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"Dividend Distribution Policy Of NSE Companies And Their Sector Wise Dividend Comparison"

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ABSTRACT

A corporation's payout of profits to its shareholders is known as a dividend. A corporation is able to distribute a portion of its profit as a dividend to shareholders when it generates a profit or surplus. Any remaining funds are seized and reinvested in the company (called retained earnings). A corporation is typically not allowed to pay a dividend out of its capital; therefore, both the current year's profit and the retained earnings from prior years are eligible for distribution. If the company has a dividend reinvestment plan, the amount can be paid via the issue of additional shares or by share repurchase. Alternatively, distribution to shareholders may be made in cash (often a deposit into a bank account). There are times when the distribution may. A shareholder's dividend is considered their own income and could be liable to income tax (see dividend tax).This income is taxed in various ways depending on the jurisdiction. The dividends paid by the corporation are not tax deductible. Shareholders receive a dividend in proportion to their holdings, which is distributed as a fixed sum per share. Dividends have the potential to increase shareholder morale and offer predictable income. Paying dividends is not an expense for a joint stock firm; rather, it is the distribution of after-tax profits to shareholders. Retained earnings, or profits that have not been paid out as dividends, are reported in the same area of the balance sheet as issued share capital as shareholders' equity. Public corporations typically pay dividends on a set timetable, but they may declare a dividend at any time. This payment is frequently referred to as a special dividend to set it apart from the dividends paid on a set schedule. The most typical type of payment is cash dividends, which are given out in money and typically done so either an electronic funds transfer or a physical check. Such dividends are a type of shareholder investment income that are often considered earned in the year they are paid (and not necessarily in the year a dividend was declared). There is a declared sum of money distributed for each share owned. The holder of the stock will receive $50 if they own 100 shares and the cash dividend is 50 cents per share. Dividends are considered a deduction from retained earnings rather than an expense. Dividend payments are recorded on the balance sheet rather than the income statement.

INTRODUCTION

The Latin word "dividendum" is where the English term "dividend" originates (which means things to be divided). These are sums of money paid by a company to its shareholders. the percentage of corporate profits that is distributed to stockholders. When a company makes a profit or has extra money, it can either reinvest it in the company (this is known as retained earnings) or distribute it to the shareholders as a dividend. Many businesses pay dividends while keeping a portion of their profits. A dividend for a joint stock firm is distributed as a fixed sum per share. As a result, the shareholder gets a dividend in proportion to how many shares they own. Dividend payments are not an expense for the joint stock business; rather, they are the division of an asset among shareholders. Public corporations typically pay dividends on a set timetable, but they may declare one at any time. These dividends are frequently referred to as special dividends to distinguish them from regular ones. Contrarily, cooperatives distribute dividends in response to members' activities, hence they are frequently viewed as a pre-tax expense. A reduction in dividends typically lowers a stock's price since it signals to shareholders that management believes the company won't be able to continue paying the dividend in the long run. So, most businesses start out with a little payout and only boost it if they believe that the earnings outlook has improved enough to allow for the continuation of the following dividend. Several businesses would even take out loans in a very bad year so as to avoid cutting the dividends.

TYPES OF DIVIDEND

- **CASH DIVIDEND:-** The most common type of dividend payment is a cash dividend, which a firm issues to all of its shareholders and deposits into each shareholder's bank account in accordance with each investor's holdings. Often, the individual must follow a predetermined protocol for declaring dividends.
- **STOCK DIVIDEND:-** a stock dividend is when a corporation issues extra shares to common shareholders without receiving anything in return from them. also, if the firm issues more shares than the previous 25% of shares issued, it is referred to as a stock split, and if less shares are issued.
- **PROPERTY DIVIDEND:-** Any corporation that distributes a non-monetary dividend to its shareholders must register that distribution against the current market value of the given assets.
- **SCRIP DIVIDEND:-** When a corporation doesn't have enough money to pay a dividend, it may decide to pay the dividend as a promissory note that will be paid to the shareholders at a later time.
- **LIQUIDATING DIVIDENDS:-** When the company decides or it thinks to return the original amount of capital invested by the shareholders of the company then it is known as liquidating dividend. There are three main approaches to dividends: residual, stability or a hybrid of the value.

