Dividend Analysis of Selected Steel Companies in India - A Analytical Study

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Abstract: The Indian Iron and Steel industry contributes significantly to the overall growth and development of the economy. As per the estimation of the ministry of steel, the industry today directly contributes to 2% of India's GDP. Payment of dividend is desirable because the shareholders contribute in the capital of the company to earn higher returns from their investment and to maximize their wealth. In this, retained earnings are the major sources of internal finance for financing future requirement such as expansion and modernisation of the company. Hence, both business growth and dividends are desirable. On the contrary, higher dividend leads to less provision of funds for growth and higher retained earnings leads to low dividends which majority of shareholders dissatisfies from return on investment, from the analysis it found that the dividend ratios such as Dividend Payout Ratio, Dividend Per Share, Earning Per Share differ significally between large cap companies and midcap companies.

Key words: Dividend · Dividend Payout Ratio · Dividend Per Share · Earning Per Share · Dividend policy · Investors

INTRODUCTION

The Indian Iron and Steel industry contributes significantly to the overall growth and development of the economy. As per the estimation of the ministry of steel, the industry today directly contributes to 2% of India's GDP and its weightage in the official index of Industrial Production (IPP) is 6.2%. The industry has been able to shape out a niche for itself globally. From a country with a production of one million tonnes at the time of independence, it has now become the world's 4th largest producer of crude steel preceded behind China, Japan and the US [1].

Due to infrastructure creation and urbanization emerging as key growth enabler, the Indian economy is witnessing rising import of steel in recent times. This has resulted in India becoming the big exporter of steel in Financial Year 2013-14 after a gap of six years. There is a need to transform the technological face of the Indian steel industry to achieve international benchmarks as a long-term strategy [1].

Dividend: According to the Institute of Chartered Accountants of India, "dividend is a distribution to shareholders out of profits or reserves available for this purpose."

Also, it means that the portion of net profit distributed to shareholders, the profits after deducting all expenses, provision made for taxation and transferring some portion of amount to reserve from the total income of the company. If the company desires to pay dividends to the shareholders, it should have sufficient profit; it should get approval from the Board of Directors and acceptance of the shareholders at the annual general meeting.

Need of the Study: Once a company makes a profit, management must decide to utilize profits. In order to retain the profits within the company for the purpose of expansion and modernization, or it could pay out its surplus profits to the shareholders in the form of dividends. If the company decides to pay dividends, it may formulate a permanent dividend policy; this policy creates a good impact on the company's value in the

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financial markets to fulfill investor's expectation. It depends on the present and future situation of the company and its financial planning. It also depends on the management decision and preferences of retail and potential investors. Therefore, that the company needs to concentrate on dividend policy and dividend declarations to retain their existing shareholders or investors and attracting new investor.

Statement of the Problem: Payment of dividend is desirable because the shareholders contribute in the capital of the company to earn higher returns from their investment and to maximize their wealth. In this, retained earnings are the major sources of internal finance for financing future requirement such as expansion and modernisation of the company. Hence, both business growth and dividends are desirable. On the contrary, higher dividend leads to less provision of funds for growth and higher retained earnings leads to low dividends which majority of shareholders dissatisfies from return on investment. Therefore, both decisions are complementary to each other and no decision can be taken independent of the other, the finance manager has to formulate a guidable dividend policy to fix the proportion of dividend payment and retention that can retain the existing shareholders and attract new investors. These possible changes can be analysed in the present study and attempt to make the evaluation of dividend progress of select steel companies in India.

