The Academic
International Journal of Multidisciplinary Research
An Online Peer Reviewed / Refereed Journal
Volume 4 | Issue 7 | July 2026
ISSN: 2583-973X (Online), SJIF IF(2026): 5.6
Website: www.theacademic.in

Impact of Dividend Declaration on Stock Returns: An Empirical Study of Select NSE-Listed Companies

Vineesha V

Assistant Professor, Nirmala College Of Arts And Science,Meloor, Email: Vineeshav327@Gmail.Com

DOI : https://doi.org/10.5281/zenodo.22085724

ARTICLE DETAILS

Research Paper

Received: 25-06-2026

Accepted: 20-07-2026

Published: 20-08-2026

Keywords:

Dividend Declaration; Stock Returns; Dividend Yield; Earnings Per Share; Price-Earnings Ratio; NSE

ABSTRACT

This study examines the impact of dividend declaration on the stock returns of ten companies listed on the National Stock Exchange (NSE) of India, primarily over the period 2021 to 2025. Using secondary data drawn from company financial disclosures and market data providers, the study applies dividend yield ratio, earnings per share (EPS), price-earnings (P/E) ratio, and trend analysis of stock price movements to assess how dividend announcements relate to share price behaviour. The findings reveal a largely inverse relationship between dividend payouts and dividend yield on one side and share price appreciation on the other: companies whose share prices rose sharply tended to see dividend yields compress even when absolute dividends grew, while companies with falling or stagnant prices often recorded higher yields. Firms with steadily rising EPS and moderating P/E ratios, such as Coal India and ITC, displayed more stable, income-and-growth-balanced performance, whereas commodity-linked firms such as Vedanta and Hindustan Zinc showed pronounced cyclicality. The study concludes that dividend declarations influence investor sentiment and short-term price movement, but their effect is mediated by earnings quality, valuation levels, and broader market and sector conditions.

1. INTRODUCTION

A dividend is the portion of a company's profit distributed to its shareholders following a declaration by the board of directors. Because dividend announcements convey information about a firm's earnings capacity and financial health, they have long been studied as a distinct category of corporate "event" capable of moving share prices. In India, regulatory reforms by the Securities and Exchange Board of India, including mandatory quarterly earnings and dividend disclosures, have increased the frequency and visibility of such announcements, making their market impact an important subject of continuing research.

Despite a substantial body of literature on dividend policy, no conclusive consensus exists on how dividend declarations affect stock returns across different industries, market conditions, and company characteristics. This gap motivates the present study, which examines the relationship between dividend declaration and subsequent stock returns for a sample of NSE-listed companies, identifies factors that mediate this relationship, and studies stock price variation around dividend announcements.

The study is significant for investors seeking to interpret dividend announcements as signals of financial strength, and for corporate managers seeking to calibrate dividend policy to support share value and investor confidence. The specific objectives of the study are to: (i) examine the relationship between dividend declaration and subsequent stock returns; (ii) identify factors influencing the impact of dividend declarations on stock returns; and (iii) study stock price variation based on dividend declarations by the selected companies.

The study is subject to certain limitations. Market reaction depends on whether dividends meet investor expectations rather than on the absolute amount declared; tax considerations may lead some investors to prefer capital gains over dividend income; high payout ratios can constrain reinvestment and future growth; and broader economic, industry, and sentiment factors can overshadow the specific effect of a dividend announcement.

2. LITERATURE REVIEW

Dividend policy remains one of the most extensively researched yet unresolved questions in corporate finance. Miller and Modigliani (1961) argued that, under idealised assumptions of no taxes and no transaction costs, dividend policy is irrelevant to firm value, since investors can synthesise their preferred income stream regardless of the firm's payout choice. Subsequent researchers have questioned the practical relevance of this proposition. Gordon (1963) proposed that shareholders prefer current dividends to uncertain future capital gains, given the risk associated with distant cash flows, implying that dividend policy does, in practice, affect valuation. Lintner (1956) showed that firms set dividends with reference to the sustainability of long-term earnings, smoothing payouts relative to short-term profit fluctuations, a pattern that has since been described as dividend "stickiness."

Signalling-based explanations argue that managers use dividend changes to convey private information about future earnings prospects to the market. Baker and Wurgler (2004) extended this line of reasoning with a "catering" perspective, suggesting that managers adjust dividend policy in response to investor demand for dividend-paying stocks, implying that dividend decisions are partly driven by prevailing market sentiment rather than fixed payout targets alone.

