint Venture in 1997 and turned it around to a highly profitable bank. PNB provides top management support under the Technical Service Agreement. Punjab National Bank (PNB), our joint venture partner one of the largest nationalized bank in India having 114 years of banking history, holds 20% equity. 50 % of the shares are owned by the local promoters, 20% by our joint venture partner Punjab National Bank, India and 30% of the shares are owned by the general public.

The bank is providing customer - friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS) which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad , the bank has entered into arrangements with banks and finance companies in different countries . which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait ,Quatar , Baharain , Saudi Arabia , Malaysia, Singapore and U.K.

Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Punjab National Bank offers a wide variety of banking services which include corporate and personal banking ,industrial finance , agricultural finance, financing of trade and international banking. Among the clients of the bank are Indian conglomerates , medium and small industrial units , exporters , non -resident Indians and multinational companies . The large presence and vast resource base have helped the bank to build strong links with trade and industry.

The bank has been conferred with "Bank of the year 2006, Nepal "by the banker a publication of financial times ,London . The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector.

### **NEPAL SBI BANK LIMITED**

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank of Nepal through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank

on July 6, 1993 under license No. NRB/I.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 511. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized and Issued Capitals have been increased to Rs. 200 Crores, Rs. 166.16 Crores and 165.36 Crores respectively. The management team and the Managing Director who is also the CEO of the Bank are deputed by SBI. SBI also provides management support as per the Technical Services Agreement. Fifty five percent of the total share capital of the Bank is held by the State Bank of India, fifteen percent is held by the Employees Provident Fund and thirty percent is held by the general public.

Nepal Rastra Bank erased entry restriction with an amendment to the commercial Bank Act in 1980 and Government adopted liberal and market oriented economic policy after the restoration of Democracy in 1990. Joint venture banks are attracted to open commercial banks in the country. The following commercial banks are in operation at present.

<b><u>S.N.</u></b>	<b><u>Name of Bank</u></b>	<b><u>Head Office</u></b>	<b><u>NEPSE CODE NO</u></b>
1)	Nepal Bank Ltd.	Kathmandu	
2)	Rastriya Banijya Bank	Kathmandu	
3)	Agriculture Development Bank	Kathmandu	
4)	Nabil - Nabil Bank Ltd.	Kathmandu	102
5)	SCB - Standard Chartered Bank Ltd.	Kathmandu	104
6)	NIB – Nepal Investment Bank Ltd.	Kathmandu	103
7)	NBBL – Nepal Bangladesh Bank Ltd.	Kathmandu	107
8)	NSBI – Nepal SBI Bank Ltd.	Kathmandu	106
9)	HBL – Himalayan Bank Ltd.	Kathmandu	105
10)	EBL – Everest Bank Ltd.	Kathmandu	108
11)	BOK – Bank of Kathmandu Ltd.	Kathmandu	109
12)	NCCB – Nepal Credit and Commerce Bank Ltd.	Bhairahawa	115

13)	NIC – Nepal Industrial and Commercial Bank Ltd.	Biratnagar	110
14)	Lumbini Bank Ltd.	Narayanghat	114
15)	Kumari Bank Ltd.	Kathmandu	113
16)	Siddhartha Bank Ltd.	Kathmandu	116
17)	Laxmi Bank Ltd.	Birgunj	112
18)	Machhapuhhre Bank Ltd.	Pokhara	111
19)	Global Bank Ltd.	Birgunj	
20)	Citizens Bank International Ltd	Kathmandu	
21)	Prime Bank Ltd	Kathmandu	
22)	Sunrise Bank Ltd	Kathmandu	
23)	Bank of Asia Ltd	Kathmandu	
24)	NMB Bank Ltd	Kathmandu	117
25)	Development and Credit Bank Ltd	Kathmandu	118
26)	Kist Bank Ltd	Kathmandu	
27)	Janta Bank	Kathmandu	
28)	Megha Bank	Kathmandu	
29)	Commertz and Trust Bank Nepal Ltd	Kathmandu	

#### **1.1.4 General Concept of Dividend**

Dividend is one of the major reasons for which public are interested to invest their money in the shares of banks or other financial institutions. It refers to the portion of earning that is distributed to the shareholders as a return against their investment in the shares of organization. It may be distributed in cash or share and combination of both.

Dividend policy decision is one of three decisions of financial management because it affects the financial structure, the flow of funds, corporate liquidity and investors' attitudes. Such decision of the firm is a very crucial decision or controversial area of financial management. The main aspect of dividend policy is to determine the amount of earning to be distributed to its existing shareholders and a certain amount to be retained based on requirement in the

organization. Shareholders benefit directly from the distribution of the profit and in case of retain the profit in the organization; shareholders will get benefit indirectly in future as growth of the organization and increase of share price. The policy of a company on the division of its profit between distribution to shareholders as dividend and retention is known as dividend policy.

It is one of the major decisions of financial management because it affects the value of firm as well as overall financing decision like financial structure, the flow of funds, corporate liquidity and investors' attitudes. The important aspect of dividend policy is to determine the appropriate allocation of profit between dividend payment and retention of the fund in the firm. Dividend will affect long term financing, net profits, market price of share, book value of shares and earning per share.

In Nepal, only a few companies are paying dividend to its shareholders and other companies are not able to make profit for distribution of dividend. Commercial banks are growing in the country and these financial institutions are paying a handsome dividend to its shareholder within a very short operation.

## **1.2 Statement of the Problem**

It is fact that various organizations are running in Nepal and only some of them are paying dividend. Joint venture banks have sufficient earning and are capable for payment of dividend. Dividend is not being distributed by these banks on the basis of profit. Sometime, they pay low or high dividend in relation to profit. It is a type of problem to the investors or shareholder for making decision on their long term investment.

In this regard, there are no specific rules and regulations for payment of dividend in the country. It is a type of problem to the investors or shareholders for making decision on their long term investment.

Thus, there are many dimensions to be considered on dividend theories, policy and practices and still many questions unanswered and rose by the dividend policy. The study seeks to answer such following questions.

1. What type of dividend policies and practices are being adopted by the banks?
2. Why Banks with similar profit range have different dividend payment decision?

3. Is there any relation of dividend with EPS and MPS of the company?
4. What are the major types of dividend followed by the commercial banks of Nepal?

### **1.3 Objective of the Study**

The study primarily focuses on the dividend practice adopted by the sample banks and its relation to other financial indicators.

Joint venture banks has started a new trend for distribution of dividend and created new hopes for the productive mobilization of funds. Most of the investors are under low income bracket so dividend is the most inspiring factor for investment on share of a company in the market of Nepal. It is fact that there is no uniformity about the payment of dividend.

It varies from banks to banks. Dividend distribution is not matching with the earning of commercial banks.

The present study will deal with the following overall objectives as follows:

- a) To highlight dividend policy and practices adopted by the sample banks.
- b) To analyze the relationship of dividend per share with other financial indicators such as earning per share and market price of share of the banks.
- c) To analyze the dividend yield and earning yield of the sample banks
- d) To analyze Dividend per share and Earning per share with respect to time series
- e) To provide suggestion and recommendations on the basis of major findings of the study.

### **1.4 Limitation of the Study**

As every study has been conducted within certain limitations, the present study is not an exceptional. It has also some limitations. The main factor is time and availability of the data. This study will be limited by the following factors:

1. This study will be based on the secondary data which have been obtained from annual reports of concerned joint venture commercial banks and booklets, newspapers, magazines, books, security exchange, journals and bulletins of Nepal Rastra Bank etc.

2. Only those factors like EPS, DPS, MPS, Dividend Payout Ratio, Cash and Dividend Analysis, Earning Yield, Dividend Yield will be considered in this study.
3. The related data like cash and stock dividend have been considered.
4. This study period has been covered for 7 (seven) years from 2002/03 to 2008/09.

### **1.5 Significance of the study**

Every study is important to certain groups. This study no doubt will have importance to various groups but in particular is directed to a certain group of people/organizations, which are:

1. Importance to shareholders to have a comparative study on dividend practice of two leading banks of Nepal.
2. Importance to management bodies of the bank for evaluation of their dividend payment.
3. Importance to further researchers and interested groups
4. Interested outside parties such as investors, customers (depositors as well as loan customers), competitors, personnel of the banks, dealers and market makers.

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

This study has been organized in five chapters; Introduction, Review of the Literature, Research Methodology, Presentation and Analysis and Summary, Conclusion and Recommendation. A brief detail of each chapter has been defined below:

#### **Chapter – I Introduction**

The first Chapter deals with the subject matter of the study consisting of general background of the study, statement of the problem, objectives of the study, limitation of the study and organization of study.

#### **Chapter – II Review of literature**

In the second Chapter, the relevant and various studies have been reviewed. This Chapter also describes a chronological presentation of conceptual setting in the subject matter of the study.



### **Chapter – III Research Methodology**

The third Chapter explains about the research methodology which is used to evaluate the dividend policy of these banks. It consists of research design, sources of data, population and sample, data analysis tools. The Chapter also presents the results relating to dividend.

### **Chapter – IV Presentation and Analysis**

The fourth Chapter deals with the presentation and analysis of relevant data and information through a definite course of research design. The chapter also presents the results relating to dividend.

### **Chapter – V Summary, Conclusion and Recommendation**

The last Chapter is concerned with the summary of the study. Various conclusions, suggestions and recommendations for improving the future performance have been drawn from the study.

Finally an extensive bibliography and appendices are presented at the end of the Chapter.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

Review of literature implies reviewing research studies or other relevant proposition such that all the past studies with their conclusion and deficiencies may be known and further research can be conducted the purpose of literature review is to find what research studies have been conducted in one's selected field of study and what remains to be done . Infact, literature review examines recent or historically significant research studies that act as a basis for the proposed study. There should be continuity in research and it is ensured by linking the present study with the past studies.

In this chapter, an attempt has been made to review the aspects of dividend policy and past studies on dividend policy. This chapter is divided into two sections as conceptual review in section I and review of past research in section –II. Finally a short research gap has been presented.

#### **2.1 Conceptual Review (Book Review)**

##### **2.1.1 Concept of Dividend**

Dividend policy plays a vital role for maximization of the wealth and the growth of the company. Shareholders always expect a higher return on their investment.

Dividend policy of a company is the distribution of its net earnings among shareholders as a form of dividend & retention for its investment therefore, a firm's dividend policy has an effect in distributing of net earning which can be divided into two parts as retained earnings and dividends. All aspects & questions related to payment of dividend are defined in dividend policy. There is reciprocal relationship between retained earnings & cash dividend. Dividend decision is the crucial and the major decision in managerial finance. It is an important because dividend policy is to determine the amount of earnings to be distributed to its shareholders and the certain amount to be retained in the firm. Based on the requirement of the fund for wealth maximization and future growth, a certain fund should be retained while distributing the dividend to shareholders.

It is fact that shareholders expect two types of return on their investment in stock i.e. capital gain and dividend.

“Shareholders return consists of two components: dividend and capital gain. Dividend policy has direct influence on these two components of return”(Pandey;1999:P744)

“Since dividend would be more effective to shareholders, one might think that there would be a tendency for corporation to increase distribution of dividend. Nevertheless, one might equally pressure that gross dividend would be reduced somewhat with an increase in retained earnings for the corporation”(Smith; 1977: P90-91).

Shareholders always expect higher dividend but there are again corporate laws in the country that bind limitation of the distribution of dividend. If investors could not get any dividend, they would think their investment worthless. Similarly, on the other hand, management feels lower floatation cost about retaining the earnings as internal source of financing in the company. Most of the companies try to make balance between these two alternatives in this regard. If retained earning is kept more by the company, less will be dividend and vice versa. Various companies adopt various approaches to distribute dividend according to their objectives.

## **2.1.2 Types of Dividend**

Generally, dividend is paid in cash to shareholders. When companies are incapable to pay cash dividend they can use different forms of dividend payment for satisfying their shareholders. The forms of dividend depend upon various matters related with their objectives and policies. “The type of matter of attitude of directors and partly a matter of the various circumstances and financial constraints that bound corporate plan and policies”(Shrestha;1980: P670).

### **2. 1.2.1 Cash Dividend**

Cash dividend is a portion of earnings paid in cash to the shareholders in proportion to their shareholdings. Both total assets and net worth of the company decrease at time of the payment of cash dividend. Company has to maintain required level of cash for distribution of cash dividend, otherwise it may be difficult and fund must be borrowed for the purpose. Incase of stable dividend policy, cash arrangement will not be difficult. A cash budget should be prepared for coming year and required cash may be borrowed for distribution of cash

dividend in time. When unstable dividend policy is followed, it is difficult to manage cash for payment of dividend in the form of cash. “The market price of the stock drops in most cases by the amount of cash dividend distributed” (*Gautam & Thapa; 2060: P258*).

### **2.1.2.2 Stock Dividend**

Stock dividend or Bonus share represents a distribution of shares in addition to the cash dividend to the existing shareholders. A stock dividend occurs when the Board of Directors authorizes a distribution of common stock to the existing shareholders. The retained earnings of the company are transferred to the capital stock account which does not effect in the assets and liability of the company. Stock dividend is simply a means of re-capitalizing earnings by making the shareholder feel that they are getting something of value. Under stock dividend each stockholder receives additional shares of stock but the proportionate holdings of each remains the same. This has the effect of increasing the number of outstanding share of the company which ultimately results the decrease in EPS. Due to decrease in EPS, the market price of the share also decreases compared to the stock price before issuing stock dividend. There is no change in the proportionate ownership of the company after issuing stock dividend or bonus share.

There is no change in the proportionate ownership of the company after issuing stock dividend or bonus share. Major joint venture banks of Nepal have followed the practice of paying along with cash dividend in order to meet their capital adequacy ratio as per the directive of Nepal Rastra Bank.

### **2.1.2.3 Stock Split**

Numbers of stock may be increased or decreased under the stock split and there is no change in capital accounts. In a two for one split, stockholders receive two shares for each one previously held. Upon split of the share, the book value of the share also changes. Company normally splits the shares for decrease in the price of the share and to attract for small investors. Such type of split may increase the share price due to increase in demand of the share. Sometimes, stock split usually reversed for occasions when the company wishes to achieve a substantial change in the market price per share. “When the market price per share of the company may adopt reverse split which may increase the market price per share and helps to maintain efficient situation of the company. The reduction of the number of outstanding share by increasing per share par value is reverse split” (*Pandey; 1993: P650*).

#### **2.1.2.4 Stock Repurchase**

When companies are unable to utilize its resources for profitable area, they can utilize such type of funds on purchase of own shares. It may help to increase in profitability and company can distribute dividend for its shareholders. A company's repurchase of its own stock can serve as a tax advantage over substitutes for dividend payment. Corporate share repurchase often viewed as an alternative form of dividend policy.

'A repurchase is a signal that managers who process as insider knowledge of the firm, are convinced that their stock is worth more than its current price.' (*Paul and Davi; 1986:P33*)

In the developed capital market, it is allowed to repurchase the stock, whereas Nepalese Company Act, 1997 section 47 has prohibited to companies in purchasing of its own shares.

#### **2.1.2.5 Bond Dividend**

Bond dividend is distributed to its shareholders in form of bond. Bond dividend assists to postpone the payment of cash. In other words, the company declares dividend in the form of its own bond with a view to avoid cash outflows for the time being. The bond may be long term or short term based on the requirement of the fund in the organization. These are issued when companies want to avoid the interest of the loans.

#### **2.1.2.6 Scrip Dividend**

When earning of the company justify dividends but the company's cash position is temporarily weak and does not permit cash dividend, it may declare dividend in the form of scrip. Company issues and distributes short- term transferable promissory notes, which may be interest bearing or not. It is justified only when company has really earned profit and has only wait for the conversation of the other current assets into cash in the course of operation. This type of dividend does not change the total number of stock but it issues promissory not in the proportion of share hold by the shareholders. It is replacement of the cash dividend for short period. The company wants to maintain an established dividend record without paying out cash immediately

#### **2.1.2.7 Property Dividend**

Property dividend is a type of dividend in which the payment is made to the shareholders with assets of property other than cash. This form of dividend may be followed whenever there are assets that are no longer necessary in the operation of the business. Company's own

products and the securities of subsidiaries are the example that has been paid as property dividend. A stockholder cannot be compelled to take the property distributable to his on account of dividend; if stockholders refuse to take property dividend, the company may retain it in trust for him or possibly sell it for his benefit. (Gesterberg; 1996:P405). He does not have to option to receive equivalent amount of cash in lieu of a property dividend. Perception value of property dividend cannot be as same cash dividend therefore it is very least applied means to dividend. In Nepal, there is no tradition of paying property dividend.

### **2.1.3 Types of Dividend Policies**

The dividend amount payment out of profit, both from past and present, is guided by dividend policy the firm follows. Generally, dividend policy can be categorized as conservative, liberal, moderate and progressive dividend policy. Whatever the dividend policy followed by the corporate firm, it is the concept that resolves the apparent conflict by finding optimal dividend payout that balance the need of shareholders for their current income and expected future growth of the corporate firms so as to maximize the value of the firm. The optimal dividend policy is the dividend policy that strikes a balance between current and future growth and maximizes the firm's stock price. We can simply group them into the following categories.

#### **2.1.3.1 Stable Dividend Policy**

When a firm constantly pays a fixed amount of dividends and maintains it for all times to come regardless of fluctuations in the level of its earnings, it is said to have pursued a relatively stable dividend policy. In such a policy stockholders are assured of fixed dividend per share. During the period of prosperity the firm withholds all extraordinary income of the business to use them to maintain dividend during the years. Stability of dividend policy does not mean stagnation in dividend payout ratio. In fact, slow but steady change is the prime feature of a stable dividend policy. When the company's earnings tend to rise regularly and the management feels satisfied than increased earnings are sustainable, permanent dividend per share is increased. Likewise, dividend will not be allowed to decline in correspondence with a fall in business earnings until it is felt that the firm will not be able to recover from the setback.

### **2.1.3.2 Policy of Regular Plus Extra Dividend**

The policy refers to the combination of regular dividend with the payment of additional dividend whenever earnings are significantly high to warrant it. Companies following regular dividend policy pay out dividend constantly to stockholders at constant rate and do not change the payout ratio unless it is believed that changes in earnings are permanent. When profits of the company swell, the management may decide to distribute a part of the increased earning as extra dividend instead of enhancing the regular dividend payout ratio.

### **2.1.3.3 Policy to pay Irregular Dividend**

Company following this policy does not pay out a fixed amount of dividend per share. Instead, dividend per share is varied in correspondence with change in level of earnings. Larger earnings mean higher dividends and vice-versa. This policy is based on the management belief that stockholders are entitled to dividend only when earning and liquidity position of the firm warrants. Generally, this policy is adopted by firms with unstable earnings.

### **2.1.3.4 Fixed Payout Policy**

Corporate firms establish fixed payout policy in which fix percentage of profits will be paid out each year as dividend. Dividend Payout Ratio relatively remains constant and may increase with the increase in profit while dividend per share fluctuates from year to year.

