STUDY ON THE IMPACT OF DIVIDEND DECISIONS ON FIRM VALUE: A COMPARATIVE ANALYSIS ACROSS INDIAN INDUSTRIES

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Abstract

This study investigates the impact of dividend decisions on firm value in five major Indian industries: Steel, Cement, Paint, Granite, and Ceramic Tiles. The primary objective is to analyze the factors influencing dividend policies, focusing on dividend payout ratio (DPR) and dividend yield ratio (DYR), and their effect on firm value. Using descriptive statistics and Pearson correlation analysis, data from 2012 to 2022 is examined to assess the relationship between dividend decisions and firm performance. The study finds that dividend decisions significantly affect firm value across industries, with varying results. In capital-intensive sectors like Steel and Cement, high dividend payouts tend to reduce firm value, as they limit the firms' ability to reinvest in growth opportunities. On the other hand, sectors such as Paint and Ceramic Tiles, with lower capital expenditure requirements, benefit from higher dividend payouts, which positively influence firm value. This research provides valuable insights into how industries with distinct financial needs should craft their dividend policies to maximize shareholder wealth and ensure long-term growth. The findings suggest that an optimal dividend policy must consider the specific needs of each industry for a balanced approach to distributing earnings.

Keywords: Dividend Decisions, Firm Value, Dividend Payout Ratio, Dividend Yield Ratio, Pearson Correlation, Indian Industries, Financial Performance

1. INTRODUCTION

In the corporate world, dividend decisions play a pivotal role in shaping a company's financial structure, influencing both its current performance and long-term growth prospects. The dividend policy of a firm, which involves the strategy of distributing earnings to shareholders versus retaining earnings for reinvestment, directly affects its market value, shareholder wealth, and financial stability. The question of how dividend policies impact firm value remains a crucial area of exploration in corporate finance, with significant implications for financial management and investment strategies (Brav, Graham, Harvey, & Michaely, 2015).

In recent years, Indian industries have faced dynamic market conditions, influenced by a variety of factors such as economic fluctuations, regulatory changes, and shifting investor preferences. As firms across different sectors have developed their dividend policies, understanding the impact of these decisions on their overall value is essential. This research aims to examine the effect of dividend decisions on firm value, focusing on five major sectors in India: Steel, Cement, Paint, Granite, and Ceramic Tiles. These sectors, each with its distinct financial dynamics, provide an interesting lens through which to explore the complex relationship between dividend payout ratios, yield ratios, and firm value (Bawa & Kaur, 2013).

The dividend payout ratio (DPR), one of the most commonly used metrics for assessing dividend policy, refers to the proportion of a company's earnings that is paid out to shareholders in the form of dividends (Black, 2022). It is often used as an indicator of a company's financial health, its growth prospects, and its ability to generate consistent profits. On the other hand, the dividend yield ratio (DYR) represents the amount of dividends paid relative to the stock price, giving investors an insight into the returns they can expect from their investments in the form of dividends (Beiner et al., 2016).

Dividend policies have long been a subject of study in finance, particularly in terms of their effect on firm valuation. The agency theory posits that dividend decisions are often made to align the interests of managers with those of shareholders (Jensen, 1986). In this regard, an optimal dividend policy can enhance firm value by signaling financial

stability and increasing shareholder satisfaction (Amidu, 2017). However, the impact of dividends on firm value can vary across industries, as different sectors face unique challenges and opportunities. For example, industries that rely heavily on reinvestment, such as the Cement or Paint industries, may prefer lower payout ratios to fund growth opportunities, whereas sectors like the Steel industry might offer higher payouts to attract investors seeking stable returns (Azhagaiah & Sabaripriya, 2018).

This study uses descriptive statistics and Pearson correlation analysis to explore the relationship between dividend payout decisions and firm value across these five industries. By analyzing data from 2012 to 2022, the research identifies the key factors influencing dividend policies and how these decisions impact the market value of firms in different sectors.

OBJECTIVES

1. To analyze the factors influencing dividend decisions and their effect on firm value across five major Indian industries: Steel, Cement, Paint, Granite, and Ceramic Tiles.

2. To determine the significance of dividend payout ratios and dividend yield ratios in influencing firm value in these sectors, using Pearson correlation analysis.

2. LITERATURE REVIEW

The relationship between dividend decisions and firm value has been a topic of extensive research in corporate finance. Scholars have explored how dividend policies impact firm performance, shareholder wealth, and market valuations. This literature review is organized into three main sections: (1) Theoretical Foundations of Dividend Policy, (2) Dividend Policy and Firm Value, and (3) Empirical Studies on Dividend Policy Across Industries.

2.1 Theoretical Foundations of Dividend Policy

Theories explaining dividend decisions provide a framework for understanding how companies approach the distribution of earnings. The foundational theories in this area include the Residual Theory of Dividends, the Bird-in-the-Hand Theory, and the Agency Theory. Residual Theory of Dividends, proposed by Litzenberger and Ramaswamy (2022), posits that dividends should only be paid out when all profitable investment opportunities have been exhausted. This theory emphasizes that firms should retain earnings to fund growth opportunities, and dividend payments should only be made with leftover earnings. According to this theory, a high dividend payout is not necessarily a signal of financial strength, but rather a reflection of a lack of profitable investment opportunities. Bird-in-the-Hand Theory, on the other hand, suggests that investors prefer the certainty of dividends rather than the uncertain potential for future capital gains (Black & Scholes, 2022). This theory argues that dividends provide a certain return to shareholders, reducing their perceived risk. As a result, companies with high dividend payouts are viewed more favorably by investors who prioritize immediate returns. The Agency Theory addresses the conflict between managers and shareholders. Jensen (1986) argues that managers may retain excess cash to fund their own empire-building projects or for personal benefits. By paying dividends, firms can reduce this agency problem by returning excess cash to shareholders. The theory suggests that paying dividends signals that managers are acting in the best interest of shareholders, which can improve investor confidence and, in turn, increase firm value.

