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## IMPACT OF DIVIDEND POLICY DETERMINANTS OF LISTED COMPANIES ON INDIAN CAPITAL MARKET

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### ABSTRACT

*The core purpose of financial management is the maximization of shareholders' wealth with three core decisions namely, dividend, financing and investment decisions. In simple words dividend is that percentage of net profit of a company which is distributed among the shareholders. The research gap we identified for this study is that, a comparison of different industries dividend policy impact on the Indian Capital Market and the samples 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 15 companies balance sheet for 10 years (2007-2016) 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 analyses conducted, the parameter estimates are then viewed within AMOS graphics and it displays the standardized parameter estimates. The regression analysis model revealed that the*

*significant impact of the above said independent variables on the market price of share. The result shows that there is significant impact of dividend policy variables on the outcome variable market price.*

**KEYWORDS:** *Capital Structure, Shareholders' Equity, Debt, Financial Ratios And Share Price. JEL CLASSIFICATION: G32, G35*

## 1. INTRODUCTION

Dividend policy is a guiding principles a company uses to decide how much portion of its earnings it will pay out to shareholders or shows that weather the company go for either to pay dividend to its owners or to retain a share out of profits to plough back in the firm or at the end of each year, company have to decide whether and how much cash they will return to their stockholders in the form of dividends. Mainly there are three types of dividend they are stock dividend which increase the number of share outstanding and generally reduce the price per share. Second, the dividend can be a regular dividend, which is paid in the form of regular intervals (quarterly, semi-annually, or annually). Third one is special dividend, which is paid in addition to the regular dividend.

There are three main dividend policies are using by the companies: residual dividend policy, stability dividend policy and hybrid dividend policy. These policies chosen by them based on their growth opportunities. If the company have great opportunity to grow then they should retain more. For that the company reduce their dividend pay-out rate. The capital market is the place where the company can raise the capital. Same time the investors can invest in the company's capital. Share price is one of the important component that really influence investors to purchase of shares. The share price of the companies will always shows volatility because the impacts of some factors. The dividend policy is the one of the factor that impacts the stock market price of the company. But the real impact on the dividend policy in stock market is still in the controversy. So this study will analyses the real relationship between the dividend policy and stock market price. The variables like net profit ratio, gross profit ratio, earning per share, dividend yield, dividend payout ratio, return on equity and the market price of share are used here for analyzing the impact level.

## 2. LITERATURE REVIEW

Md. Abdullah Al- Hasan<sup>1</sup>, Md. Asaduzzaman and Rashed al Karim<sup>3</sup> (IOSR Journal of Economics and Finance 2013) conducted a study on The Effect of Dividend Policy on Share Price. The study has mainly pointing at evaluating the effect of dividend policy on market price of share in the context of Bangladesh. For the analysis of data they used tools like Dividend policy, Market price per share, Earning per share Correlation and multiple regression models. Finally, it concludes that the findings over the effect of dividend policy on market price supports the relevant theory of dividend policy.

Adnan Ali, Farzand Ali Jan and Ilyas Sharif (Business & Management Studies: An International Journal 2015) were analyzed the effect of dividend policy on stock prices. They analyzed 45 non-financial companies listed on KSE-100 index that have earned profits and paid dividend for a period of twelve year w.e.f. 2001. And they used Profit after tax, Earning per share and Return on Equity are the three control variables. Some of findings of this study were profit retention by

firms will result in a decrease in the value of the stock market prices and dividend pay-out have positive impact on the share prices of respected stocks.

Stephen Bassey Duke, Nneji Ikenna D and Nkamare S.E (Archives of Business Research 2015) conducted a study on Impact of Dividend Policy on Share Price Valuation with respect to Nigerian Banks. The researchers were utilized data on two banks operating in the Nigerian economy, GT Bank and United Bank for Africa. The study found that dividend policy had a positive effect on shareholders wealth. And the right dividend policy helped to the growth of the banks and also the Nigerian economy.

Byson B. Majanga (Accounting and Finance Research 2015) did a study on the topic of The Dividend Effect on Stock Price. The study conducted by the author with refer to the Listed Companies of Malawi. The variables used by the researchers were Stock price, Dividend per share, retention ratio, return on equity, earnings per share and net profit after tax. The study was conducted over the seven years and it shows a positive association between stock prices. The result found that there is a strong positive relationship between a firm's dividends and its stock price on the stock market.

