
A Study of the Dividend Pattern of Nifty Companies

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ABSTRACT

Dividend is the amount of the profit which is distributed amongst the equity shareholders of the company. Dividend decisions are considered to be one of the most difficult decisions. In this paper an attempt has been made to find out the association between the amount of dividend on one hand and the turnover, quantum of profit, the promoters' shareholding, quantum of investment by Foreign Institutional Investors (FIIs) and the amount of capital invested. The paper examines the dividend pattern of the 50 companies which are the constituents of the benchmark Index CNX NIFTY.

Keywords: dividend, nifty, correlation, liquidity, shareholders.

INTRODUCTION

Dividend policy has assumed great significance since the inception of the Joint stock Companies as a form of business organization. In financial management there are three major decisions viz. Investment decisions, financing decisions and dividend decisions. Out of the three, the dividend decisions are considered to be the most tedious and difficult.

WHAT IS DIVIDEND?

Dividend is the amount of the profit which is distributed amongst the equity shareholders of a company. The companies do not distribute whole of the profits as dividend, but, they keep some amount of the profit within the company and this amount is known as retained earnings. The management of the company has to decide how much amount is to be distributed amongst the shareholders as dividend and how much portion has to be kept as retained earnings.

The ultimate goal of the management of the company is not the profit maximization, but the wealth maximization of the shareholders of the company. This objective of wealth maximization can be achieved by maximizing the value of the company which is reflected in the share prices of the company quoted on the stock exchanges.

In practice, the companies generally follow two types of dividend policies viz. Residual Dividend Policy and Managed Dividend Policy. In case of residual dividend policy the companies first meet the capital expenditure out of the cash inflows, if any amount is left after meeting the capital expenditure that is available for distribution as dividends. This left over amount is known as residual and hence the name Residual Dividend Policy.

In case of Managed Dividend Policy, the management of the company feels that dividend policy of the company influences the share prices of the company which ultimately leads to the maximization of the wealth of the shareholders. But, there is no data which suggests that there is any kind of direct association between the amount of the dividend and the share prices of the company.

What is CNX NIFTY?

In India there are two benchmark indices of the stock market, one is S&P BSE Sensex of the Bombay Stock Exchange and another is CNX Nifty. CNX Nifty is the index of the National Stock Exchange. The complete is the CRISIL NSE Index. The CNX Nifty is composed of the 50 companies covering

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the diverse sectors of the economy such as Automobiles, Cement and cement products, Construction Goods, Energy, Financial services, Industrial Manufacturing, Information technology, Media and entertainment, Metals, Pharmaceuticals and Telecom.

The base period for calculating CNX Nifty is November 3, 1995 when base value of the index was set at 1000 and a base capital of ` 2.06 trillion. Initially, the CNX Nifty was calculated on the basis of Full Market Capitalization. But, from June 26, 2009 the methodology has been changed from Full Market Capitalization to Free Float Market Capitalization.

Review of Literature

Merton Miller & Franco Modigliani (1961) concluded in their study that under some simplifying assumptions, the dividend policy of a company does not have any impact on the value of the company. As far as an investor is concerned, the dividend policy of the firm is of no relevance.

Pettit (1972) in his study has documented that the announcement of increase in dividends are followed by a corresponding increase in the share prices and vice-versa. Dhameja (1978) tried to find out the relationship between the dividend policy and the size and the type of industry. For this purpose the companies were classified into size group, industry group and growth group. The study showed that there was no statistically significant relationship between the dividend payout and the size and type of industry. However, growth was found to be inversely related to the dividend payout and the same was found to be significant.

Bhat & Pandey (1994) studied the Managers' Perception of the Dividend Decisions. For this purpose a sample of 425 Indian companies was taken for the period 1986-97 to 1990-91. Their study showed that on an average profit making companies have distributed about 33% of their earnings as dividend. Narsimhan & Vijaylakshmi (2002) studied the impact of ownership structure on the amount of dividend. The study showed that promoters' holding had no impact on the dividend payout.

Y. Suba Reddy (2002) in his study on Dividend Policy of Indian Corporate Firms have found that for the period 1990-2201, number of firms paying dividend has shown an uptrend till 1995 and subsequently has fallen significantly. The analysis has shown that only the few firms have consistently paid the same level of dividends.

