SUMMARY AND CONCLUSION
CHAPTER V

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Investment in equity shares is currently being taken up very widely by different class of investors. The investing class may be broadly classified into individual investors and institutional investors.

In the present capital market conditions, where the institutional investors play a major role in investing in shares of a company, meeting the eligibility criteria of such institutions is an important requirement. One of the main eligibility criteria for the company is payment of regular dividends.

Dividends are looked upon not only as a source of income but dividends also to an extent determine the value of the stocks in the market, the variations in which contribute to the overall income of the investor.

Dividend policy substantially affects the financial structure of a corporation, the flow of funds, liquidity, share prices and the investor satisfaction with regard to return on his investment. It helps in achieving the main financial objective of a company namely maximisation of its value.

In the views of the investors, in retention of earnings lie capital gains. Distribution of income, on the other hand, increases current earnings.
Many earlier studies have identified several factors to have had an impact in determining the dividend policy and practices of a company. This study has been taken up with an intention to examine the dividend practices followed by companies in India, as well as to ascertain whether the determinants, as have been theoretically found to have an impact, is applicable to companies in India. It is also intended to study the dividend policy that had been followed.

The study is confined to only public limited companies in which the public are substantially interested. Companies which satisfy the requirements namely continuously and regularly paying dividends during the study period 1999-2008, regularly traded and also with consistency of data in statistical analysis were selected for this study. The number of such companies was 83 which constitute the selected companies and data and variables were identified and were subject to analysis.

Statistical tools, partial correlation, multiple correlation, standard deviation, coefficient of variation and multiple regression analysis were used to assess the influence of the independent variables. To find out the impact of dividends on share prices, multiple partial regression is used.

Regression coefficients and ‘F’ test is applied to check the statistical significance of the model. DW statistic test is applied to check for the existence of any auto correlation among variables. To assess the multicollinearity, tolerance or variance-inflation factor is used.
A company might follow any one of either stable dividend or stable pay-out policies, or it might also decide against any stability in dividends. This of course, could be done only if the various determinants are completely controllable and/or determinable by the company, which in turn is possible only when the share holding pattern is such that the number of shareholders are very limited, referred to as closely held companies and also those shares which are not regularly traded in the market, implying that changes in the market values is immaterial.

The essence of dividend policy as per James E. Walter is, if the company is confident of generating more than market returns, then only it should retain higher profits and pay less as dividends (or pay no dividends at all), which only would result in higher share prices based on higher ROI of the company. However, if the company is not confident of generating more than market returns, it should pay out more dividends so as to maximize share values.

According to Myron J. Gordon, firms with a rate of return greater than the cost of capital should have a higher retention ratio and those firms which have a rate of return less than the cost of capital should have a lower retention ratio in order to maximize the market value. If the company is not confident of generating more than market returns, it should pay out more dividends (or 100% dividends). Only such policies would result in higher market values.
Using the process of arbitrage, Miller and Modigliani have explained the irrelevance of the dividend policy in determining the value of the stock. The process of arbitrage balances changes in value completely by offsetting two transactions which are entered into simultaneously.

In determining a dividend payout, the typical company will analyse a number of factors also referred to as determinants. Such determinants can be broadly categorised as the companies’ operations related, the company management’s dispositions, legal aspects, shareholders’ requirements and market aspects.

The companies’ operational aspects may be categorised as profit related, financial structure or capital structure related and liquidity related. These factors are identified, appropriate measures of each of the factors are selected, which forms the identified variables and are subject to statistical analysis.

1. Most studies on dividend behavior have confirmed Linter’s model namely;

(i) “Creep up” of dividend per share results in a stable dividend per share pattern during fluctuating earnings per share periods and a raising “step-function” pattern of dividend per share during increasing earning per share periods.
(ii) Firms aim at a target dividend payout rate, but less concerned with volatility in dividends over time.

(iii) Evidence for a sticky dividend policy and concludes that a change in profitability is of minor importance.

