

A STUDY ON DIVIDEND POLICIY IN FMCG SECTOR AT HINDUSTAN UNILEVER LIMITED

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ABSTRACT: Investor trust and the methods used to distribute earnings are both affected by a company's dividend policy. In order to foster future growth, fast-moving consumer goods (FMCG) companies should reinvest their earnings while also distributing dividends to shareholders. The dividend policies of Hindustan Unilever Limited (HUL), a prominent Indian FMCG firm, have contributed to this consistency. By looking at its payout ratios and dividend records, HUL shows that profitability and liquidity are its top priorities. Despite letting market forces shape its strategy, the corporation has consistently maintained a solid dividend policy. This consistency not only shows long-term financial stability but also reassures investors and strengthens HUL's brand. Maintaining the company's capacity to secure financing for sustainable expansion allows for consistent distribution of earnings to owners. This policy demonstrates HUL's dedication to aligning its business strategy with the expectations of its investors. It further demonstrates how regulatory frameworks impact fast-moving consumer goods dividend decisions. HUL's approach shows how companies can balance sustainable development with shareholder trust.

KEYWORDS: Dividend Stability, Payout Ratio, Retained Earnings, Cash Flow Consistency, Shareholder Value, Dividend Yield

1. INTRODUCTION

Dividend policies influence investor preferences and stock prices via the clientele effect and the reduction of information asymmetry. Because they reveal a company's value and management style, these alterations ultimately impact the efficacy of the capital market. A company's attractiveness, cost of capital, and value can all be enhanced by attracting investors seeking tangible returns through the establishment of a transparent and consistent payout strategy.

Dividend policies alter the distribution of capital and the identification of investment possibilities inside companies and corporate groups, which in turn affects market efficiency in a roundabout way. By informing the market about a company's performance and future intentions, dividend releases assist bridge the information gap between investors and management. By attracting a specific demographic of investors looking to make a quick buck, a steady dividend policy can increase stock liquidity and price stability.

A lower cost of equity makes a company more attractive to investors and makes it simpler to get capital in the future. A well-executed dividend plan that improves shareholder value can accomplish this. When shareholders and managers are able to work together more easily, the company's governance and operational efficiency are both enhanced.



Different payout plans are used by businesses as they travel through their life cycles. The capital structure and market value of well-established companies can be affected by the size of their dividend payments. But new businesses that are looking to expand typically squander their earnings rather than reinvest them. One way in which a company's related firms can benefit financially is through dividends. Businesses that have a lot of cash on hand might reinvest their profits in other businesses within the group, which could affect the overall performance of the investments made by the group.

A company's total value could shift depending on its dividend policy. In keeping with its objectives, the selected strategy must raise the company's value for shareholders. The shareholders may be the legal owners of the business, but the board of directors gets to decide how to divide up the profits. A company's dividend policy is a set of guidelines for determining the amount of profits to distribute to shareholders. An Indian company's dividend policy is determined by the board of directors after considering the company's capital requirements, anticipated investments, financial performance, and other relevant variables.

SCOPE OF THE RESEARCH

- The distribution of earnings over time could be better understood if we examine the salary trends of leading FMCG companies.
- Financial planning can be aided by analyzing factors such as market circumstances, liquidity, and profitability that impact dividend selections.
- The dividend policies of fast-moving consumer goods (FMCG) businesses can teach us a lot about the industry's norms, variations, and best practices.
- Examining the correlation between dividend payments and shareholder wealth makes evaluating the efficacy of a dividend policy much simpler.
- Examining the impact of dividend policy on the market perception of the company and its performance highlights the significance of this policy to the company's reputation.
- The way businesses deal with development, expansion, and shareholder payouts is revealed by their use of retained earnings.
- Gaining insight into the desires and dividend satisfaction levels of investors will assist you in comprehending the market dynamics and enhancing your ability to make informed investment choices.
- The FMCG industry's corporate finance managers can benefit from academic research and sound advice in order to improve their decision-making processes.

