# Impact of Dividend Payout on Firm's Performance: Study on a Pharmaceutical Company in India in 2004 to 2020

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## Abstract

The basic purpose of the study is to investigate the relationship between dividend payout and determinants of dividend. Research design/methodology-the sample contains a listed pharmaceutical company in the year 2004 to 2020, time-series data were calculated from the financial statement of the selected firms. Return on asset (ROA) and return on equity (ROE) and earnings per share (EPS) were used as independent variables while dividend payout (DPO) as dependent variables. Descriptive statistic, correlation, and multiple regressions were used as data analysis techniques. The period of the study is an important considering factor. In account, calculated P's value of all variables indicated the significant level of the variable is considered model. Based on the objective of the study concluded that's **first**, each determinant of the dividend payout may not equally significant like EPS. **Secondly**, the association between the independent variable and dependent variable not is the same. And **thirdly**, the degree of association between the dependent variable and the independent variable's value was not equal.

**Keywords**: *Trend analysis, Pool regression, EPS, ROE, Dividend payout, and ROA.*

## Introduction

Every company pays the dividend after a certain period. Initially, the company board meeting decided that how much profit distribute and retain for the company's further investment or development purpose for the future. The study gives us a clear picture of the different determinants of dividend payout and which kind of associations are there for the selection of dividends that are affected by the determinants of financial components of a company. On the other hand, the historical reports of the company said the next investment opportunity for the outsider or stockholder. When any investors invested capital in a particular company they followed and looked up the different financial parameters of the company, dividend payout is one of them. In our study consider the three tools of financial statement of the company such as 1. Earnings per share, 2. Return on equity and 3. Return on assets. Jensen (1986) and Roseff (1982) concluded that companies can use dividend payments to reduce agency problems. When shareholders do not receive dividends, managers begin to use these resources for their benefit. Help companies understand how to control agency fees by managing dividend

policies.[i] Dividend payout is, therefore, taken into consideration to be one of the vital monetary choices that company managers encounter (Baker and Powell, 1999).[ii] Straitis and Wu (2004) suggested reducing dividend payments to shareholders. Dividends can be used to reduce the company's over-investment problems.[iii]

Jensen (1986) believes that paying dividends to shareholders will reduce management's control of resources. Dhanani (2005) uses survey methods to capture the opinions and attitudes of company managers on dividend policy and finds that dividend policy helps to add value to the company's market.[iv] Frankfurt and McGoon (2000) concluded that the dividend problem, whether in terms of appreciation or politics, is one of the most difficult problems in modern finance. Mizuno (2007) agrees with the fact that if a company cannot determine a suitable investment that can generate higher returns than shareholders expect, it must pay dividends to shareholders.[v]

Researchers have different opinions on whether dividend payments have a significant long-term impact on stock prices.[vi] This has potential effects on stock prices, investor returns, domestic growth funds, and capital bases through equity holdings and leverage and leverage (Omran and Pointon, 2004).[vii] Facio et al. (2004) believe that the empirical research to infer the causal relationship between returns and dividends is based on short-term and therefore misleads potential investors. Therefore, dividends have no explanatory power for predicting future returns.[viii] Therefore, this study attempts to find out whether there is a connection between dividend payments and company performance.

**Relevance of the study**

Generally, the study depends on determinants of dividend payout and its association of the relationship in the practical life for analysis. There were many tools are there for analyzing the company's overall performance such as EPS, PBIT, PE, etc. and dividend payout is one of them. This study attempts to examine some of the features that determine the behavior of firms' dividend payouts ratio in the Indian company. The contradictory and conflicting response to the question on the relevance of dividend payout on its determinants of firms' performance informed the need for this study. This study aims to examine the possible effect that a firm's dividend payout might have on the investor's interest and the resulting impact it could have on the financial performance of a company.

