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A STUDY ON DIVIDEND DECISION ANALYSIS

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ABSTRACT

This research looks at how dividends and other forms of equity investment income affect stock prices in India. Siemens, Ambuja Cements, Automotive Axles, MRF, and Walchandanagar Industries are five firms listed on the National Stock Exchange (NSE) that have had their dividend yields and price variations analysed in this research. Using correlation coefficients, we looked at the relationship between pre- and post-dividend price variations and found that it varied between companies. Some companies had a positive correlation, while others had a negative one. The research shows that dividend policy including payout ratio and dividend yield—has a major effect on the volatility of stock prices. The results imply that investors have a different impression of dividend-paying corporations, which impacts stock prices, especially in developing economies like India. There was also a significant relationship between stock price behaviour and variables like company size, earnings volatility, and leverage. Evidence for the realisation, duration, and information effects of arbitrage in the Indian market is provided by the study's conclusion that dividend policy is a critical factor in predicting stock price volatility. The study has a few caveats, but overall it sheds light on how dividend policy affects stock market performance, which is particularly important for developing nations.

KEYWORDS:

Dividend Policy, Dividend Yield, Dividend Payout Ratio, Stock Price Volatility, Equity Investment Income, Stock Market Performance, National Stock Exchange (NSE), Share Price Behaviour, Correlation Analysis, Earnings Volatility, Leverage, Firm Size, Investor Perception, Arbitrage Effects, Emerging Markets, Indian Stock Market.

INTRODUCTION

Each offering has a set amount that investors get as a dividend based on their ownership. Payouts have the potential to boost investor confidence and safety. Distributing after-tax profits to shareholders in the form of dividends is not considered an expense by the company. A company's holding income, or profits that have not been distributed as dividends, is shown in the investors' value portion of its asset report, which is equivalent to its issued share capital. Public corporations have the option to declare a payout at any time, which is sometimes called an extraordinary dividend, in addition to the regular periods that are typically used for dividend payments. Payouts from cooperatives, on the other hand, are typically thought of as a pre-charge expense as they are based on members' activities.

That includes dividends

The payout proportion is the most commonly used criteria for determining dividend inclusion. The following formulae are commonly used to determine the payout proportion: payouts for each offering, profit for each share

The payout proportion is calculated by dividing dividends per share by profit per share and then multiplying the result by 100.

A payout ratio higher than 100 indicates that dividends were distributed at a higher rate than earnings for the specified year.

A dividend is paid out in the form of cash. But income is just a number in accounting and doesn't show how well a business is doing financially. Free income, which is driven by liquidity, is a more appropriate statistic to utilise than profit for assessing dividend health. The operational activity of a corporation after investments determines its free income, which is a measure of its liquid assets:

Multiplying earnings per share by free income per share. The payment percentage is 100. Companies can distribute wealth to their shareholders in a number of ways, one of which is through dividends paid out in stock instead of cash. Companies that are strapped for cash often choose to pay out dividends in the form of shares rather than cash. The board of directors decides when and how to pay out a (stock) dividend.

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LITERATURE REVIEW

Anwar, S., Singh, and Jain, P. K. (2023). The correlation between cash dividend announcements and volatility in stock returns, as determined by "event study methodology," is detailed in this research. According to the study's results, the fall in firm risk causes stock return volatility to increase after a cash dividend announcement.

Malhotra, Nidhi (2022). In 2022, this study, like many others of its like, examined 95 firms from the NSE 100 to determine what variables had an impact on their share prices. The study finds that book value, Earnings Per Share, and Price Earnings ratio all positively correlate with a firm's stock price using the linear regression model. In contrast, dividend yield

significantly correlates negatively with a firm's market price.

Amalendu Samanta and Dr. Arindam Das (2021). As is well-known in the literature on financial management, theories positing the relevance or irrelevance of dividends are frequently seen. The study commences with these two poles of opinion.

Md. Al-Hasan Abdullah, M.D. Al-Karim, Asaduzzaman (2020). This research looks at how dividend policy affects stock prices. Bangladesh is the site of the research. The study employs descriptive statistics, multiple regression models, correlation, and a test of hypothesis (F test) to determine the relationship between dividend policy and share price. MPPs for companies with high payout ratios are higher than those for organisations with low payout ratios.

Ayan Majumdar in 2019. Capital Employed (CE), Current Ratio CR, Past Earnings After Tax (PAET), Cash Flow (CF), TR (Tax Ratio), and IE (Interest Expense) accounted for 96.96% of the variance in the Dividend Payout Ratio (DPR), according to the study conducted in the apparel and textile industries.

