

Trends in Dividend Behaviour of Selected Old Private Sector Banks in India

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ABSTRACT

Dividend payout ratio provides a simple and logical basis for judging the dividend policy of the firm. For this purpose, it is important to study the relationships that exist between profit and dividend. Moreover, comparative data on corporate profit and corporate dividend over a period of time will disclose the manner in which both variables are moving. Hence, this study examines the Trends in the Dividend behavior in selected Old Private Sector Banks for the period of 15 years from 1998-99 to 2012-13. The analysis is done through the preparation of Dividend Payout ratio to see the composition of profit and dividend along with relevant descriptive statistics and also ANOVA test has been used to test the Significance. It is concluded from the analysis that the former dividends play a major role in determining current dividend and also it can be found that, profitability has positively correlated to dividend payout in all the selected banks.

Keywords

Profit, Dividend, Dividend Payout Ratio

INTRODUCTION

The objective of corporate management is to maximize the market value of an enterprise i.e., its wealth. Shareholders' wealth is represented in the market price of the company's common stock, which, in turn, is the function of the company's investment, financing and dividend decision. The market value of common stock of a company is influenced by its policy regarding allocation of net earnings into 'plough back' and 'payout'. It makes dividend policy a core part of corporate finance. Dividend policy being one of the most important financial policies and decision of financial management affects the financial structure, the flow of funds, corporate liquidating and investors' attitudes. Therefore, while shaping dividend payment/ dividend policy, a sensible management strikes a balance between shareholder's expectation and firm's long-term interest. The main aspect of dividend policy is to determine the amount of earnings to be distributed to

the shareholders and the amount to be retained in the firm.

Dividends can be paid for several reasons. In some cases, dividends are paid to satisfy existing stockholders (Azhagaiah & Priya, 2008). In other cases, dividends may be paid as a signal that the company is successful. This may influence the opinions of stock analysts or future investors in the company. Miller and Rock (1985) concluded that the level of dividend signals the level for a firm's cash flow, while Kale and Noe (1990) demonstrated that the level of dividends signals the variance of the firm's cash flow. According to Dickens, Casey & Newman, 2002, companies have attempted to use dividend payouts as a way to favorably influence their stock price.

STATEMENT OF THE PROBLEM

Dividend policy of a firm, thus affects both the long-term financing and the wealth of shareholders. As a result, the firm's decision to pay dividends must be reached in such a manner so as to equitably apportion the distributed profits and retained earnings. Since dividend is a right of shareholders to participate in the profits and surplus of the company for their investment in the share capital of the company, they should receive fair amount of the profits. The company should, therefore, distribute a reasonable amount as dividends (which should include a normal rate of interest plus a return for the risks assumed) to its members and retain the rest for its growth and survival. For this purpose, it is important to study the relationships that exist between profit and dividend. This is because dividend is paid out of profit and profit is the starting point for declaration of dividend. The dividend is said to communicate information to the investors about firm's profitability. Moreover, comparative data on corporate profit and corporate dividend over a period of time will disclose the manner in which both variables are moving.

Similarly, dividend payout ratio provides a simple and logical basis for judging the dividend policy of the firm. In this context a high ratio indicates that a large proportion of Profit after tax is distributed to shareholders and a smaller proportion is ploughed back in the business. Based on the

above logic, an attempt has been made in this chapter to examine the trend in the dividend behaviour of selected old private sector banking companies in India.

RESEARCH OBJECTIVE

The chapter is focused on the following objective:

- To analyze the trend in the dividend behaviour of selected old private sector Banking Companies in India.

RESEARCH HYPOTHESES

The following hypotheses have been formulated and tested:

- All the firms are not maintaining stable dividend policy.
- There is no significant difference in the dividend payout among the sample banks.

RESEARCH METHODOLOGY

Sources of Data

The present study is mainly based on secondary data. It has been collected from PROWESS a database of CMIE and the annual report of RBI.

Period of Study

The study covers period of 15 years from 1998-99 to 2012-13.

Sampling design

For the purpose of the study, it was decided to include those banks having continuous and uniform data throughout the period of 15 years and the banks should pay the dividend continuously for the period of 15 years. Based on the above criteria, seven old private sector banks were selected. The sample units are:

- City Union Bank
- Federal Bank
- Karnataka Bank
- Jammu & Kashmir Bank
- Karur Vysya Bank
- Lakshmi Vilas Bank
- South Indian Bank

TRENDS IN DIVIDEND BEHAVIOUR

In this chapter Trends in Profit, Dividend and Dividend payout ratio has been studied with the help of summary statistics and annual growth rate for the selected banking companies in India.

