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Research Paper | Finance

Study of Dividend Decision of Tata Motors in the Light of EPS

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ABSTRACT

Corporate finance deals with long-term and short-term decisions and techniques relating to monetary decisions that business enterprises make and the tools and analysis used to make these decisions, making Dividend Decision one of the important aspects as the primary goal of corporate finance is to maximize shareholder value thereby of corporate finance. In the above context I have studied the relationship between the Dividend per share, Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share of Tata Motors over a period of 2008 to 2012. The study is based on secondary data collected from the authentic websites of these companies. I have used Pearson's Correlation Coefficient (2 Tailed test, 5% Level of Significance) to see whether there is any significant correlation between the above mentioned variables. It also needs to be seen whether there are any major fluctuations in the above variables over the period of study and to what extent.

KEYWORDS: Adjusted & Reported EPS, Corporate Finance, Dividend

INTRODUCTION:

The primary goal of corporate finance is to maximize shareholder value. Corporate finance is the area of finance dealing with monetary decisions that business enterprises make and the tools and analysis used to make these decisions thus is applicable to financial problems of all kinds of firms. Short-term issues include the management of current assets and current liabilities, inventory control, investments and other short-term financial issues. Long-term issues include new capital purchases and investments. Thus corporate finance is associated with transactions in which capital is raised in order to create, develop, grow or acquire businesses. One of the major areas of Corporate Finance is Capital Investment Decision which looks into long-term corporate finance decisions relating to fixed assets and capital structure. Decisions are based on several inter-related criteria. (1) Corporate management seeks to maximize the value of the firm by investing in projects which yield a positive net present value when valued using an appropriate discount rate in consideration of risk. (2) These projects must also be financed appropriately. (3) If no such opportunities exist, maximizing shareholder value dictates that management must return excess cash to shareholders (i.e., distribution via dividends). Capital investment decisions thus comprise an investment decision, a financing decision, and a dividend decision.

LITERATURE REVIEW:

In their paper "Financing-Motivated Acquisitions", ***Isil Erel, Yeejin Jang, Michael S. Weisbach,*** evaluated the extent to which acquisitions lower financial constraints on a sample of 5,187 European acquisitions occurring between 2001 and 2008. Each of these targets remains a subsidiary of its new parent, so they observed the target's financial policies following the acquisition. They examined whether these post-acquisition financial policies reflect improved access to capital. They found that the level of cash target firms hold, the sensitivity of cash to cash flow, and the sensitivity of investment to cash flow all decline significantly, while investment significantly increases following the acquisition. These effects are stronger in deals more likely associated with financing improvements. These findings are consistent with the view that easing financial frictions is a source of value that motivates acquisitions.

Raghuram Rajan studied the nature of the firm and its linkage with financing in his paper "The Corporation in Finance ". To produce significant net present value, an entrepreneur has to transform her enterprise into one that is differentiated from the ordinary. To achieve the control that will allow her to execute this strategy, she needs to have substantial ownership, and thus financing. But it is hard to raise finance against differentiated assets. So an entrepreneur has to commit to undertake a second transformation, standardization, that will make the human capital in the firm, including her own, replaceable, so that outside financiers obtain control rights that will allow them to be repaid. He argued that the availability of a vibrant stock market helps the entrepreneur commit to these two transformations in a way that a debt market would not. This helps explain why the nature of firms and the extent of innovation differ so much in different financing environments.

Aswath Damodaran, in his paper 'Dividends and Taxes: An Analysis of the Bush Dividend Tax Plan' studied the implications of making dividends tax free to investors. Investors and corporate finance practitioners contemplated about this after President Bush proposed it as part of his economic package in early 2003. While much of the debate has concentrated on the consequences of the tax law change for the stock market and budget deficits, the real effects may be in how companies raise money (debt versus equity), how much cash they choose to accumulate and how they return this cash to stockholders (dividends versus stock buybacks). If the tax law changes occur as proposed, it will profoundly alter the terms of the debate and require us to rewrite much that we take for granted in corporate finance today. In particular, companies will become more (if not entirely) equity financed, a decrease in cash balances and a dramatic surge both in the number of companies that pay dividends and in how much they pay. This asymmetric treatment of debt and equity has formed the basis for much of the debate in corporate finance on whether firms should use debt or equity and how much firms should pay out to their stockholders in dividends. In this paper, he considered the implications of the tax law change for both valuation and corporate finance practice.

OBJECTIVE and METHODOLOGY of the STUDY:

In this paper I have analysed the relationship between the Dividend per share, Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share of Tata Motors over a period of 2008 to 2012. The study is based on secondary data collected from the authentic websites of these companies. I have used Pearson's Correlation Coefficient (2 Tailed test, 5% Level of Significance) to see whether there is any significant correlation between the above mentioned variables. It also needs to be seen whether there are any major fluctuations in the above variables over the period of study and to what extent. The dividend decision of these companies has also been compared over the period of study.

Null Hypothesis 1: There is no correlation between Dividend per share & Adjusted EPS of Tata Motors. Alternate Hypothesis 1: There is correlation between Dividend per share & Adjusted EPS of Tata Motors.

