A COMPARATIVE STUDY ON DIVIDEND POLICY OF SELECTED BANKS IN INDIA

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ABSTRACT

Dividend decision is one among the difficult choice that the management must take in allocating their profit to reinvest within the company or distribute to shareholders. Investors give attention to dividends because they get a yield on their investment or chance to sell their stocks at a higher price in the future. The objective of the study the performance of dividends declaration policies of selected banks included in NSE and BSE and to evaluate earning per share of the banks. The banks that are included in the stock market namely State Bank of India, Bank of Baroda, HDFC, ICICI are chosen based on the market capitalization for this study and Data related Provision for Taxation, dividend payout, Liquidity covering for 5 years i.e, from 2012 to 2016 are analyzed. The companies selected are observed to have continuous dividend payment records and general trend shows that the dividends have either remained constant or increased however instances of decline in dividends have been very rare.

Key words: Dividend, Provision for Taxation, dividend payout, Liquidity etc,.

I. INTRODUCTION

Dividend decision is one among the difficult choice that the management must take in allocating their profit to reinvest within the company or distribute to shareholders. Investors give attention to dividends because they get a yield on their investment or chance to sell their stocks at a higher price in the future. Lenders look dividend carefully because they feel that the more the dividend payment, the less will be the amount available for the redemption their claims. Dividend policy refers to the payout policy that a firm follows in determining the size and pattern of cash distributions to shareholders over time. Payments of dividends make the shareholders happy. On the other side it diminishes the internal source of fund for making investment in golden projects, which results in curtail the growth of the firm, and in turn affects wealth of the shareholders. So, Decision on the amount of earnings to as dividend is one of the major financial decisions that a firm's mangers face.

The most important policies in corporate financing is the dividend policy. This is not only from the viewpoint of the company, but also from that of the shareholders, the consumers, the workers, the regulatory bodies and the government. The relative importance of this policy stems from the fact that it is a pivotal policy around which other financial policies rotate, hence central to the performance and valuation of firms. A firm's dividend policy refers to its choice of whether to pay out cash to shareholders, in what fashion, and in what amount. The most obvious and important aspect of this policy is the firm's decision whether to pay a cash dividend, how large the cash dividend should be, and how frequently it should be distributed. In a broader sense, dividend policy also

encompasses decisions such as whether to distribute cash to investors via share repurchases or specially designated dividends rather than regular dividends, and whether to rely on stock rather than cash distributions. Non-traditional forms of dividend payments, especially share repurchases are much more commonly used today, and so the dividend decision is much more complex and difficult than in the past.

II. DIVIDEND – DEFINITION

According to the Institute of Chartered Accountants of India, dividend is "a distribution to shareholders out of profits or reserves available for this purpose.

1. The term dividend refers to that portion of profit (after tax) which is distributed among the owners / shareholders of the firm.
2. Dividend may be defined as the return that a shareholder gets from the company, out of its profits, on his shareholdings.

III. REVIEW OF LITERATURE

Miller and Modigliani (1961) provide an accepted argument for dividends irrelevance in a world with perfect capital markets. However, this argument has been challenged at present. If dividends are irrelevant, why companies still pay dividends and why investors are aware of dividends because dividends are the part of return on stock.

Shefrin and Statman (1984) introduced concepts such as prospect theory and mental accounting to explain why investors like dividends. Statman contends that solving the dividends puzzle is impossible while ignoring the patterns of normal investor behavior. If paying dividends is important for companies, then we need to identify what factors are influencing the dividends policy.

Ranpreet Kaur (2014) investigated the concept and scope of dividend policy and to study the irrelevance theory (Modigliani-Miller Model) dividend theory and to know the relationship between dividend policy approach and share prices (companies listed in CNX Dividend opportunities Index was chosen as population universe) and for sample 5% companies listed in index was considered. Analysis has been made by using secondary data and simple random sampling is used during period 2013- 2014.The study found that there is neither positive nor negative relationship between the market price of shares and dividend payout. Author said that due to other factors share-prices are affected. It can be concluded that irrelevance theory shows true picture in current scenario in comparison to relevance theory in short time period.

IV. RESEARCH GAP

Dividend decision of the firms is considered as one of the important decisions that the firm would make. It must be depend upon what portion of earnings is to be retained by the firm and what portion is to be paid off. There is always an inverse relationship between these two larger intentions such as investment decision and financial decision-making of the firm. Banking Industry shows an impressive growth figures over the recent years. The present paper highlights various dividend policies practice in the corporate world.

