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An Empirical Analysis of Financial Determinants of Dividend Payout in Indian Iron and Steel Companies

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Abstract:

This study examines the financial determinants of dividend payout and their relationship with market capitalization and enterprise value in selected Indian iron and steel companies. The study considers financial indicators including revenue from operations, net profit, dividend, dividend payout ratio, cash earnings retention ratio and long-term liabilities. Secondary data relating to selected companies for the period 2013–2022 were analysed using descriptive statistics, one-way ANOVA and multiple regression analysis. The findings reveal substantial differences in dividend payout practices among the selected companies. The ANOVA results indicate statistically significant differences in dividend payout across companies and years. The regression model explaining market capitalization is statistically significant, with an R^2 of 0.9127, indicating that the selected financial variables jointly explain approximately 91.27% of the variation in market capitalization. Dividend has a positive and statistically significant coefficient, while revenue from operations and long-term liabilities also show significant relationships with market capitalization.

Keywords: Dividend Policy, Dividend Payout, Market Capitalization, Enterprise Value, Iron and Steel Industry

Introduction

Dividend policy represents an important component of corporate financial decision-making because it determines how much of a company's earnings are distributed to shareholders

and how much is retained for future investment. The decision is particularly important in capital-intensive industries such as iron and steel, where firms require substantial financial resources for

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expansion, modernization, technology adoption and debt management.

Dividend decisions are influenced by several financial and non-financial factors, including profitability, liquidity, investment opportunities, capital structure, taxation, earnings stability and shareholder expectations. A company with strong and stable earnings may have greater flexibility to distribute dividends, whereas a highly leveraged or rapidly expanding company may prefer to retain a larger proportion of earnings.

The relationship between dividend policy and firm value has been debated extensively in financial literature. Some theories suggest that dividend policy can affect shareholder wealth and market valuation, whereas others argue that dividend policy is irrelevant under certain ideal market conditions. In practice, however, investors often consider dividend payments as an indicator of financial strength, stability and management confidence.

The Indian iron and steel industry provides an appropriate context for examining these relationships because companies differ considerably in size, profitability, leverage, investment requirements and dividend practices. Therefore, this study attempts to examine the financial determinants of dividend payout and their relationship with market capitalization and enterprise value among selected Indian iron and steel companies.

Theoretical Background

Dividend policy refers to the approach adopted by a company in determining the proportion of earnings to be distributed to shareholders and the proportion to be retained within the business. Dividend decisions involve a trade-off between providing current returns to shareholders and retaining funds for future investment and growth.

Lintner's (1956) study played an important role in the development of dividend policy research. Subsequently, several theories have been developed to explain corporate dividend behaviour.

Dividend Irrelevance Theory

Miller and Modigliani (1961) proposed the dividend irrelevance theory, according to which dividend policy does not affect the market value of a firm under perfect capital-market conditions. Their argument assumes, among other things, the absence of transaction and flotation costs, equal access to information, no agency costs and equal taxation of dividends and capital gains.

Under these assumptions, investors can create their desired income pattern by selling shares when necessary. Consequently, the value of the firm depends primarily on its investment decisions and earning capacity rather than its dividend policy.

Signalling Theory

Signalling theory suggests that dividend decisions may convey information to investors regarding

management's expectations about future earnings. A stable or increasing dividend may be interpreted as a signal of financial strength, while a reduction in dividends may generate concerns about future profitability.

Agency Cost Theory

Agency theory considers dividends as a mechanism that may reduce conflicts between managers and shareholders. Distributing a portion of earnings to shareholders reduces the amount of free cash available to managers and may therefore limit inefficient investment or managerial discretion.

Bird-in-the-Hand Theory

The bird-in-the-hand perspective suggests that investors may prefer current and relatively certain dividend income over uncertain future capital gains. Accordingly, firms paying stable dividends may be valued more favourably by some investors.

