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Project Dissertation Report on

THE RELEVANCE OF DIVIDEND POLICY TO THE VALUE OF THE FIRM:
A CASE OF THE FMCG SECTOR IN INDIA

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DECLARATION

I, the undersigned declare that this is my original and genuine work done in partial fulfillment of the Masters in Business Administration degree program and has never been presented in any other academic institution or research institution for an award.

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EXECUTIVE SUMMARY

In late February 2020, companies in the Indian corporate sector rushed to declare dividends in bid to beat the dawn of the 2020/21 budget year, in which the Dividend Distribution Tax (DDT) on Indian companies would be abolished. Previously, dividends were taxed at the corporation level. The direct recipients of the dividends income, which are the shareholders were not required to pay any tax on dividend from domestic companies up to Rs. 10 lakh, after which they would be taxed at a rate of 10 percent. The new policy is seen as compounding the tax burden on shareholders, especially those who are at a higher tax bracket as they may effectively pay as much as 43 percent. Consequently, the rush by the corporations was seen as a response to these changes.

These revelations brings us to the question that has been debated for many years: Is a firm's dividend policy relevant to shareholder's value? The main aim of this paper is to investigate the impact of dividend policy on the firm's value, with emphasis on the FMCG sector. A sample of companies was drawn from the Nifty FCMG Index to constitute the study. The study adopts a quantitative research methodology, using the ordinary least square regression method to find the cause-effect between a firm's dividend policy and its value. Dividend per Share and Dividend Payout Ratio are used as proxies for dividend policy, whereas the Market Share Price is used as the response variable.

The study finds that for all the companies under investigation, dividend policy has a positive and significant impact on the value of the firm. However, the constituents of dividend policy have different relationships with the value of the firm. Divided per share has a positive and significant relationship with market share price for all the firms, whereas dividend payout ratio has no significant impact on the value of the firm for all the companies but one. These findings corroborates the dividend policy relevance theory and suggest that we may see adjustments to the dividend policies of corporate India going forward, in response to these new government policies.

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ABBREVIATIONS & ACRONYMS

DPS – Dividend per Share

DPR – Dividend Payout Ratio

MPS – Market Price per Share

FMCG – Fast Moving Consumer Goods

NSE – National Stock Exchange

SPSS – Statistical Package for Social Sciences

OLS – Ordinary Least Square

VIF – Variation Inflation Index

Keywords: *Leverage, Autocorrelation, Multicollinearity, Multi-Regression, Durbin-Watson, Variation Inflation Index*

CHAPTER ONE

1.1 Introduction

1.1.1 The Indian Economy

According to a study by Bain & Company, the Indian economy is set to experience a cumulative annual growth rate north of 7 percent over the next decade. Amid this fast growth, half a billion people are expected to transition into middle class and high income status over the same period

The Indian country experienced an unprecedented boom over the last 20 years, fueled by a rapid population growth and economic expansion. By year 2024 India's population is expected to dwarf that of China, making it the most populous nation globally. This can be seen as a blessing in disguise and if fully exploited can catapult the Indian economy into a powerhouse. In fact, a decade back India was ranked 9th globally in terms of GDP output. Fast forward-to-date, the country is ranked 5th, commanding power and influence over some of the most developed economies like United Kingdom, France and Canada but just behind the likes of the US, China and Japan. As the economy expands, average incomes are also growing, propelling millions of Indians into new consumer segments.

Bain & Company also projects that at this rate of expansion, we might see domestic private consumption accounting for 60 percent of total GDP, which underpins the robustness of the economy. Moreover, it is expected that there will be a healthy saving rate of roughly 22 percent of income, emanating from the working class. These projections are expected to translate to an increase in consumption spending from $1.5 trillion to $5.7 trillion by year 2030, with much of the increase coming from the middle class. Poverty is also likely to decline from 15 percent to 5 percent of the population, elevating roughly 25 million people out of the poverty.

In contrast to a majority of the developing nations, India has a unique position in such that it has a slow ageing workforce. The median age for a worker in India is around

28, and this number is expected to increase slightly to 31 by 2030. As a result, India will have the largest working population which is also relatively young. Urbanization is also anticipated to be on an upward trajectory. The urban population increased from 28 to 34 percent over the last decade and is expected to reach 40 percent of overall population over the next decade. The proportion in rural settlements has also declined considerably, from 59 percent in 2005 to 51 percent in 2019. These three key drivers; steady urbanization, income growth and shift in demographics will result in a drastic change in consumer buying behavior. In fact, Bain reported that there will be a $2 trillion incremental spending in affordable mid-price offering as well as an additional $2 trillion shifted towards premium products as consumer tastes' changes.

However, despite the overly optimistic forecast and future prospects, current data on the ground paints a different picture. Consumption being one of the major drivers of the Indian growth stories has weakened a bit over the recent years. Demonetization of high-value currencies by the Indian government resulted in a sharp decline in some key industries due to lack of liquid cash. The effect was more pronounced in manufacturing, construction and the Fast Moving Consumer Goods (FMCG) sectors. Accordingly private final consumption as a percentage of output declined from 66.2 percent to 57 percent over the year 2014 through 2019. This decline was notable for both rural and urban dwellers as income, wages and jobs dipped. Low levels of inflation and the Indian currency depreciation compounded the effects of the weak demand and led to a slowdown in the overall economy. In the face of these economic developments, responsive policies adopted by the Indian government such as an accommodative monetary stance, corporate tax cuts, and the implementation of the Goods and Services Tax will likely cushion the economy in the medium to long term, helping build consumer confidence and return the economy back to high growth rates.

On the other hand, in a move that has already started to shake corporations around the Indian market and force them to re-evaluate their wealth maximization strategies, the Indian government announced that in the 2020/21 budget, dividend income will be taxable up to 43 percent in the hands of the recipient. According to the Economic Times, this move left companies rushing to pay dividends to shareholders before the new proposals go onto effect. As of The 1st of February, 204 corporations had announced dividends, compared to only 90 over the same period in 2019 and 98 in 2018 which highlights the sensitivity of dividend policies of corporations to government

tax policies. Therefore, in addition to factors such as consumer demand, economic growth rates and income growth which are external to the firm, internal factors such as dividend policies are also thought to have an influence on the performance and value of the firm (Lintner, 1956)". In fact, over the last decade, the Fast Moving Consumer Goods (FMCG) sector has been one of the most consistent and liberal in their dividend payout policy yet at the same time firms within the sector enjoyed significant growth and returned vast amount of value to their shareholders. The question then arises; does the rush by corporate India to alter their dividend policies amid these new tax regulation implies a move to shield shareholder's wealth? After all, the main object to the firm is to maximize shareholder's wealth, Purvis, 1976.

1.1.2 The FMCG Sector

1.1.2.1 Overview

The Fast Moving Consumer Goods (FMCG) sector is considered as one of the driving force behind India's GDP growth. The sector is considered the 4th largest within the Indian economy. FMCG goods are non-durable and usually sold in pre-packed form. FMCG goods can be produced, distributed, marketed and sold quickly and at cheaper cost. Some of the notable FMCG goods include; household products, cleaning products, personal care products, printing and stationery, pharmaceuticals, plastic goods and packaged food products. Companies partaking in this sector serve a vast population across different income brackets and demographics. Due to a large number of product categories and sub-categories, there is usually immense competition, with the presence of subsidiaries of multinationals such as Hindustan Unilever, Pestle and Proctor & Gamble, as well as local players such as Patanjali and Amul.

1.1.2.2 Growth and Market Size

Growth in the FMCG sector has been fueled by both government policies, higher investments in product research and development and changes in market forces. Rising incomes, growing middle income earners and the overall change in demographics have contributed immensely to the growth of this sector over the last

decade. Moreover, the increasing rate of urbanization, development in rural settlements and a rising per capita income helped to propel the overall growth of the Indian economy, along the way benefiting the FMCG sector. It is estimated that the Indian retail market will top $1.1 trillion by the end of 2020, up by $260 billion recorded in 2017. This phenomenal expansion is expected to trickle down to the FMCG sector. Revenues within the FMCG sector were $52.75 billion in 2018 and are anticipated to double, topping $ 103.7 billion by year 2020. The move by the Indian government to bring most of the FMCG products under the 18 percent tax umbrella benefited this sector considerable. Moreover, the growth in trade within tier 1 and tier 2 cities, evolution of ecommerce, shifting consumer behavior and preference towards branded goods will likely continue to propel this growth beyond the current horizon.

1.1.2.3 Urban and Rural Segments

The FMCG sector is divided into two broad segments; Urban and Rural. The urban segment is the larger of the two. It had a market size of $ 29.4 billion in 2017, accounting for 60 percent of the consumption revenue within the FMCG sector. This was fueled mainly by a growing middle class and urbanization. However, the rural segment is growing considerably faster as compared to the urban segment, at a compounded rate of 15 percent. This rapid growth has been led by rising income and wages as well as government initiatives and schemes. Around 65 percent of the population reside in rural and semi-urban settlements. This potential market cannot be ignored. Leading companies with large distribution networks have already started to take note of this and positioned themselves to exploit this untapped market. Technological advances and infrastructure development will see many companies expand their capacity to serve this promising segment which is greatly considered the next driving force behind the growth of the FMCG sector.

