



A STUDY ON THE IMPACT OF DECLARATION OF DIVIDEND IN AUTOMOBILE INDUSTRY

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INDIAN AUTOMOBILE INDUSTRY: AN OVERVIEW

The automobile industry in India is expected to be the world's third largest by 2016, with the country currently the world's second largest two-wheeler manufacturer. Two-wheeler production is projected to rise from 16.9 million in FY14 to 28.8 million by FY21. Furthermore, passenger vehicle production is expected to increase to 10 million in FY21 from 3.1 million in FY14.

Strong growth in demand due to rising income, growing middle class, and a young population is likely to propel India among the world's top five auto manufacturers by 2015. Automobile export volumes increased at a compound annual growth rate (CAGR) of 17.5 per cent during FY05-14, out of which two-wheelers accounted for the largest share in exports at 67 per cent in FY14.

Indian automotive Industry plays very vital role in overall growth and development of the economy. The automotive industry mainly consist of two main segment of this area i.e. Automobile Industry and Auto Component Industries. Apart from catering the need for direct demand for passenger car, commercial and personal vehicles, engine parts requirements, this industry also provide support for various industries like Capital Goods, Logistics, Paper, Cement, Steel, Non-Ferrous metals etc.

Indian Automotive Industry witnessed remarkable growth in last two decades. In 2-wheeler segment India is Second largest manufacturer and fifth largest in commercial vehicles segment. Today, India is world's largest market for Automotive Industry. Chennai is known as '*Detroit of Asia*' with 30-35% of total production of Indian Automotive Industry.

Automotive Sector can be classified into four segments. The First Segment as Two wheelers which consists of Mopeds/Scooty, Scooters, Motorcycles and electric two-wheelers etc. Secondly we can group as Passenger Vehicles which includes Passenger Cars, Utility vehicles and other Multi Purpose Vehicles. Thirdly we have Commercial Vehicles which subdivided into Light Commercial/Motor Vehicles and Medium or Heavy Commercial Vehicles and Lastly We have Three Wheelers which includes Passenger carriers and Goods carriers.

The Journey of Development of Indian Automotive sector was started in 1897, when Indian roads witnessed the first car and till 1930 we had only imported cars on Indian roads. In 1940s, Hindustan Ambassador was launched but due to the restriction under License raj, growth was very slow. India was a closed market with few players catering the needs of the

Table 1.1: Domestic Market Share of Automobile Industry for 2014-15

Domestic Market Share for 2014-15	
Passenger Vehicles	13
Commercial Vehicles	3
Three Wheelers	3
Two Wheelers	81
Grand Total	100

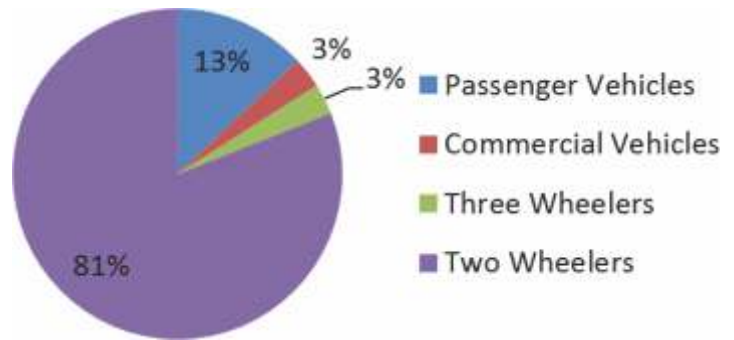


Figure-1.1: Domestic Market Share of Automobile Industry for 2014-15
overall market with their specified products.

In 90's the first breakthrough took place when Suzuki collaborated with Indian government and formed MarutiUdyog which started its production in 1983. Eventually the Liberalization took place in India and opened the doors for New Entry in joint venture. Today, More than 35 market players are catering the needs of Indian Market. Automotive Mission Plan 2006 also facilitates the smooth functioning of Indian Market Players.

Today automotive sector is one of the main growing segments to boost the overall economy. With an annual production of 16.9 million Two-Wheelers this entire industry accounts for 22% of Country's Manufacturing GDP. India stands as third largest producer in automobile sector and India's share in global passenger market is expected to double by 2020. The surging demand in this sector is providing fuel to fire as the sales figures are growing with Compounded Annual Growth Rate of 18% p.a. Production of Passenger vehicles are also expected to surge from 3.1 Million in 2014 to 10 Million which is expected by 2020.

