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Trends in Dividend Payout: A Study of Public Sector Banks in India

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ABSTRACT:

The Indian banking sector is dominated by the public sector banks. However, with the initiation of financial liberalization, several private and foreign banks started functioning, which ushered in competition in the Indian banking sector. Even the share of public sector banks in total asset, deposit and credit has declined; still they dominate the Indian banking sector. Banking reforms were introduced for improving the diversification and competition for a better functioning of the banks and financial institution. Dividend is and should be the clear indicator of performance of any business institution as it is directly related with increase in earnings. This paper has tried to explore the trends of dividend paid by public sector banks in India.

Key words: Banks, Public Sector, Dividend, Trend, India

INTRODUCTION:

Banks were nationalized in 1969 with a view that the banking sector needs to reach the poor sections of society, and that farmers in India will get access to financial services. More specifically, loans. Sure enough, over the years, RBI has set priority sector lending targets that even private sector banks have to follow. Banks were used as a tool to drive national policy and, in some cases, political agendas – with the explicit expectation that GoI would infuse capital regularly to support any loan losses.

But, perspectives are changing now. While the GoI continues to promise capital infusion, it also requires banks to raise money from the market. The GoI's newfound thinking of letting PSBs raise their own capital, and thereby compelling them operate under market challenges, is directionally correct. The government is the majority shareholder in all the public sector banks and it uses the dividend from its banks to meet its fiscal deficit target. Under the existing guidelines, profit making banks have to pay a minimum dividend of 20% of their equity or 20% of their post tax profit, whichever is higher.

Indian banks' asset quality has worsened in the last three years amid economic slowdown and public sector banks share a disproportionate burden of the stress. With provisioning for non-performing assets on the rise, this has also depleted capital of public sector banks. The dividend policy of public sector banks, which pay hefty dividend to the shareholders irrespective of the quality of the balance sheet, must be reviewed, according to a Reserve Bank of India (RBI) report.

So this paper is an attempt to analyze and understand the trend of dividend of public sector banks in India over a period of last ten years.

DIVIDEND

Dividend payout is the amount of dividends that the stockholders will receive for each share of stock held. It is the share in earnings which is distributed to the equity shareholders. A dividend policy of a company is a policy through which a firm decides the share of its profits to be paid out as dividends to its shareholders. Dividend policy helps in determining the division of profits into dividend payments and retained earnings of the firm. Firm reinvests the retained earnings of the firm further in enhancing the profitability of the company. Dividend policy is an integral part of any firm as it can help the company to attract investors both for long term as well as short term basis.

LITERATURE REVIEW

Bessler et al.(1996) showed that the main determinants of dividend in the banking sector of North America, are growth of profit and the number of shareholders, however there is not much impact of past growth levels, beta as well as ownership structure of the banks.
Cloyd et al. (2005) worked on nationalized and private banks and concluded that private banks give more dividend than nationalized sector banks and also concluded that dividend policy is affected by the control structure of the banks.
Dhungel (2013) concluded, with respect to banking stocks of Nepal, that dividend per share has significant correlation with the market price of one bank, where as for four other banks, there is no such correlation exists.
Haddad et al.(2011), explored the banks listed in Amman Stock Exchange, in the time frame of 2000 to 2006, and they came to the conclusion that, banking sector follows unstable cash dividend policies. According to Esteban et al.(2001) , dividend payment decisions by banks contain additional information, over and above information conveyed by the profitability of the banks. This study also concluded that European banks try to have target payout ratio, more or less on the lines of Lintner model. They came to this conclusion, on the basis of 484 European banks over a period of 1991-98.
Nnadi et al. (2005), came to the conclusion that, Nigerian banks conform to Miller & Modigliani's (1961) theory, with respect to dividend payment. This study also came to the conclusion that, past dividends patterns, goal to achieve a target capital structure, present extent of financial leverage, shareholders aspirations of dividend income, tax rules and certain factors such as impairment of capital, the intention to send positive signals to investors, the desire to conform to the peer's dividend payment policy, among the factors which influences dividend policy of banks.
Mokaya et al.(2013) explored, dividend policy of National Bank of Kenya, and concluded that market price of its share is highly correlated with dividend payout rate, dividend growth rate and the frequency of dividend declarations.
Al-Khasawneh et al.(2012) on the basis of its study on the US banks, concluded that the major determinants of dividend are the total assets, return on equity, and equity to liability ratio. This is a perspective from the developed market i.e. the USA.

