DIVIDEND POLICY DECISIONS – A CASE STUDY OF RELIANCE INDUSTRIES LIMITED (RIL)

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The test for any company, from the perspective of its shareholders, is the sustained price performance of its equity share. Market share, size of business, competitive advantage, profit numbers, and all other parameters are important, but at the end of the day, shareholders may judge a company primarily on the basis of the returns earned on their equity investments. Viewed from this perspective, the decision on the dividend policy is an important financial decision for any listed company. It determines the amount of net profits that a company would distribute amongst its shareholders, and the amount ploughed back / retained, into the business. The present paper examines the dividend policy of India's largest public listed company, Reliance Industries Limited (RIL). Evidently, it would prefer the decision which has a favorable/salutary effect on the wealth of shareholders. Irrespective of conflicting opinions in literature, regarding the impact of dividend on the valuation of a firm/wealth of shareholders, the broad consensus and evidence seems to be in the favor of relevance of dividend policy. Amongst other findings on RIL's dividend policy aspects, a notable one is the pursuance of a stable dividend policy by RIL, for the period under reference.

INTRODUCTION

RIL saw its inception in 1963, by one of India's greatest entrepreneurs, Shri Dhirubhai Ambani. Starting off as a small textile manufacturing unit, it was incorporated in 1973 and the name confirmed as RIL in 1985. RIL is the largest private-sector enterprise in India in terms of revenues, profits, net worth, assets and market capitalization. The company has overseas operations in more than 100 countries.

The performance of RIL equity shares has been attractive over a period of time to all investors. In the 1980s and early 1990s, RIL raised significant equity financing for its projects, through several offerings. RIL's long-term share price performance has been

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amongst the best in the country. The Bombay Stock Exchange listed RIL shares in January 1978, after the company's offer for sale of 2.82 million shares. In the succeeding 23 years, RIL's turnover has grown 418 times, and its net profit has grown nearly 1,000 times. Reflecting this growth, the value of RIL shares has increased exponentially. (Source: RIL annual report, 2002)

An original investor of 100 shares in the maiden public offering, and who subscribed to every rights issue of equity shares and convertible debentures, would have invested Rs. 46,379. By 2002, that investment would have fetched him 2,174 shares (a multiplication of holding by more than 20 times), including 1,310 bonus shares, valued at Rs. 7,60,900 at the average market price in April 2001, with a total dividend of Rs.79,270. This translates into a rate of return of 29% per annum, compounded for 23 years. For an investor who subscribed to 100 shares in the maiden offering, and then did not subscribe to any of the subsequent issues, an original investment of Rs. 1,000 would result in a holding of 512 shares (including 412 bonus shares), valued at Rs. 1,79,200, at the average price in April 2001. This investment would also have generated Rs. 24,765 as dividends over this period, resulting in a total compounded annual rate of return of a rather staggering 44% per annum. (Source: RIL annual report, 2002).

RIL lays down the following values that drive its overall dividend policy – understanding of the market and timing of market entry; benchmarking against global competition; focusing on profitable growth; financial discipline; and, constant striving for management excellence.

For better exposition, this paper has been divided into seven sections. Section I lays down the objective, rationale, scope and methodology of the paper. Section II contains a brief literature review concerning dividend decisions and the resultant company valuations. Section III is concerned with determining the dividend payout ratios of RIL. Determinants of dividend policy and whether RIL has preference to pursue stable dividend policy constitutes the subject matter of section IV. Section V examines the impact of dividend policy on its share price. Company's valuation from the point of view of potential buyers is discussed in section VI. Analysis and findings are enumerated in Section VII. Concluding observations are listed in section VIII.

Section I

Objective, Rationale, Scope and Methodology

The objective of the paper is to have a comprehensive analysis of the dividend policy, dividend decisions and practices followed by RIL over the past ten years (2001-2010) through a study of its financial results and performance. The study has academic as well as practical significance. It would provide insight into the practices the company has adopted related to its dividend policy for its shareholders, and the efforts undertaken to ensure wealth maximization of its shareholders. The scope of the study is limited to the ten year period 2001-2010.

