

EVALUATING DIVIDEND POLICY EFFECTIVENESS AND ITS INFLUENCE ON SHAREHOLDER VALUE: DIVIS LABORATORIES

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ABSTRACT: This research looks at Divis Laboratories to ascertain the effectiveness of dividend policy and its effect on shareholder value. To make inferences regarding the relationship between dividend payments and stock price performance, the research looks at the company's dividend distribution strategy. The goal is to ascertain if investors gain more from retained earnings or whether a steady dividend policy boosts shareholder wealth. The results shed light on the connection between payout policy and shareholder satisfaction and the overall financial plan of the organization. The analysis's findings can be used by Divis Laboratories to increase shareholder returns by paying dividends.

Keywords: Dividend Policy, Shareholder Value, Stock Price Performance, Financial Strategies and Investor Satisfaction.

1. INTRODUCTION

Integral aspect of corporate finance, the assessment of the efficacy of dividend policies significantly influences the degree to which a business gets along with its shareholders. The dividend policy in place dictates when and how much money is paid out to shareholders. The attractiveness of the company's stock can shift as a result of these practices. Companies need to make decisions that align with their financial objectives and meet the expectations of their shareholders while also finding a way to reinvest in the company.

How successfully a dividend strategy permits consistent dividend increase while maintaining a robust capital structure is a common metric for evaluating its efficacy. By demonstrating financial stability and providing a consistent stream of income, a dividend policy that has been carefully considered can increase shareholder value. This is crucial for dividend-dependent investors, particularly in industries with slow potential for development.

It is not a picnic to set up a payout program, though. Companies should thoroughly assess their financial situation, profitability, and future growth prospects before determining the amount to distribute as dividends. A plan that is overly conservative could fail to address shareholder needs, resulting in a decrease in their value, while an overly

proactive program could place an excessive burden on the budget.

If you want to know how effective dividend policies are, you should also consider how they influence the value of the company. Stock prices, the company's reputation in the market, and investor confidence can all benefit from consistent dividend payments. Therefore, in order to increase shareholder wealth, guarantee long-term economic success, and retain investors' loyalty, it is crucial to develop a wise incentive scheme.

2. TYPES OF DIVIDEND POLICIES

Regular Dividend Policy: There is a general tendency to employ the standard dividend policy. The policy states that the corporation will pay out a certain sum at regular intervals, typically once a year or every three months. This strategy might be quite useful for companies that have a consistent stream of revenue. Security and certainty are provided to stockholders by this strategy. The method may not be suitable for companies with very variable revenue, which is one of its drawbacks.

Stable Dividend Policy: Compared to the old standard dividend policy, the new stable dividend policy is different. This method calls for a corporation to establish a dividend payout and then adjust it periodically to account for fluctuations in profits. Companies

whose revenue is somewhat stable yet subject to fluctuations might benefit from this strategy. This approach has the potential to provide stability to shareholders while also correctly reflecting the company's earnings. Companies with highly volatile profits may not be good candidates for this approach.

Residual Dividend Policy: A method for determining dividend payments that takes into account the remaining funds in the company's coffers is the leftover dividend policy. This theory states that before paying out dividends, a company should put its money into expanding. Companies experiencing rapid expansion and in need of capital to sustain operations may find this strategy useful. The program guarantees that the company will have the funds necessary for investment in expansion. For businesses with many shareholders that desire dividend payments on a regular basis, this approach may not be viable.

Low Payout Dividend Policy: According to the minimal payout dividend policy, dividends should only be distributed as a tiny portion of income. According to this school of thought, a company should retain the majority of its earnings for future expansion. Companies experiencing rapid expansion and in need of capital to sustain operations may find this strategy useful. The program guarantees that the company will have the funds necessary for investment in expansion. Investors seeking consistent dividend distributions may find this strategy unsatisfactory.

High Payout Dividend Policy: One sort of policy that distributes a substantial amount of income as dividends is the high payout dividend policy. A corporation should distribute the majority of its profits to its shareholders in the form of dividends, according to this approach. Companies with a reliable source of revenue and the desire to distribute dividends on a regular basis may find success with this approach. A positive aspect of this strategy is that it allows owners to receive dividends on a regular basis. Companies that need to reinvest their earnings to increase growth may not be good candidates for this strategy.

