Research Paper
Impact Factor: 7.184
Peer Reviewed & Indexed Journal
www.ijbarr.com

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

"AN ANALYSIS OF DIVIDEND PAYMENTS AND ITS IMPACT ON SHARE PRICE ON BSE" WITH SPECIAL TO TOP 5 COMPANIES

Dr.Bhuvaneswari .E
Assistant Professor, Department of Commerce, B.M.S College for Women, Basavanagudi, Bangalore.

Abstract
The concept of dividend payment is adopted on dividend policy is the set of guidelines a company uses to decide how much of its earnings it will pay out to shareholders. Some evidence `suggests that investors are not concerned with a company's dividend policy since they can sell a portion of their portfolio of equities if they want cash. The evidence is called the "dividend irrelevance theory" and it essentially indicates that an issuance of dividends should have little to no impact on stock price. To analyze the performance of top 5companies of BSE then to ascertain the impact of dividend payment on share price when dividends are not paid but also to ascertain the share price of the companies who issues regular bonus shares using descriptive methodology.

Key Words: Dividend Payout Ratio Declaration Date Ex-Dividend Date Payment Date.

Introduction

Investment is the key for capital formation. Investor desire to earn some return from the investment, without any return there is no any investment. Thus shareholders will receive a dividend. A dividend is a payment made by a corporation to its shareholders, usually as a distribution of profits. Dividends are often paid in cash, but they can also be issued in the form of additional shares of stock. In either case, the amount each investor receives is dependent on their current ownership stakes. Dividends can affect the price of the underlying stock in a variety of ways. When a dividend is paid, the total value is deducted from a company's retained earnings. A bonus issue, also known as a scrip or a capitalization issue, is an offer of free additional shares to existing shareholders. A company may decide to distribute further shares as an alternative to increasing the dividends payout.

Review of Literature

- **Brennan (1971)**
  Supports this irrelevance theory must be based upon a denial of the principal of asymmetric rational markets and the assumption of independence of irrelevant information. To reject the latter assumption, the following terms are required: (1)Investors are not rational; and (2)share prices rely upon past events and expected future prospects.

- **Baker and Wurgler (2004)**
  Examined the catering theory by construct four share price on measures of investors demand for dividend payers, and that dividends are highly related to share value.

- **Hakansson (1982)**
  Suggested that dividends whether informative or not, given no value role when investors have homogeneous beliefs and time additive utility as well as a market which is entirely efficient.

- **Woolridge (1983)**
  Analyzed the unforeseen change of dividends and their impact on the value of common and preferred stocks as well as bonds. He found that signaling around dividend alterations is the main factor affecting share price.

- **Petit (1972)**
  Was the first who demonstrated that positive (negative) changes in dividend payments induce positive (negative) abnormal returns.

- **Watts (1973)**
  Disputed the results of Petit (1972). He studied 310 firms during 1945-67 for the informational signaling hypothesis of dividend increases, and found that on average the relationship between future earning changes and current unexpected dividend changes positive. Since then , a lot many studies have been conducted focusing on stock price reaction to dividend announcements.

- **Below and Jhonson (1996)**
  Examined the differential share price reaction to dividend increase and decrease announcements with respect to market phase. They found that market phase has a significant impact on abnormal returns around the announcement, and it appears that more information is conveyed by dividend change announcements which run counter to market phase. These results were consistent with the information content of dividends hypothesis, and have important implications for event studies where clustering is problematic

- **Bord, Atkinson and Byrd (1999)**
  Assesses the stock price reaction to the announcements of dividend increases by firms in the hospitality industry using a standard event study methodology. Results indicated that dividend increases are favourably received by market participants because a statistically significant positive market reaction was observed.

- **Travlos and Vafeas (2001)**
  Examined the stock market reaction to announcements of cash dividend increases and bonus issues over an 11 years period i.e., 1985-95. The study revealed significantly positive stock market returns for firms announcing increase in cash and in stock dividends. It was concluded that positive impact of dividend increases might reflect apparently effective attempts by Cyprus-listed firms to bridge the information asymmetry gap with the investors via their dividend payout policy.

