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## DIVIDEND POLICY OF INFOSYS & ITS IMPACT ON SHARE

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### ABSTRACT

**Dividends** are payments made by a corporation to its shareholder members. It is the portion of corporate profits paid out to stockholders which are usually settled on a cash basis, store credits (common among retail consumers' cooperatives) and shares in the company (either newly-created shares or existing shares bought in the market.) Further, many public companies offer dividend reinvestment plans, which automatically use the cash dividend to purchase additional shares for the share holder. Various factors are responsible for a dividend decision, the liquidity position of the firm, Need to repay debt, The rate of asset expansion and Control of the firm and Legal Considerations. The result of the analysis of Infosys for 5 years, found that the share price is not always been positively correlated to Dividend. It shows share holders of this company don't always expect dividend rather they want the companies to turn over the capital & increase the market capitalization

### INTRODUCTION

There are various factors which affect a Dividend policy as Stability of Earnings, Age of corporation, Liquidity of Funds, Needs for Additional Capital, Trade Cycles, Taxation Policy. Legal Requirements, Past dividend Rates, Ability to Borrow, Policy of Control, Repayments of Loan., Time for Payment of Dividend, Regularity and stability in Dividend Payment.

**Modigliani and Miller** (1961) have shown, investors may be indifferent about the amount of dividend as it has no influence on the value of a firm.

**Lintner** (1956) analyzes as to how firms set dividends and concluded that firms have four important concerns. **Brealey** (1992) poses the dividend policy decision as “What is the effect of change in cash dividends, given the firm’s capital-budgeting and borrowing decisions?” **Baker, Veit and Powell** (2001) study the factors that have a bearing on dividend policy of corporate firms and finds four factors have a significant impact on the dividend decision: **pattern of past dividends, stability of earnings, and the level of current and future expected earnings.** **Fama and French** (2001) analyzed the issue of lower dividends paid by corporate firms over the period 1973-1999. They attributed this decline to the changing characteristics of firms:

### **Objectives of the Study:**

To explore the insight of a corporate event named “Dividend Policy” which draws lot of attention and results into may drastic changes in the market valuation of the firm.

To study the impact of ‘dividend’ on the price and volume before and after such dividend is announced and check whether abnormality exists in the price and volume of the share as the ‘dividend’ is announced.

To find out the room for leakage of any insider information about ‘dividend policy’ of a company and check whether any insider information plays any part in abnormal trading effect and abnormal price effect in a script.

To analyze the bearing of such abnormality (if it does exist) on the market capitalization and volumes traded on the stock market a month before the Announcement Date and a month after the ex-dividend date for all the scripts under the study and. measure the cumulative impact of ‘corporate dividend policy’ and try to conceive a general trend based on it.

### **Research Methodology**

Exploratory Research :We have taken 5 years financial data.The data is of secondary nature The collected & analyzed financial data is from 2007 to 2011.All the data are collected from the respective websites & historical share price showing in BSE.

### ANALYSIS

### REGRESSION ANALYSIS OF INFOSYS

#### **Descriptive Statistics**

	Mean	Std. Deviation	N
PD	237.5434	152.96893	128
DPR	45.7611	18.40513	128

**Correlations**

		PD	DPR
Pearson Correlation	PD	1.000	.398
	DPR	.398	1.000
Sig. (1-tailed)	PD	.	.000
	DPR	.000	.
N	PD	128	128
	DPR	128	128

**Model Summary<sup>b</sup>**

Model				
	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.398 <sup>a</sup>	.158	.152	140.89978

a. Predictors: (Constant), DPR

**Model Summary<sup>b</sup>**

Model				
	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.398 <sup>a</sup>	.158	.152	140.89978

a. Predictors: (Constant), DPR

b. Dependent Variable: PD

**Model Summary<sup>b</sup>**

Model	Change Statistics					Durbin-Watson
	R Square Change	F Change	df1	df2	Sig. F Change	
1	.158	23.689	1	126	.000	.235

b. Dependent Variable: PD

From the above regression analysis of financial data of TCS, significance level in both the variable is 0 which is less than 0.5. So null hypothesis is proved which says that dividend policy has indeed impacted the share price. The significance value of 0 strongly proves that the dividend impacts the share price.

$R^2$  is .158 or 15.8%. Then  $(1-R^2)$  is 84.2%. So it can be concluded that the share price & dividend is approximately 84% correlated.

