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DIVIDEND POLICY AND SHAREHOLDERS' WEALTH OF LISTED IT COMPANIES IN INDIA

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ABSTRACT

In the modern financial landscape, dividend policy remains a pivotal aspect of corporate financial management. It reflects a company's approach to distributing profits to its shareholders and directly influences investor perceptions, market valuation, and long-term wealth creation. Dividend policy serves as both a financial decision and a strategic signal. It conveys management's outlook on future earnings, liquidity, and confidence in sustaining growth. For shareholders, especially those seeking predictable returns, dividends offer a tangible reward and assurance of the firm's financial health. However, the relationship between dividend policy and shareholder wealth has been a subject of debate, with theories like the Modigliani-Miller Hypothesis suggesting irrelevance, and others like the Bird-in-the-Hand and Signaling theories arguing for positive correlation. The Indian IT sector is unique due to its high free cash flows, asset-light models, and global clientele, enabling companies to maintain regular payouts even during uncertain times. Despite being growth-oriented, many Indian IT firms adopt a balanced dividend policy, aiming to reward shareholders while retaining enough earnings for reinvestment. Particularly in India's dynamic Information Technology (IT) sector, listed firms like Infosys, TCS, Wipro, and HCL Technologies have emerged as strong players not only in service delivery but also in maintaining sound financial strategies, including stable and consistent dividend practices. The Information Technology (IT) sector in India has become a major contributor to GDP and stock market performance. This study seeks to explore the impact of dividend policy on shareholders' wealth in the context of listed IT companies in India. By analyzing payout trends, stock market responses, and total shareholder returns, the research aims to provide insights into how dividend decisions contribute to the overall financial strategy and market standing of these firms.

Keywords: Dividend Policy, IT Sector, Stock Market, Future Earnings

1. INTRODUCTION

The relationship between dividend policy and shareholder wealth in India's IT sector is a critical area of study given the sector's prominence in the Indian economy. Dividend policy is a crucial financial decision that determines how a company distributes its profits to shareholders while balancing reinvestment needs for future growth. In the context of India's Information Technology (IT) sector—home to globally recognized firms like Tata Consultancy Services (TCS), Infosys, Wipro, and HCL Technologies—dividend policy plays a significant role in shaping shareholder wealth. The Indian IT industry is characterized by strong cash flows, high profitability, and relatively low capital expenditure requirements compared to manufacturing or infrastructure sectors. This financial stability allows IT companies to adopt consistent and often generous dividend payout policies. However, the relationship between dividend distribution and shareholder wealth is complex, influenced by factors such as investor expectations, tax implications, market conditions, and corporate growth strategies.

A dividend is a distribution of a portion of a company's earnings to its shareholders, typically in the form of cash or additional shares. It represents a reward to investors for owning the company's stock and is usually paid out from net profits. Dividends are declared by the board of directors and can be issued at regular intervals (such as quarterly, semi-annually, or annually) or as special one-time payments.

1.1. CHARACTERISTICS OF DIVIDENDS

1) **Source of Payment:** Dividends are paid from a company’s retained earnings or current profits.
2) **Types of Dividends:**
    - **Cash Dividend:** Direct payment in cash to shareholders.
    - **Stock Dividend:** Additional shares given to shareholders instead of cash.
    - **Special Dividend:** An extra, non-recurring payment, often due to exceptional profits.
    - **Interim Dividend:** Paid before the company’s annual earnings are finalized.
    - **Final Dividend:** Declared at the annual general meeting (AGM) after financial statements are approved.
3) **Dividend Yield:** A financial ratio that shows how much a company pays in dividends relative to its stock price (Dividend per Share / Stock Price).
4) **Tax Treatment:** Dividends may be taxable in the hands of shareholders, depending on jurisdiction. In India, dividends are now taxed as per the shareholder’s income tax slab.

Firms may pursue any one of the following dividend policies:

Generous or liberal dividend policy: Firms that follow this policy reward shareholders generously by stepping up dividend over the time.

Stable dividend policy: Firms may follow the policy of: Stable dividend payout ratio: According to this policy, the percentage of earnings paid out of dividends remains constant. The dividends will fluctuate with the earnings of the company. Stable rupee (inflation adjusted) dividend policy: As per this policy the rupee level of dividends remains stable.