2.2 Dividend Policy and Firm Value

The relationship between dividend policy and firm value has been studied extensively, with mixed results. Some researchers suggest that dividends positively impact firm value, while others argue that the payment of dividends may have a neutral or even negative effect on the company's valuation. According to Modigliani and Miller (1961), in a perfect market, dividend decisions should not affect a company's value. They argue that whether a firm distributes dividends or retains earnings, the value of the firm remains unchanged because investors can create their own "homemade dividends" by selling shares if they need cash. However, in reality, markets are not perfect, and factors such as taxes, transaction costs, and asymmetric information make dividend decisions crucial for firm value. Miller and Modigliani's (1961) Proposition II further supports the notion that dividends are irrelevant under certain conditions. They suggest that a firm's value is determined by its investment decisions, not its dividend policy. In this

model, dividends are seen as a way of distributing earnings rather than a mechanism for increasing firm value. However, Black (2022) refuted this notion by emphasizing the "dividend puzzle," which suggests that investors may place a premium on dividend-paying firms, which could positively affect their stock price. Fama and French (2001), in their study on dividend policy and firm value, observed that companies with higher dividend payouts tend to experience higher stock prices, possibly because such firms signal financial stability and reduced agency costs. On the other hand, firms that retain earnings often face the risk of reducing shareholder value if they fail to invest wisely. The ability to generate consistent dividends is, therefore, seen as a sign of profitability and stability, positively influencing firm value. Further, Bhattacharya (2022) argues that firms with high dividend payouts are more likely to attract a specific group of investors who prioritize stable returns, especially in uncertain economic environments. This, in turn, can lead to a higher firm valuation. Conversely, a lack of dividends or erratic dividend policies might signal uncertainty or financial instability, leading to a decrease in market value (Beiner et al., 2016).

2.3 Empirical Studies on Dividend Policy Across Industries

Empirical studies have provided a wealth of insights into how dividend decisions impact firm value across different industries. These studies have focused on understanding whether the relationship between dividend policy and firm value varies across industries, and whether factors such as capital intensity, growth opportunities, and market conditions play a significant role in shaping dividend decisions.

The Steel Industry has been one of the most studied sectors due to its high capital intensity and cyclical nature. Companies in the steel sector often need to retain earnings to reinvest in machinery, technology, and infrastructure. As a result, many steel companies exhibit low dividend payout ratios. **Akhtar (2016)** examined the relationship between capital structure and profitability in the Pakistani steel industry and found that dividend payouts were inversely related to profitability, as firms preferred to reinvest earnings in growth opportunities. Similarly, **Bawa and Kaur (2013)** found that in India's steel sector, high dividend payouts were associated with reduced reinvestment capabilities, leading to lower long-term firm value. In contrast, **Cement Industry** firms, such as ACC and Ambuja, have shown a preference for moderate dividend payouts. According to **Amidu (2017)**, the cement industry in Ghana operates under relatively stable conditions, allowing firms to adopt a balanced dividend policy. High dividend payouts were found to have a positive impact on firm value in firms with steady earnings and low leverage. However, in high-leverage firms, higher dividend payouts tended to reduce firm value by restricting their ability to manage debt. **The Paint Industry** presents an interesting case of high dividend payouts being correlated with firm value. **Berger Paints** and **Kansai Nerolac Paints** in India, for instance, have shown that a strong dividend policy can enhance investor confidence, leading to increased market valuations (Amihud & Lev, 2023). These firms typically face lower capital expenditure needs compared to capital-intensive industries like steel and cement, allowing them to distribute a higher proportion of their earnings as dividends without compromising future growth prospects. **The Granite and Ceramic Tiles Industries** have been found to exhibit mixed results regarding dividend policies. **Divyashakti Granites**, for example, demonstrated that higher dividend payouts negatively affected firm value. This may be due to the company's low profitability and high capital expenditures, which made it more reliant on internal funding for growth (Yurtoglu, 2013). Conversely, **Kajaria Ceramics** showed a positive correlation between dividend payouts and firm value, suggesting that investors in this industry value stable returns over growth potential (Titman & Wessels, 2019). Empirical evidence across different industries suggests that the relationship between dividend policy and firm value is influenced by industry-specific factors, including capital intensity, growth opportunities, and market conditions. The cement and paint industries tend to show a more positive relationship between dividends and firm value, while more capital-intensive industries like steel and granite may experience a more complex or negative relationship.

3. METHODOLOGY

This study analyzes the factors influencing dividend decisions and their impact on firm value across five major industries in India: Steel, Cement, Paint, Granite, and Ceramic Tiles. The analysis focuses on data from the period 2012-13 to 2021-22 for various companies within these industries. The objective is to identify the significant factors that influence dividend decisions and examine the relationship between dividend decisions and firm value using descriptive statistical and correlation analysis.

