# Determinants of Dividend Policy in Indian Automobile Industry

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## ABSTRACT

*Dividend policy is one of the most intricate aspects in finance. Firms generally adopt dividend policies that suit the stage of life cycle they are in. For instance, high-growth firms with larger cash flows as Investment and smaller tends to pay out of their earning as dividend. The dividend policies of companies may follow several interesting patterns adding further to the complexity of such decisions. The present study covers thirteen automobile companies in India and the study analysis the ten variables like Leverage, Liquidity, Profitability, Size, Earning Per Share, Price Earnings, Sales Growth, Retained Earnings, Corporate Tax and Previous Year Dividend as independent variables and Dividend payout as dependent variable. Correlation and regression used as statistical tool for analyse the data. The result of the study disclose that, the liquidity, size, price earnings, retained earning, profitability and previous year dividend significantly influence the dividend policy.*

**Abstract:** *Dividend, Automobile Industry, Determinants of dividend policy*

## INTRODUCTION

The dividend policy was refer to that the proportion of companies profit distributed to its shareholder and remaining portion will be retained in the firm for further investment and this is called retained earnings. In the financial management the company is distributed higher dividend and lower maintenance of retained earning and the company distribute lower divided and higher maintenance of retained earnings. These are the relationship between dividend policy and retaining earning. Dividend decision is one of the major decisions as far as the financial decision of a concern. The company needs to decide on distribution of income and retention of income for future expansions. The final choice of decision should be taken very carefully because it is having an effect on the wealth of the share holder and ultimately on the goodwill of the company.

## REVIEW OF LITERATURE

**Ritu and Navita (2018)** in their study ascertained that profitability, firm size, liquidity, growth and market value are the major factor to determine the dividend policy. **Sumathi.N and Dr.Jothi.K (2017)**, in this study analysis the determinants of dividend policy of select pharma Companies in India. Price earning ratio, dividend payout, debt equity ratio, Previous year

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dividend are highly influence the dividend policy. **Soondur, Maunick and Sewark (2016)** in their study employed fixed random effect model to determine the factors influencing dividend. They ascertained that variables like Earnings per share, Net Income, Retained Earnings and Cash and Debt Equity mix significantly influence dividend determination. **Christopher and Rim (2014)** in their study try to investigate the dividend declaration policy of four Lebanese listed banks for the period of 2005-2011. Result of the study disclosed that, Profitability, Firm size, Growth, Previous year dividend shows a significant impact to determine the dividend policy. **Hashim, Shahid, Salid and Umair (2013)** try to ascertain determinants of dividend policy with the sample of 27 banks in Pakistan. Their result of the study disclose that liquidity, profitability, lagged dividend and ownership structure shows a significant impact on dividend **policy.Hafeez and Attiya (2012)** in their study observed the determinants of dividend policy with sample of 320 companies. They observe that size, liquidity and net earnings show a significant impact on dividend policy.

## STATEMENT OF THE PROBLEM

The dividend policy differs from country to country because of different rules and regulation of the government regarding share price and tax policies. The dividend is a payment from the profits of a company and that is circulated to the shareholders in the proportion of their shareholdings. The study concentrates only on Automobile Industry. The Indian auto industry is one of the major Industries in the world. The industry contributes to a tune of 7.1 per cent towards our country's Gross Domestic Product (GDP). Automobile market due to a growing middle class and a young population. Moreover, the growing interest of the companies in exploring the rural markets further aided the growth of the sector. The overall Passenger Vehicle (PV) segment has 14 per cent market share. India is also a famous auto exporter and has strong export growth expectations for the near future. Overall automobile exports grew 13.01 per cent year-on-year between April-December 2017. In addition, several initiatives by the Government of India and the major automobile players in the Indian market are expected to make India a leader in the two wheeler and Four Wheeler market in the world by 2020. So the Paper analysis the determinants of dividend policy of automobile industry in India.

## OBJECTIVES OF THE STUDY

- To know nature of relationship select variables with dividend policy of Automobile industry in India
- To examine factors determining dividend policy of Automobile Industry in India

## RESEARCH METHODOLOGY

The data required for the study is secondary in nature. Secondary data have been collected from Prowess maintained by Centre for Monitoring Indian Economy. By adopting judgment sampling, companies which continuously pay dividend during 2008-2009 and 2017-2018, have been selected for the study. The collected data have been analyzed with the help of Correlation and Regression.

## ANALYSIS AND INTERPRETATION

To find nature of relation between dependent and independent variable, Correlation test is employed. Dividend is introduced as dependent variable. Leverage, liquidity, profitability, size, earnings per share, price earnings, sales growth, retained earnings, corporate tax and previous year divided introduced as independent variables. Out of ten independent variables introduced five variables are found to be significant. Liquidity, size, price earnings and previous year dividend are found to be significant at one per cent level and sales growth is found to be significant at five per cent level.