INDIAN SCENARIO

As per the study by Shukla in India, banks paid more dividend in financial year 2006-07 than, in financial year 2002-03, and in this period out of the top 10 dividend paying banks, 7 were nationalized entities(Shukla,2011).It was also concluded that dividend announcements did not alter the volume of trade of bank scripts as well as price in the stock market.
Sudhahar & Saroja (2010) carried out an empirical study on the determinants of dividend policy in the Indian banking industry. They studied 20 banks listed in the Bombay Stock Exchange (BSE), over a period of 10 years. Out of the three models (Lintner, Brittain and Darling) tested, it was found out that only Brittain's model could explain the dividend payment behavior, where current year's depreciation, and current year's profit after tax are the determining factors of the dividend.

According to Sura (2006), Indian Banks follow stable dividend payout policy, which is also supported by Bodla et al.(2007). This research concluded that the major determinants of these dividends are lagged dividends and current earnings. It concluded that Indian banking industry pays dividend in accordance with the Lintner's model(1956), where previous years dividend and current year's profit are the major factors determining the quantity of dividend.
Another research (Sri Hari et al., 2012) concluded that nationalized sector banks paid more dividends than private sector banks.
On a study with 3 Indian banks (1nationalized sector bank, i.e. State Bank of India and 2 private sector banks namely, ICICI Bank and HDFC Bank), Acharya et al.(2012) concluded that only ICICI Bank's dividend policy is in confirmation with the Lintner's model.

OBJECTIVE AND RESEARCH METHODOLOGY

The objective of this paper is to analyse the trend of dividend paid by the banks in public sector in India over a period of ten years.
For this purpose the banks of public sector were picked from three groups as large cap banks, mid cap banks and small cap bank, as classified by National Stock Exchange The four banks out of the each group were picked up on the basis of higher capitalization in the group and history of regular dividend payment. On this basis the four banks i.e. Bank of Baroda, Punjab National Bank, State Bank of India and Canara Bank were selected as large cap banks. Bank of India, Central Bank of India, Indian bank and Union Bank of India were taken as mid cap banks while Oriental Bank of Commerce, Andhra bank, Bank of Maharashtra and Dena Bank as Small cap banks.
The data was collected for Dividend paid per share by the banks from the websites of the concerned banks. To neutralize the effect of split in the value of share the dividend data has been adjusted. The period of study was taken ten years i. e. from 2007 to 2016.