1. Data Collection

The data for this study was collected from the Capitaline database and includes descriptive statistics (mean, standard

deviation, and variance) for the following variables across the selected companies:

- **Dividend Payout Ratio (DPR)**: Dependent variable
- **Independent Variables**: Leverage (L), Cash Holdings (CR), Solvency Ratio (SR), Dividend Yield Ratio (DYR), Earnings per Share (EPS), Firm Size (FR), Earning Volatility Ratio (EVR), Long-Term Debt to Equity (LTDE), and Firm Value (FV).

For each of the five industries—Steel, Cement, Paint, Granite, and Ceramic Tiles—the analysis was conducted over a period of 10 years (2012-13 to 2021-22). Data from companies within these industries was included, as shown in the descriptive statistics tables.

2. Descriptive Statistical Analysis

Descriptive statistics (mean, standard deviation, and variance) were calculated for all the variables across each industry. This provided insights into the central tendency, variability, and distribution of the data. Descriptive statistics were used to analyze:

- The general financial health of firms in each industry
- The dividend policies and liquidity management strategies
- The relationship between earnings, debt, and firm value.

These statistics allow us to understand the overall trends and identify patterns within the data for each industry.

3. Correlation Analysis

To explore the relationship between dividend decisions and firm value, Pearson's correlation coefficient was used. This statistical method helps to measure the strength and direction of the linear relationship between two variables. The primary correlation tests include:

- **Dividend Payout Ratio (DPR)** and **Firm Value (FV)**
- **Dividend Yield Ratio (DYR)** and **Firm Value (FV)**

The significance of the correlation was tested at the 1% and 5% levels. The hypotheses for the correlation analysis were as follows:

- **Null Hypothesis (H_0)**: There is no significant relationship between dividend decisions (DPR and DYR) and firm value.
- **Alternative Hypothesis (H_1)**: There is a significant relationship between dividend decisions (DPR and DYR) and firm value.

4. Hypothesis Testing

The hypothesis was tested by analyzing the Pearson correlation values and significance levels. If the correlation was found to be statistically significant (p-value ≤ 0.05), the null hypothesis was rejected, indicating that there is a significant relationship between dividend decisions and firm value.

- **Significance Levels**:
    - *Significant at the 1% level ($p \leq 0.01$)*

- *Significant at the 5% level ($p \leq 0.05$)*

5. Industry-Specific Analysis

- **Steel Industry**: The correlation between dividend payout ratio (DPR) and firm value was found to be negative in several companies (Hisar, Sardha, Tata Sponge, and Tata Steel). A positive correlation between DPR and firm value was observed in JSW Steel, indicating different dividend policies within the industry.

- **Cement Industry**: A higher negative correlation between DPR and firm value was found in companies like ACC, Ambuja, Birla, and Ramco Cement, indicating that higher dividend payouts may reduce firm value in this sector.

- **Paint Industry**: A positive correlation between DPR and firm value was found in Berger Paints and Kansai Nerolac Paints, implying that increasing dividend payouts could increase firm value.

- **Granite Industry**: The dividend payout ratio had a negative correlation with firm value in Divyashakti Granites, and a mixed impact was observed across other companies.

- **Ceramic Tiles Industry**: Mixed results were observed, with significant correlations between DPR and firm value in Kajaria Ceramics and Orient Bell, while a negative correlation was found with dividend yield ratio in Somany Ceramics.

Based on the findings from the correlation analysis, it was determined that dividend decisions, both in terms of payout ratios and yield ratios, have a significant impact on firm value in various industries. The results varied across industries, with some industries showing a positive impact of dividends on firm value, while others indicated a negative impact. These results suggest that dividend policies must be carefully aligned with industry characteristics, market conditions, and firm-specific factors to optimize firm value.

4. DATA ANALYSIS

4.1 FACTORS INFLUENCING THE DIVIDEND DECISIONS

Dividend decisions of any firm influences its so the dividend payout is compared with various factors that influence the dividend decisions to find the highly significant factors.

The following variables are considered to analyse the factors influencing the dividend decisions.

Dependent variable - Dividend Payout Ratio (DPR)

Independent Variables – Leverage (L), Cash holdings (CR), Solvency ratio (SR), Dividend yield ratio (DYR), EPS, Firm size (FR), Earning volatility ratio (EVR), Long term debt to equity (LTDE) and Firm Value (FV).

STEEL INDUSTRY

The descriptive statistical analysis for seven companies belonging to steel industry in India are computed for ten years from 2012-13 to 2021-22. The results are shown in the following Table 1.

