CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION TO DIVIDEND

Capital market has occupied a predominant role in shaping the prosperity of country economic by encouraging investment and saving attitude to their investor. Capital markets are place to dealing the share and they act as bridge between investors and user by channelizing the flow of capital or resources in the form of most productive investment and saving avenue. Capital markets are considered as most significant pillar in cultivating and sustaining the growth of economic in the country. Many people believe that investing in the capital market generate valuable form of yield among various investment. Group of investors, share traders, speculators, government, foreign institutional investor and financial institution find that Indian capital market is lucrative to invest and support the economy and market healthy.

Capital market offers 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 target towards capital appreciation which stimulate the investor to take high risk to generate high income or appreciation in the value of security. Investors realize the benefit of capital appreciation during the value of security increase in the market based on existing positive information such as investment objective and firm performance. On other hand, investors may be at risk tolerant if price
of the share decrease based on negative information of the particular company. Most of the investors presumably allocate their portfolio under the condition of safety and capital appreciation.

Dividends are usually defined as the portion of net earnings or profits after deducting tax and retain earning are shared among the shareholders of the firm in fraction of their ownership. In corporate world, companies do not have any obligation to distribute the dividend among shareholders but it should be the responsibility of corporate manger to share the profit in the form of dividend. Dividend is the major financial decision for board of directors to choose between distributing the profit to the shareholders or plough them back into the business. Dividend has distinct features in their arena as they are allocated from earnings only, it should be in the form of real asset, in practice most of the companies pay in the form of cash, distribute to all stakeholder according to proportion of share holdings.

Dividends represent the income to the investor who invests his money at risk in the firm. Perhaps, firms pay dividends to admire the existing shareholders and to persuade others to buy new equity issues in high prices. Investors pay attention to dividends because prospect of dividends receive a return on their investment and create a chance to sell their shares at a higher price in the market and also act as information signal about the earnings ability of the firm.

Dividend can be distributed in two ways, most and majority of dividend are distributed in the form of cash, in general it is called as cash dividend. Cash dividends are recommended by the board of directors and paid to the existing shareholders. Normally, cash dividend is paid out of the current year’s net profit and rest is appropriated to the reserves and surplus account. Stock dividend is another form of distributing the dividends. Stock dividends occurs when the board of directors sanction to distribute of bonus shares to
existing shareholders for various consideration such as conserve cash, increase in profit, increase in future dividends, positive psychological value and retain the ownership.

There is an incongruity which becomes obvious at this juncture. The incongruity is that increase in dividend announcements are considered as positive information perceived by investors and financial analyst, whereas dividend decrease and omissions are considered bad news suggesting future of financial doom. This incongruity is commonly referred to as “Dividend Puzzle”. 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”.

1.2 INTRODUCTION TO DIVIDEND POLICY

Dividend policy of a firm may laid down on decision regarding allocation of available earning by forming formal statements accepted by board of directors and monitored on regular basis. Dividend policy may be reexamined at every annual general meeting and published in the company annual reports.

The percentage of earning is allocated in the form of retain earnings and dividend distribution is generally cited as dividend policy. Dividend policies are considered as payout policy which mangers committed in deciding the value and model of profit distributing among the shareholders and it is also significant yardstick in determining the firm financial decision towards the level of investment and sources of investment whether the firm will go for internal or external source for its investment project. Dividend policies are generally interlinked with firms to reached significant volume of profit and various form of shareholders pattern. The complication in financial management is to plan an important part in determining a optimal dividend
policy for a management. Every corporate dividend policy should give a place to realize a equilibrium between retained earnings and dividends to declare new equity shares in any circumstance of additional equity capital is required in the market.

The guiding principle of dividend policy naturally depends on maximization of shareholders return in the form of capital gain and dividend. There are a number of factors influencing the dividend policy decision of a firm such as profit, sales, interest, cash position stability of dividend, past performance, transaction costs, investor preferences, government policies and taxation.

The remarkable values of optimum dividend decision is obviously depends on the key factors of maximize the shareholders wealth. Shareholders wealth maximization is primary and utmost objective of all the corporate management. Collecting resources from shareholder in the view of investments and utilized into productive aspect to generate value and wealth maximization. The term value maximization is used in to inculcate the worth to the shareholders of the company. Wealth maximization is a tactical process by involving sound financial decision towards investing in risk projects and achieving the expected return by balancing the anticipated benefits. Wealth maximization objective can be achieved by providing the shareholders a high payment on their investments by increasing the value of share price in the market and follow up the managed dividend policy. Even though, the impact of dividend policy on shareholders wealth maximization is still unresolved.

There are two important issues should be considered before generating value and wealth maximization of investment to investor namely Economic Value Added (EVA) and Focus on Stakeholders. Economic value added is a popular measure to analyses the existing and proposal investment should be supported to generate the owner or shareholders wealth creation.
EVA is equal to after profit deducting tax of the firm less the cost of funds used to identify and utilization of investment. Result of positive EVA would be desirable and contribute maximizing the shareholder wealth. Focus on stakeholders includes employee, customers, supplier, creditors and owners and others who have direct connection to the firm. Firms should avoid transferring the shareholder wealth or damage their wealth in any form of activity or circumstance. Stakeholder opinion should consider as part of its firm responsibility and expected to provide maximum long term benefits to the stakeholders by stabilizing mutual relationship, which helps to create peaceful environment along with minimize turnover and conflict in between stakeholders.

Dividend policy is most important signaling for companies to communicate with market participant. Investor cannot always believe corporate manager because their a chances to provide impartial information about their company’s prospects, but dividend signals are quite reliable because they required to distribute cash payment to investor and cash cannot be simply manipulated by any actions. Most of shareholders like to receive dividend and managers also create an opportunity to pay dividend when investors show interest to pay premium on dividend paying stocks and when managers are not paying dividends, investors hesitate to pay premium on non dividend paying stocks.

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. In this situation, the value of dividend is going to be extremely variable and often to be zero while compare with previous announcement. If the manager believes dividend policy is significant to their investors that it positively influences share price movement, they will decide
to choose managed dividend policy. Managed dividend policy is considered as favorable policy which stabilized and increases the value of dividend with the motive of shareholders wealth maximization.

There are various environments ought to be followed before determining the dividend policy:

1. Identify abnormal return in the project.
2. Retain the adequate cash position for future and present project, it helps to increase the value of the firm.
3. Maximize the shareholders wealth by increasing the share price in the market.
4. Distribute the excess cash as a dividend to shareholders.
5. Issue new equity capital when internal generated retain earnings are not adequate for project.

In real situation, most of managers are not interest to distribute the dividend, many factors and real time situation supported the firms in the form retention of earnings rather than distributing the cash dividend. The policy and terms of tax from profit are considerable and make them to follows more on retention. Further occurrence of floatation costs, the phenomenon in price fluctuation and legal complication that are favorable factors towards retention of earnings rather than distribution of dividend. The existence of transaction costs is the only feature that benefit for cash dividend payment.

Management adopts the dividend policy according to the stage of business life cycle where they are presently in. New firms with low growth and minimum cash flow, paying too less in dividend could lead the managers to investing excess cash flow in future project. If firm have high growth with
adequate cash balance, management will tend to pay more of their earnings out as dividends to create positive image of the company. Payout policy is vital for investor and management not only the amount of money concerned and repeated nature of the firm earning potential, dividend policy is closely related and supported with financial and investments decisions of the firms. Board of directors and managers must decide the remarkable pattern and level of dividends according to the life stage. Since, capital markets are perfect or imperfect situation, all of these decisions should interact and reflect in movement of share price. The dividend policy may help one to recognize the other pieces in this puzzle.

