CHAPTER I
INTRODUCTION

1.1 General Background

Dividend is the portion of net profit if financial statement shows net profit, the Board of director (BOD) declare dividend to share holder. The payment of corporate dividend is at the discretion of BOD. Dividend may be paid in cash and Stock. Common shareholders are not promised a dividend, but he or she grows to expect certain payment on the historical dividend pattern of firm. Before dividend are paid to common stock holder. The claims of all creditors, the government and preferred stock holders must satisfy. Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm (Weston, Copeland and Shastri, 2004). Dividend policy is a major decision of firm a firm's dividends into two parts: the retained earnings and dividends.

The retained earning means to provide funds to the firm for long term growth from its net earnings. Retained earnings are most significant internal sources of financing the growth of firm. On the other hand, dividends are desirable from shareholder point of view as it tends to increase their current wealth. Dividends constitute the use of the firm's funds. Thus, the two objective of dividend policy distribution of dividend and retained of earning for growth, through desirable, are in conflict. There is reciprocal relationship between retained earnings and cash dividends. A higher dividend rate means less retained earning lesser dividend rate means high retained earnings. If retained earnings is less the growth will be slower and lower market price per share. So, the financial manager must very carefully decide the allocation of earning between dividends and retained earnings, as their decision affects the value of firm and as a result, the value of firms cost of capital. Friend and Puckett (1964) studied dividend and stock prices using cross section data to test the effect of dividend payout on share value using regression model.

Dividend policy and stock price has always correlation; if the company pays high dividend the stock price increase and vice-versa. But in some cases out of their inter

relation. The price may remain constant or decrease low. Therefore the information lack or flow is also vital in the analysis of MPS.

The main Focus of the study is dividend policy practice in Nepalese commercial Bank. But for whole these purpose different other studies are going to be done i.e. comparison of EPS, DPS, and MPS and other relevant studies as for requirement. Someone says dividend payment has no impact on valuation and someone says to be active variable for valuation of stock price.

1.2 Statement of Problem

Dividend, the most inspiring factor for the investment on shares of the corporations, is an important aspect of financial management. While dividend policy determines the division of earnings between payment to shareholders and reinvestment in the firm to exploit growth opportunities. It affects the value of firm as well as overall financing decision such as financial structure, the flow of funds, corporate liquidity and investor's satisfaction James E. Walter (1963).

The dividend decision, however, is still a crucial as well as controversial area of managerial finance. There is no consensus among the financial scholars on this subject matter and its relation with stock price**.** Miller and Modigliani (1961) theory dividend irrelevant theory state that dividend decision does not affect shareholders wealth in the context of perfect capital market. However, in practice, the assumption of capital market perfection does not exist that lead to the situation where dividend policy is relevant matter to determine value of firm and market value of equity Walter (1963). It is rather hard to define whether dividend per share has positive effect or its effect is negative one in imperfect capital market. Dividend is desirable for the shareholders, which inspires them for the further investment on company's shares. But it is found that there is no satisfactory result about dividend decision of commercial banks in Nepal. Likewise, dividend distribution does not match with the earning of the commercial banks, there does not exist a proper relationship between dividend and quoted market price of share. Similarly, commercial banks with lower returns record stable price of share and banks making sound returns do not stable in share price.

It is because, among the various reasons, the government rules and regulations, ownership patterns, attitudes of management, forms of management may be the partial causes of such a situation. In practice, every firm follows some kinds of dividend policy and there is no unique dividend policy which is appropriate for all firms. So they follow different policies. In general, it is assumed that there is relationship between dividend and stock price but dividend and stock prices established by much finance scholars need to be tested in the context of Nepal. In this regard this study deals with the following issues.

- Is there any relationship between dividend decision and market price per share?
- Do dividend per share, earnings per share, payout ratio, and price earnings ratio effect on market price of stock?

1.3 Objectives of Study

The main objective of the study is to evaluate the dividend per share, earnings per share, payout ratio, price earnings ratio and its impact on market price of stock of selected joint venture commercial banks. Beside this, following are the specific objectives:

- To compare the dividend per share, earnings per share, dividend payout ratio, price earnings ratio and market price of joint venture commercial banks in Nepal.
- To measure the relationship between dividend per share, earnings per share, dividend payout ratio, price earnings ratio and Market price of common stock in Nepalese commercial banks.
- To examine the effect of dividend per share, earnings per share, dividend payout ratio, price earnings ratio on market price of stock.

1.4 Research Framework

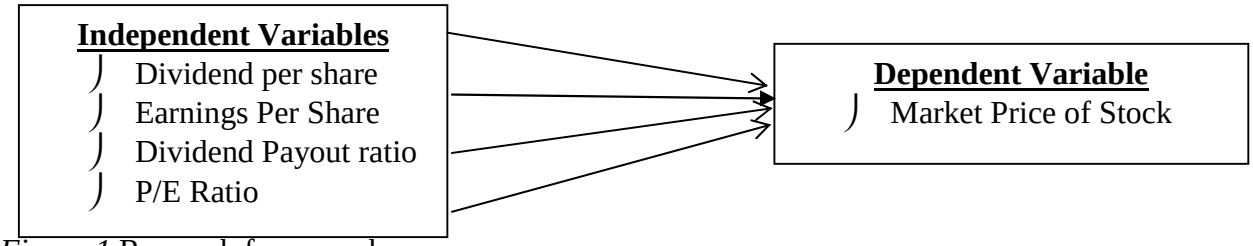

*Figure 1.*Research framework

1.5 Hypothesis of the Study

Based upon the empirical review and various theories of dividend following alternative hypothesis has been formulated.

H_1: There is positive relationship between dividend per share and market price of common stock.

H_2: There is Positive relationship between earnings per share and Market Price of common Stock.

H_3: There is Positive relationship between Dividend payout ratio and Market Price of common Stock.

H_4: There is Positive relationship between P/E Ratio and Market Price of Stock.

H_5: There is positive impact of dividend on market price of common stock (i.e. $\beta 1 > 0$).

H_6: There is Positive impact on Earnings per Share on Market Price of Stock (i.e. $\beta 2 > 0$).

H_7: There is Positive impact on Dividend payout ratio on Market Price of Stock (i.e. $\beta 3 > 0$).

H_8: There is Positive impact on P/E Ratio on Market Price of Stock (i.e. $\beta 4 > 0$).

1.6 Significance of the Study

Dividend decision is the one of the most important decision and it play vital role in every organization. Investor of the organization expects return from their past investment as dividend. By the dividend policy it became an effective way to attract new investors. This study is helpful to understand the dividend payment policy of the commercial bank in Nepal. It will helpful to the policy maker, shareholder and management of the selected commercial bank. It will be important for the government policy maker, controller, monitor and supervising department to regulate the commercial Bank in Nepal. This study will help to the further researchers.

1.7 Limitations of the Study

Following are the limitations of the study:

- Most of the data are correction of study findings depends on the reliability of the data.
- The analysis of the study covers only five years period inclusion of other fiscal year data may provide different result.
- There are many factors that affect market price of stock. However dividend related factor have only been consider.
- The study has been conducted only in six commercial banks hence the results may not represent to all commercial banks of nepal.

1.8 Organization of the study

The study has been organized into five chapters.

Chapter fist deals with subject matter of the study consisting back ground of study, focus of study, statement of the problem, objective of study, significance of the study, limitation of the study and organization of study.

Chapter second contains the review of the different literature of the study field. Therefore it includes conceptual frame work along with the review of major books, journal, research work and thesis etc.

Third chapter deals with research design, population and sample, source and technique of data collection, data analysis tools and limitation of the methodology.

Chapter 4 deals with presentation and analysis of data and information through a defined course of research methodology.

Chapter 5 deals with summary of study, the conclusion and major finding of the study. The bibliography, annexes are incorporated at the end of the study.

CHAPTER II
REVIEW OF LITERATURE

This Chapter is organized into three sections. First part of this chapter is theoretical review with concerned topic, in second part Empirical review on national and international content has been presented and finally research gap has been provided at the end of the chapter,

- Theoretical Review
- Empirical Review
- Research Gap

2.1 Theoretical Review

Every investor invests their money to buy share of firms with the hope of sharing profit earned by firm since they want to receive maximum returns on their investment. It depends upon management policy that how much total profit to distribute as dividend and how much to retain in the business. But this is fact that all the profit made by firms actually belong to stockholders. Whether profit are distributed in the firm of dividend or reinvested in the business, benefits go to shareholders directly or indirectly. Walter (1966) conducted a study on dividend and stock prices. Study proposed a model for share valuation. According to him, the dividend policy of the firm affects the value of the shares. So, the dividends are relevant. He argues that the choice of dividend policies always affect the value of enterprise. Study shows clearly the importance of the relationship between internal rate of return (R) and its cost of capital (k) in determining the dividend policy.

The assumptions of the Walter's model are as follows:-

a. Firm finances all investment through retained earnings. The external funds (i.e. debt, new equity) are not used for new investment.
b. All earnings on the firm's investment(R) and the cost of capital (k) are constant.
c. All earnings are either distributed as dividend or reinvested internally..
d. The values of EPS and DPS are assumed to remain constant forever in determining a given value.
e. The firm has a perpetual or infinite life.

Based on these above assumptions, Walter has given following formula of valuation of equity share.

$$P=\frac{DPS}{K_e}+\frac{r/k_e(EPS-DPS)}{K_e}$$

Where,

P=market value of an equity share (market price per share)

DPS=Dividend per share

EPS=Earning per share

r=The rate of return on the firm's investment

k_e=cost of capital/capitalization rate

According to Walter's model, the optimum dividend policy dependson the relationship between the firm's internal rate of return (r) and its cost of capital (k).

2.1.2 Theories of Dividend

1. Residual Theory of Dividend

"This theory assumes that external source of finance is not available, the same cannot be used due to its excessive cost. Accordingly, how much dividend a company should distribute will depend on how much investment opportunities it has available at present. If there are positive NPV projects available then instead paying dividends to shareholders the same can be used in financing the positive projects. In the case shareholders wealth maximized by reducing dividend at all. Shareholders will be compensated for this reduction on null dividend now by a gain in the form of higher dividend in the future.

