A study on Capital Structure and Dividend Policy of Automobile Industry and Information Technology Industry

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Abstract

The present paper is an attempt to analyse the Capital Structure and Dividend Policy of Automobile Industry and Information Technology Industry. This paper will give a hint and overview of Capital Structure and Dividend Policy of automobile and IT based companies and also it helps to analyse the financial performance of selected companies. Based on market capitalisation top 10 Automobile and IT companies which are listed in NSE and BSE are selected for the study. Using several ratios, the data of companies is analysed from 2015 to 2019. Therefore, the paper studies debt to equity and dividend per share of both industries. The result of the research displays that the trend in dividend pay-out of Automobile Industry is fluctuating whereas IT industry is increasing contradictory.

KEY WORDS: Capital Structure, Dividend Policy, Debt to Equity, Dividend per share, Automobile Industry, Information Technology Industry.

INTRODUCTION:

ACapital Structure is a mix of Debt, preferred stock and common equity that minimises the weighted average cost of capital and maximizes the firm value. It is one of the most critical decisions taken by Chief Financial Officers of the company as it has a long-term impact on firms' performance. When the company includes Debt in its capital structure it provides a tax shield as interest paid on Debt is Tax deductible. At the high debt levels, it has possibility of financial stress as this is a chronic problem for the firms. So, the benefit of debt financing may be more than offset by the financial distress caused. Thus, the Debt in capital structure affects the liquidity of the company. In theory one can speak of optimum capital structure but in practice it is very difficult to take decision. When comes to Dividend, it is an integral part of area of Finance. Dividend in the normal use of words refers to the portion of the net earnings which is a distributed by the company amongst its shareholders. Shareholders are interested in maximizing their return at the level of risk and also, they want to maximize their return with minimising risk and thereby to maximize their wealth. So, this is the essence of desirability ofdividend from the investor's point of view. Dividend in the firm are paid according to the policy and decision of the management regarding the retained earnings of the firms. The optimal dividend policy is the one that maximises the company's stock price which leads to maximisation of shareholders' wealth and thereby ensures more rapid economic growth. The present study is intended to study the trend in Dividend per share and debt equity composition for the selected companies of both the industries.

Literature Review:

With a view to recognise the basis for understanding the present study, here are some following well known studies of Capital Structure and Dividend Policy.

Tripathi Vibha Deepak Kumar (2013) The study is conducted to analyse the capital structure of 10 leading companies of the Automobile Industry. All these companies are the top leading Automobile companies as per BSE based on their market capitalization. The study was based on secondary data and data was collected from CMIE browses database. Sample Selected for the study is top 10 automobile companies which are listed under NSE and BSE.Period of the study was of 14 years. They calculated several ratios i.e. debt equity ratio, capital employed, ROA, etc. The data is analysed by multi Regression method. Thus, it seems that capital structure is not a one-dimensional process. The companies do not follow one single theory during the study period. A mix of Trade off, pecking order and Agency theory mutually explain the capital structure decisions of the Automobile Companies and the Industry.

Khalid Ashraf, Khurshhed ali, Mouh-I-Din Sangmi (2013) In this paper an attempt has been made so as toascertain the impact of capital structure on the profitability of a firm. The objectives of the study were to analyse the relationship between capital structure and profitability of selected firms. The study is focused on automobile industry and ten companies are taken as sample. The period of the study is five years and completely based on secondary data, which has been collected through various sources. In order to achieve the objectives of the study, the researchers have employed the analysis of various ratios. The findings of the study have put forth that capital structure do have statistically significant impact on the profitability of firms.

PARUL AGRAWAL (2015) The study is conducted to analyse the dividend practice in automobile industry, it is based on primary data and the analyses done with the response of 477 investors. The tools used for the study is average, regression, standard deviation etc. The objectives were to ascertain the effect of dividend on share price. In the result they found is Company's Share Turnover remains unaffected before and after one month of the declaration of dividend. As far as investors are concerned they keep a check on the Dividend per share and earnings per share records of a company before making any investment decision in the equity shares of a company.

