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Dividend Declaration and Returns from Stock Market : An Indian Perspective

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Abstract

The paper attempts to understand the impact of dividend declaration on the returns from the stock market in India. The data of 50 stocks of Nifty has been analysed for the stock market returns from 10 days plus and minus the dividend announcement date. The analysis indicates that there are no abnormal returns around the dividend declaration date when all the dividends are considered. Then the dividends were segregated into dividends which were increasing over time and those that were decreasing over time. When the dividends increased, the returns from such stocks increased before the day of announcement and similarly the decrease in dividends was preceded by a decrease in stock price much before the day of dividend declaration. The above indicates that stock returns can be a leading indicator of change in dividends. As the stock price shows a decline, there is a strong indication of a proposed decrease in Dividend.

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Keywords : Dividends, Stock Market Returns, Nifty 50, Financial Market, India

I. Introduction

THERE ARE MANY corporate events like payment of dividends, buyback of shares, stock splits, change in ratings of the firm's debt securities, mergers and acquisitions by the firms which affect the firm's stock market returns significantly. The aim of this paper is to study the effect of dividend declarations on the returns in the stock market.

The insiders of the firm have more information about the future of the firm than the outsiders. Dividends announcement is a costly way of signalling by the insiders of the firm to the outsiders about the future earnings,

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The returns of the stocks whose dividends decrease over time do not significantly increase around the announcement day indicating that the investors do not buy such stocks around the announcement day.

When the dividends are expected to increase, returns for such stocks start increasing 3 days before the day of announcement. This shows investors are aware of the proposed increase in dividends before the actual announcement.

When the dividends are expected to decrease, returns for such stocks start decreasing upto 10 days before the day of announcement. This shows investors are aware of the proposed decrease in dividends before the actual announcement.

The above indicates that stock returns can be a leading indicator of change in dividends. As the stock price shows a decline, there is a strong indication of a proposed decrease in Dividend.

5.1 *Scope / Limitation of the study*

Research can further be carried to identify other factors that could be leading indicators of the increase or decrease in dividend. Also since this study pertains to Indian stock market, generalising this to the global markets may not be appropriate.

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