Dividends are thus residual payment in the sense that this is paid provide sufficient earnings are retained in the company to finance new investments. This residual theory treats dividend as a passive decision which is completely depended on how much amount or whether company employs earnings is in financing profitable projects. Thus the dividend will vary from year to year. But such fluctuations in dividend have no effect on shareholders as they are compensated of present loss, if any of dividend by future capital gain" (Waring, 1983).

2. Dividend stability

The major aspect of the dividend policy of a firm is the stability of dividends. Stability of dividend payments is an attractive feature of many investors. The investors favor a stable dividend as much as they do the payment of dividends (D/P ratio). By stability we mean maintaining the position of the firm's dividend payments in relation to a trend line.

Preferably one that is upward sloping. All other things being the same, a share of stock may command a higher price of it pays at a fixed percentage of earnings. "The term dividend stability refers to the consistency or lack of variability in the stream of dividends" (Van Horne, 1971). In more precise terms it means that a certain minimum amount of dividends can be any of the following three forms.

Modigliani and Miller (1961) conducted a study on the irrelevance of dividend. This is popularly, known as mm approach. It is sometimes termed as Dividend Irrelevance model. According to MM, dividend policy of a firm is irrelevant as it does not affect the wealth of the stockholders. They argue that the value of the firm depends on the earning power of the firm's assets or its investment policy. Thus, when the investment policy is given, the dividend decision-splitting the earnings into packages of retentions and dividends do not influence the value of equity shares. In other words, the division of earnings between dividend and retained earnings is irrelevant from shareholders viewpoint.

In general, the argument supporting the irrelevance of dividend valuation is that dividend policy of the firm is a part of its financing decisions. As a part of the financing decisions of the firm, the dividend policy of the firm is a residual decision and dividends are passive residual.

The mm approach of irrelevance dividend is based on the following critical assumptions:-

a. The firms operate in perfect capital market where investors are rational. Information is freely available to all. Securities are infinitely divisible and no investor is large enough to influence the market price of securities.
b. There are no inflation costs. The securities can be purchased and sold without payment of any commission or brokerage etc.

c. Taxes do not exist.
d. The firm has a definite (fixed) investment policy, which is not subject to change.
e. Risk of uncertainty does not exist. Investors are also able to forecast future prices and dividends with certainty, and one discount rate is appropriate for all securities and all time periods.

Thus r =k=k_t for all time.

M-M provide the proof in support of the argument in the following manner.

Step-one:-

The market price of a share of the firm in the beginning the period is equal to the present value of the dividends paid at the end of the period plus the market price of the share at the end of the period.

Symbolically,

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

Where,

P_0= current market price of a share (market price at the beginning or at the zero period.)

K_e=the cost of equity capital (assumed constant)

D_1=the dividend per share to be reduced at the end of the period one

P_1=the market price of the share at the end of the period one.

Step-two:

Multiply both sides of equation (1) by the number of shares outstanding (n) to obtain the total value of the firm if no new financing exists.

$$np_0 \; X \frac{(n(D_1 \; \Gamma \; P_1)}{1 \Gamma \; K_e}$$

Where,

np_0=no of outstanding shares at zero period

Step-three

if the firm issues (sells) number of new shares (m)to finance the new investment needs of the fund at a price of p1,the value of the firm at the time zero will be ;

$$np_o = \frac{n(D_1 + P_1) + (nP_1 - mP_1)}{1 + K_e} \quad \ldots\ldots\ldots\ldots\ldots (2)$$

$$np_o = \frac{nD_1 + P_1 + nP_1 - mP_1}{1 + K_e} \quad \ldots\ldots\ldots\ldots\ldots (3)$$

Where,

n = no of shares at the beginning (no of outstanding shares at zero period) ,

m= no of equity shares issued at the end of the period.

Step-four

The investment proposals of a firm, in a given period of time can be financed, either by retained earnings or the issuance of new shares or both. Thus the amount of new issued will be:

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

$$\text{Or, } mp_1 = I - E + nD_1 \quad \ldots\ldots \quad (4)$$

Where,

I=investment need

E=Earnings available

Step-five

By substituting the value of mp_1 from equation (4) to equation (3),we get,

$$np_o = \frac{nD_1 + (n+m)p_1 - I + E - nD_1}{1 + K_e}$$

$$np_o = \frac{p_1(n+m) - I + E}{1 + K_e} \quad \ldots\ldots\ldots\ldots\ldots (5)$$

Step- six

Conclusion:-since dividend does not appear directly in expression and E,I,$(n+m)p_1$, and k_e are assumed to be independent of dividend.

In other words, mm concludes that dividend policy is irrelevant and dividend policy has no effect in the value of the firm. A firm that pays dividend will have to raise funds externally to finance its investment plans. mm hold that when that when the firm pays dividend externally to financing offsets its advantage.

Gordon (1962) conducted a study on the stock valuation using the dividend capitalization approach. Gordon concludes that dividend policy does affect the value of shares even when the return on investment and required rate of return are equal. Study explainsthat investments are not indifferent between current dividend and retention of earnings with the prospect of future dividends, capital gain and both. The conclusion of this study is that investors have a strong preference for present dividends to future capital gains under the condition of uncertainty .It is assumed that current dividend is less risky than the expected capital gain. Gordon argument stresses that an increase in dividend payout ratio leads to increase in the stock price for the reason that investors consider the dividend yield (D_1/p_0) is less risky than the expected capital gain.

Basic assumptions of this model are as follows

- The firm uses equity capital only,
- Internal rate of return (r) and cost of capital (k_e) are constant.
- The firm and its stream of earnings are perpetual.
- There are no taxes on corporate income.
- The retention ratio (b) once decided upon is constant. Thus the growth rate, (g=br)is constant forever.
- K_e'must be greater than g(=br) to get meaningful value.
- The source of financing for new investment is only retained earnings. No external financing is available.

Gordon's model is also known as GROWTH MODEL.

The formula for finding out the market value per share, proposed by Gordon is given below

$$P = \frac{E\,(1-b)}{k_e - b_r} = \frac{E\,(1-b)}{k_e - b_g}$$

Where,

p=price of share/ market value per share

E=Earnings per share

b=Retention ratio/percentage of retained earning

1-b=Dividend payout ratio (i.e, percentage of earning distributed as dividend)

K_e=capitalization rate/cost of capital

b_r=g or growth rate in r, (i.e., rate of return on investment of an all equity firm)

Van Horne and McDonald, (1971) concluded a comprehensive study of 86 electric utility firms and 39 electronics and electric component industries by using cross sectional regression model in 1968 to know the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stock. They employed two-regression model for electric utilities and one regression model for electronics component industry. From their study they concluded that The market price of share was not affected by new equity financing in presence of cash dividend except for these in the highest new issue group and it made new equity more costly from of financing than retention of earning, They also indicated that the payment of dividend through excessive equity financing reduces the market price of share.

2.2 Empirical Review

Study of Shrestha (2015) Found that, The Government wants two things from the public enterprises. They should be in a position to pay minimum dividend and public enterprises should be self supporting in financial matters in future years to come. But these both objectives are not achieved by public enterprises.

- One reason for this inefficiency is caused by excessive governmental interference over daily affairs even though there is provision of government interference only for policy matters .on the other hand, high ranking officials of Nepal Government appointed as directors of board do nothing but simply show their bureaucratic personalities, Bureaucracy has been the enemy of efficiency and thus led corporation to face losses. Losing corporations are, therefore, not in a position of pay dividends to government.
- Another reason for this is lack of self-consciousness.

Friend and Puckett (1964) conducted a study on the relationship between dividends and stock prices. They used the regression analysis on the data of 110 firms from the industry samples, viz., chemicals (n=20), electronics (n=20), electric utilities (n=25), foods (n=25), and steels (n=20), in each of two years, 1956 and 1958. The industries ever selected to permit a distinction to be made between the results for growth and non-growth industries and to provide a basis for comparison with results by other authors for earlier years. Both cyclical and non-cyclical industries were covered. The periods covered include a boom year for the economy when stock prices leveled off after a substantial rise (1956) and a somewhat depressed year for the economy when stock prices, however, rose strongly (1958).

The Study used two-regression model of price function and dividend supply function. In price function, dividends, retained earnings and price earnings ratio are independent variables, whereas, earnings, last year's, dividends and price earnings ratio are independent variables in dividend supply function. Symbolically, their price function and dividend supply function can be written as:

Price function; $P_t=a+b\ D_t+c\ R_t+ d\ (E/P)\ t\text{-}1$

Where,

P_t=per share price at time t

D_t=Dividends at time t

R_t=Retained earnings at time t

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

And, Dividend supply function;

$D_t= e + f\ E_t + g\ D\ t\text{-}1 + h\ (E/P)\ t\text{-}1$

Where,

E_t=Earnings per share at time t

P_{t-1}=last year dividend

The followings were the basic assumptions of their study:

- Dividends do react to year-to-year fluctuations in earnings.
- Price does not contain speculative components.
- Earnings fluctuations may not sum zero over the sample.

Friend and Puckett concluded that dividends have p predominant influence on stock prices in the same three out of five industries but the differences between the dividends and retained earnings coefficients were closer to each other for all industries in both years except for steels in 1956, and the correlations are higher, again except for steels.

- At last, Friend and Puckett found a conclusion that, it is possible that management might be able, at least in some measure, to increase stock prices in non-growth industries by raising dividends, and in growth industries by greater retention, i.e, smaller(lower) dividends.

Shrestha (2016) article "Shareholders" Democracy and annual General meeting Feedback" has dealt with the policies and financial performance of some financial companies and has made the following outcomes

- The cost-push inflation at exorbitant rate has made the shareholders to expect higher return from their investment.
- Multiple decreases in the purchasing power of the Nepalese currency to the extent that higher return by the way of dividend is just a natural economic consequence of it.
- Erosion in the purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholders' purchasing power by raising dividend payout ratio on the basis of both earnings and cost theory.
- Indo-Nepal trade and transit deadlock has become a sort of economic warfare putting rise in the cost of living index to a considerable extent. This is one of the reasons, which made shareholders to expect higher demand for satisfactory dividend.
- The waiting of five years with peanut dividend in previous year is equally a strong enforceable reason of the bank's shareholders to expect handsome dividend already assured and committed in various reports of the earlier annual general meeting.
- One way to encourage risk-taking ability and preference is to have proper risk-return trade off by bank's management board in a way that higher return must be the investment rule for higher risk-takers that comprise bank's shareholder.

