

Effect of Dividend Policy on the Value of Companies in India: An Empirical Study

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1. INTRODUCTION

Dividend is the share of the net profit of a corporation made available to its shareholders as a return on their company investment. The shareholdings may be either paid in cash (where the cash is paid out or in stock (where the benefit is replenished and the bonus shares are given to the shareholders) or paid in cash and in stock. At the end of every financial year, net earnings that remain after other credits, including the payment of business revenue tax, the transfer to reserve accounts and retained earnings, shall be paid out as dividends, are of interest to investors. Dividend payment appears to increase the company's share value on the stock market due to its knowledge quality on the company's results.

On the other hand, retained profit can also be reinvested in the enterprise in order to benefit from economies of scale and economies of scope that would result in a greater output of the enterprise and also improve the company's long-term market value. Therefore, a successful dividend strategy is essential for a corporation to increase its shareholders' equity. Likewise, sufficient knowledge of companies' dividend policies will direct investors in their investment choice. The dividend policy is structured to determine the share of current income to be retained by the company and the proportion to be distributed to its shareholders.

In the last five decades, dividend strategy has drawn great interest of financial analysts worldwide. It was also a source of contention and a topic of intense theoretical and empirical research. One aspect of dividend policy remains puzzling the connection between dividend policy and share prices. The sum that shareholders are willing to pay for a company's shares will be affected by the company's dividend policy (Van Horne, 1998; Pandey, 2005). If management follows a dividend strategy that runs counter to shareholder interest, disgruntled investors sell their shares. Extensive sales would increase the supply of the company's market share and lead to low prices, thus impacting the value of the company. When a company retains profit instead of dividends, the price of the stock of the company will increase accordingly.

But shareholders who want a current return often produce "homemade" dividends by selling those shares and receiving the value appreciated. In addition, if all of the company's earnings are automatically allocated to the shareholders, the valuation of the business will be affected. Those shareholders who invest in capital growth and future income and expect the business to grow by reversing profits, might start selling their shares (Stulz, 2000). The effect of the dividend policy on the business value was verified by Mainoma (2001), Nishat and Irfan findings (2003).

At the end of each year, each traded company must determine if and how much cash will be returned to its shareholders by way of dividends. The private company owner must decide equally on the cash he or she wants to remove from the corporation and how much he or she can reinvest. This is the dividend decision, and we begin this chapter with three aspects of dividend policy. One is a strictly procedural question about how stockholders receive and receive dividends. The second is a study of commonly used metrics of how much a business pays for the dividends. The third is an empirical study of such patterns of dividend policy pursued by businesses. After laying this foundation, we are looking at three ways of thinking about dividend policy.

The irrelevance dividend school argues that dividends just don't matter since they don't impact firm value. This argument is based on two hypotheses. The first is that an investor does not have a tax disadvantage in collecting dividends, and the second is that businesses can raise new investment funds in the capital markets without substantial pollution costs. Second-school advocates claim that the average stockholder has a bad dividend because of the tax disadvantage it creates which leads to lower valuation. Finally, there are those in a third category who claim that dividends are obviously good because stockholders like them (at least some of them and react accordingly as dividends grow. While the dividends have historically been considered the primary path to returning capital or assets to its shareholders for publicly traded companies, they represent only one of the many ways that the business can achieve this goal. In particular companies can return cash to their shareholders through stock repurchases where the money is used to buy the company's outstanding shares and reduce the number of outstanding shares. Moreover, businesses will return some of their assets in the form of spinoffs and split offs to their investors.

A company's dividend policy is intended to determine the proportion of current income to be retained and the proportion to be distributed among its shareholders. This was a topic of insight and an extensive theoretical and analytical research. One aspect of dividend policy remains puzzling the connection between dividend policy and share prices. However the amount shareholders are prepared to pay for shareholdings in a corporation will be decided by the dividend policy of the company (Van Horne, 1998; Pandey, 2005).

The main aim of a corporation is to increase the shareholder's equity, which is expressed by generating value at the company's share market price. Value can be created by holding some reinvestment income and dividend growth in the future Pandey (2005). Most businesses aim to meet the shareholder's current income requirements through dividend payments. The businesses assume that paying dividends decreases risk and thus affects share prices as a measure of potential profits. However the amount required for internal financing is limited by the dividend payment. What the shareholders get in the short term thus represents a significant decision for the company's overall survival.