1.1.2.4 Sector Composition

The FMCG products range can be categorized under 3 main segments which are: Healthcare, Household & Personal Care and Food & Beverages.

Healthcare as a sector has become the largest, both in revenue and employment generation. It represents about 31 percent of the total FMCG industry. Some of the product offering under healthcare include over-the-counter medicinal products, disposal equipment and vitamin tablets. The healthcare segment continues to evolve into a large sub-sector mainly due to investment by the public and private in service coverage.

Household & Personal Care is by far the most dominant segment, accounting for about 50 percent of the FMCG market share. The growth within this segment has been driven by shifting consumer behavior, increasing awareness in product information and brands as well as favorable demographics. Household & Care products include skin care, hair care, perfumes, cosmetics, detergents and soaps. One of the notably emerging category within this segment is the herbal products. The average consumer is now health conscious and the demand for herbal and organic products is anticipated to reach 10 percent of total personal care sales by 2020, up from 6 percent in 2017.

Food and Beverages segment includes soft drinks, processed fruits and vegetables, bakery products, snacks, cereals and dairy products. This category represents 19 percent of total FMCG market share. Urbanization, better distribution channels and affordability among different income strata continue to drive this segment.

1.1.2.5 Investments in the FMCG Sector

The FMCG sector experienced a steady FDI inflow of $ 15.7 billion from the year 2000 through 2019. Moreover, to bolster the level of investment into the sector, the government allowed 100 percent FDI in food processing and single brand retail and 51 percent in multi-retail brand. This move was expected to increase the supply chain and improve access to branded products that would increase sales and create value for the shareholders. In fact, in 2019 four of the top ten leading companies in the FMCG sector announced investments worth $ 990.43 million towards capacity expansion and acquisition of additional plants. This process of making investments to increase the firm value comes at a cost of making dividend policy decisions and balancing the tradeoff between retaining earnings and paying shareholders dividends.

1.2 Background

In the world of finance, the corporate sector is amongst the most crucial as it contributes towards economic prosperity in terms of investments, employment and wealth creation. A number of research has been conducted around corporate finance, particularly in areas that are deemed to have an impact on the firm's value. Such research has been focused on key issues surrounding; investment, financing and dividend decisions. Since the recognition of the Bombay Stock Exchange in the late 1920s, corporate actions have been receiving considerable importance in the Indian capital markets. Investors commit their funds in companies and expect the company's management to grow and return their wealth over the course of business operations. Accordingly, the management of various companies adopt different strategies to enhance their earning ability and growth potential, thereby driving the company's stock prices and firm value. The most notable strategies used to create value are in relation to dividend decisions. Dividend decisions address issues pertaining to the portion of the profits to be reinvested into the business or distributed to shareholders.

1.2.1 Dividend

A dividend payout refers to the portion of the total earnings that a firm distributes to its shareholders for the equity that they have committed to the company. The distribution of dividends is made after deducting all the expenses, interest and tax payable. A payment of dividend is dependent on certain factors such as the availability of investment opportunities, the cost of capital and the rate of return. If the rate of return is less than the cost of capital, and there a no investment opportunities, the entire earnings are likely to be distributed as dividends. In the event where the expected rate of return surpasses the cost of capital, the entire earnings will be retained or a small portion will be paid out as dividends.

Dividend are usually paid out of the profits of the year and in some cases, the general reserves. They can be paid in various forms, but the most prominent is cash, otherwise known as cash dividend, Adefila, Oladipo and Adeoti, 2010. Other forms of dividend include: stock dividend or bonus issue; where shareholders obtain additional equity

via stock splits. Script dividend; where promissory notes are given to shareholders to pay them the dividend amount at a specific date in future. Property dividend; where equity holders are paid in the form of assets rather than cash. Bond dividend; in which the company issues bonds to the shareholders for the amount due. However, cash dividends are the more preferred form of dividend payment as they not only serve as a consistent basis of income, but provides an insurance against declining share price, Geetha & Karthika, 2017. The tax advantage of cash dividend is now challenged by the recent proposal by the Indian government by taxing the recipient of dividends.

Accordingly, cash dividends are considered to be one of the main types of returns expected from a stock holding and they are deemed as a good measure of the future prosperity of the business and aligned with best corporate action practices. It against this narrative that conventional wisdom affirm that a dividend policy that is well managed has an effect on the firms' stock price and value.

1.2.2 Dividend Policy

Dividend policy of an organization sets out how much income can be paid out as dividend by the company and how much can be reserved, Emeni and Ogbulu, 2015. "It means the payout policy which managers pursue in deciding the size and pattern of distribution to shareholders overtime" John and Williams, 2000. According to Purvis, 1976, the prime aim a corporation is to maximaze the wealth of equity investors which effectivley means maximazing the firm's share price. Therefore management of the firm always strive to improve the basic fundamentals of the company i.e. earnings, dividend payout ratio, dividend yield etc. This is because good fundamentals will usually reflect in the stock price in the form of stock appreciation and this will lead to an increase in firm valuation, Pandey, 2004. However, this suggestion tabled by Pandey should not be taken at face value.

A significant amount of research studies have been published regarding this topic and the problem as to whether a firm's dividend policy has an impact on its shareholder's wealth remains undecided. Consequently, there are two distinct and opposing theories on the effect of dividend decisions on firm value. These are the dividend irrelevance theory and relevance theory. According to Black, (1976) dividend policy is an essential

instrument as it acts as a signaling effect to the strength and future prospects of the firm. A reduction in dividend payment tends to be succeeded by a reduction in the share price. This is believed to be because dividends have a signaling effect. Black's study is consistent with that of Fama, (1969) who purports that dividends have a signaling effect because managers have internal information that investors and other shareholders do not have and they use this dividends to signal this information. Fama also points that one of the key criteria that investors look for before committing their monies in a corporation is its capacity to pay dividends consistently. Therefore, from a shareholder's perspective, it is not only important that the corporation maintains a desirable retention ratio, the dividends should also be consistent over time. Furthrmore, it is belived that a dividend decisions can be used to manage costs associated with agency. Therefore it is imperative that both management and shareholders thoroughly comprehend dividend policy.

On the other hand, further studies conducted on dividend policy are found to be contrary to Fama (1969) and Black (1976). According to Modigliani and Miller (1958:1961) argues that a firm's value derives its value from the expected future cashflows due on business operations therefore dividend decisions have no effect on the value of the firm. Modigliani and Miller's studies are known as the foundation of dividend policies and it is against these literature that further studies were conduted and new thoeries developed.

The question of the extent to which dividend decision affect firm value remains polarized. This is because the conclusions in previous studies were dependent upon the situations in which dividend policy theories were tested. Nonetheless, the recent rush to alter the dividend payout by corporate India may be a hint as to how managers think of dividend decisions in relation to shareholder's value. Therefore, this paper attempts to uncover insights as to whether dividend decisions are linked to the value of the corporation with respect to the FMCG sector.

1.2.3 Firm Value

According to Oladele, 2013, value refers the quantifiable equivalent of what ought to be given, done or experienced to obtain something. A firm's value therefore is an

economic notion that reflects the price that the firm is worth, at a time in date. In theory, it can be summed up as the monetary worth that ought to be paid in order to assume ownership of a business. Moreover, Chowdhury and Chowdhury (2010) affirms that a company's value is derived from the all expected cash flow that are attributable to the business, discounted at the firm's cost of capital. A firm's value can be measured using a number of models or methods. This methods are based on either enterprise value, market value or book value of assets.

Enterprise value (EV) is one method of estimating firm value. EV measures firm value by summing up all the claims attributable to creditors, shareholders and minority interest, and subtract all cash and cash equivalents. It is regarded as comprehensive substitute for market capitalization. Book value (BV) is the historical value of a firm as reflected in the balance sheet. It is recorded as shareholders' equity and may be interpreted as the true worth of the firm after liabilities are netted off from assets. Market value (MV) is the value of the firm as determined by the public markets in the stock exchange. It is the monetary value attached to each unit share in the company and is affected by different factors that around business environment.

1.2.4 Relationship between Dividend Policy and Firm Value

Based on the aforementioned concepts, Oladele (2013) supposes that the creation of value in a business happens when there is an increase in the cost of shareholder's stock as measured by the difference between market value and book value of equity. This arguments draws in the role that dividend decision have on the valuation of the corporation. Several models and theoretical studies have documented significance evidence on this relationship. For instance, Lintner (1956) and Gordon (1962) concluded that the value of investors can be enhanced through dividend decisions. On the other hand, studies such as that of Modigliani and Miller (1961) established an insignificant effect of dividend decisions on firm value.

In addition to the conclusions in literature, common logic may follow. Dividend income is often taxed, something which Modigliani and Miller left out in their proposition. Therefore it makes sense for a firm to convert these dividends into capital gains, more especially in jurisdictions where tax on capital gains is substantially low as compared

to that on dividends. The effect will be that the firm will retain much cash in their balance sheet to be re-invested in the business, which have the impact of influencing the value of equity investors. On the other hand, there exists investors who have a risk appetite for firms that pay a consistent, predictable and stable dividend. Therefore, the demand for firms with such a dividend policy will be high, more especially in an economy where most investors are looking for dividend paying stocks. This demand is often priced when valuing these companies.

