

**A Study on Effect of Dividend Policy on Market Price of Shares: Samples from
selected FMCG Companies in India**

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Abstract

This study explores the complex relationships that exist between share market prices and dividend policies, with a particular focus on a sample of top 5 FMCG (fast-moving consumer goods) companies that are listed on the National Stock Exchange of India with the time frame of Five years ranging from 2019-2023. The study uses a quantitative research approach to investigate how financial variables affect market price of shares (MPS), such as DPS, EPS, ERR, and profit after tax. Significant correlations between these variables are found in the findings, suggesting a strong positive relationship between dividends, earnings, and market prices. With PAT, ERR, DPS, and EPS as predictors, the regression model shows a high degree of explanatory power (R Square = 98.6%) for differences in MPS.

Keywords: EPS, DPS, ERR, MPS, PAT

1. Introduction

A company's dividend policy has an impact on the market price of its shares based on a complex interaction between investor expectations, business performance, and general market dynamics. A company's announcement of dividends tells investors that it is profitable and that it is optimistic about its earnings in the future. As a result, a steady and generous dividend policy frequently draws in income-seeking investors, which raises the share price of the company.

There may be two effects on the market price. First off, when investors take into account the perceived value and income potential, the announcement of dividends may cause share prices to rise immediately. Second, a track record of consistent dividend payments over time may improve the company's attractiveness and reputation, which will raise share values.

On the other hand, changes to dividend policy, including reducing or discontinuing payouts, may have unfavorable effects. Share prices may drop if investors perceive this as an indication of financial trouble. A move away from dividend payments may also cause income-focused investors to reevaluate their approach to investing and maybe reallocate their capital.

It's crucial to remember that a company's dividend policy does not determine how the market will respond to it. Important factors also include the state of the economy as a whole, developments in the industry, and the performance of a particular company. As investors evaluate the stability and growth potential linked to dividend payments, these collective perceptions and expectations are reflected in the market price of shares.

2. Literature review

Kumar R. (2020) The "Impact of Dividend Policy on Market Price of Share" was examined in the study's context of FMCG companies that are listed on the Indian National Stock Exchange. We examined secondary data from these companies' annual reports that we were able to obtain from their websites. The main goal was to investigate, through correlation and linear regression analysis, the relationship between dividend policy and share prices. Over the course of five years, the study concentrated on FMCG businesses that were listed between 2014 and 2018 on the BSE. A linear regression model was used in the investigation to determine how different share price drivers relate to one another. Important factors including EPS, DPS, DY, and EAE were taken into account in order to evaluate their effect on share prices. The results showed that the market price of shares and the EPS and DPS of the chosen companies were positively correlated. On the other hand, there was no discernible influence of EAE and DY on the share price, indicating negative correlation.

Pathan, S., et al. (2016) in their paper "Financial Constraints and Dividend Policy," examined how financially limited companies behave when they announce larger dividend increases on US stock exchanges. A sample of 7866 dividend announcements from 1989 to 2012 were taken and examined using cross-sectional and univariate regression techniques. They came to the conclusion that evidence from financially limited firms showed that stock reaction to new equity announcements following dividend increases was poorer and that stock reaction was positive when substantial investment growth possibilities were encountered.

Tran et al. (2019) in their study, "Dividend policy and stock price volatility in an emerging market: Does ownership structure matter?" The study's goal was to understand how ownership structure and dividend policy affect the volatility of stock prices in the Vietnamese market. Using a panel data methodology, the study examined 480 samples of non-financial listed companies from 2008 to 2015, spanning nine industries. The study comes to the conclusion that ownership structure has no moderating effect on the relationship between dividend yield and stock price volatility, and that dividend yield reduces stock price volatility.

3. Objectives

- Explore the historical relationship between a company's dividend policies and the market price of its shares.

- The assessment of the correlation between a company's dividend Payout and its market share valuation.
- Practical insights and recommendations for investors based on the study's findings are to be provided.

4. Hypotheses

H0: There will be no significant relationship between a company's dividend payout and its market share price.

H0: There will be no significant impact of Changes in a company's dividend policy on its market share price.