Thus, dividend policy remains an important issue in corporate finance despite extensive theoretical and empirical investigation.

Review of Literature

Kumar and Chandrasekar (2014) examined corporate dividend decisions and emphasized the importance of dividend policy as a component of corporate financial management. Dividend payments provide returns to shareholders and may also communicate information about the financial condition of the firm. Studies based on agency theory have examined whether firms determine their

target payout ratios by balancing agency costs against the cost of external finance. Empirical evidence from Indian companies indicates that financial characteristics, ownership structures, profitability and financing requirements can influence dividend decisions.

Anand (2002) examined corporate finance practices in India and highlighted the significance of financial decision-making in determining corporate policies. Bawa and Kaur (2013) examined the relationship between dividend policy and shareholder wealth in Indian companies and emphasized the importance of dividend decisions for investors. Research on Indian manufacturing firms has also examined the influence of earnings management, profitability, capital structure and other financial variables on future dividend payout. These studies collectively indicate that dividend policy is influenced by the financial position and strategic requirements of individual firms.

However, industry-specific evidence concerning the interaction between dividend policy, market capitalization and enterprise value in the Indian iron and steel industry remains relatively limited. The present study attempts to contribute to this area by analysing selected companies using financial and statistical measures.

Objectives of the Study

The study has the following objectives:

1. To examine the dividend policy followed by selected Indian iron and steel companies in terms of profit distribution and retention.

2. To examine the differences in dividend payout policies among selected companies.
3. To analyse the trends in market capitalization of selected iron and steel companies.
4. To examine the relationship between selected financial determinants of dividend policy and market capitalization.
5. To identify an appropriate dividend policy framework for companies in the iron and steel industry.

Hypotheses of the Study

The following null hypotheses were formulated:

- **H01:** There is no significant difference in dividend payout across the selected companies and years in the iron and steel industry.
- **H02:** There is no significant relationship between financial variables such as revenue from operations, net profit, dividend, dividend payout ratio, cash earnings retention ratio and long-term liabilities and the market capitalization of selected iron and steel companies.
- **H03:** There is no significant relationship between financial variables such as revenue from operations, net profit, dividend, dividend payout ratio, cash earnings retention ratio and long-term

liabilities and the enterprise value of selected iron and steel companies.

Research Methodology

The study is empirical in nature and is based primarily on secondary financial data. The data were compiled from the annual reports and financial statements of selected companies in the Indian iron and steel industry.

The analysis covers the period from **2013 to 2022**. The selected companies include Godawari Power & Ispat Ltd., Tata Steel Long Products Ltd., Kalyani Steels Ltd., Tata Steel Ltd., APL Apollo Tubes Ltd., JSW Steel Ltd., Usha Martin Ltd., KIOCL Ltd., Mukand Ltd. and Jindal Stainless (Hisar) Ltd.

The principal variables considered in the study are:

- Revenue from Operations
- Net Profit
- Dividend
- Dividend Payout Ratio
- Cash Earnings Retention Ratio
- Long-Term Liabilities
- Market Capitalization
- Enterprise Value

Descriptive statistical measures such as mean, maximum, minimum, standard deviation, coefficient of variation and compound annual growth rate were used to understand the financial behaviour of the selected companies. One-way ANOVA was used to examine whether significant differences existed in dividend

payout among companies and years. Multiple regression analysis was employed to examine the relationship between selected financial variables and market capitalization.

Analysis and Interpretation

Godawari Power & Ispat Ltd.

Godawari Power & Ispat Ltd. recorded average revenue from operations of **₹2,496.31 crore** and average net profit of **₹259.47 crore** during the study period. Revenue increased from ₹1,911.63 crore in 2013 to ₹5,074.60 crore in 2022, representing a CAGR of approximately 10%. Net profit recorded considerable fluctuations but achieved a CAGR of approximately 27%.