Study of Pradhan (2017) “Stock market behaviors in a small market: A case of Nepal" has conducted a study on small market Behavior in A Small Capital Market: A Case of Nepal in 2016. It is pertinent to put forth here because he has analyzed various ratios related to dividend and market price of shares. The study was based on the pooled-cross sectional data of 17 enterprises.

The objectives of this study were as follows:

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

Some findings of his study, among others, were as follows:

i) Stocks with larger ratio of dividend per share to market price per share have higher liquidity. Liquidity position of stocks paying lower dividends is also more variable as compared to stock paying higher dividends.

ii) Stocks with larger ratio of dividend per share to market price per share have lower leverage ratios. So, leverage ratios of stocks paying smaller dividends are also more variable as compared to stocks paying higher dividends.

iii) Stocks with larger ratio of dividend per share to market price per share also have higher earnings. But these earning ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.

iv) Positive relationship is observed between the ratio of dividend per share to market price per share and turnover ratios. Stocks with larger ratio of dividend per share to market price per share also have higher turnover ratios. Turnover ratios of stocks paying larger dividends are also more variable than that of stocks paying larger dividends are also more variable than that of stocks paying smaller dividends.

v) There is also positive relationship between the ratio of dividend per share to market price per share and interest coverage. Stocks with higher ratio of dividend per share to market price per share also have higher interest

coverage. Interest coverage stocks paying larger dividends is also more variable as compared to stocks paying smaller dividends.

vi) So, in conclusion, it indicates positive relationship of dividend per share to market price per share with liquidity, profitability, assets turnover and interest coverage; and negative relationship with leverage.

Likewise, Sharma (Rajopadhaya) (2012) conducted a research on "Dividend policy with respect to insurance companies in Nepal". The objectives of this research were;

- To identify the existing practice of dividend policy in insurance companies.
- To find out the impact of dividend per share of the market price of the stock.
- To examine whether there is significant different or not among DPS, EPS and DPR on the selected companies.
- To know if there is any relationship between market value per share (MVPS) ON dividend policy and other financial indicator such as DPS, EPS, DPE, PE Ratio, liquidity ratio.

Some major Findings of the study are pointed out as:

a. The average DPS and EPS of NLGICO and NICO is satisfactory compared to ICO and UICO.
b. The insurance companies are new in dividend distribution.
c. The analysis of coefficient of variation indicates largest fluctuation in PICO and UICO.
d. The dividend is fluctuation in all sample in all sample insurance companies.

However, Adhikari (2014) carried out a research on "Corporate dividend practices in Nepal" using primary as well as secondary data. The main objectives of his research were:

a. To analyze the properties of portfolios formed on dividend.
b. To examine the relationship between dividend and stock prices.
c. To survey the opinions of financial executives on corporate dividend practices.

Major findings of this research are:

a. Financial position of high dividend paying companies is comparatively better than that of low dividend companies.
b. Market price of stock of both finance and non finance sectors are affected by dividends.
c. There is a positive relationship between dividend and stock price.
d. There is a negative relationship between dividend payout and earnings before tax to net worth.
e. Stocks with larger ratio of DPS to book value per share have higher profitability. These profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.
f. Companies paying higher are reluctant to employ higher degree of leverage in their capital structures.
g. The stocks with larger ratio of dividend per share to book value per share have also higher turnover ratio and higher interest coverage.

Study of Budhathoki (2015) Found that the main objectives of the study were;

a. To highlight the dividend practices of commercial Banks.
b. To compare the dividend policy followed by different commercial banks chosen.
c. To provide the sample with some fruitful suggestion that can be implemented easily and possible guideline to overcome various issues and gaps based on the findings of the analysis.

Some of the major findings of this study are:

a. The average earning per share (EPS) of the banks under study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS.
b. The average dividend per share (DPS) shows that there is no regularity in dividend payment.
c. The analysis of DPR shows that the Dividend Payout Ratio (DPR) of the banks is not stable.
d. The average market price shows that there is quite high level of fluctuation.

Bhattarai (2016) conducted study on *"Dividend Decision and its impact on stock valuation."* The objectives of this study were as follows:

a. To test the relationship between dividend per share and stock prices.
b. To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio.
c. To determine the impact of dividend policy or payout ratio.

The study used simultaneous equation models are developed by friend and puckett (2015), to explain the prices behavior. The findings of the study were as follows:

a. The relationship between dividend per share and stock prices is positive in the sample companies.
b. Dividend per share affects the share prices variedly in different sectors.
c. Changing the dividend policy or dividend per share might help to increase in market price of shares.
d. The relationship between prices and retained earnings per share is not prominent.
e. The relationship between stock prices and lagged earnings price ratio is negative.

Pandey (2016) researched on "Pricing and yield behavior of Equity shares in Nepal: A case of commercial Banks " on March 2016. The main objectives of the study are:

a. To establish relationship between market prices of commercial bank's equity shares and their yield behavior in Nepal.
b. To see how effective is yield in determining the market price of the securities?
c. If yield is not the sole determining factor then what could be other factors, which could affect the market prices of the securities in Nepal.
d. To identify problems of securities market in Nepal and suggest measure to correct the existing problems.

Main findings of this research are:

a. Market prices of the equity shares ate overvalued when compared to the earnings per share, which is the primary indicator of the financial status of the concerned financial institution. This was mainly due to ignorance and Improper access to financial health of the company.
b. The result of simple regression analysis between the market price and yield indicator reflected that net worth per share explained the best of the market prices

compared to other indicators. Dividend per share and earnings per share were equally explanatory, whereas dividend payout ratio was not a good indicator of stock pricing. The result showed that market price corresponds to the earnings per share at a greater extent and then to dividend per share and then to earnings per share.

2.3 Research Gap

There have been many national and international studies in the field of dividend policy to date. Those studies have tried to find out the relationship between dividend policy and market price of the stock. But, as the Nepalese capital market is in the early stage of development, the conclusion made by the international studies may not be relevant in the Nepalese context. So far the Nepalese studies concerned, there are some studies done which can be considered to be landmark in the field of dividend policy; but many more changes have taken place in Nepalese capital market in last few years and the validity of the past results are doubtful in the present context. Besides this, some researchers have taken only few.

Firms of the same sector as sample and so, the results drawn from those studies may not be accurate to represent the present practices and efforts made in the Nepalese capital markets. So, it is necessary to carry out a fresh study related to dividend pattern of Nepalese companies.

In this study, it is tried to carry out the distinct from other previous studies in items of sample size, nature of the sample firms, and methodology used. The study has covered 6 banks. Five years data have been analyzed with due consideration of EPS, DPS, DPR, PE and MVPS. Analyses of financial indicators, standard deviation, regression analysis etc. are used as the main models in the study with a view to obtain the relevant and accurate results. So, it has been believed that this study will be different than earlier one.

CHAPTER III
RESEARCH METHODOLOGY

Research methodology describes the methods and process applied in the entire aspects of study. Every research should be outline in the systematically solve the research problem. In this chapter detailed framework regarding methodology applied in this study has been explained.

3.1 Research Design

A casual-comparative research design has been used to determine the impact of dividend on market price. The research design of this study basically follows the impact of dividend and other explanatory variables impact on the market price. In other words, this research is designed so as to find out the effect on the market price of the company when dividend is paid to the shareholders and also how the market price responds when dividend is not paid to the shareholders.

3.2 Nature and Sources of Data

The study is mainly depending on quantitative nature of secondary data of the selected banks. Data sources include the Annual Reports of the corresponding companies under study, Economic Report published by Nepal Rastra Bank, the stock price for the whole year listed in the Nepal stock exchange (NEPSE), Economic Survey published from Government of Nepal, Ministry of Finance, Financial Reports published by NEPSE and Securities Exchange Board, T.U. Library, Previous Thesis, people directly concerned with selected commercial bank, financial and others relevant data regarding the dividend policies and practices of the Banks. Besides this, the data are also collected from various newspapers, magazines booklets and journals published by the concerned governmental and non-governmental organizations.

3.3 Population and Sample

There are various commercial banks like government owned; Private and Joint venture are operating in Nepal. There are 245 companies listed on **s**tock exchange till the date (as on 01-11-2019). Twenty Eight Commercial banks got a permission to work till 2018.Out

of those 28 commercial banks 6 are established under joint venture. Those 6 joint venture commercial banks are the population of this study.

This study has covered altogether six commercial joint venture banks Therefore population as well as sample are six joint venture banks. List of sample banks are;

- Standard Chartered Bank Nepal Limited.
- NABIL Bank Limited
- Everest Bank Limited.
- Himalayan Bank Limited.
- Nepal SBI Bank Limited.
- Nepal Bangladesh Bank Ltd.

3.4 Data Processing Technique

Collected data, relevant facts and figures are systematically tabulated under the different heads for the purpose of analysis. So far as computation is concerned; it has done with the help of scientific calculator and computer software, Statistical Package for the Social Sciences (SPSS) available in the library of Lumbini Banijya Campus.

