

CONTINUOUS ASSESSMENT 2

COURSE CODE – FINM551

COURSE TITLE: CORPORATE FINANCE – II

SECTION: Q2455

COURSE INSTRUCTOR: Dr. R. Karuppasamy



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**Assignment Task Title: Profit Distribution Strategies and
Legislative Principles in Blue-Chip Companies**

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INDUSTRY ORIENTED PROBLEM STATEMENT

37. Companies determine their profit distribution strategies based on factors such as their financial health, capital requirements, and growth prospects. If a company is in a growth phase, it may choose to retain profits for reinvestment rather than distribute them as dividends.

Alternatively, mature companies with stable cash flows may opt for regular dividend payouts to attract income focused investors. The decision also depends on the company's debt obligations, as a significant portion of profits may need to be allocated for interest payments. Board members and executives must weigh shareholder preferences for dividends against the long-term sustainability of the company. Companies often have a dividend policy in place, which may be based on a fixed percentage of earnings or a variable rate depending on profitability. In some cases, companies may distribute profits through stock buybacks, especially if they believe their shares are undervalued. Profit distribution is also influenced by tax considerations, as dividends may be taxed differently than retained earnings. The decision to distribute profits is also affected by market conditions and economic outlook. Companies typically announce dividends in line with their financial performance, sending signals to investors about future prospects. Sustainable profit distribution strategies can build long-term shareholder value. State the legislative principles associated with Dividend Distribution.

How do Blue-chip companies determine their profit distribution strategies, including dividends? Illustrate the same with Infosys data.

INTRODUCTION

Profit distribution is a crucial aspect of corporate finance that directly impacts shareholder value and corporate growth. Companies must adopt strategic approaches when deciding how to allocate their earnings. Blue-chip companies, known for their financial stability and consistent performance, follow well-defined strategies that balance reinvestment, dividends, and buybacks to maximize shareholder returns.

This assignment aims to explore the legislative principles governing profit distribution, analyze strategies adopted by leading corporations like Infosys, and provide insights into sustainable financial management practices. Additionally, this report emphasizes how companies align their financial strategies with market conditions, shareholder preferences, and growth objectives



Figure-1: Profit Distribution Overview

LEGISLATIVE PRINCIPLES ASSOCIATED WITH DIVIDEND DISTRIBUTION

The distribution of profits through dividends is governed by various legislative frameworks to ensure transparency, fairness, and financial stability. Key principles include:

1. Companies Act, 2013 (India)

The Companies Act, 2013 plays a vital role in regulating dividend distribution for Indian companies. The following key points outline the legal framework:

- **Section 123:** Dividends can only be declared out of current financial year profits or accumulated reserves from previous financial years. The declaration must follow Board recommendations and receive approval in the Annual General Meeting (AGM).
- **Transfer to Reserves:** A company may transfer a portion of its profits to reserves before declaring dividends. This ensures financial stability and promotes future reinvestment.
- **Interim Dividends:** The Act also permits companies to declare interim dividends between two AGMs, offering flexibility in profit distribution.

2. Income Tax Act, 1961

Taxation policies have a significant impact on dividend decisions. Key considerations include:

- **Dividend Distribution Tax (DDT):** Although DDT was abolished in 2020, companies previously had to pay DDT before distributing dividends.
- **Taxation on Dividends:** Shareholders are now required to pay tax on dividends received, making it essential for companies to consider tax-efficient strategies while planning profit distribution.

3. SEBI (Listing Obligations and Disclosure Requirements) Regulations

The Securities and Exchange Board of India (SEBI) ensures transparency in dividend announcements through regulations such as:

- Clear disclosures regarding dividend policies and financial performance.
- Timely communication to shareholders about declared dividends, ensuring investor confidence.

