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A Study On "Dividend Policy" Concerning Sharekhan Limited

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ABSTRACT

The Dividend Decision in corporate finance refers to the process of determining the amount and timing of cash payments to the company's shareholders. This decision is crucial for the firm as it affects its capital structure, stock price, and the tax implications for investors. There are three main factors that can influence a company's dividend decision:
Free Cash Flow: According to the Free Cash Flow Theory, the dividend decision is straightforward. The firm pays out any excess cash as dividends after investing in projects with positive net present value. However, this theory fails to capture the dividend policies followed by real companies. Most firms aim to provide stable and predictable dividends over time, rather than fluctuating dividends. Therefore, alternative models have been developed to better explain dividend decisions.
Dividend Clienteles: Different types of investors may have preferences for specific dividend payments. For example, retirees may prefer to invest in firms that offer a consistently high dividend yield. On the other hand, individuals with high earned income might prefer to avoid dividends due to their high marginal tax rate. If specific clienteles exist for different types of dividend payments, a firm can enhance its stock price and reduce its cost of capital by targeting a particular clientele. This model helps in determining the overall dividend policies followed by most publicly traded companies.
Keywords : Remote Sensor Network, Wireless Sensor Network Framework, WSN, Microcontroller

I. INTRODUCTION

The concept of dividends refers to the portion of a company's profits that is distributed among its shareholders. It can be seen as the return that investors receive from the company based on their ownership stake. According to the Institute of Chartered Accountants of India, dividends are a "means of providing returns to investors out of profits or reserves available." The dividend policy divides the company's

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overall earnings into two components: retained earnings and dividends. Retained earnings provide funds for long-term growth and are a primary source of financing for the company's investment opportunities. A company that intends to distribute dividends and requires funds to finance its future projects may need to seek external sources of capital.

The dividend policy of a firm has a significant impact on both long-term financing and the wealth of investors. The traditional view suggests that some dividends should be paid due to the informational value they provide, which can significantly affect the stock price. The theory assumes a world with efficient capital markets and no taxes. Another perspective on the dividend policy argues that there will be investors with low and high payout preferences due to different personal tax obligations. Most proponents of this view also suggest that there will be a predominance of low-payout investors due to lower capital gains taxes. A third view posits that an optimal dividend policy exists, which is valid in terms of the agency costs involved.

What are Dividend Decisions?

Dividend decisions, as the name suggests, refer to the specific aspect of management's role in determining dividends. The top management must decide the portion of profits that can be distributed as dividends at the end of each reporting period. The ultimate goal of a company is to enhance the wealth of its shareholders. Therefore, it must carefully consider its profit-sharing strategies to maintain investor confidence. Dividend payout policies serve as a link between the company and its shareholders for the distribution of profits. Without a well-defined dividend policy, it would be challenging for investors to assess the company's objectives.

Additionally, the dividend policies of a company have a significant impact on the stock's market value. Dividends should be distributed by industry norms. Any deviations from the norms might be viewed negatively by investors, raising concerns about the company's financial health and motives (signaling effect). Ultimately, an ineffective dividend decision process would negatively affect the company's valuation.

Objectives of Dividend Decisions

1. Cash Requirement: Financial managers need to consider capital requirements when formulating a dividend strategy. Overly generous dividend payouts during capital-intensive periods could lead the company into financial distress.
2. Evaluation of Shareholder Responsiveness: Companies chosen by investors for their consistent dividend payments should have a more robust dividend policy than others. It becomes crucial for such companies to make effective dividend decisions to maintain stock prices.
3. Stage of Development: Dividend decisions should align with the company's stage of inception, growth, expansion, and decline. Each stage presents different circumstances, requiring different dividend decisions.

Characteristics of a Good Dividend Policy

There is no one-size-fits-all dividend decision process that works for every company. A decision that is suitable for one company could be detrimental to another. For example, companies with a stable order book, such as telecom and banking, should regularly distribute dividends. Failure to do so could impact their stock prices. Conversely, industries like healthcare and technology are highly research-oriented, requiring significant capital expenditures for their operations. Hence, they cannot afford to pay regular dividends. Investors in such stocks primarily benefit from capital appreciation. In summary, there are numerous factors influencing dividend policy or decisions.

