

A study of the evaluation of profitability and dividend policy of the steel manufacturing company

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Abstract:-

Thus present study is undertaken to analyze the trend of dividend in context of Indian firms, relation of dividend with other important variables of the firm. Dividend policy is a strategy used by a company to determine amount and timing of dividend payments. The share price of the companies will always show volatility because of the impacts of some factors. The dividend policy is that impacts the stock market price of the company. But the real impact on the dividend policy in stock market is still ambiguous and remains unsolved. Hence this study analyses the real relationship between the dividend policy determinants and stock Market price taking into account the variables like, Net Profit ratio, Dividend Cover and Dividend payout ratio are used for analyzing the impact Level. The research study is an attempt to evaluate the profitability and dividend policy of selected steel manufacturing company listed on Bombay Stock Exchange (BSE). For the purpose of study financial data from the period 2015-16 to 2019-20 of selected company (At list running since last 20 years and having market cap more than 1 trillion) have been used. The data would be analyzed using statistical tools like multiple regression techniques, t-test, F value and coefficient determinants. The result of the data analysis might reveals that there is a significance effect or dividend policy on the profitability of the selected company. The study is limited to a time period of Five years and only selected steel company.

Keywords:- Dividend Policy, Profitability, Shareholders Wealth, BSE.

1. Introduction:-

Each operating enterprise is interested in running a profitable business. This might be achieved only by exploiting different factors of complex nature. Dividend among other factors can be regarded as a cause of variation in firm value. Dividend is those cash distribution that companies may pay out regularly to Shareholders from earnings, sending a clear and powerful message about future prospects and vision. A company's willingness and ability to pay steady dividend overtime and its power to increase them provide good clues about its fundamentals. Discretely introduced strategy regarding dividend may contribute significantly to the firm value. Dividend is one of the most important financial

policies not only from the viewpoint of the company, but also from the stakeholders. In the process of running business, managers have always kept in mind that the dividend decisions impact their firm's shares. Share price is critical determinant of shareholders wealth. So, manager's dividend decisions affect common share price and therefore, the wealth of shareholders. For a company, it is a pivotal policy around which other financial policies rotate. Dividend policy decision influences the financing decision of the firm through retained earnings. Financing decision would relate to the amount of funds to be raised from external sources as the investment needs of a firm can be fulfilled by a combination of retained earnings and external financing. Therefore, higher the amount of retained earnings, given the investment needs, lower will be the need for external finance and vice-versa. Value of the corporate securities depends to a great extent on dividend and, therefore, in deciding upon the financial structure of a company dividend has to be assigned due weightage. So, a thorough exploratory study on dividend and value of the firm is beneficial to the company, shareholders, government and the economy as a whole, since the business is expanding by leaps and bounds. Dividend policy is a guiding principle of a company to Decide the portion of its earnings and its pay out to shareholders to show whether the company goes either for Pay dividend to its owners or for retaining a share out of Profits to plough back in the firm or at the end of each year and it is the company's decision to how much to return to their stockholders in the form of dividends. The best dividend policy is the one which guide to maximize of shareholders wealth and increase the value of firm.

2. Literature review:-

There are a number of research paper written in dividend policy earlier, which analyses the relationship between dividend policy and profitability.

Naceur, Goaied and Belanes (2006), tested Lintner's model in the context of Tunisian companies. This research found that, Tunisian firms follow a stable dividend policy; they also found that the primary determinant of dividend payment decisions is current earnings, instead of past dividend payment decisions.

Husam et al. (2007), examined the determinants of corporate dividend policy in the context of Jordanian companies. This research endeavor found that, the proportion of ownership by insiders and the government is important determinants of dividend payment decisions; other determinants are size, age and profitability of the firm.

Akbar and Baig (2010), conducted study on a sample of 79 companies listed at Karachi Stock Exchange for the period of 2004 to 2007 showed that announcement of dividends either cash dividend or stock dividend or both had positive impact on share prices.

Hussainey et al. (2011), company with higher payout ratio or dividend yield, will result in less volatile stock price. Dividend payout ratio is the main determinant of the volatility of stock price. The larger the size of the company, the stock price will be less volatile. Well, if the company incurs high leverage, there is a higher probability that stock price being more volatile.

3. Research mythology:-

3.1. Objective of the study:-

- To study the net profit and its application on company.

- To compare net profit, dividend payout ratio and dividend cover to know whether they are correlate or not.
- To determine value added by company to shareholders wealth by using dividend policy.

