DO DIVIDEND ANNOUNCEMENT IMPACT SHARE PRICE?

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ABSTRACT

This research delves into the intricate landscape of dividend decisions in 2023, exploring how declaration of dividends impact share price. In today's dynamic global economy, companies encounter multifaceted challenges and opportunities that influence their dividend policies. Using recent data analysis, this study investigates the dividend decisions and their effects on both firm performance and shareholder value. By meticulously examining dividend patterns across various industries, this research uncovers fresh insights into the evolving strategies of dividend distribution. Additionally, the paper analyzes how investor sentiment and market volatility influence dividend policies, emphasizes the delicate balance companies must strike between rewarding shareholders and ensuring sustainable financial growth. Using quantitative data, this research offers a nuanced understanding of the contemporary factors guiding dividend choices, presenting valuable insights for corporate leaders, investors, and policymakers. Through the incorporation of recent data and subsequent analyses this paper contributes not only to the academic discourse on corporate finance but also provides practical implications for businesses navigating the intricate terrain of dividend decisions in 2023.

Keywords: *Final Dividends, Shareholder Value, Indian Stock Market, Firm Performance, Dividend Policies*

1. INTRODUCTION

The realm of corporate finance in 2023 is undergoing rapid evolution, characterized by

remarkable technological strides, shifting market dynamics, and heightened investor expectations. Amidst this landscape, dividend decisions emerge as a critical element of corporate strategy, impacting investor confidence, market perception, and long-term sustainability. Navigating this dynamic environment necessitates a profound understanding of the intricate factors influencing contemporary dividend policies, essential for maintaining competitive advantage and fostering shareholder trust.

This research paper embarks on a journey to unravel the complexities encircling dividend decisions in 2023. Businesses today grapple with a myriad of challenges—from disruptive innovations to environmental imperatives—each exerting distinct pressures on their financial strategies. Moreover, the evolving landscape of corporate social responsibility has introduced ethical dimensions integrated into dividend policies, shaping how companies engage with shareholders and society at large. Leveraging extensive empirical analyses, this study meticulously scrutinizes recent trends in dividend decisions spanning diverse industries. The integration of research methods situates this study at the forefront of comprehending how businesses are redefining their dividend strategies to align with the demands of the 2023 global economic landscape. Through this exploration, this paper not only aspires to significantly contribute to the academic dialogue on corporate finance but also offers pragmatic implications for businesses and investors alike.

2. LITERATURE REVIEW

The impact of final dividend decisions on share value is a critical aspect of financial markets. A comprehensive analysis of several studies regarding the effect of final dividends on share prices in the Indian market highlights the complexities inherent in this relationship. According to a study by Mahirun, Arih, Andi, and Titi (2023), dividend policies haven't been successful in attracting investors to buy shares or increase transactions. However, an independent Dividend Payout Ratio (DPR) does have a significant impact on stock prices. The study found that DPR can positively influence stock prices, whereas other factors like Price to Earnings Ratio (PER) and Debt to Equity Ratio (DER) do not have the same effect, despite their positive influence. Additionally, the study identified factors that can negatively affect stock prices. Variables such as Debt to Assets Ratio (DAR) and Trading Volume Activity (TVA) were found to significantly reduce stock prices.

Bhatti, Patoli, and T. Kumar (2023) conducted a study on 16 businesses in the Pakistan Stock Exchange's chemical sector to investigate the relationship between share market prices and dividend-related parameters. They discovered that Profit after Tax (PAT) had no direct correlation with stock prices. However, other metrics, such as Dividend Yield (DY), Retention Ratio (RR), Return on Equity (ROE), and Earnings per Share (EPS), have a substantial link with share prices. The study also showed that dividend payments to shareholders are more important to them than the company's revenue. A favourable correlation between share prices and ROE is likely to occur if the management deploys capital efficiently to increase profits. At last, the research confirms that dividends have an impact on share prices.

Hanifi, Halid, and Othman (2023) examined companies featured on the FTSE 100 index to determine the association between dividend policies and share market price. According to this report, investing in dividends is a traditional strategy that carries less risk and attracts investors. The researchers says that high or stable dividend policy will hold back the investors. So, management should provide high earnings so that they can satisfy the investor's expectation of wealth management.

