

# A Study on Dividend Payment Policy of Larsen And Toubro – Impact on Its Financial Performance

S.Monika<sup>1</sup>, Dr. A. Vini Infanta<sup>2</sup>

<sup>1</sup>Dept of B.com-PA

<sup>2</sup>Assistant professor, Dept of B.com-PA

<sup>1,2</sup>Sri Ramakrishna College of Arts and Science Coimbatore-06

**Abstract-** This study delves into the impact of dividend policies on the financial performance of Larsen & Toubro Pvt Ltd (L&T), a prominent Indian conglomerate, over the period of 2019 to 2023. The research examines various financial indicators such as gross profit ratio, net profit ratio, return on investment (ROI), equity per share, dividend per share, and dividend yield ratio to assess the relationship between dividend payments and the overall financial health of the company. Secondary data from annual reports, balance sheets, and profit statements of L&T, along with relevant literature, are utilized for analysis. Findings indicate that L&T exhibited commendable financial performance, with consistent efficiency in generating profits from net sales. While there were fluctuations in dividend per share, the dividend yield ratio increased, reflecting improved income potential for investors. Suggestions for further analysis include conducting a comparative study of L&T's dividend policies, benchmarking against industry peers, and exploring the interplay between corporate governance and dividend policy. Overall, this study provides insights into the optimal dividend policy that can maximize financial performance and meet shareholder expectations for companies like L&T.

**Keywords-** Dividend policies, Equity per share, Fluctuations in dividend per share, Dividend forecasting, Growth

## I. INTRODUCTION

Larsen & Toubro Ltd, commonly known as L&T, is an Indian multinational conglomerate company, with business interests engineering, construction, manufacturing, technology, information technology and financial services, headquartered in Mumbai. The company is counted among companies, operating across basic and heavy engineering, construction, realty, manufacturing of capital goods, information technology, and financial services. L&T addresses critical needs in keysectors- Hydrocarbon, Infrastructure, Power, Process Industries and Defence for customers in over 30 countries around the world. L&T is engaged in core high impact sectors of the economy and our integrated capabilities

span the entire spectrum of 'design to deliver'. With over 8 decades of world's top five construction companies. It was founded by Henning Holck Larsen and Soren Kristian Toubro, who were two Danish engineers taking refuge in India. As of 2020, L&T Group comprises 118 subsidiaries, 6 associates, 25 joint-venture and 35 joint operations a strong, customer focused approach and a continuous quest for world-class quality. Three key products/services which L&T is engaged in are: Construction and project-related activity; manufacturing and trading activity; and engineering services.] L&T sold L&T Mutual Fund to HSBC on November 26, 2022. L&T IDPL was sold to Edelweiss Alternatives for Rs. 6,000 crores. For administrative purposes, the conglomerate has been structured into sixteen subsidiary companies. A dividend is a sum of money given to shareholders by a company from its profits. When a corporation earns a profit or surplus, it is able to pay a proportion of the profit as a dividend to shareholders. The remaining profit after dividend, namely retained earnings will be used to reinvest in the future. A high dividend payment suggests that the corporation is reinvesting less money back into the business. Companies with large dividend yields typically draw investors who value the certainty of a consistent income stream over a strong potential for share price rise, according to Khan et al. (2019). Conversely, low dividend paying corporations indicate that they are reinvesting in business expansion to increase investors' future capital gains. The incidence of disparate study results is the driving force for this work. It seeks to determine how the firm's financial performance is impacted by dividend policy, as expressed by the dividend rate and dividend payment choice. The results of this study may add to the body of literature by validating earlier findings. Additionally, it might support management of listed companies in establishing dividend policies that would regulate their cash flow and financial outcomes.

## II. REVIEW OF LITERATURE

- Amidu, M. (2007) "Determinates of capital structure of banks in Ghana: an empirical approach" This research

investigated the possibility that dividend policy affects Ghanaian corporate performance. Data from the financial statements of companies listed on the Ghana Stock Exchange (GSE) for the last eight years is used for the studies. The findings indicated that growth in sales, dividend policy, and return on assets were all positively correlated. Remarkably, the analysis shows that larger GSE companies do worse in terms of return on assets. Additionally, the findings showed a negative correlation between dividend payout ratio and return on assets

