

“A Study on Effect of Dividend Announcement and Policy on Share Pricing of Nationalised Banks “

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ABSTRACT

Dividend is that portion of firm's current profit distribution to its shareholders in the form of cash or shares. For this purpose Dividend Policy is implemented by the firm to decide how much dividend it will payout to its shareholders? The decision of the management regarding the payment of dividend depends on the prevailing condition of the firm and also the preference of the investors. That is why the impact of Dividend Policy on the share price of the firm is still a controversial and challenging issue in the field of financial management. The dividend policy of a firm has a direct effect on the position of the firm in stock exchange. It is due to the fact that dividend actually presents information relating to the profit earning capacity of a firm

This study has been carried out to find out the relationship between the Dividend Policy and Market value of share price with a focus on Nationalized banks of India listed in BSE. The data would be analyzed by observing the movement of share price in the market. Statistical tool like Moving Average is also used for comparing the market value of shares before the date of Dividend declaration and after the announcement of dividend declaration. For this purpose 10 Commercial banks in India are studied. The study is limited to a time period of 5 years

The results of the data analysis reveal that there is a significant effect of dividend policy on the market value of share price of selected Indian Banks. When Banks are display consistent dividend histories and pay more dividends to the shareholders they become more attractive to investors then the stock price naturally increases. Conversely, when a company pays

dividends at a lower-than-normal dividend or no dividend at all, its market value of shares goes on decreasing.

INTRODUCTION

Dividend is the return on equity given to the shareholder. There is no universal acceptable policy regarding dividend, the company should have or develop a philosophy regarding dividend policy. There are two types of dividend policy one is Conservative Dividend Policy by which dividend is maintained at a moderate rate and other is Liberal Dividend Policy whereby the company reward the shareholders by handsome dividend.

The most significant factor affecting dividend policies are Policy of the company, stability in earnings, liquidity of the company, past dividend rates, market expectation, taxation, legal restrictions, nature of business, cost of capital, trade cycle, bonus issues etc.

Dividend Models consider whether there is any relation between dividend policy and market value of the shares. They consider the impact of dividend and retained earnings on the value of firms. The Model of Walter and Gordon, dividend is relevant for the valuation of the firm or market value of the shares. But the Modigliani and Miller argue that dividend paid is not relevant either for the market price of the shares or the valuation of the firm.

Various researchers have attempted to study dividend policy, but the issue was still uncertain. Prof. Merton Miller and Prof. Franco Modigliani presented a paper in 1958 arguing that it was the investment policy and earnings of the firm that decided the value of the shares and not the capital structure. According to them, the price of shares of a firm is determined by its earning potentiality and investment policy and not by the pattern of income distribution.

James Walter published an article in journal of Finance in 1963 under the title "Dividend policy: its influence on the value of the firm." In the article, he argued that dividend policy does affect the value of an enterprise. He categorized two factors that influence the price of the share i.e. Dividend payout ratio and the cost of capital. Based on the relation between cost of capital and return on investment, he classified the firm into three groups: growth firm, declining firm and normal firm.

Myron J. Gordon theory suggests that dividends are relevant and the dividend decision of a firm affects its value. According to Gordon, the value of a rupee of dividend income is more

than the value of a rupee of capital gain on account of uncertainty of future and the shareholders discounting future dividend at a higher rate.

In this study an attempt is made to examine the impact of dividend policy on share price of nationalized banks listed in BSE.

OBJECTIVES:

- To study the various conflicting factors which influence Dividend Policy
- How Dividend Policy decision affect the financial structure and flow of funds.
- To highlight how the dividend policy and dividend announcement of the commercial banks effects the share price.
- To evaluate the dependency of dividend per share and retained earnings.
- To provide guideline for investors, banks and all institutional investors who want to know the relationship of dividend policy and stock price volatility.
- To determine the effect of dividend payout on share Price of listed Commercial Bank listed in BSE.
- To examine the effect of dividend yield on share price of listed Commercial bank in BSE.
- To determine the effect of share price of the company before and after the dividend announcement date of Commercial bank in BSE.