Several studies have exposed that dividends policies help to cultivate a smoother pattern of dividend earnings, a phenomenon that is constant observed in general. Firms normally do not declare dividends unless they are completely definite on sustaining the growth in future. Firm may have to maintain a stable dividend policy because the shareholders anticipate it and make a preference for it. Investor would be interested to invest only in those types of companies which pay high returns on shares price and paying stable dividend with managing the risk in the market. Similarly, they reduce the dividends when they feel that the decrease in earnings due to poor economic conditions, or to other reasons that are most likely to exist the dividend. Therefore dividends are likely to be more constant than earnings.

The investor like pensioners, small savers, new to market and charity firms prefer the stable dividends, because they will not have interest to take risk operations in their existing 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 and 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. The clientele effect relates to investor to choose the firms for match their preference of dividends policy. A change in firm payout policy would influence the clienteles to move their investments. From this point of view, managers should not change their dividend policies for the reason of increasing the portion of retaining as it will affect the clientele base.

Dividend decisions have occupied strategical position in corporate management and financial because of energizing and supporting the need of finances in the aspect of growth and development strategy. Corporate managers must deciding the volume and pattern of cash distribution to shareholders over the life time. Primary goal of the firms should be focus on increasing the shareholders wealth by transforming and increasing the value of the firm in capital market. This objective can be fulfilled by giving the shareholders a fair payment in the shadow of dividend.

In past decades, the issue over the need of dividend policy has still remaining in academic minds to grapple with dividend puzzle and frame out variety of theories and models for exclusively to validate the payment of dividends towards the motive of wealth maximization principles.

1.3 DETERMINANTS OF DIVIDEND POLICY

Dividends signify the return to the investor who invests his money at risk in the firm. Companies pay dividends to retain the existing shareholders and to encourage other to buy new shares at higher prices during issue time. Investors show interest to dividends because it is only through payment of dividends or the prospect of dividends investors obtain a return on their investment or the opportunity to sold their shares at a higher price in the market in future.
Dividend payout decision is common phenomenally influence by various internal and external constraints of the company 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 also influenced by psychological phenomenon like investor preferences, attitude, beliefs, opinion, culture, habit, life style and these constraints are perpetual change due to nature of various characteristics and operation involved by the firms. Accordingly, it cannot be possible to frame common mathematically model and uniform pattern of determinant of dividend for all firms at all times.

Investors should focus on certain unique internal factors before investing in capital market such significant factors are sales, profit, growth aspect, cash position, interest paid, tax and retain earnings. Once the payment of dividend is approved on ground of legal and contractual context, the next process is to identify whether the firm has sufficient cash position to pay dividend by evaluating the firm profit and retain earnings. Value of dividend is purely determined on the current year earnings of the firms. Management also view on growth and expansion aspect of firm by accessing the internal and external source of funds and its cost associated with the need of investment before deciding the value of dividend policy.

Cash and cash relevant act as significant signal for determining the dividend policy. Firm should maintain the cash position for fulfilling the obligation of short and long run circulation of the firm. If the firm pays high cash dividend it will reflect in maintain the working capital requirement and promptness of financing. Dividend policy should be considered as yardstick for ability to raise funds by external source but also the interest and the promptness involved in accessing the external fund. Accessibility of external finance for reputable firm is not yet sufficient for their growth aspect of
investment. Obviously, such kinds of firms have to more dependable on their retained earnings. In this juncture, management should maintain adequate level of retained earnings and tax that not affect the firm dividend policies in any circumstances. Dividend distribution tax is liable to company while they declaring the dividend to shareholders, currently In India the company want to pay 15% of dividend distribution tax to government. With effect from June 1997, shareholders receiving dividend from domestic company is totally exempted from paying tax.

In this thesis, researcher concentrate to identifying the most important influencing internal factors in determining the dividend value of firms by adopting the objective and statistical models.

Dividends entail the activity of cash outflow and it reflects in low growth in future. In other words, dividend policies have impact on both investor wealth and the long term growth of the firm. The optimum dividend policy should discover the equality between current dividend and future growth by the effort of maximizes the price of the shares. Dividend Payout ratio (D/P) is resolute by two objectives maximizing the wealth of the owners firm and providing adequate funds to future growth of the firm. If the firms have a concept of paying low dividend, it will implement rule of high retentions which recognize the growth of future earnings of the firm. However, in practice investor prefer to receive dividends because of uncertainty of future and imperfect movement in the capital market. This situation forces the firm to maintain low level in retention ratio. Payment of dividend can affect the movement of share price in the aspect of high and low level payout. Low level payout will cause a decline in share price and controversy high level payout may lead to rise in the share price.
Stability of dividend is also an important factor that influences the dividend policy of the firm. Dividend stability refers to paying minimum amount of dividend regularly to their shareholders. When a firm follows such kind of policy, it forces them to pay dividend to the investor even when they currently suffer losses in the earnings. Dividend stability act as signal for investor in the form of sources of information about the prediction and indication of firm profitability positions. It seeks the information content for future investment in particular firms. Reduction in dividend signifies the poor earnings and it ponders the share price dip in the market, no changes in dividend value indicate stability of in earnings potential and increase in dividend signifies the management optimism about the earnings.

Legal and contractual requirement does not affect the dividend declaration process but they state the rules of dividends will be paid to the shareholder. Such rules are considered as capital impairment rule, describe that firm have no rights to pay dividend out of its paid up capital, otherwise it will reflect in decline in capital value and affecting the safety of its lenders. The general principles of this rule laid on protecting the title of preference shareholders and creditors of the firm by possessions adequate value of equity. In practice, creditors always measure that firm creditworthiness based on value of equity strength. Any dividend polices break the rule of impair capital is generally considered as illegal action and the directors are personally responsible for the amount of illegal dividend. Therefore, the corporate manager follows rule of impairment before deciding the dividend policy.

Influence of contractual agreement in dividend polices should be quite common in nature. Contractual agreement relied on regular payment to the creditors. The payment of high cash dividend likely to violate the regulation of interest payment to the lender and make a firm default in
repayment of loan and entire principle in future. Such information will reflect in capital market. Contractual requirement allow the firm to limit the payment of dividend until certain amount of profit has been achieved or limit the value of dividend paid to investor or percentage of dividend should determined according to profit. Keeping in view of asperity of consequence, the financial manager make sure the amount of dividend will not affect the payment or committed to creditors.

Financial requirements of a firm are directly interlinked with investment objective. The firm should originate its dividend policy on the requirement of its estimated needs of investment. If a firm has copious investment or growth opportunities in the market, it may wish to maintain a low payout ratio, so it can help to reinvest excess amount at a higher rate of return. Maintenance of earnings is less costly than issuing a new equity in the market. High retained earnings provide support for fulfilling the financial needs of firms without accessing additional borrowing from outside. Therefore, it provides easy to change capital structure in efficient way of minimizing the dept capacity. On the other hand, if the firm has low or no growth opportunities, it will prefer to maintained minimum retention ration because of shareholders can invest earnings at a higher rate else ever than the firm can do.

