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## A Study on Impact of Dividend Policy on Shareholder Wealth 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, Bhushan 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. 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.

**Key words:** dividend policy, shareholder wealth, earning

### 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."

In other words, dividend is that part of the net profit of a corporation that is distributed to its shareholders. It is a payment made to the equity shareholders for their investment in the company.

As per the section 2(22) of the Income Tax Act, 1961, dividend defined as:-

"Any distribution of accumulated profits whether capitalized or not, if such distribution entails a release of assets or part thereof".

Dividend is a return to equity shareholders for their investment in the company. It is a main right of equity shareholders to get dividend from the net profit of a company. Their share should be distributed among the members within the limit of an act and with rational behaviour of directors.

The word dividend has not been defined in The Indian Companies Act, 1956. It may be described as a periodical cannot be declared from capital gains under following conditions:

- i) Provision in Articles of Association.
- ii) Capital gain must be realized.

### **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."

In other words, dividend policy is the firm's formal plan of action to be followed at the time of making dividend decisions. It is the decision about how much of earnings to pay out of profit to the shareholders as dividends versus to retain and reinvest earnings back in the firm.

Dividend policy means policy or guideline followed by the management at the time of declaring dividend. A dividend policy decides proportion of dividend that is required to be paid to the shareholders and retains earnings so that necessary amount of fund can be made available to reinvest in the business. Retained earnings can be considered as an internal source of finance as it is not raised from any outside parties. It can be also considered as long term source of finance because it is owned by the owners so there is no fixed repay period of returning back to it. But whenever the dividend is paid sometimes it reduces the amount of cash available to the business which might be result in reduction in working capital.

### **❖ Review of Literature**

#### **1. Anifat Oladipupo (2017)**

He has carried out the research on the topic of “The Impact of Dividend Policy on Shareholders Wealth in Nigeria”. A sample of 10 companies from Nigeria stock exchange from 2011 to 2015 was taken for this research. Dividend price per Share (dependent variable) is used to measure the dividend policy while shareholder’s wealth is measured by using the data about average of highest and lowest market price per share (Independent variable) during a particular year. The type of data used in this research study was secondary data which is collected from the annual report of the selected companies and the Nigeria Stock Exchange. To measure the impact of dividend policy on shareholder’s wealth, the researcher has applied the regression test. The results of the statistical analysis suggest that there is a strong positive relationship between dividend policy (pay-out policy) and shareholders wealth (market price of shares) in Nigeria. In fact, if dividend is not paid the market price per share might reduce.

#### **2. Wajid Alim, Arshad Ali, Nazim Ali, Bakhtiar Khan Khattak & Mohammad Imran Qureshi (2016)**

They have carried out research on the title of “Impact of Dividend Policy on Shareholder Wealth in Pakistan (Evidence Textile Industry Perspective)”. The major objective of this study was to find out the relationship between dividend policy and shareholder wealth and also to find out the impact of dividend policy on shareholder wealth in the textile sector of Pakistan. The study period of this research study was only ten (10) years that was from 2001 to 2010. A sample of fifty (50) textile listed companies was selected from Karachi Stock Exchange. Type of data used in this research study was secondary which were collected from annual reports of the selected companies. To measure the shareholder’s wealth, the market price per share (MPPS) was taken as a dependent variable whereas dividend per share (DPS),

dividend payout ratio (DPR), earning per share (EPS), price earnings ratio (PER), lagged value of market price and lagged value of price earning were used as independent variables for measuring the dividend policy of the selected companies. After applying the correlation and multiple regression tests it has been found that all the independent variables used in the study have a direct relation with the market price per share. The findings also reveal that dividend policy of the firm has positive impact on stock price of the firm.

### **3. Irtaza Ansar, Arslan Ali Butt And Syed Basit Hussain Shah (2015)**

They have carried out research on the topic of “Impact of Dividend Policy on Shareholder’s Wealth”. The primary purpose of this study was to examine that whether there is a relationship between shareholders wealth and dividend policy or not and also to examine the impact of dividend policy on shareholder’s wealth. The population of this study was the companies that were listed at Karachi stock exchange of Pakistan. For that the sample of 30 companies from Karachi Stock Exchange (KSE) were selected which includes companies from textile, cement and chemical sector. The secondary data were utilised in this research study which were collected from annual reports of the companies from 2007 to 2011. Shareholders wealth is measured with the market price of shares which was considered as dependent variables while Dividend per Share (DPS), Retained Earnings (RE), lagged price and Return on Equity (ROE) was used as independent variables. The estimation based on multiple regression model shows that there is strong relationship between shareholder’s wealth and dividend policy it means that the shareholders wealth can be increased by dividend policy.