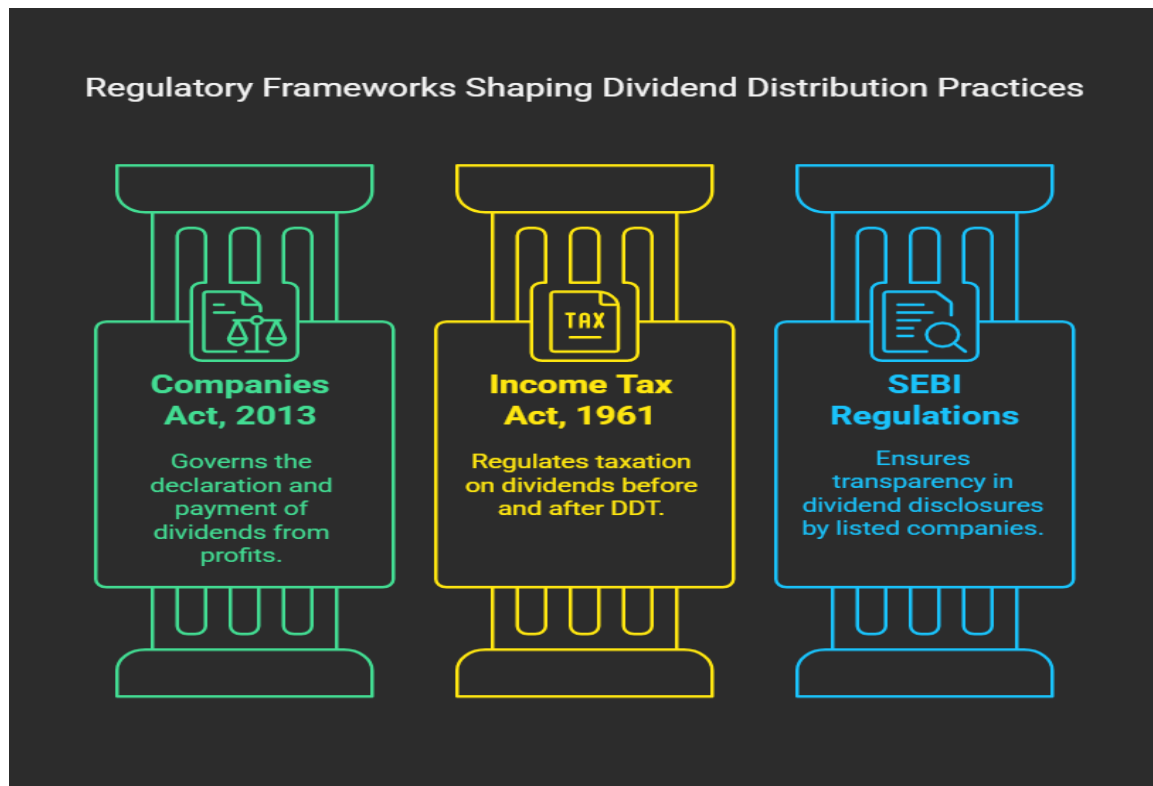


Figure-2: legislative frameworks

PROFIT DISTRIBUTION STRATEGIES IN BLUE-CHIP COMPANIES

Blue-chip companies like **Infosys** adopt well-structured strategies to maintain consistent profitability while ensuring shareholder returns. Key factors influencing their strategy include:

1. Financial Performance

Financial stability forms the foundation for Infosys' dividend strategy. By closely monitoring revenue growth, profit margins, and cash flow stability, Infosys ensures its ability to meet shareholder expectations while maintaining financial security.

2. Dividend Policy

Infosys follows a robust dividend policy designed to provide stable and increasing payouts. The company's policy reflects:

- **Consistent Dividends:** Infosys commits to distributing **85% of its free cash flow** over a five-year period, balancing reinvestment with shareholder returns.
- **Payout Frequency:** Infosys declares interim and final dividends to provide investors with regular income.

3. Growth and Reinvestment Needs

Infosys prioritizes reinvesting profits into:

- **Digital Transformation Projects**
- **Research and Development (R&D)**
- **Strategic Acquisitions**

These reinvestments foster innovation, maintain competitive advantage, and ensure long-term growth.

4. Stock Buybacks

Infosys strategically repurchases its shares to enhance shareholder value. By reducing the number of outstanding shares, Infosys increases earnings per share (EPS), indirectly benefiting investors.

5. Economic Outlook

Infosys considers market conditions, global economic trends, and industry forecasts before finalizing profit distribution decisions. This strategic evaluation helps Infosys sustain growth even during economic downturns.

