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TO STUDY THE RELATION BETWEEN DIVIDEND POLICY AND FINANCIAL PARAMETERS OF SELECTED AUTOMOBILE COMPANIES OF INDIA

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ABSTRACT

The core purpose of financial management is the maximization of shareholders' wealth with three core decisions that is, dividend, financing and investment decisions. In simple words dividend is the percentage of net profit of a company which is distributed among the shareholders. The research gap identified for this study is that, a comparison of different industries dividend policy impact on the Indian Capital Market and the samples are drawn from the National Stock Exchange (NSE) India. The main objective of this project is to study the influence of dividend policy on the market price of selected company's scrip in NSE. The researcher has chosen Empirical study to prove the hypothesis and selected automobile companies balance sheet for 10 years (2009-2018) were collected from the respected companies websites and the following ratios have been calculated 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 regression analysis model revealed that the significant impact of the independent variables on the market price of share as well as impact of dividend policy determinants on the outcome variable market price.

Keywords: Dividend, NSE, Capital Market, Market Price

INTRODUCTION

The core function of a financial manager is to decide about the source of finance and optimum use of funds. However, dividend decision is the key decision for any corporation. The management has to decide for the amount to be distributed to the shareholders and the amount to be retained in the firm. This is an important decision as it decides the flexibility of the company for the funds to be invested in profitable projects. There are no readymade formulas or policies which give answers to what amount of the profit to be distributed as dividend and what should be ploughed back. So many significant factors such as current year's earnings, liquidity position of the firm, past year's dividend, economic condition, growth of the firm etc. are to be considered at the time of dividend decision. Importantly, dividend decision affects the stock prices and there by the firm's value and wealth maximization of shareholders. The management has to decide dividend in such a way that it maximizes the wealth of shareholders as well as it must not affect the financing activities adversely. Dividend is the part of earnings which is distributed to the real owners of the firm after providing for interest and preference dividend. Most of the investors prefer the companies paying regular and handsome dividend. Dividend policy is a widely

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researched topic in the world of finance and researchers are of different opinions for the policy to be adopted by the corporations. Yet dividend is an unsolved puzzle (Black). The question here arises that why this topic is given so much importance. Dividend policy is the topic which is researched not in India but all over the world by great researchers. Some are of the opinion that dividend policy of a company affects the share prices and some do not agree with this. On the basis of these findings, there are two schools of thought: one is relevance and another is irrelevance and on the basis of these two approaches various theories like bird-in-hand, tax differential, agency cost, clientele effect etc. are developed. This topic is widely researched as it affects the firm's flexibility of funds. If a firm decides to retain whole profit and not to pay single penny as dividend and if it becomes the habit of the management, the firm's share prices will be badly affected. This is because a lay man believes that a company with good profits and future prospects pays dividend and if it is not paying that means it is not doing so well and investors never prefer these kinds of the investments. Sometimes even the shareholders reduce their funds from these kinds of the companies by selling the stock. On the contrary if the firm decides to distribute the whole profit as dividend, it will have no more funds for profitable projects. It has to then rely on external funds for its short term and long term requirements which will increase the transaction cost to the firm. Thus dividend policy is a crucial financial decision which is to be more taken care of.

DIVIDEND

The term dividend refers to that portion of profit (after tax) which is distributed among the owners / share holders of the firm. It is distribution of earnings from current or retained earnings or capital. Normally, it is paid in cash. It is the payment to shareholders as a return to their investment in the companies. The amount of dividend is paid to shareholders on the basis of shares held by them in the firm. Institute of Charted Accountants of India defines dividend as, "Dividend is a distribution of income to shareholders out of profits or reserves available for this purpose. Dr. S. N. Maheshwari: "The Dividend may be defined as the return that a shareholder gets from the company, out of its profits, on his share holdings." Khan & Jain: "Dividend refers to that portion of a firm's net earning which are paid out to the shareholders." "Dividends may be defined as divisible profit distributed amongst the members of a company in proportion to their shares in such a manner as is prescribed by the memorandum and articles of association of the company." A dividend is a share of profit of the company divided among its shareholders. Thus, in simple terms dividend is that part of earnings of a corporation that is distributed to its shareholders on the basis of ownership. In other way, we can say that "Dividends are periodic cash payments by the company to its shareholders."

