A Study on Determinant of Dividend Policy and Its Impact on Dividend of Listed Company Under S&P BSE SENSEX

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Abstract
Dividend policy determines the distribution of net cash flow generate from successful trading between dividend payment and corporate retention. Here we have studied 30 companies listed under S&P BSE SENSEX. We have studied Profitability, Leverage, Growth rate, earning and Rate of Return and its impact on dividend distribution of companies listed in S&P BSE SENSEX during 2010 to 2014. Aims of this study are to know the impact of determinant of dividend policy on companies listed in S&P BSE SENSEX.

By using regression and Durbin Watson statistics it was found that there would be an impact of profitability, leverage, Growth rate, rate of return and Dividend payout on Dividend. From data it was found that Majority of the companies under the study is following constant dividend payout policy.

Keywords: Dividend policy, Profitability, Leverage, Rate of Return, Growth Rate, Regression, Watson Durbin Statistics.

Introduction
Dividend policy decision is one of the important decision of the companies and financial managers of the firms or organization. The prime objectives of the firm are to maximize the wealth of its owners. So how much amount of earning should distribute as dividend and how much amount kept in the business for the purpose of expansion of business.

There many factors/determinant of dividend policy, which affect the amount of dividend payout or dividend rate. There are two types of dividend theory which reflects the dividend payout and its impact on market price of the shares. Relevance theory said that there would be relation between dividend distribution and its impact on market price and another said that there would be no impact of dividend distribution on market value of the shares.

For the detail study of dividend policy we have selected 30 companies listed under S&P BSE SENSEX (2010 to 2014). This 30 companies are the industry leaders in 16 different sectors of the Indian economy.

Industry Profile
Bombay Stock Exchange is a leading stock market in India since its inception. It was established on 1875 at Mumbai Maharashtra in India. BSE is the 10th largest stock exchange in the world by market capitalization. Over the past 137 years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital-raising platform.

The S&P BSE SENSEX is the index of Bombay stock Exchange. It also called the BSE 30 or simply the SENSEX, it is the index comprises of 30 reputed companies in India on the base of a free-float market-weighted stock.

The 30 component companies which are some of the largest and most actively traded stocks are benchmark of various industrial sectors of the Indian economy.

Sensex was introduces on 1 January, 19866, the S&P BSE SENSEX is regarded as the pulse of the domestic stock markets in India. The base value of the S&P BSE SENSEX is taken as 100 on 1 April 1979, and its base year as 1978–79.

The S&P SENSEX is key index of Bombay Stock Exchange.

Following companies are selected for the study:
a) Axis Bank Ltd.  
b) Bajaj Auto Ltd.  
c) Bharat Heavy Electricals Ltd.  
d) Bharti Airtel Ltd.  
e) Cipla Ltd.  
f) Coal India Ltd.  
g) Dr. Reddy's Laboratories Ltd.  
h) GAIL (India) Ltd.  
i) Housing Development Finance Corporation Ltd.  
j) HDFC Bank Ltd.  
k) Hero MotoCorp Ltd.  
l) Hindalco Industries Ltd.  
m) Hindustan Unilever Ltd.  
n) ICICI Bank Ltd.  
o) ITC Ltd.  
p) Infosys Ltd.  
q) Larsen & Toubro Ltd.  
r) Mahindra & Mahindra Ltd.  
s) Maruti Suzuki India Ltd.  
t) NTPC Ltd.
Determinant Of Dividend Policy
Dividend policy has been affected by many factors which are given below

1. Profitability
   Profitability is an important factor affecting to dividend policy because ultimate dividend distribution is based on the Net Profit margin. Higher the profit higher will be the dividend payout and vice versa.

2. Rate of return
   Rate of return means a return generated on investment by business. Higher the rate of return is signal for good profitability so it also gives high rate of dividend.

3. Dividend payout ratio:
   Dividend payout is the portion of dividend declared and paid out of net Profit of the company.
   \[
   \text{Dividend Payout Ratio} = \frac{\text{Dividend Per share}}{\text{Earning Per Share}}
   \]

4. Growth rate of business
   Dividend rate is also depends on growth rate of the firm or organization. Higher growth rate leads to more retention and less payout do dividend and low growth rate may gives high payout ratio and low retention ratio.

