

# **A STUDY ON DIVIDEND PATTERN OF MULTINATIONAL COMPANIES IN AUTOMOBILE AND AUTO ANCILLARIES INDUSTRY IN INDIA**

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## **Abstract**

The present study seeks to analyse the dividend behaviour of MNCs in Automobile and auto ancillaries industry in India. The study is based on the multinational companies which are listed in NSE and BSE for the period of fifteen years (2002-2016). In globalized era, market has been widen for the investors, since the entry of foreign companies. Hence the companies are struggling in order to compete and succeed in the market. Moreover MNCs are supposed to adopt the crucial dividend decision as to satisfy the existing share holders and also attract the new investors. The analysis result reveals that Mahindra &Mahindra ltd has paid more dividend and adopted liberal dividend policy. India nippon electrical ltd is with more consistent among the MNCs. Tube investment of India has high growth in dividend even though they paid less dividend among the sample companies

**KEYWORDS:** *Dividend Pattern, Multinational Companies and Auto Ancillaries Industry.*

## **INTRODUCTION**

Dividend decision is one of the most significant role of finance manager, in which that a company decides how much to distribute as dividend or retain back for further business development .Dividend is not only financial indicator of performance of a company, but also

builds the confidence of investors on future prospects of a company. The major purpose of paying dividend is to attract more new investors and satisfy the existing investors. Therefore the company can maintain a good reputation in the market. Dividend provides assurance about the firm's financial well-being to the investor.

The dividend policy is being a puzzle and still debatable topic in corporate world for researchers and academicians. In globalized era, market has been widen for the investors, since the entry of foreign companies. Hence the companies are struggling in order to compete and succeed in the market. Moreover MNCs are supposed to adopt the crucial dividend decision as to satisfy the existing share holders and also attract the new investors. Sometimes companies have to be defensive in paying dividend as to retain the earnings in order to face when downtrend in the market conditions, at the same time the companies have to follow aggressive dividend policy in order to attract more new investors. The present study seeks to analyse the dividend pattern of MNCs in Automobile and Auto ancillaries industry in India.

### **OBJECTIVE OF THE STUDY**

The prime Objective of the study is

- To examine the Dividend pattern of multinational corporations (MNC) in Automobile and auto ancillaries industry in India.

### **METHODOLOGY**

The study is based on multinational companies in Automobile and Auto ancillaries industry in India which are listed in both NSE & BSE .It also satisfy the criteria that the company should have distributed the dividends in all the year of study period (2002-2016). Present study is both descriptive and analytical nature. Secondary data are collected from Capitaline Corporate Database of Capital Market Publishers (I) Ltd. Mumbai and official website of selected MNCs.

### **Dividend pattern of MNCs in Automobile and Auto ancillaries industry.**

Dividend policy is pivotal policy and crucial decision area of financial management. The important function of finance manager is to balance between magnitude of retained earnings and distribution of dividends. The main objective of the present paper is to evaluate the dividend

payout pattern of Multinational companies in automobile and auto ancillaries industry in India. Dividend payout ratio (DPR), Dividend per share (DPS), Dividend yield (DY) are most commonly used indicators to analyse nature of dividend policy adopted by a company. In present study, DPS has been selected as the indicator of dividend policy, While analyzing the dividend policy adopted by the companies.

### TREND OF DPS IN AUTOMOBILE AND AUTO ANCILLARIES MNCs

The table 1 discloses the Dividend pattern of Automobile and Auto ancillaries MNC companies. Dividend per Share (DPS) has been considered as a measure of dividend. In order to find out the dividend pattern, mean, Co efficient Variation , growth rate have been computed.

**TABLE 1 COMPANYWISE DIVIDEND ANALYSIS**

Company	DPS		
	MEAN	CV	GROWTH RATE
Gabriel India	2.03	106.37	5.61
India nippon Electricals ltd	8.37	12.67	-0.09
Lumax industries ltd	4.09	66.41	35.38
Mahindra&Mahindra ltd	10.67	24.4	8.51
Maruti Suzuki India ltd	10.17	106.27	23.17
Motherson sumi systems ltd	2.19	51.09	1.64
SML Isuzu ltd	5.63	38.46	27.2
Tube investment of India	1.74	71.65	72.84
Wheels India	6.51	32.31	13.68
<b>Average</b>	<b>5.71</b>	<b>56.63</b>	<b>20.88</b>