Because of the complexities involved, it is skeptical that a one-size-fits-all theory of dividend policy will ever gain acceptance. Recent studies acknowledge the dividend policies which are followed by different firms at different times because the dividend decisions are taken considering the special circumstances of an individual case.

Some of the researchers analyzed on the factors which determine the dividend policy of the company and come to the conclusion that academic researchers cannot specify a theoretical optimal dividend policy that simultaneously fits all firms.

V. OBJECTIVES OF THE STUDY

- To study the performance of dividends declaration policies of selected banks included in NSE and BSE.
- To study the earning per share of the banks.
- To know the dividend amount allotted to each equity shareholder of the company.
- To determine the mean values of DPS of different banks.

VI. HYPOTHESIS

1. 1. Null H0: There is no significant influence of selected least correlated variable on dividend payout of selected banks.

   Alternative H1: There is significant influence of selected least correlated variable on dividend payout of selected banks.
2. Null H0: There is no significant difference among the mean values of dividend per share among the banks

   Alternative H1: There is significant difference among the mean values of dividend per share among the banks

V. SCOPE OF THE STUDY

1. Identifying real image of the bank in terms of shareholders satisfaction.
2. For knowing shareholder's expectations from the banks.
3. For improving dividend policies in the banks.
4. To analyze the significance of least related variable on dividend pay-out of selected banks.

VI. PERIOD OF THE STUDY

The banks that are included in the stock market namely State Bank of India, Bank of Baroda, HDFC, ICICI are chosen based on the market capitalization for this study and Data related Provision for Taxation, dividend payout, Liquidity covering for 5 years i.e, from 2012 to 2016 was collected for the purpose of the analysis. Five-year period as "a long enough time period to smooth the usual fluctuations of earnings that occur through time, but not so long as to produce serious measurement errors due to changes in economic and political environment over time, change in stage of company life cycle, etc. which may force a company to review its dividend policy."

VII. COLLECTION OF DATA

Secondary Data

For this empirical analysis, data has been collected from the share broking sites and selected banks financial reports. The data have been collected of selected banks that are included in NSE, BSE.

Tools

To test the above mentioned hypothesis various statistical tools have been used. The data is analyzed by using correlation matrix, simple regression; statistical technique is used to assess the magnitude and direction of relationship between independent variables and dependent variable. In these factors such as profitability, liquidity, leverage and provision for taxation have been selected to test the relationship with dividend payout ratio of the companies under study. These variables (called independent variables in regression analysis). The study has tested to what extent practical observations support theoretical aspects by examining various variables either by mere observation or with the use of statistical techniques such as mean, standard deviation, correlation and ANOVA are used.

Coefficient of Correlation: Simple correlation is the most widely used method of measuring the degree of relationship between two variables. This coefficient assumes the following:

1. That there is linear relationship between the two variables,
2. That the two variables are casually related which means that one of the variables is independent and the other one is dependent, and
3. A large number of independent causes are operating in both variables so as to product a normal distribution.

Correlation is used to determine the relationship of variables such as liquidity, leverage and provisions for taxation with dividend payout. Considering correlation least related variable has been found out

ANOVA is essentially a procedure for testing the difference among different groups of data for homogeneity. There may be variation between samples and also within sample items. ANOVA consists in splitting the variance for analytical purpose. Hence it is a method of analyzing the variance to which response is subject into its various components corresponding to various sources of variation.

Dividend Payout Ratio:

It measures the relationship between dividends and earnings. What percentage shares of dividend is to be distributed from profit. It is to be calculated,

D/P Ratio = (Dividend per Share /Earnings per Share)*100

VIII. DATA ANALYSIS AND INTERPRETATION

8.1 State Bank of India

YEAR	DIVIDEND PAYOUT RATIO	LIQUIDITY(CURRENT RATIO)	LEVERAGE(DEBT EQUITY RATIO)	PROVISION FOR TAXATION
2012	20.06	0.30	0.05	0.69
2013	20.12	0.29	0.05	0.54
2014	20.56	0.29	0.06	0.42

2015	19.51	0.31	0.07	0.38
2016	20.28	0.28	0.07	0.51

Source: money control

Correlation between the variables

8.2 Pearson coefficient of correlation

	LQ RATIO	LV RATIO	PT
DPY	-0.803	-0.253	0.155

For Pearson correlation coefficient Where 1 is total positive correlation, 0 is no correlation, and −1 is total negative correlation.

