

Impact of Financial Performance Indicators on Dividend Payout Ratio: Empirical Analysis of textile industry of India

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Abstract: This research analyzed the financial performance and dividend payout behavior of various companies within the textile and manufacturing sectors. Specifically, it compares Page Industries, Welspun Living, Swan Energy, KPR Mill, and Trident with 10 years of data (2015 to 2024) based on key profitability metrics—Net Profit Margin (NPM), Return on Equity (ROE), and Return on Assets (ROA) as independent variables and their impact on the Dividend Payout Ratio (DPR) as a dependent variable. This study found that Page Industries and Welspun Living demonstrate exceptional stability, exhibiting consistent profitability and efficiency, as evidenced by low standard deviations in their financial metrics. Conversely, Swan Energy experiences high financial volatility, with significant unpredictability in both profitability and dividend payout behavior. KPR Mill and Trident show moderate performance, with some variability in key financial metrics. Regression analysis concealed significant relationships between NPM, ROA, and ROE with DPR, with p-values below 0.05, indicating that higher profitability and efficient resource utilization tend to result in lower dividend payouts, as businesses with superior ROE prefer reinvesting profits rather than increasing dividends. This research contributes to understanding how financial stability and performance metrics influence dividend payout decisions, offering insights into corporate financial strategies.

Key Words: Financial Performance, Return on Assets, Return on Equity, Net Profit Margin, Dividend Payout Ratio.

Introduction

Among the world's economic sectors the textile industry stands as a major contributor that expands both national exports and labor markets and supports industrial output. Textile companies operating as major manufacturing entities face performance expectations combined with operational cost management needs along with market requirement fulfillment duties. A key financial indicator for measuring textile company performance evaluates how many profits the organization sends to shareholders through dividend payments.

The ratio reveals critical information about a business's economic state as well as both its profitability capacity and its capital control measures.

Profits of a company and capital allocation along with growth opportunities along with external conditions shape the Dividend Payout Ratio. The textile business relies heavily on three key financial performance metrics including Return on Equity (ROE), Net Profit Margin (NPM) and Return on Assets (ROA). The indicators show how well a company produces earnings from three key metrics: its shareholder's equity alongside sales revenue and business assets. The textile sector operates under distinct business conditions needing resource management for market success. Understanding the connection between financial performance measurements and dividend policy decisions helps investors alongside stakeholders and policymakers understand dividend distribution rationales across this sector.

Financial studies focus on how textile industry profit distributions react to ROE, NPM, and ROA in capital-intensive industries showing cyclically influenced operations. Analysis of this relationship drives executive choices about distributing profits as dividends and keeping capital within the business.

The research investigates the role that three financial performance indicators - ROE, NPM, and ROA - have on dividend payout in textile industries. This research examines financial relationships to generate insights about textile sector financial decision-making that facilitates the creation of successful dividend strategies.

Literature Review

A study was conducted by Mauris, F. I., & Nora, A. R. (2019) to analyse how collateralizable assets, growth in net assets, liquidity, leverage and profitabilitas influence dividend policy among non-financial service companies listed on the Indonesia Stock Exchange. Their analysis established that collateralizable assets along with growth in net assets and liquidity, leverage and profitabilitas had a substantial impact on dividend policy. Through analysis it emerges that partly Collateralizable Assets produces substantial positive impacts on dividend policy. Growth in Net Assets shows insignificant association with dividend policy as a off-putting factor. Liquidity measured by CR shows no substantial effect on firms' choice of dividends. The change in leverage ratio (DER) demonstrates no meaningful negative influence on businesses setting a dividend payout strategy. Earnings from operations (ROE) substantially contribute favorably to organizations' dividend distribution systems. The analysis investigates how Current Ratio (CR), Return-on-Equity (ROE), Return-on-Assets (ROA), Debt-to-Equity Ratio (DER) and Firm Size (FS) influence Dividend Policy (DP) within listed real estate and property companies of the Indonesia Stock Exchange according to Pattiruhu, J. R., & Paais, M. (2020). Analysis revealed that Current Ratio (CR), Return-on-Equity (ROE) along with firm size produced no significant positive outcome for dividend policy. We find

