

AN EMPIRICAL ANALYSIS ON DETERMINANTS OF DIVIDEND POLICY OF FMCG SECTOR IN INDIA

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Abstract

This paper intended to examine the determinants of dividend policy (DP) of FMCG sector in India. FMCG companies included in CNX FMCG the sectoral index for NSE are 15. Only 12 companies have been taken for the study. The period of study has been considered for 10 years i.e. from 2003-04 to 2012-13. Here, various factors affecting DP such as dividend payout ratio (DPR), debt equity ratio (DER), earnings (ERN), corporate tax (CT), earnings per share (EPS) and firm size (FS) are considered for analysis. The empirical evidence from the study reveals that DPR, DER, ERN, CT has significant impact on EPS and also good predictors of dividend payout in FMCG sector. Ordinary least square models (OLS) are used to estimate the impact of DER, DPR, ERN, FS, EPS and on the DP. The DP of overall FMCG sector is strongly influenced by DPR, DER, EPS, and CT, which reveals that the DP of FMCG sector is significantly influenced by the selected financial variables during the period of the study. The regression analysis shows that ERN, DER, and CT have significant impact on DP and DPR.

Keywords: Dividend per share (DPS), Dividend policy (DP), Debt equity ratio (DER), Earnings (ERN), Earnings per share (EPS)

INTRODUCTION

Dividend policy is one of the most complex aspects in finance. The present study focuses on the determinants of dividend policy with reference to the Fast Moving Consumable Goods (FMCG) sectors of companies listed in NSE. The dividend policy of the companies determines what proportion of earnings is paid to shareholders by way of dividends and what proportion is ploughed back in the firm for reinvestment purpose. The dividend payout ratio depends on the factors such as funds requirements, liquidity, shareholder preference, control and taxes (Chandra,1985).

The study of determinants of dividend policy has been a key research area in finance. Yet we do not have an acceptable explanation for the observed dividend behaviour of companies and the "dividend puzzle" still remains unsolved (Black, 1976). It is a long-standing position of well-known finance researchers that dividends are irrelevant, and they have no influence on the share price, given that the capital markets are perfect (Miller and Modigliani, 1961). (Lintner, 1956) found that US companies in the sixties distributed a large part of their earnings as dividends, and they have also maintained stability of dividends. These findings have been vindicated in different countries and at different time periods. Managements' primary goal is shareholders' wealth maximization, which translates into maximizing the value of the company as measured by the price of the company's common Stock. This goal can be achieved by giving the shareholders a "fair" payment on their investments. However, the impact of firm's dividend policy on shareholders wealth is still unresolved. The area of corporate dividend policy has attracted attention of management scholars and Economists cumulating into theoretical modeling and empirical examination. Thus, Dividend policy is one of the most complex aspects in finance. In his study on dividend wrote, *"The harder we look at the dividend picture the More it seems like a puzzle, with pieces that just don't fit together"*.

(Brealey and Myers 2002) stated that dividend policy has been kept as the top ten puzzles in finance. The most pertinent question to be answered here is that how much cash firms should give back to their shareholders and corporations should pay their shareholders through dividends or by repurchasing their shares, which is the least costly form of payout from tax perspective? Firms must take these important decisions period after period (some must be repeated and some need to be revaluated each period on regular basis).

The present study focuses on the determinants of dividend policy with reference to the Fast Moving Consumable Goods (FMCG) sectors of companies listed in NSE. The dividend policy of the companies determines what proportion of earnings is paid to shareholders by way of dividends and what proportion is ploughed back in the firm for reinvestment purpose. The

dividend payout ratio depends on the factors such as funds requirements, liquidity, shareholder preference, control and taxes.

LITERATURE REVIEW

Adefila et al. (2000) found “*The Effect of Dividend Policy on The Market Price of Shares In Nigeria*”: case study of fifteen quoted companies The objective of this study is to critically examine the possible effects that a firm’s dividend policy might have on the market price of its common stock and also, those factors that influence firm’s dividend policy in general. Both primary and secondary data were used for collecting data and for analysis Person’s Product Moment Correlation, correlation coefficient. The study revealed that dividends affect the demand for share price and subsequently the value of the firms. However, the dividend policy does not affect the value of firms currently as share price fixing in regulated by the Security and Exchange Commission (S.E.C) in respect of the quoted companies. Shafi & Waliullah (2000) investigated “*Governance and the Dividend Behaviour Regime in Japan.*” This study investigates empirically the implications which the changing ownership structure and control transfers in the Japanese corporate market may have for the dividend policy of listed firms. The results show that firms with more concentrated ownership may distribute fewer dividends, as ownership concentration reduces distribution pressure from the capital market. The study show that institutional shareholding, both financial and non-financial, enables corporations to pay lesser dividends and also, that the unwinding of cross-shareholdings allows for efficiency gain. Taneem Yüce (2001) investigated “*The Information Content of Dividend Announcements: An Investigation of Indian stock Market*” The purpose of this research is to examine the information content of dividend announcements and price movements in the emerging Indian stock market. The paper investigates the information content and market reaction to dividend announcements using data from the developing Indian market. And it focuses on the information content of dividend policies through the share price reaction of 82 companies in India that are listed in the Bombay Stock exchange. Frankfurter & Wood Jr. (2002) investigated “*Dividend Policy Theories And Their Empirical Tests*” The purpose of this paper is to determine if the method of analysis employed, sample period, and/or data frequency are responsible for this inconsistent support. The results presented here are consistent with the contention that no dividend model, either separately or jointly with other models, is supported invariably.

