ORIGINAL RESEARCH PAPER

Commerce

IMPACT OF RETAINED EARNINGS ON STOCK RETURNS OF SELECTEDAUTOMOBILE COMPANIES

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ABSTRACT

The study is to identify the effect of retained earnings on stock returns of automobile industry listed in Bombay Stock Exchange. The study used three sub variables of stock returns, i.e. capital gain/loss yield, stock prices, cash dividend per share, and identify its relationship with retained earnings. The analysis consists of five active companies of automobile industry and used the data for a period of 2012-13 to 2015-16. The study used convenience sampling of non- probability method and used linear regression and Spearman's correlation analysis. The study found a weak and insignificant relationship between retained earnings and cash dividend per share and capital gain/loss yield. The study also found a moderate positive and significant relationship between retained earnings and closing price of stock. The study concluded that the retention of earnings has a weak and insignificant relationship with stock returns.

INTRODUCTION OF THE STUDY

Retained earnings are company's profit, which are retained in the company for future growth. The purpose of retention is that expansion chances of growth increases of retaining the profit into the company. Dividends are payments made by a corporation to its shareholder members. It is the portion of corporate profits paid out to stockholders. When a corporation earns a profit or surplus, that money can be put to two uses: it can either be re-invested in the business, or it can be paid to the shareholders as a dividend. Many corporations retain a portion of their earnings and pay the remainder as a dividend. For a joint stock company, a dividend is allocated as a fixed amount per share. Dividends are usually settled on a cash basis, store credits and shares in the company. Further, many public companies offer dividend reinvestment plans, which automatically use the cash dividend to purchase additional shares for the shareholder.

OBJECTIVES OF THE STUDY

- To study the relationship between retained earnings and cash dividend per share.
- To examine that how earning distribution affect the stock returns of selected automobile companies.

SCOPE OF THE STUDY

This study enables investors to use retained earnings and information of financial statements to identify the future returns on stocks. The agency theory of dividends deals with the role of dividends in resolving agency conflicts. It presents empirical results that are consistent with the hypothesis put forward. In particular, the degree of government holdings appears to be significant in explaining the target payout ratios of firms in the automobile sector in India.

RESEARCH METHODOLOGY

The study used quantitative method and explanatory research design to find out the casual relationship between retained earnings and stock returns. The study collects the secondary data of 5 automobile companies during some particular period. Due to availability of the data if only 5 years, this study only selects 5 companies from the automobile sector. The study used 5 companies as sample which are listed on Bombay Stock Exchange (BSE). The companies were selected on the basis of availabililty of variables such as cash dividend per share, retained earnings, capital gain/loss yield and stock prices. The study used panel data of selected companies during the mentioned period. Annual reports of selected companies were used to collect the data which are available on companies' websites an also available on BSE website. This study used linear regression and Spearman's correlation analysis. IBM SPSS were implemented to identify the strengthening of relationships between different variables.

Sampling Size: 5 Automobile companies from BSE index.
Hero motorcorp ltd

Bajaj auto Ltd
Ashok Leyland Ltd
Sundaram Clayton Ltd
TVS Motor company LTD

Hypothesis of the study

The study tested the following hypothesis:
Ho: There is no relationship between stock prices and cash dividend per share.
Ha: There is a relationship between stock prices and cash dividend per share.

ANALYSIS AND INTERPRETATION
1. REGRESSION

The R column represents the value of R, the multiple correlation coefficients. R can be considered to be one measure of the quality of the prediction of the dependent variable, in this (Hero). A value of 0.846 indicates a high level of prediction. The "R Square" column represents the R^2 value, from the value of 0.715 shows that the independent variables explain 71.5% of the variability of the dependent variable Hero motorcorp.

The R column represents the value of R, the multiple correlation coefficients. R can be considered to be one measure of the quality of the prediction of the dependent variable, in this (Bajaj). A value of 0.820 indicates a high level of prediction. The "R Square" column represents the R^2 value, from the value of 0.673 that the independent variables explain 67.3% of the variability of the dependent variable Bajaj.

The R column represents the value of R, the multiple correlation coefficients. R can be considered to be one measure of the quality of the prediction of the dependent variable, in this (Ashok Leyland). A value of 0.634 indicates a moderate level of prediction. The "R Square" column represents the R^2 value, from the value of 0.402 that the independent variables explain 40.2% of the variability of the dependent variable Ashok Leyland.

The R column represents the value of R, the multiple correlation coefficients. R can be considered to be one measure of the quality of the prediction of the dependent variable, in this (Sundaram). A value of 0.404 indicates a moderate level of prediction. The "R Square" column represents the R^2 value, from the value of 0.163 that the independent variables explain 16.3% of the variability of the dependent variable Sundaram.

The R column represents the value of R, the multiple correlation coefficients. R can be considered to be one measure of the quality of the prediction of the dependent variable, in this (TVS). A value of 0.795 indicates a high level of prediction. The "R Square" column represents the R^2 value, from the value of 0.633 that the independent variables explain 63.2% of the variability of the dependent variable TVS.

ANOVA

Comparison between share price of Hero and its dividend

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.846a	0.715	0.714	10.05833
a. Predictors: (Constant), Hero				

Share price of Bajaj and its dividend

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.820a	0.673	0.672	200.8173
a. Predictors: (Constant), Dividend				

Share price of Ashok Leyland and its dividend

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.634a	0.402	0.4	18.72713
a. Predictors: (Constant), Dividend				

Share price of Sundaram and its dividend

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.404a	0.163	0.16	601.601
a. Predictors: (Constant), Dividend				

Share price of TVS and its dividend

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.795a	0.632	0.63	70.31461
a. Predictors: (Constant), Dividend				

To find out the best model fit it is identified that independent variable Hero predicts dividend which is a dependent variable.

