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An Application of Lintner's Dividend Behaviour Model in Indian Banking Sector

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ABSTRACT

In the present paper an attempt has been made to assess the applicability of Lintner's Dividend policy model in Indian Banking Sector. For this purpose, the researchers have taken DPS, EPS and Lagged DPS as determinants of dividend decision and check the significance of the variables. Total 05 banks from private sector banks are considered as sample for 10 years from 2009-10 to 2018-19. The simple multiple regression analysis and one- way Anova test have been carried by using SPSS- 22 and Microsoft – Excel. The result found that there is a significant difference in DPS and EPS between selected sample banks and Lintner's model is applicable in PVBs in India. The paper found that the previous year's dividend is significantly affected in the dividend decision between during the study period except from 2016-17 to 2018-19. The result reveals that the PVBs mainly rely on the past dividend in designing their dividend policy and are less stable in pursuing their dividend policy.

1. Introduction

"The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together".

- (Black, 1996)

A dividend is always in controversy for the company. The manager has two options: whether part of a profit / full profit distributed to shareholders as dividends or whether plugging back for the growth of a company. Here, the role of the financial manager is precious in deciding about the profit of a particular year and make an appropriate policy that will benefit to all the parties. Dividend policy adopted by a firm has an inference in the practical life for all whether it is manager or the organization's stakeholders (Gupta, Dogra, & Vashisht). Moreover, the question also arises in the minds of shareholders i.e. how many percentages will be received in the form of dividend? So, the dividend is puzzling and unsolved question for the company, shareholders and other related parties.

"Dividend Policy is considered as one of the significant areas of a company's financial decision making in the era of post-liberalization. It is an instrument for companies to communicate their financial well-being and shareholder value to the investors, lenders and other stakeholders (Ananthi & R.Geethalakshmi, 2019)."Two attributes of corporate dividend policies have been studied by financial experts: long-term payout rates and dividend stability. The key feature of the company's dividend policy is to assess the required distribution of income in the form of retained earnings between dividend payments and additions to the company's source of financing. Legal, liquidity, control problems, dividend stability, stock splits, administrative concerns and of course, cash position, etc. are the essential issues relating to corporate overall dividend policy. Many retail and institutional investors believe that dividend stability has a positive influence on the share price. Many retail and institutional investors believe that dividend stability has a positive influence on the share price. Stable dividends tend to overcome confusion in investors' minds and therefore provide investors involved in current periodic income with a positive utility. Many firms follow the target dividend payout strategy and raise dividends when they believe it is possible to sustain an increase in earnings.

There are different theories available for measuring the dividend policy and previous literature has been provided many factors in dividend decision. Some of the well-known dividend models are: Lintner's model, Brittain's model, Pettit's model, Watt's model, Charest's model and Aharony's and Swary's model. The testing of these models has extensively been undertaken in foreign researches. The Lintner's model is applicable in major sectors in foreign and in India. The Financial economists working on the dividend dimension of the financial management of banks have not attracted the attention of the banking sector, which is a very important component of the financial system in India. Considering the importance of Lintner's model, an attempt has been made to study the applicability of this model in Indian conditions.

2. Lintner's Dividend Behavior Model

The model given by Lintner offers a strong intuitive description of dividend payments. The essence of Lintner's dividend model is that the dividend payment in the following year (Div_1) will equal a constant proportion of earnings per share (EPS_1) or a constant proportion of earnings per share (EPS_1) if a business stuck with its target payout ratio.

$$\textbf{Target Dividend Payout Ratio} = \frac{\textbf{Co} - \textbf{efficient of EPS}}{\textbf{Adjustment Factor}}$$

$$\textbf{Adjustment Factor} = 1 - \textbf{Co efficient of Lagged DPS}$$

If a company adhered to its target payout, it might change its dividend whenever its earning changed. Nevertheless, the managers of the businesses reported that investors prefer a steady rise in dividend.