Dividend policy is the guiding documents on the calculation and payment of dividends for the corporation. Meanwhile, dividend policy is not the only indicator of company success, as shown by Jabbouri, by other means (2016).

Khan (2015) notes that a company's dividend policy can be calculated by two common suitable methods, the dividend yield and the dividend payout ratio. Changes in these two financial metrics are providing information on the risks faced by businesses and on the companies' potential growth profits. In addition to metrics of dividend policy, investors often see other financial indicators to make productivity choices, such as profits per share, retained profit, company size and book value (Chelimo & Kiprop, 2017).

Payout for dividends can be high or low. A low compensation means more profits retained which may lead to higher share prices, as it accelerates growth in income. Growth investors will produce their returns primarily in the form of potential capital gains. However the effect of dividend policy on potential capital gains is complicated and unpredictable, as it will arise in the far future. Low payouts could therefore not inherently result in higher prices. High payouts, on the other hand, mean more established dividends and less profits, which may lead to sluggish growth and maybe lower market share prices. Some shareholders, in particular minority, however have the main goal of getting dividends at the end of the era, while others are interested in growth with a view to potential capital gains. There are major variations between investors in their investment decisions.

Some investors are interested in quick returns and others are interested in capital growth and future sales. Whichever dividend strategy a business adopts may have a positive or negative effect depending on the mindset of its investor. It is quite rational that some investors prefer high-paid companies and others prefer low-paid companies. Management must also strike a balance between the company's competing interests and the shareholders. Therefore, deciding the optimum dividend payout ratio is critically critical for the company's survival. That is why there are many arguments now about the issue of capital gains and dividend payments (Ahmed & Murtaza, 2015).

Dividend policy (DP) is considered to be one of the three key financial management decisions. The company's decision as to how much profits could be paid as a dividend and how much the firm could keep is the business of DP. The DP dictates what share of profits is paid to shareholders by dividends and how much is reinvestment in the company itself. The implementation of this strategy would be strongly affected by the company's investment prospects and the dividend benefit against shareholders' capital gains. Each company should establish such a DP, which divides the net income into dividends and income, optimally to achieve the aim of maximising shareholders' wealth (Pandey & Ashvini, 2016).

Despite the number of studies on dividend reform, however the corporate finance dilemma remains unresolved. Several hypotheses have been suggested to justify the importance and effect of the dividend scheme, but no general consensus was reached. As a consequence, researchers continue to show divergent results on the relationship between dividend payments and valuation.

The management of emerging market companies is faced with the situation deciding the form of dividend policy to be followed to optimise shareholders' capital. Some studies and commentaries by Jarrel (1991) and Ikenberry et al (1995, 2000) show that little research has been done into the effect on share price of the dividend policy. One of the contentious topics in corporate finance remains the subject of dividends policy. Dividend policy is one of modern financial economics' most difficult subjects. It could not be resolved for forty years of study. Dividend policy analysis found that not only is a general theory of dividend policy vague, but the practise of dividends differs between companies and countries.

2. REVIEW OF LITERATURE:

Many dividend theories have been suggested to understand how the dividend decisions are made and whether it affects the valuation of the business. In this respect, there are three different approaches. There is a conservative faction on the right that argues that rising the dividend payment raises the company's worth. On the left is a radical party that thinks that a higher dividend yield decreases the company's worth. At the core of the street party, founded by Miller and Modigliani in 1961, says that the payout strategy does not make a difference (Brealey et al., 2001).

Many researchers perform a literature survey that shows the relationship between corporate governance and dividend policy.

The theory suggested by Jensen (1986) and Gomes (2000) is that dividends would protect both minority shareholders and external shareholders. However the security depends on whether the firm primarily offers protection for minority shareholders and corporate governance efficiency in disputes with a corporation.

Hart and Shleifer (1985) propose that commodity market rivalry as a corporate governance representative could easily reduce the asymmetry of knowledge between managers and shareholders due to shareholders that could easily make a benchmark between corporate performance and competitor performance. Then we call it the hypothesis of the yardstick competition.

Two policy model dividends suggested by Porta et.al(2000) are the results agency model and the replacement model. The resulting agency model claims that minority shareholders are successful in pressuring managers to pay dividends. It means that dividend payments increase with the growing practise of corporate governance. The alternative agency model suggests that businesses pay dividends to preserve a good image, so that they can collect funds from the capital markets in future. Schmidt (1997) notes that extreme competition on the product market raises firm default risk and liquidation risk, thus minimising disputes with management agencies.

