

# A Study on the effect of divided payout policy on firm profitability and financial performance (Bombay Stock Exchange)

Shruti G. Bhatt\*, Krupa Bhatt\*\*

\*Visiting Faculty, S.K.School of Business Management, HNGU, Patan

\*\*Faculty of Commerce (SMPIC), GLS University, Ahmedabad

**ABSTRACT** The aim of the research study was to explore the possible effects of dividend policy on firm value. The study covers 10 listed pharmaceutical companies studied for the period of 2012-2017. The data were collected since 2012-2017 from the annual reports and Balance sheet analysis of the selected companies. In so doing, the methodology adopted is multiple regression analysis for the secondary data analyses with models MPS (Market Price Per Share) as dependent variable, EPS (Earnings Per Share) and DPS (Dividend Per Share) as an independent variable. The correlation analysis and liner regression analysis method is use to find out the relationship between them. The result of this study shows that there dividend payout positively influenced on market price of the firm only. The data collected from the top ten pharmaceutical companies (based on profitability) from the Bombay stock exchange.

**KEYWORD** Dividend payout ratio, dividend per share, dividend policy, Selected listed pharmaceutical firms.

## Introduction

Dividend plan has been a matter of interest in commercial literature since joint stock firms came into life. According Williams (2000), "dividend policy denotes to the payout policy, which administrators chase in deciding the magnitude and outline of cash distribution to shareholders overtime". Administration's prime goal is shareholder's wealth maximization, which construes into maximization of the worth of the company as measured by price of the company's common stock. The extent of commercial dividend policy has concerned devotion of management researchers and economists concluding into hypothetical modelling and experimental examination. Thus, dividend policy is one of the most multifaceted characteristics in business (Kapoor, 2009). The prime dividend policy is the one that make the most of the company stock price that hints to the enlargement of firm value.

According to Miller and Scholes (1961), the consequence of a firm's dividend Policy on the worth of the strong is a substance of significant importance, not only to organisation who must conventional the policy, but also to

stockholders planning collections. This stances the question, to what extent, if any, does dividend policy impact on firm's value.

The dividend policy argument as sparked by these two opposing dividend theories has contributed tremendously to the on-going dividend deliberation as to whether dividend policy distresses share price and firm value. According to Lintner et al., (2000), there are administrators and even a higher percentage of academics that interrogate the value added of a carefully selected dividend policy. Some go as far as to recommend that dividend policy is irrelevant; that one strategy is as good as any other and that dividend outflows should only be made on a outstanding basis. Others embrace the view that an accomplished dividend policy can absolutely sway firm value. This learning will examine how dividend policies distress firm value, particularly in listed pharmaceutical companies in India.

In business finance the dividend policy leftovers a provocative problem. In recent situation the dividend policy remains a very vital issue. The dividend policy remnants like a financial policy not only from the business point of view but also from that the stockholder, government, personnel, customer and other authoritarian bodies. The business dividend policy is appraises or modelling by the financial economist for more than partial century. The design of corporate dividend policy is diverse from country to country in developing, developed and rising principal market. The

\*BBA, MBA, M.com, P.hd (Pursuing - Commerce)

\*\*M.Com, M.Phil, Ph.D (Commerce)

dividend policy is more significant for the companies because it resolve that how much funds reserved by the firm for venture and how much fund give to the shareholder as a dividend (Ross et al., 2006).

## Review of Literature

The dividend policy pays a vital role in today business. Basically the dividend policy is one of the important financial policies not accordingly of the shareholder, employees, consumer and government but also firm point of view (Ali et al, 1993). Basically the Financial performance is measuring the domino effect of a firm's policies and operations in financial expressions. These outcomes are reflected in the firm's value added, return on

investment, and return on assets (Farlex Inc., 2012).

The dividend payout explain or provide information about the firm correct and future performance of the firm but also act as a source of cash flow to shareholder. The design of dividend policy explains about the earning prospects of investor (Lintner, 1956). The firm dividend policy explains about the stability of future cash flows of the firm. Prior studies shows that the cash flow consideration, investment return, after tax earning, liquidity, future earning, inflation, interest, legal requirements are the main factor that influence the dividend decision making of the firm.

