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Analysis of Dividend Policy of Some Selected FMCG Companies in India

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ABSTRACT:

Companies' dividend policies represent a crucial financial decision that affects both the wealth of shareholders and the stability of the company's finances. The FMCG industry is a pillar of the Indian economy and is well-known for its consistent and robust performance, which makes it an interesting case for studying dividend policy. The research proposes to examine the determinants of dividend policy of the Indian FMCG sector. Dividends are payments made from profits by the company to the shareholders. Companies might choose to keep their profit for use in the future or to distribute it as dividends to shareholders. Each company must decide very strategically whether to keep or distribute profit generated through profits to shareholders considering their own special set of conditions. The predicted variable has been measured in the form of the Dividend payout ratio along with six experimental parameters namely tangibility, leverage, liquidity, growth, firm size, and risk. This study offers light on the complex interactions of factors affecting dividend policy as the FMCG sector in India continues to evolve as a result of shifting customer preferences, market rivalry, and regulatory changes. This study enhances our knowledge of the factors influencing the decision-making process in one of India's major economic sectors by adding to the body of information on dividend policy determinants.

Key words: Dividend policy, FMCG sector, Determinants, Financial decision making, Shareholder preferences, Regulatory influences.

Introduction:

One of a company's most crucial financial considerations is its dividend policy. It refers to the company's decision on how much of its earnings to keep for reinvestment and how much to pay to its shareholders as dividends. The difficult choice about dividend policy is impacted by a number of variables, such as the company's financial situation, potential investment possibilities, tax implications, and shareholder expectations. One of the biggest and most significant sectors in the Indian economy is the FMCG sector. It generates about 10 million jobs and contributes over 10% of India's GDP. Numerous well-established businesses in the area have enduring brands and loyal customers.

A substantial dividend payout ratio, or the percentage of earnings distributed to shareholders, is characteristic of FMCG firms. This is thus because FMCG companies often have established businesses with little possibilities for investment. The shareholder base of FMCG businesses is also sizable and diverse, and many of the shareholders are retired people who depend on dividend income.

A company's dividend policy is a crucial strategic choice that has an immediate influence on its appeal to investors, the wealth of shareholders, and general financial health. The Fast-Moving Consumer Goods (FMCG) industry occupies a major role in the vibrant Indian economy. This study explores the complex web of factors that affect dividend policy in the Indian FMCG industry. Even during recessions, the FMCG industry in India continues to develop steadily and with resiliency. It includes a broad range of consumer goods, such as food and drink, cosmetics, and home goods. Understanding the elements that influence dividend policy in this industry becomes essential given its importance. With the help of this study, practitioners and policymakers will be better equipped to make educated judgments on dividend distribution.

The concept of dividend policy has several dimensions and depends on a number of variables. Decisions regarding dividends are extremely important when allocating capital in this industry, which is recognized for its capacity to generate cash. Dividend payments to shareholders and reinvesting revenues in new growth prospects must be balanced by businesses. The FMCG industry, with its wide collection of businesses, offers the perfect setting for analyzing these dynamics.

For a variety of stakeholders, having a practical understanding of the factors that influence dividend policy in this industry in India is important. It can help business managers make wise dividend selections, increasing shareholder value. Investors may also make use of these information to evaluate the appeal of FMCG stocks depending on their dividend practices. Insights of the regulatory factors impacting dividend distribution in this industry can be very useful to policymakers.

Literature Review:

The "bird-in-the-hand" argument, put out by Lintner and Gordon in 1956 and 1959, states that stock dividends are preferred by investors to capital gains. They said that compared to capital profits, dividend yields are less hazardous. Therefore, if dividend payments are bigger, the value of the dividend-paying company rises.

Mill operator and Modigliani (1961) portrays the profit insignificance hypothesis. MM battled that the profit choice no affected the worth of the firm and investors riches, so it was viewed as immaterial in amazing capital market.

Brennan (1970) Elton and Gruber (1970) Kalay (1982) John and Williams (1985) Mill operator and Rock (1985) found that a few financial backers overlook high profit stocks. It had been accepted that the expenses of profit payout lessen their abundance by the assessment impact. Consequently, financial backers favor capital additions to profits, supporting the hypothesis of assessment inclination.

