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Corporate Dividend Behavior In India: A Study Of BSE Sensex Companies

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Abstract

In this complicated business environment, corporations may want to hold onto their earnings in order to maintain working capital in the face of a market downturn. In contrast, firms may implement aggressive dividend policies to entice investors with a diverse range of investment options. Corporates have traditionally regarded dividend payments as a crucial decision. It has been noted that many businesses think that paying dividends has no bearing on their worth, and many guarantee that doing so increases shareholder wealth. Therefore, a company's responsibility of creating a suitable dividend policy is not simple. This study looks at the dividend trends of firms that are listed on the BSE and that are part of the Sensex throughout the seven-year period from 2017 to 2023. Descriptive Statistics i.e. Mean, standard deviation, and coefficient of variation is used to understand central tendency and dispersion of dividend payout ratios. It was found that out of these 7 years, the average DPR were lowest in the year 2020 and highest in the year 2017. But the Coefficient of Variation (CV) of DPR for all the years of sample period was significantly high indicating a huge variation in the dividend payout ratios of the sample companies in all the selected sample years.

Keywords: Dividend Payout Ratio (DPR), Dividend variation, trend

1. Introduction

A key topic of study in corporate finance is dividend policy, which has a direct impact on market perception and shareholder wealth. The percentage of earnings paid out as dividends, or the dividend payout ratio, is one of the most important metrics for evaluating a company's stability, investor orientation, and financial policy. This ratio not only shows the company's liquidity and earnings performance, but it also shows its growth strategy for the future. A high payout ratio could indicate a mature organization with little prospects for reinvestment, whereas a low payout ratio could indicate that the corporation is holding onto earnings for potential future growth.

A benchmark for overall market performance in India is the S&P BSE SENSEX (also known as the Sensex), a stock market index made up of 30 reputable and financially stable companies listed on the Bombay Stock Exchange (BSE). These businesses operate in a variety of industries, such as manufacturing, consumer products, finance, information technology, and energy. Sensex businesses are a perfect sample for examining changes in dividend payouts because their dividend policies are frequently regarded as a stand-in for the financial strategy and corporate conduct of the entire market.

India's corporate sector has seen a number of internal and external changes over the last ten years, including changes to laws like the Insolvency and Bankruptcy Code (IBC), the Goods and Services Tax (GST), and the dividend distribution tax (DDT) regimes, as well as external shocks like the COVID-19 pandemic. These occurrences have directly affected the company's cash reserves, profits, and dividend payment patterns. This study attempts to conduct a trend analysis of the dividend payout ratios of companies listed on the Sensex over a seven year period, with an emphasis on identifying whether dividend payout ratios have increased, decreased, or remained stable over time. Investors, analysts, politicians, and corporate management must comprehend these trends in order to assess the sustainability of dividends, investor confidence, and capital allocation plans. Furthermore, given the heightened emphasis on corporate governance and shareholder value, this study might help evaluate how adaptable Indian businesses are to shifting market conditions and investor demands.

2. Literature Review

In scholarly and professional financial literature, dividend policy has been the subject of much discussion. Decisions about a company's dividend policy impact not only its financial structure but also stock price volatility and investor behavior, which adds complexity.

Current research has looked at dividend distribution patterns in a number of markets. With businesses shifting to the paying group, the proportion of dividend-paying corporations in India rose by 28% over a 12-year period (Sharma & Wadhwa, 2017). Although average payment ratios increased, a previous study indicated that the

number of companies declaring dividends decreased between 1992 and 2004 (Singhania, 2005). Dividend payments in Pakistan increased between 2008 and 2018, with larger, more established companies more likely to pay dividends (Hameed et al., 2019). In Bangladesh, companies that paid cash dividends were found to maximize share values more effectively than those that offered bonus dividends (Haque, 2019). Firm size, profitability, debt levels, and investment patterns are some of the factors that influence dividend policies. These studies demonstrate how complex and dynamic dividend policies are across different markets, with variations observed depending on company characteristics and economic conditions. Dividend behavior can be understood using the conceptual framework provided by several well-known theories:

Theory	Proponents	Key Idea	Assumptions	Implication for Dividend Policy
Dividend Irrelevance Theory	Modigliani & Miller (1961)	Dividend policy has no effect on firm value.	Perfect capital markets, no taxes, no transaction costs, rational investors.	Dividends or retained earnings don't matter; firm value is based on earnings and investment.
Bird-in-the-Hand Theory	Gordon (1963), Lintner (1962)	Investors prefer certain dividends now over uncertain future capital gains.	Risk-averse investors, dividends are less risky than capital gains.	Higher dividends increase firm value; firms should pay dividends.
Tax Preference Theory	Litzenberger & Ramaswamy (1979)	Investors prefer capital gains due to lower taxes compared to dividends.	Capital gains taxed lower than dividends, rational investors prefer post-tax returns.	Firms should prefer lower dividends to maximize shareholder wealth.
Signaling Theory	Bhattacharya (1979), Miller & Rock (1985)	Dividends convey information about future earnings or financial health.	Information asymmetry exists between managers and investors.	Dividend changes signal performance; cutting dividends may send a negative signal.
Agency Cost Theory	Jensen & Meckling	Dividends reduce agency	Conflicts between managers and	Paying dividends can reduce wasteful

	(1976)	costs by limiting free cash flow.	shareholders, dividends force discipline.	spending and align interests.
Clientele Effect Theory	Elton & Gruber (1970)	Different investor groups prefer different dividend policies.	Investors are segmented based on tax brackets and income needs.	Firms may attract investors based on their consistent dividend policy.
Lifecycle Theory of Dividends	Fama & French (2001), DeAngelo et al. (2006)	Firms' dividend policies evolve as they mature.	Younger firms reinvest profits; mature firms have fewer growth opportunities and pay dividends.	Dividend payment increases with firm maturity and profitability.
Residual Dividend Theory	Miller & Modigliani (1961)	Dividends are paid only after all profitable investments are funded.	Investment decisions take priority; only leftover earnings are paid as dividends.	Dividend payout varies depending on investment needs.

These theories highlight that dividend policy is influenced by a range of factors—information asymmetry, agency problems, tax regimes, investor preferences, and the firm's own financial condition.

Lintner (1956), in one of the earliest empirical studies on dividend policy, found that firms tend to have a target payout ratio and adjust dividends gradually in response to earnings changes. Firms are also reluctant to reduce dividends due to potential negative signals to investors. **Fama and Babiak (1968)** reinforced Lintner's findings by developing econometric models to predict dividend changes based on past earnings and previous dividends. **DeAngelo and Skinner (2004)** highlighted that firms with stable earnings and fewer investment opportunities tend to distribute a larger portion of profits as dividends. The study also found evidence of dividend concentration in a small number of large firms. Dividend behavior in India has been studied extensively in light of reforms, liberalization, and structural changes in the corporate and tax landscape. **Kumar (2003)** studied 1,000 Indian firms and concluded that Indian companies display a strong preference for dividend stability, with payout ratios sensitive to earnings and liquidity conditions. **Reddy (2006)** analyzed dividend patterns before and after liberalization and found that while profitability and cash flow remained primary drivers, market conditions also influenced dividend decisions. **Mishra and Narender (2013)** investigated NSE-listed companies and observed that firms from the IT and services sectors exhibited lower

payout ratios compared to utilities and traditional industries, likely due to differing capital investment needs. **Kaur and Singh (2016)** conducted a trend analysis on BSE-listed firms and reported a decline in dividend payouts during periods of economic uncertainty, including global financial crises and domestic policy transitions. **Chauhan et al. (2019)** focused on the impact of the abolition of Dividend Distribution Tax (DDT) and found that it significantly affected the net dividend received by shareholders, leading to changes in dividend strategies. **Patra and Poshakwale (2019)** specifically studied SENSEX companies and found that firm size, earnings volatility, leverage, and industry classification played a significant role in determining dividend policy.

While these studies provide a comprehensive understanding of dividend behavior in India, a focused trend analysis of SENSEX companies is limited. Given that SENSEX companies are often trendsetters in the Indian market, such an analysis can offer valuable insights into broader corporate behavior and investor sentiment.

3. Objectives of the Study

The primary objective of this study is to analyze the trends in dividend payout ratios of SENSEX-listed companies over a defined period. In addition to this main objective, several sub-objectives guide the research:

1. To examine the year-wise trend in dividend payout ratios of SENSEX companies over the 7 financial years (2017 to 2023).
2. To evaluate whether companies follow stable dividend policies or show volatility in payout ratios.