T. Sobha Rani worked on this in 2017. Profitability and its growth rate are assessed in this study for a subset of Indian pharmaceutical enterprises. The study's data set spans the years 2002–2017. A number of factors are included in the analysis, including the yearly compound rate, pre- and post-tax profits, earnings per share, dividend per share, and so on.

In 2016, Abdullah Al Masum spoke. This research looks at the thirty banks that were listed on the Dhaka Stock Exchange between 2007 and 2015 to see if dividends were relevant or irrelevant to stock market results. Investigations into the connection between dividend policy and stock market performance have predominated.

P. K. Jain, Surendra S. Yadav, and Chhavi Mehta (2015). The purpose of the study is to determine how the market responds when stock dividends are announced. From January 1, 2011, to June 30, 2015, the study's sample included 51 stock dividend announcements. The study's results demonstrate that stock dividend announcements in Indian corporations increase shareholder wealth.

Baldev Singh and Vijay Shankar Pandey (2014). The purpose of this research is to examine the Indian stock market, a rising economy, and the connection between dividend signalling and market efficiency. Within the context of studying discrete dividend change events, the researcher employs a non-parametric run test.

Ranpreet Kaur (2013) aims to dissect the Modigillani Miller irrelevance theory and learn more about the connection between dividend policy and stock prices. There is no correlation between share price and dividend payout, either positively or negatively, according to the research. Research demonstrates that other factors have a larger impact on stock prices; whereas relevance theories might be useful for the near term, irrelevance theory paints a different image of the present.

"Kiritsinh O. Chauhan" (2012). The purpose of this research is to examine dividend policy in India and how it relates to corporate governance. Thirty firms listed on the BSE index between 2008 and 2014 were the subjects of secondary data collected for this article. The correlation model is used by the researcher to determine the relationship between corporate governance and dividends. A substantial relationship between the variables was determined by the investigation.

"Janki Mistry" from 2011. The purpose of this research is to compare the impact on share price returns of dividend announcements and share repurchases. The analysis covers thirty instances of share buyback and one hundred and thirty instances of dividend announcement.

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Mr. Goldman and Mrs. V. As stated by Viswanath in 2010. The study looked at how dividend policy and internal funding relate to each other. The researcher in this study contrasts the ability of the corporation to pay dividends with its financing needs.

Shah, Avani Suryakant (2009). The research is based on a shareholder-perspective comparison of dividend policy of chosen Indian corporations. Companies often have consistent dividend history, according to the report. On rare circumstances, dividends are reduced, but generally speaking, trends show either a stable dividend or rises.

Krunal Bhuva in 2008. Fifteen pharmaceutical companies partake in the research. Eleven of the fifteen firms analysed had a decline in share price following the dividend effective dates. According to the research, chosen companies' share prices rise sharply following dividend announcements, but fall sharply in the days leading up to the payment's effective date. Research shows that there is no discernible effect on the trading volume of shares. It turns out that the dividend % doesn't affect how certain companies' share prices vary.

By **Gergely Fazakas and Zoltan Barabas in 2007**. Data for the period 1995–2007 is used in the study, which examines 97 companies registered in Budapest. For each taxpayer, there is a unique set of tax rules. Capital gains are subject to a higher tax rate for institutions compared to individuals, who are eligible for preferential tax treatment. Investors do utilise the various taxation, according to the study's main finding.

Maunick and S.A.K. D, then Sewak. S., in 2006. The purpose of this research is to identify the factors that influence dividend policies of companies that are listed on the stock exchange of Mauritius. With a sample size of thirty companies, data collected from 2009 to 2013, and an analysis using a fixed and random effect model, this study sheds light on the perplexing nature of the paper's theme, which is the subject of heated debate around the world. is no meaningful relationship between a company's dividend policy and its cash on hand or its debt-to-equity ratio.

Mazlina Mustapha and Yong Teck Mui (2004). The purpose of this research is to identify the factors that influence dividend payment ratios for Malaysian corporations. The report cites previous research that demonstrated that dividend policy can mitigate agency problems.

It is **Ashvini and N. S. Pandey. In 2003, N.** The research looks at twelve businesses in the fast-moving consumer goods industry that are part of the NSE's CNX FMCG sectoral index.

By **Nawaz Ahmad and Farman Ali Khan (2002).** This study uses correlation analysis and backward multiple linear regression to examine the factors that affect pharmaceutical companies' dividend payouts.

Banerjee, Souvik (2001). Thirty leading companies in India's IT sector are the subjects of the study. The research shows that the dividend payment ratio is affected by a number of important characteristics, including earnings per share, price earnings ratio, current ratio, life cycle, and promoter holding. This research helps IT businesses understand the factors that influence their dividend policy.