- **Docking and Koch (2004)**
  investigated whether investor reactions are sensitive to the recent direction or volatility of underlying market movements. They found that dividend-change announcements elicited a greater change in stock price when the nature of the news (good or bad) goes against the grain of the recent market direction during volatile times.

- **Goldstein and Fuller (2003)**
  investigated whether investors prefer dividend paying stocks to non-dividend paying stocks in declining markets using S&P 500 monthly returns as a proxy for market conditions. They found that dividend paying firms have higher returns than non- dividend -paying firms, especially in declining markets. Furthermore, they found that the simple payment of dividends, and not the level of the dividend yield, drives returns' asymmetric behavior relative to market movements, consistent with the signaling hypothesis of dividends.

- **Rao (1994)**
 in a study conducted on BSE listed companies during 1988-89 found that stock prices react positively to dividend increase announcements and this reaction starts even two days before formal announcements are made. For bonus announcements, the adjustments of stock prices occurred exactly on announcement day itself; where as in case of right issue announcements, the adjustment started one day late and it continued till the next day. He attributed this reaction of stock prices to signaling.

- **(Campbell and Beranek, 1955) Lintner (1956)**
 in his research suggests that a firm's management will resort to increasing dividends if it believes that the increase will be permanent. The average stock price drops on the ex-dividend date. The drop is around 90 per cent when the stock market is stable.

- **Foster and Vickery (1978)**
 document evidence that suggest positive abnormal returns to dividend payment announcements whereas Easton and Sinclair (1989) find negative abnormal returns, i.e., a negative reaction by stock prices to dividend announcements; which is attributed to the tax effect of dividends for shareholder.

Statement of the Problem

Dividend payment is one of the most important financial decisions of a company, as it directly influences investors' income and market perception. In the Indian capital market, especially the Bombay Stock Exchange (BSE), investors closely observe dividend announcements while making investment decisions. However, the impact of dividend payments on share prices varies across companies and sectors. There is a need to analyze whether dividend payments significantly affect share price movements of leading companies. Hence, this study attempts to examine the relationship between dividend payments and share price behavior with special reference to the top five companies listed on BSE

Objectives

1. To analyze the performance of top 5 companies of BSE
2. To ascertain the impact of dividend payment on share price
3. To ascertain the share price of the companies when dividends are not paid
4. To ascertain the share price of the companies who issues regular bonus shares

Research Methodology

Type of research: The descriptive research method is adopted in the study.

Sources of Data:

Secondary data- The data collected form the Bombay stock exchange websites.

Tools used for Data analysis: The collected data were analyzed and hypothesis testing formulated proved with advanced statistical tools like T-test, Karl Pearson Coefficient correlation.

Analysis and Interpretation

Table No: 1

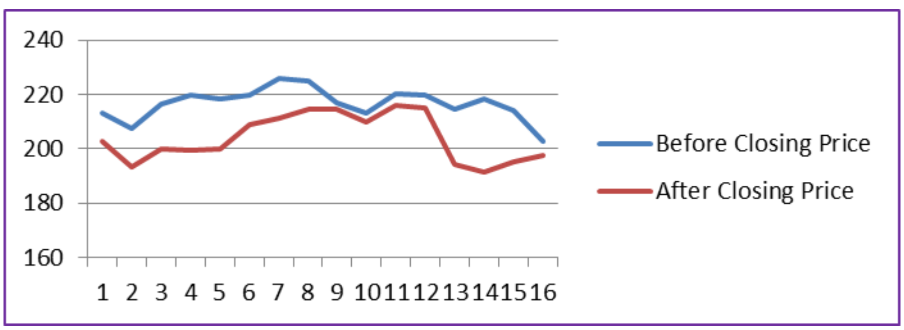
Table showing the share price movement before and after dividend announcement of oil and natural gas limited

Before Closing Price	After Closing Price
197.55	202.8
195	193.55
191.5	199.9
194.1	199.4
215	199.85
215.9	208.85
209.85	211.15
214.45	214.4
214.4	214.45
211.15	209.85
208.85	215.9
199.85	215
199.4	194.1
199.9	191.5
193.55	195
202.8	197.55

Analysis: The above table shows that there was a fluctuation in stock price before the dividend announcement was 213.1. But after dividend announcement the volatility in share price was decreased to the extent of 197.55

Graph No:1

Graph showing the share price movement before and after dividend announcement of oil and natural gas limited.



