

BEHAVIOUR OF DIVIDENDS OF SELECT CEMENT COMPANIES IN INDIA: A STUDY



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INTRODUCTION

The relevance of dividend policy decisions to investors and managers is well understandable. However, the financial variables that influence the dividend policy of any concern are ambiguous. Researchers have not been able to reach a consensus regarding the determining variables of dividend policy. Thus, there exists a lack of unanimity on the factors on which the dividend decision of any firm depends. Additionally, studies have shown that the category of the industry also plays a determining role (Michel, 1979; Baker, 1988, as cited in Baker & Powell, 2000). But studies focusing on industry-specific dividend policy determining factors are very scanty. Hence, the present study focusses on the dividend payment behaviour of the cement sector in India.

Apart from the developmental potential of an emerging economy, the factors that warrant a study of the equity dividend behaviour of the cement sector in India are: *one*, the demand for cement is essentially a derived demand and it primarily caters to the construction sector; *two*, the product cement is such that it solidifies when in contact with moisture. Therefore, the demand for cement falls during monsoons. Both these factors influence profit and cash available from operations which in turn influences the equity dividend payment of the firms.

LITERATURE REVIEW

Profit After Tax (PAT)

Dividends are a slice of the profits of the firm.

Abstract

Dividend policy merits attention from both the manager's and the owner's perspective. Extant literature documents the influence of dividend decisions on the price of the shares of the company and thereby, the wealth of shareholders. However, to date, there has been no consensus among financial researchers regarding the financial elements that influence firms' dividend decisions. Industry-specific studies on dividend policy are also rare. The two financial elements that received special attention among academic fraternity with regard to dividends are — Profit after tax and cash from operating activities available to the equity shareholders. However, dividend policy of an industry whose earnings depend on the climatic conditions like the cement sector warrants due attention. This study, therefore, explores the behaviour of equity dividends distributed with regard to profit after tax and cash from operating activities available to the equity shareholders of the cement sector in India.

Unequivocally, therefore, profitability is one of the primary deciding elements factor for a dividend decision of a firm. According to Lintner (1956) the dividend payment behaviour of a firm depends on its present earnings. Similarly, Longinidis & Symeonidis (2013) conceded net operating profit after tax as an impactful financial element in the dividend payment decision of the firms. Therefore, in this study too profit after tax (PAT) is considered for assessing the behaviour of dividend payment of the select cement companies in India.

Cash from operation available to equity shareholders

Baker et al. (1985) acknowledged that managers regard cash available as an important factor governing their

dividend decision, with no deviation in the Indian context too (Baker & Kapoor, 2015). Similarly, Amidu & Abor (2006) note that liquidity in the form of cash bears a significantly positive linkage with the firms' dividend pay-out ratio.

RESEARCH GAP

It has been mentioned earlier that industry-specific study on dividend policy is rare. Moreover, a study based on dividend policy of an industry, like cement, whose earnings are dependent on climatic conditions is not at all available. This study is an exception to fill this void.

OBJECTIVES

This study attempts to analyse the equity dividend payment behaviour of the cement sector in India. More specifically the study focusses on —

1. The relationship between equity dividends and profit after tax (PAT) of the select cement companies in India
2. The relationship between equity dividends and cash from

Demand for cement falls during monsoons

operation available to equity shareholders of the select cement companies in India.

RESEARCH METHODOLOGY

The study is empirical in nature and based on secondary data. The data of Indian cement companies is collected from CMIE Prowess. There are 196 companies in total in the database. 19 companies are filtered from the data under the criteria—*One*, the company is listed in BSE and *two*, continuous availability of data for the chosen variables from 2001 to 2020. The two chosen variables for the study are profit after tax (PAT) and cash from operating activities available to the equity shareholders.

The primary source of liquidity for any firm is cash from operating activities. Since debtholders and preference shareholders have their

stake in cash flow from operating activities, to determine cash from operating activities available to the equity shareholders, interest and then preference dividend are deducted from cash from operating activities. Accordingly, 380 firm-year observations (19 multiplied by 20) are considered for the analysis. Pearson's correlation and the Ordinary Least Square method of regression are employed for the analysis. The data is run in SPSS for obtaining results.

