Educational Administration: Theory and Practice
2022, 28(4), 554-565
ISSN: 2148-2403
https://kuey.net/

Research Article

Dividend Policies and Financial Drivers: A Study of Indian Blue-Chip Companies (2015–2021)

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Citation: Dr. Archan Nandi (2022) Dividend Policies and Financial Drivers: A Study of Indian Blue-Chip Companies (2015–2021), *Educational Administration: Theory and Practice*, 28(4) 554-565
Doi: 10.53555/kuey.v28i4.10501

ARTICLE INFO

ABSTRACT

This study investigates the dividend policies of select Indian blue-chip companies over the period 2015 to 2021, aiming to understand the patterns, determinants, and strategic implications of dividend distribution. Using a mixed-method approach anchored in panel regression analysis, the study evaluates the relationship between financial variables such as Earnings Per Share (EPS), Return on Equity (ROE), Net Income, and P/E Ratio with dividend decisions. Company-wise trends and comparative assessments are also conducted to highlight sectoral behaviors and firm-specific dividend strategies. The findings reveal that EPS significantly influences Dividend Per Share (DPS), reinforcing the traditional view of profit-driven dividend policy, while ROE emerges as a strong predictor of market valuation (P/E Ratio). Panel regression results reveal that EPS significantly affects DPS ($p < 0.01$), while ROE significantly predicts P/E Ratio ($p < 0.01$), underscoring the central role of profitability and capital efficiency in dividend and valuation dynamics. The study concludes that while profitability remains central, dividend policies are also shaped by regulatory frameworks, industry characteristics, and firm-specific reinvestment priorities.

Keywords: Dividend Policy, Indian Blue-Chip Companies, Earnings Per Share, Dividend Payout Ratio, Financial Analysis, Shareholder Value.

1. Introduction

Dividend policy has long been one of the most debated issues in corporate finance, serving as a critical link between a company's retained earnings and shareholder wealth. The way a firm distributes its profits - whether through dividends or retained earnings - affects not only its capital structure and investment strategy but also its market perception and investor appeal (Lintner, 1956; Miller & Modigliani, 1961). Although Miller and Modigliani's (1961) dividend irrelevance theory suggests that dividend policy does not affect firm value in perfect capital markets, numerous empirical studies in real-world settings indicate otherwise, especially in emerging economies like India where market imperfections prevail (Baker & Powell, 2012; Al-Najjar & Kilincarslan, 2019).

Indian blue-chip companies - large, well-established, financially sound firms with a track record of reliable performance - form the backbone of the country's capital markets. Their dividend practices offer valuable insights into the financial strategies adopted by major market players. Over the years, these firms have been closely observed by investors and analysts alike for the consistency and predictability of their dividend payments.

However, it is no longer sufficient to rely only on descriptive comparisons. This study also incorporates econometric modeling using panel data regression techniques to examine the determinants of dividend policy more rigorously. The inclusion of variables such as EPS, ROE, P/E ratio, and net income helps uncover both observable trends and underlying causal relationships. Few studies have applied panel regression methods to explore firm-level dividend behavior across sectors in India, particularly in response to major policy shocks. This research aims to bridge that gap by providing an evidence-based, econometric perspective on how India's largest corporations structure their dividend decisions during times of financial and regulatory change.

This study focuses on evaluating and comparing the dividend policies of six selected Indian blue-chip companies across diverse sectors during the period from 2015 to 2021. Given the economic disruptions caused by events like demonetization, the introduction of the Goods and Services Tax (GST), and the COVID-19

pandemic, the selected timeframe provides an opportunity to assess how these firms responded through their dividend decisions.

Furthermore, understanding the patterns and rationale behind dividend distribution helps in assessing a firm's maturity, management philosophy, and long-term financial health. This research seeks to fill the gap in comparative analyses of dividend policy across major Indian corporates and aims to aid investors, academics, and policymakers in interpreting corporate payout behavior.

2. Objectives of the Study

The present study is undertaken with the following objectives:

1. To examine the dividend policies of six selected Indian blue-chip companies during the period 2015–2021.
2. To evaluate the relationships between key financial indicators (EPS, ROE, P/E ratio, net income, and total equity) and dividend policy.
3. To employ econometric models - specifically fixed-effects panel regression, to test the significance of selected financial metrics in explaining dividend behavior.
4. To provide insights into the strategic use of dividends by firms under varying economic conditions.
5. To contribute to the academic and policy-oriented discourse on dividend practices in the Indian context through quantitative, evidence-based analysis.

3. Literature Review

Dividend policy continues to be one of the most widely researched areas in corporate finance. Its theoretical foundations, practical implications, and observed variations across firms and economies have led to a wealth of literature, both global and domestic. This section presents an overview of seminal theories and empirical findings across international, Indian, and recent sector-specific studies.

3.1 Theoretical Foundations

The theoretical debate began with Lintner's (1956) foundational work, which proposed that firms prefer stable dividend policies and adjust dividends gradually based on long-term target payout ratios. Miller and Modigliani (1961), in contrast, argued in their dividend irrelevance theory that, in perfect capital markets, dividend policy does not influence firm valuation. This view, although widely cited, assumes conditions rarely met in reality - such as no taxes, no transaction costs, and rational investor behavior.

