

## A STUDY OF DIVIDEND POLICY OF A PRIVATE SECTOR COMPANY IN INDIA

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### **ABSTRACT**

*This study examined the dividend policy of a private sector company in India. A company has to make a policy regarding dividend to be paid to its shareholders out of the net profit after tax. In this study, Indian 2<sup>nd</sup> largest private sector steel-making company-Tata Steel Limited- had been selected. The study used the secondary source of data, i.e., Annual Reports of Tata Steel Limited. In this study, the dividend payout ratio and retention ratio were used for the analysis covering a period of 10 years starting from FY08. It was found in the analysis that the Tata Steel Limited had a high retention and a low dividend payout policy for the study period, which had also helped the company to be consistent with the amount paid as the dividend to its shareholders in all the years in this study.*

**KEYWORDS:** *Dividend Policy, Dividend Payout, Retention Ratio, Net Profit after Tax*

### **INTRODUCTION**

A company is owned by its shareholders who expect a dividend from the company. When the company earns profits, it can either distribute the profits as the dividend or retain the profit in the business. So, it has to find the right proportion between the dividend and the retained earnings, which requires a sound dividend policy to be framed by the company. A dividend policy refers to the set of guidelines which help a company to decide how much of its earnings it should pay out to its shareholders and to retain in the business.

Md. ZakirHosain (2016) investigated the determinants of dividend payout policy of the listed private commercial banks in Bangladesh. He found that leverage, liquidity, firm growth, previous year's dividends, and profitability was functioning as the key determinants of dividend payout<sup>[1]</sup>. Manish Manglik and Dr. AkhilGoyal (2016) said in their paper titled 'Analysis of Dividend Policy (A Comparative Study of Selected Public and Private Sector Companies)' that dividend refers to the portion of the profits after tax, which is distributed among the owners or shareholders of the firm. The profit which is not distributed is known as retained earnings. The dividend policy includes all aspects of payout, such as the rate of dividend, stability, the timing of payments, methods of payment, etc<sup>[2]</sup>. In another research, Dr. Souvik Banerjee and Dr. K.T. Rangamani (2016) studied the comparative analysis of the dividend policy of public and private sector banks in India. They found that there was no significant difference in Dividend Payout Ratio of public and private sector banks<sup>[3]</sup>. Dr. VinayKandpal and Prof P C Kavidayal (2015) studied the dividend policy and its effect on the market value of shares of selected banks in India. They found that there was a significant effect of dividend policy on the share price of selected Indian Banks<sup>[4]</sup>.

The objective of this study is to examine the dividend policy of Tata Steel Limited for 10 years period from FY08 to FY17.

The contribution of the paper is that it will help the professionals, scholars, students and general readers to understand the dividend policy of a private sector company in India.

## **MATERIALS AND METHODS**

This paper is a quantitative research based on the secondary source of data. The study covers the period of 10 years starting from the financial year 2007-2008 to 2016-2017. For the study, Indian private sector steel company- Tata Steel Limited has been selected. In this study, the ratio analysis has been used to analyze dividend payout policy of the company.

### **Dividend Payout Ratio**

The dividend payout is the dividend amount paid to shareholders out of the net income available for the shareholders of a company. In this study dividend payout is calculated by dividing the amount of dividend paid to shareholders by the net profit after tax.

### **Retention Ratio**

Retention Ratio is the proportion of net profit after tax which is not distributed as the dividend by a company and retained in the business. In this study, it is calculated as the 100 minus dividend payout ratio.

### **Tata Steel Limited**

Tata Steel Limited, formerly known as Tata Iron and Steel Company Limited (TISCO) is an Indian multinational steel-making company headquartered in Mumbai, India. It is a subsidiary of the Tata Group. This company was established by Dorabji Tata on 25 August 1907. It was the 10<sup>th</sup> largest steel-making company in the world in 2015, with an annual crude steel capacity of 25.3 million tonnes, and the second largest steel company in India, measured by domestic production, with an annual capacity of 9.7 million tones after SAIL. It has manufacturing operations in 26 countries and employs around 80,500 people. Its largest plant is located in Jamshedpur, Jharkhand. Presently, Mr. Natarajan Chandrasekaran is the chairman of this company.