1.3 Problem Statement

A vast amount of literature has been compiled around the topic of dividend decisions. Research studies have been concluded on a global scale, in Asia, Africa and Europe as well as on a national level, in the US, China and India. There conclusions from the empirical studies are rather mixed. Some research shows a significant and relevant relationship, Anton (2006) and Nwamaka (2017) whereas found an irrelevant relationship, Brennan and Gordon (1971).

With respect to the Indian context, much of the research on this subject has been conducted with respect to the FMCG sector. The most notable studies conducted are of Sandanam and Ramachandran (2015) , Gangill and Nathani (2018) and Pandey (2017). Although these researchers may seem to have done similar work, their studies are distinct as they used different time frames, variables and methodologies. For instance, Sandanam and Ramachandran (2015) used a pooled regression technique over pre and post 2008 global financial crisis. Moreover, Earnings per Share was used as the predictor, thereby ignoring other measurements of firm value. Both Gangill and Nathani (2018) and Pandey (2017) also used performance indicators as the responsive variable but their study covered the period of 2002-2013 and 2007-2016 respectively. The possibility of the adverse impact of the financial meltdown on the analysis should not be ignored. Therefore there is the need to conduct a similar research but using firm value specific variables as the responsive variable and selecting a time frame that is not masked by the global financial crisis.

Moreover, in those studies that have been conducted and found to be relevant to the local studies, the authors used pooled regression methodology on panel data. This methodology lacks granularity in analysis as it averages the metrics across the sectoral firms. The author therefore finds that there is scope for a more detailed and granular research that analyses variables on a firm basis instead of pooling the data.

Against this setting, these three key differentiators; timeframe, variables used and research methodology proves the limitations in current literature.

1.4 Objectives of the study

The importance of dividend decisions to the overall value of the corporation cannot be underestimated. Dividend decisions are amongst the most debated and talked about issues that are facing corporate financial managers. A review on relative literature reveals that although a significant number of research has been conducted on this topic, there still exists polarity as to which theory holds and in what context do managers adjust their dividend policies. Hence the need to carry out a new research with respect to the Indian FMCG sector.

Therefore, the main objectives of the study are:

a) To ascertain the current dividend policies of firms within the FMCG sector

b) To determine the theories that drives the dividend policies of firms in the FMCG sector

c) To find out the impact of dividend policy on the value of firms in the FMCG sector

1.5 Scope of the Study

This paper explores the effect that dividend decision have on the value of the corporation, with emphasis on the Fast Moving Consumer Goods (FMCG sector in India. Five companies will be selected to form the sample. These companies will be selected from the Nifty FMCG Index, which tracks the behavior and performance of selected companies within the FMCG sector. The Nifty FMCG Index and its constituents are listed on the National Stock Exchange of India and it is a market – weighted index.

The study will cover a period of 10 years, post the global financial crisis, ranging from the year 2010 to 2019. The study adopt a theoretical framework to the aid in the data analysis. The theories of dividend policy will be explored after which a conceptual framework and variables will be defined. Quantitative approaches are to be used for data analysis and the theoretical framework will aid the foundation for data interpretation.

CHAPTER 2

2.1 Literature Review

2.1.1 Theoretical Review

Normally, there are two extremes when discussing the impact of dividend policy in the value of the firm. On one extreme, researchers think that there is no association between dividend policy and the value of the corporation (irrelevance theorists) whereas researchers on the other hand suggest a significant association (relevance theory). Within the latter, there are two divisions, those who believe that the relationship is negative and those who believe that it is positive. Following this plot, this narrative therefore stresses the relative essence of dividend decisions. We briefly discuss these theories below;

2.1.1.1 Irrelevance Theories

The first theory of dividend irrelevance policy was proposed by Modigliani & Miller in their (1961) study. Modigliani & Miller proposed that in a perfect market, dividend decisions are irrelevent to firm value. They assert that the value of the firm is only derived from its earning power. Modigliani and Miller observed this influence on the valuation of an organisation. The researchers demonstrated that under a perfect market condition, a firm is unaffected by its decisions made with regard to dividends. Modiglini and Miller (1961) argued that shareholder's are normally indefferent between dividend and capital gains as they can easily meet their liquidity needs buy selling their current holdings. Nonetheless, this proposition was made under assumptions that were rather unrealistic and ignored reality. The assumptions made were that;

- Perfect capital market
- Rational investor behavior
- Perfect certainty

The assumptions of a perfect market are that there is no information asymmetry as all available information is free and accessible for all. Moreover, there is no difference between the tax rates for dividends and capital gains and investors do not endure any transactions costs when buying or selling securities. Managers are also assumed to behave in the best interest of shareholders thereby eliminating the agency problem. Modigliani (1961) concluded that corporate managers should not burden themselves with the decision of whether to retain or distribute profit as these judgements do not add value to the organization.

2.1.1.2 Relevance Theories

2.1.1.2.1 Bird in hand Theory

This theory suggests that there is a positive link between dividend resolutions and the valuation. According to Gordon (1963) and Walter (1963) investors prefer to rather have current dividend as compared to capital. This is due to the assumption that capital gains are deemed to be much riskier as they depend on expected future gains, which are often uncertain. Therefore, investors are eager to pay a premium for those organizations that pay a consistent, reliable and stable dividend, thereby increasing the value of these firms.

2.1.1.2.2 Signaling Effect Theory

This philosophy proposes that there occurs information disproportionateness between managers and shareholders. According to Modigliani and Miller (1961), information is readily available for both investors and managers, but often managers may have access to information that investors would otherwise not have. Consequently, managers use this information gap as a tool to deliver the material information about the prospective profitability and growth of the firm (John & Williams, 1985). These findings are consistent with those of Lintner (1956). Therefore, corporate managers may use dividend payouts as signal to the market, with an increase in payout serving as an indication of future increase in cash flows Bhattacharya (1979).

2.1.1.2.3 Agency Theory

Modigliani and Miller's (1961) assumes that managers act in the best interest of shareholders and there is no conflict of interest between the former and the latter. Nevertheless, this assumtion is flawd. Accoring to La Porta et al. (2000) and Rozeff (1982) unless profits are distributed to the shareholders, managers may divert these monies to unprofitable projects or projets that benefits them at the expense of the shareholders. Therefore, the agency theory assumes that shareholders prefer dividends over profits and they prefer firms that have favourable dividends policy.

2.1.1.2.4 Tax Effect Theory

Miller and Modigliani assumes that investors are indifferent between dividends and capital gains. However, Brennan (1970) and Litzenberger & Ramaswamy (1979) argues that taxed have an influence on the dividend payments and consequently the valuuation of the organisation. This argument ascertain immediate higher taxes for dividends as compared to capital appreciation, therefore higher dividends payout will ultimately increase the portion of shareholder's income that is taxable. Therefore investors have a preference for firms that have high retention rates.

2.1.2 Empirical Review

Various research academics have attempted to ascertain the relatioship between determnants of dividend decison and their link with the value of the corporation, as well as performance. This section covers the studies that have been documented in both developed and emerging economies. The literature follows in chronological order.

Litner (1956) investigated the dividend of 28 firms over a period of 7 years. His analysis included initiating discussions and consultations with the corporate executives of these businesses. He decided that these directors thought that a persistent dividend policy have a somewhat positive impact on the investors sentiments. These findings were based on the notion that for investors, dividend was seen as the primary variable for decision making. Moreover, making current dividend payments, the most recent dividend was viewed as a benchmark. Therefore, management was likely to set out a target payout ratio of which was unlikely changed often, of which was the preference by most investors. This argument then suggested that investors preffered dividends, hence a corporation's dividend strategy has an impression on shareholder's worth.

Black and Scholes (1974) investigated the retionship between dividend yield and stock prices as a means of ascertaining the bearing of dividend plan of stock prces. Black and Scholes contructed a portfolio of 25 firm listed in the New York Stock Exchange (NYSE) over the period 1936 to 1966. The researchers adopted the Capital Asset Pricing Model (CAPM) to aid in beta calculations and also calculated dividend yield for all the firms. They concluded that " we are unable to show that differences in yield lead to differences in stock prices". That is to say, whether a firm had a high dividend yield or low dividend yield had not impact on its stock price. Black and Scholes discoveries are consistence with the irrelevance theory of dividend strategy and builds on studies such as that of Modigliani and Miller (1961).

Woolridge (1983) examined the sudden unexpected changes in firms' dividend policies and their impact on the value of both stock and debtholders. Woolridge found

that changes dividend payments as a way of signaling information is the main factor affecting share price. Moreover, **Fama and Frenchi** (1998) adopted a time series methodology to find out the impact of financing and tax decision of the value of firms. The researchers concluded that dividends tends to be viewed a signaling tool for crucial information by investors, thereby there exists a positive relationship between dividends and the value of a firm.

Adefila et al. (2000) conduting a research study on 15 firms qouted in the Nigerian Stock Exchange with the main objective of finding out the possibility that a firm's dividend policy may have on the value of its quoted share price, as well as the determinants of dividend policy. The author used pearson moment correlation as the analytical tool. The researchers concluded that the demand for shares of those firms that paid dividend was high, which subsequently led to an increament in shareholder's value. Bawa and Kaur came to a similar same conclusion in their (2013) study.