**Company's profile**

Dr. Reddy's Laboratories is an Indian multinational pharmaceutical company placed in Hyderabad, Telangana, India. The employer changed into founded by way of Anji Reddy, who previously labored inside the mentor institute Indian tablets and prescribed drugs restrained.[ix]Dr. Reddy manufactures and markets a wide variety of prescription drugs in India and foreign places. The agency has over one hundred ninety medications, 60 energetic pharmaceutical elements (APIs) for drug manufacture, diagnostic kits, crucial care, and biotechnology merchandise.

Dr. Reddy's commenced as a provider to Indian drug producers, but it quickly commenced exporting to different much less-regulated markets that had the gain of not having to spend time and money on a production plant that might gain approval from a drug licensing frame inclusive of the U.S. meals and Drug Administration (FDA). by using the early 1990s, the multiplied scale and profitability from those unregulated markets enabled the company to begin focusing on getting approval from drug regulators for their formulations and bulk drug manufacturing vegetation - in more advanced economies. This allowed their motion into regulated markets together with The USA and Europe. In 2014, Dr. Reddy Laboratories become indexed among 1200 of India's maximum depended on brands in keeping with the brand consider record 2014, a take a look at performed using accept as true with research Advisory, an emblem analytics business enterprise.[x]

by way of 2007, Dr. Reddy's had seven FDA plant life producing lively pharmaceutical substances in India and seven FDA-inspected and ISO 9001 (nice) and ISO 14001 (environmental management) certified plants making affected person-ready medications – five of them in India and within the United Kingdom[xi]

In 2010, the family-managed Dr Reddy's denied[xii] that it became in talks to sell its generics business in India to US pharmaceutical large Pfizer,[xiii]which were suing the business enterprise for alleged patent infringement after Dr Reddy's introduced that is supposed to provide a customary version of atorvastatin, advertised by way of Pfizer as Lipitor, an anti-ldl cholesterol remedy. [xivxv]Reddy's changed into already linked to UK prescription drugs multinational Glaxo Smithkline.[xvi]

**Conceptual framework of the study**

The conceptual model given here was formulated through extensive study.

The model suggests the relationship between the determinants of the dividend payout of the company. Dividend payout, the dividend payout ratio is the amount of dividends paid to stockholders relative to the quantity of overall internet profits of a corporation. The quantity that isn't always paid out in dividends to stockholders is held by way of



the business enterprise for growth. The amount this is stored via the organization is called retained income.
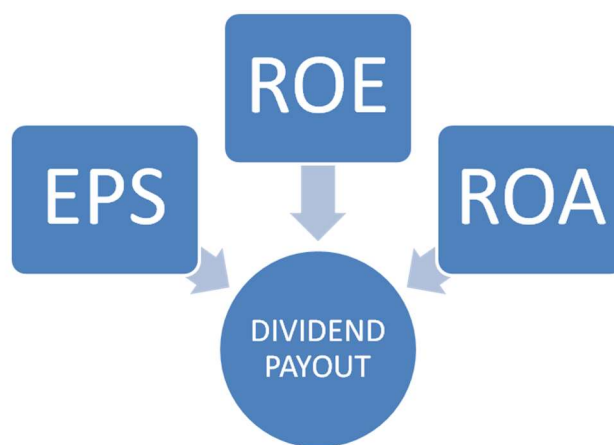
**Dividend payout ratio= dividend /internet income**

The dividend payout ratio is the quantity of dividends paid to stockholders relative to the amount of total internet earnings of an organization. The amount that is not paid out in dividends to stockholders is held by means of the business enterprise for boom. The amount this is saved by using the company is referred to as retained income.

Net earnings proven inside the formula may be observed on the organization's income statement. This formula is used by some while considering whether or not to invest in a profitable organization that can pay out dividends versus a profitable company that has excessive increase potential. In different words, this method takes into attention consistent profits versus reinvestment for viable future income, assuming the company has net profits.

**Alternative Formula**

I. **1-retention ratio**

The retention ratio and the dividend payout ratio collectively identical 1 or 100% of net profits. the idea is that something amount now not paid in dividends is saved by way of the employer to reinvest for expansion.

