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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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# DETERMINANTS OF DIVIDEND POLICY WITH SPECIAL REFERENCE TO SELECTED HOUSING FINANCE CORPORATIONS IN INDIA

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## ABSTRACT
Dividend Policy is one of the most debated issues in finance. While shaping dividend payment a sensible management strikes a balance between shareholder's expectation and firm's long-term interest. Several questions related to dividend decisions remain perplexing because of diverse and conflicting theories and empirical results. This paper attempts to empirically analyze the factors determining the dividend policy of Selected Housing Finance Corporations in India. This study examines the Dividend Behaviour through Lintner's dividend model, Brittain's Cash Flow Model and Btittain's explicit Dividend Model. The study considers top ten Housing Finance Corporations based on the market capitalization for the period of 13 years from 2000-2001 to 2012-2013. It is found from the analysis that previous dividend, earning after tax, depreciation and cashflow are the important factors affecting dividend decision of the selected Housing Finance Corporations.

## KEYWORDS
cash flow, depreciation, earnings after tax and lagged dividend.

## INTRODUCTION
Housing Finance plays a vital role as an engine of equitable economic growth through the reduction of poverty and prevents slum proliferation in economy. The demand for housing has increased rapidly day by day. Therefore, to meet with the growing housing demand is the aim of the government. To achieve this aim it is required to provide the finance for housing to the people. The liberalization of the financial sector of the economy has also become possible by the housing finance. Home Loan is the funds buyer has to borrow usually from a bank or other financial institutions to purchase a property, generally secured, by a registered mortgage to the bank over the property being purchased. A mortgage loan is a debt owed on a home, the mortgage rate is the interest rate charged to the home owner for the use of the loan.

In India, the government provisions account for a very small portion of housing activities (i.e.) less than 5% of total housing each year. Thus, the private sector seems to be dominant. However, the public polices often ignored the private sector and so its supplies cannot match housing demands. India is considered as the birthplace of the number zero. Home to roughly 1.2 billion people, India is the second most populous country after China and is expected to overtake it by 2030. About one in every sixth person breathing on earth lives in India, and the growth rate of the population is still high. The Housing finance sector in India has no doubt, experienced unprecedented change in its structure from its formulation stage. Indian Housing Finance has far moved from the stage of being a solely government undertaking provided service during the 1970's to a very competitive sector with more than 45 housing finance entities providing housing loans worth ₹ 7,81,000 million to home buyers across India.

## STATEMENT OF THE PROBLEM
Dividend policies are one of the most issues in modern corporate finance. There are many researchers who have provided in sights, theoretical as well as empirical, into the dividend policy puzzle. However, the issue as to why firms pay dividends is as yet unresolved. Several rationales for a corporate dividend policy have been proposed in the literature, but there is no unanimity among researchers. Everyone, however, agrees that the issue is important, as dividend payment is one of the most commonly observed phenomena in corporations worldwide. The issue of dividend policy is important for several reasons: - First, many of researchers have found that a firm uses dividend as a mechanism for financial signaling to the outsiders regarding the stability and growth prospects of the firm. Second, dividends play an important role in a firm's capital structure. Yet another set of studies have established the relationship between firm dividend and investment decisions. According to the "residual dividend" theory, a firm will pay dividends only if it does not have profitable investment opportunities, i.e., positive net present value projects. Third on the relationship between dividend policy and the value of the firm, different theories have been advanced. The first theory that considers the dividend decision to be irrelevant, under perfect market situation, the dividend policy of a firm is irrelevant, as does not affect the value of the firm. The second theory that considers the dividend decision to be relevant factor influencing the value of the firm, with this background this study made an attempt to study the dividend behavior of selected Housing Finance Corporations in India.

## SCOPE OF THE STUDY
The present study aims at analyzing the dividend behavior of f selected Housing finance corporations in India. The study was undertaken for period of thirteen years from 2000-01 to 2012-13.

## OBJECTIVE OF THE STUDY
The Study is under taken with the objective to analyze the factors determining dividend policy of selected HFCs.

## METHODOLOGY
The methodology adopted in the present study is as follows.

***SOURCES OF DATA***

The present study is mainly based on secondary data. It has been collected from PROWESS a database of CMIE and the annual report of RBI.

***PERIOD OF STUDY***

The study covers period of 13 years from 2000-01 to 2012-13. The accounting year commence from 1st April to 31st March.

***SELECTION OF SAMPLE***

There are 45 housing finance companies listed under NHB. Based on the market capitalization the top ten corporations have been selected as the sample unit for the present study viz., Housing Development Finance Corporation Limited (HDFC), LIC Housing Finance Limited (LIC), Gruh Finance Limited (GRUH), Dewan Housing Finance Limited (DHFL), Can Fin Homes Ltd (CANFIN), GIC Housing Finance (GIC), India Home Loan (IHL), Sahara India(SHFL), Housing and Urban Development Corporation(HUDCO) and Ind Bank Housing(IBHFL).