Research Methodology

Research methodology adopted in the present study to analyze financial statement of RIL is as follows:

Secondary Data and Analysis: Most of the analysis has been carried out based on secondary data. Secondary data sources includes annual reports of the company, management presentations to investors, research reports related to company, company press releases, websites of Bombay stock exchange and National stock exchange, and online databases – Capitaline and ISI Emerging Markets.

Data Analysis: Financial ratios are used extensively for this study. The key financial ratios have been computed for all major aspects of dividend decisions. For example, dividend payout ratio is the main ratio to understand dividend payment and earnings retention. The relevant data in terms of dividend on equity (face value), EPS, DPS and retention per share have also been computed. These ratios are computed on a year-to-year basis for RIL. The impact of the dividend policy of RIL on its share price has also been examined. To study the trends and implications, data has been divided into two sets. First set consists of years 2001-2005, designated as phase I and second set consists of years 2006-2010, designated as phase II. The rationale for phase II with effect from 2006 stems from the fact that the corporate governance clause has been mandated by SEBI, from April 1, 2006.* Means for both these sets and for the entire data set are calculated to

* The Securities Exchange Board of India (SEBI) had initially mandated the adherence of clause 49 of corporate governance (for all listed companies) from April 1, 2004. However, there were modifications made to clause 49, based on the recommendations of the Narayan Murthy committee on corporate governance. The modified clause 49 came into effect from January 1, 2006 and all listed companies were mandated to adhere to clause 49 with effect from April 1, 2006. (*Source:* The official website of SEBI: http://www.sebi.gov.in/)

understand the changes over the period. From statistical point of view, the phase I and the phase II samples have been considered as two independent samples. We have used 't' test statistic to ascertain whether financial decisions/performance differed/changed during the phase II, *vis-à-vis*, the phase I.

Section II

Literature Review

Literature is rife with conflicting opinions on the relevance of the dividend policy followed by a company and its impact on the future growth and valuations of the company. However, the more popular theories and research do indicate a relationship between dividend decisions and company valuation. Walter (1956) concludes if the return of a firm's investment is greater than the cost of capital, the company should retain the earnings (as this way the firm would be maximizing the wealth of its shareholders); whereas the firm should distribute its earnings, if the reverse is true. In a counter-view point, dividend policy has no relevance and significance in determining the value of a company in the eyes of the shareholders (Miller, M. H. and Modigiliani, F., 1961). The term shareholders is a very comprehensive one and includes, apart from the founders, the investors, banks, mutual funds and other financial institutions which have a stake in the company.

Jensen, et al. (1997) explain that the size of the firm and the price-to-book value ratios are important determinants of stock returns' performance for companies. The average returns on the shares of small-capitalization firms with low price-to-book ratios have exceeded the average returns of large capitalization firms with high price-to-book ratios when we look at historical returns. Berger et al. (1996) and Barth et al. (1996) argue that the value relevance of book value stems from its role as a proxy for adaptation or abandonment value. Fama & French (1995) in their study confirm that consistent with rational pricing, high book-to-market equity ratio (BE/ME) signals persistent poor earnings and a low BE/ME ratio signals persistent good earnings. However, stock prices forecast the reversion of earnings growth once the companies are ranked on their size and BE/ME ratio. Consistent with the lifecycle theory of dividends, the percentage of companies paying dividends is high, when retained earnings are a large portion of total equity, and becomes almost negligible when the equity is contributed rather than earned (DeAngelo, et al., 2006). On similar lines, Denis and Osobov (2008) posit that in the US, Canada, UK, Germany, France and Japan, the propensity to pay dividends is higher among larger, more profitable firms, and those for which retained earnings comprise a

large fraction of total equity.

Aivazian, et al. (2003) find that firms in emerging markets have more unstable dividend payments than their US counterparts, due to the institutional structures of these developing markets. Farinha (2003) analyzes the agency explanation for the cross-sectional variation of corporate dividend policy in the UK by looking at the managerial entrenchment hypothesis drawn from the agency literature. The results strongly suggest the possibility of managerial entrenchment when insider ownership reaches a threshold of around 30%. Allen and Michaely (2003) suggest that the rise in the popularity of re-purchases increased overall payout and increased firms' financial flexibility.

