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Impact of Liquidity Ratio and Dividend on Share Price: A Study of Food and Allied, Engineering, and Pharmaceuticals and Chemicals Industries in Bangladesh

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Abstract -**This research focused to analyze impact of liquidity ratios, dividend on share price of three industries. The industries are engineering, food and allied, pharmaceuticals and chemicals. The total sample size for this research is 425. A total of 85 companies' data has been collected. Five years of data has been collected from annual reports and lanka bangla. The duration of the year is 2016-2020. The current ratio and share price have a significant negative relationship. Also, there is a negative relationship between quick ratio and share price. On the other hand, there is a strongly positive relationship between cash ratio and share price. In addition, there is a significant positive relationship between dividend and share price. Secondary data has been used for conducting this research. It is the core limitation of this research. Besides, we were not able to find some companies' data. And sample size has decreased because of that. This research wanted to find out the relationship between share price with liquidity ratios and dividend. Now general people, investors, shareholders, and creditors can make decisions based on our study's findings. We hope this research will be helpful for both academicians and professionals.**

Keywords - **Current ratio, quick ratio, cash ratio, dividend, share price.**

I.INTRODUCTION

A. Background of The Study

In this era everyone wants solvency. Not only rich people but general people want to invest their precious money. Their very priority is share market. And they invest their money based on many criteria. Share price is one of them. By knowing the share price of the company, investors take their decisions whether they will proceed or not. Financial analysts come to the conclusion about the company's situation based on copious factors. Every time companies try to maintain a decent level of liquidity. Liquidity refers to the ability of a firm to pay its short-term debt. It clarifies the company's affordability to pay its debt. If a company's liquidity is in weak position, it indicates a threat to the solvency. Liquidity considered as the buttress of the company. It is like the heart of the company. Without strong liquidity the company will be failed to achieve its goal. Management, investors, shareholders, creditors take decisions based on the liquidity condition of company. Liquidity level affect companies' profitability very significantly. Financial analysts also give their focus on liquidity. Management always make sure liquidity must be maintained at minimum standard level. Liquidity should not be excess of insufficient because both are not appropriate to run the company efficiently and effectively. And we know cash is the most liquid of assets. In addition, there are current ratio, cash ratio, quick ratio. These are acquainted as liquidity ratios. Current ratios specify company's capacity to repay their short-term loans that are due within the next year. Cash ratio which is familiar as most liquid assets to its current liabilities. This ratio indicates whether the company has adequate liquidity to remain in business. Quick ratio is also well known as acid ratio. It indicates the efficiency of assets that can be shifted into cash at any time. And this will not be affected the market price. Management, investors, shareholders and creditors has their sharp eye in liquidity ratio for decision making. Besides there are no standard for liquidity. It depends on the company's size, growth stability etc. Furthermore, these ratios are related to share price of a company When it comes to the dividend payment to the shareholders, managers feel difficulties. They are perplexed whether to give dividends or not. There are some investors who only invest in the company based on dividend. If dividend is low, they will not proceed. Dividend is given on two forms. Share dividend and cash dividend.

B. Rationale of The Study

Nowadays people want an extra source of income. They want to earn more money. Investing in stock exchange, buying company's share, freelancing, investing in startups etc. And the investors, shareholders take their decisions based on many factors. This research is focus on the relationship between liquidity ratios, dividend on share price. Most of the studies show the relationship between dividend and share price. However, dividend does not always define significant result. From this study we will find out the more accurate and significant result. This study will show whether there is significant relationship between liquidity ratio, dividend on share price. I hope this research will find insightful to the shareholders to take the accurate decisions. This research will figure whether liquidity ratio or dividend has any effect on share price of the company.

C. Research Questions

Four main questions of this research are:

1. Is there any significant impact of liquidity ratios on share price of listed engineering, food and allied, pharmaceuticals and chemicals companies?
2. Is there any significant impact of dividend on share price of listed engineering, food and allied, pharmaceuticals and chemicals companies?

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D. Research Objectives

Broad Objective

The broad objective of this study is to know the answer of significance impact of liquidity ratio and dividend on share price of listed engineering, food and allied, pharmaceuticals and chemicals companies in Bangladesh.

Specific Objective

There is some specific objective of this research. They are:

1. To identify the significant relationship between liquidity ratios and share price,
2. To identify the significant relationship between dividend and share price.

E. Limitations of the study

Every research has its limitations. This research is also not indifferent. The limitations of this research are:

1. Secondary data has been used for this research and this is its core limitations.
2. Some data has not been found. The sample size decreased because of that.