The field of dividend policy encompasses several prominent theories:

1. Modigliani-Miller Theory: This theory, proposed by Franco Modigliani and Merton Miller, suggests that the dividend policy of a firm is irrelevant in a world with perfect capital markets and no taxes. According to this theory, the value of a firm is determined solely by its investment opportunities and not by the way it distributes its profits.
2. Gordon's Theory: The Gordon growth model, developed by Myron J. Gordon, is based on the assumption that the value of a firm is determined by its expected future dividends. This theory states that the value of a stock is equal to the present value of all its future dividends, discounted at an appropriate rate. It implies that the dividend policy should be designed to maximize the present value of dividends.
3. Walter's Theory: James E. Walter proposed a theory that focuses on the relationship between the firm's internal rate of return (IRR) and its cost of capital. According to Walter's theory, a firm should retain its earnings and reinvest them if the IRR is higher than the cost of capital. Conversely, if the IRR is lower than the cost of capital, the firm should distribute dividends.

A prudent financial manager should consider the following questions before making significant dividend decisions.

II. NEED FOR THE STUDY:

1. The primary objective of a corporate financial organization is to maximize the market value of its shares.
2. Therefore, the main question addressed in this study is the relationship between dividend policy and the market value of equity shares.
3. Previous discussions on the relationship between dividend policy and firm value have assumed that the financing decision of a firm is independent of its dividend decision.
4. The need for this study arises from the aforementioned issue and the controversial debates surrounding the relevance of dividend policy.

III. OBJECTIVES OF THE STUDY:

A company's dividend policy determines the proportion of profits distributed to shareholders as dividends and the amount reinvested back into the company for future use. If the financing decision of a firm is independent of its dividend policy, it will have a larger proportion of retained earnings and a greater reliance on external funding. Conversely, if a company's dividend decision influences its financing structure, a higher dividend payout will result in a smaller capital structure and vice versa. Therefore, a seminar on capital structure decisions is conducted considering the dividend policy.

Every company, whether for-profit or non-profit, needs to make significant capital structure decisions. The interpretation of these decisions by organizations has been influenced by the significance and implications of these capital structure decisions.

IV. Importance of the Study:

The primary objectives of this study are as follows:

1. To understand the significance of the dividend decision and its impact on a firm's capital structure decision.
2. To explore the different dividend policies followed by firms.
3. To examine the theoretical foundations of various dividend theories.
4. To compare and analyze different dividend theories in terms of their assumptions and conclusions.
5. To determine whether dividend decisions have an impact on the market value of a firm's equity.
6. To investigate the specific evidence supporting significant dividend theories.

Walter's Model and Gordon's Model

V. RESEARCH METHODOLOGY

The research methodology employed in this project involves:

1. Primary Data: Gathering data through interactions with staff working in the Finance and Accounts Divisions of the organization.
2. Secondary Data: Collecting data from the company's annual reports and other relevant documents. Subsequently, the collected data is processed and analyzed using appropriate statistical tools and techniques to ascertain its effectiveness. The recent survey was conducted for a duration of thirty days in a renowned organization, such as Farewell Motors Limited.

VI. SCOPE OF THE STUDY

Investment Decision Theory encompasses decisions related to the allocation of resources by a firm. It involves decisions about long-term assets, known as capital budgeting, as well as decisions about short-term or current assets, referred to as working capital management.

Dividend Decision: A firm can either distribute all its profits to shareholders, retain them, or distribute a portion and retain the remainder. The choice of which path to follow depends on shareholder preferences and the various options available to the firm.

Dividend Decision: The dividend decision has an impact on the market price of a company's shares, thus making the dividend policy an important factor that affects shareholder value. An optimal dividend policy enhances share value and shareholder wealth.

Dividend Decision: The financial manager must determine the optimal payout ratio, i.e., the proportion of net earnings to be distributed to shareholders. The three decisions mentioned above are interrelated, and an optimal financial decision considers all three simultaneously.

VII. LIMITATIONS OF STUDY

Every research study has its limitations, which arise due to the chosen research methodology, data collection methods, and data sources, among other factors. The limitations of this study are as follows:

1. The data collected for this study is based on a discretionary sampling method, making it challenging to determine the reliability and representativeness of the information.
2. The scope of this study is limited to examining the impact of dividend policy on the market value of the firm's equity. Other factors that may influence the firm's market value have been assumed to remain unchanged, potentially overlooking their potential impact.
3. The time period considered for the study is restricted to only five years, which may limit the generalizability of the findings and fail to capture long-term trends or fluctuations.
4. The chosen sampling method for testing, known as "judgment sampling," leaves the selection of the model solely at the discretion of the researcher. This introduces a potential source of bias into the research process, as the selection may be influenced by the researcher's subjective judgment.