The company maintained a very high average cash earnings retention ratio of **95.39%**, indicating a strong preference for retaining earnings for business requirements and future investment. The average dividend payout ratio was **8.43%**, indicating relatively conservative dividend distribution.

The average enterprise value was ₹2,126.21 crore, while average market capitalization was ₹1,257.30 crore. Enterprise value increased at a CAGR of approximately 16%, while market capitalization recorded a CAGR of approximately 26%. The data indicate that improved profitability and earnings retention were accompanied by substantial growth in market valuation.

The relatively high retention ratio suggests that the company followed a reinvestment-oriented dividend strategy.

However, the company may benefit from maintaining an appropriate balance between reinvestment and shareholder distribution.

Kalyani Steels Ltd.

Kalyani Steels Ltd. recorded average revenue from operations of **₹1,258.37 crore** and average net profit of **₹125.25 crore**. Revenue increased from ₹800.58 crore in 2013 to ₹1,706.03 crore in 2022. The coefficient of variation of revenue was only 19%, indicating comparatively stable operating performance. The average dividend was ₹25.98 crore, while the average dividend payout ratio was **21.14%**. The cash earnings retention ratio averaged **87.08%**, indicating that a substantial proportion of earnings was retained for business purposes. The company maintained comparatively low long-term liabilities, averaging ₹100.57 crore. Market capitalization averaged ₹736.85 crore, while enterprise value averaged ₹837.42 crore.

Overall, Kalyani Steels demonstrated relatively stable financial performance and a balanced dividend policy. Its moderate payout and high retention provide scope for both shareholder distribution and reinvestment.

APL Apollo Tubes Ltd.

APL Apollo Tubes Ltd. demonstrated strong growth during the study period. Average revenue from operations was **₹4,198.72 crore**, increasing from ₹1,609.12 crore in 2013 to ₹9,062.40 crore in 2022. Revenue recorded a CAGR

of approximately 19%. Average net profit was ₹95.75 crore, with net profit increasing from ₹34.68 crore in 2013 to ₹287.13 crore in 2022. The company recorded a net profit CAGR of approximately 24%. The average dividend payout ratio was **35.35%**, while the cash earnings retention ratio averaged **75.19%**. These figures indicate that the company followed a relatively more shareholder-oriented dividend policy while still retaining a substantial proportion of earnings for reinvestment. Enterprise value increased significantly from ₹659.68 crore in 2013 to ₹23,044.63 crore in 2022, representing a CAGR of approximately 43%. Market capitalization increased from ₹612.29 crore to ₹22,872.23 crore, representing a CAGR of approximately 44%. The results indicate a strong association between business expansion, profitability and market valuation. The company's combination of earnings retention and dividend distribution appears to have supported both growth and shareholder value.

Comparative Dividend Payout Analysis

The dividend payout ratios of the ten selected iron and steel companies demonstrate considerable variation. The observed values indicate that companies differ substantially in their approach to distributing earnings.

Usha Martin Ltd. recorded a relatively high dividend payout ratio, while KIOCL Ltd. also maintained comparatively high payouts. In contrast, Jindal Stainless

(Hisar) Ltd. reported no dividend payout during the years represented in the dataset. Godawari Power & Ispat Ltd. and Kalyani Steels Ltd. followed comparatively conservative payout strategies.

This variation reflects differences in profitability, liquidity, investment requirements, and capital structure and management preferences. Companies operating in capital-intensive industries may retain a greater proportion of earnings to finance expansion and modernization.

ANOVA Analysis

H01: There is no significant difference in dividend payout across the selected companies and years in the Iron and Steel Industry.

A one-way ANOVA was conducted to examine differences in dividend payout among the selected companies. The analysis comprised **100 observations**.

The ANOVA results are summarized below:

Source of Variation	df	F-value	P-value	F-critical
Between Groups	10	5,332,965.505	6.1×10^{-279}	1.927679
Within Groups	99	—	—	—
Total	109	—	—	—

The calculated F-value of **5,332,965.505** is substantially greater than the critical F-value of **1.927679**. The p-value is also substantially below the 5% significance level.