Amitabh Gupta and Charu Banga (2010) in their study on The Determinants of Corporate Dividend Policy have concluded that five important variables have an impact on the dividend decisions of the firm. These five factors are leverage, liquidity, profitability, ownership structure and growth. The study also concluded that leverage and liquidity had a strong relationship with dividend rates of the Indian companies

Chawla and Chadha in their study A Comparative analysis of dividend payouts trends of Indian telecom and steel industries have concluded that telecom industry is more consistent in paying dividends as compared to the steel industries, but steel companies have paid higher average dividends than the telecom companies.

OBJECTIVES

1. To find out the dividend pattern of the 50 Nifty companies for the year 2013-14
2. To study the correlation between the amount of dividend and size of the capital
3. To study the correlation between the amount of dividend and the turnover
4. To study the correlation between the amount of dividend and the amount of net profit
5. To study the correlation between the amount of dividend and the holdings of Foreign Institutional Investors (FIIs).

Sources of Data

The secondary data has been used for this study. The data has been collected from the annual reports of the companies, websites of National Stock Exchange (NSE), Bombay Stock.

Research Tools and Techniques

The Pearson Correlation has been applied using SPSS.

SCOPE OF THE STUDY

The scope of the study is limited to 50 companies which are a part of the CNX Nifty. The study covers a period of one year only i.e. 2013-14.

HYPOTHESIS

H₀: There is no association between the amount of dividend and turnover of the company

H₀: There is no association between the amount of dividend and net profit of the company

H₀: There is no association between the amount of dividend and the amount of capital of the company

H₀: There is no association between the amount of dividend and the quantum of investment by Foreign Institutional Investors (FIIs)

LIST OF THE COMPANIES ALONG WITH THEIR VARIABLES

The Table 1 below shows the list of the 50 companies and their variables such as name of the company, its turnover, size of the capital, amount of net profit, promoters' holdings and FIIs holdings.

Table1.

Name of the Company	Turnover (Rs. In Crore)	Dividend (Rs. Per share)	Net Profit (Rs. In Crore)	Capital (Rs. In Crore)	FIIs Holding (%)
ACC Ltd.	11738.21	30.00	1168.29	187.75	15.59
Ambuja Cements Ltd.	9978.12	3.60	1496.36	309.95	30.21
Asian Paints Ltd.	10418.78	87.60	1169.06	95.92	17.25
Axis Bank Ltd.	30641.16	18.00	6217.67	405.17	50.39
Bajaj Auto Ltd.	20149.51	45.00	3243.32	289.37	18.33
Bank of Baroda	38939.71	32.50	4541.08	422.52	17.96
Bharat Heavy Electricals Ltd.	39108.83	4.60	3460.78	489.52	16.06
Bharat Petroleum Corporation Ltd.	260060.53	11.00	4060.88	723.08	12.57
Bharti Airtel Ltd.	49918.50	1.00	6600.2	1998.70	0.21
Cairn India Ltd.	9927.53	12.50	7454.33	1907.63	16.83
Cipla Ltd.	9380.29	2.00	1386.34	160.58	22.40
Coal India Ltd.	16404.10	33.30	1508.54	6316.36	8.30
Dr. Reddy's Laboratories Ltd.	9728.20	15.00	1932.84	85.10	46.65
GAIL (India) Ltd.	57057.93	10.10	4375.27	1260.48	19.06
Grasim Industries Ltd.	5603.50	22.50	895.99	91.83	26.54
HCL Technologies Ltd.	16497.37	14.00	5984.62	140.00	29.01
HDFC Bank Ltd.	41135.54	5.50	8478.4	479.81	40.70
Hero MotoCorp Ltd.	25275.47	60.00	2109.08	39.94	39.34
Hindalco Industries Ltd.	27850.93	1.40	1413.33	206.48	31.32
Hindustan Unilever Ltd.	28019.13	11.50	3867.49	216.27	15.01
Housing Development Finance Corporation Ltd.	24143.01	12.50	5540.24	312.10	77.85
I T C Ltd.	33238.60	5.25	8785.21	795.32	19.39
ICICI Bank Ltd.	44178.15	20.00	9810.48	1155.04	58.82
IDFC Ltd.	8214.21	2.60	1701.12	1516.29	47.38
Idea Cellular Ltd.	26179.47	0.30	1689.31	3319.63	24.60
IndusInd Bank Ltd.	10144.06	3.00	1408	522.87	49.23
Infosys Ltd.	44341.00	47.00	10194	286.00	49.35
Kotak Mahindra Bank Ltd.	8767.12	0.70	1502.52	373.30	35.31
Larsen & Toubro Ltd.	56598.92	12.33	5493.13	185.38	17.19
Lupin Ltd.	8939.38	7.00	2324.22	89.68	31.75
Mahindra & Mahindra Ltd.	40508.50	13.00	3758.35	295.16	39.54
Maruti Suzuki India Ltd.	47000.63	8.00	2783.05	151.00	21.74
NMDC Ltd.	12058.20	12.50	6420.08	396.47	6.17
NTPC Ltd.	72018.93	4.75	10974.74	8245.46	10.43
Oil & Natural Gas Corporation Ltd	83888.93	9.25	22094.81	4277.76	7.17
Power Grid Corporation of India Ltd.	15230.28	2.41	4497.42	5231.59	27.58
Punjab National Bank	43223.25	37.00	3342.57	353.47	16.23
Reliance Industries Ltd.	399053.00	9.00	21984	3232.00	19.55

