

Market reaction to dividend announcements: Evidence from Nifty 50 and Non-Nifty 50 IT firms in India

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Abstract

This study examines the market reaction to dividend announcements in the Indian information technology (IT) sector, with particular emphasis on whether inclusion in the NIFTY 50 index influences investor response. Using an event study methodology, the analysis is conducted on a sample of ten IT firms, five NIFTY 50 constituents and five non-NIFTY 50 firms, over the period 2013–2024. Abnormal returns are calculated using the market model within an eleven-day event window surrounding dividend announcements. The findings indicate that NIFTY 50 firms experience positive and statistically significant abnormal returns following dividend announcements, supporting the dividend signaling hypothesis. In contrast, non-index firms exhibit negative and significant market reactions, suggesting investor skepticism regarding dividend signals from less visible companies. The results imply that index membership enhances corporate credibility, reduces information asymmetry, and strengthens the informational content of dividend announcements. These findings offer implications for investors, corporate managers, and regulators, highlighting the importance of transparent dividend policies and effective communication strategies, particularly for mid-cap and smaller firms.

Keywords: Dividend Announcements, Event Study, Market Reaction, NIFTY 50, Indian IT Sector

JEL Classification: G21, G28, G32

1. Introduction

Dividend policy remains one of the most debated topics in corporate finance, as firms must balance shareholder expectations with internal financing needs. Dividend announcements are often interpreted by investors as signals regarding a firm's financial health, future earnings prospects, and management confidence. According to signaling theory, dividends are an important way for companies to communicate with investors when there is unequal information. Managers, who have a better understanding of the company's prospects, may use dividend payments as a signal of their confidence in ongoing earnings. Stable or increasing dividends are generally interpreted as evidence of consistent income and operational strength. Conversely, reductions or omissions in dividend payments often result in negative market reactions, which are perceived as indications of financial distress or weakness (Bhat & Pandey, 2014). In today's fast-paced financial markets, where information spreads rapidly, these signals can have an immediate impact on investor sentiment and stock prices. Recognizing the crucial role of corporate announcements in investment decisions, regulators around the world have advocated for transparency in information. In India, the Securities and Exchange Board of India (SEBI) has implemented this principle by mandating quarterly disclosures of financial results and dividend decisions. These regulations align Indian practices with global standards and aim to bridge information gaps, enhance investor confidence, and uphold market integrity. As India's economy experiences rapid growth and becomes more interconnected globally, it is highly relevant to evaluate the effectiveness of these regulations in strengthening the signaling power of dividends.

The event study methodology is widely used in finance to assess how the market responds to corporate events. This approach, initially introduced by Brown and Warner (1985) and later refined by scholars such as MacKinlay (1997) and Binder (1998), focuses on analysing abnormal returns during specific periods surrounding an event. This enables a direct examination of the semi-strong form of the Efficient Market Hypothesis (EMH) proposed by Fama (1970). The EMH asserts that market prices reflect all publicly available information. Therefore, any abnormal returns observed immediately after an announcement can be attributed to the market incorporating this new information (Sorescu, Warren, & Ertekin, 2017). A rapid adjustment in prices within a short timeframe supports the notion of semi-strong form efficiency, while sluggish adjustments or movements prior to the event may indicate inefficiencies, delays, or potential insider trading (McWilliams & Siegel, 1997). Despite significant international research on dividend signaling, there are still considerable gaps in knowledge regarding emerging markets like India.

The Indian information technology (IT) sector presents an intriguing area for this type of research due to its remarkable growth, dependence on skilled labor, high profitability levels, and strong global connections. However, investor reactions within this sector tend to vary based on specific characteristics of individual companies such as visibility factors like brand recognition or reputation; credibility aspects including track record or trustworthiness; as well institutional

involvement represented through participation from large organizations/investors etc. Membership status within major stock indices serves as one prominent indicator signifying increased visibility, specifically being part NIFTY, 50 index signifies enhanced liquidity/wide analyst coverage/significant institutional investment/high reputation amongst peers etc. Past studies show that firms listed on top indices often have greater credibility for their announcements (Dhillon & Johnson, 1994). As a result, dividend signals from these firms are likely to trigger quicker and stronger market reactions compared to those from less visible companies. Still, the effect of index membership on the dividend-price relationship has not been thoroughly examined in India.