Empirical work in the event-study tradition, following the framework established by Fama (1970) for testing market efficiency, has generally found a positive association between dividend announcements and short-term abnormal stock returns, though results vary by market and period. Studies on African and South Asian markets provide a useful comparative backdrop for the present Indian study. Bitok (2004) and Kihara (2011), studying companies listed on the Nairobi Securities Exchange, found that dividend policy and dividend announcements are associated with measurable, though not always consistent, effects on firm value and investment returns. Mohamed (2015) similarly reported share price reactions to dividend announcements among Nairobi-listed firms, while Ghada (2015) documented comparable reactions among companies listed on the Damascus Securities Exchange. Charest (1978), in an early and influential study, examined dividend information content and stock returns and found evidence consistent with markets adjusting prices around dividend-related announcements, supporting the broader signalling and information-content view of dividends.

Taken together, the literature suggests that dividend declarations carry informational content that can move share prices, but the direction and magnitude of the effect depend on investor expectations, the earnings context in which the dividend is declared, and the tax and market environment faced by investors—precisely the mediating factors this study investigates for a sample of Indian companies.

3. RESEARCH METHODOLOGY

The study adopts a descriptive and analytical research design combined with a quantitative methodology to examine the relationship between dividend declaration and stock returns. Secondary data on historical share prices and dividend announcement dates and amounts were collected from Moneycontrol, Screener.in, Chartink, and NSE sources for ten NSE-listed companies: Bharat Petroleum Corporation Ltd, Hindustan Zinc Ltd, Coal India Ltd, Hindustan Unilever Ltd, Reliance Industries Ltd, Vedanta Ltd, MSTC Ltd, Oil and

Natural Gas Corporation Ltd (ONGC), ITC Ltd, and Canara Bank. These companies were selected primarily for their history of high dividend yields. Data primarily covers 2021–2025; for ONGC and ITC, data availability constraints limited the analysis window to 2019–2023.

Three ratios and one technical technique were used:

Dividend Yield Ratio = Annual Dividend per Share ÷ Current Price per Share. This ratio indicates the income return generated by a stock relative to its market price and was used to examine the relationship between dividend declaration and subsequent stock returns.

Earnings Per Share (EPS) = (Net Income − Preferred Dividends) ÷ Common Shares Outstanding. EPS was used to identify factors influencing the impact of dividend declarations on stock returns by indicating a company's underlying profitability.

Price-Earnings (P/E) Ratio = Share Price ÷ EPS. The P/E ratio was used to assess whether a stock appeared over- or under-valued relative to its earnings at the time of dividend declaration.

Trend Analysis of stock price movements, using historical price and volume data (including RSI and MACD indicators sourced from Chartink), was used to study stock price variation around dividend declarations over the study period.

4. RESULTS AND DISCUSSION

4.1 Dividend Yield Patterns

Across the sample, dividend yield and share price frequently moved in opposite directions. Hindustan Zinc's dividend rose from ₹18 in 2021 to a peak of ₹52 in 2023 while its share price stayed nearly flat near ₹316–318, pushing yield above 16%; from 2024, the share price surged to over ₹600 while the dividend fell to ₹10, collapsing the yield to about 1.6%—a shift from an income stock to a growth stock. Vedanta showed an even sharper version of this pattern: yields reached 22–25% in 2022–2023 as dividends peaked near ₹68.5 against a depressed share price, then fell to under 4% by 2025 as the price nearly doubled and the dividend was cut. Reliance Industries and Bharat Petroleum showed similar, if less extreme, inverse movements between yield and price.

Coal India stood out for combining rising share prices with steadily increasing dividends (from ₹17.5 in 2021 to ₹26.5 in 2025), producing a moderating but still respectable yield around 6–7% throughout, a pattern consistent with a maturing, cash-generative business rewarding shareholders without sacrificing capital appreciation. Hindustan Unilever and ITC displayed comparatively low but rising yields, reflecting their status as steady, premium-valued consumer stocks. Canara Bank moved from a zero dividend in 2021 (yield 0.00%) to a modest, resumed payout by 2022–2025, mirroring its broader financial turnaround.

Figure 1 summarises the average dividend yield recorded by each sample company across the study period. Vedanta, Coal India, and Hindustan Zinc — all commodity-linked businesses — recorded the highest average yields (13.95%, 8.48%, and 8.31% respectively), while consumer-facing and diversified businesses such as Reliance Industries (0.43%) and Hindustan Unilever (1.66%) recorded the lowest, consistent with their comparatively higher share prices and lower payout ratios relative to market capitalisation.

