A Study on Impact of Dividend Policy on Decision of Investors in Trust line Securities Limited

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Abstract- Dividend policy which is a financial term has produced a large quantum of theoretical and empirical studies written as literature in the past. Dividend policy gives an issue of interest in financial narrative as combined securities Firms came into survival. Wealth is still a debatable issue. Still, there is no common consensus emerged after several decades of investigation put into practice and scholars can disagree with the same empirical evidence. This paper emphasise the importance and factors that influence dividend policy on investment decisions. For the same, an extensive study of literature review is undertaken by reviewing the most important theories of dividend and dividend policy. This study is underpinned with empirical study about Power Industry. At the end, the researcher, out of the empirical findings has given important suggestion to the top management about dividend policy and dividend payout ratio and stable dividend earnings to shareholders.

I. INTRODUCTION

In the words of Ezra Salomon, “In an uncertain world where verbal statement can be misinterpreted or ignored, dividend speaks louder than 1000 words.” Dividend is a payment obligation towards company pay to its shareholders. Dividend is a part or proportion of a profit.

Types of dividend

1. Cash Dividends: These kind of dividend is paid cash out of profits to shareholders.
2. Share Repurchases: This is also called as buy back share or share repurchase to company itself.
3. Stock Split: It means when the share price is too high, that situation Company go for stock split. Shares divided into small units. Because affordable to all the common investors to invest to our company.
4. Bonus Issue: Bonus shares company given to existing shareholders. The shareholders are already holding the shares of the company. It will not change the company value. Bonus issue convert retained earnings into capital.
5. Right Issue: Shareholders to buy the shares based on specific shares from specific price and specific time.

Dividend Policy

Dividend Policy means direct or indirect decision taken by the Board of Directors regarding payout ratio and retention ratio. This policy is used to company manage the company either go for maximum payout or minimum retention, minimum payout or maximum retention to its shareholders.

Types of dividend policy

It can be classified into 2 categories: one is Managed Dividend Policy and other one is Residual Dividend Policy.

1. Managed Dividend Policy: It is a predefined function company effectively managing the fixed obligation and flexible obligation. Company will follow payout ratio in per share dividend value is same over the time or it will increase year by year.
2. Residual Dividend Policy: The amount of dividend is simply the cash left after the firm makes desirable investments using Net Present Value rule. The rule is- if the company does not have any positive Net Present Value projects to invest in, then it should pay shareholders dividend.

II. REVIEW OF LITERATURE
Dividend policy literature is visible at treated on gathering of problematic and factual analysis, especially catching after the newsletter by Lintner (1956) that supports the composure of dividend policy in the valuation of firm’s share price. From that point onward, there has never been a general of findings. Researchers regularly differs even about the same empirical evidence (Al-Malkavi, Rafferty and Pillai, 2010). Lintner (1956) exhibited a model in light of stylized yield of the particular characteristics of a “sticky of dividend”. The author found that organizations are hesitant to decrease dividends since this could lead investors to interpret poor execution and cause the stock price to fall also.

Fairchild (2010) the point of this paper was to break down or to focus on the unpredictable relationship between dividend policy, managerial motivating forces and firm value. A study has been made by developing a theoretical on dividend policy that consolidates signaling and free cash flow motives, additionally, managerial communication and reputation impacts are likewise considered into the model. Author said that for more interest in new esteem making venture firm may need to cut dividends. It is likewise found that investors are considered “dividend cut” as terrible news and it affected to firms market value and esteem. To alleviate this issue supervisor’s impact to the financial specialists about the purpose behind profit cut which could be useful for improving managerial reputation impacts. Author has additionally given real world case to show the multifaceted nature of dividend policy.

Islam et al., (2012) dividend is a standout amongst the most far from being obviously true themes for the researchers. Numerous researchers investigate the elements of dividend policy. The aim of the study is to discover the factor that persuades the dividend policy among the cement industry. For the purpose data of eight firms was gathered from Karachi stock trade and state bank of Pakistan. SPSS 17 was utilize to break down the information and it was found that PE ration, EPS development and deal development are decidedly connected with the dividend payout while profitability and debt to equity were found to have negative relationship with dividend payout.

Bhattachary. S (1979). This paper assumes that outside investors have imperfect information about firm’s profitability and that cash dividends are taxed at a higher rate than capital gains. It is shown that under these condition’s such dividends functions as a signal of expected cash flows. By structuring the model so that finite-lived investors turnover continuing projects to succeeding generation of investors, we derive a comparative static result that relates the equilibrium level of dividend payout to the length of investor’s planning horizon.

Smith Jr, C. W., & Watts, R. L. (1992). We examining explanations for corporate financing, dividend, and compensation-policy choices. We document robust relations among corporate policy decision and various firm charactertics. Our evidence advice contracting theories are more important in explaining cross-sectional difference in considering financial, dividend and remuneration policies than either tax-based or signal theory.