- Zheng, Changjun, and Badarnadeemasharf. (2014) "National culture and dividend policy: International evidence from banking" This study looks at the relationships between three aspects of national culture and bank dividend policy using data from 51 countries' banks between 1998 and 2007. Using the three dimensions of Hofstede et al. (2010), we conduct our primary analysis and find that banks in nations with high levels of long-term orientation, low levels of masculinity, and strong uncertainty avoidance pay fewer dividends overall and are less likely to issue dividends at all. We also use the comparable three national culture dimensions of House et al. (2004) to corroborate our main findings. We find that banks in countries with high levels of uncertainty avoidance, high levels of future orientation, and low levels of assertiveness pay fewer dividends overall and are less likely to pay dividends at all.
- Murekefu, M. T., and P. O. Ouma (2012) "The relationship between dividend payout and firm performance" The purpose of this study is to look into how dividend policies affect a company's bottom line. The study first identifies the research gap before developing a research model with dividend rate and dividend payment decision as independent variables and ROA, ROE, and Tobin's Q as dependent variables. The study gathered information and financial statements from 450 companies that float on the Vietnamese stock exchange between 2008 and 2019. The analysis's findings show that, although the choice to pay dividends improves market expectations for businesses, Vietnamese firms' accounting-based performance is negatively impacted by it. The study also discovers that low dividend rates are offered by Vietnamese companies, which has a favorable influence on accounting-based performance but a detrimental effect on market expectations
- Ali Adnan, Farzand Ali Jan, and Maryam Atta. (2015) "The impact of dividend policy on firm performance under high or low leverage: Evidence from Pakistan" The aim of this study is to determine how dividend

policies affect the performance of all non-financial sector companies listed on the Karachi Stock Exchange, regardless of their level of debt. With a sample size of 122 businesses, this study made use of secondary data that the State Bank of Pakistan supplied in the form of a balance sheet analysis of the non-financial sector for the years 2006 to 2001. The effect of dividend policy on company performance in the presence of high or low leverage has been investigated using panel data models. Tobin's Q and Return on Equity, two performance metrics, have been employed mostly as dependent factors, with the moderating variable serving as the control variable.

### STATEMENT OF THE PROBLEM:

The problem we aim to address is understanding how dividend payments impact the financial performance of a firm. We want to investigate the relationship between dividend payments and key financial indicators such as profitability, cash flow, and shareholder value. By analyzing this relationship, we can provide insights into the optimal dividend policy that can maximize the firm's financial performance and meet the expectations of its shareholders. We will examine various factors such as earnings per share, return on equity, and stock price volatility to assess the relationship between dividend payments and the overall financial health of the company

### OBJECTIVE OF THE STUDY:

- To examine the impact of dividend payment of shares on the companies performance.
- To determine the return on investment of the company to its shareholders.
- To identify the growth of the company through its dividend payment policies.

### III. RESEARCH METHODOLOGY

Secondary data is gathered from various sources such as past records, books, Journals, magazines, and websites, among other published data. The study is conducted for a period of five years, starting from 2017-2022

### SOURCES OF DATA:

This study uses data from Larsen and Toubro Pvt Ltd annual reports, balance sheet, and statement of profits and loss, as well as secondary data from publications and websites. Financial information is sourced from the official Websites of the company. Secondary data is also used

**NATURE OF DATA:**

- Secondary data refers to data that is already collected by another researcher or organization, but not collected directly by the researcher. Example of secondary includes academic journal articles, government, industry news releases, books, webpages, and more.
- Secondary data research methodology refers to a systematic approach to the collection, analysis, and interpretation of secondary data

**TOOLS FOR ANALYSIS:**

The main tools used or analysis of collected data are:

- Gross profit
- Net profit
- Dividend per share
- Equity per share
- Return on investment
- Dividend yield ratio

**IV. ANALYSIS AND INTERPRETATION****1.GROSS PROFIT RATIO:**

The gross profit ratio (GP ratio) is a financial ratio that measures the profitability of a company by dividing its gross profit by net sales. The gross profit ratio is a percentage-based metric that shows how efficiently a company generates profit from its core business operations.

**GROSS PROFIT RATIO= GROSS PROFIT/ NET SALES\*100**

YEAR	GROSS PROFIT	NET SALES	GROSS PROFIT RATIO
2019	125478.20	18995.11	86.85%
2020	108838.09	125938.93	86.42%
2021	94143.32	109714.72	85.80%
2022	105645.39	121194.05	87.17%
2023	101104.24	115875.8	87.25%

**INTERPRETATION:**

From the above table, we can interpret that gross profit ratio of Larsen and turbo pvt ltd has increased from 86.85% in the year 2019 to 87.25% in the year 2023. This increase is because of the profit in 2023, the ratio remained

relatively stable, indicating a consistent level of efficiency in generating profits from net sales.

