

EFFECTS OF DIVIDEND PAYOUT RATIO WITH REFERENCE TO TATA STEEL

G.Narassimha Reddy¹, Dr. S. Narender²

*¹IIMBA, Department of MBA Malla Reddy Engineering college (Autonomous),
Hyderabad.COLLEGE*

²Professor, Department of MBA Malla Reddy Engineering college (Autonomous), Hyderabad.

ABSTRACT:

Tata Steel's dividend payout ratio has fluctuated over the years, impacting its financial performance and investor sentiment. In recent times, the company has maintained a conservative payout ratio, retaining earnings to deleverage its balance sheet and invest in strategic growth initiatives. This approach has helped Tata Steel reduce its debt and improve its creditworthiness, attracting investors seeking long-term growth potential. However, the reduced dividend payouts have somewhat disappointed income-focused investors. Despite this, the company's focus on sustainability and growth has yielded positive results, including improved profitability and increased investor confidence. As Tata Steel continues to navigate the competitive steel market, its dividend payout ratio remains a key factor in balancing shareholder returns with strategic growth initiatives.

INTRODUCTION

The dividend payout ratio is a critical financial metric that measures the proportion of earnings paid out to shareholders in the form of dividends. It serves as an indicator of a company's dividend policy and its willingness to distribute profits to investors rather than retaining them for reinvestment. The relationship between dividend payout ratio and stock prices has been a subject of extensive research in finance, as it reflects investors' expectations regarding future cash flows, growth prospects, and risk preferences. This paper aims to explore the theoretical underpinnings and empirical evidence surrounding the impact of dividend payout ratio on stock prices, considering various factors that influence this relationship.

Definition of Dividend Payout Ratio:

The dividend payout ratio is calculated by dividing the total dividends paid to shareholders by the net income or earnings of the company. Mathematically, it can be expressed as:

Dividend Payout Ratio

A high dividend payout ratio indicates that a significant portion of earnings is being distributed to shareholders, leaving fewer funds available for reinvestment in the business. Conversely, a low payout ratio suggests that the company retains a larger proportion of earnings for growth opportunities or financial stability.

The impact of dividend payout ratio on stock prices can be analyzed through various theoretical frameworks, including the signaling theory, the dividend irrelevance theory, and the clientele effect.

NEED OF THE STUDY:

The dividend policy of a firm determines what proportion of earnings is paid to shareholders by the way of dividends and what proportion is ploughed back in the firm for re investment purposes. If a firm's capital budgeting decision independent of its dividend policy, a higher dividend payment will entail a greater dependence on external financing. On the other hand, if a firm's capital budgeting is dependent on its dividend decision, a higher payment will cause shrinkage of its capital budget an vice versa. In such a case the dividend policy has a bearing on the capital budgeting decision any firm, whether a profit making or non-profit organization has to take certain capital budgeting decision.

OBJECTIVES OF THE STUDY:

- To know the various dividend policies followed by the firm.
- To study the importance of the dividend decision and their impact on the firm's capital budgeting decision.
- To analyze whether the dividend payout have an impact on the market value of the firm's equity.
- To know the various dividends polices of TATA STEEL LIMITED
- To interpret the various theories of dividend with reference to their assumptions and conclusions.

SCOPE OF THE STUDY:

Dividend decision a firm distributes all profits or retain them or distribute a portion and retain the balance with it. Which course should be allowed. The decision depends upon the preference of the shareholders and investment opportunities available to the firm. Dividend decision has a strong influence on the market price of the share. So the dividend payouis to be determined in terms of its impact on shareholders' value.The optimum dividend payouis one which maximizes the value of the share and wealth of shareholders. The financial manager should be determined the optimum payout ratio that is the proportions of net profit to be paid out to the shareholders. The study is limited for 5years i.e., 2018-2022

REVIEW OF LITERATURE:

TITLE: Great northern says it's in talks on sale **AUTHOR:** MH.MILLER, K ROCK2007

Great northern Nekoosa corp., which is fighting a takeover by Georgia-Pacific corp., said in a filing with the Securities and Exchange Commission the it is now in preliminary stages of negotiation with third parties. Sachs &co. to begin negotiations with third parties concerning a sale of great northern at a price in excess of Georgia-Pacific's \$63-a-share offer, which great northern has rejected

TITLE: Verizon targets higher EBITDA margin for 2018**AUTHOR:** MSROZEFF2018

Feb 24 (returns) – Verizon communications inc said it was targeting a higher adjusted EBITDA margin and 4 percent revenue growth for 2017 after it completed the acquisition of Vodafone group's 45 percent stake in their Verizon wireless joint venture. The margin on adjusted earnings before interest, tax, depreciation and amortization was34.9 percent in 2017, while revenue growth was 4.

