



The Study of Dividend Policy: A Review of Irrelevance Theory

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Abstract: Dividend policy is said to be one of the crucial decision in corporate finance management from past decades as decision of dividend is linked with the financial management objective of wealth maximization and profit maximization it is always crucial decision. Which should be given preference wealth maximization or optimum capital structure? Wealth maximization is said to be financial management practice which focus on increasing the net worth of a company or firm so that return for shareholders can be maximize. No universal consent has yet come out after several decades of study. There are theories and studies which have contributed to decide amount of dividend. Some theories says that there is relation between dividend decision and value of firm(relevance theory) and some says there is no such association(irrelevance theory).There are conflicting viewpoint as far as the impact of dividend decision on the value of the firm is considered. The objectives of this research are firstly, to define the concept and scope of dividend policy and secondly, to study the irrelevance theory/ (Modigliani-Miller Model) of dividend policy and relation between dividend policy approach and market share prices. Secondary data has been taken for research. The CNX Dividend Opportunities Index is considered as Universe. The study is sourced by critical and creative analysis (literature review) of research papers and Case Study Method. There are not significant fluctuations in share prices after declaration of dividend. Sometimes these fluctuations are associated but not positive always and there are other factors which influence share prices. It will facilitate the organizations to identify with the behavioral aspect of shareholders which they can use to add value which move towards the way to wealth maximization as well as profit maximization.

Key words: capital structure, dividend, dividend policies, profit maximization, relevance theories, wealth maximization

Introduction

Dividend is the amount which is paid in form of return or yield to shareholders for Investment in the Company's equity. At the time of dividend policy it is a critical subject for the manager to decide as how much to pay and how much to retain for survival, growth, expansion and diversification. Dividend influence the financial position of company as well as replicate the financially soundness of company. It is vital for organization to have appropriate tradeoff between the objectives of profit maximization and wealth maximization. Managers should not only have concern for the retained earnings, but also take deliberation the likely effect of their decisions on share prices .To have effective dividend policy there are various theories of dividends. These theories are contradictory to one another. Some argue that more dividend add in firm's value (relevance

theory). Another view asserts that dividend payouts have the reverse effect on a firm's value; i.e. it reduces firm value. The other approach (Modigliani-Miller Model) emphasize that there is no association between dividend payments and firm's value (irrelevance theory).This paper is attempted to focus on irrelevance approach, Modigliani-Miller Model of dividend policy. The major objectives of the paper are-

1. To define the concept and scope of dividend policy
2. To study the Modigliani-Miller Model of dividend policy
3. Empirical analysis of irrelevance theory (Modigliani-Miller Model) dividend policy approach on share prices.

THEORETICAL BACKGROUND

DIVIDEND-It is defined as- Dividend is the distribution of value to shareholders or yield or return on their investment in company's shares.

DIVIDEND POLICY- The term 'dividend policy' refers to "the practice that management follows in making dividend payout decisions or, in other words, the size and pattern of cash distributions over time to shareholders" (Lease et al., 2000, p.29).

DIVIDEND IRRELEVANCE THEORY-

Dividends irrelevant theory asserts that dividend policy is not related to firm's value i.e.in determining the value of the firm dividend policy is not relevant. The theory is supported by a financial theorists and researchers (Miller and Modigliani, 1961; Miller, 1986; and Martin, Petty, Keown, and Scott, 1991). Modigliani and Miller (1958) argued that dividends policy is not related with corporate value. They alleged that firm's value is reliant on the income produced from its assets rather than from the income distribution between dividends and retained earnings. They stated that how a firm is distributing its earning is not the deciding factor in the valuation. Researchers asserted that if the earnings are retained, it will leads to capital appreciation. On the other side, if dividend is distributed, the shareholders will have the benefit of dividend income which is equivalent to the amount by which the capital would have appreciated if the company would have retained its earning they illustrated that investors can affect the return on their shares regardless of the share's dividend.

MODIGLIANI-MILLER MODEL

According to MM, the dividend policy of a firm is irrelevant as neither it affects firm's value nor affect the wealth of shareholders. This model is based on certain assumptions. According to this model the value of a firm solely dependent on its earnings capacity resulting from the investment policy and decisions, not influenced by the way in which its earnings are divided between dividends and retained earnings.

