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Effect of Capital Structure on Dividend Pay-Out of Select Indian IT Companies: An Empirical Evidence

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Abstract
Capital structure and dividend policy are two vital concepts in corporate finance. Capital structure refers to the use of debt and equity to finance company's operational activities. On the contrary, dividend policy refers to the guidelines on quantum and timing of distribution of dividends to shareholders. Therefore, the management has to take appropriate decision on these two issues keeping in view the wealth maximization of the firm. The objective of the study is to examine the relationship between capital structure and dividend pay-out and effect of capital structure on dividend pay-out of select IT companies in India. For this purpose, nineteen sample IT companies were selected for the study. The data for the study were collected from annual reports of the sample companies covering the period from 2008-09 to 2019-20. The data were analyzed by statistical tools namely correlation and regression analysis. The result of the study revealed that there is negative relationship between capital structure and dividend pay-out. Moreover, the study also revealed that capital structure has no effect on dividend pay-out of sample companies. Conversely, analysis on individual company disclosed that capital structure has significant effect on dividend pay-out of few companies.

Key Words: Association, Capital Structure, Effect, Dividend Pay-out, IT Companies,

INTRODUCTION

Capital structure and dividend policy are two important concepts in corporate finance. They are highly interrelated. Capital structure refers to the composition of debt and equity capital and they are used to finance a company's operational activities. An appropriate capital structure uses borrowed funds to increase the returns to shareholders. Dividend policy refers to the guidelines that a company follows in distributing profit after tax to its shareholders. It involves decision regarding the amount and timing of dividend payments to its shareholders. Dividend policy is an intricate issue in the corporate world. In the present scenario of business environment, it has become an imperative issue for every corporate houses. It is due to the fact that contradictory views arise on dividend payment by academicians, practitioners, business analysts, etc. Further, there is no rule of thumb to pay dividend and the dividend payment is very much dependent on the profitability position of the concerned company as well as its prospective investment opportunities. Moreover, one school of thought advocates that declaration of dividend to shareholders no doubt, adds value to their wealth but at the same time, distribution of dividends can potentially hinder the growth and development of the firm due to insufficient funds. In this context, dividend policy is a finance decision on transfer of value in the form of dividend from an organization to its shareholders out of the profits available for a prescribed period of time (Okafor et al, 2011). Since the dividend policy is not only an instrument for the distribution of net surplus revenue over the costs but also works as a parameter for share price behavior of the concerned company and also induces the potential investors to invest their precious funds in the company. Basically, dividend policy of any company determines how much should be distributed out of the net earnings to the shareholders (owners) as dividend and how much should be retained (reserve fund) to reinvest for the growth and development of the company for future. Therefore, the management of the company has to take appropriate decisions on the above two issues. First, it has to take a decision on the proportion of debt and equity finance in its capital structure. Second, the management has to take a decision in determining how much of the company's earnings should be retained internally and rest distributed as dividends to shareholders. Therefore, it is crucial for the finance manager of a company to establish an optimal approach to both capital structure and dividend policy. By doing so, they can bolster the firm's profitability and enhance the organization's wealth. In the present study, the researchers have made an attempt to find out the association between capital structure and dividend payout and the effect of capital structure on dividend pay-out of select IT companies in India.

Importance of the study

It is relevant for the management of a company to examine that to what extent capital structure and dividend policy of the company have effect on the shareholder's wealth. This pertinent issue is not only important for the current investors but also equally important for future investors. Irrespective of the type of industry, its growth perspective, capital structure etc., the ultimate objective before the company is to maximize shareholders' wealth. Stated otherwise, the maximization of firm value being the final goal, all the financing decisions of the company are directed towards achieving it. The major decisions of financial management are to formulate an appropriate capital structure and optimal dividend policy.

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Indeed, proper capital structure and dividend policy are used for attaining the principle of maximizing the shareholders' wealth as well as the maximization of wealth of the companies.
The information technology sector is basically a service oriented one and deals with knowledge, skill and expertise. However, it encompasses the use of hardware, infrastructure and services to generate, store, exchange, and capitalize on information in diverse forms, all aimed at achieving various business goals. With its significant potential, the IT sector holds a key position in improving the economic growth of a nation by enhancing the productivity across various sectors. Given the significant role of the IT sector in the Indian economy, it is important to closely examine how IT companies handle their capital structure in maintaining the profitability and paying dividends to their shareholders. These issues are not only important but also have a direct impact on other critical aspects of business such as investment strategies, growth and expansion, diversification efforts, etc. To examine the capital structure and dividend policy, the present study selects the IT sector in India.

