Trends And Progress In Corporate Dividend Of Selected Steel Companies In India

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INTRODUCTION

Steel is vital for the development of any modern economy and has been considered to be the backbone of the human civilization. The level of per capita consumption of steel has been treated as one of the important indicators of socio-economic development and living standards of the people in any country. Steel has a product of a large and technologically complex industry having strong forward and backward linkages in terms of material flow and income generation.

All major industrial economies were characterized by the existence of a strong steel industry and the growth of many of these economies has been largely shaped by the strength of their steel industries in their initial stages of development. Dividend decision is considered as one of the most important decisions that the managers make, as it affects the resources available at the firm's disposal for further growth and perhaps, the wealth of the shareholders. The profits of a firm can be used for reinvestment within the firm by purchasing a new plant and machinery, investing in research and development, expanding inventories and the like. The dividend decision is an integral part of a company's financial decision making, as it is explicitly related to the other two major decisions, the investment decision and the financial decision.

STATEMENT OF THE PROBLEM

In view of the importance of dividend decision of a firm, a study on the dividend practice of a firm becomes essential. Dividends represent an annual rate of return paid to the shareholders for making use of their funds in the business. Dividend rates declared by the firms depend mainly on the profitability levels of the firms. Do the companies belonging to the same industry declare similar rate of dividend? What is the rate of growth while dividend is declared? Do the dividends declared by the companies differ significantly from one company to the other? In order to find solutions to these questions, the present study has been undertaken.

REVIEW OF LITERATURE

Lintner's (1956) [1] uncovered for the first time that firms maintain a target dividend payout ratio and adjust their dividend policy to this target. The long-term sustainable investment and growth objective determine the firms' target payout ratios, further, Linter finds that firms pursue a stable dividend policy and gradually increase dividends given that target payout ratio. Those findings suggest that firms establish their dividends in accordance with the level of current earnings as well as dividend of the previous year. He also points out that managers believe that investors prefer firms with stable dividend policies.

Darling (1957) [2] has conducted a study titled, "The influence of expectations and liquidity on dividend policy". According to him, the weight assigned to it in the regression equation is a reflection of some other variables that cover lagged dividend, he concludes.

The impact of investment demand on the amount of dividend distributed was examined by **Smith (1963)** [3].He added one more variable, namely 'Demand for investment' to the Lintner's model and found that corporate savings and investment demand were closely associated. He came to the conclusion that dividend decision was only residual.

Brittain, John (1964) [4] studied the 'Tax structures and corporate dividend policy'. He replaced the net profit variable with cash flow variable and found that cash flow variable was able to explain dividend behavior of the firms.

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Fama, Sugene and Harvey Babiak (1968)[5] carried out a study to examine the suitability of different dividend models in predicting the future years dividends. Different regression models were employed to a selected 392 American corporation. They concluded that Lintner's classic dividend model well explained the dividend behavior of corporation as compared to any other model. Further, as compared to a variable like cash flow or depreciation, net income was found to be a better explanatory variable of dividend.

Roji George & A Kumudha (2007) [28] had conducted a study on dividend policy of Hindustan constructed company Ltd. with special reference to Lintners model and their study proved that earnings have the main role in deciding the dividend policy.

Dr. M. Manickam, C.Naleson (2008)[29] has conducted a study titled "Dividend behavior in Indian industries" .The study includes 10 major industries which have been selected on the basic of convince sampling method for the period of 10 years from 1992-2001. They found in the frequency distribution of dividend per share that maximum number of companies are distributed in the medium category of chemical, cotton, textiles, electrical, metal and Alloy, Paper, sugar and synthetic textiles industries. Among the selected ten industries, more number of companies in the automobile, chemical and electrical industries have paid maximum dividend of ₹ 2 and above more number of companies in the cement, engineering and metal and Alloy industries have paid minimum dividend of below ₹ 0.5 frequency class intervals, the study concluded that maximum numbers of companies has paid dividend per share of below ₹ 5.

OBJECTIVE OF THE STUDY

❁ To examine the trends in the distribution of dividends in the selected Steel industries.

METHODOLOGY

The steel companies which satisfied the following criteria have been identified first. The criteria are:

(i) Shareholders population should be greater than 5000.

(ii) Availability of data for a period of 13 years.

(iii) Declaration of dividend for almost all the years of study / Companies that meet the above conditions are more than 46. Out of these, (1) Bhushan steel (2) Kalyani steel (3) SAIL (4) Tayo rolls (5) Tata steel, have been chosen at random under convenient sampling.

