### CHAPTER 7

**SUMMARY OF FINDINGS, CONCLUSIONS AND SUGGESTIONS**

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CHAPTER 7
SUMMARY OF FINDINGS, CONCLUSIONS AND SUGGESTIONS

7.1 INTRODUCTION:
In the previous chapter researcher has analyzed and interpreted the data relevant to the framed hypothesis. Previous chapter is divided into two sections. Section I deals with the primary data analysis i.e. opinion analysis of pharmaceutical companies selected for the study. Section II deals with testing of framed hypothesis. The results of the data analysis are reported in the tabular form and scatter diagram form. Further, summary of the various results and hypothesis have been presented in the tabular form as well.

The present chapter consists of findings, conclusions and suggestions and important directions for future research on this topic. Further, the present chapter present sample pharmaceutical company wise various findings of the study.

7.2. FINDINGS OF THE STUDY:

1. **Ajantha Ltd:**

1.1 During the study period average dividend paid by the sample companies were 33.62 percent. Out of the sample companies selected for the study, Ajantha Ltd had paid average 15.8 percent dividend. Therefore, company has followed moderate dividend payout policy. Company has not consistently paid dividend to its share holder. With the objective of conserving resources for funding the investment opportunities, company has not paid dividend to its shareholders during the year 2003 to 2005. This shows that during these years 100 percent profit is retained in the business. Due to fulfillment of company’s objective regarding funding the growth, company has retained average 84.2 percent profit in the business during the study period. This may be one of the reasons for high retention of the profit in the business. During these years company has taken up major expansion plans. During the study period company’s average dividend payout growth was 49 percent.
1.2 Ajantha Ltd has followed moderate dividend policy during the study period. The company has made heavy investment in Research & Development and it has yielded excellent results. The company has emerged as one of the fastest growing pharmaceutical companies in the country mainly because of its Research and Development activity.

1.3 Dividend payout shows increasing pattern in its trend despite of the fact that company have not paid dividend in the year 2003, 2004 and 2005 respectively inspite of the sufficient earnings.

1.4 It was found that, there has been no significant correlation coefficient between dividend decision and investment decision. During the study period, it was found that only 38 percent correlation coefficient between dividend policy and profit of the Ajantha Ltd. This shows that there has been no significant correlation coefficient between dividend policy and profit.

1.5 It was found that there has been only 26.2 percent correlation coefficient between cash and dividend policy of the Ajantha Ltd. This shows that there has been no significant correlation coefficient between dividend policy & cash flow. Further, there were only 7.2 percent correlation coefficient between dividend policy and value of the firm whereas only 0.5 percent variation in market value is explained by the variation in dividend policy during the study period. Therefore, there has been no relation between dividend policy and market value of the Ajantha Ltd.
2 Cipla Ltd:

2.1 During the study period the average dividend payment made by the Cipla Ltd was 18.6 percent whereas average dividend paid by the sample companies was 33.62 percent. Further, Cipla Ltd was consistently paying dividend but at lower rate, highest proportion of profit was retained in the business for Research & Development purpose or for future investment purpose. Therefore, CIPLA Ltd was called as Growth firm. Cipla Ltd also followed moderate dividend policy during the study period.

2.2 It was found that company’s payout shows increasing trend in the dividend payment pattern during the study period. Company has consistently paid dividend despite in the consistent increase in the earnings of the company.

2.3 In case of Cipla Ltd, there was significant correlation coefficient between dividend and investment decision. There has been 99.4 percent significant correlation coefficient between dividend decision and investment decision. During the study period company’s average dividend payout growth was 43 percent.

2.4 It was found that there has been 96.2 percent significant correlation coefficient between dividend policy & profit of the company. Therefore, Cipla Ltd’s dividend policy was significantly influenced by the profitability.

2.5 It was further found that 97.8 percent significant correlation coefficient between cash flow and dividend policy. Therefore, Cipla Ltd’s dividend policy was significantly influenced by the cash flow. Further, there were strong linearity between dividend policy and cash flow of the company during the study period. It was further found that dividend policy of Cipla Ltd is significantly influenced by cash flow than profit.

2.6 Further, it was found that there has been 50.6 percent correlation coefficient between dividend policy and the market value of the firm during the study
period. There has been 25.6 percent change of market value of equity is explained by the change of dividend policy of the Cipla Ltd.