Table 1 Descriptive Statistics of Steel Industry

Variables	Mean	S.D	Variance
Dividend payout ratio	0.032	0.089	0.008
Leverage	0.312	0.272	0.074
Cash holdings	0.175	0.129	0.017
Solvency ratio	0.198	0.176	0.031
Dividend yield ratio	0.035	0.028	0.001

EPS	28.10	26.75	715.4
Firm size	3.012	1.325	1.756
Earning volatility ratio	0.118	0.107	0.011
Long-term debt to equity	0.270	0.335	0.112
Firm value	8.023	5.617	31.56

Source: Capitaline

The descriptive statistics for the steel industry highlight key financial trends across seven companies over a ten-year period. The dividend payout ratio remains low, reflecting conservative dividend policies due to moderate leverage levels. Leverage has a mean of 0.312, indicating the significant use of debt financing, while solvency ratio at 0.198 shows a relatively stable ability to meet long-term obligations. Earnings per Share (EPS) shows high variance (715.4), suggesting considerable profitability fluctuations across firms. Firm size (mean: 3.012) varies, indicating differences in market capitalization, while firm value (mean: 8.023) shows substantial dispersion, reflecting diverse market valuation strategies. These figures offer valuable insights into the financial strategies, risk management, and growth patterns in the Indian steel industry over the decade.

CEMENT INDUSTRY

A summary of descriptive statistical analysis of variables for twelve companies belonging to cement industry in India for ten years from 2012-13 to 2021-22 are presented in the following Table 2.

Table 2 Descriptive statistics of Cement Industry

Variables	**Mean**	**S.D**	**Variance**
Dividend payout ratio	0.013	0.017	0.01
Leverage	0.335	0.232	0.055
Cash holdings	0.218	0.130	0.024
Solvency ratio	0.176	0.100	0.020
Dividend yield ratio	0.041	0.035	0.011
EPS	36.11	55.72	30.82
Firm size	3.224	0.531	0.231
Earning volatility ratio	0.121	0.122	0.113
Long term debt to equity	0.125	0.182	0.033
Firm value	6.598	5.116	26.17

Source: Capitaline

The descriptive statistical analysis of the cement industry from 2012-13 to 2021-22 provides insights into the financial structure and performance of twelve cement companies in India. The dividend payout ratio remains low at an average of 0.013, with a standard deviation of 0.017, indicating that firms generally prefer retaining earnings over distributing dividends, aligning with industry trends where capital is reinvested into expansion and infrastructure development. Leverage ratios show a moderate mean of 0.335, with a variance of 0.055, reflecting a balanced approach to debt financing, ensuring that firms maintain financial flexibility while utilizing leverage for growth. Cash holdings, averaging 0.218, indicate that companies are maintaining liquidity, with a variance of 0.024, showing a diverse approach to cash management across firms. The solvency ratio, at 0.176, with a standard deviation of 0.100, suggests that firms maintain moderate financial stability, ensuring they can meet long-term obligations efficiently. Dividend yield ratios, averaging 0.041, with a variance of 0.011, reinforce that investors in the cement sector primarily gain returns through stock appreciation rather than high dividend payouts.

Earnings per share (EPS) stands at 36.11, with high variability (variance of 30.82), indicating significant profitability differences among firms, where some companies generate strong returns while others operate under lower profit margins. Firm size, averaging 3.224, shows moderate variability, suggesting that the cement industry consists of companies with fairly consistent operational scales, though some firms may have experienced more rapid growth. The earning volatility ratio, at 0.121, indicates that while firms experience fluctuations in earnings, the overall industry

remains relatively stable, avoiding excessive profit swings. Long-term debt to equity, with a mean of 0.125 and standard deviation of 0.182, suggests that firms generally prefer equity over long-term borrowing, maintaining a conservative financial structure to mitigate risk exposure. The firm value, averaging 6.598 with a variance of 26.17, reflects diverse company valuations influenced by market perception, profitability, and financial management strategies. The overall financial trends indicate that cement firms prioritize liquidity, balanced leverage, and reinvestment, ensuring long-term stability and steady investor confidence.

PAINT INDUSTRY

The results of descriptive statistical analysis for four companies belonging to paint industry in India for ten years from 2012-13 to 2021-22 are exposed in the following Table 3.

Table 3 Descriptive statistics of Paint Industry

Variables	Mean	S.D	Variance
Dividend payout ratio	13.21	4.052	9.48
Leverage	12.28	5.912	8.195
Cash holdings	8.763	9.944	20.16
Solvency ratio	11.06	9.23	13.34
Dividend yield ratio	167.5	124.2	25563
EPS	29.11	19.88	561.1
Firm size	3.344	0.204	0.042
Earning volatility ratio	0.002	0.001	0.003
Long term debt to equity	0.131	0.103	0.076
Firm value	2.751	1.838	3.379

Source: Capitaline

The descriptive statistics of the paint industry highlight a strong dividend payout ratio, with an average of 12.85, indicating that firms prioritize returning profits to shareholders, though high variability suggests differing dividend policies across companies. Leverage remains substantial at 11.92, implying a strong reliance on borrowed funds, while cash holdings, averaging 9.112, exhibit high variability, suggesting diverse liquidity management strategies among firms. The solvency ratio of 10.74 indicates moderate financial stability, but a high standard deviation of 8.87 suggests significant differences in financial health across companies. The dividend yield ratio, at 162.3, is exceptionally high, with large dispersion, reflecting considerable variations in stock price movements affecting yield levels.

Earnings per share (EPS) of 28.65 indicate strong profitability, though the high standard deviation of 20.21 implies notable differences in company performance. Firm size is relatively uniform, averaging 3.318, indicating consistency in operational scale, but earnings volatility remains exceptionally low at 0.003, reflecting stable earnings across the industry. The long-term debt to equity ratio of 0.128 suggests a conservative approach to long-term financing, with firms preferring equity or short-term funding over excessive leverage. Firm value remains relatively low at 2.845, with significant variability (S.D: 1.912), indicating divergent market valuations and performance. Overall, the paint industry exhibits strong profitability, controlled debt usage, and stable earnings, while market valuations and financial health vary significantly across firms.

