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## *Impact of Leverage, Capital Structure and Dividend Policy Practices on Share holders Wealth in Larsen and Toubro Limited, India*

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*Abstract: Leverage, capital structure and dividend policy practices are vital decision areas in financial management. This paper concentrates on their impact on the long term financial performance of the firm. In this present research paper, an attempt is made to analyze the impact of leverage of Larsen and Toubro Limited on its shareholders wealth which is reflected in market price of shares. The exploratory research design is adopted in this study which employs secondary data .The financial statements of Larsen and Toubro Limited have been collected over a period of 10 years from 2002-03 to2011-12. The data collected is analyzed by financial ratios, Degree of leverage, Degree of Financial Leverage, Combined Leverage, the correlation and multiple regressions analysis tools. The research results reveals that there is positive correlation between operating leverage and market price of share as well as combined leverage and market price of share but financial leverage is negatively correlated with the market price of share. Moreover, the impact of operating and combined leverage of Larsen and Toubro Limited has impact on its market price of share but statistically not significant. The financial leverage has negative impact on its market price of share but not significant statistically. Even though, the management of L &T is availing less debt funds, the performance of L & T is satisfactory due to its diversified businesses and optimum operating leverage. L&T management should revise its capital structure so that it employs appropriate debt capital to get tax shield for debt funds so that wealth of share holders is maximized to the great extent. The present dividend policy has negative impact on the share holders wealth .Even though the fluctuations in share prices are arising due to economic conditions, government policies, prospects of Engineering Industry and activities of market forces but important one is dividend policy which should be optimum in maximizing shareholders wealth. Therefore it is suggested to the company that it should modify the existing dividend policy and practices so that market value of share is maximized but it should not affect its growth prospects.*

**Keywords:** Capital structure, Dividend Policy, Financial Leverage, Operating Leverage and Shareholders wealth.

### I. INTRODUCTION

The main objective of financial management in any management organization is value maximization .The value maximization criteria is based on the concept of cash flows generated by the investment decision and also the value maximization is used in terms of worth to the owners i.e. ordinary shareholders .The wealth of owners is reflected in the market value of shares. So, wealth maximization implies the maximization of the market price of shares. Leverage, Capital structure and Dividend policies are the important decision areas in financial management. This paper concentrates on these three areas, due to its impact on the solvency and financial performance of the firm.

This paper mainly studies the leverage, Capital structure and dividend policies and their impact on shareholders wealth of Larsen & Toubro Limited, a large diversified multinational company. The evolution of L&T into the country's largest engineering and construction organization is among the most remarkable success stories in Indian industry. L&T was founded

in Bombay (Mumbai) in 1938 by two Danish engineers, Henning Holck-Larsen and Soren Kristian Toubro. Both of them were strongly committed to developing India's engineering capabilities to meet the demands of industry. In December 1950, L&T became a Public Company with a paid-up capital of Rs.2 million. The sales turnover in that year was Rs.10.9 million. By 1964, L&T had widened its capabilities to include some of the best technologies in the world. In the decade that followed, the company grew rapidly, and by 1973 had become one of the Top-25 Indian companies. In 1976, Hock-Larsen was awarded the Magsaysay Award for International Understanding in recognition of his contribution to India's industrial development. He retired as Chairman in 1978. In the decades that followed, the company grew into an engineering major under the guidance of leaders like N. M. Desai, S.R. Subramaniam, U. V. Rao, S. D. Kulkarni and A. M. Naik. Today, L&T is one of the India's biggest and best known industrial organizations with a reputation for technological excellence, high quality of products and services, and strong customer orientation. It is also taking steps to grow its international presence. The share holding pattern of L &T at end of 2011-12 financial year were 32.09 % shares held by Financial Institutions, 25.23% held by general public, 15.62% held by Foreign Institutional Investors, 12.15 % held by L & T Employees welfare Foundation, Bodies Corporates held 7.01 %, 4.32 % held by Mutual Funds, 3.12 % of shares held underlying GDRs and Directors and Relatives held 0.46 % of shares.

