

# Comparative Analysis on the Wealth of the Shareholders among Dividend Paying and Non-paying Companies in Indian Pharmaceutical Companies

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## Abstract

**Background/Objectives:** One of the important and complex decisions in the area of finance is dividend decisions. The main purpose of this study is to know the shareholders wealth between the companies who pay dividend and companies not paying dividend in Indian pharmaceutical industry. **Method/Statistical Analysis:** Based on Market Capitalization the top Ten dividend paying pharmaceutical companies and ten non-dividend paying companies listed in NSE has been selected. Data were collected for 15 years from 2001 to 2015 from the companies' reports and Prowess database. Tools Mean and Independent t statistics were used for the study. **Findings:** The average market to book value of equity of companies paying dividend is more than the non-dividend paying companies and through independent t test the results were statistically verified. **Applications\Improvement:** Based on the study the investors can opt for dividend paying companies than the non-dividend paying companies for investment. This would increase their wealth in the long term. The study can be extended to different industry with long years of data.

**Keywords:** Dividend Paying Companies, Non-dividend Paying Companies, Shareholders Wealth, Market Capitalization

## 1. Introduction

One of the important and complex decisions in the area of finance is dividend decisions. It is the percentage of earnings that should be distributed to shareholders as dividends and the percentage of earnings to be retained by the company for future investment for the growth of the company. Dividend policy of the company affects the various stakeholders of the company. Wealth of the shareholders is indicated by companies share price. Companies stock price is the result of all the four important decisions of the firm (Investment, Financing, dividend and liquidity)<sup>1</sup>. Wealth maximization of the shareholders is the most important goal of the management and measured by increase in the share price<sup>2</sup>. Pharmaceutical industry is one of the important industries in India. The develop-

ment of this industry in recent years is enormous. India has talented scientists to compete with other countries pharmaceutical companies and to reach the next level<sup>3,4</sup>. The growth of this industry in the next ten years would be fourfold than the present growth. Companies earnings is divided into earnings retained and dividends paid to the shareholders<sup>1</sup>. Earnings retained by the companies would be reinvested which is the long term source of fund for the companies. Shareholders wealth will be maximized by the proper distribution of dividends because the investors invested their money to reap better financial benefits<sup>5-8</sup>. The main purpose of this study is to know the shareholders wealth maximization among the companies who pay dividend and who do not pay dividend in Indian pharmaceutical industry.

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### 1.1 Hypotheses

H01: “Difference in market to book value of equity between companies paying dividend and companies not paying dividend is not significant in pharmaceutical industry in India”.

## 2. Methodology

Based on Market Capitalization the top ten dividend paying pharmaceutical companies and ten non-dividend paying companies listed in NSE has been selected. Data in secondary nature were collected for 15 years from 2001 to 2015 from the reports of the companies and Prowess database. Tools Mean and Independent t statistics were used for the study.

Table 1 presents the list companies paying dividend and companies not paying dividend in Pharmaceutical industry in India.

## 3. Results and Discussion

### 3.1 Wealth of the Shareholders among Companies Paying Dividend and Companies not Paying Dividends

In Table 2, even though the p value is significant for the years 2002, 2003, 2005 and 2006 only at 5% level of sig-

**Table 1.** List of top ten companies paying dividend and not paying dividend of pharmaceutical companies in India

S.No	Companies paying dividend	Companies not paying dividend
1	AurobindoPharma	Sun Pharma Advertising
2	Cadila Health	Lyka Labs
3	Cipla	PiramalPhytoca
4	Divis Labs	Alpa Labs
5	Dr. Reddy Labs	Nath Bio-Genes
6	GlaxoSmithKline	Country Condos
7	Glenmark	Syncom Health
8	Lupin	Biofil Chemicals and Pharmaceuticals
9	Piramal Enterprises	Nutrapius India
10	Sun Pharmaceuticals	Bharat Immunological

**Table 2.** Market to book value of equity between companies paying dividend and not paying dividend in Indian pharmaceutical industry

Year	Companies paying dividend		Companies not paying dividend		Mean Difference	t-value	p-value
	Mean	SD	Mean	SD			
2001	0.842	1.306	-0.022	0.137	0.864	2.098	0.065
2002	0.8451	1.283	0.079	0.341	0.7661	2.393	0.040**
2003	1.767	1.931	0.181	0.753	1.586	3.761	0.004**
2004	1.961	2.159	0.610	1.117	1.351	2.048	0.071
2005	3.693	4.010	0.547	0.974	3.146	2.464	0.036**
2006	3.856	3.835	0.182	0.366	3.674	2.905	0.017**
2007	4.169	4.850	7.711	19.049	-3.542	-0.598	0.564
2008	2.814	2.600	2.636	6.043	0.178	0.093	0.928
2009	3.507	2.768	4.600	15.500	-1.093	-0.237	0.818
2010	3.913	3.096	1.476	42.573	2.437	-0.821	0.433
2011	3.634	2.538	2.790	86.321	0.844	-0.877	0.403
2012	4.362	2.778	-3.223	13.690	7.585	1.881	0.093
2013	5.057	3.690	4.240	10.917	0.817	0.202	0.845
2014	6.165	6.555	5.058	9.663	1.107	0.292	0.777
2015	5.847	3.920	1.308	25.995	4.539	-0.826	0.430
Overall	3.50	1.615	1.878	2.686	1.622	2.466	0.027**

nificance, the mean of Market to book value of equity is more for companies paying dividend than companies not paying dividend for all the years except 2007 and 2009 which is due to financial meltdown. Overall the average market to book value of equity of companies paying dividend is more than the companies’ not paying dividend. The average difference between companies paying dividend and companies not paying dividend was positive for all the years except 2007 and 2009. This implies that the wealth of the shareholders of companies paying dividend is more than the companies not paying dividend. This result is in consistent with the previous studies<sup>1,2,5,9</sup>. Higher dividend increases the market value of the share and vice versa. Shareholders prefer current dividend to future earnings. So, dividend is considered as one of the important factor which determines the shareholders wealth. f companies pay dividend that provides positive signal to the shareholders which proves the information content of dividend. Information content of dividend shows the earnings capacity of the company<sup>10</sup>.

**Table 3.** Comparison of Shareholders wealth between companies paying dividend and not paying dividend: (Independent Samples t test)

		F	Sig.	t	df	Sig. (2-tailed)
MPS	Equal Variances assumed	106.842	0.000	-8.975	298	0.000
	Equal Variances not assumed			-8.975	150.577	0.000

### 3.2 Hypothesis

H01: “Difference in market to book value of equity between companies paying dividend and companies not paying dividend is not significant in pharmaceutical industry in India”

In Table 3, since the p value is less than 5%, the null hypothesis “Difference in market to book value of equity between companies paying dividend and companies not paying dividend is not significant in pharmaceutical industry in India” is rejected at 5% level which implies that there is significant difference between companies paying dividend and companies not paying dividend on shareholders wealth. This result is in consistent with the previous studies<sup>1, 2, 5, 6</sup>

### 4. Conclusion

This research paper used SPSS package to analyse and compare the wealth of the shareholders between companies paying dividend and companies not paying dividend in Indian pharmaceutical industry. Top ten companies paying and non-paying dividend were selected with 15

years data from 2001 to 2015. The study used mean and Independent t test. The mean values of market to book value of equity of companies paying is more than not paying companies and through independent t test the results were statistically verified.

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