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The Influence of Dividend Policy on Earnings Per Share (EPS) in Nifty Companies

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Abstract: *This paper explores the intricate relationship between dividend policy and earnings per share (EPS) within the context of Nifty companies, which represent a diverse and dynamic subset of India's corporate landscape. Dividend policy decisions are crucial for firms as they impact shareholder wealth and market perception. On the other hand, EPS is a fundamental financial metric that reflects a company's profitability and financial health. The study employs a comprehensive dataset spanning several years to analyze how different dividend policies, such as dividend payout ratios and dividend stability, influence EPS in Nifty-listed firms. By employing statistical and econometric techniques, this research aims to shed light on the nuanced interplay between dividend distributions and earnings, offering insights for investors, financial managers, and policymakers.*

Keywords: Dividend, Policy, Influence, Earnings, EPS, Nifty, Companies

I. INTRODUCTION

Dividend policy has been a topic of significant interest and debate among scholars, investors, and corporate finance professionals for decades. Companies listed on stock exchanges worldwide face the perpetual dilemma of determining the optimal dividend payout to shareholders. This decision is central not only to the company's financial strategy but also to its shareholders' returns and overall market perception. One crucial aspect of dividend policy is its potential impact on a company's earnings per share (EPS). The National Stock Exchange (NSE) of India's Nifty index comprises a diverse range of companies across various sectors, providing an ideal backdrop to examine how dividend policy choices influence EPS in the context of a dynamic and emerging economy like India.

The EPS is a fundamental financial metric that captures a company's profitability on a per-share basis, serving as an essential indicator for both investors and analysts. It is calculated by dividing a company's net income by its outstanding shares. An increase in EPS often suggests improved financial performance, while a decline may signal financial challenges. The influence of dividend policy on EPS is complex and multifaceted, with various factors at play, including the dividend payout ratio, reinvestment of earnings, and investor sentiment.

This research aims to delve deep into the relationship between dividend policy and EPS in Nifty companies, offering valuable insights for investors, financial analysts, and corporate decision-makers. By examining dividend practices, financial performance, and market reactions, this study seeks to shed light on how dividend policy choices impact a company's earnings per share and, consequently, its market valuation.

Dividend policy is a critical component of corporate finance, representing a company's strategy for distributing profits to its shareholders. It embodies the delicate balance between retaining earnings for reinvestment in the business and distributing profits to reward shareholders. Understanding the implications of dividend policy on EPS is essential for several reasons:

- **Investor Decision-Making**: Investors often base their investment decisions, in part, on a company's historical dividend payments and its ability to generate consistent earnings. A company's dividend history can signal financial stability and management's confidence in future earnings.
- **Valuation Metrics**: EPS is a key metric used in various valuation models, such as the Price-to-Earnings (P/E) ratio. Changes in a company's dividend policy can impact its P/E ratio and, consequently, its market valuation.

- **Financial Management**: Corporate finance professionals must make informed decisions regarding dividend payouts to maximize shareholder value. Understanding how dividend policy affects EPS is crucial for these decisions.
- **Market Reaction**: The stock market often reacts to dividend announcements, reflecting investor sentiment regarding a company's financial health and future prospects. The impact of dividend policy on EPS can influence these market reactions.
- **Academic Inquiry**: Researchers have shown a keen interest in the relationship between dividend policy and firm value. This study contributes to the existing body of knowledge by focusing on EPS as a critical element of this relationship.

II. REVIEW OF LITERATURE

The impact of dividend policy on a company's value has been the subject of much discussion. Numerous research have been carried out to investigate the effect of dividend policy on the market price of stocks since the mid-1900s. According to some studies, the market value of shares rises dramatically when investors get dividend payments on a regular basis (Gordon, 1963). However, although some have argued that dividends are irrelevant (Miller & Scholes, 1978), others have said that paying dividends causes shareholders' wealth to decrease. A small number of studies clarify how dividend policy affects MPSs, despite the fact that a large number of research studies have been conducted in the area of dividend policy and market price. Consequently, the current study aims to analyze the impact of dividend policy on MPSs with particular reference to a subset of Indian businesses in order to close this research gap and add to the body of knowledge.

III. CONCLUDING REMARKS AND RESEARCH IMPLICATIONS

In this paper, we examine how the dividend policy of the Nifty 50 firms affects their MPSs throughout a chosen sample period. According to the correlation analysis, DY has a negative effect on MPS, although EPS, DPS, return on earnings, and RR have favorable correlations with MPS. Regression findings for all three models indicate that, at the 5 percent or maximum 10 percent levels of significance, EPS has a positive influence on MPS whereas DY, ROE, and PAT have a negative impact. Given that the null hypothesis is not rejected, the Hausman test suggests that the RE model is more applicable in explaining the connection between the provided variables. We deduce from the RE regression model study that EPS positively affects MPS, whereas RR, DPS, and PAT have no influence on MPS and DY, ROE, and PAT have a negative effect. We thus deduce that instead of looking at the total dividend paid per share, shareholders look at the dividend produced by the company.

In other words, a dividend payment raises the stock's market price, which lowers the dividend yield. In summary, we find that MPSs are impacted by the dividend distribution, and that stock price is subsequently impacted by the dividend policy. The results contrast with those of Ali and Chowdhury (2010) and are comparable to those of Baskin (1989), Benaruzi (1997), Chen et al. (2009), and Khan et al. (2011). The study's findings are consistent with theories and models of dividend relevance developed by Gordon and Walter.

The study's findings are significant and helpful to lenders, managers, investors, and other stakeholders. It is significant to investors because they perceive dividends as a means of evaluating companies from an investing perspective in addition to being a source of income. In order to maximize shareholder value, the management must take the outcomes into consideration while formulating the dividend policy. Future research may concentrate on a broader range of businesses or it may be sector-specific.

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