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A Study of the Factors Influence Dividends of Some Selected Companies

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Abstract: *The distribution of profits, past or present, in the form of real assets among the company's shareholders in accordance with their ownership stake is known as a dividend. The significance that investors place on steady dividend payments in comparison to the capital that businesses need has been questioned in dividend literature. This essay aims to shed light on the variables that affect dividend policy and how certain aspects might be taken into account before choosing a payout. Nifty 50 listed businesses in the metal, cement, and cement products sectors were chosen to learn about the factors that influence dividends and stock prices during a ten-year period, from 2009 to 2019. The study of the data has been done using regression analysis. According to this research, the key factor influencing dividend policy in the metals business is earnings per share, but in the cement industry, the key factor influencing dividend policy is retained profits.*

Keywords: Dividend, Determinants, Metal, Cement

I. INTRODUCTION

The capital market is playing an ever-more-important role in determining the direction of the national economy. By offering future profits, it encourages saving and investing behavior. It is one of the cornerstones upon which the nation's development is predicated.

Regardless of a company's size, age, or kind of business, these three decisions the choice about investment, finance, and dividend are critical to its success. These choices impact the businesses' operational effectiveness and financial stability.

II. IMPORTANCE OF DIVIDENDS

There are three potential explanations for why dividends are significant. These are the information signaling impact, the clientele effect, and the need to cut agency expenses. The customer effect describes how various groups have distinct requirements and want different rewards. The following factors support this effect: individual investor choice, institutional investor requirements, and tax concerns. A certain sort of investor will often be drawn to the firm based on its distribution strategy, which is determined by the investor's cash demands and tax situation.

III. RATIONALE FOR DIVIDEND

For a long time, academics and business managers have been perplexed by the questions "Why do corporations pay dividends?" and "Why do investors pay attention to dividends?" Here are a few explanations for why businesses pay dividends: to appease the investors who purchased stock in the firm. We utilize these monies for development and expansion as well as daily operations.

Dividends are a way for firms to give back to its shareholders and entice others to purchase expensive new issues of common stock.

Information regarding the profits that are reported to investors is included in dividends. If there is not enough cash on hand, dividends cannot be paid, and this cannot be changed by simple acts. Therefore, the most crucial signal to convey to market players about the company's actual future prospects is its dividend policy.

Investors are reassured by a consistent dividend payment that the company's stated profit is accurate. Investor trust in the firm is bolstered by this. They are confident in the firms' financial stability.

Because they could afford to, companies that reward shareholders with dividends are demonstrating their confidence in their capacity to create expanding profits. Reducing or eliminating payments in the future would negatively impact the company's stock price and reputation.

Lenders also monitor dividend payments since a higher payout might result in a lower cash balance and a higher risk of loan default. Businesses that consistently pay dividends attract investors who need steady income. The only kind of return available to non-dividend paying corporations is capital appreciation. There is just one thing to look out for: a spike in stock prices that compromises all 100% of your returns. Thus, businesses that pay dividends are favored.

When investors express interest in paying a premium for dividend-paying companies, managers also generate opportunities to pay dividends. Conversely, when managers do not pay dividends, investors are hesitant to pay a premium for non-dividend-paying equities. The majority of shareholders prefer to receive dividend payments.

Dividends thus serve as indicators of an organization's overall development, managerial effectiveness, and financial stability and solvency.

Dividend policy

The set of rules a business uses to determine how much of its profits will be given to shareholders as dividends is known as its dividend policy. It is the course of action followed when choices on dividends are made. Profit is divided between retained profits and dividend policy. The dividend policy should be modified to minimize financial friction, maximize financial flexibility, and minimize the expense of acquiring outside capital. Long-term business development depends on retained profits, however dividend payments reduce the company's cash position. Consequently, a trade-off must be made between retained profits and dividend payments.

Factors Effecting Dividend Payment

Legal restrictions and contractual obligations

The company's dividend policy must change while adhering to the regulations and limitations. For instance, the Indian Companies Act stipulates that dividends must only be declared or paid from current or historical earnings after depreciation has been taken into account. Although a corporation may capitalize profits or reserves (retained earnings) in order to issue fully paid bonus shares (stock dividend), the dividend must be paid in cash. Similarly, contractual obligations must also be met. As an example, dividends on preferred shares are paid out before dividends on regular shares. As a result, the corporation must take into account a number of financial factors and limitations when determining how much in dividends to pay out.