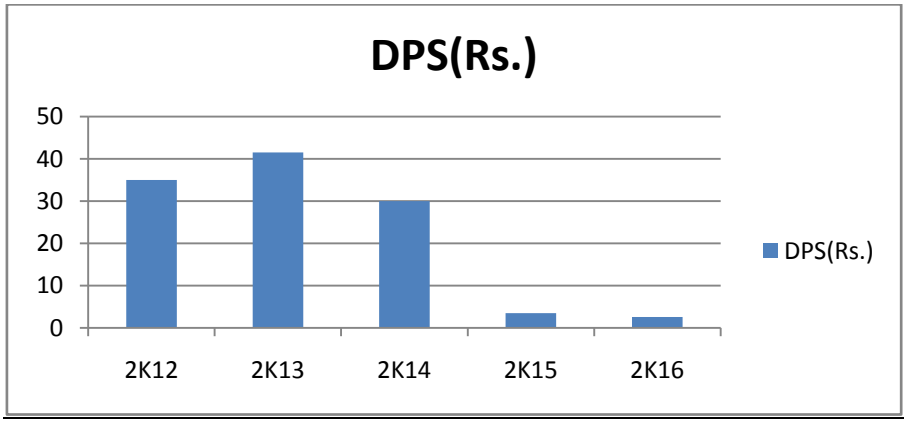
So it can be stated that Dividend Payout Ratio is positively correlated with Provision for taxation and negatively with both Liquidity and Leverage

8.3 EPS, DPS and DPR of SBI

year	EPS(Rs.)	DPS(Rs.)	DPR (%)
2012	174.46	35.00	20.06
2013	206.20	41.50	20.13
2014	145.88	30.00	20.56
2015	17.55	3.50	19.94
2016	12.82	2.60	20.28
	mean value	22.52	

Source: rediff.com

The graphical representation of DPS (dividend per share in Rs) of SBI



The EPS of SBI shows an interesting trend in the year 2012, 2013 but it drops in the year 2014. The DPS falls to Rs.30 in the year 2014 and still decreased in 2015 from Rs.30. The dividend payout ratio lies in the range of 19.94 percent to 23.56 percent during five years of study.

8.4 Bank of Baroda

YEAR	DIVIDEND PAYOUT	LIQUIDITY(CURRENT RATIO)	LEVERAGE(DEBT EQUITY RATIO)	PROVISION FOR TAXATION
2012	13.86	0.22	0.06	0.33
2013	20.21	0.26	0.03	0.20
2014	20.33	0.20	0.03	0.07
2015	21.42	0.19	0.04	0.21
2016	0.00	0.21	0.04	0.59

Source: money control

8.5Pearson coefficient of correlation

	LQ RATIO	LV RATIO	PT
DPY	0.064	-0.291	-0.949

For Pearson correlation coefficient Where 1 is total positive correlation, 0 is no correlation, and −1 is total negative correlation.

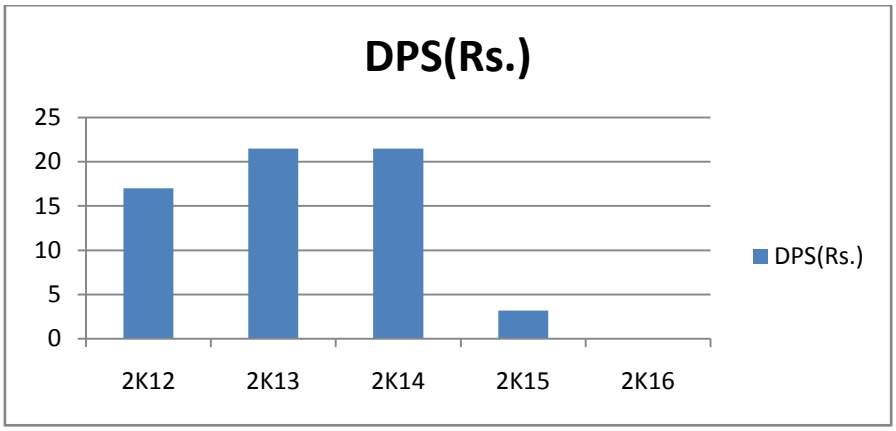
So it can be stated that Dividend Payout Ratio is negatively correlated with Liquidity, Provision for taxation and positive with Leverage

8.6 EPS, DPS and DPR of Bank of Baroda

year	EPS(Rs.)	DPS(Rs.)	DPR (%)
2012	121.79	17.00	13.96
2013	106.37	21.50	20.21
2014	105.75	21.50	20.33
2015	15.37	3.20	20.82
2016	-23.42	0.00	0.00
	mean value	12.64	

Source: rediff.com

The graphical representation of DPS (dividend per share in Rs) of Bank of Baroda



The EPS of Bank of Baroda shows an increasing trend during first three years of study but afterwards it declines. The dividend per share rose from Rs. 16 to Rs. 21.5 during years of study i.e. increase by 43.33 percent during the same period. The DPR shows some fluctuations and in the year 2016 the dividend per share announced was zero because of the decrease in the performance of operations.