Government of India also takes major efforts through 100% FDI to encourage this sector. The AMP (Automotive Mission Plan 2006-16) also aimed at accelerating growth and ensures sustainable development in this sector. Government of India also proposed to provide credit of 8.5 lakh rupees to farmers in the union budget 2015-16 for automation in agriculture. The industry is also able to attract FDI worth US \$ 12232.06 million during April 2000 to February 2015. India is prominent market for world auto-giants. Low labour cost, Government initiative promotes industry and commerce, skilled labour force and strong consumer base is attracting marketer to invest in country. Due to all such factor India is growing fast and in real terms of Growth of GDP and it is just behind the china now.

In the last decade several policy reforms have also taken place and visionary statement "Make in India". The Automotive Mission Plan 2006-16 was also a milestone in this direction. Beside all such policy initiative many new initiatives take place to ensure the development of this industry. Resulting this, India's share in World Car Production, which was just 1.72% in 2002 was grown and reported 5.2% in 2012. Indian players are also come out from their shell and take part in world automotive market by taking their business globally. The reports of Global insight database also claimed that India is

one of the key players in this growth story.

The recent report by Boston Consultancy Group (BCG) claimed that China is losing its attractiveness of being traditionally a cost advantage country. India's world lowest labour cost country status can avail this opportunity of cost competitiveness. The automotive industry is contributing 3% in GDP on an average to the country's economy. Its share is even higher and nearly 7% in economy of China and India. The Government policy related to FDI also brings new investment in this industry. As the report of HIS expecting India's growth story overpass many of the European country's sales figures before 2020. Meanwhile, the Government also taking serious steps to develop proper infrastructure, clear policy of GST, providing financial and technological support and target sustainability in overall economy.

DIVIDEND: AN OVERVIEW

Dividend is an integral part of area of Finance. The area of financial management usually deals with financing, allocation and proper management of funds and through this activity it aims to generate value for their shareholders. Financial management is mainly concerned with three activities viz, Financing Decision, Investing Decision and Dividend Decision. Among all three dividend decision is most strategic in nature. Dividend in the normal use of words refers to that portion of the net earning which is distributed by the company among its shareholders. The shareholders, as investors, are interested in maximizing their returns at a given level of risk or minimizing their risk at a given level of returns, and together want to maximize returns with minimizing risk and thereby to maximize their wealth. This is the essence of desirability of dividends from the investor's point of view.



LITERATURE REVIEW

Dividend pay-out decision has always been a subject of interest to financial analysts, academicians and researchers for about six decades now. The researchers are interested in studying the extent to which the earnings of a company are distributed as dividend among the shareholders as also the retained earnings.

Researchers have typically used data on variables such as, dividend pay-out ratio and dividend yields to investigate theories of earnings pay-out. At least, in some cases, it may be more appropriate to look at earnings retentions, rather than more common dividend variables.

Following the publication of Modigliani and Miller's two seminal papers on dividend policy, there has been a considerable amount of research into what determines dividend policy. These theories may be better investigated by looking at the firm's retention policies rather than dividend policies. This is particularly true, specifically for engineering industries, where there is no dearth of positive NPV projects crying for attention and adequate funding.

Dividend payout is the most debatable issue in the financial literature. It is better known as the primary puzzle in the economics of corporate finance since the work of Black (1976). Signaling and agency costs are the main factors on which dividend literature has primarily relied upon. Jensen and Meckling (1976) suggest reducing free cash flows available to managers by paying high dividends hence reducing agency problem.

The pioneering work of the Bhattacharya (1979) builds the foundation for signaling hypothesis. According to him dividends are signals for future cash flows, assuming that outside investors have imperfect information about the profitability of the firm and the cash dividends are taxed at a higher rate than capital gains.

Economists have proposed a number of explanations of the dividend puzzle. The future profitability of the firms can be signaled by paying dividends (Bhattacharya (1979), John and Williams (1985), Miller and Rock (1985), Ambarish, John, and Williams (1987). Empirically, this theory has considerable initial success, since firms that pay higher dividends experience an increase in share price and the conversely decrease in share price if firms eliminate or cut dividends (Aharney and Swary (1980), Asquith and Mullins (1983).

