



THE IMPACT OF SHARE PRICES BEFORE AND AFTER THE DIVIDEND ANNOUNCEMENT WITH REGARD TO BANK NIFTY COMPANIES

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Abstract

Purpose- The purpose of this paper is to examine the relationship between dividend announcement and shareholders value. According to the dividend signalling theory, a company decides to announce its dividend pay-out policy to signal the market that the firm is now processing future prospects, which will result in changing its stock prices.

Design/methodology/approach- This study focuses on the impact of dividend announcement of the 12 Bank nifty companies listed in the National Stock Exchange (NSE) during the period 2012-2021. The study employs event study methodology in examining the effect of dividend announcement of the stock price for a period of 10 days

<p>CC License CC-BY-NC-SA 4.0</p>	<p>preceding to dividend announcement, the day of announcement and another ten days which are post announcement of dividend. In addition, the reaction of stock prices to the dividend announcement is also determined.</p> <p>Findings- This research result indicates that the stock prices move upward or down ward after dividend announcements. But it is significant only for Kotak Bank. The results confirm that dividend announcement have mostly insignificantly impact on share prices. These results matching with MM theory.</p> <p>Practical Implications-</p> <p>Originality/value-To the best of the authors knowledge, this paper is the first to show that divided announcement is not key driver to impact of shareholders value in the bank nifty companies.</p> <p>Keywords: Dividend Announcement, Bank nifty, Cumulative abnormal returns, Share value.</p>
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1. Introduction

Shareholder's value is represented in the market price of the company's common stock, which, in turn, is the function of the company's investment, financing and dividend decisions. 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. Most of the shareholders like cash dividends, but also like the growth in earning per share that results from ploughing earnings back into the business. The objective of the finance manager should be to find out an optimal dividend policy that will enhance value of the firm. It is often argued that the share prices of a firm tend to be reduced whenever there is a reduction in the dividend payments. Announcements of dividend increases generate abnormal positive security returns, and announcements of dividend decreases generate abnormal negative security returns. A drop in share prices occur because dividends have a signalling effect. According

to the signalling effect managers have private and superior information about future prospects and choose a dividend level to signal that private information. Such a calculation, on the part of the management of the firm may lead to a stable dividend pay-out ratio.

The primary objective and central focus of this study revolve around the assessment of share price in relation to the management's decision-making process regarding dividend allocations to shareholders within companies listed in the BANK NIFTY index. This study aimed to analyze the impact of dividend announcements on share price.

2. Review of Literature

Aharony and Swary (1980) in their paper the authors tested whether dividend announcement give more signal over current earnings about the expected future earnings. For this they used quarterly dividend announcement dates that vary from the quarterly earnings announcement dates at least by 11 days. Their findings showed a remarkable increase of 1 percent of average excess return over the 2 days announcement period. Their studies show that dividends provide more information about the future earnings than the current earnings announced by the management. Moreover, their results at the same time also support the semi form of efficient capital market in which the stock price efficiently adjusts to the newly acquired information.

Asquith and Mullins (1983) they based their study conclusions by analyzing the announcement of dividend and dividend increase in subsequent time. For the study, they tested 168 firms which either paid dividend or initiated once to pay dividends. Though the result is that dividend does signal information, the notable part is that the signal is stronger for firms which paid dividend for the first time as compared to firms which paid dividends regularly or increased the dividend in the subsequent time. Their result was an evident that dividends do affect stock price which is the share holders' wealth indirectly.

Akbar and Baig (2010) selected 79 institutions scheduled at Karachi Stock Exchange for a time span of four years starting from 2004 to realize the impact of dividend declaration on stock prices. Their research outcome proved that dividend announcement has a constructive consequence on stock prices irrespective of the fact whether the dividend is cash dividend, stock dividend or a blend of both.

Khanet al., (2011) after analyzing the impact of dividend disbursement on share prices got the conclusion by observing fifty-five companies scheduled at Karachi

Stock Exchange that dividend yield, earnings per share, return on equity and earnings after interest and taxes have direct association, whereas retention ratio has an indirect association with stock prices.