Sesa Sterlite Ltd.	28536.53	1.60	1076.09	296.50	18.49
State Bank of India	136350.80	56.50	10891.17	746.57	11.43
Sun Pharmaceutical Industries Ltd.	2828.79	2.50	0	207.12	21.67
Tata Consultancy Services Ltd.	67787.64	25.00	18474.92	195.87	16.84
Tata Motors Ltd.	34288.11	2.00	334.52	643.78	31.44
Tata Power Co. Ltd.	8627.04	1.15	954.08	273.33	27.92
Tata Steel Ltd.	41711.03	10.00	6412.19	971.41	16.46
Tech Mahindra Ltd.	16295.13	5.00	2685.47	233.50	34.24
UltraTech Cement Ltd.	20279.80	9.00	2144.47	274.24	20.24
Wipro Ltd.	38765.10	8.00	7387.4	493.20	9.05
Yes Bank Ltd.	11702.93	8.00	1617.8	358.62	46.32
Zee Entertainment Enterprises Ltd.	3075.67	2.00	771.33	96.00	50.84

Table2. Descriptive Statistics

	N	Minimum	Maximum	Mean
Dividend Per Share in Rs.	50	.30	87.60	15.1688
Turnover (Rs. in Crores)	50	2828.79	399053.00	42116.1510
Net Profit (Rs. in Crores)	50	.00	22094.81	4968.3312
Capital of the Company (Rs. in Crores)	50	39.94	8245.46	1027.1024
Holdings of FIIs(As percentage of Capital	50	.21	77.85	26.7590
Valid N (listwise)	50			

The Table 2 above of the descriptive statistics shows that the minimum amount of dividend is Rs. 0.30 per share and the highest amount of dividend is Rs. 87.60 which has been paid by Asian Paints Ltd. The average amount of dividend is Rs. 15.17. The minimum turnover is Rs. 2828.79 crores and the maximum turnover is Rs. 399053 crores and the average turnover is Rs. 42116.15 Crores. There is only one company i.e. Sun Pharmaceutical Industries Ltd. which has not made any profit, otherwise the remaining 49 companies have earned profits for the year 2013-14. As far as the size of the capital is concerned, the two wheeler major Hero Moto Corp Ltd. is having the minimum capital of Rs. 39.94 crores whereas the state run NTPC is having the largest capital of Rs. 8245.46 Crores. The Foreign Institutional Investors are having maximum participation of 77.85% in HDFC while it is least in Bharti Airtel Limited.

AMOUNT OF DIVIDEND AND TURNOVER OF THE COMPANY

Testing of Hypothesis

H₀: There is no association between the amount of dividend and turnover of the company

H₁: There is an association between the amount of dividend and turnover of the company

Table3. Correlations

		Dividend Per Share in Rs.	Turnover (Rs. in Crores)
Dividend Per Share in Rs.	Pearson Correlation	1	.023
	Sig. (2-tailed)		.873
	N	50	50
Turnover (Rs. in Crores)	Pearson Correlation	.023	1
	Sig. (2-tailed)	.873	
	N	50	50

ANALYSIS AND INTERPRETATION

A Pearson product-moment correlation coefficient was computed to assess the relationship between the amount of dividend and turnover of the company. The table 3 above shows that there is a small amount positive correlation between the two variables, $r = 0.023$, $N = 50$, $p = 0.873$. Since the value of p is greater than .05, our null hypothesis is accepted and alternate hypothesis is rejected. So, we conclude that there is no association between the amount of dividend paid by the company and the turnover of the company

