

# Affect of Dividend Policy on Shareholders' Wealth With Reference to Selected Companies in Food Processing Sector

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**Abstract -** The value of the firm can be maximized if the shareholders' wealth is maximized. There are conflicting views regarding the impact of dividend decision on the valuation of the firm. According to one school of thought, dividend decision does not affect the share-holders' wealth and hence the valuation of the firm. On the other hand, according to the other school of thought, dividend decision materially affects the shareholders' wealth and also the valuation of the firm. Primarily, this research is carried out to identify the relationship between MPS and DPS of the selected companies in food processing sector.

Secondarily, this research is carried out to find the impact of DPS on MPS of the selected companies in food processing sector.

**Keywords:** DPS (dividend per share, MPS (Market per share, dividend, Net earnings, retained earnings, reinvest, shareholder.

## I. INTRODUCTION

A dividend is a distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. Dividends can be issued as cash payments, as shares of stock, or other property.

A dividend policy is the policy a company uses to decide how much it will pay out to shareholders in the form of dividends. (Some research and economic logic suggests that dividend policy may be irrelevant) (in theory), but many investors rely on dividends as a vital source of income. The dividend policy decision is one of the most important decisions in any organization in order to achieve efficient performance and attainment of objectives, because the role of finances increased significantly in company's overall growth strategy that's why dividend decisions are recognized as centrally important. The attention of economists and scholars of management have been attracted by the field of dividend policy culminating into theoretical modeling and empirical examination. In finance dividend policy is a complex aspect and is among the top 10 perplexing issues in finance as suggested by Brealey and Myers (2002). The policy that results in maximization of the firm's stock price which in turn maximizes shareholders wealth is called an optimal dividend policy. However, the association between dividend policy and shareholder's wealth is still unsolved. The maximization of the wealth of shareholder's is the ultimate goal of company's

management, which will result in maximizing firm's value as measured by the price of the company's common stock. In order to achieve the desired goal management needs to give shareholders a "fair" payment on their investments. The market price of common stock of a firm actually represents the wealth of shareholders, which, in turn, is a function of financing, investment, and dividend decisions of a firm. A company's dividend policy has implications for many parties such as managers, investors, lenders and other stakeholders. Through dividends investors can value a company and for them it is a regular income whether declare today or at some future date. Dividend policy also has implications for managers because when they distribute dividends they will have fewer funds available to invest in projects, thus their investment decision depends upon dividend policy.

Generally the study is planned to find out how far wealth of shareholder's is impacted by dividend policy, and particularly investigate the association between dividend policy and wealth of shareholders.

Start-ups and other high-growth companies such as those in the technology or biotechnology sectors rarely offer dividends because all of their profits are reinvested to help sustain higher-than-average growth and expansion. Larger, established companies tend to issue regular dividends as they seek to maximize shareholder wealth in ways aside from supernormal growth.

Companies in the following sectors and industries have among the highest historical dividend yields: basic materials, oil and gas, banks and financial, healthcare and pharmaceuticals

### NEED FOR THE STUDY:

Net earnings are divided into two parts. One is retained earnings and other is dividends. The retained earnings of business is reinvested in the business for growth purpose. The dividends are distributed to shareholders to meet their own requirements. Success of the business mainly depends on the dividend distribution and retention policy of company. Agency problem, clients needs etc., other factors which forces companies to declare dividends. By declaring dividends it sent some signals for the potential investors (signalling effect). Always the dividend policy is debatable topic in finance. Some school of thought speaks about relevance theory and some school of thought speaks about irrelevance theory. Our study supports relevance theory and this study deals with impact of dividend policy on market price of share.

## II. REVIEW OF LITERATURE

**Sajid (2012)** conducted a study on “The Relationship between Dividend Policy and Shareholders wealth” for a period of 6 years 2005 to 2010 considering 75 companies listed in Karachi Stock Exchange SHV(DPS) as Dependent value, DPS as explanatory variable. Also used lagged P/E ratio, RE as explanatory variables. The study shows that there is significant influence of DP on SHW, as far as the dividend paying companies are concerned. Lagged P/E ratio did not appear to have significant influence on Dependent Variable, whereas lagged MVE has a significant impact on MPS. The firm value is independent of its dividend policy according to modigliani and miller (1961), because it is determined by selecting its optimal investments. Thus a firm dividend policy doesn't influence the wealth of shareholder. The theory of bird in hand was presented by Gordan and Walter (1963), according to this theory due to minimum risk investors will prefer dividends over capital funds. Thus researchers are puzzled by the question? for many years. The future profitability of firms is assessed by the information regarding the cash dividends. Moreover investors use such information for assess the price of firm's stock according to the theory of bird in hand.