**DATA ANALYSIS**

Different kinds of statistical tools and techniques are used for the analysis of data taken from published reports along with ratio analysis. They are: Mean, Standard Deviation, Co-efficient of Variation, Annual Compound Growth Rate and Multiple Regression technique.

## REVIEW OF LITERATURE

**Kevin (1992)** analyzes the dividend payment behavior of 650 Indian companies during September 1983 to August 1984 and finds that profitability and earnings of the firms are the two foremost factors determining dividends. He concludes that Indian firms strive for achieving a stable dividend rate. However, keeping in view that the time period of his study was only one year; his results cannot be taken as conclusive.

**Mahapatra and Sahu (1993)** find that cash flows, current earnings and past dividends are prominent factors that have an impact on the dividend decision. Their results are in contrast to Lintner's model.

**Bhat and Pandey (1994)** find that current year's earnings, pattern of past dividends, expected future earnings, changes in equity base of the firm have an impact on the dividend decision. Taking a different line of research,

**Narasimhan and Asha (1997)** look at the changes in dividend tax regime proposed in the Indian Union Budget of 1997-98 and analyze the impact of dividend tax on a firm's dividend decision. They conclude that the burden of tax payment fell in the hands of companies rather than their shareholders.

**Mohanty (1999)** studied more than 200 Indian companies for a period of fifteen years to understand the relationship between bonus-issuing and dividend-paying behaviour of companies. He found that in the Indian context, it is the dividend rate that is an important determinant of dividend policy in comparison to the dividend payout ratio.

**Kumar (2006)** studied the relationship between corporate governance and dividend payout behaviour of the Indian firms by taking into consideration their financial structure, investment opportunities, dividend history, earnings trend and ownership structure during 1994–2000. He finds a positive association of dividends with earnings and dividend trends but does not find any association between foreign ownership and growth in dividend payout.

**Bhayani (2008)** has examined the influence of earnings and lagged dividend on dividend policy of companies listed on the BSE. He found that the current year's earnings are the foremost factor affecting the dividend behaviour of a firm and concludes that Indian.

## DETERMINANTS OF DIVIDEND POLICY

An attempt has been made in this study to examine the factors determining the dividend policy of selected sample units. This pattern of dividend policy has been examining the profit dividend relationships and the dividend payout ratios of sample units and to analyse the dividend behavior various theoretical model has been used.

The regression models mainly used in the present study are:

1. Lintner's model
2. Brittains cash flow model
3. Brittain's explicit depreciation model

In Lintner's model changes in current year's dividend is sought to be explained by current year's profit after tax and the dividend payments in the previous year:

Brittains cash flow model used in this study in a variant of Lintner's model making use of cash flow, instead of profit after tax, as a measurement of corporate income.

The third model used in this study is Brittain's explicit depreciation model. This model incorporates depreciation as an additional explanatory variable in the Lintnes's model.

Empirical equations according to all these three models are estimated using the time series data (2000-01 to 2012-13) four all the ten selected companies chosen for this study, to ascertain which of these models hold good for the Indian data. The models are:

**Lintner's model**

$D_t=a_0+a_1+P_t+a_2\ D_{t-1}+U_t$

**Brittain's cash flow model**

$D_t=a_0+a_1\ C_t+a_2\ D_{t-1}+U_t$

**Brittain's explicit depreciation model**

$D_t=a_0+a_1\ P_t+a_2\ D_{t-1}+a_3\ A_t+U_t$

Where in all these equations:

| | | |
|---|---|---|
| $D_t$ & $D_{t-1}$ | = | Total equity dividend in period 't' and 't-' respectively. |
| $P_t$ | = | Net profit after tax in period 't' |
| $C_t$ | = | Cash flow in period't' |
| $A_t$ | = | Amount of deprieciation in period 't' |
| $U_t$ | = | Error term |

After a detailed consideration of the above three regression models, the study proposes to select one, which provides maximum explanation of dividend behavior in the selected sample companies. This task has been carried out by looking at the value of adjusted $R^2$, statistical significance of the explanatory variables; expected sign of the regression co-efficient used in the equations and the Durbin Watson statistics.

## SPECIFICATION OF VARIABLES

**PROFITS**

The rational of profit after tax as a determinant of dividend policy is that it represents the capacity of the company to pay dividend in a particular year. Further, the level of profit is almost invariably the starting point of management consideration. This variable as a key determinant of dividend policy is found in the work of Lintner's (1956), Darling (1957) and others.

