BITS Pilani
Hyderabad Campus

FIN F315 Assignment 1

GROUP 10

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Objective:

Dividends are a direct reflection of the company's financial health. Companies that pay consistent dividends over time are generally viewed as financially stable and profitable. Analyzing a company's dividend policy can help investors compare it with its peers in the same industry. Companies with similar business models and financial metrics may have different dividend policies, and comparing them can provide insights into their relative strengths and weaknesses. We chose **Indiabulls** as our company of interest to analyse it's dividend policy and access in which quadrant the firm is lying in the dividend matrix.

Indiabulls

Indiabulls' history

Indiabulls is a diversified **financial services company** based in India. It was founded in **1999** by Sameer Gehlaut, who is currently the company's Chairman and Managing Director.

The company offers a wide range of financial products and services, including **housing finance, consumer finance, real estate,** and **wealth management**. It is one of the largest housing finance companies in India and has a presence in over 100 cities in the country.

Indiabulls has also expanded internationally and has offices in Dubai, London, and New York. The company has been involved in several high-profile real estate projects in India, including the **Indiabulls Sky** and **Indiabulls Blu residential towers** in Mumbai.

In recent years, Indiabulls has faced several controversies and legal challenges. In 2019, the company announced plans to merge with Lakshmi Vilas Bank, but the proposed merger was later blocked by the Reserve Bank of India. The company has also faced allegations of financial irregularities and insider trading, which it has denied.

FCFE

FCFE stands for Free Cash Flow to Equity, which is a measure of the cash flow available to the equity shareholders of a company after accounting for all the necessary capital expenditures and changes in working capital.

It provides insight into the amount of cash that could potentially be distributed to shareholders in the form of dividends, share buybacks, or debt repayments.

FCFE is an important tool for investors and analysts as it provides a more comprehensive view of a company's financial health than other measures, such as earnings or net income.

FCFE = EBIT – Interest – Taxes + Depreciation & Amortization – ΔWorking Capital – CapEx + Net Borrowing

FCFE		55,074.6	-71,446.5	29,072.2	21,911.3	6,586.3
Avergae FCFE		8,239.6				

Dividend & Share buyback

Dividends are a distribution of a portion of a company's profits to its shareholders. Dividends are typically paid out in cash, but they can also be paid in the form of additional shares of stock or other assets. Companies pay dividends as a way to reward their shareholders for investing in the company and to signal to the market that they are financially healthy and profitable.

Share buybacks, on the other hand, involve a company repurchasing its own shares from the market. This reduces the number of shares outstanding, which can increase the earnings per share and the value of the remaining shares. Share buybacks are often used by companies as a way to return excess cash to shareholders or to boost the value of the company's stock.

ROE

ROE (Return on Equity) is a financial ratio that measures a company's profitability relative to the amount of equity held by its shareholders.

ROE is a widely used metric in financial analysis that helps investors and analysts assess a company's ability to generate profits from shareholder investments.

ROE = Net Income / Shareholders' Equity

ROE		0.27	0.25	0.14	0.07	0.07
Average ROE	0.16					

COE

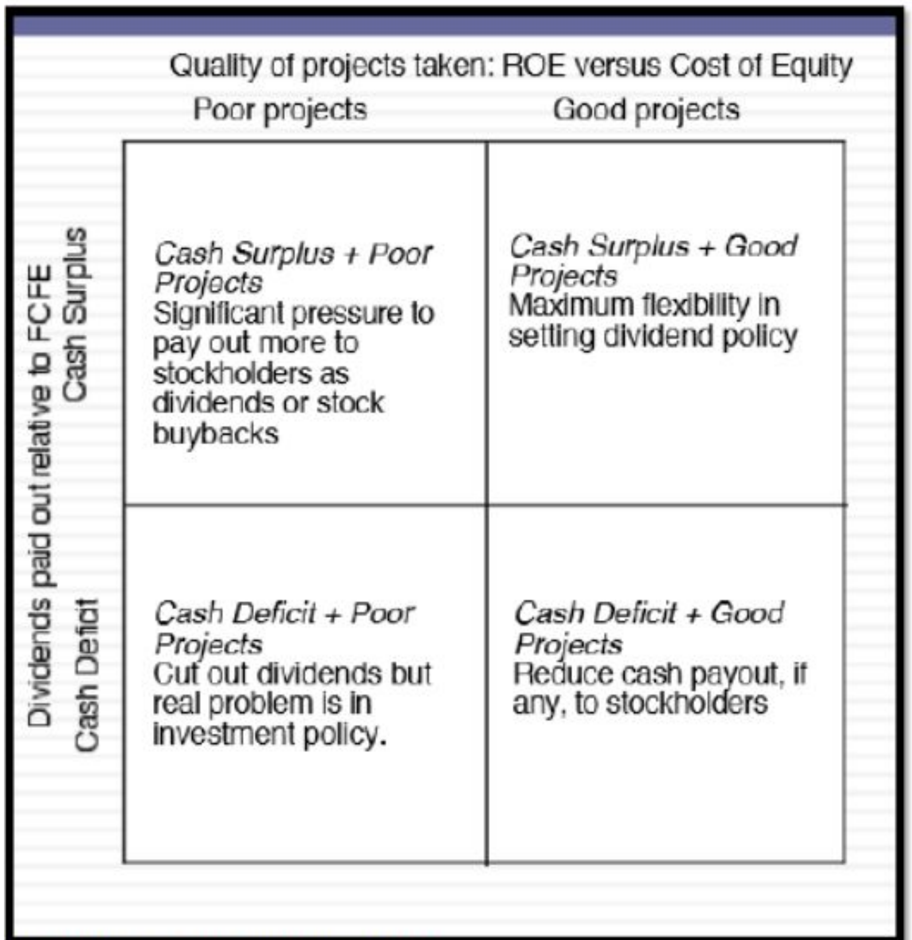
COE (Cost of Equity) is a financial metric that measures the rate of return required by equity investors to compensate for the risk of investing in a company's stock.

COE is a key component in determining a company's cost of capital, which is used to evaluate the attractiveness of different investment opportunities and to make capital budgeting decisions.

Cost of Equity = Risk-Free Rate of Return + Beta × (Market Rate of Return – Risk-Free Rate of Return).

Beta Levered	1.568775
Risk Free Rate(Rf)(in%)	2.160173
Return to Market(Rm)(in%)	17.60
Rf-Rm	15.44
COE	26.38179

Which Quadrant?



Since,
ROE < COE, the firm is investing in bad projects.
FCFE > dividends and share buyback, the firm is running on cash surplus.