To address this research gap, this study uses a comparative event study approach to evaluate how dividend announcements impact the market values of Indian IT companies from 2013 to 2024. The study aims to answer the following research questions:

Do dividend announcements generate significant abnormal returns in the Indian IT sector?

Does NIFTY 50 index membership influence investor reaction to dividend announcements?

The findings are expected to be useful for various stakeholders, including investors shaping portfolio strategies, corporate managers fine-tuning payout policies, and regulators looking at how disclosure reforms affect market efficiency.

2. Literature Review

Dividend policy has been the focus of much research and is still an active topic of discussion. The literature mainly presents two opposing viewpoints.

- Signaling Hypothesis: This viewpoint suggests that dividends help reduce information gaps by showing management's confidence in the company's future earnings (Bhat & Pandey, 2014).
- Dividend Irrelevance Theory: Proposed by Modigliani and Miller (1961), this theory claims that in perfect markets, dividend policy does not affect a company's value because investors can create their own dividend streams by selling shares.

Research results on this issue are mixed. Studies that support the signaling view consistently show positive abnormal returns after dividend increases and negative reactions to cuts or omissions. For instance, Akbar and Baig (2010) found that both cash and stock dividends in emerging markets led to favourable responses from investors. Similar conclusions were reached in studies across various international contexts by Dasilas and Leventis (2011) and Gurgul et al. (2003), reinforcing the idea that dividends are often viewed as credible indicators of profitability and stability. Conversely, evidence from other markets offers weaker support for signaling. Khan (2011), in a study of the Pakistani market, found that dividend announcements had minimal impact on stock prices, attributing this to a lack of consistent payout policies that could guide investor expectations. Below and Johnson (1996) also highlighted that the potency of dividend signals is contingent on market conditions, suggesting that signals contrary to prevailing expectations carry more weight.

Within the Indian context, these contradictions are even more pronounced. Gupta et al. (2012) reported short-term abnormal returns supportive of signaling but also noted inefficiencies in the speed of information absorption. Later studies, including those by Pournima and Huma (2021) and Aditya and Ashok (2017), confirmed the existence of significant abnormal gains after the announcement. At the same time, Chanchal and Dutta (2017) argued that in India's specific tax environment, dividends had limited informational value, having a small impact on returns. Together, these differing results show that the role of dividend policy in India is still unclear and varies with industry dynamics, regulatory changes, and company-level factors.

The event study framework is essential for examining market reactions to corporate news. It helps us separate the effect of a specific event from general market movements, making it a strong way to test informational efficiency. According to the Efficient Market Hypothesis (EMH) proposed by Fama in 1970, if we see abnormal returns only during a narrow event window, it confirms semi-strong form efficiency. On the other hand, if the effects extend beyond that window, it may indicate inefficiencies or information leakage. Indian studies using this method present mixed results. Chavali and Nusratunnisa (2013) found evidence consistent with semi-strong efficiency, while Vazakidis and Athianos (2010) pointed to milder forms of inefficiency. A more nuanced strand of literature emphasizes the heterogeneity of market reactions. Firm-specific factors, such as size, reputation, visibility, and analyst following are critical in shaping the perception of dividend signals. Larger firms with greater analyst coverage tend to benefit from higher investor credibility (Lonie et al., 1996). In this light, index membership itself functions as a powerful signal. Firms included in prominent indices like the S&P 500 or India's NIFTY 50 gain from increased transparency, heightened institutional monitoring, and stronger reputational capital (Berezinets et al., 2015). Despite this understanding, scant academic attention in India has been directed at whether NIFTY 50 membership systematically alters market responses to dividend announcements, particularly within a defined sector like IT.

Although the relationship between dividends and stock prices has been extensively explored globally, salient gaps persist in the Indian context, especially concerning sector-specific and institutional dimensions. Most Indian studies have looked at dividend signaling from a broad market perspective. They have not focused enough on how index membership might affect key industries like information technology (Bhat & Pandey, 2014; Gupta et al., 2012). The Indian IT sector has a unique profile due to its global reach, steady profitability, and essential role in the national economy. This lack of focus creates a major gap in both research and practical understanding. The presence of conflicting findings also highlights this gap. Some studies show significant abnormal returns around dividend announcements, supporting the signaling hypothesis (Pournima & Huma, 2021). In contrast, others question its relevance, pointing to limited impact under India's specific tax and regulatory environment (Chanchal & Dutta, 2017). Such divergent outcomes suggest the influence of mediating variables. Index membership emerges as a compelling candidate, serving as a proxy for corporate visibility and credibility. Drawing on the

work of Lonie et al. (1996) and Berezinets et al. (2015), it is plausible that firms within leading indices attract stronger investor reactions due to their greater institutional holding, broader analyst coverage, and enhanced reputational standing.