### **2.1.3.5 Policy of No Immediate Dividend**

In this policy, management of company may declare no dividend despite large earnings of the company. This policy is usually pursued when the firm is a new and rapidly growing concern which needs a large amount of funds to finance its expansion programs, when the firms' access to capital market is difficult or when availability of funds is costlier, when shareholders have agreed to accept higher return in future or they have strong preference for long-term capital gains as opposed to short term dividend income. Policy of no immediate dividend should be followed by issue of bonus shares so that the company's capital increases and amount of reserves and surplus reduced.

## 2.1. 4 Factors Influencing Dividend policy

Formulating a policy regarding determination of amount of dividends to be paid out to the stockholders requires careful consideration of a myriad of factors that come to bear upon dividend policy. It should be noted that although the factors may affect the payment of dividends, there is no necessary relationship between these factors and actual dividend policy (*Weston & Copeland; 1992: P628*).

The factors affecting the extent to pay out dividends instead of retaining earnings are briefly outlined below:

### 2.1.4.1 Legal Rules

The legal rules provide the framework within which dividend policy can be formulated. Legal rules emphasize three rules (*Weston & Copeland; 1992:P629*).

- a) **The net profit rule:** The net profit rule provides the payment of dividend from past and present earnings only.
- b) **The capital impairment rule:** This rule prohibits the payment of liquidating dividend (i.e. payment of dividend out of capital). Liquidating dividend would mean distributing dividend from investment rather than earnings.
- c) **The insolvency rule:** This rule prohibits the payment of dividend while the firm is insolvent condition where liabilities are greater than assets.

### 2.1.4.2 Investment Opportunities and Stockholders' Preferences

Appropriate Dividend policy of a firm is one that is designed in the light of company's investment opportunities and stockholders' preferences. If the company has host of profitable investment opportunity in hand and the stockholders have preference for long-term gains, the management has no alternative but to retain entirely or sizeable portion of its earnings to finance the investment projects. However, the management will be in dilemma if the company has a number of potential investment proposals requiring plenty of funds and at the same time its stockholders have strong preference for dividend income. In such a situation the finance manager must balance the net preference of stockholders against the different cost of retained earnings and net stock financing before deciding about the size of dividends to be distributed.



#### **2.1.4.3 Growth Rate (Rate of Asset Expansion)**

A rapidly growing concern will have regular needs of long-term funds to seize upon favorable opportunities and for that purpose it may find it expedient to finance a greater part of its expansion. Such a decision will mean that dividend must be kept at a minimum. But a company, which does not need additional funds for expansion or for replacement of assets, may distribute a high portion of its earnings.

#### **2.1.4.4 Liquidity Position**

Even If a firm has a record of earnings, it may not be able to pay cash dividends because of its liquidity position, Indeed, a growing firm, even a very profitable one, typically has a pressing need for funds. In such a situation the firm may elect not pay cash dividends.

#### **2.1.4.5 Debt Repayment & Restriction on Debt Contract**

The dividend policy of corporate firms using debt is also affected by decision to repay debt on or before maturity which generally requires more retention of earnings, lowering the dividend rate. In case a company is indebted with long-term debt, the provisions of debt agreements greatly influence dividend payments. There may be an agreement with lenders which may either prevent the payment of dividends entirely or limit the amount of dividends to be paid or disallow payment of dividend until certain conditions are fulfilled.

#### **2.1.4.6 Stability of Earnings**

Dividend policy followed by corporate firm to a greater extent depends on rate of earnings and its stability in several years. Corporate firm with high and stable earnings are expected to gradually increase the percentage of earnings for dividend payment. Similarly, a firm that has relatively low and fluctuating earnings is less likely to pay out a higher percentage of dividends.

#### **2.1.4.7 Control**

Control is also an important factor that influences the pattern of income distribution. The issue of additional common stocks for procuring funds dilutes control of the dominant group in that company while raising debt increases risk. In view of this, the present owners' desire to maintain control dictates the policy of withholding dividend payments to build up funds for growth and other purposes.

#### **2.1.4.8 Access to Capital Market**

A large well established corporate firm with a record of profitability and stability of earnings has easy access to capital markets and other forms of financing. Such firms are more likely to have higher percentage of dividend payout. On the contrary, a small, new or venturesome firm, however, is riskier for potential investors. Its ability to raise equity or debt funds from capital markets is restricted, and hence, it must retain more earnings to finance its operations.

#### **2.1.4.9 Ownership Structure**

In a closely held company with a few but wealthy stockholders, the management will always retain larger share of profits so as to reduce tax liability of stockholders. But if a firm comprises a few wealthy stockholders and others in middle income group, it is difficult to take a definite stand because of conflicting interests of the owners. The former may prefer low dividend payout rate whereas the latter is very likely to favor relatively high dividend payout rate. The dividend policy in such a company may be a compromise between a low and a high payment – an intermediate payout ratio. However, the stockholders of a large, widely held corporation might prefer a high dividend payout.

### **2.1.5 Review of Dividend Theories**

The classic work of John Bull William in 1938 led to the development of dividend theory. Importance of this work was felt only in 1958 and afterwards when Modigliani and Miller published their first article on the evaluation of dividend policy and capital structure of the firm. Since then number of conflicting dividend theories have evolved. There is still conflicting thoughts coming in financial literatures as regards to effect of dividend policy in firm's equity value.

The study of dividend policy & practices and related theories on it occupies an important place in the theory of corporate finance. Broadly speaking, these theories can be grouped into two categories, viz, theories relating to relevance of dividend decision to valuation of firm, and theories concerning irrelevance of dividend decisions. The former set of theories, with which James E. Walter, Myron Gordon, John Linter Richardson are associated, hold that there is a direct relationship between dividend policies of the firm and the market valuation of its earnings since the investors are not neutral as to how the earnings stream is split between dividends and retention (*Shrestha; 2006: P17*).

Irrelevance approach of dividend decision was propounded by Merton Miller and Franco Modigliani. According to these scholars dividend decision is irrelevant and it does not in any way affect share values as investors are basically indifferent to returns in the form of dividends or capital gains.

The major theories of dividend have been explained in following sections:

#### **2.1.5.1 Dividend Irrelevance Theory**

Dividend Policy is considered irrelevant if investment decision is independent of financing decision. As long as the firm is faced with investment projects having returns exceeding those that are required, the firm will use earnings and increase the equity base that will support to finance these projects. If the firm has earnings left after financing all acceptable investment opportunities these earnings would then be distributed to shareholders in the form of cash dividend. If not, there will be no dividends. Viewed in this way, dividend is treated as a passive residual decision. In such case, dividend payout fluctuates depending on the available positive NPV investment opportunities.

Van Horne (2003) states that the treatment of dividend policy as passive residual is determined solely by the availability of acceptable investment proposals implies that are irrelevant, the investor is indifferent between dividends and retention by the firm. If the investment opportunities promise a return greater than their required rate of return, the investor is happy to have the company retain earnings. Contrarily, if the return is less than the required return, the investors prefer dividends.

#### **2.1.5.2 Modigliani Miller's Model (M-M's Model)**

Modigliani & Miller (1961) developed theory for irrelevance of dividends which are most comprehensive and logical. According to them dividend policy does not affect value of a firm and is, therefore, of no relevance. They are of the view that sum of the discounted value per share after dividend payments is equal to the market value per share before dividend is paid. It is the earning potentiality and investment policy of the firm than its pattern of distribution of earnings that affects the value of the firm.

M-M approach is based on some assumptions like existence of perfect capital market where all investors are rational. Information is available to all at no cost; there are no transaction costs and floatation costs. There are no such investors as could alone influence market value of shares. There does not exist taxes. Firm's investment policy is well planned and is fixed

for all the time to come. There is no uncertainty as to future investments and profits of the firm.

The crux of the M-M argument is that shareholders do not necessarily depend on dividends for obtaining cash. They can get cash by devising “home made dividend” from arbitrage process without any dilution in their wealth. According to M-M, the effect of dividend payments on shareholder wealth is offset exactly by other means of financing. M-M suggests that the sum of the discounted value per share after financing and dividends paid is equal to the market value per share before the payment of dividends. The stock’s decline in market price because of external financing offsets exactly by the payment of the dividend. Thus, a stockholder is said to be indifferent between dividends and the retained earnings and subsequent capital gains.

MM view that the market price of a share at the beginning of a period is defined as equal to the present value of the dividend paid at the end of the period plus the market price at the end of the period. Thus,

$$P_0 = \frac{1}{1+k}(D_1 + P_1) \quad (1)$$

Where,

$P_1$  = Market price of a share at the end of the year

$D_1$  = Dividend paid at the end of the year

$P_0$  = Price of a share at the beginning of the year

$K$  = Cost of capital

The value of the firm (V) if no new financing exists can be written as:

$$V = nP_0 = \frac{n(D_1 + P_1)}{1+k} \quad (2)$$

Where,

$n$  = number of outstanding shares

If the firm sells ‘m’ number of new share at time 1 at a price of  $P_1$ , the value of the firm at time 0 will be,

$$nP_0 = \frac{nD_1 + (n+m)P_1 - mP_1}{1+k} \quad (3)$$

Thus, the total value of the firm as per equation (3) is equal to the capitalized value of dividends to be received during the period plus the value of the number of shares outstanding at the end of the period less the value of the newly issued shares.

A firm can finance its investment program either by ploughing back its earnings or by issue of new shares or both. Thus, total amount of new shares that the firm will issue to finance its investment will be:

$$mP_1 = I - (X - nD_1) \quad (4)$$

Where,

$mP_1$  = Total amount of funds raised by issue of new shares to finance investment projects.

$I$  = Total new investment during period 1

$X$  = Net Profit

If equation (4) is substituted in equation (3), we find the following equation:

$$nP_0 = \frac{(n+m)P_1 - I + X}{1+k} \quad (5)$$

Thus, the value of firm is unaffected by dividend policy. Because it is possible to restate the value of the firm in equation (5) without dividends,  $D$  which shows that dividends have no effect on value of the firm when external financing is used MM conclude that the current value of firm is independent of its current dividend decisions. What is gained by stockholders in increased dividends is offset exactly by the decline in the terminal value of their stock.

### **2.1.5.3 Dividend Relevance Theory**

The conclusion derived by MM are quite consistent an appealing but assumptions on which they are based are not well-founded and realistic (Ramacharran, 2001) MM's hypothesis, therefore, lacks practical relevance and have been criticized widely. Shareholders are not indifferent to dividends and capital gains and dividend does influence the value of firm. James E. Walter, Myron Gordon and John Linter have conducted major studies to support relevancy of dividend which are explained below:

#### 2.1.5.4 Walter's Model

Walter's model (1966), one of the earlier theoretical models, clearly indicates that the choice of appropriate dividend policy almost always affects the value of firm. He has studied the significance of the relationship between the firm's internal rate of return,  $r$  (i.e. actual capitalization rate) and its cost of capital,  $k$  (i.e. normal capitalization rate) in determining such dividend policy as will maximize the wealth of the stockholders (*Srivastava; 1984: P281*).

Walter's model is based on the some assumptions like the firm finances its entire investments by means of retained earnings. New equity stock or debentures is not issued to raise funds. Internal rate of return ( $r$ ) and cost of capital ( $k$ ) of the firm remain constant. The firm's earnings are either distributed as dividends or reinvested internally. Beginning earnings and dividends of the firm never change. The firm has a very long or infinite life.

The formula used by Walter to determine the market price per share is:

$$P = \frac{D + (r/k)(E-D)}{k} \quad (6)$$

Where,

$P$  = Market price per share

$D$  = Dividend per share

$E$  = Earning per share

$r$  = Internal rate of return (Actual capitalization rate)

$k$  = Cost of capital (Normal capitalization rate)

Walter's model seeks to measure the effect of dividends on common stock by comparing actual and normal capitalization rate. Walter considered firm as growth firm if  $r/k$  is greater than 1. Such firms must reinvest retained earnings to finance investments. Larger the firms retain, higher the value of the firm. Optimum dividend payout ratio for such a firm will be zero. Normal firms comprise those firms whose  $r/k = 1$ . For such firm dividend policy will have no effect on the market value per share. Firms whose  $r/k$  is less than 1 are regarded as

declining firms. In such firm, market value of the firm will tend to be maximum when it does not retain earnings at all (i.e. pays out all earnings as dividends).

### 2.1.5.5 Gordon's Model

Another popular model analyzing the relationship between dividend policy and valuation of firm is developed by Gordon (1962). According to this model, a corporation's share price dependent of the dividend rate. The Gordon's model is based on the some unrealistic assumptions (*Srivastava; 1984: P284*). It assumes the firm to be an all equity firm and absence of leverage in its capitalization. There is no outside financing and corporate growth is expected to derive from retained earnings. The internal rate of return, (r) of the firm remains constant.

The capitalization rate, k for the firm remains constant regardless of change in risk complexion of the firm. The firm derives its earnings in perpetuity. There does not exit corporate taxes. Retention ratio, b, once decided will remain unchanged under all the circumstances.

Based on the assumptions, Gordon developed following model to determine market value of share:

$$P_0 = \frac{EPS(1-b)}{K-br} \quad (7)$$

Where,

$P_0$  = Price of Share

$EPS_t$  = Expected earning per share at time t

b = Retention ration

(1-b) = Percentage of earnings distributed as dividend

$EPS_t(1-b)$  = Expected dividend per share at time t

Br = Growth rate (i.e. rate of return on investment of an all equity firm)

K = Cost of Capital

Equation (7) shows relationship between expected earnings ( $EPS_t$ ), dividend policy (b), internal rate of return (r), and cost of capital (k) in determination of value of the share. It shows that value of share is equal to the current dividend by the amount by which the rate of return that the investors require exceeds the expected growth in the dividend.

The market value of share ( $P_0$ ), increases with the increase in retention ratio ( $b$ ) for firms with growth opportunities (i.e.  $r > k$ ). The market value of the share increases with the payout ratio ( $1-b$ ) for declining firms with  $r < k$ . The market value of the share is not affected by dividend policy for normal firms whose  $r = k$ .

Gordon in his study concluded that dividend policy of a firm affects its value. Investors are not indifferent between current dividends and retention of earnings. Investors value the present dividend more than future capital gain. As such an increase in dividend payout ratio leads to increase in the stock prices. However, Gordon's model though theoretically sound is too bounded by the unrealistic assumptions, which has decreased its practical value in real financial world.

#### **2.1.5.6 Linter's Model**

Linter (1956) in the mid – 1950s conducted a classic series of interviews with corporate managers about their dividend policies. His description of how dividends are determined can be summarized in four “stylized facts” (*Myers, 2000*).

The first fact is that the firms have long-run target payout ratios. Mature companies with stable earnings generally pay out a high proportion of earnings, growing companies have low payout. The second fact is that Managers focus more on dividend changes than on absolute levels. Thus, paying Rs.50 dividend is an important financial decision if last year's dividend was Rs.10, but no big deal if last year's dividend was Rs.50. The third fact is dividend changes follow shifts in long-run, sustainable earnings. Managers “smooth” dividends. Transitory earnings changes are unlikely to affect dividend changes that might have to be reversed. They are particularly worried about having to rescind a dividend increase.

Linter developed a simple model which is consistent with these facts and explains dividend payments well. If a firm always stuck to its target payout ratio, then the dividend payment in the coming year ( $DIV_1$ ) would equal a constant proportion of earnings per share ( $EPS_1$ ):

$$DIV_1 = \text{target dividend} \\ \text{target ratio} \times EPS_1$$



The dividend change would equal

$$\begin{aligned} \text{DIV}_1 - \text{DIV}_0 &= \text{target change} \\ &= \text{target ratio} \times \text{EPS}_t - \text{DIV}_0 \end{aligned}$$

A firm that always stuck to its target payout ratio would have to change its dividend whenever earnings changed. But the managers in Linter's survey were reluctant to do this. They believed that shareholders prefer a steady progression in dividends. Therefore, even if circumstances appeared to warrant a large increase in their company's dividend, they would move only partway toward their target payment.

Their dividend changes therefore seemed to confirm to the following mode:

$$\begin{aligned} \text{DIV}_1 - \text{DIV}_0 &= \text{adjustment rate} \times \text{target change} \\ &= \text{adjustment rate} \times (\text{target ratio} \times \text{EPS}_1 - \text{DIV}_0) \end{aligned}$$

The more conservative the company, the more slowly it would move toward its target and, therefore, the lower would be its adjustment rate.

Linter's simple model suggest that the dividend depends in part on the firm's current earnings and in part on the dividend for the previous year, which in turn depends on that year's earnings and the dividend in the year before. Therefore, If Linter is correct, we should be able to describe dividends in terms of a weighted average of current and past earnings which can be demonstrated as:

$$\text{DIV}_1 = aT(\text{EPS}_t) + (1-a) \text{DIV}_{t-1}$$

Where, 'a' is the adjustment rate and 'T' is the target payout ratio.

The probability of an increase in the dividend rate should be greatest when current earnings have increased, it should be somewhat less when only the earnings from the previous year have increased, and so on as confirmed by Fama and Babiak (1968) who developed the following equation:

$$\begin{aligned} \text{DIV}_t &= aT(\text{EPS}_t) + aT(1-a) (\text{EPS}_{t-1}) + aT(1-a)^2 (\text{EPS}_{t-2}) + \dots \\ &+ aT(1-a)^n (\text{EPS}_{t-n}) \end{aligned}$$

Their tests of Lintner's model suggest that it provides a fairly good explanation of how companies decide on dividend rate, but it is not the whole story. It is expected that managers take both future prospects as well as past achievement into account when setting dividend payment.

#### **2.1.5.7 Signaling Theory**

Cash dividends may be viewed as a signal to investors. Companies with good news about their future profitability will want to tell investors, rather than making a simple announcement, dividends may be increased to add conviction to the statement. When a company has a target payout ratio that is stable over time and it changes this ratio, investors may believe that management is announcing a change in the expected future profitability of the firm. Van Horne (2003) points out that the signal to the investors is that management and the board of directors truly believes things are better than the stock price reflects. Miller and Rock (1985) suggest that investors draw inferences about the firm's internal operating cash flows from the dividend announcement. The notion is based on asymmetric information.

Management knows more about the true state of the company's earnings than do outside investors. Ross (1976) proved that an increase in dividends paid out (or in usage of debt) can represent an inimitable and unambiguous signal to the marketplace that a firm's prospects have improved.

Dividends speak louder than words. Bhattacharya (1979) developed a dividend signaling model, which can be used to explain why firms may use dividends for signaling despite the tax disadvantages of doing so. If investors believe that firms that pay dividends per share have higher values, then an unexpected dividend increase will be taken as a favorable signal. Presumably dividends convey information about the value of the firm that can't be fully communicated by other means such as annual reports, earnings forecast or presentations before security analysts. It is expensive for less successful firms to mimic the signal because they must incur extra costs associated with raising external funds in order to pay the cash dividends.

