International Journal For Advanced Research In Science & Technology
A peer reviewed international journal www.ijarst.in
ISSN: 2457-0362

DIVIDEND ANALYSIS

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ABSTRACT:

The Dividend Analysis, in corporate finance, is a Analysis made by the directors of a company. It relates to the amount and timing of any cash payments made to the company's stockholders. The Analysis is an important one for the firm as it may influence its capital structure and stock price. In addition, the Analysis may determine the amount of taxation that stockholders pay.

There are three main factors that may influence a firm's dividend Analysis:

- ***Free-cash flow***
- ***Dividend clienteles***
- ***Information signaling***

The free cash flow theory of dividends

Under this theory, the dividend Analysis is very simple. The firm simply pays out, as dividends, any cash that is surplus after it invests in all available positive net present value projects.

A key criticism of this theory is that it does not explain the observed dividend policies of real-world companies. Most companies pay relatively consistent dividends from one year to the next and managers tend to prefer to pay a steadily increasing dividend rather than paying a dividend that fluctuates dramatically from one year to the next. These criticisms have led to the development of other models that seek to explain the dividend Analysis.

Dividend clienteles

A particular pattern of dividend payments may suit one type of stock holder more than another. A retiree may prefer to invest in a firm that provides a consistently high dividend yield, whereas a person with a high income from employment may prefer to avoid dividends due to their high marginal tax rate on income. If clienteles exist for particular patterns of dividend payments, a firm may be able to maximize its stock price and minimize its cost of capital by catering to a particular clientele.

I. INTRODUCTION

The term Dividend refers to that part of the profits of a company which is distributed amongst its shareholders. It may therefore be defined as the return that a shareholder gets from the company, out of its profits, on his share holdings. “According to the Institute of Charted Accounts of India” dividend is a “Distribution to shareholder out of profits or reserves available for this purpose”

The Dividend policy has the effect of dividing its net earnings into two Parts: Retained earnings and dividends. The retained earnings provide funds two finance the long-term growth. It is the most significant source of financing a firm’s investment in practice. A firm, which intends to pay dividends and also needs funds to finance its investment opportunities, will have to use external sources of finance. Dividend policy of the firm. Thus has its effect on both the long-term financing and the wealth of shareholders. The moderate view, which asserts that because of the information value of dividends, some dividends should be paid as it may have favorable affect on the value of the share.

The theory of empirical evidence about the dividend policy does not matter if we assume a real world with perfect capital markets and no

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taxes. The second theory of dividend policy is that there will definitely be low and high payout clients because of the differential personal taxes. The majority of the holders of this view also show that balance, there will be preponderous low payout clients because of low capital gain taxes. The third view argues that there does exist an optimum dividend policy. An optimum dividend policy is justified in terms of the information in agency costs.

OBJECTIVES OF THE STUDY

The basic objective of this study is as follows:

1. To understand the importance of the dividend decision and their impact on the firm's capital budgeting decision.
2. To know the various dividend policies followed by the firm.
3. To understand the theoretical backdrop of the various divided theories.
4. To compare the various theories of dividend with reference to their assumptions and conclusions.
5. To know whether the dividend decisions have an impact on the market value of the firm's equity.
6. To see the various dividend policies of the INDIABULLS LIMITED.
7. To derive the empirical evidence for the relevance theories of dividends WALTER'S MODEL AND GORDON'S MODEL

IMPORTANCE OF THE STUDY

The dividend policy of a firm determines what proportion of earnings is paid to shareholders by the way of dividends and what proportion is ploughed back in the firm for reinvestment purposes. If a firm's capital budgeting decision is independent of its dividend of its dividend policy, a higher dividend payment will entail a greater dependence on external financing. On the other hand, if a firm' s capital budgeting decision is dependent on its dividend decision, a higher payment will cause shrinkage of its capital budget and vice versa. In such a case the dividend policy has a bearing on the capital budgeting decision.

Any firm, whether a profit making or non-profit organization has to take certain capital budgeting decision. The importance and subsequent indispensability of the capital budgeting decision has led to the importance of the dividend decisions for the firms.

NEED FOR THE STUDY:

The principal objective of corporate financial management is to maximize the market value of the equity shares. Hence the key question of interest to us in this study is, "What is the relationship between dividend policy and market price of equity shares?"