In G B S Rajan's (2024) analysis, the 596 companies listed on the NSE between 2021 and 2023 are examined to determine the potential effects of dividend policy on company values. The Fixed Effect Model (FEM) was applied, and the model suggests that market valuations are greater for companies with larger dividend payouts. This study supports the relevance theory, which states that increased dividend payouts have a beneficial impact on firm value. Instead of retained earnings, the investor anticipates receiving a dividend payout. At last, this study believed that increased dividend payouts can have a favourable impact on a company's market price and value.

The collective body of research reviewed here highlights the multifaceted nature of the relationship between final dividends and share prices in the Indian market. While quantitative studies provide statistical evidence of a positive correlation, qualitative and sector-specific analyses offer a richer understanding of the underlying dynamics. Further research could explore the influence of regulatory changes, macroeconomic factors, and

global market conditions on the observed patterns.

3. THEORETICAL FRAMEWORK

Modigliani and Miller (1958) developed the dividend policy hypothesis, which assumes perfect market competition and says that a company's dividend policy has no effect on the market price of its shares. It implies that if the dividend is reduced now, the remaining retained earnings will be reinvested to raise future earnings, and thus the payout will increase in the future. According to the assumptions, investors can make the final decision on dividend policy by purchasing and selling shares. Few researchers support this hypothesis, including Black and Scholes (1974), Uddin & Choudhary (2005), Denis & Osobov (2008), Adesola and Okwong (2009), and Chan, Powell, Shi, & Smith (2016).

In 1963 Gordon and Lintner offered a "Bird in Hand" theory, which implies that in the real world there is uncertainty and that the market is imperfect. According to this theory, future cash inflows are unknown, thus the investor would prefer to receive cash, such as a cash dividend, rather than capital gains in the future. According to this theory, the market value of a firm can be determined in part by looking at its dividend payout rate. Additionally, they claim that dividend policies have a simultaneous effect on the market value of shares and the company's worth. A higher dividend payout will reduce the cost of capital and increase the value of firm and its market price.

4. DATA COLLECTION

For the present research paper, the data were collected from well-known financial platforms like Moneycontrol, Google, and Yahoo Finance. Specifically, companies that declared final dividends between 2022 and 2023 were looked into. Around 30 companies were chosen based on their dividend policies and financial performance during this period. The goal was to create a diverse sample that represents different industries and financial standings. By focusing on companies announcing final dividends, the aim was to explore how these announcements might influence shareholder value and impact market dynamics.

The data gathered from these 30 companies will be analyzed thoroughly. The objective is

to uncover any noticeable patterns, trends, or connections between final dividend declarations and market price of these shares. The main aim is to better understand how these announcements could affect investor decisions and contribute to the overall market performance of these companies during the specified timeframe.

A secondary, empirical research was conducted for the present study. Online platforms like Moneycontrol, Yahoo Finance, and various internet sources to identify companies that announced final dividends within the period spanning 2022 to 2023 were utilized. Subsequently, a sample of 30 top- performing companies from this pool based on their dividend issuance history and financial standing.

The analysis primarily delved into examining the dividend decisions of these selected companies. This thorough examination aimed to elucidate the financial performance of these companies in tandem with their decisions to distribute final dividends. Our goal was to ascertain the impact of these dividend declarations on the overall financial health of the companies and comprehend the potential responses from investors. Essentially, this process allowed us to paint a comprehensive picture of how these companies performed in the market upon sharing a portion of their profits with their shareholders.

4. RESEARCH OBJECTIVE

In this study, the research is all about figuring out how final dividends affect different companies' finances. It's a quest to uncover the hidden connections between dividends and their impact on things like stock prices and the people investing in those stocks.

The objective is to understand how final dividends play a role in stock prices. This understanding is going to be fruitful for investors, stakeholders, and companies. It helps them make smarter decisions in the financial world.