Subsequent theoretical developments led to alternative perspectives. The Bird-in-hand Theory (Gordon, 1963) suggests that investors prefer certain dividends over uncertain capital gains. The Signaling Theory (Bhattacharya, 1979) posits that dividends convey information about a firm's future prospects. The Agency Cost Theory (Jensen & Meckling, 1976) introduced the idea that dividends reduce agency conflicts by limiting free cash flow available to managers, thereby aligning managerial actions with shareholder interests.

3.2 International Empirical Studies

Globally, many studies have examined dividend policies across developed and emerging markets. DeAngelo, DeAngelo, and Skinner (2004) found that dividend-paying firms in the U.S. tend to be larger, more profitable, and less growth-oriented. Fama and French (2001) documented a decline in the number of U.S. dividend-paying firms, attributing it to changing firm characteristics and investment opportunities.

In emerging markets, Amidu and Abor (2006) observed a positive relationship between profitability and dividend payout among listed firms in Ghana. Aivazian, Booth, and Cleary (2003) found that firms in emerging economies follow more conservative dividend policies due to higher information asymmetry and capital market imperfections. Al-Najjar and Kilincarslan (2019) suggested that small firms in Europe often retain earnings because of limited access to external capital.

Leducq et al. (2021), in a panel study across 17 European countries, found dividend policies strongly influenced by firm-specific characteristics such as leverage, risk, and ownership structure. Denis and Osobov (2008), analyzing over 6,000 firms in six developed countries, found consistent support for Lintner's model across various legal and economic environments.

3.3 Indian Empirical Studies

Dividend policy research in India has gained depth post-liberalization. Rao and White (1994) found that dividend behavior among Indian firms aligns more with signaling theory than with irrelevance theory. Malhotra (2014) reported that profitability and liquidity are major determinants of dividend payments for BSE-listed companies.

Reddy (2002) noted significant industry-level variations in dividend payouts, with capital-intensive sectors showing lower dividend ratios than service sectors. Mohanty (1999) argued that institutional investors in India prefer companies with stable and generous dividend track records, supporting the signaling hypothesis.

Manos (2002) found that dividend strategies in Indian companies are shaped by investor protection norms and capital market development. Pradhan and Subedi (2019) showed that dividend policy is influenced by cash

flow, firm size, and growth opportunities, while market volatility and policy shifts (e.g., GST, demonetization) significantly affect payout behavior.

3.4 Recent and Sector-Specific Studies

Recent studies have explored dividend behavior in the context of economic disruptions and regulatory shifts. Chatterjee and Maji (2020) found that during the COVID-19 pandemic, many Indian firms reduced or suspended dividends to conserve cash.

Singh and Yadav (2021) focused on the banking and FMCG sectors, finding that firms with stable earnings and low debt maintained or increased dividends, while financially uncertain firms opted for retention. Sharma and Paul (2022) concluded that strong corporate governance helped firms maintain dividend stability amid economic stress.

These studies highlight that dividend policy is increasingly being used as a strategic communication tool during periods of uncertainty, serving to reassure investors and signal long-term stability.

3.5 Synthesis of Literature

Across both global and Indian contexts, the literature underscores that dividend policy is influenced by a mix of profitability, firm characteristics, governance, investor expectations, and regulatory environments. While classical theories like those of Lintner and Gordon retain relevance, real-world practices reveal more complex and context-specific patterns. Despite extensive global literature, there remains a relative scarcity of firm-level, panel data-based studies in the Indian context that assess the interplay between financial variables and dividend behavior over time - especially in light of macroeconomic shocks and sectoral diversity. This study aims to address that gap.

3.6 Conceptual Framework and Hypothesis Development

The dividend policy of a firm is shaped by a complex interplay of internal performance metrics, investor expectations, and broader strategic and regulatory considerations. Building upon foundational theories - such as the Dividend Relevance Theory (Lintner, 1956; Gordon, 1963), Signaling Theory (Bhattacharya, 1979), and Agency Theory (Jensen & Meckling, 1976) - this study identifies a set of key financial indicators that are likely to influence dividend behavior and market valuation.

- **Earnings Per Share (EPS)** represents a firm's per-share profitability and is widely considered a direct determinant of dividend capacity. Firms with higher EPS are generally expected to distribute higher dividends, barring internal reinvestment priorities.
- **Return on Equity (ROE)** measures the efficiency with which shareholder funds are utilized to generate profit. A higher ROE may encourage dividend payments and positively influence market perception (reflected in the P/E ratio).
- **Net Income**, an absolute measure of profitability, may influence dividend payouts, although its effect can vary based on retained earnings policy and capital allocation strategies.
- **Dividend Per Share (DPS)** is the key dependent variable representing actual shareholder return.
- **Price-to-Earnings (P/E) Ratio**, representing market valuation, is used to assess how investors interpret a firm's earnings in light of its dividend policy and capital efficiency.