DIVIDEND POLICY

The term 'dividend' refers thereto portion of profit (after tax) which is distributed among the owners/shareholders of the firm and also the profit which isn't distributed is understood as retained earnings. Since dividend decision relates to the quantity and timing of any cash paymentsmade to the company's stakeholders, the choice is a crucial one for the firm because it may influence its capital structure and stock price. additionally, the choice may determine the quantity of taxation that shareholders should pay.Dividends paid by the firms are viewed positively both by the investors and also the firms. The firms which don't pay dividends are rated in oppositely by investors thus affecting the share price.The folks that support relevance of dividends clearly state that regular dividends reduce uncertainty of the shareholders i.e. the earnings of the firm is discounted at a lower rate, thereby increasing the value. However, it's exactly opposite within the case of increased uncertaintybecause of non-payment of dividends.

Dividend policy of the firm is governed by:
i Long Term Financing Decision
ii Wealth Maximisation Decision
Practical considerations in Dividend Policy
(a) Financial Needs of the Company
(b) Constraints on Paying Dividends
i. Legal ii. Liquidity iii. Access to the Capital Market iv. Investment Opportunities
(c) Desire of Shareholders
(d) Stability of Dividends
i. Constant Dividend per Share ii.Constant Percentage of Net Earnings
iii. Small Constant Dividend per Share plus Extra Dividend
(d) Form of Dividend: Dividends can be divided into following forms i. Cash dividend ii. Stock Dividend (Bonus shares.

FACTORS AFFECTING DIVIDEND POLICY

- **STABILITY OF EARNINGS:-** The dividend policy is highly relevant to the nature of business. Industrial units with stable profits are better able to plan a consistent dividend policy than those with inconsistent incomes because they can predict their savings and earnings more easily. Businesses that deal with needs are less affected by fluctuating profits than those that deal with luxuries or commodities.
- **AGE OF CORPORATION: -** The corporation's age plays a significant role in determining its dividend policy. An established firm, on the other hand, can devise a transparent dividend decrease and more consistent payout policy, but a newly developed company may constantly need much of the earnings for expansion and management improvement.
- **LIQUIDITY OF FUNDS:-** Also, a key aspect in dividend decisions is the availability of money and a stable financial condition. A dividend is a cash outflow, so the more money and liquidity a company has, the more dividends it can afford to pay. A company's liquidity is heavily influenced by its investment and financial choices, which in turn define how quickly it expands and how it will be financed. Dividends will be paid out if the company's cash situation is weak, and if it is strong, it can issue cash dividends.
- **EXTENT OF SHARE DISTRIBUTION:-**The type of ownership has an impact on dividend decisions as well. A closely held business will typically seek the shareholders' approval before suspending dividends or adopting a conservative dividend policy. On the other hand, a company with a sizable proportion of global shareholders and a low- or medium-income group would have a tough time obtaining such approval since they would place a premium on paying out higher dividends.

- **NEEDS FOR EXTRA CAPITAL**:- To improve their financial situation, companies always keep a portion of their profits. Also, the income is set aside to cover rising working capital needs or potential future development. Small businesses typically struggle to raise money for their growing capital needs for expansion plans. They use their recouped income because they have no other choice. As a result, many companies keep a substantial portion of income while paying out low dividend rates.
- **TRADE CYCLES:-** Moreover, business cycles have an effect on dividend policy. Adjustments are made to the dividend policy in response to changes in the economy. During the boom, prudent management builds up food reserves in case of emergencies after the inflationary phase. Sometimes increased dividend rates are used as a marketing tactic for the securities in a market where demand is otherwise low. Businesses may frequently show and retain their financial soundness throughout challenging economic times provided they build up enough reserves.