3. REVIEW OF LITERATURE

Tran, Q.T. 2024 Profits, capital structure, and available cash flow are some of the fundamental company characteristics examined in this chapter in relation to dividend policy. All things considered, it's beneficial for a company's bottom line if it can consistently pay dividends to its shareholders. Conversely, businesses with significant levels of debt or leverage may opt to retain their profits in order to mitigate risk and enhance their financial leverage. The industry and business plan determine the effects of these internal elements. Having said that, they do provide useful insight for companies seeking to strike a balance between the sometimes conflicting demands of reinvestment and dividends. Decisions are heavily influenced by the level of certainty that management has on the company's ability to generate profits and expand.

Nukala, V. 2024 With an eye on how it influences the value of the firm, this comprehensive research examines the theoretical and practical aspects of corporate dividend policy. Dividends, according to the authors, can affect a company's market value in three key ways: first, by conveying a message; second, by changing the fundamental value due to changes in the cost of capital; and third, by modifying people's expectations for future cash flows. An increase in dividend payments is typically an indication of a financially healthy corporation. Looking at a company's dividend policy might provide investors a sense of its financial health and growth potential. This chapter examines the many perspectives on the mechanisms that govern the distribution of dividends and seeks to address the unresolved topic of the significance of dividends.

Ahmed, S. & Lee, T. 2023 Market stability, stock price volatility, and profitability are some of the metrics that this research uses to examine the correlation between dividend policy and financial performance. The research found that consistent dividend payments indicate a healthy financial position. Companies that have a consistent dividend policy usually see an increase in stock prices and a boost in investor trust.

Companies that reduce their payouts risk negative market reaction from investors who view this as an indication of financial distress. Managers' views on the development of their businesses over the long term and their projections of future cash flows are analogous, according to the authors, to decisions regarding dividends. A company's ability to pay dividends on a regular basis boosts investor confidence since it increases the likelihood of the company's financial success in the long run.

Sharma, R. & Singh, S. 2023 Examining the challenges faced by developing-world corporations in setting up dividend programs in the face of political unpredictability, rising inflation, and fluctuating financial markets is the main subject of this research. To hedge against uncertain markets and economic downturns, local businesses may place a premium on maintaining strong profits. The authors weigh the pros and cons of returning capital to the company against paying dividends. In rapidly expanding economies, when companies require capital to expand, this becomes even more crucial. Investor preferences and statutory constraints are also considered in relation to dividend decisions. Findings from the research highlight the importance of political and economic variables in developing nations' dividend policies.

Smith, J. 2022 The shift from regular cash dividends to share repurchases is the primary focus of Smith's research into the evolution of dividend policy. As an alternative to traditional cash dividends, many firms have begun to repurchase their own shares in the past few decades. Shareholder expectations, tax regulations, and the company's financial practices are all seen to have played a role in this development. This research discusses how firms have been reducing or eliminating dividends as a means to save money and pay their present financial obligations, and how this trend was accelerated by the global financial crisis. Investor preferences and company practices have evolved throughout the years, necessitating new approaches to corporate payment plans.

Smith, J. 2022 From regular cash dividends to share repurchase schemes, this article traces

the evolution of dividend policy over the past few decades. The author investigates the factors driving this shift, including shifts in shareholder priorities, tax incentives, and company profit models. Stock repurchases are now more attractive than dividend payments due to recent changes in U.S. tax rules. Given this, they have grown in popularity as a means of rewarding owners monetarily. The impact on capital distribution, firm value, and shareholder wealth is the focus of the research. As a result of shareholder demands and the current state of the market, it also examines how corporations have adjusted their payment policies.

Jackson, D. & Roberts, L. 2021 This research examines the impact of tax regulations on dividend payments made by companies. Companies are discouraged from giving away earnings due to high dividend taxes, which make the distributions less desirable, as discussed in the research. In order to restore money to owners while minimizing taxes, corporations have the option to retain earnings or repurchase shares. This article examines the impact of national tax systems on dividend policy, with a focus on multinational corporations doing business in jurisdictions with varying tax structures. It demonstrates the significance of tax implications on corporate finance strategies, which impact decisions regarding dividend distributions at the firm and national levels.

