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A STUDY ON THE RELATIONSHIP BETWEEN DIVIDEND PER SHARE AND MARKET PRICE PER SHARE - WITH RESPECTIVE TO INDIAN PHARMACEUTICAL INDUSTRY

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ABSTRACT
Dividend decision is the third important decision in finance. Even today dividend policy is debatable topic in finance. Some school of thought speaks about relevance theory and some school of thought speaks about irrelevance theory. This study supports relevance theory and this study deals with impact of dividend policy on market price of share. There are micro and macro economic factors which influence the market price of equity share. The present study is made to find out the relationship ship and the impact of DPS on MPS of share of selected companies. This study has selected 18 companies from pharmaceutical sector in India. Considering 9 MNC's and 9 Indian pharma companies based on market capitalization. This study has used simple correlation and simple Regression analysis. The analysis shows that the market price per share ie, share price of various selected companies are not affected by the dividend per share. Only few companies are having significant impact of DPS on MPS.

KEYWORDS
dividend per share (DPS), market price per share (MPS).

INTRODUCTION
A dividend is a part of company's profit, decided by the board of management, to a class of its shareholders. Dividends can be paid in form of cash or in kind. A dividend policy is the policy a company uses to decide regarding how much amount of profit will be distributed as dividend to share holders. Some of the researchers and economists says that dividend policy may be irrelevant (in theory), but many investors depends on dividends as a vital source of income. The dividend policy decision is the third important decisions in any organization in order to achieve effectiveness in performance and attainment of objectives, because the role of finances increased to most significant in company's growth strategy. The attention of economists and researchers have been attracted by the field of dividend policy culminating into theoretical modelling and empirical examination. In finance dividend policy is a complex aspect and is among the top 10 perplexing issues in finance as suggested by Brealeyand Myers (2002). The policy that results in maximization of the firm's stock price which in turn maximizes shareholders wealth is called an optimal dividend policy. However, the relationship between dividend policy and shareholder's wealth is still not solved. The enhancement of the market value of share is the ultimate goal of company's management, which will result in increasing firm's value as measured by the price of the company's common stock. In order to achieve the desired goal board of directors needs to take decision to give shareholders a reasonable payment on their investments. The market price of common stock of a firm actually represents the wealth of shareholders, which, in turn, is a function of financing, dividend, and investment decisions of a firm. A company's dividend policy has implications for many stakeholders such as managers, investors, lenders and others. Through dividends investors can value a company and for them it is a regular income whether declare today or at some future date. Dividend policy also has implications for managers because when they distribute dividends they will have fewer funds availble to invest in projects, thus their investment decision depends upon dividend policy. Generally the study is planned to find out how far market value of share is impacted by dividend policy, and particularly investigate the association between dividend per share and market price per share. Larger, established companies tend to issue regular dividends as they seek to increase market value of its shares, it pays ways for its growth. Companies in basic materials, oil and gas, banks and financial, healthcare and pharmaceuticals sector showed the highest historical dividend yield.

NEED FOR THE STUDY
Always the dividend policy is debatable topic in finance. Some school of thought speaks about relevance theory and some school of thought speaks about irrelevance theory. This study supports relevance theory and this study deals with impact of dividend policy on market price of share. Investment financing of the business mainly depends on the dividend distribution and retention policy of company. Because of Agency problem, clients needs, Bird in hand theory which signals to potential investors, the companies are preferring to buy some Dividend though not liberally.

REVIEW OF LITERATURE
Sajid (2012) conducted a study on "The Relationship between Dividend Policy and Shareholders wealth" for a period of 6 years 2005 to 2010 considering 75 companies listed in Karachi Stock Exchange SHV (DPS) as Dependent value, DPS as explanatory variable. Also used lagged P/E ratio, RE as explanatory variables. The study shows that there is significant influence of DP on SHW, as far as the dividend paying companies are concerned. Lagged P/E ratio did not appear to have significant influence on Dependent Variable, whereas lagged MVE has a significant impact on MPS. The firm value is independent of its dividend policy according to Modigliani and miller (1961), because it is determined by selecting its optimal investments. Thus a firm dividend policy doesn't influence the wealth of shareholder. The theory of bird in hand was presented by Gordon and Walter (1963), according to this theory due to minimum risk investors will prefer dividends over capital funds. Thus researchers are puzzled by the question? for many years. The future profitability of firms is assessed by the information regarding the cash dividends. Moreover, investors use such information for assess the price of firm's stock according to the theory of bird in hand.