3.5 Data Analysis Tools

Data collected from various sources have been properly organized, analyzed and presented in appropriate tables and formats. Such tables and formats are subjected to interpretation and explanation as necessary. Specific financial tools and statistical tools are used to analyze variables. Mainly, there are two types of analytical tools used for this study. A brief explanation of financial as well as statistical tools is as follows:

3.5.1 Financial Tools

Financial tools are those, which help to study the financial position of the firms. The financial tools used in the study are as follows:

a. Earnings per Share (EPS)

Earnings per Share refer to the rupee amount earned per share of common stock outstanding. It measures the profitableness of the shareholders' investment. It shows the

profitability of the companies on a per share basis. The higher earning indicates the better achievements in terms of profitability of the companies by mobilizing their funds and vice versa. Earnings per share are one of the factors that affect the dividend policy and stock price of firm. EPS is computed by dividing net profit after taxes by the total number of common stocks outstanding. Thus,

$$\text{Earnings per Share (EPS)} = \frac{\text{Earnings available to common Shareholders}}{\text{No. of common Stock Outstanding}}$$

b. Dividend Per Share (DPS)

Dividend per share also affects the market price of the stock, but it does not affect the earning per share. So, it is assumed as an independent variable to determine the market price of stock and also assumed as dependent to the EPS. If EPS is greater, the dividend per share will automatically be greater. Dividend per share indicates the rupee earnings distributed to common stockholders per share held by them. It measures the dividend distribution to each equity shareholders. Dividend per share shows the portion of earning distribution to the shareholders on per share basis. Generally, the higher DPS creates positive attitude of the shareholders toward the bank is common stock, which consequently helps to increase the market value of the shares. And it also works as the indicator of better performance of the bank management. It is computed by dividing the total dividend distributed to equity shareholders by the total number of equity shares outstanding. Thus,

$$\text{DPS} = \frac{\text{Total Amount of Dividend paid to Ordinary Shareholders}}{\text{Number of Ordinary shares Outstanding}}$$

c. Dividend Payout Ratio (DPR)

It is the proportion of earning paid in the form of dividend. This ratio shows what percentage of profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the bank. Higher earning enhances the ability to pay more dividends and vice versa. It is computed by dividing DPS by EPS.

$$DPR = \frac{\text{Dividend per Share}}{\text{Earnings per Share}}$$

And,

Retention Ratio = (1-Dividend payout ratio)

= (1-DPR)

d. Market Price of Share (MPS)

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

e. Price Earnings Ratio

Price-earnings ratio is also called the earnings multiplier; Price- earnings ratio is the ratio between market price per share and earnings per share. In other words, this represents the amount which investors are willing to pay for each rupee of the firm's earnings. Fundamental analysts estimate the value of the stock by multiplying the expected earnings per share and the normal price earnings ratio of the stock. Moreover, the P/E ratio is the relationship between the price and earnings of the share .P/E ratio change or with every new piece of information that comes in the market .It is an important measure of the price of share.

$$P/E\ Ratio = \frac{EPS}{MPS}$$

3.5.2 Statistical Tools

There are financial tools as well as statistical tools are necessary for this study. The result of analysis has been properly tabulated, compared, analyzed and interpreted. In this study, the following statistical tools are used

a. Arithmetic Mean

An average value is a single value within the range of data that is used to represent all of the values in the series since an average is somewhere within the range of the data, it is also called a measure of central value(Gupta, 2000).

$$\text{Arithmetic Mean} = \frac{X_1 + X_2 + X_3 + \ldots\ldots X_n}{N}$$

b. Standard Deviation

Karl Person first introduced the concept the concept of standard deviation in 1983. Standard deviation is the positive square root of the arithmetic average of the squares of all the squares of all the deviation measured from the arithmetic average of the series. The standard deviation measures the absolute dispersion of a distribution.

$$\text{Standard Deviation } (\sigma) = \frac{\sqrt{(X - \bar{X})^2}}{N}$$

c. Coefficient of Variation (C.V.)

The corresponding relative measure is known as the coefficient of variation. This measure developed by Karl Pearson is the most commonly used measure of relative variation. It is used in such problems where we want to compare the variability of two or more than two serious. That series for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous .On the other hand, the series for which coefficient of variation is less is said to be less variable or more consistent, more uniform more stable of more homogeneous

In symbol;

$$C.V. = \frac{SD}{\bar{X}} \times 100$$

d. Coefficient of Correlation (r)

Correlation analysis is the statistical tools that can be used to describe the degree one variable are linearly related to another. The coefficient of correlation measures the direction of relationship between two sets of figures. It is the square roots of the coefficient of determination. Correlation can either be positive or it can be negative.

$$Or,\ r = \frac{N \quad XY - \quad X \quad Y}{\sqrt{N \quad X^2 - (\quad X)^2}\ \ \sqrt{N \quad Y^2 - (\quad Y)^2}}$$

Where,

σ_x, σ_y are the standard deviation of the distributions of X and Y values respectively.

Cov (X, Y) = Covariance of X and Y values.

$$(X - \bar{X}) \qquad (\bar{Y} - \bar{Y}) = \frac{}{(N-1)}$$

In this study, the coefficient of correlation is calculated to know the relationship as follows:

a) Market price per share and dividend per share.
b) Market price per share and dividend payout ratio.
c) Market price per share and Price earnings Ratio.
d) Market price per share and earnings per share.

e. Coefficient of Determination (r^2)

One of very convenient and useful way of interpreting the value of coefficient of correlation between two variables is to square of coefficient of Correlation, which is called coefficient of determination.

f. Probable Error [PE(r)]

Probable error of correlation coefficient, usually denoted by PE(r) is an old measure of testing the reliability of an observed value of correlation coefficient in so far as it depends upon the conditions of random sampling (Gupta, 2002:541).The probable error of the coefficient of correlations obtained as follows.

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

Where,

r = correlation coefficient between X and Y.

N = number of pairs of observations.

- If the value of r is less than the probable error [i.e. r < PE(r)]; there is no significant relation between X and Y.
- If the value of r is greater than 6 times of the probable error [i.e. r < 6PE(r)]; there is moderate relation between X and Y.
- If PE(r) < r < 6PE(r); there is moderate relation between X and Y.
- In this Study; probable error has been calculated to determine the reliability of the value of coefficient of DPS and MPS, DPS and EPS, DPS and NWPS and EPS and MPS.

G. Regression Analysis: The regression model is used in this study in order to analyze the relationship between dividend policy and its determinants. The determinants of dividend policy of Nepalese sectors were analyzed by computing regression equations for different samples. It is used to determine that whether the dependent variable is influenced by the given independent variable or not. It is considered as important tool for determining the strength of relationship between two (simple regression) or more (multiple regression).

Table 3.1

Description of Dependent and Independent Variables

Variables	Symbol	Description
Dependent variables		
Market Price Per share	MPS	Percentage of equity per value
Independent variables		
Dividend per Share	DPS	Percentage of equity per value
Earnings per Share	EPS	Percentage of equity per value
Price Earnings ratio	MPS/EPS	Market price per share to earnings per share
Dividend Payout ratio	DPR	percentage of earning distributed as dividend

In this study, the following Multiple regression model have been analyzed:

- **MPS on DPS,EPS,PE ratio, and DPR**

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4$

Where,

Y=Market price per share (MPS)

a = Regression constant

b = Regression coefficient

X= Independent Variable

The relationship between MPS (dependent variable) on DPS, EPS, PE and DPR (independent variable) can be explained through this model.

Regression Constant (a)

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

Regression Coefficients (b_1, b_2, b_3 . . .)

The regression coefficient of each independent variable shows the relationship between that variable and value of dependent variable, holding the effect of all other independent variables of regression model.

Standard Error of Estimate (S.E.E)

Practically, the perfect prediction is not possible with the help of regression equation. Standard error of estimate is used to measure the reliability of the estimating equation. It measures the variability, or scatter of the observed values around the regression line. It also measures the reliability of the estimating equation, indicating the variability of the observed values differ from their predicated values on regression line. The larger value of S.E.E , the greater the scattering or dispersion of points around the regression line, conversely, if S.E.E. is equal to zero, then there is no variation about the line and the correlation will be perfect.

3.6 Test of Significance

This study has employed t-statistic to perform significance test of regression coefficient. This is done by using adjusted coefficient of determination (Adj.R^2) and F- statistics. The p-value of F-test has been examined to confirm whether the regression models are significant at 5 percent level.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

Presentation and analysis of data is the major part of this research study. Using the various financial variables and statistical tools discussed in research methodology; we analyze the data achieve our objectives of the study.

4.1 Presentation of Financial Indicators

4.1.1 Dividend Per Share (DPS)

Dividend per share is that amount, which is paid to common shareholders on a per share basis. DPS shows the portion of earning distributed to the shareholder on per share basis .Generally, the higher DPS creates positive attitude among the shareholder towards the bank, which accordingly helps to increase the market value of shares. It also works as the indicator of better performance of the bank management. The dividends per share of the banks under study are stated in the table below

Table 4.1.1
Dividend per Share (in rupees)

Banks	SCBNL	NABIL	EBL	HBL	NSBI	NBBL
2013/14	41.50	45.00	50.63	6.05	7.02	12.00
2014/15	19.21	6.84	6.58	7.11	1.42	1.32
2015/16	1.75	15.00	5.00	1.58	1.48	1.68
2016/17	5.26	18.00	1.74	1.32	0.82	3.79
2017/18	17.50	22.00	20.00	11.64	10.79	10.53
Mean	17.04	21.37	16.79	5.54	4.31	5.86
S.D.	13.97	12.82	18.03	3.83	3.95	4.51
C.V.	81.96	60.00	107.39	69.13	91.73	77.00

Note. Analyzed result of Data obtained from Annual report of selected banks from FY 2013/14 to 2017/18.