**Yearly Results of Infosys**

----- in Rs. Cr. -----

Mar '11    Mar '10    Mar '09    Mar '08    Mar '07

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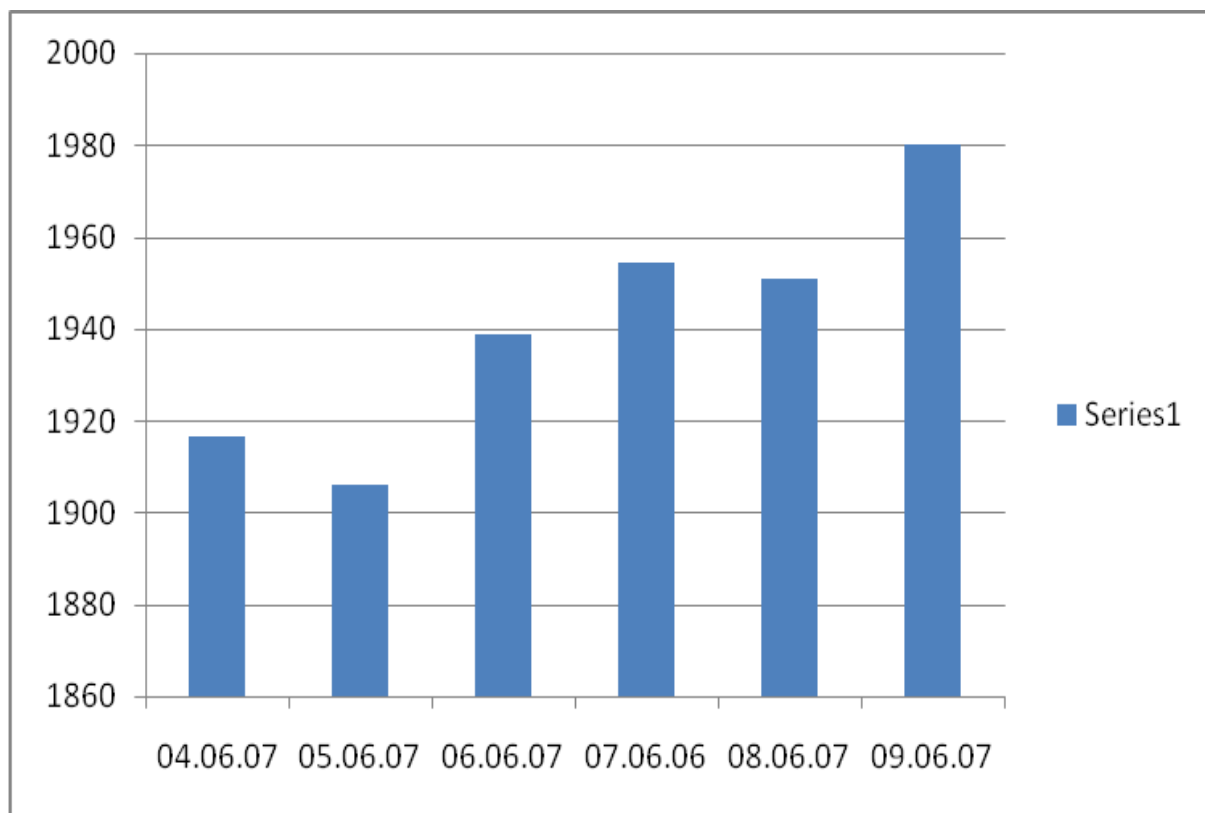
Sales Turnover	25,385.00	21,140.00	20,264.00	15,648.00	13,149.00
Other Income	1,147.00	910.00	502.00	683.00	375.00
Total Income	26,532.00	22,050.00	20,766.00	16,331.00	13,524.00
Total Expenses	16,971.00	13,780.00	13,358.00	10,685.00	8,926.00
Operating Profit	8,414.00	7,360.00	6,906.00	4,963.00	4,223.00
Profit On Sale Of Assets	--	--	--	--	--
Profit On Sale Of Investments	--	--	--	--	--
Gain/Loss On Foreign Exchange	--	--	--	--	--
VRS Adjustment	--	--	--	--	--
Other Extraordinary Income/Expenses	--	--	--	--	--
Total Extraordinary Income/Expenses	--	57.00	--	--	6.00
Tax On Extraordinary Items	--	--	--	--	--
Net Extra Ordinary Income/Expenses	--	--	--	--	--
Gross Profit	9,561.00	8,270.00	7,408.00	5,646.00	4,598.00
Interest	--	--	--	--	--
PBDT	9,561.00	8,327.00	7,408.00	5,646.00	4,604.00
Depreciation	740.00	807.00	694.00	546.00	469.00
Depreciation On Revaluation Of Assets	--	--	--	--	--
PBT	8,821.00	7,520.00	6,714.00	5,100.00	4,135.00
Tax	2,378.00	1,717.00	895.00	630.00	352.00
Net Profit	6,443.00	5,803.00	5,819.00	4,470.00	3,783.00
Prior Years Income/Expenses	--	--	--	--	--
Depreciation for Previous Years	--	--	--	--	--
Written Back/ Provided	--	--	--	--	--
Earnings Per Share	112.25	101.10	101.73	78.15	66.14
Book Value	--	--	--	--	--
Equity	287.00	287.00	286.00	286.00	286.00
Reserves	24,214.00	21,749.00	17,523.00	13,204.00	10,876.00
Face Value	5.00	5.00	5.00	5.00	5.00