Hussainey et al. (2011) basing their analysis on the British stock market, the researchers investigated the relationship between dividend policy and changes in share price and concluded there exists a inverse association between between the firm's dividend payout ratio and changes in the share price. Building on the studies led by Hussainey . **Bacon and Profilet** (2013) employed the ordinary least square method of regression to examine the impact of certain financial metrics on share price volatility. They found that alongside other factors, dividend payout had a direct and positive effect of share price volatility.

Salman (2013) examined the "effect of dividend decisions on shareholder's wealth in Pakistan" over the period 2006 to 2011. Salman used 33 businesses from the sugar industry registered on the Karachi Stock Market. Using descriptive statistics and multi-linear regression analysis, the research *selected dividend per share (DPS), earnings per share (EPS), price earnings ratio (PE), retained earnings (RER)* and *lagged market price per share (MPS)* as the independent variables and *market price per share (MPS)* as the dependent variable, and conluded all predictor variables but retained earnings

(RE) have a positive and significant influence on shareholder's wealth. These discoveries are analogous with those of **Guletal.** (2012) who also scrutinized the impact of divided strategy on shareholdr's fortune on 75 companes registered on Pakistan Stock Maket using statistics gathered from the companies' annual reports , as well as the Stock maket.

Bawa and Kaur (2013) conducted a research using *dividend per share (DPS), retained earnings per share (REPS), lagged price earnings ratio (LAGPER) and lagged market price per share (LAGMPS)* as the predictor variables and *market price per share (MPS)* as the response variable to study the effect of dividend policy on shareholder's wealth with respect to the Information and Technology sector in India. The authors used paned data regression and demonstrated that over a long period, shareholder's wealth was found to have increased for the dividend paying IT firms compared to the non-dividend paying IT firms. **Nissim and Ziv** (2001) also came to the same conclusion after they investigated the relationship between changes in a firm's dividend policy and its financial performance.

Ilaboya and Aggreh (2013) found that dividend payout has no impact on share price volatility after investigating firms listed on the Nigerian Stock Exchange. **Uddin and Chowdhury** (2005) also conducted a similar across 137 firms listed on the Dhaka Stock Exchange. The researchers found that the impact of dividend announcements are insignificant to the value of the firm. The findings of both studies re-affirms the irrelevance theory of dividend policy. Similar results were uncovered by **Chen et al.** (2002)**.**

Sandanam and Ramachandran (2015) investigated the impact of dividend policy on shareholder's wealth of 16 Fast Moving Consumer Goods (FMCG) companies before and after the 2008 global financial crisis. The firms are listed in the National Stock Exchange (NSE) of India. Out of the 16 firms, only 13 were found to have been consistently paying dividends, hence they 10 year data was collected to constitute the analysis. The researchers used*), dividend per share (DPS), retained earnings per*

share (RPS), lagged price earnings ratio (LAGPER), price earning ratio (PER), earnings (EAR) and lagged market price per share (LAGMPS) as the predictor variables. The proxy response varible for shareholder's wealth is *earnings per share (EPS)*. Using the ordinary least square method, the authors found that *DPS* and *RPS* have a significant and positive relationship with shareholder's wealth before the financial crisis whereas *DPS*, *LAGPER* and *LAGMPS* have a positive significant impact of shareholder's wealth after the global meltdown. They conluded that the changes in dividend policies of FMCG firms in India after the 2008 global finacial crisis had a affirmative and noteworthy improvement in the value of the businesses.

CHAPTER 3

3.1 Methodology

The section of the study outline the methodology that the author adpots in conducting the research. The scope of methodology coveres; *research design, data sampling* , *data collection, analytical tools, conceptual framework* and *the research model.*

3.1.1 Research Design

This reading follows a comparatative research methodology where the researcher aims to define the cause-effect association between the predictor or independet variable and the response or dependent variable so a to establish the link between them. This methodology is consistent with that adopted by Adefila (2000) and Bawa (2013). The research include using quantitative seconday data from online data depository such as stock market databases and annual company accounts data. Data to be collected consists of key financial and measurement ratios such as dividend payout ratio, dividend per share and stock price.

According to Cooper and Schindler 2014, when the data to be gathered and analyzed is large, a quantitative approach is more appropriate as it permits the sample to be tested multiple time with different varibles so as to attained an acceptable level of consistency. Quantitative research is the collection of numerical data, organizing and presenting it using statistical and mathematical tools so as to uncover an observable phenomena. Quantitative research allows for collection and analysis of vast amounts of data. Secondly, correlations and causal relationships can be done to obtained meaningful comparisons. Finally, the output data allows for easier interpretations which can help shape context for drawing insightful conclusions. Its is therefore against these notion that the author choses a quantitative approach to his study.

3.1.2 Data Collection

3.1.2.1 Sources

Due to the adoption of a quantitative nature in the research study, the author will use secondary sources of data, that is data that is readily available in print or electronic form. Such data will be obtained from multiple sources that are deemed to contain adequate data to get the variables needed for the study. Secondary sources of data used include; the Natiional Stock Exchange of India database, which contains historical stock price data, Prowess database, which houses companies and their financial records and well as individual annual financial statements for the companies that make up the sample. Secondary sources of data are more suitable as they contain data that is readily organized, easily accessible and resource saving. However, the shortcoming of these data sources is that the data may be incomple and not timely.

3.1.2.2 Reliability and Validity

Secondary data has a normally pre-established degree of reliability and validity as it is often posted in the public domain and more likely to be re-used by proffessional researchers. For instance, data contained in annual financial statements has already been audited to acertain that there is no materiality to the data. Likewise, stock price data is quoted by public exchange houses and it is used by investment firms, financial analysts and equity researchers to make critical investment decisions, therefore the data should be reliable and valid. Therefore, such secondary data satisfy the reliability, validity and credibility factors that are required to attain trustworthiness (Cooper & Schindler, 2014).

3.1.3 Sampling Design and Time Frame

The sample is drawn from the Nifty FMCG Index. The Nifty FMCG Index is an stock index liisted on the National Stock Exchange of India, which is intended to mirror the behavior and peformance of the Fast Moving Consumer Goods (FMCG) sector in India. The index is made up of 15 of the largest FMCG companies by free-float market

value. Therefore, 5 companies will be arbitrarily nominated from the population of 15 enterprises that make up the Nifty FMCG Index. That is to say, simple random sampling with replacement is deem to be appropriate as it gives all the companies an equal chance of being selected. Moreover, this sampling technique is favorable as it is easy to implement and is not time consuming.

The study covers an period of 10 years on an annual basis, spanning from the financial year 2009/10 to 2018/19. The main reasons for selecting this time frame are as follows; firstly, the period covering 2009 is charaterized by the global financial meltdown. Which may mask the data. Secondly, reaching further in period backwards may be problematic as we may have cases of missing or incomplete data for some companies which can gerenate skewed results when conducting correlation and regression tests. Finally, all the firms in the Nifty FMCG index were listed by 2009/10 and none of them were de-listed after that, which provides a 10 year period of non-interrupted stock price data.

3.1.4 Data Analytical techniques and tools

To test the data for causal-effect relationship, correlation and regression analytical techniques are used. *Pearson correlation*, which mesures the degree and bearing of association among two or more variables is used to represents the linear relationship that exists between the variables. This analytical technique is identified as suitable for quantitative time series data (Cooper & Schindler, 2014). Moreover, *Multiple linear regression* using the *ordinary least square method* is carried out to find out the cause-effect connection amongst the independenti and dependent variables. For this study, multiple regression is found to be appropriate as the author uses more than one independent variable. Furthermore, data screening tests such as the *Durbin-Watson* and *Variation Inflation Factor* are employed before deriving the regression model. This is done to detect any cases of autocorrelation or multilinearity. The IBM Statistical Package for Social Sciencens (SPSS)(version 23) software is used as the tool for conduting the analytical techniques outline before. The SPSS software is preffered due to its ease of use, global acceptance and the ability to handle large amounts of data Field (2013).

3.1.5 Conceptual Model

To establish the relatiionship between divided policy and firm value, a conceptual framework and a regression model have to be developed, clearly describing all the variables and how they relate. In this study, Dividend per Share (DPS) and Divided Payout Ratio (DPR) are used to represent dividend policy, whereas the Market Price per Share (MPS) represent the value of the firm. The conceptual model below describe the relationship between these variables;

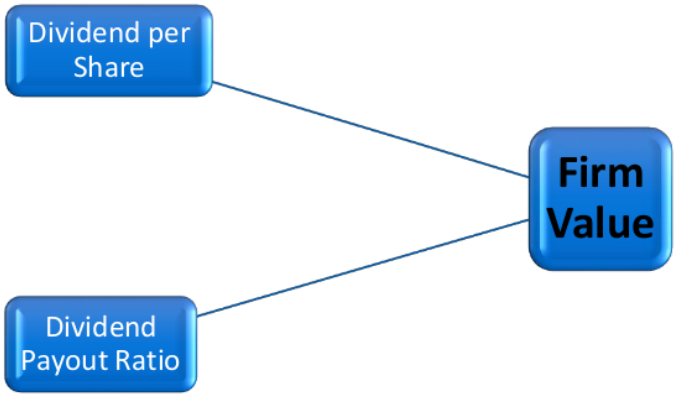

Figure 1: Conceptual Framework

3.1.5.1 Variables

The association between divided policy and firm value is illustrated by the framework above. Dividend per share (DPS) and Dividend payout ration (DPR) are the predictors, whereas Maket Price per share (MPS) is the response variable, representing the value of the firm.

