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TO ANALYSE THE RELATION BETWEEN FINANCIAL PERFORMANCE AND DIVIDEND POLICY

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ABSTRACT

This study aims to determine the impact of dividend policy on the profitability of Indian companies listed on the Bombay Stock Exchange (BSE). The financial markets are said to play a critical and significant role in the economy, as they are the key means of communication between firms and accounting information users. The economic development of a country is aided by investors mobilising funds and putting them into investments. This provides the economy with a solid base. Companies have been forced to hunt for patterns and procedures that will allow them to maintain respectable performance levels, particularly in financial performance, as a result of recent economic and financial changes. A lot of academics have looked into financial decisions aimed at increasing the value of a company, including not only the distribution of earnings to shareholders but also the risky positions. Dividend policy is still regarded as a difficult area of corporate finance. As a result, this research study will aid stakeholders in better understanding dividend policy. For this study, the researcher chose three cement businesses to examine the relationship between financial success and dividend policy.

KEYWORDS: Financial Performance, Dividend, Investors, Stock market.

INTRODUCTION:

Dividend policy is an important yet divisive aspect of modern company finance. "The more we look at the entire picture, the more it seems like a puzzle, with pieces that just don't fit together," writes Black (1976). This conundrum has led to the establishment of a couple of competing theoretical and empirical study explanations for why corporations pay or don't pay dividends. Dividend policy remains one of the top ten crucial yet unsolved challenges in the financial sector where consensus is still lacking, despite decades of research (Brealey and Myers, 2003).

The term "dividend" refers to a company's earnings that are distributed to its shareholders. The allocation of dividends or profits is one of the four critical financial sectors, along with financing, investment, and working capital management.

Companies regard the decision of dividends to be one of the most important, according to Ross et al. (2002), because it influences the volume of funds going to investors and funds kept by the firm for investment.

Dividend policy can also provide important information to investors about a company's performance. According to Swee et al. (2007), a company's investments determine the amount of future earnings and dividend potential, and dividend policy influences the cost of capital. The primary goal in arriving at these interconnected decisions is to increase shareholder wealth. According to Ibenta (2005), shareholders have a right to dividend payments if they invest in equity capital.

It's the responsibility of the financial management to make sure equity and fairness exist in benefit sharing amongst the shareholders. With dividend decision, an entitlement comes of balancing firm's future growth and the payment to firm's shareholders of the present dividend. The financial performance of a bank determines its capacity to pay dividends.

STATEMENT OF PROBLEM:

A number of theories are put forward to determine if a relationship among dividend policy and firm value (including financial performance) exists or not, but a consensus is still missing. Research by Miller and Modigliani (1961) has an objection to the relevance of dividend policy. They concluded that it doesn't impact firm value or financial performance.

Amidu and Abor's (2006) research states that dividend policy has an influence on a firm's performance, quantified by its profitability. The results exhibited a positive and significant association among return on assets (ROA), return on equity (ROE), growth in sales and dividend policy.

As reported by Arumah (2012), a couple of banks listed in the Nigerian Stock Exchange couldn't meet the dividend payment stipulations on a yearly basis for various years; based on the statutory stipulations of Companies and Allied Matters Act (CAMA, 1990) (as amended), dividend payment must happen depending upon the net profit for the period. (ed.)

Here, the questions arise: Did the financial status of these organizations fail to favour the dividend payment in these periods? Does a relationship existing among the financial performance and the dividend policies of Nigerian Banks. In that manner, this study aims to fill the gap via establishing if a relationship exists among dividend policy and financial performance in listed Indian companies.

SIGNIFICANCE OF STUDY:

The role of dividends has led to various areas in which research is undertaken. Dividends' role has motivated a number of areas of research. Specifically, this study gives attention to examining the association among dividend policy and triggered positive or negative enterprise responses in regards to financial performances.

The study tends to help in a wide variety of groups as stated below:

This research work will make employee companies predict the future performance of their companies for reconciling with conviction their expectations.

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A considerable level of vitality is attributed to this study in relation to its capacity of making enough sense to the management sciences department students as it will complement their prior studies or studies pertaining to dividend decisions and financial performance in relation to corporate finance.