City Union Bank

The table 1 depicts the trends in dividend behaviour of City Union bank during the period 1998-99 to 2012-13.

Table 1. Profit and Dividend Trend of City Union Bank

(Rupees in Crores)

| Year | Profit After Tax (Rs.) | Dividend (Rs.) | Payout Ratio (%) |
|-----------------|------------------------|----------------|------------------|
| 1998-99 | 12.25 | 4.92 | 40.16 |
| 1999-00 | 20.06 | 7.32 | 36.49 |
| 2000-01 | 21.30 | 6.61 | 31.03 |
| 2001-02 | 28.44 | 9.60 | 33.76 |
| 2002-03 | 33.37 | 10.83 | 32.45 |
| 2003-04 | 57.04 | 18.95 | 33.22 |
| 2004-05 | 46.32 | 10.86 | 23.45 |
| 2005-06 | 56.37 | 10.95 | 19.43 |
| 2006-07 | 71.81 | 11.79 | 16.42 |
| 2007-08 | 101.73 | 18.72 | 18.40 |
| 2008-09 | 122.13 | 28.08 | 22.99 |
| 2009-10 | 152.76 | 34.98 | 22.9 |
| 2010-11 | 215.05 | 40.14 | 18.67 |
| 2011-12 | 280.25 | 47.48 | 16.94 |
| 2012-13 | 322.02 | 55.51 | 17.24 |
| Mean | 102.73 | 21.12 | 25.57 |
| SD | 98.36 | 16.23 | 8.10 |
| CV (%) | 95.75 | 76.86 | 31.66 |
| Skewness | 1.27 | 1.03 | 0.46 |
| Kurtosis | 0.58 | -0.19 | -1.35 |
| Minimum | 12.25 | 4.92 | 16.42 |
| Maximum | 322.02 | 55.51 | 40.16 |
| Range | 309.77 | 50.59 | 23.74 |
| AGR (%) | 25.00 | 17.56 | -5.95 |

Source: Compiled and Calculated from the financial statements of the bank.

The table 1 depicts that the profit after tax and dividend showed an increasing trend except the year 2004-05. The average amount of profit was Rs.102.73 crores that increased from Rs.12.25 crores in 1998-99 to Rs.322.02 crores in 2012-13. Further, the average amount of dividend was Rs.21.12 crores that increased from 4.92 crores in 1998-99 to Rs.55.51 crores in 2012-13. The payout ratio of City Union bank recorded a fluctuating

trend. The average payout ratio was 25.57 per cent. It varied between 16.42 per cent in 2006-07 and 40.16 per cent in 1998-99.

The co-efficient of variation reveals that both dividend and profit were less consistent during the period of study. However, the City Union Bank maintained an unstable dividend payout ratio. The co-efficient of skewness and kurtosis indicates that the distribution is positively skewed and the distributions are platykurtic. The profit after tax and dividend recorded a positive growth of 25.00 per cent and 17.56 per cent respectively. However the payout ratio of City Union bank showed a negative growth of 5.95 per cent. It can be concluded from the analysis that the City Union bank has not maintained uniform dividend payout policy.

Federal Bank

The trends in dividend behavior of Federal bank have been presented in Table 2.

Table 2. Profit and Dividend Trend of Federal Bank
(Rupees in Crores)

