Research Paper

IDENTIFYING THE RELATIONSHIP BETWEEN DIVIDEND POLICY AND SHAREHOLDERS WEALTH IN SELECTED INDIAN TEXTILE COMPANIES

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ABSTRACT

In the modern and complex environment globalization and privatization have lead the companies to aim towards the long run objectives of maximizing shareholder's wealth. Shareholder's wealth is reflected in the market price of share of company's common stock. Hence, maximizing shareholder's wealth is possible if the price of company's common stock is maximized. The best dividend policy is the one that maximises the company's stock price leading to shareholder's wealth maximization. The present study aims at identifying the relationship between dividend policy and shareholders wealth measured by MPS. Ten major companies from Indian Textile sector have been selected for this study with the data on the relevant market price and dividend policy variables for the period of ten years from 2006-07 to 2015-16. It is found that not only DPS but also, SIZE, REPS, LEVERAGE have significant relation with shareholders wealth for almost all the selected Companies.

INTRODUCTION

Dividend decision is one of the three major decisions of financial management. The financial management has to choose between distribution of Earnings and retention of Earnings. The choice would depend on the effect of the decision on the shareholders wealth. That is, the payment of dividend should be preferred, if it leads to the maximization of shareholders wealth. If it is not so, the firm should retain the profit and should not distribute dividend. Shareholders' wealth is the present value of the expected return that shareholders will get from the companies that they have invested. The goal of maximizing shareholder wealth is a long term goal, where shareholder wealth is a function of all future monetary returns to the shareholders. Wealth maximization is a modern approach to financial management. The term dividend policy refers to the policy concerning quantum of profits to be distributed as dividend. Dividend policy is basically concerned with deciding whether to pay dividend in cash now or to pay increased dividends at a later stage or distribution of profits in the form of bonus shares. India's textile sector is one of the oldest industries in Indian economy dating back several centuries. The textile industry is also labor intensive and is one of the largest employers. Dividend policy is useful measure to provide a snapshot of a company's financial position at any certain point of time or to provide a comprehensive idea about the financial performance of the company. The interest of shareholders and management are conflicting each other and it only can be satisfied partially. How to balance these two conflicting decisions is a matter of great efforts and research. This paper is an attempt to identify relation between dividend policy and shareholders wealth of ten selected companies of textile sector in India.

LITERATURE REVIEW

Ozuomba Chidinma N.& Okaro S.C.& Okoye Pius V.C. (2013) has conducted a study to examine effect dividend policies on shareholders wealth and found that 8 firms out of 10 shows that there is a significant effect of dividend policies on shareholders' value, while the other two shows an insignificant effect. **Adediran S. A. and Alade S. O. (2013)** concluded that there is a significant positive relationship between dividend policies of organizations and profitability, investment & Earnings Per Share. **Sumninder Kaur Bawa and Prabhjot Kaur (2013)** have found that there is positive association between dividend policy and shareholder wealth in case of dividend paying companies than the non paying companies of IT industry. **Asma Tahir, Nain Tara & Sarfarz Raja(2014)** have conducted a study to analyze relationship between the dividend policy and shareholder wealth and concluded that Pakistan is under developed country so there is insignificant relationship between d/p ratio r/e ratio, book value/market value ratio and holding period return. **Irtaza Ansar, Arslan Ali Butt& Syed Basit Hussain Shah(2015)** Studied the impact of retained earnings on the wealth of shareholder and concluded that the dividend policy have positively effect on the share holder's wealth. **Ramachandran Azhagaiah & Sandanam Gejalakshmi(2015)** have revealed that granger causality have significant causality between DPS and EPS, retained earnings.

OBJECTIVES

The major objective of this study is to identify the relationship between dividend policy and the shareholders wealth for selected companies of textile sector in India as well as for the entire textile Sector of India.