Objectives of Study:

- To study dividend performance of select steel companies in India
- To find out the dividend variance of select steel companies in India

Review of Literature: Lintner (1956) [2] studied the recognized companies in the United States of America and concluded that the recent earnings power and past dividend records are key determinants of changes in dividend payout, and it helps to maintain the regular increase in dividend policy of the companies. David (1990) [3] found that special dividend payments generally increase the wealth of target firm's shareholders, regardless of payout type, those firms remaining independent after the outcome of corporate control contest experience an abnormal share price increase over

the duration. Claudio Loderer and David Mauer (1992) [4] investigated that they rely on dividend to obtain a higher price in a stock offering and stock price reaction to dividend and offering announcement does not support either conjecture. Issuing firms are not more likely to pay or increase dividend than no issuing forms. There is little evidence that firms time stock offering announcement right after dividend declarations. Harry De Angelo, Linda De Angelo, and Douglas Skinner (1992) [5] found that dividend reduction depends on whether earnings include unusual item that are likely to temporarily depress income. Dividend reductions are more likely given greater current losses, less negative unusual item, and more persistent earnings difficulties. Dividend policy has information content in the knowledge that a firm has reduced dividends improves the ability of current earnings to predict future earnings. Lucy Ackert and Brain Smith (1993) [6] found that the apparent evidence of excess volatility when the narrow definition of cash flow (dividend only) is applied and they reject the hypothesis market efficiency when the cash flow measures also include sharing repurchase and take over distribution in addition to ordinary cash dividend. Upinder and Herb Johnson (1994) [7] studied about stock and bond price reactions to dividend changes. The positive stock response to dividend increases has several potential explanations and they found that the bon price reaction to announcement of large dividend changes is opposites of the stock price reactions. James Hines (1996) [8] discussed about American corporations earn a significant share of their profits from foreign sources, out of which they appear to pay dividends at rate that are three times higher than their payout rates from domestic profits. Kathryn Dewenter and Vincent Warther (1998) [9] studied the comparison of dividend policies of US and Japanese firms and found that Japanese firms face less information asymmetries and fewer agency conflict than US firms and that asymmetries and agency conflict affect dividend policy. Japanese firms experience smaller stock price reactions to dividend omissions and initiations, they are less reluctant to omit and cut the dividend and their dividend is more responsive to earning changes. Franklin Allen, Antonio Bernardo and Ivo Welch (2000) [10] studied about firms paying dividend attract relatively more institution, which have a relative advantage in detecting high firm quality and in ensuring firms are well managed and suggested the prediction that it is the tax differences between institutions and retailers investors