| Year | Profit After Tax (Rs.) | Dividend (Rs.) | Payout Ratio (%) |
|----------|------------------------|----------------|------------------|
| 1998-99 | 2.53 | 2.41 | 95.26 |
| 1999-00 | 46.39 | 6.62 | 14.27 |
| 2000-01 | 61.04 | 7.18 | 11.76 |
| 2001-02 | 82.01 | 7.60 | 9.27 |
| 2002-03 | 105.01 | 9.80 | 9.332 |
| 2003-04 | 136.31 | 17.19 | 12.61 |
| 2004-05 | 90.09 | 18.75 | 20.81 |
| 2005-06 | 225.21 | 34.16 | 15.17 |
| 2006-07 | 292.73 | 40.06 | 13.68 |
| 2007-08 | 368.05 | 80.04 | 21.75 |
| 2008-09 | 500.49 | 100.06 | 19.99 |
| 2009-10 | 464.55 | 99.73 | 21.47 |
| 2010-11 | 587.08 | 168.97 | 28.78 |
| 2011-12 | 776.80 | 178.92 | 23.03 |
| 2012-13 | 838.17 | 180.12 | 21.49 |
| Mean | 305.10 | 63.44 | 22.58 |
| SD | 272.93 | 66.91 | 20.88 |
| CV (%) | 89.46 | 105.47 | 92.49 |
| Skewness | 0.80 | 0.90 | 3.40 |
| Kurtosis | -0.56 | -0.74 | 12.41 |
| Minimum | 2.53 | 2.41 | 9.27 |
| Maximum | 838.17 | 180.12 | 95.26 |
| Range | 835.64 | 177.71 | 85.99 |
| AGR (%) | 34.81 | 36.38 | 1.16 |

Source: Compiled and Calculated from the financial statements of the bank.

Table 2 reveals that the profit and dividend of Federal Bank showed an increasing trend. It could be observed from the analysis that both profit and dividend declined in the years 2004-05 and 2009-10. It is also evident from the above table that increasing trend of dividend more stable than profit. The payout ratio of Federal Bank recorded a fluctuating trend with the average of 22.58 per cent. The payout ratio is higher during 1998-99, recording a figure of 95.26 per cent. It indicates that most of the profit has been used to pay dividend in the year 1998-99. The co-efficient of variation of the profit after tax during the period of study was found to be 89.46 per cent, whereas the co-efficient of variation of the dividend during the same period was 105.47 per cent. This reveals that the dividend payment was inconsistent than the profit after tax. However, the Federal bank maintained consistent dividend payout ratio.

The coefficient of skewness and kurtosis indicates the non normality of the distribution. The PAT and dividend recorded a positive growth of 34.81 per cent and 36.38 per cent respectively, and also the payout ratio of Federal bank showed a positive growth of 1.16 per cent during the period under study. It can be concluded from the analysis that the Federal bank has followed a stable dividend policy.

Karnataka Bank

Table 3 shows the trends in dividend behaviour of Karnataka bank during the period 1998-99 to 2012-13.

Table 3. Profit and Dividend Trend of Karnataka Bank
(Rupees in Crores)

| Year | Profit After Tax (Rs.) | Dividend (Rs.) | Payout Ratio (%) |
|---------|------------------------|----------------|------------------|
| 1998-99 | 42.45 | 6.68 | 15.74 |
| 1999-00 | 40.71 | 7.4 | 18.18 |
| 2000-01 | 45.41 | 6.69 | 14.73 |
| 2001-02 | 91.13 | 8.09 | 8.88 |
| 2002-03 | 110.12 | 10.03 | 9.11 |
| 2003-04 | 133.17 | 18.24 | 13.7 |
| 2004-05 | 147.15 | 27.69 | 18.82 |
| 2005-06 | 176.03 | 41.48 | 23.56 |
| 2006-07 | 177.03 | 49.69 | 28.07 |
| 2007-08 | 241.74 | 70.98 | 29.36 |
| 2008-09 | 266.71 | 85.35 | 32.00 |
| 2009-10 | 167.12 | 62.75 | 37.55 |
| 2010-11 | 204.61 | 65.41 | 31.97 |
| 2011-12 | 246.07 | 76.59 | 31.13 |
| 2012-13 | 348.08 | 88.18 | 25.33 |
| Mean | 162.50 | 41.68 | 22.54 |
| SD | 89.70 | 31.30 | 9.06 |

| | | | |
|----------|--------|-------|-------|
| CV (%) | 55.20 | 75.09 | 40.19 |
| Skewness | 0.34 | 0.17 | -0.04 |
| Kurtosis | -0.30 | -1.70 | -1.24 |
| Minimum | 40.71 | 6.68 | 8.88 |
| Maximum | 348.08 | 88.18 | 37.55 |
| Range | 307.37 | 81.50 | 28.67 |
| AGR (%) | 15.15 | 24.52 | 8.13 |

Source: Compiled and Calculated from the financial statements of the bank.