3.1.5.1.1 Independent Variables

3.1.5.1.1.1 Dividend per Share (DPS)

Dividend per share is the total dividend declared and issued by a company over the total oustanding ordinary shares. The declared dividends includes interim dividend paid.

$$DPS = \frac{D-SD}{OS}$$

Where:

DPS = Dividend per Share

D = total dividend declared and issued in the period

SD = the special or one-time dividend issued over the same period

OS = the total number of oustanding ordinary shares

3.1.5.1.1.2 Dividend Payout Ratio

This is the total amount of dividend paid in a certain period in relation to the total net income booked over the same period. It measures the proportion of net income distributed to equity holders as dividends.

$$DPR = \frac{DPS}{EPS}$$

Where:

DPR = Dividend Payout Ratio

DPS = Dividend per Share

EPS = Eanings per Share (Net income over total oustanding shares)

3.1.5.1.2 Dependent Variables

3.1.5.1.2.1 Market Price Share

This is the dollar equivalent as determined by market forces that investors are prepared to pay for each unit of share in the company.

3.1.6 Regression Model

The regression model for establishing the association is based on the concept of ordinary least square methodology. The ordinary least square (OLS) regression is a statistical analysis based on a linear model. The OLS statistical method estimates the relationship between one or more independent variable and the dependent variable by fitting a model that attempts to minimize the sum of squares in the diference between the observed and predicted values of the repsonse variable. This model is consistent with that used by Gangill and Nathani (2018) as well as Pandey (2017).

The regression model is as follows:

$$\boldsymbol{d}(\mathbf{MPS}) = \boldsymbol{\beta_0} + \boldsymbol{\beta_1}\mathbf{DPS} + \boldsymbol{\beta_2}\mathbf{DPR} + \varepsilon$$

Where:

$\boldsymbol{d}(\mathbf{MPS})$ = value of the firm

$\mathbf{DPS}$ = dividend per share

$\mathbf{DPR}$ = dividend payout ratio

$\boldsymbol{\beta_0}$ = the intercept or constant

$\boldsymbol{\beta_1}, \boldsymbol{\beta_2},$ = coefficients of the regression model

ε = erroe term

3.1.6.1 Hypothesis

The hypothesis below are based on empirical theories pioneered by MM, 1961, 1973.

H_0: Dividend Policy has no significant impact on the value of the firm

H_1: Dividend Policy has a significant impact on the value of the firm

CHAPTER 4

4.1 Data Analysis

This section presents the results of the data that has been analyzed on SPSS software. The data was analyzed for each of the five companies drawn from the Nifty FMCG index. Dividend per share (DPS) and Dividend Payout Ratio (DPR) are the independent variables whereas Stock Price is the response variable. The analytical techniques included herewith are; Correlation, Durbin-Watson test, Variation Inflation Factor (VIF) and Tolerance rate, as well as Regression. These techniques are briefly explained below.

Correlation Analysis

Correlation measures the degree and direction of association between two or more variables is used to represents the linear relationship that exists between the variables. Multicollinearity is a phonomenon whereby the predictor variables in a regression model are significanlty correlated. Multicollinearity is not desireable as it usually causes problems when fitting the regression model and interpreting the results. However, the correlation may be present but it should not be too high. Generally, an acceptable is a correlation of less than 0.7.

Variation Inflation Factor (VIF) and Tolerance Acceptance Test

VIF is another measure for multicollinearity. Values of 1 – 5 indicates low levels of multicollinearity, 5 – 10 indicates moderate levels whereas values above 10 are usually not acceptable. The Tolerance test also measures multicollinearity. It is the inverse of VIF. Values less that 1 are acceptable as indicating no issues with multicollinearity.

Durbin – Watson Test

The Durbin – Watson test is a meaure of autocorelation in which the residuals from the regression models are not independent. Acceptable values that indicate the absense of autocorrelation are from 1.5 – 2.5 (Montgomery, Peck, & Vining, 2001).

The data is for the companies is presented as per the following order: *Dabur Industries Ltd, Godrej Consumer Products Ltd, United Beverages Ltd, Tata Consumer Products Lts* and *Brittannia Ltd.*

4.1.1 Dabur Consumer Products Ltd

4.1.1.1 Descriptive Statistics

The table below describes the basic variables from Dabur Industries Ltd. The mean dividend per share that Dabur paid over the last decade is Rs. 1.9450 with the highest ever paid dividend being Rs. 2.75 per share and the lowest being Rs.1.15 per share. The average dividend payout ratio is 38.6% of net earnings, with the highest payout ratio being 92% and a standard deviation of 0.22307. However, as seen in the descriptive statistics table, the company did retained all its earnings in one particular period over the last decade although it paid out dividends. The maximum price the share price has ever reached is Rs. 414. 29 over the period from 2010 to 2019 but the stock reached a low of 70.93, averaging Rs. 207.34 over the period.

Table 1: Descriptive Statistics Summary

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPS	10	1.15	2.75	1.9450	.51986
DPR	10	.00	.92	.3860	.22307
Share Price	10	70.93	414.29	207.3440	113.04557
Valid N (list wise)	10				

4.1.1.2 Correlation Analysis

The correlation tests shows how the three variables inter-relate, but most importantly it reveals issues of multicollinearity between dividend per share and the dividend payout ratio. Herein we use correlation anaylsis to detect multicollinerity.

Table 2: Correlations Matrix

Correlations				
		DPS	DPR	Share Price
DPS	Pearson Correlation	1	.247	.874*
	Sig. (2-tailed)		.491	.001
	N.	10	10	10
DPR	Pearson Correlation	.247	1	.362
	Sig . (2-tailed)	.491		.304
	N	10	10	10
Share Price	Pearson Correlation	.874*	.362	1
	Sig . (2-tailed)	.001	.304	
	N	10	10	10
*. Correlation is significanit at the 0.05 level (2-tail).				

The association between dividend per share and divided payout ratio is positive at the strength of 0.247. This level of correlation is very weak and found to be statisticaly insignificant at a confidence level of 95 percent. Therefore we can conlude that there exist not multicollinearity between the independent variables. That is to say, dividend per share has insingnificant influence on the dividend payout ration and vice versa.

Dividend per share is found to be highly positively correlated with Dabur's share price, at a coefficient of 0.874. This relationship is also statisticaly significant at the level of 0.01 for a 95 percent confidence level. However, there happens to be a weak and positive correlation between dividend payout ratio and share price which is also insignificant.

4.1.1.3 Autocorrelation and Collinearity Analysis

The table below show the level at which the residuals of the independent variables in the regression model are independent as well as multicollinearity between the independent variables.

Table 3: Durbin – Watson and VIF

Autocorrelation	Collinearity	
Durbin-Watson	Tolerance	VIF
1.420	.939	1.065
	.939	1.065

The Durbin-Watson test shows the level of autocorrelation in the regression model. The D – W score is 1.42 which shows a relatively low level of autocorrelation in the independent variables. Moreover, the Variation Inflation Factor (VIF) and Tolerance acceptance test both show that there is no issue of multicolinearity between the divided per share and divided payout ratio. VIF is at 1.065 which is less than 10 and the tolerance level is at 0.939 which is below the threshold of 1.0.

4.1.1.4 Regression Analysis

4.1.1.4.1 Model Summary

The model summary statistics below tells us how well out predictor variables explains the movement in the response variable. It is found that dividend per share and dividend payout ratio accounts for at least 72.5% of the movement in share price of Dabur Industries ltd over the last decade.

Table 4: Model Summary Coefficients

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.887[a]	.786	.725	59.23288
a. Predictors: (Constant), DPR, DPS				
b. Dependent Variable: Share Price				

4.1.1.4.2 Analysis of Variance

Table 5: ANOVA Statistic Summary

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	90453.983	2	45226.992	12.891	.004[b]
	Residual	24559.734	7	3508.533		
	Total	115013.718	9			

a. Dependent Variable: Share Price

b. Predictors: (Constant), DPR, DPS

The ANOVA tables tells us how well the independent variables fit the overall regression model. In this case, we can confidently say that the regression model fits the data better than the model with no independent variables. This is shown by a significance level of 0.04 which is statistically acceptable at a 95 percent confidence level. Moreover, the F Statistic corroborates that the overall model is statisticaly significant at a value of 12.891, which is greater than the critical level of 4.2565 at 2 degree of freedom.

Therefore, we reject the null hypothesis that there is no significant impact of dividend policy on the firm's value. Dividend policy has a significant impact in the value of Dabur Industries Ltd.

4.1.1.4.3 Regression Model

The table below summarizes the output of the regression model.