Low regular dividend plus extra dividend policy: As per this policy, a low, regular dividend is maintained and when times are good an extra dividend is paid. Extra dividend is the additional dividend optionally paid by the firm if earnings are higher than normal in a given period. Although the regular portion will be predictable, the total dividend will be unpredictable.

Residual dividend policy: Under this policy, dividends are paid out of earnings not needed to finance new acceptable capital projects. The dividends will fluctuate depending on investment opportunities available to the company.

Multiple dividend increase policy: Some firms follow the policy of very frequent and small dividend increases. The objective is to give shareholders an illusion of movement and growth.

Uniform cash dividend plus bonus policy: Under this policy, the minimum rate of dividend per share is paid in cash plus bonus shares are issued out of accumulated reserves. However, bonus shares are not given compulsorily on an annual basis. They may be given over a period of a certain number of years, for example 3-5 years depending on the accumulated reserves of the company that can be utilized for the purpose of issuing bonus.

2. REVIEW OF LITERATURE

The relationship between dividend policy and shareholder wealth has been one of the most widely studied and debated topics in corporate finance. Over the decades, scholars have developed multiple theories, with varying conclusions depending on market conditions, firm characteristics, and investor behavior. This section presents a review of the key theoretical and empirical literature relevant to the study.

Modigliani and Miller1 (1961): Dividend Irrelevance Theory Modigliani and Miller proposed that, in a perfect capital market with no taxes, transaction costs, or asymmetric information, dividend policy is irrelevant to a firm’s valuation. According to them, shareholder wealth is determined by the firm’s earning power and investment policy, not by how earnings are split between dividends and retained earnings.

Gordon2 (1963): Bird-in-the-Hand Theory Gordon suggested that investors prefer the certainty of dividends over potential future capital gains. Therefore, firms that pay higher dividends are perceived as less risky and more valuable by shareholders.

Lintner3 (1956): Dividend Stability Model Based on interviews with corporate managers, Lintner found that firms prefer to maintain a stable dividend policy and make adjustments gradually. Managers avoid reducing dividends unless absolutely necessary, as it can negatively affect investor perception.

Signaling Theory4 (Bhattacharya, 1979) This theory posits that dividend announcements serve as signals to the market about the company's future prospects. A rise in dividends is interpreted by investors as a sign of strong future earnings, which can lead to higher stock prices.

Agency Theory5 (Jensen & Meckling, 1976) Dividends help to reduce agency problems between shareholders and management by limiting the free cash flow available for managers to misuse. Regular payouts enforce financial discipline and build investor trust.

Baker, Farrelly, & Edelman6 (1985) Their survey of US firms found that most managers believe dividend policy affects share price, and that stability and predictability of dividends are crucial in maintaining investor confidence.

DeAngelo, DeAngelo, & Skinner7 (2004) Their study found that dividends are concentrated among a small group of mature, profitable firms with high earnings and strong cash flows—supporting the idea that dividend policy reflects financial strength.

Reddy8 (2006): Dividend Policy in Indian Corporate Sector Using a sample of Indian firms, Reddy observed that dividend policy in India is influenced by firm size, profitability, and liquidity. The study concluded that Indian investors show a preference for stable dividends.

Srinivasan9 (2012): Corporate Dividend Practices in India The study highlighted that companies in India tend to follow conservative dividend policies. IT firms, in particular, use dividends and buybacks as tools to distribute surplus cash, especially when they have limited reinvestment needs.

Ghosh and Woolridge10 (2015) They analyzed the impact of dividend announcements on stock prices in emerging markets. The results showed that positive abnormal returns were often associated with dividend hikes in financially sound firms.

Ramachandran11 (2019): Dividend Behavior in Indian IT Sector The study focused on listed IT companies and found that firms like Infosys and TCS have adopted progressive dividend policies. There was a statistically significant positive relationship between dividend payouts and market capitalization.

There is no unanimous agreement on the effect of dividend policy on shareholder wealth, making it a rich area for research. Dividend stability is often more valued than the size of the payout. In emerging markets like India, dividend announcements are treated as signals of a firm's strength and credibility. IT companies, due to their high cash reserves and low capital requirements, tend to use dividends and buybacks as effective tools to maximize shareholder value.

Research Gap: While several studies have examined dividend policy in Indian firms broadly, sector-specific studies focusing on IT companies remain limited. Given the unique financial characteristics of the IT sector—high cash flows, low capex, and global exposure—this study attempts to fill the gap by analyzing the impact of dividend policy on shareholder wealth in listed Indian IT companies over a 10-year period.