Javid and Ahmed (2009) show the results from their study and conclude that the market capitalization and size of the firm have negative and significant effect on dividend payout ratio, thus the result shows clearly that the firm prefers to invest in their assets rather than dividends. If the firm pays dividend than it impacts on their investment policy and value of the firm effects.

Anil and Kapoor (2008) conducted a study on Determinants of Dividend payout ratio in which results show that the Cash flow from operation is most important factor in Indian Information Technology sector is dividend payout ratio and they conclude that firms which have high liquidity position gives more dividend and which have low gives no dividend. Beta of the firm share price is also significant.

Alzomania and Alkhadiri (2013) examined "The Factors Determining Dividend Policy represented by dividend per share for firms in the Saudi Arabia Stock Exchanges". They used regression model and used a panel data covering the period during 2004-2010 for 105 non-financial firms listed in the stock market. The results consistently supported that Saudi Arabia non-financial firms rely on current earnings per share and past dividend per share of the firm to set their dividend payments

Ranti (2013) “Determinants of Dividend Policy”: A study of selected listed Firms in Nigeria, this study investigated the determinants of dividends policy in the Nigerian Stock Exchange market. The paper was basically modelled to examine the effects of financial performance of firms, firm size, financial leverage and board independence on the dividend payout decisions of listed firms operating in the Nigerian Stock Exchange market using the regression analysis method.

Tsuji, (2010) examined “What Are the Determinants of Dividend Policy?” The Case of the Japanese Electrical Appliances Industry. This paper explores the determinants of the dividend policy of firms in the Japanese Electrical Appliances Industry. Empirical investigations reveal that in this industry, corporate managers do not cater to investors' demands in both their dividend initiation and continuation decisions.

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OBJECTIVES OF STUDY

1. To identify the relationship between DPS and MPS of the selected companies in Indian pharmacy sector.
2. To find the impact of DPS on MPS of the selected companies in Indian pharmacy sector.

HYPOTHESIS

- H01: This is no significant relationship between MPS and DPS of the selected companies in Indian pharmacy sector.
- H02: This is no significant impact of DPS on MPS of the selected companies in Indian pharmacy sector.

METHODOLOGY

The study is based on the secondary data. To analyse the impact of DPS on MPS, the researcher selected 18 Pharmaceutical companies (Indian and mnc’s) 8 from large scale, 8 from Medium scale and 2 from small scale for a period of 10 years starting from FY 2006 up to the ending of FY 2015. Numerical and financial data were collected from the official website of money control and Bombay stock exchange. The number of companies selected in large, medium and small differed because of non availability of data.

SCOPE OF STUDY

This study is sector specific study targeting the pharma sector.

LIMITATIONS

The study has the following limitations with respect to various reasons as cited below.

1. The study is limited only to the Indian pharmacy industry in India.
2. It is limited to a period of 8 to10 years starting from FY 2006 and ending on FY 2015 as per availability of data.
3. The study is purely confined to secondary data. No involvement of primary data and survey.

THEORETICAL CONCEPTS

BIRD IN HAND THEORY

According to this theory investor prefer dividends from the investments rather than capital gains as the latter possess inherent uncertainty. This theory is based on the age old proverb “A bird in the hand is worth two in the bush,” meaning investors are very much interested in the dividends that are paid at present rather than substantial higher capital gains acquired at a later date. This theory was developed by Gordon and Lintner as a counter to dividend irrelevance theory developed by Modigliani Miller, which states that investors are indifferent to the returns coming from the stocks either dividends or the capital gains. The theory of Gordon and Lintner states that investors sought only stocks with high dividend payouts as consequently the market price of the stocks rises. An investor invests for capital gains largely on the conclusions drawn from incomplete information. A clever investor may reap capital gains by investing in stocks which are into observation and a research in the macro level has been done on the same, but the performance of the stock depends upon various other factors the control of which is not in the hands of the investor. This is the basis for the capital gains to be compared with “two in the bush” in the above mention age old proverb. Investors are in the hunt of the capital gains, as it makes them richer in less time, unknowing the fact that probability of high capital gains is very worse or even negative.