STATISTICAL TOOL USED

i. Mean, Standard Deviation and Coefficient of Variations : To study the variation in the ratios, Standard Deviation (S.D) and Coefficient of variation (C.V) have been used.

ii. Linear Annual Growth Rate : Linear Annual Growth Rate(LAGR) was calculated by finding the trend of the data using the linear model.

iii. Trend Analysis : The growing or declining direction of the long-term series has been determined by the trend analysis. Method of least square has been used to determine the trend.

iv. ANOVA : ANOVA test has been used to examine whether the mean values of dividend per share differ from one company to the other.

RESULTS AND FINDINGS

❁ BHUSHAN STEELS

The Table 1 explains that the dividend per share of Bhushan steels has shown moderate variations with the decreasing trend in earnings per share till 1998, after which it has increased during the years 1999 to 2001 and the dividend per share has been constant at ₹ 1.1. During 2002, the earnings per share had fallen to ₹ 13.18 and the dividend per share to ₹ 0.5. Later, they had shown an increasing trend till 2007.Table2 shows that the company had paid a mean dividend of ₹ 1.84 per share. The deviation of mean has been only 1.04, with a coefficient of variation of 56.53. The declining trend in Bhushan steel has shown a negative linear annual growth rate of -0.45 in dividend per share. The Figure (1a) and (1b) has illustrated that the trend line of the earnings per share has sloped in the upward direction, which has led to expect that the company will have a very high growth in earnings per share in future. The trend line of dividend per

Table 1: Behavior Of EPS, DPS And DPR

Year	Bhushan Steels			Kalyani Steels			Tata Steel			Tayo rolls			SAIL		
	EPS	DPS	DPR	EPS	DPS	DPR	EPS	DPS	DPR	EPS	DPS	DPR	EPS	DPS	DPR
1995	26.5	3.04	11.47	5.27	2.59	49.15	8.31	3.5	42.12	4.99	2.5	50.1	2.78	0.6	21.58
1996	12.43	2.43	19.55	6.36	3.3	51.89	10.75	4.26	39.63	5.13	1.51	29.43	2.88	0.64	22.22
1997	11.53	3.19	27.67	2.37	1.94	81.86	12.75	4.95	38.82	5.59	1.66	29.7	1.25	0.28	22.4
1998	10.95	1.1	10.05	2.91	1.65	56.7	8.75	4.4	50.29	7.84	3.29	41096	0.32	0.11	34.38
1999	12.27	1.11	9.05	2.72	1.78	65.44	7.67	4.44	57.89	9.9	3.62	36.57	-3.81	0	0
2000	13.53	1.1	8.13	3.41	0.66	19.35	12.1	4.67	38.6	8.55	3.62	42.34	-4.16	0	0
2001	14.74	1.1	7.46	2.48	0.72	29.03	22.02	5.92	26.88	8.81	3.58	40.64	-0.82	0	0
2002	13.18	0.5	3.79	1.45	0.48	33.1	11.07	4.06	36.68	3.01	2.19	72.76	-3.2	0	0
2003	13.6	0.56	4.12	1.8	0.09	5	33.45	9.05	27.06	5.5	3.05	55.45	-0.76	0	0
2004	22.31	1.13	5.06	4.21	0.02	0.48	53.58	11.28	21.05	7.73	3.05	39.46	6.08	0	0
2005	37.89	2.83	7.47	10.23	2.3	22.48	64.92	14.84	22.86	11.13	4.57	41.06	16.4	3.75	22.87
2006	37.42	2.88	7.70	24.03	3.42	14.23	64.31	14.82	23.04	11.24	4.57	40.66	9.12	2.28	25
2007	63.02	2.92	4.63	18.59	4.68	25.17	68.55	19.02	27.75	18.69	4.99	26.7	12.62	3.58	28.37

EPS-Earnings per share DPS-Dividend per share DPR- Dividend payout ratio

Table 2: Mean, Standard Deviation And Coefficent Of Variation Of DPS

Companies	Mean	S.D	C.V	LAGR
Bhusan steels	1.84	1.04	56.53	-0.45
Kalyani Steels	1.82	1.43	78.42	1.85
Tata Steel	8.09	5.22	64.46	14.58
Tayo rolls	3.25	1.09	35.53	6.53
SAIL	0.86	1.39	160.88	25.18

LAGR-Linner Annual Growth Rate

share has been parallel to X axis, which has indicated that Bhushan steels has followed a stable dividend policy.

