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Impact of Dividend Policy on Shareholder Wealth Creation: With Special Reference to TVS Holdings Ltd

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Abstract: Dividend policy has remained a most controversial topic in financial management for a long time. It involves fundamental choices regarding how much of a firm's earning should be distributed to shareholders in the form of dividends and how much should be retained for further growth and reinvestments. The role of dividend policy in terms of shareholder wealth maximization has remained a topic for in-depth study, and researchers being divided between theories of dividend relevance that hold that dividends contribute to investors' confidence and raise stock prices and theories of dividend irrelevance that argue that dividends do not matter to wealth if reinvestments bring out productive returns. This study examines relationship between TVS Holdings shareholder wealth and dividend policy. With the help of financial statement data from 2021 to 2025 covering variables like Dividend per Share (DPS), Dividend Pay-out Ratio (DPR), Earnings per Share (EPS), and Return on Equity (ROE), this study aims to establish to what extent shareholder value is materially affected by their dividend decisions. The findings show that dividend policy has a weak and statistically insignificant association with wealth indicators, while profitability and earning performance are found to be the more dominant determinants of shareholder value.

I. INTRODUCTION AND BACKGROUND

Dividend policy has great strategic relevance to financial management because it has a direct bearing on investor satisfaction and assessment of business stability. Firms that pay-outs larger dividends might convey prospects of financial robustness to their attention to investors. On other hand, firms that retain larger proportions of their earnings might establish greater reinvestment ability with resultant long-run growth prospects.

On a global scale, the discussion has primarily focused on two key perspectives:

1. Dividend Relevance Theories (Walter's Model, Gordon's Model): that believe that dividends are positively related to shareholder wealth and reduce uncertainty for investors.
2. Dividend Irrelevance Theory (Modigliani & Miller): that implies that shareholder value is not impacted by dividends when companies are able to invest earned sums efficiently to earn larger returns.

Within the framework of TVS Holdings Ltd., the study holds significant relevance. As a diversified entity involved in automotive holdings and affiliated sectors. The period covering from 2021 to 2025 presents remarkable earnings in 2022, consistent dividend increases, and varying in pay-out ratios. Therefore, TVS Holdings Ltd. serves as a suitable case study to examine the influence of dividend policy on shareholder wealth within the Indian landscape.

II. LITERATURE REVIEW

1. Balagobei, S. (2020) This study investigates how dividend policies of Sri Lankan listed manufacturing companies influence shareholders' wealth. Given the sector's post-war growth and economic significance, the research focuses on identifying dividend strategies that maximize investor wealth. The author suggests that understanding and implementing optimal dividend payout strategies is crucial for enhancing shareholders' wealth in this context.

2. Khairil Anwar (2025) This study conducted a qualitative systematic literature review (2021–2025) on dividend policy, categorizing research into theoretical foundations, determinants, and outcomes. It highlights key theories like agency, signalling, and equity price, and examines internal factors (profitability, liquidity, governance) and external influences (macroeconomic conditions, ESG) affecting dividend decisions. The author suggests that understanding dividend policy requires integrating these theoretical and practical determinants, as they collectively shape dividend decisions and their impact on business performance.

3. Hanady Bataineh (2020) This study examines how ownership structure influences dividend policy in 66 Jordanian industrial and service companies (2014–

2017). Using Tobit Panel Regression, it finds that institutional ownership positively affects dividend yield, foreign ownership reduces dividend payments, and state or family ownership has little impact. The author suggests that companies should account for their ownership composition when formulating dividend policies, as institutional and foreign investors play a significant role in shaping dividend decisions.

4. Asma Tahir (2024) This study examines the impact of dividend policies on shareholders' wealth in Pakistani oil and gas exploration companies (1999–2006). Using dividend payout, P/E, and BV/MV ratios as independent variables and holding period yield as the dependent variable, regression and correlation analyses are applied, with F-tests assessing the model's explanatory power. The author suggests that these financial metrics can guide companies in formulating dividend policies that effectively enhance shareholders' wealth.

5. Mr. Sana Ullah (2021) This study examines the relationship between dividend policy and shareholder wealth in 25 Pakistani chemical, oil, and gas companies. Using multiple regression with factors like return on equity, P/E ratio, retained earnings, and dividend per share, the study finds a strong positive correlation, showing that dividend policy enhances shareholders' wealth. The author suggests that companies should adopt effective dividend policies to maximize shareholders' wealth.