**Table 1**
**Variables Related with Dividend Policy**

| Variables | r | $r^2$ |
|---|---|---|
| Leverage | 0.061 | 0.004 |
| Liquidity | $.292^{**}$ | 0.085 |
| Profitability | 0.038 | 0.001 |
| Size | $.318^{**}$ | 0.101 |
| Earning Per Share | -0.158 | 0.025 |
| Price Earnings | $.523^{**}$ | 0.274 |
| Sales Growth | $.179^{*}$ | 0.032 |
| Retained Earnings | -0.164 | 0.027 |
| Corporate Tax | -0.118 | 0.014 |
| Previous Year Dividend | $.402^{**}$ | 0.162 |

**\*Significant at five percent level \*\*Significant at one percent level**

### i. Liquidity

Liquidity and dividend payout are positively correlated. This shows that the company with high liquidity, pay high dividend. The Coefficient of determination ($r^2$) shows that liquidity accounts for 8.5 per cent of the deviation in the dividend payout.

### ii. Size

Size and Dividend payout are positively correlated. This shows that level of dividend payout is high with large size companies, as large size companies can reduce their transaction cost to a maximum extent and can access capital market easily. The Coefficient of determination ($r^2$) shows that size accounts for 10.1 per cent of the deviation in the dividend payout.

### iii. Price Earnings

Price earning and dividend payout are positively correlated. Company which has high price earnings ratio declare high rate of dividend. The Coefficient of determination ($r^2$) shows that price earnings accounts for 27.4 per cent of the deviation in the dividend payout.

### iv. Sales Growth

Sales Growth and dividend payout are positively correlated. Companies, where growth in sales is noticed declared high rate of dividend. The Coefficient of determination ($r^2$) shows that sales growth accounts for 3.2 per cent of the deviation in the dividend payout.

### v. Previous Year Dividend

Previous year dividend and current year dividend are positively correlated. This shows that, the company which declared high rate of dividend during previous year declare high rate of dividend in current year too. The Coefficient of determination ($r^2$) shows that previous year dividend accounts for 16.2 per cent of the deviation in the dividend payout.

To find the combined influence of select independent variable over dependent variable regression test is made use of. The following regression equation has been framed to ascertain the impact of the variables on dividend payout.

DP= a + b1 LEV + b2 LIQ + b3 PR + b4 SZ + b5 EPS + b6 PE + b7 SG

 + b8 RE + b9 CT + b10 PYD + e

Where,

| | | | | | |
|---|---|---|---|---|---|
| DP | = | Dividend Payout | EPS | = | Earnings Per Share |
| a | = | Intercept Term | PE | = | Price Earnings |
| b1….b10 | = | Regression Coefficients | SG | = | Sales Growth |
| LEV | = | Leverage | RE | = | Retained Earnings |
| LIQ | = | Liquidity | CT | = | Corporate Tax |
| PR | = | Profitability | PYD | = | Previous Year Dividend |
| SZ | = | Size | e | = | Error Term |

**Table 2**

**Determinants of Dividend Policy**

| Variables | Regression Coefficient | Standard error | t |
|---|---|---|---|
| Leverage | -4.165 | 6.000 | -.694 |
| Liquidity | 10.476* | 5.388 | 1.944 |
| Profitability | .230 | .211 | 1.089 |
| Size | .000 | .000 | .852 |
| Earning Per Share | -.060 | .044 | -1.363 |
| Price Earnings | .158** | .033 | 4.810 |
| Sales Growth | -.263 | .139 | -1.885 |
| Retained Earnings | -.003** | .001 | -3.080 |
| Corporate Tax | 9.829 | 8.113 | 1.212 |
| Previous Year Dividend | .026* | .010 | 2.531 |

**\*Significant at five percent level \*\*Significant at one percent level**

**Constant: 41.155, Std. Error of the estimate: 30.172$R^{2:}$ 0.469\*\* Adjusted $R^{2:}$ 0.425**

### i. Liquidity

The regression coefficient indicates that Liquidity positively influence the dividend payout. The value of regression coefficient indicates that a unit of increase in liquidity shall increase the dividend payout by 10.476 units. Increase in liquidity leads to increase in dividend payout.

### ii. Price Earnings

The regression coefficient indicate that price earning of the company positively influence the dividend payout. The value of the regression coefficient indicates that unit of increase in price earning of a company shall increase the dividend payout by 0.158 units. Increase in price earnings leads to increase the dividend payout.

### iii. Retained Earnings

The regression coefficient indicates the Retained earnings of the company negatively influence the dividend payout. The value of the regression coefficient indicates that unit of decrease in retained earning of a company shall increase the dividend payout by 0.003 units. Decrease in retained earnings leads to increase in dividend payout.

### iv. Previous Year Dividend

The regression coefficient indicates the previous year dividend positively influences the dividend payout. The value of the regression coefficient indicates that unit of increase in previous year dividend of a company shall increase the current year dividend payout by 0.026 units. Increase in previous year dividend payout leads to increase in current year dividend payout.

### FINDINGS

The study find out, Liquidity, Size, Price earnings and Previous year dividend are found to be significant at one per cent level and Sales Growth is found to be significant at five per cent level. The value of $R^2$ is found to be significant at one percent level. This shows that the regression equation framed is a good fit. Around 46.90 per cent of variation in level of dividend payout is due to the selected variables.

### CONCLUSION

The result of the study discloses that liquidity, size, price earnings, retained earnings, profitability and previous year dividend determines the dividend payout of the company. The dividend policy of the company determines the market price of their company shares. Hence, before declaring dividend management has to ascertain desire of their shareholders and to look in to account future capital requirements for their company growth, accordingly dividend may be declared.

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