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Dividend Payout by Defensive Stocks in India in the Pre and Post Covid 19 Period

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Strictly as per the compliance and regulations of:

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I. Introduction

The lockdowns during the COVID-19 had an unprecedented effect on economies all over the world. Despite being a worldwide phenomenon, the economic slowdown had a different impact depending on the pandemic exposure and characteristics of each individual country. Even before official predictions of the economic impact were available, the global financial markets crashed in the early months of 2020. The intensity of the financial crisis and investors' responses varied across markets.

As their name implies, defensive stocks shield both investors and the economy during a crisis. When the market is unstable or bad, it is a good idea to invest in defensive stocks to preserve value. These stocks can also be trusted when the market is correcting. These industries are timeless, and essential consumption hardly ever changes. Despite a decline during the first stage of the lockdown, essential consumer goods and medicines are necessary for maintaining human life. Defensive stocks maintained their value even though the markets sell-off rally during Novel COVID-19 did not benefit banks, NBFCs, or the auto industry. Investors are drawn to the FMCG industry because the products are in demand all year long.

The fourth-largest sector of the Indian economy is fast-moving consumer goods (FMCG), with household and personal care products making up half of its sales. The retail FMCG market in India is projected to grow from USD 840 billion in 2017 to USD 1.1 trillion by 2020, with modern trade expected to grow at a rate of 20% to 25% annually, which is likely to increase FMCG companies profits. More than half of the global demand for pharmaceuticals is met by the Indian market. A 9.8% year-over-year increase from Rs 1.29 trillion (USD 18.12 billion) in 2018 brought India's domestic pharmaceutical market turnover to Rs 1.4 trillion (USD 20.03 billion) in 2019.

A dividend is a portion of profits and retained earnings that a company distributes to its shareholders. When a business makes a profit and builds up retained earnings, those funds can either be invested back into the company or distributed as a dividend to shareholders. Dividend yield is calculated by dividing the annual dividend per share by the share price. A defensive stock is one that consistently pays dividends and generates steady earnings regardless of the state of the overall stock market. Defensive stocks typically exhibit greater stability throughout the various stages of the business cycle because there is a constant demand for their products. Consumer staples are goods that people frequently purchase out of necessity regardless of the state of the economy, and companies that produce or distribute them are typically viewed as defensive. They consist of food, drinks, personal care items, tobacco, and a few home furnishings. These businesses produce consistent cash flow and predictable profits in both strong and weak economies. Their stocks typically outperform consumer cyclical or non-defensive stocks that sell discretionary goods in weak economies while underperforming them in strong ones. Major companies of pharmaceuticals and medical equipment have historically been regarded as defensive stocks. There will always be sick people who need care, after all. However, they aren't as defensive as they once were due to rising competition from new drugs and uncertainty surrounding regulations.

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II. Dividends Pay out of pre Pandemic

If a shareholder buys stocks prior to the ex-dividend date, which is the cut off for receiving a company's subsequent dividend, and holds the investment for 60 days or more, dividends can be considered qualified dividends. Qualified dividends are taxed at a rate that is lower than the tax on earned income, ranging from 5 percent for low-income earners to 15 percent for those in the highest tax bracket. That doesn't mean unpleasant surprises can't happen with these trustworthy investment tools. A stock may pay dividends, but that doesn't guarantee that the shares won't lose value over time, possibly losing more than the dividends paid to investors. Additionally, companies have the right to reduce or stop paying dividends, as Kraft Heinz and Century Link did earlier this year. The tax bill passed in late 2017 gave a boost to both dividends and share buybacks. Wealth managers predict dividend pay-outs will likely remain at this level in 2019 barring a recession. In a share buyback, the company issuing the stock pays shareholders the market price per share and reabsorbs the ownership that was previously split between public and private investors. From a financial standpoint, buybacks benefit investors because they increase the value of the shares that are still in circulation. Although increased dividends and corporate buybacks have generously rewarded shareholders, some people are critical of the overall outcome because worker wages have not increased while businesses are handing out billions to investors. Dividend pay-outs must rise, according to Ben Greenfield, a partner and chief investment officer at Waldron Private Wealth in Bridgeville, to remain competitive with rising bond and cash yields. Even though bond yields are still low, according to him, they are rising. According to him; the S&P 500's dividend yield in 2018 was 2.3 percent as opposed to its 25-year historical average of 2 percent. In 2019, he predicted, "dividends should remain constant, but the growth rate will probably slow."