## **DATA ANALYSIS AND INTERPRETATION**

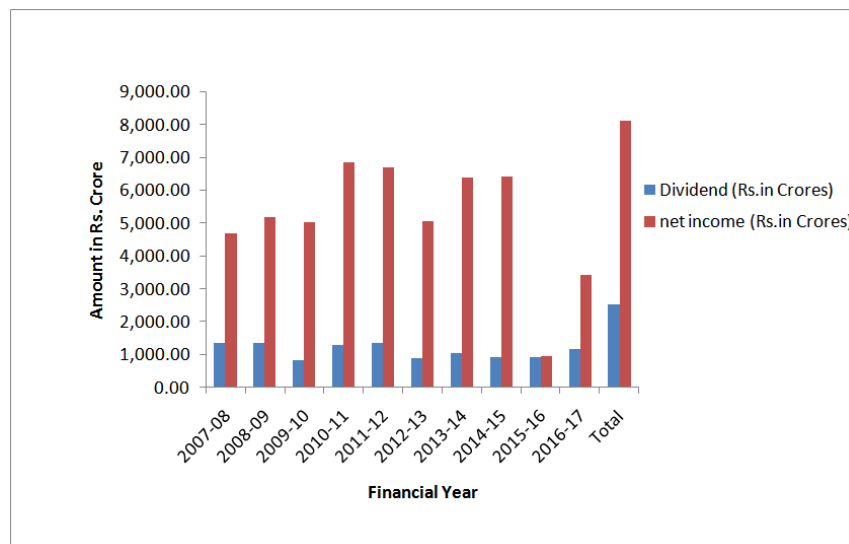
In this section of the study, research data used in the analysis have been tabulated properly, interpreted, presented with the help of Figures. These are given as follows:

**Table 1: Dividend Payout and Retention Ratio of Tata Steel Limited**

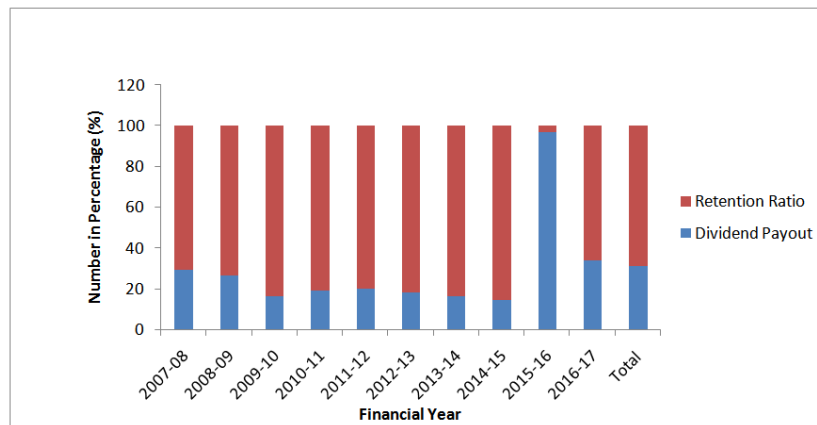
Year	Dividend (Rs. in Crores)	Net Income (Rs.in Crores)	Dividend Payout (in %)	Retention Ratio (in %)
2007-08	1,367.59	4,687.03	29.18	70.82
2008-09	1,364.44	5,201.74	26.23	73.77
2009-10	824.77	5,046.80	16.34	83.66
2010-11	1,307.77	6,865.69	19.05	80.95
2011-12	1,347.03	6,696.42	20.12	79.88
2012-13	905.70	5,062.97	17.89	82.11
2013-14	1,037.40	6,412.19	16.18	83.82
2014-15	929.99	6,439.12	14.44	85.56
2015-16	924.72	955.65	96.76	3.24
2016-17	1,168.93	3,444.55	33.94	66.06
<b>Total</b>	<b>2,536.52</b>	<b>8,131.58</b>	<b>31.19</b>	<b>68.81</b>

**Source:** Annual Reports of Tata Steel Limited and Research Data

The above table shows the dividend, the net income, the dividend payout and the retention ratio of Tata Steel Limited for 10 years period starting from the financial year 2007-08. The company had a total Rs. 8,131.58 Crore for the 10 years period out of which it had distributed the total dividend of Rs. 2536.52 Crore during this period. It had 31.19% and 68.81% as its Dividend Payout and Retention Ratio respectively for the study period of 10 years. Hence, the company had a high retention and a low dividend distribution out of the net profits except FY 16. This had helped the company to reinvest the profit into its business. In FY 16, the company's net profit went down to its bottom of Rs. 955.65 Crore, but the company had consistently distributed Rs. 924.72 Crore, i.e., 96.76% dividend payout. So, the company's previous years high retention of the net profit helped it to be consistent with its dividend amount in FY 16.

**Figure 1: Dividend and Net Income**

**Source:** Annual Reports of Tata Steel Limited and Research Data



**Figure 2: Dividend Payout and Retention Ratio**

Source: Research Data

## FINDINGS

It is found in the study that Tata Steel Limited a low dividend payout, i.e., 31.19% for the 10 years study period. The retention ratio of the company was high, i.e., 68.81% in this period. The company was also consistent with the absolute dividend amount declared in the study period. Hence, the company had a high retention and a low dividend payout policy for the study period.

## CONCLUSIONS

A dividend policy refers to the set of guidelines which help a company to decide how much of its earnings it should pay out to its shareholders and to retain in the business. This paper examined the dividend policy of Tata Steel Limited for 10 years period from FY08 to FY17, using Ratio Analysis. Tata Steel Limited was found to have a low-dividend-payout policy in this study.

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