It is evident from the table 3 that the profit and dividend of the Karnataka bank showed an increasing trend except the year 2009-10, where there was sharp decline in both profit as well as dividend. The average Profit after Tax was Rs.162.50 crores that varied between Rs.40.71 crores in the year 1999-00 and Rs.348.08 crores in the year 2012-13. The average dividend was Rs.41.68 crores that varied between Rs.6.68 crores in the year 1998-99 and Rs.88.18 crores in the year 2012-13. Further, it is evident from the above table that the co-efficient of variation signifies that the dividend is inconsistent than profit. It is also seen from the above table that both profit and dividend recorded a positive growth of 15.15 per cent and 24.50 per cent respectively. However, the distribution of profit and dividend are not normally distributed and the movements are less peaked than normal.

It can be seen from the above table that, the Karnataka bank paid dividend in the range of 22.54 per cent on an average during the study period. It was minimum (8.88 per cent) in the year 2001-02 and maximum (37.55 per cent) in the year 2009-10. The above analysis of the trend of dividend behaviour discloses that dividend payout ratio recorded a positive growth of 8.13 per cent. The Karnataka Bank was maintaining unstable payout ratio. The distribution is platykurtic. It can be concluded from the analysis that the Karnataka bank is paying dividend regularly but the dividend payout ratio was not consistent.

Jammu and Kashmir Bank

Table 4 offers the profit, dividend and dividend payout ratio trend of Jammu and Kashmir bank

Table 4. Profit and Dividend Trend of Jammu and Kashmir Bank

(Rupees in Crores)

| Year | Profit After Tax (Rs.) | Dividend (Rs.) | Payout Ratio (%) |
|---------|------------------------|----------------|------------------|
| 1998-99 | 85.45 | 14.54 | 17.02 |
| 1999-00 | 120.17 | 20.71 | 17.23 |

| | | | |
|----------|---------|--------|-------|
| 2000-01 | 167.56 | 21.38 | 12.76 |
| 2001-02 | 261.72 | 24.25 | 9.27 |
| 2002-03 | 337.75 | 32.92 | 9.75 |
| 2003-04 | 406.33 | 54.71 | 13.46 |
| 2004-05 | 115.07 | 43.85 | 38.11 |
| 2005-06 | 176.84 | 44.22 | 25.01 |
| 2006-07 | 274.49 | 65.23 | 23.76 |
| 2007-08 | 360.00 | 87.91 | 24.42 |
| 2008-09 | 409.84 | 95.90 | 23.40 |
| 2009-10 | 512.38 | 124.78 | 24.35 |
| 2010-11 | 615.20 | 146.98 | 23.89 |
| 2011-12 | 803.25 | 188.76 | 23.50 |
| 2012-13 | 1055.10 | 283.59 | 26.88 |
| Mean | 380.08 | 83.32 | 20.85 |
| SD | 273.53 | 75.56 | 7.62 |
| CV (%) | 71.97 | 90.69 | 36.54 |
| Skewness | 1.27 | 1.58 | 0.31 |
| Kurtosis | 1.42 | 2.40 | 0.52 |
| Minimum | 85.45 | 14.54 | 9.27 |
| Maximum | 1055.10 | 283.59 | 38.11 |
| Range | 969.65 | 269.05 | 28.84 |
| AGR (%) | 15.11 | 21.62 | 5.66 |

Source: Compiled and Calculated from the financial statements of the bank.

It is replicated from table 4 that the profit and dividend of the Jammu and Kashmir bank s rising steadily during the period of study except the year 2004-05. It is revealed from the above table that the payout ratio of the Jammu and Kashmir bank showed a fluctuating trend. The payout ratio of the Jammu and Kashmir bank was found to be the highest in 2004-05 as 38.11 per cent, but the profit and dividend were deteriorated in 2004-05. It indicates that a higher proportion of profit after tax is distributed to shareholders and a smaller proportion is ploughed back in the business.

The co-efficient of variation of profit after tax was found to be 71.97 per cent, whereas, the co-efficient of variation of dividend during the same period was 90.69 per cent. This reveals that the variation of dividend is higher than the variations of profit. The Jammu and Kashmir Bank maintained inconsistent dividend payout ratio up to 2004-05 and thereafter it has maintained stable dividend payout ratio. The co-efficient of skewness and kurtosis indicates the non-normality of distribution and the movements are less peaked than normal (platykurtic). It is observed that, the profit after tax, dividend and payout ratio are recorded positive growth of 15.11 per cent, 21.62 per cent and 5.66 per cent respectively. It can be concluded from the analysis that the Jammu and Kashmir Bank has stable dividend payment policy from 2005-06.

