Sale

- V.C

Contribution

- F.Cost (Operating)

EBIT [Earning Before Int & Tax]

- Int [DHG]

EBT [Earning Before Tax]

- Tax

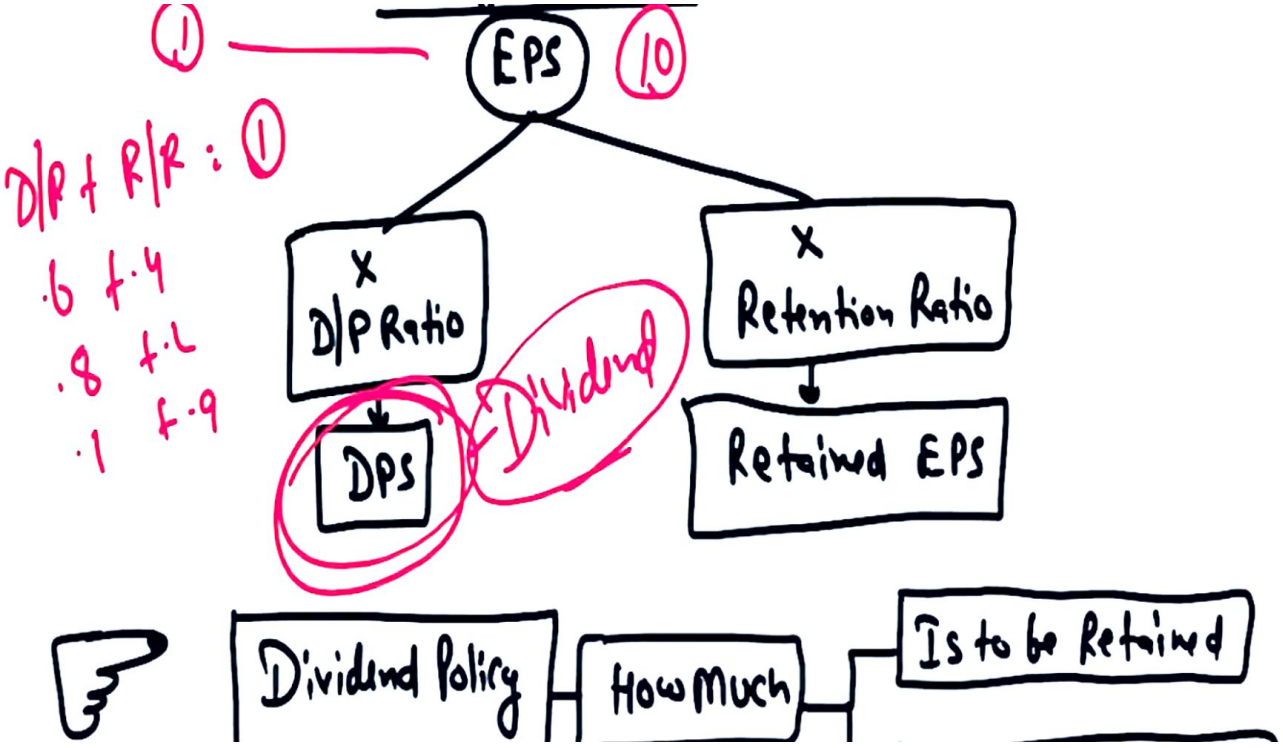
EAT

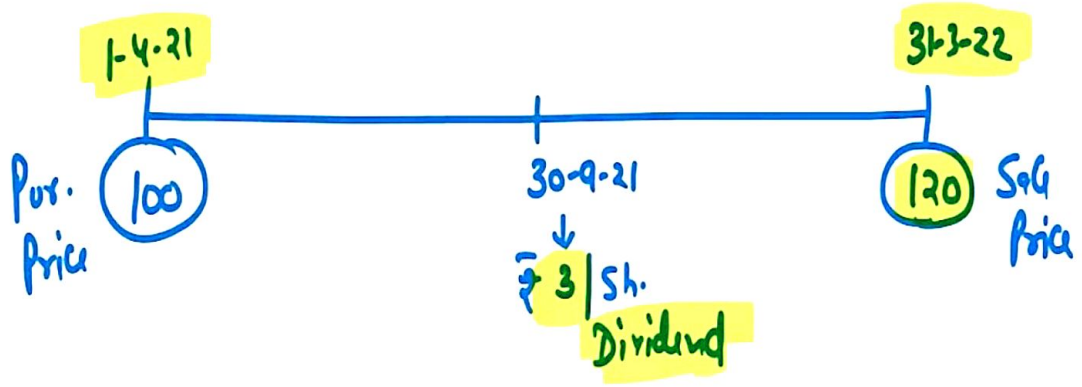
- Pref Div

Earning for EQuity

÷ No of Share

EPS


EPS
10
D/P + R/R : 1
.6 + .4
.8 + .2
.1 + .9
X
D/P Ratio
DPS
Dividend
X
Retention Ratio
Retained EPS
Dividend Policy
How Much
Is to be Retained