3.2. Sample size:-

The study conducted on selected three steel manufacturing companies i.e., Tata Steel Ltd, JSW Steel Ltd and Hindalco.

3.3. Collection of data:-

The data in present research has been collected through secondary data by various sources like books, journals, magazines, records, paper, website, articles, periodical, newspaper, references etc.

3.4. Method of data analysis:-

The data have been processed and analyzed with the help of various techniques like mean, median, mode, correlation, regression, standard deviation, coefficient of variation and ANOVA.

3.5. Hypothesis of the study:-

Hypothesis 1:-

H₀:-There is no significant relation between net profit and dividend payout ratio.

H₁:-There is significant relation between net profit and dividend payout ratio.

Hypothesis 2:-

H₀:-There is no significant relation between net profit and dividend cover.

H₁:-There is significant relation between net profit and dividend cover.

3.6. Variables used for the study:-

- Net profit
- Dividend payout ratio
- Dividend cover

3.7. Limitation of this study:-

1. The research work is carried out in selected four companies i.e., Tata Steel Ltd, JSW Steel Ltd and Hindalco.
2. The tenure of the study is only five years i.e., 2015-16 to 2019-20.
3. Only those companies are selected for measurement that were running since last 20 years and having market cap more than 1 trillion.

4. Data Analysis and Findings:-

To test significance of Net Profit, Dividend Cover and Dividend Payout Ratio for each company, to test this objective we need to use ANOVA, but before that we need to check Normality of data and homogeneity of variance.

Assumption-1:-

H₀: Data follows Normal Distribution

H₁: Data does not follow Normal Distribution

Table No. 4.1 Tests of Normality

| Company | | Shapiro-Wilk | | |
|-----------------------|------------|--------------|----|-------|
| | | Statistic | df | Sig. |
| Net Profit | JSW Steel | 0.719 | 5 | 0.015 |
| | Tata Steel | 0.904 | 5 | 0.431 |
| | Hindalco | 0.868 | 5 | 0.259 |
| Dividend Cover | JSW Steel | 0.871 | 5 | 0.272 |
| | Tata Steel | 0.873 | 5 | 0.278 |
| | Hindalco | 0.755 | 5 | 0.033 |
| Dividend Payout Ratio | JSW Steel | 0.901 | 5 | 0.415 |
| | Tata Steel | 0.913 | 5 | 0.485 |
| | Hindalco | 0.939 | 5 | 0.657 |

From the Shapiro- Wilk's test we can clearly conclude that, in all company data follows Normal distribution (as no p-value is less than 0.01).

Assumption-2:

Ho: Data is homogeneously distributed

H1: Data is does not homogeneously distributed.

Table No. 4.2 Test of Homogeneity of Variances

| | Levene Statistic | df1 | df2 | Sig. |
|-----------------------|------------------|-----|-----|-------|
| Net Profit | 1.197 | 2 | 12 | 0.336 |
| Dividend Cover | 11.944 | 2 | 12 | 0.001 |
| Dividend Payout Ratio | 1.770 | 2 | 12 | 0.212 |

In above table 4.2 as p-values > 0.05, we can conclude that data are homogeneously distributes. As both conditions hold true, we may apply ANOVA test as below.

H₀: Net Profit, Dividend Cover, Dividend Payout Ratio is same for each company

H₁: Net Profit, Dividend Cover, Dividend Payout Ratio is different for at-least one company.

Table No. 4.3 Two Way ANOVA Table for Difference in the Mean Values of Net Profit, Dividend Cover, Dividend Payout Ratio.

| | | N | Mean | Std. Deviation | Std. Error | Minimum | Maximum | Statistic | p-value |
|----|------------|---|--------|----------------|------------|---------|---------|--------------------|---------|
| NP | JSW Steel | 5 | 4.618 | 8.084916 | 3.615684 | -9.61 | 10.52 | 3.91 ^a | 0.049 |
| | Tata Steel | 5 | 10.608 | 3.485817 | 1.558905 | 6.99 | 14.91 | | |
| | Hindalco | 5 | -0.556 | 6.50387 | 2.908619 | -7.81 | 6.25 | | |
| DC | JSW Steel | 5 | 7.73 | 6.519571 | 2.915641 | -3.02 | 14.64 | 0.132 ^b | 0.879 |

