

## **DIVIDEND ANNOUNCEMENTS AND SHARE PRICE DYNAMICS: UNRAVELING THE CONNECTION**

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### **Abstract:**

This research paper delves into the dynamic landscape of dividend decisions in 2023, exploring the intricate interplay between market price of select equity shares and dividend announcements. In the ever-evolving global economy, firms face multifaceted challenges and opportunities that shape their dividend policies. Employing a comprehensive analysis of recent data, this study investigates the influence of dividend decisions and their implications on shareholder value. Through meticulous examination of dividend patterns across various industries, this research uncovers novel insights into the shifting paradigms of dividend distribution. The paper strives to establish a connection between market price in taking dividend decisions, shedding light on the delicate balance companies must strike between rewarding shareholders and ensuring sustainable financial growth. Incorporating recent data, this paper contributes to the academic discourse on corporate finance and also offers practical implications for businesses navigating the complex terrain of dividend decisions.

### **Keywords:**

*Interim Dividends, Financial Performance, Stock Market Behavior, Shareholder Value, Dividend Policies*

## **1. INTRODUCTION**

The landscape of corporate finance is undergoing rapid transformation in the year 2023, marked by unprecedented technological advancements, shifting market dynamics, and heightened investor expectations. Within this context, dividend decisions stand as a pivotal facet of corporate strategy, influencing investor confidence, market perception, and long-term sustainability. As businesses navigate this ever-changing environment, understanding the intricate factors shaping contemporary dividend policies is essential for maintaining competitive advantage and fostering shareholder trust.

This research paper delves into the heart of this matter, aiming to unravel the complexities surrounding dividend decisions in 2023. In recent years, businesses have grappled with a multitude of challenges, ranging from disruptive innovations to environmental imperatives, each exerting unique pressures on their financial strategies. Drawing upon extensive empirical analyses, this study meticulously examines the recent trends in dividend decisions across diverse industries. By synthesizing quantitative data with real-world case studies, it seeks to decipher the underlying patterns, motivations, and consequences of contemporary dividend choices. By providing a comprehensive overview of the intricate factors guiding dividend decisions in 2023, this research equips corporate leaders with valuable insights to make informed financial decisions in an increasingly complex and interconnected world.

## **2. LITERATURE REVIEW**

Dividend policy remains a crucial aspect influencing investor decisions and firm valuation in financial markets. A comprehensive analysis of several studies on the effect of dividend policy on stock prices in the Indian market illuminates the complexities and multifaceted nature of this relationship. The dividend is an essential fragment of the firm's monetary statement. It acts as a profit source for an investor in the long term and at the same time it is a stable marker of the company's market price. One of the core aspects of the dividend distribution theory argues that the notion of transparency will inspire trust between the company and the investor, thus will be represented in its market price changes. The purpose of this article is to demonstrate how the stock prices are affected the Hungary Stock

Exchange the day after dividends have been distributed. Methodology- The dataset from the Daily returns Series from the Turkey Financial Market in the time span of 2011 and 2017 was employed to meet the research purpose. The interaction effect between the 32 bank-event combination over the 20-day-announcement period the banks announced the dividends and the day of the announcement on the stock price was set for each event using the event study model estimations (Halife & Karroum 2023).

The investigated stocks showed an increase by the market, their rise upon declaration of dividends was consistent. The market models CAR (5.0) and CAR (10.0) have statistically significant measurements of abnormal returns (AR0) and abnormal cumulative returns. In addition, the graph of the daily average return separately for each day administrations appears that the profit allocation day for AAR was 0.49 %, while the fourth day realized the highest positive monthly difference of 0.56 % and the fifth day ended in a positive final monthly increase (0.47%). The results of this empirical study demonstrate that stock prices vary after dividend distributions with the conclusion that the dividend notification theory stands, meaning that the announcement of dividends gives the most effect. The researchers suggest lengthening the time to 61 days instead of 21 to monitor the continued fall ten days after the event (Halife & Karroum 2023).

A major element influencing share price volatility is the declaration of dividends. Dividend announcement. Dividend is an equity capital cost to stockholders. The Indian stock market started as a liberalized yuan. The price of a stock is based on the perception of its profitable future thus it is good news if the stock price go up at the beginning of the day. The company pays the dividend because of the confidence of the potential investors. The delivery of all dividend announcements is not given by the securities and exchange board of India (SEBI) (Mahat & Dandin, 2024).