Most of the discussion on dividend of dividend policy and firm value assumes that the investment decision of a firm is independent of its dividend decision. The need for this study arise from the above raised question and the most controversial and unresolved doubts about the relevance of irrelevance of the dividend policy.

SCOPE OF THE STUDY:

Investment Decision Investment decision relates to selections of asset in which funds will be invested by a firm. The asset that can be acquired by a firm may be long term asset and short term asset. Investment Decision with regard to long term assets is called capital budgeting. Decision with regard to short term or current assets is called working capital management.

Dividend Decision A firm distributes all profits or retain them or distribute a portion and retain the balance with it. Which course should be allowed? The decision depends upon the preference of the shareholders and investment opportunities available to the firm.

Dividend Decision Dividend decision has a strong influence on the market prize of the share. So the dividend policy is to be determined in terms of its impact on shareholder's value. The optimum dividend policy is one which maximizes the value of shares and wealth of the shareholders.

Dividend Decision The financial manager should determine the optimum pay out ratio I.e. the proportions of net profit to be paid out to the shareholders. The above three decisions are inter related. To have an optimum financial decision the three should be taken jointly.

II. REVIEW OF LITERATURE

Black (1976) in his study on dividend wrote, "The harder we look at the dividend picture the more it seems like a puzzle, with pieces that just don't fit together". Why shareholders like dividends and why they reward managers who pay regular increasing dividends is still unanswered**.**

Aswath Damodaran'**Dividends and Taxes**: An Analysis of the Bush Dividend Tax Plan' studied the implications of making dividends tax free to investors. Investors and corporate finance practitioners contemplated about this after President Bush proposed it as part of his economic package in early 2003. While much of the debate has concentrated on the consequences of the tax law change for the stock market and budget deficits, the real effects may be in how companies raise money (debt versus equity), how much cash they choose to accumulate and how they return this cash to stockholders (dividends versus stock buybacks). If the tax law changes occur as proposed, it will profoundly alter the terms of the debate and require us to rewrite much that we take granted in corporate finance today.

Raghuram Rajan: "The Corporation in Finance" To produce significant net present value, an entrepreneur has to transform her enterprise into one that is differentiated from the ordinary. To achieve the control that will allow her to execute this strategy, she needs to have substantial ownership, and thus financing. But it is hard to raise finance against differentiated assets. So an entrepreneur has to commit to undertake a second transformation, standardization, that will make the human capital in the firm.

Wal-Mart: considered a Standard & Poor's 500 Index (S&P 500) dividend aristocrat, due to its inclusion in the index and consecutive annual dividend raises for 43 years. It declared its first annual dividend in March 1974. Since then, Wal-Mart has raised its annual dividend every year until 2019, when it raised its annual dividend to $2.00 per share. Over the past five years, Wal-Mart raised its annual dividend at an average annual pace of over 10%. The company is expected to continue its dividend growth, and it is unlikely that it will tarnish its stellar reputation

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of consistently increasing dividends with dividend cuts within the short term.

Carlyle Group LP (NASDAQ CG): is a global, diversified alternative asset management firm that sponsors and manages a range of investment funds. As a publicly traded investment fund manager, Carlyle Group has two sets of investors: investor clients committing investments to the funds it manages on their behalf, and investor shareholders contributing capital directly to Carlyle Group for carrying out its investment management operations. Investments by investor clients are neither capital nor assets listed on Carlyle Group's books, whereas contributions by investor shareholders become Carlyle Group's equity capital used to finance its fund management activities that earn the company management fees and carried interest.

When dividends are paid to the shareholders, the market price of the shares will decrease. What the investors as a result of increased dividends gain will be neutralized completely vie the reduction in the terminal value of the shares. The market price before and after the payment of dividend would be identical. The investors according to Modigliani and Miller, would, therefore, be indifferent between dividend and retention of earnings. Since the shareholders are indifferent, the wealth would not be affect by current and future dividend decisions of the firm. It would depend entirely upon the expected future earnings of the firm.

III. DATA ANALYSIS AND INTERPRETATION

DIVIDEND DECISIONS IN INDIABULLS LIMITED

The various modes of dividend theories, which have been discussed earlier, the sample of the **INDIABULLS LIMITED** selected. And analyzed to empirical evidence for the two theories supporting the relevance of dividend policies Walter's model and Gordon's model.

