



# **A comparative study of dividend policies of selected Indian companies from the view point of shareholders**

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## **1. Introduction**

The purpose of this chapter is to present the objectives, hypothesis of the study. This chapter 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. 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 topic. Moreover, the correlation and simple regression method is used. 30 companies from 10 different sectors are taken for study purpose during the period from 2019-2023. Thousands of questionnaires were filled for survey purpose.

## **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 of the study

- 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 prospects shareholders.

### 4. Objectives of study

The major objectives of the study are as follows:

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

### 5. Hypothesis of study

(1) Null

- There is no significant influence of selected least variable on dividend payout of selected companies.

Alternative

- There is significant influence of selected least variable on dividend payout of selected companies.

(2) Null

- There is no influence of Age group on investment purpose of shareholders.

Alternative

- There is influence of Age group on investment purpose of shareholders.

(3) Null

- There is no significant influence of profitability on dividend payout.

Alternative

- There is significant influence of profitability on dividend payout.

## 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 (Ahmedabad, Gandhinagar, Surat, Baroda, Mumbai) 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

### 10.1.1 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)

### ***10.2 Based on primary data (Qualitative research)***

The questionnaire (see Annexure-1) which was sent to the shareholders for taking their view regarding dividend policy is divided into three sections inclusive of open end and close end questions. Section 1 Covers five close end questions which are related with their personal information which is regarding name, age-Group, residential area, occupation and income earned per month. Section 2 covers nine close end questions and two open end questions which are related with General Opinion of shareholders regarding dividend policies. Questions are related to income investments in shares, purpose of investments, form of receiving the dividends, their preference for investment in industries, no. of shares held by shareholders, duration of shares held by them. Questionnaire also reflects rating of dividend policy, consistency of receiving dividends from the companies and also future expectations of shareholders' regarding dividends. Section 3 covers other aspects regarding dividend policy Viz. Beliefs of shareholders for the dividend policy, which is to be answered by using likert's five scaling technique.

In this section, views regarding maintaining stable dividend policy and about "Clientele effect". Shareholders are adjudged on the ground of receiving dividend or it should be kept as retained earnings. Shareholders were asked about the opinion regarding stock market places more emphasis on dividend than on retained earnings and increase in the value of the firm due to higher dividend. Impact of current earnings on rate of dividend is also questioned. The role of dividend announcements as information for assessment of firm's value from the view point of investors.

### **11. Limitations of study**

- 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 thirty companies of Ten different industries

## 12. Findings of the study

### 12.1 Based on secondary data

- The empirical results reveal that the dividend payout policies of Dabur India Ltd., Infosys and TCS Ltd. are significant and strong positively correlated with leverage. Infosys and Tata consultancy services Ltd. are significant and strong positively correlated with provision for Taxation. NTPC Ltd, HDFC bank Ltd. and TVS motors company Ltd. are significant and strong positively correlated with Liquidity.
- Britannia Industries Limited, State Bank of India, TVS Motor Company Limited, Tata Steel Limited, J.K cement Limited, DLF Limited (Delhi Land & Finance), J.M. Financial Ltd. are partially correlated with Leverage. Britannia Industries Limited, NTPC Limited, Dr. Reddy's Laboratories Ltd, State Bank of India, Axis Bank, IDFC and JMC Projects (India) Ltd. are partially correlated with Provision for taxation. Cipla Global Limited, Infosys, Axis Bank and Tata Steel Limited are partially correlated with Growth. Dabur India Ltd., Power Grid Corporation of India Limited (POWERGRID), Tata Power and Tata Steel Limited are partially correlated with Liquidity.
- Eicher Motors Limited, Hero Motocorp Ltd. and Mahindra & Mahindra Financial Services Limited are weakly correlated with leverage. Tata Power, Sun Pharmaceutical Industries Limited, Wipro Limited, HDFC Bank Limited, Eicher Motors Limited, JSW Steel Ltd, J.K cement Limited, Ambuja Cements Limited and DLF Limited (Delhi Land & Finance) are weakly correlated with Provision for taxation. Dabur India Ltd., Nestle India Ltd., Tata Power, Dr. Reddy's Laboratories Ltd, Sun Pharmaceutical Industries Limited, Bhushan Steel, J.K cement Limited, Ambuja Cements Limited and IDFC are weakly correlated with Growth. Tata Power, Sun Pharmaceutical Industries Limited, Wipro Limited, State Bank of India, JSW Steel Ltd, ACC Limited, Bhushan Steel, Ambuja Cements Limited, Ambuja Cements Limited, DLF Limited (Delhi Land & Finance) and NBCC are weakly correlated with Liquidity.
- Nestle India Ltd., NTPC Limited, Power Grid Corporation of India Limited (POWERGRID), NBCC, Tata Power, Dr. Reddy's Laboratories Ltd, Sun Pharmaceutical Industries Limited, Wipro Limited, Axis Bank, HDFC Bank Limited, JSW Steel Ltd, Ambuja Cements Limited, ACC Limited, IDFC and JMC Projects (India) Ltd. Are negatively correlated with leverage. Nestle India Ltd., Power Grid Corporation of India Limited (POWERGRID), Cipla Global Limited, TVS Motor Company Limited, Hero Motocorp Ltd., NBCC, ACC Limited, Bhushan Steel and J. M. Financial Ltd. are negatively correlated with provision for taxation. Mahindra & Mahindra Financial Services Limited, Britannia Industries Limited, NTPC, Power Grid Corporation of India Limited (POWERGRID), HDFC Bank Limited, State Bank of India, Eicher Motors Limited, NBCC, Hero Motocorp Ltd., TVS Motor Company Limited, ACC Limited,