Interpretation: From the above graph we can represent the share price changes before and after dividend announcement there is a huge ups and downs day by day. The stock price after dividend as gradually decreased. It might be due to the marketability fluctuation.

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

Table No: 2

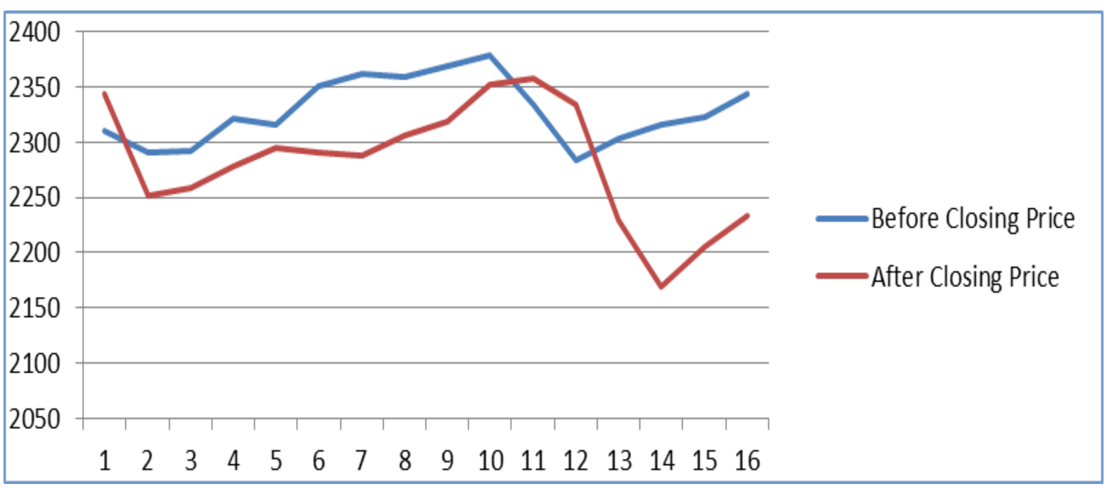
Table Showing The Share Price Movement of Tata Cosultancy Seriveces Limited Before and After Dividend Announcement

Before Closing Price	After Closing Price
2309.85	2343.3
2290.2	2252
2292.1	2258.55
2321.85	2277.65
2315.8	2295
2350.75	2290.3
2361.95	2287.45
2359.05	2305.7
2368.5	2318
2378.55	2352.7
2334.55	2358.05
2283.6	2334.2
2303.75	2229.9
2315.45	2169.45
2323.05	2205.8
2343.3	2233.75

Analysis: The above table is clear about the stock price movement before dividend announcement was 2309.85. But after dividend announcement there was slighter change in stock price that has been moved upward to an extent of 2233.75.

Graph no: 2

Graph showing the share price movement of tata cosultancy seriveces limited before and after dividend announcement



Interpretation: From the above graph it is clear that stock price before dividend announcement has increased compared to after dividend announcement the stock price has slightly moved upward. It might be due to company's performance.