ASSUMPTIONS:

1. There is perfect Capital markets and Investors are rational
2. There are no taxes, no difference between tax rates on dividends and capital gains.
3. The firm has a fixed investment policy which will not change. So if the retained earnings are reinvested, there will not be any change in the risk of the firm. So K remains same.
4. Floatation costs are nil.
5. There are numerous transactions and Information is freely available,
6. Transaction cost are nil, securities are divisible and no investor can influence the market price of the share.
7. Risk of uncertainty does not exist. The essence of MM arguments may be stated as below:

If the firm retains the earnings instead of giving in form of dividends, the shareholders enjoy capital appreciation, which is equal to the earnings, retained.

If the firm distributes the earnings by the way of dividends instead of retention, the shareholders have the benefit of the dividend, which is identical to the amount by which capital would have been appreciated had the company chosen to retain the earnings.

Hence, the distribution of earnings between dividends and retained earnings is irrelevant from the point of view of shareholders.

RESEARCH METHODOLOGY

Secondary data is a major source for research .For collection of secondary data books, journals websites and research paper are referred. For the firms /companies data NSE (National Stock exchange) and companies' websites are referred for past and current information. Companies listed in CNX Dividend Opportunities Index are considered for the research purpose. The CNX Dividend Opportunities Index is chosen as population/ Universe and for sample 5 % companies listed in index is considered. The CNX Dividend

Opportunities Index is designed to provide exposure to high yielding companies listed on NSE while meeting stability and tradability requirements. To select the companies in Index Random sampling method is used. Last one year (1-April 2013- 1-April 2014) corporate actions (dividend declaration) is taken for the research purpose.

With more than 119 years of strong existence and 6081 total branches including 5 foreign branches, 6698 ATMs as on Dec'13, Punjab National Bank is serving more than 87 million esteemed customers. PNB, being one of the largest nationalized banks, has continued to provide prudent and trustworthy banking services to its customers.

DATA ANALYSIS –

CORPORATE ACTION- Dividend Rs 27 per Share, Ex- date-13-June-2013

CASE -1 PUNJAB NATIONAL BANK

| Date | Open Price | High Price | Low Price | Last Traded Price | Close Price | Total Traded Quantity | Turnover (in Lakhs) |
|------------------|------------|--------------|------------|-------------------|--------------|-----------------------|---------------------|
| 27-Jun-13 | 650.4 | 654.05 | 633.1 | 637.8 | 635.75 | 693095 | 4454.8 |
| 26-Jun-13 | 651.25 | 659.8 | 638.55 | 639 | 642.15 | 452143 | 2938.48 |
| 25-Jun-13 | 651 | 667 | 640 | 647 | 646.75 | 883613 | 5771.69 |
| 24-Jun-13 | 665 | 665.95 | 645 | 647 | 648.65 | 783219 | 5106.92 |
| 21-Jun-13 | 688.25 | 694.6 | 659.6 | 666.95 | 667 | 890223 | 6036.94 |
| 20-Jun-13 | 715 | 718 | 685 | 685.3 | 688.05 | 871441 | 6091.17 |
| 19-Jun-13 | 725 | 731.9 | 721.3 | 725 | 725.55 | 404533 | 2938.8 |
| 18-Jun-13 | 740 | 747 | 722 | 723.75 | 725.15 | 550695 | 4043.98 |
| 17-Jun-13 | 743.25 | 747.8 | 722 | 744.4 | 742.05 | 577797 | 4268.48 |
| 14-Jun-13 | 729.1 | 745 | 729.1 | 739.5 | 741.25 | 591689 | 4365.57 |
| 13-Jun-13 | 728 | 734.6 | 718 | 718.55 | 721.8 | 760550 | 5521.28 |
| 12-Jun-13 | 742.55 | 761.9 | 740 | 757 | 754.25 | 679856 | 5118.61 |
| 11-Jun-13 | 752 | 757.7 | 738.5 | 744.3 | 746.9 | 745446 | 5573.29 |
| 10-Jun-13 | 770 | 772.95 | 751 | 758 | 757.95 | 422750 | 3223.45 |
| 7-Jun-13 | 771 | 783.65 | 760.25 | 764 | 762.95 | 544962 | 4213.56 |
| 6-Jun-13 | 762 | 778.5 | 757.1 | 774.3 | 774.95 | 727128 | 5595.62 |
| 5-Jun-13 | 761 | 767.95 | 757.05 | 766.5 | 764.8 | 403428 | 3077.98 |
| 4-Jun-13 | 763 | 775 | 755 | 761.5 | 760.05 | 560523 | 4299.21 |

