
The Consequence Of Dividend Payout On Profitability: An Investigation Study On Pharmaceutical Industry In India

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Abstract: The main aim of this study is to establish the relationship between dividend payout and firms profitability among the top Pharmaceutical Companies operating in India. Secondary data is used for carrying out the present study. Statistical techniques like correlation and multiple regression analysis were applied for analyzing the data. The major findings based on the results of Cipla showed a significant relationship between profitability and dividend payout and the remaining companies showed insignificant result. But in the statistical tool correlation analysis, majority of the Pharmaceutical Company taken for the study showed a strong positive correlation between dividend profitability and dividend payout. The major conclusion is inferred from this study that there is a relevancy in the dividend payout and firms profitability that improves the shareholders wealth.

Keywords: Net profit, Dividend, Pharmaceutical

INTRODUCTION

Profit is clarified as the segment of benefit which is designated to the investors of the organization. It is known as the return that an investor gets from the organization, on his shareholdings. As suggested by the Institute of Chartered Accountants of India, profit is "a dissemination to investor out of benefits or saves accessible for this reason. Profit affects the market cost of the organization's offer and its benefit which is easily proven wrong proclamation. Some monetary examiners accept that profits influence the market cost of offers and few are not tolerating this assertion. Yet, it has been demonstrated that profits importantly affect share cost and benefit of the firm.

How profit matters to financial backers?

There are five significant reasons why profit matters for financial backers, incorporate the reality they broadly raise stock contributing benefits, offer an additional measurement of essential examination, lessen by and large portfolio hazard, offers charge benefits and help to keep up buying force of capital

Development and Growth in Profits

Financial backers trust it is always good to put resources into organization having profitable track record and that profit will in general consistently develop throughout some undefined time frame. Profoundly settled organizations deliver profit commonly to expand profit payouts from one year to another. There is various "profit blue-bloods," or organizations that have ceaselessly lengthened their profit payouts for over 25 years sequentially. The profit normal Compound Annual Growth Rate (CAGR) for Standard & Poor (S&P) Companies that offers profit has been 3.2%. There is consistently all over of stock, yet there is no affirmation to increment in its cost. On the off chance that you need to put your cash into profit paying organizations, there is no assurance to get more benefits. Yet these organizations give better profit from speculation. Indeed, even the majority of the profit paying organizations ceaselessly pronounces the profits to the investors after some time.

Instability of stocks and hazard decrease:

Profit is the main consideration to decrease generally portfolio risk and instability. In regards to decreasing the danger, installment of profit can direct any mishap that happen from a shrink in stock cost. In any case, the danger decrease advantage of profits goes past that elementary truth. The greater part of the examinations demonstrated that, profit paying organizations performs widely and non-profit paying organizations perform less during bear market periods.

Assessment productivity

Profit offers charge benefits. These are very assessment proficient for getting pay; a few qualified profits are

charged at lower rates. According to Income Tax Regulations (IRS) of 2011, whose singular personal assessment rate is 25% or higher, qualified profits are charged at 15% rate. The remaining part under 25% annual expense, qualified profits are tax-exempt.

Impact of expansion:

Putting away cash to different protections implies, we generally consider swelling is the essential factor. At last, financial backers consider whatever profits procured by him/her to conquer the deficiency of buying power it intends to meet expansion.

Equity Valuation

Profits are useful for equity valuation. Presumptively the beneficial equity valuation measures than others, like Price to Earnings Ratio (or) P/E Ratio.

REVIEW OF LITERATURE

Sartono (2001) states that, if the organizations procure more benefits normally they were deliver profit to the investors or moved to held profit. The organizations have greater productivity, there is more degree to extend or different their business utilizing held income. Sudasri (2002) found that productivity influences the profit strategy of the firm. Profit is dispersed to the investors from benefits after meet with their commitments like assessments and premium installment. Samy Ben Naceur and Mohamed Goaid (2002) demonstrate that the likelihood of making future qualities is emphatically and essentially associated with productivity factor. Additionally, the results proposes that the benefit creation is determined by industry designs. Ismiyanti and Hanafi (2003) productivity is estimated by return on resources. The Company's capacity to deliver benefits at the pace of deals, property and certain capital is called productivity. They found that, productivity investigation is the significant worry of long haul financial backers and investors will see the benefits as far as profit moreover. Gitman (2003) states that, the connection among incomes and expenses are created utilizing productivity exhibits the capacity of capital put resources into all out resources for create benefits and furthermore when there is more noteworthy degree of productivity, more opportunities to pronounce the profit. It implies organization's procuring benefits affect the profit strategy. Amidu (2007) found that statistically significant and negative relation between profitability and dividend payout and also found a negative association between firm's profitability measured by return on assets and return on equity with dividend payout. Okpara, and Chigozie, G (2010) have tracked down the negative however huge connection between the profit payout proportion and current benefit. Moreover they additionally utilized Earning per share proportion as a pointer for associations current and future profit structure. Kohli et al. (2011) in their investigation expressed there exist an immediate and positive connection between profit strategy and the organization's productivity. Productivity proportion is utilized to gauge the procuring limit of the resources of an association. It is vital for the investors to put their eyes on the organization's monetary conditions. The organizations had the option to deliver great measure of profit in the event that they could acquire more from the merchandise and enterprises delivered. Shaky and problematic income might be adversely influenced on the profit payout. Timothy Mahalang'ang'a Murekefu and Ochuodho Peter Ouma. (2012) found that profit payout was a main consideration