Table 1 exhibits the analysis of average dividend of Automobile and auto ancillaries MNCs during the study period. Average dividend has been calculated by arithmetic mean of DPS. The average DPS of each company has been compared with the other companies. It is found Mahindra & Mahindra ltd has the highest mean of DPS of Rs .10.67 whereas, Tube investment

of India has the lowest mean DPS of Rs.1.74. The overall selected Automobile and auto ancillaries MNC mean (grand average) DPS is Rs.5.71. Of the nine companies, India nippon Electricals ltd, Mahindra & Mahindra ltd., Maruti Suzuki India ltd and Wheels India companies are with mean DPS above the overall automobile and auto ancillaries MNC average mean of DPS and inferred that those companies have paid more dividend and have followed liberal policy among the industry. Gabriel India, Lumax industries ltd., Motherson sumi systems ltd, SML Isuzu ltd and Tube investment of India companies are with mean DPS below the overall MNC average mean of DPS and inferred that those companies have paid less dividend and followed more conservative dividend policy. It is found that the highest average mean DPS Rs.10.67 falls under the firm Mahindra and Mahindra ltd which interpreted that it has paid more dividend among the automobile and auto ancillaries MNCs and revealed that it has distributed more dividend in all the year almost and also it signifies that the company is adopting a liberal policy. In contrast, the lowest average mean of DPS Rs.1.74 falls under the Tube investment of India which indicated that the company has declared and distributed less amount of dividend among the same industry during the study period. It is also implies that the company has followed more conservative dividend policy in respect of paying dividend.

In order to find out the consistency of a company in paying dividend, the co-efficient of variation (CV) of DPS for each company has been calculated. It is found that the co-efficient of variation lies between 12.67 percent and 106.37 percent. The lowest value of co efficient of variation is 12.67 percent is found under the firm India nippon electrical ltd , which indicates that the company is more consistent in DPS and has maintains the stable dividend payment policy among automobile and auto ancillaries MNCs during the study period. The highest value of co efficient of variation is 106.37 percent in Gabriel India and indicated that the company is highly volatile in paying dividend and also signifies that the company is inconsistent with more fluctuations in paying dividend among the Auomobile and auto ancillaries MNCs. The overall average CV is 56.63 percent. Of the nine companies, Gabriel India, Lumax industries ltd, Maruti Suzuki India ltd, Tube Investment of India companies have higher CV of DPS than the grand average of CV of DPS indicates that those companies are less consistent and high volatile nature in paying dividend. It also depicts that India nippon electricals ltd., Mahindra & Mahindra ltd, Mothersn sumi systems ltd, SML Isuzu ltd and wheels India companies are more consistent and

stable in paying dividend .More over those companies have paid reasonable stable dividend in all the year almost.

The present study also depicts the analysis of growth rate of DPS of automobile and auto ancillaries MNCs during the study period. It is inferred that Tube investment of India has the highest growth of DPS amounts to 72.84 percent. Average growth rate of overall automobile and auto ancillaries MNC companies is 20.88 percent. Of the nine companies, Lumax industries ltd, Maruti Suzuki India ltd, SML Isuzu ltd and Tube investment of India are with growth rate of PAT above the overall MNC grand average growth rate of DPS . Gabriel India, Mahindra &Mahindra ltd, Motherson sumi sytems ltd and wheels India companies are with growth rate of below the overall grand average. In Automobile and auto ancillaries MNCs ,it is found that almost there is a positive growth in DPS except India nippon electrical ltd which has negative growth of DPS of -0.09 percent .It implies that there is a decrement trend in dividend payment almost during the study period in India nippon electrical ltd.

### **Trend in average DPS and PAT-year wise Analysis**

Dividend is generally distributed from the profits or earnings of the current period and as such it is considered to be a significant variable on which dividend decision depends. Earnings are usually taken after tax .previous studies reveal the dividends are shown as signals for earning capacity of the firm. current earnings is an good indication of good and stable financial health of a company. Current earnings are generally essential for a company to distribute dividend on a stable basis. Since the dividend is paid out of the profit of the company, profitability of companies have also been analysed .Profit after tax (PAT) has been taken as a measure of profitability for the present study.

The table 3 exhibits the year wise analysis of trend in average DPS of Automobile and auto ancillaries MNC companies. It is inferred that among the selected MNC companies, average DPS has exhibited a smooth increasing trend over the study period. The average DPS has increased from Rs.6.64 in 2002 to Rs.10.41 in 2016.companies have paid highest dividend Rs.10.41 in 2016 and paid less dividend Rs.3.39 in 2009 during the study period. However there were in more fluctuations in DPS. During the study period, the MNCs have paid more dividend

