A Study on Impact of Determinants of Dividend Policy on Stock Prices of Selected Public Sector Banks in India

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ABSTRACT

This paper focuses on the relationship between the determinants of dividend policy and the market price of shares. For this purpose, the researchers have considered 07 public sector banks for five years span of time from the year 2014-15 to 2018-19. Karl Pearson's correlation and multiple regression analysis with all assumptions have been applied with the use of SPSS and Excel. The profitability (ROE & EPS), Liquidity (Current Ratio), Leverage (Total Debt to Total Assets Ratio), Size (LN of Total Assets), Dividend Policy (DPS, DPO & DY), and Risk(P/E Ratio) have considered as explanatory variables and Closing Market Price of Share is taken as the dependent variable to examine the relationship between two variables. The result of multiple linear regression analysis shows the significant positive impact of liquidity, size, and leverage on the market price of shares, positive but insignificant relationship between profitability, risk and dividend policy with market price of shares and growth has an insignificant relationship with market price of shares of selected PSBs.

Keywords: Determinants of Dividend Policy, Dividend Policy, Market Price of Shares

I. INTRODUCTION

There are three imperious decisions i.e. Financing Decision, Investment Decision, and Dividend Decision. The finance decision relates to capital structure decisions. The manager has to decide on the different sources of finance which are suitable for the company. The investment decision deals with investment opportunities created by the top management. The financing and investment decisions are both dependent on the amount of retained earnings available and this is influenced by the dividend policy (J.J.Adefila, J.A.Oladapo, & J.O.Adeoiti, 2004). A policy of paying a dividend is known as dividend policy. The dividend payout revealed the strength of the company's financial capacity and indicates the extent of the net profits distributed to the shareholders as a

dividend (Zafar, D.S.Chaubey, & S.M.Khalid, 2012). So, the dividend policy affects the shareholders' wealth and the market price of shares of a company. But, the dividend decision is an unsolved puzzle which will affect adversely or positively to the company. It varies with industry to industry and company to company. It is different in the finance sector because it runs in a different environment and legal provisions. In India, the Banking sector is precious and the economy is based on this sector. The government behaves on the operations of the banking sector and makes different policies. Now, the Indian Banking sector is facing many problems for the last 2-3 years. They don't fulfill the minimum legal requirements for the payment of dividends. Hence, these banks are following an irregular dividend payment policy. Moreover, other factors like liquidity, leverage, profitability, size, risk; growth, etc. also affect the dividend policy and market price of shares of banks.

The market price of a share of any business organization presents the financial situation, the present status of the business, and the prospect of business. The management and goodwill of the company are representing by stock prices also. The present situation of a company is reflecting through the market price of the share. Many factors are affecting market prices of shares such as marketplace, demand & supply in the market, interest rate, investors, dividend payout, legal policy, economy, and political environment, etc. It means internal and external factors affect the share prices of the business. The researchers mainly focus on dividend policy and its factors of commercial banks in India. The dividend policy of a bank creates good or bad financial situations. If the bank decides to pay dividends than the share prices of such shares will be adversely or positively affected and will open the door for future prospective investors. Many researchers found a positive relationship between dividend policy and the market price of shares (Ramaji, 2017), (Harshapriya, 2016), (Luvembe, Mungai, & Eddie, 2014), (Zafar, D.S.Chaubey, & S.M.Khalid, 2012) and (Telesphore & Patrick, 2018). They said that the dividend policy is positively affecting the market price of shares and it is increased when the banks are declaring & paying a dividend to the shareholders. But, on the other hand, both are negatively affected by each other (O. & Kunle, 2018), (Dhakal & Shah, 2018), (Bassey, Ikenna, & S.E., 2015), (Masum, 2014). These studies showed the negative impact of dividend policy on the market price of shares of selected banks. Other factors

like profitability, liquidity, leverage, size, risk, growth, tax policy, legal provisions, etc also affect the market price of shares. This paper has taken the factors i.e. profitability, liquidity, leverage, size, risk, growth, the dividend policy of selected private sector banks and try to find out whether these factors affect the market price of shares or not?

