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Research Article

# IMPACT OF DIVIDEND POLICY ON AUTOMOBILE COMPANIES: AN EMPIRICAL STUDY

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**Abstract:** *Introduction about dividend policy and their experimental attempts are explained. Definition of dividend in the introduction part is covered. W. A. Adesola & A.E. Okwong (2009) entitled An Empirical study of Dividend policy of Quoted companies in Nigeria. And T. Hussain, Sarwani, Nardi Sunardi & Lisdawati (2020) researched on Firm's value prediction based on profitability ratios and dividend policy. To evaluate the financial performance adopted by quoted companies in India. To determine the concept of dividend in connection with Profitability of the selected companies. To study the relation between profitability and liquidity of selected companies. There is no significant relation between liquidity and profitability of selected companies. There is no significant relation of dividend policy on profitability of companies. Secondary data is collected for the study. In which five automobile companies have been taken on the basis of market capitalisation for the period from 2015-2016 to 2019-2020. To analyses the collected data, various profitability, liquidity ratios has been calculated. To know the financial performance of selected companies one-way Analysis of Variance (ANOVA) & Correlation has been used. The study indicates that there was a correlation between liquidity ratios but no correlation between dividend and profitability in the current period. Studies have shown that profitability & liquidity should be considered in order to give dividend, because profitability ratios affect dividend.*
*Keywords: liquidity ratios, profitability ratios, ANOVA, Correlation.*

## 1. Introduction

There is various dividend policy which attempts to explain dividend policy and experimental attempts to support these theories. The word dividend defined as a share of profit after tax which is distributed to the shareholders of the company. In other words, the profit earned by a company after paying taxes can be used for the purpose of dividend or can be retained as surplus for future growth. The biggest question arises when the management has to decide, whether to give more dividend with increase in profits or continue with normal rates.

The statement of problem arises here that how much should a company needs to pay dividend or how much quantifiable amount should be retained. And for this companies Liquidity, profitability, solvency and activity needs to be taken into account.

## 2. Past Studies

**W. A. Adesola & A.E. Okwong (2009)** entitled "**An Empirical study of Dividend policy of Quoted companies in Nigeria".** The author researched about the theoretical aspects about Empirical studies and reviewed various past studies. The sources taken as Secondary data and extracted from Nigerian Stock Exchange (NSE) 27 companies have been taken from the studies which covers 15 sectors of NSE. Data analysed and interpretation were divided into three parts, 1st part was about dividend, second part contains about share prices across time series and cross-sectional data, third part examined about the means of dividend policies based on pool-time series and cross section data set. Statistical tools include multiple regression analysis and on the basis of that conclusion was drawn from the studies that average earning per share and earning per share plays a vital role in determining dividends.

**Hussain, Sarwani, Nardi Sunardi & Lisdawati (2020)** researched on **"Firm's value prediction based on profitability ratios and dividend policy"** researched and framed the objective of framing firm's value based on profitability ratios associated with dividend policy. The research hypothesis was based on firm's value, dividend policy & profitability ratios. Automotive sector for the period five years from 2014 to 2018 which Results from testing the normality and by applying various different tests. After applying all the tests, hypothesis was tested and it is proved that the effect of profitability ratios on the dividend policy and their implication on the firm value did not support. And hence it is concluded that profitability ratios have no significant impact on dividend policy as well dividend policy has no significant effect on firm's value.

### Objectives of the study

I. To evaluate the financial performance adopted by quoted companies in India.
II. To determine the concept of dividend in connection with Profitability of the selected companies.
III. To study the relation between profitability and liquidity of selected companies.

### Research Question

Dividend policy is considered as the significant monetary policies not only from firm's point of view but also from stalk holder's point of view, the regulatory firms, the consumers and the government. Along with that how do firms decide how much to pay in dividends and how those dividends actually get paid to the stockholders? How the principle of financial decisions & current prices of the automobile market affects dividend policy?

## Hypotheses

I. There is no significant relation between liquidity and profitability of selected companies.

II. There is no significant relation of dividend policy on profitability of companies.

## Research Methodology

Data Collection:

For any kind of research work, data collection is an imperative tool. To carry a good research work, it becomes essential to collect data from authenticate and reliable sources which helps the researcher in drawing a valid conclusion and answer the research question. There are basically two ways of data collection: primary and secondary data. When the data is collected for the very first time and no sources are available for the same is known as primary data. And when the data is collected by another researcher but used by so many researchers that means the data is already available is termed as secondary data. Here secondary data has been taken into account.

