A Study on Dividend Behavior of Indian Pharmaceutical Industry

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Abstract:
The main objective of this study is to understand the dividend behaviour of pharmaceutical companies. For the study five companies has been selected which covers the period from 2007-2016. To check the relationship between dividend and certain variables like stock price, revenue, other income, net profit and market capital correlation test is used. With the help of this test it is concluded that there is correlation between dividend per share and stock price, revenue, other income, net profit and market capital.

Keywords: *Dividend, Dividend per share*

Introduction

Dividend is considered as an important source of information as well as cash flow to investors. Dividend forecast provided by managers plays a significant role in investment decisions. Investors consider dividend as the signal of higher future growth and well management of the firms. As per the relevance theory of dividend the regular dividend has a positive impact on share prices. Thus, regular and high dividend paying companies remain at the top of the list for the investment.

Certain a time managements skip the dividend in the anticipation of higher rate of return by investing the profits in the profitable projects. They believe that from the dividend amount investors would not be able to get good return but they can. And this will be profitable to the investors in the long run when company will generate huge profits and at that time investors will get maximum return from their investment as capital gain. So, by any reasons managements try to neglect the dividend decision.

Literature Review

A number of studies have been carried out regarding dividend theories, effects of dividend policy on stock prices as well as factors determining dividend policy, at national and international level. It is a widely researched topic in the world of finance. Dividend policy in any country is a most debatable issue. Researchers have different opinions regarding dividend policy in the financial market. Many theories and models regarding dividend policy have been developed in the world.

Mahapatra and Sahu (1993) examined the determinants of dividend policy using three models namely Lintner (1956), Darling (1957) and Brittain (1966). They concluded that cash flow was the major determinant followed by net earnings. Further, the study concluded that only past dividend was a major factor affecting dividend decision of a firm. Lee (1996) carried out a study to test the existence of long-term relationship between earnings and dividend. The study also revealed that Lintner's model performed well when target pay-out ratio is a function of permanent earnings. De Angelo, De Angelo, and Skinner (2000) studied type of dividend policy of US firms and found that special dividends have disappeared from the market. Branko Soric and Tani Susak (2015) are of the opinion that most of the investors consider the dividend policy as a fundamental factor while deciding whether to invest or not

in a stock of a particular company. Nuraddeen Usman Miko and Hasnah Kamardin (2015) examined the effect of ownership structure on corporate dividend policy in Nigeria. The study revealed that ownership structure has a significant impact on dividend payout. After studying different research papers regarding dividend policy and its theories it is realized that this is a widely researched and discussed topic nationally and internationally.

Objective of the study

The main purpose of the study is to get insight into the dividend behaviour of Indian pharmaceutical industry. For this purpose researcher has examined the relationship between dividend per share and some variables like net profit, other income, revenue, stock price and market capital.

Research Methodology

For the study five NSE listed pharmaceutical companies have been selected. The selected companies are Cadila Healthcare Ltd., Cipla, Dr.Reddy's healthcare ltd., Lupin and Torrent pharmaceutical ltd. The data required for the study is collected from the annual reports of the companies and website of National stock exchange. The study covers the period of ten years such that from the year 2007-2016. Correlation coefficient test was used to understand the relationship between dividend per share and variables.

Data Analysis

As stated above required data has been collected from the annual reports of the companies for the period of ten years and to understand the relationship between dividend and certain variables correlation test was run. The results are as under.

