

AN EMPIRICAL ANALYSIS OF DIVIDEND PAYOUT RATIOS OF SELECTED INDIAN PHARMACEUTICAL COMPANIES

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ABSTRACT

Dividend policy is an important decision area in the domain of financial management. The present paper examines the trends in dividend payment pattern of selected Indian Pharmaceutical companies over the period of 1997-2006. There is a significant relationship between dividend and profit. Dividend policy is mostly influenced by the profitability of the company. An attempt has been made to analyze the different trends in the dividend payout with the help of trend analysis. Dividend Payout Ratio is an important variable which is used for the purpose of analysis of dividend payment trend. A statistical technique such as mean has been used to know the average payout of the different Pharmaceutical Companies. Further, to know the significant difference of dividend payout of the different Pharmaceutical Companies, hypothesis has been framed and tested with the help of ANOVA test. The result of this paper reveals that average dividend payout ratio is significantly different in the Indian Pharmaceutical Companies selected for the study over the period of 1997 to 2006.

Keywords: Dividend policy, Profitability, Trend analysis, ANOVA

INTRODUCTION:

Dividend is the reward of the shareholders for investment made by them in the shares of the company. Dividends are usually paid to the owners or shareholders of the business at specific periods. The term dividend refers to that part of profits of a company which is distributed by the company among its shareholders. Dividend is a receipt of a part of the profits of the company by the members in proportion to the shares purchased by them. The portion of earnings not distributed to the shareholders is known as retained earnings. Retained earnings are one of the easiest and cheapest way of financial resources for expansion and growth of the company. Maximization of shareholders wealth is an important issue in front of the company management. While taking the dividend decision the management takes into account the effect of the decision on the maximization of shareholders wealth. What portion of earning is to be distributed by way of dividend and what portion is to be retained is a very important consideration before the management for formulation of an appropriate dividend policy.

Dividend is the major financial decision for every company. Dividend policy involves decision to pay out earnings or to retain them for re-investment. Dividend Payout Policy mainly includes dividend payout ratio policy or it is the relationship of dividend per share and earnings per share. High payout policy and Low payout policy are the important issues involved in setting up of dividend policy. Sound dividend policy is an important for those people who value profit certainty of a company. Therefore, more dividends can equate to the overall health of the company. Dividend policy affects long term financing decision of the company.

OBJECTIVES OF THE STUDY:

1. To find out the dividend payout ratios of the selected Indian Pharmaceutical companies.
2. To find out the different trends in the dividend payment pattern of the pharmaceutical companies.

REVIEW OF LITERATURE:

A number of studies have been conducted to analyze corporate dividend behavior. Lintner's (1956) study is one of the pioneering works on corporate dividend policy. Mahapatra and Sahu (1993) analyze the determinants of dividend policy for a sample of 90 companies for the period 1977-78 to 1988-89. They find that cash flow is a major determinant of dividend followed by net earnings.

Bhat and Pandey (1994) study the managers' perceptions of dividend decision for a sample of 425 Indian companies for the period 1986-87 to 1990-91. They find that on an average profit-making Indian companies have distributed about one-third of their net earnings and that the average dividend payout ratio is 43.6%.

Mishra and Narender (1996) analyze the dividend policies of 39 state-owned enterprises in India for the period 1984-85 to 1993-94. They find that Earning per Share (EPS) is a major factor in determining the dividend payout. Subba Reddy examined the dividend trends in India for a large sample of stocks traded on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) and found that the percentage of companies paying dividends has declined from 60.5 percent in 1990 to 32.1 percent in 2001 and that only a few companies have consistently paid the same levels of dividends.

Sharma and Rao (1992) identify the signaling aspects of corporate dividend policy concluding that the dividends are perceived as signals from management's point of view, performance point of and also market's point of view.

Kanwal Anil & Sujata Kapoor have examined determinants of dividend payout ratio of CNX IT Listed companies in India. They concluded that existing variables do not explain the dividend payment pattern of IT sector. Only Liquidity and beta (year to year variability in earnings) is found to be a noteworthy determinant. The study period was 2000-2006 covers both recessionary and booming phase of IT sector.

SOURCES OF DATA:

The present study is mainly based on the secondary data source. Secondary data consists of the annual report of the different pharmaceutical companies selected for the study. The secondary data collected from the SANSCO SERVICES - Annual Reports Library Services source. The data collected from this source have been complied and used with due care as per the requirement of the study.

SELECTION OF SAMPLE:

With the help of Krejcie & Morgan formula 10 Pharmaceutical Companies selected for the study. These sample companies are listed on the Bombay Stock Exchange (BSE). Judgment sampling technique has been used for

selection of sample Pharmaceutical Companies. The selected companies are as follows:-

1. Abbot Ltd
2. Ajanta Pharma Ltd.
3. Cipla Ltd.
4. FDC Ltd.
5. Fulford (I) Ltd.
6. GlaxoSmithKline Ltd.
7. Lupin Ltd.
8. Novartis India Ltd.
9. Sun pharma Ltd
10. Wockhardt Ltd.

