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**A Study of Market Prices of Equity Shares and Dividend Policy of Listed Companies in Banking Sector**

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**Abstract:**

The finance manager of any company normally takes three significant decisions, namely financing decision, investment decision and dividend distribution decision. While taking these decisions he should consider how much of the companies' earnings are to be needed for investment and distribution and their probable effects on share prices. In taking any course of actions, he should focus on wealth maximization of the company's shareholders. The present paper highlighted the relationship between the dividend policy of the company and its impact on the market price of the equity shares. The scope of the study is limited to the six leading companies of banking sector for the year 2009-10 to 2016-17.

**Keywords:** Profit, Dividend Policy, Wealth Maximization, Market Price of Shares.

**Introduction:**

Dividend means a part of profit which is distributed by the company to its shareholders' as a reward of their investments in that company. Shareholders' are interested in maximizing their wealth at the same time company requires funds to fulfill its short term as well as long term need. If company distributes its entire profit as a dividend, it has to depend on either debt or new share capital to fulfill its operational need and business expansion. Dividend policy refers a decision of a company to distribute amount of profit and retain it to satisfy companies' need of financing. This task should be done in such a manner that it should protect the interest of shareholders' as well as the need of long term financing of the company.

According to theory of relevance, the dividend decisions have considerable impact on the value of the firm. This theory advocates that the dividend distribution communicate the information to the investors' about firm's profitability. Investors' preferably purchase the shares of those companies which pay higher dividend. On the other hand, according to the theory of irrelevance there is no effect of dividend decision on the prices of the shares. This theory advocates that dividend decisions are nearly a part of financing decisions since its facilities retained earnings which can be reinvested in the business. Present paper is a honest attempt to study whether there is any relationship between dividend policy of a company and its market price or the value of firm through descriptive and analytical research.

**Objectives of the study:**

1. To study and analyze the impact of dividend distribution decision on market price of equity shares.
2. To study and relate the Walter's Model and Modigliani and Miller Approach (MM Model).
3. To know whether stock price increases after dividend is declared.

**Scope:**

The study of effect of dividend distribution, profit retention on changes taken place in market price of the share. This study is restricted to six banks namely HDFC Bank, Union Bank of India, Kotak Mahindra Bank, Axis Bank, SBI, Punjab National Banks for the year 2009-10 to 2016-17 i.e. 8 Years.

**Review of Literature:**

Amar Dhungel (Banking Journal, Volume 3) has studied the impact of dividend distribution on stock price movement of Nepalese bank and financial institutions. In this paper author has tried to study relationship of market price per share with other financial indicator like earning per share, dividend per share and dividend per share including bonus share through specially designed questionnaire. He also tried to analyze the behavior of the investors while purchasing the equity shares in the secondary market. His study has revealed that there was significant correlation between MPPS and EPS, MPPS and EPSBS in case only one bank out of five banks which he have studied. However, this observation could not be generalized since his sample size was small. Azhagaiah and Sabari Priya (2008), in their research paper they have analyzed the impact of dividend policy on shareholders'

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wealth in organic and inorganic chemical companies in India during the year 1996-2006. This study proves that the wealth of the shareholders is greatly influenced by five variables namely – growth in sale, improvement of profit margin, capital investment decisions, capital structure decision and cost of capital (dividend on equity and interest on debt) this study has further revealed that there is significant impact of dividend policy on shareholders' wealth in organic chemical companies. The author Upanada Pani (Social Science and Research Network, 2008) in his research tried to explore the link between the dividend policy and stock price behavior in Indian corporate sector. He has examined 500 BSE listed companies for the years 1996-2006 for six different sectors. His study has revealed that the dividend has impact on the stock returns in Indian corporate sector however, it is industry specific. Doctoral Research of Sujata Kapoor (2009) has focused on the impact of dividend announcement on shareholders' wealth. It has revealed that in FMCG sector investors' have positively responded to cash dividend announcement. Ravindra Joshi (NRB Economic Review, 2012, Volume 24, Issue 2) has examined and proved that there is significant effects of dividend on stock prices of banking and non-banking sector in Nepal.

#### **Research Methodology:**

The present paper is based on descriptive and analytical research. Secondary data collected from Annual Reports of these respective banks for last eight years that is from the financial year 2009-10 to 2016-17. The websites of Bombay Stock Exchange and National Stock Exchange have also referred to understand changes taken place in market price of equity shares of said banks due to dividend declaration / payment.

