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EFFECT OF DECLARATION OF DIVIDEND ON MOVEMENT OF SHARE PRICES

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ABSTRACT

It is generally considered that if the company pays higher dividend, its share prices will rise and if it does not declare dividends share prices will go down. To analyse the same, a study has been made on share prices of three companies of automobiles sector namely Tata Motors, Maruti and Mahindra & Mahindra. The study includes the share prices before and after the declaration of dividend in the last five years. Thereby a conclusion was drawn that it is nothing but just a perception that there is positive and perfect correlation between dividend declared and share prices. Share prices are not driven by dividend though dividend may be one of the factors determining the share prices.

KEYWORDS

dividend, share price, automobile sector, perfect correlation.

INTRODUCTION**DIVIDEND**

A dividend is a distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. Dividends can be issued as cash payments, as shares of stock, or other property. A company's net profits can be allocated to shareholders via a dividend, or kept within the company as retained earnings. A company may also choose to use net profits to repurchase their own shares in a share buyback. Dividends and share buybacks do not change the fundamental value of a company's shares. Dividend payments must be approved by the shareholders and may be structured as a one-time special dividend, or as an ongoing cash flow to owners and investors.

TATA MOTORS

Established in 1945, Tata Motors Limited is India's largest automobile company with revenues of Rs. 703 billion crore in FY 2009. It is the largest producer of commercial vehicles, and the second largest in the passenger vehicles market in India. The company is the world's fifth largest medium and heavy commercial vehicle manufacturer, and the world's second largest medium and heavy bus manufacturer.

Over 4 million Tata vehicles ply on Indian roads. It is the first company from India's engineering sector to be listed in the New York Stock Exchange. In its efforts to internalize its operations, Tata Motors acquired the Daewoo Commercial Vehicles Company, Korea's second largest truck maker. Two-thirds of heavy commercial vehicle exports out of South Korea are from this subsidiary. It also acquired Jaguar Land Rover to gain a foothold in the luxury sports car and SUV market. The dividend declared and closing share prices before and on the day of declaration of dividend of last five years are shown in below table.

DECLARATION OF DIVIDEND BY AUTOMOBILE COMPANIES AND ITS IMPACT ON THEIR SHARE PRICES**TABLE 1.1**

Company	Dividend declared in last 5 years	Share price on one day prior to declaration of dividend (Closing price)	Share price on the day of declaration of dividend (Closing price)
TATA Motors			
29-05-14	100.00	424.21	419.80
29-05-13	100.00	292.66	300.58
29-05-12	200.00	273.67	272.83
26-05-11	200.00	215.46	215.46
27-05-10	150.00	148.31	148.31

MARUTI SUZUKI

Maruti Suzuki India Limited formerly known as Maruti Udyog Limited, is an automobile manufacturer in India. It is a subsidiary of Japanese automobile and motorcycle manufacturer Suzuki. As of November 2012, it had a market share of 37% of the Indian passenger car markets. The company's headquarters are at No 1, Nelson Mandela Road, New Delhi. In February 2012, the company sold its ten millionth vehicles in India. The dividend declared and closing share prices before and on the day of declaration of dividend of last five years are shown in below table.

TABLE 1.2

Company	Dividend declared in last 5 years	Share price on one day prior to declaration of dividend (Closing price)	Share price on the day of declaration of dividend (Closing price)
Maruti Suzuki			
25-04-14	240.00	1982.75	1956.05
26-04-13	160.00	1589.75	1673.45
28-04-12	150.00	1379.30	1397.10
25-04-11	150.00	1306.60	1326.55
26-04-10	120.00	1361.80	1335

MAHINDRA & MAHINDRA

M & M Limited is an Indian multinational automobile manufacturing corporation headquartered in Mumbai, Maharashtra, India. It is one of the largest vehicle manufacturers by production in India and the largest manufacturer of tractors across the world. It is a part of Mahindra Group, an Indian conglomerate. It was ranked as the 10th most trusted brand in India, by The Brand Trust Report, India Study 2014. It was ranked 21st in the list of top companies of India in Fortune India 500 in 2011. Its major competitors in the Indian market include Maruti Suzuki, Tata Motors, Ashok Leyland, Toyota, Hyundai, Mercedes-Benz and others. The dividend declared and closing share prices before and on the day of declaration of dividend of last five years are shown in below table.

TABLE 1.3

Company	Dividend declared in last 5 years	Share price on one day prior to declaration of dividend (Closing price)	Share price on the day of declaration of dividend (Closing price)
Mahindra & Mahindra			
29-05-14	270.00	1162.35	1178.35
30-05-13	260.00	960.30	1004.60
30-05-12	250.00	656.25	657.20
30-05-11	230.00	702.10	664.60
24-05-10	190.00	539.45	529.30

OBJECTIVES OF RESEARCH

1. To ascertain whether share prices increases due to declaration of dividend.
2. To ascertain whether it is beneficial to invest in the shares of a company likely to declare high dividends

HYPOTHESIS OF RESEARCH

- H1 There is significant effect of dividend declaration on share prices.
H2 Share prices increases on dividend declaration.

TESTING OF HYPOTHESIS

1. Paired T-Test was used to ascertain the significant effect of dividend declaration on share prices. The t value is 0.478598648 which is more than .05, hence the first hypothesis is fully rejected. There is no significant effect of dividend declaration on share prices.

TABLE 2.1

Company	Date	Dividend declared in last 5 years	Share price on one day prior to declaration of dividend (Closing price)	Share price on the day of declaration of dividend (Closing price)
Tata Motors	05/29/2014	100	424.21	419.8
	05/29/2013	100	292.66	300.58
	05/29/2012	200	273.67	272.83
	05/26/2011	200	215.46	215.46
	05/27/2010	150	148.31	148.31
Maruti Suzuki	04/25/2014	240	1982.75	1956.05
	04/26/2013	160	1589.75	1673.45
	04/28/2012	150	1379.3	1397.1
	04/25/2011	150	1306.6	1326.55
	04/26/2010	120	1361.8	1335
Mahindra & Mahindra	05/29/2014	270	1162.35	1178.35
	05/30/2013	260	960.3	1004.6
	05/30/2012	250	656.25	657.2
	05/30/2011	230	702.1	664.6
	05/24/2010	190	539.45	529.3

2. The average Share price on one day prior to declaration of dividend is Rs. 866.33 whereas average Share price on the day of declaration of dividend is Rs. 871.95. The average share price raised by merely 0.65% which is insignificant hence the second hypothesis is also rejected i.e. Share prices does not increase in any significant manner on dividend declaration.

CONCLUSION

It is not advisable to invest solely on the basis of dividend policy of the company as the share prices are not closely associated with dividend. Technical analysis of the share prices will be fruitful prior to investment.

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