

Dividend Policy Efficiency and Shareholder Wealth Transmission A Comparative Study of SBI and HDFC Bank

Dr. Shenti Kumar ¹

¹Assistant Professor Department of Commerce & Management, Guru Nanak College, Budhlada

Email ID : shentikumar201213@gmail.com

ABSTRACT

Dividend policy is a part of the most significant financial decisions of corporate organizations, particularly in the banking sphere, where investor confidence and financial stability are most likely to be given top priority. The research paper analyzes the financial component of dividend policy as a measure of shareholder wealth for State Bank of India (SBI) and HDFC Bank the period for the period of FY 2021 to 2025. The paper is based on secondary data and trend analysis, graphical evaluation, and a paired-samples t-test. Ideally, it would consider the trend based on dividend payouts and the effect they have on the generation of shareholder value. The findings show that dividends of the two banks have grown over the period of study. However, HDFC Bank is superior and more consistent in its dividend payouts and is superior to SBI. The statistical results confirm that the dividend policy of the two banks is quite different. It is concluded in the paper that the dividend policy directly affects the shareholder wealth and it is an important factor that must be considered in making investment decisions..

Keywords: Dividend Policy, Shareholder Wealth, SBI, HDFC Bank, Dividend Trends, Financial Performance, Banking Sector

INTRODUCTION:

The dividend policy is a business approach of paying the earnings to the shareholders. It constitutes a significant component of the company financial management as it dictates the investment procedure, the perception of the company in the market place as well as long term shareholder satisfaction. This is even greater of the dividend policy of the banking industry since that is a sign of financial stability, practicability, and efficient management.

The maximization of shareholder wealth is said to be the common aim of financial management. The action to increase the rates of dividend is seen as a positive response to the investors and helps to increase the price of the stock in the market. In that regard, to maintain the trust of the investors and expand, banks, and other financial institutions are eager to implement the policy of dividend that can convert to the sustainable expansion.

Indian banking industry comprises both the banks of the public sector and the banks of the private sector. The two groups differ so much on the area of ownership structure, management, risk undertaking ability and financial strategies. The government support of banking industry is also experienced in the state bank of India (SBI), which is the largest government owned bank. On the other hand, HDFC Bank is one of the most successful banks in the private sector and these are very profitable banks with good returns to the shareholder.

Indian banks have had a radical transformation and changes to structure over the previous decade. It is better capital endowed, asset endowed and profitable. This has been experienced in some of the banks which have helped to increase dividends payouts. The amount and quantity

of dividend payments is however different among the banks.

This assignment seeks to make a comparison of the dividend policy of the SBI and HDFC Bank over the next five years i.e. between FY2021 and FY2025. This will establish the impact of dividend policy of these banks on the shareholder wealth. The research will use the statistical tools and analysis of the dividend trend to be aware of the bank that is in a better position with its dividend policy.

It is possible that the investors, financial analysts, and policymakers can be interested in the study. It provides the empirical data regarding the relationship between dividend policy and shareholder value creation of the Indian banking industry. The research will be applied in the conclusion of whether the banks in the private sector would be more effective in rewarding shareholders than their counterparts in the government.

2. Review of Literature

Gupta and Rao (2020) investigated the role and effect of dividend policy and shareholder wealth of Indian companies. They discovered that the dividend payment frequency has the positive influence on the investor trust and share price. Their studies were devoted to the dividend policy as the indicator of financial well-being.

Sharma (2021) examined the dividend payout policies of Indian banks and found that dividend policy significantly affects investor perceptions and share prices. The study found that higher dividend payout ratios are associated with more profitable banks.

Mehta and Joshi (2022) examined dividend direction in the Indian financial market and found that earnings and dividends are highly correlated. According to the authors,

private banks' overall inclination is toward a less risky dividend policy than that of state banks.

Patel (2023) examined the impact of dividend policy on the performance of banking stocks and found that dividend payouts are higher when shareholder satisfaction is high. The paper has identified the aggressive dividend policies that private banks have been pursuing.

Singh and Arora (2024) conducted a study on dividend policy and shareholder wealth creation in Indian banks. They found that, even though public sector banks pay higher dividends, private sector banks are more consistent and shareholder-oriented.

3 Research Objective

To study the dividend payout trends of SBI and HDFC Bank during the period FY2021–FY2025.

To compare the dividend policies of SBI and HDFC Bank in the Indian banking sector.

To evaluate the impact of dividend policy on shareholder wealth creation.

To test the statistical significance of differences in dividend payouts between SBI and HDFC Bank.

4. Research Methodology

The proposed research study has a research design of the descriptive-analytical secondary research design which may be defined as systematic, descriptive research design and a comparative assessment research design which aims at evaluating, interpreting and comparing the financial performance indicators of the banking institutions that will be used in the proposed research process.