The dividends per share of concern bank under study are present in the graphical form as follows:

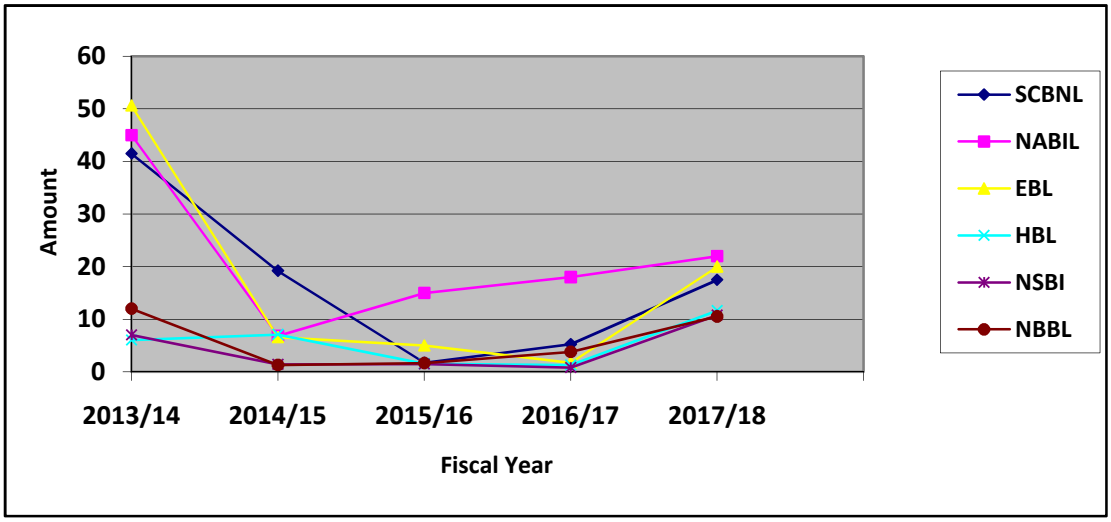

Figure 4.1.1 Dividend per share of selected banks

The highest and lowest DPS of Standard Chartered Bank Nepal Ltd. (SCBNL) are Rs.41.5 and Rs. 1.75 respectively, during the period of study .The average DPS of SCBNL is Rs. 17.04 with the standard deviation of 13.97 .The coefficient of variation is 81.96%, which indicates that there is a moderate fluctuation in the DPS of SCBNL during the period of study.

NABIL Bank has paid highest DPS Rs.45 and lowest DPS is Rs. 6.84 during the period of study. The average DPS of NABIL Bank has Rs. 21.37 .The standard deviation and coefficient of variation of the bank is 12.82 and 60.00 respectively, during the period of study. The C.V.60.00% indicates that there is moderate fluctuation in DPS of NABIL Bank during the period of Study.

The average DPS of the Everest Bank Ltd. (EBL) is Rs.16.79 with Standard Deviation of 18.03 and coefficient of variation is 107.39% .The EBL paid highest DPS Rs.50.63 and Lowest DPS is 1.74.The C.V.107.39% indicates the DPS of EBL is highest fluctuation during the period of study than other sample banks.

Himalayan Bank Ltd. (HBL) paid the highest DPS Rs.11.64 and lowest DPS is Rs.1.32 during the period of study. The average DPS of HBL has Rs.5.54 .The standard deviation

and coefficient of variation of the bank is 3.83 and 69.13 respectively. The C.V. 69.13% Indicate that it has moderate fluctuation in the DPS of HBL during the period of study.

Nepal SBI Bank Ltd. (NSBI) paid the highest DPS is Rs.10.79 and the lowest DPS Rs.0.82 .An average DPS of Rs.4.31 has been seen during the period of study. The standard deviation of DPS is 3.95 and coefficient of variation of 91.73% indicates the highest fluctuation in DPS of NSBI.

The average DPS of the NB Bank Ltd. (NBBL) is Rs.5.86 with Standard Deviation of 4.51 and coefficient of variation is 77% .The EBL paid highest DPS Rs.12 and Lowest DPS Rs.1.32. The C.V. 77% indicates the DPS of HBL is moderate fluctuation during the period of study.

From the above analysis Nabil has the highest average DPS and NSBI has lowest .The standard deviation of EBL has highest and HBL has lowest. Similarly, the C.V. indicates that among the banks under study during the period Nabil has the highest Consistency in paying dividend whereas the DPS of EBL is most highly fluctuating during the period of study of six joint venture Banks of Nepal.

4.1.2 Market Price per Share (MPS)

The MPS of a share is current market price at which can be sold. MPS of share should depend upon the firms return. If the firm returned is increased the MPS also increased and vice versa .So we can say that the MPS of firms shows the position .In other words the MPS is the price of share on which share are traded in the secondary market .The average market price of share of banks under study is presented in the table as follows:

Table 4.1.2

Market price per Share (in rupees)

Banks	SCBNL	NABIL	EBL	HBL	NSBI	NBBL
2013/14	2799	2535	2631	941	1280	700
2014/15	1943	1910	2120	813	887	510
2015/16	3600	2344	3385	1500	1875	860
2016/17	2295	1523	1353	886	925	402
2017/18	755	921	663	551	499	214
Mean	2278.4	1846.6	2030.4	938.2	1093.2	537.2
S.D.	943.5	580.82	952.08	311.11	462.60	225.47
C.V.	41.41	31.45	46.89	33.16	42.32	41.97

Note. Analyzed result of Data obtained from Annual report of selected banks from FY 2013/14 to 2017/18.

The market price per share of concern bank under study is present in the graphical form as follows:

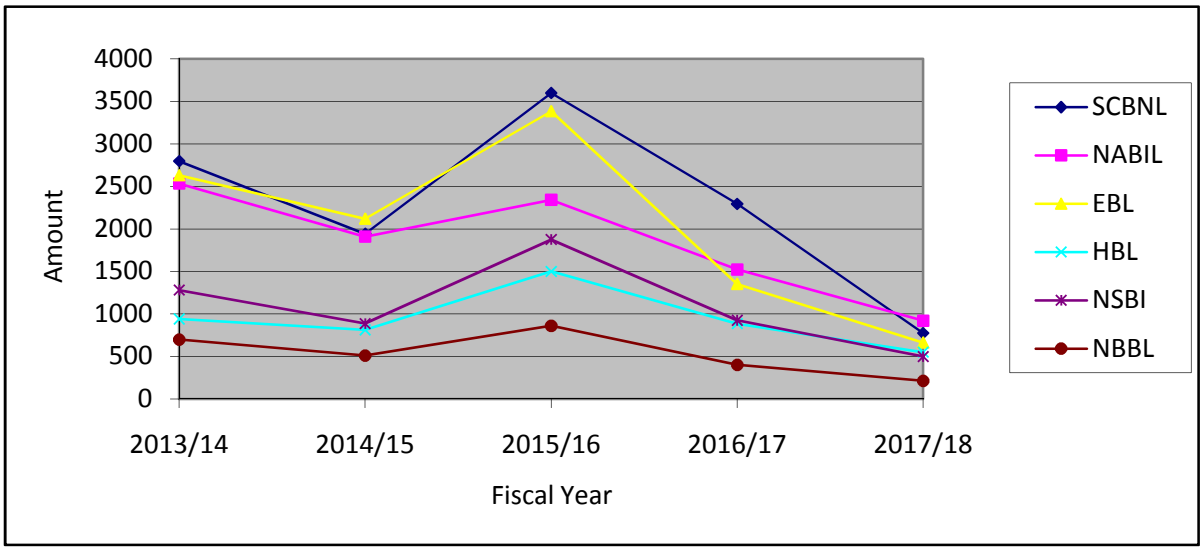

Figure :4.1.2 Market Price Per Share of Concerned Banks

During the period of study, Standard Chartered Bank Nepal Ltd. (SCBNL) has an average MPS of Rs 2278.4 with a standard deviation of 943.5.The coefficient of variation shows the fluctuation of 41.41 % in MPS of SCBNL.

The average MPS of NABIL Bank Ltd. is Rs 1846.6. It states in the range of RS 921 to Rs 2535.The standard deviation of MPS is 580.82.The CV 31.45% indicates the lowest fluctuation in the MPS of the Bank.

The average MPS of the Everest Bank Ltd. is Rs 2030.4 .It states within the range of Rs.663 to Rs 3385.The standard deviation of MPS is 952.08 .The coefficient of variation is 46.89.Which shows the fluctuation of 46.89% in MPS of the EBL.

Himalayan Bank Ltd. has an average MPS of Rs 938.20.It states in the range of Rs. 551 to Rs. 1500.The standard deviation of MPS is 311.11.The CV 33.16 indicates the Lowest fluctuation in the MPS of the Bank during the study period.

The average MPS of the Nepal SBI Bank Ltd. during the period of study is Rs.1093.20.The standard deviation of MPS is Rs.462.60.The coefficient of variation is 42.32 % it indicate that there is a fluctuation of 42.32% in the MPS of NSBI during the period of study.

The average MPS of NBBL is Rs 537.20. It states in the range of RS 214 to Rs. 860.The standard deviation of MPS is 225.47.The CV 41.97% indicates the moderate fluctuation in the MPS of the Bank.

From the above data and calculation, it can be seen that the average MPS of SCBNL is highest and NBBL is the Lowest. The standard deviation of EBL is the highest and that of NBBL is lowest. The coefficient of variation of these banks shows that there is moderate level of fluctuation in MPS .Also the MPS of the banks SCBNL, HBL, NSBI and NBBL reached the highest point in FY 2015/16 during the period of study. In fiscal year 2013/14 the MPS of NABIL and EBL is in highest point.

4.1.3 Earnings Per Share (EPS)

Generally, the performance and achievements of business organization are measured in term of their capacity to generate earnings. Earnings per share refer the rupee amount earned per share of common stock outstanding. It measures the profitableness of the shareholder's investment. It measures the profitableness of the shareholders' investment on a per share basis. It is computed by dividing net profit after taxes by the total number

of common stocks outstanding. The higher earning indicates the better achievements of the profitability of the banks by mobilizing their funds and vice versa. The earnings per share of the concerned banks under study is tabulated as follows;

Table 4.1.3
Earnings per Share (in rupees)

Banks	SCBNL	NABIL	EBL	HBL	NSBI	NBBL
2013/14	65.47	83.68	86.04	33.1	34.83	36.94
2014/15	57.38	57.24	78.04	33.37	34.48	33.48
2015/16	45.96	59.27	40.33	43.03	36.78	39.43
2016/17	35.49	59.86	32.48	35.15	33.46	28.05
2017/18	27.33	49.51	32.78	23.11	25.16	14.95
Mean	46.32	61.91	53.93	33.55	32.94	30.57
S.D.	13.91	11.5	23.25	6.35	4.03	8.69
C.V.	30.03	18.58	43.11	18.92	12.23	28.42

Note. Analyzed result of Data obtained from Annual report of selected banks from FY 2013/14 to 2017/18.