III. Dividends Pay-outs of Post Pandemic

This year, dividends are anticipated to increase to $1.39 trillion, up slightly from the previous forecast due to a stronger than anticipated recovery in company pay-outs. Its most recent estimate, which increased 2.2 percentage points from a previous one, is only 3% below the pre-pandemic peak. In the middle of the COVID crisis, dividend payments, which are made by companies to their shareholders, fell last year as a result of regulatory burdens and government pressure to limit pay-outs. With headline growth at 26.3 percent in the second quarter, however, data from the investment manager's Global Dividend Index indicated that a robust recovery is currently underway. The underlying growth rate, which was 11.2 percent, was adjusted for special dividends, currency fluctuations, timing effects, and index changes. Year over year, growth in 2021 is predicted to be 10.7 percent, which would represent an underlying recovery of 8.5 percent. According to the report, $33.3 billion in dividends from businesses that were restarting payments were responsible for three-quarters of the second quarter's underlying growth. Global dividends as a whole will probably return to their pre-pandemic levels within the next 12 months, according to Jane Shoemake, client portfolio manager for Janus Henderson's global equity income team. As long as policymakers continue to give the economy fiscal and monetary support, the current recovery "will not be hampered by a weak banking system as it was after the global financial crisis a decade ago," she added. Lenders were responsible for half of the decline in global pay-outs in 2020, making limits on bank dividends a significant factor. However, restrictions have been easing in recent years. Billion-euro payments to shareholders were announced by European banks at the beginning of August. Banks in the European Union have benefited from the region's banking watchdog's strong performance in stress tests. Following the Bank of England's mid-July removal of the last of its pandemic curbs, HSBC was one of the U.K. banks to resume dividend payments indicating higher pay-outs in the future. After a wave of cancellations and suspensions the previous year, Europe is staging a strong comeback. Companies continued paying out during the first year of the pandemic in both the United States and Canada, according to the Janus Henderson report. Booming commodity prices increased mining companies' pay-outs, and the report also showed that industrials and consumer discretionary were rebounding strongly. Telecommunications, food, food retail, household goods, tobacco, and pharmaceuticals all experienced defensive industries' typical low single-digit growth rates.

IV. Literature Review

Dividends are ratio extracted from firms profit and shared among shareholders (Robiyanto, R., & Yunitaria, F., 2022). These dividends are provided on interim bases or one time settlement. The dividend has a significant influence on the investment, However, one of the research authors did not find any relationships (Yuningsih, Y., et. al, 2019). Further, it was argued that dividends depend on external equity. The size of the firm is having significant influence on the dividend payouts (Mahfudz, A., & Wijayanto, A. 2020). However, it was observed that in defensive stocks the above phenomena is in the reverse direction.

The importance of customer preference in FMCG purchasing decisions is growing. Customers are developing their own preferences for the final decision-making in the massive FMCG market, influenced by a variety of factors. (Singh, P. K. (2020). Increased market share, customer acquisition, and market sustainability are common objectives in the dynamic low involvement product market. to examine the impact of the following variables on the Price Earnings Ratio (PER) for consumer goods: Current Ratio, Net Profit Margin, Debt to Equity Ratio, Firm Size, and Return On Equity (ROE). The Price Earnings Ratio was significantly impacted by the Return on Equity (ROE), Current Ratio, and Debt to Equity Ratio. While Firm Size does not significantly affect Price Earnings Ratio, it does have a small impact. (Fadjar, A., Jumana, Y. L., & Gunawan, B. (2021)) Because of the simultaneous effects of Return on Equity (ROE), Current Ratio, Debt to Equity Ratio, and Firm Size, price earnings ratio (PER) on consumer goods is significantly impacted.