II. LITERATURE REVIEW

(Telesphore & Patrick, 2018) To analyzed the case of bank of kigli listed on Rwanda Stock Exchange in respect of variables namely corporate dividend policy and share price performance. The dividend per share had the highest contribution to the market price per share found by the study. Whereas the dividend payout ratio has also shown a highly positive relationship with market price per share and retention ratio presented a weak significant positive association with market price per share.

(Dhakal & Shah, 2018) investigated dividend policy, the market price of the share, and profitability of selected 13 commercial banks in Nepal. The changes in the rate of dividend didn't have a significant impact on future profitability found by the study. The study concluded that bankers have to focus on the changing rate of dividends and earning of the respective year.

(Ramaji, 2017) has considered 20 Nepalese Commercial banks from the year 2008-09 to 2015-16 and examined the impact of determinants of dividend policy on share price volatility. The result of multiple regression analysis found a positive relationship between leverage, dividend payout, and dividend yield and market capitalization with stock prices. While market–to–book value, growth and E/P ratio showed a negative effect on stock prices.

(Velankar, Chandani, & Ahuja, 2017) To analyzed the impact of EPS & DPS on the stock price of PSBs in India from the year 2006-07 to 2014-15. Non-probability sampling technique had used for the collection of data and regression analysis, stationarity test, F-test, and unit root test applied for the analysis purpose. The result found a significant effect of EPS & DPS on the stock price.

(Harshapriya, 2016) has analyzed 32 quarters data of dividend yield, dividend payout, size, earning volatility, leverage, growth, and the market price of shares of selected 07 banks from the Colombo Stock Exchange. The multiple regression

analysis has been performed with all assumptions and found an insignificant positive relationship between dividend payout, size with market price of shares.

(Bassey, Ikenna, & S.E., 2015) used desk research method for the collection of 11 years of data between 2003 and 2013. They examined the relationship between dividend policy and the market price of shares by taking one new generation bank and other old generation banks. The OLS result showed a prominent positive relationship between dividend policy and the market price of shares except for the retention ratio.

(Luvembe, Mungai, & Eddie, 2014) have used descriptive research design to examine the effect of determinants of dividend policy on the market price of shares. The researchers adopted a census survey sampling design for the selection of 10 listed banks under the Nairobi Security Exchange. The result of OLS regression presented a significant positive relationship between capital structure, capital market investments, corporate earnings, dividend payout ratio, and the market price of shares. The bank should consider financial needs, profitability, shareholders' expectation, tax policy, investment opportunities, and pattern of past dividends in designing dividend policy recommended by the study.

(Masum, 2014) To analyzed factors affecting the market price of shares & the impact of dividend policy on the market price of shares of 30 commercial banks listed in the Dhaka Stock Exchange, Bangladesh during the study period starting from 2007 to 2011. The result of multiple regression analyses showed a significant negative relationship between dividend yield and stock price. Retention ratio had a negative relationship and other factors – ROE & EPS had a significant positive impact on the market price per share except for PAT.

(Zafar, D.S.Chaubey, & S.M.Khalid, 2012) analyzed the dividend policy and shareholders' wealth in respect of market price per share of 11 Indian banks listed on the National Stock Exchange by using a simple multi stage random sampling technique during the period 2006 to 2010. They found a significant impact of dividend policy on the market price per share. However, market price didn't depend on only dividend policy, but, other factors like retained earnings, P/E ratio, tax policy, fiscal policy, global trend, the strength of the company, inflation position also affected the market price per share.

The researchers have found much literature on dividend policy, determinants of dividend policy, and market price of shares on non – financial sectors. Other than, the few literatures are available on the impact of determinants of dividend policy on the market price of shares specifically on the financial sector. The Indian banking sector plays an essential role in all commercial ways. As a result, cash management, leverage, growth, profitability, and assets- liabilities management are essential for the sector. The researchers have interested in knowing the pattern of dividend policy and how the factors of dividend policy affect the market price of shares. Hence, this paper focuses on the impact of determinants of dividend policy on the market price of shares of selected PSBs from the period of 5 years i.e. 2014-15 to 2018-19.

