

## DIVIDEND POLICY & ITS IMPACT ON MARKET VALUE OF INDIAN COMPANIES

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### ABSTRACT

*The center motivation behind financial management is the augmentation of shareholders' wealth with three center choices that is, dividend, financing and investment choices. In straightforward words dividend is the level of net profit of an organization which is circulated among the shareholders. The examination hole distinguished for this study is that, a correlation of various organizations' dividend policy impact on the Indian Capital Market. The principle goal of this task is to study the impact of dividend policy on the market price of chosen organization's scrip in NSE. The researcher has picked Empirical study to demonstrate the hypothesis and 15 organizations balance sheet for a long time (2007-2016) were gathered from the regarded organizations sites and the accompanying ratios have been determined to test the hypothesis, Net profit ratio, Gross profit ratio, Earning per share, Dividend yield, Dividend payout ratio, Return on equity and the Market price of share. The investigations led, the parameter assessments were seen inside AMOS graphics and showed the institutionalized parameter gauges.*

*Keywords: Dividend policy, Indian Capital Market, Finance*

### 1. INTRODUCTION

Dividends policy has consistently been the most begging to be proven wrong subject in the money related industry. There are numerous models clarifying the elements that decide the dividend payout to the supervisors while settling on their choices. Dividend policy is the measure of cash flow appropriated to different investors consistently by the ventures. A legitimate dividend policy the board consistently affects price of the offer and investors riches. Salary created by organization can be utilized for interest in working resources, for paying back the obligation or potentially disseminating to different investors as dividends. The issue that will emerge if organization intends to give dividends is whether they should give cash dividends or they should repurchase shares by giving cash and the extent of the sum to be spent in dividends. This paper dissects these issues by examining the dividend example of little, mid and huge capitalization sectors of India.

### 2. LITERATURE REVIEW

**Basil Al Najjar (2009) [1]** an endeavor is made here in this paper to look at the relationship between dividend payout and outside directorships. 400 non-monetary firms recorded at London stock Exchange has been taken for the study reason during the period 1991 to 2000. Creator utilized Tobit and logit regression models to break down the degree to which firms with a dominant part of outside executives on their sheets experience fundamentally lower or higher dividend pay-out in the wake of controlling for insider possession, profitability, liquidity, resource structure, business chance, firm size, company's development rate and obtaining proportion. It was discovered that dividend pay-out is contrarily connected with the quantity of outside chiefs on the governing body

**Fairchild (2010) [2]** the point of this paper was to break down or to concentrate on the

unpredictable relationship between dividend policy, administrative motivators and firm worth. An overview has been made by building up a hypothetical model on dividend policy that consolidates signaling and free cash flow thought processes. In addition, administrative correspondence and notoriety impacts are additionally considered into the model. Creator said that for greater interest in new worth making undertaking firm may need to cut dividends. It is additionally discovered that speculators are considered "dividend cut" as terrible news and it affected to firms market esteem.

**Reza Raei et al (2012) [3]** led a study with the fundamental point of examining signaling hypothesis of dividend. That is to see that dividend payout gives data about return, profitability, execution and capacity of Iran firms to financial specialists. With the example size of 427 firms recorded on Tehran Stock Exchange (TSE) and direct regression model, they found that there is a noteworthy positive relationship among dividend and return just as profit. Results likewise indicated presence of signaling hypothesis in capital market of Iran. They additionally examined that bigger firms pay more dividends.

**Nusrat Huda et al (2013) [4]** examined relationship between proprietorship structure and dividend policy in capital market of Dhaka. The chose organizations were recorded on CSX-30 file over the period 2006-2010. They found that there is a huge beneficial outcome of proprietorship structure and profit for value on dividend policy while liquidity and institutional possession contrarily influence the dividend policy

**Marwan Butros et al (2014) [5]** in his postulation examined components determining dividend policy in Abu Dhabi. For the study, he chose 31 non-money related firms recorded on Abu Dhabi stock exchange, which

incorporate media transmission, land, shopper staples, service ventures, vitality and assembling. With the assistance of straightforward and multi regression examination, he found that leverage, free cash flow, possession and industry are the central point, which influences dividend policy.

**Krunal K. Bhuvra et al (2015) [6]** directed a study to look at relationship of dividend policy and stock price conduct in capital market of India. They chose 500 organizations from bunch A1 and gathering B1 which were identified with various businesses like Electricity, Food and Beverages, Mining, Non-metallic, Service sector and Textile. With the assistance of board information demonstrating, they found that there is a huge relationship between dividend policy and stock prices.

**Dinesh Kr. Sharma et al (2017) [7]** the study attempted examined the dividend example and pattern of Indian corporate firms for the period from 2002-2014. Dividend payment has consistently been considered as a significant choice by corporates. It has been seen that numerous organizations accept that paying dividend doesn't influence the estimation of firms, and many guarantee that dividend payment enhances the wealth of shareholders. This study endeavored to inspect what has been the dividend pattern of the Indian firms over a time of 12 years. Analysis of dividend patterns for an enormous sample of stocks exchanged on the Bombay Stock Exchange (BSE) demonstrated that the level of organizations paying dividends expanded by 28% over a time of 12 years.