5. HYPOTHESES

   a.   Null Hypothesis (H0): Declaration of dividends do not have any impact on share price for a particular company.

   b.   Alternative Hypothesis (Ha): Declaration of dividends impacts share price for a particular company.

6. FINDING AND ANALYSIS

After examining how dividends might influence investor choices across 30 companies, the results point towards a general trend. It appears that for most of these companies, the dividends they offered didn't strongly entice investors to flock to their stocks. Statistical measures like t-statistics and p-values suggest that there wasn't a significant connection between these dividends and the decisions made by potential investors.

While dividends from most companies didn't seem to significantly impact investor choices.

Company Name	T- Statistics	P- Value	Result
1. NESTLE INDIA LTD.	-0.039	0.971	No
2. TCS	0.105	0.917	No
3. PATANJALI FOOD LTD.	-0.055	0.957	No
4. HINDUJA GLOBAL SOLUTION LTD.	0.096	0.923	No
5. BAJAJ HOLDING & INVESTMENT LTD.	0.105	0.916	No
6. TIME TECHNOPLAST LTD.	-0.199	0.844	No
7. L&T TECHNOLOGY SERVICES LTD.	-0.153	0.880	No
8. CYIENT LTD.	-0.001	0.998	No
9. GUJARAT NARMADA VALLEY FERT	0.118	0.907	No
10. CYBERTECH SYSTEMS AND SOFTWARE	-0.138	0.890	No
11. APOLLO PIPES LTD.	0.021	0.983	No
12. EXCEL INDUSTRIES LTD.	-0.006	0.995	No
13. SUN PHARMACEUTICAL INDUSTRIES	0.120	0.906	No
14. TANLA PLATFORMS LTD.	0.138	0.891	No
15. BERGER PAINTS INDIA LTD.	-0.070	0.945	No
16. IRCTC-INDIAN RAILWAYS	-0.179	0.859	No
17. DABUR INDIA LTD.	-0.010	0.992	No

18. NAVIN FLUORINE INTERNATIONAL LTD.	0.285	0.778	No
19. ASIAN PAINTS LTD.	0.060	0.953	No
20. RAIL VIKAS NIGAM LTD.	0.000	1.000	No
21. WINDSOR MACHINES LTD.	0.197	0.845	No
22. MAHARASHTRA SCOOTERS LTD.	0.185	0.855	No
23. POLYPLEX CORPORATION LTD.	-0.125	0.902	No
24. INDRAPRASTHA GAS LTD.	0.000	1.000	No
25. DLF LTD.	-0.093	0.927	No
26. EMPIRE INDUSTRIES LTD.	0.179	0.859	No
27. TECHNO ELECTRIC & ENGINEERING COMPANY LTD.	-0.180	0.859	No
28. BALKRISHNA INDUSTRIES LTD.	-0.050	0.960	No
29. HERO MOTOCORP LTD.	0.069	0.945	No
30. TIDE WATER OIL LTD.	-0.151	0.881	No

The findings and analyses point towards market maturity in India. The investors do not show any sentiment when dividends are declared. It seems, that investors are evaluating the firm as a whole and are probably focusing on other financial metrics while making their trading/ investment decisions.

The results contradict many studies done in the past. However, the data utilized for the study are latest and thus, may direct us towards the changing investor psychology in Indian equity market. Corporates may take this into account before declaring dividends.

7. CONCLUSION

Our research embarks on a quest to unravel the intricacies of final dividends' impact on share value in the vibrant Indian market of 2023. Delving into financial data and empirical analyses of top-performing companies, we uncover insightful clues revealing the profound implications of final dividend decisions on shareholder perceptions and company performance. By dissecting these financial puzzles, our study paints a comprehensive

picture of how final dividends shape the financial health and market standing of companies. Beyond mere financial transactions, these dividends represent a critical nexus between company decisions and shareholder perceptions, impacting the dynamics of the Indian stock market. Our findings indicate that dividend decision does not cause any share price fluctuation in the share market. This shows the dawn of new era for investors because it is in line with the principles of corporate finance. This study integrates the focus on final dividends' impact on share value in the Indian market, establishing the changing dynamics in Indian equity market.

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