Farinha (2002) suggested “*Dividend Policy, Corporate Governance And The Managerial Entrenchment Hypothesis*”: an empirical analysis This paper analyses the agency explanation for the cross-sectional variation of corporate dividend policy in the UK by looking at the managerial entrenchment hypothesis drawn from the agency literature. The tools used for the

study are single-equation cross-sectional regression model, linter model, Descriptive statistics, Ordinary least-squares (OLS). The data is collected from Standard and Poor's (S&P) *Global Vantage* Data base. The results strongly suggest the possibility of managerial entrenchment when insider ownership reaches a threshold of around 30 per cent. Reddy (2002) indicated "*Dividend Policy of Indian Corporate Firms*" The present study examines the dividend behavior of Indian corporate firms over the period 1990-01 and attempts to explain the observed behavior with the help of trade-off theory, and signaling hypothesis. Analysis of dividend trends for a large sample of stocks traded on the NSE and BSE indicate 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 firms have consistently paid the same levels of dividends. Further, narrower indices appear to have higher dividends compared to that of broader indices. Industry trends indicate that firms in the electricity, mining and diversified industries have paid higher dividends where as textile companies have paid fewer dividends. Goergen (2004) examined "*The Dividend Determination Behavior in German Firms*" to find out whether Germany firms will target a long term dividend payment ratio consistent with findings and targeted dividend payments is based on expected revenues or cash flows for analyzing 221 companies were taken from the year 1984-1993 the result indicated that German corporations paid fewer dividend than English (UK) corporations. Myers and Bacon (2004) examined "*The Determinants of Corporate Dividend Policy*" This study empirically examined the data for a sample of 483 firms taken from the Multex Investor Database to assess the impact of selected financial variables on the dividend decision using OLS Regression. Results of this study suggest that the higher the firm's PE, the lower its risk, and the higher the payout ratio. The greater the degree of insider ownership the lower is the dividend payout. These findings suggest that management in the firms examined have an incentive to reduce dividends in order to increase the expected value of their stock options received as executive compensation. Omet (2004) concluded "*Dividend Policy Behaviour in The Jordanian Capital Market*". The numerous published theoretical and empirical papers have kept dividend policy in its prominent status in the corporate finance literature. Much of the empirical research has been applied on companies listed on advanced stock markets. Employing the panel data methodology, this paper examines the dividend policy behavior of companies listed on the Jordanian capital market. Based on the time period 1985-1999, it is concluded that Jordanian companies follow stable cash dividend policies. Moreover, the results indicate that the 1996 imposition of a 10 percent tax rate on dividends did not lead to any significant changes in their dividend policies. Pani (2006) found "*Dividend Policy and Stock Price Behavior In Indian Corporate Sector*". This paper attempts to explore the possible links between dividend policy and stock price behavior in Indian corporate sector. A sample of 500 listed companies from BSE

is examined for the years 1996-2006. The study mainly relies on the Prowess database of the CMIE (Centre for Monitoring on Indian Economy) the tools used for analysis are regression analysis, F-test, Hausman statistics. The results are not robust enough as in the case of developed markets but shades some more interesting facets to the existing corporate finance literature on dividend policy in India. Pal and Goyal (2007) suggested. "*Leading Determinants of Dividend Policy: A case Study of the Indian banking industry*" the present paper is an attempt to understand the banking dividend decisions in a competitive global economy. Dividend decisions may enhance the market value of the firm but on the other hand it may mean less availability of internal funds and more dependence on external sources and expansion purposes. Furthermore, while determining dividend payment, a prudent management strikes a balance between shareholder's expectation and firm's long term interest. Such analysis is of great relevance from the policy standpoint, because as the dividend literature suggests, if these decisions are handled efficiently, this is expected to be reflected in value of firms. More importantly, such analysis is useful in enabling policymakers to identify the success or failure of policy initiatives or, alternatively, highlight different strategies undertaken by banking firms, which contribute to their successes.

Al-Malkawi (2007) examined "*The Determinants of Corporate Dividend Policy in Jordan*". The data were used from the Amman stock exchanges between 1989-2000 and the result suggests that the portion of stocks Held by insiders and the state significantly affected the amount of dividend paid. Size, age, and profitability of the firm seem to be determined factor of corporate dividend policy in Jordan. Kamat (2008) investigated "*The Ownership And Industry Effects of Corporate Dividend Policy In India,*" 1961-2007 The cross-sectional trends in dividends are investigated at an aggregate level of ownership (*i.e.* closely/largely held and regulated firms), and at disaggregate level across 20 industries to examine how Indian Private Corporate Sector appropriated its profits over 1961-2007 periods. Alternatively it is examined whether internal funds are a significant source of finance and the dynamics of relation between dividends relative to earnings across type of companies and industries. Indian corporate sector pays relatively more equity dividends than preference dividends. Other things being equal, the probability of paying cash dividends decreases with share holder concentration and the regulated companies pay relatively larger dividends. Dividend payouts for all type of firms decline, and such tendency is more pronounced after liberalization periods indicating a greater choice of internal financing through retained earnings. The analysis of inter-corporate and inter-industry variations reveals that dividends interplays differently with exogenous factors. Al-Kuwari (2009) found "*The Determinants of Dividend Policy for the firms Listed on Gulf cooperation council (GCC)*" this study used a panel data consisting of non-financial firms listed in GCC