### **2.1 Research Problem:**

I M Pandey (11<sup>th</sup> edition of Financial Management) Evaluated dividend policy determinants and its impact on market value of scrip. Many authors says, dividend policy has insignificant impact on the market value of the firm but the dividend policy determined based on the investment opportunities available for the company. The present study aims to find the impact of identified dividend policy determinants on the market price of the firm.

### **2.2 Objective of the Study:**

The study is focused on achievement of following objectives:

- To study relationship between dividend policy determinants
- To find the impact of dividend policy determinants on the market price.
- To evaluate the dependency of dividend policy determinants on market price of various industries.

### **2.3 Need and scope of the Study:**

The study covers the companies listed in the National Stock Exchange (NSE) and spanned a period from 2007 to 2016 and the data used for the analysis is secondary in nature. The Variables which are used for this project are; Dividend Yield, Retention Ratio, Return on Equity, Dividend Pay-out Ratio, Market Price, Earnings per Share. The study help to control the stock price variance happen because of the dividend policy by using effective dividend policy.

### **3. Research Methodology**

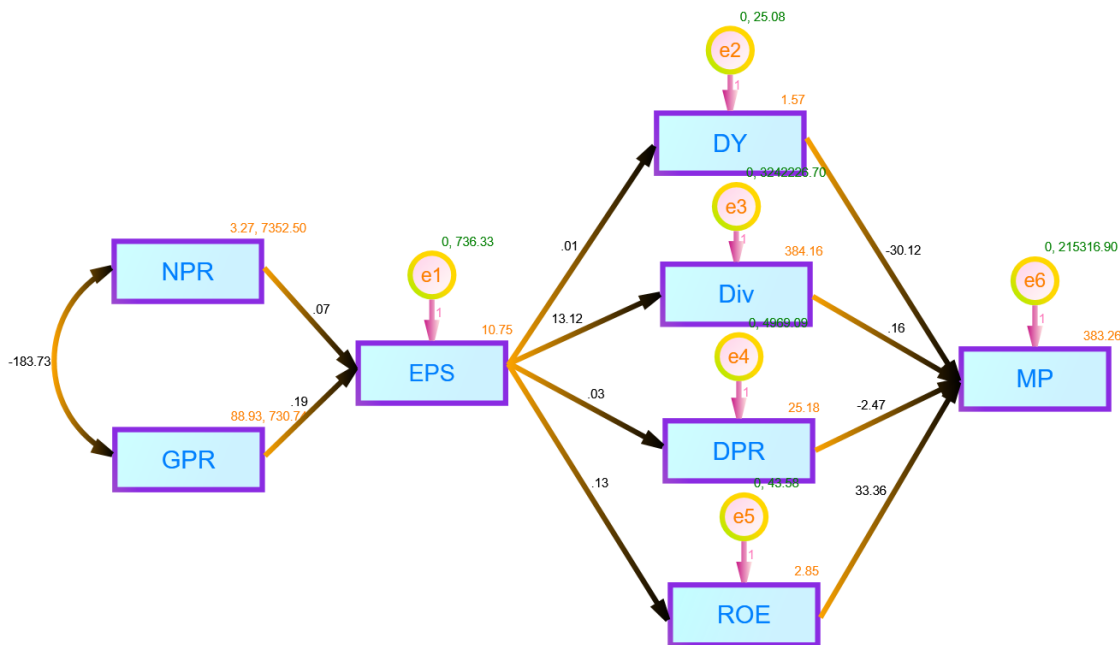
The researcher chosen empirical study to test the impact of dividend policy determinants on Indian capital market. The present study involves a sample of 150 balance sheet and profit and loss account from three industries for the period of 2007 to 2016. The variables were empirically tested with the hierarchical regression on the companies from three industry such as pharmaceutical, Energy, and Media. From each industry taken five companies and thus a

