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Analysis of Dividend Policy: Impact of Profitability

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Abstract: Shareholders are owner of the company and expect to get reward for their investment. The management must satisfy the shareholders by offering them a fair return on their investment in the form of dividend. To distribute the dividend is the foremost duty of the management. This decision is connected with liquidity and profitability of the unit. The purpose of this paper is to analyse the dividend policy and want to know the impact of profitability on dividend payout of companies. The study has been made by considering top three listed companies from information and technology sector during the period from 2009 to 2014.Simple regression model has been used to know the effect of profitability on dividend payout.The study revealed that profitability has no impact on dividend payout. The company can declare dividend out of the reserves also.

Key words: Dividend Payout, Profitability, Dividend Policy, Dividend, Company.

I. INTRODUCTION

Shareholders are owner of the company and expect to get reward for their investment. The management must satisfy the shareholders by offering them a fair return on their investment in the form of dividend. Majority of the shareholders expect high and quick returns for their investment and it is a commitment on the part of the management to ensure the financial stability of the corporation and to make the corporation financially sounds, to distribute the dividend is the foremost duty of the management. This decision is connected with liquidity and profitability of the unit. Among the various decisions taken by the management one of the crucial decision regarding distribution of profit. Management has to decide whether profit should be distributed as dividend or to keep as retained earnings.

Here, in this study an attempt is made to know the effect of profitability on dividend policy.

II. OBJECTIVES OF THE STUDY

• To know the impact of profitability on dividend payout.

III. HYPOTHESIS

1) Null
   • There is no impact of profitability on dividend payout of selected companies.
2) Alternate
   • There is no impact of profitability on dividend payout of selected companies.

IV. SOURCES AND SCOPE OF THE STUDY

The whole study intends to analyse the dividend policy to know the impact of profitability on dividend payout.Top listed three companies from information and technology sector (e.g. Infosys, Tata consultancy and Wipro) has been considered for an analysis purpose. The survey has been conducted by using secondary data form annual published reports of companies during the period from 2009 to 2014.The data has been taken from the website of companies.

V. RESEARCH METHODOLOGY

For calculation of profitability ratio Return on Net worth has been considered. (For explanations see Table-1)To know the impact of profitability on dividend payout simple regression has been used by using SPSS.

Dividend payout ratio is to be calculated by,

$$DP\ Ratio = \frac{Dividend\ per\ share}{Earnings\ per\ share} \times 100$$

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VI.   **LIMITATIONS OF THE STUDY**

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- Analysis is made on only three companies from one sector.
- Secondary data has been used for study purpose.
- Study has been made by considering five year periods only.

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VII.   **ANALYSIS OF IMPACT OF DIVIDEND POLICY**

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- ✓ H0 = There is no effect of profitability on dividend payout of selected companies.
- ✓ H1 = There effect of profitability on dividend payout of selected companies.

1. INFOSYS LTD

Influence of profitability on dividend payout using simple regression method for Infosys Ltd. can be extracted from below table.

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Table 7.1
Simple Regression Analysis for Infosys

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Year	Dividend Payout	Profitability(Return on Net Worth)
2009-10	24.91	26.12
2010-11	41.87	26.30
2011-12	43.14	26.84
2012-13	17.00	25.28
2013-14	24.22	24.22

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Output of simple regression

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Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712[a]	.507	.343	9.43372
a. Predictors: (Constant), PR				

The above table indicates that the value of R for INFOSYS LTDis 71.2%, that refers there is Positive linear correlation between explanatory variables such as profitability and the dependent variable i.e. dividend payout of the company. Value of adjusted R-Square for INFOSYS LTD. is .343. It indicates that approx. 34.3% of the change in dividend payout is due to the changes in profitability.

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ANOVA[a]

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	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	274.628	1	274.628	3.086	.177[b]
	Residual	266.985	3	88.995		
	Total	541.613	4			

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a. Dependent Variable: DP
b. Predictors: (Constant), PR

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The above table shows that the independent variables statistically significantly predict the dependent variable, $F(1, 3) = 3.086$, $p > 0.05$ (i.e., the regression model is unfit for the data). It means that there is no significant impact of profitability on the dividend payout of the INFOSYS LTD.

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Coefficients[a]

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	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-178.276	118.768		-1.501	.230	-556.247	199.696
	PR	8.097	4.609	.712	1.757	.177	-6.572	22.765

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Dependent Variable: DP

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From the above table, the general form of the equation to predict dividend payout from profitability can be obtained as under:
Predicted dividend pay out
= -178.276 + (8.097*Profitability)

Unstandardized coefficients indicate how much the dependent variable varies with an independent variable when all other independent variables are held constant.

In the above table, the unstandardized coefficient for profitability is equal to 8.097. This means that for every additional increase profitability, dividend payout Increases by 8.097.

