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Financial Determinants and Dividend Payout Decisions of Pharmaceutical Industry in India: An Empirical Analysis

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Abstract:

Dividend policy is an important financial decision because it determines the proportion of earnings distributed to shareholders and the amount retained for future growth. This study examines the dividend payout behaviour and selected financial determinants of pharmaceutical companies listed in India. The study analyses eleven pharmaceutical companies over the period 2013–2022 using secondary data. Dividend Payout Ratio, Revenue from Operations, Net Profit, Dividend Paid, Cash Earnings Retention Ratio, Long-Term Liabilities, Enterprise Value, and Market Capitalisation are considered. Descriptive statistics, Analysis of Variance (ANOVA), and multiple regression analysis are employed. The ANOVA results indicate significant differences in dividend payout among the selected companies. The regression model explains approximately 83.97% of the variation in market capitalisation. Net Profit and Dividend Paid have significant positive relationships with market capitalisation, whereas growth in Long-Term Liabilities has a significant negative relationship. Revenue from Operations, Dividend Payout Ratio, and Cash Earnings Retention Ratio are not statistically significant individually. The findings indicate that profitability, shareholder distribution, and prudent liability management are important considerations in enhancing market value in the pharmaceutical industry.

Keywords: *Dividend Payout, Pharmaceutical Industry, Market Capitalisation, Enterprise Value, Profitability, Financial Determinants*

Introduction

Dividend policy represents the decision of a company regarding the distribution of profits between shareholders and retained earnings. It is an important component of corporate financial management because dividend decisions influence shareholder

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income, internal financing, investment capacity, and market perception. A company must therefore balance current shareholder returns with the need to retain earnings for future expansion.

The pharmaceutical industry is an important component of the Indian economy and is characterised by research and development expenditure, product innovation, regulatory requirements, export opportunities, and substantial investment needs. These characteristics may influence dividend decisions differently from those of other industries.

Dividend policy has remained an important subject in financial research since the pioneering work of Lintner (1956) and Miller and Modigliani (1961). While dividend irrelevance theory argues that dividend policy does not affect firm value under perfect-market assumptions, signalling and agency theories suggest that dividend decisions may convey information to investors and reduce agency problems. The present study therefore examines dividend payout behaviour and the relationship between selected financial variables and market capitalisation in selected Indian pharmaceutical companies.

Theoretical Background

Miller and Modigliani (1961) argued that, under perfect capital-market conditions, dividend policy does not affect firm value. Dividend signalling theory suggests that dividend announcements may provide information about management's expectations regarding future earnings. Agency theory proposes that dividend payments can reduce free cash available to managers and may help control agency problems. The bird-in-the-hand perspective suggests that some investors may prefer current and relatively certain dividend income over uncertain future capital gains.

Review of Literature

Lintner (1956) demonstrated the importance of profitability and dividend stability in corporate payout decisions. Miller and Modigliani (1961) developed the dividend irrelevance proposition under ideal market conditions. Bhattacharya (1979) argued that dividends can serve as signals of future profitability. Brahmaiah and Bezawada (2017) highlighted the influence of firm-specific factors such as risk, cash flows, profitability, and agency costs on dividend policy. Pinto (2019) examined industry effects on dividend decisions among Indian companies and showed that industry characteristics can influence corporate dividend behaviour. The literature therefore indicates that dividend decisions are influenced by multiple financial and industry-specific factors.

Objectives of the Study

1. To examine the dividend payout behaviour of selected pharmaceutical companies in India.
2. To analyse differences in dividend payout among the selected pharmaceutical companies.

3. To examine the trend in market capitalisation of selected pharmaceutical companies.
4. To analyse the relationship between selected financial variables and market capitalisation.
5. To identify important financial determinants associated with market valuation in the pharmaceutical industry.

Hypotheses

- **H01**: There is no significant difference in dividend payout among the selected pharmaceutical companies and across the study period.
- **H02:** Revenue from Operations, Net Profit, Dividend Paid, Dividend Payout Ratio, Cash Earnings Retention Ratio, and Long-Term Liabilities has no significant relationship with Market Capitalisation in the selected pharmaceutical companies.
- **H03:** Revenue from Operations, Net Profit, Dividend Paid, Dividend Payout Ratio, Cash Earnings Retention Ratio, and Long-Term Liabilities have no significant relationship with Enterprise Value in the selected pharmaceutical companies.