Adnan Ali, Farzand Ali Jan and Ilyas Sharif (2015) investigates the effect of dividend policy on stock prices. The main Objective of this study is to see if there exists any relationship between dividend policy and stock prices. Researcher analyzed 45 non-financial companies listed on KSE-100 index that have earned profits and paid dividend for a period of twelve-year w.e.f. 2001. In this study researcher adopted convenience sampling. Regression Results witness that Dividend per Share and Retention Ratio have an insignificant relationship with Share Market Prices. Dividend Payout Ratio has a significant positive relationship with Share Prices and also Profit after tax, earning per share and Return on Equity are the three control variables. Profit after Tax has insignificant relation to Stock Prices. Earnings per Share have positive significant relation to Stock Prices. There is negative significant relation between Return on Equity and Share Prices. It is recommended that firms in the sample should regularly pay dividend as it will cause an upward movement in the stock market prices. Whereas profit retention by firms will result in a decrease in the value of the stock market prices.

3. Problem Of the Study

There is a common misperception that dividend payments would always be in shareholders' best interests. But it is not statistically supported. Although the MM theory claims that there exists no relationship between dividend payments and share prices, this theory is debatable. The motive of the study is to find out if dividends help shareholders by examining historical data on share prices before, during, and after the dividend is declared. This study solely focuses on banking sector companies that are listed under nifty due to the vast number of sectors and companies.

4. Objectives of the Study

1. To analyse whether the dividend announcements have an effect on share prices of bank nifty companies.
2. Offering statistical research to shift investors' viewpoint from imaginative to factual.

5. Methodology

The key rationale for undertaking this study is to examine the stock price reaction to dividend announcement by taking into account the effect of market movements. Major postulation was taken as, “release of dividend information influences share price after discounting the impact of market index”. In order to address this concern, The study covers BANK NIFTY companies listed in National Stock Exchange aimed at a period of 2012 to 2021. As a result, sample comprised of 12 banking companies and 34 announcements from BANK NIFTY Index for a period of ten years w.e.f. 2012. Sampling Companies are AU small finance Bank, AXIS Bank, Bandhan Bank, Federal Bank, HDFC Bank, ICICI Bank, IDFC Bank, INDUSIND Bank, Kotak Mahindra Bank, Punjab National Bank, State Bank Of India and RBL Bank.

The impact of dividend announcement on share price was tested for only short term. Short term was referred to as the time period of 10 days prior and after the announcement and the successive time gap between two dividend announcements were considered as long term. We apply event study methodology to examine the impact of dividend announcement on share price, and use one measure of returns:

- (i) daily cumulative abnormal return (CAR) is the sum total of all abnormal returns

abnormal return (AR) shows the change in individual stock's value due to the dividend announcement. AR is calculated over a period starting from day -10 to day +10 relative to the dividend announcement day (0-day).

cumulative abnormal returns (CAR), which measures the investors' total return over a period starting from well before the announcement of dividend to well after the dividend announcement day. This is because we consider that CAR may better capture the information leakage before and after the dividend announcement and price movements around the period. We use a 21-day window period starting from -10-day to +10-day relative to the dividend announcement day (0-day).

The researchers use parametric test to determine the statistical significance of market adjusted average abnormal return of dividend paying stocks over the window period (day -10 to day +10 relative to dividend announcement). The t-statistics for AR were calculated cross-sectionally by using the standard deviation

of abnormal returns. For CAR, we apply t-test suggested by Brown and Warner (1980) to test the statistical significance of the cumulative abnormal returns.

6. Results & Discussion

The data of bank NIFTY companies on dividend announcements is collected from 2012 to 2021. Also, the preceding announcement data, announcement data and post announcement data of the banks is collected, analyzed and presented in the below table.

