

A STUDY ON DIVIDEND DECISION ANALYSIS OF INFOSYS

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Abstract - The objective of this present study is financial management that is to use business funds in such a way that the firm's earnings are maximized. So choose a study to conduct on the dividend decision of "Infosys" using ratios in comparison with previous year performance. The purpose of this paper is how finance managers will take the Dividend Decision towards his shareholders. This is one of the crucial decisions made by the finance manager relating to the payouts to the shareholders. The payout is the proportion of Earning Per Share given to the shareholders in the form of dividends.

The core objective of this present study is how the decisions are made over dividends owner for the welfare of a business. These objectives can be achieved by Retained earnings and Shareholder's wealth maximization.

This study covered of profits and shares of Infosys drawn from annual report of the company. Ratio analysis is used for evaluating shares and earnings. In this study an attempt is made to know the growth of total investment and earnings of Infosys for the past 10 years.

Keywords: Diversity, equal opportunities, valuing diversity, strategic HRM, India

1.0 INTRODUCTION

The term dividend refers to that part of the profits of a company which is distributed amongst its shareholders. It may therefore be defined as the return that a shareholder

gets from the company, out of its profits, on his share holdings. "According to the Institute of Chartered Accounts of India" dividend is a "Distribution to shareholder out of profits or reserves available for this purpose"

The Dividend policy has the effect of dividing its net earnings into two Parts: Retained earnings and dividends. The retained earnings provide funds to finance the long-term growth. It is the most

significant source of financing a firm's investment in practice. A firm, which intends to pay dividends and also needs funds to finance its investment opportunities, will have to use external sources of finance. Dividend policy of the firm. Thus has its effect on both the long-term financing and the wealth of shareholders. The Moderate view, which asserts that because of the information value of dividends, some dividends should be paid as it may have favorable affect on the value of the share.

The theory of empirical evidence about the dividend policy does not matter if we assume a real world with perfect capital markets and no taxes. The second theory of dividend policy is that there will definitely be low and high payout clients because of the differential personal taxes. The majority of the holders of this view also show that balance, there will be pre-ponderous low payout clients because of low capital gain taxes.

The third view argues that there does exist an optimum dividend policy. An optimum dividend policy is justified in terms of the information in agency costs.

1.1 IMPORTANCE OF THE STUDY

A Dividend decisions are an important aspect of corporate financial policy since they can have an effect on the availability as well as the cost of capital. The Lintner proposition which asserts that the corporate management maintains a constant target payout ratio has been the most influential. However, the concept of primary of dividend decisions as well as the reasons for it are not unambiguously defined. There is a variety of theories which attempt to rationalize the observed secular constancy of the dividend payout ratio.

The dividend policy of a firm determines what proportion of earnings is paid to shareholders by the way of dividends and what proportion is ploughed back in the firm reinvestment purposes. If a Firm's capital budgeting decision is independent of its dividend of its dividend policy, a higher dividend payment will entail a greater dependence on external financing. On the other hand, if a firm's capital

budgeting decision is dependent on its dividend decision, a higher payment will cause shrinkage of its capital budget and vice versa. In such a case the dividend policy has a bearing on the capital budgeting decision.

1.2 NEED FOR THE STUDY

The principal objective of corporate financial management is to maximize the market value of the equity shares. Hence the key question of interest to us in this study is, "What is the relationship between dividend policy and market price of equity shares?"

Most of the discussion on dividend of dividend policy and firm value assumes that the investment decision of a firm is independent of its dividend decision. The need for this study arise from the above raised question and the most controversial and unresolved doubts about the Relevance and Irrelevance of the dividend policy.

1.3 OBJECTIVES OF THE STUDY

The basic objective of this study is as follows:

1. To understand the importance of the dividend decision and their impact on the firm's capital budgeting decision.
2. To know the various dividend policies followed by the firms.
3. To understand the theoretical backdrop of the various divided theories.
4. To derive the empirical evidence for the relevance theory of dividend WALTER'S MODEL.

1.4 RESEARCH METHDOLOGY

Sample: The sample of this study consists of financial data of "Infosys" for the past ten years.

Tool:

- Formulae's
- Tables
- Graphs

Techniques:

- Ratio analysis
- Relevance &
- Irrelevance dividend theories

Period of the study:

The period of any research is the period which the data has been collected and analyzed. The period of this study has been limited to the period from 01-01-2010 to 31-12-2019.