PERIOD OF THE STUDY:

The period of the present study is 10 years commencing from the year 1997 to year 2006. The reason behind selection of this period of the study is that this period relates to the post liberalization era of the Indian economy.

SCOPE & LIMITATIONS OF THE STUDY:

The analysis of this research is confined to the selected Pharmaceutical Company which is listed to the Bombay Stock Exchange (BSE). The reason is that the listed companies are required to follow the norms set by the Securities and Exchange Board of India (SEBI) for financial reporting. This is a sample case study. This study is only limited to the selected Pharmaceutical Companies listed on the Bombay Stock Exchange. Further, this study possesses all the inherent limitations of the financial data.

FRAMING OF HYPOTHESIS:

1. Average dividend payout ratio is not significantly different in the Indian Pharmaceutical companies.

TOOLS USED FOR ANALYSIS OF DATA:

To analyze the data, the statistical tools such as Mean, ANOVA and Trend analysis have been used. The calculation has been carried out with the help of SPSS Computerized Software.

ANALYSIS & RESULTS:

TABLE 1: TREND OF DIVIDEND PAYOUT RATIOS OF DIFFERENT PHARMACEUTICAL COMPANIES FROM THE YEAR 1997 TO 2006 (%)

| Companies/Year | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Abbot Ltd. | 52.37 | 52.67 | 52.96 | 53.26 | 53.56 | 53.86 | 54.15 | 54.44 | 54.74 | 55.04 |
| Ajantha Ltd. | 14.22 | 14.57 | 14.92 | 15.27 | 15.62 | 15.98 | 16.33 | 16.68 | 17.02 | 17.38 |
| Cipla Ltd. | 8.52 | 10.76 | 13.00 | 15.24 | 17.48 | 19.72 | 21.96 | 24.20 | 26.44 | 28.68 |
| FDC Ltd. | 34.91 | 33.62 | 32.33 | 31.04 | 32.33 | 31.04 | 29.75 | 28.46 | 27.17 | 25.88 |
| Fulford (I) Ltd. | 16.42 | 15.26 | 14.10 | 12.94 | 11.78 | 10.62 | 9.46 | 8.30 | 7.14 | 5.98 |
| GSK Ltd. | 48.14 | 48.95 | 49.76 | 50.57 | 51.38 | 52.20 | 53.01 | 53.82 | 54.63 | 55.44 |
| Lupin Ltd. | 14.69 | 15.58 | 16.47 | 17.36 | 18.25 | 19.14 | 20.03 | 20.93 | 21.81 | 22.71 |
| Novartis (I) Ltd. | 44.26 | 43.85 | 43.44 | 43.02 | 42.61 | 42.20 | 41.79 | 41.38 | 40.96 | 40.55 |
| Sunpharma Ltd. | 14.14 | 15.08 | 16.03 | 16.98 | 17.92 | 18.87 | 19.81 | 20.76 | 21.70 | 22.65 |
| Wockhardt Ltd. | 30.32 | 29.25 | 28.18 | 27.11 | 26.05 | 24.98 | 23.91 | 22.84 | 21.77 | 20.70 |

(Source: - Trend Analysis)

The above table shows the different trends of dividend payout ratios of various Pharmaceutical Companies selected for the study during the period of 1997 to 2006. Various companies' trend has been calculated by using statistical technique such as Trend Analysis.

During the study period, there is upward trend of dividend payment pattern of Abbot Ltd. Further, there has been increased in the trend of dividend payout ratio from 52.37 per cent in 1997 to 55.04 per cent in 2006. It shows that company has maintained consistent dividend policy throughout the year. Therefore, Abbot Ltd was classified as regular dividend payer.

Ajantha Ltd company's dividend payout shows increasing pattern in its trend despite of the fact that company have

not paid dividend in the year 2003, 2004 and 2005 respectively. In spite of the sufficient earnings company has not paid dividend to its share holders because company has reinvested money for investment purpose. Although trend shows increasing pattern but company has followed lower dividend policy during the study period.

CIPLA Company's payout ratio shows increasing trend during the study period. The trend has increased from 8.52 per cent to 28.68 per cent during the year 1997 to 2006. It reveals that company has consistently paid dividend. Therefore, company has followed lower dividend payment policy despite in the consistent increase in the earnings of the company.

It is evident from the above table that there has been decreased trend in the dividend payment pattern of the FDC Ltd. During the study period its trend has been decreased from 34.91 per cent to 25.88 per cent. Considering the earnings company has paid moderate dividend to its shareholders. During the study period there has been consistent declined in the dividend payment pattern of Fulford (I) Ltd. During the study declined trend has been recorded. It has been decreased from 16.42 per cent to 5.98 per cent during the year 1997 to 2006.