| | | | | | | | |
|-----------|--------|-------|-------|--------|--------|---------|---------|
| 3-Jun-13 | 764.8 | 772 | 749.1 | 758 | 759.35 | 636183 | 4825.9 |
| 31-May-13 | 793.95 | 798.7 | 755.5 | 761 | 760.05 | 703714 | 5451.41 |
| 30-May-13 | 797 | 823.3 | 792.5 | 793.95 | 798 | 1010982 | 8181.45 |
| 29-May-13 | 810.1 | 810.5 | 797.1 | 799.45 | 802.1 | 416438 | 3346.91 |
| 28-May-13 | 805.1 | 814 | 801.6 | 811.15 | 810.5 | 553969 | 4473.66 |
| 27-May-13 | 785 | 806.6 | 780 | 805.4 | 804.3 | 687505 | 5469.74 |

Punjab National Bank has declared ex-date of dividend 13-June-13. from the table it can be said that after declaration of dividend there are fluctuations in the share prices and at the same day high price was gone to 734.6 but for the same day last traded price was low as compared to opening price. Even in future dates there are decrease in

share prices. As from the above table it can be concluded that there are fluctuations but not all positive in the market prices of shares after declaration of dividend which shows dividend hardly affects the share price i.e. firm value.

CORPORATE ACTION- Interim Dividend Rs 10 per Share, Ex- date-11-Feb-2014

| Date | Open Price | High Price | Low Price | Last Traded Price | Close Price | Total Traded Quantity | Turnover (in Lakhs) |
|------------------|---------------|--------------|--------------|-------------------|--------------|-----------------------|---------------------|
| 25-Feb-14 | 542.4 | 545.5 | 533.2 | 536.95 | 538 | 684103 | 3682.86 |
| 24-Feb-14 | 533 | 543.5 | 529.2 | 539.1 | 539.15 | 1020838 | 5484.57 |
| 21-Feb-14 | 533 | 538.5 | 532.2 | 534.5 | 535 | 683722 | 3660.88 |
| 20-Feb-14 | 535 | 537 | 527.6 | 531.7 | 531.2 | 836981 | 4447.89 |
| 19-Feb-14 | 543.9 | 548.6 | 536 | 540.45 | 540.65 | 803419 | 4352.4 |
| 18-Feb-14 | 530.15 | 549.3 | 530.15 | 541.1 | 543 | 1090866 | 5929.72 |
| 17-Feb-14 | 535.2 | 541.8 | 526.5 | 533.2 | 532.45 | 757444 | 4036.53 |
| 14-Feb-14 | 533.9 | 539.75 | 524 | 537.5 | 536.7 | 1188030 | 6324.81 |
| 13-Feb-14 | 549.25 | 551.95 | 528.7 | 529 | 530.95 | 1109725 | 5959.2 |
| 12-Feb-14 | 551.55 | 556.75 | 545 | 547.45 | 548.95 | 852662 | 4699.62 |
| 11-Feb-14 | 549.45 | 551.9 | 545.1 | 545.6 | 546.6 | 681229 | 3737.08 |
| 10-Feb-14 | 558.05 | 560.4 | 552.4 | 557.4 | 557.65 | 648825 | 3613.03 |
| 7-Feb-14 | 557.45 | 558.8 | 550.45 | 556.5 | 555.7 | 1031571 | 5722.3 |
| 6-Feb-14 | 561 | 567.5 | 545.7 | 550 | 550.2 | 1398213 | 7738.87 |

| | | | | | | | |
|-----------|--------|--------|--------|--------|--------|---------|----------|
| 5-Feb-14 | 566 | 569 | 556.1 | 558.9 | 560.9 | 1176083 | 6606.72 |
| 4-Feb-14 | 537.6 | 569.4 | 535 | 569 | 565.8 | 2303469 | 12771.59 |
| 3-Feb-14 | 547.55 | 554.45 | 541.2 | 549.65 | 549.6 | 1756758 | 9624.13 |
| 31-Jan-14 | 518.5 | 554.15 | 509.15 | 553.45 | 547.55 | 6674795 | 35857.36 |
| 30-Jan-14 | 530 | 532 | 515.2 | 517.25 | 517.6 | 2368175 | 12375.7 |
| 29-Jan-14 | 554.7 | 559 | 538.3 | 539.65 | 540.45 | 1037673 | 5678.3 |
| 28-Jan-14 | 548 | 563 | 529.65 | 549.5 | 547.6 | 2170888 | 11832.84 |
| 27-Jan-14 | 572 | 572.65 | 544.25 | 550.3 | 547.75 | 1640058 | 9135.65 |