Recent results give a mixed response, since current dividend changes do not help predict firm's future earnings growth (De Angelo and Skinner (1996) and Benartzi, Michaely and Thaler (1997)). Another idea, which has received only limited attention until recently (e.g., Easterbrook (1984), Jensen (1986), Fluck (1998), Myers (1998), Gomes (1998), Zwiebel (1996). is that dividend policies address agency problems between corporate insiders and outside shareholders. According to these theories, unless profits are paid out to shareholders, they may be diverted by the insider for personal use or committed to unprofitable projects that provide private benefits for the insiders. As a consequence, outside shareholders have a preference for dividends over retained earnings.

According to Fama and French (2001), several attempts have been made to analyze the impact of profitability, size and growth on the dividend payout of firms.

Substantial literature in the field of corporate finance (Linter (1956), Linter (1962), Bhattacharya (1979), Miller and Rock (1985), suggests that the purpose of corporate dividend policy is to reveal earnings prospects of a firm to its investors. There are mixed recent empirical evidence in favour of this model. Fama and Babiak (1968) argue that the firms, on priority, set their target dividend level and ensure they stick to it. In addition to the signaling approach, there may be interrelation between dividend payout policy and agency cost (Jensen and Meckling (1976), Easterbrook (1984).

Fenn and Liang (2001) analyze how managerial stock incentives affect corporate payout policy. They find that managerial stock incentives mitigate the agency costs for firms with excess cash flow problems. They also find a strong

negative relationship between dividends and management stock options.

The so-called dividend puzzle (Black, 1976) has preoccupied the attention of financial economists at least since Modigliani and Miller's (1958, 1961) seminal work. This work established that, in a frictionless world, when the investment policy of a firm is held constant, its dividend payout policy has no consequences for shareholder wealth. Higher dividend payouts lead to lower retained earnings and capital gains, and vice versa, leaving total wealth of the shareholders unchanged. Contrary to this prediction, however, corporations follow extremely deliberate dividend payout strategies Lintner (1956). This evidence raise a puzzle: how do firms choose their dividend policies? Since many shareholders are taxed more heavily on their dividend receipts than on capital gains in the United States and other countries, the puzzle is even deeper. The actual magnitude of this tax burden is debated but taxes generally make it even harder to explain dividend policies of firms.

Baker, Veit and Powell (2001) study the corporate firms traded on the Nasdaq. The study, based on a sample survey response of 188 firms out of a total of 630 firms that paid dividends in each quarter of calendar years 1996 and 1997, finds that the following four factors have a significant impact on the dividend decision: pattern of past dividends, stability of earning, and the level of current and future expected earnings.

Mishra and Narender (1996) found earnings per share (EPS) as a major factor in determining the dividend payout of SOEs. They analyzed the dividend policies of 39 state-owned enterprises (SOE) in India for the period 19984-85 to 1993-94.



SUMMARY OF THE LITERATURE REVIEW

Every investment is made on the expectation and assumption that it will yield some returns. Equity investment is not an exception to this. Every equity investor anticipates a good rate of

return in the form of dividend to be declared by the company. So, every company pays higher attention in formulating its own dividend policy. Dividend decision is one of the most important decisions in the field of Financial Management. Dividend policy determines the relationship between a company and the capital market. Payment of dividend enhances the market price of the shares thereby increasing the wealth of the shareholders. Payment of dividend conveys to shareholders the information relating to the profitability of the firm. Dividends act as booster of the shareholder's confidence signaling that the company is being managed well and its future is safe.



RESEARCH METHODOLOGY

OBJECTIVES:

1. To quantify the effect on price of share due to declaration of dividend.
2. To examine the impact of declaration of dividend

policy of a company on total volume, number of trade, turnover etc.