country stock exchanges between the years 1999-2003. The result suggested that the main characteristics of firm dividend payout policy were that dividend payment related strongly and directly to government ownership, firm size and profitability but negatively to the leverage ratio. Chazi et al. (2010) examined “*Corporate Dividend Policy in Practice*” Evidence from an emerging market with a tax-free environment. This paper contributes to this debate by examining the dividend policy in an emerging market that has a tax-free environment. Al-Malkawi et al. (2010) concluded “*Dividend Policy: A Review of Theories and Empirical Evidence*” This paper aims at providing the understanding of dividends and dividend policy by reviewing the main theories and explanations of dividend policy including dividend irrelevance hypothesis of Miller and Modigliani, bird-in-the-hand, tax-preference, clientele effects, signaling, and agency costs hypotheses. The paper also attempts to present the main empirical studies on corporate dividend policy. *Earnings* affect dividend decision negatively. Okpara (2010) investigated “*The Relationship between Asymmetric Information and dividend policy in Nigeria*”. The data were sourced from the published data of the Nigerian Securities and Exchange Commission. To carry out research work, the researcher employed the unit root test, Dickey fuller test, Johansen co-integration and Vector error correction model to ascertain the long run relationship between variables. Granger causality tests suggested that *DP* has casual impact on information asymmetry without a reverse or feedback effect. The study investigated the long run effect of the dichotomy of information on *DP* and found that *DP* is a positive and significant function of information asymmetry. David (2010) described “*Dividend Policy Decisions*” the study described two sets of behavior-based explanations. The first set includes explanations that are descriptive in nature and combine the stylized facts into a description of corporate policy and investor behavior. The second set of theories offers motivations as to why investors seek dividends and why managers pay them as to why investors seek dividends and why managers pay them.

Gupta and Banga (2010) examined “*The Determinants of Corporate Dividend Policy*” The present study re-examines various factors that have a bearing on the dividend decision of a firm. The sample size of the study is 150 companies from 16 industries. The study period is January 2001 to December 2007. The tools used for analysis is a two-step multivariate procedure. First factor analysis is performed on the data to extract prominent factors from various variables and then multiple regressions analysis is used on such factors. Results of factor analysis indicate that leverage, liquidity, profitability, growth and ownership structure are the major factors. Regression on these factors shows leverage and liquidity to be the determinants of the dividend policy for Indian companies. Suji (2010) explored “*What Are The Determinants of Dividend Policy? The Case Of The Japanese Electrical Appliances Industry*” This paper explores the determinants of the dividend policy of firms in the Japanese electrical appliances industry. First,

our empirical investigations reveal that in this industry, corporate managers do not cater to investors' demands in both their dividend initiation and continuation decisions. All data in this study are from QUICK Corp. Our full sample period is from 1986 to 2006, and our focus in this study is on the Japanese electrical appliances industry firms. The largest number of firms of this industry is included in the NIKKEI 500 Index as at the end of December 2009. This paper finds relations between corporate earnings and firm dividend payments in general. However, on an aggregate time-series basis, dividend payments tend to decrease company earnings in the Japanese electrical appliances industry, and this means rejection of the traditional signaling hypothesis. Afza and Mizra (2011) investigated "*The Impact of Institutional Ownership and Growth Opportunities on Dividend Policy*" based on a sample of 120 listed firms of Karachi stock exchange for a period of 5 years from 2002 to 2007. The estimated results using OLS, and Tobit regression models suggested that *DP* is positively affected by growth opportunities, proportion of shares held by insurance firms and *profitability*; negatively affected by *leverage*. Large firms are less likely to pay high dividends but the relationship of size with *DP* is insignificant.

Asif and Kamal (2011) examined "*The Relationship Between DP and Financial Leverage*" of 403 firms listed with Karachi stock exchange during the period from 2002 to 2008. Descriptive statistics, correlation matrix and regression were used to analyze the significance and magnitude through fixed and random effect models. Financial leverage was found to have negative impact on *DP*, indicated less dividend payments by high debt firms. The study revealed that change in *earnings* has no significant impact on *DP* in case of Pakistani firms. Al- Haddad (2011) examined "*The Effect of Dividend Policy Stability on the Performance of Banking Sector*" listed on Amman Stock Exchange. The enormous number of published theoretical and empirical papers has kept dividend policy in its prominent status in the corporate finance literature. This paper examines the dividend policy of listed banking corporations in the Amman Stock Exchange (ASE) during the period (2000-2006). Dividend payout ratios and the related dividend policy's stability are also examined. Finally, and through employing the panel data methodology, based on the empirical evidence, we will show that the banking sector follows unstable cash dividend policies. Imran (2011) investigated "*Determinants of Dividend Payout Policy*": a case of Pakistan engineering sector. The purpose of the present study is to empirically investigate the factors that determine the dividend payout decisions in the case of Pakistan's engineering sector by using the data of thirty-six firms listed on Karachi Stock Exchange from the period 1996 to 2008. By employing various panel data techniques like fixed and random effects, the results suggest that the previous dividend per share, earnings per share, profitability, cash flow, sales growth, and size of the firm are the most critical factors determining dividend policy in the engineering sector of Pakistan. Mistry (2011) attempted to

ascertain the influence of “*The Factors Affecting Dividend Decision of Indian Cement Industry*” for a period from 2004-05 to 2008-09 based on secondary data of 28 out of 36 listed public firms listed NSE. The study found that significant increase in the selected factors influence the dividend decision rather than the factors which has resulted marginal or moderate increase. The study also found that the change in *total assets (TA)* and *profitability* affects dividend decision positively while change in *liquidity, inventory turnover ratio, retained earnings*.