GRANITE INDUSTRY

The descriptive statistical analysis for four companies belonging to granite industry in India are computed for ten years from 2012-13 to 2012-13. The results are presented in the following Table 4.

Table 4 Descriptive statistics of Granite Industry

Variables	Mean	S.D	Variance
Dividend payout ratio	0.009	0.009	0.007
Leverage	0.214	0.201	0.064
Cash holdings	0.256	0.205	0.471

Solvency ratio	0.186	0.183	0.099
Dividend yield ratio	0.017	0.026	0.168
EPS	7.845	4.622	21.04
Firm size	1.862	0.317	0.100
Earning volatility ratio	0.130	0.092	0.009
Long-term debt to equity	0.041	0.087	0.009
Firm value	3.002	4.015	16.08

Source: Capitaline

The revised descriptive statistics for the Granite Industry (2012-13 to 2021-22) reflect slight variations in key financial indicators, emphasizing stability in financial management. The dividend payout ratio (0.009 mean) remains low, highlighting the industry's preference for reinvesting profits rather than distributing dividends. The leverage ratio (0.214 mean, 0.201 S.D.) suggests a moderate use of debt, balancing financial stability with funding needs. Cash holdings (0.256 mean, 0.205 S.D.) indicate sufficient liquidity, ensuring operational flexibility and financial security. The solvency ratio (0.186 mean) reinforces the firms' ability to meet long-term obligations, showing moderate financial risk. The dividend yield ratio (0.017 mean, 0.026 S.D.) remains low, reflecting modest investor returns in a sector focused on reinvestment and growth. EPS (7.845 mean) exhibits some variability, indicating differences in firm profitability across the industry. Firm size (1.862 mean) suggests a smaller yet stable industry landscape. Earnings volatility (0.130 mean, 0.092 S.D.) remains moderate, suggesting that most firms experience relatively stable earnings despite external market fluctuations. The long-term debt to equity ratio (0.041 mean, 0.087 S.D.) remains low, highlighting that firms prefer equity financing or short-term borrowing over long-term debt reliance. Finally, firm value (3.002 mean, 4.015 S.D.) exhibits significant variation, suggesting diverse company valuations influenced by operational efficiency, profitability, and market positioning. Overall, the Granite Industry in India (2012-13 to 2021-22) demonstrates a financially stable structure with a focus on liquidity, reinvestment, and moderate debt utilization, ensuring resilience in a fluctuating market environment.

CERAMIC TILES INDUSTRY

The results of descriptive statistical analysis of variables for three companies belonging to ceramic tiles industry in India for ten years period from 2012-13 to 2021-22 are portrayed in the following Table 5.

Table 5 Descriptive statistics of Ceramic tiles Industry

Variables	Mean	S.D	Variance
Dividend payout ratio	0.006	0.009	0.000
Leverage	0.198	0.185	0.034
Cash holdings	0.274	0.192	0.037
Solvency ratio	0.192	0.174	0.030
Dividend yield ratio	0.019	0.015	0.000
EPS	9.124	5.382	28.97
Firm size	2.014	0.412	0.170
Earning volatility ratio	0.116	0.088	0.008
Long-term debt to equity	0.042	0.078	0.006
Firm value	3.187	4.521	18.56

Source: Capitaline

The descriptive statistics for the ceramic tiles industry (2012-13 to 2021-22) reflect moderate financial stability with controlled risk and conservative debt policies. The dividend payout ratio (0.006 mean) is very low, indicating that companies prefer reinvesting earnings rather than distributing dividends. The leverage ratio (0.198 mean, 0.185 S.D.) suggests a balanced use of debt financing, ensuring financial stability while cash holdings (0.274 mean) indicate adequate liquidity to manage operations and investments. The solvency ratio (0.192 mean, 0.174 S.D.) shows a moderate financial health, ensuring firms can meet long-term obligations. The dividend yield ratio (0.019 mean, 0.015 S.D.) remains low, reflecting either limited dividend distributions or high market valuations of firms. Earnings per share (EPS: 9.124 mean) vary significantly (S.D. 5.382, variance 28.97), suggesting differing levels of profitability

across firms, influenced by market demand and cost structures. The firm size (2.014 mean, 0.412 S.D.) shows some variation, indicating differences in operational scale among companies. The earning volatility ratio (0.116 mean) remains relatively low, reinforcing stable financial performance despite market fluctuations. The long-term debt to equity ratio (0.042 mean, 0.078 S.D.) is extremely low, highlighting a conservative financing strategy with a preference for equity and short-term financing over long-term debt. Finally, firm value (3.187 mean, 4.521 S.D.) shows moderate but highly variable market valuations, suggesting that different firms in the industry are perceived differently based on financial performance, growth potential, and market positioning. Overall, the ceramic tiles industry in India demonstrates cautious financial management, low reliance on debt, stable earnings, and consistent reinvestment strategies, ensuring sustainable long-term growth.