Black, F., & Scholes, M. (1974). This paper suggests that it is not possible to demonstrate, using the best available empirical methods, which the expected returns on high yield common stocks differ from the expected returns on low yield common stocks either before and after taxes. A taxable investor who concentrates his portfolio in low yield securities cannot tell from the data whether he is increasing or decreasing his expected after-tax return by so doing. A tax exempt investor who concentrates his selection in high earning securities cannot show the data whether he is inclining or declining on investors expected return. We argue that the best method for testing the effects of dividend policy on stock prices is to test the effects dividend yield on stock returns. Thus the truth we cannot say, using the greatest obtainable methods, which effects will change the dividend earning on stock returns we cannot say, if any change in dividend policy will have on a corporation’s stock price.

Fama, E. F., & Babiak, H. (1968). Starting with the “partial adjustments model” suggested by Lintner (10,11), this paper examines the dividend policies of individual firms. The Lintner model, in which the change in dividends from year t-1 to year t is regression on a constant, the level of dividends for t-1, and the level of profits for t-1, explain dividend changes for individual firms fairly well relative to other models tested. But in which the constant term is suppressed and the level of earnings for t-1 is added provides the best predictions of dividends on a year of data not used in fitting the regressions.
Denis, D. J., & Osobov, I. (2008). In the US, Canada, UK, Germany, France, and Japan, the propensity to pay dividends is higher among larger, more profitable firms, and those for which retain earnings comprise a large fraction of total equity. Although there are hints of reducing in the tendency to pay dividends in large number of sample countries over the 1994-2002 year, they are determined by a breakdown of newly listed firms to initiate dividends when expected to do so, dividend abandonment and the failure to initiate by existing nonpayer are economically unimportant except in Japan. In addition, in every nation, aggregate dividends have not reducing and are intense among the largest, most beneficial firm. Finally, outside of the US there is little evidence of a systematic positive relation between relative prices of dividend paying and nonpaying firms and the propensity to pay dividends. Overall, these result transmit doubt on signal, clientele, and categories briefly for dividends, but reliable brokerage expenses base lifecycle concept.

Baker, H. K., Farrelly, G. E., & Edelman, R. B. (1985). In this study we surveyed officers from three board groups of firms: utilities, manufacturing and wholesale/retail. We made the following conclusion: (1) The respondents express a high level of agreement with Lintner’s position that continuity of dividends is important. (2) The respondents seem to believe that dividend policy affects share value. (3) The respondents are generally aware of dividend signaling and clientele effects. (4) The opinions of the respondents from utility industry differ markedly from those in the other two industries.

III. OBJECTIVES OF THE STUDY

To study the influence of dividend policy on the investment decision among the equity investors.

Research Methodology

Research Design

Descriptive research seeks to certain magnitude by making complete the study of the topic. It is used in this project to find out the effectiveness of performance dividend policy on share holders wealth using the Walton model and Garden model.

Sample design

Sampling is a procedure to draw conclusion about the large group of respondents by studying a sample of the total dividend funds. Sample is the segment of the shareholders.

Nature of the data

The data was collected from the primary data by collecting through the articles and secondary data.

Primary Data

The data is collected from through the questionnaire provided to the shareholders and get the respondents. It is collected from the interactions with analysts in the company during the live interaction to the shareholders.

IV. DATA ANALYSIS

Independent T-test for Gender and investment decision

Independent Samples Test

The above table represents significant values is 0.104 which is greater than 0.05. Hence, null hypothesis is accepted. Alternative hypothesis is rejected. Hence, there is no significant difference between Gender and investment decision.

The above table represents significant values is 0.666 which is greater than 0.05. Hence, null hypothesis is accepted. Alternative hypothesis is rejected. Hence, there is no significant difference between Gender and investment option.
Findings

The majority of the investors are 36-40 age of male people and married. The majority of the investors are PG completed & business people. The most of the investors are 120000-300000 annual income people & invested at midterm. The most of the investors are 15-30% invested of their income & monitor monthly. The most of the investors are agree the high returns, speculation in the equity market. The most of the investors are agree the dividend in the Equity Market. There is no significant difference between Gender and stock market. There is no significant difference between Gender and investment option. There is a significant difference between Gender and invest on stock market.

Suggestion

Investors always prefer the dividend payment for capital appreciation. Hence some amount of dividend must be paid regularly. Unless until the payment will reduce the net worth of the industry. The industry should improve the dividend per share. The industry should follow stable dividend policy. The industry should maintain high dividend per share. The industry must improve and maintain high payout ratio. When the industry will get price earnings highly, that industry will grow.

V. CONCLUSION

There is no fixed pattern in the distribution of dividend of the Power Sector Industry. But pattern could be worked out for different companies.

For Shareholders: from the shareholder’s point of view the company which is giving more dividends is good for the shareholder’s. So the firm must try to inclining our Dividend Per Share to their investors and invest more.

For Organisation: The companies which have higher EPS (earning per share) is good because higher the EPS higher is the PAT (profit after tax). So the firm must try to inclining their Profit After Tax and also their Earning Per Shares will increase.

Payout Ratio: From the analysis of all the five companies we found that payout ratios are in the range of 25-35 which is considered a very good ratio.

The companies are appointing almost one by third is dividend and remaining are retaining as well as surplus.

BIBLIOGRAPHY