



A STUDY ON DIVIDEND POLICY OF SELECTED STEEL MANUFACTURING COMPANIES IN INDIA

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ABSTRACT:

The present study is analytical in nature. To measure and compare the dividend policy, data of Earning per share, Dividend per share, Dividend pay-out ratio, Price earnings ratio, Retain earnings ratio, Dividend Yield ratio and Market price per share are collected. The secondary data have been collected from various web sites and annual financial statements of the selected companies. The reference period of the study is of ten years which is from the financial year 2007-08 to 2016-17. Population of the study is all the steel manufacturing companies in India which are registered at NSE/BSE. In these study five companies of steel manufacturing has been taken as a sample by using convenient sampling technique. The sample companies are Tata steel limited, JSW, Bhusan steel limited, JSPL, Steel authority of India limited. It has been found that in the company of Tata steel ltd is highest performance of dividend policy compared with the selected company and BSL Company is lowest performance of dividend policy compared with the selected company. In the current study two companies need to improve dividend policy performance.

KEYWORD: Dividend policy, Retain earning, Earning per share, Price earnings ratio.

INTRODUCTION

After earning the profit at the end of the one accounting year, the concern company has to decide whether it has to be reinvested that amount of profit in the business again or pay the profit to the owners of the company by way of dividend in return of their investment made by them. The company may pay certain portion of profit to the owners and remaining portion kept as retained earnings. So the dividend policy is all about taking a decision regarding whether to pay dividend or retained earnings as well as in what proportion...? The dividend policy decision involves two questions:

- 1) What proportion of earnings should be paid out, on average, over time? And,
- 2) Pattern of dividend policy should the firm follow. I.e. issues such as whether it should maintain stable dividend every year or increase an amount of dividend every year.

On the other hand Management has to satisfy various stakeholders which contribute something directly or indirectly to the business. Out of the Stakeholders, priority is to be given to equity share - holders as they are being the highest risk.

According to the Institute of Chartered Accountants of India, dividend is "a

distribution to shareholders out of profits or reserves available for this purpose."

"The term dividend refers to that portion of profit (after tax) which is distributed among the owners / shareholders of the firm."

"Dividend may be defined as the return that a shareholder gets from the company, out of its profits, on his shareholdings."

Definition of dividend policy

"Dividend policy determines the ultimate distribution of the firm's earnings between retention (that is reinvestment) and cash dividend payments of shareholders."

"Dividend policy means the practice that management follows in making dividend pay-out decisions, or in other words, the size and pattern of cash distributions over the time to shareholders."

REVIEW OF LITERATURE

1. Khadija Farrukh, Sadia Irshad, Maria Shams Khakwani, Sadia Ishaque and Nabil Ansari (2017)

The above researcher have conducted research study on the title of "Impact of dividend policy on shareholders wealth and firm performance in Pakistan" with an objective of establishing the impact of dividend policy on shareholders' wealth and firm performance in Pakistan. The primary variables used in this research were dividend policy, shareholders wealth and firm performance. Dividend per share (DPS) and dividend yield (DY) were used to measure dividend policy which were called independent variables. While for measuring shareholder's wealth, earning per share (EPS) and share price were used as dependent variables. Return on equity (ROE) was used to measure firm performance. A 51 firms which have been paying dividends for 10 years consecutively or with the gap of 1 or 2 years at maximum and are following stable dividend policies as well as listed in Pakistan stock exchange has been selected as a sample. The time period of this research study was ten (10) years from 2006–2015. After applying the regression and correlation tests, the researchers came to the conclusion that dividend policy is positively linked with earning per share and share price. Moreover, dividend policy is also significantly positively associated with return on equity.

2. AsmaTahir, NainTaraSarfaz Raja (2014)

The researchers have conducted the research on the topic of "Impact of Dividend Policy on Shareholder Wealth". The primary objective of present paper is to analyze the impact of dividend policy on shareholder wealth. The population of this research is oil and gas industry of Pakistan. They have taken the sample of total six companies out of which two were oil and gas exploration companies, two refineries and two were oil and gas marketing and distributing companies by convenience sampling technique. These all companies were listed on Karachi stock exchange. Data used in this research was secondary data and collected from various sources like Business Recorder, National/International journals, State Bank of Pakistan (SBP), Annual reports of selected companies and Internet. The study period is of 8 years from 1999 to 2006. For measuring the impact of dividend policy on shareholder's wealth, data of dividend payout ratio, P/E ratio and BV/MV equity ratio (independent variables) while holding period yield (dependent variable) were collected. After applying the

statistical tools regression and correlation methods in this research it has been found that correlation between independent variables and depended variable is very low for all companies showing insignificant relationship between them.

3. A.E.Omoregie and EkpomaEromosele, P.E (2016)

They have conducted the research on the topic of “Dividend Policy and Shareholders’ Wealth: Evidence from some Quoted Banks in Nigeria”. The main objective of this research study was to examine the impact of dividend policy on shareholders’ wealth. For that the data of some quoted Banks in Nigeria for a period ranging from 2010 – 2014 were collected. Type of data used in this research study was secondary one which was collected from the annual reports of the selected Banks. The Population of the study was the entire fifteen (15) Banks which were quoted on the floor of the Nigerian Stock Exchange (NSE) as at 31st December, 2014. The sample size of thirteen (13) was derived using Yaro Yamane (1967) sample size formula. To measure the dividend policy of the selected banks researchers have collected the data of three independent variables that was Dividend Per share (DPS), Earning Per Share (EPS) and Retained Earnings (RE) while for measuring the shareholder’s wealth, data of Market Value of Common stock of banks were collected which can be called dependent variable. After applying the regression test, researchers have found that Dividend per Share (DPS) and Retained Earnings (RE) both of which are important components of a firm’s dividend policy were found to have a positive relationship with shareholders’ wealth. However, Earnings per Share (EPS) were found to have a negative relationship with shareholders wealth.

