**A Project Report On Dividend Decisions**

**Kammeta Swetha**

Roll No: 212122672128, Department of Management Studies

Aristotle PG College,Chilkur, Moinabad, Ranga Reddy District, Telangana.

**Ms. G. Swetha**

**Assistant Professor**

Aristotle PG College, Chilkur, Moinabad, Ranga Reddy District, Telangana.

[swetha.golla1@gmail.com](mailto:swetha.golla1@gmail.com)

**Abstract:**

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 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.

**Keywords:** Dividend policy.

**INTRODUCTION:**

**DEFINITION:**

“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 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.

**The Dividend Decision** is a decision made by the [directors](http://en.wikipedia.org/wiki/Board_of_directors) of a company. It relates to the amount and timing of any cash payments made to the company's stockholders. The decision is an important one for the firm as it may influence its **capital structure** and stock price. In addition, the decision may determine the amount of [taxation](http://en.wikipedia.org/wiki/Taxation) that stockholders pay.

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.

**Nature of Dividend Decision**

The dividend decision of the firm is crucial for the finance manager because it determines:

1. the amount of profit to be distributed among the shareholders, and

2. the amount of profit to be retained in the firm.

There is a reciprocal relationship between cash dividends and retained earnings. While taking the dividend decision the management take into account the effect of the decision on the maximization of shareholders' wealth.

**REVIEW OF LITERATURE:**

**TITLE**

**Dividend Policy: A Review Of Theories And Empirical Evidence**

**AUTHOR: Husam-Aldin Nizar Al-Malkawi**

ISSN: 1451-243X Issue 9 (2010)

**SOURCE: International Bulletin of Business Administration**

**Abstract:** The literature on dividend policy has produced a large body of theoretical and empirical research, especially following the publication of the dividend irrelevance hypothesis of Miller and Modigliani (1961). No general consensus has yet emerged after several decades of investigation, and scholars can often disagree even about the same empirical evidence. This paper aims at providing the reader with a comprehensive understanding of dividends and dividend policy by reviewing the main theories and explanations of dividend policy including dividend irrelevance hypothesis of Miller and Modigliani, bird-in-the-hand, tax-preference, clientele effects, signalling, and agency costs hypotheses. The paper also attempts to present the main empirical studies on corporate dividend policy. However, due to the enduring nature and extensive range of the debate about dividend policy which has spawned a vast amount of literature that grows by the day, a full review of all debates is not feasible. The paper reaches at a conclusion that the famous statement of Fisher Black about dividend policy "the harder we look at the dividends picture, the more it seems like a puzzle, with pieces that just do not fit together" (Black, 1976, p. 5) is still valid.

**TITLE**

**Dividend Policy and Its Impact on Firm Value: A Review of Theories and Empirical Evidence**

**AUTHOR: Dr. P. Vidhya Priya, Dr. M. Mohanasundari**

**International Bulletin of Business Administration**

**Abstract:** The Empirical and theoretical research on dividend policy has produced an extensive volume of literature. The research are categorized into two different schools of thought, the first is that dividend policy of a firm has an impact on its value and the second is that dividend policy of the firm has no impact on firm value. Even after several years of research no consensus has emerged, and scholars do not even agree upon with the same empirical evidence. This study provides with a complete understanding of dividends and dividend policy by reviewing the theories and their explanations of dividend policy including both dividend relevance and irrelevance theory of Miller and Modigliani, tax-preference, bird-in-the-hand, clientele effects, signaling and agency costs hypotheses. This study also attempts to present the important empirical studies on corporate dividend policy. However, due to the continuing nature and extensive array of the debate about dividend policy which has hatched a vast amount of literature that grows by the day, a full-fledged review of all debates is not feasible.

**TITLE**

**Dividend Policy: A Review Of Theories**

**AUTHOR: Allen, Bernardo and Welch**

**International Bulletin of Business Administration**

**Abstract:** The dividend enigma has not only been an enduring issue in finance, it also remains unresolved. Almost three decades ago Black (1976) described it as a “puzzle”, and since then an enormous amount of research has occurred trying to solve the dividend puzzle. **Allen, Bernardo and Welch** (2000, p.2499) summarized the current consensus view when they concluded “Although a number of theories have been put forward in the literature to explain their pervasive presence, dividends remain one of the thorniest puzzles in corporate finance”. The enduring nature and extensive range of the debate about dividend policy has spawned a vast amount of literature that grows by the day. For this reason, a full review of all debates is not feasible1 . However, this paper endeavours to give justice to the importance of both the topic of dividend policy as an area of financial economic research, and also to the literature that has been produced addressing that topic, by reviewing the most important and influential studies in this area. It attempts to outline the main theories and explanations of dividend policies and to review the main empirical studies on corporate dividend policy.

.**RESEARCH GAP:**

The project reaches at a conclusion that the famous statement of Fisher Black about dividend policy "the harder we look at the dividends picture, the more it seems like a puzzle, with pieces that just do not fit together

**OBJECTIVES:**

* To understand the importance of the dividend decision and their impact on the firm’s capital budgeting decision.
* To know the various dividend policies followed by the firm.
* To understand the theoretical backdrop of the various divided theories.
* To compare the various theories of dividend with reference to their assumptions and conclusions.

**RESEARCH METHODOLOGY:**

**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.

**Methodology**

**Primary data**

The null hypothesis in this study is as following:

The dividend decisions are relevant to the capital budgeting decisions of the firm’s belonging to the cement industry and the in turn affects the market value of the firms’ equity.

To prove this hypothesis we shall try to prove the two theories of relevance of dividend-Walter’s model and Gordon’s model

**Secondary data**

The alternate hypothesis in this case shall be as fallows:

The dividend decisions are irrelevant to capital budgeting decisions of the firm belonging to the INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI) and they in turn have no effect on the market value of the firm equity.