One of the most challenging parts of finance is dividend policy. With regard to the Fast-Moving Consumer Goods (FMCG) sectors of businesses listed on the NSE, the current study focuses on the factors that influence dividend policy. (Pandey, N. S., Mansuri, B. B., & Ashvini, N. (2017).). The value relevance of significant corporate financial variables using a pricing level-based methodology in the context of Indian FMCG companies. The degree to which fundamentals in Indian FMCG companies support stock values. (Dawar, V. (2012) The support ensures the dividend's value relevance and investing strategy that suggests dividend distributions of earnings have a larger impact confirming the signalling effect of the dividend policy, than does earnings maintained inside the company. The General Meeting of Shareholders has approved the dividend distribution, which typically occurs at the conclusion of each financial reporting year (RUPS): (Hardianto, M. B. S. (2021)) However, the agreement on the sale and a few other things are optional, including the distribution of business dividends. With a variety of enterprises, including those in food, beverages, grains, cosmetics, and other FMCG products, India's economy is experiencing substantial expansion in this area. (Mahajan, Y. (2020)) The effects of the coronavirus epidemic on India's FMCG industry and consumer behaviour The study discovered that the coronavirus pandemic has a significant impact on the FMCG industry and has had an impact on employment in India.

A firm uses a dividend policy to determine how much it will distribute to shareholders in the form of dividends. A corporation often keeps a portion of its earnings while paying out a dividend on the remainder. (SETIAWAN, C., & VIVIEN, V. (2021)) Profitability and firm size among the five independent variables tested show a significant impact on the firm's propensity to pay dividends as well as the dividend pay-out ratio, while the capital structure and the choice of investment opportunities show a statistically significant impact on the dividend payout ratio and the dividend-paying decision.

The company value of the items is greatly impacted both separately and together by the funding decision, profitability ratio, and dividend policy. (Sahid, D. N., & Zulifiati, L. (2019).) Debt to Equity Ratio (DER), Return on Equity (ROE), and Dividend Payout Ratio are used to illustrate decisions, profitability, and dividend policy, respectively (DPR). use the purposive sampling approach.

The connection and effectiveness of Indian FMCG Companies working capital management techniques. Working capital management and profitability have a markedly positive and negative relationship. (Mansuri, B. B., Pandey, N. S., & Ashvini, N. (2017)) Effective working capital management for FMCG companies not only positively correlates with profitability but also has a major impact on it.

The COVID-19 pandemic caused multiple firms to experience supply chain disruptions as a result of the disruptions spreading both forward and backward in the global supply chain networks, highlighting the significance of enhancing resilience in the supply chain networks. (Madhavi, B. R. H., & Wickramarachchi, R. 2021, September).

Under the pandemic stress, the dividend announcements had no effect on stock prices. Even though the dividend increases over the previous year were made during the pandemic time, the announcements made during the pre-pandemic period had a substantial impact on stock returns. (Pandey, D. K., & Kumari, V. 2021). The pre-pandemic results are consistent with earlier noteworthy returns for dividends that were steady, increased, and decreased.

The Covid-19 Pandemic had a negative effect on the corporation since the ratio fell between the time of the pandemic (2020) and before the pandemic, indicating that the company's liabilities were less than its assets and equity. (Nasrullah, N., & Saputri, L. 2021) Profitability metrics such as Return on Assets, Return on Equity, and Net Profit Margin indicate that the Covid-19 Pandemic is detrimental to financial performance.