**Palamalai Srinivasan et al (2018) [8]** The present study empirically inspects the determinants of dividend policy of National Stock Exchange (NSE) recorded firms in India, utilizing dynamic board information model for the sample of 95 NSE recorded firms with nonstop dividend payments from

2012/2013 to 2017/2018. The empirical outcomes uncover that profitability, liquidity, leverage, hazard, size of the firm and swelling are the significant determinants of dividend policy of chose NSE recorded firms in India. Discoveries derived from empirical proof bears declaration to the way that profitability, liquidity, size of the firm and expansion have huge negative impact on dividend policy of the chose NSE firms secured by the study.

**B. Rajesh Kumar et al (2018) [9]** the study expects to comprehend the determinants of dividend patterns of Indian firms. The study depended on a sample of 31,234 firms speaking to 15 diverse industry sectors. Development materials, hardware and transportation gear sectors were the most dividend escalated sectors in India. Halfway least square basic condition displaying procedure (PLS SEM) was utilized to look at the determinants of the dividend power of Indian firms. Various plans of way models were tried and the outcomes show that the higher the financial leverage, the lower is the penchant to pay dividends. Firms with high intangibles are required to have higher organization costs.

### **3. AIM OF THE STUDY:**

The main aim of the study is to investigate dividend policy determinant & its impact on market price of various industries.

### **4. RESEARCH METHODOLOGY**

**Research Design:** The researcher has picked the empirical study to test the impact of dividend policy determinants on Indian capital market.

**Sample Size:** The present study includes a sample of 150 balance sheet and profit and loss account from three industries which are as follow:

- Sun Pharma,
- Abbott laboratories,
- Dr.Reddys Laboratory,
- cadila healthcare,
- Reliance, PGCIL,
- BPCL,
- ONGC,
- Tata Power,
- Network 18,
- TV 18 Broadcast,
- PVR,
- ZEEL,
- and Hindustan Media,

**Time Period:** the time period for this study is from 2007 to 2016.

**Test:** Regression analysis

### **5. RESULTS & DISCUSSION**

In hierarchical regression, the predictor variables are entered in sets of variables as indicated by a pre-decided request that may construe some causal or conceivably mediating relationships between the predictors and the dependent variable. The rationale associated with hypothesizing mediating relationships is that "the independent variable impacts the middle person which, thusly, impacts the outcome". In any case, a significant pre-condition for examining connection relationships is that the independent variable is fundamentally connected with the dependent variable before testing any model for mediating variables. According to the analysis, the P estimation of the Figure 1, shows the impact level of independent variables on dependent variables. The Gross profit (0.023) and Net profit (0.010) ratios are noteworthy to Earnings per share as the p worth is under 0.05. Earnings per offer are unimportant to Dividend yield (0.669) and Dividend payout ratio (0.884) yet it is noteworthy to Dividend (0.012) and Return on value (0.000). The independent variables like

Return on value, Dividend pay-out ratio, Dividend, Dividend Yield ratio are exceptionally huge to the dependent variable

Market price (0.000). Here the outcomes uncovers that the dividend profoundly impact the market price.

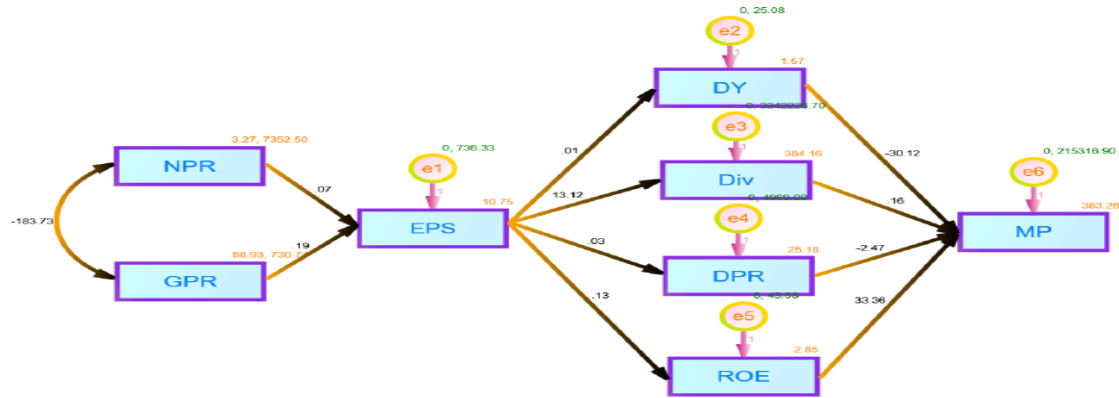


Figure 1: Structural Model – (Dividend-SEM Model)

