International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

A Study to Assess the Dividend Policy of Indian Electronics Industry

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Introduction

Dividends received and capital gains are the two components of the returns associated with shareholders. The dividend payment decision of a corporation has a direct impact on the lives of both of these individuals. Consequently, deciding whether to pay dividends or reinvest the money back into the company in order to take advantage of additional chances that result in capital gains is a critical decision for management. When determining the exact proportion of earnings that the company wishes to distribute in the form of dividends, the management must walk a tightrope because shareholders prefer dividends in the form of cash rather than the appreciation in the value of the securities they own as a result of the company's re-investment of profits. Choosing the finest and most optimum dividend policy is the one that results in the greatest possible rise in the wealth of shareholders as a result of increasing share prices in the market.

Determining how much dividend should be paid and in what manner it should be paid are both important considerations when making judgments about dividend payments. The decision must be made in light of the existing investment opportunities as well as alternative financing options available to the company. No payout policy is normal for a firm that is brand new, offering exciting investment prospects, and experiencing rapid growth and expansion. According to Allen and Michaely, a thorough understanding of dividend policy is essential for many other sectors like as capital structure, mergers and acquisitions, project evaluation and finance, and many more. Myers and Majful argue that if firms do not have sufficient financial slack, they may be forced to forego advantageous investment opportunities if their securities are underpriced in the situation of information asymmetry. To that end, in order to examine and discover the significance of dividend policy in the electrical machinery manufacturing business, the study considers this industry in terms of the importance of dividend policy and the relevant value maximisation that goes along with it. All of the companies taken into consideration for the study are publicly traded Indian corporations.

For the following reasons, Indian companies provide a more favourable environment for assessing dividend policy issues: first, most dividend policy research studies are based on samples of free economic markets, which makes Indian companies a more representative sample of free economic markets. Following that, when compared to the capital markets of industrialised countries, India's markets are more nascent in their development. Individual stock market investors in India tend to be less educated than their counterparts in developed countries. Risk-taking, investment, and dividend policy are all areas in which Indian stock investors may exhibit a variety of views and actions. India's economic impact in the globalised globe is growing at an alarmingly rapid pace. Its economic growth rate, current account surplus, and stock market performance all indicate that the country is experiencing sound economic conditions. It is the market price of a company's common stock that represents the wealth of its shareholders. This market price is determined by the company's decisions on investment, financing and dividends. This study seeks to determine whether a company's dividend policy has an impact on the market price of the company, and whether this has an impact on the shareholders' wealth.

In light of the foregoing, the purpose of the current study is to determine the influence of dividend policy on the wealth of shareholders in the Indian electrical equipment manufacturing sector. We used a sample of dividend-paying electrical machinery manufacturing companies that are publicly traded on the Bombay Stock Exchange as a basis for our analysis (BSE). There is a good reason for choosing this business because it is one of the most well-established in India and has a big number of players. Because of this, it has sufficient samples and historical data to make the results more significant.

Methodology

In this study, data was gathered from the Prowess database maintained by the Center for Monitoring Indian Economy (CMIE) for a period of three years, i.e. from the financial years 2014 to 2018. In the industry of electrical machinery production, there were a total of 489 enterprises in existence. There were 210 firms listed on the Bombay Stock Exchange (BSE) and 80 companies that paid dividends on a regular basis out of this group. As a result, the information from these 80 businesses was taken into consideration.

Results and Discussion

The F-statistic indicates that the factors included in this model explain the Tobin's Q ratio at a statistically significant level, which is consistent with the results of the regression for the total sample (1 percent level of significance). Using the corrected R2 of 0.411, it can be determined that the model accounts for 40% of the variation in Tobin's Q. The results of a more in-depth analysis of the explanatory factors suggest that Dividend Yield is statistically significant at the one percent level of significance. It has been discovered that the dividend policy of electrical machinery manufacturing companies in India has a considerable impact on the wealth of their shareholders based on the total sample.

Conclusions

In this study, actual evidence has been offered in support of several of the dividend irrelevance theories, such as M and M. In accordance with the findings, there is a negative non-linear relationship between the market value of a share and the dividend yields. A higher dividend reduces the market value of a company's stock, and the opposite is true. Our findings are also consistent with the information content or dividend signalling theory developed by Bhattacharya, amongst other researchers. These conclusions are also consistent with empirical evidence from Allen and Ross et al., and other researchers, who have found that a company's dividend policy has an impact on its stock price. According to Allen, the rational argument in favour of dividends is based on the concept of transaction cost. Our findings are comparable to those of other researchers, such as Amidu, who found that his analysis supported the second school of thinking, which holds that a firm's dividend policy is related to its performance. Surprisingly, the study finds that larger companies listed on the Ghana Stock Exchange outperform their smaller counterparts in terms of return on assets, which was used as the performance indicator. Priya demonstrated that dividend policy has a considerable impact on the wealth of shareholders in Indian organic chemical companies, but that dividend policy has no impact on the wealth of shareholders in inorganic chemical companies. Our findings are in contrast to those of several other studies, such as those conducted by Stevens and Jose, who discovered a statistically significant negative link between dividend smoothing and firm value. Their research revealed an interesting counterpoint to the highly significant beneficial effect of the dividend stability measure, indicating that dividends that have been artificially stabilised through smoothing are devalued in their study.

Overall, as noted in the literature study, larger dividend payments by companies will aid in the appreciation of their stock prices, and the converse will be true. The current and certain dividends of a corporation are preferred by shareholders above the uncertain capital gains of the future. Generally speaking, this is true in the case of middle-class people, who rely on their monthly salaries for the majority of their income, and India is predominantly comprised of middle-class folks. Some of the older research may be supported by our findings, while other earlier studies may not be supported by our findings.

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