VOLUME-8, ISSUE-7, JULY-2019 • PRINT ISSN No. 2277 - 8160

Original Research Paper | Management

A STUDY ON DIVIDEND DECISION WITH REFERENCE TO INDIA BULLS

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ABSTRACT The aim of this paper is to analyze about dividend decisions of organizations. It is understood that organizations have unique way of announcing the dividends. CAGR method was used to anticipate the future dividend of India Bulls Company. The CAGR was used to analyze the cost of equity for the company. It is evident from this study the performance of India Bull is excellent and investors can anticipate much more benefits like wealth maximization.

KEYWORDS : Dividend decision, capital structure, equity, shares, wealth, strategic finance decision

INTRODUCTION

Dividends can be defined as the sharing of the firm's earnings (past and/or present) in real assets among the shareholders of the firm in proportion to their ownership. Managed and residual are the two types related to dividend policy of the organization. The overall growth strategy is influenced by firms' dividend policy at the broad level. Organizations share their profits by giving dividends to share holders. Every organization has its unique way of declaring the dividends. Some organizations declare quarterly whereas some organizations declare annually. The dividends can be used to anticipate the future dividend by investors. In this paper the existing dividends of India Bulls Company are used to anticipate the future dividend by the company.

OBJECTIVES

1. To use compound annual growth rate (CAGR) technique for anticipating the future dividend.
2. To calculate the cost of equity (CoE) for India Bulls based on historical data through dividends.
3. To know the impact of macroeconomic variables on dividends declared by India Bulls.
4. To provide some suggestions for investors at India Bulls Company.

About India Bulls

India bulls Housing Finance Limited, jointly with its subsidiaries, functions as a housing finance company. The company presents secured mortgage-backed housing loans to salaried and self-employed individuals; proprietorships, loans against property to self-employed individuals, and businesses for working capital or business development needs; and housing construction finance and lease rental discounting loans to real estate developers

Review of Literature

Gilletal (2010) had explained that the dividend payout ratio is the function of profit margin, sales growth, and debt-to-equity ratio. Organizations do not follow a structure while paying dividend they pay sometimes and sometimes doesn't. Investors cannot be certain about getting dividend at regular intervals. Whenever company gets profits it may reinvest or pay dividends to the shareholders. Some of the major determinants of dividend payout ratios are sales growth, market-to-book value, cash flow, tax and corporate profitability. According to Kale et al (2012) dividend decisions is a signaling for organizational current performance and future plans. The stock price is also gets influenced by dividend decisions of the firm.

Manos et al (2012) had conducted a research among Indian firms and stated that payout ratios of group-affiliated firms are higher than those of independent firms, there is no clear evidence to support the view that this is due to the level of diversification or group size. Roy (2015) had explained the linkage between corporate governance, capital structure and dividend policy. The financial variables like cash and cash equivalent to total asset which are useful in measuring liquidity position of the firm influence the dividend decision policy. The theories like agency theory, dividend signaling theory and pecking order theory are used while formulating dividend decision policies for an organization.

Bawa and Kaur (2013) had studied dividend decisions of IT companies during 2006-2010 and stated that dividend policies of IT sector is different from non IT companies in India. The variables like dividend per share (DPS), retained earnings per share (REPS), market price per share (MPS) and price earnings ratio (PE) have been considered during analysis of dividend ration in IT sector. Maitra and Dey (2012) had opined that capital asset pricing model (CAPM) yields relatively better results with respect to the nonstandard return of stocks preceded by dividend declaration by the dividend payers as compared to the statistical model, namely, constant return or market model approaches. Bauerle and Reider (2011) had mentioned that dividend can be paid when the risk reserve at the time point is positive.

METHODOLOGY

Gordon Growth Model had been adopted for this study. Gordon Growth Model is used to determine the intrinsic value of a stock based on a future series of dividends that grow at a constant rate. This model helps to predict the cost of equity and future dividend of the company. The dividends from 2013 to 2018 are used to anticipate the 2019 dividend by using compound annual growth rate (CAGR) formula. The cost of equity and average dividend growth rate had also been calculated. The formulae used in this study are shown in Table 4.

Data Analysis

The dividends for the last 6 years from 2013 to 2018 are collected from India Bulls through Yahoo Finance website. The dividends month wise are summed up year wise and shown in Table1. By using the CAGR formula the future dividend for the year 2019 had been calculated based on Gordon Model. After calculating the future dividend, the cost of equity is also calculated for India Bulls for the present year based on current share price. From 2014 onwards the company had stable performance with regard to dividend distribution.

Table 1. Dividends at India Bulls (INR)

Year	Dividend
2013	13
2014	33
2015	36
2016	36
2017	36
2018	54

(Source: Developed by the author)

Table 2: Estimation of future dividend

YEAR	DIVIDEND	Growth
2013	13.00	
2014	33.00	153.85%
2015	36.00	9.09%
2016	36.00	0.00%
2017	36.00	0.00%
2018	54.00	50.00%
2019	**71.79**	

(Source: Developed by the author)

From Table 2 it is observed that in the year 2013 the company had given 13 INR as dividend for its shareholders. It had increased by more than 100 percent in the year 2014 t0 33 INR. During 205 to 2017 the company had declared 36 INR each year. Again in the year the company had increased its dividend among to 54 INR by 50 percent. By using CAGR formula the dividend in the year 2019 would be 71 INR approximately. Table 3 shows the cost of equity for India Bulls Company, the formulae for CoE is shown in Table 4. The CADR and average dividend growth rate had been used to calculate Cost of Equity.

Table3: Cost of Equity

Average Growth Rate		42.59%
Compound Annual Growth Rate (CAGR)		32.95%
Share Price Today		727.35
Cost of Equity (CoE)	42.82%	

(Source: Developed by the author)

Table 4: Formulae for CAGR and CoE

CAGR	**CAGR** = $\frac{EB}{BB}^{1/n} - 1$ EB = Ending Balance BB = Beginning Balance n = No. of yearS
CoE	(CoE) = $\frac{\text{Dividend per share (for next year)}}{\text{Current Market Value of the Stock}}$ + Growth Rate of Dividends

H1: There is an impact of gross domestic product (GDP) on dividend decision at India Bulls Company from 2013 to 2018

From Table 4 it is evident that p-value for gross domestic product (GDP) is 0.848 which is more than 0.05. Hence H1 is rejected stating that there is not significant relationship between gross domestic product and dividend decision.

Table 4: Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	68.423	62.483		1.095	0.354
	Gross Domestic Product	-1.618	7.744	-0.085	-0.209	0.848
	Inflation Rate	-3.737	1.878	-0.808	-1.990	0.141
a. Dependent Variable: Dividend						

H2: There is an impact of average inflation rate on dividend decision from 2013 to 2018 at India Bulls Company.

H2 is rejected because p-value for inflation rate is 0.141 which is more than 0.05. Hence there is no significant impact of inflation rate on dividend decision.

DISCUSSION AND CONCLUSION

Performance of India Bulls is better because company had constantly increased the wealth of stakeholders. The dividend decisions of the company are not affected by external factors like GDP rate and inflation rate. The professional management of the company had been primary cause for excellent performance of the company. The CAGR expects that company dividend share will increase in the year 2019. The investors can invest at India Bulls without secondary taught. The share value is also increased every year and there is lot of scope for real estate and housing finance business in India. Hence it is better for investor to think about long term investment with the company.

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