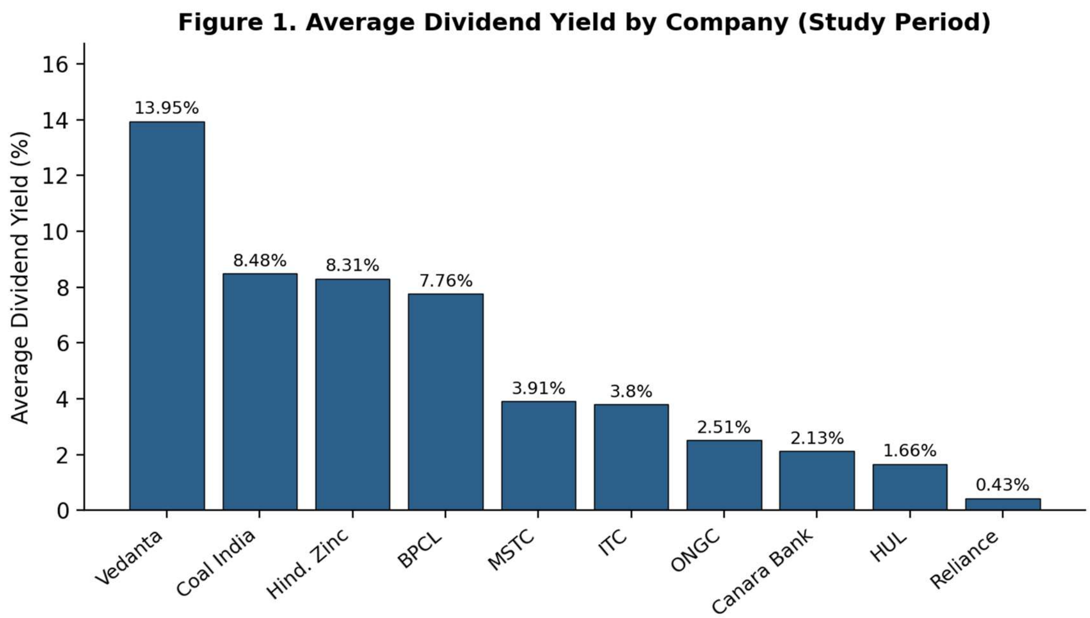

Figure 1. Average dividend yield by company over the study period. Source: authors' computation from sample data.

Figure 2 contrasts the year-on-year dividend yield trend of Coal India, Vedanta, and Hindustan Zinc to illustrate the two broad patterns identified above. Coal India's yield remained comparatively stable, moving within a narrow 6.6–12.0% band as both price and dividend rose in tandem. Vedanta and Hindustan Zinc, by contrast, show pronounced swings — high yields in the years when dividends were elevated relative to a depressed or flat share price, followed by a sharp compression once share prices rallied and payouts were cut. This divergence supports the study's central finding that dividend yield behaves very differently across defensive, cash-generative businesses and cyclical, commodity-linked ones.

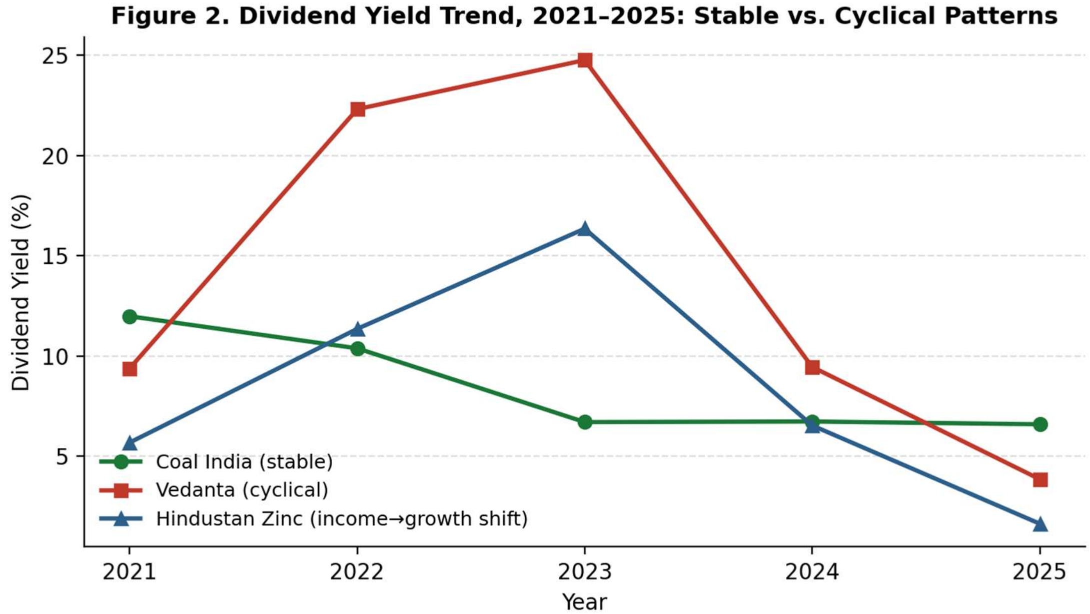

Figure 2. Dividend yield trend (2021–2025) for Coal India, Vedanta, and Hindustan Zinc, illustrating stable versus cyclical yield behaviour. Source: authors' computation from sample data.

