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A study on dividend decision in the light of EPS with reference to WIPRO Ltd

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Abstract

Dividend policy has been an issue of interest in financial literature since Joint Stock Companies came into existence. Dividend decision is one of the most important functions of finance managers. Dividends are commonly defined as the distribution of earnings (past or present) in real assets among the shareholders of the firm in proportion to their ownership. Managements' primary goal is shareholders' wealth maximization, which translates into maximizing the value of the company as measured by the price of the company's common stock. This goal can be achieved by giving the shareholders a "fair" payment on their investments. In the above context the relationship between the Dividend per share, Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share of Wipro Ltd. over a period of 2012 to 2016 have been studied. The study is based on secondary data collected from the authentic websites of these companies using Pearson's Correlation Coefficient (2 Tailed test, 5% Level of Significance) to see whether there is any significant correlation between the above mentioned variables.

Keywords: Corporate finance, dividend per share, operating profit, adjusted & reported EPS

1. Introduction

Dividend policy is an important issue of financial management and cash profits for many companies is a substantial outflow. At first glance, it may seem obvious that the company wants a dividend, to the extent possible to return money to shareholders. On the other hand, it is obvious that the company can always instead of profit sharing, enterprise shareholders money again. In the real world, determine most appropriate dividend policy is an important issue and it's not an easy task and many factors are involved in determining the dividend policy. Corporate executives, at the end of the fiscal period are taken two major decisions: First, how much of the profits should be divided among the shareholders and Second, How much profit should be retained by enterprise in the company. However, it is possible to distribute a fixed monetary profit without attention to fluctuations in their incomes or pay a fixed percentage of the profits or even distribute amounts of dividends accumulated in the past years as the current shareholders. Every decision made in a business has financial implications, and any decision that involves the use of money is a corporate financial decision. Defined broadly, everything that a business does fits under the rubric of corporate finance. It is, in fact, unfortunate that we even call the subject corporate finance, because it suggests to many observers a focus on how large corporations make financial decisions and seems to exclude small and private businesses from its purview. A more appropriate title for this discipline would be Business Finance, because the basic principles remain the same, whether one looks at large, publicly traded firms or small, privately run businesses. All businesses have to invest their resources wisely, find the right kind and mix of financing to fund these investments, and return cash to the owners if there are not enough good investments.

2. Literature Review

Dr. K. R. Jadeja (2010)^[6] with the globalization of competition and the capital market and a tidal wave of privatizations, shareholder value rapidly is capturing the attention of executives worldwide. If shareholders believe that the corporation is underperforming than they can try to replace the board in the next election. If they succeed the new board will appoint new management team.

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The objective function of the company is to maximize the shareholder value. Manager in most of the firms of the world focus on building shareholder value. Dr. K. R. Jadeja (2010) [6] had undertaken the study on “shareholder value creation in India – A sectorial analysis” had found that old generation companies of the industries like Oil & Gas, Steel, Textile, Sugar, Cement and Cement Products create more shareholder value than new generation companies of the industries like IT, Pharmaceutical, FMCG, Automobile and the Capital Goods etc. He also found that there is positive correlation between market capitalization and the shareholder value creation

Sujata Kapoor (2009) had undertaken the study on, “Impact of dividend policy on shareholder value: A study of Indian firms” [22] had found that as the dividend decision is the important decision it can't be managed with higher share price. She also found that in India financial managers view dividend decision as an important part of their job.

Sharma Dhiraj (2007) [12] empirically examined the dividend behaviour of select Indian firms listed on BSE from 1990 to 2005. The study analysed whether or not the dividends are still vogue in India and tried to judge the applicability of one of the two extremely opposite schools of thoughts relevance and irrelevance of dividend decision. The study also analysed the applicability of tax theory in the Indian context. The findings offered mixed and inconclusive results about tax theory indicating that the change in the tax structure does not have a substantial effect on dividend behaviour of firms.

Ram Kumar Kakani (2000) [9] had undertaken the study on “Financial Performance and the Diversification Strategy of Indian Business Groups” [28] had found that, shareholder value creation was negatively related to product diversification of business houses during all the period while international diversification was positively related to the business groups growth, profitability, profit margins and the shareholders' value

3. Objectives of the Study

1. To study the relationship between the Dividend per share, Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share of Wipro have been studied over a period of 2012 to 2016.
2. To study fluctuations in the above variables over the period of study and their extent.

4. Hypotheses of the Study

Null Hypothesis 1: There is no correlation between Dividend per share & Adjusted EPS of Wipro.

Null Hypothesis 2: There is no correlation between Dividend per share & Reported EPS of Wipro.

Null Hypothesis 3: There is no correlation between Dividend per share & Operating Profit per share of Wipro.

Null Hypothesis 4: There is no correlation between Dividend per share & Net Operating Income per share of Wipro.

Null Hypothesis 5: There is no correlation between Dividend per share & Free Reserves per share of Wipro.

5. Sources of Data Collection

As the study is specific in the nature, only secondary sources of data has been collected from the research papers and dissertations of the scholars, books of references, standard publications by institutes and organizations, financial reports and communications of authorities engaged in the study related to the topic under the study, in magazines, periodicals, newspapers, internet etc. Also Annual Reports of the company, published and submitted to Bombay Stock Exchange are tapped

6. Data Analysis and Use of Statistical Tools and Techniques

For the purpose of the data analysis statistical applications i.e. Pearson's Correlation Coefficient (2 Tailed test, 5% Level of Significance) is used to see whether there is any significant correlation between the above mentioned variables.