We shall classify INDIABULLS LIMITED into these six categories basing on the explain the Dividend per share, Earning per share, Return per share, Price Earning, Profit after Tax, Net worth. These are explaining based on last five financial years' data.

Since 2017 to 2022 collected the data in **INDIABULLS LIMITED**.

COMPARISION OF DIVIDEND PER SHARE OF INDIABULLS LTD.

YEAR	DIVIDEND PERSHARE
2017-2018	7.50
2018-2019	2.00
2021-2022	1.00
2020-2021	1.00
2021-2022	2.00

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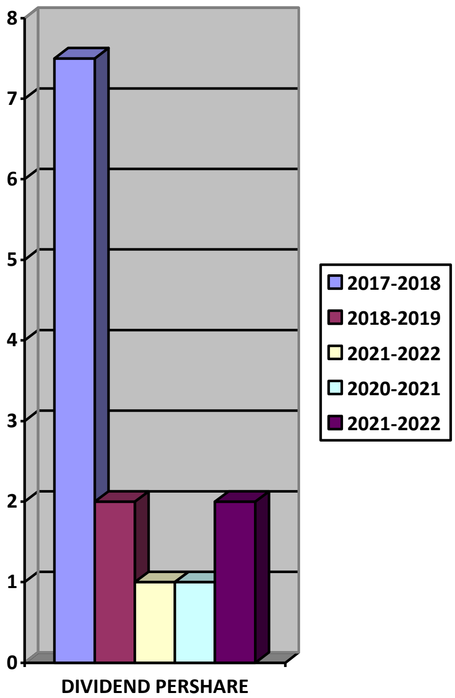


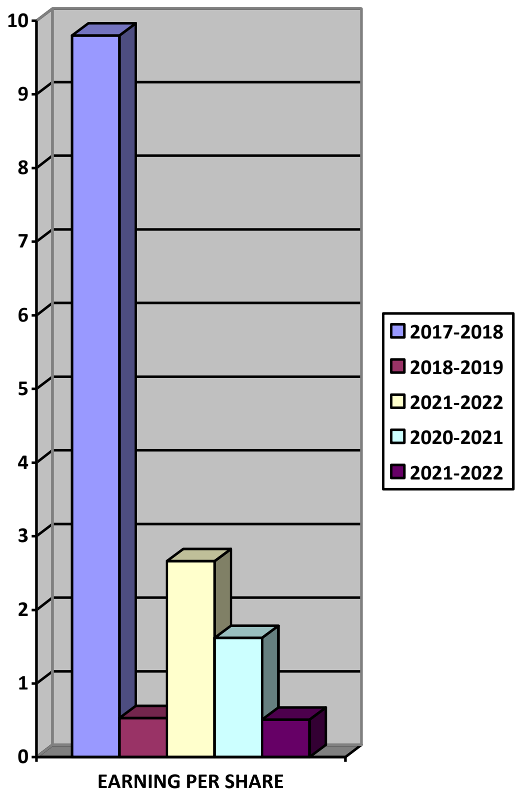
Interpretation:

The dividend Per Share of Indiabull's ltd., is Rs 7.50 in the year of 2020-21. The dividend per share for the next two financial years is constant (i.e. Rs 1.00)

When it is compared with the year 2018-19 the dividend per share in the year 2020-21 it is decreased at the rate of 2.00 % and 1.00 % in the years of 2021-22.

COMPARISION OF EARNING PER SHARE OF THE FIRM FOR THE LAST FIVE YEARS

YEAR	EARNING PER SHARE
2017-2018	9.80
2018-2019	0.53
2021-2022	2.66
2020-2021	1.62
2021-2022	0.51



Interpretation:

The Earning per share of the firm is very high in the year 2020-21, but it is decreased because of recession in the next years. The Earning per share fluctuated slightly during the financial years 2018-19 and 2021-22. However, there is massive decrease reported (about 6 times to the starting year of 2017-18 in the year 2021-22. It indicates the increase in the revenue of the profit.

