

“Dividend Policy And Its Impact On Share Price Of Listed Nationalised Banks In Bse”

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Abstract: *The decision of the management regarding the payment of dividend depends on the prevailing condition of the firm and also the preference of the investors. A number of researchers have advanced theories and provided empirical evidence regarding dividend policy issue, however, is yet unresolved and challenging. For this purpose, twenty nationalized banks in India are studied. Financial data for the same was retrieved for 5 years from the Stock exchange website, Financial Ratios and from Fact sheets of banks. The primary aim of this research is to develop an elaborate discussion on how the volatility is prevailed in the Indian stock market with the dividend policies of different banks. Statistical tool like Moving Average is used for comparing the market value of shares before the date of Dividend declaration and after the announcement of dividend declaration. This study has been undertaken with the intention of evaluating the effect of various Dividend Policy on market price of commercial banks listed in Bombay Stock Exchange. The results of the data analysis reveal that there is a significant effect of dividend policy on the market value of share price of selected Indian Banks. When Banks are display consistent dividend histories and pay more dividends to the shareholders they become more attractive to investors.*

1. INTRODUCRION

Dividend is that portion of firm's current profit distribution to its shareholders in the form of cash or shares. Dividend Policy is implemented by the firm to decide how much dividend it will payout to its shareholders?. It is due to the fact that dividend actually presents information relating to the profit earning capacity of a firm. A number of empirical studies have indicated that, whether a company's profits should be distributed to shareholders in the form of dividends or it must be reinvested in new investment opportunities. It has been observed that investors have different expectations when it comes to dividend payment.

The most significant factor affecting dividend policies are Policy of the company, stability in earnings, liquidity of the company, past dividend rates, market expectation, taxation, legal restrictions, nature of business, cost of capital, trade cycle, bonus issues etc.Dividend Models consider whether there is any relation between dividend policy and market value of the shares. They consider the impact of dividend and retained earnings on the value of firms. The Model of Walter and Gordon, dividend is relevant for the valuation of the firm or market value of the shares. But the Modigliani and miller argue that dividend paid is not relevant either for the market price of the shares or the valuation of the firm. According to Jo and Pan, (2009), Dividend payment is a major component of stock return to shareholders. The dividend policy is important because it outlines the magnitude, method, type and frequency of dividend distributions.

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Research Objectives

- To highlight the dividend policy of the commercial banks.
- To evaluate the dependency of dividend pay-out on share price
- To provide guideline for investors, banks and all institutional investors to know the relationship between dividend pay-out ratio and stock price volatility.
- To examine whether the risk of stock are linked with dividend pay-out.
- To determine the effect of profitability of the banks on payment of dividend pay-out.
- To analyze the effect of size of the firm on dividend payments.

2. LITERATURE REVIEW

Here we highlight some related literature Review which finds relevant in the context of impact of dividend policy on share price

Pradhan (2003), Results of his study show that dividend payment has strong relation with stock price while retained earning has very weak relation with stock market price. On the basis of dividends distributed by the company, investors determine the performance of the firm. If a company is paying higher dividends, in that case, investors assume that the company is performing satisfactorily. **Bacon (2004)** studied the impact of dividend policy on stock price. Samples of 483 companies from Multex investors' database were taken. Their results showed that there exists a positive relationship between the price-earnings ratio and dividend pay-out ratio. **Mohamed and Amel (2006)** in their study on the determinants of dividend policy of Tunisian stock Exchange found out that the high profitable firms with more stable earnings can manage the larger cash flows and because of this they pay larger dividends. **Ogolo (2012)** conducted a study to investigate the effect of dividend policy on share price with a focus on 61 firms listed in Nairobi Stock Exchange. This study showed significant positive relationship between Market price per share with two main measurements of dividend policy which are earnings per share and dividend pay-out ratio. In a study conducted by **ShevataGhai(2012)** on Stock Price Reaction to dividend announcements, it was found that dividend policy has a positive impact on stock prices. The analysis used Event study methodology and exposed the fact that stock prices do react to increase in dividend announcements and dividend announcements do have signaling role. **Al-Hasan (2013)**, evaluates the effect of dividend policy on share price of some selected listed companies in Bangladesh taking dividend per share and retained earnings per share as independent variables. The finding of the study suggests a positive relationship of the market price per share with both independent variables. The impact and the relationship between dividend payments and the share price was studied by **Botchwey, E. (2014)** and applied to listed companies on the Ghana Stock Exchange (GSE). The study results showed that dividend payments had a positive impact on share price. The researcher **Chaabouni, (2017)** has studied the stock prices response to dividend announcements of ten companies in Saudi Arabia in the year 2014-15. The methodology of finding the abnormal returns has been adopted by the author. It was found that there is a positive impact of the dividend announcements on the stock prices. The result of the empirical study carried out revealed that

the earning streams of the pay-out ratio derives a lot from the dividend policy of the banks and the dividend policy of the bank is believed to have an effect on the prices/values of its shares.