Thirumurugaraj MN & DR. UNAS (2019) The study intended to analyse the operational performance, profitability position, and impact of capital structure on firm's financial performance among Indian automobile firms. This study is based on the sample of two, three wheelers, commercial and passenger vehicles. This study used six years of data from 2012-13 to 2017-18. This study has been formulated with the potency of analytical research design. Trend analysis, correlation, regression, and descriptive statistics have been performed to analyse the data. In the result the study found that Capital structure has no significant on automobile firm's financial performance in India.

Dr. Rameshkumar Rasiklal Jani, Mr. Satyaki J. Bhatt (2015) The study is conducted to analyse the effect of debt equity ratio on other ratio analysis of determinants of leverage based on total debt ratios may mask significant difference in the determinants of long and short-term form of debt. The results indicate that most of the determinants of capital structure suggest by capital structure theories appear to be relevant for the forms but we also find significant difference in the determinants of long term and short term of Debt.

Dr Khursheed ALI (2013) In this Paper an attempt has been made to ascertain the impact of capital structure on the profitability of a firm. Thereference period of the study is five years and is completely based on secondary data which has been collected through various source. In order to achieve the objective of the study, the researchers have employed the analysis of various ratios.The finding of the study has put forth that capital structure do have statically significant impacton the profitability of firms.

Prof. Shalini R (2017) This paper attempts to examine firm specific factors which determine the capital structure decision of publicly traded automobile companies of India. The is based on top ten 2 & 3-wheeler auto mobile companies listed in NSE and BSE are selected. The period of the study is 10 years from 2007-2016. Firm specific factors such as tangibility, firm size, liquidity, growth rate have been analysed to check their influence on the leverage structure of the selected companies in Indian context.

OBJECTIVES OF THE RESEARCH/ ARTICLES:

The research or the article put the light on wide range of objectives. They are as follow:

1. To analyse the trend in debt-equity composition of selected companies in India
2. To study the difference (if any) between choice of source of financing between automobile and IT companies
3. To analyse the trend in DPS of selected companies in India
4. To comparatively analyse the trend of dividend distribution between automobile and IT industry

RESEARCH METHODOLOGY:

The proposed research is intended to examine the trend and pattern of capital structure and dividend policy with respect to Indian Automobile companies and IT companies the central issue I was dealing to address to examine the relationship between the Capital Structureand dividend policies of the organisations. It is based on secondary data wherein there are top leading companies as of 44 companies in Automobile Industry and the 50 companies in Information Technology Industry as per SIAM and CMIE prowess database. The automobile companies which are selected for the study belongs to various segments like LCV and HCV, buses, passengers' vehicles, two wheelers, motorcycles, and scooter.

In this study exploratory research technique is adopted which explore the existing information analysed and interpret result in a meaningful way. The data collected is analysed by using ratios and the statistical software such as Excel. The data used for the analysis are relating to the selected companies for the period of 5 years (2015 to 2019).

The comprehensive list of the company's extracted from the database was a modified and finally 10 leading companies was elected selected for the study for automobile industry and information technology industry

Automobile Industry	Information Technology Industry
Eicher Motors Ltd	Mindtree Ltd
Mahindra & Mahindra Ltd	Infosys Ltd
Tata Motors Ltd	Wipro Ltd
Bajaj Auto Ltd	Tata Consultancy Service Ltd
Hero Motor Corp Ltd	Oracle Financial Service Software Ltd
Ashok Leyland	Tech Mahindra Ltd
Force Motors	Hexaware Technologies
TVS Motors Company	Mphasis
Bharat Forge Ltd	Larsen & Toubro Infotech Ltd
Mahindra Cie Automotive Ltd	Tech Mahindra Ltd

ANALYSIS AND INTERPRETATION :

Table 1.1: Debt to Equity Ratio

Companies	2019	2018	2017	2016	2015
Eicher Motors	0.010	0.020	0.020	0.010	0.000
Mahindra & Mahindra	0.070	0.090	0.100	0.080	0.140
Tata Motors	0.790	0.810	0.890	0.610	1.350
Bajaj Auto Ltd	0.000	0.010	0.010	0.000	0.010
Hero Motor Corp	0.000	0.000	0.000	0.000	0.000
Ashok Leyland	0.050	0.080	0.220	0.340	0.630
Force Motors	0.130	0.000	0.120	0.000	0.100
TVS	0.410	0.360	0.450	0.390	0.560
Bharat Forge	0.560	0.450	0.400	0.640	0.470
Mahindra Cie Ltd	0.030	0.020	0.030	0.040	0.000