Turner, M. & Huang, Y. 2021 Considering factors such as issues with financial stability, capital adequacy standards, and regulations imposed by authorities, this research examines the various dividend techniques employed by banks. Strict rules in the banking industry often limit dividend programs to ensure that banks have sufficient capital. This article examines the balancing act that banks must perform when reporting their profits to the government in order to meet liquidity and solvency ratios while still returning capital to its shareholders. The article explains that dividend payouts could fluctuate based on economic conditions and the degree of government regulation because the banking business experiences cycles.

Thompson, B. 2020 This research primarily aims to examine the relationship between

reward policies and shareholder wealth. The research found that dividend payments affect stock prices because investors perceive them as an indicator of a company's financial stability. The market may respond favourably when corporations distribute regular and substantial dividends. Stock prices might rise as a result of increased investor confidence. A decline in dividends may indicate that the firm is struggling to turn a profit, which may lead investors to unload their shares, bringing the stock price down. Therefore, dividend decisions significantly impact both the market's short-term performance and shareholders' long-term objectives.

Martinez, L. & Perez, J. 2020 Dividend policies can be utilized to reduce transaction costs between shareholders and managers, according to this research's application of agency theory. Instead of constantly striving to increase shareholder value, managers may desire to retain money for their personal gain, as stated in agency theory. Companies that distribute dividends are bringing management and owners together by limiting the investment potential of retained earnings. Examining whether managers can enhance share value and prevent conflicts of interest through the use of rewards is the focus of the research.

4. STRATEGIES ON DIVIDEND POLICY

Stable Dividend Policy: No matter what happens to your profits, you should nevertheless pledge to pay a consistent bonus each year. By demonstrating the company's financial stability, this strategy fosters confidence among investors, perhaps resulting in higher stock prices. To maintain uniformity, businesses frequently make little adjustments to payouts in pursuit of a predetermined payout percentage.

Progressive Dividend Policy: In order to match the increase in profits, dividends should be raised gradually. Investors seeking long-term capital appreciation may find this strategy particularly attractive. The management's conviction in the projected cash flow and earnings is evident.

Residual Dividend Policy: It is prudent to distribute dividends from remaining earnings

after all promising investment opportunities have been supported. This plan prioritizes reinvestment by aligning payouts with the company's investment needs. However, this can cause dividends to be paid out at irregular intervals, which may annoy some buyers.

Target Payout Ratio Policy: To determine the dividend distribution %, set a fixed payout ratio depending on the results. The ability to reinvest and receive dividend payments on a regular basis are both preserved by this strategy. As a result, stock expectations are better managed.

Hybrid Dividend Policy: Coordinate several policies' components to guarantee that client needs and company expansion objectives are in sync. A constant basic salary plus discretionary spending money is possible when a business has sufficient funds. Modifying this strategy while maintaining consistency allows it to adapt to variations in cash flow.

Special Dividends: Business has a surplus of funds or a large number of additional sales, it is prudent to distribute unique, one-time incentives. To show appreciation for shareholders without committing to a constant increase in regular distributions over the long term, companies can offer special dividends. If this strategy works, stockholders might be more pleased when the company is performing well.

Share Buybacks: Instead of paying dividends, you might repurchase shares to return capital to shareholders. Because they have the potential to increase earnings per share, share buybacks may be viewed positively by the market. If a company wants to pay out dividends to shareholders but doesn't want to alter their payment policy, this is the way to go.

Dividends and Shareholder Communication: The payout rules, as well as any subsequent adjustments, should be discussed openly and clearly. Building trust and managing expectations, it's helpful to explain to shareholders why dividend selections were chosen. You can mitigate the unfavorable responses to changes in payouts by communicating effectively.