Dutta and Reichelstein (2004) develop a multi-period, principal-agent model which suggests that the stock market draws information about future cash flows from current investments. The stock price is said to reflect all value-relevant information. On the other hand, Collins, et al. (1999) raise questions about the basic equity capitalization model which works on the assumptions of a positive and homogeneous relationship between price and earnings. They also confirmed a negative price-earnings relationship for loss firms. Penman (1996) observes that the P/E ratio indicates future growth in earnings and the P/B ratio indicates only the expected future return on equity. The two can be reconciled on comparing the current and expected future return on equity.

Black and Scholes (1974) through their model emphasize the fact that investors pay a lot of importance to the dividends paid out by the companies, and value such investments higher, than the companies that retain their earnings. Ezra Solomon (1969) also reflects the same views. Beaver (1968) states that market prices reflect the investor sentiments as investors rely upon ratio analysis as the basis of their assessment. Also, the investor reorganizes his investment and adjusts to the corporate solvency situation and this gets impounded in the stock prices. Lintner, (1956) propounded the importance and significance of a stable dividend policy. Joy, (1977) elaborates on the importance of a stable dividend policy. Pruitt and Gitman (1991) contend that the earnings risk faced by the company is an important determinant of the kind of dividend policy it adopts.

Brigham (1971) brings in a comprehensive view that focuses on a trade-off between the concept of current income for investors and future investment potential/growth of the company with the final aim of maximizing the wealth of the shareholders/owners of the company. Menzly and Ozbas (2010) provide evidence to support that due to investor specialization and market segmentation, value-relevant information, diffuses gradually

in financial markets. Ahmed, et al., (2002) find that firms, facing more severe conflicts over dividend policy, tend to use more conservative accounting. Fang and Peress (2008) observe that stocks with no media coverage earn higher returns than stocks with high media coverage, even after controlling for well-known risk factors. Short, et al., (2002) posit that a positive association exists between dividend payout policy and institutional ownership.

The literature review reveals gaps for further inquiry into dividend decisions of companies. The available literature consists of examples of corporate practices from western countries. To the best of our knowledge, there is no in-depth study regarding the dividend decisions and practices of an Indian company, especially the largest public listed company in the country. The present case study is a modest attempt to fill this gap.

Section III

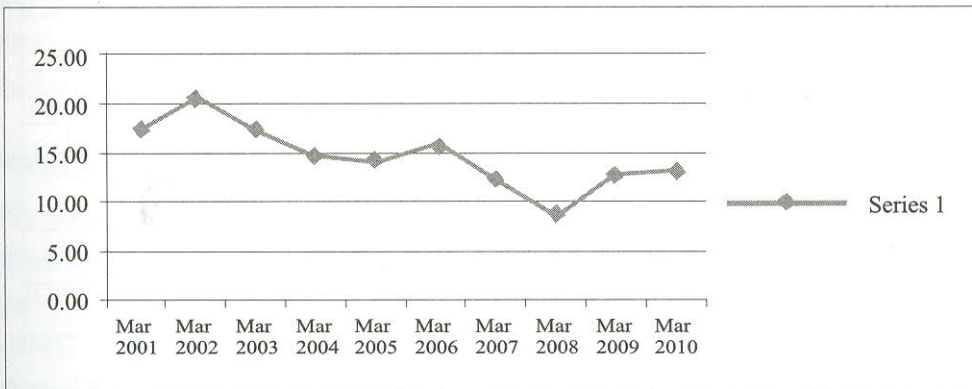
Dividend Payout Ratio of RIL

A major aspect of the dividend policy of a business enterprise is its dividend payout (D/P) ratio, that is, the percentage of its net earnings after taxes distributed as dividends. In other words, dividend policy involves the decision to pay out earnings, or, to retain them for reinvestment in the company itself. Retained earnings constitute an easily accessible source of financing investment opportunities for a company like RIL. This apart, in case RIL is unable to raise external funds, its growth is likely to be impeded as the payment of dividends result in the reduction of cash and therefore, in depletion of total assets. Hence, the rationale for retention gains significance. At the same time, however, it should be recognized that the decision of skipping dividends or paying less dividends may also have an adverse effect on the market price of the share of RIL.

