

DIVIDEND AND ITS EFFECT ON THE SHAREHOLDERS

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ABSTRACT

The main purpose of financial management is the maximization of shareholders wealth with three core decisions like , dividend , financing and investment decision. Dividend is the proportion of earnings of a corporation that is distributed among the shareholders. The research gap identified for this study is that a comparison of different automobile industries , impact on the dividend issued by the HERO MOTO CORP and TVS MOTORS. The main objectives of this project is to study the influence of dividends and its determinants on the market price shares of listed companies and is based on the balance sheet for the period of 5 years(2014 -2018) were collected from the respected companies websites and the following ratios have been calculated to the Dividend Yield and Dividend Payout Ratio.

Key Words : Dividend yield and Dividend Payout Ratio.

INTRODUCTION

Dividend refers to a gift, cash or otherwise, that a company gives to its shareholders. Dividends may be issued in numerous forms, such as cash payment, stocks or any other form. A company's dividend is determined by its board of administrators and it needs the shareholders' approval. However, it's discretionary for a corporation to pay dividend. Dividend is typically a region of the profit that the corporate shares with its shareholders. There are five types of Dividend like Cash Dividend ,Stock Dividend ,Property Dividend , Scrip Dividend and Liquidating Dividend. The money dividend is out and away the foremost common of the dividend sorts used. On the date of declaration, the board of administrators resolves to pay an explicit dividend quantity in money to those investors holding the company's stock on a particular date. The Stock dividend is the issuance by a company of its common stock to its common shareholders without any consideration. The company may issue a non-monetary dividend to investors, rather than making a cash or stock payment. The company may not have sufficient funds to issue dividends in the near future, so instead it issues a scrip dividend. When the board of directors wishes to return the capital originally contributed by shareholders as a

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dividend, it is called a liquidating dividend. In India the company declaring dividend has to pay dividend distribution tax and dividend income is exempt from tax for the recipients and for the shareholders. A Dividend is the minimum return to the investors in order to compensate for the money invested and the risk taken by investing in organization . Hence the study analysis the real relationship between the dividends and its determinants and stock market price.

LITERATURE REVIEW

To determine the effects of Dividend policy on stock price **Adnan Ali, Farzand Ali Jan, Ilgas Sharif(2015)** on-financial organizations listed in Karachi Stock Exchange aimed at a period of 12 years from 2001 to 2012. This study focuses on Pakistani companies, all nonfinancial firms listed in KSE-100 index were selected. The aim is to determine the relationship between Dividend policy and stock price , stock Dividend per share, Dividend payout ratio, Retention Ratio have been used. This result shows that among the given variables only dividend payout ratio, EPS and return on equity have statistically significant relationship with stock. In case of stable dividend policy dividends, stock will have a short term duration.

In order to examine the behavioural analysis of investors attitude towards dividend declaration in developing country a case of Bangladesh the study was done by **Leo Vashkor Dewri, MD Rashidul Islam, S.M Arifuzzman(2015)** .The aim of the research is to investigate facts on investors expectation on dividend from particular investment, perception on dividend declaration, relation between dividend declaration and value creation for investors. The study has been conducted on 250 active stratifies random samples related to dividend preferences by primary data with questionnaires, through correlation. The research says that there is negative association between dividend paying stocks and investors demographic attributes in the Bangladesh capital market. The study also reveals that one of the most important determinants of dividend initiation among the Bangladesh firms are the value weighted dividend yield in the industry.

In order to study the effects of Dividend policy on the value of firms listed at Nairobi securities exchange, **Yuko Stephan Ochieng (2016)** as under taken this research. The study reviews M&M dividend irrelevance model, the bird in hand theory , the signalling theory and agency theory, dividend payout ratio have been used. the secondary data have been extracted of the firms listed at Nairobi securities exchange , for period of 5 years from 2011 to 2015.This study establishes that the dividend payout ratio has significant and positive influence on the value of firm. This study concludes that dividend policy is relevant and affects value of firm positively such that an increase in dividends increases the firm's value and vice versa. This study also recommends that regulatory and policy making organizations like the Capital Markets Authority of Kenya and NSE should come up with policies dividend payout by listed firms so that they can enhance their value

OBJECTIVES

- To analyse the Dividend issued by the HERO MOTOCORP and TVS MOTOR.
- To ascertain the rate of Dividend Payout ratio.