2. Studies on determinants have found that factors that have important influences on the amount of dividends paid to be: current and past year's profits, represented as net earnings, EPS rates of return on varied bases, the year-to-year variability of earnings, the growth rate of earnings, prior years' dividends, expected higher growth and cash flow.

3. The response rate from companies in India to obtain responses in the form of opinions about dividend policies had been very poor.

4. Cash dividends influence prices and trading volumes in different ways before, at the time, and after payment.

5. Despite the preferential tax treatment of capital gains for individual investors, it was shown that a majority of a firm's shareholders may support a dividend payment for small distributions.

6. Companies facing uncertainty and liquidity problems have an ambiguous effect on the investment decision, resulting in lower dividend payments.

7. Institutional investors believe that dividend policy affects stock prices and that dividend consistency is highly important.

9. Even though studies on managers' opinion stated that future earnings is an important factor in deciding on any raise in dividends, other studies have found that the relationship between current dividend and future earnings, post-facto, shows a highly skewed picture.

10. In general under any category, it was seen that studies in India and on Indian companies had been very limited.

The type of dividend policy adopted by the companies was studied in relation to the behaviour of earnings, in the sense, the stability or otherwise and its relationship with the quantum of dividend.

It is seen that for 39.8 percent of the total companies studied the coefficient of variation (CV) in dividend per share (DPS) is 30 percent or less. This indicates that there has been very high consistency in the dividends paid. For 60.2 percent of the companies the CV in DPS ranges between 30 and 60 percent. For no company the CV in DPS is above 60 percent. This shows that there has been relatively greater stability in the dividends in the former group of 33 companies and lesser stability in the dividends in the next group of 50 companies.

A comparison of the CVs of DPS and earnings per share (EPS) shows that there has been more consistency in dividend paid than that of earnings which indicates that majority of the selected companies have been adopting a constant dividend policy.
The correlation coefficient between the EPS and DPS shows that 47.6 percent of companies selected show a highly positive correlation of 0.7 or more. These companies have been following a stable dividend policy were the earnings stability has also been relatively more. The remaining 52.4 percent of companies show a very low correlation ranging between -0.7 to 0.7. With reference to these companies there has been no consistency between DPS and EPS. In other words it implies that they have been following a constant dividend policy in spite of variations in earnings.

The various regression (R) values of influence of the selected independent variables namely, return on net-worth (RONW), return on capital employed (ROCE), return on net working capital (RONWC), earning per share (EPS), net profit ratio, debt-equity ratio, current ratio, growth in fixed assets, interest coverage ratio, interest tax shield, reserves to share capital and degree of financial leverage on the dependent variable namely dividend per share were analysed.

R value of 0.815 shows that the regression model, to a considerable extent, is able to explain the relationship between the observed and predicted values of the dependent variable. $R^2$ value of 0.664 implies that the correlation between the observed and predicted values of the dependent variable is 0.664 which means that about 66% of variation in the dividend per share is explained uniquely or jointly by the factors.
The Durbin – Watson coefficient result was recorded as 0.916, which indicates the independence of observations.

The results of ANOVA reveal that the significance value of F is 0. This implies that the regression model is significant. The sum of squares of the regression is greater than the sum of squares of the residual indicating that variation in the dependent variable is explained by the regression model.

Studying the regression of the variables individually it was seen that the significance value for the independent variable return on net worth is 0. This reveals that return on net worth has statistically influenced the dividend per share. But it is found to be negatively related with dividend per share. This means, return on net worth had not been an important factor in determining the dividend per share, but it had been the dominant factor and there was a negative relationship. Similar is the case of variables return on net working capital and reserves to share capital.

The analysis reveals that interest coverage ratio and EPS had an impact on dividend per share. The significance value of 0.02 and 0.00 indicate that the interest coverage ratio and EPS were statistically significant at more than 98 percent level. Firms with strong earnings base prefer to go for liberal dividends. This is because earnings are an important factor in determining the dividend paying ability of the firm.
Similar is the case of interest coverage ratio with a statistical significance value of 0. This is obvious, since commitment to debtors is theoretically an important determinant of dividends.