## II. REVIEW OF LITERATURE

Risk management effectiveness combines both the ability to exploit opportunities and avoid adverse economic impacts, and has a significant positive relationship to performance. This effect is moderated favorably by investment in innovation and lower financial leverage (Anderson, 2009). Financial leverage, or an increase in financial efficiency, called the variation of return on equity, depends on the return on assets and the cost of credit i.e., interest rate. Financial lever also expresses the impact of financial expenses due to loans on the return on equity of an enterprise (Brezeanu, 1999). Financial leverage can increase shareholders' return and as well can increase the firm's risk also. The financial leverage employed by a firm is intended to earn more on the fixed charges funds than their relative costs (Pandey, 2007).

The effectiveness of either bond covenants or implicit capital market monitoring is reduced specially in weak form of market efficiency. Since the market cannot effectively monitor investment decisions, it instead limits the amount of debt. Because high-growth firms cannot be effectively monitored, they will have lower financial leverage (Benjamin, 1985). Financial risk analysis can be done both on the breakeven point and by analyzing changes in the return on equity due to the financial policy, which can be followed by a financial leverage effect (Eros-Stark and Pantea, 2001). A high level of financial leverage allows shareholders to obtain a high return on equity, but they are also exposed to a higher risk of significant loss if the return on assets is low. Also, using loans may lead to restricting the independence of the company's management, and creditors are interested in the indebtedness of the company. Financial leverage is combined with the operating leverage. The combined effect is equal to the product of the operating and financial leverage (Nicoleta, 2010).

The variables sales, interest, cash flow, asset structure, interest coverage, firm's size, retained earnings, earnings before interest and tax and intrinsic value of shares influence financial leverage (Franklin and Muthusamy, 2011). Risk management effectiveness combines both the ability to exploit opportunities and avoid adverse economic impacts, and has a significant positive relationship to performance. This effect is moderated favorably by investment in innovation and lower financial leverage (Anderson, 2009). For analyzing the effect of leverage on shareholder's return, this study has suggested that profitability has strong influence on the financial leverage and on shareholders' return in engineering industry in India (Chandra, 1997). No impact of financial leverage on cost of capital is found in the cement industry i.e., no significant linear relationship exists between the financial leverage and cost of capital (Bhayani J Sanjay, 2009). If we see the overall impact of financial leverage on earnings per share of high-leverage and low-leverage companies in India, we find that there is no impact. The overall findings show that financial leverage has no impact on price-earnings ratio of either high-leverage companies or lowleverage companies. (Negi Pushpa, Sankpal Shilpa, Mathur Garima, Vaswani Nishchaya, 2012). It is important to note that

financial leverage is a speculative technique and there are special risks and costs involved with financial leverage. Indeed there can be no assurance that a Financial Leverage strategy will be successful during any period in which it is employed. (Pachori Sachchidanand, Totala K Navindra, 2012). This study conducted on the topic financial leverage and its impact on shareholders' return in Indian cement industry. It finds that the profitability of a firm is positively related to its financial leverage. But no researcher has tried to study the impact of financial leverage on cost of capital and valuation of firm and thus the present paper seeks to make a humble beginning in this respect (Bhayani, 2006).

### III. NEED OF THE STUDY

Present condition of capital market is complex and unexpected where the investors require in-depth research before their rational investment decisions. Present study provides useful information to the investors, policy makers and corporate houses for various decisions as leverage, capital structure and dividend policy practices are influencing the long term financial performance of the firm. In this research study an attempt is made to analyze the leverage (financial leverage, operating leverage and combined leverage), capital structure and dividend policy and practices and their impact on market price of share and earning capacity of diversified multinational company of Larsen and Toubro Limited which is attracting many domestic and foreign institutional investors in addition to the large number of retail investors. No research is attempted in analyzing the leverage, capital structure and dividend policy practices and its impact on shareholders wealth or market price of shares of diversified businesses running companies in India.

