Dividend Policy and Stock Return: A Study on Some Select Stock in Indian Stock Market

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Abstract

Dividend is that portion of profits of a company which is distributable among its shareholders according to the decision taken and resolution passed in the meeting of Board of Directors. Dividend policy plays an important role for maintaining good image of company in the capital market and in providing source of low cost finance for financing for the profitable future investment proposals. Objective of the study is to calculate the three measures of (dividend per share, earning per share, earning retention ratio) dividend policy of the five selected companies Hero Motor Corporation Limited, Tide water oil company, oracle financial services software limited, Indiabulls housing finance limited and Vedanta limited and correlate the factors of dividend policy and return on share price for a period of five years. It was found from the study that only in case of Indiabulls housing finance limited DPS, EPS, ERR and ROS are positively related. So it can be said that only in case of Indiabulls housing finance limited company factors of dividend policy are positively related with ROS.

Key Words: Correlation, dividend per share, earning per share, earning retention ratio.

1. Introduction

Dividend is that portion of profits of a company which is distributable among its shareholders according to the decision taken and resolution passed in the meeting of Board of Directors. Dividend may be paid as a fixed percentage on the share capital contributed by them or at a fixed amount per share. There is always a problem before the top management to decide how much profits should be transferred to reserve funds to meet any future contingencies and how much should be distributed to the equity shareholders as dividend. The corporation has to follow a sound dividend policy to solve the problem. Dividend policy determines the division of earnings between payments to shareholders and retained earnings. The firm's dividend policy represents a plan of action to be followed whenever the dividend decision must be made. Dividend policy plays an important role for maintaining good image of company in the capital market and in providing source of low cost finance for financing for the profitable future investment proposals. Different investors purchase shares of a company with different objectives. Generally the risk taking investors buy shares for short term capital gain. But institutional investors like hedge fund and pension fund, invest in equity for long term capital appreciation. And old aged investors and low risk taking investors purchase the shares of a company for regular dividend income which is more than the fixed rate of interest income on fixed interest bearing government securities like bond, fixed deposit, gilt etc.

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2. Literature Review

Pandey (2001) looks at the corporate dividend payout behaviour of companies listed on the Kuala Lumpur stock exchange during 1993-2000. He categorizes the

sample into six industries for examining the variation in the payout ratio. He also establishes a relationship between current earnings and past dividend rate. He finds that the Malaysian companies (by following Lintner's model) exhibit unstable dividend behaviour with high adjustments in dividend payments in order to meet the target payout ratio.

Myers (2004) finds strong support for earnings, profit margin, institutional ownership and debt-equity ratio on the dividend decision.

Eriotis (2005) finds that Greek firms have a long-run constant dividend payout policy. He adjusts the firms' distributed earnings and size in the Lintner model and reports that an increase in the earnings does not change the dividend distribution pattern of firms.

Kania and Bacon (2005) find that variables such as sales growth, expansion and insider ownership have a negative impact on dividend decision but institutional ownership has an inverse relation with dividend payout, which is contrary to the existing literature.

Denis and Osobov (2008) find that the tendency for paying dividends declined for countries such as United States, Canada, United Kingdom, Germany, France and Japan during 1994-2002. They also report that the international evidence does not support the investors' preference for dividend, the signaling and the clientele interpretations as prominent variables. Rather, they go along with the distribution of free cash flow as the chief element of the dividend decision.

Kevin (1992) analyzes the dividend payment behaviour of 650 Indian companies during September 1983 to August 1984 and finds that profitability and earnings of the firms are the two foremost factors determining dividends. He concludes that Indian firms strive for achieving a stable dividend rate. However, keeping in view that the time period of his study was only one year; his results cannot be taken as conclusive.

Mahapatra and Sahu (1993) find that cash flows, current earnings and past dividends are prominent factors that have an impact on the dividend decision. Their results are in contrast to Lintner's model.

Bhat and Pandey (1994) find that current year's earnings, pattern of past dividends, expected future earnings, changes in equity base of the firm have an impact on the dividend decision.

Narasimhan and Asha (1997) look at the changes in dividend tax regime proposed in the Indian Union Budget of 1997-98 and analyze the impact of dividend tax on a firm's dividend decision. They conclude that the burden of tax payment fell in the hands of companies rather than their shareholders.

