



## **An analytical study of the dividend pattern of listed Indian banking companies**

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### **Abstract**

Dividend decisions concerned with the determination of quantum of profits to be distributed to the owners and the frequency of such payments. Dividend declaration is considered to be one of the most imperative tools for the distribution of value to the shareholders. This study mainly focuses on dividend pattern of commercial bank and to address the research question regarding the trend in dividend payment of public and private banking companies in India during the period between 2009 and 2016. It has been found that public and private banks had an increasing trend in dividend payment in terms of amount expect for the year 2016. New private sector banks lead in average dividend payment followed by public sector banks and old private sector banks. Dividend payment of new private sector banks is in increasing trend but the dividend payout decreases every year. In case of public and old private sector banks, there is no clear trend in dividend payout but dividend payments of these banks exhibit an increasing trend. It concludes that the bank manager well balance the satisfaction of the shareholder and the growth of the bank in deciding the dividend payout.

**Keywords:** dividend, dividend payment, commercial bank

### **Introduction**

In modern business firm, the finance manager will generally involve in the three types of decisions, namely investment, financing, and dividend decisions. Investment decisions relate to the careful selection of viable and profitable investment proposals, allocation of funds to the investment proposals with a view to obtain net present value of the future earnings of the company and to maximise its value. Financial decisions refer to the mix of debt and equity in order to obtain the optimum finance to meet new investment opportunities and also verify the working capital is effectively managed. Dividend decisions concerned with the determination of quantum of profits to be distributed to the owners and the frequency of such payments. Dividend declaration is considered to be one of the most imperative tools for the distribution of value to the shareholders. The core of dividend policy includes the decision like whether to distribute profits to the shareholders in the form of dividend or to retain it in the form of retained earnings (Gupta, Dogra, & Vashisht, 2013)<sup>[20]</sup>.

Dividend represents the return to the investor who put his money at risk in the corporate. Dividend payment may be reward to the existing shareholders and encourage others to buy new issues of common stock at high prices. On other hand, Investors pay attention to dividends do they receive a return on their investment or the change to sell their shares at a higher price in the future (Black, 1976)<sup>[11]</sup>.

Dividend may be defined as distribution of a company's profits to its shareholders. It may be in the form 'Cash Dividend' or through distribution of stocks of the company which is known as 'Stock Dividend'. Dividend policy may be defined as the trade-off between the magnitude of retained earnings and distributed cash or securities. Dividend payment

of a company is looked upon differently by different sets of people associated with the company. For the investors, dividends are not merely means of regular earnings but also an important input for determining the worth and credential of the firm. For managers, dividend payment might well determine the level of investment in profitable investment projects. Lenders look at it carefully because they feel that the more the dividend payment, the less will be the amount available for servicing and redemption of their claims (Parua & Gupta, 2009)<sup>[39]</sup>.

Dividend has two important aspects. First, it is an effective element of corporations' investment. On the one hand, the higher the dividend paid out, the lower will be corporations' internal resources for performing investment projects, while outsourcing requirement will increase which is an effective element of the stock price (Moradi, Salehi, & Honarmand, 2010)<sup>[35]</sup>.

The decision of the firm regarding how much earnings could be paid out as dividend and how much could be retained is the concern of dividend policy decision. It determines what proportion of earnings is paid out to shareholders by way of dividends and what proportion is ploughed back in the company for reinvestment purposes. The development of such policy will be greatly influenced by investment opportunities available to the firm and the value of dividends as against capital gains to the shareholders. Management should develop such a dividend policy which divides the net earnings into dividends and retained earnings in an optimum way to achieve the objective of maximizing the wealth of shareholders (Kumar & Jha, 2011)<sup>[11]</sup>. The paper aims to study the patterns of decision making with respect to dividend in listed Indian commercial banks.

**Data Source**

The study has been conducted mainly with the secondary data. The commercial banks listed in National Stock Exchange are considered for the analysis and list drawn from NSE website (www.nseindia.com). The financial data required for the study are taken from “Capitaline Plus” database software.

**Period of the Study**

The period of the study for the analysis is eight years from 2008-2009 to 2015-2016.

