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A Study to assess the Dividend Practices in India's Electronics Sector

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Introduction

Dividends received and capital gains are the two components of shareholders' returns. A corporation's dividend payout choice has a direct influence on the lives of both of these people. As a result, determining whether to pay dividends or reinvest the money back into the firm to capitalise on further opportunities is a vital decision for management. When choosing the exact proportion of earnings to pay as dividends, management must walk a tightrope since shareholders prefer cash dividends over an increase in the value of the securities they own as a result of the company's re-investment of profits. The best and most optimal dividend policy is the one that gives shareholders the best chance of making the most money when market share prices go up.

When making decisions concerning dividend payments, it is critical to evaluate both how much a dividend should be given and how it should be paid. The choice must be made in light of the company's existing investment prospects as well as alternative funding options. For a company that is fresh, offering exciting investment opportunities and experiencing quick development and expansion, no payout policy is common. According to Allen and Michaely, a good knowledge of dividend policy, according to Allen and Michaely, is crucial for many other areas such as capital structure, mergers and acquisitions, project appraisal and finance, and many others. According to Myers and Majful, if enterprises do not have enough financial slack, they may be obliged to pass up favourable investment opportunities if their assets are underpriced in the face of information asymmetry. To that aim, the study examines and discovers the relevance of dividend policy in the electrical machinery manufacturing business in terms of dividend policy and the associated value maximisation that goes along with it. The firms included for the study are all publicly listed Indian corporations. For the following reasons, Indian corporations present a more favourable environment for evaluating dividend policy concerns: For starters, the majority of dividend policy research studies are based on samples of free economic markets, making Indian enterprises a more representative sample of free economic markets. Following that, as compared to the financial markets of developed nations, India's markets are still in their infancy. Individual stock market investors in India are often less educated than those in industrialised nations. Risk-taking, investing, and dividend policy are all areas where Indian stock investors might have a range of opinions and activities. India's economic effect on the globalised world is increasing at an alarming rate. Its pace of economic growth, current account surplus, and stock market performance all show that the country is in good economic health. The market price of a company's common stock symbolises its owners' wealth. This market price is decided by the company's investment, financing, and dividend decisions. The goal of this study is to find out if a company's dividend policy affects its market price and, if so, if this affects the wealth of its shareholders.

Given the foregoing, the current study's goal is to determine the impact of dividend policy on shareholder wealth in the Indian electrical equipment manufacturing sector. For our study, we examined a sample of dividend-paying electrical machinery manufacturing businesses that are publicly listed on the Bombay Stock Exchange (BSE). This business is a wonderful choice because it is one of the most well-established in India and has a large number of participants. So, it has enough samples and data from the past to make the results more meaningful. Methodology Data for this study was gathered from the Center for Monitoring the Indian Economy's (CMIE) Prowess database over a three-year period, from 2014 to 2018. There were a total of 489 firms in the electrical machinery manufacturing industry. There were 210 businesses listed on the Bombay Stock Exchange (BSE), and 80 of them paid dividends on a regular basis. As a result, the information provided by these 80 businesses was considered. Discussion of the Findings The F-statistic indicates that the components in this model explain the Tobin's Q ratio statistically significantly, which is consistent with the regression findings for the entire sample (1 percent level of significance). The model accounts for 40% of the variation in Tobin's Q, according to the corrected R2 of 0.411. A more detailed examination of the explanatory factors reveals that dividend yield is statistically significant at the one percent level of significance. Based on the whole sample, it has been found that the dividend policy of companies in India that make electrical machinery has a large effect on the wealth of their shareholders. Conclusions

Actual data has been shown in this study to support numerous dividend irrelevance theories, including M and M. According to the data, there is a negative non-linear relationship between a share's market value and dividend yields. A greater dividend diminishes the market value of a company's shares, whereas a lower dividend increases it. Our findings are also compatible with Bhattacharya's and other scholars' information content or dividend signalling theories. These findings are also consistent with empirical data from Allen and Ross et al., as well as other researchers, who discovered that a company's dividend policy affects its stock price. According to Allen, the rational argument in favour of dividends is founded on the idea of transaction costs. Our findings are consistent with the findings of other researchers, such as Amidu, who discovered that his data supported the second school of thought, which claims that a firm's dividend policy is connected to its success. Surprisingly, the study reveals that larger businesses listed on the Ghana Stock Exchange outperform their smaller counterparts in terms of return on assets, which was utilised as a performance metric. Priya revealed that dividend policy has a significant influence on shareholder value in Indian organic chemical businesses but has no impact on shareholder wealth in inorganic chemical companies. Additional research, including that done by Stevens and Jose, found a statistically significant negative relationship between dividend smoothing and company value. Their results show that payouts that have been artificially stabilised by smoothing are undervalued, which is an interesting counterpoint to the very large positive effect of the dividend stability measure.

Overall, as noted in the literature review, higher dividend payments by corporations will aid in the appreciation of their stock prices, and vice versa. Shareholders favour a corporation's present and predictable dividends over uncertain capital profits in the future. In general, this is true for middle-class individuals who rely on their monthly wages for the majority of their income, and India is largely made up of middle-class people. Some of the earlier research may be backed up by our results, while other research may not. Reference

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