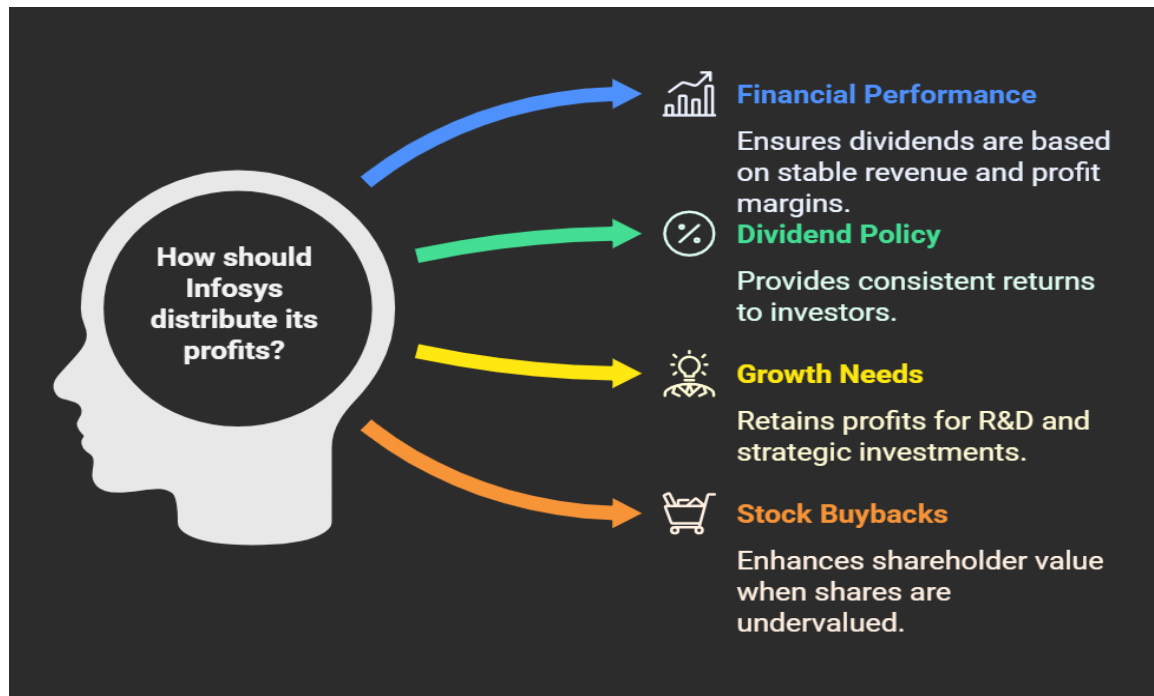


Figure-3: Distribution Strategies in Blue-Chip Companies

INFOSYS (DATA ANALYSIS)

In **FY 2023-24**, Infosys successfully balanced dividends, buybacks, and reinvestments. Key highlights include:

- **Revenue Growth:** Infosys reported a **15.4% YoY increase** in revenue, ensuring strong cash inflows.
- **Dividend Per Share:** Infosys announced an **₹16.50 interim dividend** and **₹17.50 final dividend**, providing attractive returns to investors.
- **Total Dividend Payout:** The total dividend payout during FY 2022-23 amounted to over **₹13,000 crore**.
- **Share Buyback:** Infosys conducted a significant buyback worth **₹9,300 crore**, ensuring capital appreciation for shareholders.