Dividend policy denotes to the set of rules or guiding principle that an establishment uses to decide how much of its profit it will pay out to shareholders. However, the

**Table 1 Some brief and important literature results regarding dividend policy**

Sr. No.	Title	Tools used	References
1	Dividend policy and firm performance: A study of listed firms in Nigeria	Dividend policy and firm performance: A study of listed firms in Nigeria	Uwuigbe et.al. (2012)
2	“the relationship between dividend policy and shareholder’s wealth” (evidence from Pakistan)	Multiple regression and stepwise Regression	Gul et.al., (2012)
3	Dividend policy, growth, and the Valuation of shares	Reviewed Article	Miller & Modigliani (2012)
4	The relationship between dividend payout and firm performance: a study of listed companies in kenya	Regression analysis was carried out to establish the relationship between dividend payout and firm performance	Ouma (2012)
5	The impact of dividend policy on share price volatility in the Malaysian stock market	Applying multiple regression for a period of six years from 2005 to 2010. The primarily regression model was expanded by adding control variables including size, earning volatility, leverage, debt and	Hashemijoo et al., (2012)
6	Dividend policy and ownership structure: evidence from the Casablanca stock exchange	A panel data analysis is Performed to examine the relationship between the dividend Policy and the ownership structure	Aguenauou et.al., (2013)
7	Effect of dividend policy on shareholder’s wealth: “a study of sugar industry in Pakistan”	1. Dividend per share 2. Earnings per share 3. Lagged market price ratio 4. Lagged price earnings ratio 5. Price earnings ratio 6. Retained earnings ratio 7. Market price per share	Sarwar (2013)
8	Determinants of dividend policy: a study Of selected listed firms in Nigeria	Regression analysis method	Uwuigbe (2013)
9	The relationship between dividend payout and firm profitability: a study of listed hotels restaurant companies in Srilanka	Regression and correlation analysis were carried out to establish the relationship between dividend payout and firm profitability.	Ajanthan (2013)
10	Impact of dividend policy on shareholder’s Wealth: an empirical analysis of Indian Information technology.	Panel data methodology has been applied in order . To know the impact of dividend policy on market value of equity.	Bawa & Kaur (2013)
11	The impact of dividend payments on shareholders’ wealth: evidence from the vector error correction model	1. Dividend payments 2. Market price per share 3. Earnings per share 4. Dividend yield 5. Earnings per share	De Wet & Mpinda (2013)

Sr. No.	Title	Tools used	References
12	The impact of dividend policy on shareholders' wealth: evidence on malaysia's listed food producer sector	Regression model 1. Dividend payout ratio 2. Earning volatility 3. Long term debt ratio 4. Growth in assets 5. Liquidity 6. Roe	Ong et.al. (2014)
13	Impact of dividend policy on shareholders wealth; (evidence from textile industry perspective)	1. Market price per share 2. Dividend per share 3. Dividend payout 4. Earnings per share 5. Price earning	Alim et al., (2014)
14	Impact of dividend policy on shareholder wealth	1. Dividend payout ratio 2. P/e ratio 3. Bv/mv equity ratio 4. Holding period yield	Ansar et al., (2015)
15	Liquidity, profitability and the dividends payout policy	The correlation analysis and regression analysis are conducted to analyze the data.	Ahmed (2015)*
16	the impact of dividend policy on shareholders' wealth before and after financial melt down: evidence from fmcg sector in India	1. Earnings per share 2. Dividends per share 3. Retained earnings per share (rps), 4. Price earnings ratio 5. Lagged price earning 6. Earnings (ear) 7. Lagged market value	Gejalakshmi & Azhagaiah (2015)
17	A study on the effect of dividend payout ratio and firm profitability (Karachi stock exch)	Panel data regression was used in the research paper. As per the results of fixed effect model. The dividend payout ratio has significant effects on profitability	Khan,et.al. (2015)
18	Dividend policy and its effects on shareholders wealth: Evidence from UK retail industry	Regression models, ordinary Least square (ols) and the random effect estimation techniques were assessed	Chenchehene & Mensah (2015)
19	Impact of dividend policy on shareholder's wealth.	1. Market price of shares 2. Dividend per share 3. Retained earnings 4. Lagged price 5. Roe	Ansar et al., (2015)
20	The effect of ownership structure on dividend Policy: evidence from Turkey	Appropriate Regression techniques	Al-Najjar & Kilincarslan (2016)
21	Effects of profitability on dividend payout by commercial and Services firms listed in the Nairobi securities exchange	Descriptive statistics and panel data analysis model	Elmi & Muturi (2016)
22	Impact of dividend policy on shareholder's wealth: a study on manufacturing industry listed in NASDAQ, America	Descriptive statistics, correlation and regression analysis	Sijol & Basit (2016)
23	The relationship between dividend payout and firm financial Performance: a study of botswana listed companies	Regression analysis	Biza-Khupe & Themba (2016)
24	Dividend policy and shareholders' value: evidence from listed Companies in Ghana	The data was analysed using panel regression	Ofori-Sasu et al., (2017)
25	Dupont analysis and dividend policy: empirical evidence from malaysia	Informativeness of asset turnover (ato) and profit margin (pm) of the dupont analysis	Benjamin et al., (2017)