2. LITERATURE SURVEY

Sharma, R. (2021) Sharma's research delves into the post-pandemic dividend management strategies of India's leading fast-moving consumer goods (FMCG) firms. Most corporations maintained or slightly raised dividends to allay investor anxieties, despite challenges such as supply chain disruptions and rising pricing. Limited options remained for companies with little cash on hand, but larger payouts were possible for those with plenty. The data demonstrates that consistent consumer demand, solid brands, and lawful protections all contributed to steady rewards even in the face of economic uncertainty.



Wilson, T., & Harper, J. (2021) Global manufacturers of fast-moving consumer goods (FMCG) in Europe and Southeast Asia are the focus of Wilson and Harper's analysis of dividend policy. Profitability, market share, and volatility in cash flow are the primary factors that influence payment decisions. Foreign enterprises typically opt to be cautious when dealing with currency changes in order to minimize the risks involved. Findings from the analysis demonstrate that, in the face of global investor anxiety caused by the epidemic, maintaining constant payouts became the prudent course of action.

Collins, E., & Marquez, L. (2022) Marquez and Collins examine the impact of ESG commitments on the dividend policies of prominent fast-moving consumer goods (FMCG) firms. Firms with a strong commitment to sustainability typically maintained or slightly raised wages, indicating stability. People who were involved in large-scale environmental projects invested a portion of their pay to make little changes. When ESG spending and shareholder distributions were equal, the research found that market values went higher and firm governance grew better.

Alisha (2022) Alisha examines the dividend policies of Italian financial institutions and insurance providers in the context of the COVID-19 pandemic. Stability and trust were demonstrated when numerous businesses continued making payments despite economic uncertainty. The actions of large and small intermediaries differed with respect to liquidity. In times of financial turmoil, dividends were utilized as a strategy to keep investors' trust, but decisions were also impacted by limits on capital and government regulations.

Rizki Juliani Putri & Vita Citra Mulyandini (2023) The dividend policy and profitability of consumer products firms in Indonesia are used to determine their worth. The authors demonstrate through regression analysis that dividend payments reduce a company's worth, in contrast to profit increases it. The combination of these two factors always results in a rise in market value. Companies with solid profit margins and generous compensation plans attract investors.

Ed-Dafali, S. (2023) Ed-Dafali provides a bibliometric analysis of dividend policy papers published between 1981 and 2022. Examining 270 articles, the analysis demonstrates the gradual replacement of classical notions with more contemporary empirical approaches, such as behavioral and governance perspectives. The dividend policy in times of catastrophe and cross-national comparisons are two issues that are gaining prominence. In addition to filling in research gaps, this research provides students with a comprehensive overview of the subject.

Ishika, K. (2024) Ishika's research examines the dividend plans of prominent fast-moving consumer goods (FMCG) corporations over a decade. The research reveals that the size of the company, market capitalization, liquidity, and revenue are significant elements that impact incentives. Also playing a role are extraneous variables, such as shifts in the economy or new regulations. Market behavior and economic stability impact dividend policy decisions, according to the results.

Wirama, D. G. (2024) Wirama applied the residual dividend mechanism to non-financial enterprises in Indonesia. Capital expenditures and working capital demands significantly affect payout decisions, according to the data. Businesses would prefer to spend money than



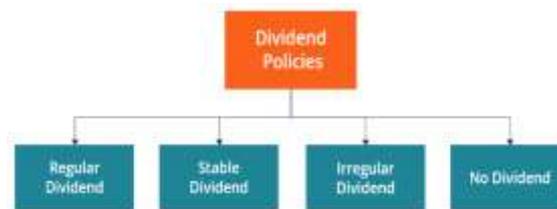
earn profits when their financial needs are great. What this demonstrates is that dividends in emerging markets can be influenced by corporate strategy and financial planning.

Kim, S., Khil, J., & Lee, Y. K. (2024) The impact of payout policy on Korea's capital structure is being investigated by a team headed by Kim. Research shows that companies with consistent dividend payments are less likely to take on debt and more likely to fundraise via stock. The company's financial stability and reduced reliance on external funding sources are demonstrated by regular payments. Businesses' financing decisions are significantly impacted by dividend policy, according to the research.

Ghose, B. (2025) Ghose analyses the post-pandemic shift in dividend policy among companies. Spending on the long run, short-term cash flow needs, and shareholder expectations are all carefully managed by companies. Market indices, the investor effect, and governance concerns are increasingly influencing payout decisions. The research reveals how businesses adjusted their dividend payment policies to reassure investors while lowering the risk of financial collapse.