3. RESEARCH METHODOLOGY

According to Kothari, “the research methodology refers to the various steps that are generally adopted by a researcher in studying research problem informed by some logic”. Research method is the specific procedures or techniques used to identify select, process and analyse information about the research topic. Since this study is primarily based on secondary data, the annual reports of the selected banking companies and their fact sheet were approached and calculations were made out of it. The data is also collected from the official website of Bombay Stock Exchange www.bseindia.com. For the better understanding of the study, various articles and research papers are also reviewed relating to this subject matter.

Data Analysis And Findings

TABLE 1: Rate of dividend declared by the banks

Sl. No	Bank	2013-14	2014-15	2015-16	2016-17	2017-18
1	Allahabad Bank	60%	10%	16%	-	-
2	Andra Bank	50%	20%	15%	-	-
3	Bank of Baroda	215%	105%	160%	60%	-
4	Bank of India	100%	50%	50%	-	-
5	Bank Of Maharashtra	23%	10%	8%	-	-
6	Canara Bank	130%	45%	105%	-	550%
7	Central Bank	20%	25%	5%	-	-
8	Corporation Bank	190%	22.50%	70%	-	-
9	Dena Bank	47%	11%	9%	-	-
10	IndusInd Bank	35%	40%	45%	60%	75%
11	Indian bank	66%	17%	42%	15%	60%
12	Indian overseas bank	20%	5%	-	-	-
13	Oriental Bank Of commerce	92%	36%	33%	7%	-
14	Punjab & Sind Bank	26.80%	6%	6%	16.5%	-
15	Punjab Nationalised bank	66%	17%	42%	15%	60%
16	SBI	415%	150%	350%	260%	260%
17	Syndicate Bank	67%	30%	47%	-	-
18	UCO Bank	16%	25%	20%	-	-
19	Union Bank	80%	13%	60%	-	-
20	Vijaya Bank	25%	10%	15%	-	10%

The Table-1 provides at a glance the dividend declaration by various banks for a period of 5 years. With the above information the following tables are constructed

Which shows the 30 day's average Share price before dividend announcement and 30 day's average Share price after dividend announcement which helps to draw a conclusion regarding the impact of dividend announcement on market price of shares?

The dividend declaration by the banks during five financial years is as follows:

TABL-2 YEAR-2017-18

SL. No	Name of the bank	Dividend announcement date	Percentage of dividend declared	30 day's average Share price before dividend announcement	30 day's average Share price after dividend announcement
1	Allahabad bank	No dividend	-	67.50	48.80
2	Andra bank	No dividend	-	47.90	39.85
3	Bank Of Baroda	22-06-17	60%	188.40	202.45
4	Bank of India	No dividend	-	189.08	149.25
5	Bank of Maharashtra	24-04-17	7%	27.70	31.60
6	Canara Bank	11-5-17	10%	305.45	361.45
7	Central bank	No dividend	-	93.05	125.45
8	Corporation Bank	No dividend	-	59.90	56.80
9	Dena Bank	No dividend	-	44.70	38.40
10	IndusInd Bank	24/04/17	60%	1483.35	1537.42
11	Indian Bank	25/04/17	60%	323.45	364.70
12	Indian Overseas Bank	No dividend	-	29.35	26.80
13	Oriental Bank Of Commerce	No dividend	-	168.85	149.15
14	Punjab Nationalised Bank	25/04/17	60%	158.90	150.10
15	Punjab & Sind Bank	No dividend	-	52.75	64.15
16	SBI	19-5-17	260%	273.10	277.2
17	Syndicate Bank	No dividend	-	82.75	77.10
18	UCO Bank	No dividend	-	37.40	38.40
19	Union Bank	01/06/17	30%	172.40	175.40
20	Vijaya Bank	09-05-17	15%	70.50	83.35

Table-2 shows that only 8 banks declared dividend for the financial year 2017-18. Recently the banks are instead of paying dividend to shareholders retain earnings in order to fund new opportunities. It is also observed that some Banks may also suspend regular dividends in response to financial troubles or unforeseen large expenses. But it is clear from the above table that the banks which pay dividends to the shareholders, their share prices are also increased after the dividend declaration date.

