

DETERMINANTS OF DIVIDEND POLICY AND ITS IMPACT ON SHAREHOLDERS WEALTH CREATION OF SELECTED BANKING COMPANIES IN INDIA

Mr. Jaydev Vithlani, Dr. Kamini Shah

Research Scholar
Department of Business Studies
Sardar Patel University

Professor & Dean
Department of Business Studies
Sardar Patel University

Abstract

Companies have the choice to utilize their profits in two primary ways: reinvesting in growth and development or distributing them among shareholders. This distribution can take the form of either share buybacks or dividends. Dividend policy, a crucial aspect of financial management, involves deciding how much of the company's earnings to allocate to shareholders. Consistently paying dividends can yield various benefits, including bolstering the company's position, attracting a broader investor base, and instilling confidence, particularly during market volatility. This study specifically examines the impact of dividend decisions on shareholder wealth within the Indian banking sector, which plays a pivotal role in the nation's economic advancement. By focusing on four banking companies listed on the NSE over the five-year period from 2019 to 2023, the research aims to contribute to existing knowledge by assessing The Connection between Dividend Policy and Stock Market Performance. Preliminary findings suggest a positive correlation between dividends per share and the value of banking companies.

Keyword: Dividend, banking companies, dividend per share

INTRODUCTION

Financial management encompasses a broad spectrum of activities aimed at optimizing the financial performance and value creation of a company. One of its primary objectives is to maximize both profitability and shareholder wealth. While profitability reflects the company's capacity to produce revenue, shareholder wealth represents the value accrued to shareholders through various means, including dividends, capital appreciation, and overall company performance. Dividend decisions are integral to financial management as they directly impact both the company and its shareholders. These decisions involve determining the amount and frequency of dividends to be distributed to shareholders, as well as the overall dividend policy to be adopted by the company. The choice of dividend policy, whether it's a stable dividend policy, residual dividend policy, or other variants, reflects the company's strategic approach to balancing the interests of shareholders with its operational and investment needs. For investors, dividend decisions carry significant weight in their decisionmaking process. The type and consistency of dividends offered by a company can signal its financial health, stability, and growth prospects. Shareholders often evaluate dividend-paying companies favorably, as regular dividend income provides a steady stream of returns and contributes to portfolio stability. Additionally, dividend policies can influence investor perceptions of a company's management quality and commitment to shareholder value maximization. Companies, in turn, base their dividend decisions on various factors, including their financial performance, cash flow position, growth opportunities, and capital allocation priorities. Dividends are typically distributed to shareholders as a reward for their investment in the company and as a means of sharing profits. However, companies may also consider retaining earnings for future growth initiatives, such as research and development, expansion into new markets, or acquisitions. In the context of the banking sector in India, dividend decisions play a crucial role in shaping investor confidence and market dynamics. Publicly listed banking companies on the National Stock Exchange (NSE) are subject to regulatory requirements and market expectations regarding dividend payments. The financial performance of these banking institutions, along with macroeconomic factors and regulatory changes, can influence their dividend policies and ultimately impact shareholder wealth. Research focuses on dividend impact decisions on shareholder wealthiness within India banking sector aims to provide deeper insights into the dynamics of dividend policy formulation and its implications for investors. By analyzing dividend payout ratios, financial ratios, market trends, and investor behavior, such studies seek to enhance our understanding of the connection between dividend choices and shareholder wealth generation in the banking sector.

REVIEW OF LITERATURE

1. Shah (2016) examined how profitability influences dividend distribution in three leading IT companies—Infosys, Tata Consultancy Services, and Wipro. Using random data from 2009 to 2014, the study employed a basic regression model to analyze the relationship. Findings indicated that profitability did not significantly impact dividend payments for Infosys and Tata Consultancy Services.
2. Zafar et al. (2012) analyzed the role of dividend policy in Indian banking companies and its effect on shareholder wealth. The study applied multiple regression analysis to assess dividend-related factors in eleven Indian banks listed on the NSE from 2006 to 2010. Additionally, the research explored legal considerations and various policy aspects that influence strategies for maximizing shareholder value and market performance.
3. Movalia et al. (2014) investigated dividend policy determinants among 30 S&P BSE-listed companies. Their findings identified profitability, leverage, growth rate, and return on investment as the key factors influencing dividend payments.
4. Manjunatha (2013) explored the relationship between debt-equity structure, dividend payout ratio, and firm value. A descriptive survey of 29 companies was conducted, utilizing regression analysis to assess the connection between capital structure, dividend policy, and stock prices. The study concluded that debt levels and dividend payments had no significant impact on stock prices.
5. Babu and Nancy (2014) examined the factors affecting dividend payout ratios in ten Indian banks from 2009 to 2013. Using backward linear regression analysis, the study revealed that previous-year dividends and past profits were the most significant predictors of the dividend payout ratio. Additionally, findings indicated variations in determinants between public and private sector banks, except for cash flow factors. The study confirmed that historical dividend trends and profitability play a crucial role in shaping dividend distribution in the Indian banking sector.
6. Gowri and Sarwanan (2016) conducted a study on 23 cement companies in India, covering a ten-year period from 2003-2004 to 2012-2013. Their findings highlighted an inverse relationship between corporate tangibility and dividend payout ratio, indicating that higher asset tangibility leads to lower dividend payments.