Paired Samples Statistics

Bank		Mean	N	Std. Deviation	Correlation	A-B	T-value	p-value
Kotak Bank	B	885.19	10	488.07	0.99	19.48	-2.03	0.04 *
	A	904.68	10	505.37				
Bandhan Bank	B	468.58	3	137.78	0.99	- 8.6	0.80	0.50
	A	459.96	3	155.29				
PNB	B	155.80	10	44.78	0.96	- 4.77	1.21	0.25
	A	151.02	10	37.90				
IDFC First Bank	B	54.43	3	5.03	0.78	- 2.68	1.04	0.40
	A	51.74	3	7.087				
AXIS Bank	B	372.43	10	191.01	0.99	-0.82	-0.13	0.89
	A	373.26	10	195.19				
SBI	B	242.34	10	63.63	0.95	5.44	-0.74	0.47
	A	247.79	10	72.90				
IndusInd Bank	B	897.03	10	537.90	0.99	32.38	-1.36	0.20
	A	929.41	10	560.86				
Federal Bank	B	68.21	10	27.98	.987	-0.58	0.40	0.69
	A	67.62	10	26.80				
AU Bank	B	628.87	2	39.45	1.0	40.10	-6.1	0.10
	A	668.98	2	48.73				
ICICI	B	279.99	10	121.20	.990	5.43	-0.88	0.39
	A	285.42	10	129.60				
RBL	B	499.72	4	171.12	0.99	-17.38	0.65	0.56
	A	482.34	4	220.69				
HDFC	B	752.51	10	422.34	0.99	3.47	-0.36	0.72
	A	755.98	10	415.98				

In above table 'B' representing the Average share prices of 10 days before announcement of dividend and 'A' representing the Average share prices of 10 days After announcement of dividend.

In Kotak Bank, the mean dividend before announcing dividend is 885.19, after announcing dividend is 904.68 and the dividend at the time of announcement is 896.08. The difference of dividend before and after is 19.48. Test statistic value of dividends of Kotak Bank is -2.03 with a p-value of 0.04. It is less than to 0.05. It is significant.

In Bandhan Bank, the mean dividend before announcing dividend is 468.58, after announcing dividend is 459.96 and the dividend at the time of announcement is 475.7. The difference of dividend before and after is -8.6. Test statistic value of dividends of Bandhan Bank is 0.80 with a p-value of 0.50. It is less than to 0.05. It is not significant.

In PNB, the mean dividend before announcing dividend is 155.80, after announcing dividend is 151.02 and the dividend at the time of announcement is 304.90. The difference of dividend before and after is -4.77. Test statistic value of dividends of PNB is 1.21 with a p-value of 0.25. It is less than to 0.05. It is not significant.

In IDFC First Bank, the mean dividend before announcing dividend is 54.43, after announcing dividend is 51.74 and the dividend at the time of announcement is 55.5. The difference of dividend before and after is -2.68. Test statistic value of dividends of IDFC First Bank is 1.04 with a p-value of 0.40. It is less than to 0.05. It is not significant.

In AXIS Bank, the mean dividend before announcing dividend is 372.43, after announcing dividend is 373.26 and the dividend at the time of announcement is 373.19. The difference of dividend before and after is - 0.82. Test statistic value of dividends of AXIS Bank is -0.13 with a p-value of 0.89. It is less than to 0.05. It is not significant.

In SBI, the mean dividend before announcing dividend is 242.34, after announcing dividend is 247.79 and the dividend at the time of announcement is 246.13. The difference of dividend before and after is 5.44. Test statistic value of dividends of SBI is -0.74 with a p-value of 0.47. It is less than to 0.05. It is not significant.

In IndusInd Bank, the mean dividend before announcing dividend is 897.03, after announcing dividend is 929.41 and the dividend at the time of announcement is

918.42. The difference of dividend before and after is 32.38. Test statistic value of dividends of IndusInd Bank is -1.36 with a p-value of 0.20. It is less than to 0.05. It is not significant.

In Federal Bank, the mean dividend before announcing dividend is 68.21, after announcing dividend is 67.62 and the dividend at the time of announcement is 55.09. The difference of dividend before and after is -0.58. Test statistic value of dividends of Federal Bank is 0.40 with a p-value of 0.69. It is more than to 0.05. It is not significant.

In AU Bank, the mean dividend before announcing dividend is 628.87, after announcing dividend is 668.98 and the dividend at the time of announcement is 672.72. The difference of dividend before and after is 40.10. Test statistic value of dividends of AU Bank is -6.1 with a p-value of 0.10. It is more than to 0.05. It is not significant.