#### Objectives

- To study the operating, financial and combined leverage of Larsen and Toubro Limited (L & T L) during the period 2003-2012 and their impact on shareholders wealth (MPS)
- To understand the capital structure policies and practices in Larsen and Toubro Limited (L&TL) and its impact on Market Price per Share (MPS).
- To know about the dividend policy of the company and its influence on MPS.

#### Hypotheses

1.  $H_0$ : There is no relationship among the leverage, capital structure, dividend policies and market share price (MPS)
2.  $H_0$ : There is no impact of Leverage of Larsen and Toubro Limited on its market price of share (MPS)
3.  $H_0$ : There is no impact of Capital structure of Larsen and Toubro Limited on its market price of share (MPS).
4.  $H_0$ : There is no impact of dividend policies of Larsen and Toubro Limited on its market price of share (MPS).

### IV. RESEARCH METHODOLOGY

The Exploratory research design is adopted in this research study which employs secondary data. Secondary data mainly collected from annual reports, journals, books, investment broking company websites, National stock exchange website and L&T L website for the study period from 2002-03 to 2011-12. The average market price per month is calculated on the basis of daily high, low and closing prices of the company quoted in NSE. The market price of share of Larsen and Toubro Limited for the financial year is calculated based on monthly average share prices. For computation of operating and financial leverage, Capital structure, debt-equity ratio, interest coverage ratios are calculated. D/E ratio is compared with market price for analysis and interpretation. For studying the dividend policy, ratios like dividend per share, earnings per share, dividend yield, earnings yield and P/E ratio have been computed with the help of appropriate formulas.

In financial management, the term leverage is used to describe the firm's ability to use fixed cost of assets or funds to increase return to its owners i.e. equity share holders. It provides the frame work for financing decisions of a firm. Leverages are of three types (1) Operating Leverage (2) Financial leverage and (3) Combined Leverage

#### Operating Leverage (OL)

Operating leverage refers to the use of fixed costs in the operations of a firm. It studies the sensitivity of EBIT to sales. From the safety point of view, the operating leverage should be rather low.

#### Financial Leverage (FL)

The use of fixed charges of capital like debt with equity capital in the capital structure is described as financial leverage or trading on equity. The main reason for using financial leverage is to increase the return of equity share holders. Thus financial leverage studies the sensitivity of EPS to EBIT.

Financial Leverage =  $\frac{\text{EBIT}}{\text{EBIT}-I}$  or  $\frac{\text{EBT}}{\text{EBT}-I}$ .

#### Analysis and Interpretation

**Table -1: Degree of Operating Leverage (DOL)**

Year→ Particulars ↓	2002- 03	2003- 04	2004- 05	2005- 06	2006- 07	2007- 08	2008- 09	2009- 10	2010- 11	2011- 12
% Change in EBIT	0.14	-20.35	37.82	26.15	59.11	58.55	27.87	22.73	15.64	32.82
% Change in Sales	19.07	2.47	36.75	12.03	19.41	41.38	35.72	8.90	18.41	22.01
DOL	0.73	-8.24	1.03	2.17	3.05	1.41	0.78	2.55	0.85	1.49

Source: Compiled from the annual reports of Larsen & Toubro Ltd.

If the firm is operating with high leverage a proportionate change in sales will bring a more than proportionate change in EBIT. In the above table, in 2008-09 the firm is operating with moderate operating leverage. The degree of operating leverage is increasing trend from 2003-04 to 2006-07 and then it decreases up to 2008-09 year and here on words it is fluctuating. In 2006-07, the degree of operating leverage is very high as a result change in sales by 19.41 %, brought 59.11 % increase in EBIT. The company has recorded an increasing trend in sales during the study period from 2002-03 to 2011-12. So, the adverse affects of high operating leverage can't hit its earnings. The operating profit (EBIT) of the company has been in increasing trend since 2002-03 except in 2003-04. The degree of operating leverage of the company is more than the average degree of operating leverage 0.6 in all the years of study except in 2004. From the above table it is cleared that Company is not maintaining particular operating leverage. Low level of operating leverage is desirable firm's future growth. It is suggested to L & T has to maintain the optimum level of operating leverage by consistent increase in sales and controlling fixed expenses as it has positive impact on share holders' wealth.