Acharya and Mahapatra (2012) examined “*The validity of Linter’s Dividend Behavior Model in Three Major Commercial Banks of Indian Bank Namely HDFC, ICICI, SBI*”. Data related to *PAT*, equity dividend paid, covering a period of 11 years i.e. from 1998-99 to 2008-09. The study found that the Linter’s model was holding good only in ICICI bank with all specifications. Bawa and Prabhjot (2012) examined “*The Dividend Policy of Small and Medium Enterprises in Indian Manufacturing Sector*”. Sample consists of 106 dividend paying listed firms of MSMEs for 5 years from 2006 to 2010. Data have been collected from Acc-equity base. Regression model such as Linter’s, Britain, Darling and Dobrovolskis model have been studied to test their validity in Indian conditions. Linter’s model and Dobrovolskis models have best fit in the Indian manufacturing MSMEs as per cross-sectional regression results. Linter’s model, Darling and Dobrovolskys model hold good for Indian manufacturing MSMEs. Abbas and Zahra (2012) investigated “*The Impact of Financial Leverage Operating Cash Flow and Size of Firm on the Dividend Policy*”.(Case study of Iran). A sample of 74 firms has been selected and investigated. F-limer test, Hasman test and random effects model were used for analysis and the study found a negative relationship between financial leverage and; positive relationship between operating cash flow, size of the firm and *DP*. Gill and Obradovich (2012) found “*A Relationship between Corporate Governance, Institutional Ownership and the Decision to Pay Dividends in American Service Firms*”. A sample of 296 American firms listed on New York stock exchange for a period of three years was selected. The study applied a co-relational and non-experimental research design and indicated that the decision to pay dividends was a positive function of board size, *CEO* duality, internalization of the firm, a negative function of institutional ownership. Hashemijoo and Ardekani (2012) examined “*The Impact of Dividend Policy on Share Price Volatility in the Malaysian Stock Market*” the purpose of this study was to examine the relationship between dividend policy and share price volatility with a focus on consumer product companies listed in Malaysian stock market. The primarily regression model was expanded by adding control variables including size, earning volatility, leverage, debt and growth. The empirical results of this study showed significant negative relationship between share price volatility with two main measurements of dividend policy which are dividend yield and dividend payout. Moreover, a significant negative relationship between share price volatility and size is

found. Based on findings of this study, dividend yield and size have most impact on share price volatility amongst predictor variables. Jimoh Jafaruj (2012) investigated *“Dividend Policy and Firm Performance”: A Study of Listed Firms in Nigeria*. This study basically investigates the relationship between the financial performance and dividend payout among listed firms’ in Nigeria. It also looks at the relationship between ownership structure, size of firms and the dividend payouts. The annual reports for the period 2006-2010 were utilized as the main source of data collection for the 50 sampled firms. The regression analysis method was employed as statistical technique for analyzing the data collected. We find that there is a significant positive association between the performance of firms and the dividend payout of the sampled firms in Nigeria. The study also revealed that ownership structure and firm’s size has a significant impact of the dividend payout of firms too. Michaely and Roberts (2012) studied *“Corporate Dividend Policies: Lessons From Private Firms”* “the study focuses on the dividend policies of publicly and privately held firms in order to help identify the forces shaping corporate dividends, and shed light on the behavior of privately held companies. The data collected from FAME database the period of the study is from (1993-2002). The tools used are *t*-statistics, linter model, The results shows that private firms smooth dividends significantly less than their public counterparts, and the study suggests that the scrutiny of public capital markets plays a central role in the propensity of firms to smooth dividends over time. Public firms pay relatively higher dividends that tend to be more sensitive to changes in investment opportunities than otherwise similar private firms. Ultimately, ownership structure and incentives play key roles in shaping dividend policies. Singhania and Gupta (2012) empirically proved *“Determinants of Corporate dividend Policy: A Tobit model approach”*. The objective of the article is to find the validity of the different views on determinants of dividend policy in India and empirically prove their significance using Tobit regression model to examine the determinants of dividends comprehensively. The firm-level panel data of National Stock Exchange (Nifty 50) companies from 99–00 to 09–10 is taken for this purpose. The findings suggest that firm’s size (market capitalization) and firm’s growth and investment opportunity are significant determinants of corporate dividend policy in India. The firm’s debt structure, profitability and experience are found to be not significant in the Indian scenario and in this way the results do negate some theories. The results of the study can be used by investors to take informed decision while deciding on investments based on dividend yield for Nifty 50 Index companies and to predict dividend yields in future using the significant determinants.

Alzomania and Alkhadiri (2013) examined *“The Factors Determining Dividend Policy Represented by Dividend Per Share for Firms in the Saudi Arabia Stock Exchanges”*. They used regression model and used a panel data covering the period during 2004-2010 for 105

non-financial firms listed in the stock market. The results consistently supported that Saudi Arabia non-financial firms rely on current earning per share and past dividend per share of the firm to set their dividend payments. Ranti (2013) "*Determinants of Dividend Policy: A study of selected listed Firms In Nigeria*" this study investigated the determinants of dividends policy in the Nigerian stock exchange market. The paper was basically modeled to examine the effects of financial performance of firms, firm size, financial leverage and board independence on the dividend payout decisions of listed firms operating in the Nigerian stock exchange market using the regression analysis method. The study in its findings observed that there is a significant positive relationship between firms' financial performance, size of firms and board independence on the dividend payouts decisions of listed firms in Nigeria.

