



SNS COLLEGE OF ENGINEERING

Kurumbapalayam (Po), Coimbatore - 641 107

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DEPARTMENT OF MANAGEMENT STUDIES

COURSE NAME : 19BA201 FINANCIAL MANAGEMENT

I YEAR / II SEMESTER

UNIT 4 - DIVIDEND POLICY



Concept of Dividend



What is a Dividend?

- ✓ A dividend is a share of profits and retained earnings that a company pays out to its shareholders.
- ✓ When a company generates a profit and accumulates retained earnings, those earnings can be either reinvested in the business or paid out to shareholders as a dividend.
- ✓ The annual dividend per share divided by the share price is the dividend yield.



How a dividend works

- ✓ A dividend's value is determined on a per-share basis and is to be paid equally to all shareholders of the same class (common, preferred, etc.).
- ✓ The payment must be approved by the Board of Directors.
- ✓ When a dividend is declared, it will then be paid on a certain date, known as the payable date.



Steps of how it works:

- ✓ The company generates profits and retained earnings
- ✓ The management team decides some excess profits should be paid out to shareholders (instead of being reinvested)
- ✓ The board approves the planned dividend
- ✓ The company announces the dividend (the value per share, the date when it will be paid, the record date, etc.)
- ✓ The dividend is paid to shareholders



Types of dividends

➤ There are various types of dividends a company can pay to its shareholders.

Types include:

- 1. Cash** – this is the payment of actual cash from the company directly to the shareholders and is the most common type of payment. The payment is usually made electronically (wire transfer), but may also be paid by check or cash.
- 2. Stock** – stock dividends are paid out to shareholders by issuing new shares in the company. These are paid out pro-rata, based on the number of shares the investor already owns.

3. Assets – a company is not limited to paying distributions to its shareholders in the form of cash or shares. A company may also pay out other assets such as investment securities, physical assets, and real estate, although this is not a common practice.

4. Special – a special dividend is one that's paid outside of a company's regular policy (i.e., quarterly, annual, etc.). It is usually the result of having excess cash on hand for one reason or another.

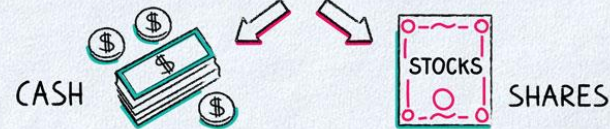
$$\begin{array}{r} 15 \rightarrow \text{quotient} \\ 2 \overline{) 60} \rightarrow \text{dividend} \\ \underline{-4} \\ 20 \\ \underline{-20} \\ 0 \rightarrow \text{remainder} \end{array}$$


DIVIDENDS

A PORTION OF A COMPANY'S PROFITS PAID TO SHAREHOLDERS



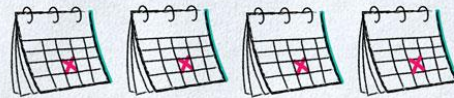
CAN BE ISSUED AS



BERKSHIRE HATHAWAY
↓
PAYS NO DIVIDENDS

BUT INVESTS HEAVILY IN DIVIDEND STOCKS!

TYPES

QUARTERLY → PAID 4x YEAR



SPECIAL → PAID ONE TIME ONLY!