Research Gap

Dividend decision policy has been one of the most extensively studied areas in corporate finance, yet several research gaps remain, particularly in emerging economies like India. Most existing studies have focused on the relationship between dividend policy and firm value, stock prices, or shareholder wealth in developed markets. However, the findings are often inconsistent, with some studies supporting dividend relevance theory while others advocate dividend irrelevance. Moreover, limited research has examined how dividend decisions influence investor behavior under varying market conditions and economic cycles. In the Indian context, there is a lack of comprehensive studies that compare the impact of dividend policy across different sectors and company sizes. Additionally, many previous studies have concentrated on dividend payout ratios and dividend yields without considering other important determinants such as profitability, liquidity, leverage, growth opportunities, and market volatility. Therefore, there is a need for a more detailed analysis of dividend decision policies and their influence on stock market performance and shareholder wealth creation.

Conceptual Framework

The conceptual framework of this study is based on the premise that a company's dividend decision policy influences investor perceptions and ultimately affects stock price behavior and firm value. Dividend policy acts as an important financial decision through which companies determine the proportion of earnings to distribute as dividends and the

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portion to retain for future growth. Independent variables such as dividend payout ratio, dividend yield, earnings per share, profitability, leverage, liquidity, and company size influence the firm's dividend decisions. These dividend-related factors affect investor confidence and market expectations, which in turn influence stock price movements and shareholder wealth. The framework assumes that an effective dividend policy can enhance firm value by signaling financial strength and stability to investors. Thus, dividend decision policy serves as the central factor linking corporate financial performance with market valuation and investment decisions.

OBJECTIVES OF THE STUDY

- To study how dividend policy affects stock prices.
- To recommend an investment opportunity to the investor based on this analysis and the timing of the investment.
- To examine the relationship between dividend decisions and share market prices.
- To identify the factors influencing dividend decisions in listed companies.
- To assess the impact of dividend announcements on investor perception and stock price movement.

ANALYSIS AND DISCUSSION

Ambuja Cements

Metric	Value	Notes
Market Cap (Rs Cr)	30,419.59	Total market capitalization
P/E Ratio	23.45	Price to Earnings
EPS (TTM)	8.41	Earnings Per Share
Computed Market Price	197.23	P/E × EPS = 23.45 × 8.41
Actual Market Price	197.30	Current trading value
Book Value (Rs)	60.54	Value per share
Price/Book Ratio	3.26	Market price ÷ Book value
P/C Ratio	16.33	Price to Cash flow
Dividend (%)	160.00%	Declared dividend rate
Dividend Yield (%)	1.62%	Return from dividends
Face Value (Rs)	2.00	Nominal value per share
Industry P/E	20.03	Sector average P/E

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Market Lot	1	Shares per lot
Deliverables (%)	61.22%	% of shares delivered from total traded
Valuation Status	*Undervalued*	Market Price ≈ Intrinsic Value

$$r = \frac{\sum d_x d_y - \frac{(\sum dx)(\sum dy)}{n}}{\sqrt{\sum d_x^2 - \frac{(\sum d_x)^2}{n}} * \sqrt{\sum d_y^2 - \frac{(\sum d_y)^2}{n}}}$$

$$\frac{579845.3 - \frac{(2992.3)(2906.35)}{15}}{\sqrt{597028.8 - \frac{(2992.3)^2}{15}} * \sqrt{563375.3 - \frac{(2906.35)^2}{15}}}$$

$$\frac{579845.3 - 579778.073}{\sqrt{597028.8 - 596923.95} * \sqrt{563375.3 - 563154.68}}$$