5. Leverage
   Debt-equity ratio is also affects the dividend payout, if firm/organization having high leverage so they have to pay more amount as a interest so low amounts remains with equity shareholders so company may pay low rate of dividend and vice versa.

Review Of Literature
Savita[1] (2014) has made study on dividend signaling hypothesis- a case study of BSE SENSEX companies. The present study is attempts to contribute positively to the understanding of the behaviour of Indian share prices in relation to the dividend announcement.

A.Ajanthan[2] (2013) The Relationship between Dividend Payout and Firm Profitability: A Study of Listed Hotels and Restaurant Companies in Sri Lanka. The findings indicated that dividend payout was a crucial factor affecting firm performance (R = 0.725 & R= 0.526). Their relationship was also strong and positive.

Adediran S. A. and Alade S.O.[3] (2013) Dividend Policy and Corporate Performance in Nigeria. These data were subjected to regression analysis, using e-view software and the findings indicate that; there is a significant positive relationship between dividend policies of organizations and profitability, there is also a significant positive relationship between dividend policy and investments and there is a significant positive relationship between dividend policy and Earnings per Share.


The Gordon model (1959) stock valuation model states the fair value of a stock should equal to the stock-dividend per share and the difference between the discount rate and the long-term dividend growth rate. The model assumes that the firm’s dividend will grow at a constant rate and that the discount rate stays the same forever. The theory suggests if there will be an increase in dividend rate there will be simultaneously an increase in stock value of the firm.

Hypotheses:
H01: There is no significant impact of profitability, leverage, Growth rate, rate of return, Dividend Payout on Dividend.
H02: There is no significance difference among the dividend policy of companies listed under S&P BSE SENSEX.

Research Methodology
Research Methodology is a Process of searching, collecting, recording, analysis and interpretation of data. The system of collecting data for research is known as research methodology.

Research Design: Descriptive research Design

Sample Size: 30 Companies (S&P BSE Sensex)

Sources of Data: Secondary data the study is based on secondary data, which was collected from various published annual report and websites of BSE, NSE, Rediff money, SEBI, and companies.
Data Analysis Tools: Regression, Durbin-Watson Statistic.

Analysis And Interpretation

<table>
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<tr>
<th>Particulars</th>
<th>Value</th>
</tr>
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<tbody>
<tr>
<td>Multiple R</td>
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</tr>
<tr>
<td>R Square</td>
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<tr>
<td>Adjusted R Square</td>
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<tr>
<td>Standard Error</td>
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<tr>
<td>Observations</td>
<td>30.0</td>
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<tr>
<td>Durbin Watson</td>
<td>1.65</td>
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</tbody>
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Durbin Watson statistic:
D = (DW numerator)/(DW denominator)
D = 2831.43/1715.49
D = 1.65

Interpretation
Here value of Durbin Statistic is 1.65; it falls between \( d_L \) (1.12) and \( d_U \) (1.924) so here null hypothesis is inconclusive as per Durbin Significance table. Considering R Square (0.80) and multiple regressions (0.90) we can say that there would be a strong relationship and impact of profitability, leverage, Growth rate, rate of return on Dividend payout.

Findings
It is here found that there was an impact of profitability, leverage, Growth rate, rate of return on Dividend payout on dividend per share of the companies listed under on S&P BSE SENSEX.

Majority of the companies under the study is following constant dividend payout policy

Conclusion
From the study it is concluded that dividend policy decision of the is one of the most crucial decision for the business and financial managers. Here it is found that majority of the companies were following constant dividend payout policy. And all the determinant of dividend policy affected to all the companies. If companies want to make expansion they have to make more retention and vice versa.

References


ABBREVIATION
NPM : Net Profit Margin
BSE : Bombay stock Exchange
ROLF : Return on Long Term Funds
EPS : Earning Per Share
DPS : Dividend per share