These findings strongly support the hypothesis that dividend changes contain information about changes in management's assessment of the future prospects of the firm. Furthermore, dividend announcement contain useful information beyond that already provided by earnings information.

### **2.1.5.8 Agency Cost Theory**

The recognition of potential agency costs associated with the separation of management and ownership is not new, differences in managerial and shareholder priorities have been recognized for more than three centuries. Adam Smith (1937) adjudged the management of early joint companies to be negligent in many of their activities. These problems were especially prevalent in the British East Indies Company and attempts to monitor managers were largely unsuccessful because of inefficiencies and costs associated with shareholder monitoring. One of the mechanisms of reducing expropriation of outside shareholders by agents is high payout. High payout will result in reduction of free cash flow available to managers and this restricts the empire building efforts of managers.

Modern agency theory seeks to explain corporate capital structure as the result of attempts to minimize the costs associated with the separation of corporate ownership and control. Agency costs are lower in firms with high managerial ownership stakes because of the better alignment of shareholder and manager goals (Jensen and Meckling, 1976) and in firms with large block shareholders that are better able to monitor managerial activities.

The second way dividend policy affects agency costs is the reduction of these costs through increased monitoring by capital markets. Large dividend payments reduce funds available for perquisite consumption and investment opportunities and require managers to seek financing in capital markets. The efficient monitoring of capital markets reduces less-than optimal investment activity and excess perquisite consumption and hence reduces the costs associated with ownership and control separation (Easterbrook, 1984).

### **2.1.6 Legal provisions Affecting Dividend Policy in Nepal.**

Legal provisions and procedures are imposed to make corporate firms follow international accounting standard in maintaining accounts and distributing profits. Government Policy, Company Act, Central Bank's rules & regulations, circulars issued from time to time and contractual restrictions govern not only the amount of dividend that can be legally distributed but also on the procedural aspects of declaring dividend and dividend practices of corporate firms. These policies rules and regulations are subject to change to suit the state of condition in the corporate sector and country's economy.

Certain legal restrictions has been imposed on the declaration of dividend, issue of bonus shares and repurchase of shares. Declaration of dividends is prohibited unless corporate firm is incorporated under Company Act or statute transfer necessary amount from net profit to reserves account as required by statutory provisions.

Commercial Act 1972 (2031) section 18 (4<sup>th</sup> Amendment 2046) has prohibited the distribution of dividend unless the following conditions are met:

- Before writing off preliminary expenses.
- Before making provisions for previous years' losses.
- Before maintaining adequate (a) capital fund, (b) provision for loan loss and (c) reserve fund, 20% of the net profit should be appropriated till reserve fund reaches double of paid up capital.

Nepal Company Act, 2006 (2063 B.S.) has made certain provisions on dividend payments. Legal rules and provisions, which seem to affect dividend practice, are mentioned below:

Section 179, subsection 1 allows distribution of bonus shares to shareholders from the distributable profits upon approval of special agenda in shareholder's annual general meeting. Subsection 2 requires information to the concerned authority before issuing bonus shares.

Section 182 of the act has defined distribution of the bonus shares within 45 days from the date of the decision made in annual general meeting except the following issues.

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

Section 182, subsection 3 states that payment of a certain interest incase of non-payment of the dividend within the specified time period.

Section 182, subsection 4 states that dividend will be paid to the registered shareholders in the book of the company at the time of decision of the dividend or rights holder as per the law.

Section 182, subsection 5 states that dividend can be paid to shareholders after deducting depreciation, payments/provisions as per the law and all the loss of previous years. Dividend can be distributed without reserves or provisions as per the existing law.

Section 182, subsection 7 allows Board of Directors to distribute interim dividend to its shareholders from the profit of earlier financial year in the following cases.

- (a) Allows payment of interim dividend incase of provision in the memorandum of the company.
- (b) The audited balance sheet approved by the Board of Directors for distribution of dividend of the specified year, dividend can be made to shareholders.

Section 182, subsection 9 allows to transfer the uncollected dividend within 5 years from the date of the decision at the Annual General Meeting to the account of Investors Samrachhan Reserves.

## **2.2 Review of Past Research**

In this section, the summary of major findings and recommendations of previous thesis on the same topic, reviewing journals & articles and the research studies on the same are presented.

### **2.2.1 Review of Articles and Journals**

Ghimire published an article in business age magazine entitled "*Nepal Share market and investor's prospect*" in which he has pointed out some important trends of Nepal capital market. He has mentioned many unbalanced factors like political instability, terrorism as the main cause of decreasing trend of share price. He has observed fluctuation in NEPSE index is

due to banking sector and declaration of bonus and dividend is the main cause of price change of stock. He has defined Nepalese capital market as lame, weak and perhaps works for vested interest (*Ghimire; 2001: P21*).

The stock market is always subjected to steady inflow of information, much of which will have an effect on the set of anticipations that constitute price of a particular security. Some of the information has a whole market-wide impact such as change in monetary and fiscal policy on security prices. Some other information has an influence upon a group of stock price i.e. industry-wide impact. And still some information such as announcement of dividend, bonus shares may have an influence on the price of a particular security i.e. company-wide impact (*King; 1966:P136-190*).

K.C. in the article entitled "*Development of stock market and economic growth in Nepal*" concluded to improve the situation of the country in order for investor to be eager to invest more confidently. He points out that the investors have lost their confidence on the secondary market not only because the existing few listed companies are not performing well but also due to fear of internal unrest that could further deteriorate the economic conditions of the country. He recommended increasing opportunities to invest in the secondary market. (*K.C;2004: SEBO Journal, Vol.1*)

Thapa in his article "*Managing Banking Risk*" Published in the Kathmandu Post dated March 9, 2003, mentioned that risk management of the banks is not only crucial for optimum trade off between risk and profitability, but is also one of the deciding factors for the overall business investment leading to growth of the economy. Managing such risks not only needs sheer professionalism at the organizational level but an appropriate environment also needs to be developed. Some of the major environmental problem of Nepalese banking sector is undue government intervention in the state-owned banks, relatively weak regulatory frame, bad corporate governance and lack of professionalism. The only solution to mitigate the banking risk is to develop the badly needed commitment, eradication of corrupt environment especially in the disbursement of lending and to formulate prudent and conductive regulatory framework.

Poudel in his study "*Investing in Shares of Commercial Banks in Nepal: An assessment of Risk and Return Elements*" have come up with the conclusion that the risk-return characteristic so not seem to be same for the shares review.

He further added the shares with larger standard deviations seem to able to produce higher rates of return. The portion of unsystematic risk is very high with the shares having negative beta coefficient. The risk per unit return, as measured by the coefficient of variance, is less than that of the market as a whole for all the individual shares. Most of the shares fall under the category often defensive stocks, (having beta coefficient less than 1).

Timilsina in his study "*Capital Market Development and stock price behavior in Nepal*" has come up with the conclusion that the market price of shares depend on EPS as well as on DPS, but DPS is more price sensitive and it will have direct and immediate response in the market. However, market values of shares computed on the basis of EPS are near to the observed market price of equity share reveal that the stock market is not inconsistent. Further, he adds the relationship ups and downs of the stock market those of economic variables. To put his own words, "The upward swings in the economy would suppress the market value of shares".

### **2.2.2 Review of Masters Degree Thesis**

**Bishnu Hari Bhattarai (1996)** in his Thesis "*Dividend Decision of its impact on stock valuation*" argues that some of the companies has treated dividend as obligation, however majority of them have not done so Market response is also inconsistent to the notions advanced by theories. Shareholders have so high expectations that market price of shares are significantly higher than net worth. However dividend is paid only in profitable year instability of dividend are the most applied phenomena of Nepalese dividend distribution practices. Cash balance for dividend payment is not adequately maintained by the companies. The companies invested by foreigners are paying dividend more attractively than the companies promoted by indigenous promoters. Though dividend has positive impact on valuation of shares adequate consideration is to be paid for its treatment.

Besides, payment of dividend is not adequate and there is also absence of proper dividend policy. Verbal statement committed in prospectors is not materialized and management is left to work its desired way. Government is silent on inefficiency of the companies and no legislation is passed regarding dividend payment. The cause of presents conditions and guidelines for improvement is yet to be seriously considered which has overlooked the shareholders expectations. The consequence is that investors have high perception of protection of their interest by joint venture companies established under foreign collaboration. The measures for the improvement of present conditions could be:

1. Sound dividend policy should be formulated and adopted strictly.
2. Shareholder's educating program should be initiated.
3. Revitalizing Nepal stock Exchange or establishment of another competent body should be done to protect shareholders interest.
4. Due regard is not paid on sound dividend policy.

Hence, companies are not following sound dividend policy as a result companies have not been able to maximize the value of the firm thereby resulting low price and low trading volume.

**Mr. Rishi Raj Gautam (1998)** in his research work "*Dividend Policy in Commercial Banks*" conducted on NABIL, NIBL, SCBNL concludes that

1. There is no prominent difference in DPS and Dividend payout ratio of all three banks NABIL, NIBL, SCBNL but there is no uniformity in EPS.
2. None of the three banks NABIL, NIBL, SCBNL has a clearly defined dividend policy.
3. Shareholders in Nepal do not seem to be investing their capital on the basis of financial performance of the financial Institution.
4. Market price of the shares does not seem to be more or less dependent upon EPS & DPS.

He had recommended the following issues.

1. Bank should define their dividend strategy and should follow them without hesitation.



2. Banks need to follow an apparent policy for the Issue of Bonus Shares, at the same time it need to clarify the changes in EPS, DPS & MPS due to the issue of bonus share to their existing and potential shareholder.
3. The commercial banks do not have any strategies to attract ordinary small low level investors.
4. Bank should give importance to shareholders and be careful about explaining the advantage & disadvantages of stock dividend and cash dividend to those shareholders who knows less about the matter.

**Mr. N.R. Adhikari (1999)** in his thesis work “*Corporate Dividend Practice in Nepal*” confine.

1. Stock with higher ratio of dividend per share to book value per share has higher liquidity & lower leverage ratios. It shows companies paying higher dividend are reluctant to employ higher degree of leverage in their capital structure.
2. Stock with larger ratio of dividend per share to book value of shares has higher profitability.
3. There is positive relationship between the ratio of dividend per share to the book value and turnover ratio, interest coverage ratio.
4. Negative relationship is observed between the dividend payout and quick ratio.
5. There is the relationship between dividends per share to market price per shares.

Thus, the findings conclude that there are difference in financial position of high dividend paying and low dividend paying companies. Other things remaining the same, financial position of high dividend paying companies is comparatively better than that of low dividend paying companies. Besides the market price of shares is affected by the dividend and hence Dividend decision is not considered to be a residual decision by the financial executives of Nepal.

**Mr. Rajesh Sharma (2002)** in his thesis entitled “*Dividend Theories and Practices*” forwarded the following findings.

1. Dividend procedure followed by the JVBS in the context of Nepal.
2. Ability and attitude of paying dividend and analysis of variance in the payment of dividend between banks with similar profit range.

3. Major factors affecting dividend policy of JVBS/legal/aspects/shareholders consideration.
4. Practices of issuing Bonus Shares.

Following major recommendations were made.

1. According to Nepal Company Act 1997, dividend becomes liability of the company, only after once it is declared. There is no binding obligation to declare dividend even the company achieve high profit target. So government should make strict rules and regulation to enforce the company to pay dividend in order to protect the interest of the shareholders.
2. Dividend, as a matter of reality, should be examined in relation to the net-worth or total capital employed.
3. Shareholders should be conscious to get information from the company in time.
4. Following factors should be considered logically under the dividend policy of an organization.
  - Economic and moral considerations.
  - Factors affecting the relative welfare of the firm.
  - Factors affecting the welfare of the shareholders.

**Ms. Prativa Shrestha (2005)** in her research work “*A Study on Dividend Practices of Commercial Banking Sectors in Nepal*” concludes that

1. To highlight the various aspects of dividend policies and practices of commercial banks in Nepal.
2. To analyze the relationship of dividend with various important variables such as earning per share, net profit, net worth and stock price.
3. To suggest and recommend the appropriate dividend policy to policy makers and executives to overcome various issues and gaps based on the findings of the analysis.

She had recommended the following suggestions.

1. It is compulsory to redefine the legal rules of dividend payment for the smooth development in the banking sectors.

2. Nepalese Commercial banks should retain their earnings incase of high internal rate of return than its cost of capital.
3. Most of the high-ranking officials like board of directors and others show their bureaucratic personalities than doing their duties.
4. Fluctuation on payment of Dividend.

**Mr. Raju Krishna Shrestha (2006)** in his research work “*An Analytical study of Dividend policy and practices of Major Joint venture Banks in Nepal*” had forwarded following findings:

Nepalese commercial banks had not followed proper dividend policy in relation to their income. At the time of growth stage it would be better to grab investment opportunity by internal financing through high retention of earning and lowering dividend payout ratio. At the time of decline stage, it should consider in paying dividend rather than retain earning because its internal rate of return is lower than cost of capital.

1. Commercial banking sector in Nepal has no such distinct legal provision concerning dividend policy so the legal rules of dividend payment should be redefined for smooth development in the banking sector. The minimum cash dividend payout should be fixed based on their income. Government should develop clear guideline and policy regarding banking sector to improve their efficiency. Such type of rules should be certain for a specified period and government should not excessive interfere in day to day affairs of commercial banking sector.
2. Nepalese commercial banks are facing the growth problem. It is because decisions are made by top executives in terms of their personal interest rather than organizational interest. Due to this the banks are, therefore, not in a position to pay cash dividend. So high ranking officials should focus on organizational interest.
3. At the same time, lack of supportive leadership is one of the biggest constraints to the growth of banking sector. In reality, bank mangers have not been able to excel in their works and contribute efficiently as mangers of banks. Therefore, it is highly recommended that the bank managers should follow dynamic management and should develop leadership ability.

4. It is found that the Nepalese commercial banks have distributed stock dividend to its shareholders without any pre-plan. During the study period, HBL has distributed stock dividend to its shareholders every year but Nabil bank and SCBNL have distributed only once in seven years (2055/56-2061/2062).
5. Distribution of dividend is highly fluctuating which affects market. So, the dividend payment policy should be constant on the net profit in the banking sector. As far as possible percentage of distribution of dividend should be based on net profit of the bank. For this, policy should be made by the Board of Directors. There should be given a choice whether to distribute stock dividend or cash dividend to the shareholders. Banks should timely provide necessary information to its shareholders so that they are able to decide for investment.
6. Finally, the banks should entertain the researchers by providing correct information. As far as possible, banks should provide necessary information to researchers in every aspect without hesitation because research work will be helpful to all concerned people at present and in future.

**Mr. Keshar Kumar Sah (2008)** in his thesis entitled “A Comparative Study on Dividend Practice of NABIL BANK and STANDARD CHARTERED BANK NEPAL LIMITED” has forwarded following findings.

- The market prices of both the banks were found at an increasing trend despite several fluctuations in the middle years of the study. However, the market price per share of SCBNL was found higher than that of Nabil in the year 2006/07.
- Both the cash dividend per share and earnings per share of Nabil showed in increasing trend over the years. In case of SCBNL, the earnings per share was found to be at a slightly increasing trend however, the cash dividend per share of the bank was at an increasing trend till 2005/06 and decreased slightly in the year 2006/07 due to large amount of stock dividend payment.
- Nabil bank had been found to provide stock dividend of 40% in the year 2006/07 only on study of past seven years data. However, SCBNL had been found to provide a stock dividend of 10% in 2002/03, again 10% in 2005/06 and 50% in 2006/07 along with cash

dividend. Both the banks had been following the dividend practices of paying a regular cash dividend every year and occasional stock dividends.

- The EPS of SCBNL was found to be higher as compared to the EPS of Nabil on an average study of the EPS of the two banks over the past seven years. The earnings per share of SCBNL were found to be more consistent in comparison to the earnings per share of Nabil.
- SCBNL again had the higher average cash dividend per share (DPS) of Rs.107.14 where as Nabil has an average of Rs.62.86 cash dividend per share. It shows that SCBNL had been paying higher amount of cash dividend to the stockholders. Likewise, the coefficient of variation of cash DPS data of SCBNL was also lower than that of Nabil. It indicates that the cash dividend payments of SCBNL were higher and more consistent than that of Nabil.
- Both the banks had adopted a policy of retaining some amount of earnings every year. The average retained earnings per share of SCBNL and Nabil were Rs. 42.32 and Rs. 31.94 respectively. However, the retained earnings per share of Nabil were more consistent than that of SCBNL as the coefficient of variation of retained earnings per share of SCBNL was found more than that of Nabil (as 50.49% > 26.24%).
- The average dividend payout ratios of SCBNL and Nabil over the past seven years were obtained as 72.29% and 65.16% respectively. Similarly, the coefficient of variations of dividend payout ratios of SCBNL and Nabil were found as 15.97% and 9.87% respectively. It indicates that dividend payout ratio of SCBNL was higher than that of Nabil on an average study of past seven years. But the dividend payout ratio of Nabil was found more consistent than SCBNL. Hence, the average retention ratio of Nabil was higher than that of SCBNL.
- There is high degree of positive correlation between DPS and EPS of Nabil where as in case of SCBNL, there was low positive correlation. It shows that the distribution of dividend of Nabil is more consistent with regard to the total earnings as compared to SCBNL.

- The correlation coefficient between cash dividend per share and market price per share of Nabil was obtained as + 0.81 whereas the same for SCBNL was obtained as -0.39. It indicates that there was a high degree of positive relationship between cash dividend and market price per share of Nabil but there was a low degree of negative relationship between cash dividend and market price per share of SCBNL.
  
- The correlation coefficient between dividend payout ratios of Nabil and SCBNL was obtained as -0.31, which indicates that the dividend paying policy of the two banks are not related to each other. The policy of paying dividend out of the earnings for the two banks did not match to each other.
  
- The correlation coefficient between total dividend per share (including both cash dividend and value of stock dividend) of Nabil and SCBNL was obtained as + 0.98. It indicates that the total dividend per share of the two banks was highly correlated. This shows that the dividend practice adopted by the two banks was similar.
  
- The dividend yield of SCBNL has been found higher than Nabil through out the study period as the SCBNL had adopted stable dividend policy despite of change in the total earnings.
  
- The earning yield of SCBNL was found higher than Nabil in the initial two years of 2000/01 and 2001/02. From the year 2002/03, the earning yield of Nabil was higher till 2005/06 and remained almost same in the year 2006/07.
  
- The data of EPS of Nabil showed an increasing trend over the years. The yearly increasing rate of EPS of Nabil with respect to years was obtained as 14.36 times. Likewise Nabil, the EPS of SCBNL was also found at an increasing trend. However, the yearly increasing rate of EPS was just 6.67 times which was lower than that of Nabil.

- The data of cash DPS of Nabil showed an increasing trend. The yearly increasing rate of cash DPS of Nabil was obtained as 11.07 times. Similarly, the cash DPS of the SCBNL showed a little increasing trend. The yearly increasing rate of cash DPS of SCBNL was found to be just 0.36 times which was too low as compared to yearly increasing rate of Nabil.