Chidinma, Okaro and Pius(2013) "*Shareholder's value and Firm's Dividend Policy*":Evidence from public companies in Nigeria The general purpose of this study is to analyze through an empirical study firm's dividend policies and the effect, if any, they have on shareholder's value. The specific objectives are: This study shows the relevance of dividend and further proves that dividend policies of public limited companies influence the wealth of shareholders in Nigeria. Fakhra Malik (2013) "*Factors Influencing Corporate Dividend Payout Decisions of Financial and Non-Financial Firms*" This paper examines the determinants of dividend policy of firms listed on Karachi stock Exchange and is part of KSE-100 index. Using panel data of 100 financial and non-financial firms over the period 2007 to 2009 we have found that liquidity, leverage, earning per share, and size are positively related to dividend, whereas growth and profitability are found to be insignificant determinant of dividend policy. The results from probit model estimation reveal that earning per share, company profitability, and size increase the probability of companies to pay dividend, whereas growth opportunities decrease the probability of paying dividends. Maniagi et al. (2013) "*Determinants of Dividend Payout Policy*" Among Non-Financial Firms On Nairobi Securities Exchange, Kenya. This study examines determinants among dividend payout of non-financial firms listed on Nairobi Securities Exchange. Secondary data was collected from audited financial statements of companies from Nairobi Securities Exchange website and the websites of non-financial firms'. Dividend payout ratio was dependent variable while independent variables were profitability, Growth, current earnings, and liquidity. Size and business risk was taken as moderating variables. Descriptive statistics and multiple regressions were used. Return on equity current earnings and firms' growth activities were found to be positively correlated to dividend payout Business risk and size, both the two taken as moderating variables increase the precision of significant variables from 95 per cent to 99 per cent hence among major determinants of dividend payout. Shahteimoari (2013) Investigated the "*Impact of Investment Opportunity Set*

And Corporate Financing In The Industrial Products Sector". The sample consists of 62 firms, which were listed on the main board of Malaysia. Tools like Tobin's Q were used to measure investment opportunity set, financial leverage and debt maturity. The study suggested that investment opportunity and debt maturity are the factors significantly influence *DP*. Profitability and risk play significant role in determining *DP* in the industrial products sector of Malaysia. Rani and Sarathi (2013) analysed "*Determinants of Dividends In Indian Pharmaceutical Companies*". This study focuses on the determinants of dividends and its performance of selected pharmaceutical companies in India. This study evaluates the performance of various pharmaceutical companies and their annual compound growth rate.

Objectives of the Study

1. To study Dividend Policies of *FMCG* sector in India.
2. To analyse the variation in the impact of *DER*, *ERN*, *CT*, *EPS* and *FS* on the *DP* of *FMCG* sector in India.

Research Hypotheses

H_0^1 : "There is no significant impact of *ERN* on Dividend Policy of *FMCG* sector in India."

H_0^2 : "There is no significant impact of *DER* on Dividend Policy of *FMCG* sector in India."

H_0^3 : "There is no significant impact of *CT* on Dividend Policy of *FMCG* sector in India."

H_0^4 : "There is no significant impact of *FS* on Dividend Policy of *FMCG* sector in India."

H_0^5 : "There is no significant impact of *ERN* on Dividend Payout Ratio of *FMCG* sector in India."

H_0^6 : "There is no significant impact of *DER* on Dividend Payout Ratio of *FMCG* sector in India."

H_0^7 : "There is no significant impact of *CT* on Dividend Payout Ratio of *FMCG* sector in India."

H_0^8 : "There is no significant impact of *FS* on Dividend Payout Ratio of *FMCG* sector in India".

RESEARCH METHODOLOGY

For purpose of the study, secondary data have been collected from the money control and NSE website. The financial statements like, Profit and Loss Account, and Balance Sheet of selected companies are collected from the money control and websites of various *FMCG* firms.

Population

There are 1432 *FMCG* companies in India (as per the *NSE*). Out of which 33 *FMCG* companies are listed, is *NSE*. Originally it was decided to consider all the *FMCG* companies listed in *NSE* for better analysis the *FMCG* companies included in *CNXFMCG* the sectoral index for *NSE* are 15 was taken, on further scrutiny, it was found that some companies only have adequate data

for a period of 10 years while the others did not. Hence, the ultimate sample firms of FMCG industry constitute the companies whose data are adequately available for at least 10 years are 12 companies and so the sample size is taken as 12.

Sampling Design

The present study has chosen the sample companies from FMCG industry in India, which are listed in *NSE* by applying the technique of multi-stage sampling. To achieve the aforementioned research objectives, data for the study are collected from the annual reports of the *FMCG* firms concerned. The annual data for selected *FMCG companies* during 2003-04 to 2012-13 have been used for calculating key financial ratios to analyze the determinants of *DP*. The reason for choosing these companies from the listing flag of *NSE* is due to the fact that the *NSE* has is one the largest National Stock Exchange in India and major changing pattern in data were noticed during the period selected for study.

Sampling Technique

Multi-stage non-random sampling technique is used and the different stages are followed

STAGE-I: Total Number of companies in FMCG industry in India 1432

STAGE-II: *NSE* listed companies of FMCG industry in India 33

STAGE-III: *CNXFMCG* sectoral index companies 15

STAGE-IV: Final sample of 12 companies of FMCG industry in India (As per full-fledged data availability for the study period from 2003-04 to 2012-13).