ANALYSIS

Dividend paid by large cap PSU banks

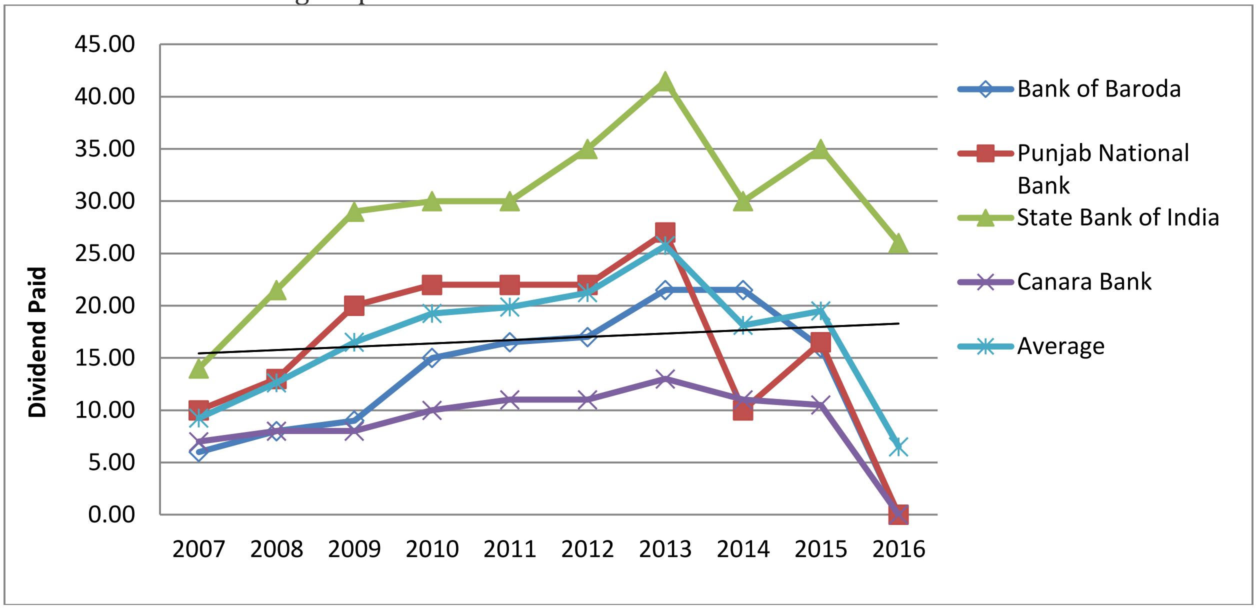
Table 1 Dividend of large cap PSU banks

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Bank of Baroda	6.00	8.00	9.00	15.00	16.50	17.00	21.50	21.50	16 *	0.00	**12.72**
Punjab National Bank	10.00	13.00	20.00	22.00	22.00	22.00	27.00	10.00	16.5*	0.00	**16.22**
State Bank of India	14.00	21.50	29.00	30.00	30.00	35.00	41.50	30.00	35 *	26*	**28.88**
Canara Bank	7.00	8.00	8.00	10.00	11.00	11.00	13.00	11.00	10.50	0.00	**8.95**
Average	**9.25**	**12.63**	**16.50**	**19.25**	**19.88**	**21.25**	**25.75**	**18.13**	**19.50**	**6.50**	

***data adjusted due to split in share face value**

The above table shows the dividend paid by the banks in large capitalization category over the past ten years. It is quite visible that dividend paid for all the banks in general increased from year 2207 to 2013 but after that there is fall in dividend paid. During the ten years period every bank paid highest dividend in 2013, though among the banks in this category the highest dividend was paid by State bank of India in 2013, i. e. Rs 41.50. In year 2016 no banks except SBI paid dividend. If look at the average dividend paid by banks in past ten years then also SBI tops the list followed by PNB and Bank of Baroda. Canara bank is the one which has paid the least dividends in the category of large cap PSU banks.

Chart 1 Dividend of large cap PSU banks



As visible in the above Chart the line depicting dividend of SBI is much above the other three lines but all are having almost the same curve. The trend line is showing an upward slope as it is drawn on the basis of average.