II. LITERATURE REVIEW

Everything has its impact. This impact can either be positive or negative. Share price is also not so indifferent. [18] figure out Return on Assets (ROA) has negative correlation with share price. Besides, Quick ratio has influence on share price [20] observed current ratio has a considerable influence on dividend growth highlights "Current ratio is a ratio to measure the ability of companies to pay short-term liabilities or debt that are due immediately when billed as a whole". [4] stated that liquidity ratio describes company's short-term obligations that are due soon, the company must have cash available or other current assets that can be converted into cash immediately. [5] observed that less current indicate that it has small current assets to pay their short-term liabilities. However, the company which has a high current ratio is not necessarily said to be good since a high current ratio may occur due to lack of effective cash and inventory management. And his study found that current ratio has not any effect on firm value. [11] found that there is weak but remarkable relationship between current ratio and stock return. [6] figured out that "Current Ratio and significant negative effect on the company's Automotive Earnings Growth in Indonesia Stock Exchange".

A. Quick Ratio

Quick ratio does not have remarkable relationship on return on assets. [26] stated that quick ratio is statically favorable and meaningful effect on stock returns in the construction and building sub-sector companies. They also found the company who quick ratio, the better the company is to fulfill its short-term obligations. [19]. observed that there is negative relationship between liquidity ratio and profitability measures. That research figured out positive association was found between quick ratio and net profit, current ratio and return on equity and quick ratio and return on equity.

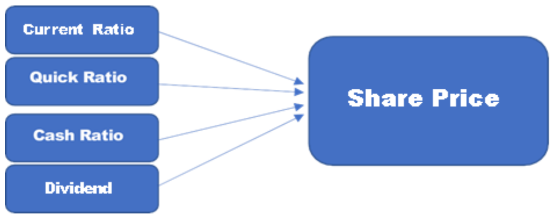
B. Cash Ratio

"Cash ratio has a strong negative interrelationship with leverage" [7]. Cash ratio has a positive and significant effect on dividend policy on the IDX 30 Index on the Indonesia stock exchange.

C. Dividend

[15] detected that the companies who give high dividends reduce risks and influence stock price of their share. [22] suggested that dividend payments reduce costs and increase cash flow. Their study observed that dividend policy does not affect the stock prices. Dividend announcements give the missing pieces of information about the firm and entitles the market to estimate the firm's current earnings stated by [12]. Dividend is remarkably correlated with earnings, earnings per share and previous year dividends [2]. [2] showed that when company declared dividends and as a result it has a favorable impact on stock prices. Nawaz, Anwar, and Ahmed (2010) have also the similar findings. Their study also found that company size and leverage negative negligible impact. [9] have also found a remarkable positive impact of dividend on stock price. [6] learned that dividend yield and dividend payout had significantly related share price volatility. [7] identified negative interrelationship between share price volatility and dividend yield and dividend payout.

D. Conceptual Framework



Research Hypothesis

H1: there is no relationship between liquidity ratio and share price
H2: there is relationship between liquidity ratio and share price
H3: there is no relationship between dividend and share price
H4: there is relationship between dividend and share price
This is all about literature review part.

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III. METHODOLOGY

A. Sample Selection and Variable Measurement

The data assembled for this research are secondary data. This study mainly focuses on three industries. They are engineering, food and allied and pharmaceuticals and chemicals. The companies are traded in Dhaka Stock Exchange (DSE). There are total of 85 companies' data has been collected. The period duration is 2016-2020. The sample size is 425. Five years of data has been collected for each company. The data has been collected from annual reports and lanka bangla portal.

In table 1 there is an overview of the sample size and population size.

Table 01
Summary of Sample and population size

Industry	Population (Company)	Sample size (Company)
Engineering	42	38
Food and Allied	20	16
Pharmaceuticals and Chemicals	31	31
Total	93	85

For this study I have chosen three independent variables and one dependent variable. The independent variables are dividend, current ratio, quick ratio, cash ratio. Current ratio, quick ratio and cash ratio are known as liquidity ration. Table two highlights the details about the variables.

Variables	Short	Type	Calculation	Expected Sign	Authors
Share Price	SP	Dependent	Share price at the end of the period	None	Badruzaman, J. (2020), Idawati, W., & Wahyudi, A. (2015)
Current Ratio	CR	Independent	Current Assets / Current Liabilities	+	Husna, A., & Satria, I. (2019), Nuryani, Y., & Sunarsi, D. (2020)
Quick Ratio	QR	Independent	(Cash + Marketable securities + Accounts receivable) / Current liabilities	+	Tumanggor, M. (2020), Warrad, L. (2014)
Cash Ratio	CAR	Independent	Cash and equivalent / Current liabilities	+	Okeke, L. N., Ezejiofor, R. A., & Okoye, N. J. (2021), Anshar, M., & Warimin, I. (2020)
Dividend	DV	Independent	Dividend at the end of the period	+	Adesola, W. A., & Okwong, A. E. (2009), Zakaria, Z., Muhammad, J., & Zulkifli, A. H. (2012)

B. Model of the study

Share Price = α + β1 CR + β2 QR + β3 CAR + β4 DV+ e

Methodology shows how the sample size has been selected. What are the variables have been chosen for this research, has been discussed in this specific part. There are four independent variables and one dependent variable. How the data has been collected. In chapter four findings and analysis will be discussed.