The Companies selected from automobile sector on the basis of Market capitalisation of four wheelers which are as follows:

i. Maruti Suzuki
ii. Hyundai Motors
iii. Mahindra & Mahindra
iv. Tata Motors
v. Honda

I. Study Period:

This study will cover a period of Five years, from 2015-2016 to 2019-2020.

II. Statistical Tools:

To analyses the collected data, various profitability, liquidity ratios has been calculated. To know the financial performance of selected companies one-way Analysis of Variance (ANOVA) has been used. For determination of dividend in connection with profitability & Liquidity Correlation between variables has been found out.

III. Data Findings & Interpretation:

i. Liquidity Ratio:

Liquidity in a firm shows that short term solvency. The term liquidity shows how a firm can easily convert their assets into cash. Liquidity management refers to the earning capacity of profitability. These ratios involved Current Ratio, Acid- Test Ratio. Current Ratio indicates the ability to meet short term debt obligation and Acid – Test Ratio indicates the company's ability to meet its short-term debt obligation with most of its liquid assets.

ii. Profitability Ratio:

Profitability ratios enables the capacity to generate company's profit working as a return on funds invested. Profitability ratios analyses quality of the management and creates competitive atmosphere among the management. Profitability ratios indicates how resourcefully an organization uses its funds. Various types of ratios are calculated for profits but in this paper, we will take three ratios into consideration and they are Net profit ratio which shows the how revenues help to generate more income. Return on Assets indicates how smoothly a company can use its assets to generate profit. Dividend pay-out ratio indicates how much amount is given to shareholders from generates incomes and how much amount is reserved by a company.

