CHAPTER-V
FINDINGS, SUGGESTIONS AND CONCLUSION

The dividend policy is one of the most important areas in the finance literature. One of the different kinds of investigation on this subject is based on the sequence comfortable of dividends, which has aggravated an important amount of hypothetical and experiential research. The researchers Fama and French1 2, in their study on dividend behavior, have established a great turn down in the percentage of explicitly traded dividend paying firms over the period. Another researcher, DeAngelo, et al has found out that the real value of aggregate dividend payment has enlarged, despite the fall in entitlement of dividend payer to total number of publicly traded firms over time. In this scenario, it is felt essential to study the time series trends of collective payouts in Indian Banking Companies. Apart from evaluating the trend in dividend payout and its relationship with net earnings, an attempt has been made to identify the factors determining the dividend policy decision of the Indian Banking companies. The Lintner’s model, a well known dividend model is used for shaping the dividend policy. In adding to this basic dividend model, Brittain’s Cash Flow Model, Brittain’s Explicit Depreciation Model and Darling’s Model, which are the extended and modified version of basic Lintner’s model, are also used. Normally banks with a greater ability to self-finance are most likely to fund projects on the inside with better capability that reduces the stockholder’s prosperity. This results in the decrease in a regular rivulet of dividend payments. So, it is certain that the probability of dividend decrease or increase is related to cash position and owned capital in capital structure. To empirically examine the above, a
logistic regression analysis is used with binary coded “dividend reduction / omission” (0 for increase / initiation and 1 for reduction / omission).

**FINDINGS**

The study in general aims at studying the brunt of dividend policy on shareholders’ value of select banking companies in India. This study covers 30 banking companies in India. The period covered under the study extends over 10 years from 2005-06 to 2015-16.

The data for the study were taken from Annual reports of all the selected banks, additional information has been collected from “money control” website and some related websites, Annual Survey of banking, Reports of financial data’s, IFM and Research, Libraries of various Institutions, various magazines, journals, research publications, dailies and periodicals such as The Hindu, Economic Times, Applied Finance, Financial express, Fortune India, asset Today, Capital Market, Dalal Street, Business Today, Business World, Business India, Finance India, web site of organizations, consultants’ reports etc. Various accounting techniques such as trend analysis and determinants of shareholders’ value were used, With a view to accomplish the objectives of the study, various statistical tools such as mean, coefficient of variation, regression analysis, trend analysis and linter model test etc. have been employed. The Present chapter symbolizes the major findings of the study and offers a few suggestions for resourceful management of the banking companies under study in India.

Dividend policy is a stratagem worn by a firm to determine the amount and timing of dividend payments. The dividend policy framed by an organization is one
of the critical issues in corporate finance since it may have an impact on the firm’s value and shareholder Value. To explore study is an effort to consider the consequence of dividend policy on shareholder value of thirty selected Indian banks listed and traded in Bombay Stock Exchange (BSE). For the purpose of study the financial data from the period 2005-06 to 2015-16 of selected Indian banks (30 banks) would be used. The data would be analyzed, using statistical tools like multiple regression technique, trend etc., The results of the data analysis might reveal that that there is a significant effect of dividend policy on the share price of selected Indian Banks. The study is limited to a time period of 10 years and includes only selected Indian Banks. The result might alter if the time period and number of banks are comprehensive.

A view to examine the research objective, the impact of explanatory variables on shareholders’ value has been considered. It is true that all the banking companies under the study have negative correlation between shareholders’ value and profitability except BOI, KVB, Dhanalakshmi Bank, and BOM and hence profitability does not show positive correlation with shareholders’ Value of the Banking players underneath the study.

Sixteen out of thirty selected banking companies under the study have negative correlation between shareholders’ Value and liquidity which shows that liquidity can influence the shareholders’ Value positively.

Similarly, sixteen out of thirty Banking players under the study observe negative correlation between shareholders’ value and solvency which reflects that change in solvency can encourage shareholders’ value. As far as EPS is concerned.
Twelve out of thirty banking companies under the study has positive correlation between shareholders’ value and EPS which highlights that higher EPS tends to increase shareholders’ value of the banking players under the study.

Correspondingly, Dividend Pay-Out ratio of only nine banking players out of thirty has positive correlation with shareholders’ value. It reveals that Dividend Pay-Out Ratio has greater impact on Shareholders’ value.

Fifteen banking players out of thirty Banks under the study shows positive correlation between shareholders’ value and growth of turnover which reflects that growth in turnover can positively influence shareholders’ value.

Even the regression analysis result of the Shareholders’ value function of banking players confirms significant relationship between Shareholders’ value and selected independent variables.

From the various determinants of the Shareholders’ value under the study, it is clear that all the independent variables taken affect the dependent variable by one or the other way.

As far as profitability is concerned, the study found that change in profitability in eight out of thirty banking players’ causes decrease in shareholders’ value. It shows that shareholders’ value is adversely affected because of change in profitability.