III. RESEARCH METHODOLOGY

The present study is analytical. The researchers have used a convenient sampling technique to select the sample and a total 07 Public Sector Banks namely Punjab & Sind Bank, Syndicate Bank, Bank of India, Andhra Bank, Central Bank, Union Bank, and Uco Bank have considered as a sample to analyze of 05 years from the year 2014-15 to 2018-19. The study is purely based on secondary data collected from Annual Reports of selected banks and the website of NSE. The study has used a ratio analysis technique for the calculation of profitability, liquidity, leverage, growth, size, risk, and dividend policy indicators. The researchers have calculated all these variables based on previous studies and analysis has been done by using multiple regression analysis and F- test with the help of SPSS and excel.

Objective

To examine the impact of Determinants of Dividend Policy on Market Price of Shares of Selected PSBs.

Hypothesis:

H_0: There is no impact on Profitability, Liquidity, Leverage, Growth, Size, Risk, and Dividend Policy on Market Price of Shares of Selected PSBs.

Methodology for Multiple Linear Regression Model

The multiple linear regression model consists of a data analysis technique that assumes a linear relationship between the dependent variable and explanatory

variables (Gujarati, 2003). The MLRM is good for corporate finance. The profitability, liquidity, leverage, growth, size, risk, and dividend policy is considered as explanatory variables and the market price of the share is taken as a dependent variable. To examine the impact of determinants of dividend policy on the market price of the share, the following regression model is framed:

$$Y\ (MPPS) = \beta_0 + \beta_0 + \beta_1\ LR + \beta_2\ Growth + \beta_3\ Size + \beta_4\ ROE + \beta_5\ EPS + \beta_6\ Leverage + \beta_7\ Risk + \beta_8\ DPS + \beta_9\ DPO + \beta_{10}\ DY + \varepsilon$$

The Multiple Linear Regression Analysis has been carried out by fulfilling the assumptions of the correlation coefficient, coefficient of determination, normality of residuals, homoscedasticity and linearity coefficient, multi Collinearity, and independence of residuals (autocorrelation).

The assumption of normality of residuals is tested in two ways i.e. graphical way and statistical test. The study has performed a Histogram with a normality curve, P-P plot to verify the normality of errors. For absolute results, the researchers have tested by performing a Shapiro –Wilk test. The following hypothesis is used.

H_0 = The residuals are normally distributed.

H_1 = The residuals are not normally distributed.

The multi Collinearity between independent variables is measured by correlation matrix and Collinearity statistics namely VIF and tolerance value. It is necessary to check that there is no problem of Collinearity between the independent variables. The VIF value is less than 10 presents that there is no problem with multi Collinearity.

The homoscedasticity of residuals is measured by performing a scatter plot and Breusch – Pagan test. The hypothesis of BP test is as under:

H_0 = Hetroscedasticity does not present in residuals.

H_1 = Hetroscedasticity presents in residuals.

The independence of the residuals/autocorrelation assumption is tested by popular test i.e. Durbin –Watson test. There is no existence of autocorrelation in data is required. The applicable value of the D-W test is between 1.50 to 2.50. This value presents that there is no autocorrelation problem in the data set.

The researchers have followed these assumptions before running of multiple linear regression model. The descriptive statistics and multiple regression analyses have been performed through SPSS.

IV. DATA AND EMPIRICAL RESULTS

Analysis of Estimation

Table No. I present the descriptive statistics of liquidity, growth, size, profitability. Leverage, risk, dividend policy, and the market price of shares of selected PSBs. The mean values of all selected variables except ROE, EPS, risk, DPO, and DY have a positive result. The maximum value of MPPS and leverage is highest among all variables and the liquid ratio, DPO, DY, and DPS show less than 10 values during the study period. The leverage and market price of shares have the highest mean value, liquid ratio, DPS & growth have the lowest positive mean value and the other variables are presenting negative mean value. When we look at the result of the standard deviation, it is found that the ROE, EPS, and leverage show high deviation.