3 **FDC Ltd:**

3.1 During the study period FDC Ltd had paid average 29.1 percent dividend and sample pharmaceutical companies had paid average 33.62 percent dividend. As compared to the companies like Ajantha Ltd and Cipla Ltd, this company had paid better dividend. In other words FDC Ltd was higher payer as compared to the Ajantha Ltd and Cipla Ltd. During the study period company’s average dividend payout growth was 119.89 percent.

3.2 It is evident from the study that, there has been decreased trend in the dividend payment pattern of the company.

3.3 It was found that there has been 73.3 percent significant correlation coefficient between investment decision and dividend decision. Further, it was found that 81 percent significant correlation coefficient between profit and dividend policy of the company.

3.4 Whereas 80.6 percent significant correlation coefficient between cash flow and dividend policy. FDC Ltd’s dividend policy was slightly influenced by the profit than the cash flow.

3.5 Eventually it was found that there was 41.3 percent correlation between dividend policy and the market value and there has been 17.1 percent variation in market value is explained by dividend policy of FDC Ltd.
4. **Fulford India Ltd:**

4.1 During the study period Fulford (I) Ltd had paid average 11.20 percent dividend and sample pharmaceutical companies had paid average 33.62 percent dividend. As compared to the sample pharmaceutical companies, Fulford (I) Ltd had paid lower dividend. Therefore, the present company was classified as lower payer company. During the study period there has been consistent declined in the dividend payment pattern of the company.

4.2 During the study period company’s average dividend growth was -11.93 percent during the study period. It is cleared that company’s average dividend growth was negative as compared to the other pharmaceutical companies selected for the study.

4.3 It was found that, there has been 60.1 percent correlation coefficient between dividend decision and investment decision. This shows that there is no significant correlation coefficient between dividend decision and investment decision of the company.

4.4 It was found that 89.1 percent significant correlation coefficient between profit and dividend policy of the company. It was also found that 89.1 percent significant correlation coefficient between cash flow and dividend policy of Fulford (I) Ltd.

4.5 It was found that there was only 21 percent correlation between dividend policy and the market value of the firm and there has been only 4.4 percent variation in market value of Fulford India Ltd is explained by the dividend policy.
5 **GSK Ltd:**

5.1 During the study period GSK Ltd had paid average 52.80 percent dividend whereas sample pharmaceutical companies had paid average 33.62 percent dividend. This shows that GSK Ltd had paid highest dividend among the sample pharmaceutical companies. Therefore, present company was classified as highest dividend payer. Further it was found that company recorded increased trend in the dividend payment pattern. During the study period company’s average dividend growth was 34.08 percent.

5.2 It was found that, 13.5 percent correlation coefficient between dividend decision and investment decision. This shows that there has been no significant correlation coefficient between dividend decision and investment decision.

5.3 It was found that 98.3 percent significant correlation coefficient between profit and dividend policy of the company. Whereas 98.4 percent significant correlation coefficient between cash flow and dividend policy of GSK Ltd.

5.4 Further it was found that there has been 82.4 percent significant correlation coefficient between dividend policy and the market value of the GSK Ltd. It was also cleared that there has been strong positive correlation between dividend policy and the market value of the firm and 67.9 percent variations of market value on account of dividend policy.
6 **Lupin Ltd:**

6.1 During the study period the average dividend paid by the Lupin Ltd was 18.7 percent whereas sample pharmaceutical companies had paid average 33.62 percent dividend. It is cleared that company had paid moderate dividend during the study period as compared to the sample pharmaceutical companies. Further, it is evident from the study that dividend payment trend has been continuously increased. During the study period company’s average dividend growth was 39.16 percent.

6.2 It was found that, 98.1 percent of significant correlation coefficient between dividend decision and investment decision.

6.3 It was found that 89.7 percent significant correlation coefficient between profit and dividend policy of the company.

6.4 It was found that 91.9 percent significant correlation coefficient between cash flow and dividend policy. Therefore, Lupin Ltd’s dividend policy was significantly influenced by the cash flow than the profit.

6.5 Eventually it was found that there has been 87.1 percent significant correlation coefficient between dividend policy and the market value of Lupin Ltd. It means there has been strong correlation coefficient between dividend policy and the market value of the company whereas there has been 75.8 percent variation in market value is explained by the variation in dividend policy of the company. Therefore, it has found that there has been strong relation between dividend policy and market value of the Lupin Ltd.
7 Novartis India Ltd:

7.1 During the study period the average dividend paid by the Novartis India Ltd was 42.4 percent and sample pharmaceutical companies had paid average 33.62 percent dividend. This shows that Novartis India Ltd had paid highest dividend as compared to the sample pharmaceutical companies. Company has consistently paid dividend to its shareholders but at varied rate.

