



A Comparative Study of Dividend Policies of Selected Indian Companies from the View Point of Shareholders

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Abstract:

The purpose of this study is to present the objectives, hypothesis of the study. This study describes collection of data and research techniques applied. This study also defines usefulness of study, scope and limitations of the study. It describes the layout of the study.

In this thesis, a study of comparative analysis regarding dividend policies from the view point of shareholders of Indian companies has been conducted. An attempt is made to give a short overview of important dividend theories, analysis of some of the selected variables using some statistical tools, beliefs and views of shareholders regarding the dividend policies of the companies through questionnaire and influence of Age-group on dividend pay-out of companies are conducted. Some ratios are used to justify this study. Moreover, the correlation and simple regression method is used. two companies are taken for study purpose during the period from 2012-2016. Thousands of questionnaires were filled for survey purpose.

Keywords: *Dividend policies shareholders, Indian companies*

1. Introduction

A number of researchers have advanced theories and provided empirical evidence regarding determinants of a firm's dividend policy. The dividend policy issue, however, is yet unresolved. **There are many factors that could affect a firm's dividend payout behaviour.**

According to partington, (1987)¹ these reasons include profitability, stability of dividend payout and retained earnings, liquidity and cash flows, investment variables and financial variables. According to Lintner,1956, Rozeff 1992 and Barclay 1995, investment opportunities, agency costs, financial leverage, last year's dividend and firm size influence the dividend policy of a company. Megginson, (1957)² states that there are worldwide industrial patterns in the dividend policy and important factors affecting the dividend payouts are regulations, industry growth rate, capital investment needs, profitability, earnings variability and asset characteristics such as the composition of tangible and intangible assets.

Moreover, research in the past also shows that there is significant influence of growth rate of firm, systematic risk, retained earnings, liquidity, cash availability, provision for tax and firm size on dividend payout.

In this study, issues related to dividend policies have been analysed within many frameworks including profitability, growth rate, liquidity, leverage and provision for taxation etc. The major

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- 1 Partington, G. H. (1987). Variables influencing dividend policy in Australia:Survey Results. *Journal of Business Finance and Accounting* 16, p.165-182.
 - 2 Megginson, W. (1997). In *Corporate Finance Theory,Reading,Addison-Wesley* (p.355).

focus of the research, however is to find out whether there is dividend policy of all companies, to know the relationship between the variables and with dividend payout and the technique of correlation matrix analysis is used for the purpose, the scope, methodology used and interpretation of the result of correlation matrix are presented after discussion and an analysis of the impact of least related variable on the dividend policy of a firm, that has either been made by merely observing the data of the selected companies or hereby to go further analysis to know the extent of impact of least correlated variable on dividend payout simple regression analysis has been run. Based on application of correlation matrix least correlated variable has been found. Least correlated variable refers low value (correlation coefficient). The study is based on five years data of two selected companies. The period concerned is from 2012-2016. For the purpose of simple regression analysis, dividend payout rate, which is defined as the ratio of dividends per share for the firms dividend policy is as under:

2. Statement of the problem

The study is entitled as follows:

“A comparative study of dividend policies of selected Indian companies from the view point of shareholders.”

The study is based on both: Primary and Secondary data. Comparative analysis of dividend policy can be evaluated with the help of secondary data as reflected in annual reports of selected companies during the period of this study. “Questionnaires” were used to know the views and beliefs of shareholders regarding dividend policies of the companies.

3. Significance

Getting clear picture about comparative analysis of dividend policies.

- Identifying real image of the company in terms of shareholders satisfaction.
- For knowing shareholder's expectations from the companies.
- For knowing the past trends of dividend payments and to forecast future layouts of the companies.
- For improving dividend policies of the companies.
- For promoting Ethics and human values in the companies.
- Useful for the prospect's shareholders.