JMC Projects (India) Ltd. and DLF Limited (Delhi Land & Finance) are negatively correlated with Growth. Nestle India Ltd., Britannia Industries Limited, Cipla Global Limited, Dr. Reddy's Laboratories Ltd, Infosys, Tata Consultancy Services Limited, Axis Bank, Hero Motocorp Ltd., Eicher Motors Limited, J.K cement Limited, Infrastructure Development Finance Company, Mahindra & Mahindra Financial Services Limited, JMC Projects (India) Ltd. And J.M. Financial ltd. is negatively correlated with Liquidity.

- The study reveals that out of four variables (Liquidity, Leverage, for taxation and Growth)Liquidity has least influence on dividend payout in Britannia Industries Limited, Infosys, Tata Consultancy Services Limited, Dr. Reddy's Laboratories Ltd, Infrastructure Development Finance Company, JMC Projects (India) Ltd., Mahindra & Mahindra Financial Services Limited, J.K cement Limited and Hero Motocorp Ltd.. Liquidity is significantly influences to dividend payout in case of Dr. Reddy's Laboratories Ltd, Infrastructure Development Finance Company and JMC Projects (India) Ltd. Dividend payout of Britannia Industries Limited, Infosys, Tata Consultancy Services Limited, Mahindra & Mahindra Financial Services Limited, J.K cement Limited and Hero Motocorp Ltd. are not significantly influenced by liquidity.
- The study reveals that out of four variables (Liquidity, Leverage, Provision for taxation and Growth)Leverage has least influence on dividend payout in NTPC Limited, Power Grid Corporation of India Limited (POWERGRID), Tata Power, Sun Pharmaceutical Industries Limited, Wipro Limited, HDFC Bank Limited, Axis Bank, JSW Steel Ltd and Ambuja Cements Limited. Leverage is significantly influences to dividend payout in case of NTPC Limited and Ambuja Cements Limited. Dividend payout of Power Grid Corporation of India Limited (POWERGRID), Tata Power, Sun Pharmaceutical Industries Limited, Wipro Limited, HDFC Bank Limited, Axis Bank and JSW Steel Ltd are not significantly influenced by leverage.
- The study reveals that out of four variables(Liquidity, Leverage, for taxation and Growth)Provision for taxation has least influence on dividend payout in Nestle India Ltd., Cipla Global Limited, Tata Steel Limited, Bhushan Steel, ACC Limited and, NBCC Provision for taxation is significantly influences to dividend payout in case of Nestle India Ltd. and ACC Limited only. Dividend payout of Cipla Global Limited, Tata Steel Limited, Bhushan Steel and, NBCC are not significantly influenced by provision for taxation.
- The study reveals that out of four variables(Liquidity, Leverage, Provision for taxation and Growth)Size and Growth has least influence on dividend payout in Dabur India Ltd., State Bank of India, Eicher Motors Limited, TVS Motor Company Limited, J. M. Financial Ltd. And DLF Limited (Delhi Land & Finance).And dividend payout of all companies whose least influence variable is Size and Growth are not significantly influenced by Size and Growth.