7.2 During the study period among the sample companies Novartis India Ltd has the second largest average dividend payer company. Therefore, Novartis India Ltd has classified as the second highest payer company. But its trend reveals that there has been gradual decreased in the dividend payment pattern. During the study period company’s average dividend payout growth was 128.26 percent respectively.

7.3 It was found that, there has been negative correlation coefficient between dividend decision and investment decision. This shows that there has not significant correlation coefficient between dividend decision and investment decision.

7.4 It was found that 88.5 percent significant correlation coefficient between profit and dividend policy of the company. This shows that dividend policy of Novartis India Ltd is influenced by the profit.

7.5 It was further found that 84.6 percent significant correlation coefficient between cash flow and dividend policy of Novartis India Ltd. Therefore, Novartis India Ltd’s dividend policy was significantly influenced by the profit than the cash flow. Further it was found that there was only 32.7 percent correlation coefficient between dividend policy and the market value of the firm whereas 10.7 percent variations of market price were due to dividend policy of the company.
8 **Wockhardt Ltd:**

8.1 During the study period average dividend paid by the sample companies were 33.62 percent. Out of the sample companies selected for the study, Wockhardt Ltd had paid average 25.5 percent dividend. Therefore, company has followed stable dividend payout policy. During the study period company’s average dividend payout growth was 27.25 percent respectively.

8.2 It was found that, 80.1 percent of significant correlation coefficient between dividend decision and investment decision of the Wockhardt Ltd.

8.3 It was found that 95.5 percent significant correlation coefficient between profit and dividend policy of the company.

8.4 Whereas 95.7 percent significant correlation coefficient between cash flow and dividend policy of Wockhardt Ltd. Therefore, Wockhardt Ltd’s dividend policy was significantly influenced by the cash flow than the profit.

8.5 Further, it was found that only 36.7 percent correlation coefficient between dividend policy and the market value of the Wockhardt Ltd and there has been 13.4 percent variation in market value is explained by the variation in dividend policy.

**7.3. CONCLUSIONS:**

It is quite clear from the study that, there have been variations in each year’s payout pattern of the sample pharmaceutical companies selected for the study. From the payout trends, it is apparently conspicuous that the sample pharmaceutical companies under the study are distributing dividends to its shareholders. Quite clearly, the study shows that the companies paying dividends during the study period has followed volatile pattern. The level of dividend payout of sample pharmaceutical companies has also shown variations in each year’s dividend payout pattern. It is evident from the analysis of the study that sample pharmaceutical companies have followed different payout policy during the study period.
From the study it was further concluded that during the study period GSK Ltd was the highest payer and Fulford (I) Ltd was the lowest payer among the sample pharmaceutical companies selected for the study. It is quite clear that sample pharmaceutical company’s dividend policy is dependent on earnings. However, sample pharmaceutical companies dividend policy is significantly influenced by the cash flow than profit after tax. The study reveals that investment has a significant effect on the dividend policy of sample pharmaceutical companies selected for the study.

An increase in dividend in a certain year may be the result of good performance of a company during the year, which may continue in the future years. This shows that there has been positive casual relationship between dividend and earnings. Further, an increase in dividend may be the result of the management’s policy toward satisfying investors or shareholders. Regardless of the level of profit, few pharmaceutical companies try to pay dividends at all cost this is because for psychological reasons on the part of the current and potential investors. Dividend is important to the investors even though the policy may not after all significantly affect the share price and consequently the value of the firm. 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 company may be viewed as a significant source of financing the growth of the company.

From the Investors’ perspective dividend influence the demand for share price. However, dividend policy does not significantly affect the value of the firm because company’s 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 concluded that investment decision of sample pharmaceutical industry is dependent of its dividend decision. Further, dividend policy of sample pharmaceutical industry is strongly influenced by cash flow than profit.
7.4. SUGGESTIONS:

1. Sample pharmaceutical companies selected for the study should consider the important factors that affect dividend policy when formulating one in order to have an optimal policy that satisfies all its stakeholders. Following are the important factors:-
   a) Future expansion plans
   b) Stability of earnings
   c) Financing policy of the company
   d) Policy of control and Liquidity of the company
   e) Profit rates
   f) Past dividend history
   g) Ability to borrow
   h) Debt obligations
   i) Effects of trade policies
   j) Statutory requirements
   k) Corporate taxation policy

2. Pharmaceutical companies may adopt a practice of regular dividend policy so that prospective investor would know that company’s dividend policy tallies their own expectations. However, investors react to dividends immediately and fully.

