Dividend Distribution Using Financial Ratios

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Abstract— The study is an outcome of the topic called A study on dividend distribution policy of a firm. Dividend policy is crucial for a company's financial strategy, balancing the distribution of profits to shareholders and the rentention of earnings for future growth of company and more sharholders. Determining the dividend distribution is the main objective of this study. The study's secondary objectives are to recommend that the dividend be retained in order to further develop the firm and provide shareholders with higher dividend payments. Analysis and interpretation of the dividend distribution policy of a firm have been done using analytic tools and thumb rules. These tools include dividend yield, capital expenditure and growth. In the study on dividend related across the year 2019-20, 2020-21, 2021-22. Prompt an exploration into the economic and financial condition influencing there trend. The higher dividend yeild in 2021-22 compared to 2019 may be indicative of an improved economic environment, encouraging companies to reward shareholder with increased dividend. The higher dividend growth rate in 2021-22 and the consistent dividend per share over the three year underscore the importance of stability in a company's dividend policy, fostering investor confidence. Through analysis it is found that the dividend distribution is good in the firm. It is suggested to the firm to retention the dividend to make improvement opportunities of the firm. By using of walter model the distribuion of dividend history is good and it is adversely distribution.

Index Terms- Dividend yield, capital expenditure, growth of the firm and dividend distribution.

I. INTRODUCTION

Dividends are like the rewards shareholders receive for owning a part of a company. When a company makes a profit, it can either reinvest that money to grow the business or distribute it to shareholders as dividends. So, dividends are essentially a share of the company's earnings given back to its owners.

II. DEFINITION

According to Weston and Brigham define as, "Dividend policy determines the division of earnings between payments to shareholders and retained earnings".

According to Gitman define as, "The firm's dividend policy represents a plan of action to be followed whenever the dividend decision must be made".

III. OBJECTIVES

- To determine the efficiency of dividend distribution in its yield and growth.
- To ascertain the impact of dividend on firm financial parameter such as capital expenditure.
- To apply Walter model in order to find out impact of dividend in firms overall return and it is a growth firm, they are giving more payout to the shareholders, because of r > k the company has an opportunities of expansion the business in future and they can give more dividend to the shareholder.
- To provide valuable suggest in order to improve dividend distribution policy of the firm.

IV. RESEARCH METHODOLOGY

The research on the various aspects related to dividends and their analysis, a comprehensive methodology would be employed. Initially, a review of relevant literature on dividend theories, dividend yield ratio, dividend growth ratio, dividend to capital expenditure ratio, and the Walter Model would be conducted to understand the foundational concepts and existing research in this domain. To analysis the company growth and to reinvest for the expending the company.

Dividend yield ratio:
The dividend yield ratio indicates the annual dividend income you earn relative to the stock's current price. Essentially, it shows the percentage of your investment that is returned to you each year through dividends.

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Stock price}} \times 100$$

Dividend growth ratio:
The dividend growth ratio measures how much a company's dividend payments have increased or decreased over time. If the ratio is positive, it means the company is paying more dividends than before. If the ratio is negative, it means the company is paying less in dividends than it did previously.

$$\text{Dividend growth rate} = \frac{\text{Dividend in year 2} - \text{Dividend in year 1}}{\text{Dividend in year 1}} \times 100$$

Dividend to capital expenditure ratio:
The Dividend to Capital Expenditure Ratio shows how much of a company's investment funds are used to pay dividends. A higher ratio can be attractive to investors who want regular income, but it may also mean the company is giving more money back to shareholders instead of reinvesting in its own growth. This could limit the company's future potential. It's important for companies to balance paying dividends with investing in their own development to stay competitive and successful in the long run.

$$\text{Dividend to capital expenditure ratio} = \frac{\text{Dividend per share}}{\text{Capital expenditure per share}}$$

Walter model:
The Walter Model, or the Dividend Discount Model (DDM), indeed provides a straightforward approach to valuing a company's stock. It asserts that the value of a company lies in the present worth of all its future dividends. This implies that investors evaluate a stock based on the anticipated cash returns in the form of dividends. In essence, the model underscores the significance of dividends as a key factor influencing investors' perceptions of a stock's value. By discounting these expected future dividends back to the present using an appropriate discount rate, the model aims to derive an estimate of the stock's intrinsic value. This approach assumes that dividends are the primary source of return for investors and that they can be reliably forecasted.

$$\text{Market price per share (p)} = \frac{D+\frac{r}{k}}{K} \times (E - D)$$

V. REVIEW OF LITERATURE

AI-Hasan, M.A., Asaduzzaman, M., & Karim, R. A. (2013).
The central debate in finance revolves around the impact of dividend policy on market share prices, with extensive literature both supporting and refuting this notion. This study aims to assess the influence of dividend policy on share prices within the context of Bangladesh. Utilizing secondary data, the study employs descriptive statistics, correlation analysis, and multiple regression models to analyze the data. Hypotheses are tested using the F test method. The findings reveal that dividend payouts have a more pronounced effect on market prices compared to retention, with this dependency being statistically significant at the 1% level. Ultimately, the paper concludes that the results regarding the influence of dividend policy on market prices align with established theories such as Walter's model and Gordon's model.