Table No. III presents the result of the model summary. The R, R – Square, and Adjusted R – Square are 0.800, 0.639, and 0.489 respectively. Here, the explanatory variables have 63.90% predicting power with the market price of the share. While 36.10% of other variables are affected the market price of shares of selected PSBs.

Table No. IV reveals the model summary of multiple regression analysis and the p- the value of the Anova test show 0.002 values. This value is less than the significance level of 0.05. Hence, we accept the alternative hypothesis and said that the model is considerably fitted and the determinants of dividend policy have an impact on the market price of shares.

Table No. IV and Graph No. I & II depict the normality of residuals of selected PSBs during the study period from 2014-15 to 2018-19. The mean value and standard deviation of the Histogram are 4.31 and 0.840 respectively. The graph evidents that the standardized residual looks symmetrical for the market price of shares of selected PSBs. Hence, it is said that the data is normally distributed. The P-P plot shows good agreement with the ideal line which indicates that the residuals are normally distributed for the market price of shares of selected PSBs.

The result of the Shapiro –Wilk test shows the value of 0.320 which is more than the significant value i.e. 0.05. Hence, we do not reject the null hypothesis and said that the residuals are normally distributed.

Table No. V shows the Collinearity statistics of PSBs. The second assumption i.e. multi- Collinearity is tested by VIF and Tolerance value between independent variables. The VIF value is less than the rule of thumb i.e. 10. All the independent variables presented the value is less than 10 means there is no problem of multi- Collinearity between profitability, liquidity, leverage, growth, size, risk, and dividend policy of selected PSBs.

Table No. III has also presented the value of the Durbin – Watson test. The third assumption i.e. there is no problem of Auto – Correlation. The researchers tested this assumption by Durbin – Watson Test and the value is 1.589. The result is between the applicable levels i.e. 1.50 to 2.50. So, it is said that there is no autocorrelation exists in the study.

The Graph No. III expresses the scatter plot of homogeneity of residual and Table No. VI presents the result of the Breusch – Pagan Test. The last assumption of homogeneity of residuals is tested by Breusch – Pagan Test. The null hypothesis is "Hetroscedasticity does not present in the residual." Here, the Breusch – Pagan Test has 0.855 values which are more than the 0.05 level. So, we do not reject the null hypothesis and said that the residuals are showing homoscedasticity. We conclude that all assumptions are fulfilled and afterward multiple regression analysis has been done.

Discussion and Analysis of Results

Table No. VII offers the regression co-efficient result of selected PSBs during the study period from 2014-15 to 2018-19. The regression results present the following:

A. Liquidity and Market Price of Shares: To measure the liquidity position, the liquid ratio is considered and the beta value and p-value of the ratio is 558.76 and 0.005 respectively. The p- value is less than 0.05and found that the liquidity has a strong positive impact on the market price of shares of selected PSBs in India. The smooth cash flow of operations reflects the creditworthiness of a

particular bank in the stock market and as a result, the market price of a share is also increased.

B. Growth and Market Price of Shares: An interesting return is used to measure the growth of selected PSBs. The beta value (-9.92) and P-value (0.932) presents negative result. The study found a negative relationship between growth and market price of shares. It means growth making banks have a lower market price of shares and vice- a- versa. The result is in line with (Ramaji, 2017) and (Harshapriya, 2016).

C. Size and Market Price of Shares: The natural logarithm of Total Assets is taken as the size of the banks. The result found a prominent positive impact of size on the market price of shares of selected PSBs due to 7.58 beta values & 0.040 P- values. If the size is increased than the market price of shares is also increased. The study found the opposite result (Harshapriya, 2016). We can say that larger banks have easier access to the capital market, the ability to raise funds at a lower cost, and maintain their reputation in the market. As a result size and market price of the share, both are presenting significant positive impacts in PSBs.