OBJECTIVE OF THE STUDY

1. To analyze the factors influencing dividend policy in selected public and private sector companies in India.
2. To assess the link between dividend payout and shareholder wealth.
3. To compare the effects of dividend policy among selected Indian banking companies.
4. To evaluate the impact of dividend policy on shareholder wealth.

RESEARCH METHODOLOGY

This chapter include the methodology implemented by the researcher for the Sample design, Sample selection, Size of the Sample, Approaches to Information Gathering, Origins of Data Acquisition, Information Evaluation, 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.

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

| Abbreviations | Computation of Variables |
|---------------|---|
| DPS | Total Dividend Paid No of Ordinary Share |

| | |
|-----|--|
| DY | $\frac{\text{Dividend per Share}}{\text{Market Price Per Share}} \times 100$ |
| DC | $\frac{\text{Profit After Tax}}{\text{Total Dividend Paid}}$ |
| POR | $\frac{\text{Dividend}}{\text{Net Income}}$ |
| ROE | $\frac{\text{Net Income}}{\text{Average Stock Holder Equity}}$ |
| PMR | $\frac{\text{Net Income}}{\text{Sales}} \times 100$ |
| EPS | $\frac{\text{Profit after tax}}{\text{No of Ordinary Share}}$ |
| PER | $\frac{\text{Market Price Per Share}}{\text{Earnings Per Share}}$ |

Data Analysis & Interpretations

| SBI | | | | | |
|-----------------------|------------|------------|------------|------------|------------|
| Ratio | March 2019 | March 2020 | March 2021 | March 2022 | March 2023 |
| DPS | 0 | 0 | 4 | 7.1 | 11.3 |
| DY | 0 | 0 | 0.868 | 1.157 | 1.759 |
| DC | 0 | 0 | 0.151 | 0.299 | 0.877 |
| DPO | 0 | 0 | 1.15 | 2.73 | 2 |
| ROE | 0.98 | 8.69 | 8.89 | 12.53 | 16.8 |
| PMR | 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 |

As you can see that on the above table all the variables are increasing year to year that means that is showing that if the profit margin increasing that also affect the EPS, DPS, Dividend Payout etc. so from the we can also say that due to increase in Dividend shareholders are also attracted to investment in that company and result of that due to demand of the particular share it will also increase the Market Price of Share.

| BOB | | | | | |
|-----------------------|------------|------------|------------|------------|------------|
| Ratio | March 2019 | March 2020 | March 2021 | March 2022 | March 2023 |
| DPS | 0 | 0 | 0 | 2.85 | 5.5 |
| DY | 0 | 0 | 0 | 1.535 | 2.379 |
| DC | 0 | 0 | 0 | 0.257 | 0.407 |
| DPO | 0 | 0 | 0 | 1.81 | 2.85 |
| ROE | 2.2 | 1.21 | 1.87 | 8.54 | 14.18 |
| PMR | 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 |

As you can see that on the above table in the first three years there will be no payment of Dividend because of lower Profitability and it is also affected to the price of companies share because no payment of dividend there will be lesser demand of share in the market. We can also note the due to nonpayment of dividend the company's market price is falls down as compared 2019. But in the year 2022 and 2023 the Profitability of companies increased which increase the Dividend per share, Dividend Payout, Return on Equity, Market price of Share, etc.

| HDFC | | | | | |
|-----------------------|------------|------------|------------|------------|------------|
| Ratio | March 2019 | March 2020 | March 2021 | March 2022 | March 2023 |
| DPS | 15 | 2.5 | 6.5 | 15.5 | 19 |
| DY | 1.179 | 0.174 | 0.439 | 0.952 | 1.111 |
| DC | 0.567 | 0.456 | 0.365 | 0.611 | 0.687 |
| DPO | 7.12 | 1.23 | 3.6 | 7.55 | 9.46 |
| ROE | 14.53 | 15.45 | 15.17 | 15.38 | 15.89 |
| PMR | 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 |

As you can see that on the above table here company is giving Dividend on regular bases from the year 2019 to 2023 in all the year the earnings of the company is pretty good and due to that reason the various variable are also looks positive i.e. Dividend Per Share, Dividend Payout, Return on Equity, EPS, Market Price of Share, etc.

| ICICI | | | | | |
|-----------------------|------------|------------|------------|------------|------------|
| Ratio | March 2019 | March 2020 | March 2021 | March 2022 | March 2023 |
| DPS | 1 | 0 | 2 | 5 | 8 |
| DY | 0.185 | 0 | 0.27 | 0.561 | 0.802 |
| DC | 0.126 | 0 | 0.189 | 0.269 | 0.459 |
| DPO | 0.88 | 0 | 1.2 | 2.58 | 3.99 |
| ROE | 3.82 | 7.98 | 11.9 | 14.04 | 16.1 |
| PMR | 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 |

As you can see that on the above table in the initial year 2019 and 2020 company is giving too much lesser Dividend so that is directly affected to the Market Price of the share in that year the market price of share showing down trend because of nonpayment of dividend. In the next the years (March 2021 to 2023) the company is giving dividend on regular bases with very good amount of dividend so the result in that the market price of share increases.