Hypotheses Formulation

Based on the above framework and prior literature, the following hypotheses are proposed. Expected directions (positive/negative) are indicated in parentheses.

Hypothesis	Statement	Expected Sign
H1	EPS has a significant positive effect on DPS.	+
H2	ROE positively influences both DPS and P/E Ratio.	+
H3	Net Income has a significant effect on DPS and EPS.	+ / −
H4	DPS positively influences ROE, reflecting a dividend signaling effect.	+
H5	ROE has a positive impact on P/E Ratio, reflecting investor valuation of efficiency.	+

Null Hypotheses (H_0): There is no statistically significant relationship between the financial indicators and the respective dependent variables.

Alternate Hypotheses (H_1): There is a statistically significant relationship between the financial indicators and the respective dependent variables, as stated above.

Conceptual Model Overview

The following conceptual relationships are hypothesized:

- EPS and Net Income are expected to drive DPS, aligning with profitability-based payout logic.
- DPS is hypothesized to influence ROE, as consistent dividends may signal financial strength and management confidence.
- ROE is proposed to affect the P/E Ratio, linking internal capital efficiency to external market valuation.

This model provides the theoretical foundation for the panel regression analysis conducted in subsequent sections, enabling the study to evaluate both direct and indirect effects of financial performance on dividend decisions and investor perception.

4. Research Methodology

This study adopts a structured and empirically grounded methodology to examine dividend policies among selected Indian blue-chip companies over the period 2015 to 2021. It combines descriptive, comparative, and econometric techniques to ensure both macro-level insights and statistical rigor.

4.1 Research Design

The research follows a hybrid approach, integrating both descriptive and econometric designs. Descriptive methods help capture firm-level trends and sectoral variations in dividend behavior, while econometric modeling - particularly panel data regression - allows for testing causal relationships between key financial indicators and dividend-related outcomes. The use of fixed effects (FE) models enables control over unobservable firm-specific characteristics that may influence dividend policy but remain constant over time. White cross-section robust standard errors are applied to address potential heteroskedasticity.

4.2 Data Sources

The study relies exclusively on authenticated secondary data from the following sources:

- **Annual Reports**: Audited financial statements retrieved from company websites and BSE archives.
- **Discounted Cash Flows – Financial Modelling Platform**: Provided historical data on EPS, DPS, ROE, net income, total equity, and valuation metrics.
- **Stock Exchange Portals**: NSE and BSE portals were used to verify dividend declarations, ex-dividend dates, and market capitalization figures.
- **Business News Media**: Reports from Business Standard, Moneycontrol, and The Economic Times were used to contextualize dividend announcements.
- **Regulatory Disclosures**: Circulars and notifications from SEBI and MCA were reviewed to understand the policy environment during the study period.

4.3 Sample Selection

A **purposive sampling technique** was used to select six major Indian blue-chip companies across different sectors, based on the following criteria:

- Listed on both NSE and BSE
- Consistent dividend declaration during most years (including omissions studied contextually)
- Inclusion in the NIFTY 50 index for at least part of the study period

The selected companies and their respective sectors include:

1. Reliance Industries Ltd. (RIL) – Energy & Conglomerates
2. Tata Consultancy Services (TCS) – Information Technology
3. Hindustan Unilever Ltd. (HUL) – FMCG
4. Infosys Ltd. – Information Technology
5. ITC Ltd. – FMCG & Conglomerates
6. State Bank of India (SBI) – Banking

4.4 Time Frame of the Study

The analysis covers the **seven-year period from 2015 to 2021**, encompassing several major economic events:

- Demonetization (2016)
- Implementation of the Goods and Services Tax (GST) (2017)
- COVID-19 pandemic and its aftermath (2020–2021)

This time frame enables assessment of dividend behavior during both stable and crisis conditions.

4.5 Variables Considered

The study examines both dependent and independent financial indicators relevant to dividend policy:

Dependent Variables:
- Dividend per Share (DPS) – measures cash return to shareholders
- Dividend Payout Ratio – DPS/EPS, indicating the proportion of profit distributed

Independent Variables:
- Earnings per Share (EPS) – profitability per share
- Return on Equity (ROE) – financial efficiency
- Net Income (NPAT) – total profit available
- P/E Ratio – market valuation metric
- Total Equity – used to assess capital scale and leverage dynamics

All figures are denominated in Indian Rupees (₹) and adjusted for stock splits and bonus issues where applicable.

4.6 Model Specification

Five fixed-effects panel regression models were developed to evaluate relationships between the variables:
1. DPS as a function of EPS, ROE, and Net Income
2. Payout Ratio as a function of EPS, ROE, and P/E Ratio
3. EPS as a function of ROE, Net Income, and Total Equity
4. ROE as a function of DPS, EPS, and Net Income
5. P/E Ratio as a function of ROE, DPS, EPS, and Net Income

These models control for firm-level heterogeneity and use White cross-section robust standard errors to mitigate heteroskedasticity and serial correlation.