Mohanty (1999) studied more than 200 Indian companies for a period of fifteen years to understand the relationship between bonus-issuing and dividend-paying behaviour of companies. He found that in the Indian context, it is the dividend rate that is an important determinant of dividend policy in comparison to the dividend payout ratio.

Reddy (2002) analyzes the trends and determinants of dividend of all Indian companies listed on two major Indian stock exchanges–The Bombay Stock Exchange (BSE) and The National Stock Exchange (NSE) during 1990-2001. He investigates three factors viz., number of firms paying dividend, average dividend per share and the average payout. His results indicate that only few companies maintain the dividend payout rate and that firms forming a part of small indices pay higher dividend compared to firms forming a part of broad market indices. Deviations in the tax regime are also examined using the trade-off theory and it is found that this theory does not apply to the Indian corporate sector. He concludes that the omission of dividends have information content i.e. such companies expect lower earnings in the future whereas the same does not hold true in case of dividend initiations.

Anand (2004) questioned 81 CFOs to find out the determinants of dividend policy of Indian companies. He finds that Indian companies use dividend policy as a signaling mechanism to convey information about their present and future prospects, therefore, affecting their market value. He also reports that while designing

a dividend policy, companies take into consideration the investors' preference for dividends and the clientele effect.

Bhayani (2008) has examined the influence of earnings and lagged dividend on dividend policy of companies listed on the BSE. He found that the current year's earnings is the foremost factor affecting the dividend behaviour of a firm and concludes that Indian Decision, Vol. 37, No.2, August, 2010 The Determinants of Corporate Dividend Policy 66 companies follow a stable cash dividend policy.

Kanwal and Kapoor (2008) examine the dividend policies of companies in the information technology sector in India. They explore various factors such as profitability, cash flows, corporate tax, sales growth and growth opportunities that have an impact over the dividend policies of such companies.

Sobha rani and Patha Sarathi (2013) focused on the determinants of dividends and its performance of select pharmaceutical companies in India. This study evaluates the performance of various pharmaceutical companies and their annual compound growth rate.

3. Objectives of the study

In the present study an attempt has been made to study the behavior pattern of the dividend policy and correlation between dividend and share price of some selected companies in Indian stock market during the period of study of financial year ending on 31.3.2014 to financial year ending on 31.3.2018 More specifically the following are the objectives of the study:-

1. To calculate three vital measures representing the dividend policy of some selected five companies viz, Hero Motor Corporation Limited, Tide water oil company, oracle financial services software limited, Indiabulls housing finance limited and Vedanta limited in India viz, during the period of study of financial year ending on 31.3.2014 to financial year ending on 31.3.2018 such as dividend per share (DPS), earning per share (EPS) and Earning retention ratio(ER Ratio).
2. To study the behavioral pattern of the dividend policy of the the dividend policy of some selected five companies viz, Hero Motor Corporation Limited, Tide water oil company, oracle financial services software limited, Indiabulls housing finance limited and Vedanta limited in India viz, during the period of study of financial year ending on 31.3.2014 to financial year ending on 31.3.2018 such as dividend per share (DPS), earning per share(EPS) and Earning retention ratio(ER Ratio) by measuring the different statistical measures mean, standard deviation, co-efficient of variation, kurtosis, skewness and range.
3. Also calculate and present the correlation exist between factors of dividend policy and share price movement of some selected five companies viz, Hero Motor Corporation Limited, Tide water oil company, oracle financial services software limited, Indiabulls housing finance limited and Vedanta limited in India viz, during the period of study of financial year ending on 31.3.2014 to financial year ending on 31.3.2018.

4. Research Methodology

1. **Selection of Data:** Five highest dividend paying companies in India viz, Hero Motor Corporation Limited, Tide water oil company, oracle financial services software limited, Indiabulls housing finance limited and Vedanta limited have been selected for the study on the basis of their percentage of dividend payment which is above 2000% for financial year ending on 31st March, 2018.
2. **Collection of Data**: This study is based on secondary data only. The secondary data have been collected from www.moneycontrol.com. Editing, classification and tabulation of the data collected from the above mentioned sources have been done as per the requirements of the study.
3. **Analysis of Data:** For analyzing the data simple mathematical tool like ratios, percentages etc. and statistical techniques like measures of central tendency, measures of dispersion , karl pearsons' correlation have been used.