The dividend announcements not only give information to investors about the future performance of the company but they are also a critical part of the financial reports through which the public is kept informed. The effect of dividend announcements on the prices of shares may not be the same in each case because the response is likely to depend on various company-specific as well as environmental factors. So, the research will also have to

consider that other factor when making the impact result. Recording off all holdings which a listed company holds in the future markets with related players is the main objective of the Companies Act, 2013. The purpose of this project is to measure the extent of the effect of dividend announcement on share prices of the Nifty listed companies. The problem to be studied is to discover the way dividend announcement affects the share price in Nifty Listed Companies. In other terms, the purpose of the study was to compare the effect of dividend announcement on the share prices of Nifty listed companies. The comprehensive method was followed by it to achieve the goal. This means that the use of the methods, the variables, and the analyses are the same for each study even when the studies are conducted under different conditions. According to their opinion, the chief component on the exit of the sector is the crises. Among the companies underneath insurance sector, some show influence by Dividend Announcement, whereas the others do not. Consequently, it is recognized that the overall, there are neither positive nor negative effects of Dividend Announcement on Share price of Nifty Listed Companies (Mahat & Dandin, 2024).

Before investing in stocks, the key factors to consider are the overall financial health of the company, the effect of the dividend policy, and the outlook of the future. The investors should also consider the life cycle of the company since each has periods of profitability or financial hardships and plan and make decisions accordingly (Mahat & Dandin, 2024).

Dividend is an annual rate of return on investors' funds and the dividends continually paid have an influence on the stock prices. Different researches pointed out that the dividends tell good information about the company and, therefore, positive purchase signal stock prices. Also, not too many studies have been conducted on the effect of dividends on the trading volume but none of the studies gave any conclusions about efficiency in the post announcement period. This provides a setting in which traders conduct transactions based on daily market prices and volume rather than on an announcement from the dividend. The study manipulates a sample of fifty companies announcing dividends on an annual basis that were shortlisted as part of the NIFTY 50 index of the National Stock Exchange (NSE), India. The companies announced dividends for a one-year period from January 2011 to December 2015. Using the Market Model of Event Study methodology it was discovered

that the dividend announcement substantially and significantly affected both the stock market and stock volume of trade (Naik et. al 2018).

With stock prices, the positive effect of a stock-dividend was recognized in the case of a long-term effect. This meant that dividends were normal, and subsequently, good news aroused the stock prices and as a consequence traders experienced abnormal gains. Concerning the stock trading volume, it was found that the trading volume experienced a short-term significant decrease, after the dividend was announced, and thus it led to a lower liquidity in the post-announcement period (Naik et. al 2018).

The decision of organizations to pay dividends to their shareholders is a controversial issue which has been debated on not only in the Indian industry but also around the globe. The dates between companies and the process of getting announcements of dividends and when to pay dividends are different. The perspectives of professional experts in the field of finance and the diverse ideas of the researchers about the effect of dividends on equity prices of companies are the topics of discussion. Someone once said that dividend declarations by companies really cause the share prices to tick up or down, unlike others who think that the dividend payout's impact on the share price is actually something different, i.e. uncorrelated with the market value of the enterprise, and as a result, the dividend policy has no relevance. The primary mission of this work is to ascertain the relation between dividend announcements made by the leading BSE index companies and their stock price, trading volume, the number of shares issued, and total market turnover caused by the highest market cap stocks. The findings of the analysis based on t-test revealed only the positive effects of the dividends on the stock market. The findings of the study through the event study methodology indicate that the announcement of dividends by our selected companies has a significant impact on C.M., and the Tota Dollar Turnover which are indicators that the investing community and the organizations need (Narzary & Biswal, 2018).

The declaration of dividend may be taken as two different points of view: in case the dividends announced completely meet the shareholders' expectations, the shares' market price will increase. On the other hand, if the dividend calculated does not reach the level

or even is designed about the company who impoverished the market price of the shares will be negatively affected. Market efficiency represents the duration of the time the stock market needs to react to the disclosed information. In the case of a market that is efficient in the strong form, the gain of abnormal returns is not stressful for the investors who want to combine information from both public and private sources. The main aim of this research that is to identify the association of stock split to market efficiency is executed. This paper investigates the market reaction to dividend announcements of BSE SENSEX stocks through the period 2014-2017 using Event study methodology (Shanthaamani & Usha, 2019).

