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A STUDY ON DIVIDEND POLICES ON SHAREHOLDERS WEALTH

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ABSTRACT

"A Study on Dividend Policies on Shareholder's Wealth at Reli Gare Securities Ltd." is an attempt to deconstruct the effect of dividend decisions made by corporations on shareholder wealth. A company's dividend policy is an important financial strategy that affects the company's market value and how investors see it.

The effects of several dividend policies on stock prices, EPS, and shareholder wealth are the primary focus of this research. These policies include steady, constant, and residual dividend methods. The study examines the correlation between dividend payout ratios and market capitalisation changes using secondary data from chosen NSE-listed companies.

According to the study's findings, a dividend policy that is both consistent and transparent boosts investor confidence, stabilises the market, and ultimately increases shareholder value.

INTRODUCTION

Dividend policy is a vital component of corporate finance that determines how a company allocates its earnings between dividends distributed to shareholders and profits retained for future growth and expansion. It involves decisions regarding the amount, timing, frequency, and method of dividend payments. These decisions play a crucial role in influencing investor confidence, market reputation, and the overall value of the firm. The primary objective of dividend policy is to achieve a balance between providing shareholders with regular returns and retaining sufficient earnings to finance profitable investment opportunities. An effective dividend policy helps create shareholder value while ensuring the company's long-term financial stability and sustainable growth. However, determining the optimal dividend policy remains a challenge because shareholders often have different preferences regarding current income and future capital appreciation.

Dividend policy is important for both companies and investors. For companies, dividend payments act as a signal of financial strength, profitability, and management's confidence in future earnings. A stable and consistent dividend policy can enhance a company's credibility, attract investors, reduce uncertainty, and improve the marketability of its shares. From the shareholders' perspective, dividends provide a regular source of income and represent a direct return on investment. Investors often interpret dividend announcements as indicators of a company's future prospects and financial health. Positive changes in dividend payments generally increase investor confidence, whereas reductions in dividends may create concerns about the company's financial condition. As a result, dividend policy has a significant impact on stock prices, investment decisions, and shareholders' wealth through both dividend income and capital gains.

REVIEW OF LITERATURE

Theoretical framework

Firms will only distribute dividends from residual earnings, defined as earnings remaining after all investments with a positive net present value (NPV) have been funded, according to the residual theory of dividend policy. Most businesses rely on retained earnings as their primary source of funding. An approach to dividend policy based on residuals, since investment project funding will be the primary use of retained earnings. The firm's management is primarily concerned with investment, not dividends, according to the residual dividend policy. Because of its demotion from an active to a passive decision variable, dividend policy eventually becomes meaningless..

Instead of distributing dividends to shareholders, the management in this situation believes that the firm's worth and wealth can be maximised by investing the earnings in the right investment initiatives. Managers will thus seek out and fund all investment projects that are deemed appropriate (in terms of

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risk and return) and are anticipated to enhance the firm's worth. Only when retained earnings are more than what is needed to fund appropriate investment initiatives will dividends be distributed. On the other hand, dividends will not be distributed if the total investment funds needed are greater than retained earnings..

Motive for a residual policy

One typical reason for a high retention dividend policy is because some shareholders may favour it over a low payout policy due to their individual tax situations, especially in cases where the effective tax rate on dividend income is higher than the tax on capital gains.

1. Dividend Policy and Shareholders' Wealth Among Financial and Non-Financial Firms

1. Udoka Bernard Alajekwu, Vincent N. Ezeabasili, Pius V. C. Okoye et al.

The study examined how dividend policy influences shareholders' wealth in financial and non-financial firms. Using panel data analysis, the authors found that dividend payout significantly increased shareholders' wealth in non-financial firms, while the effect was insignificant in financial firms. The study concludes that investors in non-financial firms place greater value on dividend returns.

2. A Systematic Literature Review on Dividend Policy: Theories and Emerging Trends

Dividend decisions have a substantial impact on business value, investor perception, and market valuation, according to this systematic analysis that examined recent dividend policy research. Topics like evolving investor tastes in dividend distribution policies and environmental, social, and governance (ESG) factors were brought to light in the review.

3. **Factors Influencing Dividend Policies: Additional Data from Developing Nations**

Collaborators W. D. de Souza Junior Jr.

