ABSTRACT

Capital market has occupied an imperative role in forming the prosperity of country economic by motivating the behavior of investment and saving to their investor. It provides the opportunity to investors and user to exchange the stream of capital in the segment of productive investment and saving avenue. Many investors strongly believe that investing in the share market generate ample form of profit among others type of investments. Group of investors, share traders, speculators, government, foreign institutional investors and financial institutions find that Indian capital market is lucrative to invest and support to build healthy economy and market.

Capital market generous allocated two types of returns to their investors such as investment return in the form of capital appreciation or gains and annual return in the form of dividend. Motive of all the investments should focus towards capital gain which provoke the investor to take high risk for generate high income in the value of security. Dividends are generally defined as the distribution of current or past year net profit among their investor of the firm in the level of ownership quantity. Firm managers are not liable to pay the dividend among shareholders but it should be the creditworthy of manger to share the profit in the form of dividend.

Dividend policies are considered as payout policy, which manger should commit in deciding the amount of profit to distribute among the shareholders. Primary objective of every management should focus on maximization the shareholders wealth in the form of increasing the value of firm share price. This objective can be reached by providing the shareholders a reasonable payment to their respective investments. Every corporate dividend policy should give a place to realize equilibrium between retained earnings and dividends. However, the effect on dividend policy towards the shareholders wealth is still a questionable issue.
Dividend payout decision is most complicated aspect in finance area. Three decades ago, Black (1976) wrote in his article that “the closely we look at dividend image, the more it look like a puzzle, with object of pieces that just don’t fit all together. Why shareholders are keen interest to receive dividends and why they reward managers who pay regular dividends is still unanswered”.

Management can use two types of dividend policy namely managed and residual. In residual policy, the quantity of dividend is determined after the cash left to make firm desirable investments in a project by using capital budgeting method. Managed dividend policy is considered as favorable policy which stabilized and increases the value of dividend with the motive of shareholders wealth maximization. Dividend decisions are considered as more important in contributing the space for overall growth strategy. The responsibility of the manager should be to identify and select the optimal dividend payout that will improve value of the firm image and also want to believe that dividend policy act as signaling impact on the firm market prices. Commonly, announcements of increase in dividend value create positive returns, and announcements of dividend decreases produce negative returns. Such outcome of the result, management should lead and depend to follow the stable dividend payout policy.

The investor like pensioners, small savers, new to market and charity firms mostly prefer the stable dividends policy, because they will not have interest to take risk operations in their portfolio. Such kind of investors would select the companies which pay a regular and stable dividend yearly. Some investors like more dividends paying companies for their investment portfolio, while some other group of investors do not like dividend rather they select the firms that offering high capital appreciation, yet another group of investors may like both the element. Thus, the investors can be grouped
according to their preference for dividend or capital gains. These groups are mentioned as clienteles.

Firms generally adopt dividend policies according to the present life cycle of business. There are two important issues should be considered before generating value and wealth maximization of investment namely Economic Value Added (EVA) and focus on Stakeholders, additionally dividend decision is common phenomenally influence by various internal and external constraints such as sales, profit, interest, tax, cash position, retain earnings, payout ratio, stability of dividend, legal, contractual, owner and shareholder interest of control, capital market consideration, country economy, inflation and it also generally influence by psychological phenomenon like investors preferences, attitude, beliefs, opinion, culture, habit, economic life style, these constraints are perpetual change due to nature of various characteristics and operation involved by the investors and firms. Accordingly, it cannot be possible to frame common mathematically model and uniform pattern of determinant for all firms at all times.

Semi strong form efficiency implies that prices reflect not only all information found in the past record of prices and volumes but also all new information publicly available in the market. This entailed that using publicly prevailing information the investors can not able to get superior risk adjusted returns in their investment made. This study spread the limelight on dividend issue from emerging capital markets perspective by focusing exclusively on Indian banking sector respectively. The sample period was 2002-2012 has been chosen to cover a complete business cycle. The objectives of this research are to empirically investigate rationale in dividend relevance theory by testing the validity of Gordon and Walter model in India banking context. The research also attempts to examine and identify the relative variables to determinants the dividend in Indian context. It endeavors to bring glow the influence of ownership groups of a firm on dividend payout behavior. The
study also tries to unfold the relationship between the shareholders attitude and the dividend payout by applying the theory of semi strong form efficiency, whether the dividend announcements have affects the behavior of the shareholders.

The research has attempted to test two theories, such as dividend relevance theory and semi strong form efficiency. For the achievement of aforesaid research objectives sophisticated statistical tools of Linear Regression analysis, Quadratic polynomial regression analysis, Chi square, Event study, Walter model, Anova and T test have been used. The sample selected from the constituents of CNX BANK Index.

The findings bring interesting insight in the behavior of the market movement towards dividend announcement. A capital market is always influenced by positive and negative information. If the positive information floated in the market, it will increase the share price and negative information prevailed it will pull down the share price. Results also revealed that impact of the information will not stabilized or floated for prolong, immediate adjust will reflect in the market. Single financial variable will not support in determining the dividend policy, sales and earnings are major contribution in determining the dividend. Dividend carries the present performance of the firm and act as a signaling effect. Dividend policy is highly influencing factors in determining the cost of capital and future capital investments, which bring more support towards theory of dividend relevance. In fact, past and present information will influence the investor attitude towards the purchasing of particular share that underlined and highlighted in semi strong form efficiency theory.