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Corporate Financial Resilience and Dividend Payout: Evidence from Indian Listed Companies

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Abstract

Dividend policy requires firms to balance shareholder distributions with retaining resources for future investment and financial stability. This study examines the relationship between corporate financial resilience and dividend payout among 20 Indian listed companies over 2015-2025. Using 220 firm-year observations, the study employs pooled regression and two-way fixed-effects models with robustness tests. The findings indicate a negative association between lagged corporate financial resilience and dividend payout, after accounting for the extreme observations. The results suggest that financially resilient firms may prefer retaining resources for future investment, strategic requirements and financial flexibility rather than distributing a larger proportion of earnings. The study extends dividend-policy literature by examining financial resilience in the Indian corporate context.

Major Findings: The study finds a negative relationship between Corporate Financial Resilience and Dividend Payout Ratio. ROCE is positively associated with dividend payout, while Sales Growth shows a significant negative association with dividend payout. The findings suggest that financially resilient firms may retain earnings to preserve financial flexibility and support future investment rather than distribute a larger proportion of profits.

Keywords: Corporate Financial Resilience, Dividend Payout, India, Listed Companies

JEL Classification: G32, G35, C23

1. Introduction

One of the most important financial decisions firms make is dividend policy, since it influences how earnings are distributed to shareholders and how much is retained for future investment. It is significant because a larger share of the earnings distributed may please shareholders, while the rest of the earnings may be retained to build the internal financing capacity and to facilitate future growth. Thus, dividend policy has been a controversial subject in corporate finance, and the literature has noted that investment, financing and dividend decisions are interrelated (Lintner, 1956; Das, 2017). The significance of dividend policy is greater in emerging markets like India, where firms are working within unique institutional and regulatory as well as ownership settings. Dividend decisions in India are governed by the Companies Act, and listed companies are regulated by the Securities and Exchange Board of India (SEBI). Das (2017) mentions that Indian companies have a lot of freedom when deciding dividend payouts, but according to statutory provisions, the dividends have to be paid from eligible profits and reserves. The study also finds that profit and liquidity are especially significant factors that affect the dividend decision of Indian companies, along with leverage as another important factor.

The factors behind dividend policy are more than just profitability at the moment, though. Recent Indian evidence has shown that profitability and size of the firm have a positive relationship with the dividend

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policy, with varying degrees of importance in various industrial sectors (Wadhwa, 2024). It implies that a sector-based variation is not completely explainable by any single financial indicator, which implies that decisions on dividends can't be totally understood. Willingness and capacity to distribute earnings can also be affected by financial capacity, investment needs and the ability of firms to withstand economic uncertainty. This topic has become more important after the coronavirus pandemic and the uncertainty in the economy. Roy and Maji (2025) studied BSE 500 companies during 2014-15 to 2021-22 and found that the pandemic had a mixed impact on the dividend decision of companies; business firms with higher ROA, TA and Tobin's Q are more likely to have higher dividends, whereas firms with high leverage ratios were more likely to find it difficult to sustain dividend payments during the pandemic. In a similar way, Burca *et al.* (2025) state that the dividend distribution impacts the resources for self-financing, which in turn can result in a negative influence on the sustainable growth of a company and business resilience. Financial drivers of dividend distribution that the evidence takes into account include earnings, earnings variability, credit risk and accruals.

The developments suggest that the financial resilience of a firm and its dividend payout is worthy of a closer look. Higher financial conditions can also affect a firm's ability to pay dividends, but holding on to financial resources might also be crucial for maintaining financial resilience and funding future opportunities. So the direction and intensity of this relationship may not be assumed. In this context, the objective of the present study is to investigate whether there is any relationship between corporate financial resilience and dividend payout ratio for the selected listed companies of India, taking firm size, profitability and sales growth as significant firm size factors. To achieve this goal, the study begins by examining the literature on dividend policy, financial resilience, and the theoretical framework and hypothesis development. The data and methodology, the empirical results and the robustness findings are presented in the following sections, while the key implications, limitations, and directions for future research are presented in the final section.

2. Literature Review

2.1 Dividend Policy

Dividend policy is an important financial decision as it involves a firm allocating funds to shareholders and to save it for future use. Despite many decades of research on dividend policy, no single theory can yet be found explaining a firm's choice of dividend level. Lintner (1956) discovered that most companies have an objective dividend policy and prefer to make slow and steady changes in dividends instead of drastic adjustments year to year. Other researchers who emphasised the importance of earnings and dividend stability in the explanation of payout decisions were Fama and Babiak (1968) and Fama (1974). Under perfect market conditions, Miller and Modigliani (1961) contended that a firm's dividend policy should have no impact on the value of the firm. In reality, there are information gaps, taxes, agency issues, and financing costs in the real markets. All of these considerations render dividend policy relevant to management and investors. It is therefore not surprising that Black (1976) called dividend policy a "dividend puzzle" since no single theory can explain the actual firm behaviour.

There is an extensive literature that has investigated the profitability, liquidity, leverage, size and growth as significant factors affecting dividend policy. Aivazian *et al.* (2003) identified financial characteristics that have an impact on emerging-market firms similar to those seen in developed countries, but the impact can vary by country. According to Denis and Osobov (2008), the likelihood of a firm paying a dividend is explained by profitability and firm size, and Fama and French (2001) demonstrated that profitability, investment opportunities and firm characteristics are important factors in explaining the changes in a firm's propensity to pay a dividend. The significance of investment opportunities is especially emphasised since companies are required to decide whether to pay out earnings or invest in the future. Rozeff (1982) correlated dividend payout to growth considerations and agency considerations, while Gaver and Gaver (1993) demonstrated the relationship between investment opportunities and financing and dividend decisions. There was also a significant relationship

between investment opportunities and corporate finance and dividend payout in the emerging markets, as found by Abor and Bokpin (2010). Labhane and Mahakud (2016) found that profitable firms, liquid firms and mature firms had a high dividend payout ratio, whereas firms with high investment opportunity and financial risk had a low payout ratio (in India).