Influencing firm execution.

Their relationship was additionally solid and positive. Priya, K and Nimalathan, B. (2013) states that profit strategy proportions extraordinarily affect all firm execution proportions aside from profit from venture (ROI) and return on value (ROE). Raluca Georgiana Moscu. (2014) tracked down that lone variable impacted by the profit per share, profit in the earlier year is the benefit per share. AR. Fathima Thafani and M.A. Mohamed Abdullah. (2014) found that there was a huge relationship between profit payout and corporate benefit regarding return on resources, return on value and profit per share. Dada F.B et al. (2015) endeavored to contemplate the determinants of the profit strategy and its benefit of Nigerian financial area. They applied Least Square relapse examination on the board information of the banks that were recorded on Nigerian Stock Exchange for the time frame somewhere in the range of 2008 and 2013. Discoveries finished up that influence, corporate administration, benefit and a year ago profit had positive effect and association's liquidity had adverse consequence. Bogna Kaźmierska-Jóźwiak. (2015) found that genuinely critical and negative connection between profit payout proportion (DPO) and two examined factors: productivity (ROE) and influence (LEV) and furthermore states that profit payout proportion is a negative capacity of productivity and influence. Mensah Mawutor, John Kwaku and Kemebradikemor, Embele (2015) found that productivity and profit strategy are fundamentally related. Subsequently, when the banks make benefits they will in general compensation out profits. Notwithstanding, the examination likewise shows through a relapse model that banks recorded on the Ghana stock trade utilize a profit strategy that isn't exclusively affected by productivity. Ishtiaq Ahmad and Muhammad Fahid Muqaddas. (2016) found that genuinely critical relationship of security, hazard and productivity with profit payout proportion. Khadija Farrukh et. al. (2017) found that profit strategy altogether affects investors' abundance and firm execution. It upheld profit pertinence hypothesis, flagging impact

hypothesis, bird close by hypothesis and demographic impact hypothesis. Muhammad Tamrin et.al. (2017) demonstrated that productivity have a negative and critical impact on profit strategy. Productivity has a negative and critical impact on firm worth. Profit strategy has positive and inconsequential impact on firm worth. Hirindu Kawshala and Kushani Panditharathna (2017) presumed that there is a positive critical connection between profit strategy and the productivity in Beverage, Food and Tobacco (BFT) industry in Sri Lanka. Manjunatha K and Akash S.B (2018) found that connection between Return on Assets and Dividend Payout Ratio is negative however genuinely huge.

Research Problem

From the existing literature review, In India very few studies have been carried out to initiate the relationship between firms profitability and dividend payout. The study will bridge the gap by establishing whether there is a relationship between profitability of the firm and dividend payout out of the top five Pharmaceutical companies in India for the year 2016 – 2020.

Research Questions:

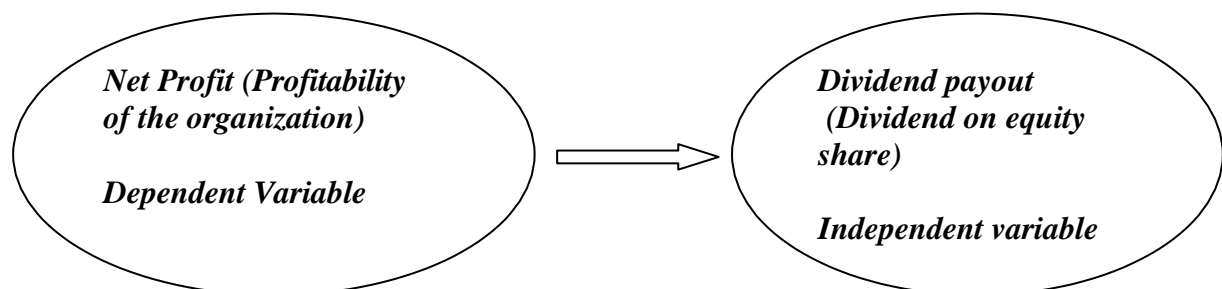
The following questions have been addressed in order to gain an insight and understand the dividend payout and profitability in top Pharmaceutical firms in India.