5. Research Methodology

- **Research Type** – The study will examine numerical data and identify statistical correlations using a quantitative research design.
- **Universe of the Study** – All the FMCG Companies listed on the National Stock Exchange are the Universe of the present study.
- **Sampling Method**– The selection of companies will be based on data availability and their market capitalization, using a purposive sample technique.
- **Sample Size** - For analysis, a representative sample of five FMCG companies will be chosen.
- **Study Period**- For the present research work the study period of latest five years (2019-2023) data is selected in order to capture trends and variations.
- **Type of Data** – The present research work is based on secondary Data which will be collected from Annual Reports and Official Website of the selected Companies. Additional required information relating to the research work will be collected from various Journal, Magazines and other Published Material available to the researcher.
- **Variables of the Study** – Earnings per Share (EPS), Dividends per Share (DPS), Dividend Yield (DY), and Market Prices of Shares (MPS).
- **Tools Used – for the present study**- The study will use correlation and linear regression analysis to evaluate the relationships between Market Share Prices and Dividend Policy variables.

6. Data Analysis and Interpretation

Table No. 6.1 Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
DPS	60.0880	92.09478	25
EPS	64.5644	79.21228	25
ERR	31.9228	37.76820	25
PAT	890.3796	820.41059	25
MPS	5128.9728	7771.24899	25

- **DPS:** Throughout the sample, the average dividend per share is 60.09, with a standard deviation of 92.09.
- **EPS:** The sample's average earnings per share is 64.56. The standard deviation of earnings per share is 79.21, which demonstrates significant variation in the data.
- **ERR:** The average earnings retention ratio is 31.92, meaning that businesses maintain around 32% of their earnings as reserves. Standard Deviation is 37.77 which shows fluctuations in the ERR Ratio maintained by companies.
- **PAT:** The average profit After tax is observed at 890.38 with a standard deviation of 820.41.
- **MPS:** The average of MPS is 5128.97. The standard deviation of 7771.25 suggests that the market price of shares fluctuates significantly.

Table No. 6.2 Model Summary of Regression Analysis

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.993 ^a	.986	.983	1017.53366	1.547

Based on the above result, a significant portion (98.6%) of the variance in the market price of shares is explained by the combination of profit after tax, ERR, dividends per share DPS, and EPS. The Durbin-Watson statistic shows that the current model used is perfect fit. The data indicates that these variables may have an impact on share market prices. Good accuracy is indicated by the comparatively low standard error of the estimate, which indicates how well the model assumes market prices.

Table No. 6.3 Correlations Matrix

Correlations		DPS	EPS	ERR	PAT	MPS
DPS	Pearson Correlation	1	.915	-.625	.831	.893
	Sig. (2-tailed)		.000	.001	.000	.000
	N	25	25	25	25	25
EPS	Pearson Correlation	.915	1	-.402	.889	.987
	Sig. (2-tailed)	.000		.046	.000	.000
	N	25	25	25	25	25
ERR	Pearson Correlation	-.625	-.402	1	-.443	-.396
	Sig. (2-tailed)	.001	.046		.026	.050
	N	25	25	25	25	25
PAT	Pearson Correlation	.831	.889	-.443	1	.832
	Sig. (2-tailed)	.000	.000	.026		.000
	N	25	25	25	25	25
MPS	Pearson Correlation	.893	.987	-.396	.832	1
	Sig. (2-tailed)	.000	.000	.050	.000	
	N	25	25	25	25	25

- From the above table it can be inferred that **DPS** has Strong positive correlation with EPS, PAT, MPS, and Strong negative correlation with ERR.
- **For EPS** it has Strong positive correlation with DPS, PAT, MPS and negative correlation with ERR.
- **For ERR** it has Negative correlation with EPS, DPS, MPS and PAT.
- For PAT it has Strong positive correlation with EPS, DPS, MPS and negative correlation with ERR.
- **For MPS** it has Strong positive correlation with DPS, PAT, EPS and negative correlation with ERR.

7. Conclusion

In conclusion, the findings reveal the complex relationships between market prices, earnings, and dividend policy. It is clear that dividends, earnings, and market prices are positively correlated, but the negative correlation with earnings retention draws attention to the possible trade-offs and difficulty of the decision-making processes of the selected samples. These findings set the basis for more research and analysis while offering useful information on the financial dynamics of the FMCG industry.

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