4. Objectives

1. To know the loyalty of investors towards the company with reference to period of holding of shares.
2. To know the satisfactory levels regarding company's dividend policy.
3. To analyse relation of different variables on dividend pay-out of selected companies.
4. To analyse the significance of least related variable on dividend pay-out of selected companies.
5. To know whether the dividend pay-out is affected by company's profitability.
6. To know the relationship as well as influence of investment purpose on Age-group of shareholders.

5. Hypothesis

H_0 = There is no significant influence of least related variable on dividend payout of selected companies.

H_1 = There is significant influence of least related variable on dividend payout of selected companies.

6. Research Design

The task of data collection begins after research problem has been defined and research design plan chalked out.

6.1 Based on secondary data (Quantitative research)

The intent of this study would be to understand the overall performance of dividend policy for 30 companies of 10 different industries (Banks, IT-Software, pharmaceutical, Automobile, Steel, Cement, Telecom service, Realty, Power & FMCG) for five financial years. Five-year period as “a long enough time period to smooth the usual fluctuations of earnings that occur through time, but not so long as to produce serious measurement errors due to changes in economic and political environment over time, change in stage of company life cycle, etc. which may force a company to review its dividend policy.”

6.2 Based on primary data (Qualitative research)

In this study to know the shareholder's view regarding dividend policy data is collected through questionnaire method. Data are to be collected by using convenience sampling method. For this purpose total thousands questionnaires were sent to the shareholders. It would be safe to assume that respondents had given correct answers in the questionnaire when they duly returned.

And the analysis is based on this simple assumption. There is also possibility of ambiguous replies or omission of replies all to gather to certain questions. It is difficult to know whether willing respondents are truly representatives. In this survey questionnaire is sent to the person concerned with a request to answer the questions and duly returned it.

7. Sampling Design

The intent of this study was to understand the overall performance of dividend policy for 30 listed companies of 10 different industries (Banks, IT-Software, pharmaceutical, Automobile, Steel, Cement, Telecom service, Realty, Power & FMCG) for five financial years. To know the views and beliefs regarding dividend policies of companies, one thousand questionnaires were sent to the shareholders. Data were collected by using convenience sampling method

8. Sources of Data Information and Collection

Information collected for comparative study of dividend policy would be mainly from secondary sources such as:

- Authenticated Companies websites on internet.
- Annual Report provided by selected companies of last five financial years.
- Information collected to know the views and beliefs of shareholders would be mainly from primary sources such as:
 - Shareholders of some of the cities (Basically of New Delhi, Ghaziabad, Faridabad) in India.
 - Employees of respective companies.
 - Outsourcing companies of respective vendors.

9. Sampling Technique

For comparative analysis the companies have been selected by using simple random sampling. The study has been taken during the period from 2007-2012. To know the shareholder's view regarding dividend policy data is collected through questionnaire method by using convenience sampling.

10. Analysis and Interpretation of Data

10.1 Based on secondary data (Quantitative research)

To test the above-mentioned hypothesis various statistical tools have been used in addition to ratio analysis. The data is analysed by using correlation matrix, simple regression; statistical technique is used to assess the magnitude and direction of relationship between independent variables and dependent variable. In this thesis four factors such as profitability, liquidity, leverage, growth and provision for taxation have been selected to test the relationship with dividend payout ratio of the companies under study. These variables (called independent variables in regression analysis). The study has tested to what extent practical observations support theoretical aspects by examining various variables either by mere observation or with the use of statistical techniques such as correlation matrix

and simple regression etc. Regression and correlation matrix analysis has been performed by using SPSS. Regression analysis has been made through ENTER method. Correlation matrix is used to determine the relationship of variables such as liquidity, leverage, growth and provision for taxation with dividend payout. Considering correlation matrix least related variable has been found out.

Simple regression has been used,

- To determine least related variable is significantly associated with dividend payout ratio.
- To determine profitability is significantly associated with dividend payout ratio.