Research Method

The study adopts a descriptive and analytical research design to examine dividend payout patterns and the relationship between selected financial indicators and market capitalisation.

Sample and Period

The study covers eleven selected pharmaceutical companies for the period 2013–2022, resulting in 110 company-year observations. Aarti Drugs Ltd.; Aurobindo Pharma Ltd.; Ajanta Pharma Ltd.; Bajaj Healthcare Ltd.; Cipla Ltd.; Coral Laboratories Ltd.; Divi's Laboratories Ltd.; Dr. Reddy's Laboratories Ltd.; Glenmark Pharmaceuticals Ltd.; JB Chemicals and Pharmaceuticals Ltd.; and Laurus Labs Ltd.

Variables and Data Sources

The study uses secondary financial data relating to Revenue from Operations, Net Profit, Dividend Paid, Dividend Payout Ratio, Cash Earnings Retention Ratio, Long-Term Liabilities Growth Rate, Enterprise Value, and Market Capitalisation. The source manuscript reports the study period as 2013–2022.

Data Analysis

Descriptive statistics, compound annual growth rate, ANOVA, and multiple regression analysis are used. The regression model examines the association between selected financial variables and market capitalisation.

Results

Dividend Payout Analysis

Company	Average DPR (%)	Variance
Aarti Drugs Ltd.	13.00	118.46
Aurobindo Pharma Ltd.	9.66	11.09
Ajanta Pharma Ltd.	18.00	22.96
Bajaj Healthcare Ltd.	3.11	0.75
Cipla Ltd.	15.07	26.61
Coral Laboratories Ltd.	9.93	7.39
Divi's Laboratories Ltd.	29.37	166.22
Dr. Reddy's Laboratories Ltd.	25.98	261.89
Glenmark Pharmaceuticals Ltd.	6.34	14.43
JB Chemicals & Pharmaceuticals Ltd.	40.34	1,392.50
Laurus Labs Ltd.	7.38	28.13

Note. DPR = Dividend Payout Ratio. Values are reported from the supplied study data.

The results demonstrate substantial differences in dividend policy. JB Chemicals and Pharmaceuticals Ltd. recorded the highest average payout (40.34%), whereas Bajaj Healthcare Ltd. recorded the lowest (3.11%). Divi's Laboratories Ltd. and Dr. Reddy's Laboratories Ltd. also maintained relatively high average payouts. The high variance for JB Chemicals indicates substantial fluctuations in its payout policy, while Bajaj Healthcare's low variance indicates a comparatively stable policy.

ANOVA of Dividend Payout

Source	SS	df	MS	F	p	F Critical
Between Groups	12,950.25	10	1,295.02	6.947	3.68E-08	1.928
Within Groups	18,453.85	99	186.40			
Total	31,404.10	109				

The calculated F-value (6.947) is greater than the critical F-value (1.928), and the p-value (3.68E-08) is below .05. Therefore, H01 is rejected. There is a statistically significant difference in dividend payout among the selected pharmaceutical companies and across the study period. The variation may be associated with differences in profitability, investment requirements, financial risk, growth opportunities, and shareholder expectations.

Company-wise Dividend Trends

Aarti Drugs Ltd.: The payout declined from 26.74% in 2013 to 2.70% in 2019, followed by some recovery, indicating greater emphasis on retention and reinvestment.

Aurobindo Pharma Ltd.: The payout was generally moderate, ranging from about 6.68% to 18.12%, with the highest reported value in 2022.

Ajanta Pharma Ltd.: The payout increased to 25.71% in 2020 before declining to 11.42% in 2022.

Bajaj Healthcare Ltd.: The payout remained consistently low, between 1.93% and 4.23%, indicating a conservative distribution policy.

Cipla Ltd.: The payout increased during 2020 and 2021 and declined in 2022, indicating changes in the balance between distribution and retention.

Coral Laboratories Ltd.: The company maintained a moderate payout with fluctuations during the study period.

Divi's Laboratories Ltd.: The average payout was relatively high at 29.37%, with a peak of 61.88% in 2020.

Dr. Reddy's Laboratories Ltd.: The average payout was 25.98%; an unusually high payout of 70.41% was reported in 2018.