Shareholder and management controlling attitude also be strongly influenced by determining the dividend policy. Management applies dividend policy as an effective tool to maintain its order and command. The management shows the interests to control the firm decision in its own hand by applying the policy of paying minimum dividend payout. This situation creates to maintain require funds for profitable investment in future. On the other hand, controlling group of shareholders seeking interest to control the firm activity by the way of voting rights and not wish to buy additional new
equity issue in the market for the objective of invest in profitable investment. This climate creates conflict face between management and shareholders and chance to lose a control of firm by the existing management. Alternative, if management is likely to control the power of firm through substantial hold of share and work to achieve the objective of shareholder wealth maximization and the firm has good image among the investor and public through its honorable action.

Capital market plays an important role in determining the dividend policy, to what extent the firm has depended on the capital market. Firms can easily approach the capital market based on its financially position and past performance. If the firm can allows liberal dividend policy they can stand on external finance through the capital market in future because dividend implies cash outflow. If the firm pursue low dividend policy, they will more likely to rely on internal sources to finance for their projects the firm not able to need the capital market accessibility.

Country economy and inflation play a vital role in determining the firm dividend decision. In the high inflation rate and unhealthy economy condition, the firm cannot generate external funds for their project due to behavior of shareholder, high cost, high interest rate and inadequate source link, this environment becomes more necessary the firm assets are to be change to liquidation in near future. As a result, the firm dividend payouts force to be low during periods of high inflation and economy down.

Primary objective of a firm is to increase the shareholders wealth. The challenge to financial manager is to genuine frame out a payout policy where firms should stand on maximize shareholders wealth and maximizing the utilization of investors benefit. Clear principles for an optimal payout policy have not yet developed despite voluminous literature. Dividend behavior and dividend pattern of firm have still not been clearly obtained. The
factors that support to dividend decisions and design the pattern should cooperate needed to understand completely by the financial manager before deciding the dividend policy.

Few studies have analysed the corporate managers and investors to know their opinion about dividends determine variables and its influence characteristics. The real motivation for declaring dividends remains a puzzle along with factors that influence the value of dividend is differ from firm to firm. Therefore, this research study makes an attempt to add to the facts of information towards influencing variables and contribute towards solving the dividend puzzle by adopting the objectives and apply the statistical measures to get adequate knowledge in dividend determinant to investor and managers.

1.4 SEMI STRONG FORM OF EFFICIENCY THEORY

Efficient market hypothesis (EMH) predominately ruling the modern finance context. It asserts that capital markets are informational efficient. In reflect of this, one cannot frequently acquire excess return according to market returns on a risk adjusted basis on the availability of information during the time of investment is made.

Market efficiency is defined in relation to information that is reflected in security price. Eugene Fama (1998) suggested distinguish three major views in efficient market hypothesis namely, Weak form efficiency, Semi-strong form efficiency and Strong form efficiency.

Weak form market hypothesis claim that prices reflect all information found in the record of past.

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 investors can not able to get superior risk adjusted returns in their investment made. To test market efficiency by adopting particular investment strategies to examine whether they earn excess return. Excess return represents the different between the actual return and expected return from the market.

The wish of researcher wants to test the concept of semi strong efficiency theory by applying the objectives to understand the level of impact in investor attitude towards the firm past and present information. To validate the theory, researcher construct questionnaire in various dimension towards the firms past, current performance and dividend policy. In addition, to identify the impact of share price towards the existing flow of information in the market, an event study method was used to analyze the market reactions and find the excess returns in market based on the announcement of cash dividend only, other dividend and other event like stock split, acquisition, not consider in this thesis.

The following steps are involved in determining in the event study:

1. Identify the event for the studies, i.e: cash dividend.
2. Identify the date on which the event was announcement.
3. Collect the daily return and market return data based on the announcement date by framing window
4. Calculate the excess return by applying the formula

\[ ER_{jt} = R_{jt} - \beta_j \times R_{mt} \]

\[ ER_{jt} = \text{Excess return on firm j for period t} \]

\[ R_{jt} = \text{Return on firm return for period t} \]
\[ \text{Beta}_j = \text{Beta for the firm } j \]

\[ R_{mt} = \text{Return on market return for period } t \]

5. Analyze the average excess return across firm

Strong form of efficiency implies that price instantly reflect even hidden or insider information and public information. To access the insider information or to know the hidden information inside market and firm is too difficult to access the information by researcher and sometime information are not reliable or not valid to test the movement of shares prices due to these drawbacks, researcher are not able to test strong form efficiency theories in this thesis.

1.5 DIVIDEND POLICY AND SHARE PRICE RELATIONSHIP

Dividend policies are not only dealing with financial and investment decision of the firm but it has significant impact in the movement of share price in the capital market. Announcement of dividend and earnings information play a proficient task in capital market, when it is publicly released in the market it reflected in share price movement. Corporate manager should be liable to identify the rational dividend policy that will progress goodwill of the firm in the mindset of the investors and it also associate with buying and selling of share by investors to improve the value of firm in market. It is always agreeable that the share prices of a firm be inclined to reduce whenever there is a decrease in the dividend payment by the management.

Increasing in dividend value generates the abnormal positive returns and if dividend value decrease generates negative return in share movement. A reason for the rise and fall in share price occurs because dividends payout information has a signaling effect after the announcement.
According to the theory of signaling, firm managers hold private and superior news about the future scenario and select a dividend level according to signal to the level of private information.

There are different schools of thought explain the relationship of dividend with other policy. The fundamental school of thought hopes that two important factors such as earnings and dividend drive the movement of share price. The technical school of thought believes that trends and pattern are significant factors towards the movement of share price. Modern financial theory believes that markets are efficient in nature where amount of information reflects in the movement of share prices. There are number individual academicians also have developed many theories and models to expose the movement of share price along with dividend policy and corporate action.

There are two fundamental schools of theories, one school of theories believes that dividend policy is not relevant to movement of share price created by Miller and Modigliani, while the other school of theories believes that dividend decision is relevant to the determining the value of the firm in capital market introduced by Water and Gordon. These theories act as light house for other of school of thoughts who believe that dividend policy has the relationship with firm.

According to dividend irrelevance theory suggest by Merton H. Miller and Franco Modigliani in financial literature is called as MM theory, argue that the firm’s value is determined exclusively by the capabilities of earning and risk associated in its investment and that the method used by management to splits the earnings stream between dividends and internally retained funds does not affect this value. MM theory clearly suggests that in perfect market their rational investor, no taxes, no transaction costs and no other market variable influences, the value of the firm is unaffected by the
distribution of dividends. The theory clearly depict that large changes in dividends announcement have direct relationship with movement of share price. Value of dividend increase, it replicates in increased in share price value, and value of dividend decrease result in share price decrease. This impact is attributed to not only the increase or decrease in value of dividend but rather to the information content of dividend along with the earning capabilities of the firms in future.

MM theory supports that dividends are acts only signaling tools between investors and managers. Investors do not prefer for receiving current dividends rather than future capital gains. Instead, investor consider dividend value as an parameter to analysis the performance of firm earning by observing the change in dividend, increase or decrease in dividend, as a information that management likely to change the future earnings in the same direction. An increase in dividends is observed as positive information and investors bid up the share price, decrease in dividends is negative sign that causes a decrease in share price as investor motive to sell their shares.