iii. Conceptualisation of Variables

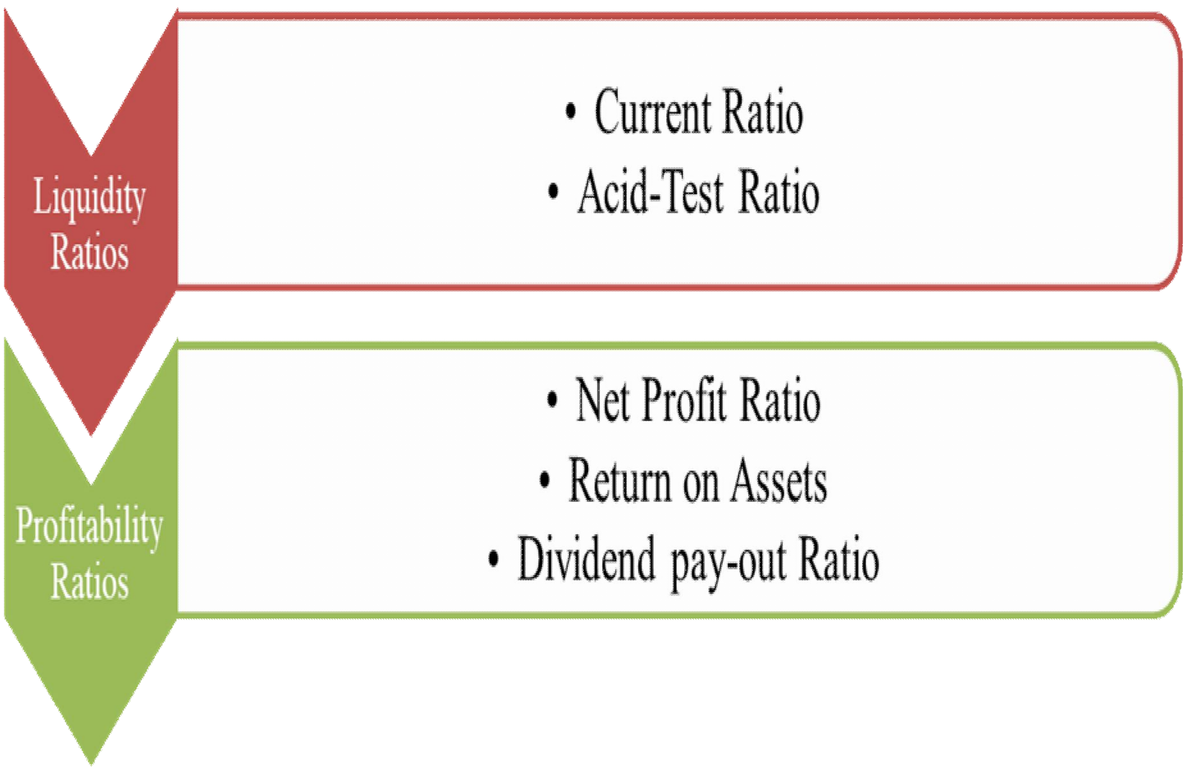

**Figure 1 Conceptualisation of Variables**

iv. Operationalisation of Variables

**Table 1 Operationalisation of Variables**

| Basis | Key Variables | Description |
|---|---|---|
| Profitability Ratios | Current Ratio | $\frac{Current\ Assets}{Current\ Liabilties}$ |
| | Acid - Test Ratio | $\frac{Liquid\ Assets}{Liquid\ Liabilities}$ |
| Liquidity Ratios | Net Profit Ratio | $\frac{Profit\ after\ tax}{Net\ sales} * 100$ |
| | Return on Assets Ratio | $\frac{Net\ Income}{Total\ Assets} *100$ |
| | Dividend Pay-out Ratio | $\frac{Total\ Dividend}{Net\ Income}$ |

v. Analysis of Variance (ANOVA)

There are so many types of ANOVA, but here, in this study, we will use only One- way ANOVA. One way ANOVA helps to measure the relationship between two or more variables which are independent in nature. It explains how different groups respond and significance among the independent variables of equal means. This test use for empirical research. A positive ANOVA explains how a single independent variable is different from other independent variables. And it does not justify which one.

vi. Correlation Analysis

One of the known statistical measures for knowing the relationship between two variables is Correlation. Correlation not only shows the relationship between two variables but also helps to determine the strength. A single value is the outcome, which comes from the relation between these two variables, denotes as ‘r’. Here Pearson’s correlation of co-efficient is used which shows the values from -1 to +1 (including both minus one and plus one).

## 3. Finding & Analysis

I. Analysis of Variance (ANOVA)

**Table 2 Analysis of Variable (ANOVA)**

| Current Ratio (CR) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Source of Variation** | *SS* | *df* | *MS* | *F* | *F crit* | *Null (Ho)* | *Remarks* |
| Between Groups | 33.469896 | 4 | 8.367 | 295.816 | 2.866 | Reject | Significance difference |
| Within Groups | 0.56572 | 20 | 0.028 | | | | |
| Total | 34.035616 | 24 | | | | | |
| Acid-Test Ratio (ATR) | | | | | | | |
| *Source of Variation* | *SS* | *df* | *MS* | *F* | *F crit* | *Null (Ho)* | *Remarks* |
| Between Groups | 17.207664 | 4 | 4.301 | 157.787 | 2.866 | Reject | Significance difference |
| Within Groups | 0.54528 | 20 | 0.027 | | | | |
| Total | 17.752944 | 24 | | | | | |
| Net Profit Ratio (NPR) | | | | | | | |
| *Source of Variation* | *SS* | *df* | *MS* | *F* | *F crit* | *Null (Ho)* | *Remarks* |
| Between Groups | 110564.305 | 4 | 27641.076 | 0.013 | 2.866 | Accept | No Significance difference |
| Within Groups | 42079034.6 | 20 | 2103951.73 | | | | |
| Total | 42189598.9 | 24 | | | | | |
| Return on Assets (ROA) | | | | | | | |
| *Source of Variation* | *SS* | *df* | *MS* | *F* | *F crit* | *Null (Ho)* | *Remarks* |
| Between Groups | 1239.89206 | 4 | 309.973 | 0.255 | 2.866 | Accept | No Significance difference |
| Within Groups | 24302.8524 | 20 | 1215.142 | | | | |
| Total | 25542.7445 | 24 | | | | | |
| Dividend Pay-out Ratio (DPR) | | | | | | | |
| *Source of Variation* | *SS* | *df* | *MS* | *F* | *F crit* | *Null (Ho)* | *Remarks* |
| Between Groups | 5107.56442 | 4 | 1276.891 | 6.056 | 2.866 | Reject | Significance difference |
| Within Groups | 4216.381 | 20 | 210.819 | | | | |
| Total | 9323.94542 | 24 | | | | | |