2. TCS LTD

Influence of profitability on dividend payout using simple regression method for TCS LTD. can be extracted from below table.

Table 7.2
Simple Regression Analysis for TCS

Year	Dividend Payout	Profitability(Return On Net Worth)
2009-10	32.7	37.12
2010-11	35.2	38.66
2011-12	37.2	44.16
2012-13	19.9	39.21
2013-14	21.4	41.87

Output of simple regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.087[a]	.008	-.323	9.26616

Predictors: (Constant), PR

The above table indicates that the value of Adjusted R for TCS LTD. is 8.7%, that refers there is a weak linear correlation between explanatory variables such as profitability and the dependent variable i.e. dividend payout of the company. Value of adjusted R- Square for TCS LTD is -0.323. It indicates that there is no change in dividend payout is due to the changes in profitability.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.963	1	1.963	.023	.889[b]
	Residual	257.585	3	85.862		
	Total	259.548	4			

Dependent Variable: DP
Predictors: (Constant), PR

The above table shows that the independent variables statistically significantly predict the dependent variable, $F_{(1,3)} = 0.023$ p >0.05 (i.e., the regression model is unfit for the data). It means that there is no significant impact of profitability on the dividend payout of the TCS LTD.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	19.213	66.708		.288	.792	-193.081	231.508
	PR	.250	1.656	.087	.151	.889	-5.020	5.521

a. Dependent Variable: DP

From the above table, the general form of the equation to predict dividend payout from profitability can be obtained as under:
Predicted dividend pay out = 19.213 + (0.250*Profitability)

Unstandardized coefficients indicate how much the dependent variable varies with an Independent variable when all other independent variables are held constant.

In the above table, the unstandardized coefficient for profitability is equal to 0.250. This means that for every additional increase profitability, dividend payout Increases by 0.250.

3.   WIPRO LTD

Influence of profitability on dividend payout using simple regression method for WIPRO LTD. can be extracted from below table.

Table 7.3
Simple Regression Analysis for Wipro

Year	Dividend Payout	Profitability(Return On Net Worth)
2009-10	17.98	27.69
2010-11	30.33	22.72
2011-12	31.43	19.24
2012-13	28.06	23.32
2013-14	25.27	25.16

Output of simple regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.925[a]	.856	.807	2.35739

a. Predictors: (Constant), PR

The above table indicates that the value of R for WIPRO LTD. is 92.5%, that refers there is a significant and strong positive linear correlation between explanatory variables such as profitability and the dependent variable i.e. dividend payout of the company. Value of adjusted R- Square for WIPRO LTD. is 0.807. It indicates that approx. 80.7% of the change in dividend payout is due to the changes in profitability.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	98.774	1	98.774	17.774	.024[b]
	Residual	16.672	3	5.557		
	Total	115.446	4			

Dependent Variable: DP
Predictors: (Constant), PR

The above table shows that the independent variables statistically significantly predict the Dependent variable, F (1, 3) = 17.774, p <0.05 (i.e., the regression model is fit for the data). It means that there is significant impact of profitability on the dividend payout of the WIPRO LTD.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	64.203	8.978		7.151	.006	35.631	92.776
	PR	-1.591	.377	-.925	-4.216	.024	-2.792	-.390

a. Dependent Variable: DP

From the above table, the general form of the equation to predict dividend payout from profitability can be obtained as under:
Predicted dividend pay out = 64.203 – (1.591*Profitability)
Unstandardized coefficients indicate how much the dependent variable varies with an Independent variable when all other independent variables are held constant.
In the above table, the unstandardized coefficient for profitability is equal to -1.591. This means that for every additional increase profitability, dividend pay out Decreases by 1.196.

VIII. FINDINGS OF THE STUDY

The study revealsthat, Infosys and Tata consultancy ltd. shows that there is no influence of profitability on dividend payout whereas in case of Wipro ltd. it shows that there is influence of profitability on dividend payout.

IX. CONCLUSION

A study to know the impact of profitability on dividend policy focus on some interesting issues concerned with dividend policy. The companies selected for an analysis purpose shows continuous trend for declaring dividends. However, while analysing dividend policy to know the impact of profitability on dividend payout, it is observed that out of the selected companies most of the companies have no impact of profitability on dividend payout whereas in one of the company the impact of profitability on dividend payout is observed. Which indicate that whatever the dividend declaration by the company, it is not based on profitability of the company. Company can declare the dividends from their past reserves also.

Table-1

Explanatory Variable		Measure
Profitability	Return on Net Worth	This measure is an important indicator of profitability of a company. The return on net worth ratio equals the net profit after taxes divided by net worth. The return on net worth ratio, also known as the return on equity ratio, measures the ability of a firm's management to realize an acceptable return on capital investment. It indicates the productivity of the owner's capital employed.

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