# The Impact of Dividend Policy on Stock Prices: Evidence from Nepalese Banking Sector [1]

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## Abstract

The study examined the impact of dividend policy on market price of share in banking sector of Nepal. Out of 27 commercial banks, 10 banks have been selected under convenience sampling with ten years data for the period 2068/69 to 2077/78 were taken for the analysis. Panel data regression models (random effect model) has been utilized to analyze the data as the Hausman test suggest the random effect model is the most appropriate for describing the relationship among the given variables. The result indicates that earning per share, dividend per share, price-earnings ratio and retained earnings have a positive relationship on stock prices of commercial banks. The study concluded that dividend payments lead to a rise in the market price of a stock. Hence, it can be inferred from the outcome of the random effect regression model that it is consistent with the applicable methods related to dividend policy, indicating that there is a noteworthy impact of dividend policy on the stock price of companies. The findings of this study will contribute to the existing literature on dividend policy and market price of share, especially in the context of Nepal. The study will also provide important implications for investors, policymakers, and companies in making decisions regarding dividend rules and its impact on the stock prices.

*Keywords*: Banking industry, Dividend per share, Earning per share, Price-earnings ratio, Retained earnings, Stock price

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## Introduction

Dividends are the share of a firm's earnings or free cash flows that are distributed to shareholders as either cash or stock. The decision to pay dividends is important as it affects shareholder wealth and the value of the company. Dividend policy involves deciding whether to pay cash dividends now or increase dividends later, or to pay in the form of stock dividends. Financial managers make decisions regarding dividends based on shareholder expectations. In essence, the primary objective of dividend policy is to decide how much of a company's profits should be allocated for distribution to shareholders as dividends and how much should be kept within the company for future investments (Goshen, 1995).

The association between dividend levels and share prices has been extensively researched, theories such as agency theory, signaling theory and stake holders theory) (Zahid et al., 2023) suggesting that arise in dividends should be accompanied by an increase in firm value, while Miller and Modigliani argue that dividend decisions have no impact on firm value(Kim, 2023). The dividend policy ought to be appropriate for both stockholders and the firm, and there is a reciprocal relationship between dividends and retained earnings, with paying dividends decreasing retained earnings and retaining profits minimizing shareholders' wealth (Gruevski & Gaber, 2020). Zafar et al. (2012) explain that maximizing shareholders' purchasing power, and in turn, their wealth is the primary goal of dividend policy, making it crucial for determining the company's success in achieving this objective. The impact of a company's dividend policy on its stock price is significant not only for management in charge of setting the policy but also for investors looking to create portfolios and economists analyzing the capital market. It is this basis that the study aimed to investigate how dividend policy affects the market value of shares in the banking industry of Nepal (Miller & Modigliani, 1961).

The effective mobilization of internal resources is crucial for the economic development of a country, and banks and financial institutions play a vital role in this process. Dividend decision reflects a company's ability to finance itself internally and affects both overall financing decisions and shareholder perception (Murniati et al., 2019). Dividend payment increases are seen as positive and decreases as negative, impacting the company's future earnings prospects and causing a corresponding rise or

fall in share prices (Vijayakumar, 2010; Sattar et al., 2017). Reducing dividend payments typically leads to a decrease in a firm's share prices, while increasing dividend payments generates abnormal positive security returns. Conversely, announcing a decrease in dividends generates abnormal negative security returns (Pettit, 1972). Bhattacharyya, (2007) states that a firm's value is not influenced by dividends. Rather, earnings should only be retained if there are opportunities for investment that can yield benefits. Conversely, if there are no such opportunities, then all earnings should be paid out as dividends. The idea of relevance is vague as well. Moreover, a number of behavioral models have also come out in course of time, attempting to categorize, explain and measure the different types of observed dividend practice.

Dividend decision is still a controversial area in managerial finance, and there is no consensus among financial scholars about its relation to stock price or firm value. Some scholars believe that the stock price is influenced regular dividend payments (Gordon, 1963; Hillier et al. 2019), while others think that its relevance to the stock price is insignificant (Miller & Scholes, 1978). The dividend is an important aspect of financial management and is a motivating factor for investing in a company's shares. Nepalese Commercial Bank has not had satisfactory results regarding dividend decision, partly due to government regulations in banking operations. However, there is a limit to identifying the problem with dividend policy and its impact on the stock price. Dhungel (2014) explains in Nepalese context that, many companies are not serious about their dividend decision because they do not have a consistent or clear policy on dividend distribution.

While there have been many research studies exploring the association between dividend policy and price of the share(Abdullah et al., 2023; Bon & Hartoko, 2022; Simshauser, 2023), only a handful of studies have investigated the direct impact of dividend policy on stock prices. Hence, this study aims to analyze how dividend policy affects the market price of commercial banks' shares. The study incorporates various variables, such as earning per share, dividend per share, market price per share, price earning, and retained earnings, to analyze their relationship with each other and their combined impact. The subsequent sections of the paper are arranged in the following manner: Section two focuses on a literature review of pertinent research and the formulation of hypotheses. The third section provides an overview of the materials and methods employed. Section four presents the outcomes and subsequent analysis. Finally, in section five, we draw conclusions.

## Review of Literature and Hypotheses Development

This section incorporates the findings of several international studies as well as some Nepalese papers that have conducted similar research.