The fixed effects model was selected based on the assumption that unobserved firm-specific characteristics are correlated with the regressors. The choice was also statistically validated using the Hausman test (results available on request).

4.7 Data Analysis Tools and Techniques

- Microsoft Excel was used for initial data cleaning, tabulation, and visualization.
- IBM SPSS Statistics was used for descriptive and correlation analysis.
- Eviews was employed to estimate panel regression models and run diagnostics, including model fit and significance tests.

4.8 Limitations of Methodology

While the methodology is rigorous, the following limitations should be acknowledged:
- The use of secondary data may limit control over data accuracy and consistency.
- The sample size is restricted to six companies, limiting generalizability.
- Qualitative variables, such as managerial intent, boardroom decisions, and investor sentiment, are not captured.
- Macroeconomic variables and time dummies (e.g., COVID-year indicator) were not included but may be explored in future models.

Despite these constraints, the methodological framework is well-suited to uncover significant empirical relationships and support generalizable insights on dividend policy in India's large-cap corporate sector.

5. Data Presentation and Analysis

This section presents and analyzes dividend behavior across six Indian blue-chip companies from 2015 to 2021. These companies - Reliance Industries Ltd. (RIL), Tata Consultancy Services (TCS), Hindustan Unilever Ltd. (HUL), Infosys Ltd., ITC Ltd., and State Bank of India (SBI), represent diverse sectors and operational models. The analysis is divided into two parts: descriptive trend analysis (Section A) and panel regression model results (Section B).

Section A: Descriptive Trend Analysis

5.1 Overview of Dividend Trends

Dividend policies are shaped by internal profitability, reinvestment priorities, and external macroeconomic conditions. During the 2015–2021 period, significant disruptions - such as demonetization, GST rollout, and the COVID-19 pandemic, tested firms' resilience and policy consistency.

The descriptive analysis highlights how dividend behaviors vary across sectors. Some firms, such as TCS and HUL, followed stable and high dividend payout policies. Others, like RIL and SBI, demonstrated more conservative or irregular patterns, reflecting capital-intensive strategies or regulatory constraints.

5.2 Company-Wise Dividend Patterns

To illustrate sector-specific behavior, key financial metrics (P/E Ratio, ROE, Net Income, EPS, DPS, and Payout Ratio) were compiled and analyzed for each company. Here is a summary of major findings:

i. Reliance Industries Limited (RIL): RIL, a conglomerate with interests in petrochemicals, telecom, and retail, maintained a moderate but growing dividend policy during the period. Despite large capital expenditures in Jio and retail ventures, RIL consistently rewarded shareholders with dividends.

Year	P/E Ratio	Return on Equity	ROCE	Total Equity	Net Income	EPS	DPS	Payout Ratio
2015	9.27	0.1129	0.0716	2120330	235660	25.09	4.95	19.73%
2016	10.12	0.1193	0.0759	2349120	276300	30.18	5.2	17.23%
2017	11.83	0.1134	0.0727	2666260	299010	33.09	5.45	16.47%
2018	13.3	0.1229	0.0947	2970450	360750	31.23	5.94	19.02%
2019	18.91	0.1023	0.0942	3953920	395880	38.19	3.22	8.43%
2020	16.03	0.0876	0.0894	4613470	393540	46	6.5	14.13%
2021	23.81	0.0702	0.0513	7994320	491280	49.3	3.5	7.10%

RIL's dividend policy remained conservative throughout the study period, despite a steady rise in earnings per share (EPS). The company's payout ratio consistently hovered below 10%, signaling a strategic preference for retaining profits to fuel large-scale capital expenditures in its energy, retail, and digital services segments. The subdued DPS growth, in contrast to EPS gains, suggests that RIL prioritizes reinvestment and long-term value creation over immediate shareholder returns. This trend is consistent with capital-intensive business models where internal financing is critical. Despite the EPS fluctuation during the COVID-19 pandemic, RIL did not significantly slash dividends, indicating a preference for maintaining investor confidence.

ii. Tata Consultancy Services (TCS): TCS displayed a robust and shareholder-friendly dividend policy, characterized by both interim and final dividends multiple times a year.

Year	P/E Ratio	Return on Equity	ROCE	Total Equity	Net Income	EPS	DPS	Payout Ratio
2015	26.1	0.3896	0.4624	499028	191639	61.59	20	32.47%
2016	25.02	0.3542	0.3894	562760	198522	66.71	22.75	34.10%
2017	19.74	0.3415	0.3934	714270	242700	67.09	24	35.77%
2018	21.3	0.3049	0.3431	865800	262890	83.05	26	31.31%
2019	29.81	0.3034	0.3448	855300	258260	86.19	32	37.13%
2020	21.77	0.3519	0.4033	898990	314720	86.71	40	46.13%
2021	36.75	0.3844	0.4127	847490	323400	103.6	35	33.78%

TCS maintained a consistently generous and stable dividend payout policy, with DPS growing in tandem with EPS and an average payout ratio of around 45–50%. This reflects the firm's mature business model, strong cash flow generation, and limited capital expenditure needs, allowing it to distribute a significant portion of earnings to shareholders. The firm's dividend stability may also be attributed to its policy of maintaining investor confidence and rewarding long-term holdings, which is characteristic of large-cap IT firms.

iii. Hindustan Unilever Limited (HUL): HUL adhered to a high dividend payout policy, consistent with its consumer goods business model that generates regular cash flows.

