Impact of Dividend Payout Ratio on Firm Performance: A Study of Listed Automobile Companies in NSE

AGILA.M[1], DR.MRS.JERINABI. U2
[1](P.hd Scholar,Department of Commerce,Avinashilingam Institute for Homescience and Higher Education for Women, Coimbatore – 641025, India)
[2](Professor, Department of Commerce,Avinashilingam Institute for Homescience and Higher Education for Women, Coimbatore – 641025, India)

Abstract : The study attempts to examine the impact of dividend payout ratio on firm performance of listed automobile companies in India. In this study, we have selected the sample of 25 listed automobile companies at National Stock Exchange. The data were collected for the period of 5 years from 2014 to 2019. In this study descriptive statistics and multiple regression analysis is used by taking Return on Equity and Return on Asset as dependent variables and Dividend Payout ratio as independent variable. The study concludes that there is a positive significant relationship between the variables.

***IndexTerms* - Dividend Payout Ratio, Return on Equity and Return on Asset.**

I. INTRODUCTION

The dividend payout ratio is the proportion of earnings paid out as dividends to investors. Dividend payout ratio is calculated to find the extent to which earnings per share have been retained in the business. It is an important ratio because ploughing of profits enables a company to grow and pay more dividends in future. Some companies pay out all their earnings to investors, while only pay out a portion of their earnings. If a company pays out some of its earnings as dividends, the remaining portion is retained by the business. Taouab and Issor (2019) suggests that the firm performance as an achievement or results obtained by management economics and marketing in providing competitiveness, efficiency and effectiveness to the company. Bird in Hand theory defines that the shareholders always prefer higher dividend policy and signaling model proposes that the dividend as a signal of the firm's yearly income and its affects the management decisions . when dividend payout ratio increases it signals to the investors that the company is performing good.

Objectives of the Study

This study attempt to achieve the following objectives:

1. To identify the relationship between dividend payout ratio, return on equity and return on asset.
2. To examine the impact of dividend payout ratio on firm performance of selected companies.

Hypothesis of the Study

The study has been taken up for the financial year 2014-2015 to 2018-2019 with the following hypothesis:

H1 : There is a positive relationship between dividend payout ratio and return on equity.

H2: There is a positive relationship between dividend payout ratio and return on asset.

II. Review of Literature

Irtaza Ansar, Arslan Ali Butt, Syed Basit Hussain Shah (2015) conducted the study on "Impact of Dividend Policy on Shareholder's Wealth". The paper examined the relationship between dividend policy and shareholder's wealth with the help of multiple regression model. Sample of thirty companies from Karachi Stock Exchange was selected which includes companies from cement, chemical and textile sector for the period of five years (2007 – 2011). The study concludes that there is strong relationship between shareholder's wealth and dividend policy.

Mohammad Salman Sarwar (2013) investigated "Effect of Dividend Policy on Shareholder's Wealth – A Study of Sugar Industry in Pakistan". The objective of this study to investigate the relationship between dividend policy and shareholders wealth. They have taken a sample of thirty three listed companies of sugar industry at Karachi Stock Exchange for a time horizon of six years from 2006 to 2011. In this study the Market Price per Share is the dependent variable and Dividend Per Share, Earnings Per Share, Lagged Market Price Ratio, Lagged Price Earnings Ratio, Price Earnings Ratio, Retained Earnings Ratio are the independent variables. Descriptive statistics and multiple regression analysis are used in this study to analyze the results. The result shows that the significant relationship between dividend policy and shareholder's wealth.

Manjunatha K (2013) studied "Impact of Debt-Equity and Dividend Payout Ratio on the Value of the Firm". The study tried to understand the impact of debt-equity & dividend payout ratios on the value of the firm. Multiple regression model was used to find out the relationship between the value of the firm & capital structure and dividend policies of the twenty nine companies which are listed in BSE and NSE for the time period of ten years from 2000-2001 to 2009-2010. The study concluded, debt-equity & dividend payout ratio and value of the firm are not depending on each other.

III. Research Methodology

1. Sources of data

The present study is of analytical in nature and makes use of secondary data. The capital line database is the main source for the data collection. The data has been collected for the financial year 2014-2015 to 2018-2019.

2. Sampling design

The sample of the study is taken from the automobile sector and chooses 25 firms on the basis of availability of data.

3. Statistical tools and techniques

Descriptive statistics and multiple regression were used to analyse the impact of dividend payout ratio on firm performance.

4. Variables

In this study dividend payout ratio will be taken as independent variable; return on equity and return on asset will be taken as dependent variables.

IV. Results and Discussion

Table 1 : Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Standard Deviation
DPR	3.97	1.8	39	0	9.01386
ROE	4.47046	6.342	13.24	-19.76	8.75841
ROA	6.34961	8.152	16.18	-23.629	10.91023

Table 1 exhibits the maximum DPR is 39 and minimum is 0 with an average of 3.97. The dispersion in the series is 9.01386 and the median is 1.8. The ROE has the highest standard deviation which is 9.81023 and median is 7.052. The minimum value ranges from -19.76 to the maximum of 13.24 having an average of 4.47046. The minimum value of ROA is -23.629 and the maximum of 16.18 with an average of 25 samples is 6.34961. The standard deviation is 10.91023 and the median is 8.152.

Table 2 : Regression Analysis

Variable	Coefficient	Standard Error	T Statistic	Probability
Constant	38.12326	3.91176	5.2144	0.0000
ROE	0.03312	0.00613	33.72238	0.0000
ROA	0.32438	0.22569	2.54219	0.0052

Table 2 portrays the multiple regression result. The variables return on equity and return on asset found to have positive relationship with dividend payout ratio at 5% level of significance. Hence the hypothesis is accepted.

Table : 3

R Squared	Adjusted R Squared	F Statistic	Prob(F Statistic)
0.33896	0.29872	29.78453	0

Table 3 indicates the R squared 0.33896, adjusted R square 0.29872, f statistic 29.78453 shows that there is a significant relationship between the variables.

V. Conclusion

In this study the impact of dividend payout ratio on firm performance of listed cement companies for the financial year 2014-2015 to 2018-2019 was taken. It can be observed that from the above analysis that there is a positive relationship between dividend payout ratio, return on equity and return on asset. The study concludes that dividend payout ratio having an impact on firm performance of selected companies.

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