According to Felimban et.al (2018), the market reactions to dividend announcements in the GCC, focusing on stock price and trading volume. Analyzing data from 1092 announcements across 299 firms between 2010 and 2015, the research employs an event study methodology to assess market efficiency and investor behavior in a tax-free environment. Key findings indicate that the GCC markets exhibit inefficiency, evidenced by information leakage prior to announcements and delayed stock price adjustments, especially in response to positive dividend news. The study supports the signaling hypothesis, showing significant stock price reactions to dividend announcements, albeit not immediately. Trading volume responses are also notable across all dividend changes (increase, decrease, constant), highlighting investor preferences and suggesting that dividend change announcements significantly impact trading volume.

The research emphasizes the unique characteristics of the GCC markets, such as the absence of capital gain and income taxes, which challenge the dividend irrelevance theory proposed by Miller and Modigliani (1961). In contrast, the study discovers that, in a tax-free environment, dividend announcements are informational and have an impact on investor behaviour. These results, which imply that dividend announcements play a crucial role in market reactions despite the tax-free status, are helpful for financial analysts, investors, and regulators in understanding market dynamics and investor behaviour in the GCC region. Among the study's contributions are its emphasis on the significance of trade volume as a gauge of market response and the demand for more investigation into the workings of GCC markets (Felimban et.al 2018)

The study led by Hasan & Al-Najjar (2024) investigates how major sporting events like the ICC Cricket World Cups and FIFA Football World Cups influence the relationship between dividend announcements and stock market returns. Using data from the FTSE 350 index from January 1990 to December 2021 and employing event study methodology and Generalized Method of Moments (GMM) estimation, the study reveals that stock market reactions to dividend announcements are influenced by the outcomes of these sports events. Key findings indicate that the stock market reacts less favorably to dividend increases announced after England's victories in major sporting events compared to when they lose. Similarly, there is a more negative reaction to dividend decreases announced after England's losses than after their victories. These results support the signaling hypothesis and highlight the impact of investor sentiment, driven by national sports success, on stock market behavior.

To analyse these linkages, the study uses both a linear interaction model and a binary model, demonstrating that the stock market's response to dividend changes is asymmetric and influenced by the outcomes of major sporting events. These insights help investors and financial analysts understand the complicated interplay between sporting events, investor emotion, and market dynamics, with important ramifications (Hasan & Al-Najjar, 2024)

Nurzaman, 2022 in his study talks about how dividend announcements affected stock prices and trading volumes on the Indonesian Stock Exchange (IDX) in 2007. Due to their high trading frequency, data from 32 of 347 listed firms are evaluated using a paired sample t-test. The analysis covers a 10-day period, starting five days before the dividend announcements and ending five days after. The study period was chosen to reduce the impact of external influences on the outcomes due to its good investment climate and stable economic conditions.

The data demonstrate significant differences in trading volumes and stock prices prior to and following dividend announcements. Following the announcement, stock prices often rise, as do trading volumes. This shows that when a company declares a dividend, investors respond positively and regard it as a reflection of the company's strong financial position. The study's findings corroborate the dividend signaling theory, which holds that dividend

announcements help to reduce investor uncertainty, resulting in increased trading activity and upward price adjustments (Nurzaman, 2022).

The Kolmogorov-Smirnov test was employed to determine the data's normality, and the findings revealed that trading volumes and stock prices followed a normal distribution. The statistical study provides significant evidence of dividend announcements' impact on market behaviour by validating the importance of observed changes in stock prices and trading volumes. All things considered, the study emphasises how crucial dividend announcements are for shaping investor behaviour and stock market dynamics, especially in developing nations like Indonesia. It draws attention to how important corporate communications are in influencing investment decisions and market views (Nurzaman, 2022).

The reviewed literature presents diverse empirical findings and interpretations regarding the relationship between dividend policy and stock prices in the Indian market. While some studies establish a significant impact of dividend policy on stock prices, others suggest limited influence or independence. The variations in findings underscore the intricate interplay of factors influencing dividend policy and its impact on stock prices, emphasizing the need for further analyses and consideration of qualitative aspects in future research.