**International studies**

Various dividend models have been introduced by the scholars which has their own findings and conclusions as below;

**Table 1**

*Dividend Theories*

| Models | Findings |
|---|---|
| Dividend Discount Model (DDM) | The underlying assumption of this model is that a stock's value is equivalent to the current value of its future dividend payments. |
| Gordon Growth Model | This model is a variation of the DDM that assumes that dividends will grow at a constant rate indefinitely. |
| Two-Stage Dividend Model | This model assumes that a company's dividend growth rate will be higher in the first few years and then will settle to a constant growth rate. |
| Residual Dividend Model | This model assumes that a company will pay dividends only after meeting all its investment needs |
| Dividend Irrelevance Theory | This theory asserts that a company's dividend policy has no impact on its stock price or the value of its shareholders' holdings |
| Clientele Effect Theory | This theory suggests that investors prefer different dividend policies based on their personal preferences and tax situations. |
| Bird-in-Hand Theory | This theory assumes that investors prefer high dividends because theyprovide immediate returns and reduce uncertainty. |

Source : Hillier et al. 2019

There are two possible viewpoints that can shape a firm's decision to pay dividends. From a financing perspective, a company's net earnings serve as a source of long-term funding, and dividends are distributed only when there are no viable

investment opportunities available. However, market inefficiencies and uncertain circumstances can cause shareholders to assign a higher value to dividends that are expected to be paid in the near future, as opposed to future dividends and capital gains. This implies that the payment of dividends can significantly influence the market price of shares. When dividends are increased, the value of shares goes up, but when dividends are decreased, share prices decline. To optimize their returns in an uncertain environment, companies must pay out enough dividends to meet the expectations of their investors (Brigham & Houston, 2019).

Miller and Modigliani (1961) put forth the hypothesis of dividend irrelevance, which asserts that the dividend rules of an organization have no impact on its share price or shareholders' wealth. According to the author, a company's value is determined by its investment policy or the earning potential of its assets, rather than its decisions regarding dividends. They further argued that any effect that dividends may have on the value of a firm is due to information, clientele, or signaling effects. By splitting the earnings between dividends and retentions, Miller and Modigliani developed a comprehensive understanding of the concept of dividends. Gordon's (1962) model analyzes the relationship between a firm's dividend policy and its valuation. The model assumes an all-equity firm with no leverage, no external financing, and a constant internal rate of return. It uses expected earnings per share, retention ratio, growth rate, and cost of capital to determine share value. Increasing the dividend payout ratio leads to higher stock prices. However, the model's unrealistic assumptions limit its practicality. Walter (1966) conducted a study on dividend and price of share in 1966 and proposed a share valuation model where the dividend policy of a firm affects the value of its shares. He argued that the choice of dividend policy always affects the enterprise's value, which contradicts the views of Modigliani and Miller. According to Walter, whether to distribute dividends or retain profits depends on the correlation between the company's internal rate of return and cost of capital. If the interest rate is higher than the cost of capital, keeping profits will result in a boost in stock price and a reduction in dividend payout, and vice versa.In their research, Friend and Puckett (1964) examined the association between stock prices and dividends across five industries during the period spanning from 1956 to 1958.They found a positive correlation between dividends and stock prices, but the relationship was inconsistent across industries. The study suggested that dividend policy can affect stock prices, but the impact may vary by industry.

A study on the factors affecting of dividend policy in a developing market has been conducted by Dewasiri et al. (2019) using a quantitative approach and a sample of 191 Sri Lankan firms. The research highlights several critical factors that influence the likelihood of a company to distribute dividends. These include its prior dividend policies, earnings, potential investment prospects, profitability, available free cash flow, the quality of its corporate governance, state ownership, the size of the firm, and the impact of its industry. The authors also identify various determinants of dividend payout. The study supports various dividend theories, such as signaling, outcome, catering, life cycle, FCF, and pecking order. The research conducted by Camilleri et al. (2018) explores the correlation between the dividend policies of Mediterranean banks and the volatility of their share prices, with dividend yield and payout serving as proxies in the analysis. The authors use control variables and regression analysis to model instability. The findings suggest that removing outliers and forming sub-samples leads to varying conclusions about the relationship between dividend policy and volatility, and traditional statistical indicators may not accurately reflect the robustness of the relationship.

The study by Singh and Tandon, (2019) examine how the market prices of the companies listed on the National Stock Exchange were influenced by their dividend policy in ten years. The discoveries of the random effect regression model validate the pertinent methodologies of dividend policy, signifying that there exists a notable influence of dividend policy on the stock price of enterprises. Kanakriyah's (2020) investigation seeks to examine the relationship between dividend policy and the financial performance of firms in emerging markets, as well as identify factors that could impact financial performance. The results demonstrate a significant correlation between financial performance and variables such as DY, DPR, and FSIZE, while the leverage ratio is negatively linked to both ROA and AOE. The study accomplishes that dividend policy plays a significant role in explaining a company's financial performance in emerging markets. A study by Sharif et al. (2015) utilized panel data sets from 41 companies to identify the primary factors that influenced share prices in the Bahrain market between 2006 and 2010.The study's results demonstrate a significant and positive correlation between these variables and the market price of shares, with the exception of dividend yield. The study recommended that these determinants can help investors make better investment decisions and expect fair returns in Bahrain market.

A company's dividend policy determines when and how much it pays out to stockholders and it can impact the value of a firm and the wealth of its shareholders. To understand this effect on shareholder wealth, this research analyzes 30 Indian banks listed on the Bombay Stock Exchange from 2003-04 to 2012-13. Result shows that private banks mostly had a statistically significant F-value in the regression analysis, while public sector banks and Bank of India also showed significant F-values. The findings may show a significant relationship between dividend policy and share price for the selected banks. However, this study is limited to 10 years and only the chosen banks and expanding the time frame and number of banks could produce different results (Kandpal & Kavidayal, 2015). Radikoko and Ndjadingwe (2015) carried out research to investigate the impact of dividend pay-out on stock prices in Botswana's equity market. The study found a direct relationship between dividend announcements, ex-dividends, volume of stock dealt, and the share price in Botswana. The study also concluded that there is a direct relationship between dividend pay-out ratio and the stock price, meaning that changes in dividend amounts have a significant effect on stock price. The study observed a moderate uphill correlation coefficient of 0.5 between dividend change and change in dividend per share, indicating that investors expect companies to increase dividends when there is an increase in net profits, and vice versa. Bilal and Jamil (2016) conducted a study in which they investigated how dividend policy influenced stock prices of industries listed in securities market in Oman. The research findings indicated that earnings per share and return on equity had a significant positive association with stock price. While dividend yield and retention ratio were positively related to stock price, their effect was not statistically significant. The fifth determinant, after tax profit, exhibited an inverse relationship with share price, but its effect was insignificant.