| | | | | | | | | | |
|---------|------------|---|-------|----------|----------|-------|-------|--------------------|-------|
| DP R | Tata Steel | 5 | 8.358 | 1.243571 | 0.556142 | 6.89 | 9.62 | 14.90 _a | 0.001 |
| | Hindalco | 5 | 5.764 | 11.42841 | 5.110939 | -3.45 | 19.23 | | |
| | JSW Steel | 5 | 4.824 | 8.562107 | 3.829091 | -9.06 | 13.5 | | |
| DP R | Tata Steel | 5 | 21.75 | 8.496773 | 3.799872 | 10.87 | 30.28 | 14.90 _a | 0.001 |
| | Hindalco | 5 | -2.58 | 3.334307 | 1.491147 | -6.12 | 2.65 | | |

Above table represents, descriptive statistics of last 5 years for each company. Net Profit and Dividend Cover are significantly different and Dividend Payout Ratio is insignificant. Table 4.4 shows the result of Analysis of Variance (ANOVA) for NP, DC and DPR. It reveals that the value of F are more than F- critical value. Thus, we reject the null hypothesis.

Objective-1:

Correlation analysis and Regression analysis;

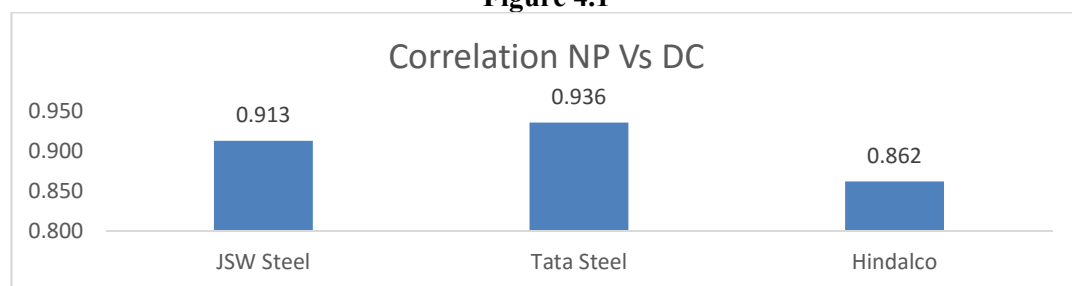
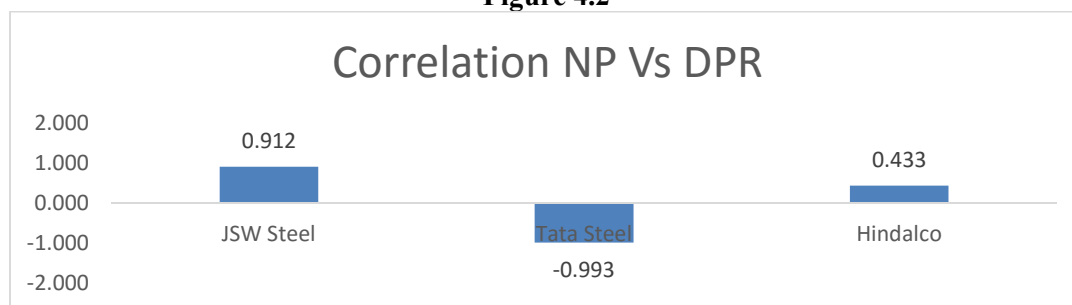
H₀: Net Profit and Dividend Cover, Dividend Payout Ratio are independent.

H₁: Net Profit and Dividend Cover, Dividend Payout Ratio are significantly related.

Table No. 4.4 Correlation Matrix between Net Profit, Dividend Cover, Dividend Payout Ratio.

| Company | | | Statistics | NP |
|------------|-----|--|---------------------|----------|
| JSW Steel | DC | | Pearson Correlation | 0.913* |
| | | | Sig. (2-tailed) | 0.030 |
| | DPR | | Pearson Correlation | 0.912* |
| | | | Sig. (2-tailed) | 0.031 |
| Tata Steel | DC | | Pearson Correlation | 0.936* |
| | | | Sig. (2-tailed) | 0.019 |
| | DPR | | Pearson Correlation | -0.993** |
| | | | Sig. (2-tailed) | 0.001 |
| Hindalco | DC | | Pearson Correlation | 0.862 |
| | | | Sig. (2-tailed) | 0.060 |
| | DPR | | Pearson Correlation | 0.433 |
| | | | Sig. (2-tailed) | 0.467 |

From above table we may conclude that Dividend Cover and Net Profit as well as Dividend Payout Ratio and Net Profit for JSW Steel are highly positively correlated. Dividend Cover and Net Profit are highly positively related but Dividend Payout Ratio and Net Profit for TATA Steel are highly negatively correlated. Similarly, Dividend Cover and Net Profit as well as Dividend Payout Ratio and Net Profit are independent for Hindalco.