Year	P/E Ratio	Return on Equity	ROCE	Total Equity	Net Income	EPS	DPS	Payout Ratio
2015	2698	1.085	0.9767	40464	43631	19.13	15.5	81.02%
2016	3052	1.028	1.037	39968	40824	20.68	16.5	79.79%
2017	2856	0.6637	0.7392	67660	44760	24.09	18	74.72%
2018	3651	0.7161	0.7776	73010	52140	27.97	21	75.08%
2019	4181	0.7695	0.8347	78850	60540	31.17	24	77.00%
2020	5553	0.82	0.863	82460	67480	34.03	37.5	110.20%
2021	5226	0.1677	0.189	476940	79950	37.79	32	84.68%

HUL's dividend behavior reflects its position as a mature FMCG player with steady earnings and limited reinvestment requirements. The payout ratio remained high, often exceeding 70%, indicating a policy of distributing the majority of its profits to shareholders. Slight fluctuations in DPS were observed, likely tied to short-term performance variability or working capital adjustments, but the overall strategy emphasized shareholder returns. HUL's dividend discipline supports its brand as a stable and investor-friendly stock.

iv. Infosys Limited: Infosys followed a consistent dividend policy while also distributing surplus cash through share buybacks during certain years.

Year	P/E Ratio	Return on Equity	ROCE	Total Equity	Net Income	EPS	DPS	Payout Ratio
2015	20.18	0.2297	0.2567	8762	2013	0.44	12.38	28.14%
2016	20.46	0.2201	0.2532	9324	2052	0.45	12.62	28.04%
2017	16.83	0.2012	0.2357	10637	2140	0.47	13.88	29.53%
2018	15.84	0.2496	0.2635	9960	2486	0.55	12	21.82%
2019	21.56	0.2342	0.282	9400	2199	0.51	22.5	44.12%
2020	15.55	0.2696	0.2866	8701	2331	0.55	21.5	39.09%
2021	30.33	0.2502	0.2876	10502	2613	0.62	30	48.39%

Infosys exhibited a more dynamic dividend trajectory, with both EPS and DPS fluctuating across the period. The company gradually increased its payout ratio, especially in later years, possibly responding to cash accumulation and increased shareholder expectations. The upward shift in DPS despite earnings volatility signals a move toward a more generous and transparent dividend policy, potentially to strengthen investor relations and align with global peers. This evolution also coincides with maturing business operations and declining reinvestment intensity.

v. ITC Limited: A high-yielding stock, ITC maintained consistent dividend payments despite slow growth in certain years.

Year	P/E Ratio	Return on Equity	ROCE	Total Equity	Net Income	EPS	DPS	Payout Ratio
2015	25.39	0.3045	0.389	319606	96632	8.07	4.17	51.67%
2016	25.12	0.2918	0.3844	342267	99116	7.75	1.33	17.16%
2017	31.12	0.2217	0.2933	467077	102894	8.5	4.75	55.88%
2018	26.33	0.2146	0.2777	528446	112712	9.26	5.15	55.62%
2019	27.25	0.2129	0.277	594843	125923	10.3	5.75	55.83%
2020	13	0.2345	0.2606	656507	153062	12.47	10.15	81.40%
2021	19.28	0.2181	0.2441	606942	131612	10.7	10.75	100.50%

ITC followed a stable and consistent dividend policy, with moderate growth in both EPS and DPS. The company maintained a payout ratio around 50–60%, characteristic of firms with a mixed portfolio of FMCG, hospitality, and agribusiness. The steady DPS progression reflects management's commitment to predictable returns despite sectoral pressures. ITC's strategy appears geared toward maintaining a balance between rewarding shareholders and preserving capital for expansion in non-tobacco segments.

vi. State Bank of India (SBI): SBI's dividend policy is influenced by regulatory frameworks and fluctuating profitability due to non-performing assets.

Year	P/E Ratio	Return on Equity	ROCE	Total Equity	Net Income	EPS	DPS	Payout Ratio
2015	13.71	10.53%	5.93%	1668847	169943	39.64	4	21.94%
2016	13.86	6.77%	5.46%	1868598	122246	25.11	0	838.70%*
2017	1,061	0.11%	4.39%	2236728	2412	22.15	0	-49.81%*
2018	-47.12	-1.98%	3.72%	2349372	-45563	2.58	0	0.00%
2019	125.3	0.98%	-0.03%	2405327	22996	-5.22	2.6	0.00%
2020	8.89	7.87%	0.39%	2590039	197678	0.31	2.6	0.00%
2021	14.51	8.13%	0.39%	2851875	224055	15.95	3.5	10.09%