3. To explore the attitude and perception of investing community while making their investment decision.

SAMPLING DESIGN:

The main focus of the study to examine the dividend policies adopted by Indian Companies especially those which are functioning in Automotive Sector. For this purpose researcher need to sort those companies which will considered as the true representative of the population. Considering the limitation of time and money the research is conducted with the help of some widely accepted standard. For the Sampling purpose, Top 500 Companies sorted by the reputed journals, research papers and daily digest are considered for this purpose for basic sorting. Finally, Economic Times top 500 companies are most appropriately found suitable for this purpose. So finally it is taken for the purpose of study. Since it includes companies from all sectors, firms exclusively belonging from automotive industry filtered for the purpose of study and top 10 companies which regularly reported top position year on year are considered for study.

Based on this the firms considered for study are as follows:

Top 10 Automobile Firms

- Hero Moto Corp
- Bajaj Auto Ltd.
- Ashok Leyland Ltd.
- Mahindra & Mahindra Ltd.
- Maruti Suzuki India Ltd.
- Tata Motors Ltd.
- TVS Motor Company Ltd.
- Eicher Motors Ltd.
- Force Motors Ltd.
- Escorts Ltd.

The study is based on secondary data analysis; the following steps are formulated for secondary data analysis.

After sorting this list of companies researcher calculated average dividend 6 years from 2008 to 2013. The collected data was properly classified in form of tables for the purpose of analysis and interpretation. The hypothesis was tested on 1% level of significance with the help of t-test.



DATA ANALYSIS AND INTERPRETATION

Dividend is usually distributed from the earned profit of the company during the financial year under consideration and that is why it is highly dependable upon various

Table-1.1: Dividend Payout (%) of Top 10 Automotive Firms during the Period 2008-13

Name of Company	2008	2009	2010	2011	2012	2013	Average Payout During 2008-13
Hero Honda	42	32.9	118	132	40.25	62.58	71.30
Bajaj Auto	40.95	53.01	36.02	36.72	46.63	46.14	43.25
Ashok Leyland	45.89	79.47	51.1	45.24	50.89	39.26	51.98
Mahindra & Mahindra	26.54	33.42	27.29	27.52	27.63	24.48	27.81
Maruti Udyog	8.47	8.41	7.02	9.62	13.54	10.28	9.56
Tata Motors	29.7	32.22	40.77	78.7	120.9	289.6	98.65
TVS	57.46	58.87	34.08	28.05	25.84	53.03	42.89
Eicher	23.16	38.38	50.98	39.49	34.79	37.86	37.44
Force Motors	0	0	6.61	11.45	1.6	29.02	8.11
Escort	0	0	10.28	12.01	13.48	21.89	9.61

Source: Capitaline Database

factors which affecting the business of a firm. As it having it nature of being unpredictable, in terms of both amount and time it highly affects the investment decision of small investors. A small investors who put their saving with the intention to get fruitful returns and divert his investment from the traditional modes of keeping money in bank in form of Fixed Deposits or NSE etc, is usually being very cautious while making their investment decision in share market. In past decades we witness a rally in the share market which is due to participation of a common man of country and their faith in the market system. Dividend decision on one hand effect negatively on the liquidity position of the company on the other it works as barometer for investor. So many of the time the manager need to trade off between these two extreme ends.

In this section we discuss this most debatable and unsettled issue prevailing in the field of finance. We try to explore the changes in the share price before and after declaration of dividend. The data has been collected from reliable sources before and after one month of declaration of dividend and 't-test' is used for the purpose of data analysis and interpretation. The data has been properly categorized in suitable format and presented the average value in tabulated form for the ease of study. Apart from merely focusing on the

changes in the market price of the share we also take into account the other important factors like share trading volume and share turnover etc. So, this chapter mainly concentrates upon the calculation and the analysis part and its finding. Under the secondary data analysis the researcher mainly focuses upon:

1. Impact of dividend on the average share trading of the selected units.
2. Impact of dividend on the average share volume of the selected units.
3. Impact of dividend on the average share turnover of the selected units

ANALYSIS WITH T-TEST

The researchers has chosen this test because samples are independent in the nature and the same sample has been tested twice as paired sample to test before and after effect. To know the impact of dividend this test is considered suitable.

The data of various variables is properly classified and tabulated to the ease of study so that t- test can be applied.