Black and Scholes, (1974) stated that "the most common argument is that the corporate firm can increase the value of its shares by increasing the payout ratio. The feeling is that investors prefer a dollar of dividend to a dollar of capital gains because 'a bird-in hand is worth more than two in the bush'. The significance of current dividend payments is also emphasized by Ezra Solomon, (1969) who claimed that "in an uncertain world, in which verbal statements can be ignored or misinterpreted, dividend action does provide a clear cut means of 'making a statement' that speaks louder than a thousand words".

Therefore, RIL should prefer to pay dividends regularly as there is a price enhancing effect of such a policy. In other words, the dividend policy decisions of RIL in the post-liberalization period should reckon dividend payments as an active decision variable. Therefore, as per Brigham (1971), does recognize dividend decisions as relevant decisions but contends that optimum dividend policy should strike a balance between current dividends and future growth which maximizes the price of the firm's shares. These objectives are not mutually exclusive, but interrelated. RIL's practices, in this regard, have been discussed in this section.

Figure 1: Dividend Payout Ratio of RIL for the period, 2001-2010



The relevant data in terms of D/P ratio contained in Figure 1 shows that the RIL seems to have a policy of paying on an average one-seventh of their profits after taxes (14.60 per cent) as dividends during the entire ten year period (2001-2010) of the study under reference. However, variance is large enough to imply that RIL has been following a changing dividend policy. As per the trend, shown in Table 1, a decrease in the mean of D/P ratio has been noted in phase II (2006-2010) compared to phase I (2001-2005). For instance, the mean value has decreased from 16.75 per cent to 12.45 per cent during two phases under study.

Table 1: D/P Ratio of RIL for the period, 2001-2010

Year	Dividend Payout Ratio
2001	17.26
2002	20.45
2003	17.48
2004	14.46
2005	14.08
2006	15.70
2007	12.27
2008	8.50
2009	12.66
2010	13.12
Maximum	20.45
Minimum	8.50
Mean (2001-2010	14.60
Mean (2001-2005)	16.75
Mean (2006-2010)	12.45
Standard Deviation (2001-2010)	3.33
Variance	11.08

From the above, it may be inferred that, RIL has been rather conservative in declaring dividends, and, has focused on retaining them. This policy perhaps, has helped them in providing a readily available source of finance, to fund their expansion plans. This practice seems to support the underlying assumption of the Walter's model (1956) for dividend distribution. Since, in this case, the company may earn more rate of return than the market, hence, it makes sense to reduce the amount of dividend, and plough back the amount, in the company, to generate more returns.

Section IV

Determination of Dividend Policy

Dividend policy as a residual decision after meeting the desired investment needs is endorsed by about 50 percent of sample Indian corporate (Anand et al., 2003). The companies which are creating shareholder value significantly rescind dividend increase in the event of growth opportunities available to them. Thus, dividend policy provides a signaling mechanism of the future prospects of the corporate and affects its market value.

The vast majority of the Indian companies follow a stable dividend policy in the sense that they pay either constant dividend per share in the following year with fluctuating EPS or increased dividend with increase in EPS (Anand et al., 2003). Whether RIL follows a stable dividend policy or not constitutes the subject matter of this section.

Stable Dividend Policy

The term stability of dividends refers to the consistency or lack of variability in the stream of dividend payments. The essence of the policy is that there is resistance on the part of business enterprises to reduce dividends below the amount paid in previous year(s). At the same time, business firms are extremely careful not to raise dividend per share (DPS) consequent to the increase in earnings per shares (EPS), above a level that cannot safely be sustained in future. This cautious creep up of dividend per share results in stable dividend per share pattern during the periods of fluctuating earnings per share, and a rising step-function pattern of dividends per share, during the periods of increasing earnings per share (Lintner, 1956).