Bank of Baroda's (BoB) performance in the fourth quarter and the year ended March 2015 has largely been aided by containment of bad loans. This had a salutary effect on the provisions for such loans.

In the fourth quarter ended March 2015, provisions were lower by 46 per cent compared to a 12 per cent increase in operating profit.

8.7 HDFC

YEAR	DIVIDEND PAYOUT RATIO	LIQUIDITY(CURRENT RATIO)	LEVERAGE(DEBT EQUITY RATIO)	PROVISION FOR TAXATION
2012	19.53	0.4	0.06	0.38
2013	19.46	0.38	0.05	0.37
2014	19.38	0.33	0.07	0.35
2015	19.63	0.34	0.06	0.36
2016	19.53	0.3	0.06	0.39

Source: money control

8.8Pearson coefficient of correlation

	LQ RATIO	LV RATIO	PT
DPY	-0.007	-0.304	0.340

For Pearson correlation coefficient Where 1 is total positive correlation, 0 is no correlation, and −1 is total negative correlation. So it can be stated that Dividend Payout Ratio is negatively correlated with all the variables i.e. Liquidity, Leverage and positively with Provision for taxation

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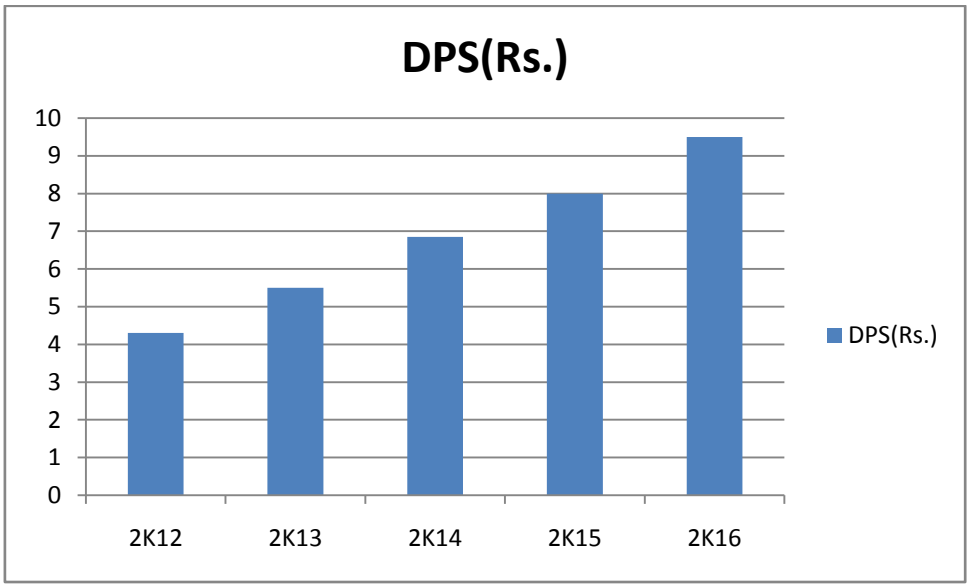
8.9 EPS, DPS and DPR of HDFC

year	EPS(Rs.)	DPS(Rs.)	DPR(%)
2012	22.02	4.30	19.53
2013	28.27	5.50	19.46
2014	35.34	6.85	19.38
2015	40.76	8.00	19.63
2016	48.64	9.50	19.53
	mean value	6.83	

Source: rediff.com

The graphical representation of DPS (dividend per share in Rs) of HDFC



The above figures show an increasing trend in EPS and DPS of HDFC Bank from 2012 to 2015. Depending on earnings and dividend, the dividend payout ratio also exhibits a stable trend of around 19 percent. HDFC is having a predominant increase in the growth and it moved off from mid level size bank to high level bank.