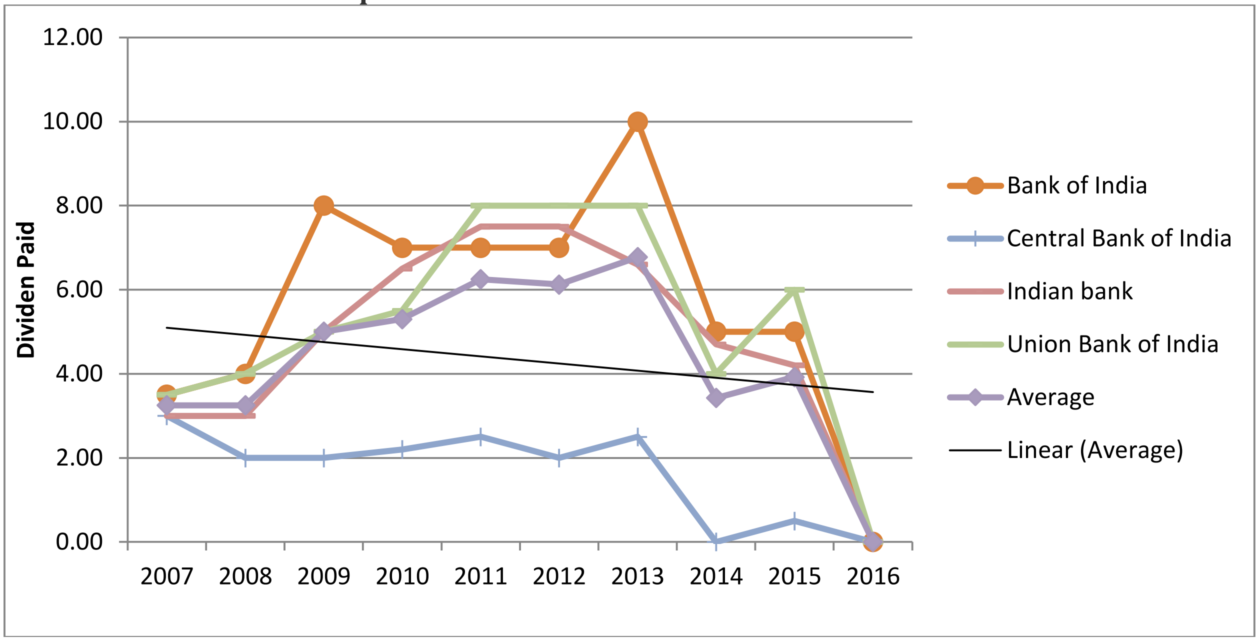
Dividend paid by Mid Cap PSU banks

Table 2. Dividend of Mid cap PSU banks

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Bank of India	3.50	4.00	8.00	7.00	7.00	7.00	10.00	5.00	5.00	0.00	**5.65**
Central Bank of India	3.00	2.00	2.00	2.20	2.50	2.00	2.50	0.00	0.50	0.00	**1.67**
Indian bank	3.00	3.00	5.00	6.50	7.50	7.50	6.60	4.70	4.20	0.00	**4.80**
Union Bank of India	3.50	4.00	5.00	5.50	8.00	8.00	8.00	4.00	6.00	0.00	**5.20**
Average	**3.25**	**3.25**	**5.00**	**5.30**	**6.25**	**6.13**	**6.78**	**3.43**	**3.93**	**0.00**	

From the above table we are able to see that dividends on an average increased till the year 2013 and after that it started falling. In the year 2016 none of the mid cap PSU banks declared dividend. If we look for particulars banks then the average dividend of Bank of India are the highest in the category and Central bank of India is the lowest. Union bank of India is quite near to Bank of India. If compare the dividend of mid cap PSU banks with those of large cap PSU banks then even the highest dividend paying bank of mid cap category is not even close to lowest dividend paying bank of large cap category.