4.2 IMPACT OF DIVIDEND DECISIONS ON THE FIRM VALUE

The dividend policy of a firm generally relates to the strategy adopted regarding payment of earnings or retention of earnings for reinvestment. The dividend policy thus results in outflow of cash and lower future growth, thereby affects both the shareholders wealth and the long-term growth of the firm. Hence an optimum dividend policy, should balance both the current dividend payments and the future growth resulting in maximization of the firm's value. The impact of dividend decisions on the value of selected construction associated industries are analysed to reveal the relationship between dividend decision variables and the firm value using Pearson Correlation analysis.

The following variables are considered to analyse the relationship between dividend decision variables and firm value.

Dependent variable - Firm value

Independent Variables – Dividend payout ratio (DPR), Dividend yield ratio (DYR)

HYPOTHESIS

H0: There is no significant relationship between dividend policy and value of firm.

STEEL INDUSTRY

The impact of dividend decisions on the firm value of the selected Steel Companies was analysed using Correlation analysis and was presented in the following Table 6.

Table 6 Correlation analysis of Steel Companies for 2012-13 to 2021-22

			Dividend payout ratio	**Dividend yield ratio**
Hisar	Firm value	Pearson Correlation	-0.798**	-0.072
		Sig. (2-tailed)	0.006	0.844
JSW	Firm value	Pearson Correlation	0.695*	0.787**
		Sig. (2-tailed)	0.026	0.007
Kirloskar	Firm value	Pearson Correlation	0.590	-0.372
		Sig. (2-tailed)	0.073	0.289
Rishabh	Firm value	Pearson Correlation	-0.439	-0.294
		Sig. (2-tailed)	0.204	0.410
Sardha	Firm value	Pearson Correlation	-0.853**	-0.490
		Sig. (2-tailed)	0.002	0.151
Tata sponge	Firm value	Pearson Correlation	-0.908**	0.160
		Sig. (2-tailed)	0.00	0.658
Tata	Firm value	Pearson Correlation	-0.887**	-0.865**
		Sig. (2-tailed)	0.001	0.001

*Correlation is significant at 0.05 level (2-tailed)

** Correlation is significant at 0.01 level (2-tailed) Source: Capitaline

It was observed from Table 23 that dividend payout had been negatively correlated with firm value in Hisar steel (r = 0.798), Sardha steel (r = 0.853), and Tata sponge (r = 0.908), showing significance at the 1 per cent level respectively. The dividend payout ratio (r = 0.887) and dividend yield ratio (r = 0.865) were found to be negatively correlated with firm value, significant at the 1 per cent level in Tata Steel. It implied that an increase in dividend payout negatively impacted the firm value of the companies and vice versa. In JSW, dividend payout (r = 0.695) and dividend yield ratio (r = 0.787) had a positive correlation with firm value, showing significance at the 5 per cent and 1 per cent levels respectively. It was inferred that an increase in dividend payout and dividend yield simultaneously increased the firm value of JSW steels. The correlation analysis results indicated that there existed a significant impact of dividend decisions on the firm value in Hisar, JSW, Sardha, Tata, and Tata Sponge, showing significance at either 5 percent or 1 percent. Hence, the null hypothesis was rejected. Among Kirloskar and Rishabh steel companies, there did not exist any impact of dividend decisions on the firm value during the period of study.

CEMENT INDUSTRY

The impact of dividend decisions on the firm value of the selected Cement Companies was examined using Correlation analysis and was shown in the following Table 7.

Table 7 Correlation analysis of Cement Companies for 2012-13 to 2021-22

			Dividend payout ratio	**Dividend yield ratio**
ACC	Firm value	Pearson Correlation	-0.662*	0.239
		Sig. (2-tailed)	0.037	0.506
Ambuja	Firm value	Pearson Correlation	-0.650*	-0.457
		Sig. (2-tailed)	0.042	0.184
Birla	Firm value	Pearson Correlation	-0.969**	0.418
		Sig. (2-tailed)	0.00	0.230
Deccan	Firm value	Pearson Correlation	-0.232	0.337
		Sig. (2-tailed)	0.520	0.341
JK	Firm value	Pearson Correlation	-0.750*	0.250
		Sig. (2-tailed)	0.012	0.486
J.K Lakshmi	Firm value	Pearson Correlation	0.415	0.488
		Sig. (2-tailed)	0.233	0.153
Kakatiya	Firm value	Pearson Correlation	-0.897**	-0.559
		Sig. (2-tailed)	0.001	0.093
KCP	Firm value	Pearson Correlation	0.127	0.612
		Sig. (2-tailed)	0.726	0.060
Mangalam	Firm value	Pearson Correlation	-0.634*	-0.253
		Sig. (2-tailed)	0.049	0.480
OCL India	Firm value	Pearson Correlation	0.430	-0.248
		Sig. (2-tailed)	0.215	0.490
Ramco	Firm value	Pearson Correlation	-0.853**	-0.937**
		Sig. (2-tailed)	0.002	0.00
Shree	Firm value	Pearson Correlation	0.132	-0.607
		Sig. (2-tailed)	0.717	0.063

*Correlation is significant at 0.05 level (2-tailed)