TITLE: The relationship between the corporate earnings and the payoutdynamics**AUTHOR:** David Miller2004

Review the evidence on the inflation hedging characteristics of U.K. commercial property of an asset class. The evidence suggests that the commercial property is very imperfect hedge against unanticipated inflation

TITLE: Sectoral Analysis of Factors Influencing Dividend Policy: Case of an Emerging Financial Market **AUTHOR:**Shailesh Rastogi,2022

This study aims to determine whether a firm's dividends are influenced by the sector to which it belongs. This paper also examines the explanatory factors for dividends across individual sectors in India. This longitudinal study uses balanced data consisting of companies listed on the National Stock Exchange (NSE) of India for 12 years—from 2006 to 2020. Pooled ordinary least squares (POLs) and fixed effects panel models are used in our estimation. We find that size, profitability, and interest coverage ratios

LIMITATIONS

1. The data collected is of secondary nature and hence it is difficult to ascertain the reliability of the data.

2. The scope of the study has been limited to the impact of the dividend on the market value of the firm's equity. Others factors affecting the firm's market value have been assumed to have remained unchanged.
3. The period of the study has been limited to only five years.
4. The method of sampling used is 'judgment sampling' hence the choice of the sample has been left entirely to the choice of the researcher. This has led to some amount bias being introduced into the research process.

RESEARCH METHODOLOGY:

Data sources: The study is based on secondary data. Secondary data collected from annual reports and also existing manuals and like company records balance sheet and necessary records. The sources of information are classified to two primary and secondary data. The data collected by the researcher and agent known to the researcher, especially to answer the research question, is known as the primary data. Studies made by others for their own purpose represent secondary data to the researcher.

Sources of data:

Data required for conducting this study has been collected from the various web portals, Books & Magazines as the data is basically secondary in nature. Secondary data is used such as websites, discussions with seniors, obtaining information from senior authorities and also make a use of same financial reference book.

SECONDARY DATA

Secondary sources can usually be found more quickly and cheaply than primary data especially when national and international statistics are needed .Similarly data about distant places often can be collected more cheaply through secondary sources. The data used for this study is mostly secondary data .The information regarding the financial data of the past five years has been collected from the various website journals, websites like www.icici.com etc. The period of any research is the period which the data has been collected and analyzed. The period of this study has been limited to the period from 2018-2022.

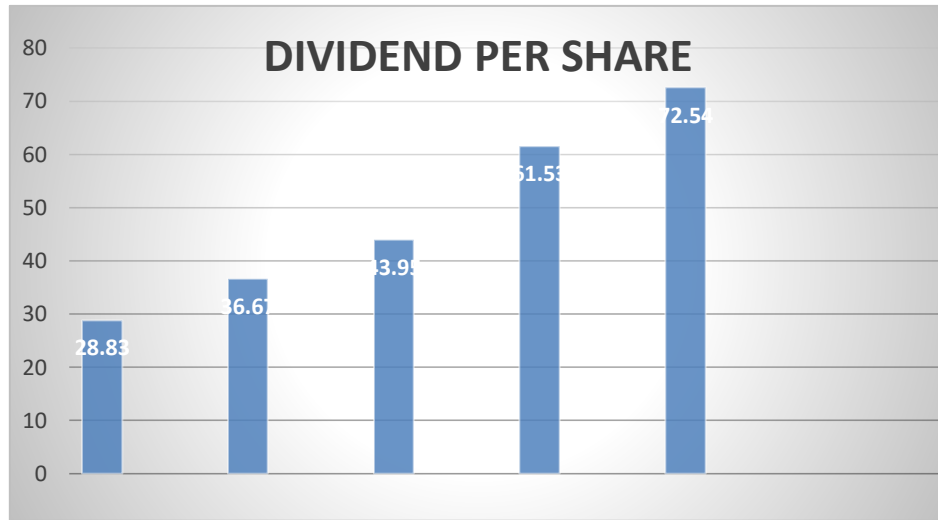
DATA ANAYSIS:

DATA ANALYSIS AND INTERPRETATION

1. COMPARISION OF DIVIDEND PER SHARE OF THE TATA STEEL

YEAR	DIVIDEND PER SHARE
2018-2019	28.83
2019-2020	36.67
2020-2021	43.95
2021-2022	61.53
2022-2023	72.54

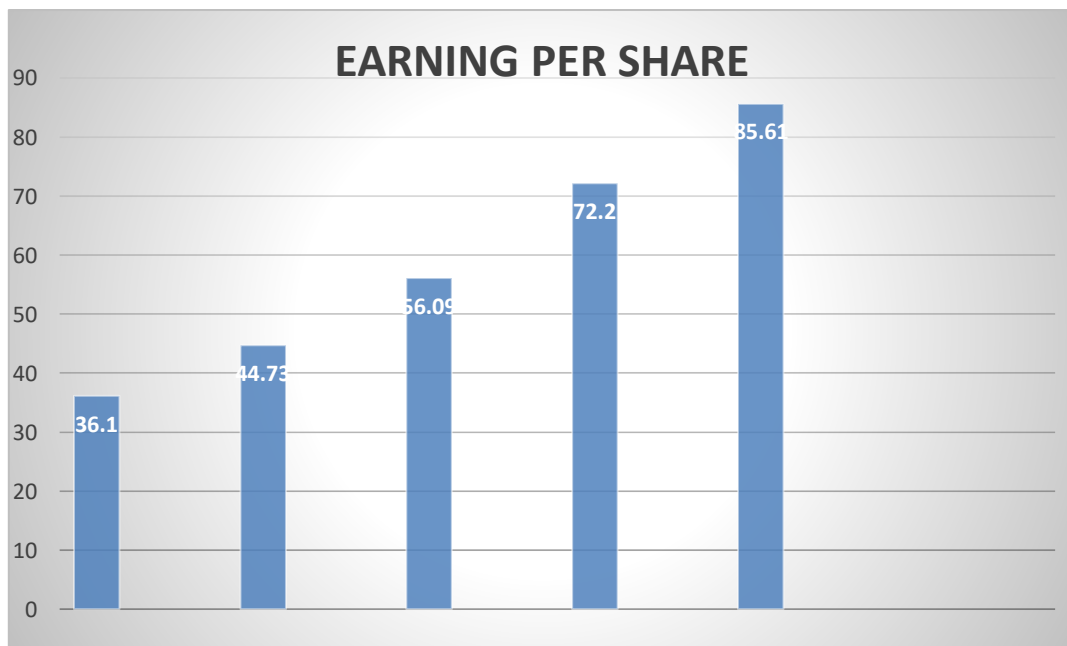
DIVIDEND PER SHARE



INTERPRETATION: The Dividend per share value has increased from 28.83 - 72.54 across the years 2018 - 2023.

COMPARISON OF EARNING PER SHARE OF THE FIRM FOR THE LAST FIVE YEARS

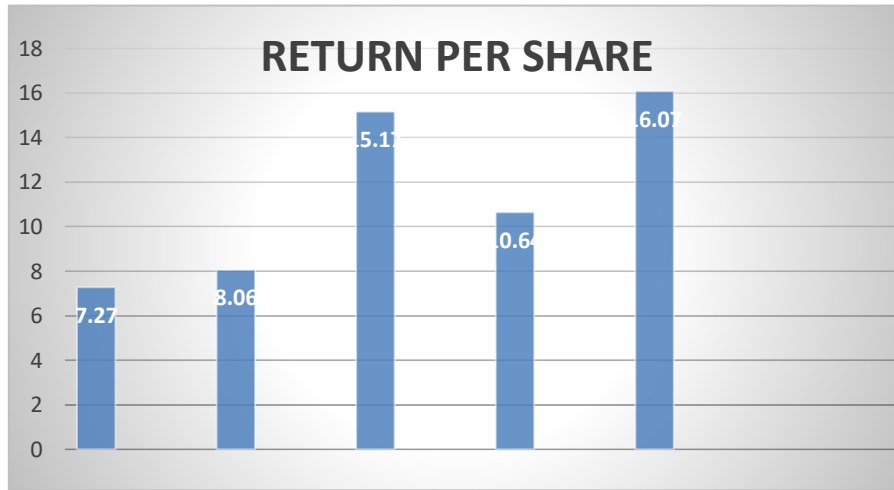
YEAR	EARNING PER SHARE
2018-2019	36.10
2019-2020	44.73
2020-2021	56.09
2021-2022	72.20
2022-2023	85.61



INTERPRETATION: Earning per share of the company is so less in the year 2018-2019, from the next year it has been raising and it's earning per share is 85.61 in the year 2022-2023.

A PROFILE OF RETURN PER SHARE OF THE FIRM

YEAR	RETURN PER SHARE
2018-2019	7.27
2019-2020	8.06
2020-2021	15.17
2021-2022	10.64
2022-2023	16.07



INTERPRETATION: Return per share of TATA STEEL is less for the year 2018-2019 and for the next two year it has increased gradually to 15.17 and it has been decreased to 10.64 in the year 2021- 2022. For the year 2022-2023 the return per share hugely increased to 16.07.

