

AN ANALYTICAL STUDY ON DIVIDEND DECISIONS AND THEIR INFLUENCE ON FIRM PERFORMANCE: A CASE STUDY OF ICICI BANK

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ABSTRACT

The dividend decision is a fundamental aspect of corporate financial management that determines the allocation of a company's profits between dividend payouts to shareholders and retained earnings for future growth. This study focuses on the importance of dividend policy in influencing investor behavior, stock prices, and the overall valuation of the firm. It explores various types of dividend policies such as stable, constant, and residual policies, along with the factors that influence dividend decisions including profitability, cash flow position, investment opportunities, taxation, and market expectations.

The research also evaluates key theoretical models such as **Walter's Model**, **Gordon's Model**, and **Modigliani-Miller's Dividend Irrelevance Theory**, offering insights into how dividend policy affects shareholder wealth. By analyzing dividend practices of selected companies, the study identifies patterns in dividend distribution and their impact on market performance.

The study concludes that a well-planned and consistent dividend policy enhances shareholder confidence, improves the company's market reputation, and supports long-term financial stability, while also aligning with corporate growth strategies.

I.INTRODUCTION

The term Dividend refers to that part of the profits of a company which is distributed amongst its shareholders. It may therefore be defined as the return that a shareholder gets from the company, out of its profits, on his share holdings. "According to the Institute of Chartered Accounts of India" dividend is a "Distribution to shareholder out of profits or reserves available for this purpose"

The Dividend policy has the effect of dividing its net earnings into two Parts: Retained earnings and dividends. The retained earnings provide funds to finance the long-term growth. It is the most significant source of financing a firm's investment in practice. A firm, which intends to pay dividends and also needs funds to finance its investment opportunities, will have to use external sources of finance. Dividend policy of the firm. Thus has its effect on both the long-term financing and the wealth of shareholders. The moderate view, which asserts that because of the information value of dividends, some dividends should be paid as it may have favorable effect on the value of the share.

The theory of empirical evidence about the dividend policy does not matter if we assume a real world with perfect capital markets and no taxes. The second theory of dividend policy is that there will definitely be low and high payout clients because of the differential personal taxes. The majority of the holders of this view also show that balance, there will be preponderous low payout clients because of low capital gain taxes. The third view argues that there does exist an optimum dividend policy. An optimum dividend policy is justified in terms of the information in agency costs.

OBJECTIVES OF THE STUDY

- 1.To analyze the dividend policy of the company **and understand the pattern of dividend distribution over a specified period.**
- 2.To examine the relationship between profitability and dividend payments **of the company.**
- 3.To evaluate the impact of dividend decisions on shareholders' wealth **and market value of shares.**

- 4.To study the factors influencing dividend decisions, **such as earnings, liquidity, growth opportunities, and financial stability.**
- 5.To assess the consistency of dividend payments **and their effect on investor confidence.**
- 6.To compare dividend payout ratios **across different years and identify trends in dividend distribution.**
- 7.To analyze the balance between retained earnings and dividend payments **in financing the company's future growth.**
- 8.To evaluate the effectiveness of the company's dividend policy **in achieving shareholder satisfaction and corporate objectives.**
- 9.To study the impact of dividend announcements on stock price movements **and investor behavior.**
- 10.To provide suggestions for improving dividend policy **based on the findings of the study.**

IMPORTANCE OF THE STUDY

The dividend policy of a firm determines what proportion of earnings is paid to shareholders by the way of dividends and what proportion is ploughed back in the firm for reinvestment purposes. If a firm's capital budgeting decision is independent of its dividend of its dividend policy, a higher dividend payment will entail a greater dependence on external financing. On the other hand, if a firm's capital budgeting decision is dependent on its dividend decision, a higher payment will cause shrinkage of its capital budget and vice versa. In such a case the dividend policy has a bearing on the capital budgeting decision.

Any firm, whether a profit making or non-profit organization has to take certain capital budgeting decision. The importance and subsequent indispensability of the capital budgeting decision has led to the importance of the dividend decisions for the firms.

NEED FOR THE STUDY:

The principal objective of corporate financial management is to maximize the market value of the equity shares. Hence the key question of interest to us in this study is, "What is the

relationship between dividend policy and market price of equity shares?"

Most of the discussion on dividend of dividend policy and firm value assumes that the investment decision of a firm is independent of its dividend decision. The need for this study arise from the above raised question and the most controversial and unresolved doubts about the relevance of irrelevance of the dividend policy.