There is similar, but less consistent, evidence in the Indian literature. Acharya *et al.* (2012) found that profit after tax, cash flow, liquidity, capital structure, sales growth and firm size are important factors that affect dividend decisions. They are concerned with cash flow because cash generation could be the key to paying a dividend rather than accounting profit. In 2017, Das employed BSE 500 firms and concluded that profit and liquidity play important roles, while leverage also plays an important role. The study also concluded that increasing dividend payout on the rise was generally represented by falling growth rates of the companies because growing business companies need additional funds.

Baker and Kapoor (2015) concluded that managers in India felt that earnings, earnings stability, past dividend behaviour and their expectations on future earnings were significant factors in dividend decision-making. Similarly, Venkataramanaiah *et al.* (2018) analysed the leverage, liquidity, economic performance and size of Indian companies. Leverage and profitability were important factors according to Wadhwa (2019); Profitability was found to have a positive relationship with dividend policy, though the relationship varies by industry according to Wadhwa (2024). The results show that the use of one financial measure is not sufficient to explain the dividend decision. There is also international evidence for this variation. The study of Bostanci *et al.* (2018) revealed that dividend payout is positively influenced by previous dividend payout, profitability, liquidity and firm size for the sample of Turkish companies. Mahdzan *et al.* (2016) discovered that there were variations in dividend determinants among industries, and Pattiruhu and Paais (2020) studied liquidity, profitability, leverage and size as important factors that influence dividend policy. Al-Najjar and Kilincarslan (2018) concluded that profitability, age and size had positive effects on dividends, while growth and debt had negative effects.

Ownership and corporate governance provide an additional aspect to dividend policy. Roy (2015) demonstrated that profitability, liquidity, growth, size and other firm attributes are the factors affecting dividend payments in India and ownership and corporate governance are also other factors that influence dividend payments. Kiran and Ramesh (2021) concluded that the dividend policy of non-financial companies in India was influenced by ownership structure and indicated that companies can make a decision to keep earnings for investment plans and capital needs in the future. Yarram and Dollery (2015) also found that board attributes and firm size and profitability have an impact on dividend payment. Another recent study indicates that dividend policy is influenced by a broader set of financial factors. According to Ghose *et al.* (2025), the size, profitability, promoter ownership, cash holdings and life-cycle characteristics of Indian listed firms had an impact on their dividend decisions, whereas earnings volatility, leverage and free cash flow could reduce dividends. Ebrahim (2023) revealed a positive role for stock liquidity in dividend policy, whereas Saini *et al.* (2024) conducted a meta-analysis to show that overall, leverage is negatively associated with the dividend payout.

The literature reviewed indicates that dividend policy is affected by profitability, liquidity, leverage, size, growth, investment opportunities, ownership and other firm characteristics. More significantly, these factors impact how well one can pay out dividends as well as the necessity to reserve earnings. This gives a foundation for investigating how a wider financial condition measure (financial resilience) can be relevant for making dividend decisions.

2.2 Corporate Financial Resilience

The importance of corporate financial resilience has become more prominent as companies have to function amid uncertainty, financial stress, and unforeseen economic shocks. Profitability isn't the end of the concept. Profitability primarily indicates whether the company is earning profits, while financial

resilience indicates whether the company is able to remain financially stable and liquid, and afford debt and continue to function when financial issues occur. Financial resilience is comprised of several traditional financial measures. Liquidity is a measure of a firm's capacity to pay short-term obligations, leverage is a measure of dependence on debt, and solvency is a measure of a firm's capacity to pay longer-term obligations. Internally generated funds and cash can also cushion the blow in a time of financial difficulty. For instance, Bates *et al.* (2009) demonstrated that companies keep cash buffers to guard against unforeseen cash-flow shocks.

These various aspects have been sought to be combined in recent literature. Financial resilience is defined as financial liquidity, leverage, solvency, financial flexibility and internal capital generation by SanJuan-Paz *et al.* (2026). They claim that these factors are interconnected and influence a firm's capacity to withstand shocks, adjust to challenging circumstances, and keep going. Therefore, financial resilience cannot be looked at as just a profitability or liquidity indicator. It is important to have financial flexibility in this context. Retention of internally generated funds can mean firms have less need to rely on other sources of capital if they need to invest in the future or use funds for unexpected capital needs. This argument aligns with the pecking-order theory of financing, in which firms tend to have more preference for financing from their own sources before external debt or equity financing (Myers, 1984; Myers & Majluf, 1984). In the context of resilience, keeping internal resources can offer a financial cushion to allow firms to cope with uncertainty in the future. So, financial resilience may be seen as a more general indicator of the financial strength of the company. It will look at not only the profit of the business in the present, but also whether the business has the means and flexibility to cope with future financial strains. This distinction is relevant to dividend research because a profitable firm might need to plough back resources, and a financially resilient firm may be able to better withstand and invest in opportunities for future growth.