Shleifer and Vishny (1997) demonstrate that rivalry decreases the agency's free cash flow costs by discouraging the investments of managers in negative NPV programmes. Allen and Gale (2000) argue that competition in the commodity market acts as either a control mechanism, or an organisation conflict reduction mechanism.

Bertrand and Mullainathan (2003) illustrate that rivalry reduces "quiet life" to minimise production, overhead and salaries. Fee and Hadlock and Raith (2000) and (2003) suggest that competition improves CEO turnover, is likely to replace CEOs in a competitive market and usually works harder under extreme competition. Guadalupe

and Perez-González (2010) demonstrate that management interests in a competitive commodity market coincide with shareholder interests.

Giroud and Mueller (2011) say that in highly competitive markets corporate governance is unnecessary if commodity market rivalry will compel managers to optimise corporate value to survive. Manager control corporate governance is influenced by product market rivalry. product market competition. Companies on competitive markets with low intensity need business management by disciplinary managers. Increased product competitiveness forces managers to concentrate their energies and eliminate managerial slackness in order to survive, even without good corporate governance, due to risks of defaults and liquidations and interest coordination between insiders and externals.

Schmidt (1997) claims that competition on the commodity market decreases profit margins and thus business profitability. Companies facing intensive commodity market competition cannot therefore deliver a compensation structure that is sufficiently enticing to completely inspire managers.

Karuna (2007) argues that competition in the product market can either replace or augment managerial incentives. The competition for the product market will serve as a corrective mechanism and minimise the need for management incentives. But companies need to give managers more rewards to inspire them in a more competitive environment. Companies may then give managers greater allowances in a more dynamic market. Therefore the ultimate effects on managerial incentives of commodity market competition should be unclear.

Beiner et.al (2011) considers a non-linear link between product market rivalry as a proxy on management incentive level corporate governance. His results are focused on the corporate theft effect and scale effect. The stealing effect of business provides a signal that higher levels of competition can mean greater market elasticity. It would help to make a company that has a cost advantage better than its rivals. Effect of scale shows that competition between companies would reduce profitability of the business. This results in lower revenues, then the organisation provides lower management rewards with increased competition. Beiner (2011) also notes that the most influential factor during low competitive effects is that competition decreases decision management value and vice versa.

Almeida et al. (2011) provide a theoretical and anecdotal illustration that good corporate governance companies have more firm value than bad corporate governance and are better paid for. However the current literature does not address the relationship between corporate governance and payout policy and the position of corporate groups. However, earlier research continues to give us an opportunity to do the same research because it maintains a research distance between theory and empirical proof. This research focuses on evaluating the effect of corporate governance on dividend policy. We expect our research to lead to two separate aspects. First of all the creation of an analytical model to illustrate corporate governance and dividend policy. Secondly, it provides the investor with knowledge on what types of determinants rather than corporate governance that influence payment policy.

The company's main purpose is to benefit from the activities, then deliver profits to the shareholder and ultimately raise the company's value. The shareholders profit from the company by dividending which company distributes and or capital gains.

According to Jensen (1986), in his classic paper on agency costs, businesses can mitigate tensions between business insiders and external stockholders without the existence of lucrative investment opportunities through the allocation of surplus cash flows to shareholders. This view indicates that shareholders should use discipline managers with a compensation strategy.

A similar argument is made by Easterbrook (1984) and Zwiebel (1996) that dividend payments to shareholders minimise the ability of managers who could not wisely use the free currency flow.

Rozeff (1982) argues that higher dividend payments may minimise agency problems through asymmetry of knowledge while at a later stage raising corporate external financing costs, indicating both positive and negative aspects of dividend payments.

International evidence that controlling shareholders use dividends as a method to expropriate funds from foreign shareholders has been presented by Faccio et.al (2001). Faccio et.al (2001) states that the payout ratios for dividends in Europe and Asia are higher because there are several major shareholders. They say that the activities of these payment policies minimise the expropriation in Europe but intensify the expropriation by minority shareholders in Asia.