Table no: 3

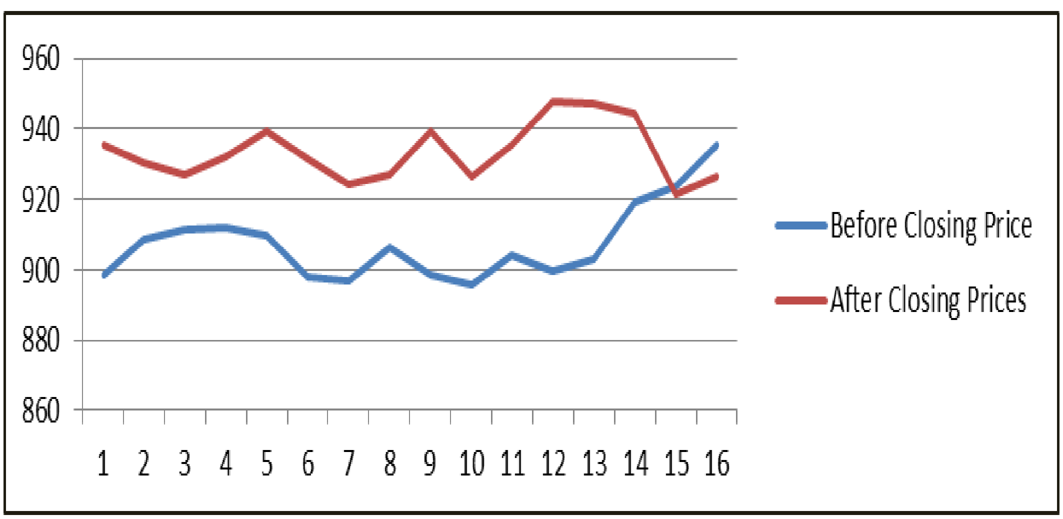
Table showing the stock price movement before and after dividend announcement of infosys ltd

Before Closing Price	After Closing Prices
898.75	935.6
908.45	930.6
911.3	927.15
912	931.9
909.55	939.3
898.05	931.45
896.65	924.45
906.45	927.1
898.65	939.65
895.7	926.75
903.95	935.4
899.8	947.5
903.1	947.45
919.45	944.65
923.65	921.65
935.6	926.25

Analysis: In the above table we can analyze the changes in stock price before dividend announcement was 898.75. But after dividend announcement it was increased was 926.25.

Graph No: 3

Graph showing the stock price movement before and after dividend announcement of infosys ltd



IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

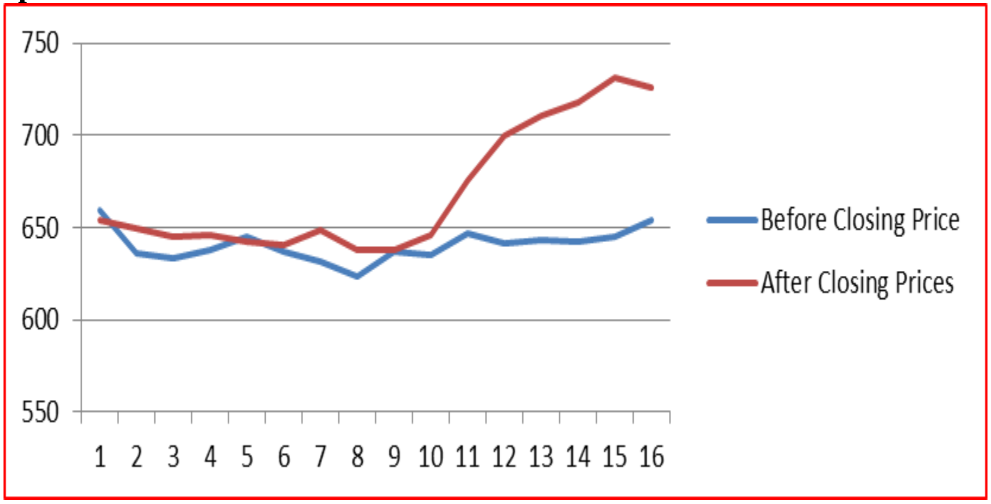
Interpretation: The above graph shows that the share price fluctuation before dividend announcement was highly increased but after the dividend declaration the share price was decreased slightly. It might be due to the change in ex-dividend date.

Table no: 4
Table showing the share price movement of bharat petroleum corporation limited before and after dividend announcement

Before Closing Price	After Closing Prices
659.35	653.8
635.6	649.55
633.25	645.2
637.7	645.95
645.35	642.35
637.2	640.55
631.95	648.95
623.35	638.25
636.7	637.85
635.35	645.5
647	675.2
641.55	699.5
643.6	710.35
642.05	717.6
644.6	730.85
653.8	726.2

Analysis: From the above table the stock price movement before the dividend announcement but the stock price after dividend announcement was increased to the extent of 726.2.