COMPARISION OF PRICE EARNING OF THE TATA STEEL

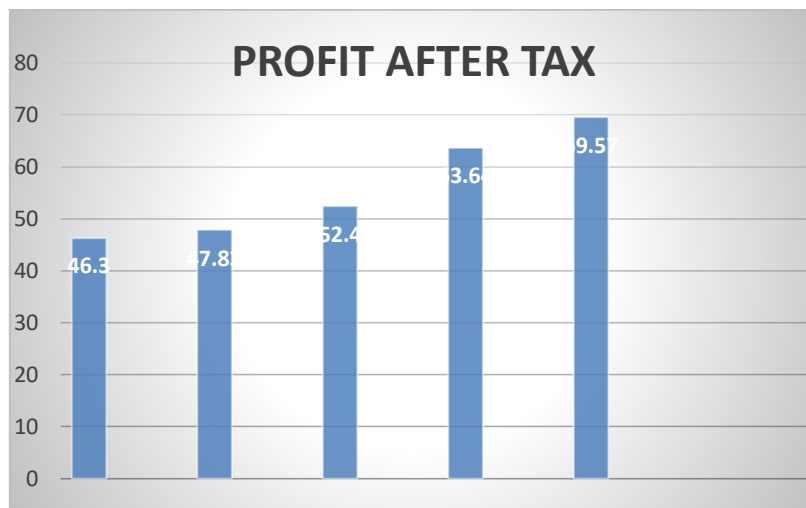
YEAR	PRICE EARNING
2018-2019	4.96
2019-2020	5.54
2020-2021	4.62
2021-2022	6.78
2022-2023	8.54



INTERPRETATION: Price earning value of the company’s share is 4.96 in the year 2018-2019, In the next year it increased and it decreased to 4.62 in the year 2020-2021. The price earning rate was high i.e. 8.54 in the year of 2022-2023

COMPARISION OF PROFIT AFTER TAX OF THE TATA STEEL

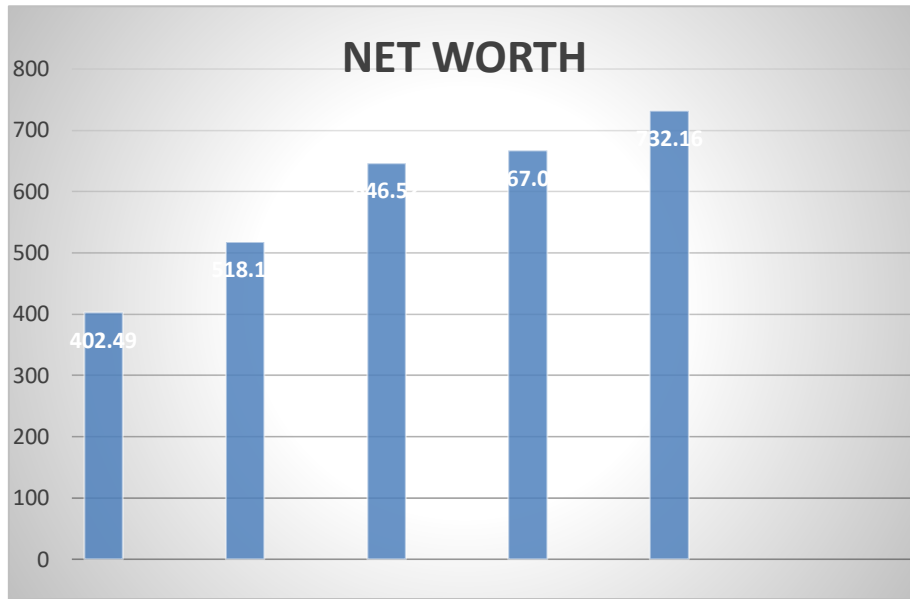
YEAR	PROFIT AFTER TAX
2018-2019	46.30
2019-2020	47.83
2020-2021	52.40
2021-2022	63.64
2022-2023	69.57



INTERPRETATION: The profit after tax of TATA STEEL was low at 2018-2019, from next year it has been increased and reached the probability strength of the firm from 46.30 to 69.57 in the year 2022- 2023.

COMPARISION OF NET WORTH OF THE TATA STEEL

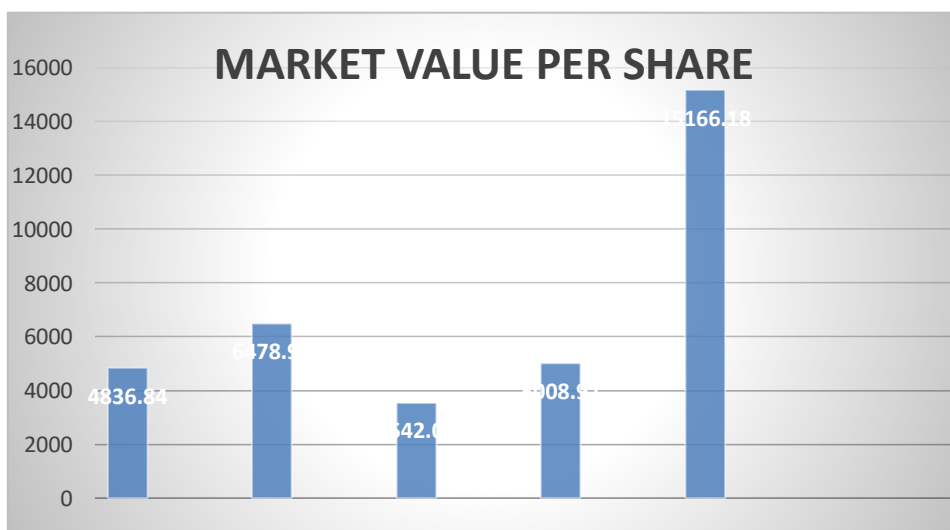
YEAR	NET WORTH
2018-2019	402.49
2019-2020	518.16
2020-2021	646.52
2021-2022	667.05
2022-2023	732.16



INTERPRETATION: There is a rapid growth in the net worth of the company subjected to very huge in the financial year 2022-2023.