Statement of the problem

The topic of dividend policy in corporate finance has been widely debated not only in India but across the world. Some academicians consider the company's dividend payout policy as a puzzle that always remains unsolved. Despite numerous studies, there is no specific answers to the certain questions surrounding dividend pay-out policies. Hence, the researchers have decided to investigate the link between capital structure and dividend pay-out policy of select IT firms in India. The aim is to determine whether there is an association between capital structure and dividend pay-out of these companies. Apart from this, the study also aims at examining the effect of capital structure on dividend pay-out of these select IT companies. Keeping in view these issues, the present study has made an attempt to conduct a study by selecting a sample of nineteen IT companies of India.

REVIEW OF LITERATURE

The review of literature serves as a cruci oal component of research work. Review of previous studies helps in understanding the work done by researchers and framing the foundation for future research work. Many acclaimed researchers, both nationally and internationally, have explored on the relationship between capital structure and dividend payments as well as the impact of capital structure on dividend policy of different industries. Key findings of few important studies are mentioned below.
Aivazian et al. (2003) conducted extensive research for investigation and comparison of a set of companies from eight emerging markets with a sample of 99 organizations from United States of America. The findings of the study revealed that the beneficial-ness is positively and significantly affecting the dividend policy in both US and emerging market firms. However, leverage is negatively and significantly influencing dividend policy, On the other hand, risk was insignificantly affecting the policy of dividend of such companies.
Farsio et al. (2004) conducted an empirical study and found a good association between the dividend payment and profit of the companies only for the short-term period. However, the association between dividend payments and earnings of the firms was not significant for the long-term period. Hence, they suggested that the companies should retain a substantial amount of profit so that the future earnings of the companies would not suffer while paying higher dividends and considering for the investment needs of the companies.
Kania and Bacon (2005) in their research showed a positive connection between a firm's return on equity and retained earnings. The result of the study noted that when the return on equity was advanced, the retained earnings would be higher and dividend pay-out ratio would be lower. However, some studies contradicted this outcome and stated a positive relationship between profitability and dividend pay-out ratio. They made a concluding remark that the companies' profitability is driven by higher return on equity with higher free cash flow and higher dividend payment.
Naceur et al. (2006) in their study conducted an examination of Lintner's model by taking 48 Tunisian companies covering a period from 1996 to 2002. They used dynamic panel regressions to explore the dividend policy determinants. They found that these firms maintained a stable dividend policy by relying on both current earnings and past dividends in decisions making. They also added that profitable companies with steady earnings could afford larger free cash flows, along with paying more dividends even during the growth Period. The result revealed that the ownership concentration and financial leverage did show significant impact on dividend policy of Tunisia firms. Finally, their conclusion indicated that the liquidity of the share market in addition to size of a corporation would face negative impact upon dividend payments.
Al-Malkawi (2007) conducted research to investigate the factors affecting enterprises' dividend strategies for Jordanian companies. The researcher utilized a panel dataset of firm-level, encompassing altogether openly operated organizations under the Stock Exchange of Amman during1989-2000 for the analysis. The researcher examined the determinants of dividends such as the proportion of ownership, government, size, age and profitability of the companies by utilizing Tobit conditions. The researcher found that the percentage of ownership retained by insiders and the government played a vital role in dividend payment decisions.
Al-Kuwari (2009) conducted a study on the determinants of dividend policy in the context of Gulf Co-operation Council Countries. The researcher found that the primary intention of paying dividends was to reduce agency cost. Further, he added that the firms did not look for long term target so far as dividend pay-out ratio was concerned. Finally, he concluded that dividend payout ratio had strong positive correlation with the variables namely, ownership structure, firm size and profitability. However, it a had negative correlation with the Leverage.

Azhagaiah and Veeramuthu (2010) conducted a study to examine the association between the corporate leverage and the dividend policy of firms belonging to different industries in India. They conducted the study taking a sample size of 73 firms drawn from cement, chemical and fertilizer, information technology, oil and gas, pharmaceutical, shipping, and textiles which were listed in National Stock Exchange of India. The period of study was from 1996 to 2007. The impact of capital structure on dividend pay-out was examined using the multiple regression technique. The results of the cross-sectional model for the selected sample firms under various sectors showed that there was a significant effect of capital structure on dividend pay-out.