FINDINGS OF THE STUDY

In Table I, it is observed that Pearson's correlation coefficient between PAT and equity dividend is 0.88113. The results show a significant p-value of 0.00000 implicating strong and positive correlation between the PAT and equity dividend. The R² is 0.77638 evidencing that 77.6% of the variance in equity dividends is accounted for by PAT. The Table also implicates the derived regression model significantly predicts equity dividend with F (1,378) = 1312.39985, p = .00000.

TABLE I

| Table showing R value between PAT and Equity Dividend, significance of R, R², F-value and significance of F-value for the 19 sample cement companies | | | | |
|--|-------------|----------------------|----------------|-------------|
| <i>R</i> | <i>Sig.</i> | <i>R²</i> | <i>F-value</i> | <i>Sig.</i> |
| 0.88113 | 0.00000 | .77638 | 1312.39985 | .00000 |

TABLE II

| Table showing the constant, coefficient of the predictor variable PAT, the t-value of the predictor variable PAT and the significance of the t-value. | | | |
|--|--------------|-----------------------|-------------|
| <i>Constant</i> | <i>Slope</i> | <i>t-value of PAT</i> | <i>Sig.</i> |
| -4.75709 | .29094 | 36.22706 | .00000 |

From Table II, the regression model is formulated:

$$\text{Equity Dividend} = -4.75709 + 0.29094 * \text{PAT}$$

The relationship is positive and statistically relevant at 1 per cent.

Table III shows Pearson's correlation coefficient between cash available to equity shareholders from operating activities and equity dividend is 0.83297. The results show a significant p-value of 0.00000 implying strong positive correlation between cash available to equity shareholders from operating activities and equity dividend. The value of R² is 0.69384. It implies that 69.4 per cent of the variance in equity dividends is explained for by cash from operating activities available to equity shareholders. The Table also implicates the derived regression significantly predicts equity dividend with F (1,378) = 856.64824, p = .00000.

TABLE III

| Table showing R value between Cash available to Equity Shareholders from operating activities and Equity dividend, significance of R, R ² , F-value and significance of F-value for the 19 sample cement companies | | | | |
|---|---------|----------------|-----------|--------|
| R | Sig. | R ² | F-value | Sig. |
| .83297 | 0.00000 | .69384 | 856.64824 | .00000 |

The regression model is formulated from Table IV:

Equity Dividend = -34.75950 + 0.21049* (Cash from operating activities available to equity shareholders)

The relationship is positive and statistically relevant at 1%.

TABLE IV

| Table showing the constant, coefficient of the predictor variable Cash available to Equity Shareholders from operating activities, the t-value of the predictor variable Cash available to Equity Shareholders from operating activities and the significance of the t-value | | | |
|--|--------|--|--------|
| Constant | Slope | t-value of Cash available to Equity Shareholders from operating activities | Sig. |
| -34.75950 | .21049 | 29.26855 | .00000 |

The cement companies have greater urge to pay equity dividend to their shareholders

A comparative evaluation of the relationship of both the variables, viz., PAT and cash available to equity shareholders from operating activities with equity dividend also suggests that PAT ($r = 0.88113$) has a greater affinity to equity dividend compared to cash available to equity shareholders from operating activities ($r = 0.83297$). Moreover, PAT holds a better explanatory power for the variance in equity dividend which is 77.6 per cent compared to cash available to equity shareholders from operating activities which is 69.4 per cent.

CONCLUSION

This study evidences that profit after tax and cash flow from operating activities available to the equity shareholders are the two significant determinants of equity dividend payment in the Indian Cement Industry. Both the variables show a

positive and a significant association with equity dividend payment. It implies, that the higher the values of profit after tax and cash flow from operating activities available to the equity shareholders, the cement companies have greater urge to pay equity dividend to their shareholders. Additionally, this study proves that PAT has a greater affinity to equity dividend as compared to cash flow from operating activities available to the equity shareholders. Moreover, PAT holds a greater explanatory power in accounting for the variations in equity dividend than cash flow from operating activities available to the equity shareholders. **MA**

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