It is important to acknowledge these limitations, as they provide context for interpreting the findings of the study and understanding the potential implications. Future research could address these limitations by employing more rigorous sampling methods, considering a longer time frame, and utilizing a broader range of factors that may affect the firm's market value.

VIII. REVIEW OF LITERATURE

Dividends represent the distribution of a portion of a company's net profits to its shareholders. While the discussion primarily focuses on dividends provided to

common shareholders, retained earnings also play a crucial role in supporting a company's investment needs. For public limited companies, the decision regarding dividends is significant, whereas it is not as relevant for privately held companies. Retained earnings and dividends are closely related, with larger retention leading to smaller dividends and vice versa. Therefore, the decision to retain earnings or pay dividends should be carefully considered.

The decision on whether to distribute dividends to shareholders or retain them for further investment is crucial for a company's financial management. The decision should be based on its impact on shareholders' wealth maximization. The company's objective is to allocate surplus funds effectively, ensuring they contribute to the growth of owners' wealth. If paying dividends would enhance owners' wealth, the company should distribute the net profits to its shareholders. Otherwise, it should prioritize reinvesting the profits for future expansion. The appropriate decision model should consider the relationship between dividends and business value.

Different viewpoints exist regarding the impact of dividends on a firm's value. One perspective argues that dividends are irrelevant to a firm's value, as it is determined by the amount paid in dividends. Conversely, other theories consider the dividend decision relevant to a firm's value, as reflected in the market price of its shares.

To explore the relationship between dividend policies and firm valuation, this report aims to provide a comprehensive analysis of several key theories supporting these two different lines of reasoning. The report examines the theories that underpin the fundamental hypothesis.

Dividend Decision Framework:

The dividend decision refers to the strategy adopted by a company to determine the amount and timing of cash payments made to shareholders from corporate profits. The dividend decision has a significant impact on a company's day-to-day operations, affecting stock prices and capital expenditure. Additionally, it may influence the tax liabilities of shareholders.

IX. FINDINGS:

Based on the assessment of benefit decisions in Sharekhan Limited, the following disclosures have been made:

1. The Earnings per Share (EPS) has shown improvement, increasing from Rs. 85.54 to Rs. 72.18.
2. The dividend payout has experienced an upward trend, with the dividend amount increasing from Rs. 43.95 to Rs. 61.93.
3. Sharekhan Limited has witnessed a significant increase in total assets, rising from Rs. 416.68 crore to Rs. 658.69 crore.
4. The benefit decisions made by Sharekhan Limited have provided valuable information and educational content.
5. The dividend payout ratio has a significant impact on the firm's financial performance.
6. The average earnings per share have seen a consistent increase over time.
7. Sharekhan Limited has observed changes in the acquiring per share.
8. The Return per Share (RPS) has consistently shown improvement.

X. SUGGESTIONS:

The following observations and suggestions are being provided for the SHAREKHAN Limited industry:

1. Investors generally appreciate dividend payments for capital appreciation. Therefore, a portion of the profits should be paid regularly, even if it reduces the total assets of the business.
2. The industry should strive to further enhance the earnings per share.
3. The industry should adopt a stable dividend policy.
4. The industry should maintain a high level of earnings per share.

5. The industry should aim to improve and maintain a high dividend payout ratio.
6. When the industry achieves cost efficiency, especially in tax management, it will experience growth.
7. All assets of the business are significant, and the industry should prioritize their management.

XI. CONCLUSIONS

Based on the analysis, it can be concluded that in an efficient market with no costs or transaction fees, the ideal profit decision would be to distribute any excess cash as dividends. However, the observed behavior of firms deviates from this model. Most firms maintain a consistent level of dividends over an extended period, considering the existence of specific preferences among investors and the impact of profit announcements on stock prices.

When making profit decisions, firms typically consider the amount of surplus cash available, the preferences of their investors, and the potential effect on stock prices.

It is important to note that individual investors have diverse preferences, and they tend to invest in companies whose profit policies align with their own preferences. Regardless of the payout ratio, investors generally prefer a consistent and transparent profit strategy.

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BOOKS

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3	financial Management	**Khan M Y, P jain**	Pramod chandran	2018
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Websites:

www.sharekhan limitedbankom

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