Stable dividend policy is generally accepted as the best policy and is adopted/preferred by most business enterprises for a number of reasons, such as desire for current income (on the part of investors), information content, enhancing effect on the price of their shares, decreased marketability risk as well as financial risk, greater participation of institutional investors, and so on. Apart from the conventional stable dividend policy, Pruitt and Gitman (1991) conclude that risk (year to year variability of earnings) also determines the firm's dividend policy. A firm that has relatively stable earnings is often able to predict, approximately, what its future earnings would be. Such a firm is more likely to pay a higher percentage of its earnings out as dividends than a firm with fluctuating earnings. Apart from theoretical postulates for the desirability of stable dividends, there are also many empirical studies, classic among them being that of

Lintner (1956) to support the viewpoint that corporates pursue a stable dividend policy. In view of the above, it was considered desirable, to know whether RIL has preference to follow a stable dividend policy. A priori basis, it is expected that RIL is likely to favor stable dividend policy, in view of its various advantages enumerated above.

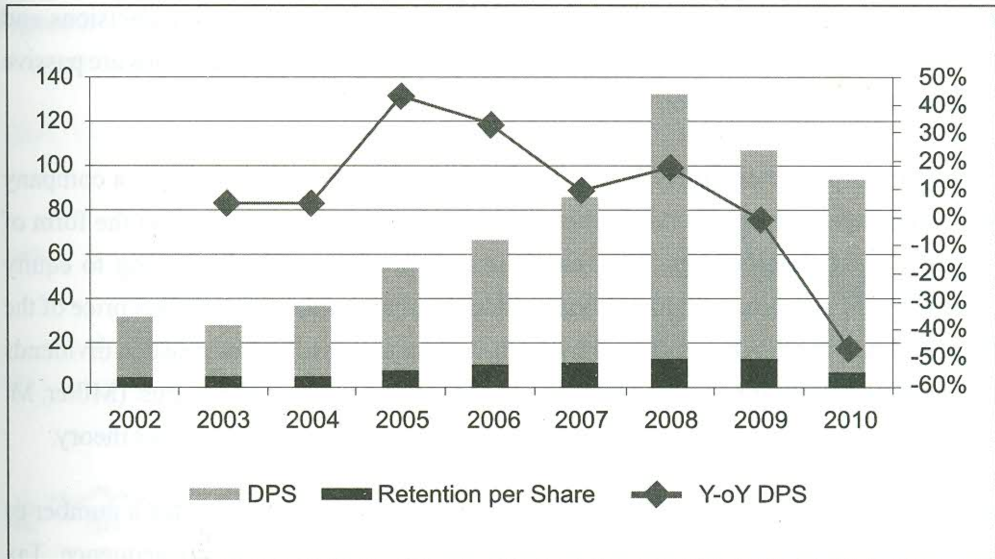
The relevant data in terms of dividend on equity, earning per share (EPS), dividend per share (DPS) and retention per share, presented in Table 2, shows that the dividends paid per share for RIL has increased over the years. This can also be observed from Figure 2. This implies that company has earned more profits and distributed the same, or, more than previous year's absolute amount, to shareholders. This very minimal yet upward trend, in DPS, appears to justify Lintner's theory, as, over the years they seem to have been following a near stable (with minimal increases) dividend policy, even though the EPS has increased substantially.

Table 2: Equity Dividend (%), EPS, DPS, and Retention per Share of RIL for the period, 2002-2010

Year	Equity Dividend (%)	EPS (₹ per share)	DPS (₹ per share)	Retention (₹ per share)
2002	47.50	31.13	4.75	26.38
2003	50.00	27.89	5.00	22.89
2004	52.50	36.37	5.25	31.12
2005	75.00	53.71	7.50	46.21
2006	100.00	66.06	10.00	56.06
2007	110.00	85.22	11.00	74.22
2008	130.00	132.41	13.00	119.41
2009	130.00	95.24	13.00	93.54
2010	70.00 (140.00*)	48.59 (97.18*)	7.00 (14.00*)	41.59 (83.18*)
Maximum	130.00	132.41	13.00	119.41
Minimum	47.50	27.89	4.75	22.89
Mean (2002-2005)	56.25	37.28	5.63	31.65
Mean (2006-2010)	108.00	85.50	10.80	76.96
Mean (2002-2010)	85.00	64.08	8,50	56.82
Standard Deviation (2002-2010)	33.38	34.64	3.34	33.87
Coefficient of Variation	0.59	0.93	0.59	1.06