IV. FINDINGS &ANALYSIS

A. Descriptive Analysis

Variable	Observation	Mean	Std. Dev.	Min	Max
Share Price	425	48.7282	63.41138	-16.74	492.2
Current Ratio	425	2.707089	3.601884	.045	28.312
Quick Ratio	425	1.639553	2.292765	.07	15.58
Cash Ratio	425	.3066939	.9322779	.00031	10.046
Dividend	425	.4078353	1.390757	0	14

Figure 1: *Descriptive Statistics*

Figure 1 shows the descriptive statistics of this study. The mean value of current ratio is 2.707089. mean value of quick ratio is 1.639553. On the other hand, cash ratio is .3066939. The mean of current ratio is more than 2. That indicates that companies have the ability to cover its current liabilities two times. This is ideal. In addition, the mean of the quick ratio is 1.639553. The ideal ratio for quick ratio is 1. It also indicates company's financial condition is appropriate. On the other hand, mean of cash ratio is .3066939. Cash ratio less than 1 specify that companies have insufficient cash to cover their current liabilities. Besides, it also implies that companies are managing

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their inventory appropriately. And the mean of dividend is .4078353. That also indicates a very good situation for the companies.

B. Correlation Analysis

	Share Price	Current Ratio	Quick Ratio	Cash Ratio	Dividend
Share Price	1.0000				
Current Ratio	-0.1183	1.0000			
Quick Ratio	-0.1003	0.9281	1.0000		
Cash Ratio	0.0628	0.3748	0.4990	1.0000	
Dividend	0.4065	-0.0682	-0.0701	0.0698	1.0000

Figure 2: Correlation Analysis

Variable	VIF	1/VIF
Current Ratio	8.97	0.111477
Quick Ratio	7.80	0.128149
Cash Ratio	1.46	0.684087
Dividend	1.02	0.979822
Mean VIF	4.81	

Figure 3: Variance Inflation Factor (VIF)

Figure 3 indicates the correlation of the variables. We can see that there is very strong positive relationship between current ratio and quick ratio. Besides there is moderate strong positive relationship between cash and quick ratio, dividend and share price, cash, and current ratio. It also seems that there is weak negative relationship between current ratio and share price, quick ratio and share price, dividend and share price. From the variance inflation factor (VIF) we can observe that it is free from multicollinearity problem. The obvious reason is the value of VIF is below 10.

C. Regression Analysis

Number of obs	425
F (4, 420)	15.06
Prob > F	0.0000
R-squared	0.1744
Root MSE	57.891

Share Price	Coef.	Robust Std. Err.	t	P>|t|	[95% cons.	Interval]
Current Ratio	2.126859	1.15077	-1.85	0.065	-4.388845	.1351267
Quick Ratio	-.0591118	2.007059	-0.03	0.977	-4.004243	3.88602
Cash Ratio	5.587375	1.902846	2.94	0.004	1.847087	9.327664
Dividend	17.61672	4.722029	3.73	0.000	8.334969	26.89848
Cons	45.68438	3.168972	14.42	0.000	39.45536	51.9134

Figure 4: Regression Analysis

From the regression analysis we can see that the F-value which is also known as mean square value is 15.06. And the p value which is associated with the F-value is 0.0000. It indicated independent variables are effectively predict the dependent variable. R square value is 17.44%. It indicates that only 17.44% variance in share price can be predicted from the current ratio, quick ratio, cash ratio and dividend. And they are the independent variables. In addition, with the increase of 1 unit of current ratio 2.12 share price will be increased. On the other hand, when quick ratio will be increased of 1 unit, share price will be decreased by -.059. From figure 4 we see that for current ratio p value is .065. That means it has significant negative value. Cash ratio has significant positive value, and the value is .004 which is less than .05. Same situation also applies for dividend. The following chapter is a conclusion.

V. CONCLUSION

People's lifestyle is changing day by day. At present times, people want to live solvent and comfortable life. For getting that they must earn more money. That's why people want to invest their money. And they want to know the share price of the companies. And most importantly what are the factors that affect the share price.

From our research we can conclude that cash ratio and dividend have significant impact on share price of the companies. Current ratio and quick ratio have almost no impact at all. Most importantly quick ratio has strongly negative impact on share price. Our hypothesis 2 is partially accepted. And our hypothesis 4 is totally accepted. Investors can take decisions by checking cash ratio and dividend. Because these two have strongly significant effect on share price.

This study has been conducted by secondary data. This is the core limitations of this research. Data has been collected from annual reports and lanka bangla. Besides, some data has not been found. There are some recommendations for the investors, company for taking decisions. They are:

1.Companies should maintain standard liquidity to pay their short-term liabilities. If they can do that, they can operate their business properly.

2.Companies should pay the dividends. This will ensure the long-term strength of the fundamentals.

I hope this study will be helpful for researchers, academician, investors and for the general people.

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