Dividend Policy

1. The earnings per share of B Ltd. is Rs. 4 and the rate of capitalisation applicable is 10%. The company has options of adopting: (i) 50% (ii) 75% and (iii) 100% dividend payout ratio. Compute the market price of company's shares as per Walter's model if it can earn a return of 10%.

2. Following are the details regarding three companies X Ltd., Y Ltd. and Z Ltd.

X Ltd.	Y Ltd.	Z Ltd.
r = 15%	r = 8%	r = 10%
Ke = 10%	Ke = 10%	Ke = 10%
EPS = 8	EPS = 8	EPS = 8

   Calculate the value of equity share of each of the company applying Walter's model, when dividend pay-out ratio is: (a) 50%, (b) 75% and (c) 25%. You are required to offer your comments on the result.

3. X Ltd. has an investment of Rs.5,00,000 in assets and 50,000 shares outstanding at Rs.10 each. It earns a rate of 15% on its investment and has a policy of **retaining 50% of the earnings.** If the appropriate discount rate is 10%, determine the price of company's share using Gordon's Growth Model. What will be the share price if the company has a **pay-out ratio of 80% or 40%**?

4. X Ltd. has an EPS of Rs.20 and 50,000 shares outstanding at Rs.10 each. It earns a rate of 15% on its investment and has a policy of retaining 60% of the earnings. If the appropriate discount rate is 12%, determine the price of company's share using Gordon's Growth Model. What will be the share price if the company has a pay-out of 30% or 80%?

5. The following data is available for Parkson Company:
   Earnings per share = ₹ 3.00
   Internal rate of return = 15 percent
   Cost of capital = 12 percent

   If Walter's valuation formula holds, what will be the price per share when the dividend pay-out ratio is 50 percent? 75 percent? 100 percent?
   If Gordon's basic valuation formula holds, what will be the price per share when the dividend pay-out is 25 percent, 50 percent, and 75 percent?