AGENCY COST AND THE FREE CASH FLOW THEORY

It is a conflict of interest inherent in relationship where a party is expected to act in another's best interests. In corporate finance, this agency problem usually refers to the conflicts of interests between a company's management and its investors. The management, acting as the agent for the shareholders, or principals, is supposed to make wise decisions that will help in the wealth maximization of the investors, though it is in the management’s best interest to maximize its own wealth. Though this problem of agency cannot be wiped off completely, the investors can try and bring it down to certain extent by giving incentives based on the performance, compensation for meeting the targets in time and ensuring that right techniques are in place so as to maximize the output. This problem of agency exists only when there is relation between the principal and the agent. The principal may appoint an agent who has the better ability to do the work with the best skills and possess complete knowledge in the area for which he is been appointed. For example, if a principal hires a plumber as an agent to fix up all the unresolved plumbing issues at his place, it is the duty of the agent to do his work with utmost diligence and finish the work that gives the best results at least cost, though he has the ability to make his own money out of the given assignment. The problem of agency arises with the theme of incentives. There shouldn’t be any factors motivating the agent to deviate from the given assignment and drop the principal in such unfavourable situations. If we take the earlier mentioned example, we can notice the plumber making his own money just by proposing an unnecessary service. The presence of making more money than it is actually required by the plumber is the factor giving rise to the issues of agency problems.

SIGNALING HYPOTHESIS THEORY

As Modigilani and Miller (1961), assumed that there wil be exact knowledge at investors regarding operations of a firm, other researchers opposed him by explaining that the management will look after the management will have updated information about the operations of the firm compared to the knowledge held by outside investors. Therefore, a gap will be created between the opinions of managers and investors. So in order to fill the gap, the management uses the dividend policy as tool to convey the private information to shareholders. Pettit (1972) observed that great information about the prospectus of the firm will be carried with the help of the amount of dividend paid.

CLIENTELE EFFECTS OF DIVIDENDS THEORY

This clientele effect theory explains the movement in the stock price of the companies in accordance with the demands and goals of the investor’s reaction to a particular tax structure. The very basic assumption of this theory is that investors are attracted towards the dividend policies of the company and when any change in the policy of the particular company takes place, they will adjust their stocks accordingly upon which the movement of the price of the stocks take place.

TABLE 1: SHOWING NO CORRELATION AND NEGATIVE CORRELATION BETWEEN DPS AND MPS AMONG THE FOLLOWING SELECTED COMPANIES.

sl.no	company	Adjusted r square value	p value	regression model fit
1	LUPIN	0.024	0.302	NO
2	CIPLA	-0.125	0.992	NO
3	AUROBINDO	-0.005	0.357	NO
4	ALKEM	-0.17	0.068	NO
5	MERCK	0.041	0.273	NO
6	GLENMARK	-0.135	0.615	NO
7	SHILPA	-0.165	0.924	NO
8	J.B CHEMICALS	-0.034	0.418	NO
9	AARTI LABS	0.068	0.233	NO
10	PFIZER	-0.124	0.934	NO
11	WOCKHARTZ	-0.22	0.771	NO
12	DISHMAN	-0.026	0.406	NO
13	AMRUTHANJAN	-0.027	0.408	NO
14	VIVIMED LABS	-0.157	0.685	NO

TABLE 2: SHOWING POSITIVE AND GOOD CORRELATION BETWEEN DPS AND MPS AMONG THE FOLLOWING SELECTED COMPANIES.

SL.NO	Company	Adjusted r square value	p value	regession model fit	regression equation
1	DR REDDY LAB	0.823	0	YES	MPS= 100.199+121.92(DPS)
2	CAPLIN	0.652	0.032	YES	MPS= -136.059+88.147(DPS)
3	SANOFI	0.489	0.015	YES	MPS= 676.58+32.478(DPS)

Source: Researcher's compilation.

OBSERVATION: However, a special feature noticed related to JUBILIANT LIFE SCIENCES company having negative correlation but regression model fitted. Regression equation is **MPS= 736.392-200.179(DPS).**

From above data, we can say that impact of DPS on MPS can be seen in four companies and there is no impact of DPS on MPS for fourteen companies.

CONCLUSION

The study was about the "RELATIONSHIP BETWEEN DPS AND MPS WITH RESPECT TO INDIAN PHARMACEUTICAL INDUSTRY". The study has been conducted among the 18 pharmaceutical companies operating in india in order to find out whether there is significant impact of DPS on MPS of selected companies. DR REDDY LABORATORIES, JUBILIANT LIFE SCIENCES, CAPLIN, SANOFI companies have clearly shown that there is significant impact of DPS on MPS of company and remaining companies selected for sample are not showing significant impact of DPS on MPS of them.

RECOMMENDATIONS

The study suggests investors to think twice for making their investments in to the pharmacy companies operating in India. Because the study results show that the DPS is not having the significant impact on MPS. May be we have to consider other variables which has impact on MPS. The study also suggests the pharma companies to declare dividends to the investors such that the demand for the company shares increases because of signalling effect. These suggestions/recommendations are based on results obtained from the data relating to the selected companies. However, this may not be true for entire sector. As sector contains almost 200 companies. The sample is only 10% of the population**.**

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