SCOPE OF THE STUDY:

Investment Decision Investment decision relates to selections of asset in which funds will be invested by a firm. The asset that can be acquired by a firm may be long term asset and short term asset. Investment Decision with regard to long term assets is called capital budgeting. Decision with regard to short term or current assets is called working capital management.

Dividend Decision A firm distributes all profits or retain them or distribute a portion and retain the balance with it. Which course should be allowed? The decision depends upon the preference of the shareholders and investment opportunities available to the firm.

Dividend Decision Dividend decision has a strong influence on the market prize of the share. So the dividend policy is to be determined in terms of its impact on shareholder's value. The optimum dividend policy is one which maximizes the value of shares and wealth of the shareholders.

Dividend Decision The financial manager should determine the optimum pay out ratio I.e. the proportions of net profit to be paid out to the shareholders. The above three decisions are inter related. To have an optimum financial decision the three should be taken jointly.

II. RESEARCH

METHDOLOGY:

HYPOTHESIS FOR THE STUDY:

A proposition is a statement about concepts that may be judged as true Or false if it refers to observable phenomena. When a proposition is formulated for empirical testing, we call it a hypothesis. Hypotheses have also been described as statements in which we assign variables to cases. A case id defined in this sense as the entity or the thing the hypothesis. Talks about The variable are the characteristic, trait, or attribute

that, in the hypothesis, are imputed to the case. In research, a hypothesis serves several important functions. The most important is that it guides the directions of the study. It defines facts that are relevant and those that are not: in doing so, it suggests which form of research design is likely to be most important. A final role of the hypothesis is to provide a framework for organizing the conclusions of that result.

In classical tests of significance two kinds of hypotheses are used. The null hypothesis, which is a statement that they're no difference, exists between the parameter and the statistic being compared to it. A second or alternative hypothesis is the logical opposite of the null hypothesis.

The null hypothesis in this study is as following:

'The dividend decisions are relevant to the capital budgeting decisions of the firm's belonging to the cement industry and the in turn effect the market value of the firms' equity.

To prove this hypothesis we shall try to prove the two theories of relevance of dividend-Walter's model and Gordon's model

The alternate hypothesis in this case shall be as fallows:

The dividend decisions are irrelevant to capital budgeting decisions of the firm belonging to the INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI) and they in turn have no effect on the market value of the firm equity.

SAMPLE OF THE STUDY:

A sample is a part of the target population, carefully selected to represent that population. When researchers undertake sampling studies, they are interested in estimating one or more population values and/ or testing one or more statistical hypothesis.

The sample of our study consists of the financial data of INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI) for the past five financial years.

III. DESIGN AND METHODOLOGY

Database for the Study:

The sources of information are classified to two-primary data and secondary data. The data collected by the researcher and agent known to the

researcher, especially to answer the research question, is known as the primary data. Studies made by others for their own purposes represent secondary data to the researcher.

Secondary sources can usually be found more quickly and cheaply than primary data especially when national and international statistics are needed. Similarly, data about distant places often can be collected more cheaply through secondary sources.

The data used for this study is mostly secondary data. The information regarding the financial data of the past five years has been collected from the various website like the indiainfoline.com, the web portals of the respective company and other related sites.

Sampling Design:

A variety of sampling techniques is available. The one selected depends on the requirements of the project and its objectives. The various methods of sampling have been classified basing on the representation – probability or non probability and on element selection-restricted.

The sampling technique selected for conducting this study is judgment sampling. This is a restricted and non- probabilistic method of sampling; where the sample consisting of one company has been selected on basis of the past dividend payment made by the company.

Tools of Collecting Data :

There are various ways of collecting the data. Some of the most commonly used ones are telephone interview, personal interview and, questionnaire administering. These are basically the methods for collecting the primary data the data required for conducting this study it has been collected from the various web portals as the data is basically secondary in nature.

LIMITATIONS:

- The study is based mainly on secondary data collected from annual reports, company publications, journals, and websites; therefore, its accuracy depends on the reliability of these sources.
- The analysis is limited to a specific period of study, and the findings may differ if a longer period is considered.