FOR COMPANIES

BENEFITS

FOR INVESTORS

- ✓ BOOST STOCK PRICE
- ✓ BUILD SHAREHOLDER LOYALTY
- ✓ GOOD USE OF EXTRA CASH

- ✓ RELIABLE INCOME
- ✓ REDUCED VOLATILITY
- ✓ COLLECT PROFITS WITHOUT SELLING

Napkin Finance



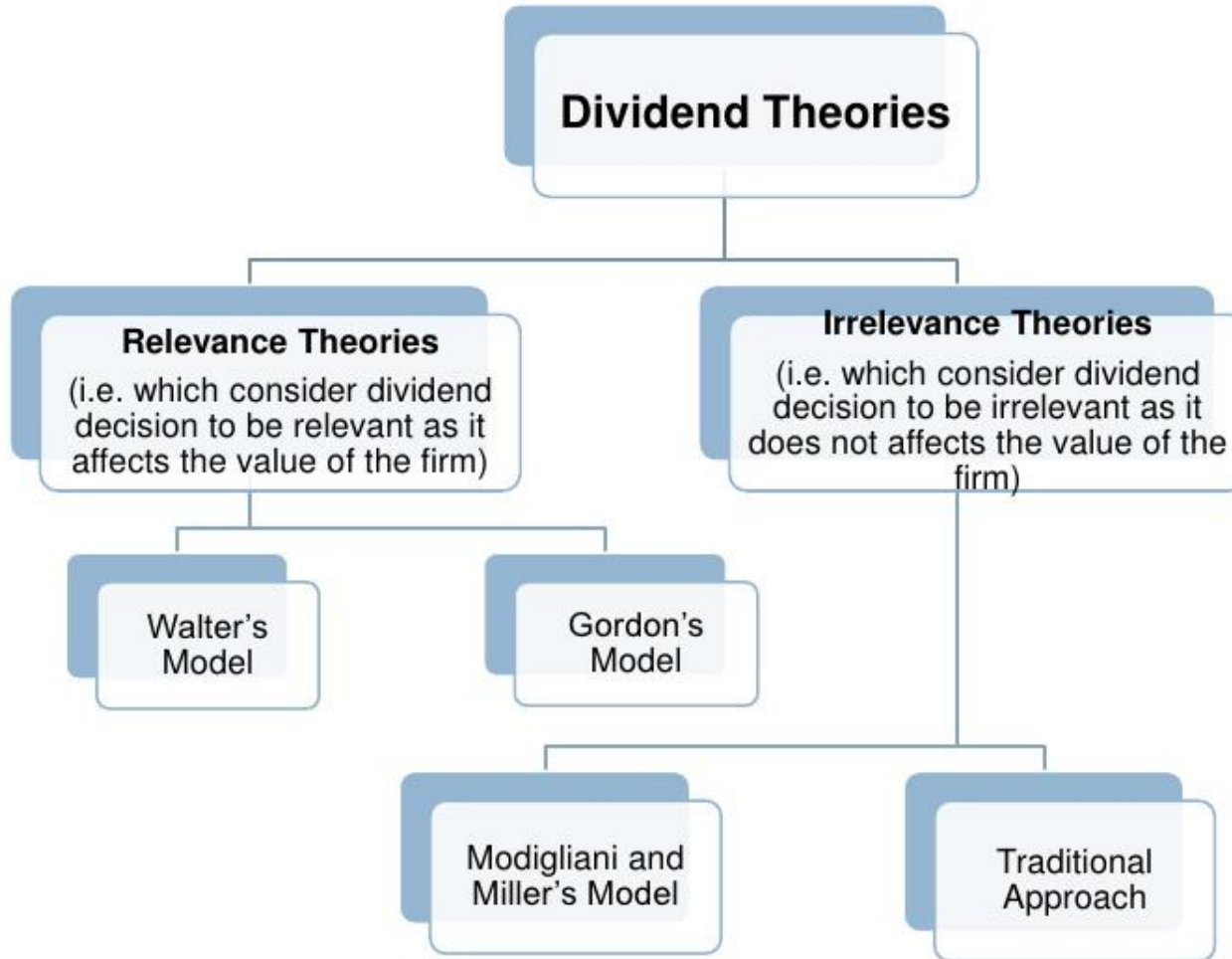
Dividend policy

A dividend policy is the policy a company uses to structure its dividend payout to shareholders.

Dividend decision

The Dividend Decision is one of the crucial decisions made by the finance manager relating to the payouts to the shareholders. The payout is the proportion of Earning Per Share given to the shareholders in the form of dividends.

Dividend Decision



DIVIDEND DECISION

RETAINED EARNINGS

DIVIDENDS





Types of Dividend Decision

Stable Dividend Policy

A stable dividend policy is the easiest and most commonly used. The goal of the policy is a steady and predictable dividend payout each year, which is what most investors seek. Whether earnings are up or down, investors receive a dividend.

The goal is to align the dividend policy with the long-term growth of the company rather than with quarterly earnings volatility. This approach gives the shareholder more certainty concerning the amount and timing of the dividend.

Types of Dividend Decision

Constant Dividend Policy

The primary drawback of the stable dividend policy is that investors may not see a dividend increase in boom years. Under the constant dividend policy, a company pays a percentage of its earnings as dividends every year. In this way, investors experience the full volatility of company earnings.