The study looked at what characteristics influence dividend payouts using a big sample of companies from emerging markets. The results imply that dividend decisions are impacted by earnings, company size, free cash flow, taxes, and leverage, which in turn affect the goal of maximising shareholder wealth.

Section 4: **Investigating Unexplored Areas of Corporate Dividend Policy**

Mr. Gorakh

The purpose of the research was to identify the variables that led to dividend changes at listed Indian corporations. The findings shed light on the factors that influence dividend decisions and the resulting effects on investor wealth, which helps to clarify payout behaviour.

5. **The Role of Dividend Policy in the Wealth Creation of Nigerian Quoted Banks' Shareholders**

Scholars in Nigerian Banking

Shareholder wealth was examined by calculating the impact of dividend yield, retained earnings ratio, dividend coverage ratio, and dividend per share. A positive relationship between retained earnings and dividend yield and shareholders' wealth was found, lending credence to the dividend relevance theory.

Examining Dividend Policy's Impact on Firm Performance and Value: A Retrospective

S. O. Njoku et al.

This research looked at Korean companies to see how dividend policy, performance, and value are related. The results showed that dividend policy has a substantial impact on company value and shareholder wealth, with the intensity of this link being moderated by ownership structure.

A **Comparative Study on Dividend Policy and Shareholder Wealth**

The study examined the impact of dividend policy on wealth for various types of businesses. Regardless of the type of organization, the findings showed that dividend yield, earnings per share, and dividend per share all positively impact shareholder value.

8. **The Ghana Stock Exchange's Listed Firms' Dividend Policy and Performance**

A. Bossman et al.

Listed Ghanaian enterprises' dividend policies and their performance were the subjects of the investigation. Indirectly improving shareholder wealth and market confidence, the results indicated that dividend policies contribute favourably to firm performance.

9. **The Role of Dividend Policy in the Wealth Creation of Non-Financial Firms' Shareholders**

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Nyabakora Wakara I. and Priyan P. K.
In Tanzania, listed non-financial enterprises were the focus of the investigation. The impact on owners' wealth was positive and statistically significant for dividend per share, but negative and statistically insignificant for dividend yield. The study lends credence to claims that dividends are relevant.

10. **How Dividend Policy is Influenced by Ownership Structure**
Mr. Bataineh's
How ownership structures impact dividend decisions in Jordanian enterprises was the focus of the study. The results showed that dividend payouts are impacted by institutional, family, and foreign ownership, which in turn affects the wealth outcomes for shareholders.

11. **The Effect of Dividend Policy on Wealth of Shareholders**
David, K. O., et al.
The study's findings show that dividend per share increases market share prices, which in turn increases shareholder wealth. In order to boost investor trust, the study highlighted the significance of consistent dividend policies.

12. **The Wealth of Listed Manufacturing Companies' Shareholders and Their Dividend Policy**
Balagobei Saseela and Selvaratnam P.

The research looked at Sri Lankan manufacturing enterprises and discovered that dividend policy significantly increases shareholder wealth. It became clear that dividends per share were a key factor in determining shareholder value.

13. **The Effects of Dividend Policy on the Wealth of Shareholders**

Dividend policy continues to have an important impact on shareholder wealth via its effects on stock prices, market expectations, and firm valuation, according to the study's analysis of dividend payout practices.

14. **Evidence from Listed Firms on the Relationship Between Dividend Policy and Shareholders' Value**
A Number of Writers

The study found that dividends per share increase shareholder value. Increases in both market valuation and investor wealth were found to be associated with dividend-paying companies.

15. **Discovering the Relationship Between Dividend Policy and Shareholder Wealth in Emerging Markets**
Several Scholars
Generally speaking, dividend-paying companies create more value for their shareholders owing to signalling effects, lower agency costs, and enhanced investor trust, according to a study that looked at dividend behaviour in emerging markets..

Objectives of the Study:

- In order to maximise shareholder wealth, we need to study how dividend policy decisions are made.
- Examining how dividend policy affects stock prices, investor views, and market responses
- In various circumstances, examine what factors influence and motivate dividend policy decisions.
- So that businesses and governments can benefit from our analysis and suggestions when they develop dividend plans.

DATA ANALYSIS AND INTERPRETATION

Infosys Ltd.