Asif (2011) in his study examined the relationship between dividend policy and financial leverage of 403 companies listed at Karachi Stock Exchange during the period from 2002 to 2008. The Dividend policy followed by these companies was tested by applying the extended Linter model (1956) with the debt ratio and previous year’s dividend yield as independent variables and change in earnings as a dummy variable. He applied statistical tools namely correlation and regression for analysis of the data. The study revealed that debt ratio (leverage) and dividend yield were found to be the most influential variables affecting the dividend pay-out policy of the corporate sector of Pakistan. However, the beta coefficient of debt ratio and the relationship between debt ratio and dividend policy were found to be negative. Further, the findings of the study disclosed that changes in earnings had no significant impact on dividend per share.

Kumar and Jha (2012) conducted a study to estimate dynamic variables of dividend policy in Indian IT sector. They selected ten IT companies as sample units for their study those were listed at Bombay Stock Exchange. They collected data from annual reports of the sample companies. The study covered a period of 5 years i.e. from 2007 to 2011. Researchers applied cross sectional data analysis, correlation analysis and multiple linear regression analysis for data analysis and interpretation. The findings of the study revealed that net profit after tax and cash flow were positively associated with equity dividend. On the contrary, the amount of depreciation charged, lagged equity dividend, lagged net income after tax along with variation in sales during previous two years were negatively associated with equity dividend. Finally, the researchers concluded that net profit after tax, cash flow and aggregate of depreciation charged were good and effective predictors of equity dividend in sample IT companies.

Ajanthan (2013) carried out a study on the relationship between dividend payout and firm profitability of hotels and restaurant companies listed in the Colombo Stock Exchange, Sri Lanka. He employed regression and correlation analysis for the data analysis. He found that there was a significant positive relationship between dividend payout and firms’ performance. His study concluded that since dividend policy was an important aspect, the managers should focus on an up-to-date record for the enhancement of firm growth and profitability with shareholder value.

Tamimi and Takhtaei (2014) in their study investigated the effect of the financial leverage and the age of the company on the dividend pay-out. They selected 92 sample manufacturing companies of Tehran Stock Exchange. The study period was from 2005 to 2011.They used the square and the cube of the company age in their model to investigate the linear and non-linear relationship between company age and dividend pay-out. The results of the study indicated that there was a significant positive relationship between company age and dividend payout, whereas there was significant negative association between financial leverage and dividend payout.

Sang (2015) carried out a study to ascertain the relationship between the dividend policy and capital structure of companies. The study selected 16 companies in the industrial and allied sector listed at the National Stock Exchange, Kenya. The correlation analysis was applied to determine whether there existed a relationship between leverage and dividend payout ratio as well as relationship between retained earnings and dividend payout ratio. The findings of the study revealed that there was a strong inverse relationship between leverage and dividend payout ratio while there was a weak inverse relationship between retained earnings and dividend payout ratio. The study concluded that retained earnings and leverage negatively affected the dividend payout ratio.

Kumar and Rajgopal (2016) in their study attempted to identify the key financial variables that affected the dividend policy of 30 companies across 10 industries. The study covered the period of five years from 2011 to 2015. They used a two-step multivariate procedure. They found from the results of factor analysis that leverage, liquidity, profitability, growth and ownership structure were the major factors affecting the dividend policy. Further, the regression analysis revealed that leverage and liquidity were negatively and positively associated with the dividend policy respectively. Finally, the study concluded that except profitability, the other factors namely leverage, liquidity, ownership structure and growth showed the expected signs in the line of the outcome of earlier empirical studies.

Tahu and Susilo (2017) in their study intended to determine the effect of liquidity, leverage and profitability on the firm value with dividend policy as a moderating variable. They selected 30 manufacturing companies listed on the Indonesian Stock Exchange as the sample units for the study. They used moderated multiple regression analysis with the application of SPSS package. The results of the study revealed that there was an insignificant positive effect of liquidity and profitability on firm value. However, leverage had an insignificant negative effect on firm value. In all these cases, dividend policy could not significantly moderate between firm value and the factors like liquidity, profitability and leverage. Finally, the study concluded that profitability had a significant positive influence on the firm value indicating that high profitability could provide added value to the firm.