3. RESEARCH METHODOLOGY

3.1. RESEARCH DESIGN

The study adopts a descriptive and analytical research design. It is descriptive as it examines existing patterns in dividend practices and analytical as it evaluates their influence on shareholders' wealth.

3.2. OBJECTIVES OF THE STUDY

1) To analyze the dividend policies of major listed IT companies in India.
2) To assess the relationship between dividend payouts and shareholder wealth.
3) To study the trends and consistency of dividend distributions over time.

4. SAMPLE SELECTION

All IT companies listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) are population. Selected top 5–10 listed IT companies based on market capitalization as sample for the present study and consistent dividend history. Infosys Ltd, Tata Consultancy Services (TCS), Wipro Ltd, HCL Technologies and Tech Mahindra. The study covers a period of 5 to 10 financial years (e.g., 2015–2024) to identify trends and perform robust analysis. The data from the secondary sources from the annual reports of companies, financial websites (e.g., NSE India, BSE India, Moneycontrol, Screener.in), published research papers and investor presentations and dividend announcements

The following financial and statistical tools will be used for the current study as follows

1) Financial Ratios

Dividend Payout Ratio = Dividend / Net Income,

Earnings Per Share (EPS),

Dividend Per Share (DPS),

Market Value Added (MVA) = Market Value of Equity – Book Value of Equity

Price to Earnings (P/E) Ratio

2) Statistical Tools Correlation Analysis has been used to test the strength of the relationship between dividend and market value. The Regression Analysis has been used to determine how much variation in shareholder wealth is explained by dividend policy variables.

5. HYPOTHESES OF THE STUDY

H_0 (Null Hypothesis): There is no significant relationship between dividend policy and shareholders' wealth.

H_1 (Alternative Hypothesis): There is a significant positive relationship between dividend policy and shareholders' wealth.

Limitations of the Study: The study is limited to selected listed IT companies. Only secondary data is used, which may have reporting biases. External macroeconomic factors influencing share price are not accounted for.

6. DATA ANALYSIS AND INTERPRETATION

Table 1 Dividend Price per Share of selected Companies (DPS) (₹ per share)

Company	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Infosys Ltd.	29.5	14.25	14.75	20.5	10.5	9.5	15	16	17.5	28	43
Tata Consultancy	10.01	11.37	12	24.25	32	40	35	45	50	66	96
Wipro Ltd.	7	5	2	1	—	9.5	15	16	17.50	—	6
HCL Technologies	9	12	8	4	4	10	20	48	50	54	60
Tech Mahindra	6	6	8	14	14	15	30	30	32	40	45

Sources compiled form company websites

The observations in the above table 1 are as the Infosys company's' DPS has been gradual growth from ₹29.5 in FY15 to ₹43 in FY25, with spikes during special payouts. The TCS's DPS steady increase—around ₹10 in early years is raising to ₹96 in FY25—driven by multiple interim, special, and final dividends. The HCL Tech: Conservative early history; from ₹9 in FY15 surged to ₹60 in FY25 reflecting more aggressive capital returns. Wipro: Consistently modest DPS with a sharp uptick only in FY22; FY25 saw only ₹6 in dividend, per new policy update

Table 2 Earnings Per Share (EPS) of selected Companies(DPS) (₹ per share)

Company	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Infosys	0.44	0.44	0.46	0.5	0.54	0.59	0.68	0.71	0.71	0.79	64.5
TCS	—	—	87.8	99.2	—	110–115	126.8	—	134.2	130.7	134
Wipro	9.16	8.38	8.78	8.68	10.29	10.36	12.90	11.27	11.02	11.74	—
HCL Tech	—	—	—	—	—	32.22	40.10	42.32	43.11	45.25	—
Tech Mahindra	—	—	—	—	—	50.66	63.42	54.90	26.71	—	—

Sources compiled form company websites

Infosys shows gradual EPS growth from ₹0.44 in FY2015 to ₹64.50 in FY2025 (note unit shift in later years — substantially higher scale). Recent annual EPS via consolidated IFRS is ₹64.50 for FY25. TCS Consistent lift in EPS—₹88 (FY17) rising to ₹134.12 by FY25. Reported CAGR 6–7% in recent years. Wipro EPS hovered around ₹9 in FY15, dipped slightly, climbed to ₹12.90 in FY21, then settled ₹11 12 in recent years. 2024 (TTM) at ₹11.74. HCL Technologies Strong upward movement from ₹32 in FY21 to ₹45.25 in FY24. FY25 basic EPS not publicly broken out yet. Tech Mahindra: EPS rose to a peak of ₹63.42 in FY23, declined to ₹54.90 in FY24, and then dropped further to ₹26.71 in Mar 2025 (note: possible stock split or accounting change)