Sr. No.	Title	Tools used	References
26	Impact of dividend policy on shareholders' Wealth: a study of the agriculture Industry in Nigeria	Multiple regression of ordinary least square	Abdul et al., (2017)
27	Effects of dividend policy on shareholders wealth: evidence from insurance firms in the Kenya	Regression analysis	Wanjohi (2017)
28	Effect of dividend policies on firm value: evidence from quoted firms in Nigeria	Ordinary least square regression analysis for primary data analyses and multiple regression analysis for the secondary data analyses	Nwamaka (2017)
29	Impact of dividend policy on shareholders wealth and firm performance in Pakistan	Descriptive statistics and correlation	Farrukh et al., (2017)
30	The relationship between dividend payout and Firm financial performance	Correlation and regression analysis was used	Kanwal & Hameed (2017)
31	Dividend policy and its impact on firm valuation	Correlation and regression analysis	Magnusson & Enebrand (2018)
32	The impact of ownership structure on dividend policy: evidence of Malaysian listed firms	Multiple regression analysis is used to estimate the association proposed in the hypotheses	Ali et al., (2018)
33	Effect of firm value on dividend policy of public listed Non-financial firms in Kenya	Regression of coefficients	Kadu & Oluoch (2018)

pronouncement to pay dividends rests in the hands of the board of directors of the corporation, and once dividends have been declared, it becomes a debt to the firm and cannot be rescinded easily (Firer et al., 2012).

Agyei and Marfo-Yiadom (2011) study the connection between dividend policy and performance of 16 commercial banks in Ghana for a period of 5 years (1993-2003).

## Problem Statement

In spite of many lessons the dividend policy keep on an undefined issue in cooperate finance. Many studies attempt to clarify the connotation of dividend pay-out ratio with pecuniary routine of firm, but there is no widespread arrangement. Adediran and Alade (2013) conducted a study on dividend policy and commercial performance in Nigeria gathered data of 25 listed companies from the Nigerian Stock Exchange Fact Book, and Annual Information and Account. The data are analysed using panel data multiple regression. Their results reveal that there is a constructive significant relationship between dividend policies, corporate profitability, investments and earnings per share of organizations. They then recommended that organizations should ensure that they have a robust dividend policy in place that will enhance profitability.

**Table 2 Variables considered for study**

Dependent Variable	Independent variable
Net profit. Return on asset. Earnings per Share (EPS) Market Price per share (MPS)	Dividend pay-out ratio

Many investigators found that the fixed financial concert is exceedingly partial by dividend pay-out ratio. While other initiate that there is no substantial relationship existing between them. Little pragmatic studies have been through to unearth the attachment between the financial concert and dividend pay-out ratio of the firm in India. So to block up the cancelled by establishing weather there is an association between the firm financial performance and dividend pay-out in listed selected pharmaceutical companies from Indian stock exchange (BSE).

## Research Instruments

The regression and correlation method is recycled to find out the connotation between the firm financial presentation and dividend pay-out. Fundamentally the regression analysis communicates nearby the strength and fundamental effect amid the dependent and independent variable. While the correlation analysis is castoff measure the strength and direction of the variables ranges from +1 to -1. The regression and correlation analysis is actually simple statistical procedure to find the association between firm financial performance and dividend pay-out.

## Objectives

The universal purpose of this study is to observe and investigate, through a pragmatic study dividend policy and the effect; they have on the value of the firm. The specific objectives of this study will be:

1. To examine the determinants of dividend pay-out by firms and find out its linkage with information content of dividends.

2. To analyse the effect of dividend policies on firm value of selected listed public companies.
3. To find the relationship between Earning Per share and dividend pay-out ratio.
4. To find the relationship between Market price per share and dividend pay-out ratio.
5. To find the relationship between Net profit and dividend pay-out ratio.
6. To find the relationship between Earning Per share and dividend pay-out ratio.

The following hypothesis has been tested:

Ho: There is a no significant relationship between the dividend payout ratio and firm's total assets.

H1: There is a significant relationship between the dividend payout ratio and firm's total assets.

Ho: There is no significant relationship between the dividend payout ratio and net profits.