In light of the foregoing, this study makes a twofold contribution. First, it extends the dividend signaling literature in India by explicitly incorporating the institutional dimension of index inclusion, thereby yielding targeted evidence on how visibility shapes the interpretation of dividend signals. Second, by concentrating on the IT sector, the study produces insights with practical significance for a crucial industry, offering valuable guidance to investors for portfolio allocation, to corporate managers for designing payout and communication strategies, and to regulators for assessing the effectiveness of disclosure norms in enhancing market efficiency. Based on signaling theory and market efficiency arguments, the study proposes the following hypotheses:

H1: Dividend announcements generate significant abnormal returns in the Indian IT sector.

H2: NIFTY 50 firms experience more positive abnormal returns compared to non-NIFTY 50 firms.

By addressing these hypotheses, the study contributes to the dividend signaling literature by incorporating index membership as a moderating factor and providing sector-specific evidence from an emerging market.

3. Methodology

3.1 Data and Sample

The dataset for this study consists of ten Indian IT companies listed on the National Stock Exchange (NSE), covering an eleven-year period from the fiscal year 2013/14 to 2023/24. To enable a strong comparative analysis, we used a stratified sampling method that created two separate groups:

- **NIFTY 50 IT Firms:** This group includes Tata Consultancy Services, Infosys, HCL Technologies, Wipro, and Tech Mahindra. These companies represent large-cap firms known for their high market capitalization, significant institutional ownership, and extensive analyst coverage.
- **Non-NIFTY 50 IT Firms:** This group consists of LTI Mindtree, Mphasis, Info Edge, Persistent Systems, and Redington. While these firms are important players, they are relatively smaller. They tend to have lower trading liquidity, limited analyst attention, and less market visibility.

We gathered data from official NSE sources. This included: (i) corporate announcements that specified dividend declaration dates, (ii) daily adjusted closing stock prices for the sample firms, and (iii) daily values of the NIFTY IT index, which served as the market benchmark.

To maintain methodological quality, we excluded any dividend announcement that coincided with other major corporate events, such as earnings releases, stock splits, or merger news within the event window. This approach follows the suggestions of Binder (1998). The eleven-year study horizon, encompassing various market phases (bullish, bearish, and neutral), strengthens the generalizability and robustness of the findings.

3.2 Empirical Framework: Event Study Methodology

The research design is anchored in the event study methodology, a well-established econometric framework for assessing how capital markets digest new information (Brown & Warner, 1985; McWilliams & Siegel, 1997). This method allows for the isolation of the dividend announcement effect from broader market fluctuations, enabling a precise evaluation of investor reaction and providing a solid foundation for testing the dividend signaling hypothesis.

3.3 Event Study Parameters

In line with standard financial econometric practice (McWilliams & Siegel, 1997), the study employs carefully defined time windows:

- **Event Date ($t = 0$):** This is the date on which the dividend decision was officially disclosed to the stock exchanges.
- **Estimation Window:** A 120-day period from day $t = -126$ to day $t = -6$ relative to the event date. This window provides a clean dataset, uncontaminated by the event itself, for estimating the parameters of the normal return-generating model.
- **Event Window:** An 11-day window spanning from $t = -5$ to $t = +5$. This period is designed to capture potential market anticipation prior to the announcement as well as the immediate adjustment following the disclosure.

This configuration ensures a methodological equilibrium: the estimation window is of sufficient length to yield stable parameter estimates, while the event window is narrow enough to minimize confounding effects from unrelated market news.

3.4 Return Measurement Methodology

The analysis of stock price adjustments follows a sequential, three-step process:

- **Security-Specific Returns:** Calculated as the logarithmic difference in adjusted closing prices: $R_{it} = \ln(P_{it}/P_{i,t-1})$. Where P_{it} denotes the adjusted closing price of firm i on day t . Logarithmic returns are preferred due to their additive properties over time.
- **Market Returns:** Computed similarly using the NIFTY IT Index: $R_{mt} = \ln(I_t/I_{t-1})$. Where I_t is the index level on day t .