**Javid and Ahmed (2009)** show the results from their study and conclude that the market capitalization and size of the firm have negative and significant effect on dividend payout ratio, thus the result shows clearly that the firm prefers to invest in their assets rather than dividends. If the firm pays dividend than it impacts on their investment policy and value of the firm effects.

**Anil and Kapoor (2008)** conducted a study on Determinants of Dividend payout ratio in which results show that the Cash flow from operation is most important factor in Indian Information Technology sector is dividend

payout ratio and they conclude that firms which have high liquidity position gives more dividend and which have low gives no dividend. Beta of the firm share price is also significant.

**Alzomania and Alkhadiri (2013)** examined “The Factors Determining Dividend Policy represented by dividend per share for firms in the Saudi Arabia Stock Exchanges”. They used regression model and used a panel data covering the period during 2004-2010 for 105 non-financial firms listed in the stock market. The results consistently supported that Saudi Arabia non-financial firms rely on current earning per share and past dividend per share of the firm to set their dividend payments

**Ranti (2013)** “Determinants of Dividend Policy”: A study of selected listed Firms in Nigeria, this study investigated the determinants of dividends policy in the Nigerian Stock Exchange market. The paper was basically modelled to examine the effects of financial performance of firms, firm size, financial leverage and board independence on the dividend payout decisions of listed firms operating in the Nigerian Stock Exchange market using the regression analysis method.

**Tsuji, (2010)** examined “What Are the Determinants of Dividend Policy?” The Case of the Japanese Electrical Appliances Industry. This paper explores the determinants of the dividend policy of firms in the Japanese Electrical Appliances Industry. Empirical investigations reveal that in this industry, corporate managers do not cater to investors' demands in both their dividend initiation and continuation decisions.

**Reddy, (2002)** “Dividend Policy of Indian Corporate Firms”. J. Lintner, “Distribution of incomes of corporations among dividends, retained earnings and taxes,” American Economic Review 46 (1956), 97-113. D. J. Skinner, “The evolving relation between earnings, dividends, and stock repurchases,” Journal of Financial Economics 87 (2008), 582-609. B. M. Lambrecht and S. C. Myers, “A Lintner model of payout and managerial rents,” Journal of Finance, forthcoming.

**Balakrishnan(2016)** “ A study on impact of earnings per share, dividend per share and price earning ratio on behaviour of share market price movements (Pharma sector) with special reference to NSE”. The study is done to measure the strength of association of independent variables. Using simple correlation and multiple regression analysis it was concluded that only few companies are impacted.

**Hemadivya (2013)**, “a study on relation between MPS & EPS with reference to selected companies” in this study the author selected companies from various sectors such as Tata consultancy services, ONGC, Bharath Heavy electrical limited used coefficient of correlation and analysis of variance and examined the relationship between EPS & MPS.

**Ordu Monday Matthew** “Effect of dividend payment on market Price of Shares: A study of Quoted Firms in Nigeria”: Journal of Economics and Finance(IOS-JEF) (2014). Pearson product moment correlation was first used in order to find the linear relationship between dividend per

share and market price per share. simple linear regression technique was used to examine the relationship between the dividend per share with market price per share. seventeen firms were selected from nigerian stock exchange for this study.

**Abdullah Al Masum (2014),** "DIVIDEND POLICY AND ITS IMPACT ON STOCK PRICE- A STUDY ON COMMERCIAL BANKS LISTED IN DHAKA STOCK EXCHANGE." The author has taken earning per share, return on equity, retention ratio and market price per share as variables to be tested. The data analysis has revealed that dividend policy has significant positive effect on stock prices.

**Malakar, B, and Guptha, R, (2002)** revealed that Earnings per share is found to be significant determinant of share price by considering the share price of eight major cement companies in India for the period 1968 to 1988 and five variables, namely, the share price, dividend per share, earning per share, retained earnings, and sale proceeds.