#### **Hypothesis:**

H<sub>1</sub> – There is direct relationship between dividend distribution and market price of equity shares of company.

H<sub>2</sub> – After the dividend is declared the percentage rise in share prices of the Nationalize Banks is high as compare to Private Banks.

#### **Data Analysis:**

Present paper is a sincere attempt to understand whether there is any relation between percentage of dividend paid / declared and market price of equity shares of that company. For this study the data of six leading banks (Nationalized and Private) have referred. These banks include HDFC Bank Ltd, Union Bank of India Ltd., Kotak Mahindra Bank Ltd., Axis Bank Ltd, State Bank of India Ltd. and Punjab National Bank Ltd. These banks are listed in Bombay Stock Exchange as well as National Stock Exchange.

#### **HDFC Bank Ltd.:**

This bank is a leading private sector bank. As on March 31, 2017 the authorized share capital of the Bank is Rs. 650 crore. The paid-up capital as on the said date is Rs 512.51 crore (2562545717 equity shares of Rs. 2/- each). Following table no. 1(a) and table no. 1(b) have revealed the amount of

dividend distributed and retained earnings of the bank. It further reveals the changes taken place in market price of equity shares after declaration of dividend.

	Mar-17	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11	Mar-10
Earnings Before Appropriation	38,077.33	30,924.01	24,870.07	19,610.56	15,125.93	11,341.33	8,459.20	6,403.33
Equity Dividend	0.00	1,912.83	1,596.99	1,364.06	1,086.60	845.38	643.09	549.29
Preference Dividend	-	-	-	-	-	-	-	-
Dividend Tax	0.00	488.95	408.21	279.29	222.48	163.70	124.53	91.23
Retained Earnings	38,077.33	28,522.23	22,864.87	17,967.21	13,816.85	10,332.26	7,691.57	5,762.81
Dividend Distributed (%)	0.00	6.19	6.42	6.96	7.18	7.45	7.60	8.58
Retained Earnings (%)	100.00	92.23	91.94	91.62	91.35	91.10	90.93	90.00

Source: Annual Report

**Table No. 1(b)**

Year	Prices of Share before the declaration of Dividend	Prices of Share after the declaration of Dividend	Dividend in % Per Share	Increase or Decrease of Share Prices in % after declaration of dividend
2017	1496.60	1537.05	550	2.70
2016	1091.15	1093.25	475	0.19
2015	1013.10	1006.45	400	-0.66
2014	716.45	733.00	342.5	2.31
2013	698.30	689.55	275	-1.25
2012	530.25	554.05	215	4.49
2011	2363.10	2347.50	165	-0.66
2010	1951.80	1979.55	120	1.42

Source: <http://www.bseindia.com/>&<http://www.nseindia.com>

The table no.1 (a) has revealed that the HDFC bank distributed dividend approximately 6 to 9 % to its earnings before appropriation. This table has further revealed that during the year 2009-10 to 2016-17 the proportion of retained earnings have increased as compare to the dividend distribution of bank. However, table no.1 (b) explored that the market price of the equity share during the same period has been increased in few years and slightly decreased in few years after declaration of dividend.

#### **Union Bank of India:**

As on March 31, 2017, the authorized share capital of the Bank is Rs. 3000 crore. Union Bank of India is one of largest state-owned banks in India with the paid up share capital of 687441117 equity shares of Rs. 10/- each. The Government of India holds 55.52% equity share capital of the Bank. Following table no. 2(a) and table no. 2(b) have revealed the amount of dividend distributed and retained earnings of the bank. It further reveals the changes taken place in market price of equity shares after declaration of dividend.

Table No. 2(a)

	Mar-17	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11	Mar-10
Earnings before appropriation	555.22	1,352.02	1,782.05	1,696.61	2,158.54	1,788.08	2,083.58	2,075.75
Equity dividend	0	106.60	304.05	207.58	394.69	367.28	350.87	277.81
Preference dividend	0	0.00	5.28	9.99	9.44	10.55	5.16	-
Dividend tax	0	27.45	77.42	44.55	82.74	73.16	68.60	47.21
Retained earnings	555.22	1,217.97	1,395.30	1,434.49	1,671.67	1,337.09	1,658.95	1,750.72
Dividend Distributed (%)	0	7.88	17.06	12.23	18.29	20.54	16.84	13.38
Retained earnings (%)	100	90.09	78.30	84.55	77.44	74.78	79.62	84.34