8.10 ICICI

YEAR	DIVIDEND PAYOUT	LIQUIDITY(CURRENT RATIO)	LEVERAGE(DEBT EQUITY RATIO)	PROVISION FOR TAXATION
2012	29.42	0.62	0.08	0.41
2013	27.71	0.59	0.07	0.33
2014	27.08	0.53	0.07	0.36
2015	25.93	0.44	0.07	0.39
2016	29.89	0.38	0.06	0.43

Source: money control

8.11 Pearson coefficient of correlation

	LQ RATIO	LV RATIO	PT
DPY	0.021	-0.101	0.571

For Pearson correlation coefficient Where 1 is total positive correlation, 0 is no correlation, and −1 is total negative correlation.

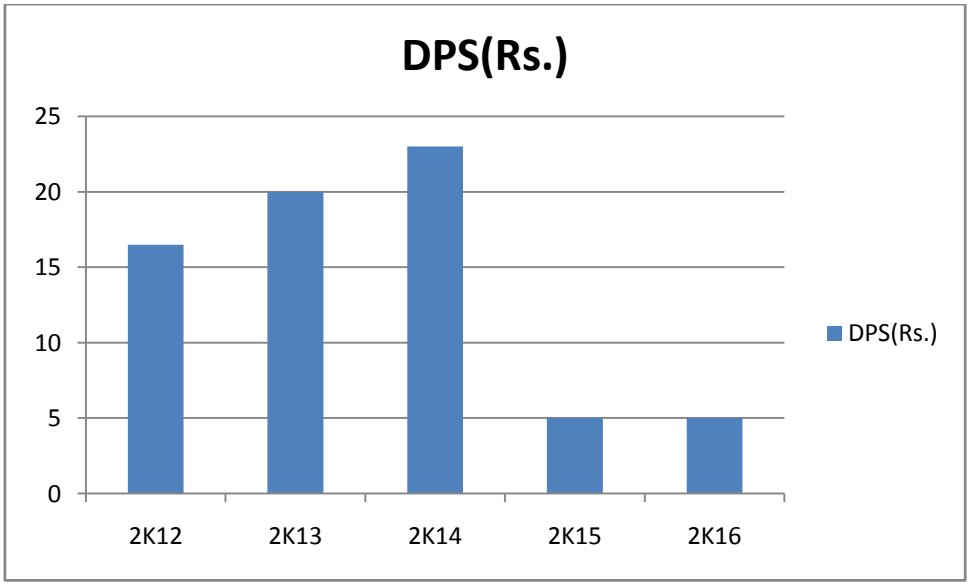
So it can be stated that Dividend Payout Ratio is negatively correlated with Leverage and positively correlated with Liquidity and Provision for taxation

8.12 EPS, DPS and DPR of ICICI

year	EPS(Rs.)	DPS(Rs.)	DPR (%)
2012	56.09	16.50	29.42
2013	72.17	20.00	27.71
2014	84.94	23.00	27.08
2015	19.28	5.00	25.93
2016	16.73	5.00	29.89
	mean value	13.9	

Source: rediff.com

The graphical representation of DPS (dividend per share in Rs) of ICICI



The EPS of ICICI Bank has shown an increasing pattern for the year 2012 to 2014. The dividend payout ratio ranges from 25.93 percent to 36.88 percent during the period of study. ICICI has been maintaining a stable dividend declaration during the years 2015, 2016.

Mean, Standard Deviation and Coefficient of Variation of DPS of Banking Companies

Name of the bank	**Mean**	**SD**	**CV**
SBI	22.52	18.24	80.99
Bank of Baroda	12.64	10.31	81.54
HDFC	6.83	2.04	29.89
ICICI	13.90	8.44	60.75

The mean dividend paid per share is highest of SBI and lowest of HDFC. Also, the standard deviation of dividend paid per share is highest of SBI and lowest of HDFC Bank. But the coefficient of variation of SBI Bank is highest due to average mean of dividend paid per share. We saw lowest coefficient of variation of HDFC Bank among all the banking companies under study.

8.13 ANOVA

sources of variation	**sum of squares**	**degree of freedom**	**Mean squares**	**F DISTRIBUTION**
Between Banks	629.28	K-1(4-1)=3	209.76	1.63
within banks	2057.27	N-K(20-4)=16	128.58	

The Table value of F at 5 % level of significance and v_1 = 3 and v_2 = 16 is 3.23, while the calculated value is 1.63. In other words F > $F_{.05,}$ Hence, there is significant difference among the mean values of DPS among different banks. Hence, Null Hypothesis is rejected

8.14 Calculation

degree of freedom		
numerator		3
denominator		16
TSB/NUMERATOR		209.75
TSW/DENOMINATOR		128.57
f distribution		1.63
(3,16) p<0.05	3.23	