Therefore, the null hypothesis is **rejected**.

The results indicate that dividend payout differs significantly among the selected companies. The large differences in average payout ratios reflect the heterogeneous financial policies followed by companies in the iron and steel industry.

For example, the average payout values reported in the analysis range from relatively low levels for some companies to substantially higher levels for KIOCL Ltd. and Usha Martin Ltd. This indicates that dividend policy is not uniform across the industry.

Multiple Regression Analysis

H02: There is no significant relationship between selected financial variables and market capitalization.

Multiple regression analysis was used to examine the effect of revenue from operations, net profit, dividend, dividend payout ratio, cash earnings retention ratio and long-term liabilities on market capitalization.

Regression Statistics

Measure	Value
Multiple R	0.9554
R Square	0.9127
Adjusted R Square	0.9071
Standard Error	10,636.51
Observations	100

The multiple correlation coefficient of 0.9554 indicates a strong relationship between the dependent variable and the explanatory variables.

The R^2 value of **0.9127** indicates that approximately **91.27% of the variation in market capitalization is explained collectively by the financial variables included in the model**. The adjusted R^2 of 0.9071 further confirms the high explanatory power of the model.

ANOVA of Regression Model

Source	df	F	Significance F
Regression	6	162.117	5.41×10^{-47}
Residual	93	—	—
Total	99	—	—

The regression model is statistically significant because the significance level is substantially below 0.05. Therefore, the financial variables collectively have a statistically significant relationship with market capitalization.

Regression Coefficients

Variable	Coefficient	t-value	p-value
Intercept	9,806.724	3.336	0.0012
Revenue from Operations	-2.416	-12.123	<0.001
Net Profit	0.585	1.843	0.0685
Dividend	28.057	4.420	<0.001
Dividend Payout Ratio	-29.448	-0.701	0.4853
Cash Earnings Retention Ratio	-60.274	-1.824	0.0714
Long-Term Liabilities	1.403	5.122	<0.001

The results show that dividend has a positive and statistically significant relationship with market capitalization. The coefficient of 28.057 suggests that, holding other variables constant, an

increase in dividend is associated with an increase in market capitalization.

Revenue from operations has a statistically significant negative coefficient in the reported model. This result should not be interpreted simply as evidence that higher revenue reduces firm value; rather, it reflects the partial relationship after controlling for the other explanatory variables and may be influenced by multicollinearity, industry characteristics and the scale of the variables.

Net profit, dividend payout ratio and cash earnings retention ratio are not statistically significant at the 5% level in the reported regression model. Long-term liabilities show a statistically significant positive coefficient. This finding suggests that the effect of liabilities on market capitalization may depend on how debt is employed and managed rather than merely on the absolute level of liabilities.

Since the overall regression is statistically significant, H02 is rejected at the model level. However, individual coefficients should be interpreted according to their respective p-values.

Major Findings

The major findings of the study are as follows:

1. Dividend payout policies differ significantly among the selected companies in the Indian iron and steel industry.
2. Godawari Power & Ispat Ltd. recorded strong growth in revenue and net profit while maintaining a high cash earnings retention ratio of 95.39%.
3. Kalyani Steels Ltd. demonstrated comparatively stable revenue performance and maintained a moderate dividend payout ratio with a high retention ratio.
4. APL Apollo Tubes Ltd. recorded substantial growth in revenue, profitability, enterprise value and market capitalization during the study period.
5. The selected companies exhibit considerable differences in dividend payout behaviour, reflecting variations in profitability, investment requirements and financial structure.
6. The ANOVA result confirms statistically significant differences in dividend payout among the selected companies.
7. The multiple regression model has strong explanatory power, with R^2 of 0.9127.
8. Dividend has a positive and statistically significant relationship with market capitalization.
9. Revenue from operations and long-term liabilities are statistically significant in the reported regression model.
10. Net profit, dividend payout ratio and cash earnings retention ratio do not

individually achieve statistical significance at the 5% level in the reported model.