Table 1: Regression Weights: (Default model)

			Estimate	S.E.	C.R.	P
EPS	<---	GPR	.188	.082	2.279	.023
EPS	<---	NPR	.067	.026	2.559	.010
DY	<---	EPS	.006	.015	.428	.669
Div	<---	EPS	13.119	5.248	2.500	.012
DPR	<---	EPS	.030	.205	.145	.884
ROE	<---	EPS	.128	.019	6.632	***
MP	<---	ROE	33.360	5.084	6.562	***
MP	<---	DPR	-2.470	.539	-4.580	***
MP	<---	Div	.164	.021	7.917	***
MP	<---	DY	-30.123	7.588	-3.970	***

Table 2: Standardized Regression Weights: (Default model)

			Estimate
EPS	<---	NPR	.203
EPS	<---	GPR	.181
DY	<---	EPS	.035
Div	<---	EPS	.201
DPR	<---	EPS	.012
ROE	<---	EPS	.477
MP	<---	DY	-.229
MP	<---	Div	.459
MP	<---	DPR	-.264
MP	<---	ROE	.380

**Table 3: Squared Multiple Correlations: (Default model)**

	Estimate
EPS	.068
ROE	.228
DPR	.000
Div	.040
DY	.001
MP	.504

The R square worth shows that the general model clarifying the market is about 50.4%, the dependent variables, for example, Net profit ratio and Gross profit ratio is impact the Earnings per share just by 6.8% and the

other factor Earning per offer is clarifying Return on value by 23%, Dividend by 4% and Dividend payout ratio and Dividend yield are extremely small.

**Table 4: Comparison of Industry values:**

PATH	Pharma	Energy	Media
EPS < --- NPR	.086	.001	***
EPS < --- GPR	.075	***	.371
Div< --- EPS	.373	.978	***
DY < --- EPS	.039	.098	.002
ROE < --- EPS	***	***	***
DPR < --- EPS	.123	.018	.070
MP < --- Div	***	.018	***
MP < --- DY	***	***	***
MP < --- ROE	.542	***	***
MP < --- DPR	***	.150	.661

The above table shows the examination of regression analysis of the pharma, Energy, and Media industry. The Dividend and Dividend yield are exceptionally huge to Market price and furthermore the Earnings per share is profoundly noteworthy to Return on equity as for every one of the three enterprises. In Energy and Media the Net profit ratio is profoundly critical to Earnings per share, however the pharma is somewhat changing (.086). Gross profit ratio to Earnings per share of Energy sector has the importance and other two ventures are indicated immaterial. Earnings per share to Dividend, the Media sector is exceptionally noteworthy and other two are unimportant. Earnings per share to Dividend yield with the exception of Energy other two ventures are noteworthy and Earnings per share to Dividend payout ratio just Energy have noteworthiness and other two are inconsequential. The Return on equity to

Market price, with the exception of Pharma other two ventures are noteworthy and Dividend pay-out ratio to Market price just Pharma sector has essentialness.

## 6. CONCLUSION

This study is done to comprehend the determinants that influence the dividend payout ratios of little, mid and huge capitalization sectors of India. So as to preclude the deterioration contrasts among manufacturing and service enterprises both balanced and .This proof is known as the "dividend irrelevance theory," and it basically demonstrates that an issuance of dividends ought to have no impact on stock price however the "relevance theory" said that the dividend policy have standard dividend payout determinants are inspected. Despite the fact that relationship between certain determinants

and dividend payout are not the equivalent for each of the three sectors, we found that the noteworthy relationship is discovered distinctly in same determinants for all the three sectors of India impact on stock price. Here the variables broke down to be specific Net profit ratio, Gross profit ratio, Earnings per share, Dividend, Dividend yield, Return on equity, Dividend payout ratio to discover the impact on Market price. It is seen that however in numerous examples results do bolster hypothetical assumptions regarding dividend policy, there are number of situations where the outcomes are conflicting with hypothetical angles. Additionally considering the assessment of shareholders the study mirrors that Age-bunch is emphatically and altogether impacted the speculation reason for shareholders. It very well may be said that with the expanded age, shareholders put resources into organizations on account of accepting persistent dividend, since they think about dividend as their ordinary wellspring of salary. Dividend policy has been the subject of significant research by monetary financial specialists however in spite of broad research, the dividend discussions still stays uncertain. In an overview of writing on dividend policy, Allen and Michaely<sup>4</sup> presumed "substantially more empirical and hypothetical research regarding the matter of dividends is required before an accord can be come to. "Fisher Black<sup>5</sup> had stated, "The harder we take a gander at the dividend picture, the more it appears to be a riddle, with pieces that simply don't fit together. A similar circumstance is seen in this study as well; subsequently a reasonable, clear and complete image of the dividend choice is still not made.

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