Dividend relevance theories suggested and supported by two eminent Walter and Gordon. Walter model doctrine investment of a firm is closely interlinked with dividend policy. Optimum dividend policy will determined or affect by the relationship between investment return (r) and cost of capital (k). If the return on investment exceed the cost of capital (r > k), the firm should retain the earnings for further growth. Whereas earnings are distributed to the shareholder all, it will decline the value of market price. When (r < k) firms does not have profitable investment opportunities so the shareholders will be pay off its earning. In such a case, the market price of shares will be maximized by the distribution of the entire earnings as dividend.
Gordon model of dividend relevance is clearly described with the concept of bird in the hand argument. Gordon strongly believe that the future is uncertain, if the firm withheld the dividend due to motive of retaining profits, the investors cannot receive the capital gain in future due to uncertainty. Investors would naturally like to avoid uncertainty. In fact, they may like to pay higher price for shares if dividends are paid regularly. Conversely, they may not pay higher price for shares if dividend is postponed. He argues that dividend policy of the firm is relevant and the investors put a premium on current income or dividend.

There are divergent views on dividends about its relevance or irrelevance by eminent authors. From their arguments, we came to know that dividend are methods of distributing funds which the firm cannot use for profitable for future. In general, investors are likely or dislike to receive the current dividend according to their attitude of investment ideology but the firm should responsible to follow an golden rule of maximize the shareholders wealth by adopting optimum policy which have direct impact in share price movement. An appropriate dividend policy will vary from firm to firm as it determined by the financial factors.

The most popular declaration about the relationship between dividend policy and shareholders value claimed in the presence of perfect markets as firm’s investment policy and dividend policy will impact neither the current shares price nor the total value to its investors. However, market imperfections indicated as various tax rates, asymmetries, agency cost, transaction costs, flotation costs, and unethical investor behavior might bring the dividend decision more relevant.

Wealth maximization relied on increasing the value of firm in the capital market, it is the role of the firm’s investment, financing and dividend decisions. Primary goal of management is to maximization shareholders’
wealth, by trend of increase the firm value as deliberate in the capital market. Investors like cash dividends along with increase in growth of EPS value, that results from reinvest earnings back into the business. The goal of the finance manager should be to path out an optimal dividend policy that will enrich firm value in the market. It is frequently argued that the stock prices of a firm likely to be decrease whenever there is a dividend reduction by the firm decision. Announcements of increase in the level of dividend produce abnormal positive returns in the value of firm, and announcements of dividend decreases causes negative returns in the security. Dip in share prices movement occurs because dividends have a signaling effect in the market.

It has been greeted by number research studies that a dividend decision could make effect on firm future price when recognized and carefully followed. The aim of wealth maximization is broadly accepted in the business as it accommodated in the interest of the stakeholders. Shareholders wealth maximization should estimate with the parameter of economic value of a particular investment, For e.g. investment focus towards strategies partnership, mergers and acquisitions, syndication, joint venture, etc., by discounting fund outflow with the help of cost of capital. These fund outflows in fact, help as the foundation for investor returns in the form of dividends and increase in the value of share price.

Firm must concentrate towards enhance to generate the cash and reach to maintain adequate level of cash positions The capability of a firm to dispense the cash to its several functions based on its capacity to yield cash again from its business operation and also to acquire any additional cash for its investment in the channel of debt and equity financing. Accessing the external sources and the value of the market shares are depends on a firm cash generating ability. The share value of the firm directly affect the accessibility of equity financing, for a required level of funds for project investment, if the
firm share price is fixed in higher level it will immediately result in dilution the investor in decision making. Therefore, corporate management should clearly establish their financial power in the view of liquidity, asset and liabilities to approach efficiently with claimants about the reputation of firm in the nature of value of the share. The firm should appreciate and reward their shareholder with the return of dividend and capital appreciation.

Many firms offers Dividend Reinvestment Plans (DRIPs), which enable stockholders to use dividends received on the firm’s stock to acquire additional shares or even fractional shares with no transaction cost. Some other companies yet allow investors to make their initial purchases of the firm’s stock directly from the company without going through a broker. With DRIPs, plan investor can obtain shares at about five percent below the existing market price. From its point of view, the firm can issue new shares to participants more economically avoiding the under pricing and floating costs that would accompany the public sale of new shares. Clearly, the survival of a DRIP may improve the market request of a firms share.

1.6 ECONOMIC RATIONALE BEHIND THE DIVIDEND

The dividend policy relied on two track of line to identify the investor behavior, they are: information asymmetry and agency conflicts.

The information asymmetry theories discuss that one customer in the transaction have more and better related information but other customer do not know the information, by this lack of information he can earn superior in the market. In turn, corporate a manager may know more information than investors about firm prospects and current activity of the firm. This action helps the manager to execute the power of transaction with objective of superior earnings in the market.
Dividend announcement reveals the real facts happened in the firm action. Managers many know the value of dividend going to propose in the market and reaction of the market if dividends value increase is positively reflected to share returns because a higher value of dividend signals that higher current earnings or future growth optimistic. Information asymmetry also helps the manager to unwilling change the value of dividend.

Several research studies and volumes of literature suggest that, when a firm share priced is undervalued due to the holding of private information by managers. If managers wish to use dividends as ladder to increase a share value for the firm, that also happens in real by holding of private information. Since, the declaring the dividend has become costly to management, managers should responsible to know significance and necessity of establishing an optimum value for the firm in the market value. For example, if the shareholders decide to sell their shares due to under price, or if the firm is a target for takeover action, to avoid this kind of incident, firm manager may establish the optimum value for the firm by incorporates favorable private information as considering more important in this juncture. The degree of valuation of the firm by the market based on required size of equity sale to judgment the dividend payout decision.

Creditors generally like to provide the loan to only stabilizing earning firms, apart from risk oriented. Therefore, it helps to provide consistent dividend cash flow which will not affect the credit standard of the firm and make to promptness in payment of interest and principle. Information asymmetry also suffers the creditor more than the shareholders as may view to this dividend decision. In general, managers decide to pay low dividends with the intention of having more retained funds to invest in high profitable project that illustrates the market will react positively and creditors will motive and entrust about the creditworthiness of the firm.
Dividends refer to the transfer of the firm’s resources from the common pool and distributed to the all share holders of the firm according to their proportion of ownership. Clearly, due to this reason, debt holders are not like to pay the dividends to shareholders. Dividend payments increase the chance of out flow of cash and the remaining value of cash in the firm will not assure to fulfill the debt obligations. Dividend payments made the cash outflows and the value of debt is more uncertain by increasing the chance of default and by decreasing the value of the firm assets that can be utilized to settle the debt holder liability in emergency of delinquency.

High growth firms currently afford to pay high value of dividend with suitable constraints. In future, firm can severely affect to pay same level of dividend because of wrong decision of manager to plague overinvestment in negative NPV projects and information asymmetric. These firms are likely to need more outside financing regularly. Further, these firms have a flexible dividend policy for the appreciation of lenders. Moreover, dividends are least important to shareholder in high growth firms, shareholders are expected of receiving high capital appreciation while comparing with the dividend.

High leverage firms can follow stable dividend policy for their lifetime. High value of debt in the firm make responsible to limit the investment opportunity in the project and often to compulsion the refinancing the obligation of debt discipline so manager have limited opportunity in using the asymmetric

The different form of suppliers to the firm capital such as shareholders, bondholders, debentures holders, convertible securities, creditors and the various suppliers of labor to the firms such as management and other employees all contribute in the results of the firm’s behavior. The various groups of parties associated with the firm’s activities are called as claim holders. Yet, since shareholders of the firm are referred as owners of
the capital, their interests dominate the manager’s action in the firms. The other claim holders have less influence over the firm’s action. This inequality of influence is referred as agency cost or agency problem.

