IMPACT OF DIVIDEND ANNOUNCEMENT ON STOCK PRICES- A STUDY OF INDIAN BANKING SECTOR

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Abstract: A dividend is a distribution of a portion of company’s earnings. A company’s net profits can be allocated to shareholders through dividend, or kept with the company as retained earnings. Dividend decisions are one of the major financing decisions to be taken by the finance manager of a company. It is the payment made to shareholders for their investment in the company. It is a share of profit given to shareholders, since every shareholder is a part owner of the company and is entitled to get a share in the profits of the firm. The dividend payment pattern or dividend policy is a financial indicator of the firm. Hence, the demand for the firm’s share may be dependent on its dividend policy. If a company has a long history of past dividend payments, reducing or eliminating the dividend may signal to investors that the company could be in trouble. An unexpected increase in the dividend rate might be a positive signal to the market. The study was undertaken to find the influence of dividend on the prices of banking stocks. The share price of 10 banking stocks that had announced dividend during the year 2015 were considered. Among these, 5 stocks were from the public sector, and rest from the private sector. The selection of stocks was based on the dividend yield for these stocks. Companies that had announced any price sensitive information during the event window (-30 days to +30 days) were eliminated. The risk and returns for these stocks 30 days prior and 30 days post announcement of dividend was analysed and an attempt was made to study whether any significant deviation was noticed in risk and return of these stocks due to the announcement of dividend. The study attempted to test the hypothesis that stock price movements are independent of dividend announcement. The study found a significant change in returns and risk after the announcement of dividend and hence concludes that the dividend announcement has an impact on the share prices of Indian banks. While the impact has been positive for the private sector banks, it is mixed for the public sector banks. Hence the paper suggests that more studies are required in this area to assess the impact of dividend announcement on the entire Indian capital market.