



A STUDY ON IMPACT OF DIVIDEND ON MARKET VALUE OF EQUITY SHARE OF AUTOMOBILE INDUSTRY

**Mr. Rahulkumar
Jivanbhai Rabari**

Research Scholar, Hemchandracharya North Gujarat University, Patan - 384265

**Dr. Hitesh S.
Viramgami**

Research Supervisor, Principal, Smt. T.S.R. Commerce College, Patan

ABSTRACT

That part of divisible profit, which is received by the shareholders in proportion to their holding is called as dividend. The Income Tax Act, 1961 defines Dividend as any distribution of accumulated profits, whether capitalized or not, if such distribution entails release of the assets or part thereof. Accumulated profits include amounts of development rebate and not depreciation reserves. Dividends cannot be paid out of capital reserves. Dividends are generally paid in cash. But issue of bonus share does not involve any release of asset and does not constitute dividend. When a corporation earns a profit or surplus, that money can be put to two uses: it can either be reinvested in the business (called retained earnings), or it can be paid to the shareholders as a dividend. Many corporations retain a portion of their earning and pay the remainder as a dividend.

KEYWORDS : Dividend, Equity Share, Automobile Companies

INTRODUCTION

Dividend is that portion of a firm's net earning which is paid to the shareholders and retained earnings are that that portion of a firm's net earning which is not paid to shareholders but retained in business. These retained earnings are re-invested in the company i.e., why they are also known as ploughing back of profit. There is adverse relationship between dividend and retained earnings. If accompany distributes more profit as dividends, retained earnings decline. On other hand if a company distributes less profit as dividends, retained earnings increase. How much earning are distributed as dividends and retained earnings is affected many factors.

On the basis of mode payment, dividend can be classified into five types

- (1) Cash dividend
- (2) Stock dividend
- (3) Bond dividend
- (4) Property dividend
- (5) Composite dividend

Objectives Of Dividend Policy

Dividend Policy has Generally followed objectives

- (1) To maximize wealth of company in long run: To maintain proper balance between retained earnings and dividends
- (2) To maintain and thereby to increase market value of share
- (3) To fulfill share holders' expectations.
- (4) To formulate optimal dividend policy.
- (5) To declare dividend by keeping in view of various statutory provisions.
- (6) To consider various factors affecting / constraints to dividend

Meaning Of Share

The share capital is the most important requirement of a business. It is divided into a number of indivisible units of a fixed value. These units are known as 'Shares'. Shares are units of ownership interest in a corporation of financial asset that provide for an equal distribution in any profits, if any are declared, in the form of dividends.

According to Section 2 (46) of the Companies Act, 1956, a share is a share in the share capital of a company, and includes stock except where a distinction between stock and shares is expressed or implied. Share is that smallest part, into which the overall capital of the company is divided. The person who is the owner of the shares is called 'Shareholder' and the return he gets on his investment is called 'Dividend'.

Automobile Companies

- Maruti Suzuki India has been a profitable company for the past 19 years ended 31 March 2020. It was profitable at the operating level as well as the next level. It earned an operating profit of Rs.54,911 million and a net profit of Rs.56,069 million in 31 March 2020. The company earned an operating margin of 7.5 per cent and a net margin of 7.1 per cent during the year ended 31 March 2020. Maruti Suzuki India is a low leveraged company with a debt-equity ratio of 0.004 times on the back of a total borrowing of Rs.1,974 million.
- Hero Motors is a small-sized company with revenues of Rs.7.3 million as per the latest annual report of the company for the year ended 31 March 2020. It ranked 8239th in CMIE's rankings by size in 2019-20. The company earned sales revenues of Rs.7.2 million for the year ended 31 March 2020 with a balance sheet size of Rs.405.6 million. It owns net fixed assets of Rs.399.5 million and the book value of its total assets is Rs.405.6 million
- Mahindra & Mahindra is a large-sized company with revenues of Rs.485,226.4 million as per the latest annual report of the company for the year ended 31 March 2020. It ranked 70th in CMIE's rankings by size in 2019-20. The company earned sales revenues of Rs.453,113.3 million for the year ended 31 March 2020 with a balance sheet size of Rs.511,126.2 million
- Tata Motors incurred losses at the net level in 31 March 2020, the latest year for which its annual financial statements are available. It incurred a net loss of Rs.69,770.4 million on the back of a total income of Rs.453,846.8 million compared to a net profit of Rs.22,194.4 million on a total income of Rs.720,962.7 million in the preceding year.

Review Of Literature

Black and Scholes (1974) in their study on the effects of dividend yield & dividend policy on common stock prices & returns. They stated that uninformed demand for dividends can result from dividend decisions which in turn derive from imperfections such as taxes, transaction costs and institutional investment constraints.

Dhrymes and Kurz (1967) in his study found that firm financing decision and investment decision are closely linked which impact companies' various policies including dividend policies.

Bhole (1980) conducted the study and tested the determinants

of corporate savings, dividends and share prices respectively. For the purpose he tested profit allocation and Lintners model and used time series data by using simple, multiple and stepwise regressions. The study produced the fact that Lintner's model performed well in Indian context in the conducted period.

Research Methodology

Research Objectives

1. To study the theoretical framework of dividend, equity share, market size and other related concepts.
2. To study brief profile of selected automobile companies.
3. To study the impact of percentage change in stock market price before and after dividend announcement date.
4. To study the impact of percentage change in stock market price before and after dividend effective date.

Research Hypothesis

H1: There is a significant impact of dividend announcement on percentage change in price before and price after dividend announcement date on share of automobile companies.