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Market Metric	Value / Figure	Context / Comparison
Open Price	₹1,457.00	Current trading session open
Previous Close	₹1,453.35	Closing price of last trading day
Day's High	₹1,457.00	Highest price reached today
Day's Low	₹1,439.25	Lowest price reached today
Volume	49,77,296	Total shares traded today
Value (Lacs)	₹71,884.60	Total value of shares traded
VWAP	₹1,446.21	Volume Weighted Average Price
Beta	1.08	Slightly more volatile than the market
Market Cap (Rs. Cr.)	₹5,99,583	Large-cap category classification
Face Value	₹5.00	Nominal value per share
All-Time High	₹1,953.90	Historical peak price
All-Time Low	₹33.05	Historical floor price
20D Avg Volume	0	*Data unavailable/not captured*
20D Avg Delivery (%)	—	*Data unavailable/not captured*
Book Value Per Share	₹181.65	Net asset value metric
Dividend Yield	3.19%	Annual dividend return rate
TTM EPS	₹63.19	Trailing Twelve Months Earnings (+8.52% YoY)
TTM PE	22.86	Trailing Price-to-Earnings Ratio (**Low PE**)
Sector PE	31.51	Industry benchmark P/E
P/B Ratio	7.96	Price-to-Book Ratio (**Average P/B**)

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STATEMENT SHOWING CALCULATION OF CORRELATION CO-EFFICIENT

Date	MP BEFORE DIVIDEND (X)	DATE	MP AFTER DIVIDEND (Y)	x2	y2	x*y
15-Mar-26	1,634.00	18-Apr-26	1,419.25	2669956	2014270.563	2319054.5
18-Mar-26	1,602.65	19-Apr-26	1,411.25	2568487.023	1991626.563	2261739.813
19-Mar-26	1,561.45	22-Apr-26	1,432.75	2538126.103	2052772.563	2237167.488
20-Mar-26	1,554.95	23-Apr-26	1,442.40	2517869.503	2080517.76	2252859.88
21-Mar-26	1,554.70	25-Apr-26	1,430.75	2517092.09	2047045.563	2225387.025
22-Mar-26	1,508.85	25-Apr-26	1,438.45	2276628.323	2069138.403	2170405.283
26-Mar-26	1,492.65	26-Apr-26	1,430.25	2228004.023	2045615.063	2134862.663
27-Mar-26	1,483.85	29-Apr-26	1,434.75	2201810.823	2058507.563	2128953.788
28-Mar-26	1,498.05	30-Apr-26	1,420.55	2254153.803	2017962.303	2128054.928
01-Apr-26	1,495.45	02-May-26	1,414.45	2236370.703	2000668.803	2115239.253
02-Apr-26	1,482.85	03-May-26	1,416.30	2198844.123	2005905.69	2100160.455
03-Apr-26	1,480.65	06-May-26	1,425.90	2192325.423	2033190.81	2111258.835
04-Apr-26	1,486.70	07-May-26	1,440.95	2210276.89	2076336.903	2142260.365
05-Apr-26	1,479.10	08-May-26	1,427.30	2187736.81	2037185.29	2111119.43
08-Apr-26	1,476.70	09-May-26	1,439.55	2180642.89	2072304.203	2125783.485
09-Apr-26	1,494.85	10-May-26	1,425.90	2234576.523	2030340.01	2130011.765
10-Apr-26	1,506.80	13-May-26	1,423.45	2270446.25	2026209.903	2144854.46
12-Apr-26	1,484.75	14-May-26	1,425.70	2204482.563	2029770.09	2115323.325
15-Apr-26	1,468.15	15-May-26	1,419.95	2155464.423	2016258.003	2084699.593
16-Apr-26	1,414.45	16-May-26	1,453.35	2000668.803	2112226.223	2055690.908
TOTAL	30,161.60	TOTAL	28,571.20	45533962.08	40817852.27	43083887.25

Data Interpretation

Market prices before and after dividend announcement for the selected study period were correlated using Karl Pearson's correlation coefficient, as seen in the above table. In order to measure the association between the two variables, the analysis takes into account 20 observations in addition to the values of (x^2), (y^2), and (x \times y).