High growth with low leverage firms having wide pattern of ownership, dividends are quite commonly technique in balancing the agency conflicts between managers and shareholders in the firms. All the categories of claim holders are traded equal by the payment of dividend, especially a high growth firm which is accessed by the capital markets more frequently. The firm management behavior and attitude are scrutiny by the capital markets by their extent rules and powers. Managers own a major percentage of shares holding, manager interests are more closely united with shareholders own few shares in the firm. Accordingly, management ownership and share holders expect to execute the optimal dividend payout to be a function regularly. From an agency outlook, high level of management ownership expected a lower dividend payout may be suitable and vice versa.

Dividend policy of a firm has importance for shareholders, managers and creditors and other stakeholders of the firm. For shareholder point of views, dividends are stated today or collected and rendered at a later time are not only in the form of regular income, but also an important signaling of firm valuation. Similarly, managers tend to invest in projects dependent on the value of dividend that they can provide to shareholders as much as dividends may provide limited funds invest for project. Creditors may also have assumed by various stakeholders. Accordingly, dividend policy can be utilized as a device to reduce agency problem. The costs of dividend diminish the discretionary funds offered to managers for privilege utilized and investment opportunities. This controlling power of the external capital markets may persuade the managers to be more disciplined and act towards owners’ best interest.
Easterbrook (1984) recommended that dividends may help to minimize the agency cost related with the division of ownership and control. The initial stage of his opinion, when wider range of ownership in the firm, individual investors have interest to know the activity and monitor managers action. He depicted that dividend payments compel the firm managers to search the source of funds in the financial Markets more often without paying the dividends to shareholders. In fact, dividends are subject to managers to regular analysis by outside professionals, such as investors, investment bankers, financial consultant, lawyer and accountants. Management is efficiently scrutinized more regularly when dividends are payout, and dividend deciding managers have more chances to perform in their own common interest as opposed to interest of shareholder.

Shareholders are owner of firm but the manager monitor and controls firms operation daily. Such partition is commonly in the requirement of economies of scale. To offer a product or service efficiently to the market in large scale, owners want to contribute the financial support for the mangers to work efficiently. Consequently, many corporations are financial supported by a large and different group of investors who hand over decision making power to management professional. These mangers do not contribute any physical form of capital rather than their human capital. Firm managers are appointed by directors to work as agents of the shareholders. Boards of directors are monitoring the performance of mangers to assurance that management decisions are associated with the common interest of the shareholders. In practice, monitoring management activity is difficult. Managers are occupying too much of information than the board of directors and investors. Superior information inhibits in the earnings sometimes and it
even creates conflict between managers and investors and decision is not able to implement in board of directors.

The combined wisdom of the literature suggests that the agency associate with corporate owners and its managers makes the opportunities to pursue goals other than maximization of shareholder wealth maximization. The payment of cash dividends and managerial ownership may minimize the agency conflicts in the firm.

1.7 STAGES AND PROCEDURE IN DIVIDEND DECLARATION

Many firms in the India pay dividends annual and quarterly. Getting approval in board of director meeting regarding the dividend value the following procedure will laid in line of announcement. Boards of directors announce the information on the value of the dividend. It is generally referred to announcement date. Further, the information indicated that the payment of cash dividend will be made to list of shareholders as per maintaining in corporate record, it considers as record date. Next step is to identify “ex-dividend date” In practical, two business days before the record date. After the stock goes ex-dividend date, the shares deal without the rights to the forthcoming receiving quarterly or annual dividend. The value of dividend amount will sent in mailed to shareholders in the form of cheque on the payment date, which is dispatched two weeks after the record date. Figure 1.1 shows various stages involved in declaring the dividend to shareholders.
Figure 1.1 Stages in dividend declaration

a) **Estimating the Value of Depreciation**

Depreciation rate shall be given either at the rate mention in Schedule XIV of the Companies Act 1956 or any other method approved and permitted by the Central Government of India.

b) **Transfer of Profits to Reserves Account**

Before announcing the dividend value, certain portion of profit has to be compulsorily transferred to the account of reserves in the company. This transfer amount is based on the projected rate of dividend. Voluntary transfer of higher amount to reserves is approved to the subject to condition of Companies Act.

c) **Board of Director Resolution**

The important steps in the declaring dividend want to get approval and pass resolution in board of directors meeting. If the board of directors
recommends to paying the dividend, the same information not declared in the Annual General Meeting.

d) Annual General Meeting

Dividend declaration information should be enclosed in the agenda of the annual general meeting and sent the notice to all members as well as the creditors in the firm. A common resolution is needed for declaration of dividend. However, shareholders have no rights increase the value of dividend approval and recommended by the board of directors.

e) Payment of Dividend with in Time Limit

The separate account should be maintained for dividend with the firm financial institution and the total value of dividend amount should be transferred to that particular account within 30 days of the annual general meeting declared, the dividend notice should sent to the shareholders.

f) Transfer of Unpaid Dividend

Unclaimed dividend amount should be transferred to the unpaid dividend amount account within 30 days from the day of dividend announced. Unpaid dividend account should maintain in of a scheduled bank. Unclaimed dividend amount remain for more than seven years shall be transferred to the investors education and protection funds.

h) Tax Limit

The tax liability in value of the total profit of a firm for any assessment year, any value of declare of amount, circulated or paid by company in the form of dividends and also whether settled out of current or accumulated income or profit is collect with dividend distribution tax at the
effective rate of 16.22% in India for the financial year 2012-2013. The management is liable to pay tax for their company. The Dividend Distribution Tax (DDT) has to be paid within 14 days of declaration of dividend, tax on distributed earnings paid by the firms would be considered as the final payment of tax in respective of dividend. For financial year 2012-2013, dividends received by an Indian company from specified foreign companies (companies in which the Indian company holds 26% or more of equity shares) is subject to tax at a reduced base rate of 15%. A surcharge and cess also are imposed.

i) **Provisions to Listed Company**

Listed companies also want the intimation earlier to the stock exchange representative regarding the place and time of the board meeting for the declaration of dividend. After closure of the board of directors meeting, information will communicate to the stock exchange including the particulars of detail of value of dividend. Information regarding the general meeting also communicates to stock exchange along with the declaration of dividend value.

**g) Conditions under the Dividend Need Not Be Paid**

i) Involved in any illegal operation by the firm.

ii) Shareholder provides opinion to the company regarding value of dividend and those opinions could not be complied with.

iii) Difference in opinion between management and shareholders regarding the dividend rights.

iv) Dividend could not be paid because due to any default in the firms activity.
It is clear by understood from the steps involved by company in declaring and distributing the dividend under the company act to their shareholders. However, depending upon the nature and characteristics of business and condition included in memorandum and articles of association of the company there may be some dissimilarity and additional steps should include.