TREND ANALYSIS OF BHUSHAN STEEL

Chart (1a)-DPS

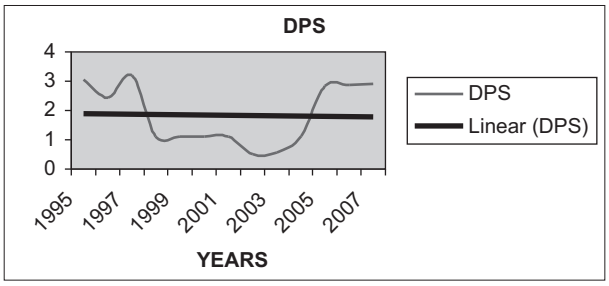
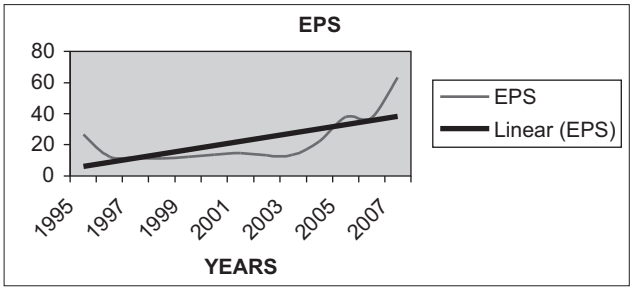


Chart (1b)-EPS



❁KALYANI STEEL

Table1 has shown that there has been a moderate fluctuation in earnings per share, dividend per share and the payout ratio of Kalyani steel till 2000. After that, it has shown a decreasing trend till 2002 with the earnings per share at ₹ 1.45 and dividend per share at ₹ 0.48. From 2003 to 2007, the earnings per share had increased steeply to 24.03 with a increase in the dividend per share to ₹ 3.42. The earnings per share declined again to ₹ 18.59, though dividend per share increased to ₹ 4.68. Table 2 has shown that the company had paid a mean dividend of ₹ 1.82 per share during the 12 years' study period, with standard deviation and coefficient of variation at 1.43 and 78.42%. The company has shown a positive growth rate of linear annual growth rate at 1.85 in dividend per share. Chart 2 has illustrated the trend line of

dividend per share, where it has been parallel to the X-axis, which has indicated that Kalyani steel has been following a stable dividend policy. In Fig (2a), it has shown an upward trend. As compared to 1995, the company had increased its earning very highly in 2007, which has led to a expectation that the earnings per share will increase in the coming years. Fig (2b) has illustrated the trend line of dividend per share where it has been parallel to the X-axis, which has indicated that the Kalyani steel has been following a stable dividend policy.

TREND ANALYSIS OF KALYANI STEELS

Chart (2a) -DPS

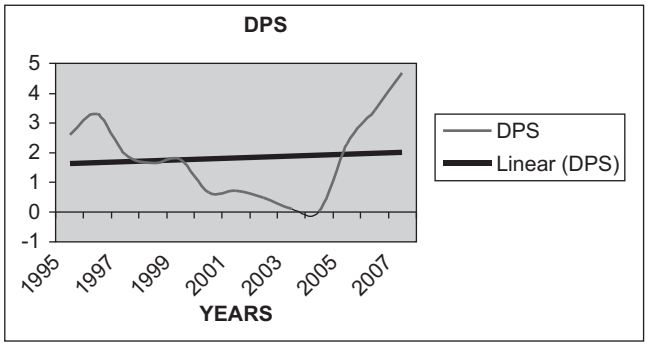
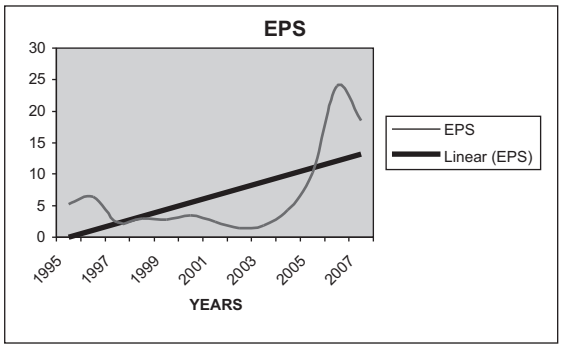