$$\frac{67.24}{10.23 * 15.83}$$

$$\frac{67.24}{161.94}$$

$$r = 0.4152$$

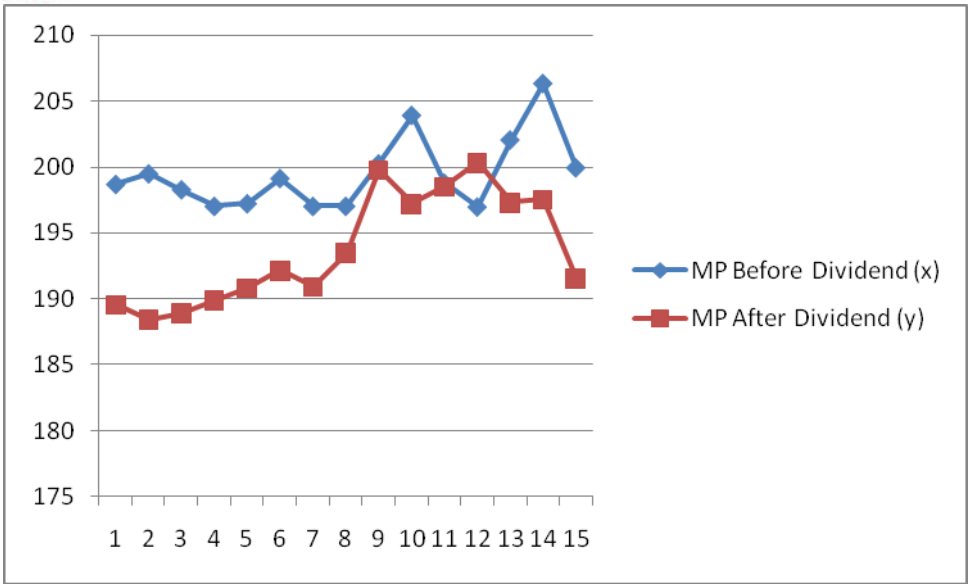
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Interpretation:-

The correlation coefficient between the market prices before and after the dividend was issued is displayed in the table above. There are large swings in the market price. Prior to the distribution, the highest price was 206.3, and following the dividend, it rose to 200.35**.**

FINDINGS

Ambuja Cements:

A dividend of 160% of the face value of 2 rupees has been distributed by the corporation. There is a dividend yield of 1.62%. Before and after the dividend is announced, there is a correlation coefficient of 0.415. This demonstrates a favourable correlation between the price fluctuations before and after the dividend.

Meanwhile:

Automotive Axles:

In the case of automotive axles, the firm has paid out a 100% dividend on a Rs. 10.00 face value. The yield on dividends is 3.02 percent. Before and after the dividend is announced, there is a correlation coefficient of 0.399. This demonstrates a favourable correlation between the price fluctuations before and after the dividend.

MRF:

The MRF has paid out a dividend of 250% on a Rs. 10 note. Yield to dividend is 0.23 percent. There is a -0.08 correlation between the two sets of data, before and after the dividend is declared. The price fluctuations before and after the payout are inversely connected, as can be seen from this.

Walchandnagar Industries:

Dividends of 50% of face value of Rs. 2.00 have been distributed by Walchandanagar Industries. There is a dividend yield of 1.57%. A correlation coefficient of 0.23 was found between the two sets of data, before and after the dividend was issued. This demonstrates a favourable correlation between the price fluctuations before and after the dividend.

Siemens Ltd:

Siemens Ltd.: A dividend of 3000% of the face value of 2 rupees has been distributed by the firm. Here is the dividend yield: 1.16%. There is a -0.85 correlation between the two sets of data, before and after the dividend is declared. The price fluctuations before and after the payout are inversely connected, as can be seen from this.

SUGGESTIONS

- Investing in safer securities, such government bonds or mutual funds that buy bonds with shorter maturities, is a good idea if you're concerned about potential losses.

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- High yield bonds and emerging market bonds are typically the greatest places to go for the highest yields if income is the most important factor and the investor is willing to take on some risk.

- Dividend-paying stocks can be a good fit if you're primarily concerned with the potential for capital appreciation rather than income, but both are essential to you

- Obviously, you shouldn't limit your investments to just one type of asset. For the best possible risk-reward-yield profile, it is generally required to use a mix of these and other investments.

- A high-dividend portfolio can be put together in one of three ways.

- Invest in individual equities (you can find a list of the firms with the highest yields that has been updated).

CONCLUSION

For the past 30 years, dividends have played a less role in overall equities performance, which means that investors may have undervalued dividend payers in the future.

Finding out how dividend policy affects stock price risk in the Indian stock market is the main goal of this study. Five companies that are listed on the National Stock Exchange are studied for a certain amount of time.

This empirical estimate is derived from a cross-sectional correlation study that accounts for firm size, earning volatility, leverage, and asset growth in order to determine the relationship between stock price volatility and dividend policy.

The volatility of the share price is greatly affected by both the dividend yield and payout ratio, which are measures of dividend policy. Despite accounting for the aforementioned variables, the association remains relatively unchanged. The results lend credence to the idea that dividend policy influences the volatility of stock prices and lend credence to the idea that the duration effect, information impact, and arbitrage realisation effect all play a role in India.

From the reform period before the dividend to the time after the payout, the responsiveness of the dividend yield to stock price volatility rose. In the overall period, size and leverage had a positive and significant impact on stock price volatility. There is a negative size effect before reform and a positive size effect after reform.

For the reform period alone, the earning volatility impact is negative and substantial. While not as strong as in developed markets, the outcomes are in line with how emerging markets operate. All things considered, the study's findings are satisfactory.

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