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ANALYSE THE STUDY OF DETERMINANTS OF IT COMPANIES POLICY OF DIVIDENED IN INDIA

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Abstract:

One of the most contentious areas of corporate finance is the factors that determine the payout of dividends. The top four Indian IT firms during the past five years are analysed in this report. In terms of dividend payouts, we find that the leverage ratio, the price-to-earnings ratio, and the return on equity are statistically significant. Especially for the Indian market, this is a major development in our understanding of the factors that determine dividend payouts.

Key Words: Dividend Distribution, Leverage, PE Ratio, Return on Equity

1. INTRODUCTION

Cash is distributed to shareholders by a corporation. Typically, it was paid in the form of cash; however, sometimes it was given in the form of stock. Any publicly traded firm is required to provide material information that investors need to make informed decisions about purchasing stock and receiving dividends. A shareholder's perspective on the dividend history of a company's stock can be aided by doing the following research: - The dividend history of a company's shares is valuable information for any investor to have. When researching a company's dividend yield, any investor can look at the company's dividend distribution history to get a sense of how consistent the dividend yield has been in the past. It can also be used as a screening mechanism to eliminate companies with problematic dividend practises. The dividend payout history is documented in the dividend history report. It is expected that dividends will increase annually for investors. According to the dividend policy that a firm ultimately chooses will have an impact on any manager or stakeholder of that company. Similarly, dividends are seen by investors as more than just a profit opportunity; they play a significant role in estimating a company's overall worth. Researchers and businesspeople alike have fretted over dividend policy, one of the three major financial choices faced by firms, and have consequently presented a model for dividend reinvestment. The model assumes that a firm is paying dividends at DPSt, has a target payout ratio, and will alter its dividend rate as its earnings per share (EPS) changes, but not by the whole amount. It is believed that in an ideal environment, the dividend policy does not affect the stock price or the cost of capital, and that the dividend policy has no bearing on the wealth of shareholders. The dividend policy is supported by a solid theoretical justification thanks to this argument. But there are academics who think the capital markets are flawed and, consequently, dividends are crucial. A recent study found that companies are more likely to distribute dividends when profits are high and less likely to do so when profits are low. If they are losing money, they will generally forego

the dividend as well. In addition, companies think shareholders do expect dividends from them and plan accordingly. However, there is currently no standardised approach that can be used to examine companies' dividend behaviour.

Diverse Dividend Strategies:

Dividends can be broken down further according to how they are distributed. The many forms of dividends are as follows:

Both the cash dividend and the bonus shares, which are distributed as a stock dividend in the United States, are considered dividends.

Some examples of dividends include:

- Regular cash dividends
- Script dividends
- Liquidating dividends
- Annual dividends
- Interim dividends
- Special dividends,
- Extra dividends, etc.

Payout structure

The declaration and administration of dividends are governed by the company's dividend policy. The dilemma is whether to give money back to shareholders or reinvest in the company. A dividend payment requires cash, which diminishes available assets. For the sake of maintaining a steady asset base and financing new investment prospects, the company must raise capital through the sale of equity or debt. Failing to do so might put the company's growth plans in jeopardy. The dividend policy of a corporation is crucial to both its long-term profitability and the safety of its shareholders' investments. There is no one-size-fits-all optimal dividend policy because the dividend decision will impact the company's financial policies, but the ideal dividend policy will maximise share price by striking a balance between the present dividend and the company's potential for future growth. Variables that affect dividend Numerous academics have proposed hypotheses and offered empirical data on the factors that influence a company's dividend policy. However, the question of dividend policy remains unanswered. A company's dividend payout behaviour may be influenced by a variety of factors. Profitability, dividend stability, retained earnings, liquidity, cash flow, investment variables, and financial variables are all factors. There are global industrial patterns in dividend policy, and key factors influencing dividend pay-outs include regulations, industry growth rate, capital investment needs, profitability, earnings variability, and asset characteristics like the composition of tangible and intangible assets. Other factors, such as investment opportunities,

agency costs, financial leverage, and firm size, also play a role. In addition, previous studies have shown that dividend payout is significantly influenced by a company's growth rate, systemic risk, retained earnings, liquidity, cash availability, and overall size. Dividends and retained earnings are constrained by a number of factors, including cash flow, contracts, laws, and taxes

Dividends and Dividend Policy Opposing Viewpoints

A researcher who studied dividends 30 years ago said, "The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit." If the dividend policy is any indication, this is one of the top ten financial mysteries. After considering the assumptions below, Miller and Modigliani in 1961 discovered a situation in which dividend policy can alter the value of the firm.
Anyone can obtain any and all information without paying a dime.
No distorted taxation. Enterprises give predictable and consistent dividends to investors when flotation and transportation expenses do not apply, but the revenues of corporate firms might be unpredictable. This suggests that investors choose a more steady stream of dividends.