4.2 Earnings and Valuation (EPS and P/E)

EPS trends were informative in explaining P/E and yield behaviour. Coal India and Canara Bank showed the clearest upward earnings trajectories—Coal India's EPS nearly tripled from 20.61 to 60.69 between 2021 and 2024, while its P/E ratio stayed low and stable (roughly 6–8), indicating the market priced the stock reasonably even as profitability grew. Canara Bank's EPS rose from 3.51 in 2021 to 19.34 in 2025 while its P/E fell from nearly 57 to under 8, consistent with a re-rating from a distressed to an undervalued profile.

By contrast, Bharat Petroleum and Vedanta exhibited high earnings volatility: Bharat Petroleum's EPS collapsed to 4.91 in 2023 (pushing its P/E to an extreme 91.78) before rebounding to 61.91 in 2024, while Vedanta's EPS swung from 50.58 in 2022 to 11.4 in 2024. Such volatility, typical of commodity- and cyclical-earnings businesses, corresponded with wide swings in dividend payouts and investor sentiment. Hindustan Unilever's P/E remained persistently high (54–69) despite steady EPS growth, reflecting its premium valuation as a stable FMCG franchise, while ONGC moved from an extremely overvalued P/E of 132.88 in 2021 (on very low EPS) to a more moderate range by 2023 as earnings improved.

4.3 Trend Analysis of Stock Price Movements

Technical trend analysis using RSI and MACD indicators showed that most sample companies followed a broadly cyclical pattern: a period of weakness or consolidation, followed by a bullish breakout accompanied by overbought RSI readings and positive MACD crossovers, followed in turn by a correction phase with bearish MACD signals before renewed recovery. Bharat Petroleum, Vedanta, MSTC, ONGC, and Canara Bank each displayed this weakness-recovery-correction cycle across the study period, while Hindustan Unilever, Coal India, and ITC showed comparatively steadier long-term uptrends with only minor corrections—consistent with their status as lower-volatility, dividend-paying blue-chip stocks. Reliance Industries showed strong multi-year appreciation punctuated by a sharp 2024 correction and 2025 recovery.

4.4 Summary Comparison Across Companies

Table 1 consolidates the three financial ratios and the overall qualitative pattern observed for each of the ten sample companies, allowing the individual findings discussed above to be compared at a glance.

Company	Avg. Dividend Yield (%)	EPS Growth (First→Last Year)	P/E Range	Overall Pattern
Bharat Petroleum Corp. Ltd	7.76	37.26 → 30.74 (–17.5%)	4.72 – 91.78	Volatile earnings; cyclical recovery
Hindustan Zinc Ltd	8.31	18.89 → 24.33 (+28.8%)	12.77 – 25.17	Shift from income to growth stock
Coal India Ltd	8.48	20.61 → 57.37 (+178.4%)	6.37 – 7.87	Stable growth; low valuation volatility
Hindustan Unilever Ltd	1.66	34.03 → 45.32 (+33.2%)	53.20 – 69.35	Premium valuation; steady growth
Reliance Industries Ltd	0.43	38.75 → 51.47 (+32.8%)	23.62 – 61.11	Strong EPS growth; falling dividend
Vedanta Ltd	13.95	31.21 → 38.33 (+22.8%)	6.10 – 39.57	High cyclicality; commodity-driven
MSTC Ltd	3.91	16.05 → 57.82	8.49 –	High volatility; strong

Company	Avg. Dividend Yield (%)	EPS Growth (First→Last Year)	P/E Range	Overall Pattern
		(+260.2%)	28.75	late recovery
Oil & Natural Gas Corp. Ltd	2.51	12.96 → 28.80 (+122.2%)	33.15 – 132.88	De-rating from early overvaluation
ITC Ltd	3.80	10.69 → 27.77 (+159.8%)	14.51 – 29.93	Steady re-rating; rising earnings
Canara Bank	2.13	3.51 → 19.34 (+451.0%)	6.00 – 56.97	Turnaround; undervaluation correction

Table 1. Summary comparison of dividend yield, EPS growth, P/E range, and overall pattern across sample companies. Source: authors' computation from sample data.

