

“Study of Dividend Policy & Its Effect on Market Value of Shares of Power Sector Company In India”

Prof. Hemraj Kawadkar

Assistant Professor, Department of Management

S. B. Jain Institute of Technology, Management & Research, Nagpur.

Abstract:

This paper seeks to examine the study of dividend policy and its impact on market value of share price. The main aim of financial management is the maximization of shareholder wealth with major core decisions that is Dividend Policy. In simple word, Dividend policy is the decision regarding to the earning – How much earning distributed to shareholder and how much earning retained for future activity. For this study data covering from 2015 – 2019 from selected top five power sector company. In this study data collected from the respected companies websites and the following ratios have been calculated; Return on Investment, Return on Shareholders Fund, Return on Total Assets, Earnings per Share, Price Earnings Ratio, Payout Ratio. This study shows the significant effect of dividend policy on its share market price.

Key Words: Dividend Policy, Return on Investment, EPS, Market Price Per share, Price Earnings Ratio.

INTRODUCTION:

The investor have two desires i.e. high percentage of Dividends and second is Maximum earning per share or increase in their investment. These two factors influence the dividend policies. The term dividend refers to the divisible profit of the company to its equity shareholder. The dividend policy is mainly a decision of the management, which is decided based on the present earnings, growth rate of opportunities for expansion and diversification. If a firm paid high rate of dividend, maintain less amount of retained earnings, it has to depend, as external finance for their investment opportunities, which may at time will give negative reflection on the wealth of the company. If a firm keeps retained earnings and pays lessor amount of dividend to equity shareholders and finances such for investment opportunities, it increase the wealth company. Therefore, a company can attain its objective of wealth maximization. Therefore the finance manager has to consider all these issue at the time of financing the dividend policy.

LITERATURE REVIEW:

Different researchers have revealed various findings concerning dividend. Miller and carver (1961) who were thought-about pioneers within the study of dividend payout policy known that there's no relationship between market price of a firm and dividend payout policy. They found that firm market price doesn't depend upon dividend payout policy.

At identical time several of different researchers came to quite different results. Consistent with Gordon (1963) the firm will raise its market price by paying dividends. Dividend payout provides info to investors regarding the potency

of the firm in terms of profits and investment opportunities (Alli et. al, 1993). Lintner (1962) found that the dividend payouts will absolutely amend the firm market price. Whereas Litzenberger and Ramaswamy (1979) known that by increasing the dividend the firm price is cut.

Md. Abdullah Al- Hasan, Md. Asaduzzaman and Rashed al Karim conducted a study on “The Effect of Dividend Policy on Share Price”. The study has mainly pointed at evaluating the effect of dividend policy on market price of share in the context of Bangladesh with the tools like Dividend policy, Market price per share, Earning per share Correlation and multiple regression models. The findings tell us that the effect of dividend policy on market price supports the relevant theory of dividend policy.

OBJECTIVES OF STUDY:

- ❖ To analyze the possible effect of dividend policy on shareholders wealth of Five Selected Power Sector Company Listed in BSE
- ❖ To measure the impact of the Power Sector Company dividend policy on its share market price.

LIMITATION OF THE STUDY:

The study taken only top Five Power Sector Company Listed in BSE-

- NTPC
- POWER GRID CORPORATION
- ADANI TRANS
- NHPC
- TORRENT POWER

This study is based on secondary data only and not primary data, and the period of the study restricted to Five years (From 2015 to 2019)

RESEARCH METHODOLOGY:

The research study is an attempt to analyze the effect of dividend policy on share market price of Top Five selected Power Sector Company listed and traded in Bombay Stock Exchange (BSE). This study is based on the secondary data. For the purpose of study the financial data from the period 2008-2009 to 2018-2019 of selected Power Sector Company would be used. The data would be analyzed using some Financial techniques like Return on Investment, Return on Shareholders Fund, Return on Total Assets, Earnings per Share, Price Earnings Ratio, Payout Ratio, Retaining Earnings Ratio. The data has been sourced from money control and financial statement of respective companies.

DATA ANALYSIS & INTERPRETATION:

❖ Return on Capital Employed:

This ratio is called “Return on capital employed” or “Return on Investment Return on capital employed, or ROCE, is a long-term profitability ratio that measures how effectively a company uses its capital.

$$\text{ROI} = \text{Operating Profit} / \text{Capital Employed} * 100$$

Return on Capital Employed								
Company	2019	2018	2017	2016	2015	Mean	Standard Deviation	Variance
NTPC	7.45	7.57	8.3	5.94	6.17	7.086	0.999	14.098
POWER GRID CORP	10.04	9.86	9.57	3.93	3.64	7.408	3.313	44.721
ADANI TRANS	7.51	-0.23	0.04	-1.14	-1.66	0.904	3.756	415.486
NHPC	7.09	7.49	8.13	4.91	4.29	6.382	1.683	26.371
TORRENT POWER	10.31	4.68	2.38	5.08	5.33	5.556	2.904	52.267

Interpretation: ROCE is used to measure the operational and managerial efficiency. A comparison of Average ROCE above table show that NTPC is the Highest 7.086 and Lowest ADANI TRANSMISSION is 0.904, its will show that the more efficiency is the use of the capital employed.