In this above mentioned table, the researcher attempt to

ANALYSIS BASED ON SHARE TRADING

Table-1.2: Share Trading Before and After Declaration of Dividend

S. No.	Firms	Average Before Dividend	Average After Dividend	Difference (D)	D ²
1	Hero Moto Corp	2628	2068	560	313600
2	Bajaj AutoLtd.	4099	9715	-5616	31539456
3	Ashok Leyland Ltd.	80	311	-231	53361
4	Mahindra & Mahindra Ltd.	1104	776	328	107584
5	Maruti Suzuki India Ltd.	43	35	8	64
6	Tata Motors Ltd.	5536	3909	1627	2647129
7	TVSMotor Company Ltd.	3413	3128	285	81225
8	EicherMotors Ltd.	4480	5877	-1397	1951609
9	Force Motors Ltd.	1382	1312	70	4900
10	Escorts Ltd.	224	635	-411	168921
	∑ D			-4777	36867849
	∑ D / n			-477.7	(∑ D ²)

Table-1.3: Calculation of t (Average Share Trading)

D	N	S.D.	t calculated	t tabulated
-477.7	10	1960.33	-0.77	± 1.383***

classify and categorized the year on year dividend payout policies recorded by the selected firms. The average payout of dividend during the period 2008 to 2013 is calculated in the last Column which gives an insight about the average payout distributed by the company to its shareholders in form of dividend. Average is also helpful to get a useful insight about the lump-sum rate of return in form of dividend and helps to ignore the effect of fluctuation in the business cycle.

The above table shows the average no. of shares traded one month before and after declaration of dividend. The figure clearly indicates the significant difference in share trading. It may indicate that dividends do affect the share trading. Now we are applying t-test for testing the hypothesis, in this regard.

Null Hypothesis: H₀A-1: Company's Average Share trading remains unaffected before and after one month of the declaration of dividend.

Alternate Hypothesis: H₁A-1: A company's Average Share trading affected significantly before and after one month of the declaration of dividend.

• Statistical Inference:

As we look into the table we found that the value of 't' at 1% level of significance with (n-1) degree of freedom is more than the calculated value of share trading before and after declaration of dividend. Hence, the null hypothesis (H₀) is significant and accepted.

• Implication:

As per the result it is clear that Average **share trading** remains unaffected with respect to event of declaration of dividend.

The below table 1.4 shows the average no. of share volume before and after one month, declaration of dividend. The figure clearly indicates the significant volatility in share volume. It may indicate that dividends do affect the volume of share trading every day. Now we apply t-test for testing the hypothesis, in this regard.

Null Hypothesis:

H₀A-2: A company's Share trading volume remains unaffected before and after one month of the declaration of dividend. Alternate Hypothesis:

H₁A-2: A company's Share trading volume remains affected before and after one month of the declaration of dividend.

• Statistical Inference:

As we look into the table we found that the value of t at 1% level of significance is with (n-1) degree of freedom is more than the calculated value of share trading before and after declaration of dividend. Hence, the null hypothesis (H₀) is significant and accepted.

• Implication:

As per the result it is clear that share trading volume remains unaffected with respect to event of declaration of dividend.

The table 1.6 shows the average no. of shares turnover one month before and after, declaration of dividend. The figure clearly indicates the significant difference in share turnover. It may indicate that dividends do affect the share trading. Now we apply t-test for testing the hypothesis, in this regard.

ANALYSIS BASED ON SHARE VOLUME

Table-1.4: Share Volume Before and After Declaration of Dividend

S. No.	Firms	Average Before Dividend	Average After Dividend	Difference (D)	D ²
1	Hero Moto Corp	1247205	769605	477600	228101760000
2	Bajaj Auto Ltd.	102112	188459	-86347	7455804409
3	Ashok Leyland Ltd.	3960	14751	-10791	116445681
4	Mahindra & Mahindra Ltd.	43065	48910	-5845	34164025
5	Maruti Suzuki India Ltd.	2518	1437	1081	1168561
6	Tata Motors Ltd.	236882	160344	76538	5858065444
7	TVSMotor Company Ltd.	237391	188495	48896	2390818816
8	EicherMotors Ltd.	292841	412125	-119284	14228672656
9	Force Motors Ltd.	288122	256739	31383	984892689
10	Escorts Ltd.	18580	58090	-39510	1561040100
	∑ D			373721	260732832381
		∑ D / n		37372.1	(∑ D ²)