The study in Pakistan by Shah and Noreen (2016) investigated the relationship between stock price volatility and dividend policy of 50 companies. The findings suggest a significant adverse relationship between SPV and dividend policy variables. Meanwhile, the control variables, including asset growth, earning volatility, and earnings per share, exhibit a significant positive correlation. These findings contribute to the literature on dividend policy in both developed and developing countries. Oloruntoba and Kunle (2018) investigated the impact of dividend policy on share price, focusing on Zenith bank in Nigeria. The study found that dividend yield, earnings yield, and payout ratio do not significantly impact the stock prices of Zenith bank. The correlation matrix

showed a negative relationship between share price and these measures of dividend policy, suggesting they are weak predictors of the share price of Zenith bank. Dang et al. (2021) examines the impact of dividend policy on corporate value in Vietnam. The study identifies that dividend payout, profitability, and corporate size positively affect corporate value while financial leverage has a negative impact. Companies with high dividend payouts are impacted significantly, unlike those with low or no payouts.

**Nepali studies**

A study on corporate dividend policy of commercial bank of Nepal by Bhandari and Pokharel (2012) aimed to investigate the dividend practices of commercial banks in Nepal using financial indicators over a ten-year period. The study concludes that commercial banks in Nepal do not show a uniform trend of dividend policy and are not fully explained by the residual theory or stable theory. The study recommends that commercial banks in Nepal follow a robust method of dividend policy to provide predictability and transparency to investors and benefit the stock market. Dhungel's (2013) study on the impact of dividend on share pricing in commercial Banks in Nepal explored the relationship between dividend and share price using secondary data. The study found a mostly positive relationship between stock price and earning per share/ dividend per share, but it was not significant in most cases. The research suggests that predicting dividend policy in financially and economically growing but unstable countries like Nepal is challenging. The increasing number of financial institutions has increased the scope of examining dividend policy and recommending policy agendas that can help improve the financial sector. To make secure and lucrative investments, investors must thoroughly review the available data on companies. Bhattarai (2016) conducted a causal comparative research study to examine the effect of dividend payment on the stock prices of banks in Nepal. According to the study, it has been found that dividend per share has a noteworthy and optimistic influence on the share price of commercial banks in Nepal. On the other hand, the impact of profitability and size on share price has been deemed insignificant. In conclusion, the study suggests that augmenting dividend payments can potentially boost the share price of commercial banks in Nepal.

A study by Pradhan and Dahal (2016) on factors affecting the price of stock discovered that specific factors related to the companies played a vital role in influencing stock price in the commercial banking sector of Nepal. The study revealed that the size of

a firm was the most significant variable that influenced the stock price, indicating that larger banks commanded higher share prices. Furthermore, among the control variables studied, gross domestic product was the primary driver of stock prices. Budagaga (2017) studied the impact of dividend payments on the value of 44 businesses listed on the ISE over a 9-year period. The study found a significant positive relationship between cash dividends per share and a firm's value, supporting the relevance proposition and agency theory. The study also showed that book value and abnormal earnings are significantly related to a firm's value. The irrelevance theory was not applicable in this case.

Based on the above review, the following hypothesis has been formulated.

$H_1$: Earning per share has a positive and significant impact on the stock price

$H_2$: Dividend per share has a positive and significant impact on the stock price

$H_3$: Price-earnings ratio has a positive and significant impact on the stock price

$H_4$: A retained earnings has a positive and significant impact on the stock price.

## Materials and Methods

The research utilized a descriptive design and implemented inferential statistics to investigate the correlation between dividend policy and share market prices in Nepal. The study solely relied on secondary data to determine the effects of the variables. More information regarding the firm-specific variables included in the analysis can be found in the Appendix (Chapagain et al., 2023).

Samples are selected under convenience sampling method and data of ten banks out of 27 for ten years from FY 2068/69 to 2077/78 were collected. The study obtained a sample size of 100 observations within the specified time frame.

**Table 2**

*Sampled Banks*

| Name of Banks | Name of Banks |
|---|---|
| Everest Bank Limited | Nabil Bank Limited |
| Himalayan Bank Limited | Nepal Investment Bank Limited |
| Sanima Bank Limited | Nepal SBI Bank Limited |
| Siddhartha Bank Limited | Prime Commercial Bank Limited |
| Laxmi Bank Limited | Global IME Bank Limited |

This study aims to achieve its research objective by utilizing descriptive and inferential methods of analysis. To present the data, descriptive statistics are used and the

correlation between independent and dependent variables is established. Once the correlation is determined, different techniques are applied to identify the best-fit regression model. Due to the nature of the data, which is collected from multiple banks over ten years, panel data analysis is utilized instead of a simple OLS model. This is because a simple OLS model does not take into account the individual heterogeneity among cross-sectional units, both observed and unobserved. By using alternative techniques, the study can consider the unique characteristics of individual units in the analysis.

Following the simple OLS model, the researchers explored the appropriate model by comparing among the fixed effect &random effect models. To determine which model to use, a Hausman test was conducted (Zulfikar & Ekonomi, 2018). The paper employed a model inspired by Dhungel's (2013), Pradhan and Dahal's (2016), Singh and Tandon's (2019), Bhattarai's (2016), and Oloruntoba and Kunle's (2018) works;

The regression model

$$MPS = \propto + \beta_1 E_{it} + \beta_2 D_{it} + \beta_3 P_{it} + \beta_4 R_{it} + \mu_i + e_{it}$$

Where;

MPS: Stock prices

$EPS_{it}$: Earning per share of $i_{th}$ bank in $t_{th}$ year.

