

Dividend policy

Snapshot

- ① Study all important formulae
- ② Concentrate on K_e
- ③ M-M approach - Important
- ④ Constant & Unequal growth of dividend is important.

PM

M-M approach

Q7, 4, 10

As per the author, 2 views are to be kept in mind,

→ If Dividend paid } ultimately, Value of the firm =
→ ——— not paid } same

Steps to solve

S₁: calculate New Dividend

	Dividend Declared	If not
① Find P_1	$P_0 = \frac{d_1 + P_1}{1 + K_e}$	$P_0 = \frac{0 + P_1}{1 + K_e}$

Note: Even though we are calculating ' P_1 ', LHS, it is P_0
: If div is not declared, there will be NO DPS; Hence 'Zero'.

S.2

calculate New Shares to be Issued

		Declared	Not
	Investments Required	x	x
	<u>A</u>	<u>x</u>	<u>x</u>
Less	Avail funds		
	Net Income	xx	xx (same)
	- Dividend	(x)	—
	<u>B</u>	<u> </u>	<u> </u>
	Amount to be Raised	x	x
C =	(A - B)		
D =	MPS (P _i)	as caln (S _i)	as caln
C/D =	No of Shares	'x' shares	'x' shares

Note : Here 'B' is Retained Earnings, If dividend is not declared, full Net Income after tax will be available for investment. Hence, require less number of shares to issue. If declared, Retained earnings will be low, so issue more shares.

S₃ Calculate Net worth

	Declared	NOT
Existing shares	$\times$	$\times$ (same)
Add: New Shares	as call ⁿ	as call ⁿ
Total shares	$\times (S_2)$	$\times (S_2)$
Price / share	S_1	S_1
Total N/w	$S_1 \times S_2$	$S_1 \times S_2$

Answer should be the same

Q7

Pg 4.10

Shares = 8 lac

P₀ = 120

DPS = 6.4

K_e = 0.096

Invest Reqd = 3.2 cr

Net Income = 1.6 cr

Step 1:

$$= \frac{P_1 + D_1}{1 + K_e}$$

$$= \frac{P_1 + 0}{1 + K_e}$$

$$120 = \frac{P_1 + 6.4}{1 + 0.096}$$

$$= \frac{P_1 + 0}{1 + 0.096}$$

$$P_1 = 125.12$$

$$= 131.52$$

<u>Step 2</u>	<u>Declared</u>	<u>Not</u>
Invest Req'd (A)	320	320
<u>Avail funds</u>		
Net Income	160.00	160
- Dividend paid (8 × 6.4)	(51.20)	—
(B)	<u>108.8</u>	<u>160</u>
Funds Req'd (A - B)	211.20	160
MPS (S ₁)	125.12	131.52
No. of shares to issue	168,798	121,68

Step 3: Net Worth

		(in lakhs)
Existing shares	8	8
(+) Req'd (S ₂)	1.68798	1.2168
	<u>9.68798</u>	<u>9.2168</u>
MPS (S ₁)	125.12	131.52
N.W	<u>1212.16</u>	<u>1212.16</u>
	✓	
	'Same'	