11. The findings indicate that dividend decisions should be considered together with profitability, reinvestment requirements and capital structure rather than as an isolated financial decision.

Suggestions

Godawari Power & Ispat Ltd.

The company has demonstrated strong growth in revenue and profitability and maintains a high retention ratio. Management should continue productive reinvestment while ensuring that dividend payments remain adequate to maintain investor confidence. Continued reduction and optimization of long-term liabilities would further strengthen financial stability.

Tata Steel Long Products Ltd.

The company has experienced considerable fluctuations in profitability and market capitalization. Greater earnings stability and effective cost management are required. Reduction of financial liabilities and adoption of a sustainable dividend policy may improve investor confidence.

Kalyani Steels Ltd.

Kalyani Steels has comparatively stable revenue and a moderate dividend payout. The company may continue its balanced dividend-retention policy while directing retained earnings towards

productive investments and technological improvement.

APL Apollo Tubes Ltd.

APL Apollo has recorded exceptional growth in revenue, profitability, enterprise value and market capitalization. The company should maintain an appropriate balance between shareholder distributions and reinvestment. Efficient working-capital and liability management will support continued growth.

JSW Steel Ltd.

JSW Steel's large scale and high earnings-retention orientation provide substantial resources for reinvestment. However, management should closely monitor profitability fluctuations and long-term liabilities. A stable dividend policy can help maintain investor confidence while supporting expansion.

Usha Martin Ltd.

The company's reduction in long-term liabilities indicates improvement in financial discipline. Continued debt reduction, operational efficiency and stable profitability should remain priorities. Dividend payments should be aligned with sustainable earnings rather than short-term performance.

KIOCL Ltd.

The company has experienced considerable variations in dividend payout. Dividend decisions should be closely linked to sustainable profitability and cash flows. A more consistent payout

policy may improve investor confidence and financial planning.

Mukand Ltd.

The company has experienced fluctuations in profitability. Improving operational efficiency, reducing earnings volatility and strengthening financial management should be priorities. Dividend payments should be based on sustainable earnings and liquidity.

Jindal Stainless (Hisar) Ltd.

The company's retention-oriented approach provides scope for financing future growth internally. However, management should periodically evaluate whether retained earnings are being employed efficiently and whether an appropriate shareholder distribution policy can be maintained.

Conclusion

The study examined dividend policy and its financial determinants in selected Indian iron and steel companies. The findings demonstrate that dividend policies vary substantially across companies and years. The significant ANOVA result confirms that the differences in dividend payout are statistically meaningful. The analysis of individual companies indicates that firms adopting high retention policies can generate resources for expansion and reinvestment, while an appropriate dividend payout can strengthen investor confidence. Godawari Power & Ispat Ltd. and APL Apollo Tubes Ltd. demonstrate how strong operating performance

combined with reinvestment can support substantial growth in enterprise value and market capitalization. The regression analysis provides further evidence that financial variables collectively have a strong relationship with market capitalization. The R^2 of 0.9127 indicates considerable explanatory power. Dividend shows a positive and statistically significant coefficient, suggesting that dividend payments may contribute positively to market valuation. At the same time, the significance of revenue from operations and long-term liabilities indicates that market capitalization is influenced by a combination of operating and financial factors. The study therefore concludes that there is no universally applicable dividend policy for companies in the iron and steel industry. An effective dividend policy should be based on profitability, liquidity, investment opportunities, debt obligations and long-term growth requirements. Companies should seek an optimal balance between current shareholder returns and the retention of earnings for productive investment. A sustainable dividend policy, supported by efficient liability management and stable operational performance, can contribute to improved investor confidence and long-term shareholder value.

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