2.3 Financial Resilience and Dividend Policy

The financial resilience- dividend payout relationship can be explained in two interpretations. The first view is that financially strong companies are able to pay higher dividends. The second perspective is that financially more robust companies might be better able to afford keeping their resources since they can afford to fund future investments and cushion themselves from uncertainty. Thus, financial resilience does not always go hand in hand with dividend payout. The traditional financial-capacity perspective is supported by the first argument. The higher a firm's profitability, liquidity, size and cash holdings, the more able the firm is to pay out dividends. Denis and Osobov (2008) determined that profitability and size positively affected profitability, while Bostanci *et al.* (2018) noted positive relationships between profitability, liquidity and size with payout. The study conducted by Ghose *et al.* (2025) also revealed that profitability, size and cash holdings had an impact on dividend payments of Indian companies.

But the capacity to pay dividends doesn't suggest that firms will certainly pay them. The other side of the argument is around the opportunity cost of internal funds. If the companies have great investment opportunities, they may opt to keep their earnings rather than distribute them. Abor and Bokpin (2010) correlated investment opportunities with dividend and financing decisions, and Labhane and Mahakud (2016) determined that the dividend payout ratio is negatively associated with investment opportunities. Growth and debt likewise had negative effects on dividend payments, as reported by Al-Najjar and Kilincarslan (2018). From a business-resilience point of view, the evidence provided by Burca *et al.* (2025) is particularly relevant. The distribution of dividends lowers the resources that can be reinvested into the business, which can impact sustainable growth and business resilience, they argue. This implies that a company with strong financial resilience may have a reason to safeguard its standing by keeping a portion of its earnings.

Also, the investment argument is supported by Jung *et al.* (2016), who studied 'Dividend restriction and investment'. However, their results indicated that companies with dividend covenants had higher investments, implying that the funds they did not pay out to shareholders could be invested in the

company. This does not imply that the decision to retain earnings is always the value-maximising choice, as retained earnings could be invested ineffectively, but it does reveal the payout v. investment decision. The signalling literature is even more complicated. According to classical signalling theory, dividends might convey information about the firm's financial circumstances to the shareholders. But Kaplan and Pérez-Cavazos demonstrate that this signal is not as strong if investment opportunities are unavailable. A firm with less attractive investment opportunities may be more inclined to pay dividends to signal its sustainable earnings, while a firm with more growth opportunities may be more inclined to retain funds for investments. So, a business with high opportunity cost of distributing its resources might prefer to pay a lower dividend, even if it has good finances.

This argument is consistent with the pecking-order perspective. Myers (1984) and Myers and Majluf (1984) indicate that firms might prefer to finance their operations internally rather than by external financing, since external financing may include information and financing costs. Thus, companies that have investment opportunities can retain their profit as opposed to paying higher dividends. This same process can also be applied to financial resilience: retained earnings build up the financial capacity and can support the firm's future financing requirements. The type of management characteristics might also influence this decision. Deshmukh (2005) discovered that firms under the management of overconfident CEOs had low dividend payouts and a high internal funds preference. The finding sheds light on the impact of the preference for financing from within the organisation on dividend decisions, though it is not about financial resilience per se. Another explanation of mixed results is financial constraints. Kim *et al.* (2021) analysed financial constraints, R&D intensity and dividend policy and revealed that dividend policies can also have a signalling effect under financial constraints. Nguyen *et al.* (2024) also indicated that financial constraints may affect dividend policy, meaning that companies might have a dilemma between keeping money in the business and keeping investors happy.

This trade-off is more apparent during economic crises. Choi and Sauka (2024) revealed that profitability was relevant for dividend payout throughout economic cycles, though it was more relevant during the crisis periods, especially when considering internal financial factors. During COVID-19, Roy and Maji (2025) examined the relationship between ROA, total assets, Tobin's Q and dividend yield of 500 firms listed on the BSE in India and discovered that firms with high ROA, total assets and Tobin's Q were more likely to pay high dividends, while highly leveraged firms had more difficulty paying high dividends. Tinungki *et al.* (2025) reported that in times of crisis, the dividend policy of green-investment companies in Indonesia is relatively conservative, which indicates that financial stability is important. There are also variations in these relationships by sector, as shown in the Indian evidence. Profitability and size were found to be important for different industries (Wadhwa, 2024), and the ownership structure was pointed out by Kiran and Ramesh (2021), as well as the importance of retaining earnings. Therefore, it is not likely that the correlation between financial strength and dividend payout will be the same for all companies.

The literature combined suggests two possible mechanisms. Having financial strength can also enhance the ability to hold on to cash, which can also enhance the ability to pay dividends. Therefore, a resilient firm can distribute more or less, as it can afford to do more or less, or it can distribute less as it wants to be financially flexible to finance future opportunities. This is a clear opportunity to directly investigate financial resilience, given the unresolved issue.

2.4 Research Gap and Rationale for the Present Study

Based on the research gaps and rationale identified, the present study aimed to investigate the implementation of the present study aims to investigate the relationship between corporate financial resilience and dividend payout among selected Indian listed companies. There is a substantial body of literature relating to the dividend policy. Profitability, liquidity, leverage, size and growth, investment opportunity, ownership, governance and

cash holdings have been studied (Acharya *et al.*, 2012; Denis & Osobov, 2008; DeAngelo *et al.*, 2006; Baker & Kapoor, 2015; Roy, 2015; Das, 2017; Wadhwa, 2024). But there are still some things to be filled in.