Table 6: Regression Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-176.454	77.960		-2.263	.058
	DPS	181.711	39.195	.836	4.636	.002
	DPR	78.679	91.342	.155	.861	.418

a. Dependent Variable: Share Price

The regression results on table 6 yield the following regression model:

$$\boldsymbol{MPS} = \boldsymbol{-176.454} + \boldsymbol{0.836}(\boldsymbol{DPS}) + \boldsymbol{0.155}(\boldsymbol{DPR}) + \varepsilon$$

The regression model shows that dividend per share has a significant impact on share price, with a p-level of 0.02 at 95 percent confidence level. However, dividend payout ratio has no significant impact on share price. From these findings we can conclude that divided per share positivelly infulence the value of Dabur Industries Ltd's share price over time.

4.1.2 Godrej Consumer Products Ltd

4.1.2.1 Descriptive Statistics

In the descriptive table below Godrej Consumer Products's share price reached a maximum of Rs.774.16 after hitting the lowest price of Rs. 76.59. However, on average the company's share traded at an average price of Rs. 351.23. The company paid out an average dividend per share of Rs. 6.78, with a maximam and mininum of Rs. 15.00 and Rs. 4.25 per share respectively. The standard deviation of the share price is 3.34. Godrej CP distributed some of its earnings out to shareholders. On average, the companu distributed 25.5% of its income as dividends. But the dividend payout ratio varied. The maximam paid out was 52% while the minimum dividend paid out over the last decade is 15%.

Table 7: Descriptive Statistics Summary

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPS	10	4.25	15.00	6.7750	3.33843
DPR	10	.15	.52	.2850	.11128
Share Price	10	76.59	774.16	351.2330	234.62262
Valid N (list wise)	10				

4.1.2.2 Correlation Analysis

The correlation matrix below show how all the direction and strength of the variables that makes the regression model and also detects multicollinearity. There is a positive and fairly strong association between dividend per share and dividend payout ratio at 0.619. However, the strengh of this correlation should not be a concern as it is statistically insignificant thereby implying that the problem of multicollinerity would be minimal. Moreover, there happens to be a very string and statistically significant between dividend per share and share price at factor of 0.913. Divided payout ratio is also found to have a affirmative correlation with share price, though weak and statistically insignificant with a p-value of 0.219. All these correlation coeffiecients are at a 95 percent confidence level.

Table 8: Correlation Matrix

Correlations				
		DPS	DPR	Share Price
DPS	Pearson Correlation	1	.619	.913*
	Sig. (2-tailed)		.057	.000
	N.	10	10	10
DPR	Pearson Correlation	.619	1	.426
	Sig. (2-tailed)	.057		.219
	N	10	10	10
Share Price	Pearson Correlation	.913*	.426	1
	Sig. (2-tailed)	.000	.219	
	N	10	10	10
*. Correlation is significant at the 0.05 level (2-tailed).				

4.1.2.3 Autocorrelation and Multicollinearity Analysis

The table below provides statistics that indentifies the presense of autocorrelation between the independend variables as well as multicollinearity between the independent variables.

Table 9: Durbin - Watson and VIF Test

Autocorrelation	Collinearity Statistics	
Durbin-Watson	Tolerance	VIF
2.337	.617	1.620
	.617	1.620

The Durbin test for autocorrelation score is 2.337, which within the acceptable range of 1.5 – 2.5. This tells us that there is no presence of autocorrelation within the independent varibles. On the other hand, the Variation Inflation Factor (VIF) is within the acceptable range at 1.620 signifying the absence of multillinearity between dividend per share and dividend payout ratio. Moreover, the tolerance acceptance which is the inverse of the VIF test, produces an acceptable score of 0.617 which is less than the threshold of 1.0.

4.1.2.4 Regression Analysis

4.1.2.4.1 Model Summary

From the model summary table below, it can be seen that both dividend per share and dividend payout fit the model very well. The adjusted R Square value tells us that 82.6% of the movement in the share price of Godrej Consumer Products Ltd can is due to the changes in the firm's dividend policy, that is to say chages in dividend per share and dividend payout ratio.

Table 10: Model Summary Coefficients

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.930[a]	.864	.826	98.00085
a. Predictors: (Constant), DPR, DPS				
b. Dependent Variable: Share Price				

4.1.2.4.2 Analysis of Variance

Table 11: ANOVA Statistic Summary

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	428200.794	2	214100.397	22.292	.001[b]
	Residual	67229.167	7	9604.167		
	Total	495429.961	9			
a. Dependent Variable: Share Price						
b. Predictors: (Constant), DPR, DPS						

The ANOVA table indicates that the regression model fit the data well as compared to when there were no independent variables. This can be seen from the F-value which is statisticaly significant at 0.01 for a 95 percent confidence level. Moreover, the F- Value is at 22.292, which is well higher than the critical value of 4.2565 at a degree of freedom (2, 9). Hence, we can determine that divided strategy has a

significant impact on the value of Godrej Consumer Products, hence we reject the null hypothesis in favour of alternative.

4.1.2.4.3 Regression Model

The table below summarizes the variables coefficients and estimates the regression model.

Table 12: Regression coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-14.666	91.115		-.161	.877
	DPS	73.909	12.456	1.052	5.934	.001
	DPR	-473.110	373.670	-.224	-1.266	.246

a. Dependent Variable: Share Price

The regression model estimated from the analysis is as follows:

$$\boldsymbol{MPS = -14.666 + 1.052(DPS) - 0.224(DPR) + \varepsilon}$$

The regression model shows that dividend per share has a significant impact on share price. This relationship is statistically significant at 0.01 for a 95 percent confidence level. However, dividend payout ration has no influence on the share price and this findings. Therefore, we can conclude that the dividends that Godrej CP has been paying have significanlty influenced its value, but the decision to set a certain payout ratio has no significant impact on its value.

4.1.3 United Beverages Ltd

4.1.3.1 Model Summary

United Breverages stock has had quite a wide variance in price over time. Over the last decade, the shares traded at an average price of Rs. 714.49, with a standard deviation of 321.83. The shares hit a maximam price of Rs 1,281.57 but have also traded as low as Rs. 149.53. The maximum dividend per share paid is Rs. 2.50 per share and the minimum dividend paid is Rs. 0.36, averaging Rs. 1.1060 per share over the decade. The low dividends are also reflected in the payout ratio. The company's average dividend payout is 10.6% ,with the maximum and minimum ever paid being 15% and 7% respectively, indicating that the company retains most of its earnings.

Table 13: Descriptive Statistics Summary

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPS	10	.36	2.50	1.1060	.66184
DPR	10	.07	.15	.1060	.02221
Share Price	10	149.53	1281.57	714.4880	321.83408
Valid N (list wise)	10				

4.1.3.2 Correlation Analysis

As per the correlation matrix table below, there is a negative and statistically insignifican association between divided per share and dividend payout ratio. The correlation for this relationship is -0.539 with a significance level of 0.108 for a 95 percent confidence level. This means that the issue of multillinearity is of no concern. Moreover, there also exist a negative and weak relationship betweem dividend payout ratio and share price which is also statistically insignificant. However, dividend per share is found to be strongly correlated to share price at a factor of 0.882, which is also statistically significant at 95 percent confidence level.

Table 14: Correlation Matrix

Correlations				
		DPS	DPR	Share Price
DPS	Pearson Correlation	1	-.539	.882*
	Sig. (2-tailed)		.108	.001
	N.	10	10	10
DPR	Pearson Correlation	-.539	1	-.427
	Sig . (2-tailed)	.108		.218
	N	10	10	10
Share Price	Pearson Correlation	.882*	-.427	1
	Sig . (2-tailed)	.001	.218	
	N	10	10	10
*. Correlation is significant at the 0.05 level (2-tailed).				

4.1.3.3 Autocorrelation and Multicollianerity Analysis

The Durbin – Watson and Variation Inflation Factor table below shows the test output results for both test for autocorrelation and mutlicollinearity, respectively.

Table 15: Durbin - Watson and VIF Statistic

Autocorrelation	Collinearity Statistics	
Durbin-Watson	Tolerance	VIF
.714	.709	1.410
	.709	1.410

The Durbin – Watson test shows a score of 0.714. This implies that there is presence of autocorrelation within the independent variables. However, this can be expected when dealing with share data as future price are often derived from historical events. On the other hand the VIF and Tolerance acceptance indicated that there is no concern for multicollinearity between dividend per share and dividend payout ratio. The VIF and tolerance scores are within acceptable levels at 1.410 and 0.709 respectively.

4.1.3.4 Regression Analysis

4.1.3.4.1 Model Summary

The model summary table below indicates how well the independent variables sway the movement in stock prices. The Adjusted R Square which measures the relationship is found to be 0.719. This means that the model which consists of data from both dividends per share and dividend payout ratio accounts for 71.9% of the change in the price of United Beverages shares.

Table 16: Model Summary Coefficients

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.884[a]	.781	.719	170.62889
a. Predictors: (Constant), DPR, DPS				
b. Dependent Variable: Share Price				

4.1.3.4.2 Analysis of Variance

Table 17: ANOVA Statistic Summary

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	728395.071	2	364197.536	12.509	.005[b]
	Residual	203799.519	7	29114.217		
	Total	932194.590	9			
a. Dependent Variable: Share Price						
b. Predictors: (Constant), DPR, DPS						

The F-static is significant with a p-value of 0.05 at a confidence level of 95 percent. Moreover, the F-value is at 12.509, above the critical value of 4.2565 at degree of freedom of (2, 9). This implies that the regression model fit the data well, as compared to when no independent variables are used. From this findings we can conclude that dividend rule has a substantial impact of the value of firm, hence we reject the null hypothesis in favour of the alternative.