Karur Vysya Bank

The proportion of dividend payout of Karur Vysya bank has been presented in Table 5.

Table 5. Profit and Dividend Trend of Karur Vysya Bank

(Rupees in Crores)

| Year | Profit After Tax (Rs.) | Dividend (Rs.) | Payout Ratio (%) |
|-----------------|------------------------|----------------|------------------|
| 1998-99 | 37.04 | 3.3 | 8.91 |
| 1999-00 | 71.14 | 4.39 | 6.17 |
| 2000-01 | 72.05 | 3.97 | 5.51 |
| 2001-02 | 108.51 | 4.2 | 3.87 |
| 2002-03 | 124.97 | 14.2 | 11.36 |
| 2003-04 | 161.05 | 20.28 | 12.59 |
| 2004-05 | 105.34 | 20.5 | 19.46 |
| 2005-06 | 135.35 | 24.6 | 18.18 |
| 2006-07 | 160.01 | 63.11 | 39.44 |
| 2007-08 | 208.33 | 75.74 | 36.36 |
| 2008-09 | 235.84 | 75.74 | 32.11 |
| 2009-10 | 336.03 | 76.42 | 22.74 |
| 2010-11 | 415.59 | 149.5 | 35.97 |
| 2011-12 | 519.29 | 174.39 | 33.58 |
| 2012-13 | 550.32 | 175.55 | 31.90 |
| Mean | 216.06 | 59.06 | 21.21 |
| SD | 164.08 | 62.25 | 12.75 |
| CV (%) | 75.94 | 105.41 | 60.12 |
| Skewness | 1.10 | 1.01 | 0.05 |
| Kurtosis | 0.03 | -0.29 | -1.69 |
| Minimum | 37.04 | 3.30 | 3.87 |
| Maximum | 550.32 | 175.55 | 39.44 |
| Range | 513.28 | 172.25 | 35.57 |
| AGR (%) | 18.25 | 37.14 | 15.98 |

Source: Compiled and Calculated from the financial statements of the bank.

It is simulated from the table 5 that the average amount of profit after tax of Karur Vysya bank was Rs.216.06 crores, which varied between Rs.37.04 crores in the year 1998-1999 and Rs.550.32 crores in 2012-13. The profit after tax of the Karur Vysya bank showed an increasing trend during the period of study except in the year 2004-05. It is known from the analysis that the average amount of dividend of the Karur Vysya bank was Rs.59.06 crores. The dividend showed an increasing trend except in the year 2000-01. The co-efficient of variation signifies that the variation in the profit after tax was more consistent than dividend. The co-efficient of skewness for profit after tax and dividend were positive which indicates that the distribution is positively skewed. The value of kurtosis is less than three in both profits after tax as well as dividend

which imply that the distribution is less peaked than normal. Further the results indicate that the profit after tax and dividend are recorded a positive growth of 18.25 per cent and 37.14 per cent respectively.

The average of dividend payout ratio of the Karur Vysya Bank was 21.21 per cent. The measures of dispersion standard deviation and co-efficient of variation showed a volatile dividend payout policy. The coefficient of skewness and the kurtosis indicated that the distribution is platykurtic and positively skewed. The growth rate of dividend payout ratio is accounted for 15.98 per cent. The analysis implies that the Karur Vysya Bank maintained an unstable dividend policy.

Lakshmi Vilas Bank

The Trends in dividend behaviour of Lakshmi Vilas Bank has been presented in table 6.

Table 6. Profit and Dividend Trend of Lakshmi Vilas Bank

(Rupees in Crores)