As per Lintner (1956), the historical dividend rate is usually taken into account by many businesses to assess current dividends. Furthermore, current earnings are invariably the starting point of contemplating the dividend policy adjustment. The distribution of dividends is thus a result of net current after-tax earnings and the dividend paid in the previous year (lagged dividend). This can be articulated as:

$$\mathbf{D_t = a + \beta_1 P_t + \beta_2 D_{t-1} + u_t}$$

Where,

D_t= Dividend Per Share in period't'

D_{t-1}= Dividend Per Share in period't-1'/ Lagged DPS

P_t= EPS in period't'

u_t= error term

The EPS - P_t, represent the capacity of a firm to pay dividends. Lagged DPS indicates a possible reluctance on the part of the management to scale back the dividends already declared. The rationale of this dividend function is that firms try and achieve a particular desired payout norm within the future. It is this desire for dividend rate stability that, in response to any change in net current earnings, companies make only a partial adjustment to the dividend rate each year. The dividend rate is therefore stabilized by comparison to the target dividend level. A feature known as the speed-of-adjustment coefficient increases the absolute sum of a dividend in a given year. The discrepancy is between the goal sum and the actual payment of the dividend.

3. Review of Literature

(J.Lintner, 1956) has performed at one of the classic research on how dividend decisions were taken by managers in the USA. He developed a model of variables such as business size, plant and equipment expense, willingness to use external funding, use of stock dividends, earnings stability, and management group ownership for the conduct of the analysis. A selection was taken from 600 companies listed in the industrial sector. He found in the first time in his research that corporations in the United States maintained a target dividend payout ratio and adjusted their dividend strategy to this target. The target payout levels of the companies were calculated by long-term sustainable investment and development objectives. In addition, he also found that, given the target payout ratio, companies followed a predictable dividend strategy and raised dividends gradually.

(Bodla, Pal, & Sura, 2007) carried out cross – sectional analysis of examination of applicability of Lintner's dividend model in 33 selected Indian banks from 1996 to 2006. The study found that the Lintner's dividend model was applicable in banks and two variables, i.e. depreciation and capital expenditure had less explanatory power in dividend payments. However, the earnings, lagged dividend and cash flow variables showed a significant positive relationship with current dividend.

(Haddad, AlShattarat, & Al-Hamadeen, 2008) have used the econometric approach to examine the inter- temporal dividend payment behavior by applying Lintner's model, Darling's model and Brittain's model. The dynamic panel data methodology was adopted in Lintner's model &Brittain's model. While panel Tobit estimator used in the analysis of Darling's model from the year 1996 to 2002 in Jordian firms. The results recorded from the partial-adjustment-models suggested that the Lintner model for Jordanian companies was the best-fit model. Previous dividends and current earnings had the greatest effect on the inter-temporal conduct of the DPS, suggesting that Jordanian companies adopt a continuous dividend strategy.

(Majumdar, 2016) has analyzed the applicability of Lintner's dividend model in FMCG sector in India. Total 15 NIFTY FMCG Index companies and 10 years, i.e. 2003-04 to 2012-13 had taken to examine the dividend policy. The study was based on secondary data collected from capitaline database. The result revealed that the Indian FMCG companies, mainly rely on the past dividend in designing them dividend policy and are less stable in pursuing their dividend policy.

(Samanta & Das, 2017) examined the different dividend behavioral models in 22 banks from the year 2003-04 to 2012-13. The study used multiple regression analysis. The study showed that dividend policy in the banking industry is better explained by Brittain's explicit depreciation model. The models of Lintner, Darling and Dobrolvosky have moderately clarified the dividend behavior. They concluded that the management decision of dividend policy significantly varied in different banks and Indian banks are daily dividend payers and resist reducing dividends.

(Suvalka & Kothari, 2017) studied on applicability of Lintner's model in Indian companies from the year 2004 to 2014. Total 30 dividend paying companies listed in BSE had selected as a sample. The multiple regression analysis has been carried out with the help of SPSS. They found that dividend was governed by current earnings and lagged dividend because of Lintner's model had proved satisfactory result.