- Expected (Normal) Returns: Estimated using the Market Model, which relates a security's return to the market return via Ordinary Least Squares (OLS) regression during the estimation window (Fama, 1970): $R_{it} = \alpha_i + \beta_i R_{mt} + \epsilon_{it}$. Here, α_i is the intercept, β_i measures the security's sensitivity to market movements, and ϵ_{it} is the error term.
- Abnormal Returns: Defined as the difference between the actual return and the expected return predicted by the Market Model: $AR_{it} = R_{it} - (\hat{\alpha}_i + \hat{\beta}_i R_{mt})$
The abnormal return represents the component of the price movement attributable specifically to the dividend announcement, after filtering out general market trends.

3.5 Aggregation of Abnormal Returns

To identify systematic patterns, abnormal returns are aggregated across two dimensions: firms and time.

- Average Abnormal Return: For each day in the event window, AAR was calculated as the cross-sectional mean of ARs across all firms in a given cohort (NIFTY 50 or non-NIFTY 50): $AR_t = \frac{1}{N} \sum_{i=1}^N AR_{it}$. Where N is the number of firms in the group. AAR reflects how, on average, the market perceives dividend announcements on any given day.
- Cumulative Average Abnormal Return (CAAR): The sum of AARs over a specific interval within the event window (from t_1 to t_2): $CAAR_{t_1,t_2} = \sum_{t=t_1}^{t_2} AAR_t$. The CAAR measures the total persistent market effect over a multi-day period, such as the pre-announcement or post-announcement phase.

3.6 Statistical Testing

The statistical significance of the AARs and CAARs was assessed using cross-sectional t-tests, following the approach outlined by Brown and Warner (1985). The test statistic for the CAAR is given by: $t = \frac{CAAR}{\sigma(CAR)/\sqrt{N}}$

Where $\sigma(CAR)$ is the standard deviation of the cumulative abnormal returns across the sample firms, and N is the sample size. A t-statistic significant at the 5% level ($p < 0.05$) indicates that the observed abnormal returns are unlikely to have occurred by chance, thus confirming the informational value of the dividend announcements.

This comprehensive methodological framework integrating financial theory (Fama, 1970), econometric rigor (Brown & Warner, 1985), and nuanced market considerations provides a robust basis for evaluating market efficiency and the moderating influence of institutional visibility on dividend signals within the Indian IT sector.

4. Results and Discussion

4.1 Firm-Level Market Reactions

The event study analysis incorporated ten valid dividend announcements, with LTI Mindtree excluded due to an absence of qualifying events that met the strict methodological criteria for the defined estimation and event windows. So, we made sure to only include announcements that really met the grade. This way, we could get a fair look at what was going on. We used Average Abnormal Returns (AARs) and Cumulative Average Abnormal Returns (CAARs), which you can see in Table 1.

Table 1. Firm-Level Market Reactions

Day	Tata Consultancy Services Limited			Day	Infosys Limited	
	AAR	CAAR	T-Stat		AAR	CAAR
-1	-0.0048	-0.0048	-1.4439	-0.0017	-0.0017	-0.5656
-2	0.0019	-0.0029	-0.7948	0.0140	0.0062	1.8915
-3	-0.0015	-0.0043	-1.0712	0.0079	0.0142	3.8454*
-4	-0.0027	-0.0070	-1.5045	-0.0010	0.0132	3.0950*
-5	0.0007	-0.0063	-1.1019	-0.0024	0.0108	2.0698*
0	-0.0007	-0.0070	-0.8633	0.0048	0.0156	2.1182*
1	0.0233	0.0163	2.8601*	0.0169	0.0325	6.2438*
2	-0.0002	0.0162	3.4707*	-0.0054	0.0271	6.3867*
3	-0.0050	0.0112	2.7755*	0.0009	0.0280	7.6062*
4	0.0064	0.0176	4.8643*	-0.0021	0.0259	7.8698*
5	-0.0047	0.0129	3.8969*	-0.0028	0.0231	7.6919*
Day	HCL Technologies Limited			Day	Wipro Limited	
	AAR	CAAR	T-Stat		AAR	CAAR
-1	-0.0030	-0.0030	-1.6490	-0.0048	-0.0070	-2.1147*
-2	-0.0078	-0.0109	-5.3704*	0.0019	-0.0022	-0.6123
-3	-0.0017	-0.0126	-5.5724*	-0.0015	-0.0041	-1.0158
-4	-0.0014	-0.0140	-5.3613*	-0.0027	-0.0026	-0.5676
-5	0.0003	-0.0137	-4.2885*	0.0007	0.0000	0.0075
0	0.0111	-0.0026	-0.5747	-0.0007	-0.0007	-0.0841
1	0.0008	-0.0019	-0.5784	0.0233	0.0226	3.9621*
2	-0.0026	-0.0044	-1.6858	-0.0002	0.0225	4.8203*
3	0.0001	-0.0043	-1.9133	-0.0050	0.0175	4.3338*
4	-0.0011	-0.0054	-2.6821	0.0064	0.0239	6.6066*
5	-0.0001	-0.0055	-2.9740	-0.0047	0.0191	5.8055*
Day	Tech Mahindra Limited			Day	LTI Mindtree Limited	
	AAR	CAAR	T-Stat		AAR	CAAR