Alternatively, an organization that can pay no dividends could have a 0 dividend payout ratio and a 1 retention ratio, which means that that the employer reinvests all of their internet income for growth.

II. **Dividend consistent with proportion (DPS)/income consistent with percentage(EPS)**

The dividend payout ratio method can also be restated on an "according to percentage" foundation. If the dividend consistent with proportion and earnings in keeping with proportion is known, the dividend payout ratio may be calculated using the identical concept of dividends paid divided through income, or internet profits.

Income in line with share (EPS) is the part of a corporation's profit allocated to each first-rate share of common stock. Profits per percentage function as a hallmark of an employer's profitability.

   **EPS=( internet income – favored dividend )/weighted common proportion exquisite**.

**Return on equity (ROE)** is the quantity of net profits back as a percentage of shareholders' fairness. return on fairness (additionally referred to as "return on net worth" [RONW] measures an enterprise's profitability by means of revealing how a good deal profit an agency generates with the cash shareholders have invested.

ROE is expressed as a percentage and calculated as:

**ROE= net earnings/Shareholder's equity**

**Return on assets (ROA)** is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. Return on assets is displayed as a percentage and it's calculated as:

ROA = Net Income / Total Assets

**Literature of the study**

Modigliani and Miller (1961) pointed out that "the theoretical principles behind the dividend policy and its business impact can be described as dividend-independent or dividend-related theories". Therefore, the dividend policy has nothing to do with the cost of capital and value. There are no companies in the world with taxes and transaction costs. This shows that if investors can create any

income model by buying and selling stocks, it depends on how the company distributes dividends so that the expected return required for them to own the company's stock will not change and the issuance of new shares. It should be noted that company assets, investment opportunities, expected future net cash flows, and cost of capital are not affected by dividend policy options.

Pruitt and Gitman (1991) studied and found that risk is also an important determinant of a company's dividend policy, and concluded that companies with relatively stable earnings can often roughly predict their future earnings. Compared with companies with fluctuating profits, such companies are more likely to pay a higher percentage of profits.

Amidou and Abor (2006) studied the determinants of the dividend rate of companies listed on the African Stock Exchange for 6 years on a financial reporting platform. The results of this study show that there is a significant positive correlation between the dividend payment rate and cash income. There is a significant negative correlation between cash flow and taxation, dividend payment rate and risk, institutional ownership, development, and market value and book value. Fario et al. (2004) believe that there is no significant link between dividends and long-term returns, and studies showing this link are based on short-term, thus misleading investors. They proposed three scenarios that ignore the ratio of long-term dividends to future earnings.

Lee (2005) believes that companies that increase distribution have excessive financial flexibility, and at the same time exhibit positive earnings shocks and lower earnings volatility, but there is limited evidence of subsequent performance improvement. The volatility continues to decline, which can be explained by the fact that managers will increase the company's salary if they believe that the probability of maintaining the current income level is high. Volatility is higher than other companies, and this volatility is increasing. Tahir and Raja (2014) used regression and correlation in their study titled "The Impact of Dividend Policy on Shareholder Welfare" to determine the most appropriate model for Pakistan Oil and Gas Company's PD and its impact study from 1999 to 2006. Dividend payout ratio (DPR), price-to-earnings ratio (PER), book value and equity market value (BV / MV), and return on holding ratio are treated as response variables as predictors. The results show that there is a correlation between the predictor variable and the response variable. Pakistan's oil and gas industry pays dividends regularly, but due to company stock price fluctuations and company fluctuations, due to ineffective returns, there is uncertainty in the stock market. Research has found that the dividend payment rate has almost no relationship with withholding time.