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After the dividend declaration, the overall market price drops to ₹28,571.20 from ₹30,161.60 earlier. Market prices were higher before dividend declaration compared to prices afterward, according to the statistics. The market price reached its peak of 1,634.00 ₹ before dividend announcement and 1,453.35 ₹ after dividend declaration. The fact that stock prices fluctuated throughout the research period is also indicated by the fact that the lowest market price prior to dividend announcement was ₸1,414.45.
The fact that (x^2), (y^2), and (x \times y) have substantially large values suggests that the two groups of market prices are strongly related to each other linearly. Price movements in the market before and after dividend announcement seem to follow a similar pattern, indicating a favourable association between the two factors. Investor reactions effect stock price movements and overall market performance, and dividend declaration has a considerable impact on market prices, according to the data..

FINDINGS

- Correlation coefficient: -0.2911 for Infosys. Before dividends, the highest price was $145.00. Maximum gain upon dividend payment: 1,453.35. The connection between Infosys's market prices before and after dividend declaration is moderately negative. That the stock price often falls following the announcement of a dividend is supported by the data.
- The correlation coefficient for TCS Ltd is 0.0285. As of the last payout, the price was 4,219.25. At its peak, the stock was 4,001.40 after the dividend. Market prices before and after TCS Ltd's dividend was issued exhibit a very weak positive link. Although the correlation is quite modest, this does suggest that the stock price has a slight propensity to climb when the dividend is declared.
- -0.2329 is the correlation coefficient for Apollo Hospitals. As of the last payout, the price was 6,754.10. Maximum gain following dividends: 6,774.05. There is a somewhat unfavourable relationship between the market price of Apollo Hospitals before and after the dividend is paid. There appears to be a trend for the stock price to decline following the declaration of the dividend, similar to what happened with Infosys.
- The correlation coefficient for the MRF is 31.65. Prior to dividends, the highest price was 148,902.30. After dividends, the highest price reached was 150,725.00 US dollars. Market prices before and after dividend declarations have an exceptionally strong positive association according to MRF. To understand the underlying causes causing the association, further analysis may be necessary due to the very high correlation coefficient.
- The highest price before dividend for ITC was 472 and the correlation coefficient was -0.065.3. The highest price that was achieved following the payout was 415.5. The market prices before and after a dividend is issued show a modest negative association according to ITC. Although the correlation is quite weak, this suggests that there is a little propensity for the stock price to fall following the declaration of the dividend.From what we can tell, the correlation coefficients among the different businesses are all over the map. Some companies have a direct relationship between their stock prices before and after dividends (like TCS Ltd and MRF), while others have an inverse relationship (like Infosys, Apollo Hospitals, and ITC) with their stock prices before and after dividends. Although such a high correlation coefficient may be exceptional and urge additional examination, the MRF correlation coefficient appears extremely high, possibly suggesting a significant association..

SUGGESTIONS

Infosys:

Analyse the effect of Infosys' dividend policy on stock prices by reviewing the company's payout policy.
One possible solution to the negative correlation could be to change the dividend payout ratio or the time of the payout.
To manage expectations and minimise negative market reactions, it is important to improve communication with investors regarding dividend declarations.
Investor Education: Inform investors about the variables other than short-term changes in stock price that contribute to the long-term worth of Infosys' dividends.
TCS, Inc.

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Investor Communication: Emphasise the stability and long-term growth possibilities of the company by improving communication with investors regarding dividend announcements.
Examine TCS Ltd.'s dividend policy in light of similar policies at other companies in the same industry to make sure it's competitive and in line with shareholder expectations.
To allay fears about the weak positive correlation, it is prudent to proactively manage market views surrounding TCS Ltd's dividend policy.

CONCLUSION

To conclude, the stock price relationships between Infosys, TCS Ltd, Apollo Hospitals, MRF, and ITC differ when comparing the market prices before and after dividend declaration. In contrast to TCS Ltd, where a very weak positive correlation indicates a tiny trend for prices to climb post-dividend, Infosys and Apollo Hospitals show considerably negative correlations, showing a tendency for stock prices to decline after dividend declarations. The extremely high positive connection that MRF shows calls for additional research into the causes. On the other hand, ITC shows a modest negative correlation, which means that stock prices fall somewhat after payouts. Reevaluating dividend policies, improving investor communication, investigating diversification options, and performing more analysis are some of the personalised recommendations for each firm. With these suggestions, we hope to improve dividend strategies, control how investors see us, and increase shareholder value in the face of unpredictable market conditions.

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