-1	0.0000	0.0000	0.0109	-0.0045	-0.0045	-1.1411
-2	0.0062	0.0062	1.4397	0.0117	0.0072	1.6510
-3	-0.0018	0.0044	0.9120	0.0048	0.0120	2.4704*
-4	-0.0011	0.0033	0.5978	-0.0064	0.0056	1.0009
-5	0.0016	0.0049	0.7187	-0.0022	0.0035	0.5016
0	0.0068	0.0117	1.2119	-0.0012	0.0022	0.2300
1	0.0237	0.0354	5.1823*	-0.0242	-0.0220	-3.1925*
2	-0.0102	0.0253	4.5284*	-0.0115	-0.0334	-5.9457*
3	-0.0002	0.0251	5.1858*	0.0075	-0.0259	-5.3194*
4	0.0005	0.0255	5.9058*	0.0018	-0.0241	-5.5321*
5	-0.0138	0.0117	2.9743*	-0.0024	-0.0265	-6.6679*
Day	Mphasis Limited			Info Edge (India) Limited		
	AAR	CAAR	T-Stat	Day	AAR	CAAR
-1	-0.0030	-0.0030	-1.4445	-0.0011	-0.0011	-0.2372
-2	0.0026	-0.0005	-0.2005	0.0077	0.0066	1.3207
-3	-0.0074	-0.0079	-3.0610*	-0.0025	0.0041	0.7296
-4	0.0061	-0.0017	-0.5866	0.0051	0.0092	1.4145
-5	-0.0007	-0.0025	-0.6779	-0.0225	-0.0133	-1.6762
0	-0.0064	-0.0089	-1.7225	-0.0229	-0.0363	-3.2271*
1	-0.0029	-0.0118	-3.2400*	-0.0025	-0.0387	-4.8775*
2	0.0029	-0.0089	-3.0028*	0.0052	-0.0336	-5.1764*
3	-0.0109	-0.0198	-7.6864*	-0.0073	-0.0409	-7.2742*
4	-0.0032	-0.0230	10.0005*	-0.0207	-0.0616	12.2625*
5	-0.0073	-0.0303	14.4340*	-0.0065	-0.0681	14.8533*
Day	Persistent system Limited			Redington (India) Limited		
	AAR	CAAR	T-Stat	Day	AAR	CAAR
-1	-0.0016	-0.0016	-0.4287	-0.0055	-0.0055	-1.2336
-2	0.0083	0.0067	1.6248	0.0123	0.0068	1.3963
-3	-0.0078	-0.0011	-0.2343	0.0059	0.0127	2.3314*
-4	-0.0050	-0.0061	-1.1446	-0.0106	0.0021	0.3325
-5	-0.0019	-0.0080	-1.2283	-0.0026	-0.0005	-0.0712
0	0.0063	-0.0017	-0.1841	-0.0146	-0.0152	-1.3960
1	-0.0205	-0.0222	-3.4017*	-0.0187	-0.0339	-4.4052*
2	-0.0106	-0.0328	-6.1621*	-0.0126	-0.0464	-7.4003*
3	-0.0067	-0.0395	-8.5583*	0.0149	-0.0315	-5.8037*
4	-0.0019	-0.0414	-10.0370*	0.0006	-0.0310	-6.3755*
5	0.0121	-0.0293	-7.7757*	-0.0030	-0.0339	-7.6500*