CASE -2 BAJAJ AUTO LIMITED

Punjab National Bank has declared ex-date of dividend 11-Feb-14. from the table it can be stated that after declaration of dividend there are fluctuations in the share prices and at the same day high price was gone to 551.55 but for the same day last traded price was low as compared to opening price i.e. 545.1. Even in future dates for only two days opening price is improved but further again there are decrease in share prices. So it can be asserted that there are fluctuations but not all positive in the market prices of shares after declaration of dividend.

The Bajaj Group is amongst the top 10 business houses in India. Its footprint stretches over a wide range of industries, spanning automobiles (two-wheelers and three-wheelers), home appliances, lighting, iron and steel, insurance, travel and finance. The group's flagship company, Bajaj Auto, is ranked as the world's fourth largest two- and three- wheeler manufacturer.

CORPORATE ACTION- Dividend Rs 45 per Share, Ex- date-04-July-2013

| Date | Open Price | High Price | Low Price | Last Traded Price | Close Price | Total Traded Quantity | Turnover (in Lakhs) |
|-----------|------------|------------|-----------|-------------------|-------------|-----------------------|---------------------|
| 19-Jul-13 | 1886.5 | 1987.75 | 1862.5 | 1972 | 1966 | 1609280 | 31107 |
| 18-Jul-13 | 1910 | 1919.8 | 1884.8 | 1899.6 | 1896.7 | 183219 | 3487.14 |
| 17-Jul-13 | 1920 | 1920 | 1880.1 | 1910 | 1909.55 | 257814 | 4913.82 |
| 16-Jul-13 | 1884.8 | 1918 | 1871.55 | 1905 | 1907.55 | 332357 | 6285.76 |
| 15-Jul-13 | 1864.7 | 1906.85 | 1850.5 | 1906 | 1901.7 | 153038 | 2888.78 |
| 12-Jul-13 | 1879.7 | 1881 | 1845.6 | 1874 | 1869.65 | 208815 | 3896.71 |
| 11-Jul-13 | 1864 | 1888.6 | 1864 | 1876.1 | 1876.55 | 185148 | 3480.05 |
| 10-Jul-13 | 1899 | 1917.1 | 1842 | 1855.7 | 1862.4 | 399958 | 7491.84 |
| 9-Jul-13 | 1875 | 1915 | 1871.15 | 1899 | 1898.2 | 188148 | 3577.7 |

| | | | | | | | |
|-----------------|---------------|----------------|-------------|-------------|---------------|---------------|----------------|
| 8-Jul-13 | 1861.15 | 1875 | 1838.25 | 1860 | 1863.05 | 329807 | 6105.39 |
| 5-Jul-13 | 1893.4 | 1893.4 | 1870 | 1874.15 | 1879.5 | 286679 | 5390.62 |
| 4-Jul-13 | 1867.8 | 1894.15 | 1861 | 1878 | 1876.6 | 406242 | 7614.41 |
| 3-Jul-13 | 1891 | 1907.7 | 1866 | 1907.65 | 1890.05 | 434707 | 8199.75 |
| 2-Jul-13 | 1910 | 1969.9 | 1900 | 1905.95 | 1913.3 | 592561 | 11398.14 |
| 1-Jul-13 | 1928 | 1935 | 1886 | 1920.4 | 1922.9 | 496573 | 9486.17 |
| 28-Jun-13 | 1842.5 | 1940 | 1842.5 | 1925.9 | 1923.95 | 794222 | 15144.95 |
| 27-Jun-13 | 1787.1 | 1871 | 1787 | 1840 | 1838.2 | 1030259 | 18991.97 |
| 26-Jun-13 | 1782.8 | 1793.8 | 1760 | 1791 | 1787.1 | 500188 | 8905.04 |
| 25-Jun-13 | 1794 | 1810 | 1756.2 | 1809 | 1799.55 | 657806 | 11767.84 |
| 24-Jun-13 | 1830 | 1830 | 1776.05 | 1798 | 1794.55 | 446107 | 8027.55 |
| 21-Jun-13 | 1805.15 | 1837.65 | 1788.45 | 1821.35 | 1830.05 | 307812 | 5614.14 |
| 20-Jun-13 | 1814 | 1855 | 1800 | 1800 | 1820.35 | 451241 | 8263.7 |
| 19-Jun-13 | 1825.25 | 1840.9 | 1810.1 | 1839.1 | 1835.65 | 374627 | 6865.66 |