Almeida et al. (2011) indicated that pyramidizing company groups in Korea has resulted in substantial market valuation discounts and lower payout rates for the listed group businesses, typically in the pyramidal form. The shareholder hopes that the management will be able to run a business, so that the money invested in the company will bring high benefits. The shareholder hopes to earn a large dividend, but often the managers vary from the shareholder. The organisation therefore faces a challenge in agreeing on the shareholder's dividends strategy. The dividends strategy is a judgement as to whether the company's earnings are dividendised to the shareholder, or are retained longer in the form of incentives used to finance potential investment. The company therefore faces a problem in deciding on the dividend policy offered to the shareholder. The dividends policy is to determine whether the income made by the corporation are to be offered to the shareholder as dividends or to be retained longer as rewards used to finance potential investment. Apart from some literature at the start of this section. The literature on dividends policy and executive compensation is comprehensive.

Study work by Fama and French (2001) suggests a decrease in dividend payout ratios and the amount of dividend-paying businesses and that repurchasing stock has been the favoured payout option for many corporations (Grullon and Michaely, 2008); Jiang et al (2013). Research shows that the growing use of company stock options as a means of compensation is one reason why dividends have become less common. These options are not secured from stock price falls when ex-dividends are applied. As a consequence, their expected value is a declining dividend payments function.

Lambert et al. (1989), Jolls (1998), Fenn and Liang (2001), and Kahle (2002) argue that businesses offer managers more stock options as compensation appears to be less successful at paying dividends. The negative relationship between executive stock options and the possibility of a dividend raise after the 2003 dividend rate reduction is shown by Chetty and Saez (2005) and Brown et al. (2007). These papers all concentrate on the role of options in the development of dividend policies. This paper is based on an analysis of how another type of compensation, namely stealth compensation, affects dividend policy.

Chidambaran and Prabhala (2009) find that corporations frequently conduct themselves in compensating constraints through the use of substitutes that can lift shareholders' costs. In this paper we discuss how often companies pay for stealth dividends, with a particular emphasis on CEOs, whether they are a major contributor to total compensation packages and whether they cause agency difficulties. Stealth compensation may have an effect on dividend policy decisions through offering incentives to raise dividend payments to businesses which could minimise or intensify agency issues.

Cash-flowing shareholders in businesses exceeding their sustainable investment opportunities want surplus free cash flow as dividends paid in order to stop excessive expenditure. Managers may use stealth incentives as a tactic to enable CEOs to lobby for higher payments that can eventually favour shareholders. Shareholders will receive a higher cash return at the potential expense of lucrative ventures they have forgotten. In addition, high-dividend payout shares will draw tax-exempt institutional investors, since they are taxed less than individual investors (Allen et.al, 2000).

The resulting increase in institutional ownership will lead to more aggressive company monitoring, which could minimise the problems of the agency. Alternatively, agency problems can be compounded if the CEO, operating with the Board, uses stealth compensation to increase its own compensation and the compensation of the directors. Furthermore, if the use of stealth incentives causes managers to pay cash to shareholders rather than to invest in potentially lucrative investments, the company's overall value may be affected negatively. Companies with risk-adverse managers or managers who want "quiet life" in particular may prefer stealth rewards (Bertrand and Mullainathan, 2003)

Aboody and Kasznik (2008) are testing the rationale behind the proposed incentive contracts for shareholders to encourage managers to make payout choices which increase the value of their stock-based compensation. They noticed a greater balance between the wishes of individual (tax-paying) shareholders and the wishes of management by prompting them to turn to RSG from options in 2003 by reducing the taxes on dividends.

Blouin et al. (2011) together measure the effect on individual investors and management by the 2001–2005 data of the 2003 tax reduction and conclude that corporations that own the largest individual have raised their dividends in relation to share repurchases from 2003. In addition, they claim that their findings are consistent with officers and directors rising their assets to benefit from the reduced dividend taxes.

Zhang (2013) also discusses the impact of the S&P 500 equity payment compensation from 2000 to 2009. She finds that rises in dividends are more likely to occur in businesses that offer stealth rewards after 2003.

TOBINSQ is a measure of wealth and success of shareholders. Pruitt and Chung (1994) explained Tobins'q's simple approach. Similarities between approximate q, MVA and EVA were suggested. Approximate output assessment has been defined as standardised.

Kakani et al. (2001) analysed the financial output determinants of the Indian business sector for 566 companies in the 1992-2000 post-liberalization period. Researchers used and proposed that TOBINS'Q is a more desirable indicator of shareholder capital than transparency returns (Wernerfelt & Montgomery, 1988).