* Denotes Statistical Significance at 5%; Source: Researchers' calculations

Basically, the results showed some big differences in how investors reacted to dividend news, depending on the company. Looking at individual companies, you could spot some clear trends. For example, with Tata Consultancy Services (TCS), the market seemed to take its time but then gave a thumbs up. Before the news and on the actual day of the announcement (Day 0), things didn't really budge much, statistically speaking. But things started looking up in the days after. We saw strong AARs on Day +1 and then again on Day +4. The CAAR just kept going up from there. It seemed like investors took a beat to think it over, but then they got confident in TCS's dividend news. Infosys, on the other hand, had a more, well, anticipatory market. Positive AARs popped up as early as Day -3. Maybe there was some insider info floating around, or maybe people were just feeling good about the company's past performance. This good vibe continued the announcement day (Day 0) and the days after (+1 and +3), and the CAAR stayed nicely positive. So, the market seemed to really like Infosys's dividend policy right from the start.

HCL Technologies told a different story, though. Investors didn't seem to be thrilled. While there were a few moments of positivity, the CAAR overall was negative and, yeah, statistically significant. This could mean the market thought the dividend wasn't enough, or, even worse, that it was a sign of slower growth down the road. Yikes. Wipro was interesting too. There wasn't much happening right away on Day 0, but then it took off on Day +1 (AAR = 0.0233). This bumped up the CAAR, and it stayed positive through Day +4, showing that investors eventually gave it the okay. Tech Mahindra followed a similar path, with gains concentrated around Days -2, 0, +1, and +4, peaking on Day +1. The consistently significant CAAR for Tech Mahindra highlights strong market confidence in the credibility of its dividend announcements. On the other hand, firms outside the NIFTY 50 index faced a tougher situation. Although excluded from the pooled analysis due to sample size issues, Mindtree's case showed substantial negative reactions after the event. A brief sense of optimism on Day -3 quickly turned negative, especially on Day +1 (AAR = -0.0242), with the CAAR steadily declining until Day +5, indicating significant investor disappointment.

This pattern of negative or mixed results was seen in other non-indexed companies like Mphasis, Persistent Systems, Info Edge, and Redington. For Mphasis, occasional gains were mostly overshadowed by statistically significant losses from Day 0 onwards, with the CAAR dropping to -0.0303 by Day +5. This reflects strong market doubts about the sustainability of its payouts. Persistent Systems showed an inconsistent response, with some positive spikes being countered by large negative returns on other days (notably Days +1 and +2), ultimately driving its CAAR into sustained negativity (-0.0293 by Day +5). Info Edge was one of the most negatively affected. Negative abnormal returns started on the announcement day itself (-0.0229) and worsened afterwards, with the CAAR falling to -0.0681 by Day +5. This indicates deep investor disapproval, possibly tied to worries about the company's future growth. Redington also followed this trend, with brief gains swiftly countered by large losses on Day 0 and Day +1, bringing its CAAR down to -0.0339 and reinforcing a general sentiment of disappointment.

In summary, a clear divide exists. TCS, Infosys, Wipro, and Tech Mahindra, all from the NIFTY 50, received favorable market approval, supporting dividend signaling theory. In stark contrast, HCL Technologies, Mphasis, Persistent, Info Edge, Redington, and Mindtree experienced strong negative reactions. This divide highlights the firm-specific nature of dividend interpretation, where investor responses are influenced by a complex mix of expectations, perceived credibility of management signals, and underlying company fundamentals.

4.2 Sector-Wide Patterns

Zooming out to the industry level, the analysis provides critical insights into the broader IT sector's behaviour (Table 2).