Primarily, most is comparatively most of the studies focus on individual financial measures instead of the overall financial status of the firm. Profitability, liquidity, leverage and cash holdings are each a part of financial strength. SanJuan-Paz *et al.* (2026) state that financial resilience has multiple facets and that liquidity, solvency, leverage, financial flexibility and internal financial capacity all play a role in financial resilience. So, it might be helpful to consider studying financial resilience as a whole in addition to each ratio alone. Second, it is unclear what the relationship is between financial strength and dividend payout. Under the traditional perspective, financially sound companies have the ability to pay higher dividends, while under the investment and financing perspective, it will increasingly be the case that financially stronger companies have the flexibility to retain more in their companies to seize future investment opportunities. That's why the notion that this is a retention argument is supported by Burca *et al.* (2025) and the investment-related literature, as well as by Denis and Osobov (2008), Bostanci *et al.* (2018) and Ghose *et al.* (2025), who find evidence for higher payout capacity among more robust firms.

Third, the direct relationship between financial resilience and dividend policy is still less developed than the vast literature on the traditional determinants of dividends. Recent research has started to link factors related to resilience with dividends, such as business resilience (Burca *et al.*, 2025), economic cycles and financial conditions (Choi & Sauka, 2024), COVID-19 and Indian firms (Roy & Maji, 2025), and financial stability during crisis periods (Tinungki *et al.*, 2025). The literature is emerging, though, and sometimes individual factors of resilience are examined instead of a composite measure. Fourthly, there's a contextual gap in India. Existing Indian research has explored traditional dividend policy determinants in great detail, while there has been limited focus on the correlation between dividend payout and overall corporate financial strength. This is critical since Indian companies are very different in terms of who owns them, their industries, investments needed and financial conditions.

Finally, many of the existing studies are directed at the relationship between financial characteristics and dividends in the same period. A different lens is provided by a look at lagged financial resilience, as managers might be able to make a decision about how much of current earnings they can safely distribute by looking at the financial situation in the previous period. The underlying question is, then, whether increased financial resilience incentivises firms to channel more funds to external expenses as a result of their increased financial resources, or to keep more funds within their own boundaries as part of a strategy to ensure a company is better positioned to invest in the future and meet unexpected shocks. There is no definite answer from the existing literature for this question. To fill this gap, the present study tries to investigate the relationship between the lagged Corporate Financial Resilience Index (CFRI) and the dividend payout of the selected listed companies in India after considering firm size, profitability and sales growth. This study takes a comprehensive view of financial resilience as a financial strength measure and adds to the existing literature on dividend policy, which has focused on individual financial ratios and has been based on examples from the international context.

3. Theoretical and Conceptual Framework

3.1 Theoretical Framework

Dividend policy is the decision on shareholder payment in the form of dividends or retention of funds for investment or future financial needs. The dividend irrelevance proposition suggests that dividend policy is not economically significant under the assumption of perfect markets (Miller & Modigliani, 1961), but later theories show that under imperfect market conditions, information asymmetry, financing costs, agency issues and investment opportunities make dividend decisions economically relevant. Lintner (1956) also demonstrates that, on average, firms tend to make slow rather than sudden changes in dividends, suggesting

that dividend decisions depend not only on current financial circumstances, but also on the expectations regarding future earnings.

Pecking Order Theory is the main theory that connects corporate financial resilience and dividend payout. Myers (1984) and Myers and Majluf (1984) claim that external financing becomes more expensive because of information asymmetry, so firms will opt for internal financing first and debt financing second, and external equity financing last. Retained earnings are thus an important source of funds for investment and a decrease in reliance on outside financing (Myers, 1984; Myers & Majluf, 1984). Evidence from Fama and French (2001) and others demonstrates that dividend policy is influenced by profitability and growth opportunities, among other firm characteristics, and that the analysis of pecking-order predictions suggests that a firm's payout ratio should be lower the more investment requirements it has. In the same vein, Deshmukh (2005) and Manos *et al.* (2012) link higher reliance on external financing and information asymmetry to lower payout, as firms will have higher incentives to save internal resources.

The argument applies especially in the case of financial resilience. Financial resilience is not just about profitability, as it demonstrates the ability of a firm to absorb financial shocks, maintain liquidity and solvency, remain financially flexible, and run its business during times of uncertainty (SanJuan-Paz *et al.*, 2026). To this end, a financially strong company can have more capacity to pay, but it can also have the capacity to keep profits in the company to finance future growth and development, strategic needs, and unforeseen pressures. In particular, Burca *et al.* (2025) maintain that dividend payments lower the self-financing capacity and can impact sustainable growth and business resilience. Financial strength does not therefore equal high payout - it can also help to improve the firm's resource retention capability. But there is a counterbalancing mechanism in Dividend Signalling Theory. Dividend policy can also convey information to investors regarding management's optimism about future performance since investors do not have the same information as managers (Bhattacharya, 1979; Miller & Rock, 1985). The signalling theory is supported by evidence from Jordanian firms, as dividend announcements are able to include information on short-term future earnings (Al-Shattarat *et al.*, 2018). In India, there are also strong indications that the stability of earnings and expected future earnings and dividend patterns in the past are significant managerial considerations (Baker & Kapoor, 2015). Thus, a firm with financial resilience could also want to pay dividends as a sign of financial strength and to preserve investor confidence.

The two points of view then lead to opposing but theoretically plausible predictions. Pecking Order Theory implies that higher retention levels are possible through the maintenance of internal funds to provide financing flexibility, while Signalling Theory implies that the strength of internal funds can help support higher payouts as a credible signal of prospects. An alternate argument against agency-based reasoning is that firms can be reluctant to use excess cash to mitigate free-cash-flow problems if there are attractive investment opportunities available (Jensen, 1986). Evidence also from life cycles indicates that companies with high levels of internally generated funds and low investment needs are more likely to pay dividends (DeAngelo *et al.*, 2006; Denis & Osobov, 2008). This theoretical conflict is confirmed by recent evidence. Choi and Sauka (2024) demonstrate that profitability is still relevant across all economic conditions, and Tinungki *et al.* (2025) indicate that companies might opt for a lower dividend yield during crisis times, with a view to maintaining financial stability. Similarly, Roy and Maji (2025) find that highly leveraged Indian companies were more at risk of not being able to sustain dividends during COVID-19. It is therefore not possible to make a generalised assumption that the correlation between financial resilience and dividend payments is always positive or negative. The present study therefore takes an approach of a non-directional hypothesis, which is that there is a significant association between corporate financial resilience and dividend payout, the direction of which will be determined by the empirical evidence.