COMPARISION OF MARKET VALUE PER SHARE OF THE TATA STEEL

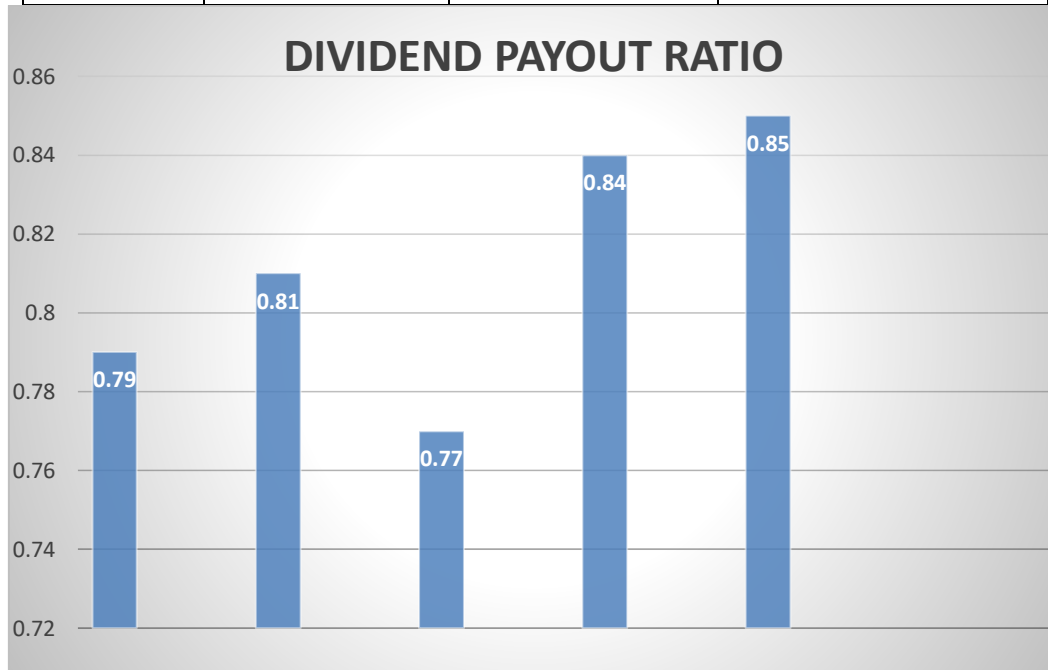
Y EAR	TOTAL MARKET VALUE	TOTAL EQUITY SHARES	MARKET VALUE PER SHARE
2018-2019	73511.65	355564466	4836.84
2019-2020	65024.85	421292062	6478.93
2020-2021	120662.60	423856040	3542.09
2021-2022	85164.25	426535786	5008.97
2022-2023	30202.00	427403339	15166.18



INTERPRETATION: The Market value per share of TATA STEEL was low at 2018-2019 and next year was increased to 6478.93. Then it decreased at the year 2020-2021, again increased highly with 15166.18. It indicates the probability strength of the firm.

COMPARISION OF DIVIDEND PAYOUT RATIO OF THE TATA STEEL

YEAR	DIVIDEND PER SHARE	EARNING PER SHARE	DIVIDEND PAYOUT RATIO
2018-2019	28.83	36.10	0.79
2019-2020	36.67	44.73	0.81
2020-2021	43.65	56.09	0.77
2021-2022	61.53	72.20	0.84
2022-2023	72.54	85.61	0.85



Graph 4.8 DIVIDEND PAYOUT RATIO

INTERPRETATION: The DIVIDEND PAYOUT RATIO of TATA STEEL was low at 2018-2019 and next year was increased to 0.81. Then it decreased at the year of 2020-2021, again increased highly with 0.85. It indicates the probability strength of the firm.