### **2.2.3 Review of Other research papers**

Linter (1956) was the first to investigate the partial-adjustment model of dividends. His behavioral model suggests that the change in dividends is a function of the target dividend payout less the last period's dividend payout multiplied by the speed of an adjustment factor. The target dividend payout is a fraction of the current period's earnings. Linter found that the most important determinant of a company's dividend decisions was a major change in earnings "out of line" with existing dividend rates. Because many managers believe that shareholders prefer a steady stream of dividends, firms tend to make periodic partial adjustments toward a target payout ratio rather than dramatic changes in payout.

Thus, managers smooth dividends in the short run to avoid frequent changes. Linter tested his propositions and found that the partial adjustment model predicted dividend payment more accurately than "naïve" models. In fact, he found that the model explained 85% of the changes in dividends for his sample of companies.

Modigliani and Miller (1961) advanced the view of dividend policy of their most celebrated study about dividend policy growth and the valuation of shares, that the value of 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. They found that dividend payment as irrelevant. According to them, the investor is indifferent between dividend payment and capital gains.

Fama and Babiak (1968) examined several other models for explaining dividend behavior. Their results support Linter's view that managers prefer a stable dividend policy and are reluctant to increase dividends to a level that cannot be sustained. Therefore, these researchers concluded that changes in per share dividends are largely a function of a target dividend payout based on earnings and the last period's dividend payout.

Baker and Farrelly (1988) reported similar results for dividend achievers, which they defined as companies having an unbroken record of at least ten consecutive years of dividend increases. They also conducted a survey of institutional investors. Their findings showed that these sophisticated investors believe that dividend policy affects stock prices and that in line with Linter's behavioral model, dividend consistency is very important.

Ramacharran (2001) analyzed the variation in dividend yield for 21 emerging markets (including India) for the period 1992-99. His macroeconomic approach using country risk data found evidence for pecking order hypothesis –lower dividends are paid when higher growth is expected. The study also found that political risk factors have no significant impact on dividend payments of firms in emerging markets.

Lee and Ryan (2002) analyzed the dividend signaling-hypothesis and the issue of direction of causality between earnings and dividends – whether earnings caused dividends or vice versa. For a sample of 133 dividend initiations and 165 dividend omission, they found that dividend payment is influenced by recent performance of earnings and free cash flows. They also found evidence of positive (negative, earnings growth preceding dividend initiations (omissions).

### **2.3 Research Gap**

There have been several researches done in the past regarding dividend policy and practice of various banks and financial institutions taking considerations of various financial and statistical tools. In this thesis, only two sample banks Nepal SBI and Everest Bank Limited were considered out of the total population of 29 commercial banks operating presently in the market. Similarly, only secondary data were considered in mainstream. The study has covered the data of fiscal year 2002/03 to 2008/09 where as the similar latest study was found to be conducted only up to 2007/08.

Similarly, the trend of MPS and EPS over the study period and forecast of these financial indicators for next three years were predicted which might be one of the differences from the other studies thesis. Other studies referred were found to apply various financial and statistical tools such as: regression analysis, hypothesis whereas only simple trend analysis, correlation analysis, measures of central tendency and dispersion were used in this thesis.



Despite of its limitations mentioned above, the study would be able to provide a general overview of the dividend practices and the relationship of dividend with earnings and market price of the sample banks. It finally helps to various stakeholders to be acquainted with the major financial indicators of the leading two banks in the country.

## CHAPTER III

### RESEARCH METHODOLOGY

Research Methodology describes the methods and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view. So the purpose of this chapter is to outline the methods and sequential steps adopted in analyzing the problem with the stated objectives in mind.

#### 3.1 Research Design

Research design refers to a series of stages in conducting a study. The research design of this study will be more exploratory cum analytical using the various phenomena related and influencing the dividend decision and market price of stock. Secondary data and information have been obtained from different reliable sources and primary data have been obtained through questionnaire survey for this purpose.

#### 3.2 Population and Sample

The population for this study comprises all the commercial banks licensed in NRB. At present, there are 29 commercial banks, out of which only 23 listed in NEPSE as on 16<sup>th</sup> July 2007 A.D, comprise the population for the study. Two listed commercial banks namely Nepal SBI and Everest bank have been selected out of the total population as sample for this study.

**Since of sample =  $n/N= 2/29$**

### **3.3 Source of Data**

The study is based on secondary data. The data required for the study purpose has been collected from various sources. The main sources of data are Nepal Stock exchange (NEPSE) publications, annual reports of the sample banks and websites of the sample banks and publications of Security Board of Nepal (SEBON).

### **3.4 Data Analysis Tools**

Various Financial and statistical tools have been used in this study. Data have been transformed from raw form to meaningful information and presented in tables and figures as per the requirement and results have been interpreted. The collected data have been organized, tabulated, processed and analyzed using various statistical and financial tools as described below.

#### **3.4.1 Financial Tools**

Considering research objective, to analyze the impact of dividend on various key variables such as earning per share, dividend per share, dividend payout ratio price earning ratio, dividend yield and earning yield are considered. Following financial indicator tools related to objectives are also considered.

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

It is a type of ratio, which refers total earnings available to common shareholders or total numbers of outstanding common shares. It measures the profit available to the equity shareholders on per share basis. It reflects the earning power of a company. Higher EPS represents greater net profit.

$$\text{EPS} = \frac{\text{Total Earnings Available to Common Shareholders}}{\text{Number of Common Shares Outstanding}}$$

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

Financial sound companies can distribute dividends to its shareholders. Higher DPS attracts investors to invest in shares of company and maintains goodwill in the market. It is calculated by dividing net earnings paid to the common shareholders (after payment of preference dividend) by number of common share outstanding.

$$\text{DPS} = \frac{\text{Net Earnings Distributed to Common Shareholders}}{\text{Number of Common Shares Outstanding}}$$

### **Dividend Payout Ratio (DPR)**

It is the ratio, which measures a relationship between the dividend paid to common shareholders and total earnings of the company after tax. It is calculated by dividing the DPS by the EPS.

$$\text{Dividend Payout Ratio} = \text{Dividend Per Share} / \text{Earning Per Share}$$

### **Price Earning Ratio (PER)**

This is a type of ratio, which indicates the price currently paid by the market for each rupee of currently reported earning per share. It can be calculated by using the following ratio.

$$\text{P/E Ratio} = \text{Market Price Per Share} / \text{Earning Per Share}$$

### **Dividend yield (DY)**

It is the ratio of dividend per share to market price per share. It is the return to shareholders in form of dividend in relation to market price of the share. Shareholders can get dividend as a return in relation to market price of the share.

$$\text{Dividend Yield (DY)} = \text{Dividend Per Share} / \text{Market Value per Share}$$

Dividend yield is dependent on market value per share. Higher market value leads to decrease in the ratio and vice versa.

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

Earning yield is the most important profitability ratio, which is expressed in terms of market value of share. The earning yield can be defined as the ratio of earning per share to the market value per ordinary share and is calculated as follows.

$$\text{Earning Yield} = \text{Earning Per Share} / \text{Market Value Per Share}$$

### **3.4.2 Statistical Tools**

Following statistical tools used in the study are explained briefly in detail.

#### **Simple Arithmetic Mean**

Arithmetic mean or simply a mean of a set of observation is the sum of all observations divided by the number of observations. It is also known as the arithmetic average.

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

#### **Standard Deviations (S.D.)**

The measurement of the dispersion of the mass of figures in a series about an average is known as dispersion. The standard deviation is an absolute measure of dispersion. The greater the amount of dispersion indicate greater the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of the series. In this study, standard deviation is calculated for selected dependent and independent variables specifies in the models presented above.

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

### **Coefficient of Variation (C.V.)**

We use coefficient of variation as a relative measure of dispersion or as a test for consistency of the given data (ratios) as regards to the variation per unit of average ratio. It is always expressed in percentage and is calculated as follows:

$$C.V. = \frac{S.D}{Average\ return} \times 100\%$$

### **Coefficient of Correlation (r)**

Two variables are said to have “correlation”, when they are so related that the change in the value of one variable make the change in the value of other. The measure of correlation called the correlation coefficient summarized in one figures, the degree and direction of movement, Correlation analysis only helps in determining the extent to which the two variables are correlated but it does not tell us about cause and effect relationship. Correlation can either be positive or it can be negative. If both the variables are changing in the same direction, than correlation is said to be positive but when two variables take place in opposite direction, the correlation is termed as negative. In this study, coefficient of correlation is calculated between stock price and dividend, stock price and price earning ratio (*Bajracharya; 2058: 52*).

It is a kind of statistical tool used for measuring the intensity or magnitude of linear relationship between the two variables. Also known as Pearsonian correlation coefficient between two variables (say X and Y), denoted by ‘ $r_{xy}$ ’ or simply ‘ $r$ ’ can be obtained as

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\left[ n \sum X^2 - (\sum X)^2 \right] \left[ n \sum Y^2 - (\sum Y)^2 \right]}}$$

Where, n = number of observations in series X and Y

The value of correlation coefficient, 'r', always lies between '-1' to '+1'.

If r = +1, it can be stated that there is perfect positive relationship between variables X and Y.

If r = -1, it can similarly be stated that there lies perfect negative relationship between the given two variables.

If r = 0, it states that there is no correlation at all between the two study variables.

## CHAPTER IV

### DATA PRESENTATION & ANALYSIS

This chapter deals with the main body of the study i.e. analysis and finding of the collected data. The collected data are tabulated, analyzed, interpreted and presented to meet the objective of the research. And all the calculations are shown in the appendices, where the method of calculation is as mentioned in the research methodology chapter.

#### 4.1 Data presentation and analysis

The study is focused on the two commercial Banks as mentioned in the introduction chapter and their common stock's return are computed in this section. The data and result are tabulated, interpreted and presented in the figure for more simplicity and clarity.

##### 4.1.1 Data presentation and Analysis of Major Financial indicators of Nepal SBI:

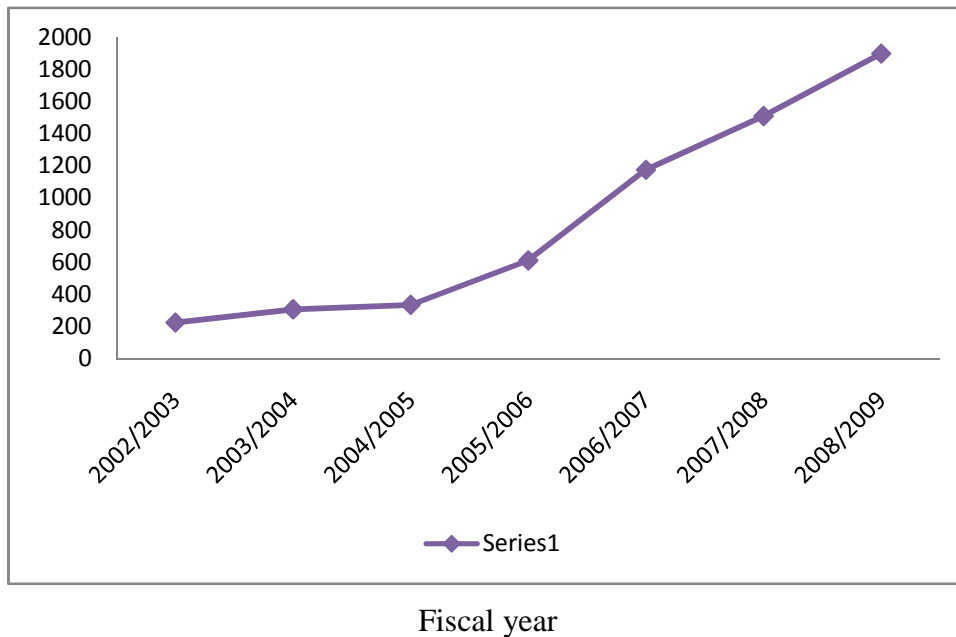
Table 4.1  
Major Financial indicators of SBI

Fiscal Year	Closing MPS (Rs.)	DPS (Rs.)	Stock Dividend	Total Dividend (Rs.)	Earning per share (EPS)
2002/03	255	8	0	8	11.47
2003/04	307	0	0	0	14.26
2004/05	335	0	0	0	13.24
2005/06	612	5	0	5	18.27
2006/07	1176	12.59	35%	424.19	39.35
2007/08	1511	0	0	0	28.33
2008/09	1900	2.11	40	762.11	36.18

Source: Nepal SBI Annual Report (Appendix – 1 page i)



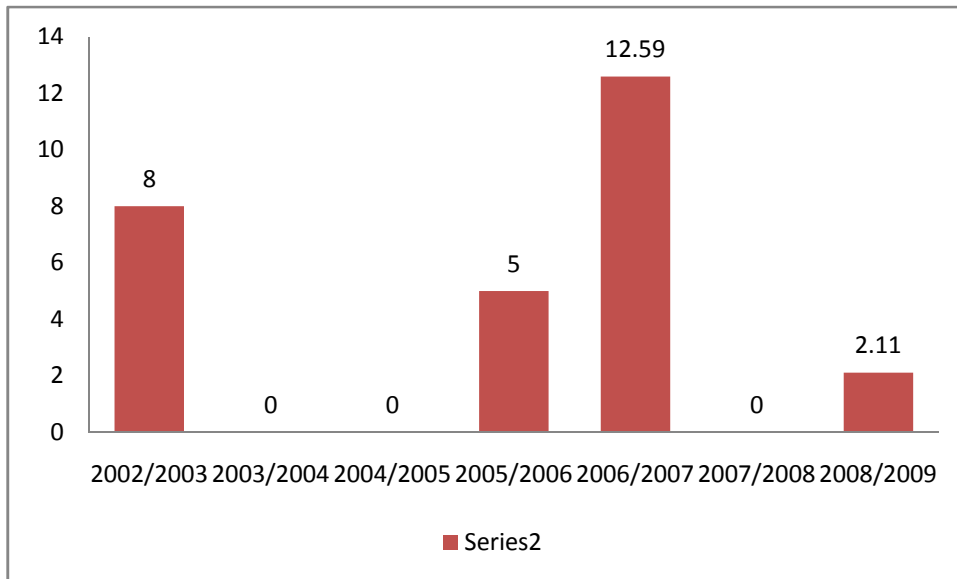
Diagram:4.1  
Closing MPS movement of NEPAL SBI Bank Ltd.



The market price of Nepal SBI bank was recorded highest in the year 2008/09 while the lowest was recorded in the year 2002/03. During the study period, only 35% stock dividend was provided in the year 2006/07 and 40% stock dividend was provided in year 2008/09. The value of this stock dividend was valued in the respective closing price of the year. In the other years of the study, only cash dividends were being paid. And also in some year no dividend was paid. One of the main reasons for providing such stock dividend along with cash dividend was due to the provision of NRB to maintain paid up capital to Rs. 20 million. The cash dividend for the bank was highest in the year 2006/07 and lowest in the year 2008/09. The market prices per share for the bank were found at an increasing trend over the year. The trend of the MPS of the bank over the period of study has been presented in the diagram above.

Diagram 4.2

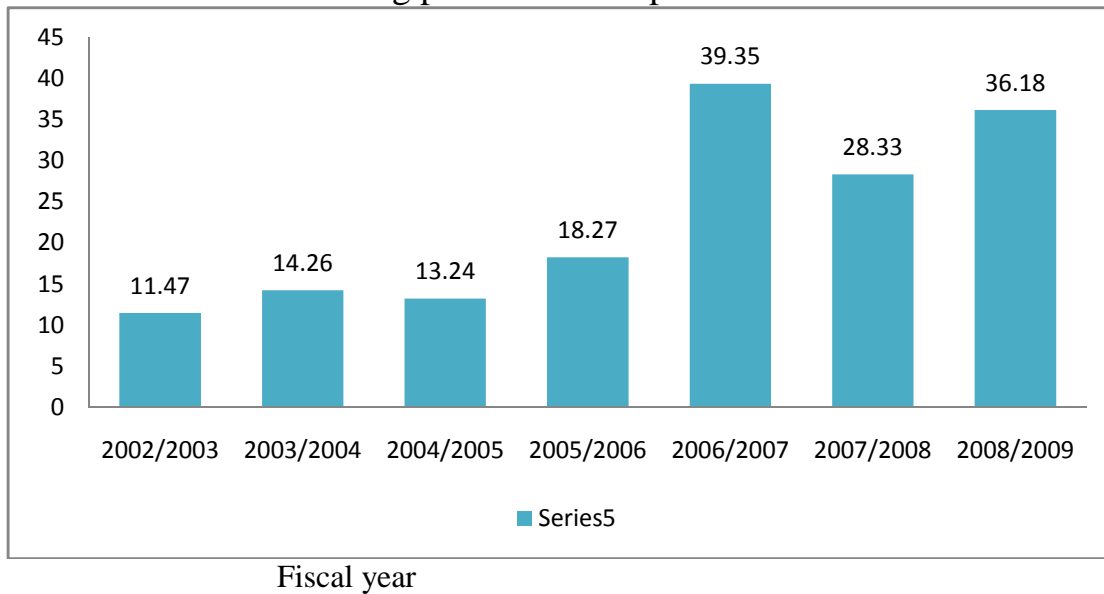
Dividend (Cash) per share of Nepal SBI Bank Ltd



On the basis of above diagram of DPS of Nepal SBI bank, the cash dividend payment was the highest in the latest year of the study. The diagram revealed above shows only the amount of cash per share of SBI for the past seven years. However, the bank had been found to adopt both cash dividend and stock dividend paying practices. Hence, the cash dividend policy of the bank was not paying regularly over the year. The cash dividend is paying on three years only on which the dividend is maximum on the year 2006/07 and minimum in year 2008/09. Cash dividend practice was not regular over the years and the stock dividend of 35% had been found to be given only in the year 2006/07 along with cash dividend of 12.59%. The stock dividend for the year had been valued in the closing MPS of that year. There is no cash dividend paid in the year 2007/08 and cash dividend was paid in 2008/09 at @ 2.11%.

Diagram : 4.3

Earning per share of Nepal SBI Bank Ltd.



The diagram portrayed above revealed the EPS of SBI for the immediate past seven years. The EPS was not increasing constantly over the years. The bank had the adequate amount of earnings to distribute the shareholders in the form of dividends. However, it had adopted policy of retaining some portion of profits over the years. In some years all of the earnings are retained. Earning per share was highest in the year 2006/07 and lowest in the year 2002/03. Earning per share is decreases in the year 2007/08 and increases in 2008/09.