H1: There is a significant relationship between the dividend payout ratio and net profits.

Ho: There is no significant relationship between the dividend payout ratio and EPS.

H1: There is a significant relationship between the dividend payout ratio and EPS.

Ho: There is no significant relationship between the dividend payout ratio and MPS.

H1: There is a significant relationship between the dividend payout ratio and MPS.

## Mode of Analysis

In my contemporary study, I have analysed my data by commissioning correlation; multiple regressions & descriptive statistics. For the in-depth study, entire analysis is done by personal computer/laptop. A well-known statistical package like 'Statistical Package for Social Sciences' (SPSS) 20.0 Version was used in directive to analyse the data. The following contents are taken into explanations which are given below.

Here, Data of top ten (Based on profitability) listed pharmaceutical companies of BSE was taken as samples and the year of analysis was for the time period of 2012-2017. List of the sample companies are as follows, Unichem Labs, Aurobindo Pharma, Cipla, Lupin, Cadila Healthcare, Glenmark, Strides Pharma, Divis Labs, Alkem Lab, Natco Pharma respectively from one to ten.

**Table 3 Secondary Data Analysis**

Particular	Mean	Median	Variance	SD
MPS	762.074	630.55	225782.52	475.165
EPS	73.372	38.28	10751.152	103.69
DPS	4.954	3.91	14.356	3.79
TA	7950.75	7498.56	22750869.5	4769.7872
NP	1246.29	1052.58	336038.143	579.68797

**Table 4 Secondary Data Analysis**

Particulars	Min.	Max.	Range	Interquartile Range	Skewness	Kurtosis
MPS	243.69	1855.68	1611.99	539.28	1.423	2.422
EPS	12.79	360.3	347.51	43.66	2.864	8.521
DPS	1.16	14	347.51	4.7	1.651	3.197
TA	2423.4	14307.4	11884.01	9719.07	0.057	-2.018
NP	698.2	2256.6	1858.4	723.44	1.437	1.966

The regression co-efficient are taken as b1, b2 b3...

MPS: Market Price Per Share      EPS: Earning Per Share

DPS: Dividend Per Share      TA: Total Assets

NP: Net Profit

**Table 5 Model Summary**

Model	1	
R	.366 <sup>a</sup>	
R Square	.134	
Adjusted R Square	.026	
Std. Error of the Estimate	468.93326	
Change Statistics	R Square Change	.134
	F Change	1.241
	df1	1
	df2	8
	Sig. F Change	.298

a. Predictors: (Constant), DPS

b. Dependent Variable: MPS

An ultimate assignment in various statistical analyses is to depict the location and variability of a data established. A further classification of the figures includes skewness and kurtosis. The skewness for a normal distribution is considered as 0, and several symmetric data should have skewness near zero. Undesirable values for the skewness signpost data that are skewed left and positive values for the skewness postulate facts that are skewed right. By slanted left, mean that the left tail is elongated comparative to the right tail. Similarly, skewed right means that the right tail is long relative to the left tail. Here, skewness for total assets is only postulate the left tail (0.057, Table 4).

In conclusion, It indicate that the strength of association between the variables is very moderate uphill (Positive) Relationship ( $r=0.366$ ) 36.6% and that the correlation coefficient is very moderate.

The study results discovered that there is a pathetic relationship in the middle of dividend per share and market price per share employed by the pharmaceutical firms as represented by coefficient of determination R of 0.366 and R – Square of 0.134. This worth that a change in DPS has a 13% influences in any change on the MPS the pharmaceutical firms

in Bombay stock exchange, India.

**Table 6 Correction**

		AVG MPS	DPS
Pearson Correlation	AVG MPS	1.000	.366
	DPS	.366	1.000
Sig. (1-tailed)	AVG MPS	.	.149
	DPS	.149	.
N	AVG MPS	10	10
	DPS	10	10

**Table 7 ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	272855.413	1	27855.413	.472	.757 <sup>b</sup>
	Residual	1759187.234	8	219898.404		
	Total	2032042.647	9			

a. Dependent Variable: AVG MPS

b. Predictors: (Constant), DPS

From the ANOVA results, the probability value of 0.298 was obtained implying that the regression model was insignificant in predicting the relationship between earning per share and regular dividend policy since it was more than  $\alpha = 0.05$ . Null hypothesis Accepted that there is no significant relationship between Dividend per share and market price per share.