4. Research Methodology

- This longitudinal quantitative study adopts a descriptive research design and uses secondary data to track and analyze dividend payout behavior over the 7 year period from 2017-2023.
- The sample consists of 30 companies listed in the S&P BSE SENSEX.
- Dividend Payout Ratio (DPR) was calculated as:

$$\text{DPR} = \text{Dividend per Share (DPS)} / \text{Earnings per Share (EPS)}$$

- Trend Analysis is done using Line graph to identify upward/downward movement.
- Descriptive Statistics i.e. Mean, standard deviation, and coefficient of variation is used to understand central tendency and dispersion.
- Data is compiled and analyzed using MS Excel and SPSS for statistical accuracy.
- Secondary data regarding the study is obtained from Annual Reports of the companies, and BSE official website.

5. Results and Discussion

The average payment of dividend by the selected companies was measured during the study period by arithmetic mean of DPR. The average DPR of each company has been compared with the average DPR of the Sensex. The average DPR of the Sensex has been obtained by the arithmetic mean of the average of DPR of all the selected companies belonging to the Sensex. A company having higher average DPR as compared to the average DPR of Sensex signifies that the company is adopting a liberal dividend policy. In contrast, a company having lower average DPR than the average DPR of the Sensex implies that the company is following a conservative dividend policy.

Table 1: Mean, Standard Deviation and Coefficient of Variation of DPR (Company Wise)

S.No.	Company Name	Mean/ Average DPR	Standard Deviation	Coefficient of Variation (In %)
1	Asian Paints Ltd	0.347	0.153	43.96
2	Axis Bank Ltd	0.062	0.118	189.11
3	Bajaj Finance Ltd	0.114	0.065	57.30
4	Bajaj Finserv Ltd	0.188	0.123	65.48
5	Bharti Airtel Ltd	5.433	9.788	173.19
6	HCL Technologies Ltd	0.009	0.023	264.58
7	HDFC Bank Ltd	0.166	0.084	50.38
8	Hindustan Unilever Ltd	0.489	0.024	4.96
9	ICICI Bank Ltd	0.129	0.066	51.43
10	IndusInd Bank Ltd	0.115	0.051	44.73
11	Infosys Ltd	0.299	0.037	12.42
12	ITC Ltd	0.573	0.118	20.65
13	JSW Steel Ltd	0.162	0.050	31.10
14	Kotak Mahindra Bank Ltd	0.025	0.011	45.73
15	Larsen & Toubro Ltd	0.332	0.100	30.04
16	Mahindra & Mahindra Ltd	0.788	1.370	173.82
17	Maruti Suzuki India Ltd	0.344	0.061	17.88
18	Nestle India Ltd	0.527	0.834	158.19
19	NTPC Ltd	0.204	0.031	15.09
20	Power Grid Corp of India Ltd	0.169	0.052	30.56
21	Reliance Industries Ltd	0.127	0.012	9.61
22	State Bank of India	0.110	0.103	93.86
23	Sun Pharmaceutical Industries Ltd	6.531	12.820	196.29
24	Tata Consultancy Services Ltd	0.195	0.058	29.98
25	Tata Motors Ltd	0.040	0.106	264.58
26	Tata Steel Ltd	0.220	0.065	29.80
27	Tech Mahindra Ltd	0.360	0.221	61.59
28	Titan Co Ltd	0.303	0.053	17.63
29	UltraTech Cement Ltd	0.144	0.053	37.09