#### **❖ 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 measure impact of dividend policy on shareholders’ wealth of the selected companies.

- To suggest the ways to formulate optimum dividend policy of selected companies

**Formulation of Hypothesis:**

H<sub>0</sub> = There is no significant impact of dividend policy on shareholder wealth of selected companies.

H<sub>1</sub> = There is significant impact of dividend policy on shareholder wealth of selected companies.

❖ **Data Analysis:**

**Hypothesis testing**

**REGRESSION**

Regression line Market price per share=  $\alpha + \beta_1 (EPS) + \beta_2 (EDPS) + \beta_3 (DPR) + \beta_4 (RER) + \beta_5 (PER) + \beta_6 (DYZ)$  is not significantly fitted.

<b>Variables Entered/Removed<sup>a</sup></b>			
Model	Variables Entered	Variables Removed	Method
1	DYZ, RER, DPR, PER, EPS, DPS <sup>b</sup>		Enter

a. Dependent Variable: MPPS

b. All requested variables entered.

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.773 <sup>a</sup>	.598	.542	131.50230
a. Predictors: (Constant), DYZ, RER, DPR, PER, EPS, DPS				

The above information describes that the co-efficient of determination R<sup>2</sup> is 0.598; it illustrates that model cover consistency. The co-efficient of co-relation R is 0.773 it shows that outcomes and predicted value are moderate co-related. The adjusted R<sup>2</sup> can be negative and will always be less than or equal to R<sup>2</sup>, here adjusted R<sup>2</sup> is 0.542 that less than R<sup>2</sup>. The standard error of the estimate shows the value of 131.50230 which is comparatively high, confirms that definite model is good and enough to define the given relation in the model.

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1104977.305	6	184162.884	10.650	.000 <sup>b</sup>
	Residual	743592.738	43	17292.854		
	Total	1848570.042	49			
a. Dependent Variable: MPPS						
b. Predictors: (Constant), DYR, RER, DPR, PER, EPS, DPS						

The above table gives an idea about the analysis of variance (ANOVA). The significant level is higher than 0.05 which is 0.000 which means that the variance of variable is separation into components between the groups is not deviated. (Hypothesis is rejected)

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	151.472	56.236		2.693	.010
	EPS	.776	.504	.222	1.539	.131
	DPS	20.213	5.921	.501	3.414	.001
	DPR	-7.323	2.179	-.403	-3.361	.002
	RER	.174	.820	.029	.212	.833
	PER	10.904	2.158	.581	5.052	.000
	DYR	-9.212	2.491	-.423	-3.698	.001
a. Dependent Variable: MPPS						

The above detail present significant values in the right most columns suggest the rejection of the entries variables in the model but model except DPS, DPR, PER AND DYR of the selected Steel manufacture Companies. Here, high t and statistics and low standard error confirm the accuracy and fitness of these variables in the model.

### ❖ Findings

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. During the research period it was found Out that highest average price earnings ratio was Jindal steel and power limited was 11.68% and the lowest average price earnings ratio was JSW steel

limited was 2.08%. The researcher has found that during the research period was the highest average dividend Yield ratio was JSW steel limited was 13.09% and the lowest average dividend Yield ratio was Jindal steel and power limited was 0.52%. 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.

#### **❖ Recommendations**

The market price per share of steel authority of India is very low compare to other steel manufacturing company like tata steel limited, Jindal steel and power limited so market price of steel authority of India should improve their performance. The price earnings ratio of JSW steel limited was 2.084% it was very low compared to Jindal steel and power limited so earning per share of JSW steel limited should improve their performance. The dividend yield ratio of dividend yield ratio of Jindal steel and power limited was 057%, Bhushan steel limited was 0.57% was low compared to JSW steel limited so both the above company should improve their dividend yield ratio. The Earning per share of the industry during the 2015-16 was low lower so it to be improved in future period. It is also suggested that the dividend per share of the industry during the year 2015-16 it was Rs.1.75 was showing the lower which should improve in future years.

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