One of the important decisions involving a company's financial strategy is the decision about dividend payout, which is not made alone. Instead, it is a choice made after telling many considerations. (Jana, D) The dividend policy of a company is influenced by a number of things. Dividend policy determines how the profit will be distributed, and management must select whether to reinvest earnings after taxes or give dividends to shareholders.

The Indian Finance Act 2020's repeal of the dividend distribution tax and its effects on corporate dividend behaviour in India. It looks at what determines dividend pay-outs, what factors influence altering pay out decisions, how regular dividend payers behave, and how common these factors are. (Agrawal, A. 2021).

With significant reductions in pay-outs and omissions demonstrated by regular and irregular payers in 2020 and 2021 relative to the preceding years, COVID's impact on the firm's financial performance and sentiments appears to predominate, suppressing investors' expectations of enhanced pay-outs associated with dividend distribution tax advantages.

In an effort to slow the spread of the pandemic, many nations have implemented pandemic suppression measures like lockdowns and community quarantines. Research and development on COVID-19 vaccines and antivirals have increased in response to these dire forecasts. (Yu, D. E. C., Razon, L. F., & Tan, R. R. (2020). SOLIDARITY may be able to provide remedies to the pandemic considerably more quickly than usual by avoiding several regulatory barriers that arise in the launch of novel pharmaceuticals because these pharmaceutical items are currently available on the market for the treatment of other diseases.

A terrible viral sickness called COVID-19 has evolved into an economic crisis that has had far-reaching and protracted effects on international markets. For a very long time, investors have been hearing about COVID-19 and its effects in various parts of the world. (Eachempati, P., Srivastava, P. R., & Panigrahi, P. K. (2021)). Although COVID19 impacts first appeared in Wuhan, China, in December 2019, the global markets did not react immediately until the World Health Organization formally labelled the COVID19 epidemic a global pandemic on March 11, 2020. Due to these multi-channel incidents, investor confidence has plummeted, wrecking the world stock markets. Governments had to move rapidly to safeguard their populations from the COVID-19 epidemic, which abruptly changed our lives in terms of both health and economy. (Gilbert, C., & Guénin, H. (2022)). One of the factors of marketing that is most obvious is publicity. Public relations professionals appear to rely on the idea that, when two messages are comparable in content, news in the media has a higher value than advertising. (Verčič, T., Verčič, D., &Laco, K. (2008)). to determine the interaction of communication impacts between news editorials and advertising. It is obvious how the findings of this might have potentially significant consequences for both advertising and public relations experts given that public relations specialists contend that editorials are more credible and have a higher influence than advertising.

The COVID-19 epidemic has had a significant negative impact on business. The normal operations of the company were impacted by the lockdowns. Manufacturing facilities were closed. Everything except necessities and medical supplies was stopped. Movement was limited. The economy was significantly impacted by this. The business houses gradually returning to normal activities marked the beginning of the unlocking. (Gogoi, B. J. (2021)). The epidemic caused numerous modifications in how businesses operate. During the pandemic, the digital method rose to prominence and has since experienced rapid expansion. To adapt to the needs of consumers in the shifting environment, brands underwent operational and strategic reforms. The healthcare zone is on the epicenter of this unheard of international pandemic challenge and the pandemic is possibly to price massively to the fitness zone. Healthcare enterprise has been witnessing a lack of commercial enterprise and this fashion is anticipated to preserve for the foreseeable destiny and the reality that the sector's prices are predominantly (around 80%) fixed, it's miles anticipated that there will be losses & serve effect on coins flows. (Chandrakant, V. L) The national lockdown was imposed in India following the novel coronavirus pandemic. In this paper, I talk India's Health care machine in the duration of COVID-19, makes a speciality of demanding situations confronted by way of means of healthcare enterprise because of duration of COVID-19, effect of COVID-19 on Healthcare Industry in India & Know to put of Healthcare enterprise after COVID-19 & advise conclusion.