SCOPE OF THE STUDY

Scope of study Conceptual scope:

- To do a relative analysis between NSE index i.e. Nifty Fifty and share prices of selected companies.
- Limited to Top 10 companies consistent with sector wise market capitalisation and which have declared dividend within the last decade.
- Limited to NSE Nifty Fifty companies only.

Objective of the study

- To measure the cumulative impact of 'corporate dividend policy' and try to conceive a general trend based on it.
- To learn about the pay-out ratio and retention ratio of firms under different Sectors.
- To analyse the trends in dividend payment pattern
- To explore the insight of a corporate event named "Dividend Policy" which drags lot of attention and may result into drastic changes in the market valuation of the firm.

LITERATURE REVIEW

Dividend policy has been one of financial economists' controversial subjects over the years, while several studies have been undertaken to solve the dividend puzzle, it remains unresolved. A large amount of literature is increasing every day due to the broad scope of discussion on dividend policy.This chapter aims to discuss past corporate dividend policy literature and theoretical models **Lintner (1956)** Analyses on how businesses set dividends and concluded that there are four majorissues for companies. Next, there are long-run target dividend pay-out rates for companies. In the case of traditional firms with steady profits, the pay-out ratio is high and poor for growth companies.Secondly, the change in dividends follows a shift in predictable long-term profits. Managers are more concerned about shifts in dividends than with actual ratios. Lastly, administrators do not planto undo the dividend adjustment. He finds that businesses pay investors predictable and daily dividends; while private sector profits may be irrational. This suggests that shareholders prefer smooth dividend profits.Lintner (1956) In his interview with managers of 28 chosen firms, he performed a noteworthy analysis on dividend payments, his was the first scientific study on dividend policy, he claimed thatmost companies have straight cut target pay-out ratios and that managers are concerned with improvements in the current dividend pay-out rather than the amount of the newly defined pay-out.He also notes that, first, dividend policy is set and then other policies are changed and the market responds favorably to dividend increase announcements and dividend decrease announcements. Asthe primary determinant of the payout decisions of the firms, he assessed big shifts in earnings. ((1961)) He indicated that a company's value is not influenced by its dividend strategy. Dividend plans are a way to split taxpayers' operating cash flows or simply a financial judgment. This hypothesis of irrelevance was endorsed by financial economists Martin, Petty, Keown, and Scott in1991. The assertion of Miller and Modigliani on the irrelevance of dividend policy posed a challenging challenge to the traditional wisdom of time up to that period, it was widely understoodby both theorists and corporate managers that by having a more generous dividend policy, the organization would increase its business worth as investors tend to favor dividends over capital gains (JM Samuels, FM.Wilkes and R.E Brayshaw).**Glen, Karmokolias, Miller, & Shah, 1995,** From the point of view of the investor, the return on their investment is divided into two parts: capital gains and dividends. In part, when it agrees on a corporate dividend scheme, corporate management determines the essence of the break. In developing countries, both investors and management have taken the option between paying dividends and maintaining earnings very seriously, Economists and has been the point of interest of tremendous look at. As a consequence, for the main evolved countries, a fairly comprehensive. if incomplete, photograph of the dividend coverage is available. The dividend debate in rising markets is mentioned in this article. It indicates that during the one's markets, the dividend techniqueis likewise particularly distinct from the expectancies followed in evolved countries. One main distinction is that rising marketplace companies location greater emphasis on dividend pay-out ratios than they do on the extent of dividends paid. As a result, dividend bills tend to be greater unstable in rising markets than in evolved countries, a thing that traders want to be aware of whilstinvesting in those markets. Another factor that emerges is that, as those markets broaden and open to global capital, dividend coverage will increase in importance, even though it isn't always alteredin character. Managers are greater worried approximately their dividend coverage now than they have been with inside the past. And this issue is augmented through the function of the authorities in lots of those countries, which acts as a protector of each minority shareholders and lenders through enforcing constraints on dividend coverage. In phrases of dividend coverage in rising markets, one vital function of rising markets must be considered, i.e. the authorities exert manipulateat the companies' monetary choices thru a few monetary policies (Glen, Karmokolias, Miller, & Shah, 1995). Adaoglu (2000) helps this view, primarily based totally on proof from his look at concerning dividend instability in public indexed companies in Turkey.