Sources of data:

Data required for conducting this study has been collected from the various web portals, **Books & Magazines** as the data is basically secondary in nature. Secondary data is used such as websites, discussions with seniors, obtaining information from senior authorities and also make a use of same financial reference book.

1.5 LIMITATIONS

Every study has its own limitations. These rise due to the method of sampling used, the method of data collection and the source of the data apart from many other things. The limitations of this study are as follows:

1. The data collected is of secondary nature and hence it is difficult to ascertain the reliability of the data.
2. The scope of the study has been limited to the impact of the dividend on the market value of the firm's equity.
3. The period of the study has been limited to only ten years.
4. Time period of this study is also limited.

2.0 REVIEW OF LITERATURE

Dividend decisions, as the very name suggests, refers to the decision-making mechanism of the management to declare dividends. It is crucial for the top management to determine the portion of earnings distributable as the dividend at the end of every reporting period. A company's ultimate objective is the maximization of shareholders wealth. It must, therefore, be very vigilant about its profit-sharing policies to retain the faith of the shareholders. Dividend payout policies derive enormous importance by virtue of being a bridge between the company and shareholders for profit-sharing. Without an organized dividend policy, it would be difficult for the investors to judge the intentions of the management.

Moreover, the dividend policies of an organization have a significant bearing on the market value of stocks. Dividends must be distributed in line with the industry standards. The shareholders will otherwise perceive this variability negatively. It casts a suspicion on the financial health and motives of the management (signaling effect). In aggregate, an inefficient dividend decision mechanism would adversely impact the valuation of the company.

A major decision of financial management is the dividend decision in the sense that the firm has to choose between distributing the profit's to the shareholders and plugging them back into the business. The choice would obviously hinge on the effect of the decision on the maximizations of shareholders wealth. Given the objective of financial management of maximizing present values, the firm should be guided by the considerations as to which alternative use is consistent with the goal of wealth maximization. That is, the firm would be well advised to use the net profit's for paying dividends to the shareholders if that payment will lead to the maximization of wealth of the owners. If not, the firm should rather retain them to finance investment programmes. The relationship between dividends and value of the firm should therefore, be the decision criterion.

Objects of Dividend Decisions

Cash Requirement

The financial manager must take into account the capital fund requirements while framing a dividend policy. Generous distribution of dividends in capital-intensive periods may put the company in financial distress.

Evaluation of Price Sensitivity

Companies chosen by investors for its regularity of dividend must have a more stringent dividend policy than others. It becomes essential for such companies to take effective dividend decisions for maintaining stock prices.

Stage of Growth

Dividend decision must be in line with the stage of the company- infancy, growth, maturity & decline. Each stage undergoes different conditions and therefore calls for different dividend decisions.

Good Dividend Policy

There does not exist a single dividend decision process that works for every organization. A decision suitable for one company may prove fatal for another company. For example, businesses with a consistent order book such as telecom and banking are expected to pay regular dividends. It may impact the stock prices if they do not pay dividends regularly. To the contrary, sectors of pharmaceutical and technology are highly research oriented. Huge cash expenses are required to further their operations. Therefore they cannot afford to pay a regular dividend. Investors of such stocks earn income mainly through capital appreciation. In essence, there are a lot of factors affecting dividend policy or decision.

We can refer to following renowned theories on Dividend Policy:

1. Modigliani- Miller Theory on Dividend Policy
2. Gordon's Theory on Dividend Policy
3. Walter's Theory on Dividend Policy

IRRELEVANCE OF DIVIDENDS

MODIGLIANI AND MILLER MODEL:

M&M Theory 1's assumption that there are no taxes is unrealistic. Taxes exist, and interest expense is tax deductible i.e. the ultimate tax burden of a company with debt in its capital structure is lower than a company with zero or lower debt. This brings us to M&M Theory 2 which relaxes the zero-tax assumption.

Proposition 1

In a tax environment, the value of a levered company is higher than the value of an unlevered company by an amount equal to the product of absolute amount of debt and tax rate.

This can be expressed mathematically as follows:

$$V_L = V_{UL} + t \times D$$

Where V_L is the value of levered company i.e. company with some debt in its capital structure, V_{UL} is the value of an un-levered company i.e. with no or lower debt, t is the tax rate and D is the absolute amount of debt.

Proposition 2

Since interest expense is tax-deductible, our equation for the weighted average cost of capital modifies as follows:

$$WACC = k_e \times \frac{E}{V} + k_d \times (1 - t) \times \frac{D}{V}$$

All other variables are the same as in Proposition 2 of Theory 1 except for the factor of (1 - t) which represents the tax shield i.e. the decrease in effective cost of debt due to existence of tax benefit of debt.