- The empirical results reveal that Profitability is significantly influenced to dividend payout of Dabur India Ltd., Power Grid Corporation of India Limited (POWERGRID), Tata Power, TVS Motor Company Limited, Tata Steel Limited, Infrastructure Development Finance Company, Ambuja Cements Limited, J.K cement Limited, and NBCC. From the data (Table 7.1, 7.5, 7.6, 7.17, 7.20, 7.23, 7.24, 7.25 and 7.29) it can be observed that dividend and profitability are positively related. It means each year a steady increase in earnings has led to steady increase in dividends and Dividend payout of Nestle India Ltd., Britannia Industries Limited, NTPC Limited, Cipla Global Limited, Sun Pharmaceutical Industries Limited, Infosys, Tata Consultancy services Limited, Wipro Limited, HDFC Bank Limited, State Bank of India, Axis Bank, Eicher Motors Limited, Hero Motocorp Ltd., JSW Steel Ltd, Bhushan Steel, , Mahindra & Mahindra Financial Services Limited, J. M. Financial, DLF Limited (Delhi Land & Finance) and JMC Projects (India) Ltd. are not significantly influenced by profitability.
- As per theory a high profitable companies pay higher dividend but in this study it is observed that even a higher profitable companies pay lower dividend and a company with low profit pay high dividend. For example, companies like ACC LTD. pay DPY 31% in the year 2007-08 with 24.62% profitability whereas in the year 2011-12 it has paid 53% DPY with profitability of 14.37%. Moreover it is also observed that in case of Axis bank dividend payout ratio has declined in the year 2009-10 and 2010-11 even though the profitability has increased in the year 2010-11 which depicted that rise in profitability is not always associated with rise in dividend payout. Moreover it is also observed that in Heromoto corp Ltd., Profitability remains stable inspite of drastic increase in dividend payout in the year 2010-11.
- Appendixes shows that the companies selected to have continuous dividend payment record during the selected time period for study purpose and general trend observed is that the dividends have either remained constant or increased; instances of decline in dividends have been very rare.
- Fluctuation in dividend payment is high in case of J. M. Financial Ltd. TVS Motors Ltd., Heromotocorp Ltd. Whereas the companies like NTPC Ltd., Powergrid, Tata power, TCS., HDFC Bank, State bank of India, IDFC, Mahindra and Mahindra Financial Ltd. were manage to pay stable dividend.
- As per theory it is said that company's dividend policy is affected by the factors like Liquidity, Leverage, Provision for taxation and Size and Growth. But this study reveals that in some of the companies there were higher fluctuations in dividend payout which are not due to these independent variables. It is found by observing annual reports that company's dividend payout policy is affected by management decisions.

### ***12.2 Based on primary data***

- The empirical result reveals that Age-group is positively and significantly correlated with Dividend decision and negatively correlated with Capital appreciation decision. This shows that with increased age shareholders prefer to invest in those companies which gives stable dividends.
- The study reveals that there is significant impact of Age group on investment purpose of shareholders. It also shows that with increased age, the purpose of shareholders for investment is for receiving stable dividends and not for capital appreciation.
- By observing the responses of shareholders regarding stability of dividend policy, it can be observed that most of the shareholders agreed with the statement that company should maintain stable dividend policy. In which it is also observed that generally housewives, Old age persons and also a service class people are more. The reason behind them is, they believe, for them dividend should become a stable income. It is also observed that persons who are involved in business are not agreed with the statement.
- It can be observed that majority of the respondents agreed with the statement that stock market places more emphasis on dividend than on retained earnings and higher dividend increases the firm value. This can be due to lack of proper knowledge about stock market.
- Most of the shareholders believes that dividend is a safer than retained earnings since they consider dividend as a safer income of source.
- Regarding effect of current earnings on dividend policy, it can be observed that fifty percent of shareholders are agreed with it whereas fifty percent of them are disagreed. The reason behind is that some of the respondents believe, company can declare the dividend out of the reserves also.
- There is not much difference in opinion regarding dividend announcement for accessing the value of firms.
- Shareholders did not give their opinion regarding “clientele effect”.
- The study reveals that shareholders prefers to remain invested for long duration in those companies which pay steady, consistent and high dividend and thereby shows their loyalty with the companies.
- It is found that shareholders are always interested in making investment only in those companies which pays steady, consistent and high dividends. Because of which, they are satisfied and prefers to remain invested.
- By making an observation regarding views of dividend policies, it can be seen that majority of the shareholders prefer to invest in companies in form of shares according to proportion of their income, they preferred to receive dividend by way of cash and their preferable sector for investment is BANKING sector followed by IT & SOFTWARE. It is also observed that shareholders preferable duration for holding of shares is short-term and medium-term. Regarding consistency of

dividend received from the selected companies, majority of shareholders have given their positive views.

### 13. 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. The study reveals that in most of the companies least related variable do not have influence on dividend payout and in some of the companies least related variable do have influence on dividend payout. It also reveals that each firms though belonging to the same industry and facing same business environment has its own and unique dividend policy which is due to company-specific needs and factors. As per theory, profitability and dividend payout should have positive relation. The study reveals that dividend payout does not go hand in hand with profitability in many companies. It reflects that in most of the companies, profitability has weak influence on dividend payout and in some of the companies; profitability has strong influence on dividend payout. Moreover, considering the opinion of shareholders the study reflects that Age-group is positively and significantly influenced the investment purpose of shareholders. It can be said that with the increased age, shareholders invested in companies because of receiving continuous dividend, since they consider dividend as their regular source of income.

Dividend policy has been the subject of considerable research by financial economists but despite extensive research, the dividend controversies still remains unresolved. In a survey of literature on dividend policy, Allen and Michaely concluded that “much more empirical and theoretical research on the subject of dividends is required before a consensus can be reached. “Fisher Black had said, “The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don’t fit together. “The same situation is observed in this study too; hence a fair, clear and complete picture of the dividend decision is still not made.

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