10.2 Interpretation of model: Methodology

The R^2 value (the "R Square" column) indicates how much of the total change in the dependent Variable can be explained by the independent variable. The adjusted R-squared is a modified version of R-squared that has been adjusted for the number of predictors in the model. The F-ratio in the ANOVA table tests whether the overall regression model is a good fit for the data. If

$p > 0.05$ null hypothesis (H_0) is accepted and if $p < 0.05$ alternate hypothesis (H_1) is accepted.

Regression models:

1)

To know the influence of least related variable on dividend payout:

The dependent variable y is the company's dividend payout ratio and selected least related independent variable is x

The regression equation used to know the influence of least related variable on dividend payout is,

$$Y = a + b(x)$$

Where,

Y is the firm's dividend payout ratio

a = Intercept of regression equation

b = regression coefficient associated with independent variable (B value or slope)

2) To know the influence of profitability on dividend payout:

The dependent variable y is the company's dividend payout ratio and independent variable profitability is x

The regression equation used to know the influence of profitability on dividend payout is,

$$Y = a + b(x)$$

Where,

Y is the firm's dividend payout ratio

a = Intercept of regression equation

b = regression coefficient associated with independent variable (B value or slope)

In this study to know the relationship between Age-group and investment purpose correlation is used and to test the influence of Age-group on investment purpose simple regression have been used. To know the influence of Age-group on Investment purpose of shareholders the dependent variable y is the investment purpose and independent variable Age-group is x .

The regression equation used to know the influence of Age-group on investment purpose is,

$$Y = a + b(x)$$

Where,

Y is an investment purpose

a = Intercept of regression equation

b = regression coefficient associated with independent variable (B value or slope)

11. Limitations

Because of time and other constraints in this survey it would not be possible to contact each and every shareholder of the company whose responses would have provided a better insight regarding company's specific dividend policy.

- Purpose of research is limited to study shareholders' views on dividend policy of Indian companies only.

- Lack of shareholder's interest to fill up Questionnaire.
- Shareholders past experience may also affect his present preference.
- Selection of some of the cities of India only.
- Study for the subject is limited to two companies of two different industries.

12. Dividend Payout Ratio

It measures the relationship between dividends and earnings.i.g. What percentage shares of dividend is to be distributed from profit. It is to be calculated,

$$D/P \text{ Ratio} = \frac{\text{Dividend Per Share}}{\text{Earnings per Share}} * 100$$

Earnings per Share

The factors or explanatory variables are considered for the study purpose are as under:

13. Liquidity

Although dividend is related to earnings, the actual payment of dividend is made from available cash. Thus, liquidity always plays an important role in any cash payment by a firm. This usually happens in case of high growth firms or firm which requires more funds for expansion purposes, which have very low liquidity because of substantial investment like profitability, liquidity etc. Also has positive relationship with dividend. Hence, greater the cash position and overall liquidity of a company, greater is the ability to pay dividend. The Current-Ratio is one of the best-known measures of financial strength and liquidity.

$$\text{Current-Ratio} = \frac{\text{Total Current-Assets}}{\text{Total Current-Liabilities}}$$

Total Current-Liabilities

14. Size and Growth

Jahera, Lioud and Modani (1986)³ find that size is the major factor that determines a company's policy. Big companies are usually in mature industries with higher credit levels. Therefore, due to the fact that the cost of dividend policy is relatively large companies have a stable dividend policy and moreover have a higher payout than small companies. In order to study the influence of size on dividend. Various measures such as Total Assets, Paid-up Capital, and Net worth etc. have been used by researchers to represent size. James Bales said that many arguments may be advanced against the use of any of the above measures for size. So, no measures are perfect. Moreover, since all the above-mentioned measures are correlated to each other any measures may be used. Larger firms should be able to pay higher dividends. Therefore, expect to see the positive relationship between size and dividend payment.

