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Dr. Binod Kumar Shrestha
Management Faculty
M.M.A.M. Campus, (T.U.),
Biratnagar, Nepal

Correspondence
Dr. Binod Kumar Shrestha
Management Faculty
M.M.A.M. Campus, (T.U.),
Biratnagar, Nepal

A case study of dividend practices in Everest Bank Ltd.

Dr. Binod Kumar Shrestha

Abstract
Dividend practice however is still a crucial as well as controversial area of managerial finance. Every firm after earning profit either retains the money for distributions it among the shareholders. The profits that are distributed to the shareholders are known as dividend and the profit that kept in the organization are known as retained earnings for investment and organization expand. Dividend practices determines the division of earning between payments to stockholders and reinvestment in the firm. Therefore, the decision regarding how much profit to distribute to the stockholders of cash and bonus share and how much to keep in the organization expand is called the dividend practices.

Keywords: Earning per share (EPS), Dividend per share (DPS), p/E ration Net income (NI), Market Price per share (MRP), Nepal stock exchange NEPSE

Introduction

Briefly Organization of Everest Bank Ltd

All of there are 27 commercial bank in Nepal, Everest Bank limited is a limited labiates company domiciles in Nepal. Its registered office is at lazimpart, Kathmandu, Nepal. The bank is listed with Nepal Stock exchange ltd. and provides full commercial banking service as licensed by Nepal Rastra BNK(NRB) central Bank). The bank has entered into Technical Services Agreement (TSA) for the equity and management participation with Punjab National Bank, New Delhi India, international banking services in Nepal. Everest Bank limited offers a full range of banking products and services to a wide range of clients and customers encompassing individuals, mid-market local corporate, multinationals, large public sector companies, government corporations, airlines, hotels as well as the segment comprising of embassies, aid agencies, NGOs and INGO's. The Bank has been the pioneer in introducing 'customer focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. The Bank believes in delivering shareholder value in a socially, ethically an environmentally responsible manner. Everest Bank limited throughout its long history has played an active role in supporting those communities in which its customers and staff live. It concentrates on projects that assist children, particularly in the areas of health and education. Environmental projects are also occasionally.

Statement of problem

The following specific problems have been set and tried to seek their solutions in this study:-

- What is the Everest Bank Ltd**.** are suitable dividend policy?
- What is the relationship of dividend policy with various financial indicators like EPS, DPS, MPS, DPR, net worth net profit and book value of share?

Objective of the study

The main objectives of the present study are to assess the recent financial situation of the Everest Bank Ltd. with respect to the enrollment trend and examine the long term financing problem bearing.

- To analyze the Everest Bank Ltd**.** are suitable dividend policy
- To analyze the relationship of dividend policy with various financial indicators like EPS, DPS, MPS, DPR, net worth net profit and book value of share;

Methodology
The present study is descriptive in nature and based on both primary and secondary sources of data

- **Primary Sources of Data**

The primary sources of data is collected by a researcher from first-hand sources, using methods like surveys, interviews, or experiments. It is collected with the research project in mind, directly from primary sources.

- **Secondary Sources of Data**

The secondary sources of data collected by someone else for some other purpose (but being utilized by the investigator for another purpose) secondary data is data gathered from studies or experiments that have been run by other people or for other research .this study is based on secondary sources of data collected from the annual report were obtained from different studies conducted in the past by intuitions, different websites, journal, newspaper & magazine, ministry of finance (MOF) in addition international data and information collected from world bank etc.

Data Analysis
To achieve the objectives of the research, the following financial and statics tools will be used.

Method of Financial Tools

- **Earning Per Share (EPS)**

It measures the return of each equity shareholders. It is also identified to measure the profitableness of the shareholders investment. The earning per share simply shows the profitability of the banks on a per share basis. The higher earning indicates the better achievements of the profitability of the banks on a per share basis. The higher earning indicates the better achievements of the profitability of the banks by mobilizing their funds and vice versa. In other words, higher earning per share denotes the strength and lower earning per share indicates the weakness of the bank's position.
EPS is computed to know the earnings capacity and to make comparison between concerned banks. This ratio can be computed by dividing the earning available to common shareholders by the total number of common stock outstanding of banks.