After some mathematical adjustment, we get the following function for cost of equity in a positive-tax environment:

$$k_e = WACC + (WACC - k_d) \times (1 - t) \times \frac{D}{E}$$

The above equation is the same as in Proposition 2 of Theory 1 except for the factor of (1 - t). The consequence of debt shield is that cost of equity increases with an increase in D/E but the increase is less pronounced than in a no-tax environment.

The implication of M&M theory with tax is that the capital structure is no longer irrelevant. The value of a company with debt is higher than the value of a company with no or lower debt.

RELEVANCE OF DIVIDENDS

In sharp contrast to the MM position, there are some theories that consider dividend decisions to be an active variable in determining the value of a firm. The dividend decision is, therefore, relevant. We critically examine below theories representing this notion:

- 1) WALTERS MODEL
- 2) GARDENS MODEL

1. Walter’s model:

Professor James E. Walter argues that the choice of dividend policies almost always affects the value of the enterprise. His model shows clearly the importance of the relationship between the firm’s internal rate of return (r) and its cost of capital (k) in determining the dividend policy that will maximize the wealth of shareholders.

Walter’s model is based on the following assumptions:

1. The firm finances all investment through retained earnings; that is debt or new equity is not issued
2. The firm’s internal rate of return (r), and its cost of capital (k) are constant
3. All earnings are either distributed as dividend or reinvested internally immediately.
4. Beginning earnings and dividends never change. The values of the earnings per share (E), and the divided per share (D) may be changed in the model to determine results, but any given values of E and D are assumed to remain constant forever in determining a given value.
5. The firm has a very long or infinite life.

Walter’s formula to determine the market price per share (P) is as follows.

$$P = D/K + r(E-D)/K/K$$

The above equation clearly reveals that the market price per share is the sum of the present value of two sources of income:

- i) The present value of an infinite stream of constant dividends, (D/K) and
- ii) The present value of the infinite stream of stream gains.

2. Gordon’s Model:

One very popular model explicitly relating the market value of the firm to dividend policy is developed by Myron Gordon.

Assumptions:

Gordon’s model is based on the following assumptions.

1. The firm is an all Equity firm
2. No external financing is available
3. The internal rate of return (r) of the firm is constant.
4. The appropriate discount rate (K) of the firm remains constant.

5. The firm and its stream of earnings are perpetual
6. The corporate taxes do not exist.
7. The retention ratio (b), once decided upon, is constant. Thus, the growth rate (g) = br is constant forever.
8. $K > br = g$ if this condition is not fulfilled, we cannot get a meaningful value for the share.

According to Gordon’s dividend capitalisation model, the market value of a share (Pq) is equal to the present value of an infinite stream of dividends to be received by the share. Thus:

$$P_0 = \frac{E_1 (1 - b)}{K - br}$$

The above equation explicitly shows the relationship of current earnings (E₁), dividend policy, (b), internal profitability (r) and the all-equity firm’s cost of capital (k), in the determination of the value of the share (P₀)

3.0 company profile.

Established in 1981, Infosys is a NYSE listed global consulting and IT services company with more than 228,000 employees. From a capital of US\$ 250, we have grown to become a US\$ 11.8 billion (FY19 revenues) company with a market capitalization of approximately US\$ 47.7 billion.

In our journey of over 37 years, we have catalyzed some of the major changes that have led to India's emergence as the global destination for software services talent. We pioneered the Global Delivery Model and became the first IT Company from India to be listed on NASDAQ. Our employee stock options program created some of India's first salaried millionaires.

INDUSTRY	EXECUTIVE LEADERSHIP
INDUSTRY: Software & Programming	Nandan M. Nilekani (Non-Executive Non-Independent

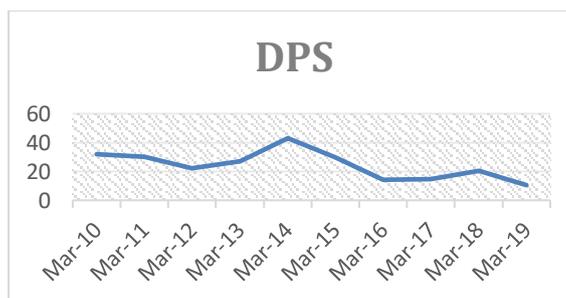
	Chairman of the Board)
CONTACT INFO Electronics City, Hosur Road +91.80.28520261 https://www.infosys.com/	Mohit Joshi (President)
	Ravi Kumar S. (President, Deputy Chief Operating Officer)
	Salil S. Parekh (Chief Executive Officer, Managing Director, Whole Time Director)
	Nilanjan Roy (Chief Financial Officer)