**Sampling Design**

There are 155 commercial banks available in India, which includes 151 scheduled commercial banks [1] and 4 unscheduled commercial banks. The scheduled commercial banks further divided into 64 RRB (Regional Rural Banks), 26 public sector banks, 20 private sector banks and 41 foreign banks. The population for the study is listed commercial bank in India. According to RBI, there are 26 public sector banks and 20 private sector banks operating in India. Among the banks, 22 public sector banks and 15 private sector banks were listed in NSE. Out of 37 banks, four banks were removed due to non-availability of data and another four banks were dropped due to non-declaration of dividend during the study period. Finally 19 public sector banks and 10 private sector banks were selected for the study. The purposive sampling method has been adopted for the sample selection.

**Dividend Patterns of Commercial Banks**

This section reports the dividend payments and distribution of dividend rate of commercial banks in terms of bank group-wise, individually as well as overall during the study period.

**Table 1:** Descriptive Statistics of Dividend Payments

Year	M	Min	Max	SD
Mar-09	163.19	5.91	901.17	199.99
Mar-10	218.26	15.37	1357.66	314.52
Mar-11	268.88	20.52	1841.15	389.77
Mar-12	312.74	29.66	1904.65	410.66
Mar-13	374.28	36.30	1905.00	436.71
Mar-14	423.71	44.49	2348.66	530.82
Mar-15	495.26	52.38	2838.74	658.57
Mar-16	450.03	14.62	2656.28	686.08

**Note:** M – Mean; Min – Minimum; Max – Maximum; SD – Standard Deviation. Figures are expressed in ₹ in Crores.

**Source:** Capitaline Plus and complied through SPSS 15.

Table 1 presents the descriptive statistics of dividend payments (₹ in Crores) of banks for the period from 2009 to 2016. The average dividend payment is raised from ₹163.19 Crores in 2009 to ₹495.26 Crores in 2015 and there is a downfall in 2016 to ₹450.03 Crores. The minimum and maximum payments of dividends by the banks have been

<sup>1</sup>Commercial Banks which conduct the business of banking in India and which (a) have paid up capital and reserves of an aggregate real and exchangeable value of not less than Rs.5 lakhs and (b) satisfy the Reserve Bank of India that their affairs are not being conducted in a manner detrimental to the interest of their depositors, are eligible for inclusion in the Second Schedule to the Reserve Bank of India Act, 1934, and when included are known as 'Scheduled Commercial Banks'.

enhanced year by year and a marginal decrease is noted in 2016. The difference between the minimum and maximum dividend payments gallops every year, which causes the standard deviation of the dividend payment to raise. The average payment of dividend has declined in 2016 is due to decrease in dividend payment in public sector banks.

**Table 2:** Bank Group-wise Mean and Standard Deviation of Dividend Payments

Year	Public Sector Banks (n = 19)		New Private Sector Banks (n = 5)		Old Private Sector Banks (n = 5)	
	M	SD	M	SD	M	SD
Mar-09	172.88	156.18	258.70	368.92	30.83	19.22
Mar-10	226.75	291.07	356.98	499.69	47.26	24.27
Mar-11	286.32	405.67	415.93	486.60	55.52	27.30
Mar-12	332.26	415.60	495.38	526.15	55.93	20.96
Mar-13	386.62	407.37	617.01	637.68	84.66	48.86
Mar-14	424.73	501.32	743.93	761.34	99.61	47.93
Mar-15	480.84	624.59	933.63	924.08	111.67	37.41
Mar-16	366.12	565.18	1097.30	1079.01	121.65	35.95

**Note:** M – Mean; SD – Standard Deviation. Figures are expressed in ₹ in Crores.

**Source:** Capitaline Plus and complied through SPSS 15.

Table 2 shows the bank group-wise mean and standard deviation of dividend payments for the period from 2009 to 2016. Among the bank groups, new private banks lead in dividend payment during the study period. There is a tremendous increase in dividend payment from ₹258.70 Crores in 2009 to ₹1097.30 Crores in 2016. On an average, public sector banks are in second position in distribution of dividend to the equity shareholders during the study period. There is a steady increase in dividend from ₹172.88 Crores in 2009 to ₹480.84 Crores in 2015 and a decrease in 2016 to ₹366.12 Crores. The old private sector banks are least in distribution of dividend to the equity shareholders. There is continues growth in dividend payments every year from ₹30.83 Crores in 2009 to ₹121.65 Crores in 2016.