**Malhotra (1987)** conducted a study on four industries, namely general engineering, cotton textile, food products

and paper covering a period of four years from 1982 to 1985 and found that earning per share had positive and significant influence on market price per share.

**FarisNasif AL- Shubiri** observed that the changes in the stock price also depend up on the micro and macro economic factors. In this study, he conducted simple and multiple regression analysis and found that there is highly significant relationship between market price per share and net asset value per share.

**Dr .Sanjeet Sharma** in his study analysed that earning per share being the strongest determinants of market price per share in a positive direction. So investors are suggested to take care of earning per share variable in to account before investing in a company.

**OBJECTIVES OF STUDY:**

- To identify the relationship between MPS and DPS of the selected companies in FOOD PROCESSING SECTOR.
- To find the impact of DPS on MPS of the selected companies in FOOD PROCESSING SECTOR.

**III. DATA ANALYSIS AND INTERPRETATION**

Table showing no correlation and negative correlation between DPS and MPS among the following selected companies

SL.NO	COMPANY	ADJUSTED R SQUARE VALUE	P VALUE	REGRESSION MODEL FIT
1	BRITANNIA	0.16	0.13	NO
2	HATSUN AGRO	-0.06	0.23	NO
3	KWALITY	0.045	0.26	NO
4	BAMBINO	0.22	0.094	NO
5	VADILAL	-0.05	0.273	NO
6	ADF FOOD INDUSTRY	-0.1022	0.64	NO
7	GRM OVERAEAS	0.05	0.25	NO
8	SHAH FOODS	-0.11184	0.76	NO
9	SUNIL AGRO	0.321	0.0508	NO
10	OCEANEA BIOTECH	-0.365	0.619	NO

Table showing positive and good correlation between DPS and MPS among the following selected companies

SNO	COMPANY	ADJUSTED R SQUARE VALUE	P VALUE	REGRESSIO N MODEL FIT	REGRESSION EQUATION

1	NESTLE	0.58	0.006	YES	MPS= -432.05+170.173(DPS)
2	KRBL	0.33	0.46	YES	MPS=11.42+70.41(DPS)
3	HERITAGE	0.596	0.0053	YES	MPS=0.80+0.00485(DPS)
4	GLAXOSMITH	0.45	0.26	YES	MPS=-658.321+91.68(DPS)
5	LAKSHMI ENERGIES	0.76	0.0005	YES	MPS=18.35+303.32(DPS)
6	FLEX FOODS	0.80	0.0002	YES	MPS=-129.37+75.888(DPS)
7	CHAMAN LAL	0.54	0.0091	YES	MPS=60.69+-35.6(DPS)
8	FOOD AND INNS	0.410	0.027	YES	MPS=109.68+157.74(DPS)

From above data, we can say that impact of DPS on MPS can be seen in EIGHT companies and there is no impact of DPS on MPS for TEN companies.

The study was about the “RELATIONSHIP BETWEEN DPS AND MPS WITH RESPECT TO FOOD PROCESSING INDUSTRY”. The study has been conducted among the 18 food processing companies in order to find out whether there is significant impact of DPS on MPS of selected companies. Eight companies have clearly shown that there is significant impact of DPS on MPS of company and remaining companies selected for sample are not showing significant impact of DPS on MPS of them.

This study has examined the impact of dividend per share on average market value per share of 18 Food processing companies for a period of 10 years. The author has made the following observations in his study.