II. Correlation Analysis

**Table 3 Correlation Analysis**

| Karl Pearson's Correlations | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | **LIQUIDITY RATIOS** | | **PROFITABILITY RATIOS** | | |
| | | | **Current Ratio** | **Acid Test Ratio** | **Net Profit Ratio** | **Return on Assets** | **Dividend Pay-out Ratio** |
| **LIQUIDITY RATIOS** | **Current Ratio** | Pearson Correlation | 1 | **.998**** | .494 | -.077 | .212 |
| | | Sig. (2-tailed) | | .000 | .398 | .903 | .732 |
| | **Acid Test Ratio** | Pearson Correlation | | 1 | .480 | -.055 | .244 |
| | | Sig. (2-tailed) | | | .413 | .929 | .692 |
| **PROFITABILITY RATIOS** | **Net Profit Ratio** | Pearson Correlation | | | 1 | -.629 | .579 |
| | | Sig. (2-tailed) | | | | .256 | .307 |
| | **Return on Assets** | Pearson Correlation | | | | 1 | .084 |
| | | Sig. (2-tailed) | | | | | .893 |
| | **Dividend Pay-out Ratio** | Pearson Correlation | | | | | 1 |
| | | Sig. (2-tailed) | | | | | |

**. Correlation is significant at the 0.01 level (2-tailed).

Above table shows that F-value of CR, ATR & DPR is greater than its F-critical value. Hence, here we reject our null hypothesis as there is significant difference in the above selected ratios of particular automobile companies of India. On the other hand, F-value of remaining ratios i.e., NPR & ROA is less than its F-critical value. So, we accept the null hypothesis as there is no significant difference in NPR & ROA of particular automobile companies in India.

Karl Pearson's Correlation Coefficient Analysis:

The pair wise correlation coefficient of different dependant & independent have been taken in the following table. It can be found from the table that bi-variate correlation between different variables are highly significant.

## 4. Hypothesis testing

As already mentioned, Hypothesis to know the significance of dividend with liquidity & profitability. Above Table no. shows a significant relationship between Acid-test ratio and current ratio has been found out. Which indicates a strong relation between these two variables since they are the measures of liquidity. So, far Correlation of Dividend pay-out is concerned, it is neither correlated with liquidity nor with profitability.

As there is no correlation between dividend with liquidity & profitability of selected companies, hence no regression cannot be applicable.

## 5. Conclusion, Limitations & Direction of the study

### I. Conclusion

The current study tries to examine the relationship between dividend policy on automobile industry in which five automobile companies have been taken. The study has been accomplished over the period of five years from 2015-16 to 2019-20 by using regression models. The study indicates that there was a correlation between liquidity ratios but no correlation between dividend and profitability in the current period. Studies have shown that profitability & liquidity should be considered in order to give dividend, because profitability ratios affect dividend. It is very understandable that profitability ratios are affected by several factors and the intensity of these factors differs. Here profitability connected with liquidity.

As stated earlier, the objectives of the study finance performance of the companies are quite satisfactory in terms of liquidity ratios. However, there must be a need to improve in profitability ratios to enhance the dividend policy of the companies.

### II. Limitation of the Study:

1. The present study is primarily based on secondary data only.
2. The limitation of the secondary data is inherent.
3. For the current study only five companies and only five years have been selected.
4. Only liquidity and profitability ratios have been taken into consideration for the financial performance evaluation.
5. The limitation of statistical tool is inherent.

III. Direction for future research:

The current study has underwritten significantly, there are some issues in this research which have not been addressed and prerequisite extra. In the current area of study, there is a possibility of further research, which are as follows:

i. In this study only five companies have been taken only from one industry and no comparison between these companies have been done. So, the researcher can do a comparative study across these companies or add more companies too.

ii. For depth study, other financial measures can be used other than these financial measures.

iii. Here impact of dividend in connection with liquidity, profitability and market prices are taken, the further studies may be undertaken for other variables too.

iv. Current study, only undertakes one industry i.e., Automobile Industry. For future research other industries can be taken, and on the basis of that, analysis and comparisons can be done.

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