Yadav, B., & Saxena, S. P. (2025) Yadav and Saxena track the evolution of dividends paid out by Indian IT firms over a period of 20 years. Companies are required to pay dividends to long-term investors on a consistent basis, but they also have the choice to reinvest their profits. Policy decisions are mostly influenced by financial transactions, shareholder expectations, and profitability. Payouts are consistently the same since strategies are also impacted by changes in the law and the market.

3. TYPES OF DIVIDEND POLICIES



Regular Dividend Policy

The corporation is required by its payout policy to distribute dividends at regular intervals, such as quarterly or annually. Stability and constant revenue are appealing features of this strategy to investors. This compensation is maintained at a constant amount despite fluctuations in the company's income. Investors gain confidence and long-term investments are attracted.

Stable Dividend Policy

Even if a corporation only pays out a fixed amount, a consistent dividend policy will cause payments to remain stable or even increase over time. It slows down the rate of change in motivation. This method ensures that the company's stability and financial strength to investors. It remains one of the most commonly followed rules in fields that have been around for a while.

Irregular Dividend Policy

Without a predetermined timetable or quantity, dividends are distributed when earnings reach a certain threshold. Firms that use this approach adjust rewards in response to market

fluctuations, budget constraints, or unanticipated gains. Potential backers could be wary of it due to how frequently it changes. Businesses that see frequent fluctuations in their revenue flow are more inclined to utilize it.

No Dividend Policy

When they are first starting out, some businesses don't even pay dividends. On the contrary, they put their wealth into expanding their existing enterprises or developing brand-new ones. Investors expect the share price to rise, a process known as capital appreciation, rather than dividends. This policy is commonly followed by entrepreneurs and businesses that experience rapid growth.

PRINCIPLES OF DIVIDEND POLICY

Long-Term Growth and Reinvestment: Companies in the textile industry may require substantial funding for expansion, innovation, and technological advancement. It is important that the dividend strategy strike a balance between paying out dividends to shareholders and retaining cash for future development and investment.

Shareholder Value Creation: The payment policy's primary objective is to enrich shareholders. The strategy's goals should coincide with those of the shareholders and provide a healthy return on investment.

Debt Management: Considerations such as total debt and interest paid are important for firms when deciding on dividend payments. You should use extreme caution when taking on debt because doing so can make it difficult to pay dividends.

Legal and Regulatory Compliance: Respect for the law and its regulations is paramount. It is important for businesses to be aware of any restrictions or regulations imposed on bonus payments by regulatory agencies.

Market Conditions and Industry Trends: Current market conditions and industry growth prospects should inform dividend policy. The market, customer demand, and industry dynamics are all factors that might affect the payout rates for textile enterprises.

Investor Communication: Maintaining direct communication with investors is crucial. Textile firms have a responsibility to their shareholders to be transparent on their dividend policy, decision-making process, and strategy adjustments.

Dividend Sustainability: As a result of consistent payouts, investors gain faith in the company. Companies in the textile industry should exercise caution when making lofty dividend promises that could be difficult to fulfill in times of economic downturn.

Return on Equity (ROE) Consideration: In order to gauge their performance, textile companies frequently look to success metrics such as return on equity. The dividend strategy, which seeks to find a middle ground between returning capital to shareholders and investing in the firm, could be impacted by the return on equity (ROE) of the company.

Competitive Positioning: When developing their own strategies, companies could research their rivals' dividend policies and industry benchmarks. That way, the company can be certain that it will maintain its competitive edge in the market for both new and returning customers.

Strategic Objectives Alignment: The policy on dividends must be consistent with the company's primary strategic objectives. The dividend policy ought to be consistent with the



company's overarching strategy, which can be centered around stability, growth, or a combination of the two.

4. DIVIDEND POLICY TRENDS IN FMCG SECTOR



Consistent Dividend Payouts

The FMCG industry is well-known for its dividend payments because of the steady profitability of these companies. Investors who value consistent income above volatile capital growth can rest easy knowing this is a reliable option. Nestlé India and Hindustan Unilever are well-known for their annual bonuses, which demonstrate their financial stability and longevity.