**Source : Dion Global Solutions Limited**

**2007**

**DATE      PRICE**

<b>04.06.07</b>	<b>1916.5</b>	
<b>05.06.07</b>	<b>1906</b>	
<b>06.06.07</b>	<b>1938.9</b>	<b>130%FD</b>
<b>07.06.06</b>	<b>1954.5</b>	
<b>08.06.07</b>	<b>1951</b>	
<b>09.06.07</b>	<b>1980</b>	



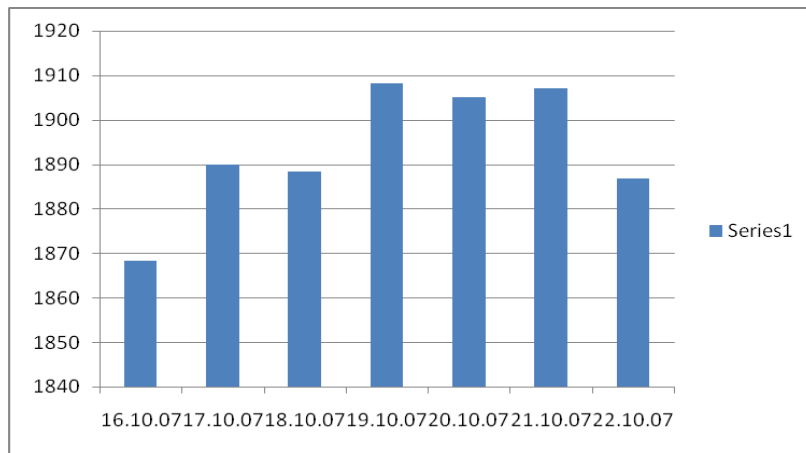
130% of final dividend was declared by Infosys on 6<sup>th</sup> of June. The immediate impact on the share price was positive. The closing share price on their dividend declaration was increased by more than 30 rupees. It increased further on the next days & decreased marginally on the next days. Then it again increased in next day's & this positive correlation continued for the rest of the month.

<b>DATE</b>	<b>PRICE</b>	
<b>16.10.07</b>	<b>1868.25</b>	
<b>17.10.07</b>	<b>1889.9</b>	
<b>18.10.07</b>	<b>1888.4</b>	<b>120%ID</b>
<b>19.10.07</b>	<b>1908.1</b>	

**20.10.07 1905**

**21.10.07 1907**

**22.10.07 1886.7**



Again 2<sup>nd</sup> dividend of 120% as interim was declared by Infosys on 18<sup>th</sup> of October. The share price again had a fairly positive correlation with the dividend declaration date.

The share had decreased after 4 days of declaration. So we can assume it to be positive correlation. In 2007, Infosys has declared dividend twice amounting to totality & 250% & in both the occasions the share price has appreciated.