In ICICI, the mean dividend before announcing dividend is 279.99, after announcing dividend is 285.42 and the dividend at the time of announcement is 284.19. The difference of dividend before and after is 5.43. Test statistic value of dividends of ICICI Bank is -0.88 with a p-value of 0.39. It is more than to 0.05. It is not significant.

In RBL, the mean dividend before announcing dividend is 499.72, after announcing dividend is 482.34 and the dividend at the time of announcement is 501.42. The difference of dividend before and after is -17.38. Test statistic value of dividends of RBL Bank is 0.65 with a p-value of 0.56. It is more than to 0.05. It is not significant.

In HDFC, the mean dividend before announcing dividend is 752.51, after announcing dividend is 755.98 and the dividend at the time of announcement is 752.71. The difference of dividend before and after is 3.47. Test statistic value of dividends of HDFC Bank is -0.36 with a p-value of 0.72. It is more than to 0.05. It is not significant.

The above statistics table shows the relationship among share prices of Select banks before dividend announcement, announcement and after dividend announcement. It also shows correlation and significance between before and after announcement of dividend. There is a high degree positive correlation between before and after dividend announcement dates for all the select banks. Out of sample of 12 companies' Kotak, SBI, IndusInd, ICICI, AU Bank and HDFC banks

shows the stock prices move upward significantly after dividend announcements and Bandhan, PNB, IDFC, AXIS, Federal and RBL banks stock prices move downward significantly after dividend announcements. Except Kotak Bank, no other bank shows a significant relationship with the announcement dates ($P = 0.04$ which is less to 0.05).

7. Conclusion

A dividend payment provides cash flow to the shareholders but it reduces firm's resources for investment. Hence, firms should not pay dividend if they have any positive net present value project in hand. On the other hand, the valuation of stock depends on the expected future dividends. If company pays out all the earnings to shareholders, funds for future investment will decrease and dividend may not increase in the future. Therefore, dividend pay-out should not be desirable provided that companies can better invest their funds. Given the valid reasons for not paying dividends, an announcement of dividend payments may carry some information for the market and stock prices may be adjusted accordingly.

Not all investors possess financial expertise and analytical skills. They focus solely on what the company makes and what it offers to its members. When companies pay dividends in accordance with their expectations, investors have a positive view of the company and recommend others who are investing that the company is running smoothly and offering a satisfactory return on investment. This strengthens the firm's credibility in the capital market. On the other hand, if the dividend payment gets lowered or the company stops paying dividends, shareholders might assume the company is experiencing financial difficulty which is why they are not receiving a return. But, with the findings and analysis made on the study it is concluded that whether it is a little, no or high dividend payment there has no major impact on the share price of a company.

We have investigated the dividend effects on the share price in bank nifty companies. Based on a sample of 34 announcement of dividend during period 2012-2021, we found that investors do not gain or gain value in bank nifty from the announcement of dividend. Over the period starting from 10 days prior to the dividend announcement and to 10 days after the announcement. Finally, the evidence from bank nifty tends to be consistent with the M&M theory of dividend irrelevancy.

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Attachments

1. Kotak Bank

Year	previous	Announcement date	After
2021-05-03	1760.08	1725.45	1768.1
2019-04-30	1364.475	1386.55	1406.165
2019-03-08	1233.505	1238.9	1289.83
2018-04-30	1167.6	1211.1	1245.635
2017-05-02	897.57	917.9	917.87
2016-05-11	713.165	731.55	711.89
2015-05-05	671.643	711.63	666.89
2014-04-30	405.394	401.3	407.931
2013-05-02	348.178	358.73	360.958
2012-05-08	290.355	277.75	271.576

2. Bandhan

Year	previous	Announcement date	After
2021-05-03	316.79	295.95	286.795
2019-04-30	585.76	624.7	586.87
2018-04-30	503.19	506.45	506.22

3. Punjab National Bank

Year	previous	Announcement date	After
2021-05-03	158.221	145.7	147.84
2019-04-30	116.253	109.51	111.087
2019-03-08	161.466	156.66	159.114
2018-04-30	170.203	153.49	145.414
2017-05-02	236.182	223.38	215.725
2016-05-11	205.882	208.78	202.85
2015-05-05	182.416	172.16	176.309
2014-04-30	113.211	135.33	131.129
2013-05-02	105.147	107.43	113.97
2012-05-08	109.077	112.07	106.856