(Ananthi & R.Geethalakshmi, 2019) investigated the assessment of applicability of Lintner's model and its extended version in 41 Indian commercial banks for the time span of 11 years. In the Indian Banking Sector, Lintner's 's model, expanded version of Lintner's 's model, namely Brittain's cash flow model, Brittain 's explicit depreciation model and Darling 's model have been used from 2006-07 to 2016-17. The study found that there is a significant fit for all dividend models. In describing Public Sector Banks' dividend policy in India; Brittain's explicit depreciation model is found to be the strongest model. However, Darling's model is found to be the best model that suits significantly in the case of private sector banks in India.

(Parasuraman, Ramudu, & Nusrathuunisa) have considered EPS, Lagged DPS and current year's DPS to measure the Lintner's model of the dividend behavior of 30 BSE Sensex companies from the year 2002 to 2011. The study also focused on Lintner's extended dividend model. They found earnings, cash earnings, lagged dividend, depreciation and capital expenditure factors considered in the dividend policy decision in every year. But, the capital expenditure is not significant in dividend decision. The result of Anova said that the time factor is not important in dividend decision.

(Gupta, Dogra, & Vashisht) examined the applicability and validity of Lintner's model in 172 companies listed in BSE. The paper focused on engineering, FMCG, IT and textile sector for the 05 year span from 2004 to 2008. The multiple regression analysis, VIF performed by SPSS software and

found that the Listener's model had presenting best for dividend behavior in Indian Industry.

Many studies have been carried out in outside the India and in India. The majority of literature found best predictive power of Lintner's Dividend Model in different sectors. So, the researchers are interested in doing research on applicability of Lintner's Dividend Model in Indian Commercial Banks in present scenario.

4. Objectives

- To Analyze the DPS and EPS of selected PVBs.
- To examine the applicability of basic Lintner's model (1956) on dividend the behavior of selected PVBs.

5. Hypothesis

H_0 – 1- There is no significant difference in DPS and EPS between PVBs.

H_1 – 1 - There is a significant difference in DPS and EPS between PVBs.

H_0– 2- Lintner's dividend model does not explain the dividend behavior in PVBs.

H_1 –2-Lintner's dividend model explain the dividend behavior in PVBs.

6. Research Methodology

The present study is analytical in nature and highlights on applicability of Lintner's Model in Indian Private Sector Commercial Banks. The Dividend Per Share (DPS) is considered as dependent variable and EPS & Lagged DPS is taken as independent variables. The multiple regression analysis and one –way Anova test are carried out through SPSS – 22 and Microsoft Excel to examine the impact of current year's EPS and Lagged DPS on the dividend payout decision in each year. For this reason, the secondary data was obtained from genuine websites of the respective banks. The purposive sampling technique has adopted for the selection of sample banks. The sample selection criteria were as under:

I. Banks must be listed on the National Stock Exchange.
II. The availability of annual reports of respective banks at least for 10 years.
III. Banks had to pay a dividend during the period 2009-10 to 2018-19.

On the above basis, the researchers have found six private sector banks and out of them five banks were selected as a sample. The sample is as under:

1. ICICI Bank
2. Kotak Mahindra Bank
3. Karur Vysya Bank
4. IndusInd Bank
5. South Indian Bank

7. Result & Discussions

Table No. 1 DPS of Selected PVBs

Bank	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Average	Std. Dev.
ICICI	12	14	16.5	20	23	25	25	12.5	7.5	5	**16.05**	**7.09**
Kotak Mahindra	0.85	1	1.2	1.4	1.6	1.8	1	1.2	1.4	1.6	**1.31**	**0.31**
Karur Vysya	11	12	14	14	13	13	14	13	3	3	**11.00**	**4.32**
IndusInd	1.8	2	2.2	3	3.5	4	4.5	6	7.5	7.5	**4.20**	**2.15**
South Indian	4	5	6	7	8	6	5	4	4	2.5	**5.15**	**1.63**
Average	**5.93**	**6.80**	**7.98**	**9.08**	**9.82**	**9.96**	**9.90**	**7.34**	**4.68**	**3.92**	**7.54**	
Std. Dev.	**5.22**	**5.89**	**6.93**	**7.81**	**8.58**	**9.40**	**9.71**	**5.23**	**2.74**	**2.36**		