Graph no: 4
Graph showing the changes in share price before and after dividend announcement of Bharat Petroleum corporation limited



Interpretation: From the above chart represents that there is a huge fluctuation before dividend declaration was slightly increased compare to after date of dividend announcement it has high volatility. It might be due to the reason for growth in profitability from the long period.

Table no: 5

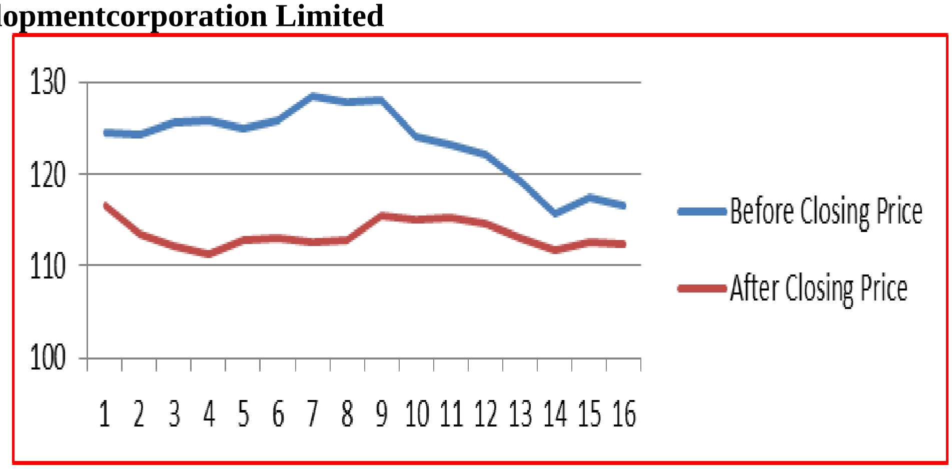
Table showing the stock price movement before and after dividend announcement Of National Mineral Developmentcorporation Limited

Before Closing Price	After Closing Price
124.45	116.65
124.35	113.4
125.6	112.15
125.95	111.2
124.95	112.9
125.8	113.1
128.5	112.6
127.9	112.9
127.95	115.55
124.15	115.1
123.15	115.35
122.15	114.5
119.15	113
115.6	111.7
117.5	112.55
116.65	112.35

Analysis: The above table shows that there was a fluctuation in stock price before dividend announcement (124.45). When compared to the after date of dividend declaration the volatility in the movement of share price was decreased to the extent of (112.35)

Graph no: 5

Graph showing the stock price movement before and after dividend announcement of National Mineral Developmentcorporation Limited



Interpretation: From the above graph it is clear that there is a decreased in stock price before and after dividend announcement. It might be due to dividend price

Hypothesis Testing

The Karl Pearson's Correlation Coefficient Formula is

$$r = \frac{n(\Sigma xy) - (\Sigma x)(\Sigma y)}{\sqrt{[\,n\Sigma x^2 - (\Sigma x)^2\,]\,[\,n\Sigma y^2 - (\Sigma y)^2\,]}}$$

Where,

r = Sample correlation coefficient.
n = Number of years.
x = Value of independent variable.
y = Value of dependent variable.

Ho: There is no relationship between dividend announcement and share price movement.
H1: There is a relationship between dividend announcement and share price movement.

Table showing calculation of karl pearson's correlation coefficient for the changes in the stock prices on dividend announcement

