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Impact of Dividend Policy on Profitability of Select Nifty Companies

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Abstract - A dividend is a distribution of a portion of a company's profits to its shareholders. A company's dividend policy is one of its most critical pillars. One of the primary functions of dividend policy is to communicate with existing shareholders and to entice potential new shareholders to the company. The choice to pay a dividend sets the proportion of profits distributed to shareholders and those kept by the company. The company's dividend policy is vital since it can have a significant impact on the value of its stock and its overall success. Dividend policy is an important part of corporate finance since it is used to send messages to shareholders about the company's health and future prospects. The firm's dividend policy will dictate how the company's profits are dispersed. Either the company reinvests the money or distributes a portion of the earnings to the stockholders. The value of investors and the market price of shares are both increased when corporate managers employ an effective framework of dividend decision, which is one of the fundamental tenets of financial management. The market value of a company's shares is heavily influenced by dividends, which are largely described as financial rewards to shareholders in the form of profit distribution. The dividend payout ratio and the amount of earnings retained by a company are directly related to the dividend choice made by the company, which is determined by the firm's dividend policy. With less money going out as dividends, the corporation will have more money to reinvest. Different factors, such as firm size, ownership, and other factors, influence the dividend decision. Investment possibilities, profitability, regulatory limits, liquidity, control, and inflation are among the other essential aspects that define dividend policy and contribute to an effective dividend decision based on shareholder return and company value.

Keywords - dividend, company's profits, financial management, Dividend policy, company's profits

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INTRODUCTION

The dividend is something the corporation strives for constantly. If the company wants to stay afloat, it needs to implement a consistent dividend policy that will keep investors happy and drive up the share price. The report analyzes data from 34 NIFTY 50 companies. You'll find businesses from the banking industry (eight firms), the auto industry (five firms), the energy sector (eight firms), the pharmaceutical industry (four firms), the IT industry (five firms), and the metal industry (five firms) (4 companies). The research spans the fifteen-year period from the 2004-05 to the 2018-19 academic years. Obtaining the necessary information from the Prowess database. Increased productivity, profitability, and share market value are just some of the benefits these industries will see as a direct result of the study's findings. A company's dividend policy sends a message to its investors about the company's health and growth, making it a crucial component of corporate finance. The dividend payout ratio and the amount of earnings retained by a company are directly related to the dividend choice made by the company, which is determined by the firm's dividend policy. Different factors, such as firm size, ownership, and other factors, influence the dividend decision. The study's goal is to examine the effects of dividend policy on the financial health and stock value of chosen companies. Secondary information was gathered from the prowess database.

REVIEW OF LITERATURE

Jahangir Chauhan, Mohd Shamim Ansarl, Mohd Taqi and Mohd Ajmal (2019) researched how much of an effect dividend policies had on the success of Indian IT firms. The study's goal is to learn more about how IT businesses trading on BSE's exchange are affected by their dividend policy. Market capitalization was used to determine the top 10 corporations. Both a correlation matrix and a panel regression model were employed to examine the information. The results showed a correlation between dividend policy and financial performance.

Rajesh Kumar and Sujit (2018) read the review of The Factors Affecting Dividend Payments Made by Indian Companies (An Empirical Study). The goal of this research is to analyze the factors that influence Indian companies' dividend practices. The secondary data for 2015-2016 was obtained from the CMIE Prowess database. Covariance structural equation modeling and partial least squares structural equation modeling have been used to examine the acquired data. More dividends are distributed by Indian companies with higher intangibles, agency expenses, liquidity, and profitability. Companies with high levels of financial debt and growth tend to have a decreased propensity to distribute dividends.

Bassam Jaara, Hikmat Alashhab, Osama Omar Jaara (2018) uncovered the major drivers shaping dividend payouts for Jordan's non-banking corporations. The years 2005-2016 were used as the study's sample period. Dividend payout ratio and dividend yield are the dependent factors here, whereas the six primary independent variables are firm size, risk, investment opportunities, historical dividend, profitability, and leverage. The findings demonstrated a favorable relationship between dividend policy and ROE. The research backs up the validity of three major dividend decision theories—the signaling theory, the partial adjustment theory, and the life cycle theory.

Megha Narang (2018) examined the dividend policies of 20 industrial firms listed on the NSE between 2012 and 2017. For this research, we used statistical methods including correlation and multiple regression. Variables such as dividend payout ratio, earnings per share, price earnings ratio, return on assets, and return on equity were used to examine this phenomenon. In the end, the research found no link between dividend policy and financial outcomes for businesses.

Thirumagal and Vasantha (2018) attempted to look into the connection between dividends and shareholder wealth. Fifteen Indian corporations across five sectors were analyzed in this study, spanning the fiscal years 2001–2005. Statistical methods like panel regression and the paired t test have been used to examine the data. As found by the research, the dividend payout ratio significantly and negatively affects shareholder wealth across the key industries. There was a distinction between share price before and after the dividend announcement, the study found.