Iftikhar, A. B., Raja, N. U.D. J., & Sehran, K. N. (2017).
In simpler terms, this study looked into how a company's dividend policy—deciding how much of its profits to distribute to shareholders—affects its stock prices. They focused on banks and analyzed the financial data of five banks over a decade. Their findings showed that having a well-thought-out dividend policy attracts good investors and makes the company stronger financially. They started by studying existing research on this topic. Then, they collected a lot of data about the capital structure and dividend policies of different firms, mainly from online sources and by talking to some people directly. What they found suggests that when companies carefully design their dividend policies after thoroughly understanding the market's capital structure and other companies' dividend strategies, it can lead to better stock prices. This study could be helpful for businesses, students, and researchers, shedding light on how dividend policies and stock prices are connected.

Hussain, H., Md-Rus, R., & AI-Jaifi, H. A. A. (2017). The current study aimed at reviewing the theoretical and empirical research regarding board size and dividend policy. The role of board has been emphasized in the previous studies in monitoring the managerial decisions. In terms of the methodology, the current study has reviewed and identified most of previous studies on the role of board size and dividends. The results are mixed regarding the effectiveness of board depending on its size. The results of the previous studies are mixed and alternative views are reported based on agency theory and resource dependency theories. Future studies may focus on the composition of boards in terms of their education, knowledge and experience along with the board size.

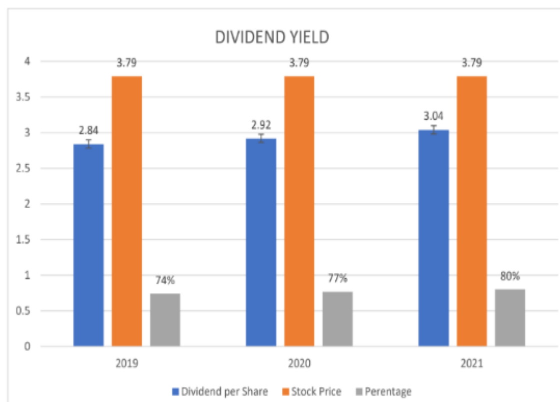
Kannadhasan, M., Aramvalarthan, S., Balasubramanian, P., & Gopika, A. (2017).
Corporate dividend policy has been extensively studied in financial literature, primarily focusing on developed countries. However, there's been limited research on this topic concerning emerging economies like India. Understanding the factors that drive managers' decisions to distribute dividends is crucial for investors. This study investigates the determinants of dividend policy among manufacturing companies in India, utilizing panel data analysis. It identifies financial leverage, profitability, and firm size as key factors influencing dividend policy. Additionally, it finds that firm growth affects dividend policy in the short term. Notably, this study is the first of its kind to utilize Panel ARDL methodology in the Indian context, providing valuable insights into dividend policy dynamics in emerging markets.

Jabbouri, I., & Attar, A.E. (2018).
This paper delves into the various theories surrounding dividend policy, particularly focusing on their applicability in emerging markets and recent empirical findings. Through an examination of multiple studies, it becomes apparent that different theories offer valid explanations for why firms choose to pay dividends. The prevalence of certain theories and the conflicting evidence either supporting or refuting them heavily depend on the specific testing conditions. Sometimes, these theories appear contradictory, while in other cases, they complement each other. The disparity in outcomes across empirical research further complicates the understanding of the dividend puzzle. Overall, the paper concludes that despite researchers' efforts to contribute empirical evidence and enhance understanding of dividend policy, the results remain inconclusive and contradictory, lacking universal acceptance. This underscores the need for continued thorough research in this area to unravel the complexities surrounding dividend policy.