### **3. RESEARCH METHODOLOGY**

#### **3.1 Data Collection**

For the research paper, the data were collected from online financial platforms to identify companies that declared interim dividends between 2022 and 2023. A sample of 30 companies were selected that provided interim dividends during this period. These companies were chosen based on their financial performance and dividend policies, aiming to study how their interim dividend declarations might relate to their stock performance or other financial indicators. The objective of the study was to provide a clearer understanding of how these dividend declarations might influence the companies' market performance in the given period.

#### **3.2 Sample selection process**

Online resources were used to finalize companies that issued interim dividends between 2022 and 2023. From this pool, 30 top-performing companies' data were handpicked. The focus was on companies that consistently provided interim dividends between 2022 and 2023, ensuring a balanced in the research. After carefully sifting through the numbers, looking for patterns and trends to understand how companies giving interim dividends behaved financially.

### **3.3 Research Objective**

In the study about the impact of interim dividends on stock prices, the research objective is to uncover the precise influence of interim dividends on the financial performance of various companies across different sectors within a specific timeframe. It's about seeking the hidden connections between dividends and stock prices to reveal their true impact on investors and companies alike. The objective here is to comprehensively understand how interim dividends affect stock prices, enabling investors, stakeholders, and companies to make more informed decisions in the financial landscape.

### **3.4 Hypothesis**

- Null Hypothesis (H1): There is no significant difference in market share price when dividend announcement is made.
  
- Alternative Hypothesis (HA): The market share price gives abnormal returns when dividend announcement is made.

In the present research, we evaluate hypotheses using a specific criterion: when the p-value, a statistical measure of probability, falls below 0.05, we conclude that our hypothesis is supported. If the p-value exceeds 0.05, we do not find enough evidence to back our hypothesis. For instance, if our analysis reveals that abnormal returns significantly deviate from zero, indicating a substantial difference, we agree with the alternate hypothesis. In simpler terms, a p-value less than 0.05 leads to say 'yes' to our hypothesis, while a p-value greater than 0.05 leads to a 'no' conclusion.

## **4. FINDING AND ANALYSIS**

After digging into how dividends affect investor choices in 30 companies, the results were quite clear. Most companies' dividends didn't seem to strongly attract people to invest in their stocks. The numbers, like t-statistics and p-values, revealed that there wasn't a link between these dividends and investors' decisions.

However, there was one company, Hero Motocorp Ltd., that gave us a hint of something different. It seemed like their dividends might be a bit more interesting to potential investors, just a hint, not a strong pull. So, while most companies didn't really catch investors' attention with their dividends, Hero Motocorp Ltd. might have a slightly better chance of doing so.

| Company Name                      | T-Statistics | P-Value | Result |
|-----------------------------------|--------------|---------|--------|
| 1.VEDANTA                         | -0.044       | 0.965   | NO     |
|                                   | -0.008       | 0.994   | NO     |
|                                   | 0.018        | 0.986   | NO     |
|                                   | 0.141        | 0.889   | NO     |
|                                   | 0.038        | 0.970   | NO     |
| 2.NESTLE INDIA LTD.               | 0.105        | 0.917   | NO     |
| 3.TCS (TATA CONSULTANCY SOLUTION) | 0.032        | 0.975   | NO     |
|                                   | 0.219        | 0.828   | NO     |
|                                   | -0.027       | 0.979   | NO     |
| 4.HINDUJA GLOBAL SOLUTION LTD.    | 0.019        | 0.985   | NO     |
|                                   | 0.084        | 0.934   | NO     |
|                                   | -0.687       | 0.498   | NO     |
| 5.BAJAJ HOLDING & INVESTMENT LTD. | 0.019        | 0.985   | NO     |
| 6.L&T TECHNOLOGY SERVICES LTD.    | 0.058        | 0.954   | NO     |
| 7.CYIENT LTD.                     | 0.030        | 0.977   | NO     |
| 8.SUN PHARMACEUTICAL INDUSTRIES   | -0.200       | 0.843   | NO     |
| 9.TANLA PLATFORMS LTD.            | -0.044       | 0.965   | NO     |
| 10.IRCTC-INDIAN RAILWAYS          | -0.034       | 0.973   | NO     |
| 11.HCL TECHNOLOGIES LTD.          | 0.039        | 0.969   | NO     |
|                                   | 0.089        | 0.930   | NO     |
|                                   | 0.000        | 1.000   | NO     |
|                                   | -0.095       | 0.925   | NO     |
|                                   | 0.067        | 0.947   | NO     |
| 12.HINDUSTAN ZINC LTD.            | 0.095        | 0.925   | NO     |