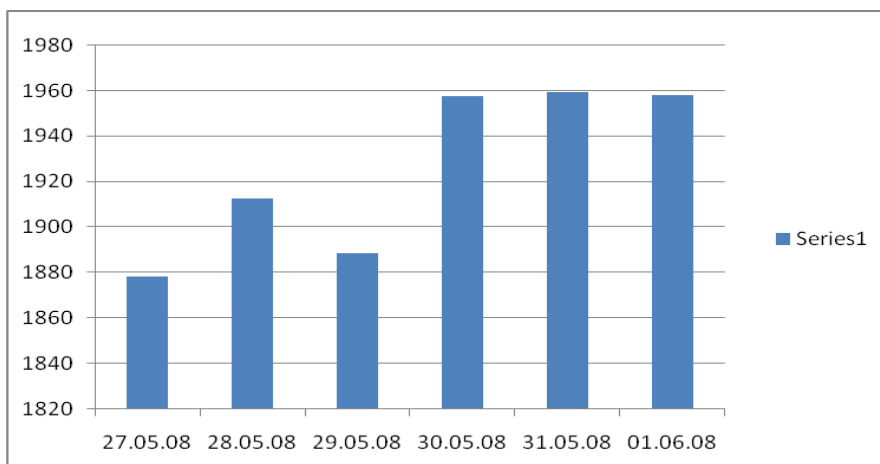
## **2008**

The share price movement of Infosys in 2008.

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DATE	PRICE
27.05.08	1878.55
28.05.08	1912.65
29.05.08	1888.75 545% FD
30.05.08	1957.55
31.05.08	1959.5
01.06.08	1958

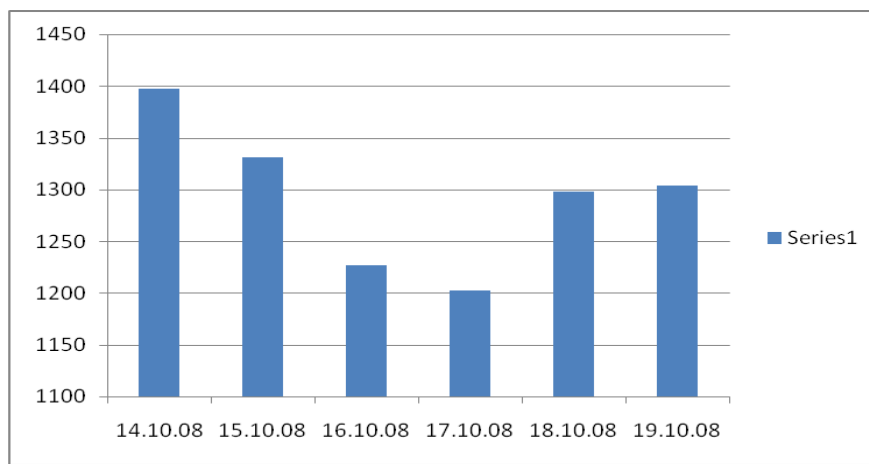


In the month of may, Infosys has declared its 1<sup>st</sup> dividend of 545% as Final Dividend. The share price had followed a strong positive correlation with the dividend declare. With



comparison to previous 3 days with the 3 days after the dividend declaration date, the share price has increased quite noticeably

<b>DATE</b>	<b>PRICE</b>	
<b>14.10.08</b>	<b>1397.05</b>	
<b>15.10.08</b>	<b>1331.25</b>	
<b>16.10.08</b>	<b>1226.7</b>	<b>200% ID</b>
<b>17.10.08</b>	<b>1202.5</b>	
<b>18.10.08</b>	<b>1297.8</b>	
<b>19.10.08</b>	<b>1304</b>	



200% of interim dividend was declared by Infosys on the month of October. With contrary to the previous occasion the share price has reduced considerably on the dividend declaration date. The decreasing trend continued for next 2 days & after that the share price has increased with considerable amount. So we can assume it to be neither a positive or negative correlation. It is a mixed correlation in which other factors have influenced in the considerable fluctuations of share price with addition to dividend.

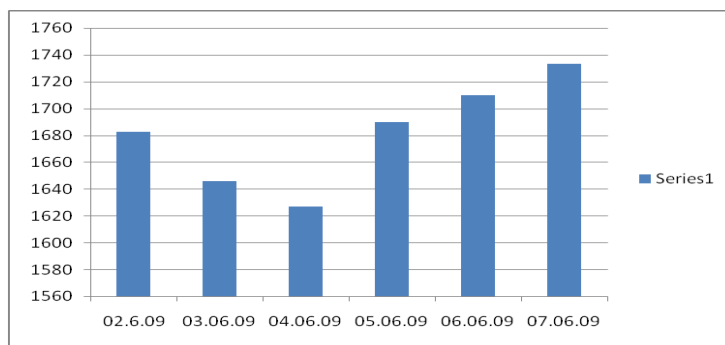
### **2009**

The share price movement of Infosys in 2009.