1. The study of the data of Nestle Company explains that there is positive correlation between DPS & MPS, r square value is 58% and p value is .006 which is lower than .005.
2. The study of Britannia Company’s data explains that there is low correlation coefficient between DPS & MPS of Britannia Company. Regression line cannot fit since p value is .13 which is greater than .005.
3. The study of KRBL Company reveals that there is positive correlation between DPS &MPS. There is significant relationship between DPS & MPS of KRBL.Therefore regression model fitted.
4. The study of Hatsun Agro explains that there is negative correlation between DPS & MPS. Regression line is cannot fitted since p value is .23 which is greater than 5%.
5. The study of Heritage Company says that there is positive correlation between DPS & MPS. Regression model is fitted since p value is .005 which is lower than .005.
6. The study of kwalky company explains that there is low correlation between DPS & MPS. There is no significant relationship between DPS & MPS of kwalky company. Hence regression model cannot be fitted.
7. The study of the data of Glaxosmith company says that there is positive correlation between DPS & MPS of glaxosmith. Regression model is fitted since p value is .0004which is lower than 0.005.
8. The study of the variables of Bambino company reveals that there is low correlation between DPS & MPS.. Regression line is cannot fitted since p value is .094 which is greater than 0.05.
9. The study of the data of Lakshmi Energies Company says that there is high correlation between DPS & MPS. There is significant relationship between DPS & MPS of lakshmi Energies Company.
10. The study of variables of Vadilal Company reveals that there is negative correlation between DPS & MPS. Regression line is cannot fitted since p value is .491 which is greater than 0.05.
11. The study of data of ADF Food industry reveals that there is negative correlation between DPS & MPS. Regression line is cannot fitted since p value is .694 which is more than 0.05.
12. The study of variables of Flex Foods Company says that there is positive correlation between DPS & MPS of flex Foods Company. Regression line is fitted since p value is .0002 which is lower than 0.05.
13. The study of variables of Chaman lal setia Exports Company reveals that there is positive correlation between DPS &MPS. There is significant impact of DPS on MPS of chaman Lal Company.

- 14. The study of Food and Inns Company shows that there is a correlation between DPS and MPS. Regression line is fitted since p value is .027 which is lower than .05.
- 15. The study of data of GRM OVERSEAS Company says that there is low correlation between DPS & MPS of GRM OVERSEAS Company. Regression line is cannot fitted since p value is .25 which is higher than .05.
- 16. The study of data of Shah Foods Company reveals that there is negative correlation between DPS &MPS. Regression line is cannot fitted since p value is 0.76 which is greater than .005.
- 17. The study of data of Sunil agro Foods Company states that there is low correlation between DPS & MPS. Regression line is cannot fitted since p value is .0508 which is higher than 0.05.
- 18. The study of the data of Oceanea biotech company clearly defines that there is negative correlation between DPS & MPS.Regression line is cannot fitted since p value is .619 which is higher than 0.05.

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#### IV. SUGGESTIONS

The study suggests investors to think twice for making their investments in to the food processing companies operating. Because the study results show that the DPS is not having the significant impact on MPS. May be we have to consider other variables which has impact on MPS. The study also suggests the food processing companies to declare dividends to the investors such that the demand for the company shares increases because of signalling effect. These suggestions/recommendations are based on results obtained from the data relating to the selected companies.

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- 3. <https://www.nseindia.com/>

#### ANNEXURE

NESTLE COMPANY			BRITANNIA			KRBL COMPANY		
YEA R	MPS (RS)	DPS (RS)	YEA R	MPS (RS)	DPS (RS)	YE AR	MPS (R.s)	DPS(R.s)
2017	6319.97	63	2017	3047.35	22	2017	287.998	2.1
2016	6048.36	48.5	2016	2806.97	20	2016	191.323	1.9
2015	5899.69	63	2015	1429.43	16	2015	95.0484	1.7
2014	5110.53	48.5	2014	772.763	1.2	2014	29.9721	1.2
2013	4646.34	48.5	2013	356.487	8.5	2013	23.3428	0.8