Table 2. Sector-Wide Patterns

Day	SAAR	CAAR	T-Stat
-1	-0.03	-0.03	-2.5536*
-2	0.0588	0.0288	2.2378*
-3	-0.0056	0.0232	1.6124
-4	-0.0197	0.0035	0.2106
-5	-0.029	-0.0255	-1.2531
0	-0.0175	-0.043	-1.4942
1	0.0192	-0.0238	-1.1696
2	-0.0452	-0.069	-4.1530*
3	-0.0117	-0.0807	-5.6087*
4	-0.0133	-0.094	-7.3042*
5	-0.0332	-0.1272	-10.827*

* Denotes Statistical Significance at 5%; Source: Researchers' calculations

On Day -2, the sector saw a notable positive sample average abnormal return (SAAR = 0.0588, $t = 2.24$). This initial increase indicates a wave of hopeful optimism or possibly early information leaks among investors. A smaller increase, which was not statistically significant, came on Day +1 (0.0192). This suggests only a slight reassessment of value after the announcement. However, this optimism was short-lived. Starting from Day -1 (SAAR = -0.03, $t = -2.55$), abnormal returns shifted to negative territory. This downward trend worsened significantly from Days +2 to +5, showing steep declines (for example, Day +2: -0.0452, $t = -4.15$; Day +5: -0.0332, $t = -10.83$). These findings indicate a clear and ongoing disappointment among investors at the sector level. The trend of cumulative returns strengthens this story. After a brief positive bump on Day -2 (CAAR = 0.0288), values dropped sharply, falling into negative territory on Day -1 and continuing to decline steadily to -0.1272 by Day +5. A breakdown of the event-day observations shows that

while 42 instances recorded positive abnormal returns, these were outweighed by 58 negative instances. Furthermore, out of the 38 cases that were statistically significant, 23 were positive and 15 were negative. This shows that while positive surprises did happen, negative reactions were more common and had a larger impact on the market overall.

At the firm level, the difference noted earlier was clear. The positive gains after events for the NIFTY 50 firms were offset by significant losses in the non-indexed segment. Taken together, the data show an uneven market response. A short period of hopeful anticipation quickly turned into steady declines across the sector. This indicates that during the study period, dividend announcements in the Indian IT industry mostly did not meet high market expectations and were often seen as weak signs about the sector's future in a changing global environment.

4.3 Comparative Insights: NIFTY 50 vs. Non-Indexed IT Firms

Comparing these two groups gave us some good insights. For the NIFTY 50 companies (Table 3), we saw a positive, but delayed, reaction to the dividend news.

Table 3. Comparative Insights

Day	Firms in NIFTY 50 Index Basket			Firms out of NIFTY 50 Index Basket		
	SAAR	SCAAR	T-Stat	ARR	CAAR	T-Stat
-1	-0.0143	-0.0143	-1.1290	-0.0157	-0.0157	-1.4081
-2	0.0162	0.0019	0.1369	0.0426	0.0269	2.2024*
-3	0.0014	0.0033	0.2127	-0.007	0.0199	1.4573
-4	-0.0089	-0.0056	-0.3126	-0.0108	0.0091	0.5771
-5	0.0009	-0.0047	-0.2142	-0.0299	-0.0208	-1.0770
0	0.0213	0.0166	0.5350	-0.0388	-0.0596	-2.1823*
1	0.088	0.1046	4.7682*	-0.0688	-0.1284	-6.6489*
2	-0.0186	0.086	4.8014*	-0.0266	-0.155	-9.8303*
3	-0.0092	0.0768	4.9511*	-0.0025	-0.1575	-11.5342*
4	0.0101	0.0869	6.2635*	-0.0234	-0.1809	-14.8115*
5	-0.0261	0.0608	4.8005*	-0.0071	-0.188	-16.862*

* Denotes Statistical Significance at 5%; Source: Researchers' calculations

The pre-announcement period was a bit up and down, but nothing that really stood out. On the day of the announcement (Day 0), the SAAR was slightly positive, 0.0213. But it wasn't a huge deal statistically, so investors seemed to be cautiously optimistic, or maybe they were just waiting to see what would happen. The real action came later. Day +1 had the biggest impact, with a SAAR of 0.088 and a t-value of 4.7682, and the cumulative return (SCAAR) peaked at 0.1046. This good