Figure 4.1**Figure 4.2**

Here, Net Profit and Dividend Cover are correlated for JSW steel and TATA steel only.

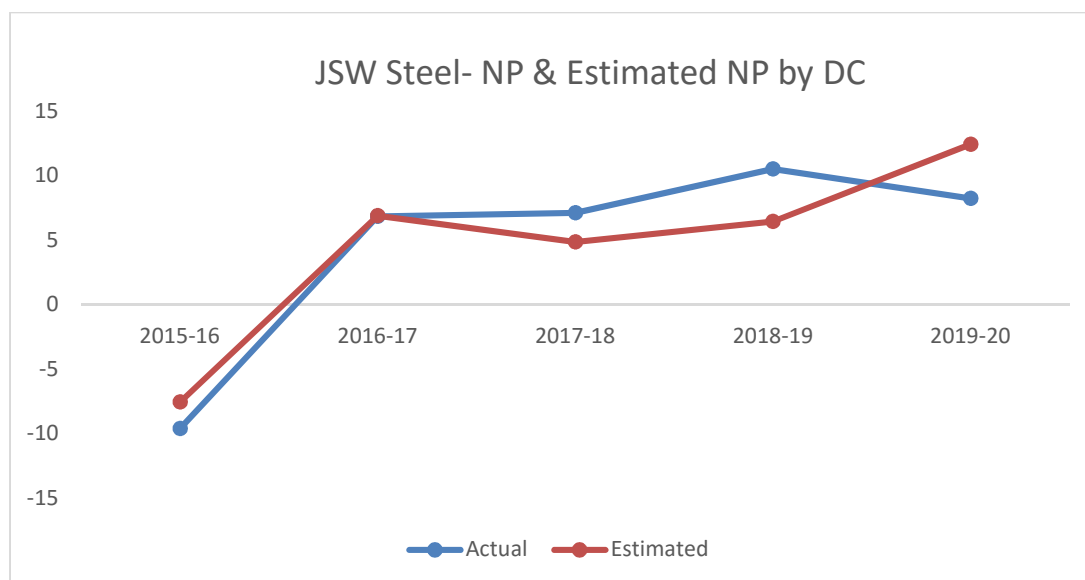
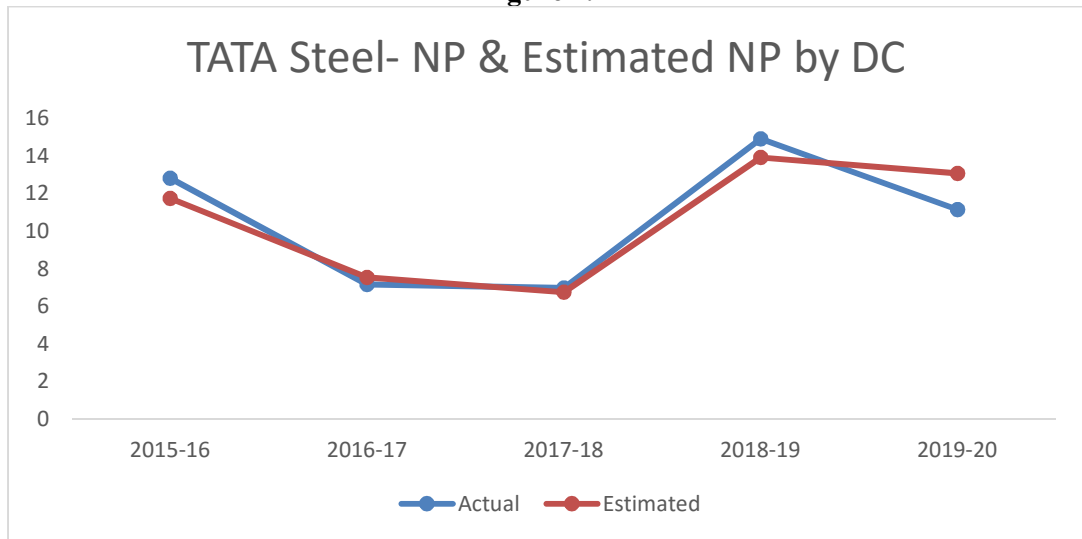
Figure 4.3

Figure 4.4



If we see the actual and estimated value of NP in the selected companies, it can be seen that TATA steel surpassed the estimated value of NP in three years followed by JSW steel for two years.