$DPS_{it}$: Dividend per share of $i_{th}$ bank in $t_{th}$ year.

$PE_{it}$: Price earning ratio of $i_{th}$ bank in $t_{th}$ year.

$RE_{it}$: Retained earning per share of $i_{th}$ bank in $t_{th}$ year.

$\mu_i$: individual bank error term

$e_{it}$: model error term

## Result and Discussion

### Result

*Attributes of the variables*

The study utilized descriptive statistics to portray the attributes of the dependent, independent, and control variables.

**Table 3**

*Descriptive Statistics of Variables*

| Variable | Observations | Mean | Standard Deviation | Minimum | Maximum |
|----------|--------------|------|--------------------|---------|---------|
| MPS | 100 | 736.71 | 579.23 | 209 | 3385 |
| EPS | 100 | 32.24 | 18.19 | 6 | 91.88 |
| DPS | 100 | 24.12 | 13.98 | 5.31 | 73.68 |
| PE | 100 | 22.26 | 8.47 | 10.72 | 51.31 |
| RE | 100 | 34.11 | 31.24 | 0.35 | 123.51 |

Table 3 reveals that the MPS variable ranges from a minimum of 209 to a maximum of 3385, with an average value of 736.71 and a standard deviation of 579.23. Over a ten-year period, the EPS of sampled commercial banks averaged 32.24, with a minimum of 6 and a maximum of 91.88, and a deviation of 18.19. Similarly, the DPS variable has a minimum of 5.31 and a maximum of 73.68, with an average value of 24.12 and a deviation of 13.98. Over the same ten-year period, the PE variable averaged 22.26, with a minimum of 10.72 and a maximum of 51.31, and a deviation of 8.47. Finally, the RE variable has a minimum of 0.35 and a maximum of 123.51, with an average value of 34.11 and a deviation of 34.11.The results show that high volatility is presence among the given variables.

### Relationship among stock price and independent variables

According to the table 4, there is a positive correlation between MPS and several independent variables such as EPS, DPS, PE, and RE. The correlation is statistically significant at a level of one percent, as shown below.

**Table 4**

*Pairwise Correlation among Variables*

| Variables | (1) | (2) | (3) | (4) | (5) |
|-----------|-----|-----|-----|-----|-----|
| (1) MPS | 1.000 | | | | |
| (2) EPS | 0.796*** | 1.000 | | | |
| | (0.000) | | | | |
| (3) DPS | 0.820*** | 0.843*** | 1.000 | | |
| | (0.000) | (0.000) | | | |
| (4) PE | 0.627*** | 0.124 | 0.287*** | 1.000 | |
| | (0.000) | (0.219) | (0.004) | | |
| (5) RE | 0.668*** | 0.781*** | 0.660*** | 0.131 | 1.000 |
| | (0.000) | (0.000) | (0.000) | (0.194) | |

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Table 4 shows the correlation coefficients between five variables: MPS, EPS, DPS, PE, and RE. The independent variables show perfect correlation with MPS. For example, the correlation coefficient between EPS and MPS is 0.796, which indicates a strong positive correlation between the two variables. The table also includes the p-values in parentheses, which indicate the statistical significance of the correlation coefficients. For example, the p-value for the correlation between MPS and EPS is 0.000, which means that this correlation is statistically significant at the 0.01 level. The result illustrates that high correlation is found with DPS followed by EPS, RE, and PE at last. The highest correlation is 0.82 with DPS and the lowest is .627 with PE. Overall, this correlation table suggests that there are strong positive correlations between EPS, DPS, PE, and RE.

**Factors affecting dividend policy**

In this study, a regression analysis was performed to determine the independent variables that have a significant impact on the dependent variable indicators. The purpose was to draw conclusions from the influential variables and disregard those that are statistically insignificant.

Table 5is the simple regression output which also shows the statistically significant result. However, the model does not support simple regression output even though having p-value less than five percent due to the existence of heteroskedasticity problem in the model.

**Table 5**

*Simple Regression Output*

| MPS | Coef. | St.Err. | t-value | p-value | [95% Conf | Interval] | Sig |
|---|---|---|---|---|---|---|---|
| EPS | 16.164 | 1.999 | 8.09 | 0 | 12.196 | 20.132 | *** |
| PE | 33.951 | 2.009 | 16.90 | 0 | 29.962 | 37.939 | *** |
| DPS | 8.31 | 2.244 | 3.70 | 0 | 3.855 | 12.766 | *** |
| RE | 1.362 | .814 | 1.67 | .097 | -.254 | 2.978 | * |
| Constant | -787.211 | 51.534 | -15.28 | 0 | -889.52 | -684.902 | *** |
| | | | | | | | |
| Mean dependent var | | 736.710 | SD dependent var | | | 579.226 | |
| R-squared | | 0.929 | Number of obs | | | 100 | |
| F-test | | 310.025 | Prob > F | | | 0.000 | |
| Akaike crit. (AIC) | | 1300.833 | Bayesian crit. (BIC) | | | 1313.859 | |

*\*\*\* p<.01, \*\* p<.05, \* p<.1*

Heterocasticity test:

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
  Ho: Constant variance
  Variables: fitted values of MPS
  chi2 (1) = 88.37
  Prob > chi2 = 0.0000

As per the result of heteroskedasticity test, the probability value is less than 0.5. In this case, alternate hypothesis is accepted which signals the existence of heteroskedasticity issue in the model. As there exists heteroskedasticity in the model which means the variance of errors is not constant across observations, the ordinary least squares (OLS) estimates of the regression coefficients may be biased and inefficient.