*Adjusted for the 1:1 bonus share issue during 2010

Figure 2: Figure showing DPS and Retention per Share of RIL for the period, 2002-2010



It is apparent, that the retention per share (compared to the dividend paid) has increased significantly over the years, 2002-2010. From Table 2, it appears that the increases have been in steps, with major increases in 2005, 2007 and 2008. The standard deviation and coefficient of variation for EPS (34.64 and 93% respectively), conveys that the EPS for RIL has been varying substantially. It is apparent that the earnings per share (EPS) for year 2010 have declined sharply, attributable to the 1:1 bonus share issue. With the issue of 1:1 bonus shares, the number of shares doubled, without any infusion of cash. Hence, adjusting the financial year 2010 EPS to accommodate for bonus issue, the revised EPS arrived at is Rs 97.18, which is higher than the previous year's (financial year 2009) EPS. By observing the coefficient of variation (59%) and standard deviation (3.34) for DPS of RIL, we may deduce that even though the EPS has shown noticeable fluctuations, the company appears to have managed to keep the dividend per share nearly stable, around the mean. In the year 2010, due to the issue of bonus shares, DPS has been halved to Rs 7; however, had the bonus share not been issued, it would have been Rs 14. Hence, adjusting for the deviation in financial year 2010, we may observe that RIL has been following a nearly stable DPS from 2006 onwards. From the above discussion, it is reasonable to infer that RIL, in line with sound theory, has been following a stable dividend policy over the years of study, 2001-2010.

Section V

Impact on Share Price

In theory, there are two arguments: first, dividend decisions are active decisions and affect the valuation of company; the second contends that dividend decisions are passive decisions and have no effect on the company valuation.

In case the corporate enterprise earns profits, it should not matter whether a company retains earnings and invests it into the business, or, distributes earnings in the form of dividends to its shareholders. The reason is - all profits eventually belong to equity shareholders. Thus, when dividends are paid to the shareholders, the market price of the shares will decrease. What is gained by the investors as a result of increase in dividends will be offset completely by the reduction in the market value of the shares. (Miller, M. H. and Modigliani, F., 1961). This forms the basis of the dividend irrelevance theory.

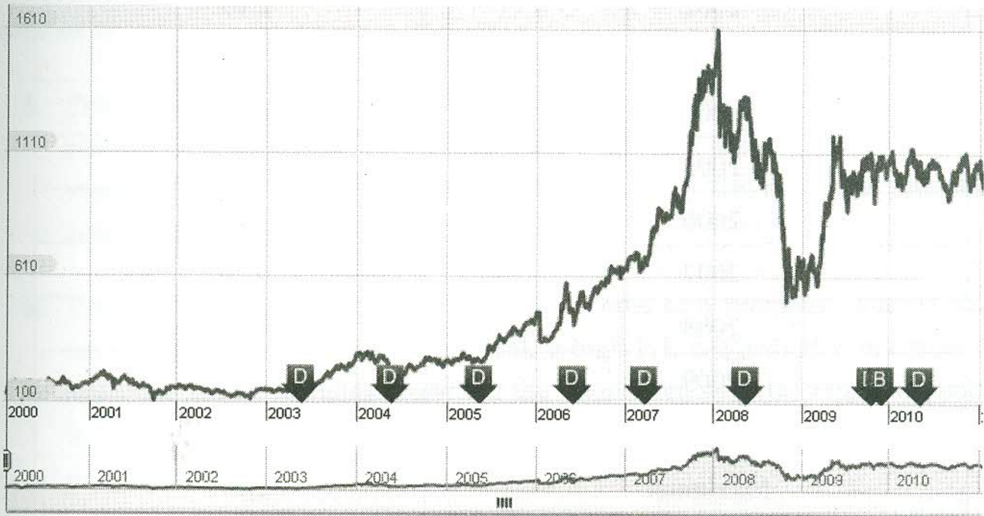
On the other hand, investors often react to changes in dividend policy for a number of reasons. One reason for paying or not paying dividends is the tax consequence. Tax undoubtedly has an important effect but it is far from being the whole story; companies pay dividends even under tax laws, which make it always better, from that point of view, to retain the money. The simple version of dividend irrelevance also ignores transaction costs (the costs of buying and selling shares). If a company follows a dividend policy that suits them, shareholders are saved the transactions costs incurred by mimicking a different policy.