Ismawati (2018) carried out a study to find out the evidence on whether the capital structure and dividend policy had an impact on the firm’s value. The study included those companies as sample units which were providing dividend during the period 2010-2015 and listed at Indonesian Stock Exchange. The correlation and multiple regression analysis were used for data analysis. The finding of the study showed that there was partial effect of capital structure on firm’s value.

However, the dividend policy had no significant impact on the firm's value. Further, the study revealed that the capital structure and dividend policy simultaneously had an impact on firm's value.

Nathani and Gangil (2019) in their research paper investigated the factors that would affect dividend payouts of pharmaceutical and automobile companies listed on National Stock Exchange, India. The study period was ten years i.e., from 2006-07 to 2015-16. They used static panel data model to carry out the data analysis. They selected cash flow, return on equity, profitability, leverage, tax, opportunities for investment, retained earnings, size of company and sales growth of the company as important variables for their study. The study concluded that cash flow, retained earnings, tax and investment opportunities had significant impact on dividend pay-out in automobile companies whereas debt, profitability, sales growth and retained earnings had significant impact on dividend pay-out in pharmaceutical companies.

Benyadi and Andrianantenaina (2020) in their study examined whether dividend payment was affected by profitability, liquidity, leverage and firm size. They selected sample manufacturing companies listed on Indonesia Stock Exchange. The period of the study covered from 2013 to 2017. They used logistic regression analysis to analyze the data. The results of the study showed that profitability and firm size were significantly associated with dividend payout, while liquidity and leverage were not significantly associated with dividend payout. Finally, the researchers suggested that the investors should consider firm asset tangibility and its effectiveness while deciding to invest in such manufacturing companies.

Mauris and Rizal (2021) conducted a study to determine the effect of collateralized assets, growth in net assets, liquidity, leverage and profitability on dividend policy in non-financial service companies listed on the Indonesia Stock Exchange. The period of the study was from 2016 to 2019. They collected the data from the annual reports of the selected firms' official website. They adapted panel data regression analysis by using Eviews 11.0 software to evaluate the data. The results of the study revealed that collateralized assets, growth in net assets, liquidity, leverage and profitability had significant effects on dividend policy.

Setiawan and Warganegara (2022) conducted a study to examine the influence of key determinants on dividend payout either partially or simultaneously of 149 companies listed on Indonesia Stock Exchange in 2016. The researchers selected profitability, leverage, growth, agency cost and firm size as important dividend determinants for this study. Data for the study was obtained from the relevant database and financial statements of the sample companies. The results of the analysis revealed that profitability and growth factors significantly influenced dividend policy. However, leverage, agency cost and firm size had no significant effect on the dividend policy of such companies.

Listianto and Digdowiseiso (2023) in their research work analyzed the influence of managerial ownership, cash ratio, debt to equity ratio and growth opportunity on dividend policy of consumer goods industry listed on the Indonesia stock exchange. By using the purposive sampling method, the researchers selected 15 companies for the study. The period of the study covered from 2015 to 2020. The data were analyzed by using a panel data regression approach with a significance level of 0.05 using STATA version13 software. These findings of the study disclosed that cash ratio had positive and significant effect on dividend policy, whereas managerial ownership, debt to equity ratio and growth opportunity had no significant effect on dividend policy of sample companies.

Objectives and scope of the study

The objectives of the present research work are outlined below.

1. To examine the relationship between capital structure and dividend pay-out of select IT companies.
2. To determine the effect of capital structure on dividend pay-out of select IT companies.

Further, the scope of the study is limited to IT companies only. In other words, non-IT firms are excluded from the study purview.

Hypothesis for the study

With regards to the above mentioned objectives, the following hypotheses were formulated.

1. H_0: Capital structure has no significant relationship with dividend pay-out of select IT companies.
2. H_0: Capital structure has no significant effect on dividend pay-out of select IT companies.

Theoretical framework on proposed dividend model and measurement of variables

To achieve the objective of the study, the following variables are selected and included in the construction of the proposed model.