Glenmark Pharmaceuticals Ltd.: The average payout was conservative at 6.34%, indicating greater emphasis on retained earnings.

JB Chemicals and Pharmaceuticals Ltd.: The company recorded the highest average payout (40.34%) and an exceptional 105.38% payout in 2016.

Laurus Labs Ltd.: The average payout of 7.38% indicates a relatively conservative dividend policy.

Multiple Regression Analysis

The regression model examines the relationship between Market Capitalisation and six financial predictors: Revenue from Operations, Net Profit, Dividend Paid, Dividend Payout Ratio, Cash Earnings Retention Ratio, and Long-Term Liabilities Growth Rate.

Statistic	Value
Multiple R	0.9163
R^2	0.8397
Adjusted R^2	0.8304
Standard Error	9,623.33
Observations	110
F	89.9175
Significance of F	1.13E-38

The R^2 value of .8397 indicates that approximately 83.97% of the variation in market capitalisation is explained by the selected financial variables. The overall model is statistically significant, with $F = 89.9175$ and $p < .001$.

Predictor	B	t	p	Interpretation
Revenue from Operations	0.898	1.457	.148	Not significant
Net Profit	15.484	4.213	<.001	Positive, significant

Dividend Paid	47.597	3.909	<.001	Positive, significant
Dividend Payout Ratio	292.098	1.016	.312	Not significant
Cash Earnings Retention Ratio	509.763	1.370	.174	Not significant
Long-Term Liabilities Growth Rate	-6.712	-4.107	<.001	Negative, significant

Note. B = unstandardized regression coefficient. Values are reported from the supplied regression output.

Net Profit has a significant positive relationship with market capitalisation, indicating that stronger profitability is associated with higher market valuation. Dividend Paid also has a significant positive relationship, suggesting that shareholder distributions are positively associated with market value. In contrast, Long-Term Liabilities Growth Rate has a significant negative coefficient, indicating that increasing long-term financial obligations are associated with lower market capitalisation. Revenue from Operations, Dividend Payout Ratio, and Cash Earnings Retention Ratio are not statistically significant individually.

Because the overall regression model is statistically significant, H02 is rejected at the model level. However, the individual predictors differ in significance. The supplied manuscript does not provide a complete regression output for Enterprise Value; therefore, no independent conclusion regarding H03 is added.

Discussion

The findings indicate that dividend policy in the pharmaceutical industry is heterogeneous. Companies differ considerably in their payout levels and the stability of their dividend decisions. Higher payout companies appear to place greater emphasis on shareholder distribution, while conservative payers retain a larger share of earnings for internal financing and growth.

The regression results suggest that profitability is more directly associated with market capitalisation than the payout ratio itself. The positive coefficient for Net Profit supports the importance of financial performance in market valuation. The positive association between Dividend Paid and market capitalisation is consistent with the view that dividends may influence investor perceptions. The negative relationship between long-term liabilities and market capitalisation highlights the importance of financial risk management.

Practical Implications

- Pharmaceutical companies should maintain a sustainable balance between dividend distribution and internal financing.
- Companies should strengthen profitability through operational

efficiency, product diversification, cost control, and innovation.

- Long-term liabilities should be carefully managed to limit financial risk and protect investor confidence.
- Highly volatile dividend policies should be replaced, where feasible, with more predictable and sustainable payout practices.
- Retained earnings should be strategically invested in research and development, technology, capacity expansion, and market development.

Conclusion

The study concludes that dividend payout policies differ significantly among selected Indian pharmaceutical companies. The ANOVA results confirm substantial differences across firms and years, reflecting variations in profitability, investment needs, financial strategy, and shareholder expectations. The regression analysis demonstrates that selected financial variables explain a large proportion of variation in market capitalisation. Net Profit and Dividend Paid have significant positive relationships with market capitalisation, while growth in Long-Term Liabilities has a significant negative relationship. These findings suggest that profitability, shareholder distribution, and prudent financial leverage are important considerations in pharmaceutical company valuation. An effective dividend policy should therefore balance current shareholder returns with long-term investment and financial stability. Pharmaceutical companies can enhance sustainable value creation by maintaining strong profitability, adopting predictable dividend practices, and managing long-term liabilities prudently.

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