

# Corporate Dividend Policy in India: Trends, Issues and Determinants

## Abstract

This study examines the dividend policy of 781 continuously traded listed companies in India during the period 1994-95 to 2012-13. It analyzes the trends in dividend payout ratios and determines the factors affecting dividend policy and dividend smoothing. It also examines the influence of catering incentives on dividend policy and the role of business group affiliation in determining dividend policy and dividend smoothing. Logit, tobit, fixed effect and time series regression models are used to investigate the issues mentioned above. It is observed that the proportion of dividend paying firms has declined during the period 1994-95 to 2012-13 and this declining trend is not continuous. The dividend paying companies are larger, more profitable, have fewer investment opportunities, less levered and more mature than non-payers. The results reveal that the larger, more profitable, more mature and highly liquid firms are more likely to pay dividends, and the likelihood of paying dividends is less for the firms having more growth opportunities, high financial leverage, and high business risk. Firms are more likely to pay dividends and have higher dividend payout level when the insiders' ownership is less or when the dispersion of ownership is higher. The factors like financial leverage, the size of the company and profitability have played the significant role in determination of dividend policy for the continuously dividend paying companies. The results are consistent with the pecking order theory, transaction costs theory, signaling theory and firm life-cycle theory of dividends. The companies having high investment opportunities, low leveraged, riskier, high dividend distribution taxes and smaller companies tend to smooth their dividend more which is in line with the information asymmetry and agency-based explanations of dividend smoothing. The catering incentives have significant positive impact on dividend policy and propensity to pay a dividend, which implies that Indian companies cater to their investors' sentiments. The dividend policy decisions and the dividend smoothing behavior of business group-affiliated companies differ significantly from that of non-affiliated companies. The findings would help the corporate managers to formulate appropriate dividend policy for their companies in India.

**Key words:** *Dividend policy; Dividend smoothing; Catering incentives; Propensity to pay; Business groups.*