Jensen &Johnson (1995) Jensen and Smith (1984) Lintner (1956) Profit strategy isn't just impacted by the interior variables (Benefit, speculation opportunity and liquidity) yet outside factors (Change in the flavor of shopper, development, change in innovation, charge rate) likewise assume a huge part Roberto (2002). Brealey and Myers (2005), Brealey et.al (2008 p.973) examined about the main ten issues ahead of time corporate money which are unsettled, profit strategy is one of among those issues.

Kumar (2003) and observed that there is positive connection among profits and profit pattern though Obligation to-value is viewed as adversely connected with profit payout strategy in India.

Aivazian, Corner and Cleary (2003) and Li and Falsehood (2006) reasoned that profit choice relies on the benefit, obligation value proportion and market to book esteem proportion. Huge and productive association raise profit. Consequently, a positive relationship is normal between company's productivity and its profit installments.

Amidu and Abor (2006) presumed that benefit, expense and income have positive huge relationship with profit payout proportion. Market-to-book worth and development in deals had negative huge relationship with Profit payout proportion and irrelevant negative relationship with risk.

Kowalewski et.al (2007) found that huge and more productive organizations had higher profit payout proportion. The discoveries at long last exhibit that an expansion in the TDI or its sub achieves a genuinely critical expansion in the profit to-income proportion. Additionally reasoned that obliged and more dangerous firm tries not to deliver profit.

Baah et.al indentified that profit from value, benefit after duty and size are the significant determinants of the profit strategy out of the many distinguished factors. Additionally tracked down the unimportant and frail connection between their Profit Payout and Offer Cost.

Ahmed and Javid (2008) presumed that possession and market liquidity had positive effect though speculation open doors and influence adversely affected profit payout strategy. The profit payout strategy was likewise impact by market capitalization and size of the organizations which showed that the organizations like to put resources into their resources as opposed to delivering profits to their investors.

Anil and Kapoor (2008) investigated the determinants of profit payout proportion of the Indian Data Innovation area. Liquidity and beta (year-to-year changeability in profit) were viewed as essential determinants of the profit while incomes, corporate expense, deals development and market-to-book esteem proportion don't make sense of the profit installment example of the IT area.

Al-Kuwari, D. (2009) explored the effect of free income, learning experience, firm size, government proprietorship, development rate, business hazard, and firm productivity on profit payout proportions. The outcomes presumed that there were solid and direct effect of government possession, firm size and firm benefit on profit payout, however had adverse consequence of the influence proportion. Result inferred that organizations deliver profits to lessen the office issue and to keep up with association's standing, since there was restricted insurance for outside investors. To safeguard the standing firm profit strategy is profoundly relied upon the productivity of the association, which demonstrates that the association in the GCC nations accepts to adjust or change the profit strategy every now and again and not to follow the long run target profit strategy.

Gupta and Banga (2010) applied factor investigation on the recognized factors and found proprietorship structure, Influence, liquidity, productivity and development were the element for deciding profit strategy. Relapse had been applied on the distinguished factors and result presumed that influence and liquidity are the significant variables for deciding profit strategy in Indian organizations.

Moradi et.al. (2010) examined the profit conduct of the organizations recorded at the Tehran Stock Trade between the time of 2000 and 2008. The discoveries shows that profit have direct connection among benefit and opposite relationship beta rate, P/E, and obligation proportion. Size and pace of held procuring don't have significant relationship with profit.

Mirza and Azfa (2010) researched the corporate profit conduct of Pakistan economy. Least relapse was applied on the 100 organizations' information which were recorded on Karachi stock trade for the period somewhere in the range of 2005 and 2007. The tracking down reasoned that working income and productivity were emphatically connected with cash profit where as individual proprietorship, income responsiveness, size and influence were adversely connected with cash profit. Administrative possession, working income, individual proprietorship, and size were fundamentally contributing in deciding the profit installments while benefit and influence didn't contribute altogether in deciding profit installment in the organizations.

Kapoor et.al. (2010) distinguished 21 key factors which influence the profit strategy. Factor investigation had been finished on the 21 recognized factors. 6 elements were closed which impact the profit choice. Later different relapse was applied among the 6 elements and DPR. The outcome found that profit payout is decidedly connected with benefits, incomes while CAPEX (capital use) held profit, deals development, share costs, beta, interest paid and obligation value proportion have converse relationship.