3.2 Conceptual Framework

Dividend policy is one of the significant financial decisions on which firms make a choice, and it is concerned with deciding on the amount of the earnings

to be distributed to the shareholders and the amount of the earnings to be retained for future use. Two factors that are usually thought of in explaining dividend decisions are profitability and firm size; however, the overall financial strength of a firm can affect the decision. The key factor considered in the present study is that of Corporate Financial Resilience (CFRI), which is linked to dividend payout. A financially resilient organisation is better equipped to deal with financial pressures and uncertainties. But it's not always true that the more resilient the company, the more dividends it will provide. Such companies might choose to keep part of their profits for future investment requirements and future strategies. The study thus investigates the relationship between a firm's financial resilience in the prior year and dividend payment in the current year. The following variables are also used as control variables, as they could affect the dividend decision: firm size, ROCE and sales growth.

3.3 Hypothesis Development

Financial resilience can influence dividend decisions in more than one way. A financially strong firm may have greater capacity to distribute dividends. At the same time, greater financial resilience may encourage firms to retain earnings because they have more opportunities to invest in growth, strengthen their financial position and respond to future uncertainty. Therefore, the direction of the relationship cannot be assumed in advance.

Based on this reasoning, the study proposes the following hypothesis:

H1: Corporate financial resilience is significantly associated with dividend payout among Indian listed companies.

This hypothesis allows the study to determine the direction of the relationship from the empirical evidence, rather than assuming beforehand that financial resilience necessarily increases or decreases dividend payout

4. Data and Methodology

4.1 Research Design

The study adopts a quantitative, explanatory research design to examine the association between corporate financial resilience and dividend payout among selected Indian listed companies. The study uses secondary financial data and employs panel-data econometric techniques to exploit both the cross-sectional and time-series dimensions of the observations.

The central explanatory variable is the Corporate Financial Resilience Index (CFRI), measured with a one-year lag to examine whether the financial resilience of a firm in the preceding year is associated with its subsequent dividend payout. Dividend payout is measured as the proportion of profit after tax distributed as dividends. Firm size, return on capital employed (ROCE), and sales growth are included as control variables.

The empirical analysis initially considers pooled OLS, fixed-effects (FE), and random-effects (RE) specifications. Model-selection tests are subsequently employed to assess the appropriateness of the panel specification. Robust inference is obtained using Driscoll-Kraay standard errors, particularly because the diagnostic analysis indicates the presence of heteroskedasticity and serial correlation in the fixed-effects specification.

4.2 Sample and Data

The study is conducted on secondary data of 20 companies listed in the stock market in India for the period 2015-2025 (220 firm-year observations). The companies were chosen purposively based on the availability, consistency and completeness of the financial data necessary for the study, especially the dividend payout and the four financial factors that form the Corporate Financial Resilience Index (CFRI). The selection criterion also allowed the study to achieve a balanced panel throughout the study. The time frame chosen (2015-2025) was deemed to be long enough to capture trends in the financial resilience of firms and their payment of dividends. It also incorporates various economic environments, such as the one of increased uncertainty during the COVID-19 pandemic, adding some flexibility to the analysis of financial resilience and dividend decisions. The data have been sourced from Capitaline. With one year's lag applied to CFRI,

there are 200 firm-year observations that can be used for regression analysis.

4.3 Variable Measurement

The dependent variable is Dividend Payout Ratio (DPO), measured as the total dividend declared relative to profit after tax:

$$DPO_{it} = \frac{Total\ dividend\ declared_{it}}{\Pr ofit\ after\ tax_{it}} \times 100$$

The principal independent variable is the Corporate Financial Resilience Index (CFRI). To reduce the possibility of contemporaneous association between financial resilience and dividend decisions, the one-year lag of CFRI, denoted by $CMFRI_{i,t-1}$, is used in the regression model. CFRI is a composite measure constructed from four financial indicators representing different aspects of a firm's financial capacity: Current Ratio (CR), Debt-Equity Ratio (DE), Interest Coverage Ratio (ICR), and Cash Flow from Operations to Total Assets (CFO/TA). Accordingly, the CFRI is calculated as the simple average of the four standardised components:

$$CFRI_t = [Z(CR) - Z(DE) + Z(ICR) + Z(CFO/TA)] / 4$$

A higher CFRI therefore indicates relatively stronger corporate financial resilience, while a lower value indicates relatively weaker resilience.

Three firm-level variables are included as controls. Firm Size (SIZE) is measured as the natural logarithm of total assets. ROCE represents the firm's return on capital employed and captures profitability. Sales Growth (SG) represents the annual percentage change in net sales and captures the firm's growth condition. The details of variable measurement are discussed in Table 1.