Table no. 1 presents the Dividend Per Share of selected private sector banks during the study period from 2009-10 to 2018-19. An average DPS of the sector is Rs. 7.54, it means on an average banks are paying Rs. 7.54 dividend in whole period. The ICICI bank &Karur Vysya bank has paid the highest dividend and Kotak Mahindra found the lowest result as compare to other selected banks. When we look on yearly performance, it is found good performance between the years 2012-13 and 2015-16.

Table No. 2 EPS of Selected PVBs

Bank	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Average	Std. Dev.
ICICI	36.14	45.27	56.11	72.2	84.99	96.6	83.75	84.2	52.8	26.15	**63.82**	**23.84**
Kotak Mahindra	16.18	22.7	29.38	36.62	39.24	48.4	22.84	37.14	43.08	51.04	**34.66**	**11.60**
Karur Vysya	62.23	44.9	46.81	51.35	40.08	39.86	46.59	49.75	24.9	13.2	**41.97**	**13.90**
IndusInd	9.01	13.16	17.2	21.83	26.85	33.99	39.68	48.06	60.19	54.9	**32.49**	**17.86**
South Indian	20.69	25.9	35.5	40.3	37.8	22.8	24.7	26.1	18.6	13.7	**26.61**	**8.67**
Average	**28.85**	**30.39**	**37.00**	**44.46**	**45.79**	**48.33**	**43.51**	**49.05**	**39.91**	**31.80**	**39.91**	
Std. Dev.	**21.14**	**14.21**	**15.11**	**18.76**	**22.55**	**28.54**	**24.62**	**21.83**	**17.80**	**20.06**		

Table no. 2 contains the EPS of selected public sector banks between the years 2009-10 and 2018-19. The earnings per share of ICICI and Karur Vysya found a higher figure than the other selected banks as well as an average of sector i.e. Rs. 39.91. The South Indian bank has lower earnings among selected banks. The EPS is higher from the year 2012- 13 to 2017-18. So, we conclude that the earnings of the banks are good during the study period.

Table No. 3 Anova Result of DPS and EPS of Selected PVBs

Variable	Source of Variation	SS	df	MS	F	P-value	F crit
DPS	Between Groups	8355.3	4	2088.8	8.1	0	2.58
	Within Groups	11612.8	45	258.1			
	Total	19968.0	49				
EPS	Between Groups	1401.3	4	350.3	22.9	0	2.58
	Within Groups	687.3	45	15.3			
	Total	2088.6	49				

Table no. 3 shows one- way Anova test of DPS and EPS of selected PVBs during the study period. The p- value is less than the significance level of 0.05. It means, we reject the null hypothesis and accept the alternative hypothesis. It is concluded that there is a significant difference in DPS and EPS between private sector banks.

Table No. 4 Regression Model Summary of PVBs

Year	R	R Square	Adjusted R Square	Std. Error of the Estimate (u)
2009-10	.998[a]	.995	.991	.50
2010-11	.998[a]	.996	.992	.53
2011-12	1.000[a]	1.000	1.000	.09
2012-13	.992[a]	.984	.968	1.39
2013-14	.996[a]	.993	.985	1.05
2014-15	.998[a]	.995	.990	.94
2015-16	.997[a]	.994	.989	1.03
2016-17	.891[a]	.794	.587	3.36
2017-18	.749[a]	.561	.121	2.57
2018-19	.943[a]	.889	.778	1.11
a. Predictors: (Constant), Lagged Dividend Per Share, Earning Per Share				
b. Dependent Variable: Dividend Per Share				

Table no. 4 provides the multiple regression model summaries of selected PVBs during the study period starting from 2009-10 to 2018-19. The value of R, R – square and Adj. R-square represented high except between the years 2016-17 and 2017-18. The value of R, R-square and Adj. R-square found accurate result of 1.00 in the year 2011-12. From the above table, we conclude that the current year's dividend is based on current year's EPS and Lagged DPS. These two variables considered by banks to take the decision of dividend payout. Here, the Lintner's model has proven good in Indian PVBs.