Devaki and Kamalaveni (2012) analyzed the shareholding example of the Indian corporate inns on profit payout proportion. To recognize the impact of shareholding design on profit strategy examination had been on the board information gathered. Discoveries inferred that there were positive effect of profit, deals, age of the firm, obligation value proportion, size and institutional shareholding on profit payout.

Mehta (2012) inspected the determinants of profit payout of all organizations (with the exception of bank and speculation concerns) recorded Abu Dhabi Stock trade for a time of a long time from 2005-2009. Risk, Liquidity, Productivity, Size and Influence of the firm were the variables which impact the profit choice. Relationship and the numerous relapse procedures had been applied on the recognized factors and closed productivity and size are the main contemplations of profit payout choices by UAE firms.

Komrattanapanya and Suntraruk (2013) identified the elements impact the profit choice of the relative multitude of firms recorded on Stock trade of Thailand for the period somewhere in the range of 2006 and 2010. Tobil relapse investigation procedure had been utilized on the information and uncovered that profit payout was adversely impacted by the monetary influence, venture open doors and development of deals, though profit payout is emphatically impacted by the size of the firm. Additionally reasoned that land firm likes to deliver profit as contrast with some other firms. Productive enormous and little firms like to deliver profit as contrast with medium size beneficial firms.

Dada, Malomo and Ojediran (2015) concentrated on the determinants of the profit strategy of Nigerian financial area. Least square relapse examination had been applied on the board information of the banks recorded on Nigerian Stock Trade for the period somewhere in the range of 2008 and 2013. The discoveries reasoned that influence, execution, corporate administration and last year profit emphatically affected profit installment while association's liquidity had adverse consequence.

Objectives:

1. To identify the key determinants of dividend policy in Indian FMCG sector.
2. To analyze how FMCG sector is affected by the determinants of dividend.
3. To examine the relationship between these determinants and dividend policy.
4. To analyze the impact of determinants of dividend policy on shareholders wealth of Indian FMCG sector.

At the time of the research I have arrived at the above objectives so here I have taken the Dividend Payout Ratio and Earnings per ratio data of Britannia Industries Ltd. a well doing company in the Indian FMCG sector. There are many determinants which are directly related to the dividend policy here we are observing them thoroughly. As of 2023 World's GDP rankings released by the IMF, India is the 5th biggest economy in the world with an evolved FMCG sector. And growth rate of India for the financial year 2023-24 is estimated to be 6.1% by IMF.

Research methodology:

Scope of the study: Aim of the study is to determine the determinants of the dividend policy in Indian FMCG sector.

Sampling data: Here I have collected the secondary data from the https://www.screener.in/company/BRITANNIA/consolidated/ website.

Data collection & source: I have collected data of dividend payout ratio and earnings per share of Britannia Industries Ltd. a well doing company in Indian FMCG sector.

Hypothesis:

H_0: There is no variation in EPS with the Dividend Payout Ratio.

H_1: There is a variation in EPS with the variation in Dividend Payout Ratio.

Data Analysis:

Britannia Industries Ltd(2023)	
EPS(Rs)	**Dividend payout ratio**
8.35	0.51
10.85	0.39
16.48	0.36
28.71	0.28
34.36	0.29
36.85	0.3

41.83	0.3
48.23	0.31
58.33	0.6
77.38	2.04
63.31	0.89
96.39	0.75

The above data contains Dividend Payout Ratio and EPS of Britannia Industries Ltd. of last 10 years which was published on Screener website. Here I have done regression analysis on the above data to know whether the EPS is depended on the Dividend Payout Ratio.

Summary output:

Regression Statistics	
Multiple R	0.592379739
R Square	0.350913756
Adjusted R Square	0.286005131
Standard Error	22.73156641
Observations	12

Anova:

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	2793.551709	2793.551709	5.406273186	0.042399916
Residual	10	5167.241116	516.7241116		
Total	11	7960.792825			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	24.7769	10.3618	2.3912	0.0379	1.6894	47.8644	1.6894	47.8644
X Variable 1	31.8728	13.7079	2.3251	0.0424	1.3297	62.4159	1.3297	62.4159

Equation: Y= 24.78+31.88*1

1. The value of r square helps us to assess the total change that is influenced by the independent factor on the dependent factor in this case we 35 % of changes is due the independent factor
2. Coefficients shows that one unit of dividend payout ratio can lead to 31 units of EPS as per this regression output
3. The F significance shows whether this is a good model for analyzing regression if the value is not greater than 0.05 then this is a good model for pursuing regression in this case the value is less than 0.05 hence this is a good model for pursuing regression.
4. The value of p shows whether a particular model is influential on the dependent variable or not it is influential if the value is not more than 0.05 in this case the value is not exceeding 0.05 hence dividend payout ratio is influential on the EPS.