D. Profitability and Market Price of Shares: The Return on Equity ratio (ROE) and Earning Per Share (EPS) are the parameters of profitability. The beta value and p-value of ROE are 0.84 and 0.248 respectively and the beta value and p- value of EPS is 0.32 and 0.414 respectively. These values show a positive relationship with the dependent variable of the market price of the share. There is a positive impact of profitability on the market value of shares of selected PSBs which is in line with previous studies (Masum, 2014), (Velankar, Chandani, & Ahuja, 2017), (Dhakal & Shah, 2018). The profit-making banks are interested in increasing shareholder's wealth and made their investment in such a way that can raise the market price of the share. So, profitability in the form of ROE & EPS has a positive impact on the market price of shares.

E. Leverage and Market Price of Shares: The Total Debt to Total Assets Ratio is taken to measure the leverage of selected PSBs in India. The beta value is 13.37 with significance at 0.049 which is said that the leverage has a tremendous influence on the market price of shares. It means if the leverage is increased than the market price of shares is also increased. Hence, the market price of shares of

the leveraged bank has more and vice – a – versa. It is supported by (Ramaji, 2017). We conclude that the high levered banks have created a positive environment in the eyes of shareholders and the stock market. Ultimately, the market price of a share is increased.

F. Risk and Market Price of Shares: The Price- Earnings Ratio is considered to measure the risk of the bank. The beta value presents a positive result of 0.36 and the p-value is more than the significant level i.e. 0.67. From this result, it is found that risk and market price of shares has a positive relationship in PSBs. The result is not in line with (O. & Kunle, 2018).

G. Dividend Policy and Market Price of Shares: The Dividend Per Share (DPS), Dividend Pay Out Ratio (DPO), and Dividend Yield Ratio (DY) are taken as parameters of the dividend policy of the banks. The beta value of DPS, DPO & DY is 3.37, 3.83, and 8.62 respectively and the p-value is 0.370, 0.819, and 0.522 respectively.

These values are positive but insignificant. So, we can say that the dividend policy of banks have a positive insignificant impact on the market price of shares. The result is in line with previous studies (Ramaji, 2017), (Bassey, Ikenna, & S.E., 2015), (Luvembe, Mungai, & Eddie, 2014), (Zafar, D.S.Chaubey, & S.M.Khalid, 2012) and (Telesphore & Patrick, 2018). The other studies namely found a negative relationship with the dependent variable i.e. market price of shares of selected PSBs during the study period.

Table No. VIII provides the overall result of multiple regression analysis of selected PSBs from the year 2014-15 to 2018-19. The size, liquidity, and leverage have presented a remarkable impact on the market price of shares. While the other variables except growth have a positive impact on the market price of shares. The result of the Anova – test found a 0.002 p-value which is less than the significant level of 0.05.

It means there is a significant impact of determinants of dividend policy on the market price of shares of selected PSBs.

V. CONCLUSION

This study is based on identical variables of determinants of dividend policy and the market price of shares of financial companies in India. The study is focused

on public sector banks only for 5 years time span from 2014-15 to 2018-19. The result of multiple regression analysis found a positive, significantly positive, and negative relationship between two variables. The liquidity, size, and leverage found a positive significant relationship with the market price of shares. The banks have high liquidity, high size, and highly leveraged shows the high market price of shares and vice – a- versa. The profitability, risk, and dividend policy have a positive but insignificant relationship with the market price of shares. While the growth harms the dependent variable i.e. market price of shares. It means high growth making banks show lower market prices and low growth banks have a high market price of shares. The regression model is found significantly fitted. We can conclude that the market price of a share is not based on profitability, risk, and dividend policy. So, other variables contribute to the market price of shares of selected PSBs during the study period from 2014-15 to 2018-19.