Chart 2 Dividend of Mid cap PSU banks



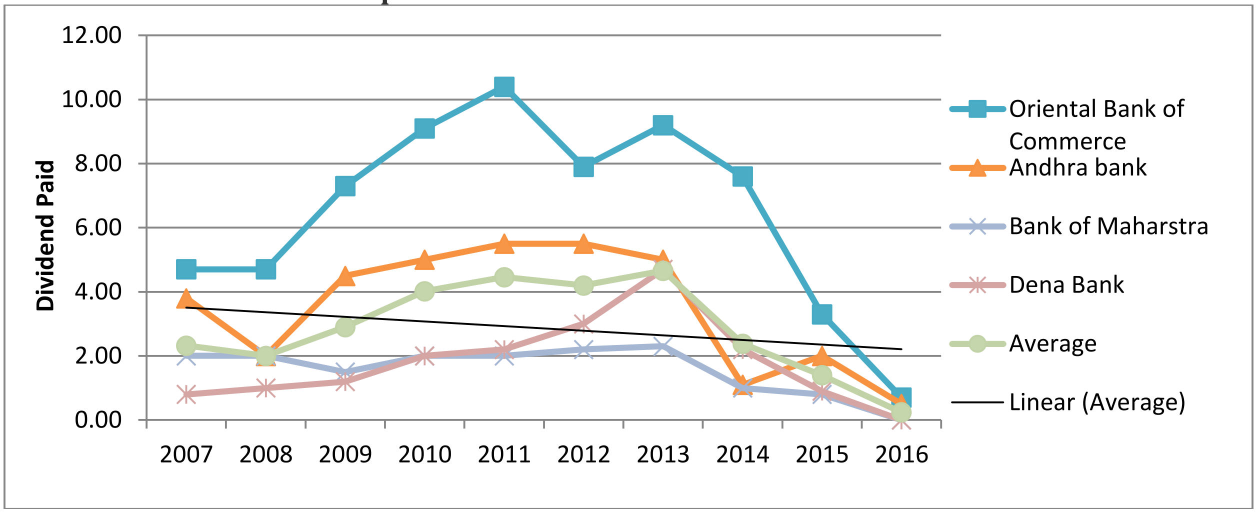
The chart 2 shows the dividend paid by mid cap PSU banks and the trend line on the basis of average. Here the trend line is having downward slope which is quite different from the large cap PSU banks. Again the line showing dividends of bank of India is much above the other banks but there is no clear pattern.

Table 3. Dividend of Small cap PSU banks

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Oriental Bank of Commerce	4.70	4.70	7.30	9.10	10.40	7.90	9.20	7.60	3.30	0.70	**6.49**
Andhra bank	3.80	2.00	4.50	5.00	5.50	5.50	5.00	1.10	2.00	0.50	**3.49**
Bank of Maharashtra	2.00	2.00	1.50	2.00	2.00	2.20	2.30	1.00	0.80	0.00	**1.58**
Dena Bank	0.80	1.00	1.20	2.00	2.20	3.00	4.70	2.20	0.90	0.00	**1.80**
Average	**2.32**	**2.00**	**2.90**	**4.02**	**4.46**	**4.20**	**4.66**	**2.38**	**1.40**	**0.24**	

Table 3 shows the dividend of small cap PSU banks for a period of ten years and again we are able to see that highest dividends were paid in the year 2013. Among the banks of this category two have paid small dividends even in the year 2016 while two other have not paid. Oriental Bank of Commerce is the highest dividend paying bank of small cap category and the dividend is higher than the dividend paid by highest dividend paying bank of mid cap category. Still the dividends of this category are below the dividends paid by the large cap group.

Chart 3 Dividend of small cap PSU banks



The trend line for the small cap PSU banks is also downward sloping. Oriental Bank of Commerce is much above the other banks in the category as far as dividend payments are concerned. All other are in line with each other. The chart is somewhat like for the large cap category where one is the clear leader and others are of same shape.

Conclusion:

Saddled with mounting bad loans, as many as 16 public sector banks, including Punjab National Bank, Bank of Baroda and Canara Bank, skipped paying dividend in 2015-16. Only six state-owned banks including State Bank of India (SBI) declared dividend, though at a lower rate, for the fiscal ended March 2016. Hit by demonetisation and mounting bad loans, some public sector banks (PSBs) may skip paying dividend which will have implications for government receipts in the current fiscal. Some PSU bankers have already indicated to the Finance Ministry that it may not be possible for them to pay dividend as their profits are likely to remain subdued due to lower credit off take and rising NPAs. As a result, they said, it is expected that the revenue from dividend from public sector banks is likely to be less than Rs. 1,000 crore as many banks are going to skip dividend payment even for this financial year.

In this scenario, it is very difficult to predict the dividend of public sector banks. One need to wait and watch. Moreover, it has become a question of further research that what has led to high dividends in the year 2013 and what major changes have taken place in last three years that the dividends have dropped to almost zero.

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