RESEARCH METHODOLOGY
Sample selection and period of the study

The study is based on secondary data collected from the published Annual Reports of 10 selected companies of textile sector in India. The sample comprises of NSE & BSE listed textile companies. Reason behind the selection of Bombay stock exchange (BSE) & National Stock Exchange (NSE) listed companies is that Indian stock market is highly influenced by the BSE & NSE INDEX. The companies selected for the study are as under:

Table-1: Sample Companies

Sr No.	Name of companies
1	Arvind Mills Limited
2	Bombay Dyeing & Manufacturing Company Limited
3	Loyal Textiles Limited
4	Nahar Spinning Mills Limited
5	Raymond limited
6	Ruby Mills Limited
7	Siyaram Mils Limited
8	Vardhman Textiles Limited
9	The Victoria Mills Limited
10	Welspun India Limited

Tools and Techniques:

The data have been tabulated and then analyzed and interpreted using Multiple Regression Analysis where MPS has been considered as dependent variable and DPS, REPS,ROE, Lagged P/E Ratio, Leverage and Size have been selected as independent variables. The following Regression Model has been used:

$$MPS_{it} = \ + \ _1(DPS)_{it} + \ _2(RPS)_{it} + \ _3(ROE)_{it} + \ _4(LAGPER)_{it} + \ _5(LEV)_{it} + \ _6(SIZE)_{it} + e_{it}$$

Where,

= Intercept Term / Constant

$_1, \ _2, \ _3 \ _4, \ _5, \ _6$ are the regression coefficients.

MPS = Market price of share

DPS = Dividend per share for company i at time t

REPS = Retained Earnings per Share for company i at time t

ROE = Return on Equity for company i at time t

LAGGEDP/E ratio = Lagged Price to Earnings Ratio for company i at time t

LEVERAGE = Debt to Equity ratio for company i at time t

SIZE= Log Total Asset for company i at time t

E= Error terms at time t

Table-2: Description of variables

Dependent variable	Measurement
Shareholder's Wealth	Market Price Per Share (MPS)
Independent variable	
Dividend per share (DPS)	Total Dividend/Number of Shares
Retained earnings per share(REPS)	Retained Earnings/No. of Share Outstanding
Return on Equity (ROE)	Earnings Available for Common Stock/Total Equity
Lagged P/E Ratio (PERt-1)	MPS (t-1)/EPS(t-1)
Leverage (DTE)	Total Debt/Total Equity
Size (LnTA)	Natural Logarithm of Total Assets

DATA ANAYLSIS & INTERPRETATION

In this study, the relationship between dividend policy and shareholder's wealth for textile sector in India for the period of 2006-2007 to 2015-2016 have been analysed using Multiple Regression Analysis:

Table-3: Result of Multiple Regression Analysis

Variables	Overall Textile Sector	Arvind Mills Ltd.	Bombay Dyeing Ltd.	Loyal Textile Ltd.	Nahar Spinning Mills Ltd.	Raymond Ltd.	Ruby Mills Ltd.	Siyaram Mills Ltd.	Vardhman Textile Ltd.	Victoria Mills Ltd.	Wellspun India Ltd.
(Constant)	267.630 (0.364)	-1413.47 (0.621)	54.204 (0.895)	4980.256 (0.018)	-3931.102 (0.002)	-2864.643 (0.485)	-374.40 (0.121)	57623.50 (0.007)	5385.490 (0.079)	3957.066 (0.538)	-1226.507 (0.110)
DPS	42.946* (0.000)	-38.140 (0.335)	20.365 (0.187)	20.366 (0.061)	29.125* (0.002)	6.849 (0.874)	-65.862 (0.119)	-3052.25* (0.002)	15.372 (0.338)	-41.512 (0.502)	1.446 (0.869)
REPS	2.299 (0.890)	62.478 (0.142)	-5.700 (0.335)	780.186* (0.012)	-360.866* (0.002)	-4.434 (0.944)	39.884* (0.009)	7875.47* (0.002)	193.280 (0.487)	197387.136 (0.487)	3.575 (0.485)
ROE	0.111 (0.964)	-0.072 (0.984)	0.282 (0.396)	-2.577 (0.344)	-1.010* (0.014)	7.695 (0.248)	12.784 (0.056)	254.332* (0.006)	-1.242 (0.806)	35.039 (0.093)	0.536 (0.570)
Lagged P/E Ratio	-1.089 (0.401)	1.133 (0.642)	0-.083 (0.500)	-0.267 (0.742)	-1.143* (0.015)	1.075 (0.550)	-10.254 (0.093)	-258.129 (0.006)	6.678 (0.356)	-22.095 (0.070)	-2.451 (0.389)
LEVERAGE	-35.186 (0.179)	44.900 (0.816)	1.388 (0.773)	160.046* (0.035)	-295.675* (0.002)	7.176 (0.980)	64.771* (0.026)	5577.83* (0.004)	-95.247 (0.631)	767.025* (0.034)	34.532 (0.405)
SIZE	-15.726 (0.662)	129.58 (0.697)	0.164 (0.997)	-1097.513* (0.018)	674.174* (0.002)	392.38 (0.497)	55.965 (0.137)	-10057.88* (0.007)	-669.357 (0.055)	119.096 (0.934)	148.110 (0.096)
R²	0.771	0.961	0.820	0.970	0.994	0.749	0.944	0.980	0.985	0.964	0.828
F-Stat.	52.219	12.192	2.278	16.390	90.390	1.493	8.481	24.867	32.077	13.397	2.405
Sign-F	0.000	0.33	0.267	0.021	0.002	0.399	0.054	0.12	0.008	0.29	0.252