**SAMPLE OF THE STUDY:**

A sample is a part of the target population, carefully selected to represent that population. When researchers undertake sampling studies, they are interested in estimating one or more population values and/ or testing one or more statistical hypothesis.

The sample of our study consists of the financial data of INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI) for the past five financial years.

**DATA ANALYSIS & INTERPRETATION:**

**COMPARISION OF DIVIDEND PER SHARE OF THE INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI).**

|  |  |
| --- | --- |
| **YEAR** | **DIVIDEND PERSHARE** |
| 2018-2019 | 24.76 |
| 2019-2020 | 28.83 |
| 2020-2021 | 36.67 |
| 2021-2022 | 43.95 |
| 2022-2023 | 61.53 |

**Interpretation:**

The dividend Per Share of ICICI ltd. is Rs 24.76 in the year of 2018-19. The dividend per share for the next two financial years is constant (i.e. Rs 28.83). When it is compared with the year 2018-19 the dividend per share in the year 2019-20 it is increased at the rate of 28.83 % and61.53% in the year of 2022-23.

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

|  |  |
| --- | --- |
| **YEAR** | **EARNING PER SHARE** |
| 2018-2019 | 33.76 |
| 2019-2020 | 36.10 |
| 2020-2021 | 44.73 |
| 2021-2022 | 56.09 |
| 2022-2023 | 72.17 |

**Interpretation:**

The Earning per share of the firm is very low in the year 2018-19, but it is doubled in the next year. The Earning per share fluctuated slightly during the financial years 2018-19 and 2020-21. However, there is massive increase reported (about 2 times to the starting year of 2018-19 in the year 2020-21. It indicates the increase in the revenue of the profit.

**A PROFILE OF RETURN PER SHARE OF THE FIRM**

|  |  |
| --- | --- |
| **YEAR** | **RETURN PER SHARE** |
| 2018-2019 | 9.00 |
| 2019-2020 | 7.27 |
| 2020-2021 | 8.06 |
| 2021-2022 | 12.14 |
| 2022-2023 | 10.64 |

**Interpretation:**

Return per share of ICICI Ltd is low of in the year 2018-19 and in the next year it has increased normally and after next year it is highly decreased. The year of 2022-23 the return per share highly increased that is 10.64.

**COMPARISION OF PRICE EARNING OF THE ICICI**

|  |  |
| --- | --- |
| **YEAR** | **PRICE EARNING** |
| 2018-2019 | 3.751111 |
| 2019-2020 | 4.965612 |
| 2020-2021 | 5.549628 |
| 2021-2022 | 4.620264 |
| 2022-2023 | 6.782895 |

**Interpretation:**

The Price earning value of the firm’s share is Rs 3.75 in the year 2018-19, it is same in the next year also. It is reported high during the financial years 2020-21, and 2021-22. However the price earning rate is high i.e. 6.78 in the year of 2022-23.

**COMPARISION OF PROFIT AFTER TAX OF THE ICICI**

|  |  |
| --- | --- |
| **YEAR** | **PROFIT AFTER TAX (in Rs)** |
| 2018-2019 | 44.49 |
| 2019-2020 | 46.30 |
| 2020-2021 | 47.83 |
| 2021-2022 | 52.40 |
| 2022-2023 | 63.64 |

**Interpretation:**

The profit after tax of ICICI Ltd had low at 2018-19 and next year was increased. After decreased at the year of 2022-23 increased highly. That is 64.63. It indicates the probability strength of the firm.

**COMPARISION OF NET WORTH OF THE ICICI**

|  |  |
| --- | --- |
| **YEAR** | **Net worth** |
| 2018-2019 | 375.81 |
| 2019-2020 | 402.49 |
| 2020-2021 | 515.13 |
| 2021-2022 | 646.52 |
| 2022-2023 | 667.05 |

**Interpretation:**

There is a gradual increased in the net worth of the firm subject to very high in the financial year 2022-23.

**CONCLUSION**

[Efficient market](http://en.wikipedia.org/wiki/Efficient_market) with no taxes and no transaction costs, the free cash flow model of the dividend decision would prevail and firms would simply pay as a dividend any excess cash available. The observed behaviors’ of firm differs markedly from such a pattern. Most firms pay a dividend that is relatively constant over time. This pattern of behavior is likely explained by the existence of clienteles for certain dividend policies and the information effects of announcements of changes to dividends.

The dividend decision is usually taken by considering at least the three questions of: how much excess cash is available? What do our investors prefer? and What will be the effect on our stock price of announcing the amount of the dividend?

The result for most firms tends to be a payment that steadily increases over time, as opposed to varying wildly with year-to-year changes in free cash flow.

1. Investors in aggregate cannot be shown to uniformly prefer either high or low dividends.
2. Individual investors, however, have strong dividend preferences and will tend to invest in companies whose dividend policies match their preferences.

Regardless of the payout ratio, investors prefer a stable, predictable dividend policy

**REFERENCES**

* Chandra, Prasanna: ‘Financial Management-Theory and Practice’, 5th Edition, 2001, Tata Mc Graw Hill Publishing House.
* Cooper Donald E, Pamela S Schindler, 8th Edition, 2003, Mc Graw Hill Publishing House.
* Khan M Y, P jain: ‘financial Management-Text and problems; 3rd Edition, 1999, Tata Mc Graw Hill Publishing House.
* Pandy I M: ‘Financial Management; 8th Edition, 2003, Vikas Publishing House Private Limited.
* Lawrence J. Gilma: Principle of managerial Finance, Addisa werly.