**CASH FLOW**

Brittain (1966) suggest that cash flow (net current profit after tax + depreciation) is more appropriate measure of the company's capacity to pay dividend. He argues that dividend payment is considered a charge prior to depreciation and hence should be related to earning gross of depreciation. This variable has been proved to be a significant determinant of dividend policy in the empirical works of Mahapatra and Sahu (1993) and Mahapatra and Panda (1995).

**LAGGED DIVIDEND**

The specification of dividend equation by Lintner's (1956) suggested that lagged dividend is the only other explanatory variable dividend policy. The rational of lagged dividend as a determinant of dividend policy is provided by the speed of adjustment mechanism, which states that companies try to achieve a certain desired payout ratio in the long run.

**DEPRECIATION**

Regulating and accounting practices regarding depreciation might affect dividend policy inversely through its impact on current net profits. This variable is included as an explanatory variable exclusively by Darling (1957), Brittain (1964) and Brittain (1966). They found this variable statistically significant.

**REGRESSION RESULTS**

Table 1 represents the regression result for determinants of Dividend Policy

**TABLE 1: REGRESSION RSULTS OF LINTNER'S DIVIDEND MODEL** [Equation - $D_t = a_0+a_1P_t+a_2 D_{t-1}+U_t$ (2000-01 to 2012-13)]

| Company Name | Constant $a_0$ | Profit $a_1$ | Lagged Dividend $a_2$ | $R^2$ | Adjusted $R^2$ | F-value | DW Statistics |
|---|---|---|---|---|---|---|---|
| HDFC | 4.62 (1.41) | 0.39 (1.55) | 0.02** (2.85) | 98.8 | 98.6 | 472.65* | 0.75 |
| LIC | 3.93 (1.02) | 0.02** (2.39) | 1.01* (19.59) | 98.7 | 98.4 | 373.17* | 1.22 |
| GRUH | 0.20 (0.17) | 0.45* (3.70) | 0.41 (0.98) | 97.3 | 96.8 | 183.40* | 1.86 |
| DEWAN | 5.06* (3.59) | 0.13* (6.22) | 0.04 (0.16) | 98.9 | 98.6 | 430.15* | 1.35 |
| CAN FIN | 2.32 (1.44) | 0.04** (2.87) | 1.26* (3.84) | 73.9 | 68.6 | 14.12** | 1.15 |
| GIC | 0.77 (0.96) | 0.17* (5.77) | 0.49* (5.05) | 97.8 | 97.4 | 224.01* | 1.23 |
| IBHFL | -13.91 (1.08) | 0.24 (1.00) | 0.18* (3.62) | 83.3 | 79.9 | 24.91* | 1.47 |

**Note:** *Significant at 1% level, **Significant at 5% level, *Significant at 10% level.

**RESULT OF LINTNER'S MODEL**

The regression results of Lintner's dividend model are shown in Table 1. It discloses that the regression equation (Lintner's dividend model) estimated for all the seven sample companies seem to satisfy all the specifications. This because the Co-efficient of determination adjusted for degree of freedom (Adjusted $R^2$) is statistically significant in all the selected sample companies as in depicted from their F-values. The value of adjusted $R^2$ is found to be ranged in between 68.6 to 98.6 in the sample companies. The regressions Co-efficient of the explanatory variables current earnings after tax (Pt) and dividend paid in the previous year (Dt-1) have the expected positive signs in all the seven companies. The current earnings were found to be an important determinant of dividend behavior in the case of LIC, GRUH, DEWAN, CANFIN and GIC. The other variable previous year dividend found to be an important variable in determining dividend behavior except GRUH and DEWAN.

Brittains Cash flow model have been presented in the following table.

**TABLE 2: REGRESSION RSULTS OF BRITTAINS CASH FLOW MODEL** [Equation - $D_t = a_0+a_1 C_t+a_2 D_{t-1}+U_t$ (2000-01 to 2012-13)]

| Company Name | Constant $a_0$ | Cash Flow $a_1$ | Lagged dividend $a_2$ | $R^2$ | Adjusted $R^2$ | F-value | DW Statistics |
|---|---|---|---|---|---|---|---|
| HDFC | 1050.37 (1.49) | -0.516 (1.48) | 1.13* (23.58) | 98.3 | 98 | 323.93* | 0.73 |
| LIC | 1687.80 (1.31) | -0.83 (1.30) | 1.16* (1.12) | 98.2 | 97.9 | 276.61* | 0.82 |
| GRUH | -0.30 (0.25) | 0.46* (3.82) | -0.46 (1.11) | 97.5 | 96.9 | 191.43* | 1.89 |
| DEWAN | 5.01* (3.36) | 0.12* (6.32) | -0.04 (0.18) | 98.9 | 98.7 | 441.79* | 1.35 |
| CAN FIN | -2.25 (1.42) | 0.04** (2.95) | 1.23* (8.81) | 74.5 | 69.4 | 14.62** | 1.16 |
| GIC | 0.71 (0.87) | 0.17* (5.71) | 0.49** (4.98) | 97.8 | 97.3 | 220.08* | 1.19 |
| IBHFL | -15.16 (1.17) | 0.18* (3.63) | 0.24 (1.02) | 83.6 | 80.3 | 25.43* | 1.41 |