Moderate Dividend Yield

Companies in the fast moving consumer goods industry typically maintain a moderate dividend yield. This allows them to adequately distribute funds to owners while simultaneously allocating resources towards future growth. By preventing groups from depleting their resources to an excessive degree, this technique guarantees longevity. They can expand their business and maintain the confidence of their investors by ensuring that the results are in accordance with industry standards.

Preference for Cash Dividends

Companies in the fast-moving consumer goods industry would want to pay dividends in cash rather than shares so that investors may receive their money back faster. Their consistent profit levels and healthy cash flow are evident from this. Investors seeking consistent profits may find these stocks attractive due to their cash distributions.

Impact of Profitability on Dividends

The annual profit of fast-moving consumer goods companies determines the dividends paid out. Payouts tend to be higher when profits are strong and smart payments can result from decreased profits. This meticulous synchronization prevents the squandering of future growth and operational cash for the benefit of shareholders.

Quarterly vs. Annual Payments

The frequency of distributions varies among FMCG firms; some choose to do it quarterly, while others do it annually. To maintain the attention of investors, this is done. Consistent payments generate reliable streams of capital, which in turn increases shareholder loyalty. This decision was based on the fact that the company's financial situation has been consistent, which is indicative of its maturity and longevity.

Influence of Regulatory Policies

Laws and taxes pertaining to companies have an impact on the regulations around dividends in India. Fast-moving consumer goods companies must operate lawfully and honestly by adhering to the regulations outlined in the Businesses Act. To maximize profits for shareholders after taxes, companies may adjust dividend payments in response to changes in dividend tax rates.

Investor-Centric Dividend Policies

Fast-moving consumer goods (FMCG) companies tailor their payment plans to appeal to investors seeking a reliable source of revenue. Maintaining a steady flow of funds demonstrates competent management. Annual reports that lay forth a company's strategic goals do wonders for credibility and trustworthiness.

TAX AND REGULATORY EFFECTS ON FMCG DIVIDENDS

Corporate Dividend Tax Policies: FMCG companies must pay dividends to their shareholders. The potential reduction in dividend payouts due to earnings taxes is real. It is common practice for firms to include these commitments in payouts in order to maximize the return for shareholders. Keeping up with investor demands and legal standards is what compliance is all about.

Dividend Distribution Tax (DDT) Impact: Until its abolition in 2020, DDT directly affected dividend payouts in the fast-moving consumer goods industry in India. Companies were required to pay the tax before they could distribute dividends, reducing the net return to owners. Dividends are now taxed at the investor level due to the removal of DDT, necessitating new distribution methods. Consequently, fast-moving consumer goods corporations have reevaluated their compensation structure.

Income Tax on Shareholders: Dividends from fast-moving consumer goods companies are subject to taxation in the same way as any other salary. The allure of dividends, particularly for wealthy buyers, might be influenced by tax rates. When determining the frequency and amount of dividend payments, companies take this into account. Investors can maximize their after-tax earnings through strategic planning when they are able to communicate effectively.

Regulatory Compliance and Transparency: Firms Act and SEBI regulations govern dividend payments by FMCG companies. Timely reports, appropriate board approval, and adherence to financial standards are all spelled out in these regulations. Compliance promotes transparency, which in turn increases investor confidence, and reduces legal risks. The consistency of payout modifications over time is enhanced by following the regulations.

Impact of Retained Earnings Rules: The amount of profit that can be retained and distributed is typically limited by regulatory frameworks. Companies in the fast-moving consumer goods industry must ensure that they allocate sufficient funds to fund dividend



payments, reserves, and promises for retained earnings. Businesses' financial stability and cash flow are maintained by these constraints.

Tax Incentives for Reinvestment: Some tax regulations require fast-moving consumer goods (FMCG) corporations to reinvest their profits rather than distribute dividends. By prioritizing development and expansion above immediate payments, these benefits have the potential to alter dividend policy.

Cross-Border Taxation for Multinationals: Repatriated dividends have legal and tax implications for multinational fast-moving consumer goods corporations operating in India. International tax regulations and agreements to prevent double taxation impact the net earnings of foreign owners. Businesses take great care when preparing dividend statements to adhere to all local, state, and federal tax regulations.