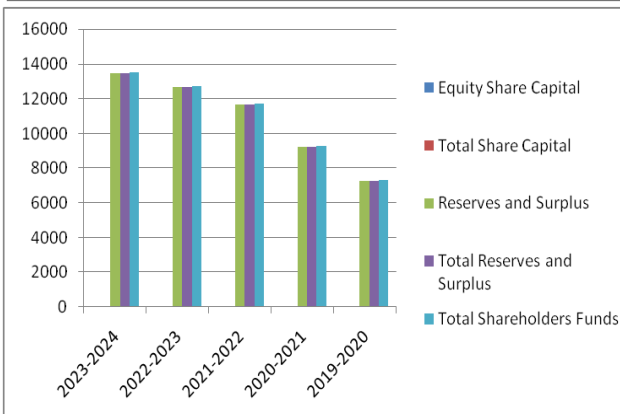
Monitoring Market Conditions: In order to adjust your dividend strategy as required, it is

important to do a thorough research of the economic and market situations. Businesses should be flexible enough to adjust their policies in response to shifts in investor sentiment, financial resources, and income. In times of uncertainty, this adaptability protects shareholder capital.

5. RESULTS AND DISCUSSION

SHAREHOLDER'S FUNDS

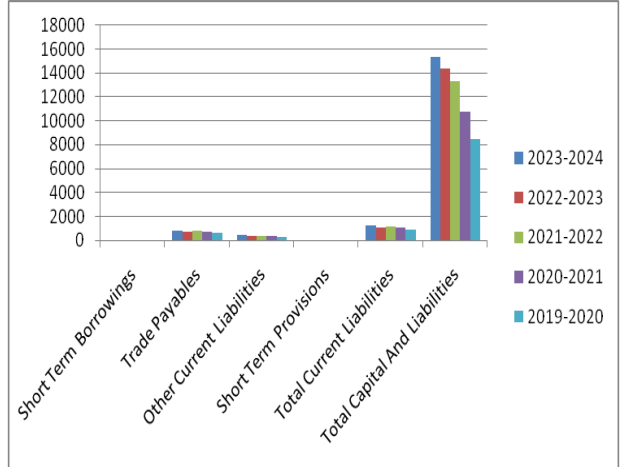
SHAREHOLDER'S FUNDS	2023-2024	2022-2023	2021-2022	2020-2021	2019-2020
Equity Share Capital	53	53.09	53.09	53.09	53.09
Total Share Capital	53	53.09	53.09	53.09	53.09
Reserves and Surplus	13,431.00	12,652.33	11,638.26	9,218.48	7,263.60
Total Reserves and Surplus	13,431.00	12,652.33	11,638.26	9,218.48	7,263.60
Total Shareholders' Funds	13,484.00	12,705.42	11,691.35	9,271.57	7,316.69



INTERPRETATION: Over the past five years, the total equity of the company's shareholders has gradually increased, going from ₹7,316.69 crores in the 2019-2020 fiscal year to ₹13,484.00 crores in the 2023-2024 fiscal year. This expansion is being propelled by a significant increase in surplus and reserves, leading to improved profitability and retained earnings. There has been no recent stock offering, as indicated by the steady equity share capital. An indication of the company's financial health and its ability to make future investments or dividend payments is the continually increasing savings. An increase in owners' equity is indicative of sound financial management and overall business health.

CURRENT LIABILITIES

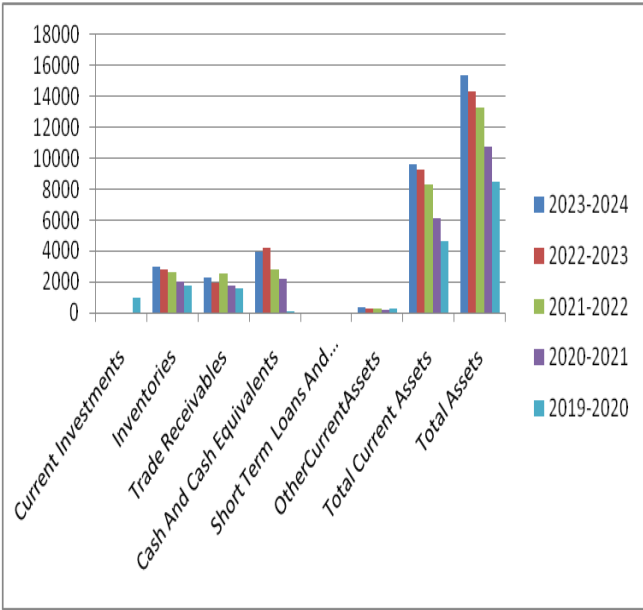
CURRENT LIABILITIES	2023-2024	2022-2023	2021-2022	2020-2021	2019-2020
Short Term Borrowings	0	0	0	0.35	33.63
Trade Payables	807	742.64	771.3	748.78	580.34
Other Current Liabilities	445	330.81	392.95	337.25	286.51
Short Term Provisions	7	4.92	4.15	2.51	2.46
Total Current Liabilities	1,259.00	1,078.37	1,168.40	1,088.89	902.94
Total Capital And Liabilities	15,362.00	14,351.62	13,307.86	10,723.77	8,514.11