Change in liquidity is observed to have positive impact on shareholders’ value of the banking companies under the study because it is only in the case of ten banking companies only there is decrease in shareholders’ value due to alteration in liquidity, is noticed.
Out of thirty banks, six banking companies under the study, it is observed that change in solvency affects the shareholders’ value unfavorably which reveals that solvency is a determinant that influences the shareholders’ value of the banking industry adversely.

EPS is observed to be the strongest variable which influences shareholders’ value of the banking companies under the study positively because change in EPS in the case of twenty one banking companies under the study is observed to have positive impact on shareholders’ value.

As far as impact on dividend pay-out ratio on shareholders’ value is concerned, it is observed that shareholders’ value of sixteen banking companies is affected positively due to change therein. Likewise, change in growth of turnover also results in increase in shareholders’ value of the fifteen players under the study.

While analyzing the dividend policy of the banking companies, under the study has been found satisfactory. Increase in dividend payout ratio as per expectation and availability of good return to the shareholders has reflected growth and sound profitability of banking industry in India.

**Analysis of Determinants of Dividend Policy in Indian Banking Companies.**

It is elicited that dividend policy is positively determined by previous year dividend and current year profit after tax and negatively determined by current year depreciation for banking companies with huge investments. It is found that paying dividend to shareholders in Indian banking companies is positively determined by previous year dividend, current year profit after tax and negatively by current year depreciation. It is again understood that dividend payout is determined positively
by past dividend payout and current year tax liability, negatively by debt in capital structure and dividend tax rate in the case of banking companies.

**Determinants of Dividend Reductions / Omission in Indian Industries: A Logistic Regression Approach**

It is found that Indian companies determine to pay dividend based on the dividend payout in the past when there has been remarkable decline in the interest expenses, dividend tax and tangibility (decline in tangibility reveals the decline in additional investments) over the period of time. The probability of reducing / omitting the dividend payout among Indian companies with banking sector investments is higher with significant decline in current year ROA and marginal increase in shareholders’ equity.

Regarding the determinants of dividend policy towards paying dividends, it is concluded that Lintner’s model and extension of Lintner’s model with inclusion of depreciation (Brittain’s explicit depreciation) best describe the dividend policy of the companies across most of the industries. It is further concluded from the application of basic and extended dividend model that current year profit after tax and dividend paid in the past in adding to present year reduction are originate to be the vital determinants of the dividend policy of Indian banking companies.

This leads to the conclusion that paying dividend to the shareholders is decided based on the status of profitability and depreciation in the current year as well as the dividend policy in the past.
The above inferences disproved the null hypotheses which read as follows:

i) there is no impact of profitability on dividend policy of Indian banking companies,  
ii) the current year dividend policy is independent of the dividend policy of the banking companies in the past in India and  
iii) there is no significant influence of depreciation on equity dividend payment of banking players in India of the present study.

Regarding other determinants, based on the application of regression model with other fundamental variables, it is identified that dividend paid in the past has unique positive influence, whereas interest expense, dividend taxation and tangibility have unique negative influence on dividend policy of Indian companies at a significant level. It seems that there is a remarkable increase in paying dividend if dividend was paid in the past, but it tends to decline with increase in debt level (increase in interest expense) and with increase in capital investments (increase in tangibility).

SUGGESTIONS

Keeping in view of the above observations and other surveillances made throughout the study, the following measures are suggested which will go a long way with a view to improving performance of banking players of India in general and selected banking players in particular.

1. It is found from the study that payment of dividend has significant effect on shareholders’ wealth in banking players in India. As the banking companies under the study are paying the dividend regularly with periodic enhancement, the shareholders value will be higher. Therefore, it is suggested that the
banking companies under the study should continue to have the policy of periodical enhancement in paying the dividend.

2. Banking players in India are suggested to implement steadily changing dividend policy. Under this policy, when a company retains earnings in good years for this purpose, it earmarks this surplus as dividend equalization reserve. These funds are invested in current assets like marketable securities, so that they may easily be converted into cash at the time of paying dividends in bad years.

3. Some shareholders favor dividends from the tax perspective, even though they lack the advantages associated with deferral in case of rising share price because they prefer the flexibility that comes with cash dividend payment. Moreover, they evaluate retained earnings as a risky promise. Hence, it is suggested to have steady enhancement in dividend in banking industry in India, because this liquidity allows investors to more easily manage their financial affairs. Retained earnings act as an important factor in determining the shareholders’ value in banking industry in India. The increase in retained earnings leads to increase in net worth (Book Value of equity) of the shareholders. There would be large volume of shareholders inflow for which they would be prepared to repurchase the shares by paying premium.

4. Therefore, young and aggressive banking companies in India should have low payout ratios and plough back their profits for growth, because they have adequate profitable investment opportunities to earn at a higher rate than what the investors expect.
5. From the analysis of various Explanatory variables i.e. profitability, liquidity, solvency, EPS, Dividend Pay-Out ratio and growth of turnover, it is clear that their overall impact on shareholders’ value of the banking players in India has been positive, except profitability. Therefore, banking players in India are suggested to carry out rapid and material measures to control material cost with a view to increasing profitability. It is suggested to have centralized purchasing and storekeeping system so as to get the benefits of discounts, to reduce capital investment. It is also suggested to have optimum product mix with a view to minimize the total cost of sales and maximize the profitability.