**Table 8 Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients	Standardized Coefficients	t	Sig.
1	(Constant)	534.418		2.116	0.67
	DPS	45.954	.366	1.114	.298

a. Dependent Variable: AVG MPS

**Table 9 Residuals Statistics<sup>a</sup>**

Particulars	Min.	Max.	Mean	Standard Deviation	N
Predicted Value	587.7249	1177.7731	762.0740	174.11855	10
Residual	-524.19598	974.76917	.00000	442.11452	10
Std. Predicted Value	-1.001	2.387	.000	1.000	10
Std. Residual	-1.118	2.079	.000	1.000	10

a. Dependent Variable: AVG MPS

**Table 10 Model Summary**

Model	1	
R	.524 <sup>a</sup>	
R Square	.274	
Adjusted R Square	-.307	
Std. Error of the Estimate	4.33094	
Change Statistics	R Square Change	.274
	F Change	.472
	df1	4
	df2	5
	Sig. F Change	.757

a. Predictors: (Constant), NET PROFIT, TOTAL ASSETS, AVG MPS, EPS

b. Dependent Variable: DPS

The study results discovered that there is a pathetic relationship in the middle of dividend per share and market price per share, EPS, NP, and TA employed by the pharmaceutical firms as represented by coefficient of determination (Combined) R of 0.524 and R – Square of 0.274. This worth that a change in DPS has a 27.4% influences in any change on the above mentioned factors for the pharmaceutical firms in Bombay stock exchange, India.

**Table 10 ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.422	4	8.856	.472	.757 <sup>b</sup>
	Residual	893.785	5	18.857		
	Total	129.207	9	.000		

a. Dependent Variable: DPS

b. Predictors: (Constant), NET PROFIT, TOTAL ASSETS, AVG MPS, EPS

From the ANOVA results (Table 10), the probability value of 0.757 was obtained implying that the regression model was insignificant in predicting the relationship between earning per share and dividend per share since it was more than  $\alpha = 0.05$ . Null hypothesis Accepted that there is no significant relationship between Dividend per share and market price per share.

**Table 12 Residuals Statistics<sup>a</sup>**

Particulars	Min.	Max.	Mean	Standard Deviation	N
Predicted Value	2.4136	8.6014	4.9540	1.98389	10
Residual	-3.73288	7.51078	.00000	3.22809	10
Std. Predicted Value	-1.281	1.839	.000	1.000	10
Std. Residual	-.862	1.734	.000	.745	10

a. Dependent Variable: DPS

Model	Unstandardized Coefficients		Standardized Coefficient	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error				Lower	Upper
(Constant)	6.863	6.035		1.137	.307	-8.650	22.376
1	AVG MPS	.002	.004	.280	.591	-.007	.012
	EPS	-.012	.043	-.330	-.282	-.122	.098
	TOTAL	.000	.001	-.451	-.541	-.022	.001
	NET PROFIT	.000	.007	.015	.014	-.018	.019

a. Dependent Variable: DPS

## Conclusion

The objective of the study is to investigate the effect of dividend policy on shareholders wealth with a focus on the Pharmaceutical firms registered in Bombay stock exchange. For this purpose, a sample 10 listed Pharmaceutical firms were selected and the influence of dividend per share and net earnings per share was used as a variable on earning per share were examined by applying various test for a period of 5 years from 2012 to 2017.

## Recommendation

The investigators endorse that the management of companies (Pharmaceutical) should clearly map out the dividend strategies that they want their firms to monitor. Dividend decisions should not be by the way conclusions but should prudently be considered since dividends policy has an influence on firm value. Furthermore, these decisions should not be generalized since the effect of dividend policy on share prices vary depending on whether a firm pays, does not pay or partially pays dividend.

## Limitation & Scope of Research

The study agonises from certain boundaries which are revealed below.

1. As the study is decently based on listed pharmaceutical companies, so the outcomes of the study are only suggestive and not definite.
2. Additionally, data demonstrating the period of 5 years were used for the study and analysis. A significant restriction to this paper is the period for which the facts are sampled. The sample vanishing point for this study is short associated to other samples in the nonfiction. To discourse this restriction, forthcoming research can intensification the sample size. In conclusion, it would be of concentration if future research can investigate how profitability and dividend policy will be affected by variations in tax policy, pattern of past dividends, legal rules, financial leverage, chances, evolution stage and

investment structure (Debt and Equity). Other features such as possession structure, shareholder's potentials, tax situation of shareholders, manufacturing practice evolution stage capital structure and right of entry to capital markets can also be well-thought-out in manipulative a dividend policy nevertheless they distress dividend to a restrained extend

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