Table No. 5 ANOVA Result of Regression of PVBs

Year	Particular	Sum of Squares	df	Mean Square	F	Sig.
2009-10	Regression	108.63	2	54.32	215.91	.005[b]
	Residual	0.50	2	0.25		
	Total	109.14	4			
2010-11	Regression	138.24	2	69.12	247.20	.004[b]
	Residual	0.56	2	0.28		
	Total	138.80	4			

2011-12	Regression	192.11	2	96.06	12641.27	.000[b]
	Residual	0.02	2	0.01		
	Total	192.13	4			
2012-13	Regression	239.85	2	119.93	61.87	.016[b]
	Residual	3.88	2	1.94		
	Total	243.73	4			
2013-14	Regression	292.45	2	146.23	133.09	.007[b]
	Residual	2.20	2	1.10		
	Total	294.65	4			
2014-15	Regression	351.48	2	175.74	200.69	.005[b]
	Residual	1.75	2	0.88		
	Total	353.23	4			
2015-16	Regression	375.10	2	187.55	178.45	.006[b]
	Residual	2.10	2	1.05		
	Total	377.20	4			
2016-17	Regression	86.76	2	43.38	3.85	.206[b]
	Residual	22.55	2	11.28		
	Total	109.31	4			
2017-18	Regression	16.79	2	8.39	1.28	.439[b]
	Residual	13.16	2	6.58		
	Total	29.95	4			
2018-19	Regression	19.76	2	9.88	8.02	.111[b]
	Residual	2.47	2	1.23		
	Total	22.23	4			
a. Dependent Variable: Dividend Per Share						
b. Predictors: (Constant), Lagged Dividend Per Share, Equity Per Share						

Table no. 5 captures the Anova result of multiple regression analysis of selected PVBs between 2009-10 and 2018-19. The p- value of the test showed less than 0.05 in all years except from 2016-17 to 2018-19 years. Hence, the null hypothesis is rejected in all years except in the last three years and said that the dividend decision is based on EPS and Lagged DPS in all year. The banks are considering current year's EPS and previous year's dividend in decision of current year's dividend between 2009-10 and 2015-16. While from 2016-17 to 2018-19, banks didn't consider only EPS and LDPS in dividend decisions. There are other variables also taken in consideration by the PVBs in dividend decision.

Table No. 6Coefficient,Collinearity Statistics and Durbin- Watson of Regression of PVBs

Year	Model	Unstandardized Coefficients	t	Sig.	Collinearity Statistics		Durbin Watson
		B			Tolerance	VIF	
2009-10	EPS	-0.08	-2.76	0.11	0.16	6.07	1.87
	LDPS	1.23	10.88	0.01	0.16	6.07	
2010-11	EPS	0.00	-0.06	0.96	0.09	10.71	1.40
	LDPS	1.14	6.85	0.02	0.09	10.71	
2011-12	EPS	0.02	2.16	0.16	0.14	7.22	1.11
	LDPS	1.14	57.19	0.00	0.14	7.22	
2012-13	EPS	0.08	0.88	0.47	0.18	5.46	2.25
	LDPS	0.93	3.95	0.06	0.18	5.46	
2013-14	EPS	0.08	2.03	0.18	0.32	3.16	1.38
	LDPS	0.89	7.44	0.02	0.32	3.16	
2014-15	EPS	0.06	2.21	0.16	0.42	2.38	2.08