6. It is suggested to control all variable and normal overheads involved in manufacturing process through preparation of flexible budgets. It is suggested to implement policy of recruitment and selection of right type and required number of employees to control personnel expenses to satisfactory level through increase labor productivity. In order to have a balanced control over selling expenses, it is suggested to analyze selling expenses on the basis of nature, product and territory and then to compare with selling expenses of the previous years so as to identify the trend to take actions to control them.

7. With a view to help in decision making whether to distribute or retain the profit, banking players in India are suggested to calculate the ratio of rupee profits, the business expects to earn (Ra) to the rupee profits that the shareholders can expect to earn outside (Re) i.e. Re/Ra. If the ratio is less than one, it is a indication to allocate dividend and if it is more than one, the distribution of dividend will be discontinued.
8. With a view to improve corporate governance in banking industry in India by offering investors clear signal about a company’s future financial health and by imposing discipline on corporate manager; banking players in India are suggested to maintain proper combination of the share price and dividend payment, because retention of earnings would adversely affect the market price of the shares.

9. It is observed that almost all banking companies across industry in India have been paying dividend to their Equity share holders consistently. Hence, it is suggested that the risk-averse investors who prefer cash dividend may make investments in equities of Indian companies than other mode of investments like government bonds, real estate, etc., on long-term basis.

10. It is found that majority of the banking companies have been paying varying rates of dividend. Hence, it is suggested that instead of paying dividend at varying rates from year to year, they may consider paying fixed portion of their net earnings as dividend and re-invest the remaining net earnings for business expansion. By doing this, the companies may avoid too much dependence on debt capital and this will improve Shareholders’ Value also.

11. It is found that the Indian banking companies are more likely to increase / initiate paying dividend, if increase in ROA and decline in depreciation and interest expenses are at significant level. Hence, the companies are suggested to consider the level of depreciation and interest payment before initiating / increasing the dividend based on the Growth in Sales.

12. Companies under banking industry have adopted consistent dividend policy during the study period. There is positive relationship between net profit and
dividend of large investment companies. It is found that the large investment companies have exhibited homogeneity in their dividend policy and there has not been any significant change in dividend payout over the period of time. There is no consistency in the annual payout ratio of companies with large investments during the study period.

13. It is found that majority of the banking companies have been paying varying rates of dividend. Hence, it is suggested that instead of paying dividend at varying rates from year to year, they may consider paying fixed portion of their net earnings as dividend and re-invest the remaining net earnings for business expansion. By doing this, the banks may avoid too much dependence on debt capital and this will improve Shareholders’ Value also.

CONCLUSION

It is quite clear from the study that, there have been variations in each year’s payout pattern of the sample banking companies selected for the study. From the payout trends, it is actually obvious that the sample banking companies under the study are sharing dividends to its shareholders. Quite clearly, the study shows that the banking companies paying dividends during the study period has followed unstable pattern. The level of dividend payout of sample banking companies has also shown variations in each year’s dividend payout pattern. It is manifest from the analysis of the study that sample banking companies have followed different payout policy during the study period.

An augment in dividend in a certain year may be the result of good performance of a banking company during the year, which may continue in the
future years. This shows that there has been positive informal relationship between dividend and earnings. Further, an increase in dividend may be the result of the company administration policy toward satisfying investors or shareholders. In spite of the level of profit, few banking companies try to pay dividends at all cost this is because for psychosomatic reasons on the part of the current and potential investors. Dividend is important to the investors even though the policy may not after all considerably affect the share price and consequently the value of the bank. When cash dividend paid to the shareholders it has an adverse effect on the liquidity position as well as the reserves of the company as it tends to reduce both of it. When dividends are treated as a financing decision, the net earnings of the bank may be viewed as an important source of financing the growth of the bank.

From the Investors’ perspective dividend influence the demand for share price. However, dividend policy does not considerably affect the value of the bank because banks or any company share price fixation is regulated by the Securities and Exchange Board of India (SEBI). In fact, the listing companies share prices are fixed and regulated by the Securities and Exchange Board of India. From the study it was accomplished that investment decision of sample banks is dependent of its dividend decision.
SCOPE FOR FURTHER RESEARCH

Every attempt has been made to make the study intensive but, due to lack of time and resources there exists certain gaps in the present study. Therefore, further work may be undertaken to bridge the gap so as to enhance the scope of analysis. The coverage of this study is limited to only thirty banking companies. It can further be extended. Data for the purpose of analysis have mainly been collected from secondary resources having certain limitations. Further research work in the above mentioned areas would be of great practical significance and would throw more light on the operation of banking industry in India. The present study has examined the effect of dividend policy on shareholders’ value in banking companies in India. The analysis has produced a few meaningful inferences and results and one possibility for future research is to extend the investigation to other sector and among the cross section. It may be interesting to conduct a similar study in order to determine whether importance of retained earnings on shareholders’ value has increased over a period of time.