

Dividend Payout Decision

Module - 6

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Stock Splits & Buyback of shares

Stock Splits

- When a company declares a stock split, the number of shares of that company increases, but the market cap remains the same.
- Existing shares split, but the underlying value remains the same.
- As the number of shares increases, price per share goes down.

Buyback of shares

- A buyback is the repurchase of outstanding shares by a company in order to reduce the number of shares on the market.
- Companies will buy back shares to increase the value of shares still available.

Types of Dividend Policies

- Regular Dividend Policy**
A fixed amount of the amount of profit being distributed to shareholders.
- Stock Dividend Policy**
Distribution of new shares instead of cash dividends to shareholders.
- Regular Dividend Policy**
When the company has a long history of earnings and successful business operations, then they follow regular dividend policy.
- No Dividend Policy**
In which the company may follow dividend policy but it does not pay any cash dividends.

Dividend Shares

Dividend shares are shares that pay a dividend to the shareholder. The dividend is a payment made to the shareholder, usually in the form of cash or stock.

Dividend Payout Ratio
The dividend payout ratio is the percentage of earnings that a company pays out to its shareholders. It is calculated as follows:

Dividend Theory

The theory of dividends is based on the idea that a company's value is determined by its future earnings potential, not its current earnings. Therefore, a company should not pay dividends if it has a high growth potential.

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Importance of dividend decisions

- The firm has to balance between the growth of the company and the distribution to the shareholders.
- It has a critical influence on the value of the firm.
- It helps to also strike a balance between the long term financing decision and the wealth maximization.
- The market price gets affected if dividends paid are less.
- Retained earnings helps the firm to concentrate on the growth, expansion and modernization of the firm.

Dividend Decision Definition

- It refers to the policy that the management formulates in regard to earnings for distribution as dividends among shareholders.
- Dividend decision determines the division of earnings between payments to shareholders and retained earnings.
- This decision is generally made by the directors of the company.

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Topics

- Dividend Decision Definition
- Importance of dividend decisions
- Theories of Dividend decisions
 - **Dividend Irrelevance Theory**
 - **Relevance theory**
- Issues in Dividend Policy
 - **Bonus Shares**
 - **Stock Splits & Buyback of shares**
- Types of Dividend Policies
- Factors Determining Dividend Policy

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Theories of Dividend decisions