**2.NET PROFIT RATIO:**

Net sales are the total revenue generated by a company, excluding any sales returns, allowances, and discounts. It is a very important figure and is used by analysts when making decisions about the business or analyzing a company's top line growth.

**NET PROFIT RATIO=NET PROFIT AFTER TAX/ NET SALES\*100**

YEAR	NET PROFIT AFTER TAX	NET SALES	NET PROFIT RATIO
2019	9668.25	115875.8	8.34%
2020	10167.75	121194.05	8.38%
2021	4668.96	109714.72	4.25%
2022	10291.05	125938.93	8.17%
2023	12624.87	144473.31	8.73%

**INTERPRETATION:**

From the above table we can interpret that the net profit ratio of Larsen and turbo Pvt ltd has increased from 8.34% in the year 2019 to 8.73% in the year 2023. This increase is because of the increased sales and revenues in the company.

**3.RETURN ON INVESTMENT(ROI):**

Return on investment (ROI) is a performance measure used to evaluate the efficiency or profitability of an investment or compare the efficiency of a number of different investment. ROI tries to directly measure the amount of return on a particular investment, relative to the investment's cost.

**RETURN ON INVESTMENT= OPERATING PROFIT RATIO/ CAPITAL EMPLOYED\*100**

YEAR	OPERATING PROFIT RATIO	CAPITAL EMPLOYED	RETURN ON INVESTMENT
2019	39657.51	144545.05	38.05%
2020	49477.11	163410.92	34.30%
2021	51360.22	173865.7	29.54%
2022	55094.75	160615.39	30.27%
2023	64048.57	168286.32	27.43%

**INTERPRETATION:**

From the above table we can interpret that the (ROI) ratio of Larsen and turbo Pvt Ltd has decreased from 38.05% in the year 2019 to 27.43% in the year 2023. Despite fluctuations, the business maintained relatively high ROI values throughout the period, indicating a generally profitable investment compared to its capital employed.

**4.EQUITY PER SHARE:**

Equity per share represents the net-asset value backing up each share of the company stock. Growth in equity per share is therefore one of the key variables in determining if a company is increasing shareholder wealth over time

**EQUITY PER SHARE=NET PROFIT AFTER TAX + PREFERENCE DIVIDEND/ NO OF EQUITY SHARE**

YEAR	NET PROFIT AFTER TAX + PREFERENCE DIVIDEND	NO. OF EQUITY SHARES	EQUITY PER SHARE(Rs.)
2019	9668.25 + 12132	140.27	155.41
2020	10167.75+52731.64	140.39	448.03
2021	4998.96+61063.79	140.46	467.98
2022	1029.05+67139.90	140.50	551.10
2023	12624.87+74519.94	140.54	620.07

**INTERPRETATION:**

From the above table, we can interpret that the return on equity per share of Larsen and Turbo Pvt Ltd has increased from Rs.155.41 in the year 2019 to Rs.620.07 in the year 2023. The equity per share has been increasing steadily over the years, indicating growth in the net-asset value backing up each share of the company stock.

**5.DIVIDEND PER SHARE:**

The term dividend per share (DPS) refers to the total dividend a company pays out over a 12-month period, dividend of the total number of outstanding shares. A company uses this calculation to share profits with its shareholders.

**DIVIDEND PER SHARE=ANNUALISED DIVIDEND / NO.OF.SHARE OUTSTANDING**

YEAR	ANNUALISED	NO.OF.SHAREO UTSTANDING	DIVIDEN D PER SHARE(R s.)
2019	2243.18	140.13	16
2020	3929.61	140.27	28.01
2021	3650.89	140.39	26
2022	2528.38	140.46	18
2023	3091.42	104.50	22

**INTERPRETATION:**

From the above table, we can interpret that the return on dividend per share of larsen and turbo pvt ltd has increased from Rs.16 in the year 2019 to Rs.22 in the year 2023. Looking at the trend over the years, we can observe fluctuations in the dividend per share.

**6. DIVIDEND YIELD RATIO:**

Dividend the financial ratio that measures the quantum of cash dividends paid out to shareholders relative to the market value per share. It is computed by dividend the dividend per share by the market price per share and multiplying the result by 100.