| Year | Profit After Tax (Rs.) | Dividend (Rs.) | Payout Ratio (%) |
|-----------------|------------------------|----------------|------------------|
| 1998-99 | 15.15 | 4.73 | 31.22 |
| 1999-00 | 26.83 | 6.32 | 23.56 |
| 2000-01 | 26.74 | 5.71 | 21.35 |
| 2001-02 | 30.22 | 5.75 | 19.03 |
| 2002-03 | 34.16 | 6.49 | 19.00 |
| 2003-04 | 41.05 | 6.49 | 15.81 |
| 2004-05 | 3.34 | 0.00 | 0.00 |
| 2005-06 | 22.47 | 5.57 | 24.79 |
| 2006-07 | 17.58 | 3.99 | 22.70 |
| 2007-08 | 25.27 | 8.56 | 33.87 |
| 2008-09 | 50.30 | 14.27 | 28.37 |
| 2009-10 | 30.67 | 6.82 | 22.24 |
| 2010-11 | 101.14 | 28.53 | 28.21 |
| 2011-12 | 107.12 | 39.68 | 37.04 |
| 2012-13 | 91.57 | 34.23 | 37.38 |
| Mean | 41.57 | 11.81 | 24.30 |
| SD | 32.21 | 12.10 | 9.41 |
| CV (%) | 77.48 | 102.49 | 38.72 |
| Skewness | 1.26 | 1.57 | -0.96 |
| Kurtosis | 0.37 | 1.19 | 2.15 |
| Minimum | 3.34 | 0.00 | 0.00 |
| Maximum | 107.12 | 39.68 | 37.38 |
| Range | 103.78 | 39.68 | 37.38 |
| AGR (%) | 11.10 | 0.00 | 0.00 |

Source: Compiled and Calculated from the financial statements of the bank.

The table 6 described that the profit and dividend of Lakshmi Vilas Bank showing a fluctuating trend. The Lakshmi Vilas Bank skipped the dividend payment in the year 2004-05. The average profit after Tax and dividend were Rs.41.57 Crores and Rs.11.81 Crores respectively. Further, it is evident from the above table the coefficient of variations of profit (77.48 per cent) and dividend (102.49 per cent) revealed that the variations are inconsistent. It is also seen from the above table Profit showed a positive growth of 11.10 per cent. The distribution of profit and dividend are positively skewed and the movements are less peaked than normal.

It can be noticed from the above table that, the Lakshmi Vilas bank paid an average dividend of 24.30 per cent during the period of study. The coefficient of variation showed an inconsistent payout ratio. The coefficient of skewness and the kurtosis indicated that the distribution was less peaked than normal. It can be concluded from the analysis that the Lakshmi Vilas Bank is paying regular dividend but not maintaining stable dividend policy.

South Indian Bank

Table 7 discloses the trends in dividend behaviour of South Indian bank during the period 1998-99 to 2012-13.

Table 7. Profit and Dividend Trend of South Indian Bank

(Rupees in Crores)

| Year | Profit After Tax (Rs.) | Dividend (Rs.) | Payout Ratio (%) |
|----------|------------------------|----------------|------------------|
| 1998-99 | 2.68 | 2.89 | 107.84 |
| 1999-00 | 25.60 | 7.89 | 30.82 |
| 2000-01 | 41.50 | 9.82 | 23.66 |
| 2001-02 | 62.41 | 8.93 | 14.31 |
| 2002-03 | 72.33 | 10.09 | 13.95 |
| 2003-04 | 84.33 | 10.09 | 11.96 |
| 2004-05 | 8.70 | 0.00 | 0.00 |
| 2005-06 | 50.90 | 14.45 | 28.39 |
| 2006-07 | 104.12 | 20.59 | 19.78 |
| 2007-08 | 151.62 | 31.73 | 20.93 |
| 2008-09 | 194.75 | 39.66 | 20.36 |
| 2009-10 | 233.76 | 52.71 | 22.55 |
| 2010-11 | 292.56 | 65.67 | 22.45 |
| 2011-12 | 401.66 | 79.15 | 19.71 |
| 2012-13 | 502.27 | 109.4 | 21.78 |
| Mean | 148.61 | 30.87 | 25.23 |
| SD | 150.14 | 32.39 | 23.99 |
| CV (%) | 101.13 | 104.93 | 95.07 |
| Skewness | 1.29 | 1.32 | 3.24 |
| Kurtosis | 0.91 | 1.01 | 11.84 |

| | | | |
|---------|--------|--------|--------|
| Minimum | 2.68 | 0.00 | 0.00 |
| Maximum | 502.27 | 109.40 | 107.84 |
| Range | 499.59 | 109.40 | 107.84 |
| AGR (%) | 30.63 | 0.00 | 0.00 |

Source: Compiled and Calculated from the financial statements of the bank.

It is seen from table 7 that the profit and dividend of South Indian bank shows an upward trend except in the year 2004-05. Both profit after tax and dividend of South Indian bank were highest in the year 2012-13 with Rs.502.27 crores and Rs.109.40 crores respectively. Similarly, profit after tax and dividend were lowest in the year 1998-99 with Rs.2.68 crores and Rs.2.89 crores respectively. The average profit and dividend were Rs148.61 crores and Rs.30.87 crores respectively. The analysis of coefficient of variation signifies that the profit (101.13 per cent) and dividend (104.93 per cent) were less consistent during the period of study. The distribution of profit and dividend are positively skewed and less peaked than normal.