Capital structure: The capital structure of a company is considered as an important factor for dividend pay-out decisions. Debt-equity proportion in the capital structure indicates the ratio of capital that is being financed by creditors and shareholders. The debt-equity ratio is used to measure the leverage of a company. The debt-equity ratio is used as an independent variable in this study. Azhagaiah and Gejalakshmi (2014), Labhane and Das (2015) and Brahmaiah et al. (2018) and others used debt-equity ratio as an important variable in their respective studies. The formula used to calculate the debt-equity ratio is as follows.

Debt-Equity Ratio = Long-term Debt/Shareholder's Equity

Dividend Pay-out: The dividend payout ratio is defined as the ratio of the total annual dividend paid to profit after tax. To study the cause and effect relationship between determinant of dividend and dividend pay-out, the dividend payout ratio is taken as the dependent variable. Important studies conducted by Kannadhasan et al. (2017), Nurchaqiqi and

Suryarini (2018), Yusuf et al. (2020) and others used dividend pay-out ratio as dependent variable in their respective studies. The formula used to calculate dividend pay-out ratio is mentioned below.

Dividend Pay-out Ratio = Dividend Paid/Profit After Tax*100

With the above discussed variables, the researchers have constructed a proposed dividend model to examine the effect of independent variables on the dependent variable. Here, debt-equity is taken as an independent variable and dividend pay-out is considered as dependent variable.

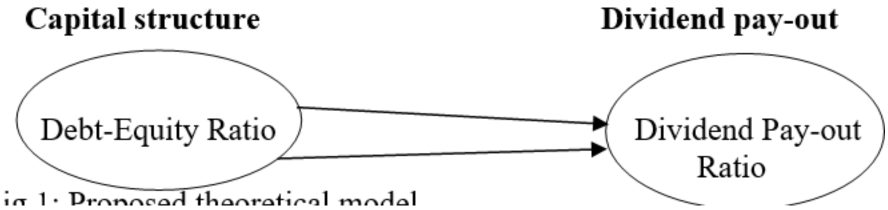

Fig.1: Proposed theoretical model

METHODOLOGY FOR THE STUDY

For the present research work, the following methodology has been followed.

Data Collection: The data for the present study has been collected from the secondary sources i.e. annual reports and websites of select IT companies. From the collected data, the important variables namely Debt-Equity (DE) and Dividend Pay-out (DP) were calculated to make them fit for the analysis. In this study DE and DP are the proxy variables representing capital structure and dividend policy respectively.

Period of the study: The period of the present study is 12 years i.e. from 2008-09 to 2019-20. The researchers consider that a minimum of 10 years continues data is necessary to study the association between the variables in one hand and to examine the effect of independent variable on the dependent variable on the other.

Sample Size: The sample size for this study is 19 IT companies selected on purposive random sampling method. These sample companies were included in the study by fulfilling certain conditions like: i) the company should have at least 10 years' continuous data, ii) the company should have generated profit in the entire study period and iii) the company should have declared/paid dividend.

Tools and Techniques used for the study: Both descriptive and inferential statistics have been used for the purpose of data analysis. The important statistical tools used in this study include correlation and regression analysis.

Data Analysis and Interpretation

The analysis and interpretation of the study has been presented in two sections i.e. section-1 deals with descriptive analysis and section-2 deals with inferential analysis.

Descriptive analysis

The descriptive analysis is carried out on the data collected from select IT companies with regard to debt –equity and dividend pay-out and presented in the following section.

Table-1: Descriptive statistics of sample companies

Variables	Minimum	Maximum	Mean	Standard deviation	Variance
DE	0.0474	0.2545	0.0995	0.0690	0.0048
DPR	21.1726	67.7319	36.8724	12.8646	165.4985

Source: Calculated from annual reports of sample companies

It is revealed from the above table that the debt-equity has a mean value of 0.0995. This shows that on an average, companies are using Rs. 0.0995 in debt for every Rs.1 of equity i.e. debt portion is only 9.95% and the rest is equity. The standard deviation is 0.0690 which signifies that there is a low variance in the debt-equity during the study period. Further, the debt-equity value varies from a minimum value of 0.0474 to a maximum value of 0.2545. It is also noticed from the table that the dividend pay-out ratio has a mean value of 36.8724. This indicates that on an average the select IT companies are paying 36.87% of their after tax profit as dividend and retaining 63.13% in the reserve and surplus fund for future growth and development programs. The standard deviation is 12.8646 which signifies that there is a low variance in the dividend pay-out ratio during the study period. Further, the dividend pay-out ratio value varies from a minimum value of 21.1726 to a maximum value of 67.7319.

