



“Dividend Stability and Payout Behavior: An Analytical Study of Hindustan Unilever Limited”

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ABSTRACT

Dividend policy remains one of the most significant financial decisions influencing shareholder wealth, investor confidence, and corporate valuation. This study examines the dividend stability and profitability relationship of Hindustan Unilever Limited (HUL) over the period FY 2019–20 to FY 2023–24. The research investigates whether the company’s dividend decisions are primarily driven by profitability or reflect a strategically managed dividend smoothing approach.

The study is based on secondary data obtained from HUL annual reports, stock exchange disclosures, and financial databases. Trend analysis, correlation analysis, and regression analysis were employed to evaluate dividend behavior and test the applicability of major dividend theories. The findings indicate consistent growth in Dividend Per Share (DPS) throughout the study period, demonstrating a stable and progressive dividend policy. A strong positive relationship was observed between profitability indicators and dividend payments, while regression results provided substantial support for Lintner’s Dividend Smoothing Model. The study further reveals that dividend payments were maintained despite significant variations in capital expenditure, suggesting limited applicability of the Residual Dividend Theory.

The study concludes that HUL follows a shareholder-oriented dividend policy characterized by stability, profitability linkage, and strategic payout management, thereby reinforcing investor confidence and long-term value creation.

Keywords: Dividend Policy, Dividend Stability, Dividend Smoothing, Profitability, Dividend Per Share (DPS).



INTRODUCTION

The distribution of profits among shareholders has always been an important aspect of corporate decision making. Investors closely Monitor dividend pay as they often reflect the company's financial strength, prospects and commitment towards shareholder value. For companies, however, dividend decisions involved balancing the expectations of shareholders with the need to retain earnings for growth and expansion.

Hindustan Unilever Ltd (HUL), one of India's (FMCG) companies, has consistently maintained strong financial performance and regular dividend payments over the years. Its ability to sustain dividend payouts while operating in a dynamic business environment makes it an interesting case for studying dividend behavior and payout practices.

The period from FY 2019- 20 to FY 2023-24 witnessed significant economic and regulatory changes, including the COVID-19 pandemic and the abolition of Dividend Distribution Tax (DDT) in India. These developments created a unique environment to examine whether HUL was able to maintain dividend stability despite change in market conditions.

Against this background, the present study seeks to analyze the relationship between profitability and dividend payments and to understand the factors influencing dividend decisions in HUL. This study also examines the relevance of established dividend theories in explaining the company's payout behavior.

NEED OF THE STUDY

Dividend policy plays a crucial role in corporate financial management as it directly influences shareholder wealth investor confidence and market perception. Understanding the factors that determine dividend payments is important for evaluating company's financial strength and payout practices. As Hindustan Unilever Limited has consistently maintained dividend payments over the years there is a need to examine the relationship between profitability and dividend decisions and assess the relevance of established dividend theories in explaining the company's dividend behavior.

STATEMENT OF THE PROBLEM

Hindustan Unilever Limited has consistently maintained and increased its dividend payouts over the years, even during periods of changing economic and business conditions. While profitability has also shown a positive trend, the uninterrupted growth in dividend payments raises an important question: Are HUL's dividend decisions primarily driven by earnings performance, or are they the result of a deliberate dividend smoothing strategy aimed at maintaining investor confidence? The present study seeks to examine this relationship and evaluate the applicability of major dividend theories in explaining the company's payout behavior.

OBJECTIVES OF THE STUDY

- To examine the pattern and stability of dividend payments of Hindustan Unilever Ltd over the last five years.
- To analyze the relationship between profitability and dividend payout, assessing whether dividend decisions are profit-driven or strategically adjusted.
- To evaluate the applicability of key dividend theories (such as Linter's Model and Residual Dividend Theory) in explaining the company's payout behavior.



SCOPE OF THE STUDY

The study focuses exclusively on Hindustan Unilever Limited (HUL) and examines its dividend stability and profitability relationship during the period FY 2019–20 to FY 2023–24. The analysis is based entirely on secondary data collected from annual reports, stock exchange disclosures, and financial databases. The study evaluates dividend behavior using trend analysis, correlation analysis, and regression analysis to understand the company's payout practices.