TABLE: 3 YEAR-2016-17

Sl. No	Name of the bank	Dividend announcement	Percentage of	30 day's average Share	30 day's average Share
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		date	dividend declared	price before dividend announcement	price after dividend announcement
1	Allahabad bank	No dividend		57.95	88.35
2	Andra bank	09-05-16	15%	55.85	57.25
3	Bank Of Baroda	No dividend		160.15	156.05
4	Bank of India	No dividend		101.85	92.05
5	Bank of Maharashtra	No dividend		31.80	34.85
6	Canara Bank	No dividend		196.24	196.43
7	Central bank	No dividend		62.90	111.95
8	Corporation Bank	No dividend		38.80	45.45
9	Dena Bank	No dividend		40.50	30.95
10	IndusInd Bank	No dividend		1053.25	1132.95
11	Indian Bank	11-5-16	15%	107.20	147.10
12	Indian Overseas Bank	No dividend		31.40	27.40
13	Oriental Bank Of Commerce	No dividend		91.15	84.70
14	Punjab Nationalised Bank	11-5-16	15%	87.10	105.80
15	Punjab & Sind Bank	No dividend		36.40	42.15
16	SBI	16-5-16	260%	160.50	261.90
17	Syndicate Bank	No dividend		72.80	69.50
18	UCO Bank	No dividend		40.10	44.60
19	Union Bank	24-05-16	20%	132.85	159.60
20	Vijaya Bank	No dividend		32.25	33.75

Table-3: Shows that there is a positive effect of dividend announcement on the share price of – Andra Bank, Indian Bank, Punjab Nationalised Bank, SBI and Union Bank. But it is also observed that the market value of shares also increased even after not declaring any dividend in case of banks like Allahabad Bank, Bank of Baroda and IndusInd Bank. It implies that there is mixed effect of dividend announcement on share prices of the banks.

TABLE: 4 YEAR-2015-16

Sl.No	Name of the bank	Dividend announcement date	Percentage of dividend declared	30 day's average Share price before dividend announcement	30 day's average Share price after dividend announcement
1	Allahabad bank	18-05-15	16.30%	108.70	108.65
2	Andra bank	03-04-15	20%	80.75	81.80

3	Bank Of Baroda	11-05-15	160%	142.75	165.65
4	Bank of India	28-05-15	50%	225.80	232.95
5	Bank of Maharashtra	14-05-15	8%	40.80	44.15
6	Canara Bank	25-05-15	105%	371.37	316.80
7	Central bank	12-05-15	5%	105.90	113.70
8	Corporation Bank	18-05-15	70%	62.80	57.35
9	Dena Bank	15-05-15	9%	48.90	54.50
10	IndusInd Bank	16-04-15	40%	966.90	884.40
11	Indian Bank	14-05-15	42%	171.05	177.37
12	Indian Overseas Bank	No dividend	-	44.30	33.35
13	Oriental Bank Of Commerce	14-05-15	33%	203.95	214.50
14	Punjab Nationalised Bank	14-05-15	42%	159.40	153.65
15	Punjab & Sind Bank	12-05-15	6%	46.15	47.20
16	SBI	22-05-15	350%	318.00	238.78
17	Syndicate Bank	11-05-15	47%	99.40	116.75
18	UCO Bank	12-05-15	20%	71.20	66.20
19	Union Bank	25-05-15	110%	169.90	222.45
20	Vijaya Bank	12-05-15	15%	47.30	41.90

Table-4 shows that, in the financial Year 2015-16 all nationalised bank declared dividend. The intention behind this is to increase the market value of shares instead of going for extension purposes. When we observe the dividend declaration rate by the bank and the market value of shares, it was found that in case of Bank Of Baroda, Bank Of India, IndusInd Bank, oriental bank, Indian Bank, Syndicate Bank and Union bank which pay high rate of dividend and there will be a positive impact of dividend policy on share prices. The share prices are increased at a high rate because of the payment of high rate of dividend.

TABLE: 5 YEAR-2014-15

SL. No	Name of the bank	Dividend announcement date	Percentage of dividend declared	30 day's average Share price before dividend announcement	30 day's average Share price after dividend announcement
1	Allahabad bank	13-05-14	25%	104.70	138.00
2	Andra bank	No dividend	-	104.90	91.60
3	Bank of Baroda	31-05-14	105%	167.41	183.80
4	Bank of India	13-05-14	50%	247.05	356.75
5	Bank of Maharashtra	23-05-14	10%	40.25	55.15
6	Canara Bank	05-05-14	45%	270.94	396.80