Table-1.5: Calculation of t (Share Trading Volume)

D	N	S.D.	t calculated	t tabulated
37372.1	10	165585.15	-0.714	± 1.383***

ANALYSIS BASED ON SHARE TURNOVER

Table-1.6: Share Turnover Before and After Declaration of Dividend

S.No.	Firms	Average Before Dividend	Average After Dividend	Difference (D)	D ²
1	Hero Moto Corp	49685.78	28899.34	20786.44	432076087.9
2	Bajaj AutoLtd.	265509.9	419242.5	-153732.56	23633700004
3	Ashok Leyland Ltd.	1357.94	4243.79	-2885.85	8328130.223
4	Mahindra & Mahindra Ltd.	30260.14	33036.1	-2775.96	7705953.922
5	Maruti Suzuki India Ltd.	764.21	422.04	342.17	117080.3089
6	Tata Motors Ltd.	185030.5	129315	55715.48	3104214712
7	TVSMotor Company Ltd.	177132.7	137542.63	39590.04	1567371267
8	EicherMotors Ltd.	216275.1	290416.74	-74141.63	5496981299
9	Force Motors Ltd.	19128.19	16027.64	3100.55	9613410.302
10	Escorts Ltd.	2693.27	10460.26	-7766.99	60326133.66
	∑ D			-121768.31	34320434078
	∑ D / n			-12176.83	(∑ D ²)

Table-1.7: Calculation of t (Share Turnover)

D	N	S.D.	t calculated	t tabulated
-12176.8	10	60403.9	-0.637	± 1.383***

Null Hypothesis:

H₀A-3: Company's Share Turnover remains unaffected before and after one month of the declaration of dividend.
 Alternate Hypothesis:

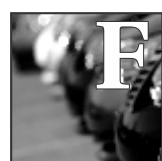
H₁A-3: Company's Share Turnover affected significantly, before and after one month of the declaration of dividend.

• Statistical Inference:

As we look into the table we analyze that the value of t at 1% level of significance with (n-1) degree of freedom is more than the calculated value of t. Hence, the null hypothesis (H₀) is significant and accepted.

• Implication:

As per the result it is clear that share turnover also remains unaffected with respect to event of declaration of dividend.



INDINGS OF THE STUDY

- Company's Average Share trading remains unaffected before and after one month of the declaration of dividend.
- A company's Share trading volume remains unaffected before and after one month of the declaration of dividend.
- Company's Share Turnover remains unaffected before and after one month of the declaration of dividend.
- As far as investors are concerned they keep a check on the Dividend per share and earnings per share records of a company before making any investment decision in the equity shares of a company.
- Investors do favor a consistent and moderately high dividend payout.

- Dividend alone can't be the right yard stick to judge the performance of a company and it is not the only factor influencing the investment decision of investors particularly in the case of Indian Automobile Industry.
- The investors by and large, have many considerations other than dividends to invest in the equity of a company. These considerations may be excellent quality and reliability, excellent product differentiation and high brand equity, excellent growth and diversification record and professional management, highly innovative and supportive working culture and superb human resource management.



IMITATIONS OF THE STUDY

- The study, by design, covers only Automobile Industry. The norms, traditions, practices and compulsions may vary in other industries.
- The study is based on ET 500 Top Performing Indian Automobile Companies, so it does not include the smaller size companies.



SCOPE FOR FURTHER RESEARCH

The present study is an serious attempt to explore various facts and facets about the dividend payout prevailing in Automobile Industry moreover it also discuss the outlook and investment intention of the small investors while making their investment decision but due to limitation of time and money there are certain gaps in this present study too. Therefore, further research may be carried out to bridge the gap of present study to get more concrete results. The present study is specifically focused only on the automobile industry and only 10 firms have been selected for the purpose of study in the present study. The present study on one hand revealed

the issues affecting shareholders while pooling of their fund in the security with special reference to automobile industry. This analysis revealed some meaningful inferences about the investment profile and related measures about it. A further investigation may be conducted to measure the quantum of

wealth maximization from the shareholder end those who are having the position in the stock from fairly long period of time. The study may also be conducted to measure the effect of retained earnings on shareholder wealth in the similar industry.

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