CASE -3 NTPC LIMITED

Bajaj Auto limited has declared ex-date of dividend 04-July-13. from the table it can be interpreted that after declaration of dividend there are fluctuations in the share prices and at the same day there is good hike in price and it has gone to 1894.15. The hike in share prices can be due to good amount of dividend declared. Even in future dates there are positive fluctuations in share prices. So it can be stated from the above data that there can be association between dividend policy and share price i.e. firm value.

NTPC, India's largest power company, was set up in 1975 to accelerate power development in India. It is emerging as an 'Integrated Power Major', with a significant presence in the entire value chain of power generation business.

CORPORATE ACTION- Final Dividend Re.0.75 per Share and Special Dividend Rs.1.25 per Share, Ex- date-05-Sept-2013

| Date | Open Price | High Price | Low Price | Last Traded Price | Close Price | Total Traded Quantity | Turnover (in Lakhs) |
|-----------|------------|------------|-----------|-------------------|-------------|-----------------------|---------------------|
| 20-Sep-13 | 147 | 150 | 144.65 | 147.9 | 148.3 | 6203763 | 9144.82 |
| 19-Sep-13 | 148.1 | 151.6 | 145.7 | 147.3 | 147.1 | 5143489 | 7588.94 |
| 18-Sep-13 | 140.4 | 145.9 | 139.5 | 145.75 | 144.9 | 2821421 | 4044.68 |

| | | | | | | | |
|-----------------|--------------|------------|---------------|--------------|---------------|-----------------|-----------------|
| 17-Sep-13 | 143.5 | 144.35 | 138.5 | 140.25 | 140.15 | 2711120 | 3798.26 |
| 16-Sep-13 | 142.8 | 145.5 | 141.4 | 143 | 142.95 | 2802538 | 4016.6 |
| 13-Sep-13 | 138.4 | 141.5 | 138 | 141 | 141.1 | 3975733 | 5571.31 |
| 12-Sep-13 | 137.2 | 140.9 | 137.2 | 138.4 | 139.45 | 2854781 | 3985.47 |
| 11-Sep-13 | 139.5 | 140.95 | 135.3 | 138.05 | 137.6 | 5082675 | 6966.01 |
| 10-Sep-13 | 135 | 139.5 | 135 | 138.1 | 138.6 | 5063738 | 6985.51 |
| 6-Sep-13 | 130.8 | 134.9 | 128.5 | 132.95 | 134.3 | 5764300 | 7634.24 |
| 5-Sep-13 | 132.5 | 133 | 128.95 | 129.6 | 130.45 | 11708224 | 15450.93 |
| 4-Sep-13 | 127.4 | 130.7 | 125 | 130 | 130 | 4610163 | 5919.37 |
| 3-Sep-13 | 130.3 | 131.55 | 125.65 | 125.75 | 128.05 | 3754821 | 4845.2 |
| 2-Sep-13 | 131 | 131.05 | 127.75 | 130.4 | 130.7 | 3036958 | 3948.57 |
| 30-Aug-13 | 129.8 | 131.95 | 127.5 | 130.55 | 130.9 | 3976338 | 5172.89 |
| 29-Aug-13 | 126.9 | 131.85 | 125 | 130.3 | 130.8 | 6005885 | 7757.85 |
| 28-Aug-13 | 123.5 | 127.5 | 122.6 | 126 | 126.3 | 5425268 | 6811.23 |
| 27-Aug-13 | 132.8 | 132.8 | 123.4 | 125.1 | 124.45 | 5510185 | 6982.47 |
| 26-Aug-13 | 130.2 | 133.5 | 130 | 131.95 | 132.4 | 4340319 | 5740.24 |
| 23-Aug-13 | 132.05 | 132.5 | 127.6 | 129.5 | 129.05 | 5037959 | 6494.77 |
| 22-Aug-13 | 130.35 | 132.7 | 126.1 | 132.1 | 131.15 | 5385924 | 6981.94 |
| 21-Aug-13 | 136.25 | 137 | 129 | 131.65 | 130.65 | 7404961 | 9940.19 |
| 20-Aug-13 | 135.9 | 137.9 | 133.95 | 135.5 | 136.15 | 3510274 | 4747.38 |

NTPC Limited has declared ex-date of dividend 05-sept-13. It can be stated that after declaration of dividend there are fluctuations i.e. increase in share prices in future dates. As from the above table it

can be interpreted that there is hike in the market prices of shares after declaration of dividend which shows high dividend payout enhances firm value.

