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DIVIDEND POLICIES OF INDIAN AGRO-BASED COMPANIES: A COMPREHENSIVE ANALYSIS

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Abstract

This study examines the dividend policies that Indian agro-based businesses have implemented. The paper examines the variables affecting dividend distribution, examines payout ratio changes, and assesses how these policies affect stakeholders. The study offers insights into how Indian agro-based companies combine profitability, growth, and shareholder expectations in their dividend decisions by analysing financial statements, industry reports, and scholarly literature.

Key Words: Dividend, Agro-based companies, firm value, profitability

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1. Introduction

For the risk they assume, every investor anticipates a specific rate of return on their investment. Businesses have two options for distributing profits to their shareholders: share repurchases or dividends. Dividends (current income) provide investors with a return on their investment. On the other hand, a business could decide not to share its profits if it has a valuable investment opportunity. The investment in a successful enterprise will also raise a company's worth, giving investors capital gains (future income). Theoretically, shareholder wealth is maximised by both dividend payout and retention. Miller and Modigliani (1961) came to the conclusion that investors shouldn't distinguish between dividends and keeping profits. But Miller and Modigliani's presumptions of a stable investment strategy, a flawless capital market, no taxes, and certainty do not

According to some research, a company's worth is impacted by its dividend decision (Walter 1963). This is connected to the company's investing strategy. Additionally, researchers hypothesise that investors are often risk averse and prefer to obtain specific dividends over uncertain capital gains may provide a greater risk. Because investors favour current income over future revenue, this is known as the "bird-in-hand" argument (Gordon 1963). Additionally, dividends and capital gains have differing tax treatment. Additionally, investors' choice of equities is influenced by their tax preferences as well as the particular dividend policies of the stocks. This phenomenon is known as the "clientele effect." However, managers do not use dividends to draw in investment clients, according to Allen et al. (2000).

A company's dividend policy, which reflects how it distributes profits to shareholders, is a crucial component of its financial strategy. These policies are impacted by particular issues faced by agro-based businesses in India, including seasonal revenue, monsoon dependence, and governmental requirements. The purpose of this essay is to examine the variables influencing dividend decisions and how they relate to the generation of shareholder value.

2. Literature Review

Research on dividend policies highlights two primary theories: the "Bird-in-the-Hand" theory and the "Tax Preference" theory. While the former suggests that investors prefer predictable dividends, the latter emphasizes the benefits of retained earnings for long-term growth. Studies on Indian agro-industries reveal that dividend policies are often conservative due to fluctuating earnings and reliance on external factors like crop yields and commodity prices.

3. Methodology

This study employs a mixed-method approach, including:

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- **Quantitative Analysis**: Examining financial data from 50 agro-based companies listed on Indian stock exchanges over the past decade (2013-2019).
- **Qualitative Analysis**: Conducting interviews with financial managers and industry experts to understand strategic considerations.
- **Comparative Analysis**: Benchmarking Indian agro-based firms' dividend practices against global counterparts.

4. Factors Influencing Dividend Policies

4.1 Profitability and Cash Flow

Profitability remains a primary determinant of dividend payouts. Companies with stable earnings, such as those involved in processed foods, are more likely to maintain consistent dividends compared to firms in crop production, where revenues are seasonal.

4.2 Government Policies and Subsidies

Government interventions, such as Minimum Support Prices (MSPs) and agricultural subsidies, indirectly impact dividend capabilities by stabilizing or destabilizing cash flows.

4.3 Capital Expenditure and Debt Levels

Many agro-based firms prioritize reinvestment into technology and infrastructure. High debt levels further constrain dividend distribution.

4.4 Market Sentiment and Shareholder Expectations

Investors in agro-based companies often seek moderate but stable returns. Companies may adopt a balanced approach to maintain investor confidence.

5. Trends in Dividend Policies

5.1 Dividend Payout Ratios

An analysis of financial data indicates that the average dividend payout ratio among Indian agro-based firms ranges between 15-30%, lower than other industries due to revenue volatility.

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5.2 Dividend Frequency

Most agro-based firms declare annual dividends, with only a few adopting interim payouts. This trend reflects the cyclical nature of their business.

5.3 Case Studies

- **ITC Limited**: A diversified player with significant agro-based operations, ITC maintains a consistent dividend policy, attributing its stability to diversified revenue streams.
- **Godrej Agrovet**: Focused on reinvestment, the company's moderate dividend payouts are aligned with growth strategies.

6. Implications of Dividend Policies

6.1 Impact on Shareholders

Stable dividend payouts enhance investor confidence, attracting both retail and institutional investors. However, low payout ratios may deter dividend-seeking investors.

6.2 Impact on Growth and Innovation

Retained earnings enable firms to invest in R&D, adopt sustainable practices, and expand operations, fostering long-term growth.

6.3 Corporate Governance and Transparency

Well-structured dividend policies reflect sound governance practices, improving market reputation and stakeholder trust.

7. Challenges and Recommendations

7.1 Challenges

- Unpredictable climatic conditions and revenue fluctuations.
- High dependency on government policies.

- Limited access to capital markets for smaller agro-based firms.

7.2 Recommendations

- **Diversification**: Expanding into value-added products to stabilize revenue streams.
- **Dynamic Policies**: Adopting flexible dividend strategies based on profitability cycles.
- **Stakeholder Engagement**: Transparent communication about dividend decisions to manage expectations.

8. Conclusion

Developing dividend plans presents particular difficulties for Indian agro-based businesses. These businesses can improve their financial stability and competitiveness in the market by taking a balanced approach that takes profitability, growth, and shareholder expectations into account. It is recommended that more research be done to examine how dividend plans are affected by new developments like digitalisation and sustainable agriculture.

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