#### 4.1.2 Data Presentation and Analysis of Major Financial indicators of EBL

Table 4.2

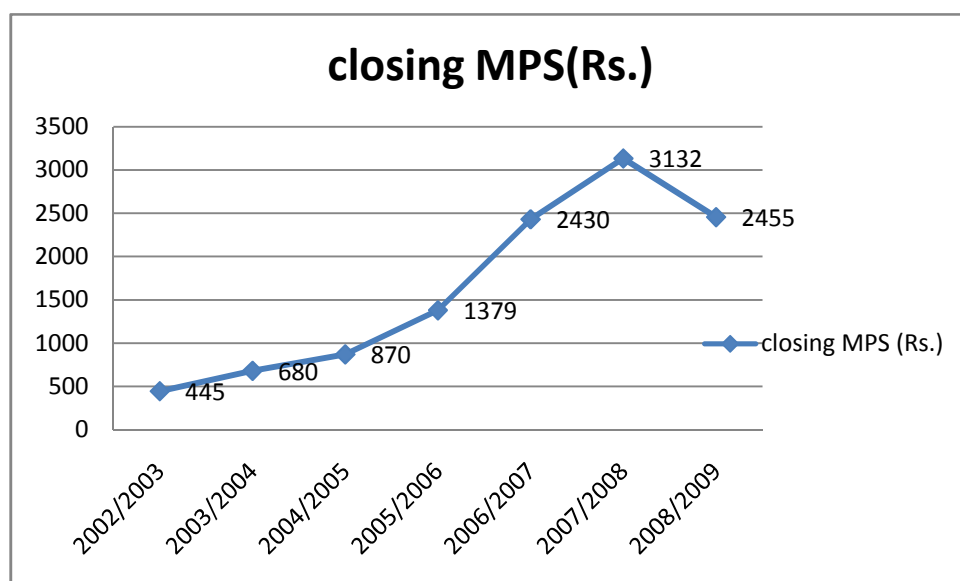
Major Financial indicators of EBL

Fiscal Year	Closing MPS (Rs.)	DPS (Rs.)	Stock Dividend	Total Dividend (Rs.)	Earning per share (EPS)
2002/03	445	20	0	20	29.9
2003/04	680	20	0	20	45.58
2004/05	870	0	20%	174	54.22
2005/06	1379	25	0	25	62.78
2006/07	2430	10	30%	739	78.42
2007/08	3132	20	30%	959.6	91.82
2008/09	2455	30	30%	766.50	99.99

Source: EBL Annual Report (Appendix – I page i)

Diagram 4.4

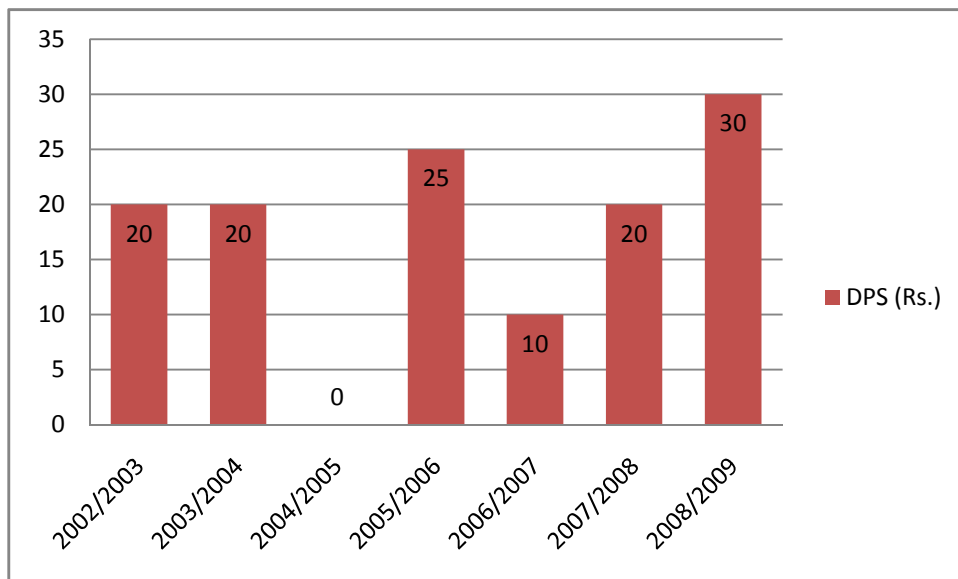
Closing MPS movement of Everest Bank Ltd.



The table depicted above reveals the MPS, EPS, DPS (cash only) and total dividend value of EBL for the past seven years. As mentioned, the market price share of the bank was recorded highest in the year 2007/08 and while the lowest was recorded in the year 2002/03. The price of the bank trend increases continuously and reached to the maximum price Rs. 3132 in 2007/08 and decreased in 2008/09 with price Rs.2455. the MPS price of SBI is in increasing trend but the trend of the MPS of the EBL is in decreasing rate. The year to year movement of the MPS has been presented graphically as shown in the above diagram.

Diagram:4.5

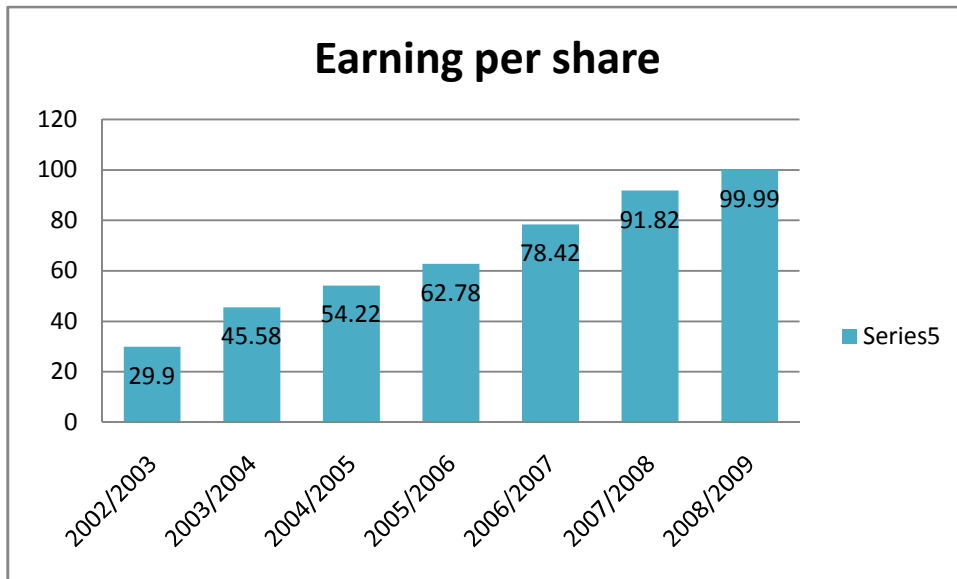
Dividend (Cash) per share of Everest Bank Limited.



The cash dividend per share of EBL seemed slightly fluctuating and higher in comparison to the SBI. The cash dividend was highest in the year 2008/09 and lowest in the year 2006/07. However, in 2007/08 the value of total dividends was highest of all due to 30% stock dividend. In the first two years and second last year, the company adopted a stable cash dividend policy and increasing in last year. The bank had been found to be adopting both the policy of continuous cash dividend except in one year 2004/05, in this year there is no payment of cash dividend and frequent stock dividend practices as revealed in the table 4.2. The maximum amount of the cash dividend was found at 30% in the respective 2007/08 years. However, in 2007/08 the value of total dividends was highest of all due to 30% stock dividend valued with the highest MPS of the year. In all cases, the stock dividends were valued at the closing MPS at the end of the year. All of which were shown in appendix-I

Diagram:-4.6

Earning per share of Everest Bank Ltd.



The above diagram 4.6 reveals the EPS of EBL for the Last seven years. The EPS was the lowest in the starting year of the study. It had been increasing continuously up to the year 2008/09. In the year 2008/09, the bank had been able to record the highest EPS. The bank had the adequate amount of earnings to distribute the shareholders in the form of dividends. However, it had adopted policy of retaining some portion of profit over the years. The earnings per share was presented in the graph above.

#### 4.1.2 Comparative analysis of SBI and EBL

This section deals with the comparative study of EPS, DPS (Cash Dividend), Retained Earnings and Dividend Payout ratio of the two sampled commercial banks.

##### 4.1.2.1 Comparative Analysis of EPS

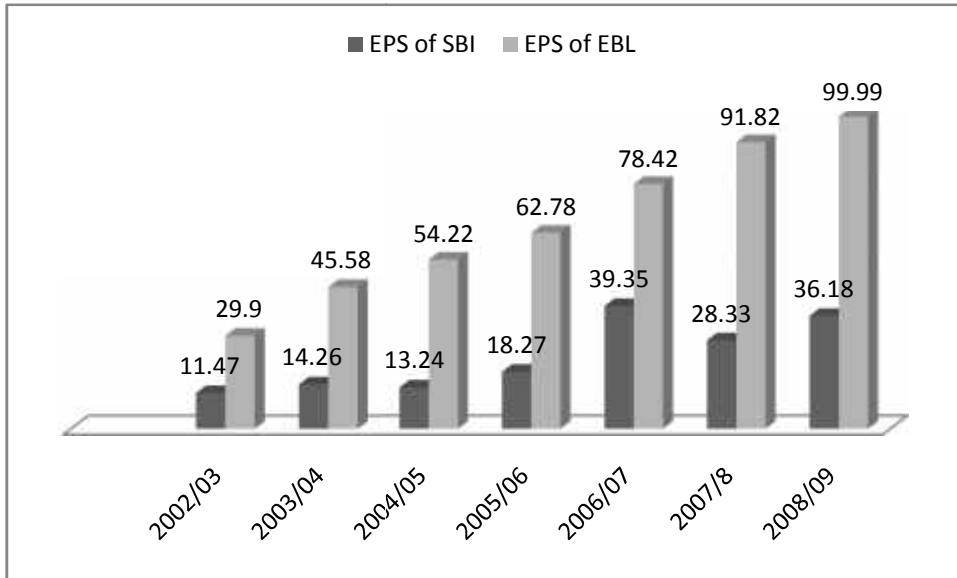
Table: 4.3  
EPS of SBI and EBL

Fiscal Year	EPS of SBI	EPS of EBL
2002/03	11.47	29.9
2003/04	14.26	45.58
2004/05	13.24	54.22
2005/06	18.27	62.78
2006/07	39.35	78.42
2007/8	28.33	91.82
2008/09	36.18	99.99
Average	23.01	66.10
S.D	11.52	25.32
C.V	50.06	38.30

*Source: Appendix-1 page i*

Diagram: 4.7

EPS of two banks in comparison



The average EPS of SBI over the study period was Rs. 23.01 where as that of EBL was Rs. 66.10. The EBL had the higher standard deviation than that of SBI. The coefficient of variation of SBI was 50.06% where as that of EBL was 38.30%. This shows that EBL had higher and more consistent EPS over the study period. As seen in the diagram.4.7, the EPS of EBL were higher in comparison to the EPS of SBI over the study period of seven years. Though the individual EPS of EBL was higher in all the years, the growth rate in EPS of SBI was consistent and increasing but as less as compared to the EBL.



#### 4.1.3.2 Comparative Analysis of DPS (cash)

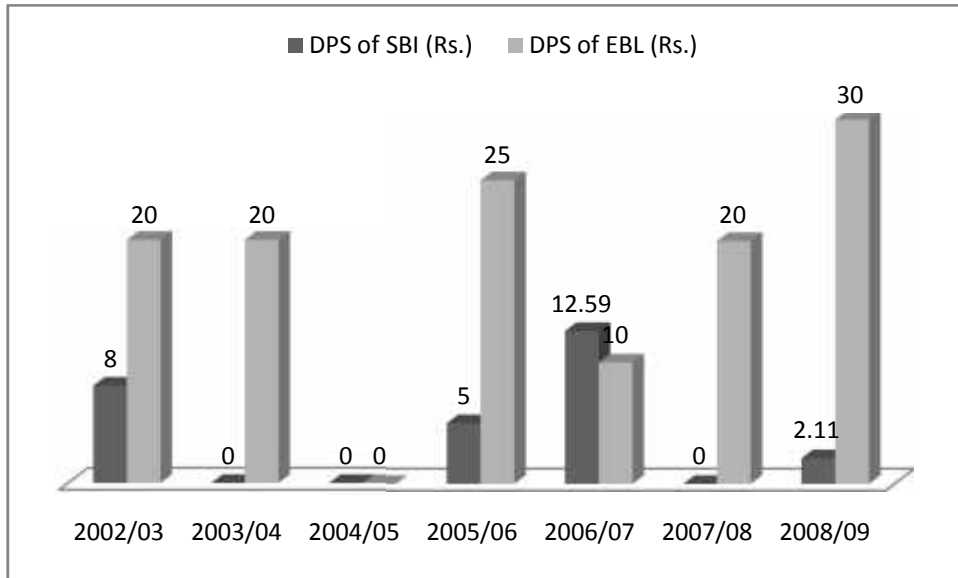
Table: 4.4  
DPS of SBI and EBL

Fiscal Year	DPS of SBI (Rs.)	DPS of EBL (Rs.)
2002/03	8	20
2003/04	0	20
2004/05	0	0
2005/06	5	25
2006/07	12.59	10
2007/08	0	20
2008/09	2.11	30
Average	3.96	17.86
S.D	4.87	9.94
C.V	123.09	33.13

The average cash DPS of SBI over the study period was Rs. 3.96 where as that of EBL was Rs. 17.86. The DPS of EBL had the higher standard deviation than that of SBI. The coefficient of variation of DPS of SBI was 123.09% where as that of EBL was 33.13%. This shows that EBL had higher and more consistent DPS over the study period. In other words, EBL had been following more stable and regular cash dividend policy out of its earnings as compared to SBI.

Diagram: 4.8

DPS(Cash) of two banks in comparison



As revealed in the diagram 4.8, it can be easily noticed that cash dividends per share of EBL over the study period was higher than that of SBI except in the year 2006/07. However, the cash dividends per share of SBI were not at a constantly increasing rate as compared to the EBL. In the year 2007/08 no DPS was paid by SBI and paid in 2008/09 at @ 2.11% and EBL has paid 30% DPS which was highest.

#### 4.1.3.3 Comparative Analysis of Retained earnings per share

Table: 4.5

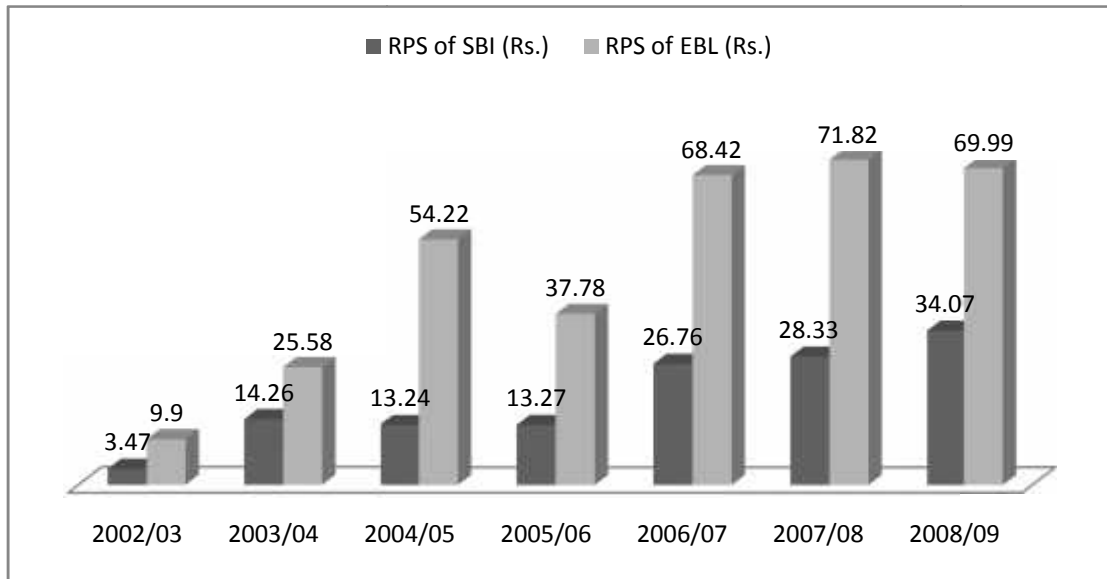
Retained earnings per share of SBI and EBL

Fiscal Year	RPS of SBI (Rs.)	RPS of EBL (Rs.)
2002/03	3.47	9.9
2003/04	14.26	25.58
2004/05	13.24	54.22
2005/06	13.27	37.78
2006/07	26.76	68.42
2007/08	28.33	71.82
2008/09	34.07	69.99
Average(Rs.)	19.06	48.24
S.D (Rs.)	10.83	24.38
C.V (%)	56.84	50.52

Source: Appendix-1 page iii

Diagram: 4.9

Retained earnings per share of the two banks in comparison



The table depicted above indicates the retained earnings per share of SBI and EBL. Below the table is presented the respected data in a bar diagram revealing the retained earnings per share of the two banks with respect to the seven years of study. The retained earnings presented in the table have been calculated by subtracting the cash dividend portion from the respective earnings per share. In the years 2002/03 to 2008/09 the retained earnings per share of SBI were lower in comparison of the same for EBL. EBL had higher retained earnings per share 71.82% and the SBI had retained earning per share of 34.07% on an average study of past seven years. Similarly, the standard deviation of the data was also lower in case of SBI as compared to that of EBL. The coefficient of variation of retained earnings per share of SBI was found to be 56.84% whereas the coefficient of variation of retained earnings per share for EBL was obtained as 50.52%. It indicates that the retained earnings per share of EBL were more consistent than that of SBI. Retained earning per share is highest in the year 2007/08 of EBL.

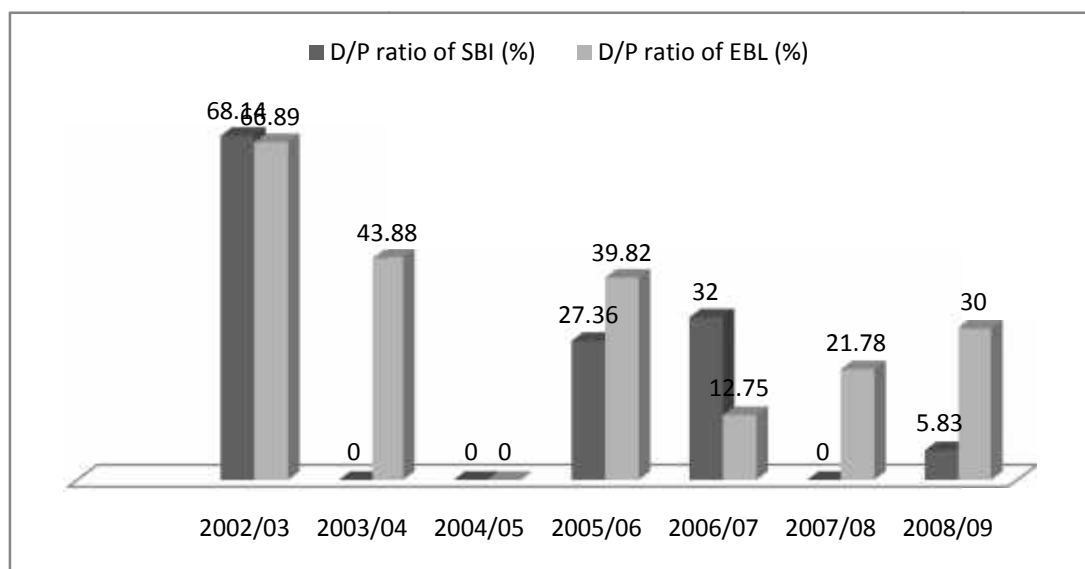
#### 4.1.3.4 Comparative Analysis of dividend payout and retention ratios

Table: 4.6  
Dividend Payout and Retention ratios of SBI and EBL

Fiscal Year	D/P ratio of SBI (%)	D/P ratio of EBL (%)	Retention ratio of SBI (%)	Retention ratio of EBL (%)
2002/03	68.14	66.89	31.86	33.11
2003/04	0	43.88	100	56.12
2004/05	0	0	100	100
2005/06	27.36	39.82	72.64	60.18
2006/07	32	12.75	68	87.25
2007/08	0	21.78	100	78.22
2008/09	5.83	30	94.17	70
Average	19.05	30.73	80.95	69.27
S.D.	25.53	22.03	25.53	22.03
C.V.	134.03	71.68	31.68	31.80

Source: Appendix -1

Diagram: 4.10  
Dividend payout ratios of the two banks in comparison



The table depicted above provides the cash dividend payout ratios and retention ratios for the two banks over the study period. Only the data regarding cash dividend payout ratios were represented in a bar diagram with respect to the fiscal years as shown in the diagram 4.10.