CORPORATE ACTION- Interim Dividend Rs 4 per Share, Ex- date-31-Jan-2014

| Date | Open Price | High Price | Low Price | Last Traded Price | Close Price | Total Traded Quantity | Turnover (in Lakhs) |
|-----------|------------|------------|-----------|-------------------|-------------|-----------------------|---------------------|
| 14-Feb-14 | 131.4 | 132.9 | 129.65 | 132.65 | 132.25 | 2251143 | 2971.69 |

| | | | | | | | |
|------------------|--------------|---------------|--------------|--------------|---------------|----------------|----------------|
| 13-Feb-14 | 131.2 | 131.45 | 129.65 | 130.1 | 130.1 | 6901586 | 8989.5 |
| 12-Feb-14 | 132.2 | 132.5 | 130.05 | 131 | 130.75 | 6154520 | 8092.31 |
| 11-Feb-14 | 134.4 | 134.7 | 130.05 | 131.25 | 132.15 | 3603027 | 4815.54 |
| 10-Feb-14 | 135.15 | 136.6 | 133.3 | 133.8 | 135.2 | 10642466 | 14403.45 |
| 7-Feb-14 | 133.7 | 136.1 | 132.75 | 135.8 | 135.95 | 12080553 | 16337.43 |
| 6-Feb-14 | 132 | 134.1 | 130.8 | 133.3 | 133.6 | 8205918 | 10901.61 |
| 5-Feb-14 | 130.6 | 132.7 | 127.1 | 132.5 | 132.4 | 8496884 | 11093.02 |
| 4-Feb-14 | 125.9 | 130.65 | 125.4 | 130.6 | 130.2 | 10508446 | 13529.59 |
| 3-Feb-14 | 126 | 126.3 | 125.1 | 126.2 | 126 | 2904211 | 3651.86 |
| 31-Jan-14 | 125.7 | 126.95 | 123.5 | 126.2 | 126.45 | 4369223 | 5484.25 |
| 30-Jan-14 | 127.05 | 130.15 | 126.15 | 128.6 | 128.2 | 6001934 | 7662.97 |
| 29-Jan-14 | 129.75 | 130.5 | 127.25 | 127.75 | 127.8 | 4019121 | 5177.62 |
| 28-Jan-14 | 129.8 | 132 | 128.15 | 128.4 | 128.5 | 3764855 | 4861.18 |
| 27-Jan-14 | 130.25 | 130.7 | 129.1 | 129.5 | 129.45 | 2699822 | 3499.29 |
| 24-Jan-14 | 130.8 | 131.9 | 130.65 | 131.65 | 131.5 | 3080062 | 4039.77 |
| 23-Jan-14 | 131.75 | 132.4 | 130.75 | 131.3 | 131.1 | 3964418 | 5218.06 |
| 22-Jan-14 | 130.5 | 133.2 | 130.5 | 132.4 | 132.65 | 4438582 | 5886.11 |
| 21-Jan-14 | 131.6 | 133 | 129.75 | 130.7 | 130.75 | 9067857 | 11849.46 |
| 20-Jan-14 | 132 | 133.5 | 131.5 | 131.55 | 131.85 | 2288260 | 3027.99 |
| 17-Jan-14 | 133.2 | 133.75 | 131.15 | 132 | 131.6 | 9686445 | 12881.99 |
| 16-Jan-14 | 132.55 | 134.2 | 132.55 | 133.05 | 133.15 | 5238158 | 7008.06 |

**CASE -4 COMPANIES-CHAMBAL
FERTILIZERS & CHEMICALS LIMITED**

NTPC Limited has declared ex-date of dividend 31-Jan-14. from the table it can be said that after declaration of dividend there is increase in share prices in future dates. So it can be concluded that there is hike in the market prices of shares after declaration of dividend which shows high dividend enhances firm value.

Chambal Fertilisers and Chemicals Limited is one of the largest private sector fertilizer producers in India. It was promoted by Zuari Industries Limited in the year 1985.