**Table - 2: Degree of Financial Leverage (DFL)**

Year	2002- 03	2003-04	2004-05	2005-06	2006-07	2007-08	2008- 09	2009-10	2010-11	2011- 12
EBIT	927.2 7	738.56	1,017.86	1,284.0 0	2,043.01	3,239.2 3	4,142. 02	5,083.58	5,878.5 7	7,807. 78
EBT	487.1 3	776.56	1,292.79	1,381.2 1	2,005.88	3,154.7 0	4,657. 52	5,950.15	5,812.3 5	6,306. 44
DFL	1.90	0.95	0.79	0.93	1.02	1.03	0.89	0.85	1.01	1.24
D/E	0.90	0.48	0.56	0.32	0.36	0.38	0.53	0.37	0.33	0.39
EPS	17.42	42.82	75.72	73.67	49.53	74.35	59.45	72.66	65.01	72.77

Source: Compiled from the annual reports of Larsen & Toubro Ltd.

The table -2 indicates that the degree of financial leverage and debt –equity ratio of company are positively correlated. In 2002-03 the debt –equity ratio is very high (0.90) during the 10 years of study period. Similarly, DFL is also very high (1.90) in that year. Later debt –equity ratio declined in 2003-04. Similarly DFL also declined.

The debt –equity ratio is low in the year 2005-06 and DFL also low in the same year. This trend can be clearly understood that with the help of the table-2. On an average the company was not following any particular trend in case of DFL which is fluctuating in between 0.79 to 1.90. So, the company didn't have the problem of servicing its debt because its EPS and ICR are satisfactory.

Another interesting point is that there is significant negative relationship between the degree of financial leverage and Earning per Share (EPS) as the debt- equity ratio is fluctuating and not appropriate, and sales are increasing year by year, there is positive association between DOL, DCL and EPS and there is negative relationship between D/E, DFL, DY and EY. But it is a general tendency in financial management to employ high financial leverage as long as the cost of debt is less than the return on total assets and the firm can service its debt even in adverse conditions higher the financial leverage the better since it will mean more than proportionate profit for equity funds. Thus the wealth of shareholders is being maximized.

**Table- 3: Degree of Combined Leverage (DCL)**

Leverage↓	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
DOL	0.73	-8.24	1.03	2.17	3.05	1.41	0.78	2.55	0.85	1.49
DFL	1.90	0.95	0.79	0.93	1.02	1.03	0.89	0.85	1.01	1.24
DCL	1.39	-7.83	0.81	2.02	3.11	1.45	0.69	2.17	0.86	1.85

Source: Compiled from the annual reports of Larsen & Toubro Ltd.

Both financial and operating leverages magnify the revenue of the firm. The Degree of Operating Leverage (DOL) and Degree of Financial Leverage (DFL) can be combined to know the effect of total leverage on Earning per Share (EPS) associated with a given change in sales. Financial leverage of L & T is not fluctuating widely like DOL during these years. As the DFL is more or less stable, the DCL is highly depends on DOL .In 2006-07, DCL is very high because DOL is also very high in that year. Similarly DCL is very low in 2003-04 at -7.83 because DOL is also very low in that year at -8.24. DCL has perfect positive relationship with DOL where as with DFL there is weak positive association. MPS of the company has positive association with DOL, DCL, ICR, P/E, EPS and ROE where as with DFL, D/E, DPR, DY and EY the relationship is negative. The company has to modify its Capital structure to include more debt so that MPS will be enhanced. Moreover, the company has not following proper dividend policy .so the company has to use appropriate dividend policy which will have positive impact on ROE, EPS and MPS.

