

## **Dividend Strategy of Indian Manufacturing Companies: An Empirical Assessment**

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*The paper empirically investigates the dividend strategy of a sample of Indian manufacturing firms. Dividend policy is measured by the probability that dividend is paid, and the relative amount of dividends paid. It is found that bigger and mature firms tend to pay higher dividends. We also find significant divergence in dividend policy across firm ownership. More specifically, the possibility of initiating or paying the same dividends in two consecutive years for firms is more likely to happen in an upturn. Dividend payments are significantly and negatively related to leverage, attesting to the fact that high debt is an important constraining factor for firms in paying dividends. In sum, dividend policy of firms depends on firm-level factors as well as business cycle considerations.*

### **I Introduction**

Examining the dividend payout decisions of firms is one of the fundamental components of corporate policy. The dividend policy of a company determines the division of earnings between payments to stockholders and reinvestments in the firm. The task of managers is to allocate the earnings to dividends or retained earnings. Retained earnings are one of the most significant sources of funds for financing corporate growth. Corporate growth makes it eventually possible to get more dividends.

In this paper an attempt has been made to empirically investigate the dividend strategy of a sample of Indian manufacturing firms. The present analysis differs from extant studies in a few important ways. First, unlike the earlier studies, our focus is on the dividend policy. Accordingly, in addition to exploring the factors influencing dividend decisions, we also examine how the dividend policy of previous years shapes a firm's current decision on paying dividends. Second, we focus on a much extended time period spanning firms across various ownership categories than what has been considered in previous

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