The market earnings per share of concern bank under study are present in the graphical form as follows

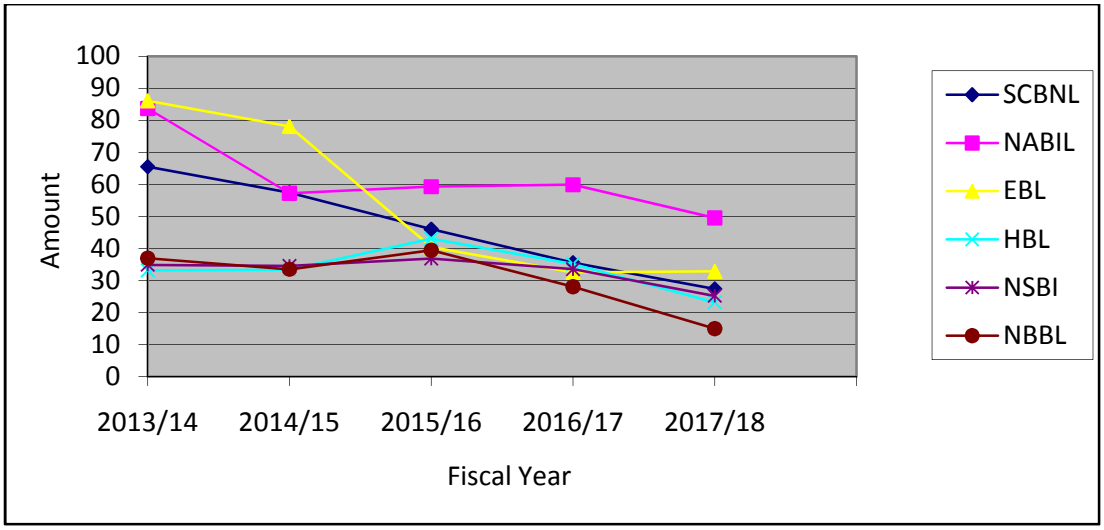

Figure: 4.1.3 Earnings Per Share

The earnings per share of the Standard Chartered Bank Nepal Ltd. (SCBNL) range between Rs. 27.33 to65.47during the period of study. During the period, the average EPS

is Rs.46.32 and standard deviation of EPS during the period of study is 13.91.The CV of 30.03 % indicates that there is variability in EPS.

NABIL Bank Ltd. has Rs.61.91 average EPS. The EPS is range between Rs.49.51 to Rs.83.68 .The Standard Deviation of EPS is 11.5 whereas the coefficient of variation is 18.58. This shows the fluctuation of 18.58% in EPS of NABIL bank Ltd.

During the period of study, Everest Bank Ltd. (EBL) has an average EPS of Rs53.93 and its Standard Deviation is 23.25 .The EPS is range between 32.48 to Rs.86.04.The coefficient of variation of 43.11 indicates that there is a fluctuation of 43.11 % in EPS of Everest Bank Ltd., during the period of study.

The average EPS of Himalayan Bank Ltd. (HBL), during the period of study is Rs.33.55.It stayed within range of Rs.23.11 to Rs.45.03. The Standard Deviation of EPS is 6.35.The Coefficient of variation shows the fluctuation of 18.92 % in EPS of HBL.

During the period of Study, Nepal SBI Ltd. (NSBI) has an average EPS of Rs. 32.94 with a Standard Deviation of 4.03 .The EPS range between Rs.25.16 to 36.78..The coefficient of variation shows the fluctuation of 12.23 % in EPS of NSBI.

NBBL has Rs.30.57 average EPS. The EPS is range between Rs.14.95 to Rs.39.43 The Standard Deviation of EPS is 8.69 whereas the coefficient of variation is 28.42.Which shows the fluctuation of 28.42% in EPS of NB bank Ltd.

From the above data and calculations, it can be seen that the average EPS of Nabil is highest and that of NBBL is the lowest. The Value of EPS range of the banks under the study is Rs.61.91 of Nabil and Rs.30.57 of NBBL during the period. Similarly, the standard deviation of EBL is the highest and NSBI is the lowest, the coefficient of variation of these banks shows the fluctuation in EPS. If compared the NSBI has the most consistent EPS among all sample banks.

4.1.4 Dividend Payout Ratio (DPR)

It is the proportion of earning paid in the form of dividend. This ratio shows what percentage of profit is distributed as dividend and what percentage is retained as reserve

and surplus for the growth of the bank. Higher earning enhances the ability to pay more dividends and vice versa.

There is an inverse relationship between dividends and retained earnings. The higher the dividend payout ratio, the lower will be the proportion of retained earnings and vice versa. The capacity of financing of the firm is checked by the retention ratio. It is calculated as the percentage of the percentage of the profit that is distributed as dividend.

This ratio is calculated by dividend per share by the earning per share. Thus,

Table 4.1.4

Dividend payout Ratio (in rupees)

Banks	SCBNL	NABIL	EBL	HBL	NSBI	NBBL
2013/14	63.39	53.78	58.84	18.28	20.16	32.49
2014/15	33.48	11.95	8.43	21.3	4.11	3.94
2015/16	3.81	25.31	12.39	3.67	4.02	4.26
2016/17	14.82	30.07	5.36	3.75	2.45	13.51
2017/18	64.03	44.44	61.01	50.36	42.88	70.43
Mean	35.91	33.11	29.21	19.47	14.72	24.93
S.D.	24.60	14.65	25.19	17.06	15.50	25.00
C.V	68.50	44.25	86.24	87.62	105.29	100.28

Note. Analyzed result of Data obtained from Annual report of selected banks from FY 2013/14 to 2017/18.

The dividend payout ratios of the banks under study during the period are presented in the graphical form as follows:

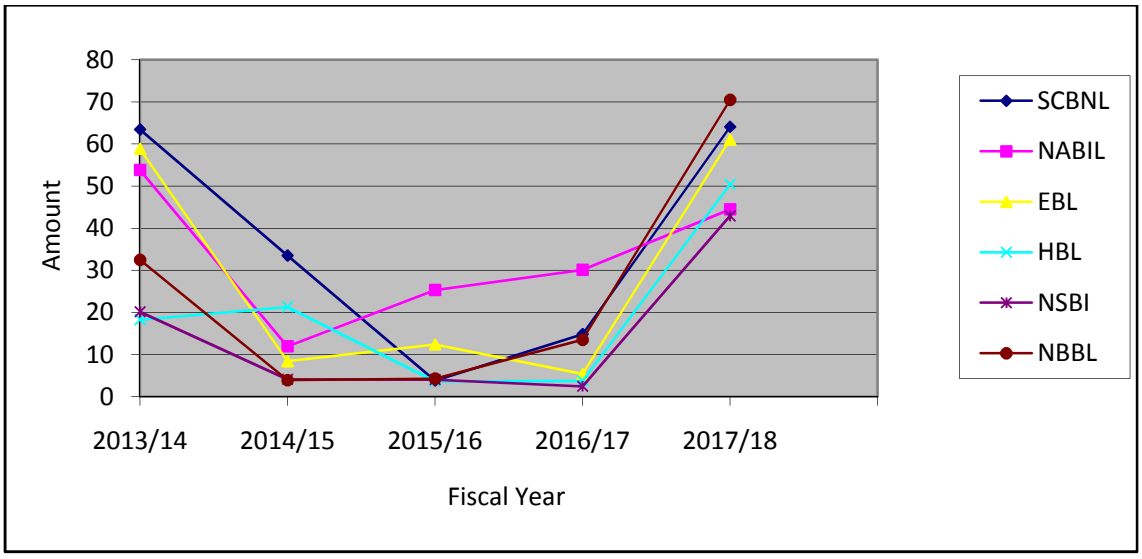

Figure: 4.1.4 Dividend Payout Ratio of Concerned Banks

The above table shows the dividend payout ratios of six banks respectively. The above table shows the percentage of dividend paid out of the total earnings made by each banks for each year during the period of study.

From the above table it can be observed that in the year 2014/15, the DPR of HBL has increase than previous year. The DPR of SCBNL, NABIL EBL, NSBI and NBBL have decreased than previous year. In the year 2015/16 the DPR of NABIL, EBL and NBBL have increased but the DPR of SCBNL, HBL and NSBI have decreased. In the same way in the year 2016/17 the DPR of EBL, NBBL and NSBI have increased but the DPR of SCBNL, NABIL, and HBL have decreased. Similarly, in the year 2017/18 the DPR of All Banks has increased.

The average DPR of SCBNL, NABIL, EBL, HBL, NSBI and NBBL are 35.91, 33.11, 29.21, 19.47, 14.72 and 24.93 respectively. Similarly, the standard deviation of NABIL is lowest than other banks and coefficient of variation of DPR of NABIL is lowest among all. Therefore it can be shows the NABIL is the comparatively able to maintain stable dividend payout ratio (DPR).Whereas DPR of NSBI range from Rs. 2.45 to Rs. 42.88 .which is highest fluctuation as indicated by C.V. of 105.29%.

4.1.5. Price Earnings Ratio (P/E Ratio)

The Price Earnings Ratio is the ratio between Market Price per Share and Earning Per share. PE Ratio is also known as earning multiplier .The PE Ratio used to evaluate the performance of any organization by investor for security analysis point of view. It indicates investor's expectation toward firm's performance. Managerial level of firm's also watching this ratio for find out the performance and find the causes if the PE Ratio declines. The Price Earnings Ratio of the banks under study is presented in table as follows.

Table 4.1.5

P/E Ratio (in rupees)

Banks	SCBNL	NABIL	EBL	HBL	NSBI	NBBL
2013/14	42.75	30.29	30.58	28.43	36.75	18.95
2014/15	33.86	33.37	27.17	24.36	25.73	15.23
2015/16	78.33	39.55	83.94	34.86	50.98	21.81
2016/17	64.67	25.44	41.66	25.21	27.64	14.33
2017/18	27.62	18.60	20.23	23.84	19.83	14.32
Mean	49.45	29.45	40.72	27.34	32.19	16.93
S.D.	19.13	7.09	22.69	4.08	10.85	2.97
C.V.	38.68	24.07	55.72	14.92	33.71	17.54

Note. Analyzed result of Data obtained from Annual report of selected banks from FY 2013/14 to 2017/18.

The price Earnings Ratios of banks under study are presented in graphical form as below.