**Benartzi et al. (1997)** An comprehensive study was carried out and concluded that the dividend model of Lintner remains the finest definition available of the dividend setting method. Baker et al.(2001) performed a survey of 630 NASDAQ-listed companies and evaluated the responses of 188 CFOs on the relevance of 22 separate variables influencing their dividend policy, They found that the dividend decisions of managers were consistent with Lintner's (1956) study findings and model.Their results also indicate that executives pay careful attention to the dividend policy of the company because the dividend decision will affect the value of the company and, in turn, the assetsof the stockholders, so the management needs serious attention to the dividend policy.**Lease, John, Kalay, Loewenstein, & Sarig, 2000.** The dividend strategy applies to the "distribution over time of cash to shareholders." As dividend decisions influence the amount of equity held in the business, financial managers are very cautious in selecting the dividend policy. Dividend pay-outs impact the valuation of the company and, most significantly, shareholder equity.**Baker, Veit and Powell (2001)** Examine the variables that influence the dividend policies of NASDAQ-traded corporate companies. The research, based on a sample survey (1999) of 188 companies out of a total of 630 companies that paid dividends in each quarter of the 1996 and 1997calendar years, shows that the following four variables have a major effect on the dividend decision:past dividend pattern, earnings consistency, And the level of projected current and future earnings. The analysis also notices statistically important discrepancies in the value of indifferent sectorssuch as financial and non-financial companies that managers bind to dividend policy.**E.F Fama and K.R French (2001)** investigated the traits of corporations paying dividends and concluded that the topmost traits that have an effect on the selection to pay dividends are Firm length, Profitability, and Investment possibilities. They studied dividend charge withinside the United States and determined that the share of dividend payers declined sharply from 66% in 1978 to 20.8% in 1999 and that simplest approximately a 5th of public corporations paid dividends. Growth corporations which include Microsoft, Cisco and Sun Microsystems had been determined to be non-dividend payers. They additionally defined that the opportunity that a corporation might pay dividends became undoubtedly associated with profitability and length and negatively associated with boom. Their studies concluded that large corporations are extra worthwhile and aremuch more likely to pay dividends, than corporations with extra funding possibilities. The courtingamong corporation length and dividend coverage became studied via way of means of Jennifer J. Gaver and Kenneth M. Gaver (1993). They counseled that "A corporation's dividend yield is inversely associated with the quantity of its boom possibilities". The inference right here is that as coins glide increases, the coefficient of dividend decreases, indicating that smaller corporations which have more funding possibilities consequently they have a tendency now no longer to make dividend charge whilst large corporations have a tendency to have proactive dividends coverage **Khan and Jain, 2005,** One of the biggest enigmas of modern finance remains the dividend. An significant decision area in the field of financial management is corporate dividend strategy, so there is comprehensive literature devoted to the subject. The distribution of earnings (present or past) in real estate among the company's shareholders in proportion to their ownership is known as dividends. Dividend policy applies to the long-term judgement by management about how to employ cash flows from company operations, i.e. how much to plough back into the company, andhow much to return to shareholders.**Robinson, 2006**, Over the years, four major issues have been discussed in dividend policy literature,i.e. the manner of deciding dividend pay-out, the relevancy of dividends, inter-country disparitiesin company's dividend distribution and vanishing dividends in emerging markets.The study by **Adaoglu (2000), Amidu and Abor (2006) and Belans et al (2007)** It stated that net income shows a positive and substantial correlation with the pay-out of dividends, thereby implyingthat more dividends are paid by companies with positive earnings. **Husam-Aldin Nizar Al-Malkawi 2008,** Another decision may be taken as a corporation begins toproduce profits: whether to allocate a portion of the earnings to shareholders or reinvest in the business Opportunities are far more likely to pay dividends for bigger, more successful, and mature**. H. Kent Baker, Sujata Kapoor, Imad Jabbouri (2018)** This study aims to appear at dividend policy from the attitude of institutional investors in India. It focuses on their investors to attach to the dividend policy of their investee firms, the extent of influence they exercise in shaping such firms' dividend policies .