Table 3 provides the bank-wise descriptive statistics of dividend payments during the study period. Among public sector banks, State Bank of India is top in average dividend payment with ₹1933.86 Crores to the shareholders, followed by Punjab National Bank and Bank of Baroda with ₹608.47 Crores and ₹571.36 Crores respectively. State Bank of Travancore is in least in distribution of dividend payments with ₹67.45 Crores. Co-efficient of variation of public sector banks ranges from 24.53 percent to 64.60 percent. UCO bank (66.37%) has the highest co-efficient of variation, followed by Dena Bank (66.37%) and Bank of Baroda (47.90%). Annual compound growth rates (ACGRs) of Dena Bank (32.71%), Bank of Baroda (24.23%), UCO Bank (21.17%), State Bank of India (16.88%), Syndicate Bank (15.95%), State Bank of Bikaner and Jaipur (13.77%) and Oriental Bank of Commerce (12.30%) are found positively significant at 1 percent level. It clearly confirms that these banks have rapidly increased their dividend payments to the equity shareholders during the study period. Andhra Bank (-4.88%) and State Bank of Travancore (-4.69%) are found negatively insignificant and remaining 10 public sector banks are found positively insignificant. It shows

the marginal increment in dividend payments among the banks.

Among the new private sector banks, ICICI Bank leads in average dividend payment to equity shareholders with ₹1645.71 Crores, followed by HDFC Bank (₹778.58 Crores) and Axis Bank (₹525.56 Crores). Kotak Mahindra Bank is in last place with average dividend payment of ₹37.65 Crores. ACGRs of all the banks found to be positive and significant at 1% level. ACGRs of IndusInd Bank, HDFC Bank and Axis Bank are 41.34 percent, 33.51 percent and 31.26 percent respectively and their co-efficient of variations are above 54 percent. It concludes that the banks have enormously increased their dividend payments during the study period. On

an average, ICICI Bank and Kotak Mahindra Bank have increased their dividend payments around 15 percent.

In old private sector banks, Federal Bank and Karur Vysya Bank have distributed, an average almost around ₹100 Crores as dividend to equity shareholders during the study period. ACGRs of all the old private sector banks are found positive uplift. ING Vysya Bank is the bottom of the list in dividend distribution to shareholders with ₹45.95 Crores. ACGRs and Co-efficient of variation of that bank are 47.55 percent and 82 percent respectively which are found to be the highest among all the public as well as private sector banks. It confirms that ING Vysya Bank follows an aggressive approach in distribution to equity shareholders.

**Table 3:** Descriptive Statistics of Dividend Payments of Commercial Banks from 2009 to 2016

Banks	Dividend				CV	ACGR
	M	Min	Max	SD		
<b>Public Sector Banks</b>						
State Bank of India	1933.86	736.82	2838.74	668.82	34.58	16.88 <sup>a</sup>
Punjab National Bank	608.47	315.30	954.38	212.08	34.85	8.33
Bank of Baroda	571.36	218.56	926.00	273.66	47.90	24.23 <sup>a</sup>
Canara Bank	426.37	287.00	576.00	103.8	24.35	10.19
Bank of India	359.18	170.85	596.64	131.86	36.71	12.08
Union Bank of India	312.34	176.79	477.44	115.93	37.12	11.18
Indian Bank	241.42	128.93	322.33	71.34	29.55	8.98
Andhra Bank	224.91	64.86	307.77	80.46	35.77	-4.88
Syndicate Bank	224.37	146.15	403.31	98.25	43.79	15.95 <sup>a</sup>
Indian Overseas Bank	223.89	148.30	358.65	74.66	33.35	0.90
Corporation Bank	212.41	113.09	303.67	79.08	37.23	5.13
Oriental Bk of Com <sup>†</sup>	209.58	117.75	303.43	66.50	31.73	12.30 <sup>b</sup>
Allahabad Bank	208.71	111.68	300.02	81.92	39.25	8.00
UCO Bank	169.03	60.22	342.19	109.20	64.60	21.17 <sup>b</sup>
Vijaya Bank	107.06	43.36	165.38	35.82	33.46	12.08
Bank of Maharashtra	99.91	64.58	152.14	27.91	27.94	7.36
State Bk of B & J <sup>‡</sup>	80.84	50.00	112.70	25.66	31.74	13.77 <sup>a</sup>
Dena Bank	75.59	22.95	164.60	50.17	66.37	32.71 <sup>a</sup>
State Bank of Travancore	67.45	14.62	100.00	28.39	42.09	-4.69
<b>New Private Sector Banks</b>						
ICICI Bank Ltd	1645.71	901.17	2656.28	601.19	36.53	15.72 <sup>a</sup>
HDFC Bank Ltd	778.58	223.57	1643.35	506.49	65.05	33.51 <sup>a</sup>
Axis Bank Ltd	525.56	126.73	939.69	287.28	54.66	31.26 <sup>a</sup>
IndusInd Bank Ltd	86.78	19.19	184.08	60.69	69.94	41.34 <sup>a</sup>
Kotak Mahindra Bank Ltd	37.65	22.86	63.08	14.49	38.49	15.95 <sup>a</sup>
<b>Old Private Sector Banks</b>						
Federal Bank Ltd	112.25	34.24	171.06	49.96	44.51	23.37 <sup>a</sup>
Karur Vysya Bank Ltd	102.18	53.94	150.05	43.43	42.50	18.29 <sup>a</sup>
Karnataka Bank Ltd	62.86	42.47	75.41	11.78	18.74	5.97 <sup>b</sup>
South Indian Bank Ltd	56.22	17.60	107.52	31.95	56.83	28.66 <sup>a</sup>
ING Vysya Bank Ltd	45.95	5.910	114.26	37.68	82.00	47.55 <sup>a</sup>