4.4 Econometric Model

To examine the relationship between corporate financial resilience and dividend payout, the study specifies a panel-data regression model with Dividend Payout Ratio (DPO) as the dependent variable and one-year lagged Corporate Financial Resilience Index ($CFRI_{t-1}$) as the principal explanatory variable. Firm Size (SIZE), Return on Capital Employed (ROCE), and Sales Growth (SG) are included as control variables, consistent with established research on the determinants of corporate dividend policy (Lintner, 1956; Rozeff, 1982; Fama & French, 2001; Denis & Osobov, 2008; Baker & Kapoor, 2015).

$$DPOit = \beta 0 + \beta 1 CFRI_{i,t-1} + \beta 2 Size_{it} + \beta 3 ROCE_{it} + \beta 4 SG_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

where:

DPO_{it} = dividend payout ratio of the firm in year ;

$CFRI_{i,t-1}$ = lagged corporate financial resilience index;

$SIZE_{it}$ = natural logarithm of total assets;

$ROCE_{it}$ = return on capital employed;

SG_{it} = sales growth;

μ_i = firm-specific effect;

Table 1. Variable measurement

Variable	Symbol	Measurement / Construction	Role
Dividend Payout Ratio	DPOt	(Total Dividend Declared$_t$ / PAT$_t$) × 100	Dependent
Current Ratio	CR$_t$	Current Assets$_t$ / Current Liabilities$_t$	CFRI component
Debt-Equity Ratio	DE$_t$	Total Debt$_t$ / Shareholders' Equity$_t$	CFRI component
Interest Coverage Ratio	ICRt	Operating Earnings$_t$ / Interest Expense$_t$	CFRI component
CFO to Total Assets	CFO/TAt	Cash Flow from Operations$_t$ / Total Assets$_t$	CFRI component
Corporate Financial Resilience Index	CFRIt$_{-1}$	[Z(CR$_{t-1}$) – Z(DE$_{t-1}$) + Z(ICR$_{t-1}$) + Z(CFO/TA$_{t-1}$)] / 4	Independent
Firm Size	SIZEt	Ln (Total Assets$_t$)	Control
Return on Capital Employed	ROCE$_t$	Return on Capital Employed (%)	Control
Sales Growth	SG$_t$	[(Net Sales$_t$ – Net Sales$_{t-1}$) / Net Sales$_{t-1}$] × 100	Control

Source: Compiled by the authors based on the relevant literature and study variables.

λ_t = year-specific effect; and

ε_i = idiosyncratic error term.

The coefficient of primary interest is , which captures the association between prior-year corporate financial resilience and subsequent dividend payout, conditional on the included control variables. The study period 2015-2025 includes different changes in the economic and business environment, including the COVID-19 pandemic. These conditions may have affected firms' financial strength and dividend policy. To avoid introducing variables one by one for individual external shocks to the sector, the study keeps the observed data of the firms for the firm-year dimension and takes into account the broader external shocks when interpreting the results. Common year-specific influences are also taken into account using the two-way fixed-effects specification as a robustness analysis.

4.5 Estimation and Robustness Strategy

The empirical analysis proceeds in stages. First, descriptive statistics and Pearson correlations are examined, followed by Variance Inflation Factors (VIF) to assess multicollinearity. The panel-data specification is then evaluated using the F-test comparing fixed effects with pooled OLS, the Breusch-Pagan Lagrange Multiplier test comparing random effects with pooled OLS, and the Hausman test comparing fixed and random effects. The baseline estimation uses pooled panel regression, consistent with the model-selection tests, while two-way fixed-effects estimation is used as a robustness specification to account for unobserved time-invariant firm characteristics and common year-specific shocks. Diagnostic tests indicate heteroskedasticity and serial correlation in the fixed-effects specification. Accordingly, Driscoll-Kraay standard errors are employed for the reported robust inference. The industry classification was not used as an independent explanatory variable. The fixed-effects specification is used because the membership of the industry to which the sampled firms belong is fixed, and the specification controls for time-invariant industry-specific characteristics. Moreover, the model selection tests find that the baseline model is a pooled OLS and not a random effects model.

Because the observed dividend payout ratio contains extreme but potentially economically valid values, robustness is assessed in two ways. First, the dependent variable is winsorized at the 1st and 99th percentiles and subsequently at the more conservative 5th and 95th percentiles. Second, the influential observation corresponding to Piramal Enterprises in 2021 is excluded in a leave-one-observation sensitivity analysis. These procedures are used only to assess the stability of the estimated relationship and do not replace the original observed payout data.

5. Results

5.1 Descriptive Statistics

Table 2 presents the descriptive statistics for the variables included in the regression analysis. The analysis is based on 200 complete firm-year observations, obtained from the 20 firms after accounting for the one-year lag in CFRI.

The mean dividend payout ratio is 58 per cent, with a median of 39 per cent, indicating substantial dispersion in dividend distribution across firms and years. The maximum observed payout ratio is 1,865.45 per cent, while the minimum is −59.50 per cent (reflecting

Table 2. Descriptive statistics of variables

Variable	N	Mean	SD	Minimum	Q1	Median	Q3	Maximum
payout	200	58.409	135.182	-59.500	23.945	39.150	63.708	1865.450
cfri_lag1	200	-0.005	0.666	-1.784	-0.322	0.070	0.338	2.183
firm size	200	4.407	0.508	3.310	4.069	4.414	4.856	5.300
ROCE	200	23.235	14.973	-5.800	10.870	20.890	34.725	78.060
sales growth	200	10.063	18.840	-69.170	1.858	8.150	17.378	114.810

Source: Authors' calculations based on secondary data

dividend payments despite negative profit after tax). These extreme values are possible under the study's payout-ratio definition because the denominator is profit after tax; consequently, a dividend distribution can exceed current-year profit, while negative profit can generate a negative payout ratio. The mean value of lagged CFRI is approximately −0.005, with a standard deviation of 0.67, indicating considerable variation in financial resilience across firm-years. Firm size has a mean of 4.407 after logarithmic transformation. The average ROCE is 23.39 per cent, while average sales growth is 10.063 per cent. Overall, the descriptive statistics indicate meaningful cross-sectional and temporal variation in both the principal explanatory variable and dividend payout, supporting the use of panel-data estimation.