- Is there any relationship between the firm profitability and dividend payout of top Pharmaceutical companies in India?
- What is the degree of the coalition between firm profitability and dividend payout of top Pharmaceutical companies in India?

Objectives of the present study:

- To examine the relationship between firm profitability and dividend payout among the top five Pharmaceutical companies in India.

Theoretical model



Hypotheses

H0: There is no significant relationship between the dividend payout and net profit.

H0₁: There is no significant relationship between Sun Pharma dividend payout and net profit H0₂:

There is no significant relationship between Divis Lab dividend payout and net profit

H0₃: There is no significant relationship between Dr. Reddy's Lab dividend payout and net profit

H0₄: There is no significant relationship between Cipla dividend payout and net profit

H0₅: There is no significant relationship between Aurobindo dividend payout and net profit

Research Methodology:

Secondary data has been used in this study and the data are collected and analyzed from income statement and financial position of top five pharmaceutical companies in India. The data utilized in this study is extracted from the comprehensive income statements and financial position of the sample top five Pharmaceutical companies namely Sun Pharmaceutical, Divis Lab, Dr. Reddy's Lab, Cipla and Aurobinda in India from 2016-2020. The present study, for analyzing data we have employed correlation analysis and linear regression using SPSS 20.0 Version. The following are the variables considered for regression analysis.

Dependent Variable

Net Profit (Firms Profitability)

Independent Variable

Dividend Payout (Equity Share Dividend).

Data Analysis

Correlation Analysis between Net Profit and Dividend Payout

Table 1

Company name	Correlation Value(r)	Results
Sun Pharama	0.363	Low Positive
Divis Lab	0.674	High Positive
Dr. Reddy’s Lab	0.312	Low Positive
Cipla	0.855	High Positive
Aurobinda	0.208	Low Positive

Table 1 highlights the correlation analysis between profitability and dividend payout of top 5 Pharamaceutical companies in India from 2016-2020. It is can be inferred from the above table that, there exists a high positive correlation in the two pharmaceutical companies namely Divis Lab, and Cipla, and poor correlation between profitability and dividend payout exists among Sun Pharma , Dr.Reddy’s Lab and Aurobindo .

Table 2 Results of Multiple Regression Analysis of (Cipla)

Model	R	R Square	Adjusted R square	F change	Sig. F Change
1	0.801	0.642	0.523	0.013	0.102

Source: Calculation made through SPSS by author

Table 3: Regression Coefficients

Variable	Unstandardised coefficients B	Standardised Coefficient beta	t- value	Sig.	H0: Rejected / Accepted	VIF
(Constant)	13690.84	837.72	16.34	0.00049		
Dividend Payout	6.40	2.75	2.32	0.0021	Rejected	1.00

Dividend Variable

Net Profit

Table -2 Indicates the model summary of multiple regression which is carried out through SPSS. The results of the model shows that the value of R is 0.801, which indicates a high correlation between dependent variable (Net Profit) and independent variable (Dividend Payout). The Value of R square is 0.642. The P value of the model is 0.013 which is less than the significance level 0.05 indicating that the regression model is statistically significant and fit a model.

Table 3 highlights the results of Regression analysis for Net profit and Dividend Payout. Results of multiple regression implies that p value of Dividend Payout is 0.0021 which is less than significance level 0.05. From the above results it clearly reveals that there is a statistically significant relationship between net profit and dividend Payout.

The following regression equation was obtained:

$$Y = 13690.84 + 6.402X_1 + e$$

Table 4:Regression Analysis between Profitability and Dividend Payout (Top 5 Pharmaceutical companies)

Company name	P value	H0 (Accepted / Rejected)
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Sun Pharama	0.547	Accepted (H01)
Divis Lab	0.212	Accepted (H02)
Dr. Reddy's Lab	0.659	Accepted (H03)
Cipla	0.002	Rejected (H04)
Aurobinda	0.571	Accepted (H05)

Summary and Conclusion

It is understood from the above results and findings, there exists a significant relationship between profitability and dividend payout which infers an increase in financial wellbeing of an organization depends positively on the dividend payout of the firms. Based on the above results it can be inferred that, only the company named Cipla has significant relationship between Net profit and Dividend payout of the firm and the other Pharma companies taken for the study namely Sun Pharma, Divis Lab, Dr. Reddy's Lab and Aurobinda are not significant. But in general some organizations are making more profits and they tend to retain their profits in the form of retained earnings and do not declared profits they keep aside their retained earnings for diversification, expansion and for other productive purposes. The major limitation in this paper is that the period for which the data were sampled. To address this limitation, future research can increase the sample size and include other sectors and a comparative study of two different unrelated industries can be studied and as well as to include other factors related to both variables can be made.

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