Research Methodology

Research design:

Firms, managers, and investors all make important financial decisions regarding dividends. By examining the Dividend conundrum, this paper seeks to contribute to the literature on corporate finance. It also seeks to investigate the strategies for persuading people to invest through dividends. It compares and contrasts the dividends paid by different companies in the same industry. It investigates how the "theory of relevance" and "theory of irrelevance" apply to higher cognitive processes in dividends. Checking the dividend is crucial because it is one business decision that is often made each year and will aid in understanding corporate changes. need to learn about cash dividends, dividends, dividends on properties, dividends on stocks, and liquidating dividends.

Population:
Population refers to the entire collection of respondents who satisfy the specified set of requirements. All of the listed companies in the stock exchange could be considered the population for this study .

Sampling:
The research is based on secondary data, the samples were taken on the basis of the five sector banking, non banking, automative, IT , power sector wise each company .

Sampling Techniques:
Sampling Technique used for this study is Judgmental Sampling. Judgmental sampling is a non-probability sampling technique where the researcher selects units to be sampled based on their knowledge and professional judgment.

Data Collection Techniques:
For my research Study I select secondary data source. With the use of this data we can do evaluation. Some of Secondary data source are as below,

- Annual report of the selected company
- Statistical statement provided by companies
- Various Company websites.

Plan of analysis

- Diagrammatic representation through graphs and charts
- Logistics able inferences will be made after applying necessary statistical tools.
- Findings & suggestions will be given to make the study more useful.

Results

Ratios of the company

There are various ratios have been calculated and given below in the table are DPS (divided per share) describes the ratios of the sharing percentage of dividends per share to the shareholders. EPS (earnings per share) ,Retention Ratio , Sales growth of the company and the last one Net profit growth's ratios for the company.

Banking sector:

		ICICI					AXIS				
		16-17	17-18	18-19	19-20	20-21	16-17	17-18	18-19	19-20	20-21
DPS	DIVIDEND PAID/EAT)	14%	12.00%	15%	0%	8%	30%	0	5%	0	0%
EPS	(TOTAL EARNIGS/OUTSTANDING SHARE)	15.90%	12%	6.60%	26.58%	16.51%	16.51%	1.78%	19.59%	6.57%	2349.00%
RETENTION RATIO	(EPS-DPS/EPS)	99.99%	81.10%	100%	100%	100%	63.46%	-219.73%	99.46%	82.09%	100.00%
SALES GROWTH		3%	2%	14%	15%	5%	8.33%	3%	17%	12%	2%
NET PROFIT GROWTH		0%	-32%	-81%	56%	48%	-111%	-767%	91%	-172%	74%

IT Sector

		INFOSYS					TECH MAHINDRA				
		16-17	17-18	18-19	19-20	20-21	16-17	17-18	18-19	19-20	20-21
DPS	DIVIDEND PAID/EAT)	41	59	60	45	59	28	33	29	32	89
EPS	(TOTAL EARNIGS/OUTSTANDING SHARE)	31.24	36.69	35.26	38.96	45.42	28.88	38.78	43.7	41.75	45.73
RETENTION RATIO	(EPS-DPS/EPS)	49.48	53.37	6.35	38.53	49.25	54.75	74.09	68.57	39.3	54.38
SALES GROWTH		9	3	15	9	10	9	5	11	6	3
NET PROFIT GROWTH		6	10	-4	7	14	-6	26	12	-7	9