Chart (2b)-EPS



❁TATA STEEL

Table 1 has shown that the TATA steel also has been subjected to ups and downs in the earnings per share and the dividend per share till 2002, after which an increasing trend has been noticed till 2005, with the earnings per share at as ₹ 64.92 and the dividend per share as ₹ 14.84. In 2006, there has been a slight slip in earnings per share as well as dividend per share and there again, it has shown an increase in earnings per share at ₹ 68.55 and dividend per share as ₹ 19.02. Table 2 has explained that the company had paid a mean dividend of ₹ 8.09 over the study period, which had been high as compared to the other companies. The deviation from mean has been 5.22, with the coefficient of variation at 64.46%. The linear annual growth rate of dividend per share has been 14.58% during the 12-year period. The Trend analysis of TATA Steel Company has been shown in the charts (3a) and (3b). It explains that the earnings per share has an increasing trend with the increase in the trend of dividend per share, which has indicated that the company follows a constant dividend policy.

TREND ANALYSIS OF TATA STEEL

Chart (3a)-DPS

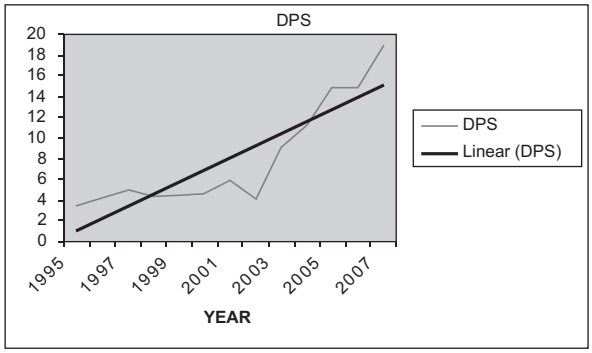
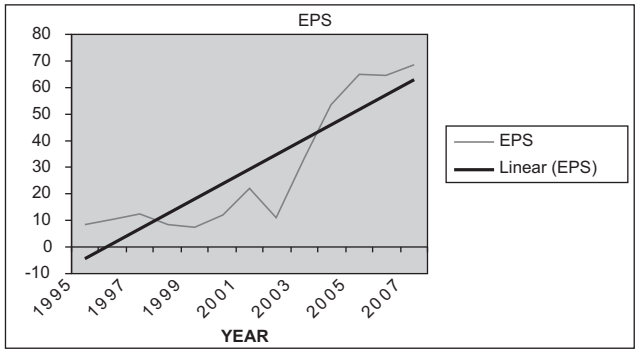


Chart (3b)-EPS



❁TAYO ROLLS

Table1 has shown that the Tayo rolls had shown an increasing trend in earnings per share and dividend per share till 1999. In 2000, the earnings per share had fallen to ₹ 8.55 without any increase or decrease in dividend per share at ₹ 3.62. During the years -2000 to 2002, mild fluctuations in dividend per share and earnings per share were noticed. The

next three years, the earnings per share had been as ₹ 5.5 and the dividend per share ₹ 3.05 in the year 2003. An increasing trend was witnessed till 2007 with earnings per share at ₹ 18.69 and the dividend per share at ₹ 4.99. Table2 has explained that the mean dividend per share of the company had been ₹ 3.25. The deviation from mean had been 1.09 with the coefficient of variations at 33.53%. The linear annual growth rate had shown a positive growth rate of 6.53%. An upward trend has been seen in both the earnings per share and the dividend per share. Chart (4a) and Chart (4b) has explained that the Trend line dividend payment pattern of the company has been based on its earnings, hence during the study period, constant dividend policy has been followed by Tayo Rolls Ltd.

TREND ANALYSIS OF TAYO ROLLS

Chart (4a)-DPS

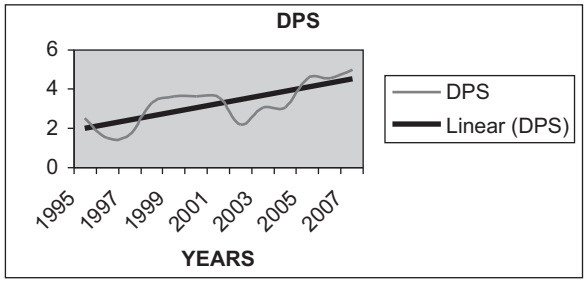
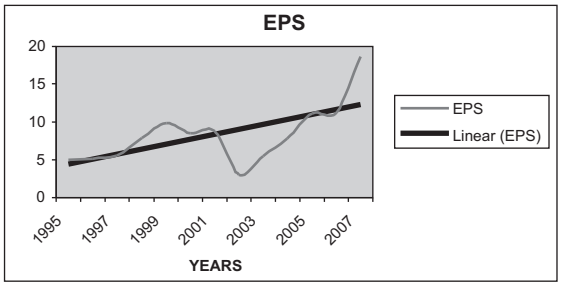


