



(RESEARCH ARTICLE)



## Impact Of dividend decision on the market capitalization of the firm: Evidence from Indian large cap companies

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### Abstract

The percentage of the profit distributed to the shareholders is known as the dividend. The decision at hand is how much of the company's profit should be divided to the shareholders after taxes have been paid. It also contains the portion of the profit that needs to be invested back into the company. The retained earnings boost the company's potential for future earnings when the present income is reinvested. The amount of retained earnings has an impact on the company's choice of financing as well. The decision to declare a dividend should be made with the goal of maximizing shareholder value in mind. The present study attempted to evaluate the impact of dividend decision on the market capitalization using regression model. The regression analysis model revealed the significant impact of the independent variable on the market price of the share as well as the dividend policy determinants on the subsequent market price variable.

**Keywords:** Dividend Decision; Market Capitalization; Earnings per Share; Dividend per Share

### 1. Introduction

Dividend decisions, as the name suggests, refer to the method used by management to make dividend declaration decisions. At the end of each reporting period, top management must decide whether part of earnings is eligible for distribution as a dividend. He must therefore constantly monitor the profit-sharing policy in order to keep the shareholders' trust. The dividend distribution policy serves as a conduit for profit sharing between the company and its shareholders, hence it is of utmost significance. Investors would find it challenging to evaluate management's intentions in the absence of a formal dividend policy. Policy of dividend stability "as well as "hybrid dividend policy." These regulations are chosen by businesses based on their potential for growth. There will be a decrease in the dividend distribution rate if the company has significant room for growth. In the following stage of our conversation, we'll cover the capital market, where a business can trade quarterly, semi-annually, or annually). "In addition, investors can participate in a company's capital through one of the three primary dividend plans employed by. One of the key factors that actually motivates investors to purchase stocks is stock price. The effects of some factors will always cause the stock price of corporations to fluctuate. To show company's dividend policy is used as a guide for deciding how much of its profits to distribute to its owners in order to demonstrate that the company would either pay a dividend to its owners or retain some profits for potential future reinvestment in the business, a company's dividend policy is used as a guide for deciding how much of its profits to distribute to shareholders. The amount of the annual dividends given to shareholders is totally at the discretion of the corporation.

#### *Objectives of the study*

- To study the impact of dividend policy on market capitalization.
- To study the relationship between the determinants of dividend policy.

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- To determine the influence of dividend policy determinants on the market price.

## 2. Material and methods

The researcher decided on an empirical study to look at the impact of dividend decision variables on the Indian stock market. This study includes balance sheet samples from three industries between 2018 and 2022 for market capitalization and dividend pay. Hierarchical regression was utilised to empirically evaluate the factors on companies from three various industries, including the pharmaceutical, energy, and media industries. A total of five large cap companies have been selected to construct the relationship between Dividend decision and market capitalization. A regression analysis found that factors connected to dividend policy, such as earnings per share, dividend yield, dividend, dividend payout ratio, and return on equity, have an impact on market price. The alternative hypothesis is established as true if the values are significant at the 5% level of significance (i.e., less than 0.05), otherwise the null hypothesis is chosen.

## 3. Results and discussion

Market capitalization and the total dividend declared over the previous five years by significant Indian corporations are correlated.

**Table 1** Market Capitalization and Dividend per Share of selected companies

Sr. No.	Name of Company	Year	Market capitalization (\$ Bn)	Dividend per Share
1	Reliance	2018	101.64	6.00
		2019	134.59	6.50
		2020	183.56	6.50
		2021	215.27	7.00
		2022	208.29	8.00
2	TATA Consultancy Services	2018	101.59	29.00
		2019	113.74	18.00
		2020	146.88	6.00
		2021	185.78	15.00
		2022	144.02	22.00
3	HDFC BANK	2018	82.49	13.00
		2019	97.36	15.00
		2020	107.70	5.00
		2021	110.16	6.50
		2022	127.16	15.50
4	INFOSYS	2018	40.96	20.50
		2019	43.32	10.50
		2020	72.53	9.50
		2021	106.29	15.00
		2022	75.87	16.00
5	HUL	2018	56.28	12.00
		2019	58.38	13.00
		2020	76.8	14.00
		2021	74.49	17.00
		2022	72.72	19.00

Source: Moneycontrol.com

Using Pearson's common correlation approach, the market capitalization and total dividend declared during the previous five years were compared. According to the findings, TCS, Infosys, HUL, Reliance, and HDFC BANK pay their employees very well in India. This demonstrates a good correlation between these companies' market capitalization and issued dividends.

The necessary data was collected from the financial reports related to the corporations. Thus, it was obtained through the 536 statistical reports issued by these corporations on an annual basis; from the companies and directory publications of the ASE on the official website of the ASE from 2015 to 2019; and from annual reports and market news that show the most important events faced by the corporations, such as mergers, filtering (bankruptcy), etc., with follow-up of any changes for these companies.

### 3.1. Regression Analysis

#### 3.1.1. Market Capitalization ( $Y$ ) = $\beta_0 + \beta_1$ Dividend Declared( $X$ ) + $\epsilon$

H0: There is no Significant impact of Dividend Policy on Market Capitalization of firms

H1: There is Significant impact of Dividend Policy on Market Capitalization of firms

**Table 1** Regression summary

Regression Statistics	
Multiple R	0.319791418
R Square	0.102266551
Adjusted R Square	0.063234662
Standard Error	5.819753555
Observations	25

**Table 2** Analysis of variance (ANOVA)

	DF	SS	MS	F	Significance F
Regression	1	88.74078	88.74078	2.620077	0.119152
Residual	23	778.9992	33.86953		
Total	24	867.74			

**Table 3** Coefficients

	Coefficients	Standard Error	t Stat	P-value
Intercept	17.32295	2.901987	5.969342	0.000
Market capitalization ()	-0.039291	0.024274	-1.61867	0.119152

#### 3.1.2. Market Capitalization ( $Y$ ) = $17.32295 - 0.039291 * \text{Dividend Declared}(X) + \epsilon$

The dividend coefficient in the regression equation is 0.039291. This coefficient represents the mean increase of dividend for every additional one dollar in the market capitalization..

## 4. Conclusion

The findings show that because investors have the opportunity to sell some of their stock holdings in order to raise money, they are not very concerned with a company's dividend policy. The "dividend irrelevance theory," which

basically argues that dividend payments shouldn't affect stock prices, disagrees with the "relevance theory," which claims that dividend policy affects stock prices. Here, the impact of the variable's profits per share, dividend, dividend yield, and dividend payout ratio on the market price has been investigated. As was previously said, a company's dividend policy is one of the factors that affects its market price on the Indian stock market. Following this research, the researcher examined and supported the relevance theory, which contends that the variables affecting dividend policy actually have an effect on market pricing.

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## Compliance with ethical standards

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### *Disclosure of conflict of interest*

The researcher has carried out this research for academic purpose only and there is no conflict of interest to disclose.

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