

**IMPACT OF DIVIDEND POLICY  
ON  
MARKET PRICE OF THE SHARE**

[Case Study of Commercial Banks]

**Submitted By**

**Renu Shakya  
Patan Multiple Campus  
Patan Dhoka, Lalitpur  
Exam roll no: 1363/ 2063**

**Class Roll No. 11/ 2061  
TU REGD. NO: 7-2-256-293-2001**

**A Thesis Submitted To:  
Office of the Dean  
Faculty of Management  
Tribhuvan University  
Kathmandu, Nepal**

**In partial fulfillment of the requirement for the degree of  
Masters of Business Studies (MBS)**

**Patan Dhoka, Lalitpur**

**March 2011**

# RECOMMENDATION

This is to certify that the thesis

**Submitted By**

**Renu Shakya**

*Entitled:*

**Impact of Dividend Policy on the Market Price of the Share  
(Case Study of Commercial Banks)**

has been prepared as approved by this Department In the prescribed format of the faculty of management. This thesis is forwarded for examination.

.....

**Mr. Dinesh Man Malego**  
(Thesis Supervisor)

.....

**Head of Research Committee**

.....

**Mr. Dinesh Man Malego**  
(Asst. Campus Chief)

**Date:**

**VIVA -VOCE SHEET**

We have conducted the Viva-Voce Examination of the thesis presented by

**Renu Shakya**

*Entitled:*

**Impact of Dividend Policy on Market Price of Share  
(Case Study of Commercial Banks)**

*and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for*

**Master's Degree in Business Studies (M.B.S)**

**Viva-Voce Committee**

Head of Research Committee : .....

Member (Thesis Supervisor) :.....

Member (External Expert): :.....

Date:.....

## **DECLARATION**

I hereby declare that the work reported in this thesis entitled "**Impact of Divided Policy on Market Price of Share: Case Study of Commercial Banks** " submitted to Patan Multiple College, Faculty of management, Tribhuvan University is my original work done in the form of partial fulfillment for the requirement of master's degree in business studies (MBS) under the supervision of Mr. Dinesh Man Malego

**Researcher,**

**Renu Shakya**

Patan Multiple Campus

T.U Registration No. 7-2-256-293-2001

Exam Roll No. 1363/ 2061

## **ACKNOWLEDGEMENT**

The Thesis entitled "**Impact of Dividend Policy on Market Price of the Share: Case Study of Commercial Banks**" is prepared in the partial fulfillment of the requirement for the degree of Masters of Business Studies.

I wish to express my deep gratitude to Mr. Dinesh Man Malego, Assistant Campus Chief Patan Multiple Campus, Patan Dhoka, Nepal for suggesting in this thesis and for his constant encouragement, patient guidance, valuable supervision and meticulous care from time to time to discuss on several aspect of this research study. This thesis work would never have been completed without his incisive observation that helped me a lot to get at the proper prospective and a clear insight. I record my deep sincere and deep sense of gratitude to him.

Finally, I would like to thank known and unknown friends for their kind help, support and encouraging suggestion during the progressive phase of the research.

Renu Shakya  
Patan Multiple Campus  
T.U Registration No. 7-2-256-293-2001  
Exam Roll No. 1363/ 2061

## TABLE OF CONTENTS

<b>Recommendation</b>	
<b>Viva - Voca Sheet</b>	
<b>Declaration</b>	<b>i</b>
<b>Acknowledgement</b>	<b>ii</b>
<b>Table of Contents</b>	<b>iii</b>
<b>List of Tables</b>	<b>iv</b>
<b>List of Figures</b>	<b>v</b>
<b>Abbreviation</b>	<b>vi</b>

<b><u>Contents</u></b>	<b><u>Page No.</u></b>
------------------------	------------------------

### **CHAPTER 1: INTRODUCTION**

General Background of Study	1
Statement of Problem	3
Objectives of Study	5
Significance of Study	5
Limitations of Study	6
Organizations Under Study	7
1.6.1 Standard Chartered Bank Nepal Limited	7
1.6.2 Nepal SBI Bank Limited	7
1.6.3 Nabil Bank Ltd.	8
1.6.4 Himalayan Bank Limited	9
1.6.5 Everest Bank Limited	10

### **CHAPTER 2: REVIEW OF LITERATURE**

2.1 Conceptual Framework	12
2.2 Major Forms of Dividend	14
2.2.1 Cash Dividend	14
2.2.2 Stock Dividends & Stock Splits	15
2.2.3 Corporate Share Repurchase	16
2.3 Factors Effecting Dividend Policy	16
2.4 Developing Dividend Policies	20
2.4.1 Constant Dividend Per Share	20
2.4.2 Constant Payout Ratio	20
2.4.3 Stable Rupee Dividend Plus Extra Dividend	21

2.5 Legal Provisions Regarding Dividend Practices in Nepal	21
2.6 Review of Major International Studies	22
2.6.1 Modiglianin and Miller's Study	22
2.6.2 Walter's Study	26
2.6.3 Gordan's Study	28
2.6.4 Lintner's Study	30
2.6.5 Friend and Puckett's Study	31
2.6.6 Van Horne and McDonald's Study	34
2.6.7 Deepak Chawla and G. Shrinivasan's Study	36
2.7 Review of Major Studies in Nepal	37
2.7.1 Review of Books and Journals in Nepalese Perspective	38
2.7.2 Review of Previous Theses	41