Amidu (2007) used TOBINS'Q as a metric of corporate success for Ghana Stock Exchange companies. Ben et al (2013) studied the correlation between the salary of the director and the performance of Nairobi Securities Exchange companies. One of the company's efficiency metrics was used by TOBINS'Q.

Odongo et al (2014) examined the effect on the Kenyan company's results, which was calculated as TOBINS'Q, of the capital structure and profitability. Sweety and Kaur (2014) analysed the effect on shareholders' wealth formation of 100 Indian companies between 1997 and 2009 of unique firm attributes. The researchers have used the market-based calculation of EVA (Economic Value Added), the accounting indicators, MVA (Market Value Added) and TOBINS'Q as a proxy for shareholder asset building. It was found that the attributes selected clarified a 34% EVA variation and a 55% MVA and TOBINS'Q variation.

Mitharshana (2015) analysed the effects on company efficiency of firm characteristics. As a measure of firm success he used Tobins 'q and found that the leverage was positive at 1%, while the asset tangibility was negative at 10% with Tobins.q. Liquidity and corporate size were marginal.

Dividend is an annual payout to shareholders to reimburse the company making the payment and in various form for using their assets. Van horne (1996) describes that a stock dividend that is a form of dividend should simply be the payment to shareholders of additional equity. This is because it is nothing more than a recapitalisation by the company: the proportionate ownership of the stockholder remains unchanged. Similarly, the stock dividend shall be distributed in stocks of the same form as the dividend, thereby retaining cash. The third major decision of a corporation, after having agreed to invest in assets and to encourage the best funding mix, is its dividend policy (Van Horne, 1998).

Policy centres on dividend appropriation between shareholders and the company. The amount of profits to be allocated to shareholders and the amount to be held in the company are determined. Savings are an effective internal source for financing the company's development (Pandey, 2005). Dividend policy is a decision which answers the issue, what share of the company's total earnings should be kept and how much should the shareholders receive? If the payout of dividends is high, the retained income is low. The establishment of the acceptable dividend payout ratio which could be considered an optimum balance of shareholders' competing wishes is critical for the company's survival. Dividends are paid primarily in cash. The allocation of profits uses the company's available cash. A business that is intended to pay dividends and requires funds to finance its investment opportunities will have to use external funding sources such as new equities or debt capital.

Rozeff (1982) points out that the consequences of the dividend policy are based upon the conclusion that the distribution of cash dividends leads to the reduction of the internal funds available to fund profitable investment

opportunities, and thus either restricts or requires a company to find another costly source of financing." Dividend policy proposes a positive attitude to preserve or raise a certain amount of dividends, with a view to maintaining the price of ordinary stocks on the stock exchange. The explanation is that capital markets aren't ideal, since shareholders are oblivious to dividends and profits retained as a result of market imperfections and risks, but they are greater than the potential dividend and capital gains in the current dividend year. The payment of the dividend therefore has a significant effect on the share market price.

Also at the cost of liquidity, management can sustain a dividend level or be compelled to borrow. On that strategy, on the other side, dividends are attractive from the point of view of shareholders since their present equity rises, and therefore the dividend amount influences the share price as well as the prospective viability of the business (Adefila, Oladipo, & Adoeti, 2000). Without Modigliani and Miller's limiting conclusions, another school of thinking maintains that their logic fails. They believed that because investors work in an environment of courier costs, taxes and insecurity, it is best to look at the business in the light of these variables.

Gordon (1962), the leading promoter for the validity of the dividend principle, argues that shareholders favour existing dividends, and is in effect, a clear connection between a dividend strategy and a company's stock valuation. Gordon claims that buyers are usually danger alert instruments which place a smaller risk on the present relative to potential dividends or capital gains. This 'birds in hand' claim implies that a company's dividend strategy is important because investors already tend to reduce their volatility by making those dividends. If buyers are unaware about their returns, they will the business's potential profits to a lower rate, thereby putting more value on the company (Adefila et al., 2000).

3. EFFECT OF DIVIDEND PAYMENTS ON THE VALUE OF COMPANY/TO SHAREHOLDERS

3.1 MARKET CAPITALIZATION

Market capitalization is the total value of a company. It's measured by the stock price times the number of shares issued. For example, a company that has 1 million shares that are selling for \$10 each would have a market capitalization of \$10 million. This means you could buy that company for \$10 million if you had the money and all the current stockholders were willing to sell you their shares.

Market capitalization is usually called market cap for short. It also refers to the total value of a stock exchange.