Inferential analysis

The inferential analysis was done on the collected data of select IT companies with regard to the relationship between capital structure and dividend pay-out as well as effect of capital structure on dividend pay-out of sample companies. They are presented in the following section.

Correlation analysis

Table-2: Relationship between capital structure and dividend pay-out

Variables	r- value	t- value	p- value
Capital structure and dividend pay-out	-0.3434	9.8836	0.0000

The above table depicts that there is a negative relationship between capital structure and dividend pay-out. To test the relationship between them, a two tailed t-test has been applied. It has been noticed that the p-value is less than 0.05. Hence, the first null hypothesis which says that capital structure has no significant relationship with dividend pay-out of select IT companies is rejected. In other words, capital structure has a significant relationship with dividend pay-out of sample IT companies.

Regression analysis

Table-3: Regression analysis of sample companies

Table-3.1				
Model summary				
Model	R	R square	Adj. R Square	Std. Error of the Estimate
1	0.3434	0.1179	0.0297	12.6719

Table-3.2						
ANOVA						
Model		Sum of squares	df	Mean square	F	Significance F
1	Regression	214.6940	1	214.6940	1.3370	0.2744
	Residual	1605.7889	10	160.5789		
	Total	1820.4829	11			

Independent Variable: DE and Dependent variable: DP

Table-3.3					
Model		Unstandardized coefficient		t	Sig.
		Beta	Std. Error		
1	Constant	43.2451	6.6149	6.5376	0.0000
	DE	-64.0566	55.3985	-1.1563	0.2744

Y = 43.2451-64.0566X

From the summary model statistics mentioned in table-2.1, it is revealed that the model is explaining only 11.79% variation on dividend pay-out as per the R square value. Further, the explanatory variable namely debt-equity is found to be insignificant as per the t-value. Further, F significance value is 0.2744 which is higher at 0.05 level of significance (95% confidence level), hence, the model is not considered a good fit. Therefore, the second null hypothesis which says that capital structure has no significant effect on dividend pay-out of select IT companies is not rejected. Moreover, the beta coefficient of variable shows a negative sign indicating adverse effect of debt-equity on dividend payout of sample IT companies. In order to find out the effect of capital structure on dividend pay-out of individual IT companies, again the researchers used regression analysis and the results are presented in table-4.

Table-4: Regression Results of individual sample companies

Y=a + bX					
Sl. No.	Companies	A	B	R Square	f-value
1	3i Infotech	6.8103	-1.0763	0.0489	0.5147
		(1.7616)	(-0.7174)		
2	ABM Knowledge Ltd	9.8389	277.5327	0.5050	10.2020

		(4.0195)	(3.1941)*		
3	Expleo Solutions Ltd	49.4000	-232.2016	0.0917	1.0093
		(3.9966)	(-1.0046)		
4	HCL	21.2560	31.1808	0.1955	2.4308
		(4.2610)	(1.5591)		
5	Hexaware	50.6673	244.6022	0.0095	0.0964
		(2.1281)	(0.3104)		
6	Infosys	41.0126	-50.2588	0.0852	0.9319
		(10.1999)	(-0.9653)		
7	Mindtree	20.1646	138.0867	0.2426	3.2031
		(2.6864)	(1.7897)**		
8	Mphasis	26.8291	392.7869	0.2418	3.1895
		(1.9672)	(1.7859)**		
9	NIIT Technology	31.1157	-15.3025	0.0066	0.0663
		(5.9359)	(-0.2575)		
10	On Mobile Global	48.3884	-48.4964	0.0004	0.0036
		(1.9929)	(-0.0603)		
11	Rolta India	9.7258	2.3604	0.0307	0.3165
		(1.6630)	(0.5626)		
12	Sasken Technologies	60.0858	-161.1616	0.0189	0.1930
		(3.6006)	(-0.4393)		
13	Sonata Software Ltd.	9.1267	70.2092	0.3992	6.6453
		(2.5515)	(2.5779)*		
14	Take solutions	21.7245	-29.7886	0.0860	0.9407
		(3.3503)	(-0.9699)		
15	Tata elxsi	40.3824	20.2692	0.0021	0.0208
		(4.0864)	(0.1441)		
16	TCS	24.4862	875.8489	0.6196	16.2867
		(3.2152)	(4.0357)*		
17	Tech Mahindra	28.8509	-52.7441	0.1687	2.0287
		(3.7897)	(-1.4243)		
18	Wipro	25.1869	-29.4890	0.0844	0.9217
		(4.8020)	(-0.9601)		
19	Zensar Technologies Ltd	21.7307	2.2279	0.0011	0.0113
		(4.4175)	(0.1061)		

The numbers in the bracket show the t-value.
* mark indicates significant at 5% level and
** indicates significant at 10% level.