* ***Note:*** *SBI's payout ratio appears anomalous in some years (e.g., 2016 & 2017), showing inflated percentages due to near-zero or negative EPS despite zero or nominal dividend payments. These distortions are a result of accounting outcomes rather than deliberate dividend policy decisions and are retained here for completeness and transparency.*

SBI's dividend pattern was irregular and highly sensitive to profitability swings and provisioning cycles. The payout ratio fluctuated sharply, with certain years showing high ratios despite modest EPS, and others showing suppressed DPS due to increased non-performing asset provisioning or capital restructuring. As a public sector bank, SBI's dividend decisions are also partially influenced by government expectations and regulatory oversight. Its inconsistency reflects the macro-financial pressures typical of large state-owned banks during periods of economic uncertainty and financial reforms.

Overall, the analysis reveals distinct patterns in dividend strategies across sectors. IT firms like **TCS** and **Infosys** demonstrate a commitment to stable and generous dividend payouts, with TCS exhibiting consistently high payout ratios and Infosys increasingly aligning with shareholder expectations despite earnings volatility. In contrast, **Reliance Industries Ltd.** adopts a capital-intensive growth strategy, maintaining low dividend payouts even as EPS rises steadily. **HUL** and **ITC**, both operating in mature consumer sectors, prioritize regular and high dividend distribution, reflecting limited reinvestment needs. Meanwhile, **HDFC Bank** and **SBI** display conservative and irregular dividend policies, respectively - shaped more by regulatory frameworks and risk provisioning than pure profitability. These divergences underline how sectoral characteristics, strategic priorities, and regulatory obligations influence dividend behavior beyond financial metrics alone.

5.3 Cross-Company Comparative Summary

Company	Dividend Policy Type	Key Characteristics
TCS	Stable & High Payout	Strong EPS-DPS linkage; low reinvestment need
HUL	Stable & High Payout	High cash flows, consistent policy
Infosys	Moderate & Balanced	Rising payouts with retained earnings
ITC	Moderate & Consistent	Balanced dividends amid mixed growth
RIL	Low & Growth-Oriented	Profit retention for capital expansion
SBI	Conservative & Irregular	Earnings and regulation-driven variability

Section B: Panel Data Regression Models

To rigorously assess the determinants of dividend behavior, five panel regression models were estimated using fixed effects with robust standard errors.

Model 1: Dividend Payout Ratio as Dependent Variable (Dividend Policy Model)

Dependent Variable: P/E Ratio (Price-to-Earnings)

Equation: $P/E_{it} = \alpha_i + \beta_1 . EPS_{it} + \beta_2 . ROE_{it} + \beta_3 . DPS_{it} + \beta_4 . Net\ Income_{it} + \varepsilon_{it}$

Variable	Coefficient	Robust Std. Error	t-Statistic	p-Value
Intercept (C)	-41.65	494.12	-0.084	0.936
EPS	6.46	24.41	0.26	0.802
ROE	**4082.65**	777.68	**5.25**	**0.003**
DPS	-12.61	55.94	-0.23	0.831
Net Income	-0.0031	0.0037	-0.83	0.444

Interpretation: Only ROE is a statistically significant and strong predictor of P/E Ratio. This underscores that investors value firms with higher ROE more highly, reflecting greater efficiency in generating returns on shareholder capital.

Model 2: Dividend Per Share (DPS) as Dependent Variable (Dividend Determinants Model)

Dependent Variable: DPS (Dividend Per Share)

Equation: $\mathrm{DPS}_{it} = \alpha_i + \beta_1 . EPS_{it} + \beta_2 . ROE_{it} + \beta_3 . Net\ Income_{it} + \varepsilon_{it}$

Variable	Coefficient	Robust Std. Error	t-Statistic	p-Value
Intercept (C)	8.319	6.390	1.30	0.250
EPS	0.363	0.056	6.51	**0.001**
ROE	12.106	9.393	1.29	0.254
Net Income	-0.0000558	0.0000201	-2.77	**0.039**

Interpretation: EPS is a strong, statistically significant positive determinant of DPS, implying that firms reward shareholders in proportion to per-share profitability. Net Income shows a significant but negative relationship, possibly reflecting reinvestment or smoothing behavior. ROE was not significant.

Model 3: EPS as Dependent Variable (Profitability Drivers Model)

Dependent Variable: EPS (Earnings Per Share)

Equation: $\mathrm{EPS}_{it} = \alpha_i + \beta_1 . ROE_{it} + \beta_2 . Net\ Income_{it} + \beta_3 . Total\ Income_{it} + \varepsilon_{it}$

Variable	Coefficient	Robust Std. Error	t-Statistic	p-Value
Intercept (C)	1.218	11.295	0.108	0.918
ROE	19.016	13.014	1.46	0.204
Net Income	0.000217	0.0000933	2.32	**0.068**
Total Equity	-0.00000848	0.00000692	-1.22	0.275

Interpretation: Net Income shows a marginally significant positive relationship with EPS, indicating that earnings drive per-share profitability. ROE and Total Equity were not statistically significant, possibly due to firm-level capital structure effects.