Findings:

1. Profitability as a Key Factor: The data shows that among Indian FMCG businesses, profitability has a key role in determining dividend policy. Companies that consistently achieve high profitability have a tendency to reward shareholders with bigger dividend payments.
2. Growth Prospects Shape Dividend Policies: The research emphasizes how growth prospects affect dividend decisions. FMCG businesses frequently choose a balanced strategy, keeping earnings on hand to take advantage of growth possibilities and paying dividends to keep investors interested.
3. Needs for Liquidity and Financial Strength: The study discovers that needs for liquidity and general financial strength are key factors in dividend decisions. Maintaining stability in finances and liquidity is a top priority for FMCG companies, which occasionally results in more cautious dividend policies.
4. Investor Preferences: Dividend policies are heavily influenced by investor preferences. While institutional investors might be more interested in long-term capital gain, retail investors frequently prefer consistent income in the kind of dividends. For FMCG firms, balancing these inclinations is a challenge.

5. Regulatory compliance: The importance of regulatory compliance can't be overstated. The regulatory climate in India has a big impact on dividend policy. Companies have to deal with tax repercussions and regulatory requirements, which can affect the frequency and size of dividend distributions.
6. Lack of universal dividend policy: It is clear that the FMCG sector lacks a universal dividend policy. Companies adjust their dividend policies to take into account their particular financial situation, development prospects, and shareholder make-up.
7. Optimal dividend policy varies: In order to draw in income-seeking investors, certain FMCG companies may adopt a high dividend payment strategy. In contrast, some companies may place more emphasis on holding onto earnings in order to finance growth and innovation. Within the industry, there is no one ideal dividend policy.
8. Economic Cycles' Impact: According to the research, market circumstances and economic cycles may have an impact on dividend policy. FMCG firms could take a more cautious stance to protect cash during uncertain economic times.
9. Communication is a key: communication is essential It is essential to have strong communication with shareholders regarding the justification for dividend policy. Shareholder expectations and business strategy can be more closely matched with open communication.
10. Long-term Perspective: FMCG businesses in India frequently balance short-term profits with long-term growth by taking a long-term approach in their dividend policy.

Discussion:

The examination of dividend practices in the Indian FMCG industry sheds light on the complex interactions that influence corporate choices. This paper makes a number of important arguments that shed light on the complexities of choosing a dividend policy and its ramifications for stakeholders. First, a key factor that arises is profitability. FMCG businesses are more likely to pay out greater dividends when their profitability is solid and constant. These dividends act as a concrete incentive for investors and a symbol of sound financial health. Second, both domestic and foreign growth potential have a big impact. To take advantage of these possibilities, companies choose to strike a careful balance between dividend distributions and capital preservation. Flexibility in dividend policy is required given the FMCG sector's exceptional ability for innovation and global development.

Thirdly, the regulatory climate in India is essential. Policies regarding dividends are substantially influenced by adherence to legal and tax obligations. To optimize dividend payouts, companies must manage these challenges. Additionally, the study emphasizes the significance of matching dividend policy with investor preferences, which differ from one investor to the next. Effectively managing shareholder expectations depends on open information about the factors that went into dividend choices.

Conclusion:

The examination of the dividend policy uncovered a complex interaction of factors that substantially affect strategic decision-making inside firms in the dynamic environment of the FMCG sector in India. This study highlights a number of significant conclusions that help us understand the dynamics of dividend policy in this industry. The main factor that influences dividend decisions is profitability, which forms the basis of these decisions. Companies that consistently and profitably perform well frequently reward their shareholders with greater dividend distributions. The exploration of growth prospects, both domestically and abroad, calls for a careful balancing act between compensating shareholders and holding on to earnings for development and innovation.

Only the dividend payout ratio is used to find the changes in the dividend policy. Further research can be conducted using other profitability and liquidity ratios to compare and arrive at an accurate relationship. One of the top company, i.e., Britannia is considered here. A comparison with various other similar companies in the same industry would be helpful in finding if this variation is same to this company or to the market as whole.

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