*Source: Annual Report*

Table No. 2(b)

Year	Prices of Share before the declaration of Dividend	Prices of Share before the declaration of Dividend	Dividend in % Per Share	Increase or Decrease of Share Prices in % after declaration of dividend
2017	-----	-----	0	-----
2016	116.00	108.10	20	-6.81
2015	140.35	154.60	60	10.15
2014	147.90	145.25	40	-1.79
2013	239.20	239.60	80	0.17
2012	212.25	203.05	80	-4.33
2011	290.05	321.10	80	10.71
2010	302.15	290.80	55	-3.76

Source: <http://www.bseindia.com/>&<http://www.nseindia.com>

The table no.2 (a) has revealed that the Union bank of India distributed dividend approximately 8 % to 21% to its earnings before appropriation. This table has further revealed that from the year 2009-10 to 2011-12 the proportion of dividend distribution have increased as compare to the retained earnings of bank. However, during the period 2012-13 to 2015-16 except the year 2014-15 it shows declining trend in dividend distribution.

The data derived from table no.2 (b) shows that the market price of the equity share has been increased by 10% after declaration of dividend in the year 2010-11 and 2014-15.

#### **KOTAK MAHINDRA BANK:**

This bank is also a leading private sector bank. As on 31<sup>st</sup> March 2017, the authorized share capital of the Bank is Rs. 1500 crore. The paid-up capital as on the said date is Rs. 920.45 crore (1840897877 equity shares of Rs. 5/- each). Following table no. 3(a) and table no. 3(b) have revealed the amount of dividend distributed and retained earnings of the bank. It further reveals the changes taken place in market price of equity shares after declaration of dividend.

Table No. 3(a)

	Mar-17	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11	Mar-10
Earnings before appropriation	11,625.62	8,859.75	5,871.27	4,519.12	3,523.51	2,579.57	1,784.09	1,212.06
Equity dividend	0.75	73.14	68.49	54.39	52.38	37.28	32.52	29.66
Preference dividend	-	-	-	-	-	-	-	-
Dividend tax	-0.68	18.70	13.58	8.69	7.29	7.22	4.37	-
Retained earnings	11,625.55	8,767.91	5,789.20	4,456.04	3,463.84	2,535.08	1,747.20	1,182.40
Dividend Distributed (%)	0.01	0.83	1.17	1.20	1.49	1.45	1.82	2.45
Retained earnings (%)	100.00	98.96	98.60	98.60	98.31	98.28	97.93	97.55

Source: Annual Report



Table No. 3(b)

Year	Prices of Share before the declaration of Dividend	Prices of Share after the declaration of Dividend	Dividend in % Per Share	Increase or Decrease of Share Prices in % after declaration of dividend
2017	901.95	916.95	12	1.66
2016	722.85	726.75	10	0.54
2015	1338.80	1351.20	18	0.93
2014	807.00	802.70	16	-0.53
2013	707.10	723.25	14	2.28
2012	577.10	533.55	12	-7.55
2011	412.95	432.25	10	4.67
2010	760.90	768.50	9	1.00

Source: <http://www.bseindia.com/>&<http://www.nseindia.com>

The table no.3 (a) has revealed that the Kotak Mahindra Bank Ltd. has distributed dividend approximately 1% to 2.45% to its earnings before appropriation. This table has further revealed that the proportion of retained earnings have increased as compare to the dividend distribution of bank. However, table no.3 (b) explored that the market price of the equity share during the year 2009-10, 2010-11, 2013-14 and 2014-15 to 2016-17 has been increased after declaration of dividend.

#### **AXIS BANK:**

As on March 31, 2017 the authorized share capital of the Bank is Rs. 850 crore. Axis Bank is a leading private sector bank in India with the paid up share capital of Rs. 479.01 crore (2395036109 equity shares of Rs. 2/- each). Following table no. 4(a) and table no. 4(b) have revealed the amount of dividend distributed and retained earnings of the bank. It further reveals the changes taken place in market price of equity shares after declaration of dividend.