Onyango Benedict Enrile (2018) the effect of dividend per share on market price per share for 63 businesses across 11 sectors on the NSE between 2009 and 2013 using correlation and multiple regression analysis. There is a statistically substantial and positive relationship between dividend yield and share price. A favorable but not statistically significant association between price earnings ratio and share price was also found.

STOCK MARKET

It is important for everyone, including those who have no direct interest in the stock market, to be familiar with the share market and to frequently check the share market website. Those who own them may be a group of stock brokers, the general public through listed shares, a government or quasi-government agency, or a private entity. In any case, they are all subject to rigorous oversight by official institutions. Among today's service institutions, stock exchanges are widely regarded as the most important catalysts for the development of new businesses. Since the advent of industrialization, businesses have expanded to the point where sole owners and even partnership organizations are unable to raise the enormous sums of money necessary to launch truly groundbreaking new products or services. Only with the help of thousands, even millions of people would it be possible to raise such a tremendous sum of money.

History of the Stock Market

Not until the 1500s did we see the first true stock markets. However, history is replete with precedents for markets with similarities to modern stock exchanges. For instance, in the 1100s, France had a system where courtiers de change administered agricultural debts across the country on behalf of banks. They essentially traded debts with one another, making this the first notable example of brokerage. Venetian businessmen were later credited for selling government securities as early as the 13th century. Immediately following this trend, financiers in Pisa, Verona, Genoa, and Florence, all located nearby in Italy, started trading government assets. Asia's stock market is among the world's earliest. It has a long and storied past, stretching back over 200 years. Little is known about the origins of the Indian security market because the oldest records are so sketchy. Near the end of the eighteenth century, the East India Company was the dominant institution, and trade in its loan securities was commonplace. By the 1830s, Bombay had become the center for the trading of corporate stocks and shares in banks and cotton presses. In spite of 1839's more extensive trading list, only six brokers were officially acknowledged by banks and merchants between 1840 and 1850. Many men were drawn to the booming brokerage industry of the 1850s, leading to a total of sixty brokers by 1860. Due to the American Civil War and its subsequent disruption of cotton imports from the United States and Europe, "Share Mania" began in India in 1860–1861. Currently, there are between 200 and 250 brokers working in the industry. After the conclusion of the American Civil War in 1865, however, a disastrous decline started (for example, Bank of Bombay Share which had touched Rs 2850 could only be sold at Rs. 87). In 1874, after the end of the American Civil War, a group of successful brokers chose a spot on a street (now known as Dalal Street) where they could meet and conduct business. The "Native Share and Stock Brokers' Association" (also known as "The Stock Exchange") was initially created in 1887 in Bombay. The Stock Exchange first opened its doors in 1899 after purchasing a building on the same street in 1895. This resulted in a unified Bombay Stock Exchange. Before corporations were allowed to join stock markets, only individuals and partnerships could participate. Calcutta Stock Exchange, Delhi Stock Exchange, Uttar Pradesh Stock Exchange, Ludhiana Stock Exchange, Cochin Stock Exchange, Gauhati Stock Exchange, Jaipur Stock Exchange, and Mangalore Stock Exchange are all public limited companies, while the Bombay Stock Exchange, Ahmedabad Stock Exchange, and Madhya Pradesh Stock Exchange are all voluntary non-profit associations of persons. Stock exchanges are governed by a board made up of board members and an Executive Director.

THE JOURNEY

- Journey of 1996 to 2016
- 1996 to 2001 19 august 1996 first major SENSEX revamp, 22 March 1999 Central depository services limited (CDSL) set up with other financial institution.
- 1 June 1999 interest rate swaps (IRS) / Forward Rate Agreement (FRA) allowed
- 15 July 1999 CDSL commence work
- 11 October SENSEX closed above 5000
- 11 February 2000 SENSEX crosses 6000 intra-day
- 9 June 2000 Equity Derivative introduced
- 1 March 2001 Corporatisation of exchanges proposed by the Union Govt.
- 1 February 2001 Index Operations launched

Role of Stock Exchanges

Role of Stock Exchanges are highly important in the development of any economy. They control the growth of a country. Stock exchanges are hub of primary and secondary market. Stock exchange plays following roles:

1. **Raise capital for businesses:** Exchanges help the companies to raise capital by selling shares to the investors.
2. **Mobilizing savings for investment:** They help public to mobilize their savings by investing in high return giving sectors. It benefits both the individual and to the national economy.
3. **Facilitating company growth:** They help companies to expand and grow by acquisition or merger.
4. **Corporate governance:** Stock exchanges have their set of rules to get listed in them. Therefore the listed public companies have better management records than privately held companies.
5. **Creating investment opportunities for small investors:** Small investors can also participate in the growth of large companies, by buying a small number of shares.
6. **Government capital rising for development projects:** They help government to raise fund for developmental activities through the issue of bonds. An investor who buys them will be lending money to the government, which is more secure, and sometimes enjoys tax benefits also.
7. **Barometer of the economy:** The stock indices are the indicators of the trend in the economy.