1.8 ALTERNATIVE FORMS OF DIVIDEND

Firms basically reward shareholders with regular payment of cash dividends. Firms always like to follow stable dividend policy along with increasing the value of dividend yearly, when earnings continue to increase simultaneously. These earnings are collected over a period of time to improve the wealth of investors and consistently increasing share prices in the market. Apart from payment of cash dividend, firms also have other alternative way whether directly or indirectly rewarding the shareholders interest. These alternative forms of incentives maximum possible to avoid miscommunication in market, there are three popular ways of maintain the interest shareholders by the company. They are:

1.8.1 Share Buy Backs

If the firm follow stable dividend policy, do not increase dividend payout despite increased in the level of earnings. Firm have two opening choices of excess earnings, firstly firm decided to retain a good quantity for future requirements from that increasing level of earnings, Firms may be unsure condition about future capital expenditure requirements withholding of various projects under consideration. Firms can reinvest excess earning amount in these project. If firm have sufficient funds with no significant growth opportunities in views, firms may choose to return the excess cash back to shareholders Hence, the firm choices to give back their excess cash to
shareholder in the form of buyback of shares. A popular method used by company to satisfying shareholders in a form of dividend other than distributing cash to repurchase the share from particular share holders in the name of buy back of shares. Under stock repurchase plan, a firm get back some of its outstanding shares in the market, it support to decreasing the number of outstanding shares in the market. This, in turn, increases share price in the market and EPS also. It is an alternate form of dividend payment when it is large and popular. It provides an opportunity to shareholders to continue or exit their investment in the particular firms. In India, up to the year of 1998, share buyback plan was not permitted to involve by the company. After it was sanction and permitted, many firms in India implements the share buyback plan. Share buyback plan has various advantages. It communicates the value of the firm in the estimation of management, is capable of rising promoters’ shareholding, defense against hostile takeovers, and provide place to alter patter of shareholding and capital structure.

1.8.2 Bonus Shares

Issue of bonus shares is a way of increasing capitalizing reserves in the firm. It only modifies the form of share pattern and not changes the wealth of shareholders. According to the follow of stable dividend policy, firms should exercise abnormal or excess earnings to accumulate in the account of retain earnings. These retained earnings emerge in the account of reserves and Surplus. The total value of the capital subscribed and the reserves is considered to as shareholders fund. These retained profits keep increasing the value of the reserves and surplus year after year. Quantity of reserves and surplus becomes quite high in relation to subscribed capital, firms decided to issue bonus shares to the existing shareholder, to maintain an appropriate
quantity of subscribed capital. The issue of bonus share is purely restructuring the shareholders funds keeping the firm value same as before.

1.8.3 Stock Splits

The stock split also works in the same way of bonus shares. It is an activity involved by a firm to raise the number of shares outstanding. Normally, share splits minimize per share price and increase in quantity of shares because splits simply “split the pie into slighter slices”. Share splits are used to remain stock prices within an optimal range. Stock splits are like as bonus issues in degree of the effects of book value, liquidity, price and EPS. The only difference between these two elements lies in the books of accounts. In the action of bonus share issue, reserves and surplus amount should be transferred to paid up capital, while in case of share split the reserves and surplus amount remain unaffected. The number of outstanding shares will get multiplied.

1.9 DISTRIBUTION OF DIVIDENDS BY A COMPANY LAW IN INDIAN

A wide range of market characteristics and nature have been proposed as vital important in determining the dividend policy. Dividend decisions should impact on various parameters like legal, tax and environmental factors of a country. The nature of these factors substantially varies from country to country and time decency. Taxation policy is understood as a significant variable in determinant of dividend payout in the most developed countries. In India, the tax procedure and system is different from developed countries. In India, Companies Act 1956 has forced statutory restrictions towards declaration and payment of dividends. A company paying dividends should stick and obey with these rules and norms, which are depicted as follows.
1.9.1 Legal Regime

Section 205 of the company Act regulates the announcement and distribution of dividend. Firms have share capital and create profit are liable by law to distribute and declare the dividends. As per Section 205 in the Companies Act 1956, a dividend as well as interim dividend can be paid from the current year earnings or earnings accumulated of previous years. However, depreciation for the entire year should be calculated and to be provided before a dividend is paid. For this result, the board of directors wants to endorse the financial results (unaudited) and functioning of the profits accessible for distribution of dividend.

As per section of Companies Act 205 A, B and C agreement with various dimension of allocation of dividend such as establishment of Investor Education and Protection Fund, Payment of unpaid and unclaimed dividend etc. Individual bank account wants to be opened and maintain for the purpose of the amount of dividend will shifted to that particular account. Dividend amount will have to be settled to shareholder within 30 days of management declaration. The other systematic process in dividend distribution like record date, payment of tax should implement within 7 days of declaration, etc. Dividend can also pay our of divisible profits or out of the amount issued by the central government or state government for the purpose of payment of dividend declaration given by that government.

1.9.2 Mode of Declaration

Dividend can be allocated in four sources. Firstly, it can be stated out of the earnings of the company for the current year arrived at after calculating the depreciation value in accordance with the requirements of the company act. Secondly, profit of the company for any earlier financial year or years after arriving the depreciation in agreement with provisions and
remaining undistributed. Thirdly, out of both the way of sources above or finally, financial assistant offered by the Central Government or State Government for the distribution of dividend payment by the assurance given by that Government.

1.9.3 Prohibition

A company failed to return the obligation to redeemable preference shares within the predetermined period, cannot rights to pay dividend to their shareholders.

1.10 BANKING INDUSTRY- AN OVERVIEW

In India Modern banking can be evolved back to the initiator of Bank of Bengal in during January 1809, the first joint stock bank established by the royal charter of the British India government and Government of Bengal. Bank of Hindustan during 1770-1829 and the general Bank of India established in the year of 1786 were the ancestor of joint stock bank but it become solvency and defunct Thereafter Bank of Bombay established during April 1840 and Bank of Madras during July 1843 were established and operated as the banks. These three banks are generally known as the Presidency Banks in India, These banks are operated with limited power and liability, joint stocks banking in India were direct with the right of note issue. Following the introduction of the presidency banks to their wider purpose with limited liability a few more banks were established in India. The Allahabad Bank and the Punjab National Bank were introduced in the year of 1894 The Swadeshi movements that introduce in the early 1890s provide support to start of indigenous joint stock banking companies such as The Bank of India, The Bank of Baroda, and The Central Bank of India during the year of 1906 to 1913. The three Presidency banks were join together to form the Imperial Bank of India in the year of January 1921. Which bounded many
roles and responsibilities and that operated as commercial banks as well as it act as a banker to the government and a banker’s of bank. For the many years Imperial bank act as central bank of India up to year of 1934. It responsibility came to end by the successor of Reserve Bank of India was established in the year of 1935.

The development of banking sector was very slow during the period of 1913. There are approximately 1100 small and medium banks operates in India during the year of 1913 to 1948 without maintaining the structural policy and procedure. To streamline the operation and controlling the functioning these commercial banks, the government of India establish and pass the Banking Companies Act 1949 and latterly change its identity as Banking Regulation Act 1949 as per amending Act of 1965 (Act No.23 of 1965). Reserve Bank of India is consider as prominent central bank with wide scope of power and responsibility to supervise other banks and balancing the country monetary and fiscal policy

Banking at the time of Independence was mostly based in urban areas. Following the steps of nationalization in many banks during the year of 1969 to 1980, the banking system spread radically to the rural and the semi-urban place to pursue banking services mainly aimed to improve the saving attitude of economically exclusion sectors people

After independence, Government of India has initiate significant decision in regard of reforming the Indian Banking Sector activities. In the year of 1955, the Imperial Bank of India was nationalized and was entitle the brand name as “State Bank of India” spotlight as oldest bank in India to work as the primary agent of Reserve Bank of India and to permit to handle banking operation all over the country. State bank of India was established and recognized under State Bank of India Act, 1955. State bank of India was
dedicated as nationalized along with its seven subsidiary bank during the year of 1960.