LITERATURE REVIEW:

Distribution and policy of dividend is always perceived as a vital area of attention for all business organisations, investors, researchers, funders, agencies, etc. Since years, financial economists have put forward various dividend theories.

A couple of these opine that dividend is a vital factor in influencing the firm's value whereas others opine that dividend is not even a factor of relevance.

The Dividend Irrelevance Theory places enough stress on the assumption that dividend policy doesn't influence the firms' share value and also not the cost of capital. This reason is since the value of a firm's shares is a dependent factor on its earning capacity and riskiness of its assets.

Dividend may have an impact on the value of a firm's share owing to the information effect pertaining to management anticipations and clientele effect wherein the patterns of payout attract the shareholders owing to dividend preferences.

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Thus, firms' share value is independent from its dividend policy when operating under perfect market conditions (Miller & Modigliani, 1961). Although, some opine that Miller and Modigliani's ideal situation is a mere hypothetical situation that it doesn't reflect truth since it isn't possible to do away with factors such as transactions cost, taxes, inflation, and bankruptcy.

So, dividend policy and performance of a firm are interdependent and shareholders tend to select a higher dividend policy (McCabe, 1979; Anderson, 1983 and Abor & Bokpin, 2010). A firm's dividend policy can impact the value of its shares and will ultimately augment shareholders' wealth (Barker et al, 2001). Wealth maximization quantum is a vital indicator of firm's performance (Azhagaiah & Priya, 2008).

Factors such as the quantum of dividend paid, historical, projected profits and earnings' growth pattern, etc. are believed to be influencing the firm's dividend policy (Pruitt & Gutman, 1991). Different from interest, dividend isn't a fixed obligation on companies. Firms, in general, don't prefer changing dividend policy.

Stable earnings indicate a position brand of the company (Foong et. al., 2007). Shareholders relatively tend to prefer current dividends as against future (uncertain) capital gains. So, these theories advise that firm value and dividend payout are related factors (Amidu, 2007). There exists an information gap between managers and investors. Private information relating to the managers in regards to the current and future firm prospects is available, whereas outsiders aren't able to enjoy such privileges.

So, dividend policies of a firm is usable as an indicator of the future prospects of a firm for investors (Al-Malkawi, Rafferty & Pillai, 2010). The frequency of firms having access to the equity markets to raise additional capital rises alongside increasing dividend payment. Agency cost emanating from disagreement among ownership and control tend to influence the dividend policy (Easterbrook, 1984). It isn't a prerequisite that managers could tend to adopt a dividend policy resulting in shareholders' wealth maximization. Managers could also opt for a dividend policy that could increase their personal advantages. A couple of financial economists opine that increased level of dividend payout ratio can plummet the free cash-flows provisioned for the managers, still they tend to pay dividends for ensuring a rise in shareholders' wealth. DeAngelo & DeAngelo, 2006; DeAngelo et. al., 2007).

A number of studies have tried establishing a link among dividend policies and ratios, viz. profitability, debt to equity, etc. Return on Assets also tends to have a positive correlation along with dividend payout ratio, whereas debt to equity ratio and return on equity share a negative correlation with dividend payout ratio (Khan et al, 2016).

Study by Kolawole, E. et. al (2018) shows that the dividend payout and retention ratios leave a positive impact on EPS in the Nigerian oil and gas firms.

Study by Priya, et al (2013) supported the view that dividend policy ratios share a considerable impact on all firm performance ratios excluding return on investment (ROI) and return on equity (ROE). A significant correlation exists among EPS, P/E and PB with ROA. P/E is also found to be considerably correlated with ROE. EPS and PB are considerably ROE correlated.

As per the findings by Yegon, C., Cheruiyot, J. & Sang, J. (2014), a considerable positive association exists along dividend policies of organizations and the profitability of a firm. They also found that a considerable magnitude of positive association exists among dividend policy and investments, and that a considerable positive association exists among dividend policy and Earnings Per Share.

Khan, W., Naz, A. (2013) The results exhibit that the profitability of any firm positively affects dividend payouts and that its leverage also doesn't have any significant impact on firm dividend payouts.