Higher Growth companies have lots of investment opportunities and are likely to pay low dividends because they have profitable uses for the capital. Therefore, high growth companies prefer to capitalize on their favourable investment prospects and have clear disincentive's in paying operating cash flows and profits as dividends. (Gaver and Gavert,1993)⁴ this ratio indicates the rate of growth of the total assets in the business and is expressed in percentage.

15. Leverage

A firm with large amounts of debts will follow a more conservative dividend policy. The reason is that if a firm has relatively high financial leverage, its dependence on external finance is increased. Therefore, such firms' pay low dividends to avoid borrowing i.e. a firm with higher leverage will pay a lower fraction of earnings in order to lower its dependence on external financing leverage can be

3 Jahera, J. L. (1986). Growth, Beta and Agency Costs as Determinants of Dividend. Akron Business and Economic Review 17, p.55-69.

4 Gaver, J. a. (1993). Additional Evidence on the Association between Investment Opportunity Set and Corporate Financing, Dividend and Compensation policies. Journal of Accounting and Economics, p.185-209

calculated by Debt/Equity Ratio. The Debt/Equity or Leverage Ratio indicates the extent to which the business is reliant on debt financing.

Debt/Equity Ratio = Long-term funds/Shareholder's fund

16. Provision for Taxation

In India, dividends were taxed in the hands of investors. Since investor did not give significance to tax matter individual tax rates were irrelevant while determining dividend policy in the Indian context. However, shareholders in the high tax bracket may have preferred dividend income rather than capital gains. This is because, though dividend income for the individual was free, capital gains are taxable in India.

Under the Finance Act (1997)⁵, no tax was payable on dividends by a company and consequently there was no withholding tax on dividends paid by a company to its shareholders. However, a company declaring a dividend was required to pay income-tax at the rate of 10% on the amount of dividend distributed. If, tax on dividends is viewed from point of view of the corporate sector, they have to pay dividend tax and changes individual tax rates may influence the company's dividend policy. For Example, a cut in dividend tax from 20% to 10% on the dividend declared by companies had been viewed as positive.

This variable shows that how much amount from profit is kept for payment of tax. This is a provision from profit formula used for calculation of provision taxation is,

17. Analysis of selected companies

Hypothesis No-1

H₀ = There is no significant influence of least related variable on dividend payout of selected companies.

H₁ = There is significant influence of least related variable on dividend payout of selected companies.

Values for different variables are calculated for different companies which are as follows:

Dabur India Ltd.

Table 1: Dividend payout ratio and all independent variables of Dabur India Ltd.

Year	Dividend payout	Liquidity (current ratio)	Size & growth (total assets)	Leverage (debt-equity ratio)	Provision for taxation
2011-12	38.46	0.948818	31.19367	0.032815	13.25648
2012-13	41.96	1.121894	57.04753	0.191405	12.10353
2013-14	40.24	-1.06165	60.6	0.146824	17.77887
2014-15	49.24	1.512513	177.2301	0.347733	20.93885
2015-16	52.04	1.513449	17.97409	0.352974	21.08751

In order to know the correlation of different variables with dividend payout above table is used and on the basis of that, below correlation matrix is as follows:

Correlations						
		DPY	LQ	SG	LV	PT
DPY	Pearson Correlation	1	.589	.282	.961**	.815
	Sig. (2-tailed)		.296	.645	.009	.093
	N	5	5	5	5	5

5 T.N.Pandey, Budget 1997: New Tax Concept Relating to Dividend Income, Chartered Secretary, April 1997, p.365-366

LQ	Pearson Correlation	.589	1	.173	.485	.118
	Sig. (2-tailed)	.296		.781	.408	.850
	N	5	5	5	5	5
SG	Pearson Correlation	.282	.173	1	.435	.387
	Sig. (2-tailed)	.645	.781		.464	.520
	N	5	5	5	5	5
LV	Pearson Correlation	.961 **	.485	.435	1	.794
	Sig. (2-tailed)	.009	.408	.464		.108
	N	5	5	5	5	5
PT	Pearson Correlation	.815	.118	.387	.794	1
	Sig. (2-tailed)	.093	.850	.520	.108	
	N	5	5	5	5	5
**. Correlation is significant at the 0.01 level (2-tailed).						