INTERPRETATION: In 2019 and 2020, the amount of current loans was ₹902.94 crores. The figure reached 1,259 crores by 2023 and 2024. The surge in trade payables, which increased from ₹580.34 crores to ₹807 crores, is the primary factor responsible for this expansion. Better financial conditions and increased business activity are indicated by this trend. An increase in other current liabilities indicated a growth in the size of short-term financial obligations. With fewer short-term loans, the company has been able to better manage its cash flow and depend less on external funding.

CURRENT ASSETS

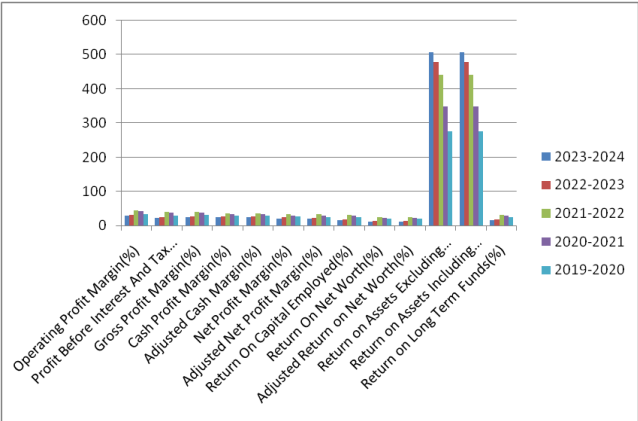
CURRENT ASSETS	2023-2024	2022-2023	2021-2022	2020-2021	2019-2020
Current Investments	0	0	0	0	971.35
Inventories	2,985.00	2,780.45	2,644.05	2,042.70	1,744.17
Trade Receivables	2,273.00	1,964.30	2,569.90	1,745.56	1,533.21
Cash And Cash Equivalents	3,961.00	4,187.56	2,803.68	2,142.01	107.36
Short Term Loans And Advances	0	0	0	0	0.09
Other Current Assets	353	303.14	278.33	195.04	304.99
Total Current Assets	9,572.00	9,235.45	8,295.96	6,125.31	4,661.17
Total Assets	15,362.00	14,351.62	13,307.86	10,723.77	8,514.11



INTERPRETATION: In the fiscal year 2023–2024, current assets reached 9,572 crores, up from 4,661.17 crores in the previous year. The company's operational capacity and cash flow have undergone a significant transformation. Having more inventory accessible to enable greater sales is a result of the significant growth in inventory. Although an increase in trade debts indicates a successful sales approach, it also highlights the significance of closely monitoring loan terms. Cash and cash alternatives continue to hold significant value, notwithstanding a little decline as compared to the previous year. The increase in current assets strengthens the company's financial position and enhances its ability to fulfill its short-term obligations.