The retained earnings ratios for the banks were calculated by subtracting the percentage of dividend payout ratios from the total 100% (earnings). The dividend payout ratios were higher in case of EBL as compared to SBI in all years except in the year 2006/07 and 2002/03. EBL had higher average dividend payout ratio of 30.73% as compared to that of 19.05% of SBI. Similarly, the standard deviation of the dividend payout ratios of EBL and SBI were 22.03% and 25.53% respectively. The coefficient of variations of dividend payout ratios of EBL and SBI were 71.68% and 134.03% respectively. It indicates that dividend payout ratios of EBL were more consistent than that of SBI. Similarly, the average retention ratios of the banks SBI and EBL were obtained as 80.95% and 69.27% respectively with respective coefficient of variations of 31.53% and 31.80%. This shows that the retention ratios of EBL were more consistent than SBI. Again standard deviation of the retention ratio of the banks SBI and EBL were as 25.53% and 22.03% respectively. Dividend payout ratio of SBI is zero in the year 2007/08.

#### 4.1.3.5 Comparative Analysis of Dividend yield

Table: 4.7  
Dividend Yield of SBI and EBL

Fiscal Year	SBI	EBL
2002/03	3.13	4.50
2003/04	0	2.94
2004/05	0	20
2005/06	0.81	1.81
2006/07	36	30.41
2007/08	0	30.64
2008/09	40.11	31.22

*Source: Appendix-3*

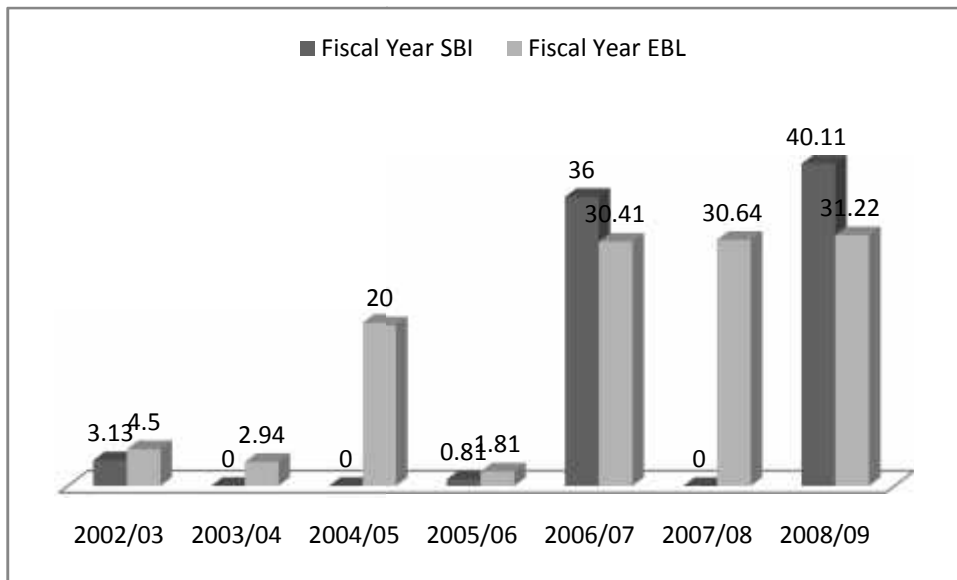
The table depicted above reveals the total dividend yields of the two banks. Here, the total dividend includes the total cash dividend and valuation of stock dividend for the respective years.

The total dividend yields of SBI were obtained as 3.13%, 0%, 0%, 0.81%, 36%, 0% and 40.11%. The dividend yield of SBI was lowest in the year 2005/06 and highest in the year 2008/09. The reason behind dividend yield to be highest was due to valuation of stock dividend.

The total dividend yields of EBL were 4.50%, 2.94%, 20%, 1.81%, 30.41% 30.64% and 31.22%. The dividend yield of EBL was lowest in the year 2005/06 and highest in the year 2008/09. The dividend yields of the banks were in the two digits because of stock dividend.

Diagram: 4.11

Dividend Yield of two banks in comparison



On the basis of above diagram, it is inherent that the dividend yields of EBL in all years were higher than the respective dividend yields of SBI except in year 2006/07 and 2008/09 in this year dividend yield of SBI is maximum. In the year 2006/07 and 2008/09, the dividend yields for both the banks were quite high because of higher amount of stock dividend for both. In the year 2004/05, 2006/07 and 2007/08, the dividend yields of EBL were too high than that of SBI because of presence of stock dividend in EBL.

#### 4.1.3.6 Comparative Analysis of Earnings Yield

Table: 4.8  
Earning Yield of SBI and EBL

Fiscal Year	SBI	EBL
2002/03	4.5	6.72
2003/04	4.64	6.70
2004/05	3.95	6.23
2005/06	2.98	4.55
2006/07	3.34	3.22
2007/08	1.875	2.93
2008/09	1.90	4.07

*Source: Appendix -3*

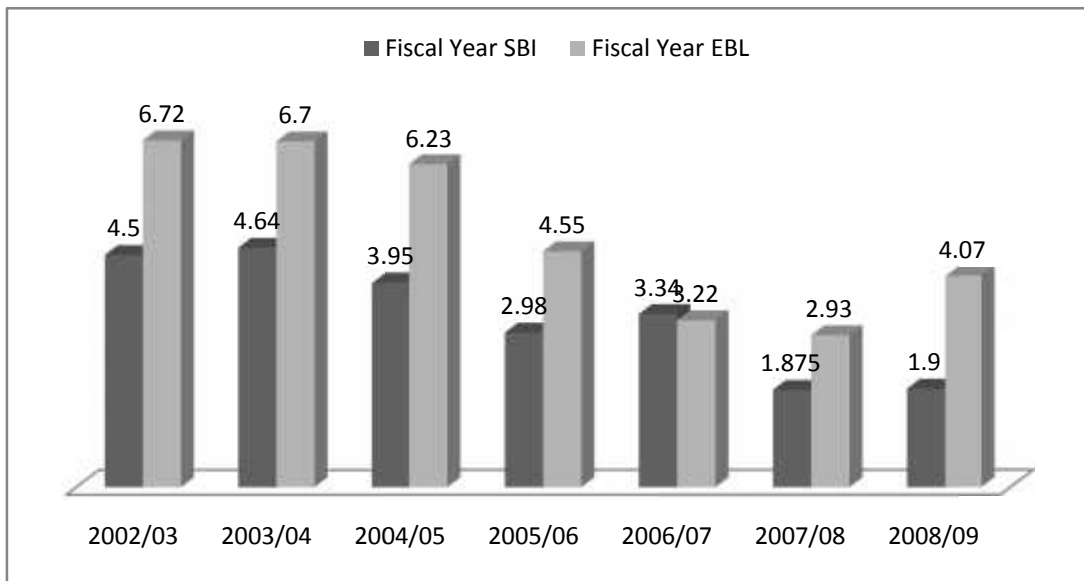
The table depicted above reveals the earnings yields of the two banks. The data obtained were plotted in the bar diagram as shown above.

The earnings yields of SBI were obtained as 4.5%, 4.64%, 3.95%, 2.98%, 3.34% 1.875% and 1.90% . The earnings yield of SBI was lowest in the year 2007/08 and highest in the year 2003/04. The reason behind the lowest yield in the year 2007/08 was due to excessive higher value of market price.

The earnings yields of EBL were 6.72%, 6.70%, 6.23%, 4.55%, 3.22%,2.93% and 4.07%. The earnings yield of EBL was lowest in the year 2007/08 and highest in the year 2002/03. The earnings yield was lowest in the latest year of the study due to excessive higher market price of share.

Diagram: 4.12

Earning Yield of two banks in comparison



On the basis of comparative bar diagram showing earnings yields of SBI and EBL, the earnings yields of EBL were higher than that of SBI in all the years except in the year 2006/07. However in the year 2006/07, the earnings yields of SBI were found higher than that of EBL. And again in 2007/08, the earnings yield of EBL was found slightly higher than that of SBI. On the observation of the above diagram revealing earnings yields of the two sampled banks, it was found that the earnings yields for both the banks was moving in the same direction. The earnings yields for both the banks were found decreasing till the year 2007/08 and increasing in 2008/09. Earning yield of EBL is decreasing continuously over the year but earning yield of SBI also decreasing continuously over the year in except year 2006/07 in this year the earning yield is slightly increases and then afterwards again decreases and increasing in 2008/09..



### 4.1.3 Correlation between various financial indicators

S/n	Correlation between	Correlation coefficient (r)	Remarks
a)	DPS and EPS of SBI	$r = 0.35$	Highly positive relationship
b)	DPS and EPS of EBL	$r = 0.29$	Highly positive relationship
c)	DPS and MPS of SBI	$r = (0.02)$	Lower negative relationship
d)	DPS and MPS of EBL	$r = 0.23$	Lower positive relationship
e)	D/P ratios of SBI and EBL	$r = 0.63$	Higher positive relationship
f)	Total dividend per share of SBI and EBL	$r = 0.57$	Highly positive correlation relationship.
g)	Total retained per share of SBI & EBL	$r = 0.63$	Higher positive correlation

*Source: Appendix-2*

- a) The correlation coefficient of DPS (cash dividend) and EPS of SBI was obtained as 0.35. It indicates that there is a positive relationship between cash dividend payment and earnings per share for the bank. In other words, it can be stated that cash dividend is the function of earnings the bank earns during the year. Correlation coefficient 0.35 represents stocks are positively correlated, but not perfectly correlated. It indicates that the DPS is not distributed as EPS is increases.
- b) Though it is regarded that dividend is paid from the earnings of the banks, the growth rate in dividend for the EBL did not seem varying with the growth in earnings per share of the bank. It was found just 0.29, which is very low indicating a lower degree of positive correlation. Though the earnings per share for the bank was increasing over the years, the dividend seem vary with it proportionately. Outcomes on positively correlated stock would together but it is not exactly same direction.
- c) The correlation coefficient between cash dividend per share and market price per share of SBI was obtained as (0.02), which indicates that there is a low degree of negative relationship between cash dividend and market price per share. The role of

both cash and stock dividend seemed negative in forming the market price of the bank. The cash dividend is so not eventually distributed as according to the increase in the market price of the share.

- d) The correlation coefficient between cash dividend per share and market price per share of EBL was obtained as 0.23, which indicates that there is a low degree of positive relationship between cash dividend and market price per share. However, there is a positive role of both cash and stock dividend in shaping the market price per share of the bank to a very extent. The cash dividend is so not eventually distributed as according to the increase in the market price of the share.
- e) The calculated correlation coefficient of dividend payout ratio of SBI and EBL was obtained as 0.63, which indicates that the dividend paying policy of the two banks are highly correlated to each other. The policy of paying dividend out of the earnings for the two banks did not match to each other. Instead it was found positively. The banks had adopted their own ways of paying dividends and retaining earnings. There was no similarity in dividend payout ratios of the two banks.
- f) The correlation coefficient of total dividend per share (including both cash dividend and value of stock dividend) was found to be 0.57. It indicates that the total dividend per share of the two banks paid by them is partially correlated but not perfectly correlated. The total dividend payment schemes are not similar to each other for the two banks. It was due to amount of stock dividend paid by both the banks along with reasonable amount of cash dividend.
- g) The calculated correlation coefficient of retention ratio of SBI and EBL was obtained as 0.63, which indicates that the retention ratio policy of the two banks are highly correlated to each other. The policy of retaining earning out of the earnings for the two banks did not match to each other. Instead it was found positively. The banks had adopted their own ways of paying dividends and retaining earnings. There was similarity in retaining ratios of the two banks.

#### 4.1.4 Analysis of EPS and DPS (Cash) with respect to Time Series

In this section the study tried to analyze a relation between EPS and DPS (cash dividend) with respect to time individually, by using the least squares method. In this case since the number of year is seven, so 2006 is taken as the mid year and deducted from Years (X).

##### A. SBI Bank Ltd

Calculation of Trend Line of SBI.

Table: 4.9  
Actual values and Trend values of EPS

Fiscal Year(X)	Actual EPS (Rs.)	Estimated trend values $Y_c = 23.01 + 4.585x$
2003	11.47	9.255
2004	14.26	13.84
2005	13.24	18.425
2006	18.27	23.01
2007	39.35	27.595
2008	28.33	32.18
2009	36.18	36.765
2010		41.35
2011		45.935

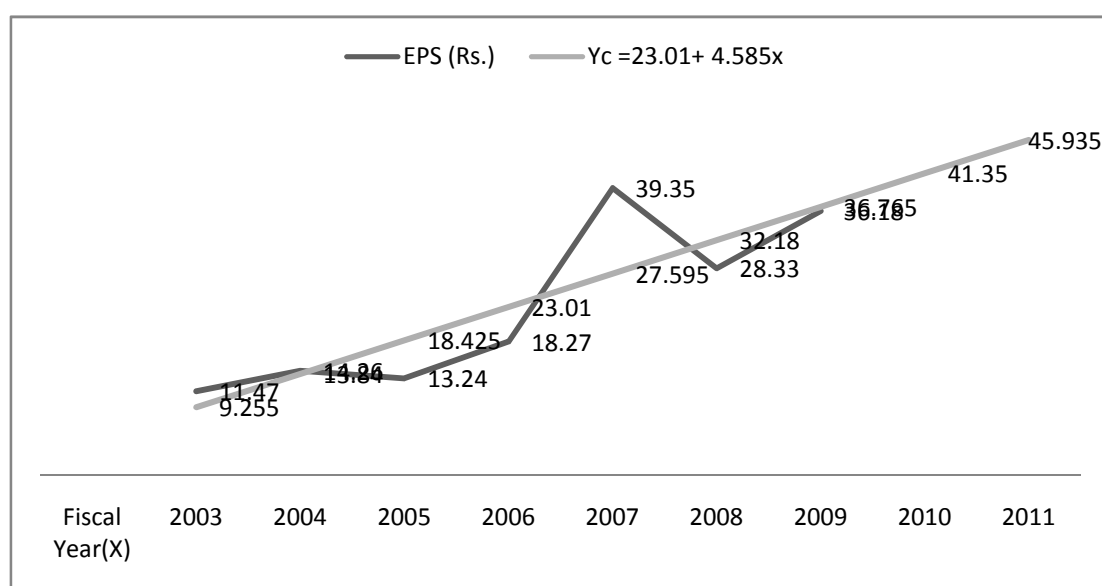
*Source: Appendix -4i*

The table depicted above reveals the earnings per share of SBI and its calculated trend values with respect to the fiscal years. Both the EPS and calculated trend values of the bank were found at an increasing trend despite small decline in the year 2005 and 2008 in actual EPS. The trend equation of the EPS with respect to the years was obtained as,  $Y_c = 23.01 + 4.585x$ . The predicted values of EPS for the years 2010 and 2011 were obtained as 41.35 and 45.935. The EPS of the bank was found at an increasing trend. The increasing rate of EPS with respect to years was calculated as 4.585.

#### Diagram: 4.13

Trend Line and actual value of EPS of SBI

### Trend Line and actual EPS of SBI



The above diagram shows the actual EPS and the trend line of the data for the past seven years. The estimated trend values showed an excessive upward trend as compared to the actual data.

Table: 4.10  
Actual value and Trend values of DPS (Cash)

Fiscal Year ending mid July	DPS (cash ) (Rs.)	Estimated trend values $Y_c = 3.957 - 0.181x$
2003	8	4.5
2004	0	4.319
2005	0	4.138
2006	5	3.957
2007	12.59	3.776
2008	0	3.595
2009	2.11	3.414
2010	-	3.233
2011	-	3.052

*Source: Appendix- 4*

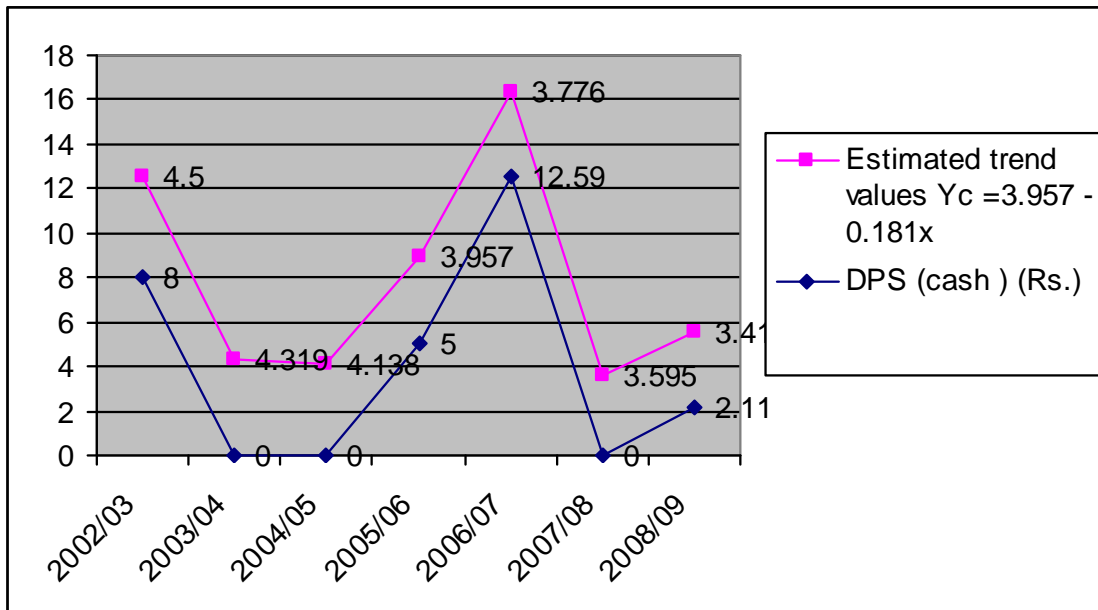
The table depicted above portrays the total cash dividend per share of SBI with respect to the fiscal years ending mid July and the calculated trend values of the cash dividend per share. The cash dividend per share of SBI remained highest in the year 2007. The cash dividends per share of the bank were found at an fluctuating trend. . The calculated trend values of the cash dividend per share of the SBI were found at a slowly decreasing rate over the years. The

trend equation of the cash DPS with respect to the years was obtained as,  $Y_c = 3.957 - 0.181x$ . The predicted values of cash dividend per share of SBI for the years 2010 and 2011 were obtained as 3.233 & 3.052. The cash DPS of the bank was found at a slowly increasing trend. The cash DPS of SBI was found to be decreasing at a rate of 0.181 times each year.