SIGNIFICANCE AND LIMITATIONS OF THE STUDY

The study contributes to a better understanding of corporate dividend behavior and the factors influencing payout decisions. It provides useful insights for investors, financial analysts, and researchers by examining the practical relevance of established dividend theories in a real-world business setting. However, the findings are based solely on secondary data and are subject to the inherent limitations of publicly available financial information. In addition, the study does not consider qualitative managerial decisions or external economic factors that may influence dividend policy.

2 LITERATURE REVIEW

Lintner (1956) conducted one of the earliest empirical studies on dividend policy by examining dividend behavior among American corporations. The study concluded that firms prefer stable dividend policies and avoid sudden changes in payouts. Managers gradually adjust dividends toward target payout ratios instead of reacting immediately to earnings fluctuations. The study also found that previous year dividends significantly influence current dividend decisions. This research laid the foundation for the Dividend Smoothing Model and remains one of the most influential contributions to corporate finance literature.

Fama and Blahnik (1968) empirically tested Lintner's model and confirmed that current earnings and previous dividends strongly influence dividend payments. Their findings supported the existence of dividend smoothing behavior among corporations.

The study demonstrated that firms maintain long-term target payout ratios and avoid frequent dividend changes.

Bhattacharya (1979) introduced the Signaling Theory of dividends and argued that dividend announcements act as signals regarding future profitability and management confidence.

According to the study:

- Firms with strong future earnings are more likely to increase dividends.
- Dividend reductions negatively affect investor perception.

The study highlighted the informational role of dividend policy.

Managers believe that investors prefer predictable dividends and therefore companies avoid reducing dividends even during temporary earnings declines.

Andres, Betzer, Goergen, and Renneboog (2015)

The researchers revisited Lintner's dividend model and concluded that dividend smoothing continues to remain relevant in modern financial markets.

The study demonstrated that firms still rely heavily on previous dividend levels while determining current payouts.



Hirsch, Schosser, and Dinh (2019)

This meta-analysis reviewed numerous empirical studies relating to dividend smoothing and concluded that dividend stability remains one of the strongest empirical findings in finance literature.

The study identified: Profitability, Market conditions, Firm maturity and Investor expectations as major determinants of dividend policy.

RESEARCH GAP

Limited research has examined the dividend behavior of Hindustan Unilever Limited in the post-COVID period and after the abolition of Dividend Distribution Tax (DDT) in India. In addition, most existing studies focus on ratio-based measures and individual dividend theories. The present study addresses this gap by analyzing dividend stability and profitability using multiple analytical techniques and dividend theories.

3 RESEARCH METHODOLOGY

Research Design

The study adopts a quantitative descriptive and analytical research design to examine the dividend stability and payout behavior of Hindustan Unilever Limited.

Data Source

The study is based entirely on secondary data collected from annual reports, stock exchange disclosures, financial databases, company publications, and relevant research articles.

Sample and Sampling Technique

Hindustan Unilever Limited was selected as the sample organization through purposive sampling owing to its consistent dividend payment history and strong market position.

Analytical Tools

The study employs Trend Analysis, Correlation Analysis, and Regression Analysis to examine dividend stability and evaluate the relationship between profitability and dividend payments.

Study Period: The analysis covers five financial years from FY 2019–20 to FY 2023–24.

4 RESULTS AND FINDINGS

Hindustan Unilever Ltd – Data for Analysis (FY2020 to FY2024)

Source: Screener.in – Consolidated Figures in ₹ Crores (except EPS & DPS which are in ₹)

S no	Data Point	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
1	Net Profit / PAT (₹ Cr)	6,756	7,999	8,892	10,143	10,282
2	EPS (₹ per share)	31	34	38	43	44
3	Cash from Financing Activity (₹ Cr)	-6,819	-9,309	-8,015	-8,953	-10,034
4	Capital Expenditure / Capex (₹ Cr)	862	4,163	1,228	1,192	1,477
5	Reserves / Retained Earnings (₹ Cr)	8,013	47,439	48,826	50,069	50,983
6	Dividend Payout % (from P&L)	80.0%	119.0%	90.0%	91.0%	96.0%