18. Positive Correlation

The correlation Matrix shows that dividend payout ratio is significantly and strong positively correlated with leverage. It is also nearer to strong positively correlated with provision for taxation. It is partially correlated with liquidity. It also shows weak correlation with growth. Liquidity is weakly correlated with growth, leverage and provision for taxation. Growth is also weakly correlated with leverage and provision for taxation. Leverage is weakly correlated with liquidity and growth. Leverage is also nearer to strong positively correlated with provision for taxation.

Considering above correlation matrix, least correlated value is 0.282 which indicates that there is low correlation between dividend payout and growth. Simple regression method is used in order to know the Influence of growth on dividend payout which can be extracted from below table.

Table 2: Simple Reression Analysis for Dabur India Ltd.

Year	Dividend payout	Size & Growth (total assets)
2011-12	38.46	31.19
2012-13	41.96	57.05
2013-14	40.24	60.6
2014-15	49.24	177.23
2015-16	52.04	17.97

19. Output of Simple Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.282 ^a	.080	-.227	6.56110

a. Predictors: (Constant),SG

The above table indicates that the value of R for Dabur India Ltd. 28.2% that refers there is a weak linear correlation between explanatory variables such as growth and the dependent variable i.e. Dividend payout of the company. The R² value (the "R Square" column) indicates how much of the

total change in the dependent variable can be explained by the independent variable. Value of adjusted R- Square for Dabur India Ltd. is -0.227. It indicates that there is no change in dividend payout due to the changes in growth.

ANOVA						
	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	11.193	1	11.193	.260	.645 ^b
	Residual	129.144	3	43.048		
	Total	140.337	4			
a. Dependent Variable: DPR						
b. Predictors: (Constant), SG						

The F-ratio in the ANOVA table tests whether the overall regression model is a good fit for the data. The above table shows that the independent variables statistically significantly predict the dependent variable, $F(1, 3) = 0.260$, $p > 0.05$ (i.e., the regression model is unfitting for the data). It indicates that null hypothesis is accepted. It means that there is no significant impact of size and growth on the dividend payout for Dabur Company.

20. Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		
	B	Std. Error	Beta			Lower Bound	Upper Bound	
1	(Constant)	42.566	4.624		9.206	.003	27.851	57.281
	GR	.026	.052	.282	.510	.645	-.139	.192

a. Dependent Variable: DPR

From the above table, the general form of the equation to predict dividend payout from growth can be obtained as under:

$$\text{Predicted dividend payout} = 42.566 + (0.026 * \text{growth})$$

Unstandardized coefficients indicate how much the dependent variable varies with an independent variable when all other independent variables are held constant.

In the above table, the unstandardized coefficient for growth is equal to 0.026. Which means for every additional increase in growth, dividend payout increases by 0.026.

Nestle India Ltd.

Table 2: Dividend payout ratio and all independent variables of Nestle India Ltd.

Year	Dividend payout	Liquidity (current ratio)	Size & growth (total assets)	Leverage (debt-equity ratio)	Provision for taxation
2011-12	41.52	0.673967	13.56818	0.001727	30.89238
2012-13	71.39	0.602199	20.00081	#VALUE!	28.56924
2013-14	57.12	0.626476	44.91131	#VALUE!	28.50777
2014-15	48.63	1.143477	61.16	1.3033	30.72267
2015-16	43.79	1.0154	17.31337	1.243925	31.2186

In order to know the correlation of different variables with dividend payout above table is used and on the basis of that, below correlation matrix is as follows:

Correlations						
		DPY	LQ	SG	LV	PT
DPY	Pearson Correlation	1	-.525	.050	-.469	-.885*
	Sig. (2-tailed)		.364	.936	.426	.046
	N	5	5	5	5	5
LQ	Pearson Correlation	-.525	1	.453	.983**	.710
	Sig. (2-tailed)	.364		.444	.003	.180
	N	5	5	5	5	5
SG	Pearson Correlation	.050	.453	1	.368	-.140
	Sig. (2-tailed)	.936	.444		.542	.822
	N	5	5	5	5	5
LV	Pearson Correlation	-.469	.983**	.368	1	.675
	Sig. (2-tailed)	.426	.003	.542		.211
	N	5	5	5	5	5
PT	Pearson Correlation	-.885*	.710	-.140	.675	1
	Sig. (2-tailed)	.046	.180	.822	.211	
	N	5	5	5	5	5
*. Correlation is significant at the 0.05 level (2-tailed).						
**. Correlation is significant at the 0.01 level (2-tailed).						

21. Positive Correlation

Dividend payout shows weak positive correlation with Growth ratio. Liquidity and leverage are significant and strongly positively correlated. Liquidity is also partial positive correlated with growth and provision for taxation. Growth and leverage are also partially correlated. Leverage is also partially correlated with provision for taxation.

22. Negative correlation

Dividend payout shows negative correlation with liquidity, leverage and provision for taxation. Growth and provision for taxation are negatively correlated.

Considering above correlation matrix least correlated value is -0.885 that indicates low correlation between dividend payout and provision for taxation. Simple regression method is used in order to know the Influence of provision for taxation on dividend payout which can be extracted from below table.

Table 3: Simple Regression Analysis For Nestle India

Year	Dividend payout	Provision for taxation
2011-12	41.52	30.89
2012-13	71.39	28.57
2013-14	57.12	28.51
2014-15	48.63	30.72
2015-16	43.79	31.22

23. Output of simple regression

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.885 ^a	.782	.710	6.53942
a. Predictors: (Constant), PT				

The above table indicates that the value of R for NESTLE INDIA LTD. is 88.5% that refers there is a Positive linear correlation between explanatory variables such as provision for taxation and the dependent variable i.e. dividend payout of the company. Value of adjusted R- Square for Nestle India Ltd. is 0.710. It indicates that there is 71% change in dividend payout due to the changes in Provision for taxation.

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	461.285	1	461.285	10.787	.046 ^b
	Residual	128.292	3	42.764		
	Total	589.577	4			
a. Dependent Variable: DPR						
b. Predictors: (Constant), PT						

The above table shows that the independent variables statistically significantly predict the dependent variable, $F(1, 3) = 10.787$, $p < 0.05$ (i.e., the regression model is fit for the data). It indicates that null hypothesis is rejected. It means that there is significant impact of provision for taxation on the dividend payout of the NESTLE INDIA LTD.

24. Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		
	B	Std. Error	Beta			Lower Bound	Upper Bound	
1	(Constant)	294.570	73.766		3.993	.028	59.815	529.326
	TX	-8.074	2.458	-.885	-3.284	.046	-15.898	-.250

a. Dependent Variable: DPR

From the above table, the general form of the equation to predict dividend payout from provision for taxation can be obtained as under:

$$\text{Predicted dividend payout} = 294.570 - (8.074 * \text{prov. for taxation})$$

Unstandardized coefficients indicate how much the dependent variable varies with an Independent variable when all other independent variables are held constant.

In the above table, the unstandardized coefficient for provision for taxation is equal to -8.074. This means that for every additional increase in provision for taxation, dividend payout decreases by 8.074.

25. Conclusion

The result of the survey has provided some interesting insight regarding dividend policy and dividend payout behaviour. The companies selected are observed to have continuous dividend payment records and general trend shows that the dividends have either remained constant or increased however instances of decline in dividends have been very rare.

Moreover, knowing the significance of least related variable on dividend payout of selected companies, it is observed that though in many instances results do support theoretical expectations about dividend policy, there are number of cases where the results are inconsistent with theoretical aspects.

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