**Note:** M - Mean; Min - Minimum; Max - Maximum; SD - Standard Deviation; CV - Coefficient of variation; ACGR - Annual Compound Growth Rate. Figures in the column 2 to 4 are expressed in ₹ in Crores. Figures in column 5 and 6 are expressed in percentage.

<sup>†</sup>Oriental Bank of Commerce. <sup>‡</sup>State Bank of Bikaner and Jaipur.

<sup>a</sup> and <sup>b</sup> denotes significant at 1 percent and 5 percent level respectively.

**Source:** Capitaline Plus and compiled through SPSS 15.

**Table 4:** Distribution of Banks in terms of Dividend Rate

Year	Upto 50%	51% to 100%	Above 100%
Mar-09	19 (65.52)	9 (31.03)	1 (3.45)
Mar-10	18 (62.07)	6 (20.69)	5 (17.24)
Mar-11	15 (51.72)	7 (24.14)	7 (24.14)
Mar-12	13 (44.83)	6 (20.69)	10 (34.48)
Mar-13	11 (37.93)	6 (20.69)	12 (41.38)
Mar-14	10 (34.48)	8 (27.59)	11 (37.93)
Mar-15	9 (31.03)	9 (31.03)	11 (37.93)
Mar-16	14 (48.28)	7 (24.14)	8 (27.59)

**Note:** Figures in the parentheses are percentage. Dividend rate is defined as Equity dividend paid divided by Equity Paid-up Capital multiplied by 100.

**Source:** Capitaline Plus and complied through SPSS 15.

Table 4 depicts the distribution of banks in terms of dividend rate. Banks are divided into three categories on the basis of dividend rate, namely upto 50%, 51% - 100 % and above 100%. Under less than 50% dividend rate, there are 19 banks (65.52%) in 2009 and it gradually decreases year by year to 9 banks (31.03%) in 2013. Later it increases to 14 banks at the end of the study period. In 51% - 100% category, 9 banks (31.03%) in 2009 decreases to 6 banks (20.69%) in 2010 and in subsequent years more or less similar pattern has been

found till 2015. There is an increase to 8 banks (27.59%) in 2014 and further raises to 9 banks (31.03%) in 2015. At the end of the study period, it comes down to 7 banks (24.14%). Under above 100% dividend rate, there is an increasing trend from 1 bank (3.45%) in 2009 to 12 banks (41.38%) in 2013 and then it goes down to 8 banks (27.59%) in 2016. Under less than 50% and above 100% dividend rate, down-side and up-side drifts are clearly visible but there is no clear pattern found in 51% to 100% category.