The analysis disclosed that, the payout ratio of South Indian bank recorded a fluctuating trend. The average payout ratio is 25.23 per cent. It varied between 11.96 per cent and 107.84 per cent. The payout ratio is very much higher during the year 1998-99, recording a figure of 107.84 per cent which indicates that the bank was utilizing their past reserves also to pay the dividend. The distribution was positively skewed and the movement are more peaked than normal i.e., Leptokurtic. It can be concluded from analysis the South Indian Bank maintained a stable dividend policy from 2005-06.

FREQUENCY DISTRIBUTION OF OLD PRIVATE SECTOR BANKS

The Frequency distribution of the Old Private Sector banks according to their Payout ratios are depicted in table 8.

The table reveals that, more than 65 percent of the selected old private sector banks are paying less than 25percent of profit as dividend. 30 percent of selected old private sector banks are paying the dividend in the range of 25 to 50 percent. During 2004-05, only 2 banks have skipped the dividend payment. It is seen from the table that one bank is utilizing their past reserves to pay dividend in the year 1998-99. This shows that majority of the selected old private sector banks are paying less dividend and retained more profit for further improvement.

Table 8. Frequency Distribution of Old Private Sector Banks According to Dividend Payout Ratio

| Payout ratio in percentage | Years | | | | | | | | | | | | | | | |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | Average |
| Zero | - | - | - | - | - | - | 2 | - | - | - | - | - | - | - | - | 0.1 |
| Upto 25 | 3 | 5 | 6 | 6 | 6 | 6 | 4 | 5 | 5 | 4 | 4 | 6 | 3 | 4 | 3 | 4.6 |
| 25 to 50 | 2 | 2 | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 3 | 3 | 1 | 4 | 3 | 4 | 2.1 |
| 50 to 75 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 75 to 100 | 1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0.1 |
| Above 100 | 1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0.1 |
| Total | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |

TESTING OF HYPOTHESIS

To judge whether there is any difference in dividend payout ratio among the sample Old Private sector banks, “ANOVA” has been used and the results are shown in table 9. For this purpose the following null hypothesis has also been framed and tested:

H₀: There is no significant difference in the average dividend payout ratio among the Old Private Sector Banks.

Table 9. Analysis of Variance of Dividend Payout Ratio in sample Old Private Sector Banks

| Source of Variation | SS | df | MS | F | P-value | F-crit |
|---------------------|----------|-----|---------|-------|---------|--------|
| Between Groups | 318.763 | 6 | 53.127 | 0.253 | 0.956 | 2.192 |
| Within Groups | 20557.61 | 98 | 209.771 | | | |
| Total | 20876.37 | 104 | | | | |

Table 9 shows that calculated value of ‘F’ is 0.253, which is less than table value of 2.192 with given level of degree of freedom. Hence the variances among Old Private sector banks are not significant. Therefore this analysis accepts null hypothesis of no significant difference in the average dividend payout ratio among the old private sector banks.

It can be concluded that there is no significant difference in the average dividend payout ratio among the selected old private sector banks in India.

CONCLUSION

Based on the data in relating to banking industry, the analysis of the trend of dividend behaviour was carried out

through the prospective of profit, dividend relationship and payout policies followed by sample banks. It was evident from the analysis of the trend that, dividend were more stable than earnings during the study period in all the sample banks. All the firms were trying to maintain stable dividend even on the face of fluctuating profit. But particularly in the year 2004-05 there was a sharp decline in the profit as well as dividend, which may due to sharp increase in credit off-take and improvement in efficiency indicators, the profit of Banking Sector declined in the year 2004-05. This result reflects on the dividend payment too. The sample banks follow a dividend policy of part retention of profit and part distribution of profits over the period of study. One of the reasons for decline in dividend payment of some of the banks is the double taxation of dividends. It is often argued that in such a scenario the investors should always prefer retention of profit over payout. The sample banks are retaining the major portion of profit to avoid payment of corporate dividend tax. The above analysis indicates that the most of the banks in India follow stable dividend payout policy. Hence, the hypothesis of all the firms are not maintaining stable dividend policy is being rejected.

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