4.1.3.4.3 Regression Model

From the regression coefficient table below, it is indicated that dividend per share has an impact of share price, a relationship which is statistically significant with a p-value of 0.003 at a 95 percent confidence interval. However, dividend payout ratio does not seem to have an impact on share price, and this findings are shown by a statistically insignificant relationship at 0.754. Therefore we can conclude that United Beverages Ltd.'s dividend payment per share has a significant impact on the value of the company's share.

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Table 18: Regression Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	115.277	398.507		.289	.781
	DPS	446.861	102.055	.919	4.379	.003
	DPR	990.404	3040.994	.068	.326	.754
a. Dependent Variable: Share Price						

The regression equation for the relationship that model dividend per share, divided payout ratio and share price for United Beveraged Ltd can be shown as follows:

$$\boldsymbol{MPS = 115.277 + 0.919(DPS) + 0.068(DPR) + \varepsilon}$$

4.1.4 Tata Consumer Produts Ltd

4.1.4.1 Descriptive Statisticts

On average, Tata Consumer Products' stock has been trading at an average price of Rs. 145.51 over the last 10 years, reaching a minimum and maximum of Rs.85.97 and Rs. 234.03 respectively. However, the dividend per share has not moved much over the same time frame. The highest paid is Rs. 2.50 per share, the lowest being Rs. 2.00 averaging out at Rs. 2.24 at a standard deviation of 0.176. The mean dividend payout ration is 42.90% but the highest payout us 68% and the lowest is 25% with a standard deviation of 0.1427.

Table 19: Descriptive Statistics Summary

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPS	10	2.00	2.50	2.2400	.17607
DPR	10	.25	.68	.4290	.14271
Share Price	10	85.97	234.03	145.5130	48.85914
Valid N (list wise)	10				

4.1.4.2 Correlation Analysis

The correlation between dividend per share and share price very strong and positive at 0.901. This is statistically significant at confidence level of 95 percent. However, the other measure of dividend policy, which is dividend payout ratio is found to be negatively related to share price with a correlation factor of -0.279. This weak correlation is statistically insignificant. Moreover, there is a statistically insignificant relationship between dividend per share and dividend payout ratio. Due to the weak and insignificance of this correlation, we can confidently ignore the problem of multicollinearity.

Table 20: Correlation Matrix

Correlations				
		DPS	DPR	Share Price
DPS	Pearson Correlation	1	-.314	.901*
	Sig. (2-tailed)		.376	.000
	N.	10	10	10
DPR	Pearson Correlation	-.314	1	-.279
	Sig . (2-tailed)	.376		.434
	N	10	10	10
Share Price	Pearson Correlation	.901*	-.279	1
	Sig . (2-tailed)	.000	.434	
	N	10	10	10
*. Correlation is significant at the 0.05 level (2-tailed).				

4.1.4.3 Autocorrelation and Multicollinearity Analysis

The table below shows the results of the Durbin – Watson and VIF test which measures autocorrelation and multicollinearity respectively.

Table 21: Durbin - Watson and VIF Test

Autocorrelation	Collinearity Statistics	
Durbin-Watson	Tolerance	VIF
2.138	.901	1.110
	.901	1.110

The Durbin – Watson test indicates a score of 2.138, which implies that there is no autocorrelation in the data. The acceptable level for this test is 1.5 to 2.5. On the other hand, the VIF and tolerance acceptance test shows that there is no multicollinearity between the divided per share and the divided payout ratio. The VIF and tolerance acceptance score are 1.110 and 0.901 respectively, which both fall within the acceptable limits.

4.1.4.4 Regression Analysis

4.1.4.4.1 Model Summary

The model summary table below indicates the extent at which the depended variables relate with the response variables. As depicted by the Adjusted R Square, a model that has both dividend per share and divided payout ratio accounts for 75.9% of the movement in the share price. That is to say, 75.9% change in the share price can be attributed to both dividend per share and dividend payout ratio.

Table 22: Model Summary Coefficients

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.901[a]	.812	.759	23.99079	
a. Predictors: (Constant), DPR, DPS					
b. Dependent Variable: Share Price					

4.1.4.4.2 Analysis of Variance

Table 23: ANOVA Summary Coefficients

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17456.038	2	8728.019	15.164	.003[b]
	Residual	4028.905	7	575.558		
	Total	21484.943	9			
a. Dependent Variable: Share Price						
b. Predictors: (Constant), DPR, DPS						

The ANOVA summary indicates that the model fits the data well more that if there we no independent variables. This is true, as shown by a statistically significant F-value at 0.03, for a 95 percent significance. Therefore, we can confidently say that there is a significant relationship between Tata Consumer Products Ltd.'s dividend policy and the price of its share , which measures the firm value.

4.1.4.4.3 Regression Model

The summary table of the regression confidents below show that dividend per share has a significant impact on the share price. This association is statistically significant at 0.001 for a 95 percent confidence level. On the other hand, the impact of dividend payout ratio on share price is statistically insignificant at 0.980 for a 95 percent confidence level. Therefore, we can conclude that the decision of Tata to continuously pay increasing dividends to its equity holders has a positive impact on the shareholder's wealth. However, the decision as to how much they retain from the profits is insignificant .

Table 24: Regression Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-416.301	117.864		-3.532	.010
	DPS	250.518	47.846	.903	5.236	.001
	DPR	1.523	59.031	.004	.026	.980
a. Dependent Variable: Share Price						

The regression equation for this relationship is shown as below:

$$\boldsymbol{MPS = -416.301 + 0.903(DPS) + 0.004(DPR) + \varepsilon}$$

4.1.5 Britannia Industries Limited

4.1.5.1 Model Summary

The table below shows that Britannia's stock price moved by a wide margin over the last 10 years. The share sold for a minimum of Rs. 164.96 up to a maximum of Rs. 3,068.67. The average price for each share was Rs. 1,017.89 with a standard deviation of 1,002.52. The mean dividend per share paid is Rs. 15.35 with the maximum payment of Rs. 30.00 and a minimum of Rs. 5.00 per share. The maximum dividend payout ratio is 58%, the average payment ratio is 39.50% and the least payout ratio being 28%.

Table 25: Descriptive Summary Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPS	10	5.00	30.00	15.3500	8.59279
DPR	10	.28	.58	.3950	.11825
Share Price	10	164.96	3068.67	1017.8900	1002.52763
Valid N (list wise)	10				

4.1.5.2 Correlation Analysis

Table 26: Correlation Matrix

Correlations				
		DPS	DPR	Share Price
DPS	Pearson Correlation	1	-.791**	.970**
	Sig. (2-tailed)		.006	.000
	N.	10	10	10
DPR	Pearson Correlation	-.791**	1	-.646*
	Sig . (2-tailed)	.006		.043
	N	10	10	10
Share Price	Pearson Correlation	.970**	-.646*	1
	Sig . (2-tailed)	.000	.043	
	N	10	10	10
**. Correlation is significant at the 0.01 level (2-tailed).				
*. Correlation is significant at the 0.05 level (2-tailed).				

The association between dividend per share and dividend payout ratio negative at 0.791 and is found to be statistically significant at 0.006 for a confidence level of 95 percent. This should call for a possible issue of multicollinearity. On the other hand, dividend per share is found to be highly correlated with share price positively. The relationship is also statistically significant. Moreover, dividend payout ratio is negatively associated with share price, at a fairly strong but statistically significant relationship".

4.1.5.3 Autocorrelation and Multicollinearity Analysis

The test for autocorrelation and multicollinearity is found using the Durbin – Watson test and VIF test respectively as per the table below.

Table 27: Durbin - Watson and VIF Test

Autocorrelation	**Collinearity Statistics**	
Durbin-Watson	Tolerance	VIF
2.273	.375	2.670
	.375	2.670

The Durbin – Watson test shows that there is no issue of autocorrelation with the independent variables. The score is 2.273 which is well within the acceptable range of 1.5 – 2.5. On the other hand, the VIF and Tolerance acceptance test also shows that there is no cause for multicollinearity. The scores for the VIF and Tolerance acceptance test are 2.670 and 0.375 respectively which are within their respective acceptance limits. However, this test is in contradiction of multicollinearity test conducted through correlation. Therefore, the VIF and Tolerance will be treated as final supersedes the correlation analysis test.

4.1.5.4 Regression Analysis

4.1.5.4.1 Model Summary

The model summary below indicates as shown by the Adjusted R Square, 97.3% of the movement in the share price of Britannia Industries Limited can be explained the changes in the response variable, which is represented by the dividend per share and dividend payout ratio in our model.

Table 28: Model Summary Coefficients

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.989[a]	.979	.973	165.52723	2.273

a. Predictors: (Constant), DPR, DPS

b. Dependent Variable: Share Price

4.1.5.4.2 Analysis of Variance

Table 29: ANOVA Summary Coefficients

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8853760.001	2	4426880.000	161.569	.000[b]
	Residual	191794.843	7	27399.263		
	Total	9045554.844	9			

a. Dependent Variable: Share Price

b. Predictors : (Constant), DPR , DPS

The F-value of 161.569 is statistically significant at a confidence level of 95 percent. This means that the overall model fits our data well with both independent variables together. Therefore, the dividend policy of Tata Consumer Products has a significant on its share price hence the value of the firm.