❖ Return on Shareholder Fund:

Return on Shareholder Fund determines the profitability from the shareholders' Point of View.

$$\text{Return on Shareholders Fund} = \text{Net profit after Interest and Tax} / \text{Shareholders Fund} * 100$$

Return on Shareholder Fund								
Company	2019	2018	2017	2016	2015	Mean	Standard Deviation	Variance
NTPC	10.93	10.16	9.75	11.79	12.6	11.046	1.044	9.451
POWER GRID CORP	16.84	15.14	15.09	14.1	13.04	14.842	1.260	8.489
ADANI TRANS	2.42	-1.22	0.18	-2.51	-1.67	-0.56	1.726	-308.21
NHPC	9	9.76	10.37	8.48	7.51	9.024	0.994	11.015
TORRENT POWER	9.95	11.98	6.28	13.92	10.74	10.574	2.531	23.936

Interpretation: In the above table show that the Return on shareholders' funds for the year 2015 to 2019. NTPC and Power Grid Corporation is the highest value 11.046 and 14.842 And lowest is Adani Trans -0.56.

❖ Return on Total Assets:

This ratio is calculated to measure the productivity of total assets.

$$\text{Return on Total Assets} = \text{Net profit after Tax} / \text{Total Assets} * 100$$

Return on Total Assets								
Company	2019	2018	2017	2016	2015	Mean	Standard Deviation	Variance
NTPC	4.03	3.97	3.96	5	5.22	4.436	0.555	12.511
POWER GRID CORP	4.03	3.86	3.86	3.37	3.14	3.652	0.338	9.255
ADANI TRANS	0.33	-0.2	0.03	-0.74	-0.48	-0.212	0.375	-176.886
NHPC	4.41	4.98	5.34	4.42	3.83	4.596	0.520	11.314
TORRENT POWER	3.73	4.17	2.09	4.61	4.68	3.856	0.947	24.559

Interpretation: This ratio is calculated to measure the productivity of total assets. From the above table show that the NHPC is the highest value is 4.596 and lowest value ADANI TRANS is -0.212.

❖ Earnings per Share (EPS):

This ratio highlights the overall success of the concern from owner's point of view and it helpful in determining market price of equity shares. It reflects upon the capacity of the concern to pay dividend to its equity shareholders.

$$\text{EPS} = \text{Net profit after tax and Preference Dividend} \backslash \text{No of Equity Shares.}$$

Earnings Per Share								
Company	2019	2018	2017	2016	2015	Mean	Standard Deviation	Variance
NTPC	11.88	12.54	11.38	13.06	12.48	12.268	0.581	4.735
POWER GRID CORP	19	15.75	14.37	11.52	9.52	14.032	3.299	23.51
ADANI TRANS	7.57	7.59	7.36	2.5	0.21	5.046	3.446	68.29
NHPC	2.57	2.7	2.53	2.2	1.92	2.384	0.285	11.954
TORRENT POWER	18.5	19.18	9	18.71	15.71	16.22	3.809	23.483

Interpretation: This Ratio highlights the overall success of the concern from owners point of view and helpful in determining market price of equity shares. From the above table shows that the highest EPS paid by POWER GRID CORPORATION is 14.032 and lowest value by NHPC is 2.384.

❖ Payout Ratio:

This ratio also indirectly throws light on the financial policy of the management in ploughing back. Payout Ratio = Dividend Per Share / Earning Per Share

Payout Ratio								
Company	2019	2018	2017	2016	2015	Mean	Standard Deviation	Variance
NTPC	60.8	51.2	47.8	33.5	25	43.66	12.800	29.317
POWER GRID CORP	83.30	52.50	43.50	23.10	20.00	44.48	22.929	51.549
ADANI TRANS	--	--	--	--	--	0	0.000	0
NHPC	38.03	45.2	90.28	68.05	31.26	54.564	21.733	39.83
TORRENT POWER	27.02	11.47	0	32.03	9.55	16.014	11.803	73.704

Interpretation: This ratio also indirectly throws light on the financial policy of the management. Form the above table shows that the Highest Payout Ratio of NHPC is 54.564 where as the lowest payout ratio of ADANI TRANSMISSION is 0.

❖ Price Earnings Ratio (PER):

This ratio indicates earnings per share reflected by the Market Price.

$$\text{PER} = \text{Market Price per Equity Share} \backslash \text{Earnings per Equity Share}$$

Price Earning Ratio								
Company	2019	2018	2017	2016	2015	Mean	Standard Deviation	Variance
NTPC	8	9.49	10.91	11.29	11	10.138	1.384	13.65
POWER GRID CORP	8.53	12.08	13.82	21.05	13.08	13.712	4.576	33.37
ADANI TRANS	27.32	43.66	26.96	89.66	270.24	91.568	103.107	112.6
NHPC	8.09	8.87	10.27	14.84	13.77	11.168	2.992	26.79
TORRENT POWER	17.85	14.8	29.09	15.14	11.39	17.654	6.792	38.47

Interpretation: This ratio indicates EPS reflected by the Market Price. This ratio is of use to prospective investors to decide whether to invest in the equity shares of a company at a particular market price or not. From the above table show that ADANI TRANS is PER is highest 91.568 and NTPC is Lowest 10.138.

CONCLUSION:

Profit making is the main objective of company. Aim of every business concern is to earn maximum profits in absolute terms; from the above analysis, it can easily find that all the select Power Sector Company profitability, Dividend Earning and EPS are good. Finally, it can be concluded that dividend policy has the significant impact on the share price of the power sector company listed in BSE.

SCOPE OF FUTURE RESEARCH:

The present study chosen only five company data in whole industry. Therefore, researcher can consider the entire companies for the study in an industry and also try to used the primary data.

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