3.2 SHAREHOLDERS VALUE CREATION AND ITS LINKAGE WITH DIVIDEND POLICY DECISIONS

Several research studies have recognized that a dividend policy can have an effect on the future value of the business if it is developed and carefully implemented. The purpose of optimizing wealth is a generally agreed goal of the group, as it reconciles the complex, frequently conflicting stakeholder interest. As a consequence of many recent developments, the interest in shareholder value is gaining momentum:

- The possibility of corporate takeovers by those searching for under-valued assets
- Remarkable support from business leaders who took the approach
- A growing awareness that the valuation of the company's shares does not consistently link to conventional accounting measures like EPS and ROI
- Reporting of returns to shareholders and other indicators of business press success.
- A growing understanding that managers' long-term compensation must be closely related to shareholders' returns.

The Shareholders Value method calculates the economic value of an investment by discounting expected cash flows by the cost of capital (e.g. company's shares, plans, mergers and acquisitions). These cash flows serve as a basis for shareholder dividend returns and the rise in share price. An ongoing concern must strive to increase its capacity to generate cash. The ability of a corporation to allocate cash to its different constituencies depends on the ability to raise capital from its activities and on the ability to receive additional funds from external sources.

Two basic external sources are debt and equity funding. The credit power and market value of the shares depend on the capacity of a company to produce cash. The market value of the securities impacts directly on the second source of funding, namely equity financing.

The higher the share price for a certain amount of funds needed, the lower dilution would be borne by existing shareholders. The financial ability of management to deal successfully with corporate claimants therefore often stems from a rise in the valuation of shares. This rise in share value can be accomplished by rewarding shareholders with dividend returns and capital gains. The most famous statement about the relationship between the policy on dividends and corporate value stated that due to the investment policy of the company, the payout policy it opts to follow will not affect the present price or total return of its shareholders in the presence of perfect markets."

However, "market imperfections as differential rates of taxation, information asymmetries between insiders and outsiders, conflicts of interest between managers and shareholders, cost of transaction, cost of flotation and the irrational behavior of an investor may make the dividend decision of relevance"

Another market imperfection is information asymmetries, as opposed to information asymmetries between insiders (for example, managers) and outside parties (for example investors). Agency disputes, deriving from different priorities of company stakeholders, are the third market imperfections.

4. OBJECTIVES:

The Company's value depends upon the value of its shares in the markets and the pace of increase in same.

There are various other factors that impacts the value of the Company. Earlier few researches have been carried out on same and this research is carried out with the following objectives. The objectives of the study are as follows:

- To study the dividend policy determinants
- To study the impact of dividend policy determinants on market capitalization.
- To study the dividend distribution on value creation for shareholders.
- To study the dividend behavior pattern for companies under research.

5. RESEARCH METHODOLOGY:

5.1 RESEARCH DESIGN

Experimental Research Design: Experimental research design is used to establish a relationship between the cause and effect of a situation. It is a causal research design where the effect caused by the independent variable on the dependent variable is observed.

5.2 NEED OF STUDY

Earlier researches have been focused on the company's opinion of dividend policies and their effect on wealth of shareholders, but this current analysis would speak about the shareholders' understanding of the corporations' dividend policies and their impact on wealth of shareholders. In addition, this analysis would also address the different reasons that cause citizens to invest in stocks rather than in other investment proposals. We would discuss how a corporation's dividend policy should be used to pick the company to be invested in.

The scientist selected the analytical analysis to assess the effect on the Indian stock market of dividend policy determinants. This analysis provides a sample of the balance sheet and profit and loss account for three sectors for 2007-2016. The variables have been empirically evaluated with hierarchical regression in three industries,

including pharmaceutical, electricity and the medium. Thus a limit of 10-15 companies were chosen for each sector.

The reversal study would indicate the stock price to be influenced by aspects of dividend strategy, such as net profits ratio, gross profit ratio, earnings per share, dividend income, dividend, dividend payout ratio and asset returns. In order to evaluate the hypothesis the approximate p-value of the model is used. Where the values are important at 5 percent (i.e.) below 0.05, the alternative hypothesis is demonstrated, otherwise the null hypothesis is chosen.

5.3 HYPOTHESIS:

H₀: There exists a positive relationship between dividend policy determinants and valuation of companies.

H₁: There is no positive relationship between the dividend policy determinants and valuation of companies

H₀:- There is a significant impact of dividend policy determinants on market capitalization.

