

HOMEWORK SECTION - Dividend Policy

Q1. The following figures are collected from the annual report of XYZ Ltd.:

Net Profit	Rs. 30 lakhs
Outstanding 12% preference shares	Rs. 100 lakhs
No. of equity shares	3 lakhs
Return on Investment	20%
Cost of capital i.e. (Ke)	16%

CALCULATE price per share using Gordon's Model when dividend pay-out is

(i) 25% (ii) 50% and (iii) 100%.

Q2. XYZ is a company having share capital of Rs. 10 lakhs of Rs. 10 each. It distributed a current dividend of 20% per annum. Annual growth rate in dividend expected is 2%. The expected rate of return on its equity capital is 15%. CALCULATE price of share applying Gordon's growth Model.

Q3. The following information is given below in case of Aditya Ltd. Earnings per share = Rs. 60. Capitalisation rate = 15% Return on investment = 25% Dividend payout ratio = 30%

- (i) COMPUTE price per share using Walter's Model.
- (ii) WHAT would be optimum dividend payout ratio per share under Gordon's Model.

Q4. The dividend payout ratio of H Ltd. is 40%. If the company follows traditional approach to dividend policy with a multiplier of 9, COMPUTE P/E ratio.

Q5. M Ltd. belongs to a risk class for which the capitalization rate is 10%. It has 25,000 outstanding shares and the current market price is Rs. 100. It expects a net profit of Rs. 2,50,000 for the year and the Board is considering a dividend of Rs. 5 per share. M Ltd. requires to raise Rs. 5,00,000 for an approved investment expenditure. ILLUSTRATE, how the MM approach affects the value of M Ltd. if dividends are paid or not paid.

Q6. The following information is supplied to you:

	Rs.
Total Earnings	2,00,000
No. of equity shares (of Rs. 100 each)	20,000
Dividend paid	1,50,000
Price/ Earnings ratio	12.5

Applying Walter's Model:

- (i) ANALYSE whether the company is following an optimal dividend policy.
- (ii) COMPUTE P/E ratio at which the dividend policy will have no effect on the value of the share.
- (iii) Will your decision change, if the P/E ratio is 8 instead of 12.5? ANALYSE.

Q7. With the help of following figures CALCULATE the market price of a share of a company by using:

- (i) Walter's formula
- (ii) Dividend growth model (Gordon's formula)

Earnings per share (EPS)	Rs. 10
Dividend per share (DPS)	Rs. 6
Cost of capital (Ke)	20%
Internal rate of return on investment	25%
Retention Ratio	40%

Q8. The annual report of XYZ Ltd. provides the following information for the Financial Year 2020-21:

Particulars	Amount (Rs.)
Net Profit	50 lakhs
Outstanding 15% preference shares	100 lakhs
No. of equity shares	5 lakhs
Return on Investment	20%
Cost of capital i.e. (Ke)	16%

CALCULATE price per share using Gordon's Model when dividend pay-out is:

- (i) 25%;
- (ii) 50%;
- (iii) 100%.

Q9. In May 2020, shares of RT Ltd. were sold for Rs. 1,460 per share. A long term earnings growth rate of 7.5% is anticipated. RT Ltd. is expecting to pay a dividend of Rs. 20 per share.

- (i) CALCULATE rate of return an investor can expect to earn assuming that dividends are expected to grow along with earnings at 7.5% per year in perpetuity?
- (ii) It is expected that RT Ltd. will earn about 10% on retained earnings and shall retain 60% of earnings. In this case, STATE whether there would be any change in growth rate and cost of Equity?