**DIVIDEND YIELD RATIO=DIVIDENT PER SHARE / MARKET VALUE OER SHARE**

YEAR	DIVIDEND PER SHARE	MARKET VALUE PER SHARE	DIVIDEND YEILD RATIO
2019	16	2.36	6.7
2020	28.01	1.37	20.44
2021	26	2.72	9.5
2022	18	2.46	7.3
2023	22	2.75	8

**INTERPRETATION:**

From the above table, we can interpret that the return on dividend yield ratio of Larsen and turbo Pvt Ltd has increased from 6.7 in the year 2019 to 8 in the year 2023. the dividend yield ratio provides insight into how much a company pays out in dividends relative to its share price, and it can be a useful metric for investors evaluating the income potential of an investment.

## LIMITATIONS OF THE STUDY:

- The period of study was made for the past 5 years.
- The study has been made only by the secondary data.
- The value which is computed are only approximate value not an accurate value.

## V. FINDINGS

Dividend per share has fluctuated over the years, from Rs. 16 in 2019 to Rs. 22 in 2023, with no clear trend observed. The dividend yield ratio increased from 6.7% in 2019 to 8% in 2023, suggesting an improvement in the company's dividend payout relative to its share price.

Equity per share has shown a steady increase from Rs. 155.41 in 2019 to Rs. 620.07 in 2023, indicating growth in net asset value backing up each share of the company stock. Despite fluctuations, the ROI remained relatively high, indicating a generally profitable investment compared to capital employed, although it decreased from 38.05% in 2019 to 27.43% in 2023.

The gross profit ratio has shown a consistent trend of improvement from 86.85% in 2019 to 87.25% in 2023, indicating efficient generation of profits from net sales over the years. The net profit ratio has also demonstrated an increasing trend from 8.34% in 2019 to 8.73% in 2023, attributed to increased sales and revenues.

Overall, the company has shown improvements in profitability ratios such as gross profit and net profit, indicating efficient operations and increased revenue. Despite a decrease in ROI, the company has maintained profitability relative to capital employed. Additionally, the growth in equity per share suggests value creation for shareholders. However, the fluctuating dividend per share highlights potential inconsistencies in dividend policy.

## VI. SUGGESTIONS

To comprehensively analyze Larsen & Toubro Ltd (L&T) dividend policies, several avenues of investigation can be pursued. Firstly, conducting a comparative study of L&T's dividend policies across different years and juxtaposing these findings with relevant literature can offer insights into alignment or divergence with global or industry norms. Secondly, a meticulous examination of how L&T's financial performance metrics, particularly profitability ratios, have been affected by its dividend policies over time is imperative. Distinguishing between short-term and long-term impacts can shed light on the sustainability of L&T's dividend strategies.

Moreover, benchmarking L&T's financial performance and dividend policies against its industry peers could provide valuable competitive positioning insights. Additionally, exploring the influence of economic conditions on L&T's dividend policies and financial performance, along with analyzing investor sentiment and market reactions, can enrich the understanding of market dynamics. Employing predictive modeling techniques to forecast future dividend payments and conducting sensitivity analyses can further enhance strategic decision-making. Investigating the interplay between corporate governance practices and dividend policy is crucial for understanding governance's role in shaping L&T's dividend decisions. Lastly, assessing the implications of dividend policies on shareholder value creation can guide recommendations for optimizing dividend strategies in the future. By delving into these realms of analysis, a holistic understanding of the relationship between dividend policy and financial performance at L&T can be attained, facilitating informed decision-making and strategic planning.

## VII. CONCLUSION

Larsen & Toubro Pvt Ltd, a prominent Indian conglomerate, has exhibited commendable financial performance over the period of 2019 to 2023. The company's gross profit ratio remained stable, showcasing consistent efficiency in generating profits from net sales. Notably, there was a slight increase in the ratio from 86.85% in 2019 to 87.25% in 2023. Moreover, Larsen & Toubro Pvt Ltd saw a notable improvement in its net profit ratio, which rose steadily from 8.34% in 2019 to 8.73% in 2023, attributed to increased sales and revenues. Despite fluctuations, the company maintained relatively high return on investment (ROI) values throughout the period, although there was a decrease from 38.05% in 2019 to 27.43% in 2023, indicating slightly less profitability compared to capital employed. On a positive note, the equity per share exhibited consistent growth, indicating increasing net-asset value backing up each share of the company stock. However, the dividend per share showed fluctuations, suggesting variations in the company's dividend payment policies. Nonetheless, the dividend yield ratio increased over the years, reflecting an improvement in the income potential of an investment in Larsen & Toubro Pvt Ltd shares. Overall, the company's financial performance demonstrates stability, growth, and potential attractiveness for investors seeking consistent returns.

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