The purpose of this study is to analyse the dividend policy followed by the Indian companies in the private sector to note the underlying behaviour and to identify, as far as is possible, the determinants of dividend decisions taken by the companies.

After the introductory first chapter, where the object of the study, the methodology followed, the period covered, the data that could be used for the study and the details of earlier relevant literature etc. have been discussed, the second chapter has elaborately considered the legal framework. It has naturally covered the relevant provisions of the Companies Act, mainly section 205 exhaustively. In order to make the chapter comprehensive, even though the study does not want to cover bonus dividend, the relevant provisions in this regard have also been dealt with briefly. Similarly, legal restrictions relating to dividend declared by foreign companies, the Temporary restriction on dividend introduced in 1974 have also been touched. Court pronouncements in the area of dividend including the issues relating to unclaimed dividend have also been discussed in chapter two.

Chapter three mainly deals with the models developed by noted dividend theorists. Lintner's seminal basic dividend model has been the starting point with subsequent extension proposed by Lintner and others. It has been noted that
the past dividend, the target payout ratio and the adjustment co-efficient are versatile factors that encompass the influence of a host of other relevant determinants. The extensions proposed by Darling, Dobrovolsky, Brittain supplemented Linters' basic equation. Discussion has also been made of the factors underlined in Graham and Dodd's equation, Walter's model, Levy and Sarnath's model, Gordon's model, MM hypotheses of dividend irrelevance in the context of firm's valuation. The purpose of analysing and examining different models in a short canvas has been to identify the factors that the present study should examine with data from Indian corporate sector. At the end of this chapter, some factors or variables have been identified, considering their theoretical importance, application in different models or by researchers and also the difficulty or case of their collection from published reports, stock exchange official directory. The variables so selected are dividend of the immediately preceding year, profit after tax of the current year, increase in investments, increase in capital employed, cash-flow, increase in total liability, total inflow of funds taking into consideration external liability, accumulated shareholders funds etc.

Chapter four has given some details about the companies covered in the investigation. It has been possible to collect almost complete data, as per the method followed, in respect of around 200 companies. All these are companies whose shares are more or less actively traded in the country's largest
stock exchange, Bombay Stock Exchange. These companies belong to 17 industry classifications as defined in the BSE directory. There are industries like, Coal & Mining or Cement where only 2 companies have been covered. Around 10 companies have been covered in industries like Synthetic Fibres, Paper & Pulp, Cotton Spinning and Food Products. The largest industry classification is Chemicals, Dyes, Pharmaceuticals etc. which includes 42 companies, closely followed by 41 companies in the General Engineering industry. If all companies in different Plantation industries are considered together, the number will be substantial. However, the BSE follows the classification of one category of Tea Plantation and another category of Coffee, Rubber and other plantation companies.

In the analysis carried out in chapter four, companies have been classified on the basis of their size determined in accordance with paid-up share capital and also total investment in assets. It has been seen that less than 10% of the total number of companies covered had paid-up share capital exceeding ₹20 crores. About 30% of the companies had paid-up share capital above ₹7.5 crores. Of course, the recent, post-1990 trend of having magnum sized companies was absent during the period of the study. As regards the investment in assets, the biggest companies (with investment exceeding ₹500 were naturally fewer in number (only 6% of the total) than companies with lower amount of investment. About 15% of the companies had investment between ₹40 crores and
The analysis also classified companies according to sales turnover. Similarity has been found between distribution of companies as per sales and total assets.

Chapter four has also analysed the trend in dividend payout rates and also the rate of dividend declared on nominal paid-up share capital in different industry classes. It was noted that clear-cut patterns could not be discerned so far as payout rates were concerned. In almost all the industry classes covered in the analysis of this chapter (10 out of 11), instances could be found where the payout rates in one year or more, exceeded 100%. There were cases of payout ratio exceeding an unbelievable 500% in case of 5 industry classes. Each and every industry class included company(ies) where dividends were paid during period(s) when there was reported net loss. But these have been remarkable deviations from normal payout positions. Payout rates of upto 35% of PAT were common in majority of the companies in industries like Cotton & Spinning, Synthetic Fibres, Paper Pulp & Paper Board industries, while higher payout rates of above 35% and upto 50% of PAT were more common sight in majority of the companies belonging to General Engineering, Metals, Alloys & Electrical Equipments. Companies belonging to Plantation industries and Chemicals group were even more daring with regard to their payout policy, in as much as, sizable section of companies belonging to these industry recorded payout exceeding 50%. The general observation pertaining to factors working
behind these divergent payout rates across the industries, has been that industries where corporate PAT figures fluctuated more followed a relatively conservative payout policy than industries where the fluctuation was less.

