Analysis of Dividend Payout by Indian BSE Listed Indexed Companies

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Abstract:
Dividend policy is one of the main financial decision taken by the company and it is one of the most widely researched topic in the field of finance. It refers to the distribution of the company's earnings to the shareholders and retained the sufficient earning in the company to meet the requirements for further growth and expansion. Different investors have different expectations on dividend payment term. Some of the investors prefer higher payout ratio and some of them prefer low payout ratio. So determining the optimum payout ratio is a difficult task for the company. This paper studies to investigate the Dividend Payout Ratio key determinants that influence the dividend decision. The study is based on the BSE listed indexed companies and five year data from financial year 2014-15 to 2018-19. The study examined the influence of explanatory variables such as Earning per Share, Book Value per Share, Market Price per Share and Promoter's Ownership by using Linear Regression Analysis. The analysis provide evidence that the factors Earning per Share and Promoter's Ownership has positive effect on payout ratio while the factors Book Value per Share and Market Price per Share has negatively affected the Payout Ratio. The study also suggest that all the four factors Earning per Share, Book Value per Share, Market Price per Share and Promoter's Ownership do not have significantly affect the Dividend Payout Ratio of BSE listed indexed companies.

Keywords: Indexed Companies, Payout Ratio, Earning per Share, Book Value per Share, Promoter's Ownership.

1. Introduction

Financial management is the subject of a policy of business. It mainly concerned with the financial policies of the companies which represents a set of decisions. Raising and allocation of funds, minimizing the cost of capital and dividend decision is the main strategic decisions for a company. As per enterprises financial activities we can identify these financial policies namely which are, Investment Policy, Funding Policy and Dividend Policy. In the funding policy the enterprise considering decisions on different sources of capital and financial structure of the company. In the investment policy the enterprise determines the future need of resources and accordingly invests such resources into the physical or financial assets. In dividend policy the enterprise considering options between partial or full reinvestment of net profits. Financial polices of an enterprise cannot be fixed once, it is change and improve time to time to face the problems that arises and accordingly fulfill the requirements.

According to the Institute of Chartered Accountants of India, "Dividend is a distribution to shareholders out of profits or reserves available for this purpose." Once a company makes a profit, it is necessary to decide to retain the profit in the company or it could payout the profit as a dividend to the shareholders. Payout policy influences the company financial decision through dividend payout and retained earnings. Company's financial need fulfilled by a combination of external finance and retained earnings. Therefore, higher the amount of dividend more will be the need of external finance and lower the amount of dividend will be the less need of external finance. Distribution of constant dividend makes the image of a profitable company between the investors and increase investor's confidence towards company. Juma'h & Pacheco (2007) in their research believe that economical and behavioral environment is affected by the management decision of dividend policy. According to their opinion dividend paying firms are more profitable, large in size and good in terms of liquidity ratio as compared to non dividend paying firms.

Investors will be more attracted to invest in such companies where they see the more opportunity to receive maximum dividend and as a result investors have greater confidence about the future prospects of the companies. The finance manager's objective should be to find out an optimum dividend payout that will enhance shareholder's interest into the enterprises. To find out an appropriate dividend payout ratio the management considers various factors. This factor includes cash flow position, earnings, investment opportunities, corporate and other taxes etc. Therefore, the objective of the present study is to analyze the descriptive statistics of dividend in the context of Indian BSE listed indexed companies and examined the relation of dividend with other important factors of the enterprises.

2. Review of Literature

Lintner (1956) conducted a study on twenty eight well established US firms and show how US managers make dividend decision. He developed a compact mathematical model based on his study. According to the study the previous year dividends and current year earnings, influence the dividend payment pattern of a firm. The model uses two parameters, the ratio of target payout and the speed where current dividend adjusts to the target. The result of **Baker, Farrelly & Edelman (1986)** study also shows that the major determinants of dividend payment are similar to Lintner's model. It means that the future earnings and pattern of past dividend is the major determinants of dividend payment.

Narsimhan & Vijaylakshmi (2002) studied 186 manufacturing firms from the period 1997 to 2000 and analyzed the influence of ownership structure on dividend payout. Regression analysis shows that the promoter's holding has no influence on average dividend.

