

“Determinants Of Dividend Policy And Its Impact On Shareholders Wealth Creation Of Selected Public And Private Sector Companies In India”.

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Abstract:

A company can use its profits in two different ways. First, the company can decide to reinvest the profits in the company for growth and development, and second, distribute the profits among the shareholders. Distribution of money to shareholders takes two forms: one is a share buyback and the other is a dividend. In financial management, dividend should be defined as part of the income compensated to the company and its shareholders. A uniform distribution of dividends can help companies in many ways, such as improving the position of the company, attracting a wider range of potential investors, bringing investor confidence, especially in unstable market conditions. This study focuses on the impact of dividend decision on shareholder wealth for Indian Banking companies. Banking companies have an important role to play in raising India to the international level. Thus, the paper adds to the existing body of knowledge by focusing on the impact of dividend policy on the stock market price of Indian Banking companies. To achieve the objectives, a sample of 4 banking companies which are listed on the NSE will be collected for the study during the five-year period 2019-2023. The result of the study shows that the dividend decision has a positive effect Dividends per share on banking companies.

Key word: Dividend, banking companies, dividend per share

Introduction:

The main objective of financial management is to maximize profit as well as maximize wealth of shareholders. Dividend decision play a vital role for the company for how much dividend declared and which type of dividend policy will be followed by the company it also play a vital role for the investors because on the bases of form of dividend and policy share holder select the company on which company they want to invest. The company distribute dividend to the shareholders on the bases of future planning, expansion, etc. when investor invest in the at that time investor also have two motive that is long term growth of the company (Capital appreciation) and regular payment of dividend. So on the bases of that we can say that yes there will be a impact of dividend on shareholders wealth. For this so many research have been done but here researcher have selected public and private sectors companies in India because whatever previous research have been done they select the specific criteria like Banking sector, pharmaceutical sector, etc. The present study aims to determine the impact of dividend decision on wealth of shareholders of NSE Listed Banking companies in India.

Review of Literature:

1. **Kapoor et al. (2006)** analyzed the IT, FMCG and service sectors and it also concluded that as compared to IT sector FMCG and Service sector announced the higher dividend and it also increased the wealth of shareholders.
2. **Devki and Kamalaveni (2012)** examine the patent of dividend payment and they study the data of 25 hotels in India and also concluded that the payment of dividend policy also affect to the shareholders wealth as well as their investment patent.
3. **Maharshi and Malik (2015)** conducted research effect of dividend policy on the market price for that he selected

the companies which are listed on SENSEX and they also concluded that the effect of dividend is effect the market price of share.

Research Methodology:

This chapter include the methodology implemented by the researcher for the Sample design, Sample selection, Size of the Sample, Method of data collection, Sources of data collection, data analysis, different techniques used for data analysis, interpretation and finding of study. This chapter also includes time duration of the data collection, variable for this research, application of model, Hypotheses for the research and test which are used in the study of dividend policy and also include limitation of the study. This chapter also mentions the research gap, chapter planning and future scope of the research study.

Objective of the study:

1. To examine determinants of dividend policy of selected public and private sector companies in India.
2. To study dividend policy of selected public and private sector companies in India.
3. To Examine the Relationship between dividend pay-out and shareholders' Wealth.
4. To compare and contrast the impact of dividend policy of selected public and private sector companies in India.
5. To measure impact of dividend policy on shareholder's wealth

RESEARCH HYPOTHESIS

On the basis of the survey following hypothesis has been identified for the study.

H01: There is no significant impact of Dividend Payout of the firm on Shareholders wealth. H02: There is no significant impact of shareholder wealth with increased dividend.

Period of the Study: 5 Year (2019-20 to 2022-23)

Sample of the Study: 2 public banks and 2 Private Bank

Sources of Data: Annual Reports, websites of selected companies, Etc...

Research Variable

| Variables | Abbreviations | Computation of Variables |
|----------------------|---------------|---|
| Dividend Per Share | DPS | Total Dividend Paid No of Ordinary Share |
| Dividend Yield | DY | Dividend per Share x 100 Market Price Per Share |
| Dividend Cover | DC | Profit After Tax Total Dividend Paid |
| Pay Out Ratio | POR | Dividend Net Income |
| Return on Equity | ROE | Net Income Average Stock Holder Equity |
| Profit Margin Ratio | PMR | Net Income x 100 Sales |
| Earnings Per Share | EPS | Profit after tax No of Ordinary Share |
| Price Earnings Ratio | PER | Market Price Per Share Earnings Per Share |