Diagram: 4.14

Trend Line and actual value of DPS of SBI

**Trend Line and actual DPS of SBI**



The above diagram reveals the actual values and the trend line of cash dividend per share of SBI for the past seven years. The trend values of the cash DPS of SBI were found at a slowly increasing rate that varies inversely with the EPS of the bank.

## B. Everest Bank Ltd.

### Calculation of Trend line of EBL

Table: 4.11  
Actual values and Trend values of EPS

Year	EPS	Estimated trend values
		$Y_c = 66.10 + 11.68x$
2003	29.9	31.06
2004	45.58	42.74
2005	54.22	54.42
2006	62.78	66.10
2007	78.42	77.78
2008	91.82	89.46
2009	99.99	101.14
2010	-	112.82
2011	-	124.5

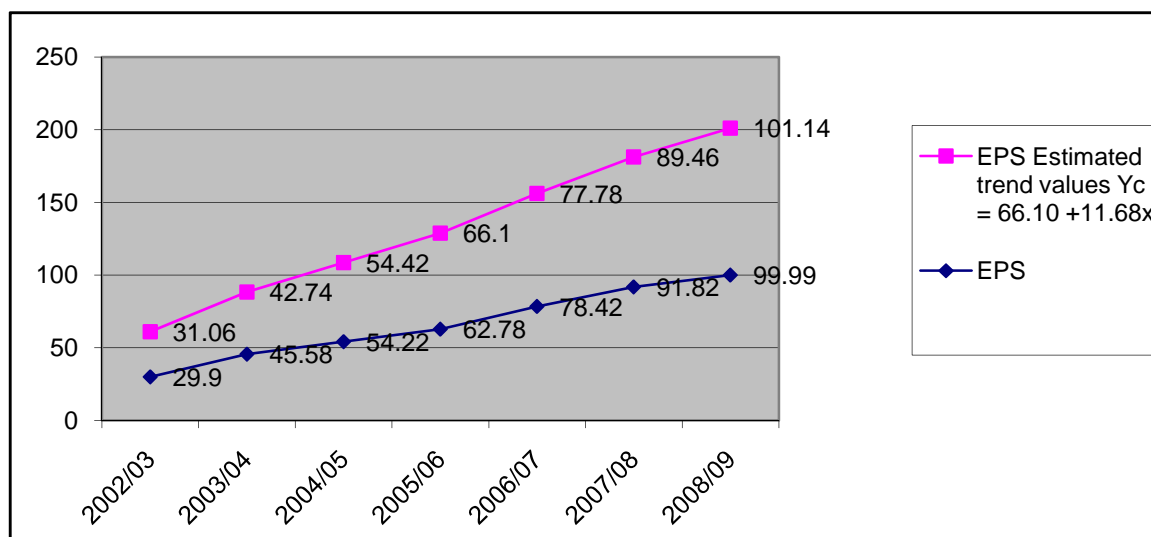
*Source: Appendix-4*

The EPS of EBL remained highest on the year 2009. The EPS of the bank was found at an increasing trend over the years. Likewise, the calculated trend values of the EPS of the bank also remained at an increasing trend. In other words, there was positive inclination of EPS with respect to the fiscal years. The trend equation of the EPS with respect to the years was obtained as,  $Y_c = 66.10 + 11.68x$ . The calculated trend values of EPS of EBL for the years 2010 and 2011 were obtained as 112.82 and 124.5 respectively. Likewise SBI, the EPS of EBL was also found at an increasing trend but EPS of SBI is slightly decline in some year. However, the yearly increasing rate of EPS was just 11.68 times which was greater than that of SBI.

Diagram: 4.15

Trend Line and actual value of EPS of EBL

**Trend Line and actual EPS of EBL**



The above diagram shows the actual EPS and the trend line of the data of EBL for the past seven years. The actual data and estimated trend values both showed an upward trend.

Table: 4.12  
Actual value and Trend values of DPS (Cash)

Fiscal Year	DPS (cash dividend)	Estimated trend values $Y_c = 17.85 + 1.43x$
2003	20	13.56
2004	20	14.99
2005	0	16.42
2006	25	17.85
2007	10	19.28
2008	20	20.71
2009	30	22.14
2010	-	23.57
2011	-	25.00

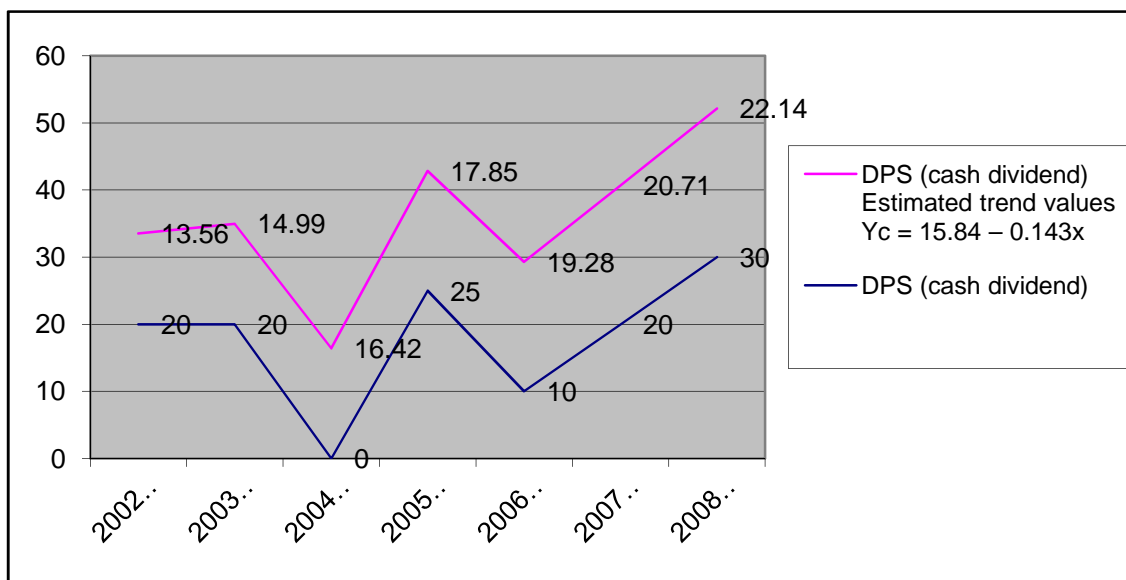
Source: Appendix-4

The table depicted above portrays the total cash dividend per share with respect to the fiscal years ending mid July and the calculated trend values of the cash dividend per share. The cash dividend per share of EBL was highest in the year 2009 to amounting Rs.30. In the earlier years of study, the bank adopted a fluctuated cash dividend per share. However, the trend values of the cash dividend per share of the bank were found to be at a slightly

increasing trend. The trend equation of the cash DPS of EBL with respect to the years was obtained as,  $Y_c = 17.85 + 1.43x$ . The estimated trend values of cash dividend per share of EBL for the years 2010 and 2011 were obtained as 23.57 and 25.00. The cash DPS of the bank was also found at a slight increasing trend. The yearly increasing rate of cash DPS of EBL was found to be 1.43 times which was in opposite direction as compared to yearly decreasing rate of SBI.

Diagram: 4.16  
Trend Line and actual value of DPS (Cash) of EBL

### Trend line and actual DPS of EBL



The above diagram reveals the actual data and trend line of cash DPS of EBL with respect to past six years. On observation of the figure, it is inherent that the data showed a decreasing trend with slightly declination over the years.

## 4.2 Major Finding Of The Study



- The market prices of the banks were found at an increasing trend. However, the market price per share of EBL was found higher than that of SBI in all the year. But MPS of EBL was found decreased in 2008/09.
- The earnings per share of SBI showed in increasing trend over the years despite low fluctuation in the year 2004/05 and in the year 2007/08. The cash dividend per share of SBI does not showed an increasing trend. It's decreasing in the middle of the year and zero in the year 2007/08 and increasing in 2008/09. Similarly, the earning per share of EBL showed an increasing trend over the years and highest in year 2008/09 with a amount Rs.99.99. The cash dividend does not smoothly increases over the year. It is slightly decreased in the middle of the year and increased in the year 2008/09 .
- SBI bank had been found to provide stock dividend of 35% in the year 2006/07 and 2008/09 on study of past seven years data. However, EBL had been found to provide a stock dividend of 20% in 2004/05, again 30% in 2006/07 and 30% in 2007/08 and 30% again in 2008/09 along with cash dividend. In year 2004/05 no cash dividend was paid. Both the banks had been following the dividend practices of paying a regular cash dividend every year and occasional stock dividend.
- The EPS of EBL was found to be higher as compared to the EPS of SBI on an average study of the EPS of the two banks over the past seven year. The earning per share of EBL was found to be more consistent in comparison to the earning per share of SBI.
- EBL again had the higher average cash dividend per share (DPS) of Rs.17.86 where as SBI has an average of Rs.3.96 cash dividend per share. It shows that EBL had been paying higher amount of cash dividend to the stockholders. Likewise, the coefficient of variation of cash DPS data of EBL was also lower than that of SBI. It indicates that the cash dividend payments of EBL were higher and more consistent than that of SBI.
- Both the banks had adopted a policy of retaining some amount of earnings every year. The average retained earnings per share of EBL and SBI were Rs.48.24 and Rs.19.06 respectively. However, the retained earnings per share of EBL were more consistent than that of SBI as the coefficient of variation of retained earnings per share of SBI was found more than that of EBL(56.84>50.52).
- The average dividend payout ratios of EBL and SBI over the past seven years were obtained as 30.73% and 19.05% respectively. It indicates that a dividend payout ratio of EBL was higher than that of SBI on an average study of past seven years. Similarly, the coefficient of variations of dividend payout ratios of EBL and SBI were

found as 71.68% and 134.03% respectively. It indicates that the dividend payout ratio of EBL was found more consistent than SBI. Hence, the average retention ratio of SBI was higher than that of EBL.

- There is high degree of positive correlation between DPS and EPS of SBI where as in case of EBL, there was highly degree of positive correlation. It shows that the distribution of dividend of SBI and EBL are more consistent with regard to the total earnings .
- The Correlation coefficient between cash dividend per share and market price per share of SBI was obtained as (0.02) where as the same for EBL was obtained as +0.23. It indicates that there was a low degree of negative co relationship between cash dividend and market price per share of SBI but there was a lower degree of positive co relationship between cash dividend and market price per share of EBL.
- The Correlation coefficient between dividend payout ratio of SBI and EBL was obtained as +0.63 which indicates that the dividend paying policy of the two banks are related to each other. The policy of paying dividend out of the earnings for the two banks did match to each other.
- The correlation coefficient between total dividend per share (including both cash dividend and stock dividend) of SBI and EBL obtained as +0.57. It indicates that the total dividend per share of the two banks was positively correlated but not perfectly correlated. This shows that the dividend practice adopted by the two banks was not perfectly similar.
- The dividend yield of EBL has been found higher than SBI throughout the study period except 2006/07 and 2008/09. The EBL had adopted stable dividend policy despite of change in total earnings.
- The earning yield of EBL was found higher than SBI in the initial four years 2002/03,2003/04,2004/05,2005/06. From the year 2002/03, the earning yield of SBI was higher in 2003/04 and lower in the year 2007/08 and 2008/09.
- The data of EPS of SBI showed an increasing trend over the years. The yearly increasing rate of EPS of SBI with respect to years was obtained as 4.585 times. Likewise, SBI, the EPS of EBL was also found at an increasing trend. However, the yearly increasing rate of EPS was just 11.68 times which was greater than that of SBI.
- The data of cash DPS of SBI showed an decreasing trend. The yearly decreasing rate of cash DPS of SBI was obtained as 0.181 times. Similarly, the cash DPS of EBL showed a little increasing trend. The yearly increasing rate of cash DPS which was

too large as compared to yearly decreasing rate of SBI buy it's slope is in opposite direction (negative direction).

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

Commercial banks collect deposit from the public and the largest portion of the deposited money is utilized in disbursing loans and advances. Hence deposit covers a major portion in the Liabilities where as Loan and advances cover a major portion in the Assets side of the balance sheet.

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank of Nepal through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993. Everest Bank Limited was registered on November 17, 1992 and come into operation on October 18, 1994 with an objective of extending professionalized and efficient banking services to various segments of the society. PNB joined hands with EBL as a Joint Venture in 1997 and turned it around to a highly profitable bank. These are the two leading joint venture banks of Nepal.

There are three major decisions of financial management, they are: Investment decision, Financing Decision, and Dividend decision or redistribution decision. Thus, dividend policy decision is one of major three decisions of financial management. The policy of a company on the division of its profit between distribution to shareholders as dividend and retention is known as dividend policy.

Generally, dividend is paid in cash to shareholders. When companies are incapable to pay cash dividend they can use different forms of dividend payment for satisfying their shareholders. There may be several types of dividends such as cash dividend, bond dividend, stock dividend, scrip dividend, property dividend. But in our context, dividends are of two types: cash dividend and stock dividend or bonus share. Other equally important things to know and consider in the dividend policy or payment procedures are stock splits, stock repurchase and reverse stock split.

There are several types of dividend policies such as: stable dividend policy, regular plus extra dividend policy, irregular dividend policy, fixed dividend per share policy, no immediate dividend policy, etc. And company may adopt any one or mixed policies out of these.

The major objective of the study is to study the major dividend policies and practices adopted by the two banks. For this, only two commercial banks as mentioned in the study were chosen and however there are various limitations as stated earlier in the introduction chapter. The study has been divided into five major parts as mentioned in the organization of the study.

It is found out during the study that both the banks had been adopting two kinds of dividend practices: cash dividend and stock dividend. There was regularity in cash dividend payment of the EBL banks only except one year. But the dividend paid on SBI was not stable. It was growing and higher in case of EBL and fluctuating but lower in case of SBI. The amount of cash dividend payment of EBL was higher than that of SBI. Both the companies were also retaining some portion of earnings. The earnings per share of EBL were also higher than that of SBI. The stock dividends were being given frequently by EBL as compared to SBI over the study period.

Both the banks MPS were at an increasing trend except 2008/09 of EBL. Earnings per share of the both the banks were also found at an increasing trend but the total dividend and DPS of the SBI was decreasing over the period. However, the rate of cash dividend payment was found to be higher in case of EBL as compared to SBI.

The dividend payout ratios of the two banks was found to be positively correlated indicating exact relationship or similarity in paying cash dividend per share out of the earnings per share. In terms of value of total dividend, the total dividend per share of the banks was found to be highly positively correlated. The total dividend yields of SBI were higher as compared to total dividend yields of EBL. The dividend yields of both the banks were found at a fluctuating trend. The earning yields of both the banks were found to be fluctuating and decreasing over the years due to excessive increasing MPS of the banks.

## **5.2 Conclusion**

On the basis of the study and major findings it can be concluded that both the banks had not followed any particular dividend policy and practice. The banks had been adopting regular cash dividend and stock dividend practices over the study period. Other forms of dividend practices were not found to adopt by the sampled banks. Both the banks had been using retained earnings as internal source of financing. The earnings per share, dividend per share (in case of EBL) and market prices of both the banks were increasing over the years and were predicted to increase in the future also. However, the rate of increase in DPS in case of EBL was higher than SBI. EBL could be regarded efficient as compared to SBI from the viewpoint of earnings per share and market price of shares. There were dissimilarities in cash dividend payout ratios. The dividend payout ratio of EBL was higher than that of SBI. The dividend payout ratios of both the banks were less than 100%. The amount of cash dividend per share of EBL was higher and more consistent as compared to that of SBI. The dividend yields of SBI were found higher than that of EBL. The dividend yields of both the banks were fluctuating over the period. The earnings yields of both the banks were at a decreasing trend. In brief, it can be concluded that EBL has been performing well in comparison to SBI.

## **5.3 Recommendations**

Based on the major findings of the study, following recommendations have been made:

- The legal provisions regarding payment of dividend should ensure better return to the investors. There should be clear cut policy regarding payment of dividend.
- Banks should define their dividend policy clearly whether the bank is going to adopt stable dividend policy, constant payout ratio or low regular plus extra dividends etc. The clear policy will guide the way on how to follow dividend distribution.
- The bank should study about the strategy to attract the ordinary people and shareholders so that their interest and expectation will not be killed even the bank can't pay the dividend in some years.

- The retention purposes of the banks should be clearly defined in terms of expansion and growth of the banks and to fulfill other provisions stated by the regulatory authorities.
- As this study is insufficient to cover entire scenario and theoretical as well as practical aspects of dividend policy and practices as regards to consequences brought out by the dividend, it is strongly recommended to extend this study in comprehensive way.