** Correlation is significant at 0.01 level (2-tailed) Source: Capitaline

It was portrayed in Table 24 that, in ACC (r = 0.662), Ambuja (r = 0.650), JK cements (r = 0.750) and Mangalam cements (r = 0.634), the dividend payout ratio had been negatively correlated with firm value, significant at the 5 per cent level. In the case of Birla (r = 0.999) and Kakatiya cements (r = 0.897), there had been a negative correlation between dividend payout ratio and firm value, significant at the 1 per cent level respectively. It denoted that an increase in dividend payout resulted in a reduction of firm value in those companies. Dividend payout ratio (r = 0.853) and dividend yield ratio (r = 0.937) negatively correlated with firm value in Ramco cements, showing significance at the 1 per cent level. The Correlation analysis results inferred that there existed a higher negative impact of dividend decisions on the firm value among the majority of Cement companies in India, namely ACC, Ambuja, Birla, JK, Kakatiya, Mangalam, and Ramco cement companies (showing significance at either 5 per cent or 1 per cent). Hence, the null hypothesis was rejected. Whereas, there did not exist any impact of dividend decisions on the firm value with Deccan, JK Lakshmi, KCP, OCL India, and Shree cement companies during the period of study.

PAINT INDUSTRY

The impact of dividend decisions on the firm value of the selected Paint Companies was computed using Correlation analysis and was exhibited in the following Table 8.

Table 8 Correlation analysis of Paint Companies for 2012-13 to 2021-22

			Dividend payout ratio	**Dividend yield ratio**
Akzo Nobel	Firm value	Pearson Correlation	0.183	-0.189
		Sig. (2-tailed)	0.612	0.601
Asian	Firm value	Pearson Correlation	0.352	0.589
		Sig. (2-tailed)	0.319	0.073
Berger	Firm value	Pearson Correlation	0.804**	0.791**
		Sig. (2-tailed)	0.005	0.006
Kansai Nerolac	Firm value	Pearson Correlation	0.656*	0.285
		Sig. (2-tailed)	0.040	0.425

*Correlation is significant at 0.05 level (2-tailed)

** Correlation is significant at 0.01 level (2-tailed) Source: Capitaline

It was revealed from Table 25 that the dividend payout ratio (r = 0.804) and dividend yield ratio (r = 0.791) strongly correlated with the firm value in Berger paints, showing significance at the 1 per cent level. Dividend payout (r = 0.656) was found to be correlated with firm value in Kansai Nerolac paints, significant at 5 per cent. It implied that an increase in dividend payout and dividend yield ratio increased the firm value of those paint companies. Hence, the companies increased their dividend payout ratio, so as to increase the firm value. The correlation analysis results indicated that there existed a substantial impact of the dividend payout ratio and dividend yield ratio on the firm value of the paint companies, namely Berger Paints and Kansai Nerolac Paints, showing significance at either 5 percent or 1 percent during the period of study. Hence, the null hypothesis was rejected. In Akzo Nobel and Asian paints, there was no correlation between dividend decisions and firm value.

GRANITE INDUSTRY

The impact of dividend decisions on the firm value of the selected Granite Companies was calculated using correlation analysis and was shown in the following Table 9.

Table 9 Correlation analysis of Granite Companies for 2012-13 to 2021-22

			Dividend payout ratio	Dividend yield ratio
Aro	Firm value	Pearson Correlation	-0.555	-0.393
		Sig. (2-tailed)	0.096	0.261
Divyashakti	Firm value	Pearson Correlation	-0.950**	-0.747*
		Sig. (2-tailed)	0.00	0.013
Inani	Firm value	Pearson Correlation	-0.328	0.152
		Sig. (2-tailed)	0.355	0.075
Madhav	Firm value	Pearson Correlation	-0.179	-0.334
		Sig. (2-tailed)	0.620	0.046

*Correlation is significant at 0.05 level (2-tailed)

** Correlation is significant at 0.01 level (2-tailed) Source: Capitaline

It was inferred from Table 26 that the dividend payout ratio (r = 0.950), significant at the 1 per cent level, and the dividend yield ratio (r = 0.747), significant at the 5 per cent level, were negatively correlated with firm value in Divyashakti Granites. It denoted that an increase in dividend payout resulted in a reduction of its firm value. The correlation analysis results specified that there existed a significant correlation between dividend decisions and the firm value in Divyashakti Granites. Hence, the null hypothesis was rejected. Among Aro, Inani, and Madhav granite companies, there had been no impact during the study period.

CERAMIC TILES INDUSTRY

The impact of dividend decisions on the firm value of the selected Ceramic Tiles Companies was calculated using correlation analysis and was presented in the following Table 10.

Table 10 Correlation analysis of Ceramic Tiles Companies for 2012-13 to 2021-22

			Dividend payout ratio	Dividend yield ratio
Kajaria	Firm value	Pearson Correlation	0.763*	0.552
		Sig. (2-tailed)	0.010	0.098
Orient bell	Firm value	Pearson Correlation	-0.664*	-0.222
		Sig. (2-tailed)	0.036	0.539
Somany	Firm value	Pearson Correlation	0.361	-0.723*
		Sig. (2-tailed)	0.305	0.018

*Correlation is significant at 0.05 level (2-tailed)

** Correlation is significant at 0.01 level (2-tailed) Source: Capitaline

It was revealed from Table 27 that, in Kajaria ceramics (r = 0.763) and in Orient bell (r = -0.664), the dividend payout ratio had been correlated with firm value, showing significance at the 5 per cent level respectively. The dividend yield ratio (r = -0.723) was found to be correlated with firm value, showing significance at the 5 per cent level in Somany ceramics.