that determines dividend payments. Eugene A. Pilotte (2003) [11] examined the possibility that inflation also proxies for variance between real price and dividend ratios and found that the covariance between real price /dividend ratios and inflation is nonzero, the relationship between return and expected inflation differ for the two components of return: dividend yields and capital gain returns. Malcolm Baker and Jeffrey Wurgler (2004) [12] proposed that the decision to pay dividends is driven by prevailing investor demand for dividend payers. Managers cater to investors by paying dividends when investor put a stock price premium on payers and not paying when investor prefer non payers and measured non payers tend to initiate dividends when demand is high. But sometimes payers tend to omit dividends when demand is low. Miller and Modigliani (1961) [13] explained dividend irrelevance theorem for a (tax free) perfect capital market given the firm's investment policy, how investors are received their income, whether it is through dividend or capital gain, would be irrelevant share price in such a market. Miller and Scholes (1978) [14] extended the irrelevant argument to allow for differential rates of tax on dividend and capital gains. They argued that all personal tax payable by investor on dividend and capital gains could be laundered by tax minimising strategies. Miller and Scholes (1982) [15] argued that evidence of significant positive yield effect was biased, with bias arising from the use of a rate of return that was contaminated by the announcement effective of the dividend and concluded that the yield related dividend effect was both statistically and economically insignificant once bias had been eliminated. Duha Al Kuwari (2009) [16] investigated the determinants of dividend policies for firms listed on Gulf Cooperation Council country stock exchanges and resulted that the main characteristics of firm dividend payout policy and dividend payment related strongly and directly to government ownership, firm size and firm profitability, but negatively to the leverage ratio in addition and as a result of the significant agency conflict interacting with need to build firm reputation, a firm's dividend policy was found to depend heavily on firm profitability. Jayesh Kumar (2006) [17] analysed the relationship among the ownership structure, corporate governance and dividend payout using large panel of Indian corporate firms, this attempt to use the well established dividend payout model to examine the impact of ownership structure on dividend payout policies in context of an emerging market economy, India. And found that ownership is the important factor that influences the dividend payout policy. Han Ki, Suk Hun Lee and David Suk (1999) [18] Tested the agency cost based hypothesis which predicts dividend payout to be inversely related to the degree of institutional ownership and tax based hypothesis predicting the dividend to be positively related with institutional ownership, provide support for the tax based hypothesis, suggesting a dividend clientele for institution preference for higher dividend. Faccio Mara, Lary, Lang and Leslie Young (2001) [19] examined group-affiliated corporations in Europe pay higher dividends than in Asia, dampening insider expropriation. Dividend rates are higher in Europe, but lower in Asia, when there are multiple large shareholders, suggesting that they dampen expropriation in Europe, but exacerbate it in Asia. Fenn and Liang (2001) [20] analysed how corporate payout policy is affected by managerial stock incentives. They found that managerial stock incentives mitigate the agency cost for firms with excess cash flow problem. They also found that a strong relationship between dividend and management stock option. Kevin (1992) [21] shows that dividend stability is the primary determinate of payout while profitability is only secondary importance. Bhat, Ramesh and Pandey(1994) [22] found that payments of dividends depend on current and expected earnings as well as the pattern of past dividend, Dividends are used in signalling the future prospects and dividends are paid even there is profitable investment opportunity. Mohanty and Pitabas (1999) [23] examined the behaviour of payout after the bonus issue and found that bonus issuing firms yielded greater issues to their shareholders than those that did not make any bonus issue but maintained a steadily increasing dividend rate. Manos (2003) [24] estimated cost minimisation model of dividend and found that government ownership, insider ownership, risk, debt and growth opportunity have a negative impact on the payout ratio, whereas institutional ownership, foreign ownership, and dispersed ownership have a positive impact on the payout ratio. Kothari and Walia (2004) [25] guide lined for payment of dividend by Haryana state public enterprises, it is too early to comment on the impact of the guidelines on the working performance of various state public undertakings, However, a strict and stringent compliance as well as proper monitoring will go a long way in making the public sector undertakings accountable and responsible and also improving their performance and profitability.

Research Methodology

Research Design: The present study is both descriptive and analytical nature.

Data Collection: The present study purely based on the secondary data only. The related data, such as profit and loss account statement, balance sheet and some important key ratios were collected from the published annual reports of selected steel companies in India. Other related information was collected from, official website of selected steel companies, NSE,BSE, annual report of the ministry of steel research publications and various academic research reports. Further the researcher referred various finance related textbooks and journals.

Sampling: In order to analyse the dividend performance of steelcompanies, the details of 72companies were collected. From this, the steel companies which satisfied the following criteria which have been shortlisted for further research:

- The companies listed in NSE and BSE.
- Availability of data at least for the period of 10 years.
- The company should have at least three years of continues profit during the study period.
- The companies declared and paid dividend for a minimum of three years during the study period.
- The selected steel companies have been classified as large and mid cap companies based on market capitalisation.

Table 1: Inferential Statistics Dividend Payout Ratio- Large Cap Companies

	Mean	SD	SE	F	p	Decision
TATA	22.72[b]	4.21	1.33	6.47	0.001**	Reject H_0
SAIL	23.25[b]	10.6	3.35			
JSW	13.00[a,]	5.98	1.89			
VISA	8.18[a]	13.2	4.18			
Total	16.79	11.0	1.74			

** Significant at 1%

The companies' stocks with market capitalisation of Rs. 10,000 crore or more are large cap companies and which are listed below:

Large Cap Companies

- Tata Steel Limited
- Steel Authority of India Limited (SAIL)
- JSW Steel Limited
- Visa Steel Limited

The companies' stocks with market capitalisation between Rs. 2,000 crore to Rs.10,000 crore are mid cap companiesand which are listed below:

Mid Cap Companies:

- Bhushan Steel Limited
- Jindal Steel and Power Limited (JSPL)
- Kalyani Steels Limited

Framework for Analysis: The various statistical tools are usedto analyse the profitability and dividend performance of the selected steel companies in India.The study of financial statement such as profit and loss accounts and balance sheets dividend ratios constitutes in theframework of analysis. The frame work of analysis contains data analysis by using of SPSS package with applications of ratio analysis and statistical tool of ANOVA

Analysis of Variances (ANOVA): Anova is the best statistical tool, which is used to test whether the means of more than quantitative variables are equal. It consists of classifying and cross classifying of statistical results and testing the significance difference in the means of specified classification. For the purpose of analyzing the equality of means for different ratios of different companies 'ANOVA' test is used in the present study.

Analysis and Interpretation

Hypotheses Testing -'F' test Analysis (ANOVA)

Dividend Payout Ratio: For the purpose of analyzing the equality of means for different ratios 'ANOVA' test is used. The following hypotheses are framed and tested the validity of the hypothesis.

H_0: There is no significant difference in the mean Dividend Payout Ratio among the large cap companies.

From the above table, it is observed that the p value (0.001) is less than 0.01; null hypothesis is rejected at the 1 % level of significance. i.e. Dividend Payout Ratio differs significantly between Large cap companies. Once determined that differences exist among the means, post hoc range tests can determine which means differs. Tucky's tests identified the homogeneous subsets of means that are not different from each other and the results were also given in the above table by showing the homogeneity subsets within which the groups fall in. The homogeneity subsets are shown by the letters a, b and c in the affix of the mean values.

H_0: There is no significant difference in the mean Dividend Payout Ratio among the mid cap companies.

Table 2: Inferential Statistics of Dividend Payout Ratio-Mid Cap Companies

	Mean	SD	SE	F	P	Decision
BHUSHAN	3.57[a]	2.43	0.77	12.29	0.000**	Reject H_0
JSPL	8.33[a]	1.90	0.60			
KALYANI	17.35[b]	10.49	3.32			
Total	9.75	8.42	1.54			

** Significant at 1%

From the above table, it is observed that the p value (0.000) is less than 0.01; null hypothesis is rejected at 1% level of significance. i.e. Dividend Payout Ratio differs significantly between Mid cap companies.

Dividend per Share:

H_0: There is no significant difference in the mean Dividend per Share among the large cap companies.

Table 3: Inferential Statistics of Dividend per Share- Large Cap Companies

	Mean	SD	SE	F	P	Decision
TATA	12.35[c]	3.00	0.95	37.97	0.000**	Reject H_0
SAIL	2.44[a]	1.06	0.33			
JSW	8.28[b]	4.63	1.46			
VISA	0.30[a]	0.48	0.15			
Total	5.84	5.53	0.87			

** Significant at 1%

From the above table, it is observed that the p value (0.000) is less than 0.01; null hypothesis is rejected at 1% level of significance. i.e. Dividend Per Share differs significantly between Large cap companies.

H_0: There is no significant difference in the mean Dividend per Share among the mid cap companies.

Table 4: Inferential Statistics Dividend per Share- Mid Cap Companies

	Mean	SD	SE	F	P	Decision
BHUSHAN	1.75[a]	0.98	0.31	6.61	0.005**	Reject H_0
JSPL	7.35[b]	6.58	2.08			
KALYANI	1.88[a]	1.44	0.46			
Total	3.66	4.63	0.84			

** Significant at 1%

From the above table, it is observed that the p value (0.005) is less than 0.01; null hypothesis is rejected at 1% level of significance. i.e. Dividend per Share differs significantly between Mid cap companies.

Earning Retention Ratio

H_0: There is no significant difference in the mean Earning Retention Ratio among the large cap companies.