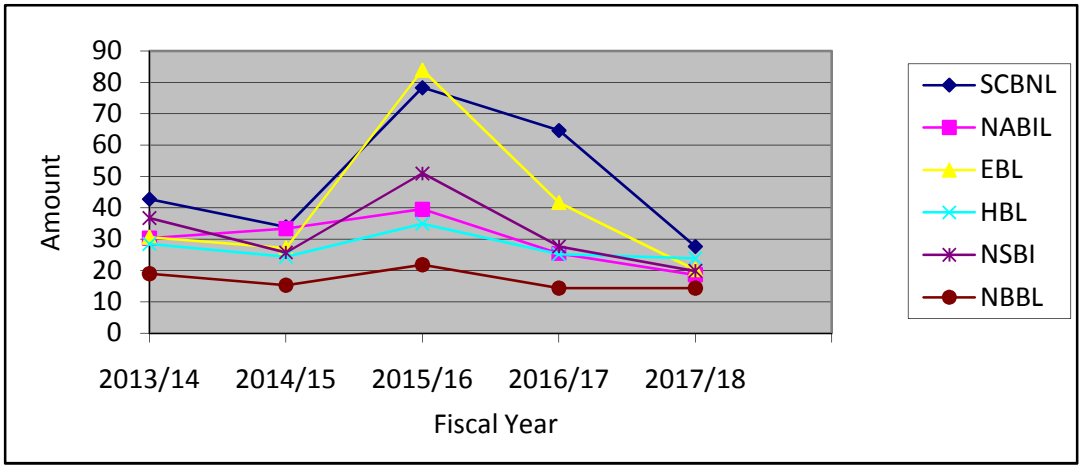

Figure: 4.1.5 P/E Ratio of Concerned Banks

The average P/E Ratio of SCBNL is 49.45. The PE ranges between from 27.62 to 78.33 during the period of study. The standard deviation of PE is 19.13 and Coefficient of variation of 38.68 indicates the least fluctuation of P/E ratio.

The average P/E Ratio of NABIL, during the period of study is 29.45.It is ranging between 18.6 to 39.55.The standard deviation is 7.09 and its coefficient of variation is 24.07.The C.V. indicates the P/E Ratio of EBL is least fluctuating in nature.

The average P/E Ratio of EBL, during the period of study is 40.72.It is ranging between 20.23 to 83.94.The standard deviation is 22.69 and its coefficient of variation is 55.72%.The C.V. indicates the P/E Ratio of EBL is moderate fluctuating.

The average P/E Ratio of HBL, during the period of study is 27.34.It is ranging between 23.84 to 34.86.The standard deviation is 4.08 and its coefficient of Variation is 14.92.The C.V. indicates the P/E Ratio of HBL is in least fluctuation. The average P/E Ratio of NSBI, during the period of study is 32.19.It is ranging between 19.83 to 50.98.The standard deviation is 10.85 and its coefficient of variation is 33.71%.The C.V. indicates the P/E Ratio of HBL is least fluctuating nature.

The average P/E Ratio of NBBL is 16.93. The PE ranges between from 14.32 to 21.81 during the period of study. The standard deviation of PE is 2.97 and Coefficient of variation of 17.54 indicates the least fluctuation of P/E ratio.

By the above data analysis, we observed that the average P/E Ratio of the SCBNL has highest and the NBBL has lowest .The standard deviation of EBL has highest and the NBBL has the lowest. Similarly, the coefficient of variance of these banks shows that there is a least to moderate fluctuation in P/E Ratio of all banks under study.

4.2 Statistical Tools

The statistical tools are used as follows

4.2.1 Correlation Analysis

The correlation coefficient may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable .It also

measures the extent to which one variable affects the other one. The correlation coefficient lies between +1 and -1. If the +1 correlation Coefficient indicates that the variables are perfectively positive correlated and -1 correlation coefficient indicates that the variables are perfectively negative correlated .and if the correlation coefficient is 0, it means that the variables are not related to each other. The negative correlation indicates that increase in value of one variables lead to decrease in the value of the other and positive correlation indicates that increase in the value of one variables lead to increase in the value of the other variables also. The number indicates that the degree of correlation between the variables.

4.2.1. Overall Correlation

The Pearson Correlation Coefficients for total selected sample have been computed and the results are presented in Table.

Table 4.2.1

Correlation between Dependent and Independent Variables

Variable	DPS	MPS	EPS	DPR	PE
DPS	1				
MPS	.324	1			
EPS	.666**	.664**	1		
DPR	.764**	-.095	.126	1	
PE	-.109	.823**	.143	-.294	1

**. Correlation is significant at the 0.01 level (2-tailed).

The table 4.3.1.1 shows the relationship between DPS, MPS, EPS, DPR and PE. The relation between DPS with DPS,MPS with MPS,EPS with EPS,DPR with DPR and PE with PE is always 1.which indicate perfectly positive correlation with itself. The Value of

MPS and DPS of 0.324 shows positive relationship between DPS and MPS. The correlations between EPS with DPS and MPS as well as MPS with PE are significant at the 0.01 level.

The analysis of correlation coefficient between DPR and MPS is negative degree of correlation however DPR with EPS is positive. The negative correlation indicates there might be increase in value of one variables lead to decrease in the value of the other variable.

Similarly, the correlation of PE and MPS of 0.823 shows a high degree of positive relationship and significant correlation. The correlation coefficient of PE with DPS is negative degree of correlation. Relationship of PE and DPR is -0.294 which indicate moderate negative relation.

4.2.2 Regression Analysis

The regression of dependent variables of dividend policy and independent variables on dividend policy has been analyzed by defining dividend policy in terms of dividend per share and market price per share. In order to test the significance of dividend policy and other independent variables as determinants of dividend policy, multiple regression analysis; stepwise procedure has been used in this study. The regression results have been presented in table.

Table 4.2.2.1 Multiple Regression

Table No: 4.2.3

Model Summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992[a]	.985	.982	122.46747

a. Predictors: (Constant), PE, DPS, EPS, DPR

Table shows the model summary of the regression analysis. In the table 4.3.1 the value of R Square of 0.985 indicates that 98.5 percent of variation in market price of common stock is explained by the explanatory variables of the model. That is constant and dividend per share, price earnings ratio, earning per share and dividend payout ratio.

Table No: 4.2.4

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24117225.000	4	6029306.250	402.000	.000[b]
	Residual	374957.000	25	14998.280		
	Total	24492182.000	29			

a. Dependent Variable: MPS

b. Predictors: (Constant), PE, DPS, EPS, DPR

ANOVA Table shows the significance of the model since the p value of ANOVA table is less than 0.05 which indicates that model is significant. Hence, it depicts that dividend, PE, EPS and DPR has explanatory power in the determination of market price of stock.

Table No: 14

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1195.859	128.537		-9.304	.000		
	DPS	-1.671	5.837	-.024	-.286	.777	.087	11.470
	EPS	29.029	2.823	.561	10.285	.000	.206	4.865
	DPR	3.107	2.607	.076	1.192	.244	.150	6.663
	PE	40.819	1.413	.762	28.884	.000	.879	1.137

a. Dependent Variable: MPS

Above table shows the regression coefficient and significance of the regression coefficient. P value of regression coefficient of less than 0.05 indicates that coefficient is significant at 0.05 level of significance. Beta coefficient of DPS of -1.67 indicates that one rupee decrease in DPS fall to 1.67 rupees decrease in the market price of the stock, similarly Beta coefficient of EPS of 29.029 indicates that one rupee increase in EPS leads to 29.029 increase in the market price of the stock. Andin case of DPR and PE follows the same rule as DPS and EPS.

Tolerance commonly used measure of collinearity and multi collinearity. Tolerance values approaching Zero indicate that the variable is highly collinear with other predictor variables.

A VIF of DPS indicates signs of serious multi collinearity requiring correction because VIF is more than 10.A VIF of EPS 4.865 is more than 4 therefore it warrant further investigation. A VIF of DPR also more than 4. A VIF of PE is 1.134 indicate that there is no correlation among the independent variables.

There are predictors with a VIF above 10 therefore look at the collinearity diagnostics table.

Table No: 4.2.6

Collinearity Diagnostics

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	DPS	EPS	DPR	PE
1	1	4.081	1.000	.00	.00	.00	.00	.01
	2	.627	2.552	.00	.02	.00	.02	.10
	3	.178	4.794	.02	.06	.04	.15	.00
	4	.104	6.262	.08	.03	.05	.00	.87
	5	.011	19.479	.90	.88	.91	.82	.02

a. Dependent Variable: MPS

from above table Values of condition index above 15 can indicate multicollinearity problems, values above 30 are a very strong sign for problems with multicollinearity

Dimension 5 show a condition index above 15. Dimension 5 search for values above 90.we find these for the predictor MPS and EPS. On this basis I assume that there are actually 1 collinearity problem in this model: between MPS and EPS.

4.4 Major Findings

Following are the major findings of the study

- The average earning per Share (EPS) of the banks under study shows a positive result. But the coefficient of variation indicates that EPS of the banks are not stable. The CV ranges from 12.23% to 43.11%, among the bank under study. The NABIL has highest average EPS.
- The average Dividend per Share (DPS) of the banks under study shows a positive result except EBL and NSBI. But the coefficient of variation shows that DPS of the banks are not stable. The CV ranges from 60% to 107.39%, among the banks under study, SCBNL has highest average DPS with moderate fluctuation and NABIL has lowest fluctuation. The EBL has average DPS is Rs. 16.79 and its fluctuation is 107.39%, which is highest fluctuation.
- The average Dividend Percent (DP) of the concerned banks shows the highest average DP of NABIL and lowest average of NSBI .The EBL has highest fluctuation and NABIL has the lowest fluctuation among the sample banks. The ranges between CV are 60% (NABIL) and 107.39% (EBL).
- The average Dividend Payout Ratio (DPR) is positive except NSBI and NBBL. But the coefficient of variation of concerned banks are not stable the CV ranges from 44.25% to 105.29%. In the study of all six concerned banks we know that the SCBNL has highest average DPR and the NSBI has lowest average DPR. The NSBI has highest fluctuation and NABIL bank has lowest fluctuation.
- The average Market Price per Share (MPS) of six concerned joint venture commercial banks is ranges between Rs.938.2 to Rs.2278.4 of HBL and SCBNL respectively. The average MPS of six concerned banks is Rs.1454, which is standard value of MPS for this study. The SCBNL, NABIL and EBL have greater average MPS than the standard value of MPS but it is lower in case of HBL, NSBI and NBBL. The coefficient of variation indicates that the Market Price of banks is not stable. The fluctuation in MPS of NABIL has lowest i.e. 31.45% and it is highest of EBL i.e. 46.89%.