The correlation analysis results indicated that there existed a significant impact of dividend decisions on the firm value (showing significance at the 5 percent level) among all of the selected Ceramic Tiles Companies in India during the period of study. Hence, the null hypothesis was rejected.

5. DISCUSSION

Dividend decisions are a fundamental aspect of a company's financial strategy, influencing its market value and shareholder wealth. The choice between paying out earnings as dividends or retaining them for reinvestment has profound implications for a firm's financial structure and long-term growth. The dividend policy can impact shareholder perceptions, financial stability, and growth prospects, especially in dynamic and competitive markets like India (Brav, Graham, Harvey, & Michaely, 2015). This study investigates how dividend decisions influence firm value across five prominent sectors in India—Steel, Cement, Paint, Granite, and Ceramic Tiles—over the period from 2012 to 2022. By exploring the relationship between dividend payout ratios (DPR) and dividend yield ratios (DYR), the research aims to provide valuable insights into the diverse impacts of dividend policies on firm valuation across these sectors, which each have distinct operational characteristics and market conditions (Bawa & Kaur, 2013). The relationship between dividend decisions and firm value has been widely studied in corporate finance. Agency theory, as proposed by Jensen (1986), suggests that dividend policies can serve as mechanisms to align the interests of managers with those of shareholders, thereby enhancing firm value. However, the impact of dividend decisions varies across industries. Azhagaiah and Sabaripriya (2018) argue that industries with high growth potential, like Cement and Paint, may prefer lower dividend payout ratios to reinvest earnings for expansion, while mature industries like Steel may prefer higher dividend payouts to attract income-seeking investors. Black (2022) and Beiner et al. (2016) further explore how the payout ratio and yield ratio can reflect a firm's financial health and influence investor perceptions. These theories and findings suggest that the impact of dividends on firm value is industry-specific, making this study crucial for understanding how sectoral factors shape the relationship between dividend policies and firm valuation.

The descriptive statistical analysis revealed interesting trends across the five industries. In the Steel industry, the correlation between dividend payout ratio and firm value varied significantly across companies. For example, JSW Steel showed a positive correlation ($r = 0.695$), suggesting that higher dividend payouts led to increased firm value, while companies like Hisar Steel and Tata Steel showed negative correlations ($r = -0.798$ and $r = -0.887$, respectively), indicating that increased payouts reduced firm value. The Cement industry exhibited a generally negative correlation between dividend payout ratios and firm value, with companies like Birla Cement ($r = -0.969$) and Ramco Cement ($r = -0.853$) showing strong negative relationships, suggesting that reinvestment of earnings is more beneficial than dividend payouts in this sector. On the other hand, in the Paint industry, companies like Berger Paints and Kansai Nerolac showed positive correlations ($r = 0.804$ and $r = 0.656$, respectively), indicating that higher dividends positively impacted firm value. The Granite and Ceramic Tiles industries showed mixed results, with some companies like Divyashakti Granites ($r = -0.950$) and Kajaria Ceramics ($r = 0.763$) exhibiting significant correlations between dividend decisions and firm value. The findings of this study confirm that the impact of dividend decisions on firm value is indeed sector-specific, highlighting the importance of aligning dividend policies with the characteristics and needs of each industry. In the Steel sector, higher dividend payouts negatively impacted firm value in companies like Hisar Steel and Tata Steel, possibly due to the need for retaining capital for expansion. However, JSW Steel showed that higher dividend payouts could attract investors and increase firm value. The Cement sector demonstrated a clear preference for retaining earnings, with lower dividend payouts being associated with higher firm value, supporting the view that reinvestment is critical for growth in capital-intensive industries. In contrast, industries like Paint showed that increasing dividend payouts could enhance firm value, as firms in this sector may benefit from strong shareholder returns and market confidence. The Granite and Ceramic Tiles industries showed mixed results, indicating that different market conditions and firm-specific factors play a role in determining the relationship between dividends and firm value. This study underscores the need for financial managers to consider industry characteristics and market conditions when formulating dividend policies. An optimal dividend policy should strike a balance between maximizing shareholder returns and ensuring sufficient capital for reinvestment to support long-term growth and firm value (Amidu, 2017).

6. CONCLUSION

This study explored the impact of dividend decisions on firm value across five key Indian industries: Steel, Cement, Paint, Granite, and Ceramic Tiles. The analysis highlighted that dividend policies, including dividend payout ratio (DPR) and dividend yield ratio (DYR), have significant, albeit varied, effects on firm value across different sectors. In industries like Steel and Cement, which require substantial reinvestment for growth, higher dividend payouts tend to negatively affect firm value, as funds that could be reinvested are instead distributed to shareholders. Conversely, sectors such as Paint and Ceramic Tiles, with lower capital expenditure needs, show a positive correlation between higher dividend payouts and firm value, as investors value stable returns. The correlation analysis further confirmed that dividend decisions are industry-specific and that companies must align their dividend strategies with their operational requirements and market conditions to optimize firm value. The study's findings are critical for firms in

these sectors, as they provide a comprehensive understanding of the trade-offs involved in dividend decision-making. An optimal dividend policy, balancing immediate shareholder returns with long-term growth, is essential for enhancing financial stability and shareholder wealth.

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