In the year of July, 1969, major course of action was carried out towards nationalization of banking sectors. Under the major decision at the time fourteen commercial banks of the country were nationalized by the government of India. In year of 1980, another six banks were nationalized due to overwhelm of customer support and their service, and thus raising to number of twenty nationalized bank in India with short period of time Even though seven more banks were nationalized with deposits over 200 Crores. Up to the year 1980 most of the banking segment in India was under control by governments of India. Majority of ownership withhold by government of India. Government of India form Narsimhan Committee to review the working condition of India banking sectors and committee suggest to open the gate for private sector bank and financial institutions to serve for people and industry, full fledge Banking Regulation Act was amended in year of 1993. Economic reforms followed by the banking sector reforms by Liberation, Privatization and Globalization in the year of 1991 changed the Indian banks functioning, more stable and stronger.

The following are the major changes involved by the Government of India to reforms the regulation of Banking institutions in the country:-

1949 : Enactment of Banking Regulation Act.
1955 : Nationalization of State Bank of India.
1959 : Nationalization of SBI subsidiaries.
1961 : Insurance cover extended to deposits.
1969 : Nationalization of 14 major Banks.
1971 : Creation of credit guarantee corporation.

1975 : Creation of regional rural banks.

1980 : Nationalization of seven banks with deposits over 200 Crores.

1.10.1 Nationalization

In the year of 1960s, the Indian banking sectors has become an imperative system to assist the growth of the Indian economy and it act as facilitator for providing large employment in India. Indira Gandhi, the former Prime Minister of India has conveyed the opinion to the Government of India in the annual meeting of All India Congress Meeting in a speech entitled “Stray thoughts on Bank Nationalization”. Her speech creates the path towards the positive enthusiasm to contribute the bank sectors for nationalization. Thereafter, Government of India has taken immediate step and move forward the ordinance to 14 largest commercial banks as prestige’s status of nationalized with effect from 19 July1969. One of the national leader in India Mr. Jayaprakash Narayan quote the activity and appreciate the step as a “Master stroke of political sagacity”. Within 15 days government provide nationalization status to these 14 banks and also passed the Banking Companies bill successfully in the parliament (Acquisition and Transfer of Undertaking), and it forwarded to the acknowledged of the president of India on 9 August, 1969. Second chances look over for nationalization status for another 6 more commercial banks initiated and approved in year of 1980. The main objectives for issuing nationalization status for these six banks, government want more control towards the supply of credit. After the second stage of nationalization action, the government of India with holds the power of control around 91% of the banking industry. Indian government merged New Bank of India with PNB (Punjab National Bank) in the year of 1993 due to the wide spread of activity. Friendly Merger took place between two
nationalized banks for the motive of reducing the number of nationalized banks from 20 to 19. Nationalized banks grew at a same development rate to the nearest to the growth rate of the Indian economy.

The Indian banking sector performance more closely linked with the Indian economy, it supported as “Engine of Growth” in the last few decades. It was one of the rapid growing industries and contributed 7% to India GDP in 2012 up from 5% in 2000.

1.10.2 Liberalisation

In the year of 1990s, during the Narsimha Rao regime embarked liberation concept in India. These concept boost up to venture and licensed small number of private banks to operate in India. The liberation concept objective to focus in banking sectors to seed for New Generation tech-savvy banks in Indian land, and permitted the first new generation banks called as Global Trust Bank, and later merged with Oriental Bank of Commerce, Axis Bank, ICICI Bank and HDFC Bank on 14 Aug 2004. The climate of liberation shift the bank along with the faster development and revolutionized in banking industry, with the aspect of strong contribution to the growth of Indian economy by three major sectors of banks, namely, government banks, private banks and foreign banks. The Liberation policy support Indian bank with the projected relaxation in the rules and regulation in attracting the Foreign Direct Investment, In India, Foreign Investors holding the shares in the banks may be have voting rights which exceed the more than cap of 10%, at present it has cap of 49% with some restrictions.

The policy applied by Reserve bank of India ushered in a contemporary outlook and tech-savvy methods of adopt and change all the traditional banks. All activity helps to the venture the retail bank in India. Bank in India is generally offered many services in nature of various product and services based on fund and fees based. Many private and foreign banks
take reach steps towards rural India but still remain a challenge task for these banks to operate in rural in terms of structure facility, quality of assets, people awareness and capital adequacy. The Reserve Bank of India is an autonomous institution without the power of government intervention and pressure. RBI frame out number of policy and regulation towards the stabilization of Indian rupee to minimize volatility with other currency but without following any fixed exchange rate.

In year of 2005, RBI allowed the investor to hold more than five percentage stake in private sectors banks and provide voting rights to the shareholders if they hold more than the five percentages in the bank sectors. In March 2006, RBI permitted the Warburg pincus to raise its stake in Kotak Mahindra Bank to 10%. During the year 2011-12, majority of public sector banks withhold of Government shareholding of more than the fixed of 51%, this percentage was close to the statutory condition As at end of March 2012, Ten out of Twenty six public sector banks had allowed to invest private shareholding increase from 20% to 40%. In addition, foreign shareholding pattern in public sector was grown up to 17.4%.

As at end-March 2012 report indicated in RBI website (2012), 41 foreign banks are operating in India with the total number of branches 323 in major cities in India. 46 other foreign banks had their representative offices in India. Standard Chartered having maximum number of bank branches in India (96 branches) followed by HSBC (50 branches), Citi Bank (42 branches) and Royal Bank of Scotland (31 branches).

Indian banks are allowed to operate in overseas, as per RBI statistical report 2012, as on the end of March 2012, 23 Indian banks had overseas branch office with a total number of 250, as compared with last year (March’ 2011) 244 branches offices operated. Of these overseas offices, 215 branches were owned by public sector banks. From these banks, the State
Bank of India had large no. of overseas operation followed by Bank of Baroda and Bank of India. In added to, 25 Indian banks had 55 financial operation representative offices in various countries. The no. of subsidiaries in abroad was 24 and joint ventures of Indian banks in abroad stood at number of 6 respectively. Table 1.1 overseas operations of Indian banks gather from official website of RBI (http://www.rbi.org.in/scripts/PublicationsView.aspx?id=14629).

Table 1.1 Overseas operations of Indian Banks (As at end-March 2012)

<table>
<thead>
<tr>
<th>Name of the Bank</th>
<th>Branch Subsidiary</th>
<th>Representative office</th>
<th>Joint Venture</th>
<th>Total</th>
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<tr>
<td>1. Allahabad Bank</td>
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<td>2. Andra Bank</td>
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<td>6. Corporation Bank</td>
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</tr>
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<td>22. Federal Bank Ltd</td>
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<td><strong>Total</strong></td>
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<td><strong>165</strong></td>
<td><strong>24</strong></td>
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</table>
1.10.3 Government Policy on Banking Industry

In India, Banks industry are bounded with stringent rules and regulation in their process, operations, services, products and the way of growth and expand their facilities to the servicing to the public are strongly control and monitored by Reserve Bank of India. Banker should liable to works within the financial structure and system for the purpose of loans, deposits and services to their customers. They must work and process within a environment of extensive regulation to protect the interest of the customer.

The objective of enforcing the regulation in bank industry

- To safeguard the investments of the public.
- To control the supply and demand of country currency to maintain the national economic goal.
- To provide equal opportunity to the public to avail credit and other financial support.
- To develop the public reliance in the financial system, so that helps to make savings more speedily and efficiently.
- Support the Government by providing credit, tax and other services.

1.10.4 Regulations for Indian Banks

In India, banking sector is still in a developmental stage, where the spotlights of regulations focus in evolution and structural changes in the banking sector. It begins with building institution and steadily shifts to construct the infrastructure to intensification intermediaries to safeguard the investors’ interests. Banking reforms begins in early 1990s, it indicate a
change from traditional stage to tech savvy growth stage. Commercial banks in India are regulated and monitored by autonomous bodies of Reserve bank of India.