- The Value of MPS and DPS of 0.324 shows positive relationship between DPS and MPS. The correlation between EPS with DPS and MPS as well as MPS with PE is significant at the 0.01 level.
- The analysis of correlation coefficient between DPR and MPS is negative degree of correlation however DPR with EPS is positive. The negative correlation indicates there might be increase in value of one variables lead to decrease in the value of the other variable.
- The correlation of PE and MPS of 0.823 shows a high degree of positive relationship and significant correlation. The correlation coefficient of PE with DPS is negative degree of correlation. Relationship of PE and DPR is -0.294 which indicate moderate negative relation.
- The correlation between Dividend per Share (DPS) and Market Price per Share (MPS) of SCBNL, HBL, NSBI and NBBL has negatively correlated with DPS. Similarly NABIL and EBL has positively correlated. All banks have insignificant correlation between DPS and MPS.
- Test of Hypothesis has to help us to conclude that Dividend per Share of different six joint venture banks (i.e. SCBNL,NABIL, EBL, HBL, NSBI and NBBL) are significant difference at 5% level of significant . While MPS of these concerned banks also significant different at 5% level of significant and this test shows that DPS of different years are not significant different at 5 % level of significant .Whereas MPS of different year are significant different at 5 % level of significant.
- The analysis of regression of DPS, EPS, DPR and PE, on MPS show. the value of R Square of 0.985 indicates that 98.5 percent of variation in market price of common stock is explained by the explanatory variables of the model. That is constant and dividend per share, price earnings ratio, earning per share and dividend payout ratio.
- The significance of the model since the p value of ANOVA table is less than 0.05 which indicates that model is significant. Hence, it depicts that dividend, PE, EPS and DPR has explanatory power in the determination of market price of stock.

- The regression coefficient and significance of the regression coefficient. P value of regression coefficient of less than 0.05 indicates that coefficient is significant at 0.05 level of significance. Beta coefficient of DPS of -1.67 indicates that one rupee decrease in DPS fall to 1.67 rupees decrease in the market price of the stock, similarly Beta coefficient of EPS of 29.029 indicates that one rupee increase in EPS leads to 29.029 increase in the market price of the stock. And in case of DPR and PE follows the same rule as DPS and EPS.
- A VIF of DPS indicates signs of serious multi collinearity requiring correction because VIF is more than 10.A VIF of EPS 4.865 is more than 4 therefore it warrant further investigation. A VIF of DPR also more than 4. A VIF of PE is 1.134 indicate that there is no correlation among the independent variables.

CHAPTER V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Dividend policy decision is one of the crucial decisions of the financial management. It is an important decision it affects shareholder wealth and value of firm. Dividend policy is an integral part of the firm's financing decision as it provides internal financing. While making dividend decision, the financial manager should consider the preference of shareholders as well as the investment opportunities available within the firm. Dividend decision is an effective way of attract new investor and maintain current investors. It is important to have clearly defined and effectively managed dividend policy, So as to fulfill the shareholder's expectations and corporate growth.

Deciding how much to pay to shareholders by way of dividend and how much to retain in the business is dividend decision. Dividend paying ability of any business organization reflects the financial position of organization reflects the financial position of organization in market. It helps to attract the new investor from the market. Due to the division of earning between dividend payout and retention ratio the market price of the share also is affected, which is also crucial for the organization. So, the funds that could not be used due to the lack of investment opportunities would be better as dividend, since shareholders have investment opportunities elsewhere. Shareholders have high expectation that market price of share will be significantly higher than net worth. The organization promoted by foreign entity are paying higher dividend than the companies promoted by the indigenous promoters. However, joint venture banks are also not followed by an appropriate dividend policy. This policy affects the market price but goodwill of such banks in the long run.

Dividend paying banks are analyzed to show the implication of dividend policy they have adopted in their market price per share. Even market price per share is directed by various factor, this study is made to analyze one of the important factor i.e. dividend. The study covers six joint venture banks (SCBNL, NABIL, EBL, HBL, NSBI and NBBL) and only for the last five fiscal year from 2013/14 to 2017/18. The available secondary dates have

been analyzed using various financial and statistical tools and the primary data has been analyzed by using collection of various answer of the questionnaire. So the reliability of the conclusions of this study is determined on the accuracy of secondary and primary data. The major findings of this study can be summarized as follows.

5.2 Conclusion

The major conclusions of this study are that earnings per share, P/E ratio and Dividend payout ratio are one of the important determinants of market price of stock in commercial banks in Nepal. In order to increase market price of stock, EPS and P/E ratio should be increase. It is found that standardized beta coefficient of PE ratio and earnings per share is higher compare to other explanatory variable. There for it can be conclude that price earnings ratio and earnings per share are major explanatory variable of market price of in Nepalese commercial banks. Hence, to increase MPS PE ratio and EPS should be increased.

5.3 Recommendations

Based on the theoretical and empirical works reviewed, research methodology adopted, data employed in the study, and major findings of the study; the study deserves to provide some recommendations.

- The study observed a positive relationshp between earnings per share and dividend per share in banking industry and hence the firm willing to increase the dividend per share should increase earnings per share.
- The study observed a positive relationship between the profitability and dividend per share in banking industry and hence the firm willing to increase the dividend per share should increase profitability.
- The study observed a negative relationship between investment opportunities and dividend per share in banking industry and hence the firm should not increase investment opportunities with a view to increase dividend per share.
- The study also observed a positive relationship of dividend per share with size and liquidity in banking industry and hence the firm willing to increase the dividend per share should increase firm size and liquidity.

- To increase dividend payout need to increase profitability and firm size as study shows that profitability and size are positively related to dividend per share.
- The study observed a positive relationship between dividend per share and investment opportunities. Thus banking need to increase investment opportunities to increase firm dividend payout.

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APPENDIX-I

DIVIDEND AND EXPLANATORY VARIABLES

1. Earnings per share of Concerned Banks

Banks	SCBNL	NABIL	EBL	HBL	NSBI	NBBL
2013/14	65.47	83.68	86.04	33.1	34.83	36.94
2014/15	57.38	57.24	78.04	33.37	34.48	33.48
2015/16	45.96	59.27	40.33	43.03	36.78	39.43
2016/17	35.49	59.86	32.48	35.15	33.46	28.05
2017/18	27.33	49.51	32.78	23.11	25.16	14.95

2. Dividend Per Share of Concerned Banks on face value

Banks	SCBNL	NABIL	EBL	HBL	NSBI	NBBL
2013/14	41.50	45.00	50.63	6.05	7.02	12.00
2014/15	19.21	6.84	6.58	7.11	1.42	1.32
2015/16	1.75	15.00	5.00	1.58	1.48	1.68
2016/17	5.26	18.00	1.74	1.32	0.82	3.79
2017/18	17.50	22.00	20.00	11.64	10.79	10.53

3. Dividend Payout Ratio of concerned Banks:

Banks	SCBNL	NABIL	EBL	HBL	NSBI	NBBL
2013/14	63.39	53.78	58.84	18.28	20.16	32.49
2014/15	33.48	11.95	8.43	21.3	4.11	3.94
2015/16	3.81	25.31	12.39	3.67	4.02	4.26
2016/17	14.82	30.07	5.36	3.75	2.45	13.51
2017/18	64.03	44.44	61.01	50.36	42.88	70.43

4. Market Price per Share of concerned Banks

Banks	SCBNL	NABIL	EBL	HBL	NSBI	NBBL
2013/14	2799	2535	2631	941	1280	700
2014/15	1943	1910	2120	813	887	510
2015/16	3600	2344	3385	1500	1875	860
2016/17	2295	1523	1353	886	925	402
2017/18	755	921	663	551	499	214

5. P/E Ratio of concerned Banks

Banks	SCBNL	NABIL	EBL	HBL	NSBI	NBBL
2013/14	42.75	30.29	30.58	28.43	36.75	18.95
2014/15	33.86	33.37	27.17	24.36	25.73	15.23
2015/16	78.33	39.55	83.94	34.86	50.98	21.81
2016/17	64.67	25.44	41.66	25.21	27.64	14.33
2017/18	27.62	18.60	20.23	23.84	19.83	14.32

APPENDIX-II

OVERALL CORRELATION

Variable	DPS	MPS	EPS	DPR	PE
DPS	1				
MPS	**.324**	1			
EPS	.666**	.664**	1		
DPR	.764**	-.095	.126	1	
PE	-.109	.823**	.143	-.294	1

**. Correlation is significant at the 0.01 level (2-tailed).

APPENDIX – III

MULTIPLE REGRESSION

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992[a]	.985	.982	122.46747

a. Predictors: (Constant), PE, DPS, EPS, DPR

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24117225.000	4	6029306.250	402.000	.000[b]
	Residual	374957.000	25	14998.280		
	Total	24492182.000	29			

a. Dependent Variable: MPS

b. Predictors: (Constant), PE, DPS, EPS, DPR

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-1195.859	128.537		-9.304	.000		
	DPS	-1.671	5.837	-.024	-.286	.777	.087	11.470
	EPS	29.029	2.823	.561	10.285	.000	.206	4.865
	DPR	3.107	2.607	.076	1.192	.244	.150	6.663
	PE	40.819	1.413	.762	28.884	.000	.879	1.137

a. Dependent Variable: MPS

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	DPS	EPS	DPR	PE
1	1	4.081	1.000	.00	.00	.00	.00	.01
	2	.627	2.552	.00	.02	.00	.02	.10
	3	.178	4.794	.02	.06	.04	.15	.00
	4	.104	6.262	.08	.03	.05	.00	.87
	5	.011	19.479	.90	.88	.91	.82	.02

a. Dependent Variable: MPS