LITERATURE REVIEW

Here we highlight some related literature Review which finds relevant in the context of impact of dividend announcement and dividend policy on share price of the banks and companies.

Bhattacharya (1979) suggested that dividend announcements convey information about the future prospects of the firms. Dividend announcements by the company are taken as a base for the company's good position that will increase the stock prices and vice versa.

Litzenberger and Ramaswamy (1982) studied that high dividend payout in unfavourable since it causes a reduction in the price of an organization. This is because of the rate of tax on dividend greater as compared to the rate on capital gains. **A study by Brickley (1983)** indicated that dividend announcement could provide information when managers pay both regular dividends and occasional special dividends (extras, specials or year-ends). **John &**

Williams (1985) demonstrated an affirmative association between dividend policy and stock prices. They studied the investor's inclination for dividends in tax environment. **Jensen and Johnson (1995)** suggested that, dividend cut results reduction in share price. More interesting matter is that if capital markets are perfect, dividends have no influence on the share price. **Hampton (1996)** is of the opinion that value of stock increase by more dividends and share remain undervalued by lower dividend policy. **Allen and Rachim (1996)** research done to test for correlation between stock price volatility and dividend policy. Their findings show that there is no relationship between dividend yield and stock price volatility. **Huka (1998)** in his study to establish the impact of dividend policy on shareholder's wealth. They also established that there is a negative relationship between dividend payment and share prices. **Pradhan (2003)**, explained that dividend payment has strong relation with stock price while retained earning has very weak relation with stock market price. **Azhagaiah & Priya (2008)** in their empirical study established that higher dividends increased the market value of shares while lower dividends reduced the market value of shares since shareholders preferred current dividends to future income. **Ahmad and Javaid (2009)**, Their research pointed out the direct association of market liquidity with a dividend payout ratio and indirect association between growth opportunities and dividend disbursement. As per **Mehnidiratta and Gupta, 2010** The investors do not obtain significant value prior to the dividend announcement day or on the event day, they do gain value after the announcement.

According to Hussainey et al. (2011) the relationship between dividend policy and changes in the share price of non-financial firms. Their findings show that stock price volatility has a positive relationship with dividend yield but a negative relationship with dividend pay-out ratio. **Al - Shubiri (2011)**, Investigated the determinants of the dividend policies and to explain their dividend payment behavior. The study found highly positive significant relationship between market price of stock and net asset value per share; market price of stock dividend percentage and gross domestic product. **Khan & Amanullah (2012)** investigated the different determinants of share prices and concluded that all the factors selected have positive and significant relationship with share prices. **Sang, J. (2014)** found that there is a significant positive relationship between dividend policies and firm's profitability, investments and Earnings Per Share. **Hooi, Albaity and Ibrahimy (2015)** found those dividend yield and dividend pay-outs are negatively related with share price volatility.

AlQudah & Yusuf (2015) found that dividend yield and dividend pay-out has significant negative impact on volatility of share price. Their studies have established that dividend policy influence stock price volatility in stock market in the period they studied. **Khan, et al (2016)** results show that dividend payout ratio and leverage have significant negative relation with the return on equity in their study on the stock listed in PSE. **Mbaka (2010)** did an research study on the applicability of dividend and established that dividend announcements by companies cause some reaction in market prices and returns depending on the information contained in the announcement. Dividend announcements had positive effects for companies with increasing dividends while it had negative reactions for companies with decreasing dividends. Companies with no change in dividends were found to have mixed reactions towards dividend announcements.

Bank & Cheffins, (2010) have reported that, in the past, dividend policies have just been concerned with the selections between payments of earnings to a company's shareholders as cash dividends or retention of the profits.