The hypothesis indicates that the independent factors is determining the dependant variable dividend. Here, the significance is 0.000 which is less than 0.05 therefore the alternative hypothesis is accepted. It shows that there is a significant relationship between share price of Hero and its dividend To find out the best model fit it is identified that independent variable Bajaj predicts dividend which is a dependent variable.

The hypothesis indicates that the independent factors is determining the dependant variable dividend. Here, the significance is 0.000 which is less than 0.05 therefore the alternative hypothesis is accepted. It shows that there is a significant relationship between share price of Bajaj and its dividend.

To find out the best model fit it is identified that independent variable Ashok Leyland predicts dividend which is a dependent variable.

The hypothesis indicates that the independent factors is determining the dependant variable dividend. Here, the significance is 0.000 which is less than 0.05 therefore the alternative hypothesis is accepted. It shows that there is a significant relationship between share price of Ashok Leyland and its dividend.

To find out the best model fit it is identified that independent variable Sundaram predicts dividend which is a dependent variable. The hypothesis indicates that the independent factors is determining the dependant variable dividend. Here, the significance is 0.000 which is less than 0.05 therefore the alternative hypothesis is accepted. It shows that there is a significant relationship between share price of Sundaram and its dividend.

To find out the best model fit it is identified that independent variable Hero predicts dividend which is a dependent variable. The hypothesis indicates that the independent factors is determining

the dependant variable dividend. Here, the significance is 0.000 which is less than 0.05 therefore the alternative hypothesis is accepted. It shows that there is a significant relationship between share price of Sundaram and its dividend.

2. CORRELATION

Comparison between share price of Hero and its dividend

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	62408.93	1	62408.93	616.872	.000a
	Residual	24887.81	246	101.17		
	Total	87296.74	247			
a. Predictors: (Constant), Hero						
b. Dependent Variable: Dividend						

Comparison between share price of Bajaj and its dividend

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.04E+07	1	2.04E+07	506.637	.000a
	Residual	9920586	246	40327.58		
	Total	3.04E+07	247			
a. Predictors: (Constant), Dividend						
b. Dependent Variable: Bajaj						

Comparison between share price of Ashok Leyland and its dividend

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	58098.52	1	58098.52	165.662	.000a
	Residual	86273.54	246	350.705		
	Total	144372.1	247			
a. Predictors: (Constant), Dividend						
b. Dependent Variable: Ashok Leyland						

Comparison of share price of Sundaram and its dividend

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.74E+07	1	1.74E+07	48.055	.000a
	Residual	8.90E+07	246	361923.8		
	Total	1.06E+08	247			
a. Predictors: (Constant), Dividend						
b. Dependent Variable: Sundaram						

Comparison between share price of TVS and its dividend

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2087150	1	2087150	422.146	.000a
	Residual	1216260	246	4944.145		
	Total	3303410	247			
a. Predictors: (Constant), Dividend						
b. Dependent Variable: TVS						

The above table shows about the comparison between Hero and its dividend were the correlation between the factors is at 0.618 which shows that the factors are moderately correlated. Comparison between Bajaj and its dividend were the correlation between the factors is at 0.446 which shows that the factors are moderately correlated.

Comparison between Ashok Leyland and its dividend were the correlation between the factors is at 0.098 which shows that the factors are lowly correlated.Comparison between Sundaram and its dividend were the correlation between the factors is at 0.324

which shows that the factors are moderately correlated.

Comparison between TVS and its dividend were the correlation between the factors is at 0.364 which shows that the factors are moderately correlated.

FINDINGS, SUGGESTIONS AND CONCLUSION
Findings
This study found that the relationship between retained earnings and cash dividend per share is weak positive and insignificant. It implied that in automobile industry change in retained earnings will not affect the amount of cash dividends. This study found that retained earnings and its impact on stock returns is still an untapped area of finance and further research should be performed on this topic because there is a chance that retained earnings might be enhanced future returns if they invested in positive projects. This study has already found the impact of retained earnings on dividends, capital gain/loss yield and stock prices, but further studies should be conducted on retained earnings and its impact on future shareholder equity or stock dividend amounts.

Suggestions
Furthermore, the researcher suggests that comparative study should be conducted to identify that in other markets, whether the retained earnings has same effect on stock returns or else. Results from these studies are helpful in comparison and it provides a real facts about the reliability of the relationship between variables. This study has conducted on few companies of a particular sector so the researcher recommends that further more study should be conducted on various sectors of different markets. Based on Anova it shows that while taking decision on share price of companies Hero, Bajaj, Ashok Leyland, Sundaram and TVS its mandatory to consider the divided given by the companies as there is a significance between those factors.   Based on Pearson correlation it shows that there is a moderate correlation between Hero and its dividend and if the investors prefer to invest in automobile sector its preferred to invest with Hero motorcorp.

CONCLUSION
The study sought to establish the relationship between retained earnings and stock returns. The study used three sub variables of stock returns, i.e. cash dividend per share, stock prices and capital gain/loss yield. The study was conducted on 5 companies of automobile sector listed in Bombay Stock Exchange during the period of 2012-13 to 2015-16. The study used linear regression and Spearman's correlation analysis and used IBM SPSS to find out the relationship among variables. The study establishes very weak and insignificant relationship between retained earnings with cash dividends and capital gain/loss yield while found a moderate positive and significant relationship between retained earnings and stock prices. For this a sample of 5 companies were selected from automobile industry and they were analysed with multiple regression, descriptive statistics and regression as tools for the last five years. The conclusion is that there is a moderate correlation between Hero and its dividend and if the investors prefer to invest in automobile sector it is preferred to invest with Hero motorcorp.

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