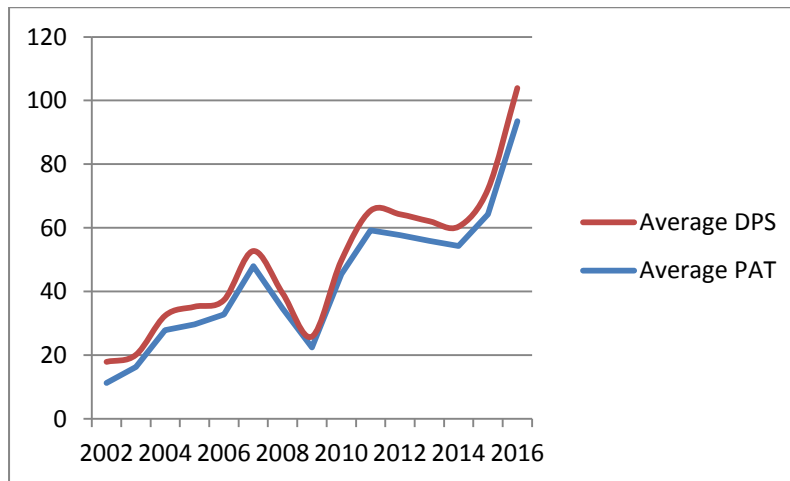
after 2011, as the average DPS is found more than the grand average of DPS Rs.5.71 in 2002 and from the year 2011 till the year 2016 of study period. Despite it is found more fluctuation in paying dividend, and it is indicated that the companies adopted liberal policy. Moreover after the year 2011 sample companies have paid more dividend and found increasing trend in paying dividend. It is found that the co-efficient of variation lies between 96.01 percent and 245.79 percent. The lowest value of co efficient of variation is 55.11 percent found in the year 2011, which indicates that, there is more consistent in DPS in this year .The highest value of co efficient of variation is 138.52 percent in the year 2002 and indicated that there is high volatile in dividend paid during the year. The Table 3 further depicts the analysis of growth rate of DPS of sample companies during the study period. It is inferred that the year 2010 has the highest growth of DPS amounts to 58.69% and the year 2011 has the lowest growth of DPS amounts to 4.89 percent. It also depicts that companies have tremendous growth rate of DPS except the year 2007,2009,2013 and 2014 in which companies obtained negative growth in DPS that implies , there is a decrement trend in dividend paid during the period.

**Table 3:Yearwise analysis of profitability and dividend**

YEAR	DPS			PAT		
	MEAN	CV	GROWTH RATE	MEAN	CV	GROWTH RATE
2002	6.64	138.52	-	11.23	92.41	-
2003	3.37	64.18	27.16	16.30	54.30	28.85
2004	4.63	7014	27.37	27.79	36.04	20.68
2005	5.58	74.26	13.96	29.62	49.26	20.92
2006	4.52	68.39	12.82	32.76	68.45	28.94
2007	4.71	76.98	-2.45	47.99	71.39	18.49
2008	4.78	73.50	68.32	34.65	97.64	16.71
2009	3.39	93.95	-24.56	22.43	112.77	25.21
2010	4.29	68.09	58.69	45.40	114.66	26.69
2011	6.19	55.11	58.37	59.20	75.39	20.36
2012	6.58	58.46	4.89	57.67	60.55	19.38
2013	6.15	66.05	-13.68	55.93	89.90	18.67

2014	6.12	78.35	-4.68	54.26	112.75	23.49
2015	7.89	92.40	22.23	64.28	115.38	27.65
2016	10.41	95.82	39.89	93.50	101.76	27.97
<b>Average</b>	<b>5.71</b>	<b>78.28</b>	<b>20.60</b>	<b>43.53</b>	<b>83.51</b>	<b>23.14</b>

The table3 also exhibits the analysis of trend in average PAT of selected companies. It is inferred that, average PAT has exhibited a smooth increasing trend over the study period. The average PAT has increased from Rs.11.23 cr in 2002 to Rs.93.50 cr in 2016. Selected companies have obtained the highest average profit in the year 2016. In the year 2002, MNC companies have the highest inconsistency in earning profit as it shows the 115.38 percent in 2015. During the study period, the MNCs have earned more profit reasonably after the year 2010 as the average PAT is found more than the grand average of PAT 43.53 cr of study period. The lowest value of coefficient of variation is 36.04 percent found in the year 2004, which indicates that, the companies are more consistent in earning the profit during the study period. It is inferred that the year 2016 has the highest growth of PAT amounts to 27.97% and the year 2008 has the lowest growth of PAT amounts to 16.71 percent during the study period.



Despite more fluctuations in PAT, it is also disclosed that the profit earned by the Automobile and auto ancillaries MNC companies during the study period has shown upward trend till the year 2008 and has fallen in 2009. Again it has tremendously risen as upward trend subsequently. Dividend has shown the trend with minimal fluctuation and almost steadily maintaining and the

trend shows when PAT increases dividend paid more and vice versa. Dividend has shown the changes as, whenever the profit increased or decreased, DPS also has increased and decreased accordingly. However it is also observed that there is profit is significant aspect for paying dividend and it is proved that there is a close association between dividend and current earnings.

## Conclusion

Despite more fluctuation in earnings, Mahindra & Mahindra Ltd has paid more dividend and Tube investment of India has paid the less dividend even though earned more profit than other companies. India nippon Electricals Ltd, Mahindra & Mahindra Ltd, Maruti Suzuki India Ltd and Wheels India companies have paid more dividend and have followed liberal policy among the companies from same industry. Gabriel India, Lumax industries Ltd, Motherson sumi systems Ltd, SML Isuzu Ltd and Tube investment of India companies have adopted more conservative policy in dividend. It is also found that India nippon electrical Ltd has followed a stable dividend policy and Gabriel India is more volatile in dividend payout policy. Tube investment of India has the highest growth in dividend year by year.

During the study period in the year 2016, Automobile and auto ancillaries multinational companies have paid more dividends. It is also observed that profit is significant for paying dividend and it is proved that there is a close association between dividend and current earnings.

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