4.1.5.4.3 *Regression Model*

From the regression model coefficients table below, it can be found that dividend per share has a statistically substantial impact of the share price. This impact is statistically significanti at 0.000. Moreover, dividend payout ratio is also found to have a statistical impact on share price at a p-value of 0.009. Both these significance test are at a 95 percent confidence level. Therefore we can conclude that both dividend per share and dividend payout ratio have a significant bearing on share price in the case of Tata Consumer Products Limited.

Table 30: Regression Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2251.069	442.833		-5.083	.001
	DPS	142.796	10.492	1.224	13.609	.000
	DPR	2726.675	762.438	.322	3.576	.009

a. Dependent Variable: Share Price

The regression model that depicts the impact of dividend policy on share value of Tata Consumer Products Limited is shown below:

$$\boldsymbol{MPS = -2,251.069 + 1.224(DPS) + 0.322(DPR) + \varepsilon}$$

4.2 Discussions and Recommendations

4.2.1 Discussion

From the analysis of the five companies. Tata Consumer Products Limited has the highest average dividend payout ratio of 42.9% over the last decade. On the other hand, Britannia Industries Limited paid the highest average dividend per share of Rs. 15.35. This was after accounting for stock split, which took place in 2010 and 2018 respectively. For all the five companies, it is established that the overall dividend plan of the firm has a significant impact on the firm's value as measured by the share price.

Moreover, the test for autocorrelation showed that there is no autocorrelation for there was no concern for all the five companies, except Britannia, which has a positive autocorrelation score of 0.714. This is mainly due to the fact that past policies are likely to influence future dividend policies. In fact, Britannia Industries in the only company that was highly leveraged at the beginning of the decade, but drastically reduced in debt to almost zero by the year 2019. Therefore, the de-leveraging might have added to the autocorrelation issue in the data. Moreover, for all the companies, the VIF factor was within the acceptable limits, which indicates the absence of significant multicollinearity between the two predictor variables.

Further analysis indicates that dividend policy as measured by both dividend per share and dividend payout ratio, co-joined in a single model, has a statistically significant impact on value of the firm. That is to say, the overall regression model was a fit for all the five sample units. Moreover, the minimum Adjusted R Square for all the companies is 72.5%, which indicates that there is greater confidence that the movement in the firm's value can be accredited to the changes in the firm's dividend strategy. This findings are consistent with those of Adefila et al. (2000). However, the independent variables that this study used as measure of dividend policy have different impacts on the share price.

For Dabur Industries Ltd, Godrej Consumer Products Ltd, United Beverages Ltd and Tata Consumer Products, the dividend per share has a major and positive impact on

the value of the corporation's share price. On the other hand dividend payout ration is found to have no significant impact on the firm's share price. These findings are similar to those discovered by Salman (2013). Salman investigated the impact of dividend decision on the shareholder's wealth of businesses registered on the Pakistan national stock exchange. He used Dividend per Share (DPS), Price Earnings Ratio (PER) and Retained Earnings Ratio (RER) as the independent variables and Share Price as the response variable. Retained Earnings Ratio is the inverse of Dividend Payout Ratio. Salmon concluded that DPS and PER have a positive and significant impact on the share price whereas RER has no significant impact on share price. Ilaboya and Aggreh (2013) also concluded that dividend payment have a positive impact on the value of FMCG firms in India post the 2008 global financial meltdown .

However, for Britannia Industries Ltd, both dividend per share and dividend payout ratio are found to have a positive and significant impact on the prices of share of the enterprise, which in turn represent the market value of the firm. The findings are consistent with Bacon (2013) who inspected the effect of certain financial metrics on the value of the firm. They found that among other financial metrics used, dividend payout ratio also has a positive and significant influence on the value of the firm.

4.2.2 Recommendations

As per the findings from the study, for all the companies, dividend per share has a positive and significant impact on the value of the firm. Therefore corporate managers of those companies that are looking to increase its share price steadily should, in addition to other methods, devise a progressive and stable dividend payment policy. This analogy is supported by the Lintner's (1956) study that dividend payment can be used to signal to the shareholders the future prosperity of the firm. However, external factors such a government tax policy should be taken into account.

Moreover, corporate managers should not waste resources on trying to tweak a dividend payout ratio policy as this has no significant impact on the value of the firm. Instead a policy that will ensure that shareholders are compensated adequately is one that is desirable.

4.3 Limitation of the Study

This study hopes to fill the research gap within the context of the Indian literature and add to the prevailing global literature on the impact of dividend policy on the value of the firm. However, the scope of the research cannot be infinite and there may be obstacles which one encounter through the course of conducting the research, which usually limits the extent to which the study can reach and confines the study to a certain scope.

The following are identified as the limitation to this study:

a) The study covers a period of only 10 years which also happens to be post the 2008 global financial crisis. Therefore, the effects that could be captured on a longer period study are ignore and the pre-recession effects are also not captured.

b) This study uses only two variables as proxy for dividend policy; dividend per share and dividend payout ratio. Other variables that are a possible measure of dividend policy such as dividend yield are ignored.

c) The study draws a sample of only five companies drawn from the Nifty FMCG Index, which consists of only 15 companies. Although the sample represents 1/3rd of the population on which it is drawn, a large number of other FMCG companies which are not part of the Nifty FMCG Index are ignored. Panel data regression would have addressed this limitation, as used by (Anton, 2006), however, the analysis would lack granularity for company wise analysis.

d) This study relies on quantitative secondary data. Qualitative data should have been obtained from the corporate managers of these companies to understand their perspective on the subject matter and if the qualitative findings match the quantitative findings.

CHAPTER 5

5.1 Conclusion

The main objective of this paper was to empirically scrutinize the impact of dividend policy on the value of the firm. The study covered a period of 10 years post the global financial crisis using a sample data of five companies obtained from the Nifty FMCG Index. The ordinary least square regression methodology was implemented to analyse the data collected thereof.

The study aims to answer the following questions: a) what is the overall influence of dividend policy on the firm's value. b) Based on the constituents of dividend policy, how do they impact the firm's value? Therefore the identified determinants of dividend policy are dividend per share and dividend payout ratio. These constitute the predictor variables. The firm's value is represented by share price, which will be the response variable. The choice of variables is influenced the study conducted by Salman (2013).

From the results of the study it is found that for all the five companies under study, the overall dividend policy of the firms has a positive and statisticaly significant impact on the value of the firm's represented by share price. These findings are aligned to the *dividend relevance theorists* such as Gordon (1963), Walter (1963) as well as John and Williams (1985) who propose that a firm's dividend policy has a direct impact on shareholder's value. Ilaboya and Aggreh (2013) also came to the same conclusion after conducting a similar study on the FMCG in India but using panel data for regression. The results of our therefore adds to the literature on the theory of relevance of dividend policy to the firm's value.

However, even though the overall model shows that dividend policy positively impact a firm's value, the individual constituents of dividend policy paint a different picture. Dividend per share is found to positively and statisticaly impact the value of the firm. These findings are true for Dabur Industries Ltd, Godrej Consumer Products Ltd, United Beverages Ltd and Tata Consumer Products. This relationship may be explained by a number of theories. Firstly, the *tax-effect theory* of dividend policy

relevance purports that dividends are taxed higher than capital gains, therefore investors are willing to forgo dividends in return for higher capital gains later which are taxed at lower rates. In India, the recipients of dividends were not taxed, not before April 2020. This meant that shareholders prefer dividends as they do not or carry a low tax rates, hence the increase and steady dividend over time. As a result, investors would be looking to invest in the companies that payout dividends thereby driving their share price and value.

On the other hand, the average leverage for the five companies, as measured by the ratio of long-term debt to equity, for the period under study is 0.4 or 40%. Interpreting this means that the firms are fairly leveraged meaning that the debt burden is not that much on its earnings, which leaves the firm with plenty of cash after paying debt interest. As a result, agency problems are prone to arise as managers can misappropriate the investors and to manage this problem gives rise to agency costs. In the context of the *Agency theory* of dividend policy relevance, theorist believe that shareholders tend to desire the excess profits to be distributed as dividends to minimize the agency cost, thereby pushing the demand for dividend paying companies and driving their share price value high.

Moreover, the FMCG sector has witnessed tremendous growth over the last decade and is expected to growth an average at 7 percent over the next decade, growth that is driven by rising incomes, shifting demographics and urbanisation. As a results, existing FMCG companies can expect to benefit from this growth and thereby distribute current profits to shareholders in anticipation for more future profits. According to the *signalling effect theorists* of dividend policy relevance, the decision on pay or increase dividends by managements is a signalling tool for future prosperity. Therefore, the share of the company will enter a bullish trend to discount this information, hence increasing the value of the firm.

Dividend payout ratio is found to be insignificant to the value of the firm, which is consistence with the irrelevance theory tabled by Modigliani and Miller (1961). In summary, we can conclude that dividend policy has a positive and significant impact of the value of companies in the Indian FMCG industry. However, the individual determinants of dividendi policy have different relationships with the firm's value, of which the cause may be interpreted uniquely by the divided policy theories.

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