7	Central bank	No dividend		48.40	88.85
8	Corporation Bank	12-05-14	22.50%	79.80	83.50
9	Dena Bank	12-05-14	11%	67.30	94.40
10	IndusInd Bank	16-04-14	35%	520.50	585.73
11	Indian Bank	12-05-14	17%	136.15	198.95
12	Indian Overseas Bank	29-04-14	5%	61.85	81.50
13	Oriental Bank Of Commerce	30-04-14	36%	247.55	328.76
14	Punjab Nationalised Bank	12-05-14	17%	158.84	198.46
15	Punjab & Sind Bank	12-05-14	6%	48.10	72.45
16	SBI	24-05-14	150%	173.60	272.10
17	Syndicate Bank	07-05-14	30%	107.65	175.85
18	UCO Bank	21-05-14	10%	74.95	115.75
19	Union Bank	26-05-14	100%	160.45	233.70
20	Vijaya Bank	06-05-14	10%	39.85	54.92

Table -5, shows that the banks which announced high rate of dividend impact on market price of shares substantially. It is also found that during this period the BSE Sensex is also high and the banks are also paid high rate of dividend so as to attract the shareholders both of which ultimately leads to increase in market value of shares.

TABLE: 6 YEAR-2013-14

SL. No	Name of the bank	Dividend announcement date	Percentage of dividend declared	30 day's average Share price before dividend announcement	30 day's average Share price after dividend announcement
1	Allahabad bank	07-05-13	60%	141.70	138.00
2	Andra bank	02-05-13	50%	91.95	99.85
3	Bank Of Baroda	13-05-13	215%	139.74	151.90
4	Bank of India	13-05-13	100%	287.55	297.85
5	Bank of Maharashtra	29-04-13	23%	54.25	57.90
6	Canara Bank	02-05-13	130%	388.10	403.66
7	Central bank	10-05-13	25%	72.30	68.75
8	Corporation Bank	08-05-13	190%	75.64	78.26
9	Dena Bank	13-05-13	47%	84.50	72.56
10	IndusInd Bank	18-04-13	30%	467.35	518.40
11	Indian Bank	09-05-13	66%	171.20	169.34
12	Indian Overseas Bank	29-04-13	20%	59.15	49.90
13	Oriental Bank Of	02-05-13	92%	268.05	243.85

	Commerce				
14	Punjab Nationalised Bank	09-05-13	66%	153.62	151.85
15	Punjab & Sind Bank	02-05-13	26.80%	61.95	57.65
16	SBI	14-05-13	415%	248.22	260.68
17	Syndicate Bank	02-05-13	67%	119.85	127.80
18	UCO Bank	07-05-13	16%	85.46	95.60
19	Union Bank	20-05-13	100%	224.10	142.70
20	Vijaya Bank	26-04-13	25%	48.50	51.35

Table-6 shows that, during the financial year 2013-14 the banks are paid high rate of dividends. SBI (415%), Andhra Bank (215%), Bank Of Baroda (215), Corporation Bank (190%), Canara Bank (130%), Union Bank (100%) and Bank Of India (100%) paying 100% and more than 100% which shows that the banks are interested to pay dividend to shareholders than to retain the earnings. So it is clear that due the payment of high rate of dividend market value of shares are increased at a peak rate.

TABLE: 7 THREE YEARLY MOVING AVERAGES

Sl. No	Name of the Bank	Year	Average share price	3 yearly moving average
1	Allahabad bank	2013-14	76.25	-
		2014-15	74.55	74.68
		2015-16	73.23	75.01
		2016-17	77.24	76.23
		2017-18	78.22	-
2	Andra bank	2013-14	59.35	-
		2014-15	89.36	70.61
		2015-16	63.12	69.51
		2016-17	56.05	58.19
		2017-18	55.40	-
3	Bank Of Baroda	2013-14	119.21	-
		2014-15	180.76	154.06
		2015-16	162.21	166.88
		2016-17	157.68	161.10
		2017-18	163.40	-
4	Bank of India	2013-14	219.55	-
		2014-15	241.80	196.67
		2015-16	128.67	161.63
		2016-17	114.42	131.61
		2017-18	151.75	-
5	Bank of Maharashtra	2013-14	35.62	-
		2014-15	31.81	42.05
		2015-16	58.73	42.25
		2016-17	36.22	43.47
		2017-18	35.47	-