H2: There is a significant impact of dividend effective date on percentage change in price before and price after dividend effective date on share of automobile companies.

Data Collection:

This study is based on secondary data. The relevant Sources of secondary data are books, journals, magazines, newspapers, brochures and websites of select capital goods companies. All the relevant data is being collected from moneycontrol.com for year 2010 to year 2020.

Table No. 4.1 Company wise details of Percentage of Dividend declared from 2010 to 2020.

MARUTI-SUZUKI		HERO		TATA		M & M	
Year	Dividend (%)	Year	Dividend (%)	Year	Dividend (%)	Year	Dividend (%)
2010(F)	120	2010(S)	4000	2010(F)	150	2010(F)	190
2011(F)	150	2010(F)	4000	2011(F)	200	2011(F)	230
2012(F)	150	2010(F)	1500	2012(F)	200	2012(F)	250
2013(F)	160	2011(I)	3500	2013(F)	100	2013(F&S)	260
2014(F)	240	2011(F)	1750	2014(F)	100	2013(F)	260
2015(F)	500	2012(F)	2250	2016(F)	10	2014(S)	10
2016(F)	700	2013(F)	3000			2014(F)	270
2017(F)	1500	2014(F)	3250			2015(F)	240
2018(F)	1600	2014(I)	1500			2016(F)	240
2019(F)	1600	2015(F)	1500			2017(F)	260
2020(F)	1200	2016(I)	2000			2018(F)	150
		2016(F)	1600			2019(F)	170
		2017(I)	2750			2020(F)	47
		2017(F)	1500				
		2018(I)	2750				
		2018(F)	2000				
		2019(I)	2750				
		2019(F)	1600				
		2020(I)	3250				
		2020(F)	1250				

(Source: moneycontrol.com)

From Above table, it is evident that Maruti-Suzuki has declared 11 times dividend >100% and never declared dividend <100% from 2010 to 2020. Highest dividend 1600% was declared in consecutive two years 2018 & 2019, whereas Lowest dividend declared is 120% into the 2010 year. By analyzing the data Hero Motors has declared 20 times dividend >100% and never declared dividend <100% from 2010 to 2020. Highest dividend 4000% was declared in 2010 two times, whereas Lowest dividend declared is 10% into the 2016 year. In the case of Tata Motors, this company has declared 05 times dividend >100% and one time declared dividend <100% from 2010 to 2016. Highest dividend 200% was declared in consecutive two years 2011 & 2012, whereas Lowest dividend declared is 120% into the 2010 year.

Sample Size: Top four companies have been selected on the basis of its market capitalization.

The Sample Companies are Maruti – Suzuki, Hero Moto Corp, Mahindra and Mahindra and tata Motors for this research work.

Statistical Tools:

In this study following statistical tools are used by researcher;

- Coefficient of Corelation was also calculated and tested to find out relation between percentage change in share price and volume traded before and after dividend announcement date and effective date for selected companies.
- Analysis of Variance (ANOVA) technique was also used to compare mean percentage change in price and volume traded of selected companies.

Limitation Of The Study

- The study is based on secondary data from varied sources, so limitation of the secondary data will influence the research study.
- The study is conducted on Infrastructure companies, so results cannot be generalizing for all the industries.
- Time period taken for the study is ten years, further this research is event-based study taken into consideration 30 days' time period, so that will also act as limitation for this research study.

DISCUSSION OF RESULTS

Mahindra & Mahindra Motors has declared 11 times dividend > 100% and two times declared dividend <100% from 2010 to 2020. Highest dividend 270% was declared into the 2014 year, whereas Lowest dividend declared is 10% into the same 2014 year as a special dividend and 47% into the 2020 year.

Anova Testing

H0: There is no significant difference in percentage change of share prices of selected Automobile companies before dividend announcement date.

H1: There is a significant difference in percentage change of share prices of selected Automobile companies before dividend announcement date.

The results of ANOVA, it is evident that p – value is 0.000 which

is less than significance value (0.05). So, null hypothesis is rejected and there is a significant difference in percentage change of share prices of selected automobile companies before dividend announcement date.

CONCLUSION

The study basically aims to find the impact of dividend announcement on market value of shares of selected Infrastructure companies. On the basis of study, it can be said that there is not much volatility or abnormal changes were observed on share prices of selected companies before and after dividend announcement date. Whereas some abnormal changes were observed in volume traded before and after announcement of dividends for few of the companies on selected years. Moreover, no significant volatility was observed on share prices of selected Automobile, companies before and after dividend effective date, while high volatility was observed in volume traded for some of the companies before and after dividend effective date. It was found from the study that there is significant in volume traded of shares of selected petroleum companies before dividend effective date.

REFERENCES

1. Amitabh Gupta and Charu Banga (2010), "The Determinants of Corporate Dividend Policy", *Decision*, Vol. 37, No.2, August 2010.
2. Anshu Handoo and Kapil Sharma (2014), "A study on determinants of capital structure", *IIMB Management Review*, Vol.26, pp.170-182, 2014.
3. Asad Abbas, Shujahat Haider Hashmi and Anwar Fazal Chishti (2016), "Dividend policy and capital structure: Testing endogeneity", <http://ssrn.com/abstract=2745726>, 2016.
4. Balasundaram Nimalathasan and Valeriu Brabete (2010), "Capital Structure and its Impact on Profitability: A Study of Listed Manufacturing Companies in Sri Lanka", *Revista Tinerilor Economisti (The Young Economists Journal)*, vol.1, Issue 15, pp.7-16, 2010.