The table highlights a broad divide between two groups of companies. Coal India, ITC, and Canara Bank combine strong EPS growth with comparatively low or moderating P/E ratios, indicating that the market re-rated these stocks favourably as earnings improved — a pattern associated with steadier dividend policies and more consistent investor confidence. Bharat Petroleum, Vedanta, and ONGC, in contrast, combine volatile EPS with wide P/E ranges, reflecting cyclical, commodity-linked earnings that make dividend policy and market sentiment considerably harder to predict from one year to the next.

5. FINDINGS

The analysis suggests three principal findings relevant to the study's objectives. First, dividend yield and share price movement are generally inversely related in the short-to-medium term: yields rise when prices fall or stagnate even as dividends grow, and compress when prices rally faster than dividend growth. This indicates that dividend yield alone is an unreliable standalone signal of stock attractiveness without reference to concurrent price movement. Second, earnings quality—captured through EPS trends and P/E levels—mediates the market's response to dividend declarations: companies with steadily rising EPS and moderate, stable P/E ratios (Coal India, ITC, Canara Bank in its turnaround phase) sustained more consistent investor confidence than companies with volatile earnings (Bharat Petroleum, Vedanta), where dividend cuts coincided with periods of earnings weakness and elevated P/E ratios. Third, sector and market-condition effects are significant moderators: commodity and cyclical stocks (Vedanta, Hindustan

Zinc, MSTC) showed far greater volatility in both dividends and returns than consumer staples (Hindustan Unilever, ITC), which behaved more defensively regardless of dividend fluctuations.

6. RECOMMENDATIONS

For investors, dividend yield should be interpreted alongside EPS trends and P/E levels rather than in isolation, since a rising yield driven by a falling share price (as seen with Vedanta and Hindustan Zinc in later years) may signal weakening capital appreciation rather than an attractive income opportunity. Income-focused investors may find steadier, moderate-yield stocks with rising EPS, such as Coal India and ITC, more suitable than high-yield cyclical stocks whose payouts fluctuate sharply. Growth-oriented investors may prefer companies transitioning from high-dividend to high-growth profiles, such as Hindustan Zinc in its most recent years, provided they can tolerate lower current income. For corporate managers, the findings suggest that consistent, gradually rising dividends—rather than sharp increases followed by cuts—are more likely to support sustained investor confidence, as evidenced by the comparatively stable market perception of Coal India and Hindustan Unilever relative to the more volatile perception of Vedanta and Bharat Petroleum.

7. CONCLUSION

This study set out to examine the relationship between dividend declaration and stock returns among ten NSE-listed companies using dividend yield, EPS, P/E ratio, and trend analysis. The evidence indicates that dividend declarations do carry informational value and influence investor sentiment, but their effect on stock returns is neither uniform nor mechanical: it is shaped by the earnings context in which a dividend is declared, the valuation level of the stock at the time, and broader sector and market conditions. Higher dividend yields were generally associated with weaker or falling share prices rather than strong returns, while companies combining rising EPS with rising dividends and stable valuations—most notably Coal India—displayed the most balanced and sustainable performance. These findings support the view that dividend policy is best evaluated in conjunction with earnings quality and market context, rather than as an isolated determinant of stock returns, and offer practical guidance for investors and managers seeking to interpret or design dividend policy in a way that supports long-term shareholder value and efficient capital allocation.

REFERENCES

Baker, M., & Wurgler, J. (2004). A catering theory of dividends. The Journal of Finance, 59(3), 1125-1165.

Bitok, J. K. (2004). The effect of dividend policy on the value of the firm (Unpublished MBA project). University of Nairobi.

Charest, G. (1978). Dividend information, stock returns and market efficiency. Journal of Financial Economics, 6(2/3), 297-330.

Fama, E. F. (1970). Efficient capital markets: A review of theory and empirical work. The Journal of Finance, 25(2), 383-417.

Ghada, A. (2015). Stock prices reaction to dividend announcements: A study on listed companies in the Damascus Securities Exchange. International Journal of Academic Research in Accounting, Finance and Management Sciences.

Gordon, M. J. (1963). Optimal investment and financing policy. The Journal of Finance, 18(2), 264-272.

Kihara, D. G. (2011). The relationship between dividend announcements and return on investments: A case of companies quoted at the NSE (Unpublished MBA project). University of Nairobi.

Lintner, J. (1956). Distribution of incomes of corporations among dividends, retained earnings, and taxes. The American Economic Review, 46(2), 97-113.

Miller, M. H., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares. The Journal of Business, 34(4), 411-433.

Mohamed, S. M. (2015). The effect of the dividend announcements on the stock prices of companies listed at the Nairobi Stock Exchange (Unpublished MBA project). University of Nairobi.