Source: - Compiled from annual report of Automobile companies

Capital structure is represented by the debt equity ratio or leverage ratio. Simply, leverage refers to the percentage of assets financed by debt. But different empirical studies have defined leverage in different ways. The above table 1.1depicts that most of the companies usually employ debt relatively low than their equity. Among these companies the ratio of Tata Motors as compared to other companies is relatively higher which indicates that this company is aggressive in financing its growth with debt. In case of Eicher motors and Hero Motor Corp ratio is very low it indicates that the companies want to retain much control over the company. Considering Bajaj Auto Limited it is maintaining a standard that over a period of the study. Mahindra and Mahindra's debt equity ratio are fluctuating year by year because in the financial year 2015 the debt was high and next to that it got reduced, but in 2017 it again it was increased and in the year 2019 it has moderate debt equity ratio. Over all it can say from the above chart the debt to equity ratio of Hero Motor Corp is very low.

Table 1.2: Debt to Equity Ratio

Companies	2019	2018	2017	2016	2015
Mindtree	0.0	0.011	0.004	0.02	0.1
Infosys	0.0	0.0	0.0	0.0	0.0
Wipro	0.10	0.11	0.13	0.16	0.10
TCS	0.0	0.0	0.0	0.0	0.0
Oracle Financial service software	0.0	0.0	0.0	0.0	0.0
Tech Mahindra Ltd	0.0	0.10	0.10	0.10	0.0
Rolta	2.35	0.36	0.29	0.24	0.31
Hexaware Technologies	0.0	0.0	0.0	0.0	0.0
Mphasis	0.07	0.03	0.0	0.03	0.0
L&T	0.0	0.0	0.0	0.0	0.10

Source: - Compiled from annual report of IT companies

Athe above table 1.2 depicts that all the IT company borrow lower debt, but in the case of Rolta India it has higher debt as compared to other companies it indicates that the firm has greater liability. Considering to be Wipro it has standard debt the over a period of study. In case of Oracle Financial Service, Tata Consultancy Service has zero debt in their capital structure, it says that the company has sufficient cash flows to meet their funding requirements. And also, the Hexaware Technologies as well as Infosys has zero debt over all period of the study. In case of Mphasis the debt equity ratio is slightly increased compare to other years. Over all it can interpret that the debt to equity ratio of rest other companies are low, it can assume that the companies have sufficient cash flows to meet their requirements.

Table 1.3: Dividend Per Share

Companies	2019	2018	2017	2016	2015	Average DPS
Eicher Motors	125	110	100	100	0.0	87
Mahindra & Mahindra	8.5	7.5	13	12	12	10.6
Tata Motors	0.0	0.0	0.0	0.0	0.2	0.04
Bajaj Auto Ltd	60	60	55	55	50	56
Hero Motor Corp	87	95	85	72	60	79.8
Ashok Leyland	3.1	2.43	1.56	0.95	0.45	1.698
Force Motors	10	10	10	10	5	9
TVS	3.5	3.3	2.5	2.5	1.9	2.74
Bharat Forge	5	4.5	7.5	7.5	7.5	6.4
Mahindra Cie Ltd	0.0	0.0	0.0	0.0	0.0	0

Source: -Compiled from annual report of Automobile companies

The above table 1.3 depicts that Eicher Motors pays higher dividend per share compared to other companies. In case of Hero Motor Corp, it also pays second greater pay-out next to Eicher Motors. Considering Bajaj Auto Ltd it has constant dividend over the period of study. If we see Force Motors it is paying constant dividend to shareholder's over the period of three years. Mahindra Cie Ltd and Tata Motors doesn't declare any kind of dividend over the period of study. Other companies like Force motors Bharat, TVS Motors, Ashok Leyland are in between the range of dividend per share. But they provide greater amount of Dividend Pay-out to their shareholders. When a company pays dividends, investors view this as a measure of the company's financial strength. This also gives a positive outlook for the business and its future growth. Paying dividends also makes the stock more attractive as new investors pour in.