Kumaresan (2014) focused on the top ten companies in Sri Lanka in a study titled "The Impact of Dividend Policies on Shareholder Wealth: A Study of Listed Companies in the Hotel and Tourism Industry in Sri Lanka". In the hotel and tourism industry in Sri Lanka, from 2008 to 2012, the response variable is EPS, and the predictive variables are: return on equity (ROE), DPR, and dividend per share (DPS.), And retention rate (RR). Correlation and regression analysis of data collected from the top ten

listed companies in the hotel and tourism industry. The study found that the return on equity (ROE), dividends per share (DPS), and dividend payment (DPO) of selected companies in the hotel and tourism industry in Sri Lanka is positively correlated with SW, and the study also found that retention rates and There is a negative correlation between shareholder wealth.

**The objective of the study**
The following objectives are taken for the study:

1. To find out the relationship between determinants of dividend payout for pharmaceutical Company's in India.

2. To find out the impact of dividend payout's determinants on dividend payout of pharmaceutical companies in India.

**Method of the study**
The methodology section consists of the sample size and data collection sources, the different models used, and the definition of the different variables used in the study.

*Data Collection Sources and Sample Size and period of the study:*
Data for the study has been collected from the Bombay Stock Exchange (BSE) of the selected company's annual reports, balance sheet, and financial statement. With the help of the purposive sampling system selected (dr. Raddis lab Ltd ). The period of the study is to be considered from 2004 to 2020(eighteen years).

| | Mar-20 | Mar-19 | Mar-18 | Mar-17 | Mar-16 | Mar-15 | Mar-14 | Mar-13 | Mar-12 | Mar-11 | Mar-10 | Mar-09 | Mar-08 | Mar-07 | Mar-06 | Mar-05 | Mar-04 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Basic EPS (Rs.) | 177.23 | 76.98 | 34.19 | 83.05 | 79.42 | 98.6 | 113.67 | 74.54 | 53.83 | 52.82 | 50.12 | 33.3 | 28.17 | 69.6 | 27.53 | 8.55 | 37.01 |
| Return on Networth / Equity (%) | 19.33 | 10.07 | 4.8 | 11.93 | 11.67 | 15.79 | 20.71 | 16.25 | 13.58 | 14.84 | 14.3 | 10.66 | 9.84 | 26.72 | 9.33 | 3.15 | 13.83 |
| Return on Assets (%) | 15.08 | 7.86 | 3.31 | 8.41 | 7.71 | 10.2 | 13.32 | 10.55 | 8.82 | 9.64 | 10.11 | 7.62 | 7.11 | 19.61 | 5.29 | 2.19 | 11.24 |
| Dividend Payout Ratio (NP) (%) | 13.32 | 25.99 | 70.41 | 24.22 | 25.13 | 20.29 | 15.84 | 20.13 | 25.54 | 21.31 | 22.45 | 18.77 | 13.31 | 5.38 | 18.16 | 58.44 | 13.5 |

