

## **Relationship between dividend policy and firm value of select automobile companies in India**

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### **ABSTRACT**

This study attempts to examine the relationship between dividend policy and firm value of select sectors in India. The objective of the study is to analyze the relationship between the dividend policy and value of the firm of select Automobile companies in India. For the study, five Automobile Companies in India were selected based on purposive sampling method based on their Market Capitalization. The relationship between dividend policy and firm value is analyzed using correlation analysis and impact of dividend policy on firm value is analyzed using multiple regression analysis. The study found that there is a statistically significant positive correlation between Market value and Earnings per share of select Automobile Companies in India and there is a significant impact of dividend policy on Firm value during the study period from 2007-2008 to 2016-2017. The change in the dividend policy will be followed by a change in the market value of the firm, thus the present study supports the relevance theory.

**Key Words :** Market value, Dividend Payout Ratio, Dividend per share, Earnings per Share

**JEL Classification :** G3, G35

### **INTRODUCTION**

Dividend is a payment made by an enterprise to its stockholders, ordinarily as a distribution of earnings among them. When an enterprise earns a profit or surplus, the enterprise is able to re-invest their profit (retained earnings) within the organization and pay an extent of the profit as a dividend to stockholders. Dividend policy is one of the major decisions in financial management taken by financial managers. It is a set of rules that a firm uses to choose how much of its profits will pay out to shareholders. It is an important factor for stockholders to think about the stock-selection process because dividends are a foremost cash outflow for firm. The stockholders like the consistent income associated with dividends, so they are likely to purchase the company's stock. Stockholders also see dividend payment as a sign of a company's strength and a sign that administration has statistically positive desires for future profit, which once more makes the stock more likable.

Market value is an economic measure reflecting the market value of the business. The effect of the dividend policy and Market value contends that high dividend paying will increase the firm's value. The main argument is that there are investors who invest for dividend paying stocks, since many clients invest in stocks to uphold a stable source of fund. In case paying out dividends is

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cheaper than letting stockholders realize the funds by offering stocks, at that point the clients would be ready to pay a premium for the stock. The Automobile industry plays a vital role in growth of the Indian economy. India emerges as Asia's fourth largest exporter of automobiles after Japan, South Korea and Thailand. The Indian vehicle industry has effectively multiplied the household market for traveler vehicle (cars, utility vehicles and vans) and two wheelers over the Ten years riding over the different challenges and years of low or no growth. India has presently ended up as the fifth biggest market for traveler vehicles. Automobile industry increased their domestic production at 7.08 percent CAGR between the years 2013-18 while 29.07 million vehicles manufactured in 2018. Overall sales increased at 7.01 per cent CAGR between the years 2013-18 while 24.97 million vehicles getting sold in 2018. Maruti Suzuki, Bajaj Auto and Hero Motocorp, earned a record dividend income of Rs. 39 billion in 2018, an increase of 14 per cent over the previous year as businesses made more profits.

### **Review of literature :**

Obaid Ur Rehman (2016) in his study entitled "Impact of Capital Structure and Dividend Policy on Market value", examine the capital structure and dividend policy impacts on Market value using sectional time series regression analysis. The capital structure refers to fixed asset turnover ratio, debt ratio, sales growth and shareholders equity while dividend policy refers to earnings per share and dividend payout ratio. In capital structure all the variables are statistically significant on Market value except fixed asset turnover ratio. In dividend policy earnings per share has significant impact on Market value except dividend payout ratio. The study suggests that the firm utilize more debt compare to equity in financing their profitable investment opportunities up to the extent that it enhance firm's value.

Alayemi and Sunday Adebayo (2013) in their study entitled, "Relationship between dividend payout and market price of shares (A case study of selected companies in food and beverages companies in Nigeria)", examined the correlation between market share price with dividend payout ratio on one test and profitability on another test using StataSE12 in Nestle and Cadburys. The market share price is negatively correlated with profitability and statistically positively correlated with dividend payout. They found that the dividend payout price is influenced by market share in both the companies.