Table No. 4(a)

	Mar-17	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12	Mar-11	Mar-10
Earnings before appropriation	27,445.74	25,847.15	20,859.27	16,246.93	12,508.88	9,211.98	6,815.92	4,862.62
Equity dividend	987.61	978.23	866.12	778.25	843.86	546.40	475.65	567.45
Preference dividend	-	-	-	-	-	-	-	-
Dividend tax	209.91	213.19	221.42	161.43	143.37	111.83	97.35	-
Retained earnings	26,248.22	24,655.73	19,771.73	15,307.25	11,521.64	8,553.74	6,242.92	4,295.17
Dividend Distributed (%)	3.60	3.78	4.15	4.79	6.75	5.93	6.98	11.67
Retained earnings (%)	95.64	95.39	94.79	94.22	92.11	92.85	91.59	88.33

Source: Annual Report

Table No.4 (b)

Year	Prices of Share before the declaration of Dividend	Prices of Share after the declaration of Dividend	Dividend in % Per Share	Increase or Decrease of Share Prices in % after declaration of dividend
2017	505.95	505.15	250	-0.16
2016	470	465.50	250	-0.96
2015	535.25	567.85	230	6.09
2014	1517.70	1530	200	0.81
2013	1443.80	1486.75	180	2.97
2012	1086.20	1120.65	160	3.17
2011	1449.55	1377.15	140	-4.99
2010	1157.40	1239.15	120	7.06

Source: <http://www.bseindia.com/>&<http://www.nseindia.com>

The table no.4 (a) has revealed that the Axis Bank Ltd. has distributed dividend approximately 3.5% to 12% to its earnings before appropriation during the year 2009-10 to 2016-17. This table has further revealed that the proportion of retained earnings have increased as compare to the dividend distribution of the bank. However, table no.4 (b) explored that the market price of the equity share except the year 2010-11 and 2015-16 to 2016-17 has been increased after declaration of dividend.

**SBI:**

State Bank of India is an Indian multinational, Public Sector banking and financial services company. State Bank of India is one of the Big Four banks of India, along with Bank of Baroda, Punjab National Bank and Bank of India. As on 31<sup>st</sup> March 2017, Government of India held around 57.46 % equity shares in SBI. Life Insurance Corporation of India is the largest non-promoter shareholder in the company with 11.73 % shareholding.

As on 31<sup>st</sup> March 2017, the authorized share capital of the Bank is Rs. 5000 crore with the paid up share capital of Rs. 797.35 crore (7973504442 equity shares of Rs. 1/- each). Following table no. 5(a) and table no. 5(b) have revealed the amount of dividend distributed and retained earnings of the bank. It further reveals the changes taken place in market price of equity shares after declaration of dividend.

Table No. 5(a)

	<b>Mar-17</b>	<b>Mar-16</b>	<b>Mar-15</b>	<b>Mar-14</b>	<b>Mar-13</b>	<b>Mar-12</b>	<b>Mar-11</b>	<b>Mar-10</b>
Earnings before appropriation	10,484.42	9,950.98	13,101.89	10,891.51	14,105.32	11,713.34	7,370.69	9,166.39
Equity dividend	1802.18	1683.81	2036.63	1941.26	2462.79	2052.17	1658.48	1667.89
Preference dividend	-	-	-	-	-	-	-	-
Dividend tax	306.38	334.51	520.65	521.65	522.65	523.65	524.65	525.65
Retained earnings	8,375.86	7,932.66	10,544.61	8,428.60	11,119.88	9,137.52	5,187.56	6,972.85
Dividend Distributed (%)	17.19	16.92	15.54	17.82	17.46	17.52	22.50	18.20
Retained earnings (%)	79.89	79.72	80.48	77.39	78.83	78.01	70.38	76.07

Source: Annual Report

Table No. 5(b)

Year	Prices of Share before the declaration of Dividend	Prices of Share after the declaration of Dividend	Dividend in % Per Share	Increase or Decrease of Share Prices in % after declaration of dividend
2017	302.95	294.40	260	-2.82
2016	185.00	177.05	260	-4.30
2015	289.35	277.70	350	-4.03
2014	2,276.25	2,279.10	300	0.13
2013	2,278.25	2,384.50	415	4.66
2012	1,852.20	1,840.20	350	-0.65
2011	2,628.10	2,642.85	300	0.56
2010	2,306.70	2,323.95	200	0.75

Source: <http://www.bseindia.com/>&<http://www.nseindia.com>

The table no.5 (a) has revealed that the State Bank of India Ltd. distributed dividend approximately 17% to 22.5 % to its earnings before appropriation. This table has further revealed that from the proportion of dividend distribution retained earnings of bank showing fluctuating trend. However, the data derived from table no.5 (b) shows that the market price of the equity share has been decreased since 2014-15 to 2016-17.