6	Canara Bank	2013-14	258.05	-
		2014-15	334.83	313.70
		2015-16	348.22	337.22
		2016-17	328.61	343.05
		2017-18	352.32	-
7	Central bank	2013-14	51.27	-
		2014-15	83.72	70.63
		2015-16	77.35	83.01
		2016-17	87.97	83.46
		2017-18	85.07	-
8	Corporation Bank	2013-14	57.38	-
		2014-15	65.43	54.82
		2015-16	41.65	49.74
		2016-17	42.15	42.09
		2017-18	42.47	-
9	Dena Bank	2013-14	52.85	-
		2014-15	60.25	51.75
		2015-16	42.15	45.77
		2016-17	34.92	38.80
		2017-18	39.35	-
10	IndusInd Bank	2013-14	392.81	-
		2014-15	642.70	642.81
		2015-16	892.92	895.59
		2016-17	1151.07	1231.89
		2017-18	1651.69	-
11	Indian Bank	2013-14	91.57	-
		2014-15	169.74	130.18
		2015-16	129.22	179.14
		2016-17	238.47	235.58
		2017-18	339.06	-
12	Indian Overseas Bank	2013-14	47.90	-
		2014-15	68.05	49.84
		2015-16	33.57	42.88
		2016-17	27.02	28.04
		2017-18	23.53	-
13	Oriental Bank Of Commerce	2013-14	201.97	-
		2014-15	285.67	208.77
		2015-16	138.37	181.72
		2016-17	121.12	131.19
		2017-18	134.07	-
14	Punjab Nationalised Bank	2013-14	119.77	-
		2014-15	132.83	127.63
		2015-16	130.29	131.59
		2016-17	131.67	135.15
		2017-18	143.49	-
15	Punjab & Sind Bank	2013-14	43.95	-
		2014-15	54.75	46.20
		2015-16	39.90	49.53

		2016-17	53.95	48.07
		2017-18	50.35	-
16	SBI	2013-14	166.28	-
		2014-15	278.95	229.13
		2015-16	242.15	258.39
		2016-17	254.08	262.60
		2017-18	291.57	-
17	Syndicate Bank	2013-14	89.57	-
		2014-15	134.75	105.23
		2015-16	91.37	98.83
		2016-17	70.37	78.53
		2017-18	73.85	-
18	UCO Bank	2013-14	68.42	-
		2014-15	84.00	66.81
		2015-16	48.02	56.45
		2016-17	37.33	38.95
		2017-18	31.50	-
19	Union Bank	2013-14	128.72	-
		2014-15	168.89	149.34
		2015-16	150.42	150.61
		2016-17	132.52	138.05
		2017-18	131.22	-
20	Vijaya Bank	2013-14	39.28	-
		2014-15	41.77	39.87
		2015-16	38.57	40.98
		2016-17	42.61	49.51
		2017-18	67.35	-

The above table-7 shows the average movement of the stock prices of the nationalised banks. The increasing trend can be observed in the stock price movements of Allahabad bank, Bank Of Baroda, Bank of Maharashtra, Canara Bank, Central Bank, IndusInd Bank, Indian Bank, Punjab Nationalised Bank, SBI and Vijaya Bank. In case of Andra Bank, Bank Of India, Corporation Bank Indian Overseas Bank, Oriental Bank of Commerce, Syndicate Bank and UCO bank decreasing trend has been observed. The other two banks Punjab & Sind Bank and Union Bank showed mix trends in the stock value. First increase and then decrease. It can be expected that with the declaration of dividend all the stock prices should have shown the upward movement. But in reality, this did not happen. As per our observation, many banks show upward trend because of them pay the dividend in every financial year. So, we can say that there is a positive impact of dividend announcement on market price of shares.

In this context it may be assumed that dividend announcements convey particular positive information about the company and provide signals about future performance of the firm. Since dividend announcements bear useful information, from the efficient market hypothesis view point this information is reflected in the share price changes immediately after the public announcement (Bodie et al, 2009).

4. CONCLUSION

The objective of this research was to analyze the relationship between Dividend Policy & Stock Price of twenty nationalized commercial banks of India listed in Bombay Stock

Exchange from the financial year 2013-14 to 2017-18. This research study reveals that the applicability of dividend policy by the banks cause some reaction in market prices of shares. Any changes in dividend payment pattern by the bank will trigger an immediate effect on its share prices at the stock market. It implies that, banks which pay high rate of dividends to its shareholders experience price rise in their shares while those which pay lower rate of dividend experience price reduction in their shares. The results revealed that dividend payout ratio have a positive and significant effect on the market prices of shares of banks. The result of the research also shows that there should be aware of the implications of different dividend policies by the nationalised banks since 'Dividend policy' is one of the most complex aspects in finance and very important in the current business environment. The outcome of the research also show that Dividend announcements and dividend policy had a significantly positive impact for banks with increasing dividends while it had negative effects for banks with decreasing dividends. The study also shows, the Banks with no change in dividends are reveal mixed reactions towards dividend announcements.

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