Hence, researcher applies heteroscedasticity-consistent standard errors (also known as robust standard errors) to adjust for the heteroscedasticity. So, the study uses either fixed effect or random effect model addressing the heteroskedasticity using robust standard errors. Finally, the regression results using the random effect model are shown in Table 6, as the Hausman test results in Table 7 recommends that random effect is the better model.

**Table 6**

*Random Effect Regression Result Addressing Robust Standard Errors*

| MPS | Coef. | St.Err. | t-value | p-value | [95% Conf | Interval] | Sig |
|------|--------|---------|---------|---------|-----------|-----------|-----|
| EPS | 16.164 | 3.158 | 5.12 | 0 | 9.975 | 22.354 | *** |
| DPS | 8.31 | 4.605 | 1.80 | .071 | -.715 | 17.336 | * |
| PE | 33.951 | 4.554 | 7.45 | 0 | 25.024 | 42.877 | *** |
| RE | 1.362 | .717 | 1.90 | .058 | -.044 | 2.768 | * |
| Constant | -787.211 | 96.481 | -8.16 | 0 | -976.311 | -598.111 | *** |

| | | | | | |
|---|---|---|---|---|---|
| Mean dependent var | | 736.710 | SD dependent var | | 579.226 |
| Overall r-squared | | 0.929 | Number of obs | | 100 |
| Chi-square | | 2024.153 | Prob > chi2 | | 0.000*** |
| R-squared within | | 0.865 | R-squared between | | 0.989 |

*** $p<.01$, ** $p<.05$, * $p<.1$

The dependent variable of the study is MPS, and there are four independent variables: EPS, DPS, PE, and RE. Assuming that all other variables remain constant, the coefficients for each independent variable indicate the anticipated change in the stock

price related to a one-unit increase in the respective independent variable. As per the result, for example, a one-unit increase in EPS is expected to result in a 16.164 unit increase in MPS, holding all other variables constant. In this model, EPS, PE, and RE are all statistically significant predictors of MPS, as indicated by their respective p-values, with $p < .01$ while, p-value for DPS and RE is marginally significant with $p < .1$. The result shows that the direction of the association of all the independent variables is positive with that of dependent variable. The overall R-squared value of 0.929 indicates that the independent variables explain a large proportion of the variance in MPS. Overall, the model is statistically significant as indicated by a probability value of zero.

**Table 7**

*Hausman (1978) Specification Test*

|  | Coef. |
|---|---|
| Chi-square test value | 7.631 |
| P-value | .106 |

Table 7 provides evidence that supports the acceptance of the null hypothesis, as the probability value is higher than 5 percent. Therefore, based on the results of the Hausman test, it is recommended to use the random effect model.

## Discussion

The regression result shows that DPS, EPS, PE and RE has significant and positive impact on MPS of the stock. This paper supports the dividend relevance theory and models like; Gordon growth model and Walter model of dividend(Hillier et al., 2019): both model assumed the imperfect capital market exist and dividend decision is relevance for firm value. According to the Gordon model, the price of a stock will increase if the dividend per share increases, the expected growth rate of dividends increases, or the required rate of return decreases. Dividend payment is believed to result in an increase in the market price of a stock so that dividend distribution affects stock prices, and dividend policy impacts stock price. Likewise, in case of Walter model, if the company's internal rate of return is higher than the cost of capital, it should retain earnings to finance future investments. If the internal rate of return is less than the cost of capital, the company should pay out more dividends. This implies that the optimal dividend payout is the one that maximizes the total value of the company. The obtained result is familiar to the results by Benaruzi (1997), Bhattarai (2016), Singh and Tandon

(2019) and contradicts with that of Ali and Chowdhury (2010)which conveys that dividend announcement does not impact on share the price of banks.

## Conclusion

This study is aimed to find out the impact of dividend policy on stock prices of commercial banks in Nepal. The result of correlation indicates that EPS, DPS, PE and RE have a positive relationship on MPS of commercial banks at one percent level of significance. After conducting a Hausman test, a regression analysis using a random effect model was conducted on panel data to examine the relationship between dividend policy and stock prices. The findings suggest that dividend per share, retained earnings, price-earnings ratio, and earnings per share have a positive relation with stock prices in the random effect model and significantly account for the variations in stock prices. As an example, when the bank decides to provide high dividend to its shareholders, the market price per share of the bank increases and vice versa. The study supported Gordon Growth Model and Walter model. Therefore, an increase in the market price of a stock occurs as a result of dividend payments. In summary, we can infer that dividend distribution has an impact on stock price and thus, the dividend policy has an influence on the stock price. This study is important for people who invest money, manage companies, and lend money to them. The study can help managers decide how to give out dividends in a way that makes the company more valuable to shareholders. The results are reliable for emerging economies like Nepal but may not be accurate for developed countries. This paper explores how a commercial bank's dividend policy affects its market price per share. Shareholders can use the findings to better understand how dividend policies impact their investments, while management can use the results to improve their own policies. Policy makers can also use the comparative study to create effective dividend policies. The study's insights are relevant to a variety of external stakeholders, including customers, financial agencies, brokers, individuals, and scholars. However, the sample banks themselves stand to gain the most from the study, as it focuses on the impact of their own dividend policies. The present study is subject to certain limitations, data collection from commercial banks exclusively, and a restricted number of variables. To further enhance the comprehensiveness of research, future studies may explore on development banks and other classifications of banks operating in Nepal. Additionally, the inclusion of control variables such as profit after tax, total assets in terms of bank size, could strengthen the study's analytical capabilities.