If earnings are up, investors get a larger dividend; if earnings are down, investors may not receive a dividend. The primary drawback to the method is the volatility of earnings and dividends. It is difficult to plan financially when dividend income is highly volatile.

Types of Dividend Decision

Residual Dividend Policy

Residual dividend policy is also highly volatile, but some investors see it as the only acceptable dividend policy. With a residual dividend policy, the company pays out what dividends remain after the company has paid for capital expenditures (CAPEX) and working capital.

This approach is volatile, but it makes the most sense in terms of business operations. Investors do not want to invest in a company that justifies its increased debt with the need to pay dividends.



Actual Dividend Decision

Final Dividend - a dividend calculated at the end of a financial year based on the company's annual profits.

An **interim dividend** is a distribution to shareholders that has been both declared and paid before a company has determined its full-year earnings. Such dividends are frequently distributed to the holders of a company's common stock on either a quarterly or semi-annual basis.

Actual Dividend Decision

Board Meetings	AGM / EGMs	Bonus	Splits	Rights	Dividend	Book Closures
View Dividends for the year : 2021 <input type="button" value="GO"/>						
COMPANY NAME	DIVIDEND		DATE			
	Type	%	Announcement	Record	Ex-Dividend	
Kamdhenu	Final	8.00	21-06-2021	10-09-2021	08-09-2021	
S P Apparels	Final	22.50	21-06-2021	-	03-09-2021	
Victoria Mills	Final	50.00	07-06-2021	-	03-09-2021	
Ind Motor Parts	Final	100.00	18-06-2021	-	30-08-2021	
HLE Glascoat	Final	40.00	14-06-2021	-	30-08-2021	
Lumax Auto Tech	Final	150.00	14-06-2021	-	20-08-2021	
Novartis India	Final	200.00	17-06-2021	-	17-08-2021	
Indian Hume	Final	100.00	14-06-2021	-	12-08-2021	
GPT Infra	Final	10.00	21-06-2021	-	11-08-2021	
Golkunda Diamon	Final	12.00	21-06-2021	-	10-08-2021	
Bombay Cycle	Final	50.00	26-05-2021	06-08-2021	05-08-2021	
Ind & Prud Invt	Final	250.00	16-06-2021	-	05-08-2021	
Amrit Corp	Final	75.00	14-06-2021	-	04-08-2021	
Tube Investment	Final	150.00	17-06-2021	-	04-08-2021	
J. K. Cement	Final	150.00	14-06-2021	-	03-08-2021	
Kirloskar Ind	Final	100.00	17-05-2021	-	02-08-2021	
Century Enka	Final	80.00	18-05-2021	-	30-07-2021	
Amara Raja Batt	Final	600.00	24-05-2021	-	29-07-2021	

Bonus Issue

- ✓ A bonus issue is an offer given to the existing shareholders of the company to subscribe for additional shares.
- ✓ Instead of increasing the dividend payout, the companies offer to distribute additional shares to the shareholders.
- ✓ For example, the company may decide to give out one bonus share for every ten shares held.