1.10.4.1 BASEL III Norms

Basel norms are considered as umbrella of polices and regulations to define the roadmap for banking operations under its three pillars:

**Pillar 1:** Capital requirements: Minimum regulatory capital requirement based on risk weighted assets

**Pillar 2:** Supervisory review process: Framework to agree with risks that banks face from period to period

**Pillar 3:** Market discipline: Increasing disclosures by banks to bring more transparency in public

1.10.4.2 Government Initiatives

The two regulatory bodies, RBI and SEBI are taking each steps to strengthen the economy by safeguarding the banking sector. These two regulatory bodies have responsibilities in controlling the level of CRR, SLR and deregulation of interest rates and presently Introducing the capital to risk weighted assets ratio and fixed prudential norms will bring drop in nonperforming assets and raise in capital position of banks

1.10.4.3 Foreign Direct Investment

String policy is plugging in foreign investors. Foreign Direct Investment helps to access the money directly into the Indian financial market. RBI farmed FDI limit for a foreign banks is 74% of the total paid-up
capital of the bank to invest in India. As at end-March 2012, foreign shareholding in private sector banks was up to 70.7 per cent, which was within the stipulated limit of 74 per cent –Reserve Bank of India, 2012

1.10.4.4 Other Reforms

Banking are allowed for diversification process and introduction a new generation banks and allow for operational autonomy if the banks satisfies the norms, then it gets rights to open branches, upgrading counters, liberal lending options etc

Balance Sheet of Private and Public Sectors Banks

Consolidated balance sheet of Scheduled commercial banks (Appendix 1) details are gathered from official websites of Reserve Bank of India and Banker association, It shows that banks performance are grew at a slower pace during the financial year of 2011-12 and 2012-2013 are compared with the last year. On the liabilities side, the proclamation in growth was wide based with the major elements of liabilities, like capital, deposits and borrowings. On the assets side, the slowdown was mainly endorsed to decelerate in increase level of loans and advances, reflecting and impacting in the slowdown of all important segments of domestic macro-economy environment.

1.11 RELEVANCE OF THE STUDY

The study attempted to look at the issue that emerging in capital markets arena by focusing exclusively on adopting in Indian Banking sector respectively. Capital market is analysed by the past and present existing information. The threshold of this research is to examine investors’ rationale behavior toward dividend payments and to test the validity of dividend
relevance theory and semi strong form efficiency theory in Indian context along with identifying the important factors influence the dividend pattern ruling in banking sectors.

Dividend relevance theories suggest and support by two eminent person namely, Walter and Gordon. Both of them doctrine investment decision of a firm is closely interlinked with dividend policy. Optimum dividend policy will determined or affect by the relationship between investment return \((r)\) and cost of capital \((k)\) of the firms. Managers should decide the payment of dividend according the degree of risk and return in the particular projects. In this research study, researcher identified and classified the banking sectors according to risk and return by adopting the method of walter and Gordon model for the criteria of suitable investment option.

Modern financial theories are ruled by efficient market hypothesis occupy new dimension in the capital market, which reveal that movement of share prices should be determined by existing information in the market. Three types of efficient market theory suggested by Eugene Fama (1998) such as weak form, semi strong form and strong form efficiency are mostly used in research to determine the movement of share prices based on information. Wish and keen interest of researcher, applicability of semi strong form efficiency theory to resolve the power of past and present information in the movement of share price.

Dividend payout decision taken by management should depend upon various factors such as revenue, profit, retain earnings, tax and cash positions which have high influence in determining the value of dividend. Dividend announcements are most important signaling used by management to convey information about future prospects and it has impact in movement of share price in the market. In view of this research, manager and investors are bound to identify types of efficient market theory that are most significant
in determining the dividend value and behavior of share price towards the announcement of dividend. Therefore, the present research work also attempt to scrutinize and identify the importance of known determinants variable of dividend policy in Indian context.

1.12 SCOPE OF THE STUDY

This research has attempted to bloomes the relationship between the shareholders attitude with the dividend payout decision in particular banking sectors by adapting theoretical model in Indian context. The findings would bring portrayal to corporate managers, investors, share market dealers, agency, financial institutions and financial consultants in finding the factors that determining in dividend policy and endeavor the impact of share price towards the dividend announcement in banking sector. Few research study also focus on dividend policy and behavior in various industry in India context, which may not be hold for prolong in this emerging market and frequently changing of investor behavior. Financial manager would be able to examine internal and external variable that affect the firm value and tried to map out optimal dividend policy. The research work also has made an effort to bring to view on influence of ownership groups of a firm on dividend behavior of a firm. In addition, it creates opportunity to be aware of suitable banking sectors that maintaining the optimal dividend policy along with relationship of risk and return in their investment made by adopting statistical model.

The study may bounded to be useful for re-drawing the dividend policy in Indian banking sectors by observing the analysis, results and discussions presented. Through the research helps to better understanding the factors that should systematically affect firms’ dividend decisions.
1.13 STATEMENT OF THE PROBLEM

There are different schools of thought that explain the behavior of share price towards the floating of information in the market. The fundamental school of thought hopes that two important factors such as earning and dividend drive the movement of share price. The technical school of thought believes that trends and patterns are significant factors towards the movement of share, they stress that analyzing past pattern and movement help to predict the future price of share. Efficient market theory dominating in modern day finance arena that, markets are efficient in nature where amount of information reflects in movement of share prices. There are number of theoretical mechanisms and research is undertaken, new insights are drawn from every research but still do not find sufficient model pertaining to the relationship between the payout information and volatile share prices.

There are many unanswered questions raised towards the nature of payout information and behavior of share price in bank sectors, whether stock market is high volatile towards dividend yielding information, there is any linkage between variable determining the dividend value and volatile of share price by examining responsibility of firm dividend policy and government norms, how quickly share price movements are reflected by the information concerning dividend announcement in the market, whether shareholders opinion and attitude are considered before announcing the dividend. These questions which encourage the researcher to study the announcement of dividend provide by any signaling effect to the share price movement.
1.14 **OBJECTIVE OF THE STUDY**

1. To analyze the impact of Bank Index share price towards announcement of dividend.

2. To study the key financial factors determining dividend payout in the Bank Index.

3. To evaluate the relationship between dividends determinant by ownership and movement of share price in Bank Index.

4. To find out performance of selected bank based on risk and return.

5. To evaluate the investor behavior towards dividend announcement in Bank Index.

1.15 **CHAPTER SCHEME**

This research is classified into five chapters. Chapter one introduces the topic and the research background. This chapter familiarizes and throws the lights on the theoretical background for the readers with the concept of dividend, dividend policy, dividend determinant, semi strong form efficiency, relationship with share price, economic rationale, banking sectors, relevance, scope and objective of the study.

Literature Review has been discussed in details in chapter two. Both conceptual models and methodological and empirical studies done till date in India and abroad related to the research objectives has been incorporated in this chapter.

Chapter three is focused on Research Methodology adopted for the accomplishment of the research objectives. This chapter discusses in detail
the various models developed, tools and techniques used for analyzing the research objectives.

Chapter four deal with data analysis and interpretation of research analysis. It highlights the various models to determine the impact of dividend announcement in share price movement by developing Event studies, Regression, Quadratic polynomial regression analysis, Walter and Gordon model, Chi square and t-test.

The fifth chapter deals with summarize of findings, conclusion and recommendations of the research and it also brings to light the future areas of the research.