Liquidity

A corporation could not have enough cash on hand to pay dividends even when it has sufficient profits to declare dividends. As a result, the company's financial condition is crucial when deciding whether to pay dividends. For instance, a mature firm often has strong cash positions since it is liquid, has few investment opportunities, and has less capital locked up.

Financial condition and borrowing capacity

The way a company uses borrowing and the interest it must pay determines its financial situation. A corporation with a high level of financial leverage is more susceptible to fluctuations in profits and finds it more challenging to obtain capital from outside sources. Therefore, keeping more is preferable. Companies that have cash on hand are better able to handle unanticipated operations and investment demands. In times of crisis, when credit may be difficult to get and liquidity evaporates, financial flexibility becomes crucial.

Restrictions in loan agreement

Lenders may include restrictive provisions in loan agreements to safeguard their interests and prevent payment defaults in the event that a company has poor liquidity or low profitability. A loan arrangement may, for instance, prohibit dividend payments if the company's debt-to-equity ratio is higher than, say, 1.5:1.

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Access to the capital market

A well-established and profitable firm will find it easier to obtain cash on the capital market, giving it greater flexibility to satisfy its duties as a corporation and pay dividends.

Control

huge dividends would require a huge cash outflow, eliminating the need to issue new shares in order to raise money. Should current shareholders choose not to acquire further shares, this would reduce their level of influence. More profits could be kept in these situations in order to fund the investing prospects.

Financial stability

Companies with a consistent track record of profitability over time are more likely to be able to pay out larger dividends than those with erratic track records.

IV. DIVIDEND POLICY AND SHARE PRICES

One of the three main financial management considerations is the choice of dividend. The goal ought to be to maximize the wealth of the shareholders. It is necessary to make a trade-off between retained profits and dividend decisions. Studying the relationship between dividend policy and share price is thus essential. This is one of the most perplexing scenarios when there is virtually conflicting empirical data. According to one school of thought, the dividend has no significance and has nothing to do with the share price. According to the other, it is significant and has an impact on share prices.

The following describes the models of both schools of thinking about the link between share prices and dividend policy:

Traditional Position:

Graham Benjamin & David L. Dodd claim that dividends are more advantageous in the stock market than retained profits.

Retained earnings are not given as much weight in share value as dividends are.

The weights assigned by Graham and Dodd are not the result of empirical investigation, but rather of subjective assessments. Putting subjectivity aside, the main finding is that a generous payout policy has a positive effect on stock price.

Walter's Model

The 1963 model developed by Professor James E. Walter highlights the significance of dividends in maximizing wealth. He suggests that the enterprise value is often impacted by the sort of dividend policy. Under certain presumptions, he illustrates the significance of the link between the firm's cost of capital (k) and internal rate of return (r), which in turn dictates the dividend policy.

Gordon's Model

The P.V. of an endless stream of dividends that the share is expected to receive is equal to the MV of the share (Pq), in accordance with Gordon's dividend capitalization model.

According to the Modigliani and Miller Model, distributing retained profits between dividends and investments has no effect on the firm's value. They contend that the potential for profits and the investment plans implemented by the company have a greater influence on share price fluctuations than the division of earnings.

V. LITERATURE REVIEW

Dewasiri et al. (2019) examined 191 Sri Lankan companies to learn more about the factors that influence dividend policy in emerging and developing markets. Major factors influencing the likelihood of paying dividends include past dividend decisions, investment opportunities, profitability, free cash flow, corporate governance, state ownership, and business size. After a five-year study of 95 NSE-listed firms, Brahmaiah (2018) came to the conclusion that factors such as size, inflation, risk, profitability, liquidity, and leverage significantly impacted dividend policy. Furthermore, it seems that the dividend announcement is unaffected by the yield curve, taxes, investment alternatives, and delayed dividend. Azhagaiah (2014) examined the IT industry to investigate the factors that influence dividend policy. Regression research shows that price-earnings ratio, debt-to-equity ratio, and earnings per share have a positive and substantial impact on the dividend distribution of the IT sector. A positive association between the debt-to-equity ratio and earnings per share over the study period was shown by the correlation analysis. This indicated a smooth dividend pattern. In their research, Das & Samanta (2013) examined IT firms that were listed on the Indian stock market during a ten-year period. The link and statistical significance were tested using the regression model, standard error, and t-test. They come to the conclusion that the dividend policy has no bearing at all on the behavior of stock prices in the information technology industry, and that the irrelevance thesis remains valid even in the presence of market imperfections. In order to determine the factors that influence dividends, Banerjee (2017) also examined the top 30 listed information technology businesses in India based on market capitalisation. The factors that were shown to have a statistically significant influence on the dividend payout ratio were earnings per share, price to earnings ratio, current ratio, life cycle, and promoter holding.