4. IDFC Bank

Year	previous	Announcement date	After
2018-04-30	49.01	47.8	47.635
2017-05-02	58.955	65.75	59.93
2016-05-11	55.335	52.95	47.675

5. AXIS Bank

Year	previous	Announcement date	After
2019-03-08	762.405	740.9	758.42
2018-04-30	499.045	509.65	509.23
2017-05-02	465.85	480.2	467.685
2016-05-11	526.56	551.95	556.905
2015-05-05	341.554	306.54	306.725
2014-04-30	276.107	300.68	296.165
2013-05-02	233.832	220.8	213.335
2012-05-08	278.332	281.87	265.635
2011-05-08	232.842	237.4	252.236
2010-05-08	107.86	101.97	106.311

6. SBI

Year	previous	Announcement date	After
2021-05-03	370.82	401.2	418.235
2019-04-30	299.745	308	288.545
2018-03-08	185.86	176.8	173.48
2017-04-30	281.99	282.45	278.12
2016-05-02	210.605	228.26	253.537
2015-05-11	151.126	155.04	165.065
2014-05-05	225.654	229.31	235.15
2013-04-30	203.13	183.98	191.24
2012-05-02	265.811	267.5	248.031
2011-05-08	228.679	228.79	226.515

7. IndusInd Bank

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Year	previous	Announcement date	After
2021-05-03	849.15	934.95	926.945
2019-04-30	1415.255	1518.9	1616.925
2018-03-08	1859.705	1832.95	1872.38
2017-04-30	1433.485	1433.55	1447.28
2016-05-02	977.545	972.1	1016.39
2015-05-11	929.215	934.45	842.67
2014-05-05	499.175	487.15	499.9
2013-04-30	396.55	450.35	465.325
2012-05-02	334.955	345.3	332.88
2011-05-08	275.335	274.55	273.49

8. Federal Bank

Year	previous	Announcement date	After
2021-05-03	84.65	89	87.36
2019-04-30	94.365	100.1	97.445
2018-03-08	99.115	101.15	86.52
2017-04-30	116.58	118.75	114.48
2016-05-02	47.045	46.45	48.74
2015-05-11	63.604	65.38	66.376
2014-05-05	47.393	46.13	46.154
2013-04-30	45.468	44.86	45.063
2012-05-02	41.453	41.54	41.017
2011-05-08	42.457	40.27	43.123

9. AU Bank

Year	previous	Announcement date	After
2019-04-30	600.975	608.15	634.525
2018-03-08	656.775	737.3	703.44

10. ICICI Bank

Year	previous	Announcement date	After
2020-05-03	568.405	591.1	603.485
2019-04-30	402.66	401.3	380.835

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2018-03-08	281.68	289.8	306.57
2017-04-30	249.41	270.73	273.363
2016-05-02	225.281	215.41	202.27
2015-05-11	283.176	274.82	295.673
2014-05-05	229.6275	231	228.834
2013-04-30	202.231	208.09	209.389
2012-05-02	156.953	156.52	157.222
2011-05-08	200.539	203.18	196.629

11. RBL Bank

Year	previous	Announcement date	After
2020-05-03	262.245	207.15	165.755
2019-04-30	664.835	675.45	676.405
2018-03-08	507.795	537.65	524.49
2017-03-08	564.015	585.45	562.71

12. HDFC Bank

Year	previous	Announcement date	After
2021-05-03	1485.905	1479.8	1498.18
2019-04-30	1197.515	1148.63	1128.319
2018-03-08	1139.38	1134.35	1152.54
2017-04-30	968.748	967.88	972.461
2016-05-02	724.488	766.53	773.101
2015-05-11	540.07	546.08	555.855
2014-05-05	512.504	506.75	500.004
2013-04-30	364.791	363.78	362.175
2012-05-02	328.826	344.5	344.56
2011-05-08	262.88	268.83	272.691