Bonus Issue

Example 1: No of Shares : 1 nos

If 1:1 Bonus

Share Price : Rs. 100

Bonus Date

No of Share: 2 nos

Share Price : Rs. 50

Example 2: No of Shares : 5 nos

If 1:5 Bonus

Share Price : Rs. 120

Bonus Date

No of Share: 6 nos

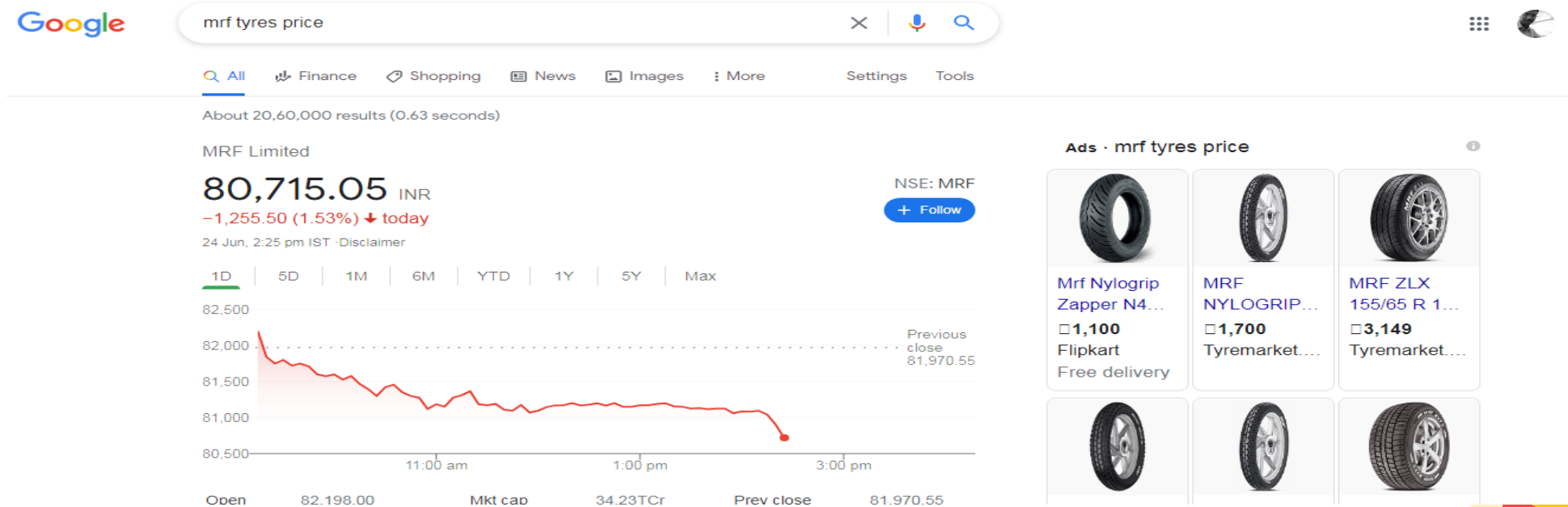
Share Price : Rs. 100

Bonus - View Bonus declared by companies during the year.

Board Meetings	AGM / EGMs	Bonus	Splits	Rights	Dividend	Book Closures
View Bonus for the year :						2021 <input type="button" value="GO"/>
COMPANY	Bonus Ratio	DATE				
		Announcement	Record	Ex-Bonus		
Aarti Ind	1:1	18-05-2021	23-06-2021	22-06-2021		
Kranti Industri	1:5	06-04-2021	16-06-2021	15-06-2021		
Varun Beverages	1:2	03-05-2021	12-06-2021	10-06-2021		
Jay BharatMarut	1:1	29-04-2021	08-06-2021	07-06-2021		
KSolves	3:1	26-04-2021	07-06-2021	04-06-2021		
Raw Edge Indust	1:5	22-04-2021	04-06-2021	03-06-2021		
Britannia	1:1	05-10-2020	27-05-2021	25-05-2021		
Ircon Internati	1:1	05-04-2021	21-05-2021	20-05-2021		
Prime Fresh	2:1	26-03-2021	08-05-2021	06-05-2021		
Waa Solar	1:1	05-03-2021	28-04-2021	27-04-2021		
Par Drugs	1:1	18-03-2021	28-04-2021	27-04-2021		
Libas Consumer	1:5	19-02-2021	07-04-2021	06-04-2021		
East West	1:4	19-02-2021	31-03-2021	30-03-2021		

Share Split

A stock split is when a company divides the existing shares of its stock into multiple new shares to boost the stock's liquidity.



Share Split

Example 1: No of Shares : 1 nos
 If Old FV 1 & New FV 10
 Share Price : Rs. 80,000

Share Split Date

No of Share: 10 nos
 Share Price : Rs. 8,000

Example 2: No of Shares : 10 nos
 If Old FV 10 & New FV 2

Share Price : Rs. 100

Share Split Date

No of Share: 2 nos
 Share Price : Rs. 500

Splits - View Company Splits during the year.

Company	Old FV	New FV	Split Date
Inventure Grow	10	1	24-06-2021
G G Engineering	10	2	21-06-2021
MO NAS100 ETF	10	1	17-06-2021
Emerald Leisure	10	5	24-05-2021
Greencrest Fin	1	10	20-05-2021
Josts Engineers	10	5	20-05-2021
Mayukh Dealtrad	10	5	11-05-2021
Alkyl Amines	5	2	11-05-2021
Vaibhav Global	10	2	07-05-2021
Lakshmi Loom	10	100	04-05-2021
Sharda Motor	10	2	16-04-2021
Finolex Ind	10	2	15-04-2021
Stylam Ind	10	5	12-04-2021
Inland Printers	2	10	09-04-2021
Pritika Auto	10	2	09-04-2021
East West	10	2	30-03-2021

Buy Back of Shares

- Buy-Back is a corporate action in which a company buys back its shares from the existing shareholders usually at a price higher than market price.
- Share repurchase is the re-acquisition by a company of its own shares. It represents a more flexible way of returning money to shareholders.