COMPARISION OF DIVIDEND OPERATING PROFIT RATIO OF THE TATA STEEL LTD

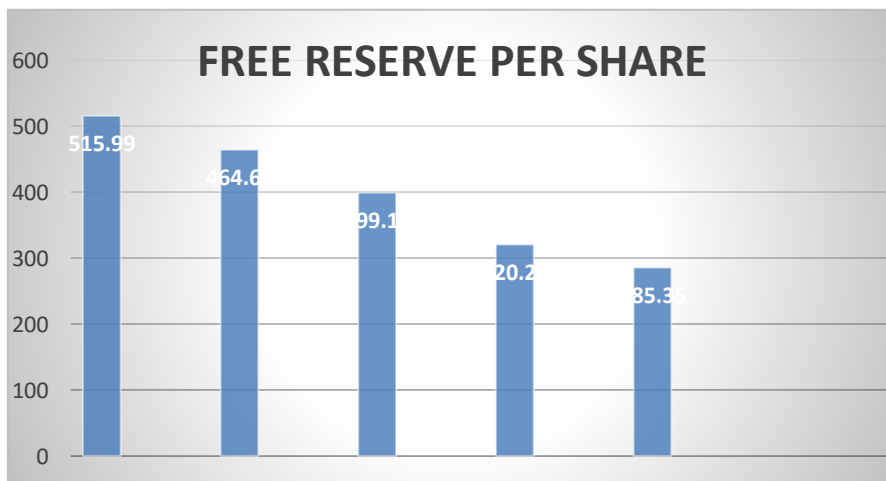
YEAR	OPERATING PROFIT
2018-2019	125.79
2019-2020	119.55
2020-2021	110.48
2021-2022	135.17
2022-2023	122.95



INTERPRETATION: From the above graph Operating Profit of TATA STEEL was 125.79 in the year 2018-2019, for the next two years it decreased and in the year 2021-2022 it increased to 135.17 then in the next year it again decreased.

COMPARISION OF FREE RESERVE PER SHARE OF THE TATA STEEL

YEAR	Free Reserve Per Share
2018-2019	515.99
2019-2020	464.62
2020-2021	399.19
2021-2022	320.28
2022-2023	285.35



INTERPRETATION: From the above table Free Reserve per share of TATA STEEL decreasing every year. Comparing with 5 years, 2018-2019 it is very satisfactory.

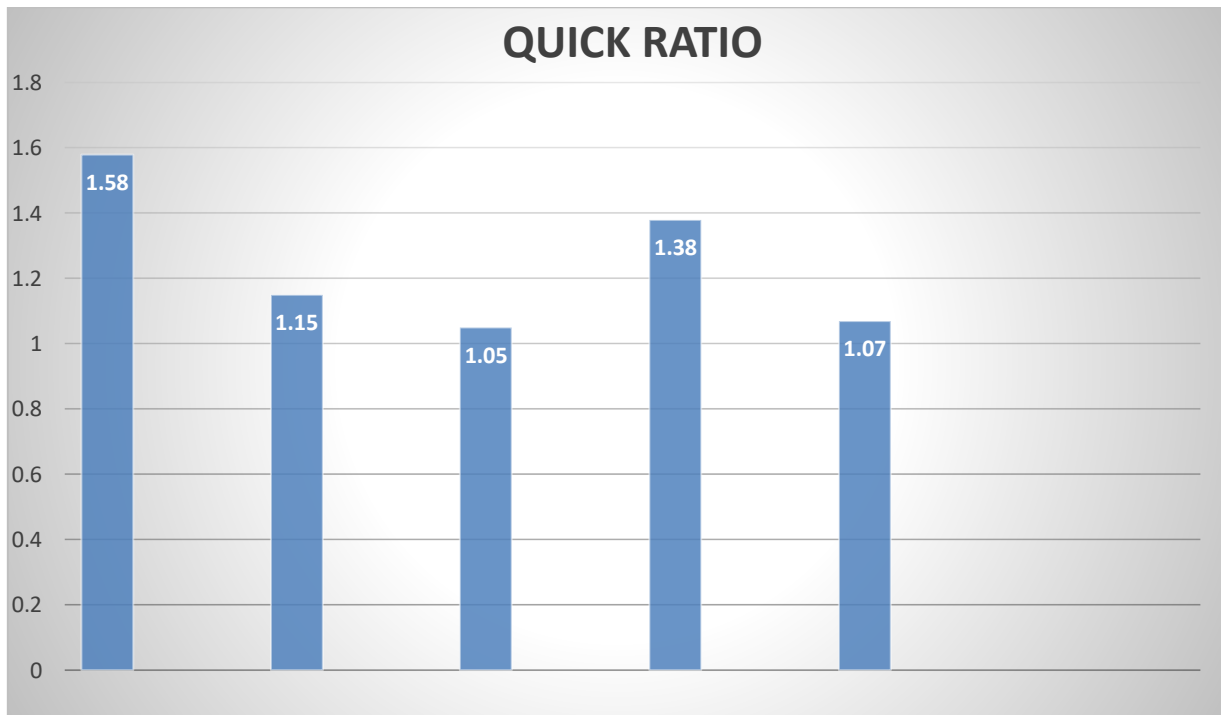
COMPARISON OF CURRENT RATIO OF THE TATA STEEL

Year	Current Assets	Current Liabilities	Current Ratio
2018-2019	28463.51	13263.34	2.15
2019-2020	24594.45	12583.50	1.95
2020-2021	29933.35	17875.53	1.77
2021-2022	51599.97	23437.61	2.20
2022-2023	58766.18	35786.98	1.64

INTERPRETATION: From the above graph current Ratio of TATA STEEL was 2.15 in the year 2018-2019, for the next two years it decreased and in the year 2021-2022 it increased to 2.2 then in the next year it again decreased.