**Punjab National Bank Ltd.:**

Punjab National Bank, incorporated in the year 1969, is a Large Cap banking company (having paid up capital of Rs. 425.59 Crore) operating in public sector.

Table No. 6(a)

	<b>Mar-17</b>	<b>Mar-16</b>	<b>Mar-15</b>	<b>Mar-14</b>	<b>Mar-13</b>	<b>Mar-12</b>	<b>Mar-11</b>	<b>Mar-10</b>
Earnings before appropriation	1,324.80	-3,974.40	3,061.58	3,342.58	4,747.67	4,884.20	4,433.50	3,913.00
Equity dividend	0.00	0.00	521.26	303.41	954.38	625.14	583.92	693.67
Preference dividend	-	-	-	-	-	-	-	-
Dividend tax	0.00	0.00	106.72	58.66	162.20	121.05	113.07	116.43
Retained earnings	1,324.80	-3,974.40	2,433.60	2,980.51	3,631.10	4,138.01	3,736.51	3,102.91
Dividend Distributed (%)	0.00	0.00	17.03	9.08	20.10	12.80	13.17	17.73
Retained earnings (%)	100.00	100.00	79.49	89.17	76.48	84.72	84.28	79.30

Source: Annual Report

Table No. 6(b)

Year	Prices of Share before the declaration of Dividend	Prices of Share after the declaration of Dividend	Dividend in % Per Share	Increase or Decrease of Share Prices in % after declaration of dividend
2017	----	----	0	0
2016	----	----	0	0
2015	156.15	148.85	165	-4.67
2014	517.85	548.95	100	6.01
2013	749.20	771.00	270	2.91
2012	783.70	754.10	220	-3.78
2011	1092.60	1065.90	220	-2.44
2010	1,043.25	1,014.15	220	-2.79

Source: <http://www.bseindia.com/>&<http://www.nseindia.com>

The table no.6 (a) has revealed that the Punjab National Bank Ltd. distributed dividend approximately 9 % to 20% to its earnings before appropriation. This table has further revealed that the proportion of retained earnings and dividend distribution of bank shown fluctuating trend. However, table no.6 (b) explored that the market price of the equity share has been decreased after declaration of dividend except the year 2012-13 to 2013-14.

### Findings:

After analyzing the data following findings have been made –

- 1) The table no. 2(a), 5(a) and 6(a) have revealed that the three nationalized bank viz. Union Bank of India, State Bank of India and Punjab National Bank have distributed more dividend as compare to three sample private bank. viz. HDFC Bank, Kotak Mahindra Bank Ltd. and Axis Ltd. the range of dividend distribution of nationalized bank is varied from approximately 9% to 23% as against 1% to 12% of private bank.
- 2) The table no. 2(a), 5(a) and 6(a) have also revealed that all private sector banks viz. HDFC Bank, Kotak Mahindra Bank and Axis Bank shows rising trend of retained earnings of the as compare to dividend distribution.
- 3) Table no.1 (b) to 6(b) explores that market price of equity shares shows fluctuating trend after declaration of dividend.

- 4) Table no. 1(b) to 6(b) have explores that the response to the dividend distribution to rise in the market price of equity shares is inconsistent.

**Conclusion:**

The data analysis from table no. 2(a) to 6(a) and table no.2(b) to 6(b) shows that there is a relationship between dividend distribution and market price of the equity share of the banks. Hence, it can be said that hypothesis H<sub>1</sub> "There is direct relationship between dividend distribution and market price of equity shares of company" can be accepted.

The data analysis from table no. 1(b), 2(b), 3(b), 4(b), 5(b) and 6(b) reveals that percentage rise in the market price of nationalize banks and private banks is inconsistent. Hence, hypothesis H<sub>2</sub> "After the dividend is declared the share prices of the nationalize banks increases as compare to private banks" cannot be accepted.

The degree of relationship between the dividend distribution and market price of the equity shares of the six sample banks is found to be quite positive. The literature review in the regard encourages the debate about whether there is any relation between the market price of the equity share and dividend distribution policy of the company. In present paper this small sample size itself restricts the scope of study. Further there could be many other factors which have direct or indirect influence on market price of the share along with the dividend distribution decision of the company.

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