CORPORATE ACTION- Dividend Rs 1.90 per Share, Ex- date-16-Aug-2013

| Date | Open Price | High Price | Low Price | Last Traded Price | Close Price | Total Traded Quantity | Turnover (in Lakhs) |
|------------------|------------|------------|--------------|-------------------|--------------|-----------------------|---------------------|
| 30-Aug-13 | 31.6 | 33.1 | 31.1 | 32.65 | 32.6 | 1414084 | 459.51 |
| 29-Aug-13 | 32 | 32.8 | 31.5 | 31.55 | 31.7 | 3047753 | 971.27 |
| 28-Aug-13 | 32 | 32.55 | 31.25 | 32.2 | 32.2 | 902753 | 286.29 |
| 27-Aug-13 | 33 | 33.45 | 32.25 | 32.45 | 32.4 | 925469 | 303.75 |
| 26-Aug-13 | 33.25 | 33.9 | 32.9 | 33.7 | 33.65 | 827769 | 276.33 |
| 23-Aug-13 | 33 | 33.6 | 32.25 | 33.05 | 33.25 | 1689838 | 559.05 |
| 22-Aug-13 | 32 | 32.3 | 30.9 | 31.95 | 31.9 | 1376276 | 434.37 |
| 21-Aug-13 | 33.5 | 34.55 | 32.1 | 32.35 | 32.35 | 1363985 | 451.48 |
| 20-Aug-13 | 32.3 | 33.9 | 32.3 | 33.6 | 33.6 | 937785 | 313.01 |
| 19-Aug-13 | 33.35 | 33.45 | 32 | 33 | 33.1 | 917506 | 301.93 |
| 16-Aug-13 | 35 | 38 | 33.05 | 33.25 | 33.35 | 2509272 | 865.46 |
| 14-Aug-13 | 36.1 | 37.1 | 35.6 | 36.8 | 36.75 | 2692638 | 981.7 |
| 13-Aug-13 | 37.5 | 38.1 | 35.8 | 36.2 | 36.15 | 1798560 | 659.81 |
| 12-Aug-13 | 37.1 | 38.2 | 37.1 | 37.7 | 37.75 | 674048 | 254.32 |
| 8-Aug-13 | 36.9 | 37.75 | 36.25 | 37.65 | 37.65 | 985709 | 367.23 |
| 7-Aug-13 | 35 | 36.9 | 34.75 | 36.75 | 36.75 | 1231794 | 446.63 |
| 6-Aug-13 | 35.65 | 35.85 | 34.25 | 35.25 | 35.25 | 1322442 | 464.22 |
| 5-Aug-13 | 34.35 | 35.85 | 33.8 | 35.7 | 35.7 | 827876 | 290.32 |
| 2-Aug-13 | 33.45 | 34.85 | 33.45 | 34.3 | 34.35 | 1789361 | 614.07 |
| 1-Aug-13 | 35.5 | 36.05 | 33 | 33.45 | 33.55 | 1536187 | 524.03 |

in the market prices of shares after declaration of dividend.

Chambal Fertilizers & Chemicals Limited has declared ex-date of dividend 16 August 2013. from the table it can be said that after declaration of dividend even there is not increase in share prices in future dates even temporary hike is there as high price has gone to 38 from 35 but last traded price for that day even have come down. As from the above table it can be concluded that there is no hike

CASE -5 GLAXOSMITHKLINE PHARMACEUTICALS LIMITED

Established in the year 1924 in India GlaxoSmithKline Pharmaceuticals Ltd. (GSK Rx India) is one of the oldest pharmaceuticals company and employs over 3500 people. Globally, company is a £ 26.4 billion, leading, research-based

healthcare and pharmaceutical company. In India, they are one of the market leaders with a turnover of Rs. 3021 crore and a share of 4.2%*.