Dividend Per Share (DPS) – To be verified from BSE Corporate Actions / H Annual Report Notes

S no	Data Point	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
1	Dividend Per Share – DPS (₹)	14.00	15.00	19.00	22.00	24.00
2	Total Dividend Paid (₹ Cr)	3,045	3,538	4,469	5,174	5,666

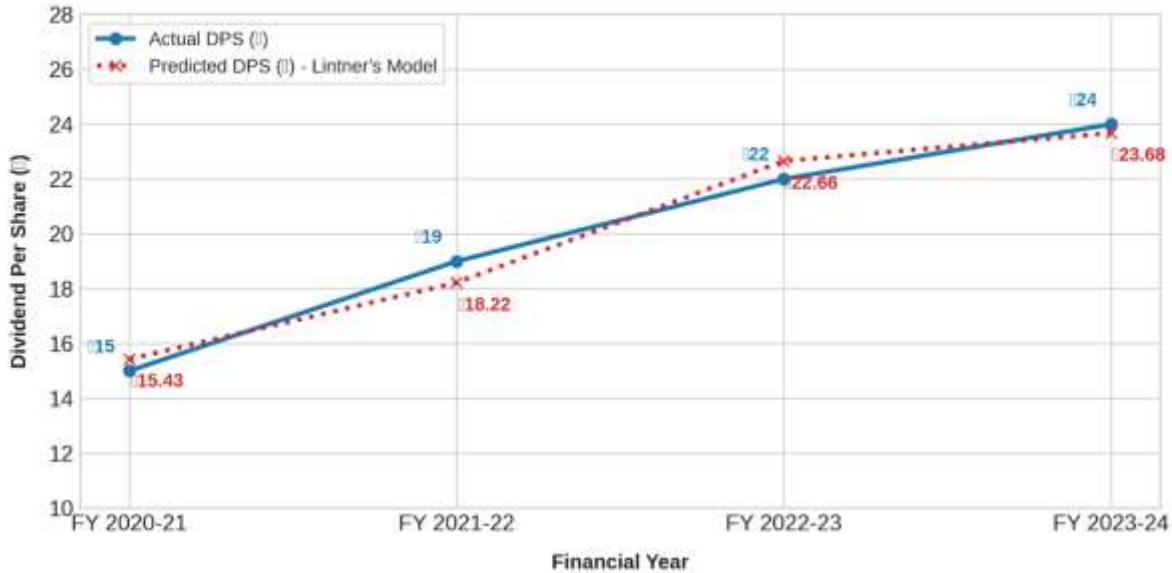
Objective 1: Dividend Stability & Pattern

SECTION 1: Trend Analysis

#	Metric	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	5-Yr Change
1	DPS (₹)	14.00	15.00	19.00	22.00	24.00	+71.4%
2	EPS (₹)	31.17	34.03	37.79	43.07	43.74	+40.3%
3	Net Profit / PAT (₹ Cr)	6,756	7,999	8,892	10,143	10,282	+52.2%
4	Total Dividend Paid (₹ Cr)	3,290	3,525	4,465	5,170	5,640	+71.4%

5	Retained Earnings (Cr)	8,013	47,439	48,826	50,069	50,983	+536.3%
6	Capex (₹ Cr)	862	4,163	1,228	1,192	1,477	+71.3%

**Lintner's Dividend Model Fit for HUL (R² = 97.1%)
Actual vs. Model Predicted DPS**



INTERPRETATION: Progressive Growth: Dividend Per Share (DPS) grew consistently each year from ₹14 to ₹24 (+71.4%) with zero dividend cuts. This confirms a highly stable, progressive corporate dividend policy.

- **Outpacing Profits:** DPS growth (+71.4%) outpaced Net Profit growth (+52.2%), showing an increasing management priority to maximize cash returns to equity shareholders.
- **Merger Distortion:** The huge 536% spike in Retained Earnings in FY21 was an accounting entry driven by asset consolidation from the **GSK Consumer Healthcare merger**, rather than standard operational profit withholding.