H<sub>0</sub>: There is no relationship of statistical significance between DOL and DCL

<b>Table-4 : Correlation coefficient b/w DOL &amp; DCL</b>			
		DOL	DCL
DOL	Pearson Correlation	1	.996**
	Sig. (2-tailed)		.000
	N	10	10
DCL	Pearson Correlation	.996**	1
	Sig. (2-tailed)	.000	
	N	10	10

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table value of t for at 0.01 level of significance at 8 d.f =3.36. Calculated value of t value is 31.5 > t- table value of 3.36. We reject H<sub>0</sub>. Hence, H<sub>1</sub> is accepted .Therefore, there is significant relationship between DOL and DCL at 1 % level of significance.

**Table -5: Multiple Regression Analysis for Impact of DOL & DCL on MPS**

Variable	Regression Coefficient	Standard Error of Regression Coefficient	"t" Value	Sig.t
DOL	3.621	628.345	1.126	0.297
DCL	-3.091	654.849	-0.961	0.369
Constant	984.773	190.753	5.163	0.001
Multiple R=0.614	R <sup>2</sup> = 0.377	Adj.R <sup>2</sup> = 0.200	S.E of R = 559.355	

Source: SPSS.  
\*Significant at 0.20 L.O.S & \*\* significant at 0.05 L.O.S( level of significance).Table value of with (n-k-1) i.e.,7 degrees of freedom at 0.20 is 1.415 &2.36

Source: SPSS

**Table -6: Linear Regression Analysis for Impact of DFL on MPS**

Variable	Regression Coefficient	Standard Error of Regression Coefficient	"t" Value	Sig.t
DFL	-0.363	644.829	-1.103	0.302
Constant	1741.101	711.510	2.447	0.040
Multiple R=0.363	R <sup>2</sup> = 0.132	Adj.R <sup>2</sup> = 0.024	S.E of R = 617.778	

\*Significant at 0.20 level of significance & \*\* significant at 0.05 level of significance  
Table value of with (n-k-1) i.e.,8 degrees of freedom at 0.05 and 0.01 level of sig.1.39 & 2.306

Source: SPSS.

**Capital Structure:** The two principle sources of finance available to every concern are equity and debt. The capital structure of a firm should be planned in such a way that the cost of servicing the debt should be minimum and the return should be maximum. While designing an appropriate capital structure, the financial manager should aim at maximizing the shareholders wealth or market value of the share. Such a capital structure is called optimum capital structure that can be determined empirically.

**Table- 7: Capital Structure and Debt Service**

Year	D/E	ICR
2002-03	0.90	2.39
2003-04	0.48	2.70
2004-05	0.56	3.63
2005-06	0.32	4
2006-07	0.36	6.16
2007-08	0.38	6.45
2008-09	0.53	5.38
2009-10	0.37	5.11
2010-11	0.33	4.90
2011-12	0.39	4.64

Source: Annual reports of L &amp;T

The company is following aggressive debt policy except in 2002-03. It's average debt-equity ratio is 0.46 which is less than 1:1. The debt-equity ratio varies from 0.32 to 0.90. In the table-7, for the first three to four years the management is allowing its debt-equity ratio to fluctuate more. In many years it lies below 0.50.

From the table-7, it is clear that the debt-equity ratio and interest coverage ratio are negatively correlated as correlation coefficient between them is -0.643 which indicates that correlation is significant at 5 % level of significance. The aggressive debt policy of the company is reflected in its interest coverage ratio also. The interest coverage ratio on average is 4.5 times during the study period from 2002-03 to 2011-12. Debt-equity ratio is high in initial years and less EBIT resulted low interest coverage. The company's Interest coverage ratio has significant positive impact on MPS. Still the company has a large reserve debt capacity providing it with financial capability to easily fund its diversification and expansion plans.

It is significant to note that in spite of the ups and downs in debt-equity ratio and interest coverage and debt-equity relationship is significantly negative. The average market price of share (MPS) has significant positive relationship with Interest coverage and P/E ratio. Therefore the company management has to design its capital structure appropriately so that debt equity mix has significantly positive impact on MPS (Market Price of Share).