|   |        |       |    |
|---|--------|-------|----|
|   | -0.057 | 0.955 | NO |
|   | -0.102 | 0.918 | NO |
|   | -0.016 | 0.987 | NO |
| 13.PAGE INDUSTRIES LTD.                   | -0.125 | 0.901 | NO |
|   | -0.140 | 0.890 | NO |
|   |        |       |    |
|   | -0.055 | 0.956 | NO |
|   | -0.089 | 0.930 | NO |
|   | -0.089 | 0.930 | NO |
| 14.360 ONE WAM LTD.                       | -0.155 | 0.878 | NO |
|   | -0.061 | 0.952 | NO |
|   | 0.075  | 0.940 | NO |
|   | -0.023 | 0.982 | NO |
| 15.STYRENIX PERFORMANCE                   | -0.094 | 0.926 | NO |
|   | 0.016  | 0.987 | NO |
| 16.HATSUN AGRO PRODUCTS LTD.              | 0.027  | 0.978 | NO |
| 17.Dabur India Ltd.                       | 0.088  | 0.930 | NO |
| 18.Navin Fluorine International Ltd.      | -0.033 | 0.974 | NO |
| 19.Asian Paints Ltd.                      | -0.117 | 0.907 | NO |
| 20.Colgate Palmolive (India) Ltd.         | -0.060 | 0.952 | NO |
| 21.Aptus Value Housing Finance India Ltd. | -0.081 | 0.936 | NO |
| 22.Maharashtra Scooters Ltd.              | 0.032  | 0.974 | NO |
| 23.Polyplex Corporation Ltd.              | -0.049 | 0.961 | NO |
|   | 0.055  | 0.956 | NO |
| 24.Indraprastha Gas Ltd.                  | 0.008  | 0.994 | NO |
|   | 0.019  | 0.985 | NO |
| 25.Balkrishna Industries Ltd.             | -0.153 | 0.879 | NO |
|   | -0.038 | 0.970 | NO |
|   | -0.030 | 0.976 | NO |
| 26.Hero Motocorp Ltd.                     | -0.083 | 0.934 | NO |
| 27.Tide Water Oil Ltd.                    | -0.003 | 0.997 | NO |
|   | -0.076 | 0.940 | NO |
|   | -0.007 | 0.995 | NO |
| 28.Aurobindo Pharma Ltd.                  | 0.030  | 0.976 | NO |
|   | 0.020  | 0.984 | NO |
| 29.Amrutanjan Health Care Ltd.            | -0.139 | 0.890 | NO |
|   | 0.172  | 0.865 | NO |
| 30.Metropolis Healthcare Ltd.             | 0.008  | 0.993 | NO |

## 5. CONCLUSION

This research paper looked at how companies deciding to pay dividends (a share of their profits to investors) affected the prices of their stocks. We explored this in the context of the corporate world in 2023. By studying recent data and examining dividend patterns across different industries, we gained insights into how companies balance rewarding investors and ensuring their financial health.

Looking at past studies in India, we found varying opinions on whether dividend decisions significantly influence stock prices. Our study focused on 30 companies that declared interim dividends between 2022 and 2023 to understand how these declarations related to their stock performance. The findings suggest that, for most companies, interim dividends didn't strongly impact investor decisions. There was a hint of potential impact for Hero Motocorp Ltd., but it was not a strong influence for most companies. This research contributes to understanding how dividend decisions affect stock prices, providing insights for investors and companies navigating the complexities of making these decisions.

In simple terms, we explored whether companies giving out a share of their profits to investors affected how people decide to invest in their stocks. Most companies didn't seem to attract investors strongly with these dividends, except for a subtle hint with Hero Motocorp Ltd. This research adds to what we know about how companies balance rewarding investors and staying financially healthy in the ever-changing business world.

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