Full text can be downloaded https://www.nepjol.info/index.php/craiaj & http://www.craiaj.info/

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## Appendix

| FY | Name of Bank | Bank numeric | MPS | EPS | DPS | PE | RE | DY | RE (Rs.) | No. of shares (N) |
|---|---|---|---|---|---|---|---|---|---|---|
| 2068/69 | EBL | 1 | 1033 | 88.55 | 31.58 | 11.67 | 82.95 | 3.06% | 1,021,600,000 | 12,316,000 |
| 2069/70 | EBL | 1 | 1591 | 91.88 | 60.53 | 17.32 | 100.92 | 3.80% | 1,615,800,000 | 16,011,000 |
| 2070/71 | EBL | 1 | 2631 | 86.04 | 62.00 | 30.58 | 106.91 | 2.36% | 1,925,700,000 | 18,012,000 |
| 2071/72 | EBL | 1 | 2120 | 78.04 | 36.57 | 27.17 | 96.20 | 1.73% | 1,940,600,000 | 20,173,000 |
| 2072/73 | EBL | 1 | 3385 | 65.97 | 73.68 | 51.31 | 87.19 | 2.18% | 2,286,600,000 | 26,226,000 |
| 2073/74 | EBL | 1 | 1353 | 43.78 | 34.74 | 30.90 | 59.38 | 2.57% | 2,687,900,000 | 45,264,000 |
| 2074/75 | EBL | 1 | 663 | 34.71 | 20.00 | 19.10 | 21.45 | 3.02% | 1,739,036,261 | 81,068,630 |
| 2075/76 | EBL | 1 | 666 | 37.95 | 25.00 | 17.55 | 26.99 | 3.75% | 2,188,038,000 | 81,068,630 |
| 2076/77 | EBL | 1 | 675 | 31.15 | 10.53 | 21.67 | 21.07 | 1.56% | 1,793,066,000 | 85,102,070 |
| 2077/78 | EBL | 1 | 738 | 20.56 | 10.32 | 35.89 | 26.47 | 1.40% | 2,364,965,000 | 89,337,170 |
| 2068/69 | HBL | 2 | 653 | 43.85 | 28.42 | 14.89 | 67.83 | 4.35% | 1,872,010,133 | 27,600,000 |