The Impact of Value Creation on Shareholders and Dividend Policy

The first priority of management is to maximise shareholder wealth, which includes raising the market price of the company's common stock and providing shareholders with a "fair" return on their investments. Management theorists and economists have studied the topic of corporate dividend policy in depth, going so far as to develop theoretical models and conduct empirical research in the field. The performance of Pakistan's cement industry and the impact of dividend policy. Researchers have used a wide variety of metrics to assess the success of businesses. It shows the company's income and expenditures, and so it may be used to locate a visual representation of the company's position across several markets throughout a specified time period. It reveals how a profitable company is increasing its stockholders' returns on investment. Net income is another metric used to assess financial success; it can be split in two ways: through dividends and retained earnings. Firm earnings are split between retained earnings, which can be re-invested in the company, and dividends, which are distributed to investors and boost their wealth. Financial ratios are commonly used to evaluate a company's success, while alternative metrics have been used. Return on assets (ROA), return on equity (ROE), and earnings before taxes (EBT) were used to evaluate company performance. There are three primary choices to be made when managing a company's finances: financing, investing, and dividends. When deciding whether or not to distribute a dividend to shareholders, companies must first determine whether or not to keep any of the payout and, if so, how much. Payouts to shareholders in exchange for their ownership stake in a company are known as dividends. Depending on company policy, these payouts may be made in the form of cash or stock shares.

2. MATERIALS AND METHOD

The firm's dividend payout ratio serves as the dependent variable in this study, while the firm's size, profitability, risk, leverage, and liquidity serve as the independent variables. The firm's size is calculated as the natural logarithm of the total assets' book value. Earnings per share (EPS), return on assets (ROA), and return on equity (ROE) are three metrics used to evaluate a company's profitability.

Net Profit – Preference Dividend – Book Value of Equity Capital = Return on Equity Ratio of earnings to assets

Earnings per share (EPS) equals net profit divided by the total number of outstanding equity shares.

The value is expressed in Indian currency.

The PE ratio is used to evaluate risk.

PE Ratio = Current Market Price/EEarningsPer Share

Current Ratio (CR) = Current Assets / Current Liabilities;

Leverage = Total Debt (Short Term Debt plus Long Term Debt) / Total Shareholders' Fund

Liquidity;
Dividends Paid Out As A Percentage Of Net Profit * 100 = Cash Dividend Payout Ratio (DPR).The method is followed in terms of profitability, risk, leverage, and liquidity.

Data used:

The databases maintained by the Capital Market and Securities Exchange Board of India (SEBI) have provided the information used in this study. Companies are selected from India's cement industry. The research covers a five-year span beginning on January 1, 2014, and ending on December 31, 2018. There are a total of four of the largest publicly traded IT firms considered. These four businesses are the most lucrative IT firms publicly traded in India. TCS Ltd., Infosys Ltd., Wipro Ltd., and HCL Technologies Ltd. are the companies that have been taken into account for this study.

3. DATA ANALYSIS AND RESULTS

Table 1. Model Summary

Model	R	R square	Adjusted R square	Std. error of the estimate
1	0.404a	0.163	0.202	33.05

2	0.543b	0.295	0.219	32.87
3	0.576c	0.333	0.302	32.98
4	0.692d	0.478	0.442	33.01
5	0.712e	0.508	0.483	33.07

a. Predictors: (Constant), PE Ratio, CR, LEV, EPS, ROA, LTA, ROE
b. Predictors: (Constant), PE Ratio, CR, LEV, EPS, ROA, ROE
c. Predictors: (Constant), PE Ratio, CR, LEV, EPS, ROE
d. Predictors:(Constant), PERatio, LEV, EPS, ROE
e. Predictors: (Constant), PERatio, LEV,ROE

Table 1 shows the overall model summary of the predictors of PE Ratio, CR, LEV, EPS, ROA, LTA, ROE

Table 2. Coefficients

Model	Unstandardized coefficient		standardized coefficient	T	sig	Collinearity statistics	
	B	Std error	Beta			tolerance	VIF
Constant	0.014	3.452		0.406	.532		
PE Ratio	1.604	0.456	-0.224	4.346	0.001	0.674	1.548
LEV	3.402	0.345	0.354	5.462	0.005	0.542	1.688
ROE	4.065	0.455	0.456	7.080	0.002	0.754	1.243

Table 2 shows the Standardized, unstandardized coefficient and collinearity statistics of the constant ,LEV,PE Ratio and ROE

4. DISCUSSIONS

The non-significant factors were eliminated one by one using a stepwise regression model. The final model includes three predictors: PE Ratio, LEV, and ROE, and it can explain 50.7% of the variance in the dividend payment decisions. The initial model's R-Square values were just 20.7%; therefore, this is a significant increase in the model's ability to explain the data. Since DPR is directly proportional to ROE, increasing ROE will increase DPR. These results agree with what has previously been published. At the time this research was conducted, the Indian stock market was experiencing one of its more thrilling periods The four largest Indian IT service providers were analysed in this study. For the Indian stock market, this looks like it will be a valuable addition to the existing literature on dividend payment decisions

5. CONCLUSIONS

Dividends from companies with a high PE ratio tend to be larger because these businesses are expanding rapidly. Similarly, when a company has a higher level of leverage, more of its profit is distributed to its equity holders. With ROE serving as the dependent variable, we used firm size and financial leverage as the independent variables. The results demonstrate a positive correlation between dividends per share (DPS) and ROE that is not statistically significant (ROE). That is to say, a higher dividend yields a higher return on equity, and vice versa. Earnings per share (EPS) was also found to have a positively correlated connection with ROE, suggesting that a rise in EPS would lead to a similar rise in ROE. Additionally, the size of a company was discovered to have a considerable impact on its ROE. In the end, the correlation between financial leverage and any of the outcome variables was found to be statistically negligible. This research lends credence to dividend policy theories that have been developed to explain observed phenomena.

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