NTUI Ponsian, Kawiche Prosper, Thadeo Yuda and Godfrey Samwel (2015), in their study entitled, "Relationship between Dividend Policy and Share Price", examine the correlation between dividend policy and share price. The study found that the dividend payout ratio and dividend yield negatively correlated with share price while price earnings ratio is statistically positively correlated. Price earnings ratio is the best dividend policy measure in the study because it has the lowest P value followed by dividend yield.

### **Statement of the problem :**

Dividend policy is essential for both the management and stockholders, since one group needs to choose and make procedure for the payment of dividend whereas the other group needs to get it as a return for their investment. A higher dividend declaration following better financial performance is meant to reward stockholders. Promoters, who are regularly majority stockholders, end up gaining as well. Many companies are quickening to pay dividend to shareholders before 1<sup>st</sup> October 2014 when a higher dividend distribution tax (DDT) becomes applicable. Dividends can affect the price of their stock in a variety of ways. While the dividend history of a given stock plays a general role

in its popularity, the declaration and payment of dividends also has a specific and predictable effect on market value. Therefore, this study looks for answer the following research question.

1. Whether there is any relationship between dividend policy and value of the company?

### **Objectives of the study :**

1. To analyze the relationship between the dividend policy and value of the firm of select Automobile companies in India.

## **METHODOLOGY**

### **Sources of data :**

The study is based on secondary data. The data's are collected mainly from the Annual Reports of the select top five Automobile companies and from various journals, magazines, newspapers and Web sites.

### **Sampling design :**

The Automobile companies in this study were selected based on purposive sampling method, among the Companies listed with BSE, top 5 Companies were taken for the study based on the market capitalization of the concern. The study period is from 2007- 2008 to 2016-2017. The following are the selected sample Companies in India for the present study:

- Hero Motocorp
- Bajaj Auto
- Mahindra and Mahindra
- Maruti Suzuki
- Eicher Motors

The collected data focused into the following variables:

- Market value = A closing share price at the end of each year.
- Dividend payout ratio = (Dividend per share/ Earnings per share) \*100
- Dividend per share = Total dividend paid / Outstanding Shares
- Earnings per share = Total earnings / Outstanding shares

The following statistical tools are used for the study:

- Correlation Analysis is used for analyze the relationship between Dividend policy and Firm Value.
- Multiple Regression Analysis is used for analyze the impact of Dividend policy on Firm Value.

### **Hypotheses:**

$H_{01}$  = There is no significant relationship between dividend policy and value of the firm of Automobile Companies.

$H_{02}$  = There is no significant impact of dividend policy on value of the firm of Automobile Companies.

## **RESULTS AND DISCUSSION**

### **Correlation analysis of automobile Companies:**

$H_{01}$  = There is no significant relationship between dividend and value of the company of

## Automobile companies

<b>Table 1 : Correlation analysis</b>		MPS	DPR	DPS	EPS
<b>Hero Motocorp</b>					
MPS	Pearson Correlation	1			
DPR	Pearson Correlation	-.006	1		
DPS	Pearson Correlation	.448	<b>.853**</b>	1	
EPS	Pearson Correlation	<b>.896**</b>	.105	.601	1
<b>Baja Auto</b>					
MPS	Pearson Correlation	1			
DPR	Pearson Correlation	-.157	1		
DPS	Pearson Correlation	<b>.960**</b>	-.331	1	
EPS	Pearson Correlation	<b>.853**</b>	-.613	<b>.933**</b>	1
<b>Mahindra and Mahindra</b>					
MPS	Pearson Correlation	1			
DPR	Pearson Correlation	.604	1		
DPS	Pearson Correlation	.576	.212	1	
EPS	Pearson Correlation	<b>-.239**</b>	<b>-.771**</b>	.430	1
<b>Maruti Suzuki</b>					
MPS	Pearson Correlation	1			
DPR	Pearson Correlation	<b>.968**</b>	1		
DPS	Pearson Correlation	<b>.976**</b>	<b>.957**</b>	1	
EPS	Pearson Correlation	<b>.952**</b>	<b>.913**</b>	<b>.966**</b>	1
<b>Eicher Motors</b>					
MPS	Pearson Correlation	1			
DPR	Pearson Correlation	.261	1		
DPS	Pearson Correlation	<b>.948**</b>	.243	1	
EPS	Pearson Correlation	<b>.944**</b>	.292	<b>.984**</b>	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 1 indicates the Correlation analysis of select Automobile companies. Dividend per share (.853) has statistically positive and strong correlation with Dividend payout ratio at 1 per cent significant level. Earnings per share (.896) have statistically positive and strong correlation with Market value at 1 per cent significant level. The Market value is mainly depending on the value of earnings per share in Hero Motocorp.