Duha al Kuwari (2009) investigates the determinants of dividend policy for firms listed on Gulf Co-Operation Council (GCC) country stock exchange. Seven hypotheses were framed using a panel dataset of non-financial firms listed on the GCC country stock exchange between the years 1999 to 2003. The study results indicate that government ownership, firm's size and firm's profitability is strongly and directly related to dividend payment while leverage ratio relates negatively. That means the higher government ownership firms paid higher dividend as compared to the firms owned by private sector and also the firms paid higher dividend when the firm size and profitability were high.

Jayesh Kumar (2006) analysed the relationship between ownership structure and dividend payout policy over the period 1994 to 2000. The regression analysis and various models are used to analyse the data of 2575 firms. The study concludes that the relationship between ownership structure and dividend payout policy is different at different levels and different class of ownership which suggests that dividend payout policy does not uniformly influenced by ownership structure.

Sharma Dhiraj (2007) empirically examined Indian firms listed on Bombay Stock Exchange (BSE) for dividend behaviour. Firm's data from 1990 to 2005 were taken for the study and the study analyzed that the tax theory applicability in the context of India. The research finding indicates that the change in the tax structure does not have a substantial effect on dividend behaviour of firms.

Abdullah al Masum (2014) investigates how do dividend policy decision affects a firm's stock price. This empirical study analysed stock market return for the period of 2007 to 2011 by taken all the thirty listed banks in Dhaka Stock Exchange by using the Pearson's Correlation Coefficient analysis. The results show significant negative relation between stock price and dividend yield while stock price and retention ratio has a negative but statistically insignificant relationship. Further profit after tax has a significant negative impact on stock price. Return on equity and earning per share has statistically positive impact on stock price of the commercial bank of Bangladesh.

Darishisha War Thangkhiew (2017) investigates the determinants of dividend in Indian iron and steel industry by taken the data of 71 companies during the financial year period 1980-81 to 2010-11. The study results show that the profit and dividend are important factors to determining the dividend decision. The study also examines that the investment expenditures, risk and borrowing do not have any bearing on the dividend decision of the firm.

Ayan Majumdar (2017) conducted a study to analyze the impact of various factors on dividend payout of Nifty 50 Index companies by taken the data for the financial year 2005-06 to 2014-15. The data analysis is done by using regression analysis. The result shows that profitability and past dividend are positively while liquidity, free cash flow and growth are negatively affecting dividend payout ratio where as leverage, firm size and life cycle does not have any impact on the dividend payment.

3. Objective of the Study

The main and specific objectives of this study are as follows-

(1). To evaluate, Earning per Share, Book Value per Share, Market Price per Share and Promoter's Ownership impact the dividend decision of BSE Listed Indexed Companies.

(2). To examine the relationship of Earning per Share, Book Value per Share, Market Price per Share and Promoter's Ownership with dividend payout of BSE Listed Indexed Companies.

4. Research Hypothesis

The following four null hypotheses is formulated-

H0$_1$ - Earning per Share has no significant influence on Dividend Payout Ratio ($p \leq .05$)
H0$_2$ - Book value per Share has no significant influence on Dividend Payout Ratio ($p \leq .05$)
H0$_3$ - Market Price per Share has no significant influence on the Dividend Payout Ratio ($p \leq .05$)
H0$_4$ - Promoter's Ownership has no significant influence on the Dividend Payout Ratio ($p \leq .05$)

5. Research Methodology

The research is analytical in nature and use secondary source data. The study is focused on BSE listed indexed firms only. BSE index comprise thirty well established and financially strong companies which dominate the Indian stock market. The secondary data obtained from the audited annual reports of the companies for the period of five years which is from financial year 2014-15 to 2016-17. In the study we use earning per share, book value per share, market price per share and promoter's ownership as an independent variable while dividend payout ratio as a dependent variable.

In the study, companies which are in the list of Index Company on the date of 31st March of the year, taken as an index company. For the purpose of similarity in the company date we use, Book Value per Share per One Rupee Face Value (BVperOneRsFV), Earning per share per One Rupee Face Value (EPSperOneRsFV) and Market Price per Share per One Rupee Face Value (MPperOneRsFV). To analyse the data we use descriptive analysis and Simple Linear Regression analysis. The data analysis is done through SPSS package.