III. DATA ANALYSIS AND FINDINGS

Four major indicators, namely DPS, EPS, DPR, and ROE, were considered for study. These were studied year after year to find out trends and to estimate their interrelationships.

1. Dividend per Share (DPS)
From 2021 to 2024, DPS rose steadily from ₹26 to ₹94, showing a strong commitment to rewarding shareholders. This consistent growth reflects the company's financial strength and investor-friendly approach. However, in 2025, DPS marginally decreased to ₹93. This dip could suggest reinvestment strategies or a cautious liquidity approach. Overall, DPS trends indicate stability in shareholder returns.

2. Earnings per Share (EPS)
EPS fluctuated greatly. While EPS was ₹37.49 in 2021, it jumped to a remarkable ₹1125.29 in 2022, presumably owing to extraordinary gains or income factors that are once for all. It was unsustainable, however, as EPS came down to normal and stabilized at ₹134.99 in 2023 and ₹167.43 and ₹174.06 in 2024 and 2025, respectively. It indicates that while a temporary windfall was enjoyed by the company, sustainable growth over a period of time has remained modest but stable.

3. Dividend Payout Ratio (DPR)
DPR, which reflects the proportion of earnings distributed as dividends, showed irregular patterns. It was highest in 2021 (0.6935), meaning nearly 70% of profits were paid out. In 2022, despite the record EPS, DPR fell sharply to 0.0391, indicating that most earnings were retained. From 2023 to 2025, DPR stabilized in the range of 0.43–0.56, suggesting a balanced approach between rewarding shareholders and retaining earnings for reinvestment.

4. Return on Equity (ROE)
ROE, a profitability to shareholders' equity metric, was extremely low in 2021 (0.006) but surged greatly in 2022 (0.1546). It then dropped and levelled off at low levels of approximately 0.013 in 2025. This shows that though once the firm showed remarkable profitability, equity efficiency was average across all years.

Analysis and Examination
The statistical tests also indicate weak relationships between shareholder wealth and dividend policy.

Specifically:
- DPS vs ROE: $r = -0.217$ ($p = 0.725$)
- DPR vs ROE: $r = -0.589$ ($p = 0.296$)

Both coefficients are statistically insignificant ($p > 0.05$), meaning that shareholder wealth changes are not explained significantly by dividend indicators.

This result indicates that the wealth of shareholders at TVS Holdings Ltd. is more intimately connected to the firm's earnings performance (EPS) than to its dividend policies. The significant increase in EPS observed in 2022 exemplifies that fluctuations in profitability have a greater impact on shareholder wealth compared to regular dividend distributions.

The results are consistent with the dividend irrelevance theory, which asserts that the policy governing dividends holds less importance relative to profitability and growth potential. This perspective does not completely diminish the significance of dividends; rather, it indicates that investors prioritize consistent earnings and profitability over immediate dividend payouts.

IV. SUGGESTIONS

Based on the analysis performed, below are recommendations for TVS Holdings Ltd.:

1. Evaluation of Profitability and Growth: Operational superiority, market growth, and improvement of efficiency should be prioritized to improve earnings performance by the company.
2. Uphold an Equitable Dividend Strategy: Although dividends can enhance investor assurance, disproportionately high distributions may adversely affect liquidity. A measured approach promotes enduring financial stability.
3. Improve Liquidity Management: With rising dividends, it is advisable for the company to manage its liquidity to manage financial strain.
4. Innovation and Expansion Reinvestment: Retained profits must be ploughed into innovation, diversification, and long-haul initiatives to reinforce competitive superiority.
5. Conform to Investor Anticipations: Explicit articulation of dividend policies has the potential to improve transparency and bolster investor confidence, notwithstanding variations in payout ratios.

V. CONCLUSION

The findings of the study prove that the dividend policy through DPS and DPR doesn't establish a statistically significant association with shareholder wealth measures (EPS and ROE) of TVS Holdings Ltd. Correlation findings affirm that shareholder wealth is either influenced more by earning performance and profitability rather than through dividend dispensation. In order to achieve long-term value creation, the organization ought to emphasize sustainable growth, enhance operational efficiency, and implement effective reinvestment strategies. Although the disbursement of dividends plays a crucial role in sustaining investor confidence, it must not jeopardize financial stability. A carefully constructed policy that integrates dividend distribution with investments aimed at future growth will promote liquidity and protect shareholder wealth over time.