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| 2069/70 | HBL | 2 | 700 | 37.12 | 15.00 | 18.86 | 82.87 | 2.14% | 2,401,708,123 | 28,980,000 |
|---------|-----|---|-----|-------|-------|-------|-------|-------|---------------|------------|
| 2070/71 | HBL | 2 | 941 | 38.05 | 21.05 | 24.73 | 82.54 | 2.24% | 2,750,711,016 | 33,327,000 |
| 2071/72 | HBL | 2 | 813 | 32.87 | 42.10 | 24.73 | 54.67 | 5.18% | 2,459,754,626 | 44,991,450 |
| 2072/73 | HBL | 2 | 1500 | 42.58 | 31.57 | 35.23 | 50.86 | 2.10% | 2,974,879,628 | 58,488,885 |
| 2073/74 | HBL | 2 | 886 | 33.53 | 26.32 | 26.42 | 44.25 | 2.97% | 3,590,667,378 | 81,145,293 |
| 2074/75 | HBL | 2 | 551 | 32.81 | 15.78 | 16.79 | 55.75 | 2.86% | 4,523,962,180 | 81,145,293 |
| 2075/76 | HBL | 2 | 552 | 33.41 | 22.00 | 16.52 | 62.24 | 3.99% | 5,303,395,658 | 85,208,558 |
| 2076/77 | HBL | 2 | 540 | 27.13 | 20.00 | 19.90 | 61.03 | 3.70% | 5,720,209,797 | 93,722,814 |
| 2077/78 | HBL | 2 | 484 | 28.06 | 26.00 | 17.25 | 60.93 | 5.37% | 6,510,114,099 | 106,844,008 |
| 2068/69 | SANIMA | 3 | 225 | 6.00 | 5.50 | 37.50 | 5.63 | 2.44% | 113,580,000 | 20,160,000 |
| 2069/70 | SANIMA | 3 | 260 | 15.13 | 10.53 | 17.18 | 9.31 | 4.05% | 206,431,000 | 22,176,000 |
| 2070/71 | SANIMA | 3 | 638 | 19.28 | 15.79 | 33.09 | 11.80 | 2.47% | 301,000,000 | 25,500,000 |
| 2071/72 | SANIMA | 3 | 555 | 23.69 | 21.05 | 23.43 | 12.97 | 3.79% | 397,000,000 | 30,600,000 |
| 2072/73 | SANIMA | 3 | 750 | 34.17 | 15.79 | 21.95 | 14.48 | 2.11% | 682,000,000 | 47,110,000 |
| 2073/74 | SANIMA | 3 | 431 | 18.85 | 16.00 | 22.86 | 13.66 | 3.71% | 1,093,000,000 | 80,010,000 |
| 2074/75 | SANIMA | 3 | 324 | 21.17 | 14.00 | 15.30 | 35.10 | 4.32% | 2,808,000,000 | 80,010,000 |
| 2075/76 | SANIMA | 3 | 348 | 28.04 | 21.05 | 12.41 | 50.28 | 6.05% | 4,023,000,000 | 80,010,000 |
| 2076/77 | SANIMA | 3 | 330 | 19.35 | 13.60 | 17.05 | 45.94 | 4.12% | 4,043,000,000 | 88,010,000 |
| 2077/78 | SANIMA | 3 | 485 | 23.51 | 17.89 | 20.63 | 55.45 | 3.69% | 5,369,000,000 | 96,820,000 |
| 2068/69 | SIDDHARTHA | 4 | 343 | 20.41 | 8.42 | 16.81 | 4.08 | 2.45% | 66,091,277 | 16,192,443 |
| 2069/70 | SIDDHARTHA | 4 | 354 | 29.80 | 22.11 | 11.88 | 5.96 | 6.25% | 96,511,281 | 16,192,443 |
| 2070/71 | SIDDHARTHA | 4 | 425 | 38.63 | 23.16 | 11.00 | 6.90 | 5.45% | 140,107,000 | 20,311,800 |
| 2071/72 | SIDDHARTHA | 4 | 405 | 37.77 | 21.05 | 10.72 | 6.39 | 5.20% | 155,733,829 | 24,374,160 |
| 2072/73 | SIDDHARTHA | 4 | 869 | 41.19 | 39.00 | 21.10 | 8.31 | 4.49% | 250,983,601 | 30,220,773 |
| 2073/74 | SIDDHARTHA | 4 | 485 | 21.39 | 14.00 | 22.67 | 74.75 | 2.89% | 4,954,806,000 | 66,288,790 |
| 2074/75 | SIDDHARTHA | 4 | 300 | 21.91 | 13.16 | 13.69 | 13.99 | 4.39% | 1,184,426,033 | 84,643,850 |
| 2075/76 | SIDDHARTHA | 4 | 318 | 26.59 | 25.26 | 11.96 | 18.72 | 7.94% | 1,663,628,657 | 88,876,045 |
| 2076/77 | SIDDHARTHA | 4 | 296 | 21.38 | 15.00 | 13.84 | 12.73 | 5.07% | 1,245,988,052 | 97,877,671 |
| 2077/78 | SIDDHARTHA | 4 | 504 | 25.87 | 15.00 | 19.48 | 11.58 | 2.98% | 1,269,322,095 | 109,622,991 |
| 2068/69 | LAXMI | 5 | 285 | 21.02 | 15.79 | 13.56 | 36.03 | 5.54% | 610,443,874 | 16,940,811 |
| 2069/70 | LAXMI | 5 | 309 | 26.74 | 10.00 | 11.56 | 46.05 | 3.24% | 780,189,846 | 16,940,811 |
| 2070/71 | LAXMI | 5 | 588 | 24.22 | 15.00 | 24.28 | 43.61 | 2.55% | 849,589,662 | 19,483,048 |
| 2071/72 | LAXMI | 5 | 400 | 17.61 | 21.05 | 22.71 | 52.80 | 5.26% | 1,253,360,417 | 23,738,686 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2072/73 | LAXMI | 5 | 876 | 22.17 | 18.29 | 39.51 | 27.95 | 2.09% | 849,578,821 | 30,392,292 |
| 2073/74 | LAXMI | 5 | 390 | 25.43 | 10.53 | 15.34 | 13.65 | 2.70% | 1,020,259,811 | 74,724,120 |
| 2074/75 | LAXMI | 5 | 258 | 15.00 | 8.95 | 17.20 | 9.25 | 3.47% | 760,753,700 | 82,216,169 |
| 2075/76 | LAXMI | 5 | 226 | 17.67 | 15.00 | 12.79 | 16.29 | 6.64% | 1,453,367,510 | 89,205,086 |
| 2076/77 | LAXMI | 5 | 209 | 15.13 | 11.50 | 13.81 | 13.35 | 5.50% | 1,310,243,616 | 98,125,595 |
| 2077/78 | LAXMI | 5 | 395 | 14.41 | 11.50 | 27.41 | 11.81 | 2.91% | 1,262,938,329 | 106,956,898 |
| 2068/69 | NABIL | 6 | 1355 | 83.23 | 60.00 | 16.28 | 123.51 | 4.43% | 3,008,278,000 | 24,357,230 |
| 2069/70 | NABIL | 6 | 1815 | 91.05 | 65.00 | 19.93 | 119.68 | 3.58% | 3,645,486,000 | 30,460,520 |
| 2070/71 | NABIL | 6 | 2535 | 76.12 | 65.00 | 33.30 | 108.97 | 2.56% | 3,984,458,000 | 36,566,020 |
| 2071/72 | NABIL | 6 | 1910 | 57.24 | 36.84 | 33.37 | 99.50 | 1.93% | 4,731,000,000 | 47,550,000 |
| 2072/73 | NABIL | 6 | 2344 | 59.27 | 45.00 | 39.55 | 100.00 | 1.92% | 5,410,000,000 | 54,100,000 |
| 2073/74 | NABIL | 6 | 1523 | 58.54 | 48.00 | 26.02 | 97.87 | 3.15% | 6,054,000,000 | 61,855,070 |
| 2074/75 | NABIL | 6 | 921 | 52.14 | 34.00 | 17.66 | 40.47 | 3.69% | 3,255,000,000 | 80,432,210 |
| 2075/76 | NABIL | 6 | 800 | 47.43 | 34.00 | 16.87 | 41.45 | 4.25% | 3,735,000,000 | 90,118,454 |
| 2076/77 | NABIL | 6 | 765 | 37.48 | 35.26 | 20.41 | 35.42 | 4.61% | 3,576,422,833 | 100,974,974 |
| 2077/78 | NABIL | 6 | 1359 | 34.41 | 38.00 | 39.49 | 30.07 | 2.80% | 4,162,928,789 | 138,444,512 |
| 2068/69 | NIBL | 7 | 511 | 27.60 | 30.00 | 18.51 | 60.64 | 5.87% | 2,283,785,925 | 37,661,552 |
| 2069/70 | NIBL | 7 | 784 | 46.20 | 35.00 | 16.97 | 69.38 | 4.46% | 2,875,835,627 | 41,448,084 |
| 2070/71 | NIBL | 7 | 960 | 40.70 | 40.00 | 23.59 | 3.80 | 4.17% | 181,384,000 | 47,687,136 |
| 2071/72 | NIBL | 7 | 704 | 30.90 | 34.74 | 22.78 | 0.79 | 4.93% | 50,044,000 | 63,457,007 |
| 2072/73 | NIBL | 7 | 1040 | 29.30 | 41.00 | 35.49 | 2.83 | 3.94% | 246,582,000 | 87,066,118 |
| 2073/74 | NIBL | 7 | 770 | 29.30 | 40.00 | 26.28 | 2.56 | 5.19% | 272,328,000 | 106,264,357 |
| 2074/75 | NIBL | 7 | 621 | 35.70 | 40.00 | 17.39 | 25.69 | 6.44% | 2,735,026,000 | 106,455,990 |
| 2075/76 | NIBL | 7 | 519 | 26.40 | 19.00 | 19.66 | 16.04 | 3.66% | 2,064,662,325 | 128,697,491 |
| 2076/77 | NIBL | 7 | 431 | 17.00 | 18.50 | 25.35 | 18.40 | 4.29% | 2,622,386,038 | 142,489,545 |
| 2077/78 | NIBL | 7 | 460 | 22.00 | 16.00 | 20.91 | 11.30 | 3.48% | 1,836,617,021 | 162,573,295 |
| 2068/69 | SBI | 8 | 635 | 22.93 | 17.50 | 27.69 | 2.44 | 2.76% | 51,000,000 | 20,939,897 |
| 2069/70 | SBI | 8 | 850 | 32.75 | 20.00 | 25.95 | 2.46 | 2.35% | 58,000,000 | 23,557,385 |
| 2070/71 | SBI | 8 | 1280 | 34.83 | 22.00 | 36.75 | 1.05 | 1.72% | 32,000,000 | 30,490,830 |
| 2071/72 | SBI | 8 | 887 | 34.84 | 28.42 | 25.46 | 26.99 | 3.20% | 825,400,000 | 30,581,000 |
| 2072/73 | SBI | 8 | 1875 | 36.78 | 29.53 | 50.98 | 31.54 | 1.57% | 1,225,000,000 | 38,837,000 |
| 2073/74 | SBI | 8 | 925 | 33.46 | 16.23 | 27.64 | 16.53 | 1.75% | 1,145,000,000 | 69,249,000 |