AMOUNT OF DIVIDEND AND NET PROFIT OF THE COMPANY

H₀: There is no association between the amount of dividend and Net Profit of the company

H₁: There is an association between the amount of dividend and turnover of the company

Table4.Correlations

		Dividend Per Share in Rs.	Net Profit (Rs. in Crores)
Dividend Per Share in Rs.	Pearson Correlation	1	.060
	Sig. (2-tailed)		.678
	N	50	50
Net Profit (Rs. in Crores)	Pearson Correlation	.060	1
	Sig. (2-tailed)	.678	
	N	50	50

Analysis and Interpretation

A Pearson product-moment correlation coefficient was computed to assess the relationship between the amount of dividend and turnover of the company. The table 4 above shows that there is a small amount positive correlation between the two variables, $r = 0.060$, $N = 50$, $p = 0.678$. Since the value of p is greater than $.05$, our null hypothesis is accepted and alternate hypothesis is rejected. So, we conclude that there is no association between the amount of dividend paid by the company and net profit of the company

Amount of Dividend and Size of the Capital of the Company

H₀: There is no association between the amount of dividend and the size of the capital of the company

H₁: There is an association between the amount of dividend and the size of the capital of the company

Table5. Correlations

		Dividend Per Share in Rs.	Capital of the Company (Rs. in Crores)
Dividend Per Share in Rs.	Pearson Correlation	1	-.127
	Sig. (2-tailed)		.381
	N	50	50
Capital of the Company (Rs. in Crores)	Pearson Correlation	-.127	1
	Sig. (2-tailed)	.381	
	N	50	50

Analysis and Interpretation

The table 5 above shows that there is a small amount of negative correlation between the amount of the dividend per share and the capital invested by the company. With $r = -.127$, $N=50$ and $p=.381$. As we can see that value of p is much greater than the critical value of $.05$, our null hypothesis is accepted and the alternate hypothesis is rejected. It can be said that there is no association between the amount of dividend and the capital invested in the company.

Amount of Dividend and FIIs Holding

H₀: There is no association between the amount of dividend and quantum of holding by Foreign Institutional Investors (FIIs)

H₁: There is no association between the amount of dividend and quantum of holding by Foreign Institutional Investors (FIIs)

Table6.Correlations

		Dividend Per Share in Rs.	Holdings of FIIs(As percentage of Capital
Dividend Per Share in Rs.	Pearson Correlation	1	-.080
	Sig. (2-tailed)		.579
	N	50	50
Holdings of FIIs(As percentage of Capital	Pearson Correlation	-.080	1
	Sig. (2-tailed)	.579	
	N	50	50

Analysis and Interpretation

As is clear from the table 6 above that there is a very small amount of negative correlation between the amount of dividend paid and the holdings of Foreign Institutional Investors. The value of $r=-.080$ shows that there is a negative correlation between the amount of dividend and the holdings by FIIs.

With $p=.579$, our null hypothesis is accepted and alternative hypothesis is rejected. So, there is no association between the holdings by FIIs and amount of dividend.

Findings

All the 50 companies which are constituent of CNX Nifty have paid the dividend during the year 2013-14. However, the amount of dividend varies from as low as paise 30 per share to Rs. 87.60 per share.

This study finds no statistically significant correlation between the amount of dividend per share and the turnover of the company. So, some companies which are having less turnover have paid the higher amount of dividend. It is also found that there is no statistically significant correlation between the amount of the dividend and net profit earned by the company. So, some companies which have earned low profits might have paid higher amount of dividend.

The study also shows that there is no statistically significant correlation between the capital invested in the company and the amount of dividend per share paid by the company. So, higher capital does not mean the higher amount of dividend. The study does not show any statistically significant correlation between the amount of dividend paid and amount invested by Foreign Institutional Investors in the company.

LIMITATIONS

The study covers a period of one year only i.e. 2013-14. The number of companies included in the study are just 50 i.e. the companies which are a part of CNX Nifty of National Stock Exchange.

CONCLUSION

As we can see that amount of dividend paid per share has no statistically significant correlation with turnover, amount of net profit earned quantum of capital invested and the percentage of participation by the Foreign Institutional Investors (FIIs) in the equity capital of the company. So, it can be concluded that dividend is an independent decision.

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