$\frac{23}{100} \times 100$

P.P

∴ 23%

↓

HPR

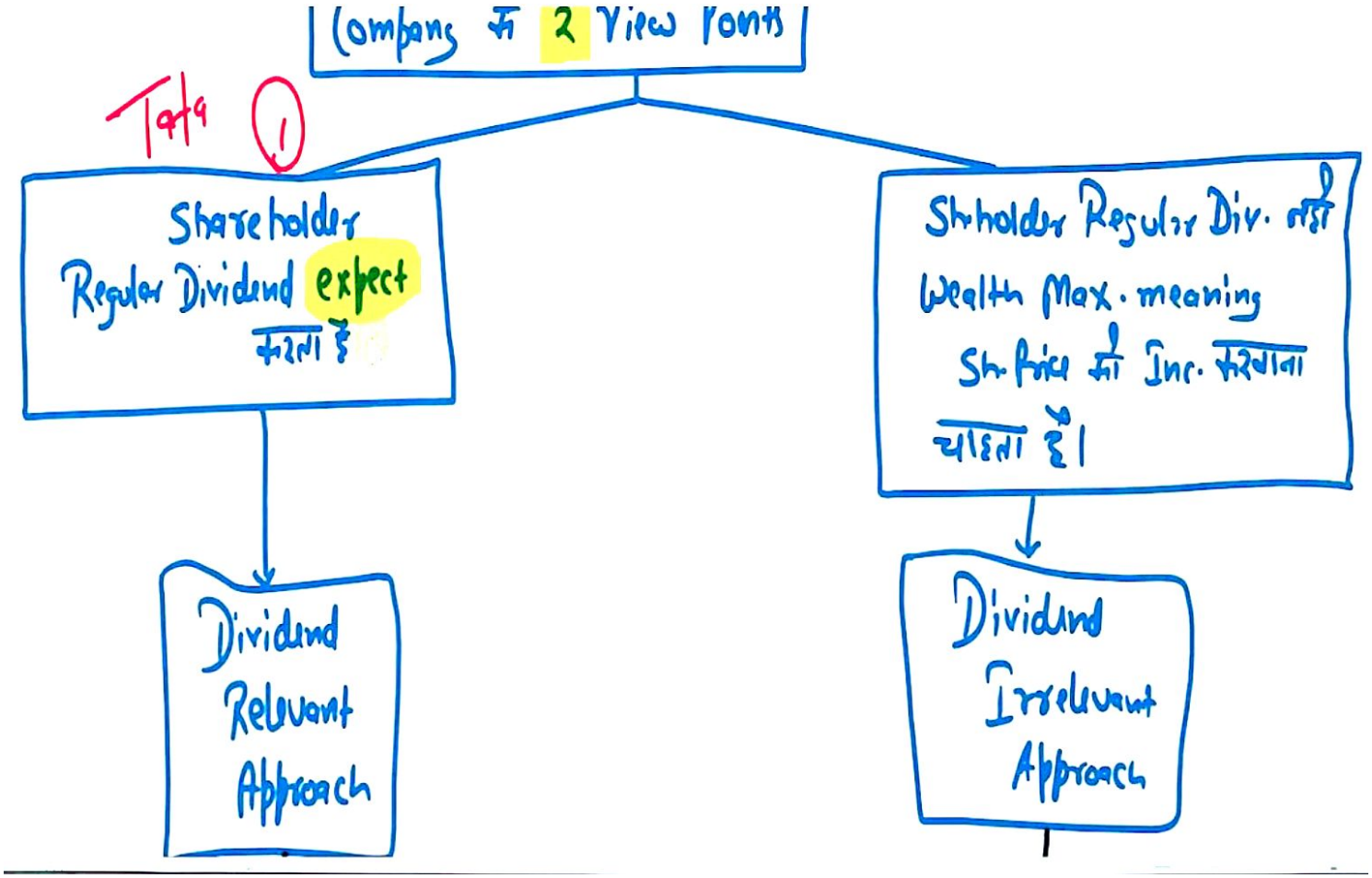
Ret. of Sh. holder in Amt = 3 + [120 − 100]