GSK Ltd has recorded increased trend in the dividend payment pattern. Trend shows that there has been increased in the Dividend Payout Ratio from 48.14 per cent in 1997 to 55.44 per cent in 2006. Therefore, the present company has classified as stable dividend payer. In case of Lupin Ltd, it is evident that dividend payment trend has been continuously increased during the study period. Further, over the period it has been increased from 14.69 per cent to 22.71 per cent.

Novartis India Ltd's trend reveals that there has been gradual decreased in the dividend payment pattern during the study period. It has been decreased from 44.26 per cent to 40.55 per cent from the year 1997 to 2006. Sunpharma Ltd has recorded increased trend over the period of 1997 to 2006. Therefore, trend increased from 14.14 per cent to 22.65 per cent during the study period. Wockhardt Ltd has recorded declined trend in the dividend payout ratios during the study period. Further, it has been gradual decreased from 30.32 per cent to 20.7 per cent over the period of time.

TESTING OF HYPOTHESIS:

H₀: The average dividend payout ratio is not significantly different in the Indian Pharmaceutical companies.

H₁: The average dividend payout ratio is significantly different in the Indian Pharmaceutical companies.

TABLE 2: ANOVA

| Source of Variations | Sum of Square | D. F. | Mean Squares | F |
|----------------------|---------------|-------|--------------|-------|
| Between Companies | 22059.36 | 9 | 2451.04 | 10.13 |
| Within Companies | 21777.00 | 90 | 241.967 | |
| Total | 438636.36 | 99 | 2693.007 | |

In the above ANOVA table, F calculated value is 10.13. It is evident from the above table that F calculated value is more than F table value at 5% level of significant. Therefore, Null hypothesis is strongly rejected. Hence, average dividend payout ratio is significantly different in the Indian Pharmaceutical companies selected for the study. It is concluded that in the Indian Pharmaceutical sector, companies have followed different dividend payout policy. There has been causal relation between earnings and dividend. An increase in dividend may be the result of management's policy to satisfy its shareholders or investors. In some cases companies pay dividend only after all their needs for reinvestment are met.

FINDINGS:

1. In the year 1997, among the sample companies, GSK Ltd has paid highest dividend i.e. 58 per cent and lowest dividend paid by Lupin Ltd. i.e. 0 per cent. But In the year 1998, Abbot Ltd was the highest payer and Ajantha Ltd was the lowest payer i.e.39 per cent and 6 per cent respectively. Again in the year 1999 Abbot Ltd was the highest payer and Fulford (I) Ltd was lower payer i.e. 0 per cent.
2. In the year 2000, 100 per cent dividend paid by the Abbot Ltd and 0 per cent dividend paid by the Fulford (I) Ltd. whereas in the year 2001, GSK Ltd was the highest payer i.e. 93 per cent and CIPLA Ltd was the lowest payer i.e. 15 per cent. But in the year 2002, Ajantha Ltd was the highest payer and Fulford (I) Ltd was the lowest payer, i.e. 87 per cent and 0 per cent respectively. Abbot Ltd has paid 79 per cent dividend and 0 per cent dividend paid by the Ajantha Ltd in the year 2003.
3. In the year 2004, Again Ajantha Ltd has paid 0 per cent dividend and 63 per cent dividend paid by the GSK. But in the year 2005, Novartis India Ltd has paid highest dividend i.e. 49 per cent and Ajantha Ltd has paid 0 per cent dividend. Whereas in the year 2006, GSK Ltd was the higher payer and Fulford (I) Ltd was the lower payer.

4. In the year 2001, average dividend paid by the sample companies were 35 per cent which was highest during the study period. In the year 1998, lowest average dividend paid by the sample companies were 25.1 per cent.
5. During the study period, among the sample companies' 60 per cent companies has paid dividend in the range of 1- 25 percentages. Whereas again 60 per cent companies has paid dividend in the range of 26-50 percentages.
6. 30 per cent companies has paid dividend in the range of 51-70 percentages and 10 per cent companies has paid dividend in the range of 76-100 percentages respectively during the study period.

CONCLUSION:

From the study it was concluded that during the study period Abbot Ltd was the highest payer among the sample Pharmaceutical Companies selected for the study. GSK Ltd was the next highest payer company. Fulford (I) Ltd was the lowest dividend payer among the sample companies. Further, sample companies, dividend payout policy is not uniform. Lower payout policy results in higher growth of the business. Therefore, the growth firm may expect to pursue low dividend policy since investment and dividend decisions are linked together. This paper suggests that change in earnings have considerable impact on dividend decision as well as investment decision.

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