Table 1.4: Dividend Per Share

Companies	2019	2018	2017	2016	2015	Average DPS
Eicher Motors	125	110	100	100	0.0	87
Mahindra & Mahindra	8.5	7.5	13	12	12	10.6
Tata Motors	0.0	0.0	0.0	0.0	0.2	0.04
Bajaj Auto Ltd	60	60	55	55	50	56
Hero Motor Corp	87	95	85	72	60	79.8
Ashok Leyland	3.1	2.43	1.56	0.95	0.45	1.698
Force Motors	10	10	10	10	5	9
TVS	3.5	3.3	2.5	2.5	1.9	2.74
Bharat Forge	5	4.5	7.5	7.5	7.5	6.4
Mahindra Cie Ltd	0.0	0.0	0.0	0.0	0.0	0

Source: - Compiled from annual report of IT companies

The above table 1.4 depicts that TCS and Infosys pays higher dividend pay-outboth the companies is more effective in term of paying dividend to shareholders and even L&T also pays the slight greater dividends that is of average 23.24 compare to TCS and Infosys. Tch Mahindra pays a moderate dividend per share that is average of 11 and in financial year 2019 and 2018 it is constant. In financial year 2019 Mphasis, Mindtree paid higher dividend to their investors. Considering to Rolta India it doesn't declare any kind of dividend over a period of study. Over all in Financial year 2019 Mindtree has paid greater dividend per share to the shareholders. Wipro is declaring very low dividend to shareholders and it is constant for two years, even it is decreased compared to previous year of the study.The dividend pay-out measures the percentage of net income that is distributed to shareholders in the form of dividend during the year.

FINDINGS

- The highly reputed companies like Hero Motor Corp and Bajaj Auto Ltd has zero debt in their capital structure.
- Tata Motors have a Debt Equity Ratio of 0.79. In Financial year 2019. It is found that highest in the industry.
- Mahindra Cie have not paid dividends over the study period.
- The trend in dividend pay-out of all automobile companies is fluctuating neither increasing nor decreasing.
- In comparison to all the companies Hero Motor Corp Ltd has displayed good performance interns of Dividend.
- The Trend in Information Technology companies is increasing is contractor with zero dividend.
- Highly reputed companies like Infosys, Tech Mahindra, L&T, and Oracle Financial Service Software, TCS has zero debt in their Capital Structure.
- TCS maintain a proportion in pay-out that the company has constant dividend pay that is of 3% over all period of the study.
- Rolta India is the only one company which doesn't declared any kind of dividend over the period of study
- Rolta India, Mphasis, has high debt in their capital structure it indicates that company is putting less amount from there side in operations and totally depends on debt financing.

SUGGESTIONS : -

- From the above study it is clear that some of Automobile companies Like Tata Motors, Mahindra Cie, doesn't declared dividend. Therefore, investors can look for capital appreciation in this kind of companies.
- Hero Motor Corp and Bajaj Auto Ltd has zero debt in their capital structure. So, these companies should maintain proportion of debt in their capital structure to utilize tax shield benefits.
- The investors who are looking for regular dividend can invest in Force Motors and Hero Motors Corp to get better capital appreciation.
- The debt is high in the capital structure of TVS Motors, Bharat Forge and Tata Motors, the high debt indicates high risk so the companies should increase their equity funds.
- From the above study it is clear that Rolta India doesn't declare dividend for all five years of study and Oracle Financial Service Software doesn't provide dividend in financial year

2019. Therefore, investors can look for capital appreciation in this kind of companies

- The investors who are looking for regular dividend can invest in Tata consultancy service and L&T Infotech.

- Tata Consultancy Service, Infosys and L&T Infotech has zero debt in their capital structure so these companies should maintain proportion of debt in their capital structure to utilize tax shield benefits.

- Rolta India and Mphasis should reduce debt from their capital structure and give attention to increase their equity capital to run the business effectively and in most efficient way

CONCLUSION:

The study attempts to explore the capital structure and dividend policy among Automobile and IT industry which are listed in NSE and BSE India for a period of 5 years. Debt Equity ratio and Dividend per share are considered as dependent variable. Dividend per share is a major contribution for the capital structure of the selected companies. Generally high dividend increases the market value of the shares and vice versa. Shareholders preferred current dividend to future income So, dividend is important. Therefore, Automobile and Information Technology Industry occupy a considerable position by contributing significant revenue and Employment.

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