FINDINGS OF THE STUDY

- From the above data and interpretation here we can say that if the Earnings of the affect the dividend decision if the earnings of the company is higher Dividend payout and Dividend per share is also higher and vice versa.
- Dividend payout decision directly affect to the Market price of share if the company giving regular dividend so there will be demand of that share in Market regularly and due to that reason there will be a increase in market price of share.
- From the above data and interpretation here we can say that as compared to Public company Private Company is giving more and Regular Dividend. So that means that Private Company is increasing the shareholders wealth as compared to Public Company.

LIMITATIONS OF THE STUDY

This research focuses on a select group of banking companies listed on NSE Ltd. While a representative sample was chosen to ensure the findings reflect broader trends, there are certain limitations worth noting.

Firstly, the study spans only a five-year period, which constrains the depth of insight into longer-term trends. Expanding the research over a more extended timeframe would allow for a more comprehensive

understanding and might yield stronger, more reliable results by capturing variations and cycles in the banking industry.

Another limitation is the reliance on secondary data. Consequently, the accuracy and reliability of the results depend on the precision and consistency of the data sources used. Any limitations within the data itself, such as reporting errors or inconsistencies, could impact the study's findings.

These limitations open up opportunities for further research on dividend policy in the banking sector. Future studies could address these constraints by using primary data or extending the period of analysis, leading to more nuanced and robust insights.

CONCLUSION

This research examines the influence of dividend policy on shareholders' wealth, focusing specifically on banking companies. Generally, when dividends increase, there is a corresponding rise in the share's market value, whereas a reduction in dividends tends to lower it. Shareholders often prefer immediate dividends over potential future earnings, making dividend payouts a crucial element in determining shareholder wealth.

The findings reveal that dividend per share (DPS) plays a particularly significant role in affecting the market price of shares (MPS) in banking companies. A strong positive relationship was observed between DPS and MPS, indicating that as dividend payouts raise, so does the market value of the shares.

Furthermore, other financial indicators, such as net income and earnings per share (EPS), also show a meaningful positive correlation with MPS in the banking sector. This suggests that companies with robust net income and higher earnings per share are more likely to boost shareholders' wealth, as these metrics contribute to a favorable market perception and increased stock value.

In summary, the study concludes that dividend policy has a notable impact on shareholder wealth in the banking industry. By ensuring stable or increasing dividends, banking companies can positively influence the market price of their shares, ultimately benefiting their shareholders. This insight underscores the importance of dividend decisions as a strategic tool for wealth creation in the banking sector.

List of Abbreviations

| | |
|-----------------|------------------------|
| DPS | Dividend Per Share |
| DY | Dividend Yield |
| DC | Dividend Cover |
| DPO | Dividend Pay Out Ratio |
| ROE | Return on Equity |
| PMR | Profit Margin Ratio |
| EPS | Earnings Per Share |
| PE Ratio | Price Earnings Ratio |

REFERENCES

- [1] Shah, A. (2016). Analysis of dividend policy: Impact of profitability. Research Hub – International Multidisciplinary Research Journal (RHIMR)), 3(3), 1–5.
- [2] Zafar, S. M. T., Chaubey, D. S., & Khalid, S. M. (2012). A study on dividend policy and its impact on the shareholders' wealth in selected banking companies in India. International Journal of Financial Management, 2(3), 79–94.
- [3] Movalia, N., Professo, A., & Vekariya, P. (2014). A study on determinants of dividend policy and its impact on the dividend of listed companies under S&P BSE SENSEX. Journal of Business Management & Social Sciences Research, 3(12), 2319–5614.
- [4] Manjunath, K. (2013). Impact of debt-equity and dividend payout ratio on the value of the firm. Global Journal of Commerce and Management Prospective, 2(2), 18–27.
- [5] Babu, H., & Nancy, S. (2014). Determinants of dividend payout ratios: A study with reference to the Indian banking sector. International Journal of Research in Commerce, Economics & Management, 4(11), 48–56.
- [6] Gowri, K., & Sarwana, R. (2016). Determinants of dividend policy of select companies in the Indian cement industry – A structural equation modeling. International Journal of Advanced Research in Management and Social Sciences, 5(9), 161–173.