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An Optimal Dividend Policy For Firms

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Abstract: This paper examines a variety of dividend policies proposed by academics in the past. Because I've read a lot of papers on the subject, I havea broad understanding of dividend policy, analysis, and taxation. I decided towrite about this topic because previous studies explained all dividend policies, but no one had discussed the best dividend policy. So I tried to come up with a dividend policy that takes into account all of the variables, such as taxes and a high-low yield strategy, while still ensuring that investors receive their dividends or returns on time. In this paper, various dividend policy models were examined, as well as the methods used by various corporations to distribute dividends to their shareholders. The policies of the four most well-known corporations had already been discussed. We've come to the following conclusions based on our findings. Shareholders' interests, dividend policy, and financial performance must all be considered.

Keywords: Shareholders, Dividend policy, Profitability.

Introduction:

When discussing a company's best dividend policy, the approach they take isthe first thing that comes to mind. Walter's approach, Gordon Model, and Modigliani-Miller approach can all be used to recommend a dividend policy.Section 1 will go over each of these models or approaches in detail. In the second section, we'll look at specific companies and their dividend policies using data from tables or theories. The conclusion of this paper is a summaryof the findings.

Dividends are paid to shareholders as a form of compensation. Any business that makes money and distributes profits to shareholders is entitled to a portion of that profit. The dividend policy of a company will always be a source of contention (Pandey & Kumari, 2021). Most investors believe that a company is financially sound if it pays out dividends every year, and that ifit does not, it is in financial trouble. Before making an investment decision, many investors make the mistake of looking at the company's previous dividend policy. We'll look at some real-world examples and previous research on the subject here. Franklin and Michaely (1995) discussed dividend amounts, while Robinson and colleagues et al. (2008) looked at how and why dividends are paid out. According to the author, taxes, asymmetric information, and other factors all play a role in determining the optimal dividend. According to this study, a company's dividend payout will increase as its profitability improves (Nissim et al., 2001). Bhren et al. (2012) found that dividend changes have a positive impact on future profitability, according to the authors of this paper (2001). For the United States, (Bajaj & Vijh, 1990) proposed a dividend policy.

Discussions and Challenges

According to the paper we read, there is a gap in this research because we're talking about the best dividend policy for any company, big or small, with a high or low dividend yield. Miller and Rock were the artists, and the year was 1985. During the conversation, Walter's investment strategy and the relationship between dividends were discussed. According to Professor James
E. Walter, dividend policy is determined by the internal rate of return (Walter, 1956) or the required rate of return (Walter, 1956). (Gwilym et al., 2006). As long as the investment returns outweigh the capital costs, a company should keep its profits. If a company's return on investment is less than its capital, dividends should be paid out. Returns on investment are only considered normal if a company distributes all of its profits to shareholders, according to Ong Shi Kai Lim Shyuan Lim Mian Yee Ow Yong Pui Yee (Ong Shi Kai Lim Shyuan Lim Mian Yee Ow Yong Pui Yee, 2014). (i.e., a 100 percent pay-out ratio).

For (Singh & Tandon, 2019) growth firms: R>KFor Declining firms: R<K
For Normal Firms: R=K

(Tzeng et al., n.d.) Brennan, M. (1971). A Note on the Gordon Model and Dividend Irrelevance Pages 1115–1121 of the Journal of Finance, 26th issue (Research Paper Impact of Dividend Policy on Share Price Volatility.Pdf- u00a92019). firm, Course Hero, n.d. Scientific journal on applied engineering management Accessed at Course Hero n/d. The "Bird in Hand Theory" is anothername for it (Nasir et al., 2015). The return on investment and the cost of capital (Chytis & Tasios, 2020) of a company have an effect on its market value, according to this theory.

If: r>k Price per share decreasesr<K Price per share increases
r=k Price per share constant (Thapa, 2021)

For the sake of completeness, the Modigliani-Miller method was also used to explain several concepts in this article. According to the first claim (Research Paper Impact of Dividend Policy on Share Pricing Volatility.Pff - 2019 International Transaction Journal of EngineeringManagementApplied | Course Hero, n.d.), there is no correlation between a company's debt-to-equity ratio and itsshare price volatility. The weighted average cost of capital remains constant regardless of how much leverage a company has. According to the third proposition presented in this article, a company's dividend policy has no impact on its market value. The fourth claim is that a company's financial health has no bearing on its stock value.

As a result, I won't be drawing any dividend policy conclusions at this time.Instead, look into the dividend policies and procedures of some well-knowncorporations.

TATA Steel

The company's "progressive dividend policy" increases the amount of dividends paid out each year. Since last year, the amount of money distributed to shareholders in the form of dividends has increased by 50%. The dividend is expected to be determined by statutory requirements, such as the amount of profitthat should be set aside in a reserve and the percentage that should be transferred.Government policies that may have an impact on the economy as a whole are referred to as macroeconomic policies. Expenses associated with taxation and alternative funding sources. Dividend Policy of TATA Steel Limited (no date):

Hindustan Unilever Limited

The company must ensure that it returns cash from operations that exceeds its immediate and foreseeable needs as a long-term strategy. The dividend for this year will be calculated using the company's pre-tax earnings (WP19-008 ResearchPaper EA George.Pdf, n.d.). In the event of a company's failure, however, dividends will not be paid. From time to time, keeping a portion of the company's profits for dividends may be appropriate (D1rz4ui464s6g7). Cloudfront.Net is a web hosting company. When it comes to paying dividends to shareholders, both internal and external factors are considered. In 2019, the policy for unequal dividend distribution is outlined in the table below.) (Google Scholar, n.d.)

Dabur India Limited

Dividends in this company can only be declared or paid out of profits from the current and previous financial years after depreciation has been taken into account.The board of directors advises against setting aside funds for dividend payments.
Shareholders receive a half-division of the company's post-tax profits.
www.UtarEdu.MY/Eprints/Utar.Edu.My (Dabur India Limited, n.d.) Limited byDabur India (Dabur India Limited, n.d) (Google Search)

Reliance Industries Limited

This company may not pay a dividend for a period of time if the board of directors believes it is prudent to conserve capital. Retained earnings can only be used to fund new investments or expansion if it is in the best interests of both the shareholders and the company.

Conclusion and Suggestions

Dividends, on the other hand, must increase in lockstep with the company's growthfor shareholders to benefit. We can come to this conclusion based on what has been said thus far. Dividends are used by investors to decide whether or not to buy a stock. The wealth of shareholders is taken into account. There is no single best dividend policy when a company's board of directors considers a variety of factors. Even though our company's investment is substantial and long-term, it's not uncommon for us to decide to increase the dividend payout year after year. While some businesses believed that increasing their company's wealth would also increase their shareholders' wealth, others believed that expanding their business would result in growth. The quality of a company is not determined by the amount of money it pays out in dividends. The amount of money it has is the most important factor.

As previously stated, an example is given to support the above-mentioned conclusion. Vernimmen suggests looking into XYZ Ltd in the Netherlands. What ifthis company has a share capital of Rs 100 and investors are looking for a 10% return? The company can reassure investors and increase the stock's value by keeping Rs.10 in profit in retained earnings. Regardless of whether or not they receive a dividend, all shareholders will benefit from an increase in stock value. It won't make a difference.

In any case, we can advise companies on the best dividend policy for companies that want to grow alongside their shareholders and make them happy from the start. If shareholders do not want to accept dividends, a company can distribute its earnings in a variety of ways. This was accomplished by Warren Buffet and other old-school businessmen increasing the value of their company's stock. This is the best course of action in terms of dividend returns. The researchers can keep working as long as they come up with a good dividend policy.

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