

Analysis of the Impact of Dividend Decision on Yes Bank Ltd.

Dr. T. V. Ambuli
Professor Head, MBA

Ms. Gauri Gopinath

Mr. S. V. Praveen

Ms. P. Pavithra

Assistant Professor, MBA

Jerusalem College of Engineering, Pallikaranai
Chennai, Tamil Nadu, India 600100

Abstract

The study is aimed at analysing the impact of dividend decision on shareholder wealth of Yes Bank Ltd. To measure the impact of Dividend decision on shareholder wealth the following financial ratios such as Dividend Payout ratio, Net profit Margin, Return on Capital Employed, Return on Net worth of Yes Bank Ltd, over a period from 2013 to 2017. This study is based on secondary data collected from the authentic websites of yes bank Ltd. The study used Pearson's Correlation Co-efficient to see whether there is any significant relationship between the above mentioned financial ratio. The study identifies whether there is any major fluctuation in the above variables over the period of the study.

Keywords: Dividend Decision , Shareholder Wealth , Net profit , Capital Employed, Return on Net worth , Fluctuation, Pearson's Correlation Co-efficient, financial ratio ,

1.1 Introduction

Dividend decision is one of the important decisions in financial Management. It interrelated with other decision such as Investment decision and Financial Decision. The Primary and major objective of the organisation is to maximize the shareholder wealth. The study is applicable to the financial problem of all kinds of firms. Decisions are based on several inter-related criteria. Firstly financial management seeks to maximise the value of the share by investing in fixed assets or Long-term Projects which yield a positive NPV by considering a risk at a appropriate discount rate. Secondly the Project must be financed through appropriate Capital Structure. Thirdly, in the absence of above opportunity, the management must return the excess cash to the shareholder in the form of Dividend.

1.2 Review of Literature

Henry Waleru Akani, Yellowe Sweneme (2016) This paper examined the impact of dividend policy on the profitability of selected quoted manufacturing firms in Nigeria from 1981 – 2014. The objective was to investigate the existing relationship between dividend policy and profitability of the selected quoted manufacturing firms in Nigeria. Time series data were computed from financial statement of the selected quoted manufacturing firms and stock exchange fact book. Return on Investment (ROI) and Net Profit Margin (NPM) were modelled as our dependent variables while Dividend Payout Ratio (DPR), Retention Ratio (RR), Dividend Yield (DY) and Earnings per Share (EPS) were proxied as our independent variables. Multiple regressions with the aid of Statistical Package for Social Sciences Research (SPSS) were used as data analyses techniques. Multi co-linearity, co-linearity, Durbin Watson, F-statistics and regression coefficient were used to determine the dynamic relationship between the variables. Findings revealed that all the independent variables have positive relationship with the dependent variables except dividend yield. The study recommends that operational efficiency of Nigerian financial market should be deepened and management should strengthen its effort for effective dividend policy that will increase the profitability of the quoted manufacturing firms Nigeria.

Cordelia onyinyechi etal (2017) This paper evaluates dividend policy and measured its impact on shareholders' wealth maximization in Nigerian firms (a study of brewery industry). A cross-survey research design was adopted and secondary data extracted from the published annual reports of the firms studied. The statistical tool used was a multi-regression analysis and t-test for hypotheses testing and data analysis with the aid of SPSS version 20. The result in Guinness Nigeria Plc., indicated the irrelevance of dividend policy. From the result, the DPS, EPS and NAPS which were the explanatory variables, had no positive impact on the market value per share (MPS) both collectively and individually. The result from Nigeria Breweries Plc., proved dividend policy is relevant to an extent to which earnings per share and net asset per share are positively affected. The F-ratio was 0.000 which shows a significant positive impact on the MPS. The earnings per share and net asset per share were also significant except the dividend per share which had no impact on the market value per share. The implication is that the growth in stock prices is not always a function of dividend payment.

1.3 Objective of the study:

1. To find the relationship between Dividend and Net Profit Margin.
2. To study the impact of Dividend on Return on Capital Employed and Return on Net worth.

1.4 Methodology of the study:

Research Design – Descriptive Research design.

Research Type – Analytical Research.

Period of study – 5 years (i.e.) from 2013 to 2017.

Collection of data – Secondary Data collected from authentic websites of the company.

Tool for Analysis – Pearson's Correlation Co-efficient (2 tailed test, 5% LOS)

1.5 Hypothesis of the study:

Null Hypothesis: There is no correlation between Dividend payout Ratio and Net Profit Margin of the company being studied.

Alternative Hypothesis: There is a correlation between Dividend payout Ratio and Net Profit Margin of the company being studied.

Null Hypothesis: There is no correlation between Dividend payout Ratio and Return on Capital Employed of the company being studied.

Alternative Hypothesis: There is a correlation between Dividend payout Ratio and Return on Capital Employed of the company being studied.

Null Hypothesis: There is no correlation between Dividend payout Ratio and Return on Net Worth of the company being studied.

Alternative Hypothesis: There is a correlation between Dividend payout Ratio and Return on Net Worth of the company being studied

Table 1: Details of Yes Bank Limited

YEAR	DIVIDEND PAYOUT RATIO	NET PROFIT MARGIN	RETURN ON CAPITAL EMPLOYED	RETURN ON NETWORTH
2013	16.54	15.68	11.06	22.39
2014	17.83	16.20	11.25	22.71
2015	18.74	17.32	11.11	17.16
2016	16.5	18.76	13.33	18.41
2017	18.3	20.27	14.08	15.09

Table 2: Correlation for Yes Bank Limited.

		DIVIDEND RATIO	PAYOUT
DIVIDEND RATIO	Pearson Correlation	1	
	Sig .(2 – tailed)		
	N	5	
NET PROFIT MARGIN	Pearson Correlation	0.259	
	Sig .(2 – tailed)	0.674	
	N	5	
RETURN ON CAPITAL EMPLOYED	Pearson Correlation	-0.040	
	Sig .(2 – tailed)	0.949	
	N	5	
RETURN ON NETWORTH	Pearson Correlation	-0.509	
	Sig .(2 – tailed)	0.381	
	N	5	

1.6 Analysis and Results:

1. In the case of Yes Bank Limited, there is a significant relationship between dividend payout ratio and Net profit margin (.259). This makes it obvious that the Net profit margin and Dividend payout ratio moves in the same direction over the years. This is evident from March 2013 to March 2017.
2. There is a negative correlation between dividend payout ratio and Return on Capital Employed (-.040). The result proves that the dividend payout ratio and return on capital employed moves in opposite direction over the years.
3. There is a negative correlation between dividend payout ratio and return on net worth (-.509). The result proves that the dividend payout ratio and return on net worth moves in reverse direction over the years. This may be because the fluctuations in the Net profit margin are very negligible. Thus the correlation is not well defined.

1.7 Conclusions:

Dividend decision is an important area of any company especially while taking financial decision and formulating the capital structure. Through this study one can conclude that there is a correlation between Dividend payout ratio and Net profit margin, Return on capital employed and Return on Networth. From this study, it can conclude that Dividend decision being one of the important decisions of corporate finance, which is influenced by Net profit margin, Return on Capital employed and return on Networth of the YES Bank limited

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