5.2 Correlation Analysis

Table 3 discusses the Pearson correlation coefficients among the variables.

The correlation between lagged CFRI and dividend payout is −0.092, indicating a weak negative bivariate association. CFRI has a relatively stronger positive correlation with ROCE (0.542), suggesting that financially resilient firms tend to exhibit stronger profitability. However, the correlation is well below levels that would normally raise serious concerns about multicollinearity. The remaining correlations are relatively small. In particular, the correlation between CFRI and sales growth is approximately zero (−0.006), while firm size and sales growth are also weakly correlated (0.017). Thus, the correlation matrix provides no preliminary evidence of problematic linear association among the explanatory variables.

5.3 Multicollinearity

Multicollinearity was assessed using the variance inflation factor (VIF). As reported in Table 4, the VIF values range from 1.063 to 1.659.

The VIF for CFRI is 1.659, followed by ROCE (1.531), firm size (1.159) and sales growth (1.063). All values are substantially below the commonly used threshold of 5. Therefore, multicollinearity does not appear to be a concern in the estimated models.

5.4 Panel Model Selection and Diagnostic Tests

Three panel-model selection tests were conducted and reported in Table 5. The F-test comparing the two-way fixed-effects model with pooled OLS produced a pvalue of 0.1609, while the Breusch-Pagan LM test comparing random effects with pooled OLS produced a p-value of 0.3907. Neither test provides sufficient evidence at the 5 per cent level to reject the pooled specification.

The Hausman test comparing the fixed-effects and random-effects specifications produced a p-value of 0.9445, providing no evidence against the consistency of the random-effects estimator. Taken together, these tests support the use of pooled OLS as the baseline specification, while fixed effects are retained as a robustness approach.

Diagnostic testing, however, reveals important characteristics of the error structure. The pooled model does not show significant heteroskedasticity or serial correlation in the reported tests, but the Pesaran CD test indicates significant cross-sectional dependence ($p < 0.001$). More importantly, the two-way fixed-effects specification with the 5-95 per cent winsorised payout

Table 3. Pearson correlation coefficients among the variables

Variable	payout	cfri_lag1	firm size	ROCE	sales growth
payout	1.000	-0.092	0.021	0.002	-0.097
cfri_lag1	-0.092	1.000	-0.350***	0.542***	-0.006
firm size	0.021	-0.350***	1.000	-0.087	0.017
ROCE	0.002	0.542***	-0.087	1.000	0.201***
sales growth	-0.097	-0.006	0.017	0.201***	1.000

* p<0.10, ** p<0.05, *** p<0.01.
Source: Authors' calculations based on secondary data

ratio exhibits both heteroskedasticity (p = 0.0054) and serial correlation (p < 0.001). Accordingly, the reported regression inference uses Driscoll-Kraay standard errors, which provide robustness to dependence across firms and over time.

5.5 Regression Results

Table 6 reports the baseline and robustness estimates of the relationship between corporate financial resilience and dividend payout.

The baseline pooled specification using the original dividend payout ratio produces a negative but statistically insignificant coefficient for lagged CFRI (). Thus, the unadjusted full-sample model does not provide sufficient statistical evidence of an association between prior-year financial resilience and subsequent dividend payout. The control variables show that ROCE is positively and significantly associated with dividend payout (β=999, p=0.001), whereas sales growth has a significant negative association (β=-0.856, p=0.0068). Firm size is statistically insignificant.

5.6 Robustness to influential observations

The unusually large payout observations warrant further examination. Since the payout ratio is calculated using profit after tax as the denominator, observations above 100 per cent are not necessarily erroneous. Therefore, rather than deleting such observations from the baseline data, robustness tests are performed. When the influential observation corresponding to Piramal Enterprises in 2021 is excluded, the coefficient on lagged CFRI becomes −10.225 and statistically significant at the 5 per cent level (p = 0.0455). This indicates that the negative association becomes evident once the most influential payout observation is removed. A stronger robustness test is obtained by winsorizing the payout ratio at the 5th and 95th percentiles. Under the pooled specification, lagged CFRI remains negative and highly significant (β = 7.613, p < 0.001). This indicates that the negative relationship is not solely attributable to a single extreme observation.

5.7 Two-Way Fixed-Effects Robustness

The two-way fixed-effects specification provides an additional test by controlling for unobserved firm-specific characteristics and common year effects.

Table 4. Multicollinearity diagnostics

Variable	VIF
CFRI_Lag1	1.659443
Firm Size	1.159237
ROCE	1.531149
Sales Growth	1.063114

Source: Authors' calculations based on secondary data

Table 5. Panel model selection and diagnostic tests

Test	Statistic	p-value	Decision
F test: Two-way FE vs Pooled OLS	1.296	0.1609	Do not reject pooled OLS.
Breusch-Pagan LM: RE vs Pooled OLS	0.73691	0.3907	Do not reject pooled OLS.
Hausman: FE vs RE	0.75438	0.9445	Do not reject RE consistency.

Source: Authors' calculations based on secondary data.