Finally, and most importantly, paying dividends sends signals to the market (Lintner, 1956). Most companies' management may not like cutting dividends. Therefore, when a company pays a dividend, it may be indicating that the management is confident that the company's earnings will always be sufficient to pay that dividend. This is the counter argument that theorists have generated. The signaling aspect of the more complete theory of dividend relevance suggests that dividend payment is an important measure of management confidence, and therefore can be taken as an indicator of the stability of earnings.

The Dividend Yield: Dividend yield is yet another major aspect of dividend policy. It is calculated dividing dividend income per share by the current share price. The dividend yield measures the amount of income received in relation to the share price. If a company has a low dividend yield, it can denote the following - either the share price is high because the market reckons the company has impressive prospects and is not overly

concerned about the company's dividend payments; or the company is in trouble and cannot afford to pay reasonable dividends.

Figure 3: Share Price Movement and Dividend Declaration Timeline of RIL for the period, 2001-2010



(Source: www.moneycontrol.com)

Figure 3 exhibits that there appears to be a short-term spurt in share prices, whenever dividend has been declared. Though this rise is evident over a short time period only, still it could perhaps be construed as reasonable enough evidence, to deduce that the dividend policy of RIL does impact its share price. Figure 3 is equally revealing to show the impact of bonus shares on RIL's share price. During financial year 2010, RIL issued a bonus share (in the ratio of 1:1), and it had insignificant impact on the price of the share. This is in tune with sound theory as it is known that in the case of issue of bonus shares, though the numbers of shares are increased, there is no fresh infusion of cash. The wealth of the shareholders remains unchanged; even though the number of shares increases, reducing the earnings per share (EPS) and the dividend per share (DPS).

Table 3, (relating to the dividend yield of RIL), suggests that RIL has had a decreasing yield for its shareholders, over the period, 2001-2010. It may be observed that, the mean yield for phase II (2006-2010) was approximately half of the mean yield for phase I (2001-2005). This is however, sparingly corroborated by the 't' statistic for the paired comparison, which signifies that there is statistically insignificant difference in dividend yield between the two phases of our study.

Table 3: Dividend Yield of RIL for the period, 2001-2010

Year	Dividend Yield (%)
2001	1.09
2002	2.09
2003	1.81
2004	0.98
2005	1.37
2006	1.26
2007	0.76
2008	0.50
2009	0.79
2010	0.59
Maximum	2.09
Minimum	0.50
Mean (2001-2010	1.12
Mean (2001-2005)	1.46
Mean (2006-2010)	0.78
Standard Deviation (2001-2010)	52%
Coefficient of Variance (%)	46%

Paired Samples Test

	Paired Differences					t	df	Sig.(2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Phase I and Phase II	.68800	.66927	.29931	-.14301	1.51901	2.299	4	.083

Section VI

Company Valuation

In this section, an attempt has been made to evaluate how investors value RIL's shares. For the purpose of valuation, the following major valuation multiples have been considered.