Objective 2: Profitability–Dividend Relationship

SECTION 2: Correlation Analysis

S no	Correlation Pair	r Value
1	DPS vs Net Profit (PAT)	0.9682
2	DPS vs EPS	0.9866
3	DPS vs Total Dividend Paid	1.0000

INTERPRETATION: Direct Earnings Link: The near-perfect positive correlation between DPS and EPS (\$r = 0.9866\$) and Net Profit (\$r = 0.9682\$) proves that dividend increases are explicitly driven by bottom-line financial expansions, not arbitrary choices.

- Fixed Share Count:** The perfect correlation ($r = 1.0000$) between DPS and Total Dividend Paid confirms that HUL's outstanding share capital remained completely stable, making total cash outflows directly proportional to per-share payouts.

Objective 3: Applicability of key dividend theories

SECTION 3: Lintners Regression Model

S no	Variable	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
1	Current DPS - Y (₹)	15.00	19.00	22.00	24.00
2	Net Profit / PAT - (₹ Cr)	7,999.00	8,892.00	10,143.00	10,282.00
3	Previous Year DPS X2 (₹)	14.00	15.00	19.00	22.00

Regression Output (OLS)	
Parameter	Computed Value
Intercept (α)	-10.5602
Coeff β 1 (Net Profit)	0.002887
Coeff β 2 (Prev DPS)	0.2074
R^2 (Goodness of Fit)	0.9710

Predicted vs Actual DPS (Model Verification)				
Year	Actual DPS (₹)	Predicted D (₹)	Residual (₹)	Residual %
FY 2020-21	15.00	15.4347	0.4347	2.9%
FY 2021-22	19.00	18.2200	0.7800	4.11%
FY 2022-23	22.00	22.6609	0.6609	3.0%
FY 2023-24	24.00	23.6844	0.3156	1.31%

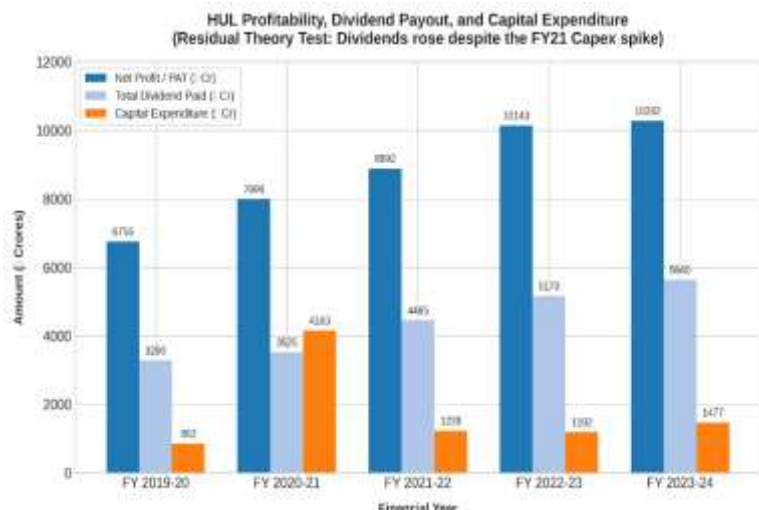


INTERPRETATION:

- **High Reliability ($R^2 = 0.9710$):** The regression model explains 97.1% of HUL’s dividend distribution behavior, indicating an exceptional statistical fit.
- **Dividend Smoothing ($\beta_2 = 0.2074$):** The positive prior-year DPS coefficient confirms that HUL actively "smooths" its dividends. Management anchors current payouts to historical benchmarks to avoid volatile fluctuations.
- **Minimal Prediction Error:** A maximum residual error of just ₹0.78 per share (under 4.2% variance across all years) proves that Lintner's behavioral model is highly accurate for predicting HUL's distribution framework.