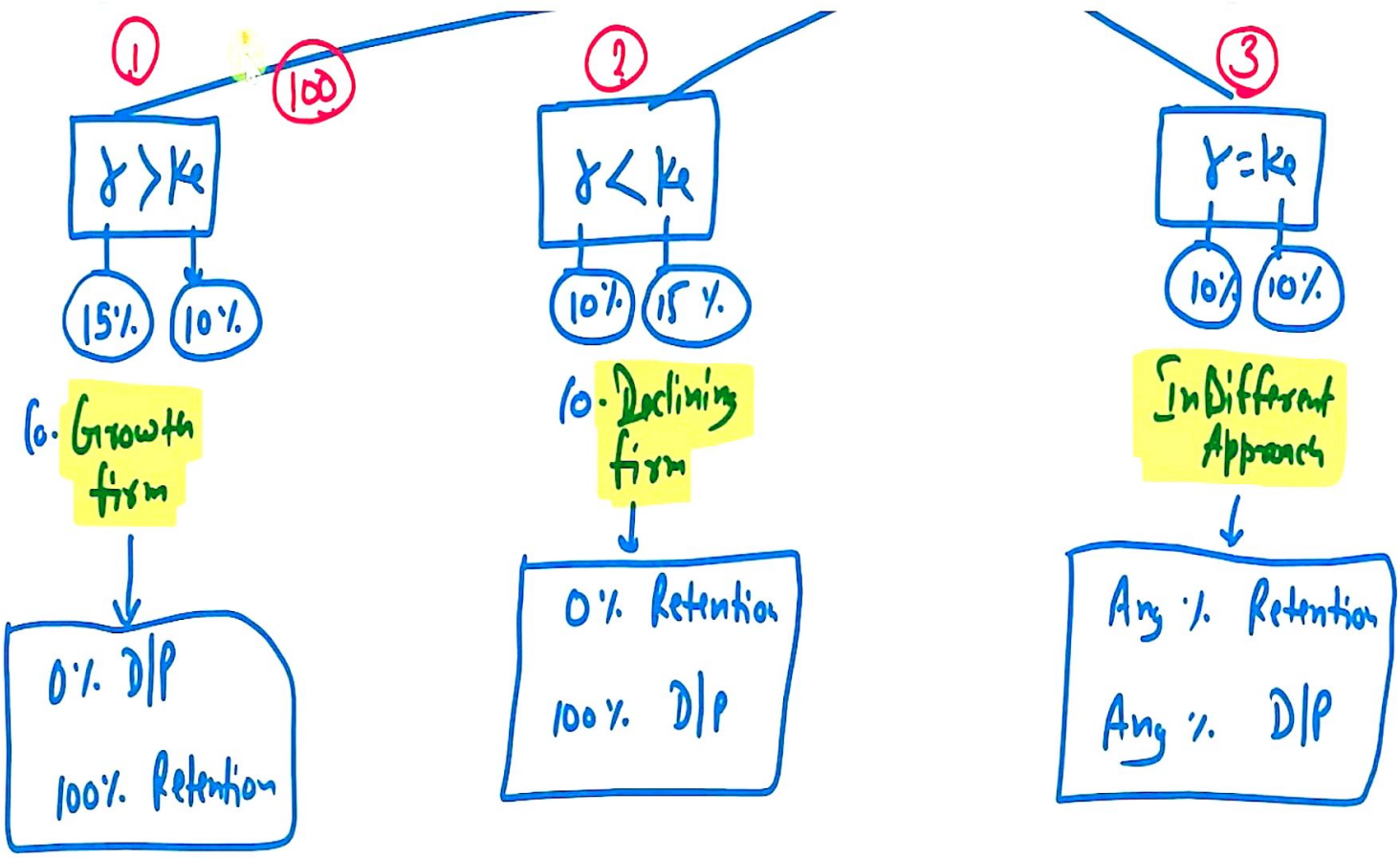
∴ 3 + 20 = 23 — HPR

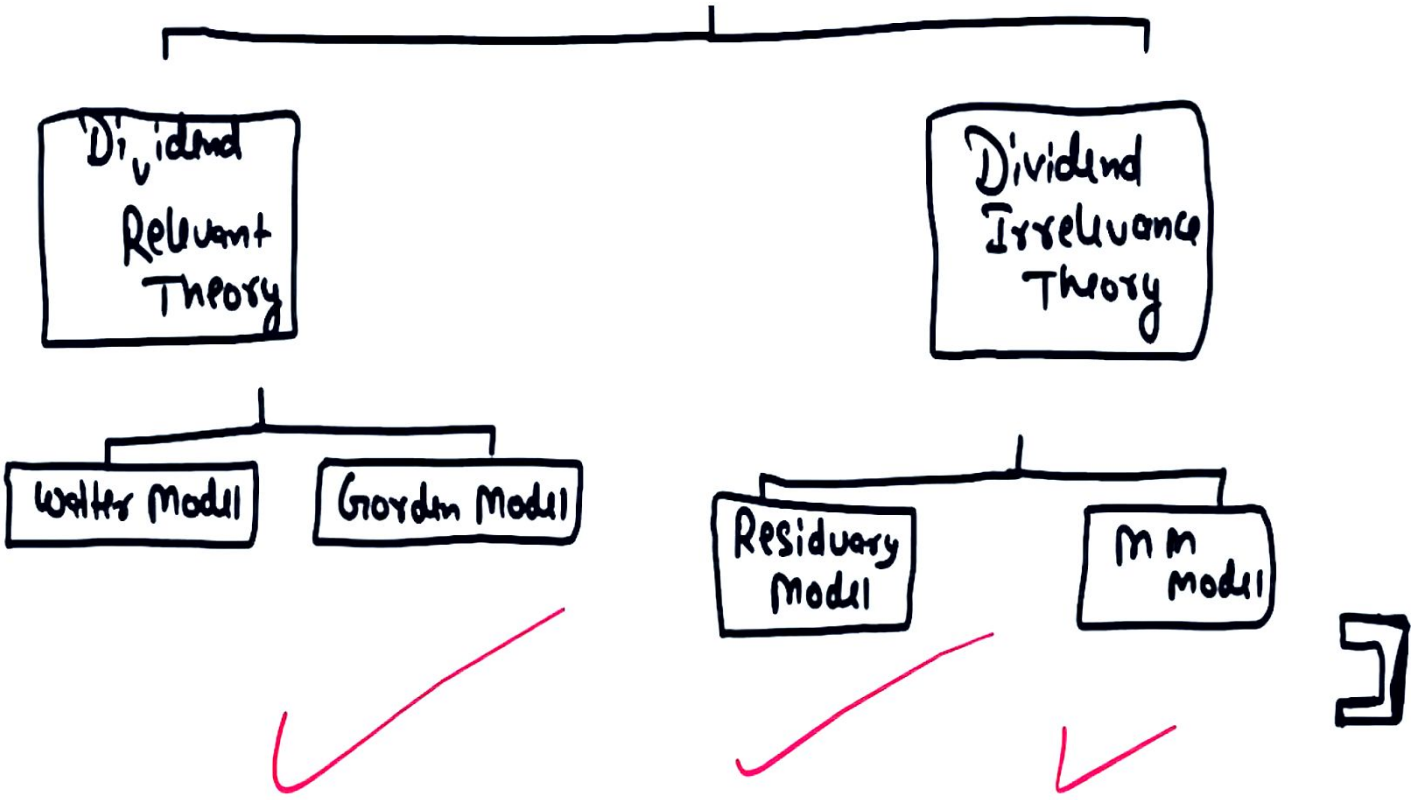
Current yield

C. Gain yield

Ret. of Sh.


Compans ने 2 View Points
Tata
1
Shareholder Regular Dividend expect करता है
Dividend Relevant Approach
Sh.holder Regular Div. नहीं Wealth Max. meaning Sh.Price को Inc. करवाना चाहता है।
Dividend Irrelevant Approach