	LDPS	0.94	11.23	0.01	0.42	2.38	
2015-16	EPS	0.04	0.66	0.58	0.09	10.57	1.92
	LDPS	0.92	5.18	0.04	0.09	10.57	
2016-17	EPS	-0.06	-0.36	0.75	0.20	4.95	1.70
	LDPS	0.60	1.56	0.26	0.20	4.95	
2017-18	EPS	0.10	1.33	0.31	1.00	1.00	1.22
	LDPS	0.21	0.86	0.48	1.00	1.00	
2018-19	EPS	0.03	1.17	0.36	0.98	1.02	1.36
	LDPS	0.74	3.64	0.07	0.98	1.02	
a. Dependent Variable: Dividend Per Share							

Table no. 6 reveals multiple regression co-efficient, Collinearity statistics and Durbin- Watson result of selected PVBs during the study period. The lagged dividend is found significant and EPS is found insignificant between 2009-10 and 2015-16. The t- value of EPS was showing negative values from the years 2009-10 to 2010-11 & 2016-17. However, the EPS and Lagged dividend have no significant impact on current year's DPS. It can be said that the Lagged dividend has remarkable & EPS has insignificant impact of the dividend payout decision of selected banks.

The VIF and Tolerance value presents the multi Collinearity between independent variables, namely EPS and Lagged DPS. The multi Collinearity is found for the years 2010-11 and 2015-16. However, the value shows less multi Collinearity between the independent variables. In other years, there is no problem of multi Collinearity. So, we conclude that the result of multiple regressions is good during that time period.

The table also contains the Auto – correlation in the data set. The Durbin – Watson test is applied to check the auto-correlation i.e. independence of residuals. The D-W value in the range from 1.50 to 2.50 is relatively normal value and it is acceptable. It means there is no problem of auto – correlation in the data set. Here, the value of D – W is 1.87 (2009-10), 2.25 (2012-13), 2.08 (2014-15), 1.92 (2015- 16) and 1.70 (2016-17). Hence we conclude that the auto – correlation does not find in these years. Moreover, the outcome obtained in years, i.e. 2010-11 to 2011-12, 2013-14 and 2017-18 to 2018-19 through the regression models was inaccurate and can therefore not depend upon the specific inference that the payout decision was affected by earnings and lagged dividends. Thus, on the basis of the model's outcome, we conclude that while we reject the null hypothesis of Durbin-Watson; indicate that in five years the effect on payout decision of earnings and lagged dividends is not so solid.

Table No. 7 Target Dividend Payout Ratio of Selected PVBs

Year	Adjustment Factor	Target Payout
	(1- Coefficient of LDPS)	Coefficient of EPS/Adj. Factor
2009-10	-0.23	0.352
2010-11	-0.14	0.027
2011-12	-0.14	-0.122
2012-13	0.07	1.039
2013-14	0.11	0.741
2014-15	0.06	0.999
2015-16	0.08	0.549
2016-17	0.40	-0.154
2017-18	0.79	0.122
2018-19	0.26	0.128

Table no. 7 expresses adjustment factor and the target dividend payout ratio of selected PVBs during the study period from 2009-10 to 2018-19. The target payout ratio indicates the strategy of companies with regard to the distribution of profits to shareholders in the form of dividends. The target dividend payout found negative result in the year 2011-12 and 2016-17 respectively, and between these years the ratio was highest among the study period. Moreover, it was around 12% in last two years. The ratio found high volatility during the study period. It means, the PVBs didn't follow any specific pattern in payment of dividend.

8. Conclusion

The study analyzed an applicability of Lintner's dividend model in Indian Banking Sector in present scenario. Lintner concluded that the earnings of the current year and dividend of

the past years had a significant effect on determination of the dividend of current year. This study examined the validity of Lintner's model in the Indian Banking sector by taking 05 private sector commercial banks. The paper found that the previous year's dividend is significantly affected in dividend decision between 2009-10 and 2015-16. But, in next three subsequent years, both independent variables didn't significantly affecting to dividend decision. The result reveals that the PVBs mainly rely on the past dividend in designing their dividend policy and are less stable in pursuing their dividend policy. Moreover, they are not following the specific dividend payment policy.

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