PROFITABILITY RATIOS

Profitability Ratios	2023-2024	2022-2023	2021-2022	2020-2021	2019-2020
Operating Profit Margin(%)	28.36	30.78	43.65	41.48	34.18
Profit Before Interest And Tax Margin(%)	22.46	25.15	39.66	37.39	29.62
Gross Profit Margin(%)	23.45	26.3	40.15	37.74	30.68
Cash Profit Margin(%)	24.39	26.96	36.24	32.2	28.33
Adjusted Cash Margin(%)	24.39	26.96	36.24	32.2	28.33
Net Profit Margin(%)	20.56	23.71	33.2	28.75	25.84
Adjusted Net Profit Margin(%)	19.69	22.67	32.79	28.48	24.95
Return On Capital Employed(%)	15.83	18.53	31.45	28.34	24.75
Return On Net Worth(%)	11.68	14.23	25.21	21.08	18.76
Adjusted Return on Net Worth(%)	11.68	14.23	25.21	21.08	18.76
Return on Assets Excluding Revaluations	507.93	478.6	440.4	349.25	275.61
Return on Assets Including Revaluations	507.93	478.6	440.4	349.25	275.61
Return on Long Term Funds(%)	15.83	18.53	31.45	28.35	24.86

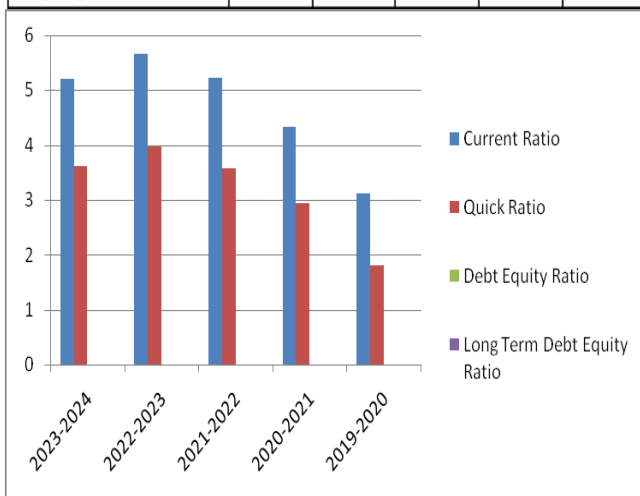


INTERPRETATION: Compared to the prior year, the operating profit margin fell from 30.78% to 28.36% in fiscal year 2023–2024, indicating a decline in the company's primary profitability metrics. All three profit margins—net, profit before interest and taxes, and profit after taxes—fell in this manner. Profits were being hit by rising operating expenses or competition pressure, according to this. Its decreased return on capital employed of 15.83% indicates that it is less effective at generating profits from invested capital. The return on assets remains strong regardless of whether revaluations are performed or not, notwithstanding these losses. This demonstrates that the resources

are being put to good use. In conclusion, increasing returns on assets indicate efficient operations, regardless of whether profitability metrics reveal a decline.

LIQUIDITY AND SOLVENCY RATIOS

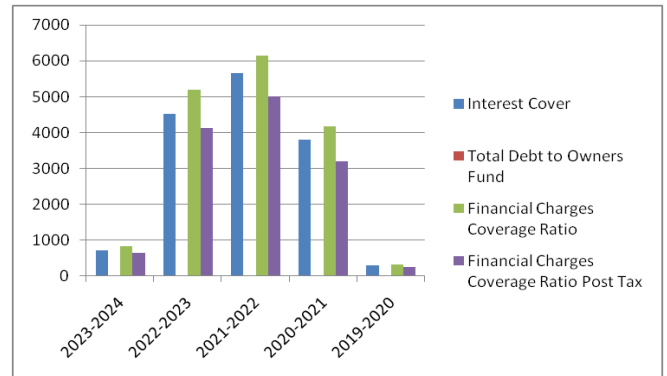
Liquidity And Solvency Ratios	2023-2024	2022-2023	2021-2022	2020-2021	2019-2020
Current Ratio	5.2	5.67	5.22	4.34	3.12
Quick Ratio	3.61	3.98	3.58	2.94	1.8
Debt Equity Ratio	0	0	0	0	0
Long Term Debt Equity Ratio	0	0	0	0	0



INTERPRETATION: An excellent indicator of financial health is a current ratio of 5.2, which indicates that a corporation has sufficient liquid assets to meet its short-term obligations. The fiscal year 2023–2024 liquidity rates further demonstrate this solid financial position. Another indication of the company's strength is its quick ratio of 3.61, which indicates that it can satisfy its duties immediately without selling its inventory. With a debt-to-equity ratio of zero in both the short and long term, it is clear that the company is completely debt-free. This is a prudent method of funding an endeavor while reducing the possibility of financial loss. These ratios demonstrate a robust liquidity position and a good solvency foundation for the company when all factors are considered. Because of this, the company is well-positioned for future financial security and operational agility.