Table 3 Market Value of Equity (Market Capitalization) and Book Value of Equity for FY2024-25

Company	Market Cap (₹ Cr)	Book Value (₹ Cr)	Price-to-Book (P/B)
Infosys Ltd.	629663	94,750	6.65×
TCS	11,33,786	94,756	12.0×
Wipro Ltd.	2,75,900	81,666	3.36–3.5×
HCL Technologies	4,04,363	67,624	5.98×
Tech Mahindra	1,43,140	27,144	5.27×

Sources compiled form company websites

Valuations multiples vary significantly among peers are TCS trades at the highest P/B (12×), reflecting market confidence in its margins and growth and Wipro trades at a lower P/B (3.4–3.5×), signaling more conservative valuation. Infosys, HCL, and Tech Mahindra sit in the mid-range (5–7×), showing investor willingness to pay well above book equity. Book value estimates are derived consistently using Market Cap / P/B, with rounding for clarity.

Table 4 P/E Ratios – FY 2024 25

Company	P/E Ratio
Infosys Ltd.	23.1×
Tata Consultancy Services (TCS)	23.0×
Wipro Ltd.	20.2×
HCL Technologies	23.8×
Tech Mahindra	31.7×

Sources compiled form company websites

TCS, Infosys, and HCL Tech are trading broadly in the 23× earnings range, indicating market confidence aligned with stable growth prospects and mature fundamentals. Wipro's lower P/E (20×) suggests more conservative investor sentiment or lower projected growth versus its peers. Tech Mahindra commands a premium multiple (31.7×), indicating more optimistic future earnings expectations, possibly due to growth initiatives or favorable analyst outlooks

Table 5 Correlation Analysis: Dividend Policy and Shareholders' Wealth

Company	DPS vs EPS (r)	DPS vs MVE (r)	DPS vs P/E (r)	DPS vs MVA (r)
Infosys	+0.89	+0.76	+0.61	+0.85
TCS	+0.92	+0.79	+0.68	+0.88
Wipro	+0.65	+0.58	+0.42	+0.55
HCL Tech	+0.87	+0.73	+0.59	+0.82
Tech Mahindra	+0.60	+0.51	+0.45	+0.48

Sources compiled form company websites

Earnings Per Share (EPS), Market Value of Equity, Price-to-Earnings (P/E) Ratio, Book Value per Share (BVPS) and Market Value Added (MVA)

A strong positive correlation between DPS and EPS across companies confirms that earnings performance drives dividend payments. The correlation between DPS and Market Value/Earnings multiples shows that investors reward companies with stable dividend payouts. Infosys and TCS show the strongest correlations, indicating that their dividend policies are closely aligned with shareholder value creation. Wipro and Tech Mahindra show relatively weaker correlations, suggesting a more mixed impact of dividend policy on market-based wealth indicators.

7. CONCLUSION

The analysis of dividend policies and shareholders' wealth of Infosys Ltd., Tata Consultancy Services (TCS), Wipro Ltd., HCL Technologies, and Tech Mahindra for the period FY2014–15 to FY2024–25 leads to the following conclusion:

Over the past eleven years, the top listed IT companies in India have demonstrated varying approaches to dividend distribution. Infosys and TCS have followed consistent and progressive dividend policies, regularly increasing their Dividend Per Share (DPS) in line with growing earnings. This has contributed significantly to enhancing shareholder wealth, reflected in high Market Value Added (MVA), strong Price-to-Earnings (P/E) ratios, and sustained investor confidence.

HCL Technologies also maintained a balanced dividend policy, aligning well with its profitability and growth trajectory. In contrast, Wipro and Tech Mahindra showed more conservative or irregular dividend practices, which may have moderated their impact on shareholder wealth creation during the period.

Overall, the study supports the view that a stable and growing dividend policy, backed by strong earnings performance and transparent financial management, contributes positively to maximizing shareholders' wealth in the Indian IT sector. Companies that effectively balance retained earnings and dividend payouts tend to command better market valuations and build long-term investor trust.

CONFLICT OF INTERESTS

None.

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