The significance value for the independent variables net profit ratio, current ratio, debt equity ratio, return on capital employed, fixed assets growth, tax shield and degree of financial leverage had no statistical significance in influencing DPS. This indicates that profitability as such had little impact compared to profit earned in relation to capital employed and net worth. The degree of financial leverage has not significantly impacted dividends with reference to the study companies, even though they have a positive influence over the dividend.

The results regarding tolerance show that the values with reference to none of the variable is less than 0.20 which indicates that there is no multicollinearity among these independent variables. In other words most of the independent variables individually or in combination with other independent variables did not exert any influence on any other independent variable.

An industry wise classification of the regression and multicolleniarity shows that different industries have exhibited the problem of multicollinearity. The independent variables ROCE and / or RONW with regard to all industries and EPS, interest coverage ratio,
reserves to share capital and debt equity ratio for few of the industries exhibited the problem of multicollinearity. This means the variables which have influenced other variables among themselves and the dependent variables has not been the same for all industries.

Theoretically according to one school of thought dividend has an influence on market value whereas another states that dividend and market value are independent.

There is theoretical evidence that dividend announcements of companies convey new information to investors and therefore affect stock prices. It was found that there was no unanimity in the results as to that effect. This aspect was verified with reference to the selected companies by setting the hypothesis;

‘There is no significant difference in the market value of share prices due to dividend declaration.’

To verify this the mean and standard deviation of the market value of share prices two months before and one month before representing pre-dividend market prices and during the month of dividend declaration and one month after dividend declaration representing post dividend market prices were tested for any statistical significance, using ANOVA. The hypothesis is rejected implying that there is difference in values due to impact of dividend information.
The factors influencing share prices can be broadly categorised as (a) general economic factors including market imperfections and (b) firm specific factors.

To verify the influence these two categories of factors the correlation between the pre announcement and post announcement prices of shares is calculated after controlling for change in the market index, representing general economic factors, using partial correlation technique.

It is observed that the correlation values are very high indicating very low changes in the pre announcement and post announcement prices after controlling for the effects of changes due to general economic and market factors.

CONCLUSION

With reference the 83 companies it was found that they have been following some form of stability in their dividend policy, in the sense either constant rupee dividend policy or constant pay-out ratio policy.

The variables identified had been the major determining factors, nearly 66 percent, in determination of the dividend with reference to the selected companies. There are a number of factors theoretically identified but empirically not quantifiable. With reference to the study companies these qualitative factors probably accounts for the
remaining factors. But what is significant is that, the theoretically established factors have to a large extent been the factors determining the dividend policy of the selected companies.

Though there has been some impact in market value of share due to dividend declaration, dividend announcement had very little impact in the stock prices of the selected companies after controlling for changes in the stock values due to general economic and market factors.

The market has been indifferent to dividend information in arriving at the market value of these shares.

The market looks at only the short term price movements based on demand and supply and other such forces determining the price rather than the fundamental factors, particularly the efficiency of the company in terms of evaluation of the economic and financial factors. In other words, the market price for these shares is predominantly determined by the activities of the market players and to an extent by speculators who are more interested in price changes and profit booking than by that of genuine investors who would look for efficient deployment of resources at the disposal of the company. This is evidenced by the wide short term and day-to-day fluctuations in the stock prices on many occasions due to knee jerk reactions to sundry information which may be corrected subsequently.
One important non-desirable cause for this condition is that investors, in the sense the buyers and sellers of these stocks in the market do not give much of an importance to company and efficiency considerations while deciding on their investment decisions namely buy, hold or sell. This is evident from the fact that dividend decisions have not impacted the shares’ market prices to a major extent. An efficient stock market which is an important component of an efficient financial and capital market is vital to the economic development of a nation. This is basically so because efficient allocation of existing resources should be based on efficient utilisation of such resources. It is obvious that this has not been the case with reference to the present market. The role of institutional investors, especially mutual funds should garner more of the share of retail investors, by toning up their performance and thereby instill confidence in the investors regarding their management risk and return of the schemes’ portfolio. This would go to off set the influence of technical followers in determining the market prices. This would go to set the path towards higher levels of market efficiency.

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