**Table 7.1: Linear Regression Analysis for Impact of D/E on MPS**

Variable	Regression Coefficient	Standard Error of Regression Coefficient	"t" Value	Sig.t
D/E	-0.664	946.474	-2.509	0.036
Constant	2083.106	464.563	4.484	0.002
Multiple R=0.664	R <sup>2</sup> = 0.440	Adj.R <sup>2</sup> = 0.370	S.E of R = 496.118	
*Significant at 0.05 level of significance				
Table value of with (n-k-1) i.e.,8 degrees of freedom at 0.20 is 1.397				

Source: SPSS

The table-7.1 indicates that the linear regression equation of MPS and D/E. i.e.,  $MPS = \beta_0 + \beta_1.D/E$ . The debt-equity ratio or capital structure regression coefficient ( $\beta_1$ ) is  $-0.664$ . By one unit decrease in the Debt –Equity ratio, the market value of shares has decreased by 0.664 units. The capital structure policy and practices adopted has been showing negative impact on market value of share (MPS).The company has to revise its capital structure policy so that it has positive impact on market value of share.

### Dividend Policy and Practices

Shareholders of every company expect two forms of returns, dividend and capital gains. A major decision in financial management is the dividend decision in the sense that the firm has to choose between distributing the profits to the shareholders and ploughing them back to the business. Dividend Policy determines what portion of earnings will be paid out to stockholders and what portion will be retained in the business to finance long-term growth. Both dividends and growth are desirable but are conflicting to each other. This situation is an existing challenging for the financial manager and necessitates the need to establish an optimum dividend policy that has no adverse effects on the future progress of the firm.

**Table 8: Dividend Policy and its impact**

Year	EPS (Rs)	DPS (Rs)	Avg.MPS	Payout %	DY %	EY %	P/ E	ROE
2002-03	17.42	7.50	87.50	43.05	8.57	19.91	5.02	12.28
2003-04	42.82	80.00	175.13	186.83	45.68	24.45	4.09	19.43
2004-05	75.72	27.50	343.89	36.32	8.00	22.02	4.54	29.82
2005-06	73.67	22.00	593.97	29.86	3.70	12.40	8.06	21.95
2006-07	49.53	13.00	1511.23	26.25	0.86	3.28	30.51	24.44
2007-08	74.35	17.00	1435	22.86	1.18	5.18	19.30	22.81
2008-09	59.45	10.50	1178.50	17.66	0.89	5.04	19.82	27.99
2009-10	72.66	12.50	1791.5	17.20	0.70	4.06	24.66	23.95
2010-11	65.01	14.50	1484.55	22.30	0.98	4.38	22.84	18.44
2011-12	72.77	16.50	1260.4	22.67	1.31	5.77	17.32	17.68

Source: Annual reports of L&T

The table-8 reveals that the EPS of the company has been fluctuating during the 10 years of the study period. The average EPS of the company during the study period was 60.34. In the above table EPS of the company is more than average in 7 years of 10 yr period. The Dividend Payout ratio has showing decreasing trend for some years and from the last two years it is in increasing trend. The company has maintained on average 42.5 % dividend payout ratio. The actual dividend payout ratio is lower than the average DPR of the company during its period of the study except in 2002-03 and 2003-04.

The average market price of share of Larsen (L & T L) during its study period from 2002-03 to 2011-12 was Rs 986.16 .The MPS of the company has increased from 2002-03 to 2006-07 and later it is decreased for two years and then increased in 2009-10 and then it is in decreasing. The MPS of L & T has negative relationship with dividend policy variables DPR, DY & EY

where as it has positive relationship with P/E, ROE and EPS. The dividend policy has negative impact on the market price of share or share holders wealth .Even though the fluctuations in share prices are arising due to economic conditions, government policies, prospects of Engineering Industry and activities of market forces but important one is dividend policy which should be optimum in maximizing shareholders wealth. Therefore it is suggested to the company that it should modify the existing dividend policy and practices so that market value of share is maximized but it should not affect its growth prospects.