Nature of Data: In this case, is secondary as the information has been obtained with the assistance of the valid and publicly known financial statements.

Period of Study: FY2021-FY2025

Sources of data Annual report of SBI and HDFC bank, BSE published annual report and NSE published annual report, RBI publications and other reliable financial database and regulatory disclosures.

Tools of Analysis:

Trend Analysis

Graphical Analysis

Paired Sample t-Test

5. Data Analysis

Table 1: Dividend Payment of SBI and HDFC Bank (₹)

Year	HDFC Dividend (₹)	SBI Dividend (₹)
2021	6.50	4.00
2022	15.50	7.10
2023	19.00	11.30
2024	19.50	13.70
2025	22.00	15.90

Source: Secondary data used for academic research

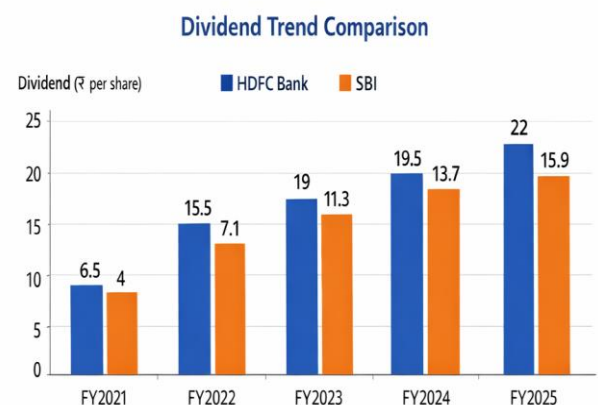
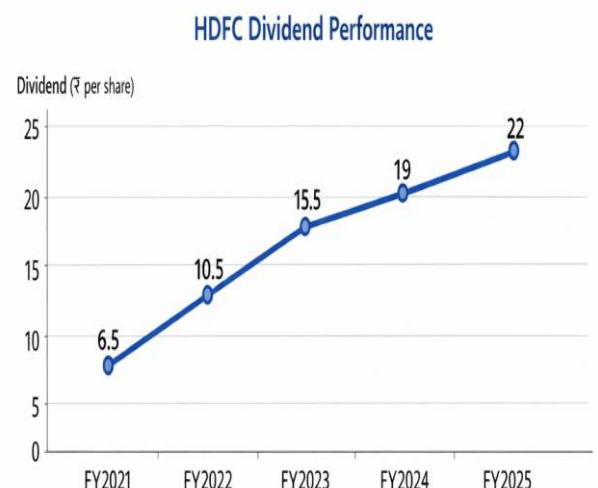


Figure 1: Dividend Trend Comparison

HDFC Dividend Performance



SBI Dividend Performance



Interpretation

The dividend trend analysis indicates that both banks maintained regular dividend payments and increased payouts throughout the study period. HDFC Bank, with a more robust and stable history of growth, demonstrates its performance through earnings and a pro-shareholder dividend policy. The increase in SBI's dividends is good, but over time, it has been low, suggesting they are more conservative in their dividend payouts.

6. Statistical Analysis

Hypotheses

H₀: There is no significant difference in the dividend policies of SBI and HDFC Bank.

H₁: There is a significant difference in the dividend policies of SBI and HDFC Bank.

Paired Sample t-Test Results

t-value: 5.967

p-value: 0.00396

The p-value is not equal to or smaller than 0.05; as such, the null hypothesis is rejected. It demonstrates that the

policies of SBI and HDFC Bank regarding dividends are statistically significant. It supports the fact that the difference in dividend payouts in HDFC Bank and SBI in FY 2021-2025 is statistically significant. HDFC Bank's dividend payments are consistently higher, indicating an aggressive, shareholder-oriented dividend policy. SBI, conversely, is very conservative in its payout policy. It is evident that the dividend policies of banks in the public and private sectors vary and have a direct impact on shareholders' wealth creation.

7. Findings

Dividends increased over time at both banks. HDFC Bank is providing higher dividends per year. HDFC has better dividend development. The statistical significance of the difference is great. The bank generates superior shareholder wealth in the private sector.

8. Conclusion

The research paper has clarified that the dividend policy significantly affects shareholder wealth creation. Although both SBI and HDFC Bank have increased dividend payments over the period FY2021 to FY2025, HDFC Bank is performing better in terms of dividend frequency and amount. This is statistically significant. Therefore, it is possible to recommend HDFC Bank to people who want to receive regular income and achieve higher returns than SBI. The paper concludes that dividend policy is highly significant in creating shareholder wealth in the Indian banking industry. Although the two banks, SBI and HDFC Bank, have paid dividends during the period under study, HDFC Bank has paid dividends more frequently and in larger amounts. The statistical data demonstrates a high degree of variation in dividend policy across both banks. The long-run and regular income and wealth-creation focus should therefore make investors more inclined to invest in high-dividend, consistent, and shareholder-oriented banks.

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