| | Mar-20 | Mar-19 | Mar-18 | Mar-17 | Mar-16 | Mar-15 | Mar-14 | Mar-13 | Mar-12 | Mar-11 | Mar-10 | Mar-09 | Mar-08 | Mar-07 | Mar-06 | Mar-05 | Mar-04 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dividend Payout Ratio (CP) (%) | 10.5 | 16.13 | 29.76 | 15.82 | 16.99 | 15.7 | 13.23 | 16.14 | 19.2 | 16.68 | 17.46 | 13.6 | 9.6 | 4.76 | 11.42 | 23.45 | 10.77 |
| Earnings Retention Ratio (%) | 86.68 | 74.01 | 29.59 | 75.78 | 74.87 | 79.71 | 84.16 | 79.87 | 74.46 | 78.69 | 77.55 | 81.23 | 86.69 | 94.62 | 81.84 | 41.56 | 86.5 |
| Cash Earnings Retention Ratio (%) | 89.5 | 83.87 | 70.24 | 84.18 | 83.01 | 84.3 | 86.77 | 83.86 | 80.8 | 83.32 | 82.54 | 86.4 | 90.4 | 95.24 | 88.58 | 76.55 | 89.23 |
| Enterprise Value (Cr.) | 52,829.90 | 46,829.39 | 37,036.77 | 45,935.25 | 53,591.39 | 61,649.55 | 45,584.22 | 30,661.77 | 30,511.10 | 29,102.17 | 21,747.58 | 8,484.77 | 9,863.15 | 11,088.80 | 11,165.86 | 5,037.03 | 7,102.71 |
| EV/Net Operating Revenue (X) | 4.46 | 4.41 | 3.96 | 4.73 | 5.25 | 6.16 | 4.69 | 3.64 | 4.53 | 5.49 | 4.95 | 2.12 | 2.95 | 2.93 | 5.57 | 3.25 | 4.28 |
| EV/EBITDA (X) | 14.62 | 18.45 | 24.15 | 19.66 | 20.23 | 23.59 | 15.65 | 14.41 | 18.79 | 22.3 | 16.58 | 9.05 | 13.11 | 7.24 | 28.44 | 35.83 | 18.91 |
| MarketCap/Net Operating Revenue | 4.37 | 4.33 | 3.69 | 4.49 | 5.07 | 5.94 | 4.48 | 3.56 | 4.43 | 5.23 | 4.9 | 2.06 | 2.97 | 3.23 | 5.44 | 3.65 | 4.49 |
| Retention Ratios (%) | 86.67 | 74 | 29.58 | 75.77 | 74.86 | 79.7 | 84.15 | 79.86 | 74.45 | 78.68 | 77.54 | 81.22 | 86.68 | 94.61 | 81.83 | 41.55 | 86.49 |
| Price/BV (X) | 3.41 | 3.63 | 2.93 | 3.76 | 4.46 | 5.59 | 4.67 | 3.85 | 4.44 | 4.61 | 3.64 | 1.56 | 2.07 | 2.79 | 4.82 | 2.73 | 3.64 |
| Price/Net Operating Revenue | 4.37 | 4.33 | 3.69 | 4.49 | 5.07 | 5.94 | 4.48 | 3.56 | 4.43 | 5.23 | 4.9 | 2.06 | 2.97 | 3.23 | 5.44 | 3.65 | 4.49 |
| Earnings Yield | 0.06 | 0.03 | 0.02 | 0.03 | 0.03 | 0.03 | 0.04 | 0.04 | 0.03 | 0.03 | 0.04 | 0.07 | 0.05 | 0.1 | 0.02 | 0.01 | 0.04 |

https://www.moneycontral.com/india/stockpricequata/pharmaceutical/dr.raddieslab

**The model to be used:**

The study used fifteen years of financial data on the variables of earning per share, return on assets and return on equity of Sun Pharma Company. On the basis of the objective of the study used AR regression model.

$$y_t = b_1 x_1 + b_2 x_2 + b_3 x_3 + E_{it}$$

y=dividend payout

$X_1$=earnings per share(EPS)

$X_2$=return on equity(ROE)

$X_3$=return on assets(ROA)

$E_i$= error portion of the model.

t=time period of the model (17 years)

**Analyze and finding**

*Descriptive statistic*
*Table 1*

|  | Mean | Median | Minimum | Maximum | Std. Dev. | C.V. | Skewness | Ex. kurtosis |
|---|---|---|---|---|---|---|---|---|
| **Basic EPS** | 64.624 | 53.830 | 8.55 | 177.23 | 40.357 | 0.625 | 1.2112 | 1.6093 |
| **Return on Networth** | 13.341 | 13.580 | 3.15 | 26.72 | 5.6729 | 0.425 | 0.42435 | 0.40359 |
| **Return on Assets** | 9.2982 | 8.820 | 2.19 | 19.61 | 4.1723 | 0.449 | 0.62455 | 0.69081 |
| **Dividend Payout** | 24.246 | 20.290 | 5.38 | 70.41 | 16.199 | 0.668 | 1.9196 | 2.8688 |

Table -1 shows the descriptive statistic of the studies, considered four variables that were related to the company's performance. In descriptive statistics calculated mean, median, stander deviation, covariance and skewness, and kurtosis. In the case of basic earnings per share mean and median values are 64.62 and 53.38, and the stander deviation value is 40.35 with consideration to the mean value. Also considered are the covariance, skewness, and kurtosis measured for the magnitude of how far from a normal distribution. On the other hand, the same interpretations are for the rest of the variables.

