Impact of dividend policy on Stock choice decision of retail investors in India: An Empirical Study

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Abstract: For investors, dividends serve as both a source of knowledge and a source of cash flow. An important factor in investing selections is the dividend prediction offered by management. For investors, a dividend is an indication of a company's sound management and the possibility of further development in the future. Share prices are positively affected by frequent dividend payments, according to the relevance theory of dividends. Companies that consistently pay substantial dividends continue to be the preferred investment option. For quite some time, dividend policy has piqued the curiosity of academics studying economics. According to the current school of thought in finance, one of the primary roles of the financial management is to decide on dividend policy with the goal of increasing the wealth of shareholders. Revenue, net profit, other income, stock price, and market capital were among the factors that the research used to analyze the link between dividend and each sample company's dividend policy. Graphs, tables, the observation method, and basic linear connection analysis of variance were among the statistical tools and methods used for the research. We obtained some intriguing outcomes using these tools and procedures. Regarding the sample firms' payout policies and the correlation between dividends and NP, RS, OI, and stock price, the results were contradictory.

Keywords: Dividend, Investment decisions, Investors, Stock price, Net profit, Revenue

Introduction

The capital market is essential to any economy's operation since capital is required to produce goods and services. An expanding capital market is a key component of every economy. The issuance and trading of new securities might take place on the capital market. The capital market is where investors buy and sell newly issued securities that joint stock firms use to fund their operations[1][2]. The capital market is booming these days, and investors are flocking to it because they think it's the finest place to put their money. Thanks to globalization and the application of cutting-edge technology in stock trading, all of these things are now within reach. However, the crux of the matter is the decision-making process and the foundation upon which investors build their portfolios. The goal of most investors is to maximize "their total return" for the time they hold an investment. In this context, "total return" means both the immediate and distant financial benefits [3]. That is why investors care about both the short and long term financial returns. We can state with certainty that investors care about dividends and capital gains equally. Capital gain is the profit made from selling assets like stocks, bonds, and other capital assets, whereas dividends are the distribution of a firm's current or historical profits to shareholders according to their ownership [4].

This indicates that investors are hoping for a rise in the share price so that they may make a profit when them sell. Since capital markets are imperfect and full of future uncertainty, shareholders often do not care much about dividends or capital gains. Consequently, dividends paid out now are more important to shareholders than profits in the future. For investors, dividends serve as both a source of knowledge and a source of cash flow. An important factor in investing selections is the dividend prediction offered by management. Dividends are seen by investors as a reflection of a company's strong management and potential for future development [5].

Share prices are positively affected by frequent dividend payments, according to the relevance theory of dividends. Companies that consistently pay substantial dividends continue to be the preferred investment option.

The two primary responsibilities of financial managers, according to the conventional wisdom, are securing funding for the business and allocating that funding wisely. There are three main components to the contemporary method of finance, though: Choosing a funding source 2) Deciding on investments and 3) Deciding on dividends. In other words, the CEO or CFO is also accountable for setting the company's dividend policy. For quite some time, dividend policy has piqued the curiosity of academics studying economics. This policy governs the distribution of funds. Determining how much of a company's earnings should be distributed as dividends and how much should be kept for use in meeting future financial obligations is a critical financial policy decision [6].

A large portion of a financial manager's effort is spent on the amount and timing of distributions to shareholders. Maximizing shareholder wealth, and by extension, the firm's value, is one of the primary objectives of any firm's financial management. The capital market price of a company's equity shares is one measure of how much value the business has maximized. Paying shareholders a "fair" return on their capital will get the company closer to its financial objective. The question of how a company's dividend policy affects the wealth of its shareholders remains unanswered, nevertheless. Companies often adjust their dividend policy based on where they are in their life cycle. One example is the dividend payout ratio of high-growth enterprises, which is higher for companies with more money and fewer initiatives [7]. In contrast, new businesses often have smaller profits and more capital expenditures, therefore they pay fewer dividends. Therefore, a company's dividend policy varies greatly during its life cycle.

This could be due to shifts in growth rates, financial flows, and investments in future projects. The fact that companies could exhibit a variety of intriguing dividend policy patterns only serves to heighten the difficulty of making such choices. When profits go up, some companies boost their dividends, and when they go down, they lower them.