I. **Price to Book Value ratio (P/BV)**: It is calculated dividing the current closing price of the stock by the latest quarter's book value per share. A lower P/BV ratio implies that the stock is undervalued. However, it may also imply that something is fundamentally wrong with the company.

ii. **Price to Earnings ratio (P/E)**: A valuation ratio of a company's current share price compared to its EPS. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. However, the P/E ratio alone is insufficient to provide the complete picture.

iii. **Price to Cash EPS (P/CEPS)**: This is similar to P/E ratio; in computing this ratio cash earnings per share are used instead of accounting EPS.

iv. **Enterprise Value to Cash Operating Profits (EV/EBIDAT)**: It is the ratio obtained dividing enterprise value (EV) by earnings before interest, depreciation, amortization and taxes (EBIDAT), referred to as cash operating profits. A low ratio is indicative of its undervaluation (caused due to low confidence as well as expectation of low returns in future years). Low ratio reflects pessimism. In contrast, higher ratio suggests that investors are confident about the company's future performance / prospects and have high expectations of future returns; high ratio, therefore, reflects optimism.

Table 4: P/E, P/BV, P/CEPS, EV/EBIDAT of RIL for the period, 2001-2010

Year	Price Earning (P/E)	Price to Book Value (P/BV)	Price/ Cash EPS (P/CEPS)	EV/ EBIDAT	Market Cap/Sales
2001	15.87	3.43	9.90	9.21	1.79
2002	9.77	1.28	5.23	5.39	0.70
2003	9.66	1.40	5.65	6.22	0.77
2004	14.82	2.37	9.03	8.73	1.34
2005	10.24	2.02	6.82	6.4	1.04
2006	12.50	2.46	9.04	8.72	1.24
2007	16.24	3.11	11.51	10.56	1.61
2008	17.16	4.17	13.70	12.49	2.36
2009	15.99	2.09	11.88	11.49	1.64
2010	22.12	2.74	13.32	12.12	1.75
Maximum	22.12	4.17	13.7	12.49	2.36
Minimum	9.66	1.28	5.23	5.39	0.70
Mean (2001-2010)	14.44	2.51	9.61	9.13	1.42
Mean (2001-2005)	12.07	2.10	7.33	7.19	1.13
Mean (2006-2010)	16.80	2.91	11.89	11.08	1.72
Standard Deviation (2001-2010)	3.95	0.89	3.03	2.54	0.51
Coefficient of Variation (%)	27.3%	35.7%	31.5%	27.8%	35.8%

From Table 4, it can be inferred that RIL has enjoyed better valuations after 2005. It may be observed that all the multiples have increased on an average from phase I (2001-2005) to phase II (2006-2010). Also there have been rather low standard deviations for all the multiples indicating that RIL has had fairly stable valuations, *per se*. As per the trend, it appears that except for the year 2009 (which was a period of economic slowdown), RIL's valuation has been appreciating over the years. Also, post 2009, an

increase in the valuation may be observed. This signals a positive fundamental indication to the investors about the stock, depicting that it is a growing company with a strong base in the market.

Section VII

Analysis and Findings

It can be safely deducted from the data analyzed that RIL is following a stable dividend policy through the period of the study. This may have helped RIL to build confidence among its stockholders and increase its stock price.

As per the trend, it is gratifying to note that there has been a marginal increase in DPS over the years, 2001-2010 and a substantial increase in RIL's valuations in phase II (2006-2010) compared to phase I (2001-2005). It may be construed as a healthy and welcome development for RIL's management and its shareholders as RIL has been following a stable dividend policy. This in turn, has had a salutary impact on its stock prices. Also, higher P/E ratios, P/BV ratios, P/CEPS ratios and EV/EBIDAT ratios are indicative of the investors' confidence in the stock of RIL and its future performance.

These findings are in tune with sound tenets of financial management. Such a policy has had a positive effect on the market price of its shares and, hence, appears to have helped in maximizing wealth of its shareholders.

Section VIII

Concluding Observations

A stable dividend policy appears to have a favorable impact on the value of the company following it. As a policy implication, companies would do well to design their dividend policy such that it provides stable returns to its shareholders. This would enable the company to be considered as a viable investment option, especially during an uncertain economic environment (as is likely to be the scenario in the global market).

Investors have different risk perceptions of dividend income and capital gains and are not indifferent between receiving dividend income and capital gains. Management should be responsive to the shareholders preferences regarding dividend and the share buy-back programme should not replace the dividend payments of the corporate (Anand et al. 2003).

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