EPS = Earning available to common stock holders/ Number of common stock outstanding

- **Dividend per Share (DPS)**

It measures the dividend distribution to each equity shareholders. The DPS simply shows the proportion of earning distribution to the shareholders on per share basis. Generally, the higher DPS creates positive attitude of the shareholders toward the bank, which consequently helps to increase the market value of the shares and it also works as the indicators of better performance of the bank management. It is defined as the result received by dividing the total dividend distribution to equity shareholders by the total number by equity shares outstanding.

DPS = Total amount dividend paid to ordinary shareholders/No of Ordinary shares outstanding.

- **Dividend payout Ratio (DPR)**

The dividend payout ratio is the earnings paid to the equity holders from the earnings of a firm in a particular. This ratio shows what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the bank. In other words, the amount of dividend that a bank pays depends upon the earning capacity of the bank. Higher earning enhances the ability to pay more dividends and vice verse.

DPR = Dividend Per Share/Earning Per Share

Price-Earning Ratio (P/E Ratio)
Price-earning ratio is simply the ratio between market price per share and earning per share. In other words, this represents the amount which investors are willing to pay for each rupee of the firm's earnings. The p/E ratio measures investor's to expectation and market appraisal of the performance of firm. This is important to compare the market share prices of different stocks given there earning per share. The higher P/E ratio implies the high market share price of a stock given the earning per share and the greater confidence of investors in the firm's future. This ratio is computed by dividing earning per share to market price per share.

P/E Ratio = Market price Per Share / Earning Per Share

- **Earning Yield (EY)**

It is a financial ratio relating the earning per share to the market share price at a particular time. It measures the earning in relation to market value of share. It gives some idea of how much an investor might get for his money. The share with higher earning yield is worth buying .Earning is informative to compare the market share prices of stocks in the secondary market.

Earning Yield = Earning: Per Share/Market Price per Sharer

- **Dividend Yield (DY)**

It shows that how much is the dividend per share on market price per share. It shows that how much is the dividend per share on market price per share. It measures the dividend in relation to market value of share. So, dividend yield is the dividend received by the investors as a percentage of market prices per share in the stock market. This ratio highly influences the market price per share because a small change in dividend per share can bring effective change in the market value of the share. The share with higher dividend yield is worth buying. Dividend has important guidance to commit funds for buying of shares in the secondary market. This ratio is calculated by dividing per share by market price of the stock.

DY Ratio = Dividend Per Share/Market Price Per Share

- **Market price Per Share (MPS)**

It is refers to the rupees value of on share that is being transaction in the Nepal stock exchange (NEPSE). This is affected by DPS and EPS of the firm. The capital market determines MPS.

Dividend policy of Everest Bank Limited of analysis of Data

Table 1: EPS & DPS and MPS of Everest Bank limited

Year	EPS(Rs.)	DPS(Rs.)	MPS (Rs.)
2072/073	40.33	73.68	3385.00
2073/074	32.48	34.74	1353.00
2074/075	32.78	20.00	663.00

Note: Annual Report

Table .01, It is shows the increasing and decreasing trend during in the observation period. In absolute term, the amount of EPS of the Everest Bank limited from the FY 2072/073 to 2074/075 varies from Rs.32.48 to Rs. 40.33 per share, DPS also varies from Rs.20 to Rs. 73.68 per share, during the observation period and FY 2072/073 to 2074/075 of MPS also varies from Rs.663 to Rs. 3385 per share, during the observation period. The amount of DPS is increase and decrease train is depended on EPS, when DPS increasing and decreasing the stock market price directly effected.

Table 2: Dividend payout Ratio, P/E Ratio, net profit margin, dividend yield, dividend yield, market value per share of Everest bank limited

Year	Dividend payout Ratio	P/E Ratio	Earning Yield (%)	Dived yield (%)	Market Value per Share Rs.
2072/073	1.828	83.94	1.191	2.177	3385.00
2073/074	1.069	41.66	2.401	2.568	1353.00
2074/075	0.610	20.23	4.944	3.016	663.00

Note : annual report

Table 02, shows that the dividend payout ratio. Dividend payout ratio is increase & decreasing train. In absolute term, the dividend payout ratio varies from 1.828 times to 0.610 times it is decreasing train so it is not favorable position.