CORPORATE ACTION- Final Dividend Re.50 per Share, Ex- date-04-April-2013

| Date | Open Price | High Price | Low Price | Last Traded Price | Close Price | Total Traded Quantity | Turnover (in Lakhs) |
|-----------------|-------------|----------------|-------------|-------------------|----------------|-----------------------|---------------------|
| 18-Apr-13 | 2224.95 | 2224.95 | 2199 | 2204 | 2204.9 | 14085 | 311.1 |
| 17-Apr-13 | 2200.25 | 2241.85 | 2200 | 2230 | 2225.15 | 7975 | 176.63 |
| 16-Apr-13 | 2195 | 2213 | 2190 | 2202.95 | 2200.1 | 17960 | 395.53 |
| 15-Apr-13 | 2200 | 2213.95 | 2200 | 2204 | 2204.8 | 52342 | 1154.39 |
| 12-Apr-13 | 2205.05 | 2215 | 2200 | 2204 | 2201.6 | 3978 | 87.59 |
| 11-Apr-13 | 2224.2 | 2250 | 2196 | 2205 | 2204.4 | 4597 | 102.56 |
| 10-Apr-13 | 2200.1 | 2225 | 2195 | 2220 | 2217.55 | 43530 | 958.49 |
| 9-Apr-13 | 2200 | 2213.95 | 2197 | 2204.95 | 2200.5 | 3903 | 85.9 |
| 8-Apr-13 | 2200 | 2224 | 2198 | 2201.8 | 2200.1 | 4306 | 94.86 |
| 5-Apr-13 | 2215 | 2215 | 2181.5 | 2203 | 2201.65 | 3684 | 80.99 |
| 4-Apr-13 | 2241 | 2248.95 | 2190 | 2204.95 | 2200.95 | 12137 | 268.16 |
| 3-Apr-13 | 2235.05 | 2298 | 2226.35 | 2265 | 2268.55 | 26199 | 594.46 |
| 2-Apr-13 | 2230 | 2239.95 | 2216.25 | 2235 | 2229.9 | 3305 | 73.66 |
| 1-Apr-13 | 2205 | 2239.95 | 2205 | 2220 | 2222 | 4493 | 99.85 |
| 28-Mar-13 | 2189.8 | 2249 | 2164.95 | 2226 | 2205.25 | 15114 | 330.48 |
| 26-Mar-13 | 2164.95 | 2210 | 2151 | 2190 | 2189.85 | 5352 | 116.64 |
| 25-Mar-13 | 2168.95 | 2185 | 2151 | 2153 | 2168.6 | 85954 | 1865.04 |
| 22-Mar-13 | 2175 | 2175 | 2148.05 | 2165 | 2169.15 | 33968 | 734.5 |
| 21-Mar-13 | 2151.95 | 2166.8 | 2135.35 | 2162.75 | 2160.6 | 13108 | 282.92 |
| 20-Mar-13 | 2151.05 | 2160 | 2145 | 2151.05 | 2151.35 | 27682 | 595.34 |
| 19-Mar-13 | 2148.05 | 2175 | 2148 | 2150 | 2150.8 | 8389 | 181.22 |

Glaxosmithkline Pharmaceuticals limited has declared ex-date of dividend 04-April-13. It can be stated that after declaration of dividend there are fluctuations and in the same day last traded price

has come down but there is recovery in the future dates. As from the above table it can be interpreted that there are fluctuations in the market prices of shares after declaration of dividend

FINDING

1. In data analysis out of five companies three companies share prices shows fluctuations but not positive after declaration of dividend.
2. NTPC Ltd and Bajaj Auto Ltd. share prices gone up after dividend declaration. So it can be interpreted that company value is get affected by dividend payment.
3. In few cases it can be observed that after declaration of ex-date and dividend even in few cases there is decline in share prices in future date.
4. For Bajaj auto limited even last traded price has increased in Ex-date it can be due to more dividend payout approach. But same time even high dividend payout approach, Glaxosmithkline Pharmaceuticals limited last traded price has come down to approx 36 rs.
5. In long run dividend payout or retention can be more crucial for the companies as well as the shareholders because there can be change in the economy cycle as well as in financial position.
6. Fluctuations can be observed in traded Quantity and turnover due to change in share prices.

SCOPE OF THE STUDY

This study is restricted only of irrelevance theory-Modigliani-Miller Model of dividend policy and for the same only last one year data of the companies had been taken .The study can be further extended for long tenure, various sectors, and economic cycles and for irrelevance theories also.

CONCLUSION

Dividend policy is one of the most imperative decisions in Financial Management. Firms objectives are optimum capital structure as well as for shareholders wealth. For the same they attempt to apply optimum dividend policies. In the research it can be concluded that there is neither positive nor negative association between the market prices of

shares and Dividend payout. So it can be concluded there are fluctuations in share prices after declaration of dividend but not positive always and there are other factors which affects share prices. So in research outcome in general it can be said that irrelevance theory states true in current scenario in implementation as compare to relevance theory in short tenure and there can be different outcome in long span of time when it extends to the different economic cycles.

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