Data Analysis & Interpretations

| HDFC | | | | | |
|-----------------------|--------|---------|--------|--------|---------|
| Ratio | Mar-19 | Mar-20 | Mar-21 | Mar-22 | Mar-23 |
| Dividend Per Share | 15 | 2.5 | 6.5 | 15.5 | 19 |
| Dividend Yield | 1.179 | 0.174 | 0.439 | 0.952 | 1.111 |
| Dividend Cover | 0.567 | 0.456 | 0.365 | 0.611 | 0.687 |
| Dividend Pay out | 7.12 | 1.23 | 3.6 | 7.55 | 9.46 |
| Return on Equity | 14.53 | 15.45 | 15.17 | 15.38 | 15.89 |
| Profit Margin | 21.34 | 22.33 | 24.78 | 28.06 | 27.02 |
| EPS | 83.33 | 49.84 | 57.88 | 68.77 | 82.64 |
| PE Ratio | 19.48 | 21.38 | 25.81 | 17.29 | 13.91 |
| Market Price of Share | 1271.8 | 1436.75 | 1479.8 | 1627.3 | 1709.25 |

| SBI | | | | | |
|-----------------------|--------|--------|--------|--------|--------|
| Ratio | Mar-19 | Mar-20 | Mar-21 | Mar-22 | Mar-23 |
| Dividend Per Share | 0 | 0 | 4 | 7.1 | 11.3 |
| Dividend Yield | 0 | 0 | 0.868 | 1.157 | 1.759 |
| Dividend Cover | 0 | 0 | 0.151 | 0.299 | 0.877 |
| Dividend Pay out | 0 | 0 | 1.15 | 2.73 | 2 |
| Return on Equity | 0.98 | 8.69 | 8.89 | 12.53 | 16.8 |
| Profit Margin | 1.21 | 6.73 | 8.73 | 12.53 | 16.12 |
| EPS | 2.58 | 22.15 | 25.11 | 39.64 | 62.35 |
| PE Ratio | 124.32 | 8.89 | 14.51 | 12.45 | 8.4 |
| Market Price of Share | 333.7 | 274.75 | 460.45 | 613.2 | 642.05 |

| BOB | | | | | |
|--------------------|--------|--------|--------|--------|--------|
| Ratio | Mar-19 | Mar-20 | Mar-21 | Mar-22 | Mar-23 |
| Dividend Per Share | 0 | 0 | 0 | 2.85 | 5.5 |

| | | | | | |
|------------------------------|-------|-------|-------|--------|-------|
| Dividend Yield | 0 | 0 | 0 | 1.535 | 2.379 |
| Dividend Cover | 0 | 0 | 0 | 0.257 | 0.407 |
| Dividend Pay out | 0 | 0 | 0 | 1.81 | 2.85 |
| Return on Equity | 2.2 | 1.21 | 1.87 | 8.54 | 14.18 |
| Profit Margin | 2.05 | 1.19 | 1.95 | 10.49 | 15.6 |
| EPS | 4.16 | 2.32 | 3.32 | 15.18 | 28.82 |
| PE Ratio | 30.93 | 23.08 | 22.32 | 7.35 | 5.86 |
| Market Price of Share | 101.9 | 61.5 | 81.95 | 185.65 | 231.1 |

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| Ratio | Mar-19 | Mar-20 | Mar-21 | Mar-22 | Mar-23 |
|------------------------------|--------|--------|--------|--------|--------|
| Dividend Per Share | 1 | 0 | 2 | 5 | 8 |
| Dividend Yield | 0.185 | 0 | 0.27 | 0.561 | 0.802 |
| Dividend Cover | 0.126 | 0 | 0.189 | 0.269 | 0.459 |
| Dividend Pay out | 0.88 | 0 | 1.2 | 2.58 | 3.99 |
| Return on Equity | 3.82 | 7.98 | 11.9 | 14.04 | 16.1 |
| Profit Margin | 7.9 | 13.23 | 22.67 | 27.02 | 28.46 |
| EPS | 6.61 | 14.81 | 27.26 | 36.21 | 48.86 |
| PE Ratio | 60.59 | 21.86 | 21.35 | 20.17 | 17.95 |
| Market Price of Share | 538.9 | 535.05 | 740.15 | 890.85 | 996.6 |

Regression Model Summary

| Multiple R | | 0.99 |
|-------------------|-------------|---------|
| R Square | | 0.99 |
| Adjusted R Square | | 0.98 |
| Standard Error | | 79.48 |
| | Coefficient | P-value |
| MPS(Intercept) | -73.674 | 0.247 |
| DPS | 91.662 | 0.022 |
| EPS | 0.582 | 0.931 |
| NI | -0.035 | 0.064 |
| PE | 20.58 | 0 |
| ROE | 2.149 | 0.047 |

Limitations of the Study:

- The present study has been done on the selected Banking companies listed on NSE Ltd. Though a representative sample has been taken yet there are certain limitations of the study. The foremost is the limited time span of five years. The study can be done for a larger time period and the results can be more robust.
- Secondly the study is based on the secondary data. So the reliability of the results is subject to the accuracy of the data. These limitations provide the future scope of study on dividend policy.

Conclusion:

In this study, the impact of dividend policy on shareholders wealth has been studied in case of banking companies. Generally, higher dividend increases the market value of the share and vice-versa. Shareholders prefer current dividend to future income. So dividend is an important factor to determine shareholders wealth. Regression model has been applied to know the impact of dividend policy on shareholders wealth. Results show that dividend per share is very important factor that determines MPS. DPS has a significant positive relationship with MPS in banking companies. Net income, Dividend per share & Earning per share have reported significant positive relationship with MPS in banking companies. Thus, dividend policy affects the shareholders wealth.

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