P/E ratio is used to measure the profit margin of Everest Bank Ltd. High earning ratio so the company position is favorable P/E ratio vary from 83.94 % to 20.23 % in F/Y 2072/073 to 2074/075, it is decreasing train so it is not favorable position.

Net profit margin is used to measure the profit margin of Everest Bank Ltd. High earning ratio so the company position is favorable, Net profit margin vary from 29.75 % to 22.77 % in F/Y 2072/073 to 2074/075, it is decreasing train so it is not favorable position . Net Dividend Yield ratio is used to measure the dividend payment percent of Everest Bank Ltd. High dividend paid so the company position is favorable, dividend yield ratio vary from 10191 % to 4.494 is favorable position of F/y from 2072/073 to2074/075 in study period.

Summary

In this section, the gaps perceived in this study are presented as conclusions. The issues related to dividend and other relevant factors found while analyzing the variables are also presented here. Then possible causes to perceive this gap will be scrutinized as far as possible.

- There is lack of rules and regulations that bind companies to pay dividend every year. Not only the companies do not have dividend policy but also the government does not have any clear policy towards dividend.
- There seems instability of dividend and inconsistency in dividend payout ratio of the banks.
- Every year EPS and MPS are highly fluctuating. The EPS has ranged from 40.33 to 32.48.. Similarly market price per share are also fluctuating. This short of fluctuation causes not to win public faith.
- The average dividend payout ratio of banks has ranged from 1.828 percent to 0.610 percent. There is no correct to cannot be considered so encouraging figure.
- Shareholders in Nepal are not conscious. Taking the advantage of unconscious shareholders, the company management does not show the commitment promised in prospectors while raising capital. Promoter inures investors mentioning to pay attractive dividends, when company makes profit. However in reality, most of the companied are deviated from their statement as promise in prospectus.
- Government does not have any clear policy towards dividend and to improve the efficiency of the companies. The number of companies cannot earn enough profit and bureaucrat the cause of inefficiency to managers which is not sound.

Conclusion

Considering the major findings and issues found in course of this study, some recommendations are presented as follows;

- Banks are paying dividend without adopting any appropriate policy. Clearly defined dividend policy helps to determined specific policy i.e. stable dividend or constant pays out or low regular plus extras. What should be the long run dividend payout policies or smoothed dividend policy. This helps to investor in deciding whether to buy or not the share of particular company and to build good image, stock market.
- There is a lack of rules binding companies to pay dividend. The legal rules for the treatment of dividend is most for smooth growth of the enterprises as well as national economy. Some regulating acts are silent on these matters. Some companies are in position to pay dividend. But some companies are suffering from lose and there are efforts to minimize loss rather than payment of dividend. For this purpose, GON, NEPSE, and concerned parties should do work together in favor of investors and bind their companies by separate rules.
- Shareholders should be given an option to choose between stock dividend and cash dividend instead of declaring stock or cash dividend arbitrarily. For this, dividend declaration should be proposed to the annual general meeting of shareholders for approval.
- Payment of dividend is neither static nor constantly growing. It is highly fluctuating; such way of paying dividend could not impress the market positively. So; these banks are advised to follow either static or constantly growing dividend policy. It would be better

to fix the amount of dividend in the general annual meeting. This is important not only from the point of view of adequate return to shareholders but also to generate stable and increasing market value per share, long run survival of banks, efficiency management and socially acceptable distribution of income.

- Banks are advice to have target rate of earning and target payout ratio that will help companies to build good image in stock market and investors will be case on making investment decision.
- The legal rules and regulations must be in favor of investors to excise the dividend practice and to protect the shareholders rights.
- Each and every company should provide the information regarding their activities and performance so that investors can analyze the situation and invest their money in the best company.
- The government should encourage for the establishment of organization to promote and protect activities in favor of investors. There are not any other organizations fully developed to protect investors' interest.

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