Table 6. Regression results

Variable	Pooled OLS Original DPO	Two-way FE Original DPO	Two-way FE Exclude Piramal 2021	Pooled OLS 5-95% winsorized DPO	Two-way FE 5-95% winsorized DPO
CFRI_Lag1	-32.492 (24.036)	-40.708 (41.370)	-10.225** (5.073)	-7.613*** (1.056)	-12.770*** (4.231)
Firm Size	-6.100 (13.643)	-8.558 (73.264)	-28.254 (19.422)	0.990 (3.558)	-19.593** (8.610)
ROCE	0.999*** (0.120)	0.246 (1.159)	0.146 (0.491)	0.927*** (0.079)	-0.223 (0.210)
Sales Growth	-0.856*** (0.313)	-1.015* (0.597)	-0.388*** (0.127)	-0.291*** (0.076)	-0.280*** (0.061)

Source: Authors' calculations based on secondary data.

Using the original payout ratio, the coefficient on lagged CFRI is negative but statistically insignificant:

B=-10.708, p=0.327

However, after winsorising the payout ratio at the 5th and 95th percentiles, the coefficient becomes:

B=-12.770, p=0.0029

The result is statistically significant at the 1 per cent level. The coefficient indicates that, conditional on the included controls and firm and year effects, a one-unit increase in lagged CFRI is associated with an approximately 12.77 percentage-point reduction in the dividend payout ratio in the winsorised specification. Sales growth also remains negatively associated with payout (β = -0.280, $p < 0.001$), whereas ROCE is statistically insignificant in the two-way fixed-effects specification. Firm size is negative and significant at the 5 per cent level in the robust specification (β=-19.593, p=0.024). The within R^2 of the two-way fixed-effects model is 0.0847, and the joint F-test is statistically significant (p = 0.005).

5.8 Summary of Regression

Table 7 discusses the summary of regression results

The evidence therefore points to a negative association between prior-year corporate financial resilience and dividend payout, although the statistical strength of this relationship is sensitive to extreme payout observations in the unadjusted data. Importantly, the negative coefficient persists across the influential-observation and winsorisation robustness exercises and remains statistically significant in the two-way fixed-effects specification after controlling for firm and year effects.

6. Discussion

The findings give an insightful perspective on the relationship between corporate financial resilience and dividend policy of the Indian listed companies. Results show that, after controlling for the extreme dividend payout observations, there is a negative relationship between financial resilience of corporations and dividend payout. This is significant as an increased ability to withstand financial shocks may initially be seen as increasing the capacity of firms to pay dividends. But it is not always the case that more is paid out in terms of proportion to shareholders if the company is financially stronger. A possible reason is that financially strong companies can be more flexible with their finances and have more options when it comes to internal financing. They can choose not to pay out a significant portion of profits, but instead hold assets for future expansion, investment, adopting new technologies, managing debt and other strategic needs. Therefore, if financial resilience helps a firm maintain financial resources in the firm, then it might enhance its capacity to deal with uncertainty.

The findings also indicate that there is a difference between profitability and financial resilience. Dividend payout is positively and significantly related to ROCE in the pooled specification, indicating that the more profitable firms will return a larger share of profits. This relationship is, however, of little importance in the two-way fixed-effects robustness specification. This indicates that profitability and financial resilience represent different aspects of corporate financial condition. Both the profitability of the firm at the time of its dividend decision and the overall capacity and future needs of the firm are important factors.

Table 7. Summary of results

Specification	CFRI coefficient	p-value	Interpretation
Pooled OLS - Original DPO	−32.492	0.178	Negative, not significant
Two-way FE - Original DPO	−40.708	0.327	Negative, not significant
Two-way FE - Excluding Piramal 2021	−10.225	0.045	Significant negative
Pooled OLS - 5-95% Winsorized DPO	−7.613	<0.001	Significant negative
Two-way FE - 5-95% Winsorized DPO	−12.770	0.0029	Significant negative

Source: Authors compilation

The dividend payout has a negative correlation with sales growth for the primary specifications. This means that companies with higher growth have a higher retention rate, which would help fund a growing business. However, the distribution of a bigger share of earnings may be less desirable in areas where there is more to gain and more to lose. Dividend policy can thus be a compromise between current shareholders' payout and the future needs of the company.

The robustness analysis is important since the original data have very high and negative payout ratios. Such observations have nothing to do with error, as profit after tax is used for the denominator, so that the payout ratio can be greater than 100 per cent or even negative when profits are negative. But extreme observations can have an impact on the estimated relationship. The negative CFRI relationship is statistically significant when winsorised and significant when the extreme observation of a firm-year is not included, indicating that it is not solely attributable to one firm-year observation.

The findings overall indicate that it is not a necessary condition that financial resilience and dividend distribution go hand-in-hand. Strong companies might hold on to resources for investment and strategy instead of sharing a bigger portion of profits. The study thus takes the discussion of dividend policy beyond the traditional variables - profitability, size and growth. The result shows an association without causation, which is based on 20 selected Indian listed companies. Further studies with a larger number of samples and other dividend policy dimensions can be conducted to see if this relationship is more generalisable.

Future research could be expanded to a larger and more representative sample of industries and countries, and include other aspects of financial resilience and the impact of external shocks. Further research may also explore if dividend policies should be more explicitly related to the financial stability and cash-flow capacity of firms, especially in times of economic uncertainty. The evidence may help corporate boards and policymakers create more sustainable payout policies, ensuring that shareholder returns can be made and financial flexibility and resilience are maintained. The significance of industry- and country-specific factors has also been emphasised in recent studies analysing dividend decisions during increased uncertainty (Burca *et al.*, 2025).

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Ajay: Conceptualisation, methodology, data curation, formal analysis, investigation, data analysis, and writing the original draft. Chithirai Selvan: Supervision, review of literature and theoretical part, editing, critical revision, and overall guidance of the research and manuscript. Both authors reviewed and approved the final version of the manuscript.