It has been found in the analysis in chapter four that rates of dividend declared on paid-up share capital have been consistent giving credence to the generally accepted view that the managements of the companies strive to follow more or less a stable dividend (amount of dividend per share). It has been observed that the numbers of companies paying dividend at rates falling in a given range do not vary much from year to year. In case of most of the industries like, Cotton & Spinning, Synthetic Fibres, Paper, Pulp & Board, Electrical Equipments, Metals & Alloys, General Engineering, Chemicals & Pharmaceuticals, Sugar & Breweries and Food Products, majority of the companies have paid dividend at rates varying between 10% and 20% of paid-up capital, while in case of Tea Plantation and Coffee, Rubber and Other Plantation group the numbers of companies paying dividend at higher rates (20% to 35%) are also quite considerable. It has been noted that difference in average range of profitability is behind this difference in the general rates of dividends amongst these groups. The chapter concluded with summary observation relating to rates of dividend and payout percentages noted industry-wise and then with the comment that explanation for variation might be found through ordinary least square analysis.
using possible explanatory variables selected from theoretical models and some practical considerations.

Chapter five contains the major findings of this study since it gives the regression results of nine sets of regression equations run for the 10-year data of the companies covered in this study and also reasoned comments on the results. Following Lintner's basic model as the starting point wherein dividend of the preceding year and current year's profit are taken as explanatory variables, the analysis extends to other variables being considered as the second explanatory variable, in addition to last year's dividend. In this way, in turn, comes cash-flow, or change in investment or change in capital employed or change in total cash flow/total external liability or change in shareholder's reserve. Finally, the equation containing seven independent variables has been run. Expected nature of relationship (positive or negative), under normal conditions, between each one of these explanatory variables and the dependent variable, dividend of the given year, has been discussed clearly indicating that there cannot be, in most of the cases, any hard and fast rule or rigid expectations. Based on t-values calculated for the different regression co-efficients, the number of statistically significant cases where the relationships observed tallied with expectations, have been identified. In this way, the relative importance of the factors that affect dividend decisions, i.e., the variables that have worked, statistically
speaking, satisfactorily as explanatory variables have been sought to be found out. In some cases, even after appreciating the importance of particular variables in explaining dividend decisions, nothing could be said about the way such variables influenced dividend decisions. Even at the cost of being a little bit repetitive, the major findings of this chapter may be noted as follows.

The generally accepted notion that company management wants to cling to the dividend of the immediately past year has been corroborated in as much as the regression coefficient $b_1$ has shown positive results in case of most of the companies across the industries. Percentages of statistically significant cases have been remarkably high. The performance of this variable has been consistently good irrespective of the other variable/variables considered in the multiple regression analysis. The section in chapter five, devoted to note specially the performance of $b_1$ (the concerned regression coefficient), contains the detailed figures wherefrom it is seen that the regression coefficient has the maximum number of 193 positive signs (with 142 statistically significant cases) when the associated explanatory variable has been total cash-flow of the current period. The minimum number of companies in case of which $b_1$ has positive sign is 147 (with 78 statistically significant cases) when the companion variable has been accumulated shareholders reserve. That the dividend of the immediately preceding year influences
largely decisions relating to dividend of the current year in most of the cases under any circumstance should be above dispute. But this is a corroboration of an existing idea.

**Cash-flow:** Cash-flow of the current period is profit after tax plus depreciation. Being a measure of current liquidity, it is expected to have a positive influence over dividend payment. Here also the regression results are in conformity with this common sense argument. In equation two, cash-flow of the year \( t \) (\( CF_t \)) works in combination with dividend of the immediately preceding year \( (D_{t-1}) \) as explanatory variable. In case of almost all the companies, precisely in 194 cases, \( b_3 \) (the regression coefficient of \( CF_t \)) has positive sign and in 148 of them the results are statistically significant. When \( D_{t-1} \) and \( CF_t \) are taken as independent variable and \( D_t \) as the dependent one, the value of \( R^2 \) has been found to be statistically significant in as many as 173 cases. All these speak in favour of the explanatory power of \( CF_t \). In equation nine where \( CF_t \) is one of the seven explanatory variables considered simultaneously, \( b_3 \) has positive sign in case of 123 companies (with 71 statistically significant cases). As should be expected, when the study deals with cash dividend only (and not bonus issues) cash-flow has been found to be very important determining factor.