**Table 9 - Correlation matrix**

Particulars	DPS	DPR	DY	EY	MPS
DPS	1				
DPR	0.958**	1			
DY	0.955**	0.996**	1		
EY	0.643*	0.688*	0.740*	1	
MPS	-0.501	-0.577	-0.626	-0.948**	1

Source: SPSS and \*\* Correlation significant at the 0.01level (2- tailed) & \* Correlation significant at the 0.05 level (2 –tailed)

**Note:** DOL= Degree of Operating Leverage, DFL= Degree of Financial Leverage, DCL = Degree of Combined Leverage, D/E = Debt – Equity Ratio, DPR = Dividend Payout Ratio, D.Y = Dividend Yield (%), EY = Earnings Yield (%), EPS = Earnings per Share, ROE = Return on Equity, ICR =Interest Coverage Ratio, MPS = Market Price per Share.

Table value of t for 8 degrees of freedom at 0.05 and 0.01 level of significance are 2.31 and 3.36.

The table-9 explains that there is statistically significant relationship between DPR & DPS, DY & DPS, and DY & DPR at 0.01 level of significance. Moreover, there is statistically significant relationship between EY & DPS, EY & DPR and EY & DY at 0.05 level of significance. But the relationship is not statistical significant among the pair of variables such as MPS & DPS, MPS & DPR and MPS & DY. There is statistically negative correlation between MPS & EY.

**Table 10: Multiple Correlations and Multiple Regression Analysis.**

Variables in the equation  $MPS = \beta_0 + \beta_1.DPS + \beta_2.DPR + \beta_3.DY + \beta_4.EY$ .

Variable	Regression Coefficient	Standard Error of Regression Coefficient	“ t” Value	Sig.t
DPS	0.343	11.730	0.865	0.427
DPR	-2.668	28.184	-1.152	0.301
DY	2.677	114.668	1.054	0.340
EY	-1.315	22.965	-4.276	0.008
Constant	2319.613	627.429	3.697	0.014
Multiple R=0.969	$R^2 = 0.938$	Adj. $R^2 = 0.889$	S.E of R = 208.348	
*Significant at 0.05 level of sig. & **Significant at 0.01 level of sig.				
Table value of (n-k-1) i.e.,5 degrees of freedom at 0.05 and 0.01 levels of sig. 2.57 & 4.03				

Source: SPSS

Ho: There is no significant evidence of multiple correlations among selected variable under study.

We use F-test and work out the test statistic as under:  $F = R^2 / (k-1) \div (1-R^2) / (n-k)$

Where R is any multiple coefficient of correlation, k being the number of variables involved and n being the number of paired observations. The test is performed by entering tables of the F- distribution with  $v_1 = k-1=4$

$v_2 = n-k=5$  &  $F = 75.76 > F_t (5.19)$ . We reject Ho. By applying F-test, we conclude that there is significant evidence of multiple correlations among selected variable under study. It is statistically significant.

## V. INTERPRETATION

In order to understand the effect on share holder's wealth (MPS), a linear multiple regression models were used in the table 9 and table 10 represent the multiple correlation matrix and multiple regression technique have been used to study the effect of dividend polices & practices of L &T on its share holder's wealth (MPS). In this study DPS, DPR, DY and EY have been used as the explanatory variables and MPS has been used as dependent variable. In this analysis, the correlation matrix representing correlation coefficient between the explanatory variables and MPS. In this analysis, the correlation matrix representing correlation coefficient between the explanatory variables have been constructed in table 9. The table reveals that there is a very high degree of correlation between DPS and DPR (0.958), DPS and DY (0.955), DPS and EY (0.643), DPR and DY (0.996), DPR and EY (0.688), EY and DY (0.740). Due to this cause DPS, DPR, DY, EY have been used for analysis. The regression model used in this analysis is here under.  $MPS = \beta_0 + \beta_1 .DPS + \beta_2.DPR + \beta_3.DY + \beta_4.EY$ , where  $\beta_0, \beta_1, \beta_2, \beta_3$  and  $\beta_4$  are the parameters of the MPS line to be estimated.