**Table 5:** Bank Group-wise Distribution of Banks in terms of Dividend Rate

Year	Public Sector Banks (n = 19)			New Private Sector Banks (n = 5)			Old Private Sector Banks (n = 5)		
	Upto 50%	51% to 100%	Above 100%	Upto 50%	51% to 100%	Above 100%	Upto 50%	51% to 100%	Above 100%
Mar-09	12 (63.16)	6 (31.58)	1 (5.26)	3 (60.00)	1 (20.00)	1 (20.00)	4 (80.00)	1 (20.00)	0 (0.00)
Mar-10	12 (63.16)	6 (31.58)	1 (5.26)	2 (40.00)	2 (40.00)	1 (20.00)	4 (80.00)	0 (0.00)	1 (20.00)
Mar-11	10 (52.63)	4 (21.05)	5 (26.32)	2 (40.00)	2 (40.00)	1 (20.00)	3 (60.00)	1 (20.00)	1 (20.00)
Mar-12	7 (36.84)	6 (31.58)	6 (31.58)	2 (40.00)	0 (0.00)	3 (60.00)	4 (80.00)	0 (0.00)	1 (20.00)
Mar-13	6 (31.58)	5 (26.32)	8 (42.11)	2 (40.00)	0 (0.00)	3 (60.00)	3 (60.00)	1 (20.00)	1 (20.00)
Mar-14	6 (31.58)	6 (31.58)	7 (36.84)	2 (40.00)	0 (0.00)	3 (60.00)	2 (40.00)	2 (40.00)	1 (20.00)
Mar-15	6 (31.58)	6 (31.58)	7 (36.84)	2 (40.00)	0 (0.00)	3 (60.00)	1 (20.00)	3 (60.00)	1 (20.00)
Mar-16	11 (57.90)	4 (21.05)	4 (21.05)	2 (40.00)	0 (0.00)	3 (60.00)	1 (20.00)	3 (60.00)	1 (20.00)

**Note:** Figures in the parentheses are percentage. Dividend rate is defined as Equity dividend paid divided by Equity Paid-up Capital multiplied by 100.

**Source:** Capitaline Plus and complied through SPSS 15.

Bank group-wise distribution of banks in terms of dividend rate is presented in Table 5. Around 63% of public sector banks have distributed less than 50% dividend rate till 2010 and the number of banks declines to around 32% in 2015. Later this number rises to around 58% at the end of the study period. Around 6 (31.58%) to 4 (21.05%) banks distribute 51% to 100% dividend rate to equity shareholders in the study period. There is a top growth from 1 (5.26%) bank to 8 (42.11) banks between 2009 and 2014 and decreases gradually to 7 (36.84%) banks till 2015 and further decreases to 4 (21.05%) banks in 2016. It clearly shows that the public sector banks have raised their dividend rate till 2014 which has been later reduced. Among new private sector banks, only 3 banks have distributed less than 50% dividend rate in 2009 and this

number even reduces to 2(40%) in remaining period. Only 2 (40%) banks come between 51% and 100% dividend rate till 2009 and later none of the banks fall under this category. Under above 100% dividend rate, there is an increase from 1 bank in 2011 to 3 banks in 2012 and remains flat till 2015. It denotes that there is a high growth in dividend rate among the banks.

In old private sector banks, there is a decline from 4 banks in 2009 to 1 bank in 2016 paying dividend rate less than 50% and simultaneously there is an increase in banks paying dividend rate between 51% and 100%. Only one bank pays above 100% dividend rate from 2009 to 2016. It shows that there is a marginal increase in dividend rate among the old private sector banks.