- The study focuses only on the dividend policy of the selected company, so the conclusions may not be applicable to all companies or industries.
- Changes in economic conditions, government regulations, taxation policies, and market trends during the study period may influence dividend decisions and affect the results.
- The study does not consider all qualitative factors such as management policies, investor expectations, and future business strategies that may affect dividend decisions.
- Fluctuations in the stock market and external environmental factors are beyond the scope of the study.
- The analysis is restricted to available financial information and may not fully reflect the company's actual dividend decision-making process.
- Time and resource constraints may limit the depth and breadth of the analysis.
- The study assumes that published financial statements present a true and fair view of the company's financial position.
- The findings and recommendations are based on the selected data and may not remain valid under changing business and economic conditions.

IV. LITERATURE REVIEW

DIVIDEND DECISIONS- THEORITICAL

FRAME WORKS

DIVIDEND PRACTICES AND MODELS A CONCEPTUAL FRAME WORK:

Dividend refers to that portion of a firm's net earnings, which are paid out to the shareholders. Our focus here is on dividends paid to the ordinary shareholders because holders of preference shares are entitled to a stipulated rate of dividend. Moreover, the discussion is relevant to widely held public limited companies, as the dividend issue does not pose a major problem for closely held private limited companies, since dividends are

destroyed out of the profits, the alternative to the payment of dividends is the retention of earning profits. The retained earning constitutes an accessible important source and financing the investment requirements of firms. There is, thus a type of inverse relationship between retained earnings and cash dividends: larger retentions, lesser dividends smaller retentions, larger dividends. Thus, the alternative uses of the not earnings-dividends and retained earnings are competitive and conflicting.

A major decision of financial management is the dividend decision in the sense that the firm has to choose between distributing the profits to the shareholders and plugging them back into the business. The choice would obviously hinge on the effect of the decision on the maximizations of shareholders wealth. Given the objective of financial management of maximizing present values, the firm should be guided by the considerations as to which alternative use is consistent with the goal of wealth maximization. That is, the firm would be well advised to use the net profits for paying dividends to the shareholders if that payment will lead to the maximization of wealth of the owners. If not, the firm should rather retain them to finance investment programmers. The relationship between dividends and value of the firm should therefore, be the decision criterion.

There are however, conflicting opinions regarding the impact of dividends on the valuation of a firm. According to one school of thought, dividends are irrelevant so that the amount of dividends paid has no effect on the, valuation of a firm.

On the other hand, certain theories consider the dividend decision as relevant to the value of the firm measured in terms of the market price of the shares.

The purpose of this report is, therefore, to present a critical analysis of some important theories representing these two schools of thought with a view to illustrating the relationship between dividend policy and the valuation of a firm. The theories, which support the relevance hypothesis, are examined in the report.

Overview of Dividend Decision
Dividend decision refers to the policy that the

management formulates in regard to earnings for distribution as dividends among shareholders.

Dividend decision determines the division of earnings between payments to shareholders and retained earnings

The Dividend Decision, in corporate finance, is a decision made by the directors of a company about the amount and timing of any cash payments made to the company's stockholders. **The Dividend Decision** is an important part of the present day corporate world. The **Dividend decision** is an important one for the firm as it may influence its capital structure and stock price. In addition, the **Dividend decision** may determine the amount of taxation that stockholders pay.

Factors influencing Dividend Decisions

There are certain issues that are taken into account by the directors while making the **dividend decisions**:

- Free Cash Flow
- Signaling of Information
- Clients of Dividends

Free Cash Flow Theory

The free cash flow theory is one of the prime factors of consideration when a **dividend decision** is taken. As per this theory the companies provide the shareholders with the money that is left after investing in all the projects that have a positive net present value.

Signaling of Information

It has been observed that the increase of the worth of stocks in the share market is directly proportional to the dividend information that is available in the market about the company. Whenever a company announces that it would provide more dividends to its shareholders, the price of the shares increases.

Clients of Dividends

While taking **dividend decisions** the directors have to be aware of the needs of the various types of shareholders as a particular type of distribution of shares may not be suitable for a certain group of shareholders.

It has been seen that the companies have been making decent profits and also reduced their expenditure by providing dividends to only a particular group of shareholders. **For more information please refer to the following links:**

Forms of Dividend

- **Scrip Dividend**- An unusual type of dividend involving the distribution of promissory notes that calls for some type of payment at a future date.
- **Bond Dividend**- A type of liability dividend paid in the dividend payer's bonds.
- **Property Dividend**- A stockholder dividend paid in a form other than cash, scrip, or the firm's own stock.
- **Cash Dividend**- A dividend paid in cash to a company's shareholders, normally out of its current earnings or accumulated profits
- **Debenture Dividend**
- **Optional Dividend**- Dividend which the shareholder can choose to take as either cash or stock.