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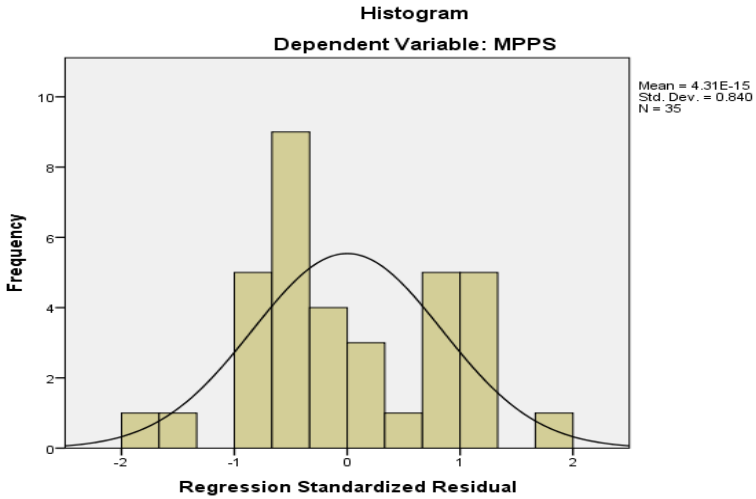
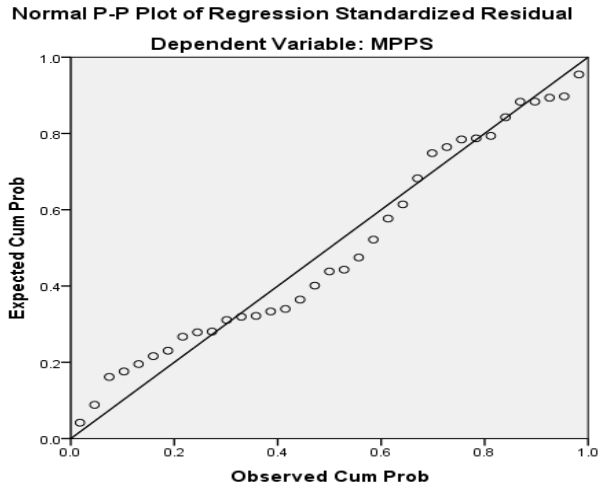
Graph – I Histogram with Normality Curve



Graph – II P-P Plot of Normality



Graph – III Scatter Diagram

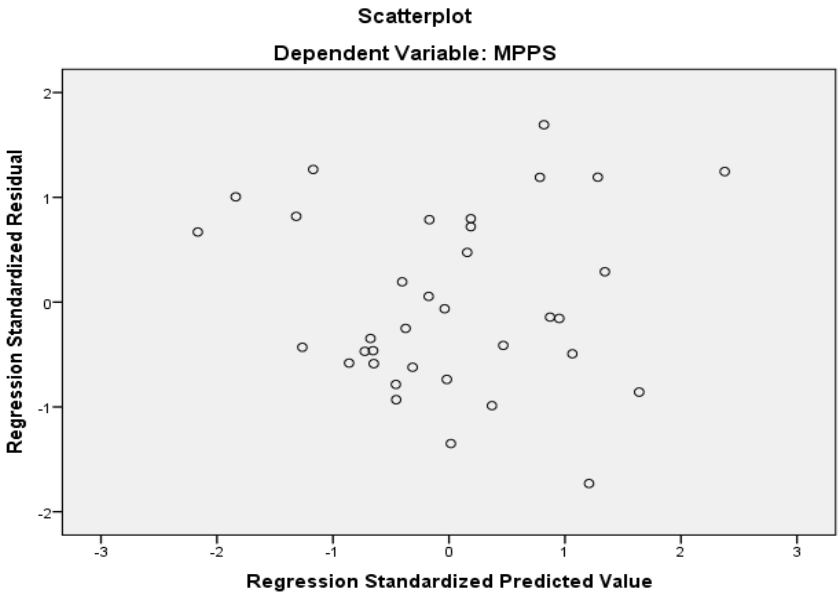


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Table No. I Descriptive statistics

Particular	N	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
Liquid Ratio (Liquidity)	35	.04	.24	.087	.0423
Growth	35	14.68	19.98	18.61	1.68
Size	35	17.21	22.56	21.10	1.69
ROE (Profitability)	35	-45.15	12.00	-9.53	14.50
EPS (Prof)	35	-83.01	28.05	-11.87	25.26
Leverage - 2	35	89.48	93.46	92.02	1.00
Risk	35	-8.86	24.96	2.60	8.45
DPS	35	.00	6.00	.711	1.54
SDPO	35	-.73	1.79	-.021	.882
SDY	35	-2.64	1.79	-.181	1.05
MPPS	35	18.80	195.85	75.59	43.08