RESEARCH METHODOLOGY

The present study is analytical in nature. To measure and compare the dividend policy, data of Earning per share, Dividend per share, Dividend pay-out ratio, Price earnings ratio, Retain earnings ratio, Dividend Yield ratio and Market price per share are collected. The secondary data have been collected from various web sites and annual financial statements of the selected companies. The reference period of the study is of ten years which is from the financial year 2007-08 to 2016-17. Population of the study is all the steel manufacturing companies in India which are registered at NSE/BSE. In these study five companies of steel manufacturing has been taken as a sample by using convenient sampling technique. The sample companies are Tata steel limited, JSW, Bhusan steel limited, JSPL, Steel authority of India limited.

OBJECTIVES OF THE STUDY:

- The objectives of the research study are as follow.
 1. To study the theoretical aspects of dividend policy.
 2. To study the dividend policy of selected companies.
 3. To examine the relationship between dividend policy of the selected companies.
 4. To suggest the ways to formulate optimum dividend policy of selected companies

FORMULATION OF HYPOTHESIS:

H₀: There is no significant difference in dividend policy pattern among selected companies.

H₁: There is significant difference in dividend policy pattern among selected companies.

DATA ANALYSIS:

Hypothesis testing

ANOVA

H₀₁: There is no significant difference in dividend policy pattern among selected companies.

ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
EPS	Between Groups	21262.942	4	5315.735	1.830	.140
	Within Groups	130745.977	45	2905.466		
	Total	152008.918	49			
DPS	Between Groups	779.791	4	194.948	24.694	.000
	Within Groups	355.259	45	7.895		
	Total	1135.050	49			
DPR	Between Groups	2522.923	4	630.731	9.263	.000
	Within Groups	3064.186	45	68.093		
	Total	5587.109	49			
RER	Between Groups	4806.043	4	1201.511	1.199	.325
	Within Groups	45107.586	45	1002.391		
	Total	49913.629	49			
MPPS	Between Groups	744695.094	4	186173.773	7.589	.000
	Within Groups	1103874.949	45	24530.554		
	Total	1848570.042	49			
PER	Between Groups	469.642	4	117.411	1.107	.365
	Within Groups	4770.842	45	106.019		
	Total	5240.485	49			
DYR	Between Groups	1103.791	4	275.948	4.431	.004
	Within Groups	2802.318	45	62.274		
	Total	3906.109	49			

INFERENCE: As P value is less than 0.05 for DPS, DPR, MPPR and DYR, so we cannot accept the null hypothesis. It means there is significant difference in DPS, DPR, MPPR and DYR OF selected steel manufacturing companies during the study period. But for EPS, RER and PER P value is greater than 0.05 so we cannot reject

the null hypothesis it means there is no significant difference in EPS, RER and PER for selected steel manufacturing companies during the study period.

Hypothesis testing through ANOVA

No	Hypotheses	P-value	Result
H ₀₁	There is no significant difference in the Earning Per share of selected steel manufacturing companies.	.140 > 0.05	Accepted
H ₀₂	There is no significant difference in the Dividend Per share of selected steel manufacturing companies.	0.00 < 0.05	Rejected
H ₀₃	There is no significant difference in the Dividend pay-out ratio of selected steel manufacturing companies.	0.00 < 0.05	Rejected
H ₀₄	There is no significant difference in the Retained Earnings ratio of selected steel manufacturing companies.	.325 > 0.05	Accepted
H ₀₅	There is no significant difference in the Market Price per Share of selected steel manufacturing companies.	0.00 < 0.05	Rejected
H ₀₆	There is no significant difference in the Price Earnings Ratio of selected steel manufacturing companies.	.365 > 0.05	Accepted
H ₀₇	There is no significant difference in the Dividend yield Ratio of selected steel manufacturing companies.	.004 < 0.05	Rejected

FINDINGS AND RECOMMENDATIONS

The Highest Average Earning per Share of the research period was tata steel limited which was Rs.59.7 where lowest Average Earning per Share was Steel Authority of India limited which was Rs.7.005. During the research Study the researcher has also found out the highest Average dividend per share was tata steel limited which was Rs.10.8 and the lowest Average dividend per share was bhushan steel limited was Rs.0.95. The researcher has found that during the research period was the highest average dividend pay-out ratio was steel authority of India limited which was 20.73% and the lowest average dividend pay-out ratio was bhushan steel limited was 2.79%. The during the research period researcher found that the highest average retained earning ratio was JSW steel which was 90.49% and the lowest average retained earning ratio was Jindal steel and power limited was 64.77%. The researcher has noticed that during the research period was the highest average market price per share was tata steel limited was Rs.415.12 and the lowest average market price per share was steel authority of India limited was Rs.98.88. It is suggested that the average lowest earning per share of steel authority of India limited was Rs.7.005, bhushan

steel limited was Rs.20.03 and Jindal steel and power limited was Rs.26.30 was lowest compare to another competitive company like Tata steel limited was Rs.59.70 and JSW steel limited was Rs.55.98 which should be improved in the interest of the company

CONCLUSION

In the current study of dividend policy of selected steel manufacturing companies in India, as stated earlier analysis and interpretation are done firstly on Dividend Policy of selected companies in terms of EPS, DPS, RER, PER, DPR and DYR. The researcher observes that in the company of Tata steel ltd is highest performance of dividend policy compared with the selected company and BSL Company is lowest performance of dividend policy compared with the selected company. In the current study two companies need to improve dividend policy performance.

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