3. Adoption of a dividend policy by the sample pharmaceutical companies selected for the study may be strictly considered based on the unique circumstances of the pharmaceutical industry and not necessarily based on the traditional factors.

4. There is need to maintain a steady, reasonable and realistic policy by the companies. Further adopt a policy which will strike a balance between dividend payments and future growth of the pharmaceutical companies.

5. A high dividend payout is more important for investors because the principal behind the attractiveness of a company’s ability to pay high dividends may provide certainty about the company’s financial well
being. Dividends are also attractive for investors looking to secure their current income.

6. Consideration may be given by the sample pharmaceutical companies to the needs and expectations of the shareholders in streamlining a dividend policy.

7. Pharmaceutical companies may follow a generous dividend policy which will maximize the long term benefits to its shareholders.

8. Sample pharmaceutical companies need to maintain stability of earnings because it has a significant impact on the dividend decision. Normally, the more stable the income stream the higher is the payout ratio. Therefore, such firms are more confident of maintaining a higher payout ratio. Therefore, they may consider this point while setting up of their dividend policy.

9. Dividend policies may also be significantly influenced by the shareholders or management's control objective, sometimes the management employs dividend policy as an effective tool to maintain its position of control. Since, company management wants to retain control of the company in its own hand, they may be reluctant to pay substantial dividends and may prefer small payout ratio. This will particularly hold good for the companies which require funds to finance profitable investment opportunities when an outside group is seeking to gain control over the company. In such case, if a controlling group of shareholders can not wish to purchase a new share of equity, under such situation through issue of additional shares to finance the investment opportunities, therefore, management may lose its existing control.

10. Dividend policy is likely to affect the owner’s considerations such as the tax status of shareholders, their opportunities of investment and the dilution of ownership etc. Therefore, sample pharmaceutical companies may set up a dividend policy which will maximize the each owner’s
wealth or set a dividend policy which has a beneficial effect on the wealth of the majority of the shareholders.

11. Sample pharmaceutical companies may set a dividend policy which would serve the interest of the shareholders. If an owner has better investment opportunities outside, the firm may opt for higher dividend payout ratio. On the other hand, if the company’s investment opportunities yield a higher return that obtained from similar external investments, in this case company may have lower dividend payout. Therefore, in formulating a dividend policy, an evaluation of the external opportunities of the owner is very significant.

12. Companies may choose a payout ratio that directs the majority of its free cash flow to its shareholders as a dividend.

13. Dividend policy should be viewed as a part of an integrated financial plan. A company’s stock price largely reflects its current earnings and future earnings growth rate not its dividend policy.

14. Dividends play an important role in signaling shareholders about management’s confidence in future earnings prospects. If company’s dividend policy decisions solely based on past earnings or paying out a fixed percentage of income, company may lose much of signaling benefit. Therefore, companies could pay out a portion of anticipated earnings.

15. The higher the payout ratio, the lower the volatility of the share price whereas the higher the growth potential of a company, there is likely to be the smaller payout ratio.

16. The lower the payout ratio, the more likely shareholders will be tempted to sell shares when they will require cash. Therefore, pharma sector is a highly cash consuming sector.
17. Sample pharmaceutical companies could avoid dividend reductions. Companies could also avoid dividend eliminations and reductions for many reasons. One obvious reason is that this will typically lead to a significant drop of a company’s stock price. Dividend policy often used by companies to signal the market about future prospects. A dividend cut sends a negative message to the market.

18. Growth continues to be the main valuation driver of the pharmaceutical companies. Therefore, low growth companies can support their valuations through dividends.

19. Although variations in dividend payouts among different pharmaceutical companies appears to be affected by firm specific variables such as investment requirements and earnings variability.

20. Share repurchase may also enhance the capital appreciation of many stocks but do not provide the same level of commitment to investors as dividend provides.

21. Sample pharmaceutical companies either increase or maintain dividend when earnings fall. There are high chances for companies to increase DPS when EPS increases. Similarly, chances are very high that companies would reduce DPS when EPS falls.

7.5. **FUTURE RESEARCH:**

The present study has studied only dividend policy of the sample pharmaceutical companies selected for the study. The present research has not considered the share purchase or buyback of share and bonus shares of the pharmaceutical companies. Therefore, the relevance of this research can be extended to the share purchase or buy back and bonus shares of Indian Pharmaceutical sector.