Findings and Discussions

Table 1: Descriptive statistics: Earning per share (EPS)

	Hero Motor Corporation Limited	Tide water oil company	Oracle financial services software limited	Indiabulls housing finance limited	Vedanta limited
Mean	147.23	709.11	127.29	3.84	61.19
Meadian	156.86	295.35	125.05	6.5	55.64
Standard deviation	33.59	737.45	17.47	26.74	14.74
Kurtosis	-2.203	3.01	-0.43	2.42	0.53
Skewness	-0.30	1.78	0.31	-1.39	0.90
Range	79.54	1741.71	45.55	69.92	38.42
Minimum	105.6	222.94	105.8	-40.16	45.2
Maximum	185.14	1964.65	151.35	29.76	83.62
Sum	736.18	3545.55	636.44	19.24	305.97
Count	5	5	5	5	5

Source: calculation

Inference: It can be said from the above table that mean, median, standard deviation, kurtosis, skewness and range of EPS was highest for Tide water oil company and lowest for Indiabulls housing finance limited for the period of study from 31.3.14 to 31.3.18. Also the skewness and kurtosis were negative for Indiabulls housing finance limited and Hero Motor Corporation Limited.

Table 2: Descriptive statistics: Dividend per share (DPS)

	Hero Motor Corporation Limited	Tide water oil company	Oracle financial services software limited	Indiabulls housing finance limited	Vedanta limited
Mean	75.4	207.5	213	10.3	35.6
Meadian	72	175	130	4.1	36
Standard deviation	14.43	81.78	260.37	9.17	8.14
Kurtosis	-1.54	3.98	3.97	-3.21	-2.35
Skewness	0.50	1.96	1.90	0.62	-0.06
Range	35	200	665	17.95	19
Minimum	60	150	0	3.25	26
Maximum	95	350	665	21.2	45
Sum	377	1037.5	1065	51.5	178
Count	5	5	5	5	5

Source: calculation

Inference: It can be said from the above table that mean, median, kurtosis, skewness and range of DPS was highest for Tide water oil company and lowest for Indiabulls housing finance limited for the period of study from 31.3.14 to 31.3.18. standard deviation of DPS was highest for oracle financial services software limited and kurtosis of DPS were negative Hero Motor Corporation Limited, Indiabulls housing finance limited and Vedanta limited. Also skewness of DPS was negative for Vedanta limited.

Table 3: Descriptive statistics: Earning Retention Ratio (ERR)

	Hero Motor Corporation Limited	Tide water oil company	Oracle financial services software limited	Indiabulls housing finance limited	Vedanta limited
Mean	49.6	35.44	-83.23	-31.9	44.64
Meadian	52.85	53.45	-69.97	24.38	51.1
Standard deviation	6.66	47.79	217.7	166.55	15.27
Kurtosis	2.57	3.48	1.45	4.56	-0.70
Skewness	-1.68	-1.78	-1.21	-2.10	-0.85
Range	15.7	122.19	531.63	411.36	37.53
Minimum	38.41	-46.44	-431.63	-326.23	22.29
Maximum	54.11	75.75	100	85.13	59.82
Sum	248.02	177.22	-416.16	-159.54	223.24
Count	5	5	5	5	5

Source: calculation

Inference: From the above table it can be said that mean and median of ERR was highest for Hero Motor Corporation Limited and lowest for oracle financial services software limited. Standard deviation of ERR was highest for oracle financial services software limited and it implied that there was fluctuation in the ERR of oracle financial services software limited during the periods of study. Skewness of ERR were negative for all companies taken into consideration.

Table 4: Descriptive statistics: Return on share price (ROS)

	Hero Motor Corporation Limited	Tide water oil company	Oracle financial services software limited	Indiabulls housing finance limited	Vedanta limited
Mean	17.08	32.21	10.52	37.38	49.83
Meadian	11.59	13	3.95	11.30	24.00
Standard deviation	12.19	39.60	8.84	99.08	49.74
Kurtosis	4.05	-2.61	-0.75	3.54	3.17
Skewness	2.00	0.63	-0.35	1.67	1.81
Range	28.98	85.79	22.17	263.19	118.37
Minimum	9.4	-2.46	-1.83	-57.18	16.49
Maximum	38.38	83.33	20.34	206.01	134.86
Sum	85.41	161.06	52.64	186.91	249.17
Count	5	5	5	5	5

Source: calculation

Inference: It can be said from the above table that mean, median, standard deviation of ROS was highest for Vedanta limited and it implied that there was fluctuation in the ROS of oracle financial services software limited during the periods of study. and lowest for oracle financial services software limited. Kurtosis and skewness was highest for Hero Motor Corporation Limited.