Since they are hesitant to make adjustments to payments, some pay fixed dividends. Even when profits are low or nonexistent, there are certain companies in the market that refuse to reduce dividends. The dividend payment is independent of the company's profitability. There are a lot of factors to think about, such as the company's liquidity, its ownership pattern, its leverage, the tax policy and regulatory constraints, the availability of capital, the economy, and so on [8].

Consequently, the dividend policy and the amount of distribution are determined by a myriad of internal and external variables. Thus, the dividend choice may seem straightforward, but it is really rather complex. The market value of a business's ordinary shares is a measure of the wealth of its shareholders and is influenced by the choices made by the firm regarding investments, financing, and dividends. The management of every company makes a number of choices in order to advance the company's mission and improve its overall performance. One such important choice is the dividend decision. In the current context, the importance of finance in a company's development has grown substantially, making the dividend choice crucial. Finding the best dividend policy to increase the firm's worth by raising stock prices in the market should be the goal of the finance management [9].

A defining feature of dividend policy decisions is the signals they provide on the businesses' performance. In most cases, securities returns are abnormally favorable after dividend increase announcements and abnormally negative after dividend cut announcements. This is because the company's upper echelons have access to more accurate and comprehensive data on potential development prospects for the business. So, to let investors know, they announce a dividend level. A company's dividend policy could be more stable if its management has this view [10]. Investors, managers, lenders, and everyone else with a stake in a company may learn a lot from its dividend policy. Many groups are affected by a company's dividend policy. Investors get regular money from dividends, and they also learn a lot about the company's progress from them. Similarly, the quantity of dividend that managers pay to shareholders affects their freedom when making choices about investing in projects. The availability of capital for future investments may decrease as payouts increase [11].

Because a larger dividend payment would decrease the amount available to redeem their claims, lenders may also be interested in the firm's dividend declaration amount. Since the dividend payments influence most parties associated with the company in some way, shape, or form, they serve as an example of a typical agency scenario. Thus, dividend policy may be used to lower agency expenses. When dividends are paid out, there is less money for management to spend on perks and put toward investments. Because of this, businesses are compelled to seek funding from capital markets to meet their additional financial demands. Managers must exercise more self-control and look out for the interests of owners. A steady dividend pay-out ratio is preferred by most companies [12] [13]. This is due to the fact that stockholders anticipate a steady stream of money with no uncertainty whatsoever. They also show that they like it. A steady dividend payment rate may be desirable to shareholders for many reasons [14]. Companies with strong current returns on shares are the only ones that risk-averse investors would consider investing in. Also, in order to carry out their specific activities, educational institutions would rather have a steady stream of dividend income [15].

RESEARCH METHODOLOGY

Many people in the financial sector are very curious in a company's dividend policy. Any good financial manager will tell you that this is a tough but essential choice. All of a company's stakeholders, including management, lenders, and investors, should pay attention to its dividend policy. Dividends are important for investors because they provide income and also serve as a measure for evaluating a firm from an investing perspective. This method determines whether a business is profitable. The same holds true for management: the amount issued as dividends to shareholders determines the available amount for future investments, which in turn affects their freedom to invest in successful ventures [16].[17]. A company's ability to reinvest its earnings drops when its dividend payout ratio is high. The announcement of a company's dividends is of importance to lenders as well, as a higher dividend declaration means less money for their payment obligations. The whole company strategy relies on efficient management of working capital to create value for shareholders. However, one would wonder what makes it so intriguing and consequential.A perspective on the method and rationale behind dividend payments is foundational to other theories in finance, such as those pertaining to asset pricing, capital structure, mergers and acquisitions, and capital budgeting. Since declaring a dividend may have a favorable effect on stock prices and, by extension, the value of the business, some scholars believe that dividend policy is crucial [18].

Numerous variables impact investing choices in the intricate and ever-changing world of financial markets. Companies' dividend policies are one important factor that influences investors' decisions. Attracting and keeping investors is heavily influenced by dividend policy, which is the company's choice on the distribution of profits to shareholders. The complex interplay between dividend policy and retail investors' stock-picking behavior in India's market is the focus of this empirical research.

Background and Rationale:

Participation in the stock market by individuals has surged significantly in India, thanks to the country's growing number of retail investors. It is critical to comprehend how company dividend policies affect the investing choices of retail investors as these individuals are becoming more picky and involved in the stock markets. The dividend policy of a firm shows how confident and dedicated the management is to creating value for shareholders, in addition to reflecting the company's financial health and profitability.