Khan et al. (2011), investigated the effect of dividend policy on share price of 55 non-financial firms listed in Karachi Stock Exchange (KSE) and found that there is positive link between dividend yield and negative relationship of retention ratio with the share price movements. **Huang et al. (2009)**, analyzed that if dividend price ratio is dividing into payout ratio and earning price ratio components, then it increases its ability to estimate future returns. There is positive and statistically significant relationship between a dividend payout ratio and stock price. **Mohammed (2010)** in her study titled the relationship between dividend per share and firm value between done between 2005 and 2009 found out that for firms quoted at the NSE, the effect of dividend per share (DPS) on firm value is strong than that of retained earnings per share (REPS) when DPS and REPS are the only two explanatory variables. She also concluded that the announcement of expected dividends don't play an important role in the determination of firm value in all in **AL-Shubiri (2010)**, Investigated the determinants of market stock price movements of Jordanian commercial banks based on a sample of 14 commercial banks listed at the Amman Stock Exchange for the period 2005-2008. He found out that there is a highly positive significant relationship between market price of stock and net asset value per share; stock dividend percentage; gross domestic product and a negative significant relationship on inflation and lending rates.

According to Hussainey et al. (2011), there will be a less volatility in stock prices of the company results in higher payout ratio or dividend yield. Dividend payout ratio is the main determinant of the volatility of stock price. The larger the size of the company, stock price will be less volatile. While, if company incurs high leverage, there is higher probability that stock price be more volatile. Their findings show that stock price volatility has a positive relationship with dividend yield but a negative relationship with dividend pay-out ratio.

In **Journal of Contemporary Economic and Business Issues (2017)** , They examine the relationship between share price with the dividend policy, dividend yield and payout. According to them dividend yield and size have most impact on share price volatility amongst predictor variables. **Thirumagal, P.G. and Vasantha, S. (2018)**, observed that there was significant difference in share price between pre and post dividend announcement. Dividend payout is one of the significant components to enhance the performance of a firm's share price. A research done by **Dimitropoulos and Asterious in 2018** Managers are interested in financial reporting as the posts in it are closely related to their compensation and position. Investors are much interested in the figures presented as those are the foundation on which they base their valuation of the company i.e. dividend.

RESEARCH METHODOLOGY

The research methodology specifying the methods and procedures for collecting and analyzing the needed information. It provides the framework or blueprint for the research and also enable to choose the research method so as to to determine the sampling methods, sample size, measurement and data analysis processes. To undertake this assessment, the descriptive research design was adopted as a method of investigation under this study

The study is based on secondary data analysis. In order to achieve of this study there are 25 commercial banks listed in BSE are considered for this study and 10 commercial banks are selected as sample of the study. Time series data were analysed from the year 2013to 2018. Judgment or moving average method has been used in case of availabilities of 5 years data from selected bank. The top gainers & top losers banks are selected for the study. The required data collected from annual Report of banks, official websites and from share sensor. The research design in this study is descriptive and casual relationship as it deals with impact of dividend policy on share price of commercial bank.

Investors invest in securities only after the announcement day which implies that after the event day there will be increase in the value of shares. The evidences prove with following tables

Table showing the moving average share price of 10 nationalized banks over a period of 5 financial years
YEAR-2017-18

SL. No	Name of the bank	Dividend announcement date	Percentage of dividend declared	Moving average Share price of pre dividend announcement	Moving average Share price of post dividend announcement
1	SBI	19-5-17	260%	273.10	277.2
2	Canara Bank	11-5-17	10%	305.45	361.45
3	Vijaya Bank	09-5-17	15%	70.50	83.35
4	ICICI Bank	04-5-17	125%	247.18	297.45
5	HDFC Bank	24-4-17	550%	694.20	771.13
6	YES Bank	24-4-17	120%	280.60	363.55
7	Union Bank	No dividend		172.40	175.40
8	Central bank	No dividend		93.05	125.45
9	Allahabad bank	No dividend		67.50	48.80
10	UCO Bank	No div declared		37.40	38.40

YEAR: 2016-17

SL. No	Name of the bank	Dividend announcement date	Percentage of dividend declared	Moving average Share price of pre dividend	Moving average Share price of post dividend
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				announcement	announcement
1	SBI	16-5-16	260%	160.50	261.90
2	Vijaya Bank	No div declared		32.25	33.75
3	ICICI Bank	29-4-16	250%	200.77	237.27
4	HDFC Bank	22-4-16	475%	512.50	567.50
5	Canara Bank	No div declared		196.24	196.43
6	YES Bank	27-4-16	100%	173.05	252.80
7	Union Bank	No div declared		132.85	159.60
8	Centrall bank	No div declared		62.90	111.95
9	UCO Bank	No div declared		40.10	44.60
10	Allahabad bank	No div declared		57.95	88.35