The table-3 shows the regression results of individual IT companies. Here Y denotes dividend payout ratio and X denotes the debt equity ratio. The t-value of debt-equity is significant only in the case of 3 companies, namely ABM Knowledgeware Ltd., Sonata Software Ltd. and TCS at 5% level. The variation in dividend payout due to debt-equity of these companies are found to be 50.50%, 39.92% and 61.96% respectively as per their R^2 value. In case of other two companies namely Mindtree, and Mphasis, t-value of debt-equity is significant at 10% level. On the other hand, rest 14 companies show no evidence of significant influence of debt-equity on dividend payout. Further, it is observed from the results that out of 19 companies, the beta coefficient of 9 companies are is found to be negative. It can be stated that the null hypothesis i.e. capital structure has no impact on dividend payout of select IT companies is partially rejected.

FINDINGS AND CONCLUSION

The foregoing analysis disclosed that the standard deviation of debt-equity ratio (capital structure) and dividend pay-out ratio (dividend payments) of the sample IT companies do not have wide fluctuations during the study period. The model summary revealed that percentage of variation in dividend pay-out as explained by debt-equity is 11.79%. It is found from the ANOVA table that the f-significance value is found to be 0.2744 at 5% level which is not statistically insignificant. Similarly, the t-value of debt-equity is 0.2744 which is insignificant at 5% level. Hence, the regression model cannot be considered as the best fit one. Further, it is observed from the regression analysis of individual sample companies that in the case of 3 companies namely ABM Knowledgeware Ltd., Sonata Software Ltd. and TCS, the influence of debt-equity on dividend pay-out is significant at 5% level. Similarly, in the case of two companies namely Mindtree and Mphasis, the influence of debt-equity on dividend pay-out is significant at 10% level. Finally, it is noticed from the results of the study that out of 19 companies, the beta coefficient of 9 companies are is found to be negative indicating that capital structure of these companies has adverse effect on dividend.

The present research work is a fact finding one. Keeping in view the role and importance of IT industry in the economic development of India, this piece of research work has been carried out to examine the profitability position of this sector. Since capital structure and dividend decision are two important decision areas in financial management, the study intended to find out the effect of capital structure on dividend pay-out of select IT companies in India. The application of regression analysis reveals that there is no or little impact of capital structure on dividend pay-out of select IT companies covered under this study. However, on individual company analysis, it is noticed that in case of few companies the capital structure has effect on dividend pay-out. Further, 9 out of 19 companies have negative beta coefficients showing an adverse effect of capital structure on dividend payout of such IT companies.

Research contribution and managerial implications

This research work significantly contributes to Indian IT companies. No doubt, dividend payment plays a vital role in satisfying the existing shareholders, but designing and adopting optimal dividend policy can attract more investors to the company fold. The findings of the present study can give enough insights on this issue. Further, with the adoption of appropriate capital structure and dividend policy, the management can maintain and sustain better return on investment for the company. In other words, adoption and execution of optimal capital structure and dividend policy can enhance the profitability of such companies. Moreover, the existing as well as potential investors can share the benefits of the company's earnings. Apart from this, the findings of the study will be useful to the researchers as a good reference for carrying out their research studies in this area. Last but not the least, this piece of research will be a value addition to the existing literature in the concerned area of research.

Limitation and scope for future research

While carrying out this piece of research work, the present study came across few limitations. First, the study has been carried out taking limited sample companies. Similarly, the parameter used in this study is limited to only two including dependent variable. Therefore, with limited sample size and parameters, the present study has been carried out to establish the cause and effect relationship. With regard to future research, the researchers can include more sample companies and parameters in their scope to enhance the quality of the research work. Last but not the least, more advanced statistical tools such as factor analysis, cluster analysis, discriminant analysis, etc. can be applied to examine their cause and effect relationship. This would provide better insight on dividend payout policy of IT companies in India.

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