Dividend per share (.960) and Earnings per share (.853) have statistically positive and strong correlation with Market value at 1 per cent significant level. Earnings per share (.933) have statistically positive and strong correlation with Dividend per share at 1 per cent significant level. The Market value is mainly depending on the value of dividend per share and earnings per share in Bajaj Auto.

Earnings per share (-.239) have negative correlation with Market value. Earnings per share (-.771) have negative and strong correlation with Dividend payout ratio at 1 per cent significant level. The Market value is mainly depending on the value of earnings per share in Mahindra and Mahindra.

Dividend payout ratio (.968), Dividend per share (.976) and Earnings per share (.952) has statistically positive and strong correlation with Market value at 1 per cent significant level. Dividend

per share (.957) and Earnings per share (.913) has statistically positive and strong correlation with Dividend payout Ratio at 1 per cent significant level. Earnings per share (.966) have statistically positive and strong correlation with Dividend per share at 1 per cent significant level. The Market value is depending on the value of Dividend payout ratio, Dividend per share and Earnings per share in Maruti Suzuki.

Dividend per share (.948) and Earnings per share (.944) has statistically positive and strong correlation with Market value at 1 per cent significant level. Earnings per share (.984) have statistically positive and strong correlation with Dividend per share at 1 per cent significant level. The Market value is mainly depending on the value of Dividend per share and Earnings per share in Eicher Motors.

### Multiple regression analysis of Automobile Companies:

$H_{02}$  = There is no significant impact of dividend policy on value of the firm of Automobile Companies.

**Table 2 : Model Summary and Anova Table**

Company Name	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
Hero Motocorp	.908	.825	.738	438.91408	9.432	.011*
Bajaj Auto	.978	.956	.934	234.22651	43.399	.000*
Mahindra and Mahindra	.807	.652	.477	145.81486	3.741	.009*
Maruti Suzuki	.984	.969	.953	612.53450	62.178	.000*
Eicher Motors	.950	.903	.855	4080.39197	18.623	.002*

\*significance at 0.05 level

Table 2 shows the goodness of fit with Firm Value as the dependent variable and dividend policy as the independent variable. The R squared value of .908 states that dividend policy has 90.8 per cent impact on Firm value in Hero Motocorp while Bajaj Auto has R squared value of .978 indicates 97.8 per cent variation in the Firm value explained by the dividend policy. R<sup>2</sup> value (.807) states that dividend policy has 80.7 per cent impact on Firm value of Mahindra and Mahindra. The R squared value of .984 states that dividend policy has 98.4 per cent impact on Firm value in Maruti Suzuki while Eicher Motors has R squared value of .950 indicates 95 per cent variation in the Firm value explained by the dividend policy. The Significant value of F-Test is less than the significant level of 0.05. Hence, the null hypothesis is rejected and it can be concluded that there is a significant impact of dividend policy on Firm value of select Automobile companies.

### Conclusion :

Dividends are a basis of income for investors as well as a sign of the performance of the company. Deciding a suitable dividend policy becomes a main decision for managers and investors. Automobile Sector is among one of the most important sectors for the economy as it is the key economic growth factor in India. Automobile exports grew 26.56 per cent during April-July 2018. It is expected to grow at a CAGR of 3.05 per cent during 2016-2026. The Government of India and the major automobile industry in the Indian market are expected to make India as a leader in domestic automobile market in the world by 2020. This paper analyses the relationship and impact of dividend policy on Firm value of Automobile companies in India. There is a statistically significant and positive correlation between Market value and Earnings per share on all the five companies. In

Mahindra and Mahindra all the selected variables are correlated with Market value which means that the dividend policy variables increases the firm value also increases and vice versa. The study found that there is a significant impact of dividend policy on firm value. The Earnings per share is positively related and statistically significant with the Firm value in select Automobile companies in India during the study period.

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