X	Y	x2	y2	xy
213.1	202.8	45411.61	41127.84	43216.68
207.6	193.55	43097.76	37461.6	40180.98
216.45	199.9	46850.6	39960.01	43268.36
219.85	199.4	48334.02	39760.36	43838.09
218.4	199.85	47698.56	39940.02	43647.24
219.8	208.85	48312.04	43618.32	45905.23
226.1	211.15	51121.21	44584.32	47741.02
224.85	214.4	50557.52	45967.36	48207.84
216.75	214.45	46980.56	45988.8	46482.04
213.1	209.85	45411.61	44037.02	44719.04
220.1	215.9	48444.01	46612.81	47519.59
219.95	215	48378	46225	47289.25
214.6	194.1	46053.16	37674.81	41653.86
218.4	191.5	47698.56	36672.25	41823.6
214	195	45796	38025	41730
202.8	197.55	41127.84	39026	40063.14
3465.85	3263.25	751273.1	666681.5	707285.9

$$r = \frac{n(\sum XY) - (\sum X)(\sum Y)}{\sqrt{[n\sum X^2 - (\sum x)^2]\,[n\sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{16(707285.9)-(3465.85)\,(3263.25)}{\sqrt{16\,(751273.1)-(3465.85)^2 16(3666681.5)-(3263.25)^2}}$$

$$= \frac{11316574.4-11309935.012}{\sqrt{12020369.6-12012116.22*10666904-1064880.56}}$$

$$= \frac{6639.388}{\sqrt{8253.38*18103.44}}$$

$$= \frac{6639.88}{\sqrt{149414569.63}}$$

$$= \frac{6639.88}{12223.53}$$

Hence, r = 0.54

t Test

$$t = \frac{r\sqrt{n-2}}{\sqrt{1- r^2}}$$

$$= \frac{0.54\sqrt{16-2}}{\sqrt{1-(0.54)^2}}$$

$$= \frac{0.54\sqrt{14}}{\sqrt{1-0.2916}}$$

$$= \frac{0.54(3.74)}{\sqrt{0.7084}}$$

$$=\frac{2.0196}{0.708}$$

t=2.85

Conclusion: The critical value of t-distribution table is 2.120 @5% level of significance with degree of freedom 10.Since the calculated value of t-test 2.85 is more than critical value (2.145). Therefore, null hypothesis is rejected Alternative hypothesis is accepted. Hence it is concluded that there is a relationship between dividend announcement and share price.

Summary of Findings, Suggestions and Conclusion

Findings

1. The share price changes before and after dividend announcement there is a huge ups and downs day by day. The stock price after dividend was gradually decreased.
2. The stock price before dividend announcement has increased compared to after dividend announcement the stock price has slightly moved upward.
3. The share price fluctuation before dividend announcement was highly increased but after the dividend declaration the share price was decreased slightly.
4. That there is a huge fluctuation before dividend declaration was slightly increased compare to after date of dividend announcement it has high volatility.
5. It is clear that there is a decreased in stock price before and after dividend announcement.

Suggestions

1. If investors are looking for sustainable and growing dividends , don’t invest on stocks with 10 % or 20% yields. Instead, focus on quality with a good enough yield.
2. If investors aspire to get the dividend they need to own the stock before the ex-dividend date.
3. Instead of simply looking at a stock's yield, investors should check the dividend as a percentage of a company's earnings and free cash flow to determine if its payouts are sustainable.

4. Investors who don't need to spend their dividend income right away should enroll their stocks in a DRIP -- which automatically uses the payments to buy additional shares of the stock at a slight discount to the market price.
5. When a stock rallies and the yield drops, investors often sell the stock to buy one with a higher yield. In that situation, the investor has likely forgotten his or her "effective" yield -- the percentage the stock actually yields based on the principal price.

Conclusion

Investing in dividend-paying stocks is a great way to build long-term wealth. Regular cash dividends are those paid out of a company's profits to the owners of the business (i.e., the shareholders). A company that has preferred stock issued must make the dividend payment on those shares before a single penny can be paid out to the common stockholders.

Further complicating matters, the ex-date falls two trading days before the date by which you need to be a shareholder of record. Company established that they must-own the dividend on the date falls three days before the record date, so simple subtraction means that you must buy a stock one day before it goes ex-dividend.

Dividends can affect the price of the underlying stock in a variety of ways. While the dividend history of a given stock plays a general role in its popularity, the declaration and payment of dividends also have a specific and predictable effect on market prices.