Figure 1. Sampling Technique

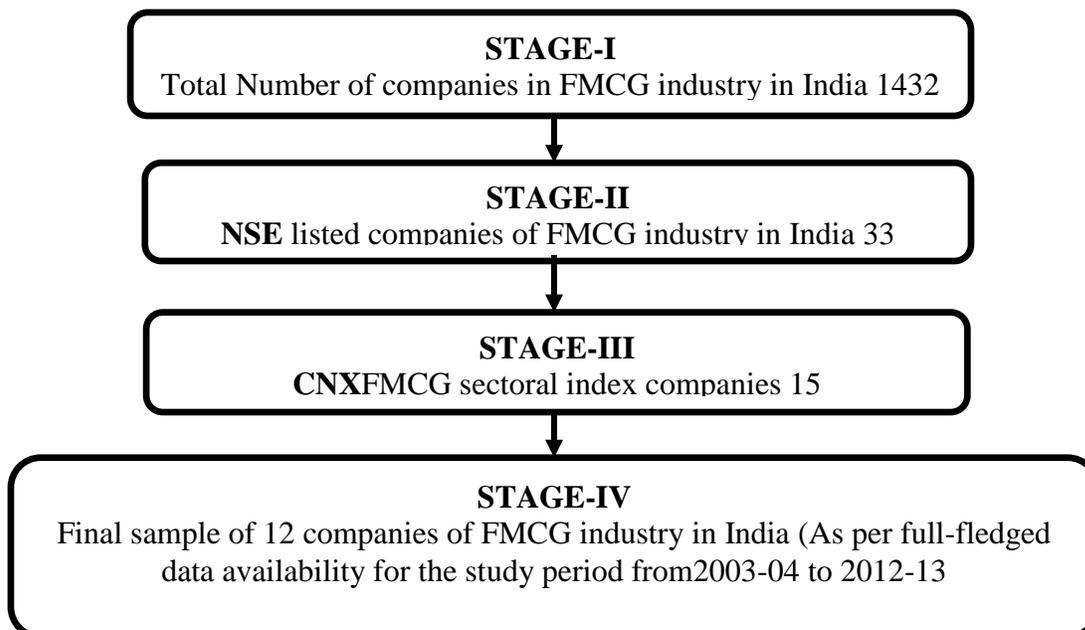


Table 1. Selected Sample of CNXFMCG Sectoral Index Companies

S.No.	Firm Name	S. No	Firm Name
1	ITC	7	EMAMI
2	TATA GLOBAL	8	COLGATE
3	HUL	9	MARICO
4	DABOUR	10	MC LEOD
5	GODREJ	11	UNITED BREWERIES
6	BRITANNIA	12	UNITED SPIRITS

Source: Compiled data collected from NSE

Period of the Study

Period of the study is 10 years, i.e. from 2003-04 to 2012-13. The data used for analysis relate to the selected firms of FMCG Industry in India for a period of 10 years on a year to year basis ranging from 2003-04 to 2012-13.

ANALYSIS AND FINDINGS

Table 2. List of Measures (ratios) Used in the Study for Analysis

SI.No	Variable/ Measure	Formula	Inference
1	Dividend payout ratio (<i>DPR</i>)	Dividends / Net income	The payout ratio provides an idea of how well earnings support the dividend payment. More mature firms tend to have a higher payout ratio.
2	Debt equity ratio (<i>DER</i>)	Total liabilities / Shareholders' equity	Higher the dividend, larger the demand for borrowings and higher is the debt equity ratio. Firms with high debt ratio ought to pay lower dividends.
3	Earnings (<i>ERN</i>)	Earnings before interest and tax / Total assets	Earnings typically refer to after – tax net income. Higher earnings normally increase capacity to pay dividend given the liquidity position of the firm.
4	Corporate tax (<i>CT</i>)	Tax / profit before tax	Higher tax payment reduces the amount available for dividend payment. But at the same time higher tax payment means higher earnings.
5	Earnings per share (<i>EPS</i>)	Net income / Number of shares	It is representing the capacity of corporation to pay dividends. Firm is willing to pay higher amount of dividend if it increases the profitability.
6	Firm size(<i>FS</i>)	Natural logarithm for total assets	It is determined by taking natural logarithm for total assets of the companies

Source: www.scibd.com/essays/finance.php

Descriptive Statistics

Table 3. Descriptive Statistics of Selected Variables of FMCG firms in India from 2003-04 to 2012-13 (₹ in crore)

VARIABLES	N	MINIMUM	MAXIMUM	MEAN	STD. DEVIATION
DPR	12	.64	11.57	5.8783	3.96207
EPS	12	3.67	46.75	16.6867	12.30068
ERN	12	796.49	16867.10	4.48563	5834.75322
DER	12	9.10	60.85	30.0267	14.84898
FS	12	2.51	4.09	3.0492	.46420
CT	12	111.04	5455.92	8.87062	1605.56242

Source: Computed results based on compiled data from Annual Financial Reports moneycontrol.com

Table 3 shows the descriptive statistics of the variables used in the regression model. This shows the average indicators of variables computed from the financial statements. The average dividend payout ratio is 5.87 per cent this means on an average the firm pays about 6 per cent of their profit as dividend.

The average corporate tax 8.87 per cent is worth consideration in the sense that from the surplus income over the expenditure first of all the contractual payments in the form of interest is to be made. From those net earnings the governmental claim in the form of tax is to be paid. After the payment of tax only the dividend can be paid when the company pay huge amount of tax it indicates that there will be a deduction in the amount available for dividend payment but at the same time higher tax payment means higher earnings too. Higher earnings normally mean higher capacity to pay dividend given the liquidity position of the firm. Hence it is worthwhile to study the relationship between the current tax rate and current dividend payment.