Correlations

		DS_PHARMA_INDUSTRY	REV_PHARMA_INDUSTRY	NP_PHARMA_INDUSTRY	OI_PHARMA_INDUSTRY	ST_PHARMA_INDUSTRY	MC_PHARMA_INDUSTRY
DS_PHARMA_INDUSTRY	Pearson Correlation	1	.940**	.910**	.689*	.810**	.656*
	Sig. (2-tailed)		.000	.000	.027	.004	.039
	N	10	10	10	10	10	10
REV_PHARMA_INDUSTRY	Pearson Correlation	.940**	1	.976**	.803**	.885**	.643*
	Sig. (2-tailed)	.000		.000	.005	.001	.045
	N	10	10	10	10	10	10
NP_PHARMA_INDUSTRY	Pearson Correlation	.910**	.976**	1	.880**	.878**	.662*
	Sig. (2-tailed)	.000	.000		.001	.001	.037
	N	10	10	10	10	10	10
OI_PHARMA_INDUSTRY	Pearson Correlation	.689*	.803**	.880**	1	.793**	.497
	Sig. (2-tailed)	.027	.005	.001		.006	.144
	N	10	10	10	10	10	10
ST_PHARMA_INDUSTRY	Pearson Correlation	.810**	.885**	.878**	.793**	1	.428
	Sig. (2-tailed)	.004	.001	.001	.006		.217
	N	10	10	10	10	10	10
MC_PHARMA_INDUSTRY	Pearson Correlation	.656*	.643*	.662*	.497	.428	1
	Sig. (2-tailed)	.039	.045	.037	.144	.217	
	N	10	10	10	10	10	10

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Analysis

1. Dividend Per Share and Revenue of Pharmaceutical Companies

H_0: There is no correlation between Dividend Per Share and Revenue of Pharmaceutical Companies
H_1: There is correlation between Dividend Per Share and Revenue of Pharmaceutical Companies

Interpretation

Null hypothesis is rejected. Pearson correlation value is 0.940, Significance value is 0.000 which is lower than standard value 0.05, so there is correlation between Dividend Per Share and Revenue of Pharmaceutical Companies.

2. Dividend Per Share and Net Profit of Pharmaceutical Companies

H_0: There is no correlation between Dividend Per Share and Net Profit of Pharmaceutical Companies
H_1: There is correlation between Dividend Per Share and Net Profit of Pharmaceutical Companies

Interpretation

Null hypothesis is rejected. Pearson correlation value is 0.910, Significance value is 0.000 which is lower than standard value 0.05, so there is correlation between Dividend Per Share and Net Profit of Pharmaceutical Companies.

3. Dividend Per Share and Other Income of Pharmaceutical Companies

H_0: There is no correlation between Dividend Per Share and Other Income of Pharmaceutical Companies
H_1: There is correlation between Dividend Per Share and Other Income of Pharmaceutical Companies

Interpretation

Null hypothesis is rejected. Pearson correlation value is 0.689, Significance value is 0.027 which is lower than standard value 0.05, so there is correlation between Dividend Per Share and Other Income of Pharmaceutical Companies.

4. Dividend Per Share and Stock Price of Pharmaceutical Companies

H_0: There is no correlation between Dividend Per Share and Stock Price of Pharmaceutical Companies
H_1: There is correlation between Dividend Per Share and Stock Price of Pharmaceutical Companies

Interpretation

Null hypothesis is rejected. Pearson correlation value is 0.810, Significance value is 0.004 which is lower than standard value 0.05, so there is correlation between Dividend Per Share and Stock Price of Pharmaceutical Companies.

5. Dividend Per Share and Market Capital of Pharmaceutical Companies

H_0: There is no correlation between Dividend Per Share and Market Capital of Pharmaceutical Companies
H_1: There is correlation between Dividend Per Share and Market Capital of Pharmaceutical Companies

Interpretation

Null hypothesis is rejected. Pearson correlation value is 0.656, Significance value is 0.039 which is lower than standard value 0.05, so there is correlation between Dividend Per Share and Market Capital of Pharmaceutical Companies.

Conclusion

This study is carried out mainly to examine the relationship between dividend and certain parameters like revenue, net profit, other income, market capital and stock price. From the correlation analysis it

can be concluded that there is correlation between dividend per share and variables like net profit, revenue, other income, stock price and market capital in pharmaceutical industry. Thus, dividend policy of a company is affected by its revenue, profit and other income. There is significant relationship between dividend and profit, revenue and other income.

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