*Trend analysis*

If we considered the periodical trend of variables, some critical questions may arise for the variable of **earning per share** gradually increase from the year 2004 to 2009 then the trend line had been fall down till 2018.

And for **return on equity** had been gradually decreased from the year of 2004 to 2014 then gradually increase till 2018. And for **return on assets** also flowed the same trend like **return on equity**.

But for the **dividend payout** had been flowed neutral trend from 2004 to 2016 then suddenly fall down and then recovered again got the previous position, it's a dependent variable in the study. One logical point should take into account in the year 2014 all independent variables such as EPS, ROA, and ROE respectively flowed the same trend except Dividend Payout. According to the trend of which graphically presented one cause clearly said that in the year 2014 three independent variables fall down and conclude that it's may be some relation between the variable. The studied don't search for the exact reason behind it.



BasicEPSRs



ReturnonNetworthEquity



ReturnonAssets



DividendPayoutRatioNP
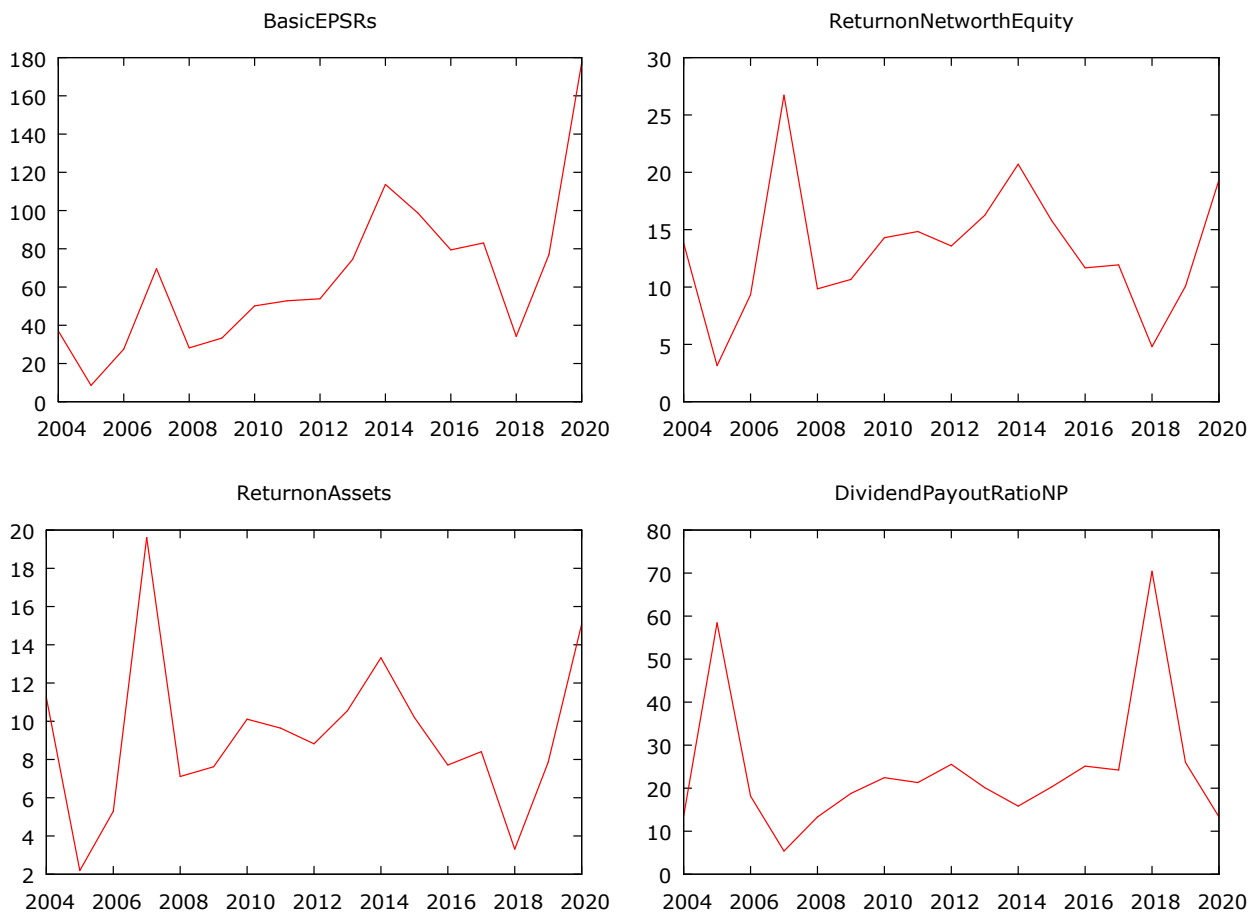
*Multiple regression analysis*