Using a descriptive methodology, we found that despite of investors do not gain significant value in the period preceding as well as on the dividend’s announcement day, yet they can gain value in the post announcement period. Investors do shift their security positions at the time of dividend announcement, which indicates that in post announcement period there is a possibility of information content in dividend announcement in BSE.

References

1. **Akhigbe, Stephen and Madura (1993)** Stock price reaction to dividend announcement Volume 2 Issue 2 April 2012 retrieved from, www.publishingindia.com/GetBrochure.aspx?query.
2. **BRENNAN(1971)** “Dividend payment and its impact on the value of firms” retrieved from. https://www.econjournals.com.
3. **BAKER and WURGLER(2004**)“Dividend payment and its impact on the value of firms” retrieved from. https://www.econjournals.com.
4. **Bord, Atkinson and Byrd (1999)** Stock price reaction to dividend announcement Volume 2 Issue 2 April 2012 retrieved from, www.publishingindia.com/GetBrochure.aspx?query.
5. **Below and Jhonson (1996)** Stock price reaction to dividend announcement Volume 2 Issue 2 April 2012 retrieved from, www.publishingindia.com/GetBrochure.aspx?query.
6. **Docking and Koch (2004)** Stock price reaction to dividend announcement Volume 2 Issue 2 April 2012 retrieved from, www.publishingindia.com/GetBrochure.aspx?query.
7. **Goldstein and Fuller (2003)** Stock price reaction to dividend announcement Volume 2 Issue 2 April 2012 retrieved from, www.publishingindia.com/GetBrochure.aspx?query.
8. HAKANSSON (1982) “Dividend payment and its impact on the value of firms” retrieved from. https://www.econjournals.com.

9. **Petit (1972)** Stock price reaction to dividend announcement Volume 2 Issue 2 April 2012 retrieved from, www.publishingindia.com/GetBrochure.aspx?query.
10. **Rao (1994)** Stock price reaction to dividend announcement Volume 2 Issue 2 April 2012 retrieved from, www.publishingindia.com/GetBrochure.aspx?query.
11. **Travlos and Vafeas (2001)** Stock price reaction to dividend announcement Volume 2 Issue 2 April 2012 retrieved from, www.publishingindia.com/GetBrochure.aspx?query.
12. **Watts (1973)** Stock price reaction to dividend announcement Volume 2 Issue 2 April 2012 retrieved from, www.publishingindia.com/GetBrochure.aspx?query.
13. WOOLRIDGE (1983) "Dividend payment and its impact on the value of firms" retrieved from. https://www.econjournals.com.

Websites

- http://www.publishingindia.com/GetBrochure.aspx?query=UERGQnJvY2h1cmVzfC8xMDk5LnBkZnwvMTA5OS5wZGY
- www.sdmimdjournal.in informaticsjournals.com/index.php/sdmimd/article/download/2681/1767
- Dividend Payout Ratio | Investopedia https://www.investopedia.com/terms/d/dividendpayoutratio.asp#ixzz5EYblaDsY
- Dividend Payment Procedures https://www.investopedia.com/exam-guide/cfa-level-1/corporate-finance/dividend-payment-procedures.asp#ixzz5EYZgmy7P
- Dividend Payment Procedures https://www.investopedia.com/exam-guide/cfa-level-1/corporate-finance/dividend-payment-procedures.asp#ixzz5EYaLNq6d
- Dividend Payment Procedures https://www.investopedia.com/exam-guide/cfa-level-1/corporate-finance/dividend-payment-procedures.asp#ixzz5EYapJv00
- Stock Market https://www.investopedia.com/terms/s/stockmarket.asp#ixzz5EYqM2Dpq
- https://www.thebalance.com › Investing › US Economy › U.S. Markets › Stock Market
- Bombay Stock Exchange (BSE) .BO https://www.investopedia.com/terms/b/bombaystockexchange.asp#ixzz5EYtXNzPC
- Bombay Stock Exchange (BSE) .BO https://www.investopedia.com/terms/b/bombaystockexchange.asp#ixzz5EYu0mAYH
- https://www.cluteinstitute.com/ojs/index.php/JBER/article/download/702/687