H₁:- There is no significant impact of dividend policy determinants on market capitalization.

H₀: There is significant impact of dividend distribution on value creation for shareholders

H₁:- There is no significant impact of dividend distribution on value creation for shareholders.

5.4 THE DATA AND SAMPLE

The study is focused on three sectors IT, FMCG and Service sector (Banking Sector).

6. UNIVERSE & SAMPLE SIZE.

The data analysis shall be undertaken from secondary sources. The whole project will be based on the secondary data based on the detail. The considered companies would be 30 of BSE

The data has been analyzed and available from the balance sheets and other financial statements made available in the “**PROWESSIQ**” software. This data is extensively used by market analysts, research scholars, fund managers and other financial market intermediaries to take informed decision regarding investments in these companies. The sample size is chosen from constituent companies of BSE sensitive index as on year 2002.

CONSTITUENT COMPANIES OF BSE SENSEX INDEX SINCE 2002.

Bombay stock exchange BSE is Asia’s oldest stock exchange. Based in Mumbai, India, BSE was established in 1875 as the native share and stock brokers association. Prior to that brokers and traders would gathered under banyan trees to conduct transaction (source: - “Bombay stock exchange website”).

The BSE index represents every segment of industry and constituent of companies represents 65% of the market capitalization of the companies listed of BSE.

7 DATA COLLECTION

7.1 SECONDARY DATA

Secondary data will be collected from the stock exchange and companies registered under company secretary office (CSO). Secondary data is the data that is readily available from other sources and consists of the information of the companies which are already registered under Bombay Stock Exchange.

- The data has been collected from software named as PROWESSIQ.
- Data frequency taken into consideration at the time of analysis is every fortnight
- The study is sectoral study of Indian firms which includes three sectors IT, FMCG & Service sector (Banking sector).

8. MODELS AND TECHNIQUES USED IN ANALYSIS

8.1 Lintner Model

- This model remains the best description of dividend policy determinant process available in each sector.
- Model found by John Lintner in 1956.
- The motive was to know the effect of determinants while paying dividends.
- 600 companies were found by him out of which 28 companies were shortlisted for the motive of experiment on his finding under the terms of Lintner model.
- He founded that it's important to meet with the board of directors to know about the base of the dividend decision.
- When dividends need to be paid, at that time previous year dividend is to be taken as benchmark.
- Dividends always prefer to be paid as same as in the previous year but need to be changed when profit earned is higher by the company.
- They will follow the principal of fair share as they would pay dividend on the basis of their dividend per share rather than on the basis of profit per share.
- At the time of analysis, he took 15 variables into consideration.
- Lintner noticed goals for payout ranged from 20% & 80% of the revenues but according to him 50% was most prevalent.

8.1.1 Reason to use the Lintner Model

This model taken into consideration at the time of analysis because its base was deep study of the factors or determinants regarding declaration of dividend for taking the dividend decision.

8.1.2 Limitation of Lintner Model

- The ambit of functionalities offered in Lintner's is very narrow compare to those offer in static code analyzers
- It typically focused on one aspect of detecting issues within programs as opposed to the intricate and elaborate setup of static code analyzers.

8.2 FIXED EFFECT MODEL

If the coefficient is assumed to be fixed, then co-efficient are estimated by dummy variable models.

Fixed effect model are a class of statistical model in which the levels that is value of independent variable are assumed to be fixed and only the dependent variable changes in response to the level of independent variable.

8.2.1 Reason to use the Fixed Effect Model

This model is used to avoid omitted variable bias.

8.2.2 Limitation of Fixed Effect Model

- Group differences
- Lagged dependent variable for example Change in government policy would affect the dividend distribution
- Heterogeneous factors (Internal and external factors)

8.3 GORDON MODEL

In this model, dividend is calculated on the basis of future prediction and it helps us to know about the exact value of our stock available after distribution of dividend to the shareholders.

8.3.1 Reason to use the GORDON Model

This model is a popular formula that is used to find intrinsic value of a company's stock. Generally, when the model calculation results in a figure that is higher than the current market price of a company share, the stock is seen as undervalued and should be considered a buy.

8.3.2 Limitation of GORDON Model

The limitation of this model lies its assumptions of constant growth in dividend per share. It is very rare for companies to show constant growth in their dividends due to business icon and unexpected financial difficulties or successes.

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