DIVIDEND POLICY

Dividend is paid to shareholders in form of cash or stocks or both. Sometimes whole of the net profit after tax is paid as dividend whereas only some amount is paid as dividend and remaining is reserved for the future reinvestments by the corporations. The decision about what amount is to be paid to shareholders is known as dividend policy. This decision is taken by the top level management in the corporations and this decision is very difficult and also crucial for the companies. This is because this decision decides what amount of the profit will be available to management for the further investment. Simply, it decides flexibility of funds in the firm. According to Canina: “Dividend policy refers to a corporation’s choice of whether to pay its shareholders a cash dividend and if so how much to pay and how often”. R. P. Rustagi: “Dividend policy is basically concerned with deciding whether to pay dividend in cash now or to pay increased dividends at a later stage or distribution of profits in the form of bonus shares.” Dr. S. N. Maheshwari Says: “The term dividend policy refers to the policy concerning quantum of profits to be distributed as dividends.” The basic question that arises while framing the dividend policy in the light of the goal of maximizing the value of the share, is – “what is the effect of dividend policy of the firm on its share price?” Does a high Dividend payment decrease, increase or does not affect share prices at all. Therefore, dividend policy of a company is of the greatest importance. But the development of an effective dividend policy is not an easy task. “For shareholders dividend policy is a great deal, financial economists consider the dividend policy as irrelevant and corporate management generally neglect the decision of dividend policy”

LITERATURE REVIEW

I.M.Pandey and Ramesh Bhat (2004) examined the dividend behaviour of Indian firms under monetary policy restrictions. All firms from manufacturing sector were selected for the period of 1989-1997. The result shows that Indian firms have lower target pay-out ratio. The study concluded that restricted monetary policy has significant impact on dividend behaviour. It says that restricted monetary policy has a great influence on cost of raising funds and due to that information asymmetry increases and so firms have to reduce their dividend pay-out. Dr. VinayKandpal and P.C. Kavidayal (2015) studied 30 banks listed on Bombay Stock Exchange (BSE) over a period of ten years to analyze the impact of dividend policy on share value. The market value of share was taken as dependent variable and dividend payout, return on net worth, debt-equity ratio and total assets were used as independent variables. With the help of multiple regression analysis, correlation coefficient, t-test they revealed mixed results. Majority of private banks showed significant relationship while only some public banks like Bank of Baroda, Bank of India and SBI showed significant relation. However, as a whole they concluded that dividend policy of a firm has significant impact on stock value of the firm. SandanamGejaLakshmi and Ramachandran Azhagaiah (2015) examined the impact of dividend policy on shareholders’ wealth of 13 firms from FMCG sector listed on National Stock Exchange (NSE). The study was of a period of ten years covering the period of global financial depression. They utilized earnings per share (EPS) for measuring shareholders’ wealth and Dividend per share (DPS), retained earnings per share (RPS), price earnings ratio (PER), lagged price earning (LAGPER), earnings (EAR), and lagged market value (LAGMPS) as predictor variables. With the help of regression analysis and chow test they concluded that after global financial depression FMCG sector of India showed a positive improvement in shareholders’ wealth. Their study revealed that retained earnings, lagged market price per share, lagged price earnings ratio and dividend per share are important variables which significantly affect the earnings per share that is shareholders’ wealth and shareholders prefer present dividend than future gain.

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Therefore, companies should pay regular dividend to maximize wealth of shareholders. BrankoSoric and TaniSusak (2015) are of the opinion that most of the investors consider the dividend policy as a fundamental factor while deciding whether to invest or not in a stock of a particular company. They examined this factor and for this they selected a sample of 150 companies listed on Zagreb stock exchange, Croatia. They concluded that higher dividend pay-out ratio of the past year indicate the higher probability of the dividend pay-out in future. On the other hand, lower debt ratio indicates higher probability of dividend pay-outs.

Dr. J.J. Adefila and Dr. J.A. Oladipo and J.O. Adeoti (2000) conducted a study to examine effects of dividend policy of 15 quoted firms of Nigeria on value of firms (stock prices). They concluded that there is no impact of dividend policy on firms' value at all but still companies pay dividends to create a psychological impact on current and potential investors.

I.M.Pandey (2003) conducted a study to observe the corporate dividend policy and behavior of Kuala Lumpur stock exchange companies. He found that dividend payout ratios vary significantly over time and dividend policy of companies listed on Kuala Lumpur stock exchange is significantly affected by their earnings. That is, possibilities of dividend omission, decrease and increase are very high, respectively with losses, earnings decrease and increase. However, Malaysian firms seem to be reluctant for the omission of payout, unless they incur losses. Lastly he concluded that firms listed on KLSE follow regular but unstable dividend policies. Nuraddeen Usman Miko and HasnahKamardin (2015) examined the effect of ownership structure on corporate dividend policy in Nigeria. The study revealed that ownership structure has a significant impact on dividend payout. The higher the institutional and block-holders shareholdings, higher will be the rate of dividend.

RESEARCH OBJECTIVE

To accomplish this objective following specific objectives have been covered:
To analyse the relationship between dividend policy and financial indicator such as revenue, net income, other income, share price and market capital.

RESEARCH METHODOLOGY

The secondary data has been utilized for the thesis. Required information for this study has been collected from the annual reports of selected listed automobile companies of India for the period from 2008-09 to 2017-2018.