SECTION 4 Residual Dividend Theory Test

S No.	Metric	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
1	Net Profit / PAT (₹ Cr)	6,756	7,999	8,892	10,143	10,282
2	Capex (₹ Cr)	862	4,163	1,228	1,192	1,477
3	Total Dividend Paid (₹ Cr)	3,290	3,525	4,465	5,170	5,640
4	DPS (₹)	14.00	15.00	19.00	22.00	24.00
5	Retained Earnings (₹ Cr)	8,013	47,439	48,826	50,069	50,983



INTERPRETATION

- **The Litmus Test (FY21):** Corporate Capital Expenditure (Capex) spiked nearly **500%** (from ₹862 Cr to ₹4,163 Cr) to fund the GSK integration.
- **Theory Disproven:** Under the Residual Theory, dividends should have been heavily cut to fund this investment. Instead, HUL increased both Total Dividends (to ₹3,525 Cr) and DPS (to ₹15).
- **Strategic Payout Priority:** This absolute decoupling of investment spikes from payout growth completely disproves the Residual Theory. HUL strictly prioritizes dividend continuity over funding operational capital demands via dividend reductions.

5 DISCUSSIONS

The overall analysis indicates that Hindustan Unilever Limited maintained a stable and progressive dividend policy throughout the study period. The trend analysis revealed a consistent increase in Dividend Per Share, reflecting the company's commitment to shareholder returns. The correlation and regression results demonstrated a positive relationship between profitability and dividend payments, suggesting that earnings performance significantly influences dividend decisions. At the same time, the steady growth in dividends despite variations in profitability supports the concept of dividend smoothing. These findings are consistent with Lintner's Dividend Smoothing Model and indicate that HUL follows a balanced approach that combines profitability considerations with the objective of maintaining investor confidence and dividend stability.

6 FINDINGS

1. **Progressive and Unbroken Dividend Growth:** Hindustan Unilever Ltd. (HUL) follows an explicitly progressive dividend policy. Over the five-year study framework (FY2020–FY2024), Dividend Per Share (DPS) rose uninterruptedly from ₹14.00 to ₹24.00, achieving a total growth of **+71.4%** with zero dividend cuts, demonstrating strong financial resilience during volatile macroeconomic patches (e.g., COVID-19 impacted FY21).
2. **Prioritization of Shareholder Wealth:** The growth rate of corporate dividends (+71.4%) systematically outpaced both corporate Net Profit growth (+52.2%) and per-share earnings growth (+40.3%). This underlines management's strategic commitment to expanding direct value distribution to its equity shareholders.

3. **Rigid Profit-Driven Anchoring:** Correlation analysis shows a near-perfect positive linear relationship between dividend distribution metrics and financial returns ($r = 0.9866$ for DPS vs. EPS; $r = 0.9682$ for DPS vs. Net Profit). Payout changes are mathematically and structurally bound to foundational bottom-line earnings.
4. **Valid Application of Lintner's Smoothing Model:** The OLS regression output establishes that Lintner's dividend behavioral model holds true for HUL with an outstanding goodness of fit ($R^2 = 97.10\%$). The computed lag coefficient ($\beta_2 = 0.2074$) highlights a deliberate corporate smoothing pattern, meaning management benchmarks current distributions against historical payouts to suppress erratic market volatility.

Absolute Rejection of Residual Dividend Theory: A focused multi-variable analysis over the FY2020–21 integration window confirmed that corporate dividends are decoupled from temporary investment shocks. Even though Capital Expenditure (Capex) surged by nearly **500%** (jumping from ₹862 Cr to ₹4,163 Cr) to fund the GlaxoSmithKline (GSK) Consumer Healthcare asset consolidation, HUL expanded its overall dividend payments from ₹3,290 Cr to ₹3,525 Cr rather than conserving cash.

7. CONCLUSION

The study concludes that Hindustan Unilever Limited follows a stable and progressive dividend policy, reflecting its commitment to shareholder value creation. The findings reveal a strong positive relationship between profitability and dividend payments and support the applicability of Lintner's Dividend Smoothing Model in explaining the company's dividend behavior. The study further indicates that dividend decisions are not treated as residual outcomes after investment activities, thereby rejecting the Residual Dividend Theory in the case of HUL. Overall, the company demonstrates an effective balance between growth objectives and consistent shareholder returns.

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