**Expansion of Investment:** When investment in fixed and/or current assets takes place, some funds are blocked or
earmarked for the same which results in lower liquidity. Therefore, $\Delta I$ (change in investment) under normal circumstances, should be negatively correlated with $D_t$. However, the results show that only in respect of 51 companies, $b_4$ has negative sign with only 9 significant cases. On the other hand, $b_4$ is positive in case of 148 companies. Thus, statistically speaking, change in investment has not behaved in the way it was expected in case of majority of the companies. But the position improves substantially when this variable works combinedly with other six variables in equation nine. Here $b_4$ has negative sign in case of 115 companies with as many as 96 statistically significant cases.

**Capital Employed**: In equation four change in capital employed ($\Delta CE$) has been considered along with $D_{t-1}$. In case of the equations on 64 companies, the concerned regression coefficient, $b_5$ has negative sign (with only 7 significant results). The explanation could be that retention of profit results in increased capital employed. But in a larger number of cases, specifically in 135 cases $b_5$ has positive sign (with 38 statistically significant cases) signifying that a stronger and more solid capital employed foundation enables a company to venture to pay more. When $\Delta CE$ is considered along with other six variables, $b_5$ has negative sign in 93 cases (56 statistically significant). The conflicting results would lead one to conclude that change in capital employed has not influenced dividend decisions in any particular way.
Total cash-flow: This is not merely flow from revenue sources. Cash-flow resulting from increase in Debentures/Long-term loan is also included here. In equation five, $b_6$ which is the regression coefficient of $4TCP_t$ has shown positive results in case of 152 out of 199 companies. However, the number of cases where the results are statistically significant is only 46. In equation nine, $b_6$ is positive in case of 98 companies with 42 statistically significant results. The number of negative statistically significant result not being as large, evidence contrary to the common belief may be on the whole considered to be unacceptable.

Total External Liability: Increase in total liability means more funds generated and on that logic $4TL$ should positively help payment of higher dividend. In case of majority of the companies covered, 138 out of 199, the concerned regression coefficient ($b_7$) has the expected positive sign, although the number of cases with statistically significant results is not very encouraging. When this variable is considered in equation nine along with other six variables, the number of statistically significant positive results goes up to 90 out of 113 cases.

Trend in Share Price Change: The ratio of current year's share price to the average of the prices of the last two years, $SP_t^*$ has been considered as an explanatory variable in equation seven. Only in respect of 161 companies this equation
could be run. In 106 cases, $b_8$ (the concerned regression coefficient) has positive sign and in the remaining 55 cases it has negative sign. The proportion of cases where $b_8$ has been found statistically significant is not very high. For negative signs, the number of statistically significant cases is only 2 while for positive results it is 24. Definite conclusion is difficult to reach from the evidences available although there is stronger case for believing that trend in share price change and dividend payment are positively related.

Shareholders Reserve: A solid base of shareholders' accumulated reserve acts as an inducement to pay larger dividend. This simple reasoning has been found to have been supported by the regression results. Out of the 199 companies, in 164 cases $b_9$ (the regression coefficient of $SR_{t-1}$) has positive sign and that too with 101 significant results. The distribution of companies across the industries is also even.

Seven Variables together: The results of this equation are quite encouraging. The signs of the regression coefficients which seem to be more plausible have been found in larger number of cases generally. Out of the seven variables considered in this equation one is $D_{t-1}$ which has been considered as one of the two variables in the first eight equations. The other six variables have been considered, one at a time, along with $D_{t-1}$ in the equations two to eight excluding equation
seven. The number of cases where the concerned regression coefficient has the normally expected sign are given below, with the number of statistically significant cases given in the brackets:

<table>
<thead>
<tr>
<th>Result (Equation: 9)</th>
<th>No. of Companies</th>
<th>(No. statistically significant)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$b_2$ positive</td>
<td>109</td>
<td>(68)</td>
</tr>
<tr>
<td>$b_3$ positive</td>
<td>123</td>
<td>(71)</td>
</tr>
<tr>
<td>$b_4$ negative</td>
<td>115</td>
<td>(96)</td>
</tr>
<tr>
<td>$b_5$ negative</td>
<td>93</td>
<td>(56)</td>
</tr>
<tr>
<td>$b_6$ positive</td>
<td>98</td>
<td>(42)</td>
</tr>
<tr>
<td>$b_7$ positive</td>
<td>113</td>
<td>(90)</td>
</tr>
</tbody>
</table>

Dividend decision depends on a large number of factors. The seven variables, by no means, provide an exhaustive list. Still the results are encouraging and they give the indication that at least these variables, inter alia, have determined the quantum of dividend distributed during the study period covered.

**Opinion of Finance Executives**

Personal interview of about a score of finance executives was taken to obtain their opinion regarding company attitude towards dividend decisions. Attempt was first made to get written reply to a very short questionnaire/Appendix. As is the general experience of most investigators specially those inquiring into finance areas, the result was utterly
disappointing. Then, through repeated requests over phone for granting short interviews about a score of Calcutta-based Finance Managers/Finance Directors agreed to talk for a while. The exercise could be taken up only after the regression analysis was completed. Hence, the questions put before them were their opinion about the importance of the factors that influence dividend decisions. Incidentally, the points raised in the questionnaire, according to them, related to policy decisions at the top level and the persons contacted preferred to escape giving opinions. They simply ranked the variables in order of their importance as factors affecting dividend decisions. All the nine variables were suggested ($P_t$, $D_{t-1}$, $C_t$, $TCF_t$, $\Delta I$, $\Delta CE$, $ATL$, $SR_{t-1}$ and $SP_t^*$).

From a scanning of their rankings, it has been seen that the first three positions have been assigned by all the executives to the three variables, $P_t$, $D_{t-1}$ and $C_t$. $P_t$ has got first ranking from 8 executives, second ranking from 10 executives and third ranking from 2 executives. $D_{t-1}$ has been given first ranking by 5 executives, second ranking by 8 executives and third ranking by 7 executives while $C_t$ has obtained first rank from 7 executives, second from 2 executives and third rank from 11 executives. Another uniformity in opinion has been found with regard to the ranking of $TCF_t$ and $SR_{t-1}$ which have obtained between themselves the fourth and fifth ranks. While $TCF_t$ has obtained fourth rank in the opinion of 13 executives, $SR_{t-1}$ has obtained it from 7
executives. Obviously $SR_{t-1}$ has been given fifth rank by 13 executives and $TCF_t$ has been given fifth rank by 7 executives. The other three variables were not of much importance, as per the opinion of the 20 executives interviewed.

**Limitations of the Study**

The main limitation of the study is that the period covered is rather short. Instead of a 10-year period, if the coverage could have been a little bit longer, the study would have obtained greater reliability. The availability of data or more specifically, the case of getting 10-year data mainly from one set of the Official Directory of BSE has been one main reason behind the choice of the period. The other important reason is that the radical change in the economic policy of the Govt. of India in 1991 brought about rather a shift in the perspective. Mixing up of post 1991 data with the data of the eighties could give rise to some problems of heterogeneity, it was apprehended.

Another methodological limitation has been that multicollinearity amongst the variables has not been studied. The nature of the variables is such that they may have interrelation.

Now that after the scam, general interest in the stock market has increased and owing to the opening up of the economy and removal of various restrictions data availability
has remarkably improved, it is hoped that any future study in the same area would be more advanced in all aspects and the present study would at least provide a starting point in such an effort.
1. Do you follow a stable dividend policy? If so, kindly give brief reasons behind your following such a policy.

2. Do you keep in mind the amount/rate of dividend declared in the previous year while taking decisions regarding current year's dividend?

3. Do you have any long-run target rate of dividend? If the answer is yes, kindly indicate the major factors behind determining such a target.

4. Do you consult market price movement of your shares while deciding on dividend?

5. Specify the factors which influence change in dividend proposed by you:

(i) Change in PAT
(ii) Change in Liquidity/Cash-flow
(iii) Change in the overall Capital Employed
(iv) Access to loan/debentures
(v) Reserve position
(vi) Proposal for investment in fixed assets
(vii) Any other, please specify.