DATA ANALYSIS

AUTOMOBILE - DIVIDEND PAY-OUT VS REVENUE

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.3685
R Square	0.1358
Adjusted R Square	0.0278
Standard Error	14.1954
Observations	10

ANOVA

	df	SS	MS	F	Significance F
Regression	1	253.327	253.327	1.257	0.295
Residual	8	1612.081	201.510		
Total	9	1865.408			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	28.613	9.701	2.949	0.018	6.241	50.984
REV_AUTOMOBILE_INDUSTRY	0.000	0.000	1.121	0.295	0.000	0.001

INTERPRETATION: Multiple R = 0.3685, which indicates that there is no linear relationship between Dividend Pay-Out Ratio and Revenue of Automobile companies. From the

ANOVA table, it can be seen that p-value 0.295 which is higher than specified α of 0.05, there is no linear relationship between Dividend Pay-Out Ratio and Revenue of Automobile companies

2. AUTOMOBILE - DIVIDEND PAY-OUT VS NET PROFIT

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.4201
R Square	0.1764
Adjusted R Square	0.0735
Standard Error	13.8576
Observations	10

ANOVA

	df	SS	MS	F	Significance F
Regression	1	329.138	329.138	1.714	0.227
Residual	8	1536.270	192.034		
Total	9	1865.408			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	28.047	8.945	3.136	0.014	7.420	48.673
NP_AUTOMOBILE_INDUSTRY	0.003	0.003	1.309	0.227	-0.003	0.009

INTERPRETATION 02: Multiple R = 0.4201, which indicates that there is no linear relationship between Dividend Pay-Out Ratio and Net Profit of Automobile companies. From the ANOVA table, it can be seen that p-value 0.227 which is higher than specified α of 0.05, there is no linear relationship between Dividend Pay-Out Ratio and Net Profit of Automobile companies.

3. AUTOMOBILE - DIVIDEND PAY-OUT VS OTHER INCOME

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.0221
R Square	0.0005
Adjusted R Square	-0.1245
Standard Error	15.2664
Observations	10

ANOVA

	df	SS	MS	F	Significance F
Regression	1	0.908	0.908	0.004	0.952
Residual	8	1864.499	233.062		
Total	9	1865.408			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	37.590	11.703	3.212	0.012	10.603	64.577
OI_AUTOMOBILE_INDUSTRY	0.001	0.020	0.062	0.952	-0.044	0.047

INTERPRETATION 03:

Multiple R = 0.0221, which indicates that there is no linear relationship between Dividend Pay-Out Ratio and Other Income of Automobile companies. From the ANOVA table, it can be seen that p-value 0.952 which is higher than specified α of 0.05, there is no linear relationship between Dividend Pay-Out Ratio and Other Income of Automobile companies.

4. AUTOMOBILE - DIVIDEND PAY-OUT VS STOCK PRICE

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.0216
R Square	0.0005
Adjusted R Square	-0.1245
Standard Error	15.2665
Observations	10

ANOVA

	df	SS	MS	F	Significance F
Regression	1	0.869	0.869	0.004	0.953
Residual	8	1864.539	233.067		
Total	9	1865.408			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	38.984	12.871	3.029	0.016	9.303	68.666
ST_AUTOMOBILE_INDUSTRY	-0.001	0.013	-0.061	0.953	-0.030	0.029

INTERPRETATION 04: Multiple R = 0.0216, which indicates that there is no linear relationship between Dividend Pay-Out Ratio and Stock Price of Automobile companies. From the ANOVA table, it can be seen that p-value 0.953 which is higher than specified α of 0.05, there is no linear relationship between Dividend Pay-Out Ratio and Stock Price of Automobile companies.

5. AUTOMOBILE - DIVIDEND PAY-OUT VS MARKET CAPITAL

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.3137
R Square	0.0984
Adjusted R Square	-0.0143
Standard Error	14.4991
Observations	10

ANOVA

	df	SS	MS	F	Significance F
Regression	1	183.618	183.618	0.873	0.377
Residual	8	1681.790	210.224		
Total	9	1865.408			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	51.475	14.869	3.462	0.009	17.186	85.763
MC_AUTOMOBILE_INDUSTRY	0.000	0.000	-0.935	0.377	0.000	0.000

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INTERPRETATION 05: Multiple R = 0.3137, which indicates that there is no linear relationship between Dividend Pay-Out Ratio and Market Capital of Automobile companies. From the ANOVA table, it can be seen that p-value 0.377 which is higher than specified α of 0.05, there is no linear relationship between Dividend Pay-Out Ratio and Market Capital of Automobile companies.

CONCLUSION

Some evidence suggests that investors are not concerned with a company's dividend policy since they can sell a portion of their portfolio of equities if they want cash. This evidence is called the “dividend irrelevance theory,” and it essentially indicates that an issuance of dividends should have no impact on stock price but the “relevance theory” said that the dividend policy have impact on stock price. Here the factors analyzed namely Net profit ratio, Gross profit ratio, Earnings per share, Dividend, Dividend yield, Return on equity, Dividend payout ratio to find the impact on Market price.

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