30	Wipro Ltd	0.000	0.000	43.96
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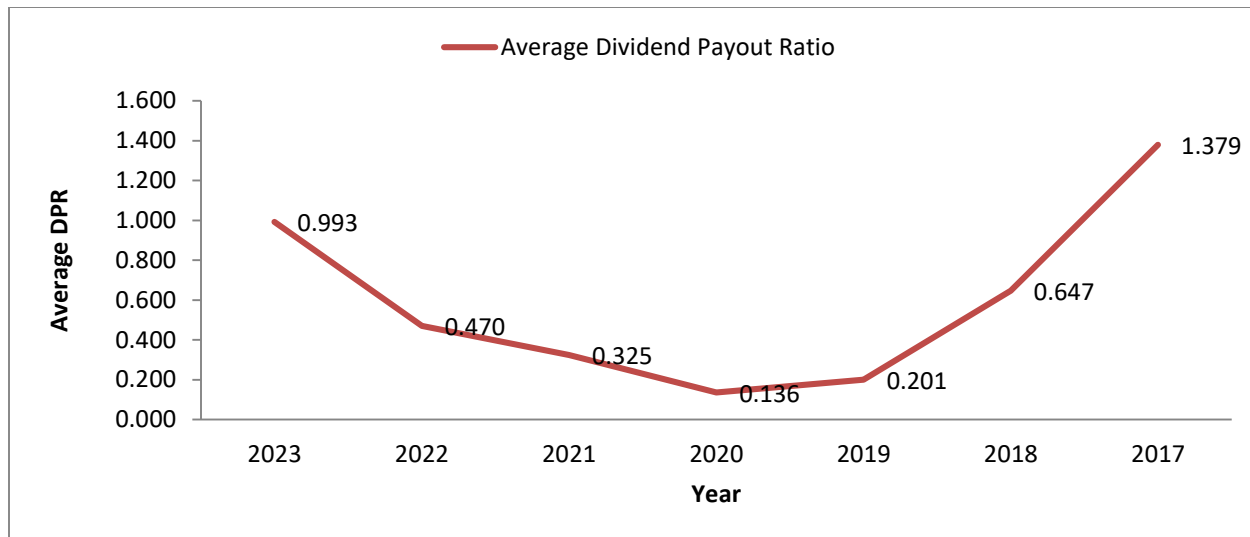
The overall average of the DPR of these 30 companies for the 7 year selected period was found to be 0.59. But there are only 3 companies with an average DPR > 0.59. 27 companies were found to have DPR < 0.59 i.e. the overall average of the DPR. The data shows that Bharti Airtel Ltd, Mahindra & Mahindra Ltd. and Sun Pharmaceutical Industries Ltd follow more liberal dividend payout policy in comparison to the other sample companies.

Coefficient of Variation (CV) indicates the degree of dispersion of data around the mean value. A higher CV value indicates greater dispersion of data points around the mean, suggesting higher relative variability. Conversely, a lower CV implies tighter clustering of observations around the central value, signifying lower relative variability. Out of the 30 sample companies, the Coefficient of Variation (CV) of DPR of 6 companies (Hindustan Unilever Ltd, Infosys Ltd, NTPC Ltd, Reliance Industries Ltd, Titan Co Ltd and Maruti Suzuki India Ltd) was found to be less than 20% indicating that they followed relatively consistent dividend policy as the values of DPR of these companies were close to the mean during the 7 year sample period.

While Coefficient of Variation (CV) of DPR of 11 companies (Asian Paints Ltd, IndusInd Bank Ltd, ITC Ltd, JSW Steel Ltd, Kotak Mahindra Bank Ltd, Larsen & Toubro Ltd, Power Grid Corp of India Ltd, Tata Consultancy Services Ltd, Tata Steel Ltd, UltraTech Cement Ltd and Wipro Ltd) was found to be between 20% - 50% indicating that the DPR of these companies varied to some extent during the 7 year sample period. For the remaining 13 companies (State Bank of India, Sun Pharmaceutical Industries Ltd, Axis Bank Ltd, Bajaj Finance Ltd, Mahindra & Mahindra Ltd, Tech Mahindra Ltd, Tata Motors Ltd, Bajaj Finserv Ltd, Bharti Airtel Ltd, HCL Technologies Ltd, HDFC Bank Ltd, ICICI Bank Ltd, and Nestle India Ltd), their DPR varied significantly during the 7 year sample period as Coefficient of Variation (CV) of DPR was greater than 50%.

Table 2: Mean and Standard Deviation Of DPR (Year Wise)

Year	Average DPR	Standard Deviation	Coefficient of Variation (In %)
2023	0.993	3.616	364.108
2022	0.470	1.337	284.092
2021	0.325	0.690	212.553
2020	0.136	0.176	130.228
2019	0.201	0.183	91.174
2018	0.647	2.257	348.556
2017	1.379	6.352	460.652

Graph 1: Average Dividend Payout Ratio for 7 years period

In making the yearly analysis of DPR for the 7 year sample period, it was found that out of these 7 years, the average DPR were lowest in the year 2020 and highest in the year 2017. But the **Coefficient of Variation (CV)** of DPR for all the years of sample period was significantly high indicating a huge variation in the dividend payout ratios of the sample companies in all the selected sample years.

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