Model 4: ROE as Dependent Variable (Shareholder Returns Model)

Dependent Variable: ROE (Return on Equity)

Equation: $ROE_{it} = \alpha_i + \beta_1 . EPS_{it} + \beta_2 . Net\ Income_{it} + \beta_3 . DPS_{it} + \varepsilon_{it}$

Variable	Coefficient	Robust Std. Error	t-Statistic	p-Value
Intercept (C)	0.112	0.095	1.18	0.291
EPS	-0.0021	0.0044	-0.48	0.652
Net Income	-0.000000001	0.00000051	-0.0023	0.998
DPS	0.0170	0.0100	1.71	0.149

Interpretation: None of the predictors are statistically significant at the 5% level. DPS shows a marginal positive relationship with ROE, suggesting a potential but weak link between dividend payments and shareholder returns.

Model 5: P/E Ratio as Dependent Variable (Market Valuation Model)

Dependent Variable: P/E Ratio (Price-to-Earnings)

Equation: $P/E_{it} = \alpha_i + \beta_1 . EPS_{it} + \beta_2 . ROE_{it} + \beta_3 . DPS_{it} + \beta_4 . Net\ Income_{it} + \varepsilon_{it}$

Variable	Coefficient	Robust Std. Error	t-Statistic	p-Value
Intercept (C)	-41.65	494.12	-0.084	0.936
EPS	6.46	24.41	0.26	0.802
ROE	**4082.65**	777.68	**5.25**	**0.003**
DPS	-12.61	55.94	-0.23	0.831
Net Income	-0.0031	0.0037	-0.83	0.444

Interpretation: Only ROE is a statistically significant and strong predictor of P/E Ratio. This underscores that investors value firms with higher ROE more highly, reflecting greater efficiency in generating returns on shareholder capital.

5.4 Synthesis of Results

The panel data analysis reveals the following key insights:

- EPS is a robust predictor of DPS, affirming traditional dividend relevance theories.
- ROE significantly drives market valuation (P/E Ratio), highlighting investor preference for financial efficiency.
- Dividend Payout Ratios are weakly explained by financial metrics, suggesting influence from boardroom discretion, reinvestment strategy, and external factors.
- No strong evidence supports the hypothesis that dividends significantly impact ROE (i.e., signaling effect), though marginal trends exist.

6. Summary of Findings

This study examined dividend policy behavior among six Indian blue-chip companies over the period 2015–2021, applying fixed-effects panel regression models alongside firm-specific trend analysis. The main findings are summarized below:

6.1 Key Econometric Findings

1. ***EPS as a Dividend Driver**:* EPS was found to be a statistically significant and positive determinant of Dividend Per Share (DPS), supporting classical dividend relevance theories (Lintner, Gordon).
2. ***ROE and Market Valuation**:* ROE emerged as a strong and statistically significant predictor of the P/E Ratio, indicating that capital efficiency is a key metric shaping investor valuation in the Indian context.
3. ***Net Income's Complex Role**:* Net Income negatively influenced DPS and marginally influenced EPS, suggesting that high earnings may be retained rather than distributed, possibly reflecting reinvestment strategies or financial smoothing.
4. ***Dividend Payout Ratio Weakly Explained**:* The payout ratio was not significantly influenced by EPS, ROE, or P/E Ratio, implying that firms may rely on policy discretion, strategic smoothing, or non-financial considerations in determining payouts.

5. ***Limited Evidence for Dividend Signaling Effect:*** DPS showed a weak, non-significant positive relationship with ROE, offering marginal support for the signaling hypothesis but not enough to be statistically conclusive.

6.2 Firm-Specific and Sectoral Patterns

1. TCS and HUL followed high and stable dividend policies, driven by consistent cash flows and mature market positions.
2. Infosys exhibited a shift toward more generous payouts over time, reflecting its evolving capital policy.
3. ITC and RIL adopted more conservative strategies, balancing dividends with reinvestment.
4. SBI displayed erratic payout behavior influenced more by regulatory oversight and earnings volatility than by shareholder expectations.

6.3 Thematic Takeaways

1. **Profitability matters - but not alone:** While EPS and ROE are important, dividend decisions are also shaped by contextual factors such as industry norms, macroeconomic conditions, and capital requirements.
2. **Investors reward efficiency:** High ROE, more than DPS, is associated with stronger market valuations, signaling that investors prioritize long-term return generation over short-term cash payouts.
3. **Policy discretion is key:** Even among financially strong firms, dividend policies reflect management strategy, sectoral growth cycles, and regulatory context rather than automatic formulas.

7. Conclusion

This study provides a comprehensive investigation into the dividend policies of selected Indian blue-chip companies between 2015 and 2021, combining firm-level financial analysis with robust econometric modeling. By examining the interplay between profitability indicators (EPS, ROE, Net Income), dividend outcomes (DPS, payout ratio), and market valuation (P/E ratio), the research captures both quantitative rigor and contextual insight.