COMPARISON OF QUICK RATIO OF THE TATA STEEL

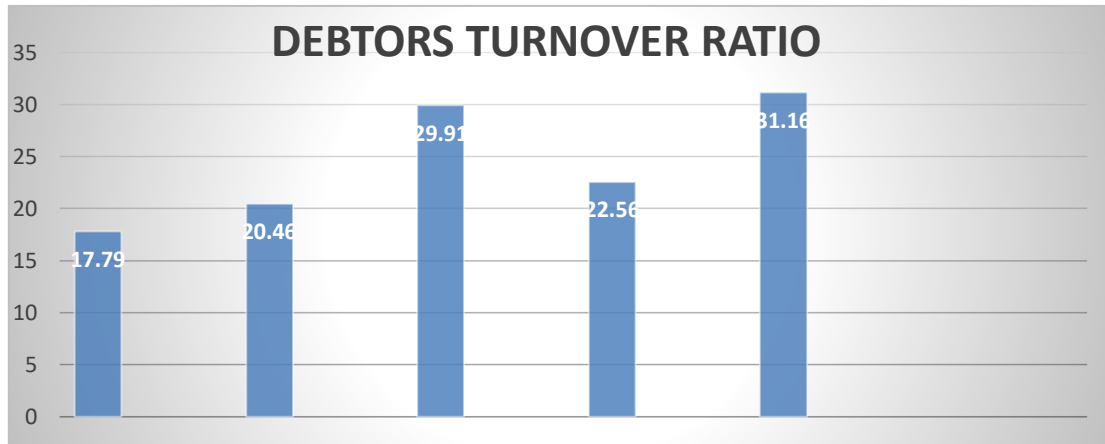
Year	Current Assets - Inventory	Current Liabilities	Quick Ratio
2018-2019	21040.52	13263.34	1.58
2019-2020	15464.53	12583.50	1.15
2020-2021	18786.74	17875.53	1.05
2021-2022	32363.73	23437.61	1.38
2022-2023	38646.46	35786.98	1.07



INTERPRETATION: By observing the above graph of TATA STEEL, all the five years are less than 2. The Quick Ratio for the year 2018-2019 is satisfactory.

COMPARISION OF DEBTORS TURNOVER RATIO OF THE TATA STEEL

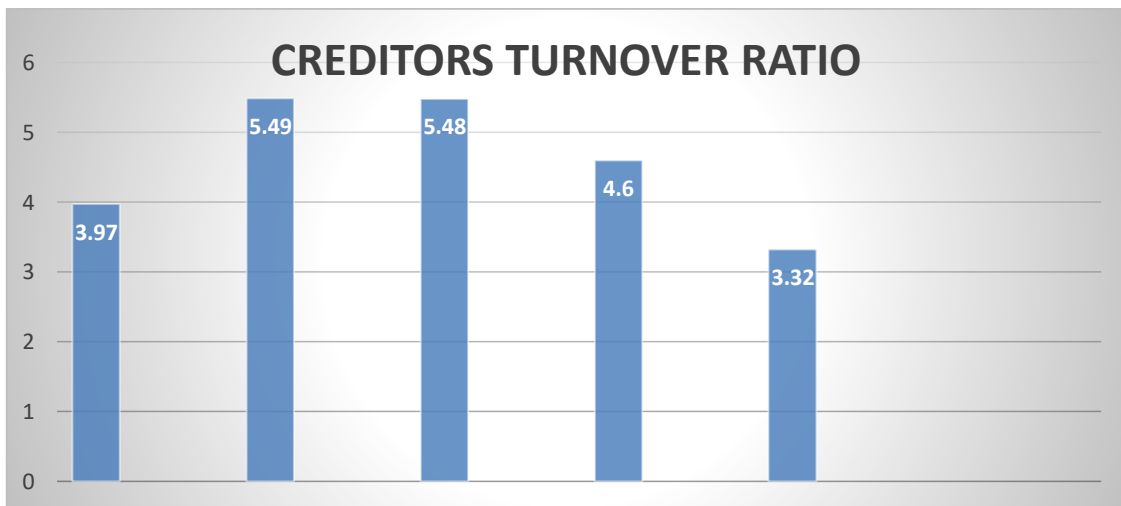
Year	Net Credit Sales	Average Debtors	Debtors Turnover Ratio
2018-2019	66161.40	3937.91	17.79
2019-2020	81221.44	4183.72	20.46
2020-2021	111802.82	3733.52	29.91
2021-2022	137166.82	6078.40	22.56
2022-2023	161234.11	4854.97	31.16



INTERPRETATION: The Debtors Turnover ratio of TATA STEEL is keep increasing year by year but it decreased to 22.56 in the year 2021-2022. So the 2022-2023 is better option to choose and it is very satisfactory.