The average debt to equity is 30.03 per cent which reflects that the firms are paying moderate level of dividend during the period of study.

The average and maximum of earnings per share is 16.68 per cent & 46.75 respectively which reflects the FMCG firms are in fair position in earnings during the period of study.

The maximum earnings in the industry amounts to Rs.16,867 crores whereas the minimum earnings during the period under study was Rs.796.49crores which shows a fluctuation in the industrial earnings with the standard deviation of Rs. 5,835 crores. When there is a fluctuation in the earnings it will have a impact on the dividend policy.

The average firm size of the industry is 3.05 with the standard deviation of 0.464 which indicates that the firms in the industry are almost same assets size.

Regression Analysis

In order to do regression analysis EPS is taken as dependent variable and DER, DPR, FS, CT, ERN are taken as independent variable.

Table 4. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Sig. F Change	Durbin-Watson	
					R Square Change	F Change	df1			
1	.925	.856	.753	7.75057	.856	3.387	4	1	.128	3.135

Dependent Variable: EPS

The table 4 shows the result of model summary that output generated an adjusted R^2 of 0.753 (75 per cent) which indicates the proportion of variance in the dependent variable EPS which is accounted by the independent variables that are considered for the analysis. From the adjusted R^2 it is understood that 75 per cent of the variance in the EPS can be explained by the independent variables that considered here.

Durbin Watson statistics show a value of 3.135 which is used to test whether the successive error are correlated in the regression. A value around 2 shows that the result are not affected by auto correlation problem.

Table 5. Results of Regression Analysis for Selected Variables of FMCG Firms in India during 2003-04-2012-13 (₹ in crore)

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-32.748	35.375		-.926	.407
	DPR	-.770	1.421	-.248	-.542	.617
	ERN	.009	.003	4.131	3.048	.038**
	DER	1.091	.490	1.317	2.228	.090*
	FS	13.016	12.598	.491	1.033	.360
	CT	-.019	.006	-2.541	-3.159	.034*

**Significant at 5% level; *Significant at 10% level;

Source: Computed results based on compiled data from Annual Financial Reports moneycontrol.com

Ho¹: There is no significant impact of ERN on DP of FMCG sector in India.”

The table 5 shows that earnings are having the significant positive coefficient of (4.131) on EPS in FMCG industry. Hence, the *Ho¹*: “There is no significant impact of ERN on DP of FMCG sector in India.” It is rejected at 5 per cent level.

Ho²: “There is no significant impact of DER on DP of FMCG sector In India.”

DER also shows a significant positive relationship with DP with $\beta(1.317)$ at 10 per cent level of significance that a unit change in DER will result in 1.317 unit change in EPS. there is no significant impact of DER on EPS, therefore, *Ho²*: “There is no significant impact of DER on DP of FMCG sector In India.” It is rejected at 10 per cent level of significance.

Ho³: “There is no significant impact of CT on DP of FMCG sector in India.”

The corporate tax shows the significant negative co-efficient with EPS (-2.541) . It indicates that a unit of change in corporate tax leads to -2.541 unit change in EPS. This clearly shows that the corporate tax will have negative impact on DP of the firms in the FMCG industry. There is no significant impact on corporate tax on DP. So *Ho³*: “There is no significant impact of CT on DP of FMCG sector in India.” It is rejected at 5 per cent level of significance.

Ho⁴: “There is no significant impact of FIRM SIZE on DP of FMCG sector in India.”

The firm size does not show any significant relationship with EPS. So *Ho⁴*: “There is no significant impact of FIRM SIZE on DP of FMCG sector in India.” it is accepted as it does not show any significant relationship. It means firm size does not have any impact on dividend payout ratio.

Table 6. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Sig. F Change	Durbin-Watson	
					R Square Change	F Change	df1			
1	.993	.830	.721	3.26478	.630	2.040	5	6	.205	2.528

The result of model summary of table 6 shows that the adjusted R² is 0.721 (72 per cent). It indicates that 72 per cent of the variance in the DPR can be explained by the independent variables that are considered here. Durbin Watson Statistics show a value of 2.528 which is used to test the successive error are correlated in the regression. There should not exist auto

correlation in the regression There should not exist auto correlation in regression to have a good model. A value around 2 shows that the result are not affected by auto correlation problem.

Table 7. Results of Regression Analysis for Selected Variables of FMCG Firms in India during 2003-04-2012-13 (₹ in crore)

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	-22.048	29.75		-.926	.407
	ERN	.119	.013	2.413	2.945	.004***
	DER	1.991	.689	2.517	3.278	.080*
	FS	9.201	11.098	.617	.936	.246
	CT	-.819	.069	-1.816	-2.359	.014**

***Significant at 1% level; **Significant at 5% level; *Significant at 10% level

Source: Computed results based on compiled data from Annual Financial Reports moneycontrol.com

In order to do regression analysis DPR is taken as dependent variable and DER, FS,CT, ERN are taken as independent variable

Ho⁵: "There is no significant impact of ERN on DPR of FMCG sector in India."

Table 6 shows that earning is having a significant positive coefficient of (2.413) on DPR in FMCG industry. Hence, Ho⁵: "There is no significant impact of ERN on DPR of FMCG sector in India." it is rejected at 1 per cent level.

Ho⁶: "There is no significant impact of DER on DPR of FMCG sector in India."

DER also shows a significant positive relationship with DPR with $\beta(2.517)$ at 10 per cent level of significance. A unit change in DER will result in 2.517 unit change in EPS. There is no significant impact of DER on DPR hence, Ho⁶: "There is no significant impact of DER on DPR of FMCG sector in India." it is rejected at 10 per cent level of significance.