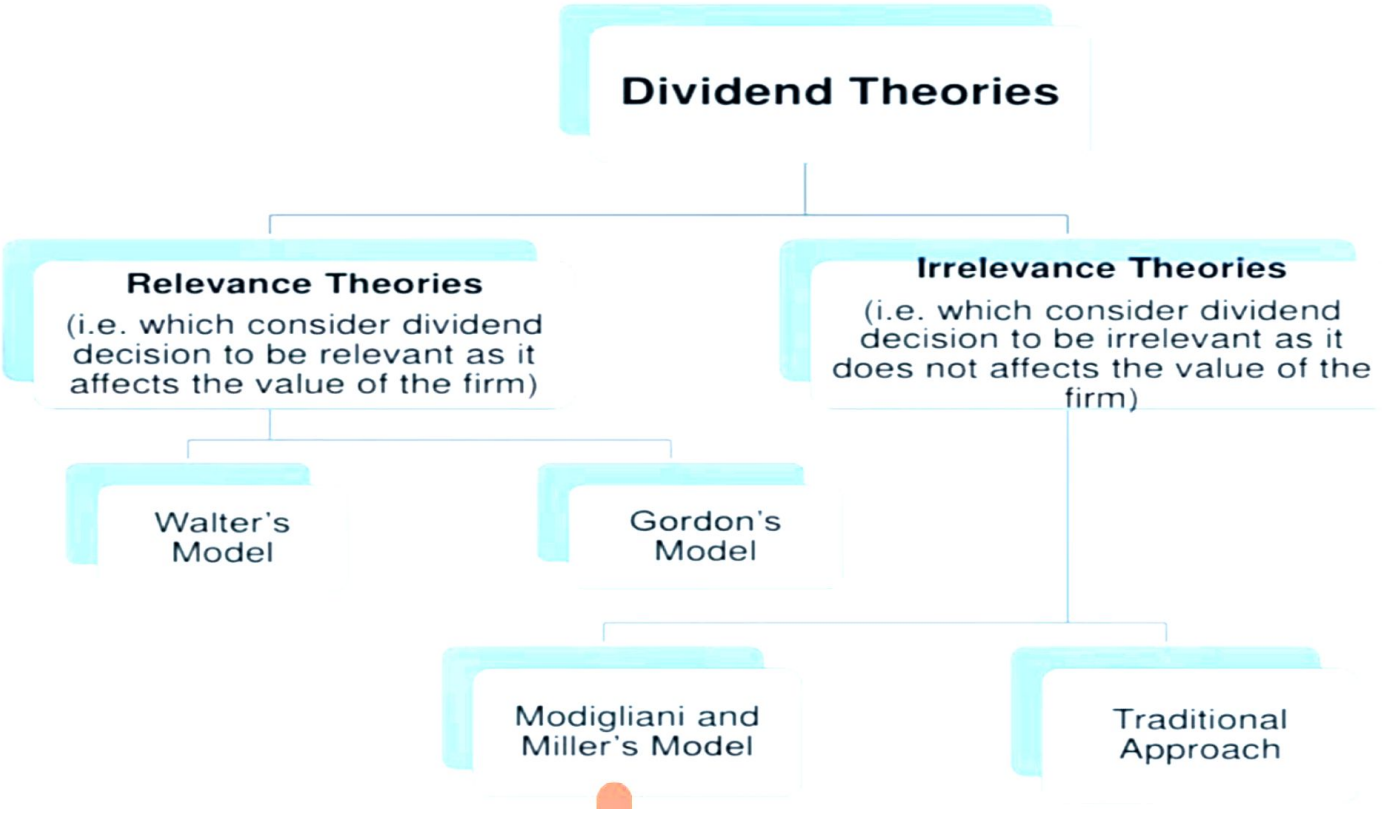

1
100
r > Ke
15%
10%
Growth firm
0% D/P
100% Retention
2
r < Ke
10%
15%
Declining firm
0% Retention
100% D/P
3
r = Ke
10%
10%
In Different Approach
Any % Retention
Any % D/P


Dividend Relevant Theory
Dividend Irrelevance Theory
Walter Model
Gordon Model
Residuary Model
MM Model

What is Dividend Policy :

" Dividend policy determines the division of earnings between payments to shareholders and retained earnings".

- Weston and Bringham


Dividend Theories
Relevance Theories
(i.e. which consider dividend decision to be relevant as it affects the value of the firm)
Irrelevance Theories
(i.e. which consider dividend decision to be irrelevant as it does not affects the value of the firm)
Walter's Model
Gordon's Model
Modigliani and Miller's Model
Traditional Approach

Walter's Model

- Prof. James E Walter argued that in the long-run the share prices reflect only the present value of expected dividends. Retentions influence stock price only through their effect on future dividends. Walter has formulated this and used the dividend to optimize the wealth of the equity shareholders.

Assumptions of Walter's Model:

- Internal Financing
- constant Return in Cost of Capital
- 100% payout or Retention
- Constant EPS and DPS
- Infinite time