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- 5. Timilsina, S., “Capital Market Development and Stock Price Behavior in Nepal”.**

## **Appendix -1**

### **1. Major Financial indicators of Nepal SBI Bank Limited**

Fiscal Year	Closing MPS (Rs.)	Cash Dividend (%)	DPS (Cash) (Rs.)	Stock Dividend (% of current year's price)	Total Dividend= Cash dividend + Stock dividend (Rs.)	Earning per share (EPS)
2002/03	255	8%	8	0	$8 + 0 = 8$	11.47
2003/04	307	0	0	0	$0 + 0 = 0$	14.26
2004/05	335	0	0	0	$0 + 0 = 0$	13.24
2005/06	612	5%	5	0	$5 + 0 = 5$	18.27
2006/07	1176	12.59%	12.59	35%	$12.59 + .35 * 1176 = 424.19$	39.35
2007/08	1511	0	0	0	$0 + 0 = 0$	28.33
2008/09	1900	2.11%	2.11	40%	$2.11 + .40 * 1900 = 762.11$	36.11

( Source: 16<sup>th</sup> Annual report of Nepal SBI Bank Limited)

\* Value of stock dividend is calculated on that year's closing MPS

## 2. Major Financial indicators of Everest Bank Limited

Fiscal Year	Closing MPS (Rs.)	Cash Dividend (%)	DPS (Cash) (Rs.)	Stock Dividend (% of current year's price)	Total Dividend= Cash dividend + Stock dividend (Rs.)	Earning per share (EPS)
2002/03	445	20%	20	0	$20 + 0 = 20$	29.9
2003/04	680	20%	20	0	$20 + 0 = 20$	45.58
2004/05	870	0	0	20%	$0 + 174 = 174$	54.22
2005/06	1379	25%	25	0	$25 + 0 = 25$	62.78
2006/07	2430	10%	10	30%	$10 + 0.30 * 2430 = 739$	78.42
2007/08	3132	20%	20	30%	$20 + 0.30 * 3132 = 959.6$	91.82
2008/09	2455	30%	30	30%	$30 + 0.30 * 2455 = 766.50$	99.99

( Source: 15<sup>th</sup> Annual report of Everest Bank Limited )

\*Value of stock dividend is calculated on that year's closing MPS

## Appendix-1

### 3. Calculation of Dividend Payout ratios (D/P ratio) and Retention ratios

#### Dividend Payout ratios and Retention ratios of Nepal SBI Bank Limited

<b>Fiscal Year</b>	<b>Cash DPS (Rs.)</b>	<b>EPS (Rs.)</b>	<b>D/P ratio = (Cash DPS/EPS) *100% (%)</b>	<b>Retention ratio = 100% - D/P ratio % (%)</b>
2002/03	8	11.47	(8/11.47) *100 = 68.14	31.86
2003/04	0	14.26	(0/14.26)* 100 = 0	100
2004/05	0	13.24	(0/13.24) * 100 = 0	100
2005/06	5	18.27	(5/18.27) * 100 = 27.36	72.64
2006/07	12.59	39.35	(12.59/39.35) *100 = 32	68
2007/08	0	28.33	(0/28.33)*100 = 0	100
2008/09	2.11	36.18	(2.11/36.18)*100=5.83	94.17
<b>Average</b>	<b>3.96</b>	<b>23.01</b>	<b>19.05</b>	<b>80.95</b>
<b>S.D.</b>	<b>4.87</b>	<b>11.52</b>	<b>25.53</b>	<b>25.53</b>
<b>C.V.</b>	<b>123.09</b>	<b>50.06</b>	<b>134.03</b>	<b>31.68</b>

( Source: 16<sup>th</sup> Annual report of Nepal SBI Bank Limited)

#### **Dividend Payout ratios and Retention ratios of Everest Bank Limited**

<b>Fiscal Year</b>	<b>Cash DPS (Rs.)</b>	<b>EPS (Rs.)</b>	<b>D/P ratio = (Cash DPS/EPS) *100% (%)</b>	<b>Retention ratio = 100% - D/P ratio % (%)</b>
2002/03	20	29.9	66.89	33.11
2003/04	20	45.58	43.88	56.12
2004/05	0	54.22	0.00	100
2005/06	25	62.78	39.82	60.18
2006/07	10	78.42	12.75	87.25
2007/08	20	91.82	21.78	78.22
2008/09	30	99.99	30	70
<b>Average</b>	<b>17.86</b>	<b>66.10</b>	<b>30.73</b>	<b>69.27</b>
<b>S.D.</b>	<b>9.94</b>	<b>25.32</b>	<b>22.03</b>	<b>22.03</b>
<b>C.V. (%)</b>	<b>33.13</b>	<b>38.30</b>	<b>71.68</b>	<b>31.80</b>

( Source: 15<sup>th</sup> Annual report of Everest Bank Limited)

## **Appendix-1**

### **4. Computation of Retained Earnings Per share**

### Retained Earnings Per Share of Nepal SBI Bank Limited

Fiscal Year	Cash DPS (Rs.)	EPS (Rs.)	RPS = EPS – Cash DPS (Rs.)
2002/03	8	11.47	3.47
2003/04	0	14.26	14.26
2004/05	0	13.24	13.24
2005/06	5	18.27	13.27
2006/07	12.59	39.35	26.76
2007/08	0	28.33	28.33
2008/09	2.11	36.18	34.07
<b>Average</b>	<b>3.96</b>	<b>23.01</b>	<b>19.06</b>
<b>S.D.</b>	<b>4.87</b>	<b>11.52</b>	<b>10.83</b>
<b>C.V. (%)</b>	<b>123.09</b>	<b>50.06</b>	<b>56.84</b>

( Source: 16<sup>th</sup> Annual report of Nepal SBI Bank Limited)

### Retained Earnings Per Share of Everest Bank Limited

Fiscal Year	Cash DPS (Rs.)	EPS (Rs.)	RPS = EPS – Cash DPS (Rs.)
2002/03	20	29.9	9.9
2003/04	20	45.58	25.58
2004/05	0	54.22	54.22
2005/06	25	62.78	37.78
2006/07	10	78.42	68.42
2007/08	20	91.82	71.82
2008/09	30	99.99	69.99
<b>Average</b>	<b>17.86</b>	<b>66.10</b>	<b>48.24</b>
<b>S.D.</b>	<b>9.94</b>	<b>25.32</b>	<b>24.38</b>
<b>C.V. (%)</b>	<b>33.13</b>	<b>38.30</b>	<b>50.52</b>

( Source: 15<sup>th</sup> Annual report of Everest Bank Limited )

## Appendix -2

### Calculation of Correlation Coefficients:

#### 1.DPS and EPS of Nepal SBI Bank Limited

Fiscal year	DPS (Rs.) (X)	EPS (Rs.) (Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2002/03	8	11.47	91.76	64	131.561
2003/04	0	14.26	0	0	203.348
2004/05	0	13.24	0	0	175.298
2005/06	5	18.27	91.35	25	333.793
2006/07	12.59	39.35	495.417	158.508	1548.42
2007/08	0	28.33	0	0	802.589
2008/09	2.11	36.18	76.3398	4.4521	1308.99
<b>n =7 Total</b>	<b>∑X = 27.7</b>	<b>∑Y = 161.1</b>	<b>∑XY = 754.8668</b>	<b>∑X<sup>2</sup> = 251.9601</b>	<b>∑Y<sup>2</sup> = 4503.999</b>

( Source: 16<sup>th</sup> Annual report of Nepal SBI Bank Limited)

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\left[ n \sum X^2 - (\sum X)^2 \right] \times \left[ n \sum Y^2 - (\sum Y)^2 \right]}} = +0.35$$

#### 2. DPS and EPS of Everest Bank Limited

Fiscal Year	DPS (Rs.) (X)	EPS (Rs.) (Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2002/03	20	29.9	598	400	894.01
2003/04	20	45.58	911.6	400	2077.54
2004/05	0	54.22	0	0	2939.81
2005/06	25	62.78	1569.5	625	3941.33
2006/07	10	78.42	784.2	100	6149.7
2007/08	20	91.82	1836.4	400	8430.91
2008/09	30	99.99	2999.7	900	9998.0001
<b>n =7 Total</b>	<b>∑X = 125</b>	<b>∑Y = 462.71</b>	<b>∑XY = 8699.4</b>	<b>∑X<sup>2</sup> = 2825</b>	<b>∑Y<sup>2</sup> = 34431.3001</b>

( Source: 15<sup>th</sup> Annual report of Everest Bank Limited )

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\left[ n \sum X^2 - (\sum X)^2 \right] \times \left[ n \sum Y^2 - (\sum Y)^2 \right]}} = 0.29$$

## Appendix -2

### 3. DPS and MPS of Nepal SBI Bank Limited

Fiscal Year	DPS (Rs.) (X)	Closing MPS(Rs.) (Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2002/03	8	255	2040	64	65025
2003/04	0	307	0	0	94249
2004/05	0	335	0	0	112225
2005/06	5	612	3060	25	374544
2006/07	12.59	1176	14805.8	158.508	1382976
2007/08	0	1511	0	0	2283121
2008/09	2.11	1900	4009	4.4521	361000
<b>n =7 Total</b>	$\sum X =$ <b>27.7</b>	$\sum Y =$ 6096	$\sum XY =$ <b>23914.8</b>	$\sum X^2 =$ <b>251.9601</b>	$\sum Y^2 =$ <b>7922140</b>

( Source: 16<sup>th</sup> Annual report of Nepal SBI Bank Limited)

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\left[ n \sum X^2 - (\sum X)^2 \right] \times \left[ n \sum Y^2 - (\sum Y)^2 \right]}} = (0.02)$$

### 4. DPS and MPS of Everest Bank Limited

Fiscal Year	DPS (Rs.) (X)	Closing MPS (Rs.) (Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2002/03	20	445	8900	400	198025
2003/04	20	680	13600	400	462400
2004/05	0	870	0	0	756900
2005/06	25	1379	34475	625	1901641
2006/07	10	2430	24300	100	5904900
2007/08	20	3132	62640	400	9809424
2008/09	30	2455	73650	900	6027025
<b>n =7 Total</b>	$\sum X =$ <b>125</b>	$\sum Y =$ 11391	$\sum XY =$ <b>217565</b>	$\sum X^2 =$ <b>2825</b>	$\sum Y^2 =$ <b>25060315</b>

( Source: 15<sup>th</sup> Annual report of Everest Bank Limited )

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\left[ n \sum X^2 - (\sum X)^2 \right] \times \left[ n \sum Y^2 - (\sum Y)^2 \right]}} = +0.23$$

## 5. Dividend Payout ratios of Nepal SBI and Everest Bank Limited

Fiscal Year	D/P ratio of SBI (X)(%)	D/P ratio of EBL (Y)(%)	XY	X <sup>2</sup>	Y <sup>2</sup>
2002/03	68.14	66.89	4557.88	4643.06	4474.27
2003/04	0	43.88	0	0	1925.45
2004/05	0	0.00	0	0	0
2005/06	27.36	39.82	1089.48	748.57	1585.63
2006/07	32	12.75	408	1024	162.563
2007/08	0	21.78	0	0	474.368
2008/09	5.83	30	174.9	33.9889	900
<b>n =7 Total</b>	<b>∑ X =133.33</b>	<b>∑ Y = 251.12</b>	<b>∑ XY = 6230.26</b>	<b>∑ X<sup>2</sup> = 6449.6189</b>	<b>∑ Y<sup>2</sup> = 9522.281</b>

( Source: Annual report of Nepal SBI bank Limited and Everest Bank Limited )

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\left\{n \sum X^2 - (\sum X)^2\right\} \times \left\{n \sum Y^2 - (\sum Y)^2\right\}}} = +0.63$$

## 6. Retention ratios of Nepal SBI and Everest Bank Limited

Fiscal Year	Retention ratio of SBI (X)(%)	Retention ratio of EBL (Y) (%)	XY	X <sup>2</sup>	Y <sup>2</sup>
2002/03	31.86	33.11	1054.88	1015.06	1096.27
2003/04	100	56.12	5612	10000	3149.45
2004/05	100	100	10000	10000	10000
2005/06	72.64	60.18	4371.48	5276.57	3621.63
2006/07	68	87.25	5933	4624	7612.56
2007/08	100	78.22	7822	10000	6118.37
2008/09	94.17	70	6591.9	8867.99	4900
<b>n =7 Total</b>	<b>∑ X = 566.67</b>	<b>∑ Y = 484.88</b>	<b>∑ XY = 41385.26</b>	<b>∑ X<sup>2</sup> = 49783.62</b>	<b>∑ Y<sup>2</sup> = 36498.28</b>

( Source: Annual report of Nepal SBI bank Limited and Everest Bank Limited )

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\left\{n \sum X^2 - (\sum X)^2\right\} \times \left\{n \sum Y^2 - (\sum Y)^2\right\}}} = 0.63$$

## Appendix -2

### 7. Total dividend of Nepal SBI and Everest Bank Limited

Fiscal Year	Total dividend of SBI (Rs.) (X)	Total dividend of EBL (Rs.) (Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2002/03	8	20	160	64	400
2003/04	0	20	0	0	400
2004/05	0	174	0	0	30276
2005/06	5	25	125	25	625
2006/07	424.19	739	313476	179937	546121
2007/08	0	959.6	0	0	920832
2008/09	762.11	766.50	584157.315	580811.6521	587522.25
<b>N=7 Total</b>	<b>∑ X = 1199.3</b>	<b>∑ Y = 2704.1</b>	<b>∑ XY = 897918.315</b>	<b>∑ X<sup>2</sup> = 760837.6521</b>	<b>∑ Y<sup>2</sup> = 2086176.25</b>

( Source: Annual report of Nepal SBI bank Limited and Everest Bank Limited )

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\left[ n \sum X^2 - (\sum X)^2 \right] \left[ n \sum Y^2 - (\sum Y)^2 \right]}} = + 0.57$$



## Appendix - 3

### Calculation of Dividend Yield and Earnings Yield

#### Nepal SBI Bank Limited

Fiscal Year	Closing MPS (Rs.)	Total Dividend (Rs.)	Dividend Yield = total dividend /MPS (%)	Earning per share (EPS) (Rs)	Earning Yield (%)
2002/03	255	8	$(8/255*100) = 3.13$	11.47	4.5
2003/04	307	0	0	14.26	4.64
2004/05	335	0	0	13.24	3.95
2005/06	612	5	0.81	18.27	2.98
2006/07	1176	424.19	36	39.35	3.34
2007/08	1511	0	0	28.33	1.875
2008/09	1900	762.11	40.11	36.18	1.90

( Source: 16<sup>th</sup> Annual report of Nepal SBI bank Limited)

#### Everest Bank Limited

Fiscal Year	Closing MPS (Rs.)	Total Dividend (Rs.)	Dividend Yield = total dividend /MPS (%)	Earning per share (EPS) (Rs)	Earning Yield (%)
2002/03	445	20	$(20/445*100) = 4.50$	29.9	6.72
2003/04	680	20	2.94	45.58	6.70
2004/05	870	174	20	54.22	6.23
2005/06	1379	25	1.81	62.78	4.55
2006/07	2430	739	30.41	78.42	3.22
2007/08	3132	959.6	30.64	91.82	2.93
2008/09	2455	766.5	31.22	99.99	4.07

( Source: 15<sup>th</sup> Annual report of Everest Bank Limited )

## Appendix – 4

### Computation of trend values

#### 1. EPS of Nepal SBI Bank Limited

Fiscal Year	EPS (Rs) (X)	x = X-2006	X <sup>2</sup>	xY	Trend values Y <sub>c</sub> = 23.01 + 4.585x
2003	11.47	-3	9	-34.41	9.255
2004	14.26	-2	4	-28.52	13.84
2005	13.24	-1	1	-13.24	18.425
2006	18.27	0	0	0	23.01
2007	39.35	1	1	39.35	27.595
2008	28.33	2	4	56.66	32.18
2009	36.18	3	9	108.54	36.765
<b>Total</b>	$\sum Y =$ <b>161.1</b>	$\sum x =$ <b>0</b>	$\sum x^2 =$ <b>28</b>	$\sum xY =$ <b>128.38</b>	$\sum Y_c =$ <b>161.07</b>

( Source: 20<sup>th</sup> Annual report of Nepal SBI bank Limited)

$$a = \frac{\sum Y}{n} = \frac{161.1}{7} = 23.01 \quad \sum x = 0$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{128.38}{28} = 4.585$$

#### Estimation of trend values:

For year ending mid July 2010, x = 2010-2006 = 4  
 $Y_c = 23.01 + 4.585 * 4 = 41.35$

For year ending mid July 2011, x = 2011-2006 = 5  
 $Y_c = 23.01 + 4.585 * 5 = 45.935$

## 2. DPS of Nepal SBI Bank limited

Fiscal Year ending mid July	DPS (cash dividend) (Rs.) (Y)	$x = X - 2006$	$X^2$	$xY$	Trend values $Y_c = 3.957 - 0.181x$
2003	8	-3	9	-24	4.5
2004	0	-2	4	0	4.319
2005	0	-1	1	0	4.138
2006	5	0	0	0	3.957
2007	12.19	1	1	12.59	3.776
2008	0	2	4	0	3.595
2009	2.11	3	9	6.33	3.414
<b>Total</b>	$\sum Y = 27.7$	$\sum x = 0$	$\sum x^2 = 28$	$\sum xY = -5.08$	$\sum Y_c = 27.699$

( Source: 16<sup>th</sup> Annual report of Nepal SBI bank Limited)

$$a = \frac{\sum Y}{n} = \frac{27.7}{7} = 3.957 \text{ provided that } \sum x = 0$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{-5.08}{28} = -0.181$$

### Estimation of trend values:

For year ending mid July 2010,  $x = 2010 - 2006 = 4$   
 $Y_c = 3.957 - 0.181 * 4 = 3.233$

For year ending mid July 2011,  $x = 2011 - 2006 = 5$   
 $Y_c = 3.957 - 0.181 * 5 = 3.052$

## 3. EPS of Everest Bank Limited

Fiscal year	EPS (Rs)	$x = X - 2006$	$x^2$	$xY$	Trend Values $Y_c = 66.10 + 11.68x$
2003	29.9	-3	9	-89.7	31.06
2004	45.58	-2	4	-91.16	42.74
2005	54.22	-1	1	-54.22	54.42
2006	62.78	0	0	0	66.10
2007	78.42	1	1	78.42	77.78
2008	91.82	2	4	183.64	89.46
2009	99.99	3	9	299.97	101.14
<b>Total</b>	$\sum Y = 462.71$	$\sum x = 0$	$\sum x^2 = 28$	$\sum xY = 326.95$	$\sum Y_c = 462.7$

$$a = \frac{\sum Y}{n} = \frac{462.71}{7} = 66.10, \text{ provided that } \sum x = 0$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{326.95}{28} = 11.677$$

For year ending mid July 2010,  $x = 2010 - 2006 = 4$   
 $Y_c = 66.10 + 11.68 * 4 = 112.82$

For year ending mid July 2011,  $x = 2011 - 2006 = 5$   
 $Y_c = 66.10 + 11.68 * 5 = 124.5$

#### 4. DPS of Everest Bank Limited

Fiscal Year	DPS (cash dividend) (Rs)	$x = X - 2006$	$x^2$	$xY$	Trend Values $Y_c = 17.85 + 1.43x$
2003	20	-3	9	-60	13.56
2004	20	-2	4	-40	14.99
2005	0	-1	1	0	16.42
2006	25	0	0	0	17.85
2007	10	1	1	10	19.28
2008	20	2	4	40	20.71
2009	30	3	9	90	22.14
<b>Total</b>	$\sum Y = 125$	$\sum x = 0$	$\sum x^2 = 28$	$\sum xY = 40$	$\sum Y_c = 124.95$

( Source: 15<sup>th</sup> Annual report of Everest Bank Limited )

$$a = \frac{\sum Y}{n} = \frac{125}{7} = 17.85, \sum x = 0$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{40}{28} = 1.43$$

#### Estimation of trend values:

For year ending mid July 2010,  $x = 2010 - 2006 = 4$   
 $Y_c = 17.85 + 1.43 * 4 = 23.57$

For year ending mid July 2011,  $x = 2011 - 2006 = 5$   
 $Y_c = 17.85 + 1.43 * 5 = 25$