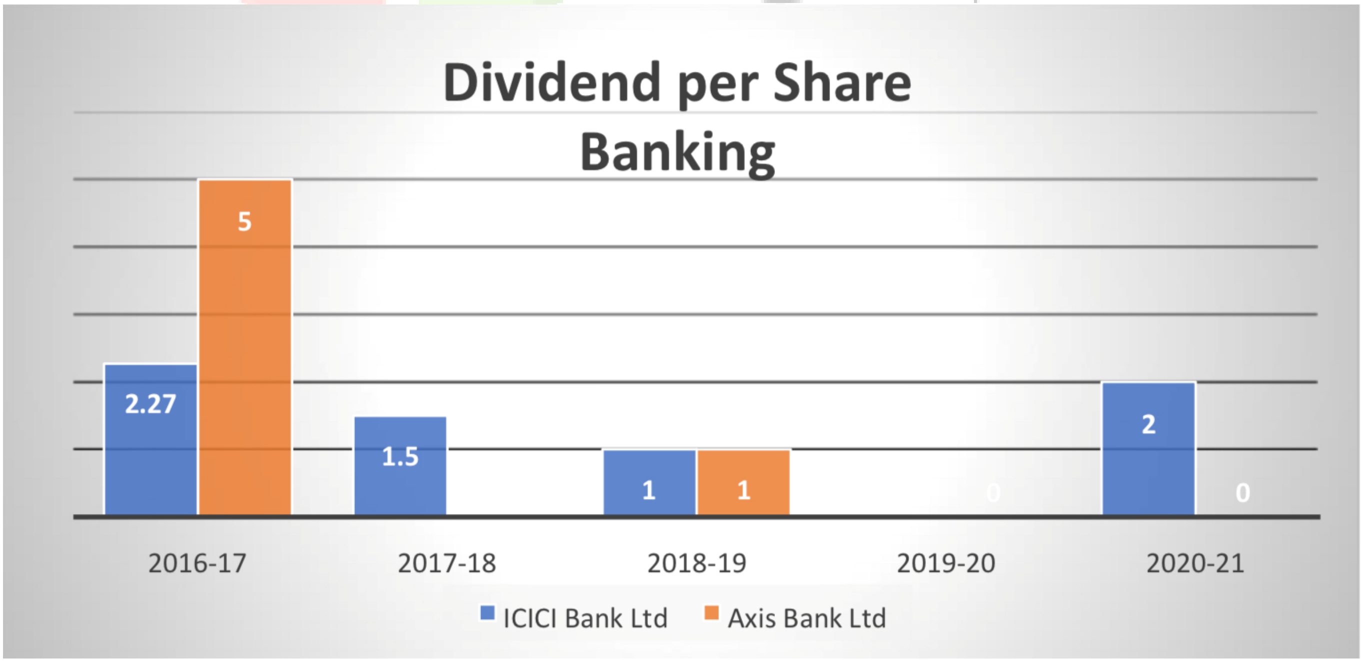
AUTOMATIVE Sector

		MAHINDRA&MAHINDRA					MARUTI SUZUKI				
		16-17	17-18	18-19	19-20	20-21	16-17	17-18	18-19	19-20	20-21
DPS	DIVIDEND PAID/EAT)	22	11	17	205	54	30	31	32	32	31
EPS	(TOTAL EARNIGS/OUTSTANDING SHARE)	29.77	60.41	42.76	1.02	14.58	248.61	260.86	253.21	187.9	145.3
RETENTION RATIO	(EPS-DPS/EPS)	79.07	88.7	82.36	-793.49	85.53	85.92	71.24	68.4	57.42	58.7
SALES GROWTH		9.47	9.04	12.06	-38.92	-1.49	15	15	7	-14	-8
NET PROFIT GROWTH		14.87	50.76	-41.3	-4085.04	92.99	27	5	-3	-35	-29

(Given data is in percentages%)

