

Dividend Payout and Volatility in Share Price of Indian Commercial Banks

KAPIL SHARMA AND J .K. JAIN

Abstract: This research attempts to study the interaction between level of dividend payment and volatility in the price of shares of Indian commercial banks. 10 public and 10 private sector Indian commercial banks whose average market capitalization was highest between 2009 –19 were taken. The variables of the research were dividend yield, dividend payout, share price volatility, growth, firm size, leverage, and earnings volatility. For data analysis Least Square Regression Method was applied. Results show that volatility in the price of shares is largely influenced by dividend payout and size of the firm. Share price volatility was not seen to be influenced due to dividend yield, growth and earnings volatility. Leverage however reported uncooperative association with share price volatility.

Key Words: Dividend Policy, Dividend Payout, Dividend Yield, Share Price Volatility, Indian Banks.

Introduction

Dividend decision deals with deciding upon the proportion of profits that is to be distributed to the equity shareholders. It has a direct bearing on firms other decisions such as financing, investment and liquidity decisions. It is this complex nature of dividend decision that makes it very important. Khan et al. (2011) focused on the importance of dividend decision for managers. It influences the shareholders objective of profit maximization by receiving dividends from the firm on their investment. Thus managers have the crucial task of striking a balance between payout ratio and retention ratio.

Gitman (2006) investors irrespective of their type are very sensitive to stock price movements. It is a very important indicator used by them to decide upon investing or not in a particular firm. Jo and Pan (2009) concluded that dividend payment is one of the parameters available to investors which help them in assessing about the good governance practices followed by the company.

Dr. Kapil Sharma is Faculty Member, Institute of Management Studies, Devi Ahilya Vishwavidyalaya, Indore; and Prof. J .K. Jain is Professor, Department of Commerce Dr.H.S Gour Vishwavidyalaya, Sagar -3 (M.P)