Table 5: Correlation between EPS, DPS, ERR and Return on share: Hero Motor Corporation Limited

	DPS	EPS	ERR	ROS
DPS	1			
EPS	0.918418	1		
ERR	0.335604	0.633258	1	
ROS	-0.56762	-0.82285	-0.89434	1

Source: calculation

Inference: There is a positive correlation between DPS, EPS and ERR Hero Motor Corporation Limited. Positive correlation indicates a rise in one variable lead to the rise in other variable and vice versa. Negative correlation indicates a rise in one variable lead to the fall in other variable and vice versa. But there is a negative correlation between DPS-ROS, ERR-ROS and EPS-ROS of Hero Motor Corporation Limited.

Table 6: Correlation between EPS, DPS, ERR and Return on share: Tide water oil company

	DPS	EPS	ERR	ROS
DPS	1			
EPS	0.986724	1		
ERR	-0.89845	-0.84117	1	
ROS	0.435445	0.373651	-0.40764	1

Source: calculation

Inference: There is a positive correlation between DPS-EPS, DPS-ROS, EPS-ROS. But there is a negative correlation between DPS-ERR, EPS-ERR and ERR-ROS. Positive correlation indicates a rise in one variable lead to the rise in other variable and vice versa. Negative correlation indicates a rise in one variable lead to the fall in other variable and vice versa.

Table 7: Correlation between EPS, DPS, ERR and Return on share: oracle financial services software limited

	DPS	EPS	ERR	ROS
DPS	1			
EPS	-0.04345	1		
ERR	-0.93437	-0.02013	1	
ROS	0.464575	0.247238	-0.55924	1

Source: calculation

Inference: There is a negative correlation between DPS-EPS, DPS-ERR and EPS-ERR, ERR-ROS. There is a positive correlation between EPS -ROS, DPS-ROS. Positive correlation indicates a rise in one variable lead to the rise in other variable and vice versa. Negative correlation indicates a rise in one variable lead to the fall in other variable and vice versa.

Table 8: Correlation between EPS, DPS, ERR and Return on share: Indiabulls housing finance limited

	DPS	EPS	ERR	ROS
DPS	1			
EPS	0.705056	1		
ERR	-0.70058	-0.45637	1	
ROS	0.593508	0.755391	0.065182	1

Source: calculation

Inference: There is a positive correlation between EPS –DPS, DPS-ROS,EPS-ROS and ERR-ROS. There is a negative correlation between DPS-ERR and EPS-ERR. Positive correlation indicates a rise in one variable lead to the rise in other variable and vice versa. Negative correlation indicates a rise in one variable lead to the fall in other variable and vice versa.

Table 9: Correlation between EPS, DPS, ERR and Return on share: Vedanta limited

	DPS	EPS	ERR	ROS
DPS	1			
EPS	0.502629	1		
ERR	-0.39337	0.522089	1	
ROS	-0.67821	-0.11344	0.553724	1

Source: calculation

Inference: There is a positive correlation between EPS-DPS, EPS-ERR and ERR-ROS. There is a negative correlation between DPS-ERR , DPS-ROS and EPS-ROS. Positive correlation indicates a rise in one variable lead to the rise in other variable and vice versa. Negative correlation indicates a rise in one variable lead to the fall in other variable and vice versa.

5. Conclusion

It can be said from the analysis that mean EPS, was highest for Tide water oil company and EPS - ROS and DPS- ROS are positively correlated. But ROS-ERR are negatively correlated. Average DPS was highest for oracle financial services software limited and EPS - ROS and DPS- ROS are positively correlated. But ROS-ERR are negatively correlated in case of that company. And ERR was highest for Hero Motor Corporation Limited and there was negative correlation between EPS - ROS and DPS- ROS and ERR- ROS. In case of Indiabulls housing finance limited DPS, EPS, ERR and ROS are positively related. So it can be said only in case of Indiabulls housing finance limited factors of dividend policy are positively related with ROS.

6. Limitation of the Study

i) The study is limited for five years from 31.3.2014 to 31.3.2018.

ii) The study has taken five top dividend paying companies for the study.

iii) Limited numbers of statistical methods and techniques have been used for the study.

Abbrebiations:

DPS= Dividend per share.

EPS= Earning per share

ERR= Earning retention ratio

ROS= Return on share.

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