VI. DATA ANALYSIS AND INTERPRETATION

Dividend yield:

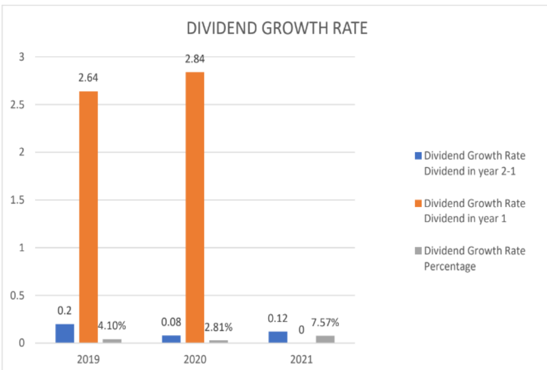
Dividend Yield			
Years	Dividend per Share	Stock Price	Dividend Yield (%)
2019-20	2.84	3.79	74%
2020-21	2.92	3.79	77%
2021-22	3.04	3.79	80%



INFERENCE:
According to the table above, the dividend yield for 2021-2022 is high at 80%, while the lowest proportion is 74% for 2019-20.

Dividend growth ratio:

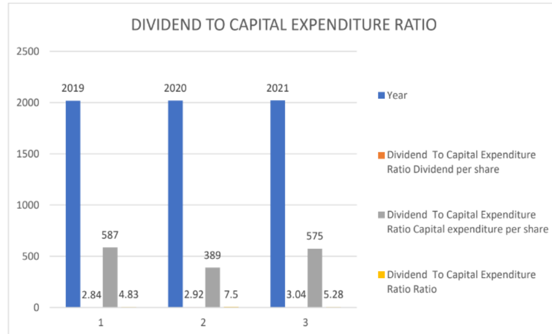
Dividend Growth Rate			
Year	Dividend in year 2-1	Dividend in year 1	Dividend growth rate (%)
2019-20	0.2	2.64	4.10%
2020-21	0.08	2.84	2.81%
2021-22	0.12	2.92	7.57%



INFERENCE:
According to the above table, the dividend growth rate is highest in 2021–2022, at 7.57%, and lowest in 2020–21, at 2.81%.

Dividend to capital expenditure ratio:

Dividend To Capital Expenditure Ratio			
Year	Dividend per share	Capital expenditure per share	Dividend to capital expenditure ratio
2019-20	2.84	587	4.83
2020-21	2.92	389	7.5
2021-22	3.04	575	5.28



INFERENCE:
The dividend to capital expenditure ratio is shown in the above table to be highest in 2020 ratio of 7.5 and lowest in 2019 ratio of 4.83.

Walter model:

$$\text{WACC} = \left[\frac{14973}{21983} \times 0.05\right] + \left[\frac{7010}{21983} \times 0.2\ (1-0.23)\right]$$

$$= (0.68 \times 0.05) + 0.39 \times 0.2\ (0.77)$$

$$= (0.034) + 0.078\ (0.77)$$

$$= 0.034 + 0.06$$

$$= 0.094$$

$$P = \frac{3.04 + 15\backslash 9\ (3.5 - 3.04)}{9}$$

$$= \frac{3.04 + 0.016\ (0.46)}{0.09}$$

$$= \frac{3.04 + 7.36}{0.09}$$

$$= \frac{10.4}{0.09}$$

$$= \text{Rs. } 115$$

VII. FINDINGS AND DISCUSSIONS

Given that the dividend yield for 2021-2022 is very high at 80%, while the lowest proportion was 74% for 2019-2020, it indicates a consistently high return on investment in the form of dividends. However, this high yield may also suggest that the company is prioritizing dividend payments over reinvestment in the business. Consider the company's future growth plans and whether sufficient funds are being allocated towards capital expenditures and reinvestment. The company should balance paying dividends with investing in future growth to stay competitive and successful.

Given that the dividend growth rate is highest in 2021-2022 at 7.57% and lowest in 2020-2021 at 2.81%, it indicates significant variability in how much the company increases its dividend payouts year over year. Make sure the company's profits are growing too, so it can keep increasing dividends. The company should also invest in itself to keep growing, not just pay out more dividends. Balance the dividend growth with the company's need to reinvest in its operations, research and development, and other capital expenditures necessary for maintaining competitiveness and driving long-term growth.

The dividend to capital expenditure ratio is highest in 2020 at 7.5 and lowest in 2019 at 4.83. This means that in 2020, a larger portion of the company's capital investment was used for paying dividends compared to 2019. Ensure the company's financial strategy supports both rewarding shareholders and reinvesting in the business to drive long-term success and stability. The company should balance paying dividends with investing in its own growth to stay strong and competitive.

CONCLUSION

The dividend paid to the company's shareholders shows whether the business is growing keeping the same, or declining. This study is determined by the firm's dividend distribution.

The researcher found it useful to examine both the theoretical and practical aspects of this project study. The analysis shows that the company is expanding and that its dividend distribution is more than its retention dividend.

However, a company can additionally take into consideration the Walter model's retention of dividends for shareholders. Through the utilization of shareholder retention dividends, the company could expand. In accordance with the Walter model, the investors feel happy to invest and have created new prospects for dividend payout.

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