Table 5: Inferential StatisticsEarning Retention Ratio-Large Cap Companies

	Mean	SD	SE	F	P	Decision
TATA	76.62	4.36	1.38	1.88	0.151	Accept H_0
SAIL	76.77	9.84	3.11			
JSW	85.35	10.12	3.20			
VISA	61.14	44.12	13.95			
Total	74.97	24.04	3.80			

** Significant at 1%

From the above table, it is observed that the p value (0.151) is greater than 0.05 hence null hypothesis is accepted at 5% level of significance. i.e. Earning Retention Ratio do not differs significantly between Large cap companies.

H_0: There is no significant difference in the mean Earning Retention Ratio among the mid cap companies.

Table 6: Inferential Statistics of Earning Retention Ratio-Mid Cap Companies

	Mean	SD	SE	F	p	Decision
BHUSAN	96.42[b]	2.45	0.78	14.10	0.000**	Reject H_0
JSPL	91.82[b]	2.04	0.65			
KALYANI	81.67[a]	10.5	3.33			
Total	89.97	8.7	1.60			

** Significant at 1%

From the above table, it is observed that the p value (0.000) is less than 0.01; null hypothesis is rejected at 1% level of significance. i.e. Earning Retention Ratio differs significantly between Mid cap companies.

Earning per Share

H_0: There is no significant difference in the mean Earning per share among the large cap companies.

Table 7: Inferential Statistics of Earning per share- Large Cap Companies

	Mean	SD	SE	F	p	Decision
TATA	62.89[b]	8.51	2.69	41.88	0.000**	Reject H_0
SAIL	12.26[a]	4.63	1.46			
JSW	66.01[b]	31.57	9.98			
VISA	-0.62[a]	5.62	1.78			
Total	35.14	34.10	5.39			

** Significant at 1%

From the above table, it is observed that the p value (0.000) is less than 0.01; null hypothesis is rejected at 1% level of significance. i.e. Earning per share differs significantly between Large cap companies.

H_0: There is no significant difference in the mean Earning per share among the mid cap companies.

Table 8: Inferential Statistics of Earning per share- Mid Cap Companies

	Mean	SD	SE	F	p	Decision
BHUSHAN	70.42[b]	52.40	16.57	6.18	0.006**	Reject H_0
JSPL	93.83[b]	77.78	24.60			
KALYANI	10.95[a]	7.85	2.48			
Total	58.40	63.31	11.56			

** Significant at 1%

From the above table, it is observed that the p value (0.006) is less than 0.01; null hypothesis is rejected at the 1 % level of significance. i.e. Earning per share differs significantly between Mid cap companies.

Findings and Recommendation:

- The Dividend payout ratio of TATA, SAIL, JSW, VISA and KALYANI show favour with excellence in managerial ability and status of companies, that can be maintained for long periods.BHUSHAN and JSPL show lower ratio, hence they should increase their payout ratio for the welfare of investors.

- Dividend per share is an important and commonly used ratio to identify original shareholder benefits. SAIL, VISA, BHUSHAN and KALYANI declared belowRs.5as a dividend. It shows that the companies not caring of investor benefits, it is suggested to declare higher dividend as much as possible because it may lead to shareholders to stay longer period.

- The higher earnings retention ratios are found in VISA, BHUSHAN and JSPL. It shows that these companies are giving more importance to their growth like expansion, modernization. At the same time, these companies should take care of investor benefits by paying of higher dividend, earnings retention depending on the company's earnings stability and dividend payment policy.

- SAIL, VISA and KALYANI recorded their Earnings per share at lower levels due to minimum profit allowed to the equity shareholders on per share basis. These companies should take care of its profitability maintenance to increase market share by attracting new investors.

CONCLUSION

The dividend progress plays important role in the financial activities of the company and also its affect profitability, liquidity, capital structure, flow of fund, share valuation and investor satisfaction with regard to wealth maximization. It helps companies to maximize the market value in the capital market. The present study concludes that many of the companies following proper dividend policy and paying regular dividend, that will lead to investors' satisfaction towards better income generation on investment, also it will help to retain existing investor for long period and acquire new investor to mobilize fund for future projects.

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