VI. RESEARCH GAP

It is evident from the overview above that a great deal of study has been done on the many factors that influence dividend choice. Because of the various methodologies used, the findings also vary. Research has mostly focused on developed economies. Nevertheless, there aren't many studies that compare the cement and metal industries in this way. This research aims to add to the body of literature in this regard.

The study is restricted to a 10-year time frame and only uses secondary data. Additionally, the study's scope may be expanded over a longer time period to include new industries. The research may include more predictor variables to get a deeper knowledge of the factors that influence dividend policy.

VII. RESEARCH METHODOLOGY

Objectives of the study

• To comprehend dividends and dividend policy.
• To conduct a comparative analysis of the factors influencing dividend policy for a chosen group of firms.

Research design

Type of research: The exploratory nature of this study is supported by secondary data.
Sampling Method: Method of random sampling

Sampling Unit

Included in the research are NIFTY 50 businesses listed on the NSE Exchange that are in the metal and cement sectors. The choice of these firms was made since the NSE index has a significant impact on the Indian stock market.

The NIFTY 50 Index's METAL sector includes the following industries: TATA Steel Ltd., HINDALCO Industries Ltd., VEDANTA Ltd., and COAL India Ltd. The NIFTY 50 INDEX's CEMENT category includes the following industries: AMBUJA LTD and ULTRATECH LTD.

Time period: The chosen data spans a decade, spanning from 2009–10 to 2018–2019.
Data source: The information was extracted from a subset of the firms' annual reports.
Research Techniques: The analysis of the data has been done using multiple regression analysis.
Significance: The study's findings will aid financial managers and policymakers in determining the dividend policy while taking the effects of various payout determinants into consideration in order to optimize shareholder value. Additionally, managers would be better equipped to assess their own decisions on the dividend announcement, which would help investors by saving money on the expenses associated with gathering this data. Depending on their income requirements, investors may also make well-informed selections regarding the portfolios they choose.

VIII. MULTIPLE REGRESSION ANALYSIS

The significant relationship between the variables has been determined using multiple regression analysis. It describes the extent to which each independent variable contributes to the variance in the dependent variable and indicates whether or not the connection is significant. In terms of the original data units, regression calculates the average association between two or more variables.

Utilized model is

$DPR_{it} = \beta_0 + \beta_1(NP_{it}) + \beta_2 (EPS_{it}) + \beta_3(CCE_{it}) + \beta_4 (RE_{it}) + \varepsilon_{it}$

where DPR = Dividend Payout RatioNP= Net Profit

EPS= Earning Per Share

CCE= Cash And Cash EquivalentsRE= Retained Earnings

Ho (1): The dividend policy of the sample corporations, which may be further classified as follows, is unaffected by NP, EPS, CCE, and RE.

Ho (2A): The sample corporations' dividend policies are unaffected by net earnings.

Ho (1B): The sample corporations' dividend policies are unaffected by earnings per share.

Ho (1C): There is no effect of cash and cash equivalents on the sample firms' dividend policy.

Ho (1D): The sample firms' dividend policies are unaffected by retained profits.

Description of variables

Dividend payout ratio- Total Equity dividend/total earning

Net profit is the gross profit less all other costs, including interest and taxes, as well as operational expenditures. The amount of profits for each outstanding share of a company's stock is known as earnings per share. Cash and Cash Equivalents: The amount that is equivalent to cash or that can be quickly changed into cash.

Retained Earnings: A portion of profits that remain with the business after dividend payments to shareholders.

IX. CONCLUSION AND FINDINGS

Profit has less of an impact on dividend declaration in the cement industry than it does in the metals sector; this suggests that an increase in the metals sector's earnings was followed by an increase in investor dividend payments. Retained profits have a positive, large influence on the metals industry, but a positive, minor influence on the cement sector's DPR. Cash and Cash Equivalents have no effect on DPR, indicating that liquid balance has little bearing on the decision to issue dividends in any of the two sectors.

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