## 4DIJITC



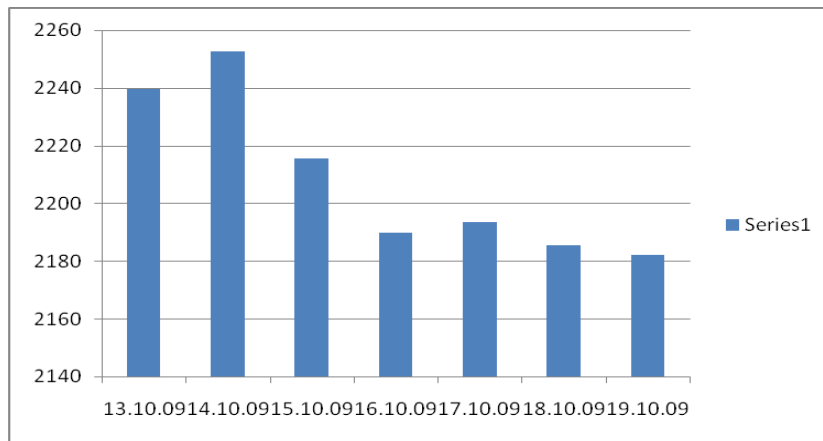
DATE	PRICE
02.6.09	1682.3
03.06.09	1645.9
04.06.09	1627 270% FD
05.06.09	1690
06.06.09	1710
07.06.09	1733



In the month of June, 270% FD was declared by Infosys. The share price decreased on the dividend declaration date but after that the share price has increased & has followed an absolute trend. so we can assume it to be a strong positive correlation.

DATE	PRICE
13.10.09	2239.5
14.10.09	2252.7

<b>15.10.09</b>	<b>2215.6</b>	<b>200% ID</b>
<b>16.10.09</b>	<b>2189.9</b>	
<b>17.10.09</b>	<b>2193.6</b>	
<b>18.10.09</b>	<b>2185.6</b>	
<b>19.10.09</b>	<b>2182</b>	



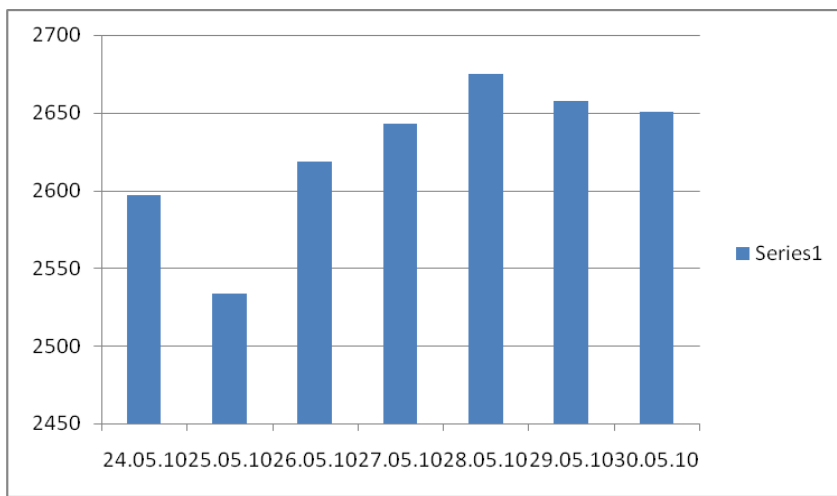
2<sup>nd</sup> dividend of 200% Interim dividend was declared in the month of October. The share price had a decreasing trend preceding two days before the declaration of dividend & the trend also followed after the declaration of dividend. So it can said to have a negative correlation.

### **2010**

The share price movement of Infosys in 2010.



DATE	PRICE	
24.05.10	2596.7	
25.05.10	2533.3	
26.05.10	2618.7	300%FD
27.05.10	2643.05	
28.05.10	2674.9	
29.05.10	2657.56	
30.05.10	2650.25	

