

HW - Chapter 9 - Dividend Policy - Q5

Cost of Equity (Ke)	10%
Number of shares in the beginning (n)	25,000
Current Market Price (P0)	Rs. 100
Net Profit (E)	Rs. 2,50,000
Expected Dividend (D1)	Rs. 5 per share
Investment (I)	Rs. 5,00,000

	Div is declared	Div is NOT declared
$P_0 = (P_1 + D_1) \div (1 + K_e)$	$100 = (P_1 + 5) \div (1 + 0.10)$	$100 = (P_1 + 0) \div (1 + 0.10)$
	$P_0 = 105$	$P_1 = 110$
Find how much investment is Required	5,00,000	5,00,000
(-) How much retained earning is left after paying dividend	(1,25,000)	(2,50,000)
Amount to be raised by Fresh Issue	3,75,000	2,50,000
÷ P1	105	110
New shares to be issued	3,571.14	2273.73
Existing Shares	25000	25000
(+) new shares to be issued	3571.14	2273.73
Total Shares	28571.14	27273.73
x P1	105	110
Market Capitalisation of the Firm (after 1 year)	30,00,000	30,00,000
- Investment	(-500,000)	(-500,000)
+ Earnings	2,50,000	2,50,000
FINAL Market Capitalisation of the Firm (after 1 year)	27,50,000	27,50,000
÷ (1 + Ke)	1.1	1.1
Market Value Today	25,00,000	25,00,000