Chart (4b)-EPS



❁SAIL

Table1 has shown that there has been a high fluctuation in earnings per share and the dividend per share till 1998. From 1999 to 2003, the earnings per share had shown a negative value, where no dividend has been declared during those years. In 2004, the company over come the loss and had a huge increase in its earnings per share at ₹ 6.08, but the dividend were not declared in that period. Thereafter, the earnings per share and the dividend per share were continuously volatile. In 2007, the earnings per share had been ₹ 12.62 with the dividend per share at ₹ 3.58. Table2 explained that the company paid a mean dividend of ₹ 0.86 per share with the deviation from mean at 1.39. A very high coefficient of variation of 160.88% has revealed that there has been consistency in the dividend per share paid. The linear annual growth rate of SAIL was 25.18%, which has shown that there has been a very high growth in dividend per share as compared to the other companies. Chart (5a) and Chart (5b) shows that an increasing trend has been seen in both- the earnings per share and the dividend per share of SAIL. As compared to 1995, the earnings per share and the dividend per share have increased very highly in 2007, which has led to a sloping trend line upward. Both the earnings per share and dividend per share have been sailing in the same direction, indicating that the company has been following a constant dividend payout policy.

TREND ANALYSIS OF SAIL

Chart (5a)-DPS

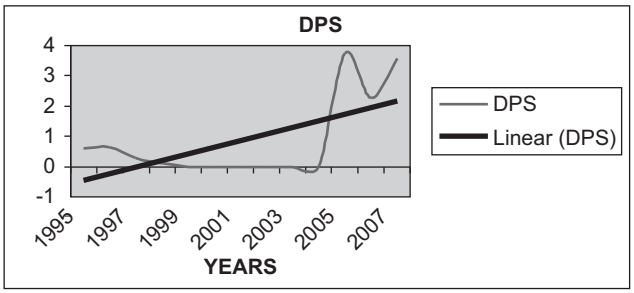
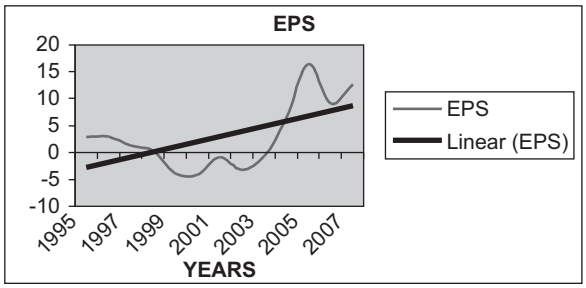


Chart (5b)-EPS



ANOVA TEST

In order to find out whether Mean values of dividend per share of the companies differ from each other, the following

TABLE (3)

Source	DF	Sum of Squares	Mean Squares	F	Sig
Between companies	4	431.094	107.773	23.529	**
Within companies	12	181.506	15.126	3.302	
Total	**16**	**612.600**	**122.899**		

** = Significant at 1% level

hypothesis has been framed and tested by performing analysis of variance (ANOVA) test.

Ho: There is no significant difference in mean values of dividend per share among the companies.

Table3 has shown that there has been significant difference in mean values of dividend per share among the companies. The calculated F value has been greater than the table value at 1% level. It can be said that the companies belonging to the Steel industry have declared dividends, which have varied significantly among the companies.

CONCLUSION

Bhushan Steel and Kalyani Steels have followed a stable dividend per share policy,and the trend line of both the companies does not follow its earnings and were as other selected companies like Tayo Rolls, TATA Steel, and SAIL has followed a constant dividend per share policy, its dividend per share depends on its earnings. The mean value of TATA steel has high earnings per share of ₹ 29.09, and it has declared a high dividend of ₹ 8.09 per share, which has been the highest in the steel industry and it has been found that SAIL has the highest growth rate as compared to other selected companies. It can be said that the companies belonging to the Steel industry have declared dividends, which have varied significantly among the companies during the study period.

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