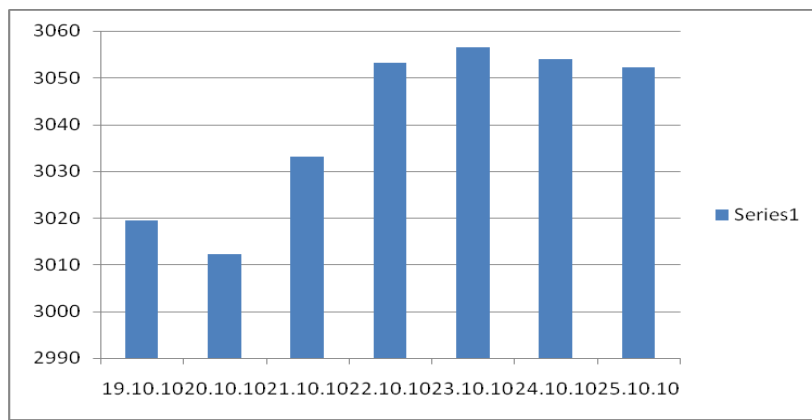


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In the month of May, Infosys has declared 300% FD. The share price has decreased on the dividend declaration date & increased in the following days. It again decreased after 4 day & the same trend continued for the next 3 days

DATE	PRICE
19.10.10	3019.5
20.10.10	3012.3
21.10.10	3033.15 800%ID
22.10.10	3053.25
23.10.10	3056.4
24.10.10	3054
25.10.10	3052.2



2<sup>nd</sup> dividend was declared on the in the month October & the share price has increased considerably after the declaration of dividend & this trend continued for next 7 days. So it can said to have a very strong positive correlation.

### 2011

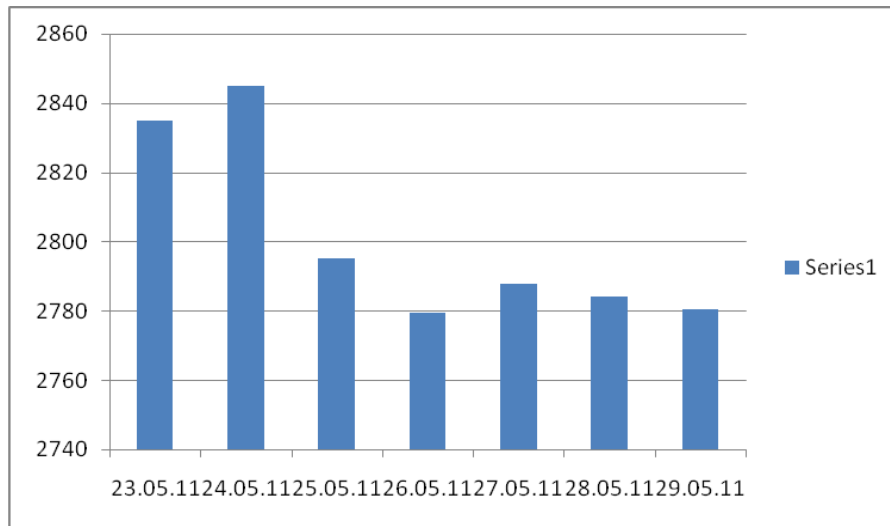
The share price movement of Infosys in 2011..

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<b>DATE</b>	<b>PRICE</b>	
23.05.11	2835	
24.05.11	2845	
25.05.11	2795	
26.05.11	2779.3	400% FD
27.05.11	2787.95	
28.05.11	2784	
29.05.11	2780.5	



In 2011, Infosys declared 400% final dividend on the month of May. The closing share price decreased on the dividend declaration date but increased after the declaration date. The change in share price was inconsistent & has not followed a particular trend. So according to this model, the dividend should be paid in 2011 is- Rs. 112.

#### CONCLUSION & RECOMENDATION -

Modigliani miller dividend irrelevant hypothesis is not adopted by any concerned companies. But the declaration of dividend has not followed any model as we have seen in Dividend discount model. The amount of declared dividend depends on the share price along with other external factors.

The share price is not always been positively correlated to Dividend. It shows share holders of this company don't always expect dividend rather they want the companies to turn over the capital & increase the market capitalization.

Other reason for this kind of not so strong positive correlation is the face value The face value of Infosys is Rs.5, price of Infosys trading at close than Rs. 3000. This might be other reason of this marginal correlation.

A particular pattern was clearly visible on the dividend policy adopted by the company. So investor looking for dividend can follow this certain trend to benefit them.

A particular pattern was observed in the dividend declaration of Infosys. Apart from 2011, Infosys in last 5 years has declared dividend twice. In the month of October they have positively declared dividend. Apart from October, they have declared dividend either in May or June. Minimum dividend declared is 500% & it has gone up to 1100% in 2010. So investor can positively expect more than 500 % dividend & dividend in the month of October.

The regression analysis has proved that the dividend policy of the company has more than 80 % correlated to the market price of share.

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