2012	4202.55	48.5		2012	327.877	8.5		2012	23.5208	0.3
2011	3257.93	48.5		2011	616.895	6.5		2011	31.2317	0.3
2010	2264.52	48.5		2010	1632.95	25		2010	116.507	0.3
2009	1567.34	42.5		2009	1322	40		2009	96.7847	2
2008	1272.74	33		2008	1480.26	18		2008	105.738	2
<b>HATSUNAGRO COMPANY:</b>										
<b>HERITAGE COMPANY</b>										
<b>KWALITY COMPANY</b>										
YEA R	MPS (RS)	DPS (RS)		YEA R	MPS (RS)	DPS (RS)	(IN	YEA R	MPS (RS)	DPS (RS)
2017	27.9982	2.1		2017	772.452	4		2017	128.23	0.1
2016	191.3229	1.9		2016	436.17	3		2016	83.949	0.1
2015	95.04835	1.7		2015	334.21	3		2015	42.983	0.1
2014	29.9721	1.2		2014	286.513	3		2014	28.388	0.1
2013	23.3428	0.8		2013	310.194	3		2013	32.79	0.1
2012	23.52083	0.3		2012	181.15	2		2012	107.259	0.1
2011	31.23169	0.3		2011	14.0269	1.2		2011	112.646	0.1
2010	116.5066	0.3		2010	146.523	1.8		2010	81.154	0.1
2009	96.7847	2		2009	123.697	0		2009	3.9631	1
2008	105.7375	2		2008	258.619	1.8		2008	3.0127	0
<b>GLAXOSMITH COMPANY</b>										
<b>BAMBINO COMPANY</b>										
<b>LAKSHMI ENERGIES</b>										
YEA R	MPS (RS)	DPS (RS)		YEA R	MPS (RS)	DPS (RS)		YEA R	MPS (RS)	DPS (R.s)
2017	5693.418	70		2017	175.972	1.6		2017	47.2362	0
2016	6110.556	70		2016	111.505	1.6		2016	12.3368	0
2015	5215.276	55		2015	91.239	0.75		2015	16.8549	0
2014	4505.085	45		2014	49.449	1.5		2014	26.3844	0
2013	3189.333	45		2013	45.552	1.5		2013	19.5602	0.2
2012	2432.22	35		2012	29.999	1.5		2012	84.2629	0.2
2011	1944.676	50		2011	39.893	0		2011	84.2629	0.2
2010	1156.188	18		2010	28.42	0		2010	114.235	0.5
2009	616.1326	15		2009	22.623	0		2009	210.846	0.5
2008	602.3865	12		2008	26.843	0		2008	204.545	0.5
<b>VADILAL INDUSTRIES</b>										
<b>ADF FOOD INDUSTRIES</b>										
<b>FLEX FOODS</b>										
YEA R	MPS (RS)	DPS (R.s)		YEA R	MPS (RS)	DPS (R.s)		YE AR	MPS (RS)	DPS (RS)
2017	73.65	1.25		2017	125.904	2.5		2017	73.65	2.5
2016	454.05	1.25		2016	118.162	0		2016	54.7	2.5

2015	213.07	1		2015	61.7282	1.5		2015	39.65	2.25
2014	213.07	1		2014	19.8952	1.5		2014	27.77	2.25
2013	152.22	1.5		2013	55.656	1.5		2013	26.9	2
2012	136.17	1.5		2012	58.5133	1.5		2012	26.35	2
2011	114.87	1.5		2011	73.28	0		2011	26.35	2
2010	54.5	1.5		2010	57.616	1.5		2010	25.67	2
2009	38.3	1.2		2009	33.5504	1.5		2009	18.07	2
2008	42.97	1.2		2008	57.5016	2		2008	18.72	2

CHAMAN LAL EXPORTS				FOOD AND INNS				GRM OVER SEAS			
YEA R	MPS (RS)	(	DPS (RS)	YEA R	MPS (RS)	(	DPS (RS)	YEA R	MPS (RS)	(	DPS (RS)
2017	79.28		0.4	2017	873.46		3	2017	0.974		0
2016	34.53		0.44	2016	614.19		2.5	2016	62.4		0
2015	5.81		2	2015	476.67		2.5	2015	59.68		0
				2014	158.46		1.8	2014	27.26		2
2014	5.81		1.5	2013	198.26		1	2013	32.68		2
2013	5.26		1.1	2012	247.55		0	2012	28.5		2
2012	5.47		1.6	2011	270.58		0	2011	41.22		1
2011	6.48		1.5	2010	214.83		1.8	2010	27.77		2
2010	3.73		1.6	2009	221.12		1.5	2009	21.05		2
2009	4.72		1.5	2008	235.18		1.2	2008	19.38		2
2008	4.72		1								

SHAH FOODS				SUNIL AGRO FOODS				OCEANEA BIOTECH			
YEA R	MPS (RS)	(	DPS (RS)	YEA R	MPS (RS)	(	DPS (RS)	YEA R	MPS (RS)	(	DPS (RS)
2017	70.5		1	2017	48.4		0.5				
2016	48.1		0	2016	29.21		0	2015	10.8715		0
2015	37.3		0	2015	20.3		0.5	2016	12.9097		0.6
2014	21.29		0	2014	14.37		0	2017	35.5553		0.6
2013	41.1		0	2013	21.75		0				
2012	62.9		0	2012	17.1		0				
2011	51.9		0	2011	18.44		0				
2010	32.55		1	2010	13.77		0				
2009	33.5		1	2009	18.21		0				
2008	25.18		1	2008	20.35		0				