**Table 6:** Distribution of Dividend Rate of Commercial Banks During 2009 to 2016

Banks	Upto 50%	51% - 100%	Above 100%
<b>Public Sector Banks</b>			
State Bank of India	0 (0.00)	0 (0.00)	8 (100.00)
Punjab National Bank	0 (0.00)	2 (25.00)	6 (75.00)
State Bank of Bikaner and Jaipur	0 (0.00)	2 (25.00)	6 (75.00)
Corporation Bank	0 (0.00)	2 (25.00)	6 (75.00)
Bank of Baroda	1 (12.50)	2 (25.00)	5 (62.50)
State Bank of Travancore	1 (12.50)	2 (25.00)	5 (62.50)
Canara Bank	0 (0.00)	4 (50.00)	4 (50.00)
Oriental Bank of Commerce	2 (25.00)	5 (62.50)	1 (12.50)
Bank of India	3 (37.50)	5 (62.50)	0 (0.00)
Union Bank of India	4 (50.00)	4 (50.00)	0 (0.00)
Indian Bank	4 (50.00)	4 (50.00)	0 (0.00)
Allahabad Bank	4 (50.00)	4 (50.00)	0 (0.00)
Andhra Bank	6 (75.00)	2 (25.00)	0 (0.00)
Syndicate Bank	6 (75.00)	2 (25.00)	0 (0.00)
Indian Overseas Bank	8 (100.00)	0 (0.00)	0 (0.00)
UCO Bank	8 (100.00)	0 (0.00)	0 (0.00)
Vijaya Bank	8 (100.00)	0 (0.00)	0 (0.00)
Bank of Maharashtra	8 (100.00)	0 (0.00)	0 (0.00)
Dena Bank	8 (100.00)	0 (0.00)	0 (0.00)
<b>New Private Sector Banks</b>			
ICICI Bank Ltd	0 (0.00)	1 (12.50)	7 (87.50)
HDFC Bank Ltd	0 (0.00)	3 (37.50)	5 (62.50)
			<i>(continued)</i>
Axis Bank Ltd	1 (12.50)	2 (25.00)	5 (62.50)
IndusInd Bank Ltd	8 (100.00)	0 (0.00)	0 (0.00)
Kotak Mahindra Bank Ltd	8 (100.00)	0 (0.00)	0 (0.00)
<b>Old Private Sector Banks</b>			
Karur Vysya Bank Ltd	0 (0.00)	1 (12.50)	7 (87.50)
Federal Bank Ltd	4 (50.00)	4 (50.00)	0 (0.00)
South Indian Bank Ltd	5 (62.50)	3 (37.50)	0 (0.00)
ING Vysya Bank Ltd	6 (75.00)	2 (25.00)	0 (0.00)
Karnataka Bank Ltd	7 (87.50)	1 (12.50)	0 (0.00)

**Note:** Figures in the parentheses are percentage. Dividend rate is defined as Equity dividend paid divided by Equity Paid-up Capital multiplied by 100.

**Source:** Capitaline Plus and compiled through SPSS 15.

Table 6 demonstrates the distribution of dividend rate of commercial banks from 2009 to 2016. Under public sector banks, State Bank of India has distributed above 100% dividend rate in the entire sample period. Punjab National Bank, State Bank of Bikaner and Jaipur and Corporation Bank have distributed above 100% dividend rate for 6 years and distributed only between 51% and 100% in the remaining period. Bank of Baroda and State Bank of Travancore have distributed above 100% dividend rate for 5 years, between 51% and 100% dividend rate for 2 years and one year paid less than 50% dividend rate. Indian Overseas Bank, UCO Bank, Vijaya Bank, Bank of Maharashtra and Dena Bank have distributed less than 50% dividend rate in the entire study period.

Among new private sector banks, ICICI Bank has distributed above 100% dividend rate for 7 years and 1 year distributed between 51% and 100% dividend rate. HDFC Bank has distributed above 100% for 5 years and between 51% and 100% dividend rate for 3 years. Axis Bank pays above 100%, 51% to 100% and less than 50% dividend rate for 5 years, 2 years and 1 year respectively. Indusland Bank and Kotak Mahindra Bank have distributed less than 50% from 2009 to

2016.

In old private sector banks, Karur Vysya Bank has distributed more than 100% dividend rate for 7 years and between 50% and 100% for the remaining years. Federal Bank pays less than 50% dividend rate for 4 years and for remaining years between 51% and 100%. Karnataka bank has distributed less than 50% dividend rate for 7 years.

### Conclusion

This study mainly focuses on dividend pattern of commercial bank and to address the research question regarding the trend in dividend payment of public and private banking companies in India during the study period (2009 to 2016). It has been found that public and private banks had an increasing trend in dividend payment in terms of amount except for the year 2016. New private sector banks lead in average dividend payment followed by public sector banks and old private sector banks. Dividend payment of new private sector banks is in increasing trend but the dividend payout decreases every year. In case of public and old private sector banks, there is no clear trend in dividend payout but dividend payments of these banks exhibit an increasing trend. It concludes that the bank



manager well balance the satisfaction of the shareholder and the growth of the bank in deciding the dividend payout.

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