The long-time period repercussions and consequences of Covid-19 on India as an economic system. India's GDP has decelerated to its lowest in over six years and the outbreak of coronavirus has posed clean demanding situations for the worldwide economic system. Even earlier than the onset of this pandemic, the worldwide economic system became confronting turbulence due to disruptions in change that go with the drift and attenuated growth. (Shingare, A. D., & Kanoi, T. (2020). The scenario has now worsened with the aid of using the demand, delivery and liquidity shocks that covid-19 has inflicted. Covid-19 is probably to result in a new normal. Being aware about and getting ready for those dynamic shifts will assist corporations and economies navigate within side the submit Covid-19 world. This examination offers a few insights at the effect on the economic system of the pandemic.

V. Research Methodology

Researchers conducted exploratory research using the capital line database of Indian companies. This qualitative research imported data of dividend and gross profit of FMCG and Pharmaceutical industry. Further, researchers selected 20 companies in FMCG and 20 pharmaceutical companies on convenience methods during May 2022 to June 10 2022. The database data extracted for years to understand the pre and post period of the pandemic. Added to this data was cleaned and prepared for data analysis. Researchers used Multivariate techniqu based on general linear models and found relationships with canonical relationships.

VI. Discussions

Researchers collected 20 companies' dividends and profits for 5 years in the defensive stocks. The list is populated in Table 1.

Table 1: Descriptive statistics of the research

	2017		2018		2019		2020		2021	
Companies	Dividend	Gross profit	Dividend	Gross profit	Dividend	Gross profit	Dividend	Gross profit	Dividend	Gross profit
Emami ltd	39.72	726.58	158.88	694.54	0	714.54	181.57	663.96	355.61	935.36
Dabur india ltd	220.19	1,369.78	220.19	1,475.63	220.79	1,612.18	247.39	1,538.40	309.3	1,826.71
Marico Ltd	451.59	1,205.82	548.58	1,021.00	613	1,287.00	872	1,374.00	968	1,418.00
Bajaj Consumer Care Ltd	169.63	285.64	177	281.84	206.5	294.85	0	236.22	0	276.72
Patanjali Ayurved Ltd	0	1,632.29	278.92	602.49	0	641.15	0	764	0	811.81
Asian Paints Ltd	987.97	2952.15	834.5	3,176.94	0	3,711.02	0	4,103.00	321.33	4,787.85
Godrej Consumer Products Ltd	195.78	1,163.85	681.33	1,352.31	1,226.52	1,542.15	0	1,481.00	0	1,677.30
Jyothy Labs Ltd	109.01	220.7	18.19	265.07	0	285.79	110.16	241.32	0	301.32
Zydus Wellness Ltd	25.4	112.49	31.26	137.63	0	99.77	0	-51.99	0	-184.64
Pidilite Industries Ltd	243.52	1,234.96	304.69	1,422.76	0	1,476.28	355.61	1,562.74	0	1,603.73
Bajaj Consumer Care Ltd	169.63	285.64	177	281.84	206.5	294.85	0	236.22	0	276.72
Marico	451.59	1,205.82	548.58	1,021.00	613	1,287.00	872	1,374.00	968	1,418.00
Colgate-Palmolive (India) Ltd	271.99	984.67	652.77	1,139.54	707.16	1,301.72	543.97	1,241.30	1,468.72	1,532.72
Nestle India Ltd	829.18	2,181.55	867.74	2,764.62	2,709.28	3,043.64	1,301.61	3,183.17	1,301.61	3,273.96
Gillette india ltd	534.4	412.67	74.94	386.89	61.91	386.75	0	365.02	270.46	486.98
Tata Consumer Products Ltd	148	409.89	155.44	750.67	0	607.6	0	844.23	0	962.35
Heritage Foods Ltd	9.28	330.61	9.28	125.06	0	172.4	0	-96.64	0	240.24
Johnson & Johnson Pvt Ltd	650.62	1,010.65	135.45	1,089.84	0	1,099.60	0	1,147.51	0	1,569.57
Hatsun Agro Product Ltd	15.22	314.6	60.87	292.32	77.61	361.78	96.25	452.88	129.34	674.06
Amrutanjan Health Care Ltd	3.22	35.83	4.46	35.79	3.22	37.84	6.14	38.81	4.68	85.57