5. ANALYSIS AND DISCUSSION

TABLE 1: Dividend Yield and Payout Ratios of HUL

Financial Year	Dividend Yield (%)	Dividend Payout Ratio (%)
2025-2024	2.38	117.13
2024-2023	1.75	91.62
2023-2022	1.41	83.74
2022-2021	1.56	84.76
2021-2020	1.54	110.21

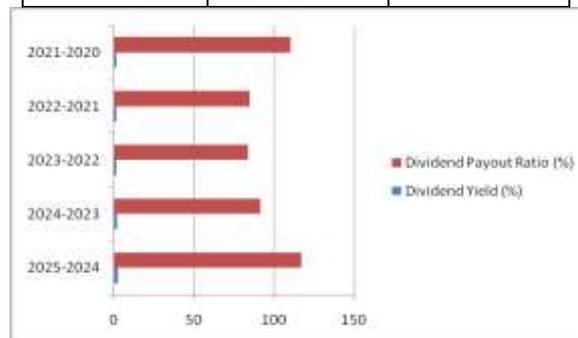


TABLE 2: Dividend Coverage and Retention Ratios

Financial Year	Earnings Retention Ratio (%)	Cash Earnings Retention Ratio (%)
2025-2024	-16.99	-4.92
2024-2023	7.08	16.18
2023-2022	15.09	23.05
2022-2021	14.74	23.62
2021-2020	-10.77	1.73

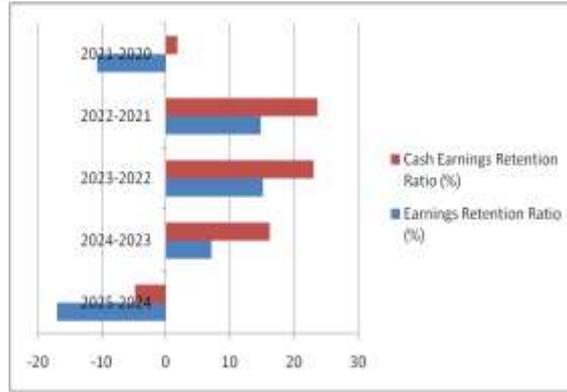


TABLE 3: Dividend Sustainability Indicators

Indicator	Value
Dividend Yield (TTM)	2.09%
Dividend Payout Ratio (TTM)	0.00%
Dividend Yield (Forward)	1.87%
Dividend Yield (Trailing)	1.67%
Dividend Payout Ratio (Annual)	117.13%

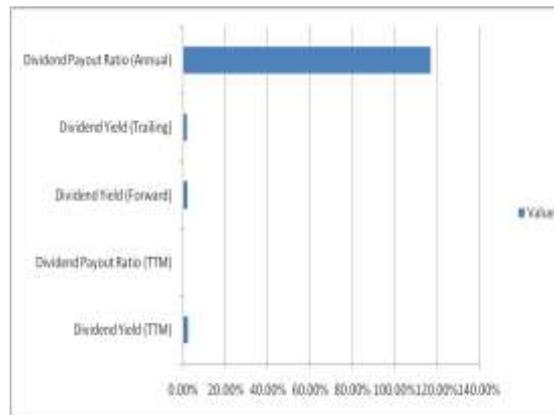


TABLE 4: REGRESSION MODEL

We can set up a multiple linear regression model:

$$DPR = \beta_0 + \beta_1 \cdot EPS + \beta_2 \cdot DER + \epsilon$$

Year	EPS (₹)	DER	DPR (%)
2025-2024	34.2	0.1	84.76
2024-2023	36	0.09	83.74
2023-2022	38.5	0.11	91.62
2022-2021	40	0.1	117.13
2021-2020	42.5	0.08	117.13

