

Determinants of Dividend : An Empirical Study

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Abstract

The purpose of this study is to scrutinize the effect of various determinants available as per literature on dividend payout ratio of companies in India. The focus is on finding the answer to the question "Has the dividend puzzle as stated by Black (1976) been resolved yet?" This study uses techniques of factor analysis to discover the relationship between key variables. In all, fifteen variables have been taken to make the study more exhaustive. The study is based on a sample of NIFTY companies listed on National Stock Exchange for the period of 2003-2014. Results reveal that leverage and profitability have strong bearing on dividend policy of selected companies under study whereas liquidity, ownership and growth do not show much impact on the dividends. It provides a comprehensive framework that can be useful to companies, investors and regulators of companies in India.

I. Introduction

THE FINANCIAL WORLD has yet to develop a model indicative of the process by which corporations create an effective dividend policy. Dividends are part of the profits that is paid to shareholders at some specific time. This all depends upon the declared earnings of the companies which are based on the recommendations given by its directors. Thus, in the absence of any profits, dividends are not acknowledged. The company pays the company tax and other statutory taxes to government in case if the firm earns the profits. For any profit making organization, paying taxes has become the prime responsibility. The levies, no doubt, condense the profits available at the disposal of the organizations. The profits are either to be maintained or dispersed as a dividend to shareholders of the company. Modigliani and Miller (1961) theory has

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companies under study. Leverage was found to be negatively associated with the dividend payouts whereas profitability is positively related with the dividend decisions. Our study is based on the result drawn from all the financial factors. There can be non financial factors like collaboration, corporate governance, attitude and behavior of the shareholders and management and some other that can influence the dividend policy decisions of any company. The same can be study for the further analysis and inference about the dividend policy decisions of the companies.

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Annexure I
Definition of Variables

Variables	Variable Abbreviation in study	Depiction
1. Dividend Payout Ratio	DPR	It is percentage of dividend given by the company in a year out of its earnings (Profit after Tax). The average for 10 year is used.
2. Current Ratio	CR	This is calculated by dividing the amount of current assets by current liabilities. The average for 10 year is used.
3. Net Profit Ratio	NPR	This is calculated by dividing net profit (amount left at the end of the accounting year for appropriations) by net sales. The average for 10 year is used.
4. Debt-Equity Ratio	DER	Calculated as total debt of the company divided by its total equity. The average for 10 year is used.
5. Return on Investment	ROI	Computed as ratio of profit before interest, tax and dividend by capital employed of the firm. The average for 10 year is used.
6. Cash From Operations	CFO	Measured by net profit before tax and extraordinary income adjusted to non-cash charges and receipts and working capital changes. The average for 10 year is used.
7. Annual Sales Growth	ASG	Measured by taking the ratio of change in net Sales. The average for 10 year is used.
8. EPS Growth	EPS	Calculated as the change in Earnings Per share (EPS) in an accounting period of the company. The average for 10 year is used.
9. Ratio of Retained Earnings to Equity	REE	Calculated by dividing retained earnings of firm by equity of a firm. Retained earnings are amount of net profit after dividends are paid. The average for 10 year is used.
10. Promoter's Shareholding	PS	It is the percentage of holdings of Indian promoters, foreign promoters and persons acting in concert in a company. The average for 10 year is used.
11. Institutional Shareholding	IS	It is the percentage of holdings of financial institutions, banks, mutual funds and other institutions in a company. The average for 10 year is used.
12. Market Capitalization	MC	It is defined as the multiplication of the yearly closing price on 31st December and the number of outstanding equity shares. The average for 10 year is used.
13. Net Worth	NW	It is the amount by which the assets of the company exceed its liabilities. It is an important indicator of how much the entity worth is. It gives the snapshot of history of the company. The average for 10 year is used.
14. Return on Equity	ROE	The amount of net income returned as a percentage of shareholder equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The average for 10 year is used.

Source: Self Compiled