(Source: Primary Data)

Researchers used Multivariate analysis based on a general linear model. Results of impact of profitability on dividend is given in table 2

Table 2: Multivariate analysis of effect of Profit on dividend given by defensive stocks

Effect (Wilks Lambda)	Value	F	Hypothesis df	Error df	Sig.
Intercept	.633	1.161[b]	5.000	10.000	.392
2017 Profit	.866	.309[b]	5.000	10.000	.897
2018 Profit	.623	1.212[b]	5.000	10.000	.371
2019 Profit	.630	1.173[b]	5.000	10.000	.387
2020 Profit	.573	1.487[b]	5.000	10.000	.277
2021 Profit	.345	3.798[b]	5.000	10.000	.035

(Source: Primary data)

In 2017, Dividend distribution based on the profitability had shown no significance (F=0.309, N=5, p>0.05) Similarly, researchers also observed the impact of Profit on dividend in the year 2018 and found no effect(F=1.212, N=5, p>0.05). Further, the data analysis 2019 also has no major effect by profit on dividend distribution (F=0.630, N=5, p>0.05), Added to this, the dividend distribution had not shown any impact in the year 2020 (F=0.277, N=5, p>0.05). This has shown that lock down period also not having a significant influence on the dividend distribution though defensive stocks had made huge profits. However, later the stabilization of the economy and consistent in defensive stock sales had increased profitability and companies began providing dividends. Thus, it shows that post pandemic profitability had an effect on dividends in particular 2021(F=0.345, N=5, p>0.05). The data analysis had shown that Profitability pre-pandemic has no significance on dividend however, in the post pandemic defensive stock companies redistributing their wealth.

After understanding the impact of profit on dividend researchers tested the canonical correlation between profitability and dividend. The results show that except in the year 2017 hypothesis had shown significant relationships by omitting other year details.

Table 3: Canonical correlation settings to assess dividend relationship with Profits

Canonical Correlations Settings	
	Values
Set 1 Variables	2017 Dividend, 2018 Dividend, 2019 Dividend, , 2020 Dividend, 2021 Dividend,
Set 2 Variables	2017Profit, 2018 Profit, 2019 Profit, , 2020 Profit, 2021 Profit,
Centered Dataset	None
Scoring Syntax	None
Correlations Used for Scoring	5

(Source: Primary Data)

Table 4: Canonical correlation between profit and dividend in the pandemic era

	Correlation	Eigenvalue	Wilks Statistic	F	NumD.F	Denom D.F.	Sig.
1	.964	13.239	.017	3.058	25.000	38.650	.001
2	.762	1.388	.247	1.241	16.000	34.243	.288
3	.535	.402	.590	.789	9.000	29.355	.628
4	.373	.161	.827	.646	4.000	26.000	.635
5	.198	.041	.961	.569	1.000	14.000	.463
H0 for Wilks test is that the correlations in the current and following rows are zero							

The result had shown significance in 2017 wherein (F=0.17, N=5 p<0.05). Thus we can conclude that there is a negligible impact or correlation between dividend and profitability pre and post pandemic.

VII. Conclusions

The Author's effort in finding relationship and impact between Dividend and profitability yielded mixed results. In the Multivariate techniques using wilks test it was found that only 2021 year is influencing dividend payout. The rest years have negative impact as lockdown this might be sure to influence profitability. Similarly, only one had shown their relationship. Thus, we can conclude that there is no impact of dividend and profitability. However, researchers found that further investigation required to strengthen the validity by changing the local coverage to national level and including many more datasets and variables.

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