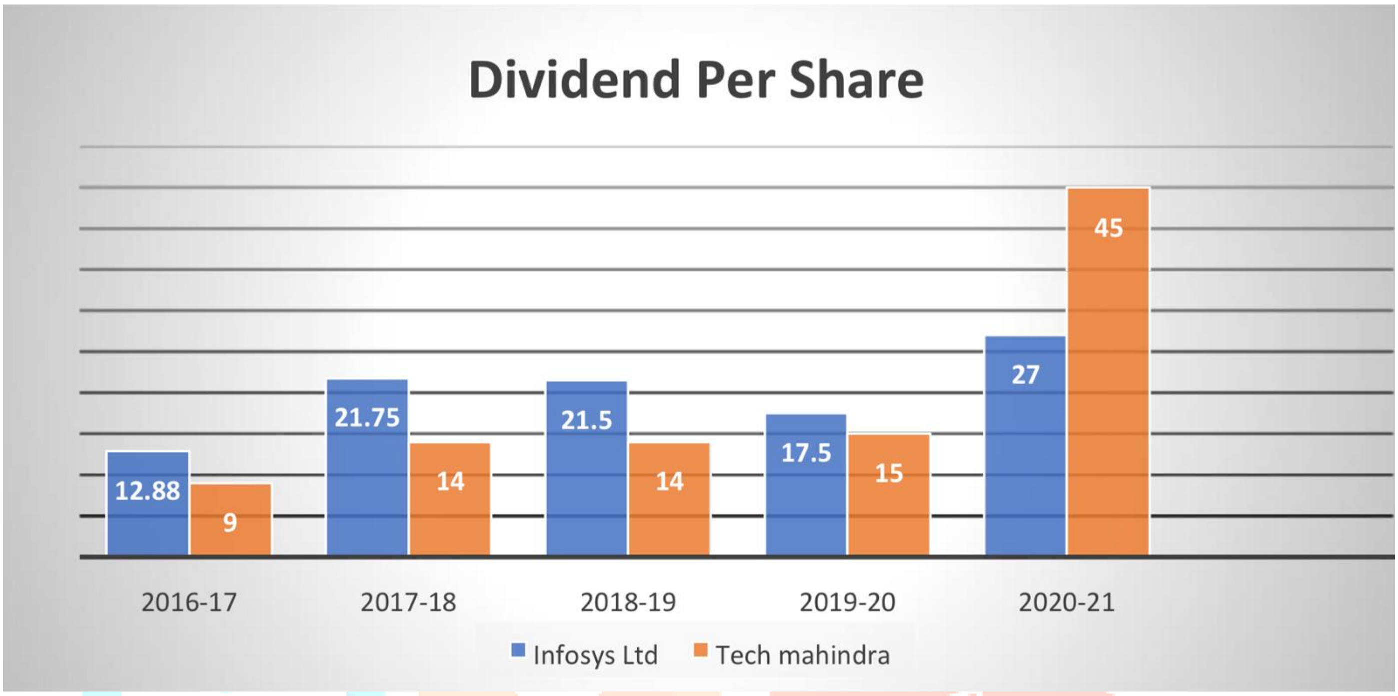
CONSOLIDATION AND REPRESENTATION OF RESULTS

Banking sector:



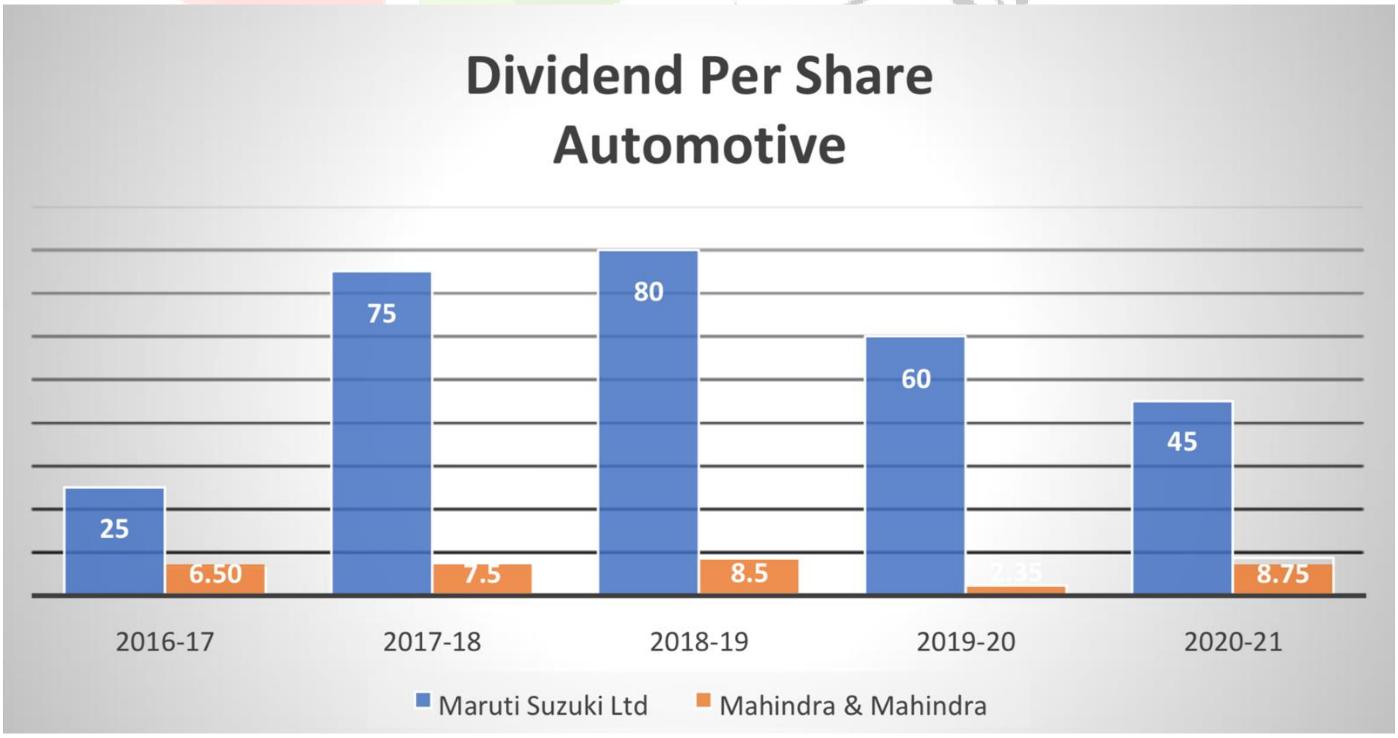
The DPS of ICICI Bank & AxisBank Ltd shows a decreasing trend in the year 2017, 2018 and 2019 and it drops in the year 2020 for both the company. The DPS falls from ₹ 1 to ₹ 0 in the year 2020 and increased in 2021 to ₹ 1 for ICICI Ltd. The average dividend payout ratio of ICICI Ltd is ₹ 1.35 and Axis Bank ₹ 1.44.

IT sector



The DPS of Infosys Ltd & Tech Mahindra shows an increasing trend in the year 2017, 2018 and 2019 but it drops in the year 2020 for Infosys. The DPS of TCS rises from ₹ 15 to ₹ 45 in the year 2021. The average dividend payout ratio of Infosys is ₹ 20.12 and TCS ₹ 19.4 .

AUTOMATIVE SECTOR



The DPS of Maruti Suzuki Ltd & Mahindra & Mahindra shows an increasing trend in the year 2017, 2018 and 2019 but it drops in the year 2020. The DPS of M&M fall from ₹ 8.5 to ₹ 2.35 in the year 2020 and increased in 2021 to ₹ 8.75. The average dividend payout ratio of Maruti Suzuki Ltd is ₹ 57 and Mahindra & Mahindra ₹ 6.72.

Summary and conclusion

- In managing a company's earnings, dividend policy is crucial. Therefore, decisions on dividend policy have a big impact on the company's credit standing, share prices, and future growth.

- Any company's valuation is based on its earnings. The organisational structure of the company's decentralized ownership and management makes it clear who should choose the dividend policy that upholds the confidence of shareholders.

- The study shows the relationships between many variables, including liquidity, leverage, size and growth, and tax provision with dividend payout. Interesting correlations were discovered between these factors for various banking companies. In addition, the analysis demonstrates how changes in several independent variables have caused year-to-year variations in the dividend payout ratio.

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