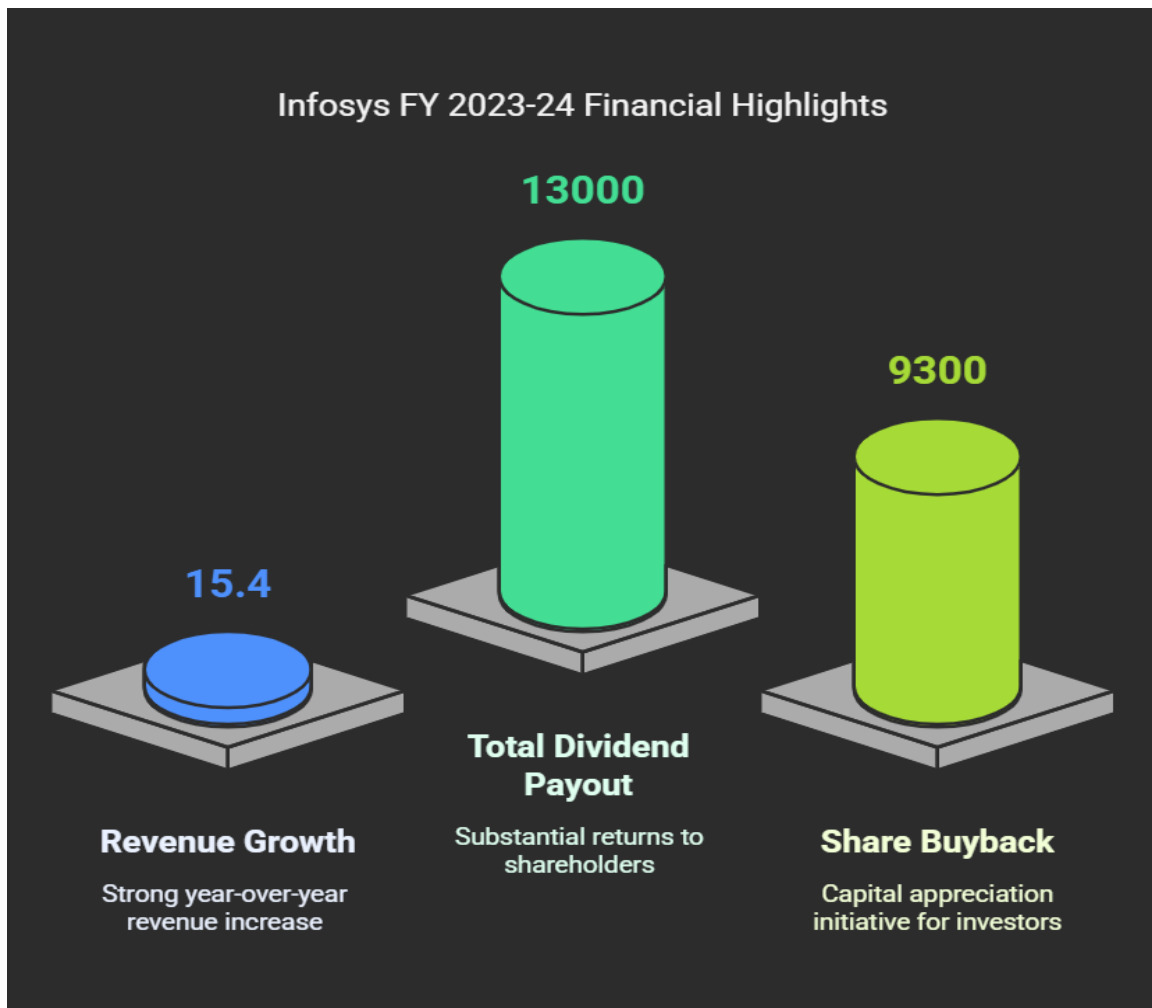


Figure-4: Infosys Financial Highlights

FACTORS INFLUENCING PROFIT DISTRIBUTION STRATEGIES

Several key factors influence how blue-chip companies like Infosys determine their profit distribution strategies:

1. Company Life Cycle

- **Startups and Growth-Stage Companies:** Often reinvest heavily in expansion rather than pay dividends.
- **Mature Companies:** Prefer stable dividends and occasional stock buybacks to maintain shareholder trust.

2. Shareholder Expectations

Companies assess investor preferences, ensuring their strategy aligns with shareholder needs for income stability or growth.

3. Market Conditions

Economic trends, inflation rates, and global uncertainties impact dividend decisions, ensuring flexibility during volatile periods.

4. Debt Obligations

Companies with significant debt may prioritize debt repayment to reduce interest costs before distributing dividends.

5. Earnings Stability

Businesses with stable and predictable earnings can afford to maintain consistent dividend payouts, strengthening investor trust.

6. Tax Efficiency Strategies

Infosys carefully evaluates tax-efficient methods, such as buybacks, which can provide shareholders with returns while minimizing tax burdens.

7. Regulatory Compliance

Compliance with SEBI, Companies Act, and tax regulations ensures ethical financial practices and investor protection.