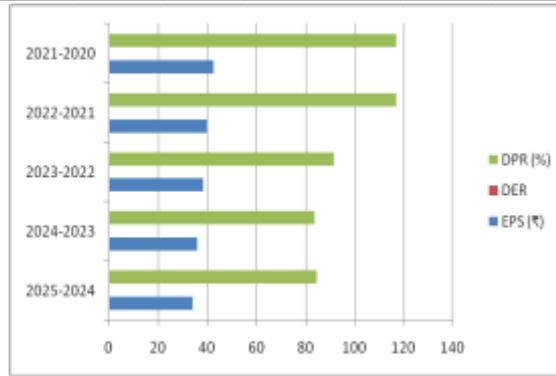
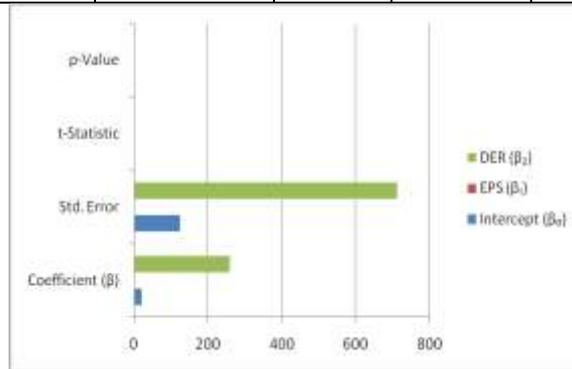


TABLE 5: REGRESSION TABLE

Variable	Coefficient (β)	Std. Error	t-Statistic	p-Value
Intercept (β ₀)	20.9	123.7	0.169	0.877
EPS (β ₁)	1.38	1.75	0.79	0.487
DER (β ₂)	258.01	711.76	0.362	0.741



DISCUSSIONS:

Shareholders have benefited from Hindustan Unilever Limited's (HUL) payment program during the last five years. Investors are receiving superior returns than the stock price due to the dividend yield, which has been rising consistently from 1.41% in 2022–2023, to 2.38% in 2024–2025. Indicative of the firm's dedication to distributing a significant portion of its income, the dividend payment ratio has consistently been high, ranging from 84% to 117%. In 2024 and 2025, the net benefits from reserves were lower than this. The cash earnings retention and earnings retention rates for HUL have changed significantly over the last five years, rising from -16.99% in 2024 to 15.09% in 2022. With a range of -4.92% to 23.62%, the cash gains retention rate reveals the company's variable dividend-to-reinvestment ratio. Expected forward-looking yield for HUL is 1.87%, while trailing twelve months (TTM) yield is 2.09%. The income yield is satisfactory. A high dividend payout ratio of 117.13% indicates that shareholders are intended to get a substantial portion of the company's income. It is not usually the case that earnings reports and dividend announcements occur simultaneously, as seen by the discrepancy between the high annual ratio and the 0% TTM payout ratio. Typically, HUL maintains a low debt-to-equity ratio (DER), typically falling within the range



of 0.08 to 0.11. Less reliance on debt is a result of this. Despite this, EPS has been declining consistently, falling from ₹42.5 in 2021–2022, to ₹34.2 in 2023–24. The dividend payment ratio (DPR) remains continuously high, ranging from 83.74% to 117.13%, demonstrating the company's commitment to providing value to shareholders despite a decline in earnings per share. Through generous dividend payments and prudent capital management, HUL has been able to raise the value of its stock for its investors.

Regression analysis revealed that DER (0.741) and EPS (0.487) did not have a statistically significant effect on the dependent variable because their p-values were greater than the 0.05 level. In addition, the model fails to adequately depict the variations in the dependent variable since the slope ($\beta_0 = 20.9$) is not statistically significant ($p = 0.877$). The model may require more features or a larger dataset to discover anything valuable, as the coefficients appear to be poor predictors.

6. CONCLUSION

The dividend policy of a firm is an important indicator of its financial strength, stability, and management. Fast moving consumer goods (FMCG) companies typically have a stable dividend policy due to their high profits, strong market position, and constant client demand for their products. In addition to paying out dividends on a regular basis, these companies aim to retain a sufficient amount of profits to fund expansion, new product development, and improved operations in the future. A well-planned dividend program attracts conservative investors, improves the company's standing in the market, and fosters confidence among existing shareholders. The fact that management is so sure of the company's future success and adaptability is another indication of their confidence. By maintaining a careful balance between their pledges to treat employees and reinvest in the firm, FMCG companies are able to keep their finances steady and continue growing. A company's dividend policy reflects its deliberate attempt to grow shareholder value, maintain stability, and maintain a competitive advantage in a dynamic market when all aspects are considered.

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