RESEARCH METHODOLOGY

This study was restricted to HERO MOTOCORP and TVS MOTOR based on secondary data for the period of 5 years from 2013-2014 to 2017-2018 and is been collected through journals, magazines, research papers, websites etc. The following financial tools have been used in this study:

- Dividend Payout Ratio
- Dividend Yield Ratio

DIVIDEND YIELD RATIO

The dividend yield is a financial ratio that measure the amount of cash dividends distributed to common shareholders relative to the market value per share. The dividend yield is used by investors to show how their investment in stock is generating either cash flows in the form of dividends or increase in asset value by stock appreciation. A Company with high dividend yield pays its investors a large dividend compared to the fair market value of the stock. Dividend Yield Ratio can be calculated as follows:

$$\text{Dividend Yield Ratio} = \frac{\text{Cash Dividends Per Share}}{\text{Market Value Per Share}}$$

YEAR	(In Rs.)		(In Crs)		(%)	
	DPS		MARKET VALUE		DIVIDEND YIELD RATIO	
	(a)	(a)	(b)	(b)	(a / b*100)	(a / b*100)
	TVS Motors	HERO Motocorp	TVS Motors (Rs.)	HERO Motocorp (Rs.)	TVS Motors(%)	HERO Motocorp(%)
2013-14	1.39	65	97.1	3542.80	1.43	1.83
2014-15	1.9	60	263.85	3221.95	0.72	1.86
2015-16	3.65	72	322.8	2945.70	1.13	2.44
2016-17	2.5	85	430.8	3221.95	0.58	2.63

2017-18	3.3	95	619.3	3542.80	0.53	2.68
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(Source- secondary data :moneycontrol)

From the above table the dividend yield ratio of TVS Motor is found to be high in the year 2014 (1.43) and low in the year 2018 (0.53) and it is fluctuating in the remaining years.

The high dividend yield ratio indicates that the company is capable to pay large dividend to its investors and low dividend yield ratio indicates that the company is capable to pay only small dividend to its investors.

In HERO Motors it is noted that dividend yield ratio is high in the year 2018 (2.68) and low in the year 2014 (1.83). Hence, it indicates that the company is capable to pay large dividend to the investors in future.

DIVIDEND PAYOUT RATIO

The Dividend Payout Ratio (DPR) is the amount of dividends paid to stockholders relative to the amount of total net income of a company. The amount that is not paid out in dividends to stockholders is held by the company for growth and the amount that is kept by the company is called Retained Earnings. A high DPR means that the company is reinvesting less money back into the company while paying more of its earnings in the form of dividends and a low DPR means that the company is reinvesting more money back into expanding its business to generate higher levels of capital gains for future. Dividend Payout Ratio can be calculated as follows:

$$\text{DPR} = \frac{\text{Total dividend for the period}}{\text{Net income available to common stock holders}}$$

YEAR	(In Rs)		(In Crs)		(In %)	
	TOTAL DIVIDEND FOR THE PERIOD		NET INCOME AVAILABLE TO COMMON STOCK HOLDERS		DIVIDEND PAYOUT RATIO	
	(a)		(b)		(a / b)*100	
	TVS Motors	HERO Motocorp	TVS Motors (Rs)	HERO Motocorp (Rs)	TVS Motors (%)	HERO Motocorp (%)
2013-14	66.51	1299.13	261.63	2,109.08	25.42	61.59

2014-15	90.27	1198.12	347.83	2,385.64	25.95	50.22
2015-16	173.41	1437.75	489.28	3,132.37	35.44	45.89
2016-17	118.78	1697.45	558.08	3,377.12	21.28	51.44
2017-18	156.78	1897.51	662.59	3,697.36	23.66	45.91

(Source- secondary data :moneycontrol)

The above table revealed that, in TVS Motors DPR is highest in the year 2016 (35.44) and lowest in the year 2017 (21.28), where, the high DPR indicates that the company pays more dividend to the shareholders than the retained earnings.

For HEROMOTOR CORP it is noted that DPR is highest in the year 2014 (61.59) and lowest in the year 2016 (45.89) and is fluctuating in remaining years. High DPR indicates that the company pays more dividend to investors and low DPS indicates does not more dividend to the investors and the DPR.

FINDINGS

- Dividend yield ratio of TVS Motor is found to be high in the year 2014 and low in the year 2018 and it is fluctuating in the remaining years. In HERO Motors it is noted that dividend yield ratio is high in the year 2018 and low in the year 2014.
- TVS Motors DPR is highest in the year 2016 and lowest in the year 2017. For HEROMOTOR CORP it is noted that DPR is highest in the year 2014 (61.59) and lowest in the year 2016

SUGGESTION

- Both the companies, TVS MOTORS and HERO MOTOCORP must maintain their dividend yield ratio high to ensure more dividend to shareholders and to attract new investors.
- Profit earned must be constantly increasing year by year to fetch the dividend needs of shareholders and to attain a good position in the market.

CONCLUSION

The study titled “ DIVIDEND AND ITS EFFECT ON THE SHAREHOLDERS” with objective of studying the dividend issued by HERO MOTOCORP and TVS MOTORS highlighted the high performance of companies. The study reveals that dividend paying capacity of both companies is at good position. The

study concluded that more profits are earned and paid as dividend to shareholders not only to attract new investors but also to attain high position in the market.

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