The pooled regression results of the model exhibiting the impact or effect of dividend policies and practices on shareholders wealth (MPS) of the firm are depicted in the table 10. The model for the dividend policies and practices and firms market value of share or shareholders wealth (MPS) is selected on the basis of strong diagnostics and high value for the R-squared the result is represented in table 10. Table 10 exhibiting the relationship between the dependent variable MPS and all the independent variables taken together and the impact of these independent variables on the market value of shares or shareholders wealth of the firm. When DPS increased by one unit, MPS of the company increased by 0.343 units which was statistically significant at 5 % level of significance. When DY increased by one unit, MPS of the company increased by 2.667 units which was statistically significant at 5% level of significance. The remaining variables of dividend policy such as DPR (-2.668) and EY (-1.315) are negatively influencing on the market value of shares or shareholders wealth (MPS) of the firm, which is statistically significant at 0.01 level of sig and 0.05 level of sig. The multiple correlations coefficient of MPS on DPS, DPR, DY and EY is 0.969. It reveals that the market value of share (MPS) or shareholders wealth of the company was highly influenced by DPS, DPR, DY and EY. It is also endorsed that from the  $R^2$  value that the independent variables DPS, DPR, DY and EY contributed 93.8 percent of the variation in the shareholders wealth or market value for share (MPS) of the Company. By applying F-test, we conclude that the multiple correlation coefficients among the variable selected in the model is significant and the model is valid.

## VI. CONCLUSION AND SUGGESTION

Larsen and Toubro Limited has abundant internal resources. It is following a flexible debt-equity ratio. Operating leverage of the company has more ups and downs. But the financial leverage is fluctuating during the study period from 2002-03 to 2011-12. The fluctuations in the market price of the share (MPS) are influenced by leverage, capital structure decisions and dividend decisions to some extent and other micro and macro economic factors are influencing the MPS to the large extent. The degree of operating leverage (DOL) and degree of combined leverage (DCL) of Larsen and Toubro Limited have positively correlated and their impact on its Market price of share is positive but statistically not significant. Therefore, operating leverage should be at optimum level by consistent increase in sales and controlling fixed expenses. The degree of financial leverage is negatively correlated with the Market price of share and the impact of financial leverage on market price of share is negative but statistically not significant. Leverage is an important financial decision. An appropriate leverage strategy will enhance the shareholders wealth and profitability performance of the firm. From the study is clear that the present capital structure or financing policy of Larsen and Toubro Limited should be revised so that financial leverage will enhance the earnings to the shareholders. More over the management of the L &T is availing leased assets to the optimum extent as its operating leverage has positive impact on the market price of share. The management of L &T is availing less debt funds. The market Price of share (MPS) or shareholders wealth of the L &T Company was highly influenced by DPS, DPR, DY and EY. It is also endorsed that from the  $R^2$  value that the independent variables DPS, DPR, DY and EY contributed 93.8 percent of the variation in the shareholders wealth or MPS of the Company. The performance of L & T is satisfactory due to its diversified business and

optimum operating leverage. If L&T revise its capital structure so that it employs appropriate debt capital to get financial leverage benefits such as wealth of share holders is maximized to the great extent. The leverage effect is positive when the earnings of the firm are higher than the fixed financial charges to be paid for the lenders. The dividend policy has negative impact on the market price of share or share holders wealth .Even though the fluctuations in share prices are arising due to economic conditions, government policies, prospects of Engineering Industry and activities of market forces but important one is dividend policy which should be optimum in maximizing shareholders wealth. Therefore it is suggested to the company that it should modify the existing dividend policy and practices so that market value of share is maximized but it should not affect its growth prospects

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