Significance of dividend decision

- The firm has to balance between the growth of the company and the distribution to the shareholders
- It has a critical influence on the value of the firm
- It has to also strike a balance between the long term financing decision(company distributing dividend in the absence of any investment opportunity) and the wealth maximization
- The market price gets affected if dividends paid are less.
- Retained earnings helps the firm to concentrate on the growth, expansion and modernization of the firm
- To sum up, it to a large extent affects the financial structure, flow of funds, corporate liquidity, stock prices, and growth of the company and investor's satisfaction.

Residual dividend policy

is used by companies, which finance new projects through equity that is internally generated. In this policy, the dividend payments are made from the equity that remains after all the project capital needs are met. This equity is also known as residual equity. It is advisable that those companies, which follow the **policy of residual**

dividend, should maintain a balanced debt/equity ratio. If a certain amount of money is left after all forms of business expenses then the corporate houses distribute that money among its shareholders as dividends.

The companies that follow a residual dividend policy pay dividends only if other satisfactory opportunities and sources of investment of funds are not available. The main advantage of a **residual dividend policy** is that it reduces to the issues of new stocks and flotation costs. The drawback of this policy mainly lies in the facts that such a policy does not have any specific target clients. Moreover, it involves the risk of variable dividends. This policy helps to set a target payout. Before opting for the **policy of residual dividend**, the earnings that need to be retained to back up the capital budget have to be calculated. Then, the earnings that are left can be paid out in the form of dividends to the shareholders. Thus, the issue of new equities gets considerably reduced and this in turn leads to reduction in signaling and flotation costs. The amount payable as dividend fluctuates heavily if this policy is practiced. When the total value of productive investments is in excess of the total value of retained earnings and sustainable debt, the companies feel the urge to exploit the opportunities thus created to postpone a few investment schemes.

Calculation of Residual dividend policy:

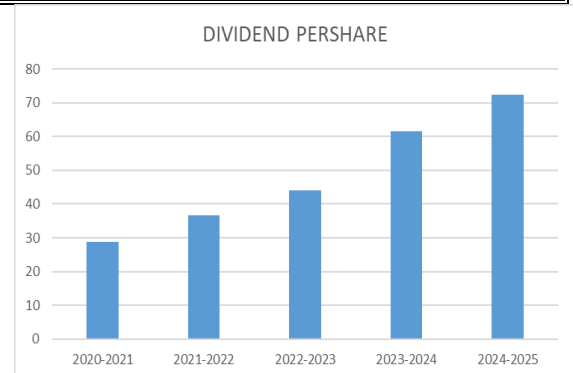
Let's suppose that a company named CBC has recently earned \$1,000 and has a strict policy to maintain a debt/equity ratio of 0.5 (one part debt to every two parts of equity). Now, suppose this company has a project with a capital requirement of \$900. In order to maintain the debt/equity ratio of 0.5, CBC would have to pay for one-third of this project by using debt (\$300) and two-thirds (\$600) by using equity. In other words, the company would have to borrow \$300 and use \$600 of its equity to maintain the 0.5 ratio, leaving a residual amount of \$400 (\$1,000 - \$600) for dividends. On the other hand, if the project had a capital requirement of \$1,500, the debt requirement would be \$500 and the equity requirement would be \$1,000, leaving zero (\$1,000 - \$1,000) for dividends. If any project required an equity portion that was greater than the

company's available levels, the company would issue new stock

V.DATA ANALYSIS AND INTERPRETATION

COMPARISION OF DIVIDEND PER SHARE OF THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI).

YEAR	DIVIDEND PERSHARE
2020-2021	28.83
2021-2022	36.67
2022-2023	43.95
2023-2024	61.53
2024-2025	72.54



Interpretation:

The dividend Per Share of ICICI Ltd., is Rs 28.38 in the year of 2020-2021. The dividend per share for the next two financial years is constant (i.e. Rs 36.67)

When it is compared with the year 2020-2021 the dividend per share in the year 2021-22 it is increased at the rate of 28.83 % and 72.54 % in the year of 2024-25.