| Model : OLS, using observations 2004-2020 (T = 17) | | | | |
|---|---|---|---|---|
| Dependent variable: DividendPayoutRatioNP | | | | |
| | coefficient | std. error | t-ratio | p-value |
| Const | 51.78194 | 7.730083 | 6.698756 | 1.47 |
| EPS | 0.047699 | 0.095213 | 0.500965 | 0.624771 |
| Reurn on equity | -1.61517 | 2.576281 | -0.62694 | 0.541553 |

| | | | | |
|---|---|---|---|---|
| ReturnonAssets | -0.97542 | 3.522725 | -0.27689 | 0.786217 |
| | | | | |
| Mean dependent var | 24.24647 | S.D. dependent var | 16.19865 | |
| Sum squared resid | 1868.854 | S.E. of regression | 11.98991 | |
| R-squared | 0.554859 | Adjusted R-squared | 0.452134 | |
| F(3, 13) | 5.401411 | P-value(F) | 0.012353 | |
| Log-likelihood | -64.0708 | Akaike criterion | 136.1417 | |
| Schwarz criterion | 139.4745 | Hannan-Quinn | 136.4729 | |
| Rho | -0.41076 | Durbin-Watson | 2.796217 | |

Above the table showed the fit of the model and also shows the coefficient of every variable which consider in studied and with the impact of independents variable on dividend payout. **'rho'** indicated and measure the strength of association between the variable in hearing -0.623 means negative correlation with the considered period of the time. Above the study conducted fifteen years of periodical data which Durbin- Watson value is 2.79 which indicated that no autocorrelation is there. And the independent variables have the ability to explain the dependent variable, on the opposite site fitness of model appropriately green signal, because R's value more than 50% and adjusted R's square value is also logical position with compare to the R's square value. And p's value is less than .05 with the connection of F's statistic. All the above values supported that the model is appropriate for explain of the association between a dependent variable and an independent variable.

The coefficient value of ROE is -1.61 if the value of dividend payout increased one percent the roe decrease -1.61and other condition remains constant. So, return on equity has a negative impact on dividend payout with considered of other assumptions of the model be constant, like the time period of the study, the sample of the study, etc. and for ROA, if the values of dividend payout increase one unit the ROA decrease -0.97 units. The period of the study is an important considering factor. In account, calculated P's value of all variables indicated the significant level of the variable is considered model.

**Conclusion**

In the study, we concentrated focus on the impact of corporate performance on the dividend distribution of the firm. But in the study, we selected one company from the pharmaceutical sector. For that's why the conclusion of the study doesn't carry the same implication for the entire sector based on the observation of the contemplation. The thought on the particular data which collected a specific firm and some conclusions have drawn are follows:

Based on the objective of the study concluded that's **first**, each and every determinant of the dividend payout may not equally significant like EPS. **Secondly**, the association between the independent

variable and dependent variable was not the same. And **thirdly**, the degree of association between a dependent variable and the independent variable's value was not equal.

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