Examining the Dividend Practices of Indian-Listed Manufacturing Companies.

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Introduction

It's always been a fluid process, with businesses determining whether to disburse earnings or save them for future growth. Several ideas have been proposed to explain this process. Theoretical and empirical efforts have flourished for more than a half-century. As a result, a vast body of research exists to explain dividend behaviour, enabling the payout policy to be modified in response to changes in the company's financial status. One of the first attempts to explain a firm's worth as being independent of its dividend policy was dubbed "dividend irrelevance." According to the "bird in hand" hypothesis, investors will make a trade-off between dividends paid now and the chance of future capital gains, with a strong focus on the influence of dividend policy on a company's value. The agency cost theory explains why dividends are crucial in lowering the firm's agency cost and, as a result, enhancing its value. Later, the free cash flow hypothesis, information asymmetry and signalling theory, and life cycle theory were all presented to try to explain the role of firm-level variables in determining dividend policy. In order to experimentally validate the theories, firm-level factors such as age, size, ownership categorization, cash holdings, leverage, net working capital, risk, growth, and profitability were used as the key explanatory variables. Despite this, there has been no consensus on these notions due to the assumptions involved with each theory. There is substantial evidence in the literature that dividend policy is influenced by a variety of factors, including macroeconomic, industry, and firm-level variables. Previous research has usually concentrated on explaining the likelihood of dividend distribution using firm-level factors as control variables, and its conclusions have been based on a heterogeneous sample of businesses selected from preset indexes or groups of firms. Some studies looked at variations at the sector and national levels to try to understand how firms acted when it came to dividend payments. However, when it came to analysing corporate dividend policies, sectoral differences were typically overlooked. The purpose of this research is to look at the factors that impact dividend policy in the industrial and service sectors among businesses listed on the Bombay Stock Exchange (BSE). While performing this research, it was discovered that there is a considerable difference in how these two industries work. Unlike the manufacturing business, which relies largely on capital expenditures in plants and machinery, the service sector relies more on human capital, which requires a lower initial capital outlay. The service industry has grown significantly over the previous two decades, confounding the common understanding that a firm's success is based on large-scale machinery and equipment. Service firms, on the other hand, have a number of concerns surrounding their long-term existence, life cycle, and profitability. During the same time period, India's manufacturing sector suffered a slowdown in its expansion. This is an important point to emphasise since there is a substantial degree of variation within these sectors, which may result in disparities in dividend behaviour among these sectors under certain conditions. Through this research, we seek to learn more about the relative relevance of financial components in understanding the dividend behaviour of Indian manufacturing and service sector enterprises. The article is broken into seven sections, the first of which is an introduction, followed by a review of the literature and the study's objectives, as well as the model offered in the second and third sections, respectively. Methodology The data for this study was taken from the Centre for Monitoring Indian Economy Prowess database, which is India's largest database for firm-level information on Indian firms, according to our results. It is made up of firm-level data taken from Indian firms' annual reports, financial statements, and other publicly available publications. The database contains 27,722 Indian firms from various industries.

The study focuses on publicly traded BSE manufacturing (transport equipment and machinery) and service sector firms (information technology and business consultancy). The aforementioned sectors were chosen based on the consistency with which they reflect their respective industry in terms of their working behaviour. We collected data on 287 manufacturing businesses and 200 service companies that were publicly listed on the Bombay Stock Exchange (BSE) from 2016 to 2019. In the regression model for the study, the dividend is the dependent variable. Size, age, ownership group, cash holdings, net working capital, risk, leverage, cash, and profitability are the variables that explain the dividend.

The fundamental analysis is performed using a simple linear OLS model with all independent variables considered to be exogenous and the error term is assumed to be not serially correlated with the other independent variables. The linear OLS model will be biassed in one way if any of the aforementioned requirements are not satisfied. To account for the aforementioned biases, an OLS estimator with fixed and random effects must be used. The fixed effects model is distinguished by the notion that the intercept or slope of variables is time invariant but varies among people, whereas the error term intercepts are thought to be temporal variant. The Hausman test for fixed and random effects was performed in conjunction with the null hypothesis stating that the random model is most appropriate to assess which model is most appropriate. Due to collinearity criteria and the fact that the effects of the independent variables change over time, the age and ownership variables are taken out of the fixed effect model.

Finally, using GMM, it was observed that in the service business, size and cash holdings are favourably significant, whereas networking capital is negatively relevant. The result improved the fixed effects regression estimate, which showed that networking capital was positively connected to dividend paid, which appeared to contradict the literature at the time of publishing. Data for the manufacturing business reveals that size and profitability are favourably significant, while network capital is negatively significant when it comes to the company's dividend. According to the statistics, the only major variables in the service sector that show a positive connection are size, cash holdings, and net working capital. The regressors and the error term are shown to have a negative correlation (r = -0.7411). The intra-class correlations between businesses are found to be (rho = 0.5839), implying that firm heterogeneity contributes 51.22 percent of the total variance explained by R2 (69.11 percent). Further data from the manufacturing industry found that firm size and profitability are favourably relevant in influencing dividend decisions in the sector, but risk and network capital are negatively significant. The error term has a correlation coefficient of 0.118, and the intra-class correlation coefficient is (rho = 0.71.22), accounting for 7122 percent of the total variance explained by R2 (24.11.24 per cent). When the confidence intervals get to 97%, it's clear that both models are statistically significant.

We use two criteria to verify whether or not our model is appropriately specified: the Arellano and Bond test for zero autocorrelation and the Sargan test for over-identifying restrictions, often referred to as j-statistics. We noticed that both the first and second order p values do not enable us to reject null hypotheses, which assert that there is no autocorrelation in the model presented in both sectors, after doing the first test. If the null hypothesis of over-identifying constraints is correct, it is also rejected by the second test for over-identifying restrictions. As a result, we can assume that the models used in the analysis are good for both industries and make sense for them.

Conclusions

The study's findings may be used by both firms and investors to better understand the dividend behaviour of companies in the industrial and service sectors. To preserve an equilibrium of investor views, managers may concentrate their efforts on elements that have a significant influence on investors' perceptions of profit distributions. It will also assist in the analysis of firms' sectoral differential dividend behaviour across sectors. India is a developing country, and the findings may be extended to other emerging countries with comparable industrial and service sector structures, such as those in South Asia, to better understand dividend behaviour. This study is limited in its capacity to capture macroeconomic factors that lead to a particular sector's rapid growth as a consequence of government initiatives such as foreign direct investment (FDI) or tax advantages.

Future research may take into account both microeconomic and macroeconomic elements in order to better comprehend the consequences of macroeconomic difficulties. Also, different sectors could be included in the study to make it more likely that the results will be used in the real world.

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