evidence that DER and ROA create positive effects which significantly influence dividend policy. Saputri, D. R., & Bahri, S. (2021), Saputri, D. R., & Bahri, S. (2021), This study aims to inspect the influence of leverage, profitability, and dividend policy variables on firm value in property and real estate companies listed on the Indonesia Stock Exchange. Their results show that leverage as proxied by debt to equity ratio (DER) has insignificant effect on firm value, profitability proxied by return on equity (ROE) has a significant effect on firm value, and dividend policy proxied by dividend payout ratio (DPR) has insignificant effect on the value of the company. Marvadi, C. R. (2017) the aim of this study to find out the factors of dividend policy of selected Indian textile companies, their outcomes of the study showed that profitability and ownership structure are the most key factors of dividend decision for selected Indian textile companies. Marvadi, C. et.al (2017) dividend payouts of sample companies are influenced by Return on Equity and self-financing ratio. Earnings management has insignificant impact on dividend policy of companies. Sahoo, S. (2019) this study compares the financial performance of textile firms across different regions and examines how ROE, NPM, and ROA influence their dividend payout decisions. It finds that well-performing companies are more likely to maintain higher dividend payouts. Chandra, S., & Prakash, S. (2020) This paper reviews the impact of profitability, as measured by ROE, ROA, and NPM, on dividend policy in textile firms in emerging markets. It highlights how market conditions, such as industry competition and economic fluctuations influence the dividend payout decisions of textile companies. Sarker, A., & Rahman, M. (2018). The research analyzes dividend policies of textile companies in Bangladesh through an inspection of profitability effects. Their research demonstrates that companies which operate at higher NPM and ROA levels tend to pay out more dividends when their financial performance is robust. The literature on the association between financial performance indicators and dividend payout ratios reveals a consistent finding: Research reveals textile companies benefit from improved dividend payments when their financial metrics such as ROE NPM and ROA demonstrate superior profitability. Textile firms that distribute earnings to shareholders demonstrate superior financial performance through positive relationships between profitability indicators and dividend payments which create enhanced shareholder confidence thus supporting long-term stability.

Research gap

From the above literature review it was found that current study based on the impact of financial performance on dividend policy of textile companies in India is not much explored with long time horizon.

Objective of study

- To analyse the dividend policy and profitability of selected textile companies.
- To analyse the influence of profitability on dividend policy of selected textile companies.

Research hypothesis

H0: there is no influence of ROA, ROE and NPM on dividend payout Ratio of selected textile companies.

Research methodology

The research investigates the dividend policy and business profit rates of the leading 5 textile companies as determined by market capitalization using data from 2015 to 2024 which enables the examination of dividend policy's (as Dividend Payout Ratio) relationship to financial metrics (including Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM)) through statistical analyses performed in SPSS software. The research methodologies combine quantitative data collection from company annual reports combined with secondary sources to obtain financial data of chosen companies. The analysis of data used Karl pearson's correlation and regression methods that operated through the SPSS software platform.

Aanalysis and interpretation of data

Table 1. Average and standard deviation of the selected variables.

Sr.no	Name of company	DPR		NPM		ROE		ROA	
		AVG.	S.D.	AVG.	S.D.	AVG.	S.D.	AVG.	S.D.
1	Page Industries	56.455	19.285113	12.746	0.79	43.54	5.34	23.58	2.6176
2	Kpr Mill	12.065	12.02949362	11.416	3.4037	19.79	3.661	13.76	3.9825
3	Swan Energy	109.16	91.56950849	2.915	7.0685	1.044	2.308	0.596	1.3315
4	Trident	32.859	17.50628931	6.874	2.1539	11.92	3.756	5.863	2.6541
5	Welspun Living	16.354	15.51801047	7.265	0.0348	16.6	0.105	6.772	0.0323

Table1. Shows that Average and standard deviation of the selected variables Page Industries: The high dividend payout ratio of 56.46% exhibits significant deviation at 19.29% suggesting strong differences in returns among companies of the same sector. The dividend distribution from Page Industries reaches a significant portion of their generated profit because Page Industries maintains one of the industry's highest payout rates. NPM: 12. Page Industries maintains a fixed and strongly consistent profitability performance as suggested by its low standard deviation of NPM 12.75%. (S.D. 0.79). ROE: 43. Its return on equity of 43.54% (S.D. 5.34) stands out as exceptional indicating strong equity capital management with efficient operations according to industry standards. ROA: 23. A strong asset utilization performance emerges from Page Industries as demonstrated by their ROA measure of 23.58% (S.D. 2.62). This company displays stable asset usage which remains fairly reliable according to the low standard deviation measurement. KPR Mill:

KPR Mill demonstrates low dividend payout ratios of 12.07% (S.D. 12.03) with its sector facing substantial fluctuation in payment decisions. NPM: 11. NPM scores show good profit margins at KPR Mill but exhibit a higher distribution than Page Industries leading to inconsistent profitability performance when compared to industry standards (SD 3.40). ROE: 19. The 79% (S.D. 3.66) return on equity indicates a healthy ratio which shows efficiency yet demonstrates moderate variation compared to Page Industries. ROA: 13. The ROA performance of KPR Mill presents a strong result even though significant variability in asset utilization demonstrates inconsistent operating efficiency. Swan Energy: At 109.16% (S.D. 91.57) Swan Energy demonstrates payout ratios that stress their profit sustainability because the company appears unable to maintain maximum shareholder distributions without reliable profitability. This high payout stands out as an exception versus typical industry practice because of its exceptionally wide standard deviation. NPM: 2. Swan Energy displays limited profit margin performance at 2.92% and a standard deviation of 7.07 which suggests financial success is erratic. ROE: 1. Therefore the extremely low ROE represents an ineffectiveness in utilizing equity capital. The wide standard deviation reveals the importance of addressing this situation because the company shows significant variations in its distribution of resources. ROA: 0. Swan Energy's asset utilization effectiveness remains low based on its ROA results which support a 0.60% reading accompanied by 1.33% standard deviation. Asset utilization patterns for this company demonstrate unpredictability when seen through standard deviation analysis. Trident: DPR 32.86% S.D. 17.51 shows that Trident maintains an average dividend approach with occasional changes in its payment policy. NPM: 6. Trident's profit margin sits at 6.87% (S.D. 2.15) showing a steady low but consistent trend. ROE: 11. The ROE measurement indicates a decent equity allocation which stands at 11.92% (S.D. 3.76). However, the standard deviation indicates varying asset utilization between competitor firms. ROA: 5. The standard deviation indicates variable asset efficiency yet the measured return on assets is at 86% with an S.D. of 2.65 for Trident Corporation. Welspun Living: DPR exhibited a rate of 16.35% (standard deviation 15.52) yet the low payout ratio accompanied by the large standard deviation shows irregularities in its dividend policy. NPM: 7. Welspun Living demonstrates stable profitability through its extremely squat standard deviation of 0.03 indicating consistent margin maintenance. ROE: 16. Returns on equity reach 16.60% with small Standard Deviation of 0.11 indicating effective equity usage across all financial periods. ROA: 6. The asset management quality at Welspun Living appears strong when you consider its reasonable ROA along with the minimal standard deviation showing stable performance. Page Industries together with Welspun Living maintains high stability in their financial results along with predictable financial outcomes through low standard deviations in ROE and ROA metrics. Ws stable profitability (very low S.D.), which indicates that the company maintains consistent margins. ROE: 16.60% (S.D. 0.11), A solid return on equity, with an very low standard deviation, indicating that the company efficiently utilizes equity with high consistency. ROA: 6.77% (S.D. 0.03), The ROA is reasonable, and the extremely low standard deviation shows that Welspun Living effectively utilizes its assets with very little variation in performance.

Table.2: Regression analysis: Impact of ROE, NPM, ROA on DPR.

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	6298.376	3	2099.459	1932.798	.017 ^b
Residual	1.086	1	1.086		
Total	6299.462	4			

a. Dependent Variable: DPR

b. Predictors: (Constant), ROE, NPM, ROA

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	199.275	2.081		95.747	.007
NPM	-33.556	.463	-3.317	-72.522	.009
ROA	21.771	.421	4.864	51.755	.012
ROE	-5.246	.172	-2.070	-30.574	.021

a. Dependent Variable: DPR

Table.2 shows the Regression analysis: Impact of ROE, NPM, ROA on DPR. Statistical tests revealed significant associations between the three independent variables (NPM and ROA and ROE) with the dependent variable (DPR) because their corresponding p-values remain below 0.05. Impact of Each Variable: The affiliation between NPM (Net Profit Margin) and DPR proves to be off-putting. Companies increase profitability at the expense of dividends because they choose dividend retention in high-growth environments which is a standard practice for these businesses. Return on Assets' (ROA) performance demonstrates a powerful positive relationship with DPR. Businesses that show superior asset utilization efficiency redistribute more dividend payments to shareholders because their assets produce sufficient returns. The connection between DPR and ROE exhibits an average negative relationship. When companies achieve superior returns on equity they will often redirect their profits toward business expansion rather than distributing them as dividends. Model Fit: The model demonstrates a strong fit with 1932.798 F-statistics along with a p-value of 0.017 showing that ROE NPM and ROA jointly account for DPR variations.

Conclusion

Overall analysis: Stability and Predictability: Page Industries and Welspun Living stand out for their consistent performance across all metrics, especially in ROE and ROA, with low standard deviations. These organizations demonstrate the greatest stability in their profitability and efficiency operations. High Volatility: Swan Energy demonstrates strong financial instability through its unpredictability of both DPR rates and profitability numbers based on NPM, ROE and ROA ratios. Moderate Performance with Some Variability: KPR Mill and Trident show decent but somewhat variable performance. These firms demonstrate medium-level profitability plus return on equity/assets but their stability level matches the less consistent Page Industries and Welspun Living. The regression analysis, Statistical tests revealed significant relationships between the three independent variables (NPM and ROA and ROE) with the dependent variable (DPR) because their corresponding p-values remain below 0.05. The regression results demonstrate that NPM combined with ROA and ROE produce significant effects on the Dividend Payout Ratio (DPR). Businesses generating higher NPM profitability together with improved ROA performance typically provide lower dividends along with higher dividend payments. Businesses achieving superior ROE tend to reinvest their resources instead of raising dividend payments.

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