trend continued through Day +4. Even with a slight dip on Day +5, the cumulative return was still significantly positive at 0.0608, with a t-value of 4.8005. This shows that the market eventually saw the dividends from the index members as trustworthy signals. And, these companies have high visibility, they're liquid, and have a good reputation. Now, for non-indexed IT firms, it was a different story. The pre-announcement phase was mostly negative. There was a positive return on Day -2, 0.0426, with a t-value of 2.2024. That looked promising, but it faded fast. The announcement day brought a sharp and significant negative reaction with a SAAR of -0.0388 and a t-value of -2.1823. This negative trend just kept going, and the t-values for these negative returns kept dropping. It showed immediate disappointment, and ongoing investor pessimism. The difference was clear; NIFTY 50 companies saw a delayed but strong and consistent positive market response. This was helped by their credibility, institutional investor support, and better governance. Non-index firms, on the other hand, saw immediate and ongoing declines, highlighting that they're more vulnerable to market swings and that investors weren't as confident in them. Being part of an index really impacts how effective the dividend signaling is. Being in a top index boosts trust, stabilizes trading through higher liquidity, and protects against negative sentiment. Companies outside this elite group are left exposed to more critical market reactions.

5. Conclusion and Implications

This study conclusively demonstrates that dividend announcements remain influential events within India's IT sector, but their implications are sharply divergent, hinging on firm size and, critically, index membership. Large-cap firms such as TCS, Infosys, Wipro, and Tech Mahindra benefited from a reservoir of investor trust rooted in their institutional visibility and strong governance structures, resulting in significant positive market reactions that align with signaling theory. In contrast, non-indexed IT companies experienced consistent declines in market value following their dividend disclosures. This pattern reflects deep-seated market doubts over their credibility and the long-term sustainability of their payouts in the face of perceived higher risks and growth constraints. At the industry level, the negative cumulative abnormal return points to lingering uncertainty about the sector's long-term prospects, a sentiment that persists despite the demonstrated resilience of its index-listed leaders. This divergence highlights a key characteristic of emerging markets: the interplay between broad sector-wide sentiment and specific institutional mechanisms, such as index membership, which collectively shape the credibility and market impact of corporate signals like dividends. The study has some limitations, too. Because it only focused on the IT sector, it might not apply perfectly to industries with different financial structures and dynamics. Plus, the study period included that crazy COVID-19 pandemic, which could have influenced investor behaviour. Lastly, while the methodology works well to isolate the dividend effect, it doesn't fully account for other company announcements that might have been happening at the same time.

5.1 Key Observations

This research points to three main things about dividend signaling in the Indian IT sector.

- First off, being in an index is a huge credibility booster. NIFTY 50 IT firms, which benefit from high institutional ownership, tons of analyst coverage, and strong reputations, saw positive abnormal returns after their dividend announcements. This fits with what the dividend signaling theory says (Bhat & Pandey, 2014). The delay in the positive reactions after the announcements also supports the semi-strong form of market efficiency.
- Second, non-indexed firms faced significant market doubt. Their dividend announcements led to continuous negative abnormal returns. Investors probably saw payouts from these smaller, less-visible firms as not enough to make up for the higher risks (Jensen, 1986). These dividends might also look like a drain on the company's money, suggesting a lack of growth opportunities (Myers & Majluf, 1984).
- Third, the sector's overall negative returns reflect broader concerns about the IT industry's growth at the time of the study. This backs up what Gupta and others (2012) observed that in emerging economies, overall sector sentiment can sometimes overshadow what's going on with individual companies.

5.2 Implications and Future Research Direction of the Study

The study provides practical implications for investors, corporate managers, and regulators. The results advocate for a differentiated investment strategy. Dividends from large, index-listed leaders can be reasonably treated as credible signals for long-term portfolio strategy. The expected negative reactions seen in smaller, non-indexed firms could be used for short-term trading opportunities. The findings are especially important for managers of non-indexed firms. The study highlights the need for clear communication and consistent dividend policy. By explaining payout decisions as part of long-term goals, these firms can help reduce market doubt and gradually build investor trust. The evidence supports SEBI's focus on transparency and disclosure. Consolidation reporting standards and communication guidelines, especially for mid- and small-cap companies, can play a vital role in reducing information asymmetries, bolstering corporate credibility, and fostering more efficient and stable capital markets. In summary, dividend signaling in India's IT sector operates along a dual track: for indexed firms, it serves as a credible reinforcement of optimism; for their smaller peers, it often triggers persistent doubts. Despite its contributions, the study has limitations, including a small sample size and sector-specific focus. Future research may extend the analysis to other sectors and examine additional moderating factors such as ownership structure and analyst coverage.

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