7. Inferences and Results

- A. There is a significant positive correlation between Dividend per share & Adjusted EPS (0.54). This makes it obvious that the Dividend per share & Adjusted EPS move in the same direction over the years. This is evident from March 2012 to March 2016, as the Dividend per share decreased, so did the Adjusted EPS.
- B. There is a positive correlation between Dividend per share & Reported EPS (0.53). This makes it obvious that the Dividend per share & Reported EPS move in the same direction over the years. This is evident in the initial part of the study period, as the Net Dividend per share increased so did the Reported EPS and when Dividend per share decreased, so did the Reported EPS.
- C. There is a significant positive correlation between Dividend per share & Operating Profit per share (0.50). This makes it obvious that the Dividend per share & Operating Profit per share move in the same direction over the years. This is evident throughout the study period, as the Dividend per share Profit per share decreased, so did the Operating Profit per share and vice-versa.
- D. There is a significant positive correlation between Dividend per share & Net Operating Income per share (0.30). This makes it obvious that the Dividend per share & Net Operating Income per share move in the same direction over the years. This is evident throughout the study period, as the Dividend per share Profit per share decreased, so did the Net Operating Income per share and vice-versa.
- E. There is a significant positive correlation between Dividend per share & Free Reserves per share (0.20). This makes it obvious that the Dividend per share & Free Reserves per share move in the same direction over the years. This is evident throughout the study period, as the Dividend per share Profit per share decreased, so did Free Reserves per share and vice-versa.

The above table and graph shows that there is quite a bit of fluctuation in the Dividend per share over the period of study similar to the substantial fluctuations in Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share. Thus all the Null Hypotheses are rejected and alternate hypothesis are

accepted that there is a correlation between Dividend per share & Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share. Thus Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share affect the Dividend per share. Thus WIPRO Ltd. relate

their Dividend decisions with their Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, and Free Reserves per share.

Tables and Fig

Table 1: Details of Wipro

Years	Dividend per share	Adjusted EPS (Rs)	Reported EPS (Rs)	Operating profit per share (Rs)	Net operating Income per share EPS (Rs)	Free Reserves per share EPS (Rs)
Mar'16	6	32.91	42.43	44.57	180.87	165.57
Mar'15	12	33.28	42.77	44.24	166.94	140.25
Mar'14	8	30.01	38.96	40.48	155.17	119.04
Mar'13	7	22.99	29.25	30.68	134.9	98.37
Mar'12	6	19.09	24.07	26.54	128.87	99.05

Table 2: Correlation for Wipro

		Dividend per share
Dividend per share	Pearson Correlation	1
	Sig. (2-tailed)	
	N	5
Adjusted EPS (Rs)	Pearson Correlation	0.54
	Sig. (2-tailed)	0.35
	N	5
Reported EPS (Rs)	Pearson Correlation	0.53
	Sig. (2-tailed)	0.36
	N	5
Operating profit per share (Rs)	Pearson Correlation	0.50
	Sig. (2-tailed)	0.39
	N	5
Net operating income per share EPS (Rs)	Pearson Correlation	0.31
	Sig. (2-tailed)	0.61
	N	5
Free reserves per share EPS (Rs)	Pearson Correlation	0.20
	Sig. (2-tailed)	0.74
	N	5

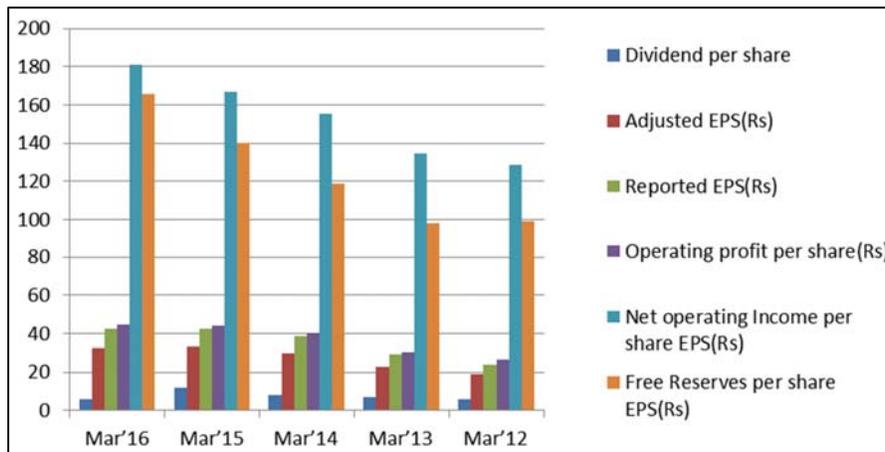


Fig 1: Comparison for WIPRO

8. Conclusion

Dividend decision is an important area of any Company especially while taking relevant corporate decisions or formulating critical corporate strategies. Every company puts in a lot of thought behind the same to somehow maximize the returns & also look into share holders' interest. Through this study one can conclude that there is a correlation between Dividend per share & Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share. WIPRO Ltd.

looks into this area effectively. Thus WIPRO Ltd. relate their Dividend decisions with their Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share. Irrespective of the direction, one cannot rule out the correlation between the above. Thus one can conclude that Dividend decision being one of the important decisions of Corporate Finance is influenced by Adjusted & Reported EPS, Operating Profit per share, Net Operating Income per share, Free Reserves per share of WIPRO Ltd.

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