Null Hypothesis 2: There is no correlation between Dividend per share & Reported EPS of Tata Motors Alternate Hypothesis 2: There is correlation between Dividend per share & Reported EPS of Tata Motors

Null Hypothesis 3: There is no correlation between Dividend per share & Operating Profit per share of Tata Motors.

Alternate Hypothesis 3: There is correlation between Dividend per share & Operating Profit per share of Tata Motors.

Null Hypothesis 4: There is no correlation between Dividend per share & Net Operating Income per share of Tata Motors.

Alternate Hypothesis 4: There is correlation between Dividend per share & Net Operating Income per share of Tata Motors.

Null Hypothesis 5: There is no correlation between Dividend per share & Free Reserves per share of Tata Motors.

Alternate Hypothesis 5: There is correlation between Dividend per share & Free Reserves per share of Tata Motors.

INFERENCES and RESULTS:

v. There is a significant positive correlation between Dividend per share & Adjusted EPS **(0.774).** This makes it obvious that the Dividend per share & Adjusted EPS move in the same direction over the years. This is evident from March 2008 to March 2010, as the Dividend per share decreased, so did the Adjusted EPS

a. There is a positive correlation between Dividend per share & Reported EPS **(0.709)**. This makes it obvious that the Dividend per share & Reported EPS move in the same direction over the years. This is evident in the initial part of the study period, as the Net Dividend per share so did the Reported EPS.

b. There is a significant positive correlation between Dividend per share & Operating Profit per share **(0.937).** This makes it obvious that the Dividend per share & Operating Profit per share move in the same direction over the years. This is evident throughout the study period, as the Dividend per share Profit per share decreased, so did the Operating Profit per share and vice-versa.

c. There is a significant positive correlation between Dividend per share & Net Operating Income per share **(0.890).** This makes it obvious that the Dividend per share & Net Operating Income per share move in the same direction over the years. This is evident throughout the study period, as the Dividend per share Profit per share decreased, so did the Net Operating Income per share and vice-versa.

d. There is a significant positive correlation between Dividend per share & Free Reserves per share **(0.765).** This makes it obvious that the Dividend per share & Free Reserves per share move in the same direction over the years. This is evident throughout the study period, as the Dividend per share Profit per share decreased, so did Free Reserves per share and vice-versa

There is quite a bit of fluctuation in the Dividend per share over the period of study similar to the substantial fluctuations in Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share

Thus the 5 Null Hypotheses are rejected as there is a correlation between Dividend per share & Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share. Thus Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share affect the Dividend per share. Thus Tata Motors relate their Dividend decisions with their Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, and Free Reserves per share.

CONCLUSION:

Dividend decision is an important area of any Company especially while taking relevant corporate decisions or formulating critical corporate strategies. Every company puts in a lot of thought behind the same to somehow maximize the returns & also look into share holders' interest. Through this study one can conclude that there is a correlation between Dividend per share & Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share. Tata Motors looks into this area effectively. Thus Tata Motors relate their Dividend decisions with their Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share**.** Irrespective of the direction, one cannot rule out the correlation between the above. Thus one can conclude that Dividend decision being one of the important decisions of Corporate Finance is influenced by Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share of Tata Motors.

TABLES & CHARTS

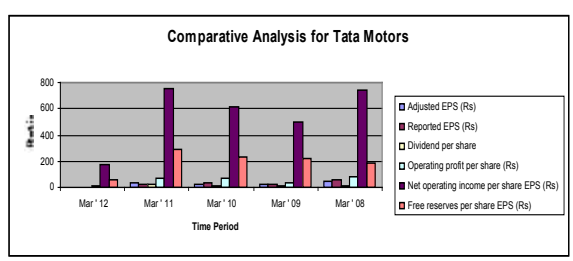
TABLE 1: DETAILS OF TATA MOTORS:

TATA MOTORS	Dividend per share	Adjusted EPS (Rs)	Reported EPS (Rs)	Operating profit per share (Rs)	Net operating income per share EPS (Rs)	Free reserves per share EPS (Rs)
Mar ' 12	4	5.76	3.91	13.16	170.84	55.25
Mar ' 11	20	29.8	28.55	74.15	755.69	287.53
Mar ' 10	15	24.91	39.26	70.68	619.98	229.67
Mar ' 09	6	17.93	19.48	33.52	499.23	217.77
Mar ' 08	15	42.91	52.63	78.61	746.24	182.38

TABLE 2: CORRELATION FOR TATA MOTORS:

		Dividend per share
Dividend per share	Pearson Correlation	1
	Sig. (2-tailed)	
	N	5
Adjusted EPS (Rs)	Pearson Correlation	.774
	Sig. (2-tailed)	.124
	N	5
Reported EPS (Rs)	Pearson Correlation	.709
	Sig. (2-tailed)	.180
	N	5
Operating profit per share (Rs)	Pearson Correlation	.937*
	Sig. (2-tailed)	.019
	N	5
Net operating income per share EPS (Rs)	Pearson Correlation	.890*
	Sig. (2-tailed)	.043
	N	5
Free reserves per share EPS (Rs)	Pearson Correlation	.765
	Sig. (2-tailed)	.131
	N	5

CHART 1: COMPARISON FOR TATA MOTORS:



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