total of 15 companies are selected. The companies which include are Sun Pharma, Cipla, Glenmark Pharma, Dr.Reddys Laboratory, Lupin, Reliance, Gail,BPCL, ONGC, Tata Power, Network 18, Sun TV, PVR, ZEEL, and TV Today Network. The analyses conducted, the parameter estimates are then viewed within AMOS graphics and it displays the standardized parameter estimates. The regression analysis revealed that how much the factors of dividend policy such as Net Profit Ratio, Gross Profit Ratio, Earnings per share, Dividend yield, Dividend, Dividend pay-out ratio, and Return on equity influence the market price. The estimated p-value of the model can be used to test the hypothesis. If the values are significant at 5% significance level (i.e.) less than 0.05 then the alternate hypothesis are proved to be true, otherwise the null hypothesis is selected.

**4. Analysis:**

In hierarchical regression, the predictor variables are entered in sets of variables according to a pre-determined order that may infer some causal or potentially mediating relationships between the predictors and the dependent variable (Francis, 2003). Such situations are frequently of interest in the social sciences. The logic involved in hypothesizing mediating relationships is that “the independent variable influences the mediator which, in turn, influences the outcome” (Holmbeck, 1997). However, an important pre-condition for examining correlational relationships is that the independent variable is significantly associated with the dependent variable prior to testing any model for mediating variables (Holmbeck, 1997).

**Chart 4.1: Structural Model – (Div-SEM Model)**



**TABLE: 4.1 REGRESSION WEIGHTS: (DEFAULT MODEL)**

|  | Estimate | S.E. | C.R. | P | Label |
|--|----------|------|------|---|-------|
|--|----------|------|------|---|-------|

|     |      |     | Estimate | S.E.  | C.R.   | P    | Label |
|-----|------|-----|----------|-------|--------|------|-------|
| 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 4.2: 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 4.3: SQUARED MULTIPLE CORRELATIONS: (DEFAULT MODEL)**

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

As per the analysis, the P value of the Fig. 4.1., shows the impact level of independent variables on dependent variables. The Gross profit ratio is significant to Earnings per share (.023), Net profit ratio is significant to Earnings per share (.010), Earnings per share is insignificant to Dividend yield (.669), Earnings per share is significant to Dividend (.012), Earnings per share is insignificant to Dividend pay-out ratio (.884), Earnings per share is highly significant to Return on equity (.000), and the independent variables like Return on equity, Dividend pay-out ratio, Dividend, Dividend Yield ratio is highly significant to Market price (.000), Here the result shows that the dividend highly influence the market price.

The R square value shows that the overall model explaining the market is about 50.4%, the dependent variables such as Net profit ratio and Gross profit ratio is impact the Earnings per share by 6.8% and the other factors impact Earnings per share as per the R square value is, Return on equity by 23%, Dividend by 4% and Dividend pay-out ratio and Dividend yield are very meager.

**TABLE: 4.4: COMPARISON OF INDUSTRY VALUES:**

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

The above table shows the comparison of regression analysis of the pharma, Energy, and Media industry. The Dividend and Dividend yield are highly significant to Market price and also the Earnings per share is highly significant to Return on equity with respect to all three industries. In Energy and Media the Net profit ratio is highly significant to Earnings per share, but the pharma is slightly varying (.086). Gross profit ratio to Earnings per share only Energy have the significance and other two industries are shows insignificant. Earnings per share to Dividend, the Media is highly significant and other two are insignificant. Earnings per share to Dividend yield except Energy other two industries are significant and Earnings per share to Dividend pay-out ratio only Energy have significance and other two are insignificant. The Return on equity to Market price, except Pharma other two industries are significant and Dividend pay-out ratio to Market price only Pharma have significance.

### 5. Managerial Implication:

According to our study we found that the investor should consider more on Dividend, Dividend yield, and Return on equity before they invest in securities because these variables are highly significant to Market price. The overall model shows more than 50% R square value which



means the dependent variables have a clear impact on Market price. So the investors should consider these variables before they invest in any securities for a better return.

### CONCLUSION:

As mentioned early the dividend policy is the one of the factor that impacts the market price of the company in Indian Stock market. But the real impact on the dividend policy in stock market is still in the controversy. After this study we analyzed that the Dividend policy have an impact on Market Price.

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