Table No. II Model Summary of Multiple Linear Regression Analysis

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.800[a]	.639	.489	30.78593	1.589
a. Predictors: (Constant), SDY, Size, DPS, Leverage - 2, Risk (P/ERatio), Liquid Ratio (Liquidity), EPS (Prof), Growth, ROE (Profitability), SDPO					
b. Dependent Variable: MPPS					

Table No. III Anova & Durbin – Watson test Result of MLR

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	40347.535	10	4034.753	4.257	.002[b]
	Residual	22746.559	24	947.773		
	Total	63094.094	34			
a. Dependent Variable: MPPS						
b. Predictors: (Constant), SDY, Size, DPS, Leverage - 2, Risk (P/ERatio), Liquid Ratio (Liquidity), EPS (Prof), Growth, ROE (Profitability), SDPO						

Table No. IV Shapiro – Wilk Test for Normality of Residuals

Tests of Normality			
Particular	Shapiro-Wilk		
	Statistic	df	Sig.
Standardized Residual	.965	35	.320
*. This is a lower bound of the true significance.			
a. Lilliefors Significance Correction			

Table No. V Collinearity Statistics

Tolerance	VIF		Tolerance	VIF
.469	2.130		.668	1.497
.421	2.373		.565	1.770
.808	1.238		.861	1.162
.264	3.788		.130	7.665
.300	3.328		.143	6.991

Table No. VI Breusch – Pagam Test

Particular	Co- Efficient	Standard- Error	t- value	sig.
Constant	-0.904	22.54	-0.04	0.968
Liquid Ratio	0.568	6.557	0.087	0.932
Interest Return	-3.311	4.175	-0.793	0.435
LN_ Total Assets	0.155	0.127	1.223	0.233
ROE	0.037	0.026	1.418	0.169
EPS	0.006	0.014	0.402	0.692
Leverage	-0.009	0.234	-0.038	0.97
P/E Ratio	-0.012	0.03	-0.399	0.694
DPS	-0.128	0.135	-0.951	0.351
DPO	-0.051	0.604	-0.084	0.934
DY	0.125	0.483	0.258	0.789
F – value			0.874	
Sig. Value			0.855	

Table No. VII Co- efficient Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1352.9	618.56		-2.187	0.039
Liquid Ratio (Liquidity)	558.76	179.95	0.555	3.105	0.005
Growth – Interest Return	-9.92	114.56	-0.016	-0.087	0.932
Size- LN of T. Assets	7.58	3.48	0.297	2.176	0.04
ROE (Profitability)	0.84	0.71	0.283	1.185	0.248
EPS (Profitability)	0.32	0.38	0.186	0.832	0.414
Leverage	13.37	6.43	0.312	2.079	0.049
Risk (P/E Ratio)	0.36	0.83	0.07	0.427	0.673
DPS- (Dividend Policy)	3.37	3.69	0.121	0.913	0.37
DPO- (Dividend Policy)	3.83	16.57	0.078	0.231	0.819
DY- (Dividend Policy)	8.62	13.25	0.211	0.65	0.522

Table No. VII Overall Result of Hypothesis

Variables	Co- efficient Result	Hypothesis Result
Liquid Ratio (Liquidity)	+ (Sig.)	Positive Significant
Growth – Interest Return	-	Negative
Size- LN of T. Assets	+ (Sig.)	Positive Significant
ROE (Profitability)	+	Positive
EPS (Profitability)	+	Positive
Leverage	+ (Sig.)	Positive Significant
Risk (P/E Ratio)	+	Positive
DPS- (Dividend Policy)	+	Positive
DPO- (Dividend Policy)	+	Positive
DY- (Dividend Policy)	+	Positive

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