Infosys' Rs 9,200 crore share buyback to open on June 25

PTI / Jun 23, 2021, 20:18 IST



ARTICLES

1
Infosys' Rs 9,200 crore share buyback to open on June 25

2
KIOCL's diversification, CSR efforts lauded by minister

3
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4
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Infosys will utilise at least 50 per cent of the amount earmarked as the maximum buyback size for the buyback. (File photo)

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How countries are struggling with Chinese vaccines



Tax Issues

- In India, a company which has declared, distributed or paid any amount as a dividend, is required to pay a dividend distribution tax at 15%. The Finance Act, 1997 introduced the provisions of DDT. Only a domestic company is liable for the tax. Domestic companies have to pay the tax even if the company is not liable to pay any tax on their income. The DDT stands withdrawn w.e.f 1 April 2020.
- Dividend Tax Issue 15% to 20% from 2021

Tax Issues

Tax Deducted on Dividends



20% tax applicable for FPIs if cos pay as per the Income Tax Act

5-15% tax for FPIs as per tax treaties between India and Netherlands, Singapore, Switzerland and France



Up to **40%** tax for Investors that are not FPIs, including cos and individuals if taxed as per Income Tax Act



If taxed at higher rate FPIs, companies and individuals can claim refunds as per the lower rates applicable under tax treaties

How to calculate Dividend

Annual net income minus net change in retained earnings = dividends paid

$$\text{DPS} = (\text{total dividends paid out over a period} - \text{any special dividends}) \div (\text{shares outstanding}).$$

Announcement Date	Ex-Date	Dividend Type	Dividend (%)	Dividend (Rs)	Remarks
05-10-2020	25-05-2021	Special	1250	12.50	Rs.12.50000 per share(1250%)Dividend (Payment of dividend of Rs. 12.50 (Rupees Twelve and Fifty Paise) per every 1 (one) fully paid-up equity share of face value of Re. 1 (Rupee One) each by utilizing its accumulated profits)
30-03-2021	08-04-2021	Interim	6200	62.00	Rs.62.0000 per share(6200%)Interim Dividend
17-08-2020	26-08-2020	Interim	8300	83.00	Rs.83.0000 per share(8300%)Interim Dividend
20-04-2020	29-04-2020	Interim	3500	35.00	Rs.35.0000 per share(3500%)Interim Dividend
02-05-2019	01-08-2019	Final	1500	15.00	Rs.15.0000 per share(1500%)Dividend
15-05-2018	27-07-2018	Final	1250	25.00	Rs.25.0000 per share(1250%) Dividend.
25-05-2017	28-07-2017	Final	1100	22.00	Rs.22.0000 per share(1100%)Dividend

Cost of Preferred Equity

$$= \frac{\text{Dividend of Pref. Shares}}{\text{Price of Pref. Shares}}$$

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Cost of Preferred Stock Calculator

Cost of Preferred Stock (Rp) = Dividend Price / Stock Price

Rp (with Growth) = Dividend at Y1 / Stock Price + Growth Rate

Dividend (in dollars)	3
Stock Price (in dollars)	21
Growth Rate (Optional leave blank if no growth)	2%

Rp = 16.57%



Cost of Preferred Stock Formula

$$\text{Cost of preferred stock} = \frac{\text{Dividend rate} \times \text{Par value}}{\text{Share price at issue} \times \left(1 - \text{Issue costs \%}\right)}$$

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Cost of preferred stock: $P_{ps} = \$116.95$,
Div=10%, Par = \$100, F = 5%

Use this formula:

$$\begin{aligned} r_{ps} &= \frac{D_{ps}}{P_{ps} (1 - F)} = \frac{0.1 (\$100)}{\$116.95 (1 - 0.05)} \\ &= \frac{\$10}{\$111.10} = 0.09 = 9.0\% \end{aligned}$$



THANK YOU