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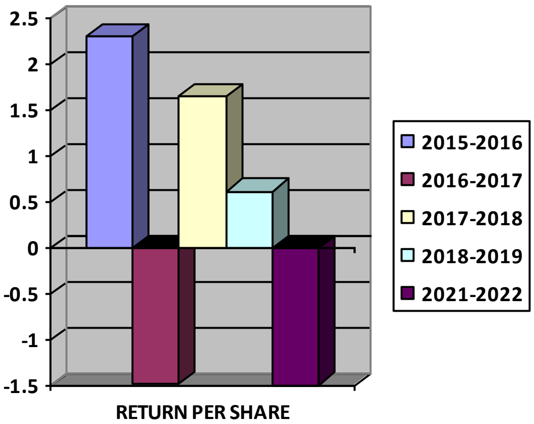
A PROFILE OF RETURN PER SHARE OF THE FIRM

YEAR	RETURN PER SHARE
2015-2016	2.3
2016-2017	-1.47
2017-2018	1.66
2018-2019	0.62
2021-2022	-1.49

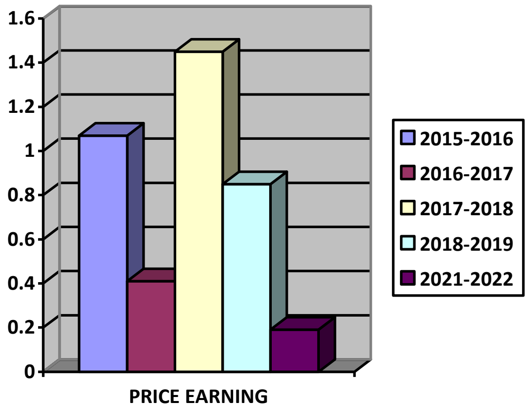


Interpretation:

Return per share of indiabulls Ltd is high of in the year 2020-21 and in the next year it has decreased normally and after next year it is highly decreased. The year of 2021-22 the return per share highly increased that is -1.49.

COMPARISION OF PRICE EARNING OF THE indiabulls

YEAR	PRICE EARNING
2015-2016	1.07
2016-2017	0.41
2017-2018	1.45
2018-2019	0.85
2021-2022	0.19



Interpretation:

The Price earning value of the firm's share is Rs 1.07 in the year 2020-21; it is decrease in the next year also. It is reported high during the financial years 2018-19, and 2020-21. However the price earning rate is low i.e. 0.19 in the year of 2021-22.

IV. FINDINGS AND SUGGESTIONS

FINDINGS:

Following are the findings from the dividend decision analysis of the Indiabulls limited:

1) Earnings per share has decreased from Rs 9.80 to Rs. -0.51

2) Dividend has been benched from Rs7.50 to 2.00

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3) Decreased net worth from Rs. 18.19 Cores to Rs. 9.57

4) The dividend carries some informational content.

5) The dividend payout ratio has an impact on the firm.

6) The dividend per share increased normally.

7) There is a fluctuation in earning per share

8) The Return per share has been increased gradually.

SUGGESTIONS:

The following Suggestions are being provide to

The Indiabulls limited.

1) Investors always prefer the dividend payment for Capital appreciation. Hence some amount of Dividend must be paid regularly. Unless the Payment will reduce the net worth of the industry.

2) The industry should improve the dividend per share.

3) The industry should follow stable dividend policy.

4) The industry should maintain high per share.

5) The industry must improve and maintain high ratio.

6) When the industry gets the price earning highly, that industry will grow

7) In The industry Net worth is not good. The industry has to increase the Net worth.

V. CONCLUSION:

1. The fair value premium equals the interest earned on the spot index minus dividends earned by the stocks that comprise the index the relevant time period is from the current date and till the futures expiration.

2. As you might imagine, controversy exists about how to implement the above equation: some arbitrageur\s measure dividends by yield; others (currently in our opinion) by amount.

3. Dividend growth star for a number of years now there dividend streak consecutive years with dividend increases is very impressive as only a handful of companies have been able to reach this milestone. While you would have had good dividend growth In the past I think these rates will drop.

4. The company’s payout ratio has been increasing over the years and I don’t think they’ll want it to go much higher. If the 5 years estimated EPS growth rate of 6.5% is roughly accurate then I expect the dividend growth will range from 5% to 7.1% per year going forward.

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