6. Data Analysis and Interpretation

6.1. Descriptive Analysis:

The data description is based on Minimum, Maximum, Mean and Standard Deviation. Table 1 show the descriptive analysis of 5 year data, which is as follows-

	Payout Ratio	Earning Per Share	Dividend per Share	Book Value per Share	Market Price per Share
Minimum	-3500	-24.84	00	17.21	75.87
Maximum	2670	255.62	95	1527.86	8863.15
Mean	33.43	45.79	15.77	293.63	1010.85
Standard Deviation	382.62	51.77	20.78	257.22	1250.55
N	150				

Table 1: Descriptive Analysis

The descriptive analysis result reflects that the companies earn negative Earning per Share also which means companies earned loss. The maximum loss earned by a company in the study period is Rs. 24.84 per share. The negative payout ratio show the result that companies also paid the dividend when they earn loss, which means companies paid dividend out of reserves. Minimum dividend zero means some companies not paid the dividend. Mean payout ratio 33.43 reflects that the indexed companies distribute almost one third of their earnings as a dividend. The maximum payout ratio 2670 means that the companies are paid dividend more than their earnings of a year which means companies distribute all their current earnings as well as distribute their old earnings (Reserves). The companies has taken such steps for distributions of dividend because to maintain the goodwill among the shareholders. The minimum standard deviation 20.78 of dividend reflects that companies mostly paid the dividend on regularly and also on trend. While the standard deviation 382.62 of payout ratio reflects that the payout ratio of companies are not on trend and companies change their payout ratio every year respectively. Minimum book value and market price is Rs. 17.21 and Rs. 75.87 while maximum book value and market price is Rs. 1527.86 and Rs. 8863.15. The average of book value and market price is Rs. 293.63 and 1010.85. The reason of maximum standard deviation 1250.55 of market price is difference in the share price of various companies and volatility of the share market.

6.2. Regression Analysis

6.2.1 Earning per Share

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate

1	0.010[a]	.0001	-0.007	383.88744

a. Predictors: (Constant), EPSperOneRsFV

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2316.07	1	2316.069	0.016	.900[b]
	Residual	21810695.36	148	147369.563		
	Total	21813011.43	149			

a. Dependent Variable: PayoutRatio
b. Predictors: (Constant), EPSperOneRsFV

Coefficients[a]

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	30.611	38.553		.794	.428
EPSperOneRsFV	0.156	1.244	0.010	.125	.900

a. Dependent Variable: PayoutRatio

The regression result indicates that Earning per Share has a positive effect on payout ratio but the R-Square value .0001 shows that the payout ratio has effected by .01% only from Earning per Share which is negligible to study. The coefficient beta value 0.156 suggests that an increase in Earning per Share by one unit will cause a 0.156 unit increase in payout ratio. The statistics P-Value .900 is greater than the 0.05 acceptable P-Value level of significance. So the model is not statistically significant. It means that the positive effect of Earning per Share on payout ratio is statistically insignificant. Though we accept the Null hypotheses (Ho1), that is Earning per Share have no significant influence on the dividend payout ratio of BSE listed indexed firms.

6.2.2 Book Value per Share

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0.016[a]	.0002	-0.007	383.86104

a. Predictors: (Constant), BVperOneRsFV

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5315.54	1	5315.54	0.036	.850[b]
	Residual	21807695.89	148	147349.30		
	Total	21813011.43	149			

a. Dependent Variable: PayoutRatio
b. Predictors: (Constant), BVperOneRsFV

Coefficients[a]

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	40.023	46.785		.855	.394
BVperOneRsFV	-.062	0.328	-0.016	-.190	.850

a. Dependent Variable: PayoutRatio

The regression study shows the result that book value has negative effect on payout ratio of BSE listed indexed companies. The value of R-Square .0002 means only 0.02% variations in payout ratio could be associated to the book value. The coefficient Beta -.062 theorizes that an increase in book value by one unit will be reason of .062 unit decrease in payout ratio. The P-Value .850 is more than the .05 P-Value which is acceptable level of significance. It shows and also means that the book value is statistically insignificant for the model and we accept null hypothesis (Ho4), which is book value per share have no significant influence on the dividend payout ratio of BSE listed indexed companies.