Securities and exchange board of India (SEBI)

The Securities and Exchange Board of India (SEBI) was founded in 1988 and granted full autonomy by 1992, at which point it assumed responsibility for the growth and regulation of the market. The scope of SEBI's regulation grows, and the financial markets are seeing significant shifts. As noted in its annual report for 1997–98, SEBI has strived to strike a balance between investor protection and market development throughout its six years as a statutory agency. It has established brand-new guidelines and designed regulations to aid with progress. The Stock Exchanges' systems for monitoring and surveillance were established in 1996–1997 and bolstered the following year, in 1997–1998. SEBI regulates the stock markets (Securities Exchange Board of India).

ROLL OF INDICES AND DIVIDEND

Some of them popular in India are:

- Benchmark indices –Sensex and Nifty
- Sectoral indices like BSE Bankex and CNX IT
- Market capitalization-based indices like the BSE Smallcap and BSE Midcap
- Broad-market indices like BSE 100 and BSE 500

In the context of the financial markets, an index is a statistical measure of the movement of the securities market. Stock and bond market indexes are fictitious portfolios of securities meant to represent the entire market or a subset of it. (Indexes are not available as direct investments.) The Standard & Poor's 500 and the US Aggregate Bond Index are often used as proxies for the performance of the US stock and bond markets. Stocks, bonds, T-bills, and other investment prices are used to create financial indices. The purpose of a stock market index is to reflect the broader trends in the equity markets. To construct an index, investors choose a set of stocks meant to be typical of the market as a whole or of a certain subset of it. Calculating an Index requires a starting point (a base period) and a starting point (a base index value). There isn't just one case where an index of the stock market would be helpful.

- It provides a historical comparison of returns on money invested in the stock market.
- It can be used as benchmarks against which any comparison of Performance can be done.
- It is an indicator of the performance of the overall economy or a sector Of the economy
- Stock index usually reflects up to date information
- Modern financial applications such as Index Funds, Index Futures, Index Options play an important role in financial investments and risk Management

TYPES OF DIVIDEND:

There are five types of Dividend.

They are:

1. **Cash dividend:** The cash dividend is the most common used. Dividend amount is paid in cash to those investors holding the company's stock on a specific date. The company issues dividend payments.
2. **Stock dividends:** A stock dividend is distribution of its common stock to its common shareholders without any consideration by a company.
3. **Property dividends:** A company may issue a non-monetary dividend to investors rather than making a cash or stock payment.
4. **Scrip dividends:** A scrip dividend is essentially a promissory note that a corporation issues to shareholders in lieu of dividends when it does not have enough cash on hand to do so immediately. A note is created in the form of a dividend.
5. **Liquidating dividend:** A liquidation dividend is a return of the initial investment made by shareholders and is declared by the board of directors.

IMPACT OF DIVIDEND ANNOUNCEMENT:

The stock price of a publicly listed corporation should fluctuate in response to news of any corporate action, which will reach investors through any available route. Knowing the state of a company's finances and how management's decisions will affect the stock price and the company's overall performance will help an investor decide whether to purchase, sell, or hold the stock. The shareholders of a firm might allow the Board of Directors to conduct corporate measures at various points in time. When it comes to pricing in all relevant information about a company, rational shareholders know the market is efficient and that stock prices reflect this on a regular basis. Such guarantees are speculative because they assume the market is efficient and are affected by the disclosure of company actions made periodically. Since the benefits associated with corporate events are already reflected in current prices and the market has already discounted the future earning benefits of such events, under efficient markets there should be no abnormal return on or around either the announcement date or the effective date of information. The effective market hypothesis states that the price of an asset should not change due to an event that provides no new information and that there should be no anomalous returns on or near the announcement date (AD) or the effective date (ED). Although there is adequate evidence from the United States and other established markets that demonstrate the existence of anomalous return on and around announcement and effective day and a rise in variance following ex-day.

CONCLUSION

A company's dividend policy sends a message to its investors about the company's health and growth, making it a crucial component of corporate finance. The dividend payout ratio and the amount of earnings retained by a company are directly related to the dividend choice made by the company, which is determined by the firm's dividend policy. Different factors, such as firm size, ownership, and other factors, influence the dividend decision. The study's goal is to examine the effects of dividend policy on the financial health and stock value of chosen companies. Secondary information was gathered from the prowess database. Summary statistics, analysis of variance (ANOVA), correlation, multiple regression, and panel data regression were used to analyze the data. Research into the factors that affect dividend policy shows that dividends have a significant impact on the dividend policies of the finance, energy, information technology, and metals industries. Increased investment yields growth potential, as seen in the automotive and pharmaceutical industries over the research period, which in turn has a significant impact on dividend policy. During the study period, the financial sector had a strong positive influence from the dividend yield ratio on profitability, and a significant negative effect from the dividend payout ratio on ROA and ROCE. The metal industry's dividend payment ratio has a favorable effect on share price, according to an analysis of the relationship between dividend policy and stock price.

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