YEAR: 2015-16

SL. No	Name of the bank	Dividend announcement date	Percentage of dividend declared	Moving average Share price of pre dividend announcement	Moving average Share price of post dividend announcement
1	SBI	22-5-15	350%	318.00	238.78
2	Vijaya Bank	12-5-15	15%	47.30	41.90
3	ICICI Bank	29-4-15	250%	290.68	289.82
4	HDFC Bank	22-4-15	475%	544.98	509.48
5	Canara bank	25-5-15	105%	371.37	316.80
6	YES Bank	22-4-15	90%	170.56	169.19
7	Union Bank	12-5-15	60%	169.90	222.45
8	Central Bank	12-5-15	5%	105.90	113.70
9	UCO Bank	12-5-15	20%	71.20	66.20
10	Allahabad Bank	08-5-15	16%	108.70	108.65

YEAR: 2014-15

SL. No	Name of the Bank	Dividend announcement date	Percentage of dividend declared	Moving average Share price of pre dividend announcement	Moving average Share price of post dividend announcement
1	SBI	14-5-14	150%	173.60	272.10
2	Vijaya Bank	06-5-14	10%	39.85	54.92
3	ICICI Bank	25-4-14	230%	223.72	272.91
4	HDFC Bank	22-4-14	343%	366.45	407.73
5	Canara bank	05-5-14	45%	270.94	396.80
6	YES Bank	23-4-14	80%	84.88	109.43
7	Union Bank	08-5-14	13%	160.45	233.70
8	Central Bank	11-5-14	25%	48.40	88.85
9	Allahabad Bank	13-1-14	25%	104.70	138.00
10	UCO Bank	21-5-14	10%	74.95	115.75

YEAR: 2013-14

SL. No	Name of the bank	Dividend announcement date	Percentage of dividend declared	Moving average Share price of pre dividend announcement	Moving average Share price of post dividend announcement
1	SBI	14-5-13	415%	248.22	260.68
2	Vijaya Bank	26-4-13	25%	48.50	51.35
3	ICICI Bank	26-4-13	200%	207.55	210.48
4	HDFC Bank	23-4-13	275%	312.98	347.00
5	Canara bank	02-5-13	130%	388.10	403.66
6	YES Bank	17-4-13	60%	86.87	78.56
7	Union bank	09-5-13	80%	224.10	142.70

8	Central bank	10-5-13	20%	72.30	68.75
9	UCO Bank	07-5-13	16%	85.46	95.60
10	Allahabad Bank	07-5-13	60%	141.70	138.00

The above result shows that there is an increase in the market value of shares after the dividend announcement. If we observe the above table relating to the difference in share price of pre dividend period and post dividend announcement share price of the banking company, the post dividend period value of share will be up comparing with the pre dividend period share prices. If in any year dividend is not declared then there is no such a change in the share prices of the bank. This implies that the dividend announcement and the dividend policy of the banking companies will impact on the share price of the banking companies listed in BSE.

FINDINGS AND CONCLUSION

The results provide information that, though investors do not obtain significant value prior to the dividend announcement day or on the event day, they do gain value after the announcement. Investors move their security positions on the announcement day which implies that after the event day there is informational value in dividend announcement. The evidences prove that the increases in market value of Banking companies shares are depends upon the dividend announcement and the Dividend Policy of the Managers.

In the contemporary corporate finance, dividend policies deal with more salient issues, which entail how a Banking company may attract more investors in different tax brackets and through the Dividend Policy. This paper further shows that long term investments give due consideration to dividend announcement and Dividend Policy of banks, which is a large and significant portion of the total investment in the stock markets.

This research study reveals that the applicability of dividend announcements by companies cause some reaction in market prices and returns depending on the information contained in the announcement, Dividend announcements had positive effects for banks with increasing dividends while it had negative reactions for banks with decreasing dividends. Banks with no change in dividends were found to have mixed reactions towards dividend announcements.

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