COMPARISION OF EARNING PER SHARE OF THE FIRM FOR THE LAST FIVE YEARS

YEAR	EARNING PER SHARE
2020-2021	36.10
2021-2022	44.73
2022-2023	56.09
2023-2024	72.17
2024-2025	85.61

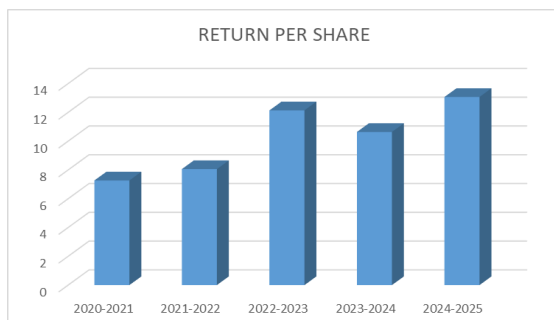


Interpretation:

The Earning per share of the firm is very low in the year 2020-21, but it is doubled in the next year. The Earning per share fluctuated slightly during the financial years 2022-23 and 2024-25. However, there is massive increase reported (about 2 times to the starting year of 2020-21 in the year 2024-25. It indicates the increase in the revenue of the profit.

A PROFILE OF RETURN PER SHARE OF THE FIRM

YEAR	RETURN PER SHARE
2020-2021	7.27
2021-2022	8.06
2022-2023	12.14
2023-2024	10.64
2024-2025	13.07



Interpretation:

Return per share of ICICI Ltd is low of in the year 2020-21 and in the next year it has increased normally and after next year it is highly decreased. The year of 2024-25 the return per share highly increased that is 13.07.

VI.

FINDINGS:

- Based on the analysis of Dividend Per Share (DPS), Earnings Per Share (EPS), Return Per Share, Price-Earnings Ratio, Profit After Tax (PAT), and Net Worth of

ICICI Bank for the period 2020-21 to 2024-25, the following findings are observed:

- Dividend Per Share (DPS) increased consistently from ₹28.83 in 2020-21 to ₹72.54 in 2024-25, indicating a strong dividend distribution policy and enhanced shareholder returns.
- Earnings Per Share (EPS) showed continuous growth from ₹36.10 to ₹85.61 during the study period, reflecting improved profitability and operational efficiency.
- Return Per Share increased from ₹7.27 in 2020-21 to ₹13.07 in 2024-25, despite minor fluctuations, indicating better returns generated for shareholders.
- Price-Earnings Ratio (P/E Ratio) increased from 4.97 to 8.55, demonstrating growing investor confidence and positive market expectations regarding the company's future earnings.
- Profit After Tax (PAT) increased steadily from ₹46.30 to ₹69.57, indicating strong financial performance and effective cost management.
- Net Worth increased significantly from ₹402.49 to ₹732.13, reflecting the company's strong financial position and growth in shareholders' funds.
- The growth in EPS and PAT supported the increase in dividend payments, indicating a sustainable dividend policy.
- The company maintained a balance between rewarding shareholders through dividends and retaining earnings for future growth.
- The overall financial performance of ICICI Bank showed a positive trend throughout the study period.

VII. SUGGESTIONS:

- ICICI Bank should continue its stable and progressive dividend policy to maintain investor confidence.
- The company should focus on further improving profitability to sustain higher dividend payouts in the future.

3. Management should maintain an optimal balance between dividend distribution and retention of earnings for expansion purposes.
4. Efforts should be made to improve return per share through efficient utilization of resources and investments.
5. The company should strengthen its capital base to support future business growth and financial stability.
6. ICICI Bank should continue adopting effective risk management practices to ensure sustainable earnings growth.
7. The company may consider introducing special dividends during periods of exceptionally high profits to enhance shareholder wealth.
8. Continuous monitoring of market conditions and investor expectations can help formulate an effective dividend policy.
9. The bank should invest in technology and innovation to improve operational efficiency and long-term profitability.
10. Management should maintain transparency in dividend decisions to enhance shareholder trust and market reputation.

V. CONCLUSIONS

The study concludes that ICICI Bank has maintained a strong and consistent financial performance during the period 2020-21 to 2024-25. The company's Dividend Per Share, Earnings Per Share, Profit After Tax, Price-Earnings Ratio, Return Per Share, and Net Worth have shown a positive growth trend over the years. The increasing dividend payments reflect the bank's commitment to maximizing shareholder wealth while maintaining adequate funds for future expansion. The growth in profitability and net worth indicates sound financial management and strong business fundamentals. Overall, ICICI Bank's dividend policy has been effective in rewarding shareholders and supporting long-term corporate growth, making the company financially strong and attractive to investors.

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