Total sum of			2686.55

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squares				
total sum of squares with in banks				2057.27
total sum of squares between banks				629.28

8.15 Calculation of ANOVA

Total sum of squares

		x-mean	(x-mean)^2
1	2.60	-11.3725	129.33
2	3.50	-10.4725	109.67
3	30.00	16.0275	256.88
4	41.50	27.5275	757.76
5	35.00	21.0275	442.16
6	0.00	-13.9725	195.23
7	3.20	-10.7725	116.05
8	21.50	7.5275	56.66
9	21.50	7.5275	56.66
10	17.00	3.0275	9.17
11	9.50	-4.4725	20.00
12	8.00	-5.9725	35.67
13	6.85	-7.1225	50.73
14	5.50	-8.4725	71.78
15	4.30	-9.6725	93.56
16	5.00	-8.9725	80.51
17	5.00	-8.9725	80.51
18	23.00	9.0275	81.50
19	20.00	6.0275	36.33
20	16.50	2.5275	6.39
		SUM=	2686.55
mean	13.9725		

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Sum of squares within banks SBI

	group-1	x-mean	(x-mean)^2
	2.60	-19.92	396.81
	3.50	-19.02	361.76
	30.00	7.48	55.95
	41.50	18.98	360.24
	35.00	12.48	155.75
		SUM=	1330.508
mean	22.52		

8.16 Bank of Baroda

group-2	x-mean	(x-mean)^2
0.00	-12.64	159.77
3.20	-9.44	89.11
21.50	8.86	78.50
21.50	8.86	78.50
17.00	4.36	19.01
	SUM=	424.89
12.64		

8.17 HDFC

group-3	x-mean	(x-mean)^2
9.50	2.67	7.13
8.00	1.17	1.37
6.85	0.02	0.00
5.50	-1.33	1.77
4.30	-2.53	6.40
	SUM=	16.67
6.83		

8.18 ICICI

group-4	x-mean	(x-mean)^2
5.00	-8.9	79.21
5.00	-8.9	79.21
23.00	9.1	82.81
20.00	6.1	37.21
16.50	2.6	6.76
	SUM=	285.2
13.9		

sum of squares with in banks	1347.98

IX. FINDINGS, SUGGESTIONS AND CONCLUSION

FINDINGS OF THE STUDY

1. Dividend policy is very important in the management of company's earnings. So decisions related to dividend policy have a significant effect on credit standing of the firm, its share prices and its future growth.
2. The valuation of any company depends on its earnings. Due to decentralization of ownership and management in company's organizational structure, it is obvious that should decide the dividend policy in which the trusts of shareholders are maintained.
3. The study reveals the correlation of different variables such as Liquidity, Leverage, Size and growth, provision for taxation with dividend payout. Remarkable observations were found among these variables for different companies in banking industry. Apart from this, the study also shows how the fluctuations in dividend payout ratio have taken place, year by year due to variation in different independent variables.

X. SUGGESTIONS

1. Dividend policy is set largely at the discretion of the management. One of the major important factor management has to consider is shareholders' interest.
2. Since reduction in dividend may create a negative impression in the mind of shareholders which will affect the credit position of the company so it is suggested to the companies that dividend raised should not be reduced.

3. Every year declaration of dividends is necessary. As shareholders' are the owners of the company and risk is directly associated with the ownership. As shareholders bear the risk, so they expect a fair return in form of dividend. So it is suggested to the companies to provided fair dividends to the shareholders for better investment options and goodwill of the company.
4. Dividend policy should be decided keeping in mind the growth needs of the firm. A high dividend payout reduces firm's access to retained earnings, the cheapest source of capital. For that reason management may prefer lower dividend payout ratios, especially in growth firms as the retained funds would be required for expansion purposes.

XI. CONCLUSION

The result of the survey has provided some interesting insight regarding dividend policy and dividend payout behavior. The companies selected are observed to have continuous dividend payment records and general trend shows that the dividends have either remained constant or increased however instances of decline in dividends have been very rare.

1. Moreover, knowing the significance of least related variable on dividend payout of selected companies, it is observed that though in many instances results do support theoretical expectations about dividend policy, there are number of cases where the results are inconsistent with theoretical aspects.
2. The study reveals that in most of the companies least related variable do not have influence on dividend payout and in some of the companies least related variable do have influence on dividend payout.
3. It also reveals that each firms though belonging to the same industry and facing same business environment has its own and unique dividend policy which is due to company-specific needs and factors.

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