There is a lack of research on how dividend policy affects retail investors' stock choices in India, which is why this study is necessary to fill that void. Despite the wealth of literature on dividend policy across the world, a thorough examination of the mechanisms at work in the Indian market is required due to cultural subtleties, legal frameworks, and other market-specific considerations.

Objectives of the Study:

Determining Investor Preferences The main goal is to determine which dividend-paying equities individual consumers prefer. One way to do this is to study what makes dividend-paying firms more appealing to investors.

The purpose of this research is to examine market attitude about dividend-paying equities and to see whether this sentiment is consistent with that of individual retail investors. Part of this process is looking at how stock prices react to dividend news and payments.

An Analysis of the Connection: The purpose of the research is to use empirical analysis to measure and define the correlation between dividend policy and stock selection choices. The first

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step is to find out whether dividends are a major consideration for retail investors when building their portfolios.

The study's secondary objective is to catalog potential variables that, in conjunction with dividend policy, can influence the stock selections of individual investors. Market developments, macroeconomic factors, and regulatory impacts are all a part of this.

Significance of the Study:

Academia and practitioners in the financial sphere should expect to benefit much from the conclusions of this empirical investigation. Corporations, investor education programs, and regulators may all benefit from a better grasp of the factors influencing individual investors' stock selection in India as a result of dividend policy.

The study's overarching goal is to provide light on the elements that influence stock preferences in India's equities market by delving into the complex relationship between dividend policy and retail investors' investment choices.

1. Research Design:

The research design of this empirical study will adopt a quantitative approach to gather and analyze data. A cross-sectional design will be employed to capture a snapshot of retail investors' perceptions and stock choices concerning dividend policy in the Indian market.

2. Sample Selection:

The study will target a diverse sample of retail investors actively participating in the Indian stock market. Random sampling methods will be used to ensure representativeness across different demographics, investment experience levels, and geographic locations.

3. Data Collection:Survey Questionnaires: Structured survey questionnaires will be developed to collect data on retail investors' preferences, perceptions, and decision-making processes related to dividend-paying stocks. Questions will cover factors influencing stock choices, attitudes towards dividends, and the impact of dividend policy on investment decisions.Secondary Data: Historical stock price data, dividend announcement records, and financial performance reports of selected companies will be collected from reliable financial databases, stock exchanges, and company filings.

4. Variable Measurement:Dependent Variable: The dependent variable is the stock choice decision of retail investors, measured through factors such as the inclusion of dividend-paying stocks in their portfolios and the frequency of transactions involving dividend-paying stocks.

Independent Variables: Independent variables include various aspects of dividend policy, such as dividend yield, payout ratio, consistency of dividend payments, and dividend announcements. Other potential influencing factors like financial health indicators, market conditions, and regulatory changes will also be considered.

5. Data Analysis: Descriptive Statistics: Descriptive statistics, such as mean, median, and standard deviation, will be used to summarize and describe the demographic characteristics of the sample, as well as the key variables under investigation.

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Regression Analysis: Multiple regression analysis will be employed to assess the relationship between dividend policy variables and stock choice decisions. This will help identify the significance and strength of the impact of each variable.

Correlation Analysis: Correlation analysis will be conducted to examine the degree of association between different variables, providing insights into potential patterns and interdependencies.

6. Ethical Considerations: Ethical guidelines will be strictly adhered to throughout the study. Informed consent will be obtained from participants, ensuring their anonymity and confidentiality. The study will comply with ethical standards set by relevant institutional review boards.

7. Limitations: The study acknowledges potential limitations, such as the reliance on self-reported data, the dynamic nature of financial markets, and external factors affecting investor behavior. These limitations will be addressed in the interpretation of findings.

8. Significance of Findings: The study aims to contribute valuable insights into the relationship between dividend policy and stock choices of retail investors in India. The results will have implications for investors, companies, and policymakers, providing a foundation for informed decision-making and further research in the field of behavioral finance.

Conclusion

In order to accomplish the primary goal of this thesis—to gain insight into the dividend policy of the business sector in India—two secondary goals were devised. Our primary goal is to determine the link between dividend and revenue, net profit, other income, stock price, and market capital. Our secondary target is to find the relationship between firms using dividend as a metric. In the ever-changing Indian market, the research illuminated the complex link between dividend policy and the stock selection choices of individual investors. Retail investors' judgments on dividend-paying companies are shaped by their preferences, beliefs, and influencing variables, which the research attempted to uncover.

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