| 2074/75 | SBI | 8 | 499 | 25.16 | 15.79 | 19.83 | 15.14 | 3.16% | 1,218,000,000 | 80,469,000 |
|---------|-----|---|-----|-------|-------|-------|-------|-------|---------------|------------|
| 2075/76 | SBI | 8 | 469 | 27.13 | 16.84 | 17.29 | 21.94 | 3.59% | 1,853,742,736 | 84,492,505 |
| 2076/77 | SBI | 8 | 435 | 16.26 | 9.47 | 26.75 | 15.80 | 2.18% | 1,415,526,276 | 89,562,055 |
| 2077/78 | SBI | 8 | 409 | 10.15 | 5.31 | 40.30 | 9.37 | 1.30% | 889,622,669 | 94,935,778 |
| 2068/69 | PRIME | 9 | 237 | 12.00 | 11.58 | 19.75 | 0.35 | 4.89% | 7,830,000 | 22,457,460 |
| 2069/70 | PRIME | 9 | 324 | 18.55 | 15.00 | 17.47 | 0.93 | 4.63% | 21,875,000 | 23,405,050 |
| 2070/71 | PRIME | 9 | 583 | 20.97 | 20.00 | 27.80 | 18.07 | 3.43% | 476,894,997 | 26,386,998 |
| 2071/72 | PRIME | 9 | 455 | 23.74 | 18.95 | 19.17 | 19.98 | 4.16% | 627,526,752 | 31,400,528 |
| 2072/73 | PRIME | 9 | 746 | 30.11 | 18.46 | 24.78 | 17.45 | 2.47% | 1,401,825,000 | 80,332,990 |
| 2073/74 | PRIME | 9 | 421 | 23.21 | 27.00 | 18.14 | 14.19 | 6.41% | 1,140,144,000 | 80,342,070 |
| 2074/75 | PRIME | 9 | 287 | 21.49 | 16.00 | 13.36 | 16.63 | 5.57% | 1,335,887,667 | 80,332,988 |
| 2075/76 | PRIME | 9 | 278 | 23.60 | 16.00 | 11.78 | 16.91 | 5.76% | 1,575,645,633 | 93,186,267 |
| 2076/77 | PRIME | 9 | 255 | 16.10 | 15.00 | 15.84 | 11.75 | 5.88% | 1,888,969,218 | 160,830,369 |
| 2077/78 | PRIME | 9 | 479 | 20.32 | 16.63 | 23.57 | 16.91 | 3.47% | 2,719,161,525 | 160,830,369 |
| 2068/69 | GLOBAL | 10 | 385 | 16.16 | 13.00 | 23.82 | 12.72 | 3.38% | 286,343,218 | 22,503,567 |
| 2069/70 | GLOBAL | 10 | 432 | 22.84 | 15.00 | 18.91 | 16.18 | 3.47% | 449,929,892 | 27,808,584 |
| 2070/71 | GLOBAL | 10 | 695 | 24.41 | 25.00 | 28.47 | 23.10 | 3.60% | 1,149,656,796 | 49,766,402 |
| 2071/72 | GLOBAL | 10 | 479 | 20.07 | 23.00 | 23.87 | 18.81 | 4.80% | 1,159,225,760 | 61,642,675 |
| 2072/73 | GLOBAL | 10 | 515 | 22.50 | 16.00 | 22.89 | 21.75 | 3.11% | 1,555,166,952 | 71,505,503 |
| 2073/74 | GLOBAL | 10 | 388 | 25.22 | 20.00 | 15.38 | 27.19 | 5.15% | 2,416,446,123 | 88,883,758 |
| 2074/75 | GLOBAL | 10 | 290 | 22.30 | 16.00 | 13.00 | 16.33 | 5.52% | 1,451,344,000 | 88,883,760 |
| 2075/76 | GLOBAL | 10 | 295 | 27.11 | 25.50 | 10.88 | 25.83 | 8.64% | 2,663,622,000 | 103,105,160 |
| 2076/77 | GLOBAL | 10 | 239 | 16.27 | 16.00 | 14.69 | 8.82 | 6.69% | 1,673,610,000 | 189,758,800 |
| 2077/78 | GLOBAL | 10 | 441 | 19.08 | 13.50 | 23.11 | 13.82 | 3.06% | 2,990,210,000 | 216,325,000 |