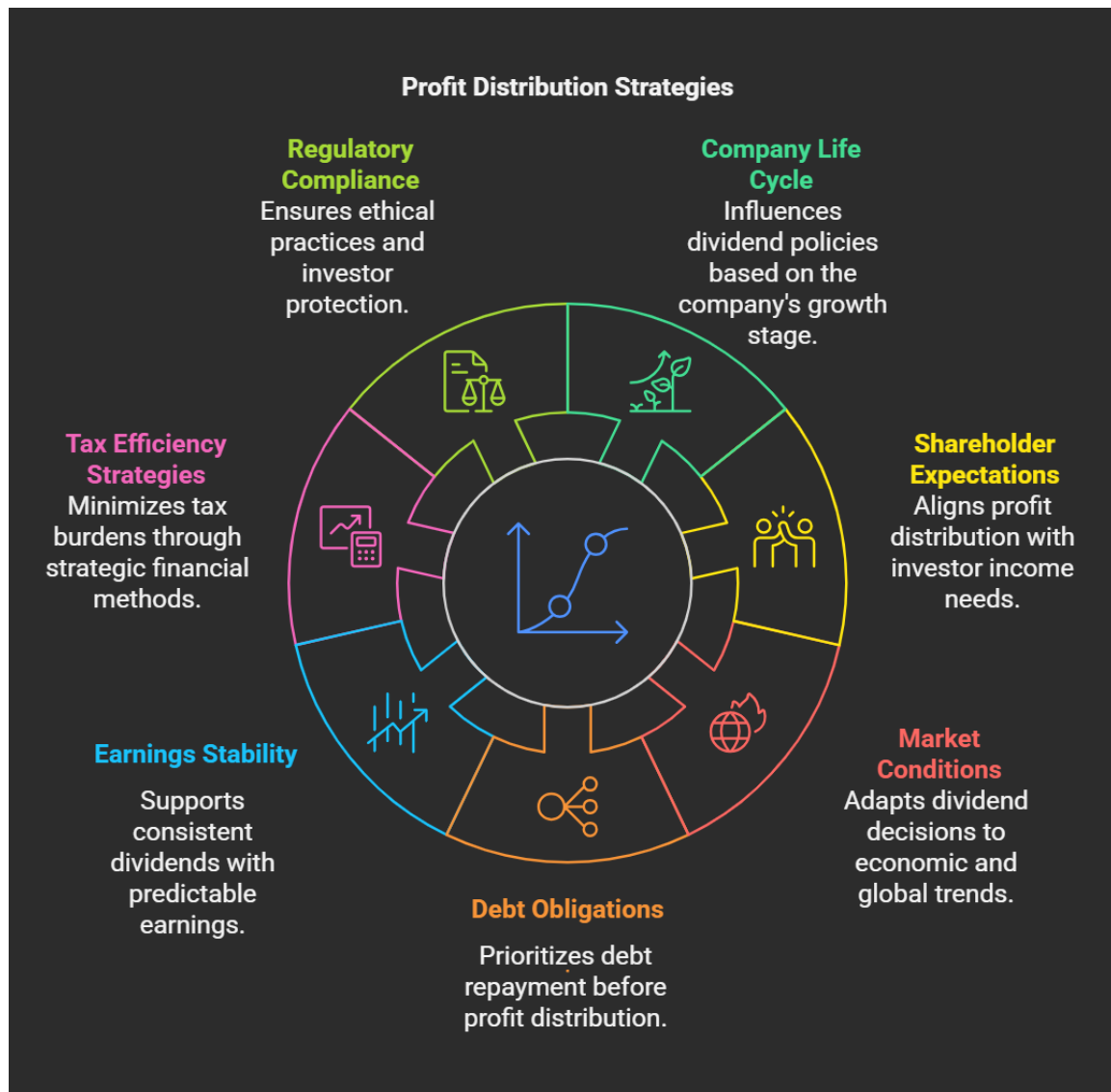


Figure-5: Profit Distribution Strategy

CONCLUSION

Profit distribution strategies are critical for maintaining investor confidence and achieving sustainable growth. Blue-chip companies like Infosys demonstrate the importance of balancing dividends, reinvestment, and buybacks to build long-term shareholder value. By understanding legislative principles and strategic decision-making, companies can maximize profitability while meeting stakeholder expectations.

Ultimately, a well-structured dividend policy reflects financial stability, attracts investors, and enhances corporate reputation. Companies that adopt data-driven profit distribution strategies are better equipped to achieve long-term success in competitive markets.

REFERENCES

1. Infosys Annual Report FY 2022-23
2. Companies Act, 2013 (India)
3. SEBI Regulations on Dividend Distribution
4. Income Tax Act, 1961
5. Financial Times Reports on Infosys' Financial Strategies