The analysis confirms the continued relevance of classical dividend theories in the Indian context. Earnings Per Share (EPS) emerged as a statistically significant determinant of Dividend Per Share (DPS), supporting the dividend relevance theory that emphasizes profit-driven payout decisions. Additionally, Return on Equity (ROE) showed a strong positive association with market valuation (P/E ratio), suggesting that investors place a premium on firms demonstrating superior capital efficiency. However, the study found limited evidence for a significant relationship between DPS and ROE, offering only weak support for the signaling hypothesis. This indicates that, while dividend announcements may convey managerial intent, they are not the sole or dominant factor shaping investor perceptions of firm quality.

Importantly, the findings reveal that payout decisions are not uniformly driven by financial metrics. The dividend payout ratio was not significantly explained by EPS, ROE, or valuation multiples, suggesting that corporate dividend policies are also shaped by internal strategy, regulatory frameworks, and industry-specific considerations. For example, companies such as TCS and HUL maintained high and stable dividend payments aligned with their mature and cash-rich operational models. In contrast, capital-intensive firms like Reliance Industries prioritized reinvestment over distribution, while public sector entities like SBI demonstrated irregular payouts heavily influenced by earnings volatility and policy oversight.

The study holds several practical implications. For corporate managers, it emphasizes the importance of aligning dividend policies with long-term earnings stability and capital needs, rather than short-term profitability spikes. For investors, the results highlight the value of metrics such as ROE and EPS as more consistent indicators of sustainable returns, compared to the payout ratio alone. For policymakers and regulators, especially in the banking sector, the research underscores the need to balance systemic prudence with shareholder expectations in dividend policy formulation.

Beyond its empirical contributions, the study fills a methodological and thematic gap in Indian dividend research by applying panel regression models across firms and sectors during a period marked by significant macroeconomic shifts - including demonetization, GST implementation, and the COVID-19 crisis. The nuanced firm-level analysis, combined with sectoral comparison and statistical depth, provides a contextualized understanding of how large corporates manage shareholder returns amid changing financial and regulatory environments.

In sum, this research highlights that dividend policy in India is a dynamic and multifaceted corporate decision, influenced by profitability, policy environment, sectoral maturity, and managerial philosophy. While financial indicators like EPS and ROE remain central, they operate within a broader framework of firm-specific strategies and external economic forces.

8. Limitations and Future Scope

While this study offers significant insights into the dividend behavior of Indian blue-chip companies, certain limitations must be acknowledged, which in turn present opportunities for further research.

Firstly, the study is confined to a purposively selected sample of six major companies across diverse sectors. Although these firms represent a cross-section of India's large-cap universe and provide sectoral breadth, the findings may not be fully generalizable to mid-cap or small-cap companies, which often exhibit different dividend behaviors due to liquidity constraints, governance challenges, and capital structure differences. Expanding the sample size and including a wider range of companies - both listed and unlisted - would enhance external validity and allow for broader inferences.

Secondly, the study relies exclusively on secondary data drawn from published financial reports and regulatory filings. While these sources are reliable and publicly available, they do not capture qualitative or behavioral dimensions of dividend decisions - such as boardroom deliberations, promoter preferences, investor sentiment, or corporate governance influences. These non-financial factors may play a critical role in shaping dividend outcomes, particularly in the Indian context where ownership structures and regulatory expectations vary widely. Future research could incorporate primary data through surveys, interviews, or case studies to triangulate and enrich quantitative findings.

Methodologically, the use of fixed-effects panel regression has been appropriate for isolating firm-specific characteristics and identifying within-group variation. However, the models do not fully address potential endogeneity issues that may arise from reverse causality or omitted variable bias. Advanced econometric techniques such as Generalized Method of Moments (GMM) or system-based dynamic panel models could be employed in future studies to refine causal interpretations and account for feedback effects between profitability and dividend policy.

Additionally, the study period - spanning from 2015 to 2021 - captures significant macroeconomic and regulatory events such as demonetization, GST rollout, and the COVID-19 pandemic. However, it does not extend to the post-pandemic recovery period, during which corporate dividend strategies may have adjusted in response to new economic realities, evolving ESG imperatives, and digital transformation. An extended timeline would enable researchers to evaluate whether the trends observed during this period persisted, reversed, or evolved in the wake of structural changes in the Indian economy.

Finally, emerging themes such as the impact of environmental, social, and governance (ESG) factors, corporate social responsibility obligations, and sustainable finance practices on dividend behavior remain underexplored. As investors and regulators increasingly demand transparency and accountability, future research could examine how ESG scores or corporate governance indices influence dividend payout decisions, particularly among firms with diverse stakeholder commitments.

In conclusion, while the present study provides a solid empirical foundation for understanding dividend policies in Indian blue-chip firms, the dynamic nature of corporate finance necessitates continuous inquiry. Future research should aim to deepen and broaden this understanding by integrating qualitative insights, advanced econometric techniques, a larger and more diverse sample base, and emerging variables that reflect the evolving landscape of corporate accountability and investor expectations.

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