Nishant B. Labhane, Jitendra Mahakud (2016), via the static panel data models attempted to prove that the firm having increased profitability, maturity and liquidity is poised to realise increased payout ratio whereas the firm having higher investment avenues leverages and business risks carry a lower dividend payout possibilities. Kanwal, M. & Hameed, S. (2017). The study's result exhibited that dividend payout tends to influence in a positive manner the financial performance of a firm. Panel data approach is employed by Masum, A. (2014) for observing the association among dividends and stock prices in regards to the Earnings Per Share, Return on Equity, and Retention Ratio, that positively correlates with Stock Prices, whereas the Dividend Yield and Profit after Tax tends to have a negative, insignificant association with stock prices. So, the study shows that Dividend Policy shares a considerable positive implication on Stock Prices.

Results by Khan, et. al (2016) exhibit that dividend payout ratio and leverage carry a considerable negative association with the ROE in their stock listed in PSE. A positive association was discovered among return on assets, dividend policy, and sales growth. Per the observations by Thirumagal, P.G. and Vasantha, S. (2018), a negative influence of dividend policy announcement exists on share price when it comes to Automobile, Infrastructure & Construction, Energy, Information Technology and Pharmaceutical industries. Per their study, dividend payout tends to have a considerable negative influence on shareholders' wealth for a high number of the Indian industries. So, a significant variation in share price among pre- and post-dividend announcements exists.

RESEARCH OBJECTIVE:

1. To analyze the relationship between dividend yield and financial performance.

Sample Size:

For this study three listed cement companies have been analysed.

1) India Cements Ltd.
2) JK Lakshmi Cement Ltd
3) Ultratech Cement Ltd.

Time Period:

Five years of data has been analysed for this study. Data for the year 2015-16 to 2019-20 has been studied in this study

DATA ANALYSIS:

1. Dividend Payout Ratio VS Net Income

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Dividend Payout Ratio	5	96.34667	19.26933333	48.62707
Net Income	5	4185.893	837.1786667	8169.015

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1672439.194	1	1672439.194	407.0362	3.80408E-08	5.317655
Within Groups	32870.57022	8	4108.821278			
Total	1705309.764	9				

Interpretation:

$H_0 1$ = There is no significant difference in Dividend Payout Ratio and Net Income

$H_1 1$ = There is significant difference in Dividend Payout Ratio and Net Income

Null hypothesis is rejected and it is concluded that there is significant difference in Dividend Payout Ratio and Net Income.

2. Dividend Payout Ratio VS Other Income

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Dividend Payout Ratio	5	96.34667	19.26933333	48.62707
Other Income	5	889.1867	177.8373333	1801.109

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	62859.52656	1	62859.52656	67.96596	3.51487E-05	5.317655
Within Groups	7398.942529	8	924.8678161			
Total	70258.46909	9				

Interpretation:

$H_0 2$ = There is no significant difference in Dividend Payout Ratio and Other Income

$H_1 2$ = There is significant difference in Dividend Payout Ratio and Other Income

Null hypothesis is rejected and it is concluded that there is significant difference in Dividend Payout Ratio and Other Income.

3. Dividend Payout Ratio VS Revenue

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Dividend Payout Ratio	5	96.34667	19.26933333	48.62707
Revenue	5	63071.92	12614.38467	2447106

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	396592325.6	1	396592325.6	324.1253	9.29476E-08	5.317655
Within Groups	9788618.113	8	1223577.264			
Total	406380943.8	9				

Interpretation:

$H_0 3$ = There is no significant difference in Dividend Payout Ratio and Revenue

$H_1 3$ = There is significant difference in Dividend Payout Ratio and Revenue

Null hypothesis is rejected and it is concluded that there is significant difference in Dividend Payout Ratio and Revenue.

CONCLUSION:

Distribution and policy of dividend is always perceived as a vital area of attention for all business organisations, investors, researchers, funders, agencies, etc. A couple of prior studies on this topic opine that dividend is a vital factor in influencing the firm's value whereas others opine that dividend is not even a factor of relevance. In this study researcher has selected three listed cement companies to analyse the relation between financial performance of the companies and their dividend policy. Based on the data analysis it can be concluded that there is relation between financial performance of the companies and their dividend policy.

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