Chapter 7 – Dividend Policy

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Q.1

The Beta Co-efficient of Great Ltd. is 1.4. The company has been maintaining 8% rate of growth in dividends and earnings. The last dividend paid was Rs. 4 per share. Return on Government securities is 10%. Return on market portfolio is 15%.

The current market price of one share of Great Ltd. is Rs. 36.

(i) What will be the equilibrium price per share of Great Ltd.?
(ii) Would you advise purchasing the share?

Q.2

a) The shares of Menz Ltd are need to be valued. The company had paid Rs.2 per share dividend last year. The estimated growth of the company's dividend is approximately 5 per cent per year. The companies cost of equity = 15%

b) Determine the estimated market price of the Equity Shares if the anticipated growth rate (i) rises to 8 per cent, and (ii) falls to 3 per cent.

c) Determine the market price of the shares, assuming the growth rate of 20 per cent. Are you satisfied with your calculations?

Q.3

Samsung Inc. earns Rs. 6 per share having equity capitalization rate of 10 per cent and has a return on investment at the rate of 20 per cent.

According to Walter's model, what should be the price per share at 30 per cent dividend payout ratio?

Is this the optimum payout ratio as per Walter model?

Q.4

The following information pertains to M/s XY Ltd.

Earnings of the company	Rs.5,00,000
Dividend Payout Ratio	60%
No. of shares outstanding	1,00,000
Equity Capitalization Rate	12%
Rate of Return on Investment	10%

(i) What would be the market value per share as per Walter's model?

(ii) What is the optimum dividend payout ratio according to Walter's model and the market value of Company's share at that payout ratio?