* Indicates level of significance@5%

INTERPRETATION:

From the result of overall regression analysis of textile sector, it is found that DPS is the highest contributing variable with positive significant impact on shareholders wealth. REPS and ROE have positive impact while Leverage, Size and Lagged PE Ratio have negative impact on MPS. In case of Arvind Mills Limited SIZE has highest contribution with positive impact with on MPS. In case of Bombay Dyeing & Manufacturing Limited, DPS has highest contribution with positive impact with on MPS. In case of Loyal Mills Limited, Size has negative significant impact with highest contribution to MPS. REPS and Leverage have significant positive impact. In case of Nahar Spinning Mills Limited; Size is having highest contribution with significant positive impact followed by DPS on MPS. Rests of the variables are having significant negative impact on MPS. In case of Raymond Limited, Size is the highest contributing with positive impact on MPS. In case of Ruby Mills Limited, Leverage is having highest contribution to MPS with significant positive impact followed by REPS. In case of Siyaram Mills Limited, Size, REPS and Leverage have significant positive impact on MPS. DPS has significant negative impact on MPS. In case of Vardhman Textile Limited, SIZE is having highest contribution with negative impact on MPS. In case of Victoria Mills Limited, Leverage has significant positive impact on MPS and REPS is having highest contribution to MPS followed by Leverage, Size. In case of Welspun India Limited, SIZE is having highest contribution with positive impact on MPS. The value of R^2 is for all the models is more than 0.75 indicating that more than 75% of the variance in shareholders wealth is explained by all the independent variables jointly. Hence, all the models are strong.

FINDINGS:

From this study, it is found that DPS is having positive significant impact on shareholders wealth with highest contribution to MPS in case of overall textile sector. From the company-wise regression analysis, it is found that Size is the most significant variable affecting shareholders wealth in case of Arvind Mills Limited, Nahar Spinning Mills Limited, Loyal Textile Limited, Raymond Limited, Vardhman Textiles Limited, Welspun India Limited. DPS is the most important variable affecting shareholders wealth in case of Bombay Dyeing & Manufacturing Limited. In case of Ruby Mills Limited & Victoria Mills Limited Leverage is the significant positive variable affecting on MPS. In case of Siyaram Mills Limited, REPS has significant positive impact on MPS.

CONCLUSION:

This study tries to investigate the relationship between dividend policy and shareholders' wealth in Indian selected textile companies. For the textile sector, DPS has positive significant relationship with shareholder wealth. Therefore, Shareholders wealth can be created by paying more dividends for textile sector as a whole. It is found that not only DPS but also, SIZE, REPS, LEVERAGE have significant relation with shareholders wealth for the selected Companies. Therefore, along with Dividend policy, companies should also concentrate on Total Assets, Retained Earnings and Leverage to accelerate market price of shares and thereby, maximise shareholders wealth.

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