6.2.3 Market Price per Share

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0.051[a]	.003	-0.004	383.39894

a. Predictors: (Constant), MPperOneRsFV

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	57788.71	1	57788.71	0.393	.532[b]
	Residual	21755222.73	148	146994.748		
	Total	21813011.43	149			

a. Dependent Variable: PayoutRatio
b. Predictors: (Constant), MPperOneRsFV

Coefficients[a]

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	51.273	42.311		1.212	.228
MPperOneRsFV	-.042	0.067	-0.051	-.627	.532

a. Dependent Variable: PayoutRatio

The regression results theorize that the Market Price of shares has a negative effect on payout ratio of BSE listed indexed firms. The coefficient beta value -.042 suggest that an increase in Market Price of share by one unit, then the payout ratio will decrease by .042 units. The value of R-Square .003 means only .03% variations in payout ratio is with the cause of market price of share and this is negligible for the study. The P-Value .532 of this model is greater than the statistically acceptable P-Value .05, which means that the model of market price per share is statistically insignificant. With this reason we accept null hypothesis (Ho4), which is market price per share have no significant influence on the dividend payout ratio of BSE listed index firms.

6.2.4 Promoter's Ownership

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0.031[a]	.001	-0.006	383.72290

a. Predictors: (Constant), Promoter,sOwnership

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	21008.38	1	21008.38	0.143	.706[b]
	Residual	21792003.05	148	147243.26		
	Total	21813011.43	149			

a. Dependent Variable: PayoutRatio
b. Predictors: (Constant), Promoter’sOwnership

Coefficients[a]

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	12.539	63.553		.197	.844
Promoter’s	.516	1.367	.031	.378	.706

Ownership					

a. Dependent Variable: PayoutRatio

The regression result shows that the Promoter's Ownership effect payout ratio positively. The R-Square value .001 represents that only .1% variation in payout ratio is due to the Promoter's Ownership, which represents very minute relationship between the factors Promoter's Ownership and dividend payout ratio. The coefficient beta .516 formulate that, an increase in the Promoter's Ownership by one unit will cause .516 unit increases in payout ratio. The resulted P-Value .706 is greater than the statistically acceptable P-Value .05 which means that the Promoter's Ownership is statistically insignificant for the model. So, because of statistically insignificant model we accept the null hypothesis (Ho4), that is Promoter's Ownership have no significant influence on the dividend payout ratio of BSE listed indexed companies.

7. Conclusion

The knowledge and awareness about the return on investment is necessarily for the investors. The main aim of this study is to investigate four factors Earning per Share, Book Value per Share, Market Price per Share and Promoter's Ownership which may be the determinants of dividend payout ratio. In this study we found the statistical relationship between dividend payout ratio and these four factors. This study is based on the secondary data which is taken from the annual reports of the companies and connects from the five year period from financial year 2014-15 to 2018-19.

The present study examines that the descriptive analysis of five year data of BSE listed indexed firms and the result point out that the firms likely payout one third of their earnings to the shareholders. During the study period, firms earn loss also and the loss making firms also paid the dividend to maintain their dividend trend. The result of the descriptive analysis indicates that the firms distribute dividend from their current earnings as well as their reserves. The minimum standard deviation of dividend theorize that the firms regularly pay dividend but higher standard deviation of payout ratio shows that the firms change their payout ratio year by year.

This study is an attempt to find out, whether the factors Earning per Share, Book Value per Share, Market Price of Share and Promoter's Ownership impacts the dividend payout ratio. The result is consist of other researcher findings especially Kanwal & Kapoor (2008) who studied the influence of current earnings on dividend payout, Narsimhan & Vijaylakshmi (2002) who analyzed the influence of ownership structure on dividend policy, Rehman & Takumi (2012) who identified the determinants of dividend payout.

Based on the study results, Earning per Share and Promoter's Ownership has positively affected the payout ratio while Book Value per Share and Market Price per Share has affected negatively. The relationship between these four factors Earning per Share, Book Value per Share, Market Price per Share and Promoter's Ownership is statistically insignificant. It means that the firm's payout decision is not based upon a particular factor of this study. There are other factors which can influence the company's payout ratio. The finding show the result that all the four null hypotheses is accepted and in nutshell, we conclude that Earning per Share, Book Value per Share, Market Price of Share and Promoter's Ownership have no significant influence on the dividend payout ratio of BSE listed indexed firms.

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