COMPARISION OF CREDITORS TURNOVER RATIO OF THE TATA STEEL

Year	Net Credit Purchases	Average Creditors	Creditors Turnover Ratio
2018-2019	52816.92	13293.95	3.97
2019-2020	69053.53	12573.60	5.49
2020-2021	92401.20	17845.63	5.48
2021-2022	108370	23518.61	4.60
2022-2023	120061.27	35856.98	3.32



INTERPRETATION: From the above table Creditors Turnover Ratio of TATA STEEL increased in 2019-2020 and started decreasing year by year. Comparing with 5 years, 2019-2020 is very satisfactory.

FINDINGS:

- The Dividend per share has increased from 28.83 crores to 72.54 crores across the year 2018-2023.
- The Earning per share of the company is so less in the years 2018-2019, and from the next year it has been increased from 36.10 crores to 85.62 crores.
- The Return per share is fluctuating over the year 2018-2023.
- The Price earning of the company is fluctuating during the year 2018-2023.
- The Profit after tax has been increased from 46.30 crores to 69.57 crores in the span of 2018-2023.
- The Net worth has gradually increased from 402.49 crores to 732.16 crores over the year 2018-2023.
- The Market value per share of the company is fluctuating during the year 2018-2023.
- The Dividend payout ratio is fluctuating in the span of 2018-2023.
- The Operating profit of the company is fluctuating over the year 2018-2023.
- The Free reserve per share has been decreased from 5.15.99 crores to 285.35 crores from the year 2018-2023.
- The Current ratio of the company is fluctuating over the year 2018-2023.
- The Quick ratio is fluctuating in the span of 2018-2023.
- The Debtors Turnover Ratio is fluctuating during the year 2018-2023.
- The Creditors Turnover Ratio of the company is fluctuating in the span of 2018-2023.

SUGGESTIONS

- 1.The company should focus on balancing net income and prefer dividends in order to have less fluctuations in the values of return per share.
2. The company should focus on maintaining market value per share and earnings per share in order to avoid fluctuations in price earnings ratio.
3. The company should allot balanced dividend and focus on net sales, net profit in order to avoid fluctuations in the dividend payout

CONCLUSIONS

The impact of dividend payout ratio on stock prices is influenced by various factors, including signaling effects, market efficiency, and investor preferences. While theoretical frameworks such as signaling theory suggest a positive relationship between dividend payout ratio and stock prices, empirical evidence has been mixed, highlighting the complex interplay of factors shaping investor behavior and market dynamics. Nonetheless, understanding the relationship between dividend payout ratio and stock prices is essential for investors, managers, and policymakers in making informed decisions regarding dividend policy and capital allocation. Graphical analysis provides valuable insights into the relationship between dividend payout ratio and stock prices, capturing theoretical concepts such as signaling theory, dividend irrelevance theory, and the clientele effect. By visually representing these relationships, investors and decision-makers can better understand the potential impact of dividend policy decisions on stock prices and make informed investment decisions. However, it's essential to note that empirical evidence may vary, and additional factors such as market sentiment, macroeconomic conditions, and company-specific fundamentals also influence stock prices.



BIBLIOGRAPHY:

TEXT BOOKS:

- I.M. Pandey, 2003, 8th Edition, “Financial management”, Vikas publishers.
- Prof.DrVanitaTripathi, 2022, 3rd Edition, “Basic Financial Management”, Wiley Publisher.
- Prasanna Chandra, 2007, 5th Edition, “Financial Management theory and practice”, Tata McGraw hill Publishing house.

JOURNALS:

- MH.MILLER & K.ROCK, “Great northern says it’s in talks on sale”, Business and Economics, 2018.
- MSROZEFF, “Verizon targets higher EBITDA margin for 2018”, Financial and Quantitative Analysis, 2018.
- ShaileshRastogi, “Sectoral Analysis of factors influencing Dividend Policy: Case of an Emerging Financial Market”, Risk and Financial Management, 2022.
- ElizavetaBaranova, “Payout Policy: Income and Profit Influence”, Global and Regional Research, 2022.
- Muhammad Sajid, “The Relationship between Dividend payouand Shareholders Wealth”, Economics and Finance Review, 2021.

NEWSPAPERS:

- The economic times
- Business standards
- Times of India

WEBSITES:

- www.icici.com
- WWW.googlefinance.com
- WWW.financialreformsindia.com