Therefore, we can do regression analysis as follows:

H_0 : The fitted regression model is insignificant.

H_1 : The fitted regression model is significant.

Table No. 4.5 Model Summary

| Company | R | R Square | Adjusted R Square | Std. Error of the Estimate | F | p-value |
|------------|-------|----------|-------------------|----------------------------|--------|---------|
| JSW Steel | 0.913 | 0.833 | 0.778 | 3.81222 | 14.991 | 0.030 |
| Tata Steel | 0.936 | 0.875 | 0.834 | 1.42154 | 21.052 | 0.019 |

Interpretation: Both models are significant.

H_0 : Dividend Cover (regression coefficient) is insignificant for Net Profit in selected companies.

H_1 : Dividend Cover (regression coefficient) is significant for Net Profit in selected companies.

Table No. 4.6 Model Summary

| Company | | B | Std. Error | t | Sig. |
|------------|------------|----------|------------|----------|----------|
| JSW Steel | (Constant) | -4.13231 | 2.83094 | -1.4597 | 0.240484 |
| | DC | 1.131994 | 0.292368 | 3.871816 | 0.03049 |
| Tata Steel | (Constant) | -11.3103 | 4.819165 | -2.34695 | 0.100584 |
| | DC | 2.622437 | 0.571554 | 4.588257 | 0.019446 |

Model1: $NP = -4.13231 + 1.132 \cdot DC$ (JSW Steel)

Model2: $NP = -11.3103 + 2.622 \cdot DC$ (TATA Steel)

Table No. 4.7 Model Summary

| Year | JSW Steel | | TATA Steel | |
|----------------|-----------|-----------|------------|-----------|
| | Actual | Estimated | Actual | Estimated |
| 2015-16 | -9.61 | -7.55093 | 12.82 | 11.74089 |
| 2016-17 | 6.84 | 6.89331 | 7.17 | 7.54499 |
| 2017-18 | 7.11 | 4.85572 | 6.99 | 6.75826 |
| 2018-19 | 10.52 | 6.45183 | 14.91 | 13.91752 |
| 2019-20 | 8.23 | 12.44008 | 11.15 | 13.07834 |

From model summary table we observe that coefficient of determination R^2 are 0.833 and 0.875 for JSW steel and TATA steel respectively. Therefore, we can conclude that there is no first order auto correlation among residuals. From ANOVA table we conclude that the fitted regression models are significant (p -values < 0.05) at 5% level of significance in respective companies. From coefficient table we conclude that the DC (regression coefficient) is significant (p -values < 0.05) at 5% level of significance for NP in selected companies. Therefore, DC has significant effect on NP in selected companies. For the remaining companies there is no significant influence of DC and DPR on NP.

5. Findings & Conclusion:-

This study aimed to test the impact of dividend policy on company. In addition, the study aimed to provide valuable strategies to enable stock market participants to understand the role of dividend policy and how it can affect company performance. In this study, we tried to answer the study question (problem) that related to the effect of the dividend policy on company performance. The study concluded that the distribution policy does have an effect on the performance of companies. The reason can be due to investor preference for firms that have more dividends instead of retained earnings, meaning that investors tend to have more liquidity and this meets the needs of investors. The results of the study reveal that the Dividend Cover and Dividend Payout Ratio are the policy concerned with assessing performance through Net Profit. More importantly, this study not only detected a significant impact of dividend policy on firm performance of the study sample, but also detected that the study variables (dividend cover and dividend pay-out ratio) have played a significant role in predicting firm performance. Based on previous findings, the study also discovered that the variables chosen were suitable indicators to calculate firm performance which enabled the researcher to get brilliant and strong results. Furthermore, study results present a strong relation between all examined variables that explain firm performance through the R value computed (Table 4.5) for the study model, which indicates that the model has the ability to interpret 14.991% and 21.052% of variation in financial performance. These important results detect an influential relationship between dividend cover and dividend pay-out ratio on one side and performance on the other side. Through this paper an attempt was made to evaluate companies' performances by using Dividend Cover, Dividend Payout Ratio and Net Profit. From the above study researcher has found that JSW steel and TATA steel has able to maximize their profit and also able to create wealth for shareholders.

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