**Note:** *Significant at 1% level, **Significant at 5% level, *Significant at 10% level.

**RESULT OF BRITTAIN'S CASH FLOW MODEL**

The regression estimates of Britain's cash flow model for all the selected sample units are shown from the above table 2. it is found from the above table that adjusted $R^2$ (Co-efficient of determination adjusted for degrees of freedom) of the estimated regression equation is found to be statistically significant in the sample units as it is depicted from their F values. The regression co-efficient of both the explanatory variables used in the equation namely cash flow and lagged dividend.

The regression co-efficient of past dividend was not statistically significant. The regression co-efficient of cash flow have the negative sign in the case of HDFC and LIC and positively related with all others cases.

Brittains Explicity Depreciation Model have been presented in the following table.

**TABLE 3: REGRESSION RSULTS OF BRITTAINS EXPLICIT DEPRECIATION MODEL** [Equation – $D_t=a_0+a_1 P_t+a_2 D_{t-1}+a_3 A_t+U_t$ (2000-01 to 2012-13)]

| Company Name | Constant $a_0$ | Profit $a_1$ | Lagged Dividend $a_2$ | Depreciation $a_3$ | $R^2$ | Adjusted $R^2$ | F-value | DW Statistics |
|---|---|---|---|---|---|---|---|---|
| HDFC | 861.2 (1.09) | 0.01*** (2.06) | 0.48 (1.57) | -0.16 (0.56) | 98.9 | 98.5 | 295.46* | 0.71 |
| LIC | 0.21 (0.04) | 3.07 (1.15) | 0.02*** (2.14) | 0.90* (8.52) | 98.8 | 98.5 | 257.37* | 1.24 |
| GRUH | -1.94 (0.81) | 2.05 (1.02) | -0.55 (1.26) | 0.46* (3.84) | 97.6 | 96.8 | 123.04* | 1.88 |
| DEWAN | 4.12** (2.76) | 0.10* (3.67) | -0.04 (0.19) | 1.73 (1.42) | 99.1 | 98.7 | 316.68* | 1.43 |
| CAN FIN | 1.50 (1.00) | 0.02** (2.24) | 2.04* (3.67) | 0.38 (1.16) | 89.5 | 86.1 | 25.69* | 1.82 |
| GIC | 1.09 (1.09) | -0.78 (0.58) | 0.17* (5.60) | 0.49* (4.91) | 97.9 | 97.2 | 139.49* | 1.36 |
| IBHFL | -36.82*** (1.84) | 0.35 (1.47) | 0.16* (3.38) | 3.82 (1.45) | 86.4 | 81.9 | 19.12* | 1.85 |

**Note:** *Significant at 1% level, **Significant at 5% level, *Significant at 10% level

**RESULT OF BRITTAIN'S EXPLICIT DEPRECIATION MODEL**

The analysis of Brittains Explicit depreciation model is explaining its dividend behavior of all the sample units. Accordingly, implies that dividend payout in Housing finance companies is a functions of profit after tax and the dividend paid in the previous year. This is a variant of Lintner's dividend model. This model incorporates depreciation as an additional explanatory variable in the basic of Lintner's model. An analysis of this model reveals that adjusted $R^2$ is found statistically significant in all the selected sample companies as it depicted from their F values.

The regression co-efficient of the explanatory variable of the net profit after tax ($P_t$) and depreciation were not statistically significant in most of the sample companies. The variables of net profit after tax is have the expected positive signs in all the selected sample units. The variable of depreciation is positive signs in all the sample units except HDFC.

## CONCLUSION

The study examines the determinants of dividend payout ratio of selected Housing Finance Corporations in india. It is found from the empirical results that Lagged Dividend, Earnings after Tax, Cash Flow and Depreciation are the factors demonstrating significant effect over dividend decisions of the sample firms. Lagged Dividend and Earnings after Tax are positively linked to dividend decision but Cash Flow is showing mixed results. Earnings after Tax positively related with dividend decision imply that HFCs are able to grow dividend payments with increasing earnings and vice versa. Depreciation is explaining positive impact on current dividend as per target payout ratio after charging depreciation from current earnings.

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