Ho⁷: "There is no significant impact of CT on DPR of FMCG sector in India."

The corporate tax shows the significant negative co-efficient with DPR (-1.816) . It indicates that a unit of change in corporate tax leads to -1.816 unit change in DPR. This clearly shows that the corporate tax will have negative impact on DP of the firms in the FMCG industry. There is no significant impact on corporate tax on DPR. Therefore, Ho⁷: "There is no significant impact of CT on DPR of FMCG sector in India." it is rejected at 5 per cent level of significance.

H_0^8 : “There is no significant impact of FIRM SIZE on DPR of FMCG sector in India”.

The firm size does not show any significant relationship with EPS. Hence, H_0^8 : “There is no significant impact of FIRM SIZE on DPR of FMCG sector in India” it is accepted as it does not show any significant impact.

Correlation Analysis

Table 8. Results of Correlation Analysis for Selected Variables of FMCG Firms in India from 2003-04 to 2012-13 (₹ in crores)

Variables		DPR	DER	CFO	EAN	CT	EPS
ERN	Pearson Correlation		1				0.538*
	Sig. (2-tailed)	0.07	0.00				0.027
	N	12	12	12	12	12	12
CT	Pearson Correlation	0.34	0.00	0.42	0.22	0.20	0.048**
	Sig. (2-tailed)	0.00	0.13	0.00	0.06	0.34	0.076
	N	12	12	12	12	12	12

Source: Computed results based on compiled data from Annual Financial Reports moneycontrol.com

* Significant at 10% level; **Significant at 5% level.

Pearson's correlation analysis is used to study the relationship between predictor variables and responding variable, and the relationship between *ERN* and *EPS* (0.538); *CT* and *EPS* (0.048); *ERN* and *EPS* (0.027) is highly significant positively at 10 per cent level; and 5 per cent level of significance respectively whereas the relationship between *EPS* and *CT*(0.076); is significant positively at 10 per cent level.

CONCLUSION

This paper is an attempt to reveal the impact of determinants of dividend policy in FMCG Sector in India. On the practical dimension, the study may help firms to focus on the major factors which will have impact on *DP*. Such information should help the *FMCG* firms in creating appropriate strategies to improve the dividend payment and firm's performance. The regression analysis used in the study to estimate the impact of predictor variables on the responding variable shows that *DER* has significant positive co-efficient (1.317) on *EPS* and *DER* has significant positive co-efficient (0.080) on *DPR* at 10 per cent level for the *FMCG* firms in India during the study period.

This is corroborated with the correlation analysis, which shows the existence of positive relationship between the *EPS and DER*. The relationship between *EPS* and *ERN* (-0.004) is highly significant however, negatively at 5 per cent level, which reveals that the selected *FMCG* companies have smooth dividend payout pattern during the study period. It represents that the companies' earnings have grown up and the shareholders also benefited highly. Moreover, greater profitability enabled the companies to easily afford to a higher amount of dividend payouts, which does not disturb its financial needs. Dividend per share is also a positive function of profitability of *FMCG* companies, which implies that the companies announce more cash dividend as their net income boost up. Last, but not the least, managers' awareness on adopted dividend policies is very important for investors because they will also suffer in respect substantial costs to obtain information in this regard. Dividend payment to common shareholders is one of the ways that a company's directly affects shareholders' wealth. The study reveals that the DP of *FMCG* sector is significantly influenced by the selected financial variables during the period of the study. The overall findings of regression analysis show that *ERN*, *DER*, and *CT* have significant impact on DP and DPR.

RECOMMENDATIONS

The earning (*ERN*) has significant impact on DP, it means that higher earnings normally increase capacity to pay dividend given the liquidity position of *FMCG* Sector in India. Hence the selected 12 *FMCG* firms should have the policy of paying the dividend. *DER* has significant impact on DP, it means that higher the dividend, larger the demand for borrowings and higher is the debt equity ratio. Firms with high debt ratio ought to pay lower dividends.

CT also has significant impact on DP it means that higher tax payment reduces the amount available for dividend payment. But at the same time higher tax payment means higher earnings. Firms with higher tax payment show the higher earnings of 12 *FMCG* firms during the study period. The firms should reduce the dividend payment. *ERN* also shows significant impact on DPR it means that earning shows higher the earning higher the payment of dividend of *FMCG* firms during the study period. Firms should pay high dividend.

DER also has significant impact on DPR hence it is suggested that Higher the dividend, larger the demand for borrowings and higher is the debt equity ratio. Firms with high debt ratio ought to pay lower dividends. *CT* shows significant impact on DPR hence that higher tax payment reduces the amount available for dividend payment. But at the same time higher tax payment means higher earnings. Firms with higher tax payment show the higher earnings of 12 *FMCG* firms during the study period. The firms should reduce the dividend payment.

LIMITATIONS AND SCOPE FOR FURTHER STUDIES

The study is based on secondary data collected from the money control data source, and websites of various firms concerned. Therefore, the quality of the study depends upon the accuracy, reliability, and quality of secondary data source. In the study, a sample of 12 *FMCG* firms has been considered for analyzing the “*Determinants of dividend policy*”. In future, researchers can consider inclusion of more firms to take up a study with large sample units to explore more possible results. In the study, basic financial ratios, correlation, and regression are only used for analysis, therefore, inclusion of some or more predictor variables may change the result of determinants of dividend policy of the *FMCG* firms in India.

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