### **CHAPTER 3: RESEARCH METHODOLOGY**

Introduction	45
Research Design	45
Population and Sample	46
Source of Information	46
Period of Study	46
Financial Indicators	47
Earning Per Share (EPS)	47
Dividend Per Share (DPS)	47
Dividend Percent (DP)	48
Dividend Payout Ratio (DPR)	48
Price Earning Ratio (P/E Ratio) / Earning Multiplier	49
Earning Yield (EY)	49
Dividend Yield (DY)	49
Market Price Per Share to Book Value Per Share	50
Net Worth Per Share	50
<b>Statistical Tools</b>	
Arithmetic Mean or Average	51
Standard Deviation	51
Coefficient of Variation	52
Coefficient of Correlation	52
Coefficient of Determination	54
Regression Analysis	54

## **CHAPTER 4: PRESENTATION AND ANALYSIS OF DATA**

4.1	Presentation of Financial Variables	58
4.1.1	Earning Per Share (EPS)	58
4.1.2	Dividend Per Share (DPS)	60
4.1.3	Dividend Percent (DP)	62
4.1.4	Dividend Payout Ratio (DPR)	63
4.1.5	Market Price Per Share (MPS)	65
4.1.6	Price Earning Ratio (P/E Ratio)	66
4.1.7	Earning Yield	68
4.1.8	Dividend Yield	69
4.1.9	Market Price Per Share to Book Value Per Share	71
4.1.10	Book Value Per Share	73
4.2	Statistical Tools	75
4.2.1	Correlation Analysis	75
4.2.2	Regression Analysis	79
4.2.2.1	MPS on EPS	80
4.2.2.2	MPS on DPS	81
4.2.2.3	MPS on DP	81
4.2.2.4	MPS on DPR	81
4.2.2.5	MPS on DY	82

## **CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATION**

5.1	Summary and Conclusion	83
5.2	Recommendation	89

## **BIBLIOGRAPHY**

## **APPENDICES**

## LIST OF TABLES

<u>Table No.</u>		<u>Page No.</u>
4.1.1	Earning Per Share of Banks Under Study	58
4.1.2	Dividend Per Share of Banks Under Study	60
4.1.3	Dividend Percent of Banks Under Study	62
4.1.4	Dividend Payout Ratio of Banks Under Study	63
4.1.5	Market Price Per Share of Banks Under Study	65
4.1.6	Price Earning Ratio of Banks Under Study	66
4.1.7	Earning Yield of Banks Under Study	68
4.1.8	Dividend Yield of Banks Under Study	70
4.1.9	Market Price Per Share to Book Value Per Share of Banks Under Study	72
4.1.10	Net Worth Per Share of Banks Under Study	73
4.2.1.1	Correlation Coefficient of SCBNL	75
4.2.1.2	Correlation Coefficient of NSBL	76
4.2.1.3	Correlation Coefficient of NABIL	76
4.2.1.4	Correlation Coefficient of NBBL	77
4.2.1.5	Correlation Coefficient of EBL	77
4.2.2.1	Regression Analysis of MPS on EPS	79
4.2.2.2	Regression Analysis of MPS on DPS	80
4.2.2.3	Regression Analysis of MPS on DP	81
4.2.2.4	Regression Analysis of MPS on DPR	81
4.2.2.5	Regression Analysis of MPS on DY	82

## LIST OF FIGURES

**Figure No.**

**Page No.**

4.1.1	Earning Per Share of Banks Under Study	59
4.1.2	Dividend Per Share of Banks Under Study	61
4.1.3	Dividend Percent of Banks Under Study	62
4.1.4	Dividend Payout Ratio of Banks Under Study	63
4.1.5	Market Price Per Share of Banks Under Study	65
4.1.6	Price Earning Ratio of Banks Under Study	66
4.1.7	Earning Yield of Banks Under Study	68
4.1.8	Dividend Yield of Banks Under Study	70
4.1.9	Market Price Per Share to Book Value Per Share of Banks Under Study	72
4.2.10	Net Worth Per Share of Banks Under Study	74

## ABBERVATIONS

ATM	:	Automated Teller Machine
BVPS	:	Book Value Per Share
CV	:	Coefficient of Variation
DP	:	Dividend Percent
DPPC	:	Dividend Percent on Paid Up Capital
DPR	:	Dividend Payout Ratio
DPS	:	Dividend Per Share
DY	:	Dividend Yield
EPS	:	Earning Per Share
EY	:	Earning Yield
Govt.	:	Government
HMG/N( NG)	:	His Majesty Government of Nepal ( Nepal Government)
IFIC	:	International Finance Investment and Commerce Bank Ltd
JVB	:	Joint Venture Bank
MPS	:	Market Price Per Share
NABIL	:	NABIL Bank Ltd. / Nepal Arab Bank Ltd.
HBL	:	Himalayan Bank Ltd.
NEPSE	:	Nepal Stock Exchange
NGBL	:	Nepal Grindlays Bank Ltd.
NIBL	:	Nepal Investment Bank Ltd.
NIDC	:	Nepal Industrial Development Corporation
NRB	:	Nepal Rastra Bank
NSBL	:	Nepal SBI Bank Ltd.
NWPS	:	Net Worth Per Share
PER	:	Price Earning Ratio
R	:	Correlation Coefficient
R <sup>2</sup>	:	Coefficient of Multiple Determination
SBI	:	State Bank of India
SCBNL	:	Standard Chartered Bank Nepal Ltd.
SEB	:	Security Board Nepal
SEE	:	Standard Error of Estimate