DEBT COVERAGE RATIOS

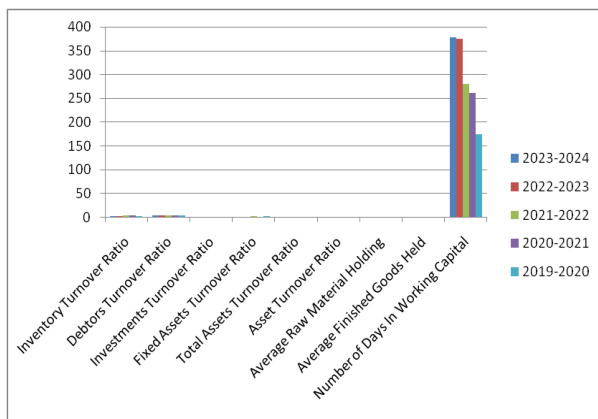
Debt Coverage Ratios	2023-2024	2022-2023	2021-2022	2020-2021	2019-2020
Interest Cover	711.67	4,528.12	5,657.18	3,809.51	300.22
Total Debt to Owners Fund	0	0	0	0	0
Financial Charges Coverage Ratio	837	5,185.94	6,134.95	4,178.57	330.91
Financial Charges Coverage Ratio Post Tax	651.67	4,136.04	5,014.98	3,202.99	258.2



INTERPRETATION: The company's ability to pay its loan interest is demonstrated by an interest coverage ratio of 711.67, which can be found in the debt coverage ratios for the fiscal years 2023 to 2024. Remaining at zero indicates that the company is not reliant on debt funding, which reduces its financial risk. Strong earnings are in accordance with financial responsibilities, as evidenced by the financial charges coverage ratio of 837. All things considered, these ratios demonstrate that the firm has healthy cash flow and can maintain its financial stability without incurring additional debt.

MANAGEMENT EFFICIENCY RATIOS

Management Efficiency Ratios	2023-2024	2022-2023	2021-2022	2020-2021	2019-2020
Inventory Turnover Ratio	2.57	2.74	3.36	3.33	3.04
Debtors Turnover Ratio	3.62	3.36	4.12	4.15	3.77
Investments Turnover Ratio	0.57	0.6	0.76	0.73	0.72
Fixed Assets Turnover Ratio	1.14	1.2	1.59	1.46	1.52
Total Assets Turnover Ratio	0.57	0.6	0.76	0.73	0.72
Asset Turnover Ratio	0.59	0.63	0.85	0.82	0.74
Average Raw Material Holding	0	0	0	0	0
Average Finished Goods Held	0	0	0	0	0
Number of Days In Working Capital	377.26	374.45	280.43	261.52	173.89



INTERPRETATION: The inventory turnover ratio decreased from 2.74 in 2023 to 2.57 in 2024, indicating a slowdown in inventory turnover and changes in management efficiency ratios. Debt collection is now more efficient, as the debtor turnover ratio has increased to 3.62. Reduced investment and fixed asset change rates may indicate that these assets aren't generating as much profit as they could be. It appears that improved asset management may be necessary, as the total assets change ratio has decreased. Working capital days have also increased dramatically, which may indicate lengthier cash conversion cycles and a subsequent decline in liquidity.

6. CONCLUSION

Lastly, the importance of a well-planned distribution strategy for growing shareholder value is demonstrated by Divis Laboratories' review of the efficacy of their dividend policy. The research found that stock prices go up and investor confidence goes up when dividend payments are consistent and reliable. According to the research, overall wealth can be increased in the long run by wise investment of retained profits. Dividends and reinvestment are two sides of the same coin that Divis Laboratories must master. As a result, both its short- and long-term financial objectives will be satisfied, and the wealth of its stockholders will grow.

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