4.0 - DATA ANALYSIS & INTERPRETATION EARNING PER SHARE

Table no:1

MONTH/YEAR	EPS(Rs.)
Mar-10	101.1
Mar-11	112.26
Mar-12	147.51
Mar-13	158.76
Mar-14	178.39
Mar-15	105.91
Mar-16	55.26

Mar-17	60.16
Mar-18	71.28
Mar-19	33.66



Graph No:2

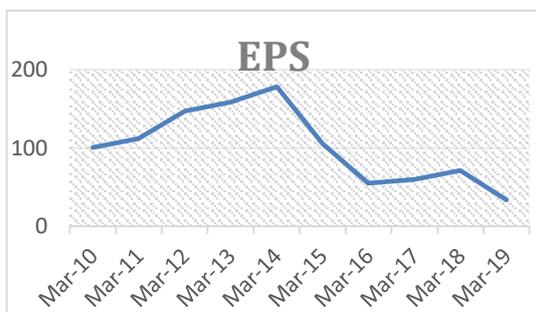
INTERPRETATION

Dividend per share in the year 2010 it was 32 and in the next immediate year it suddenly decreased to 30 and from there it's slowly the improvement started year by year and in the year 2014 it went 43, which is highest among all the years. And for the next years there was drastical change it fell down to 10.5.

Dividend Payout Ratio

Table No:3

MONTH/YEAR	DPS	EPS	DPR
Mar-10	32	101.1	31.65183
Mar-11	30	112.26	26.72368
Mar-12	22	147.51	14.91424
Mar-13	27	158.76	17.0068
Mar-14	43	178.39	24.10449
Mar-15	29.5	105.91	27.85384
Mar-16	14.25	55.26	25.78719
Mar-17	14.75	60.16	24.51795
Mar-18	20.5	71.28	28.75982
Mar-19	10.5	33.66	31.1943



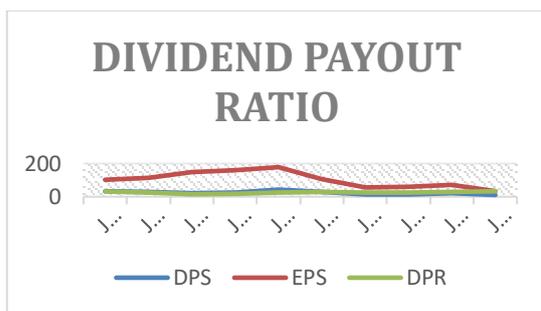
Graph no:1

INTERPRETATION

The Earning per share in the year 2014 was 178.39 which was highest among the historical prices till the sample period. From the next immediate year onwards, it's going on constantly decreasing as we can see in the above table year by year. EPS of Infosys in year of 2019 was 33.66. **Dividend Per Share**

Table No:2

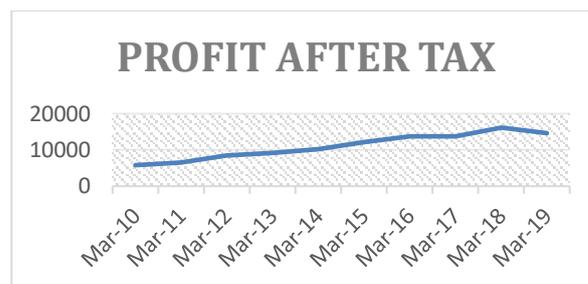
MONTH/YEAR	DPS(Rs.)
Mar-10	32
Mar-11	30
Mar-12	22
Mar-13	27
Mar-14	43
Mar-15	29.5
Mar-16	14.25
Mar-17	14.75
Mar-18	20.5
Mar-19	10.5



Graph No:3

INTERPRATATION:

DPR for the first three years i.e. 2010-2013 decreases from 31.6 to 14.9. Dividend payout ratio was representing a very good graphical presentation from 2014 due to its constant increase in ratio year by year, though there was slight decrease situation in some years the impact is not there. The highest ratio was in the year 2019, 31.1.



Graph No:4

INTERPRETATION

For every business profit is the ultimate motto to run a business, coming to profit after tax for the above graph and table its constantly increasing year by year which is a very good sign and it was showing consistence increasing year by year till 2019.

RESERVES & SURPLUS

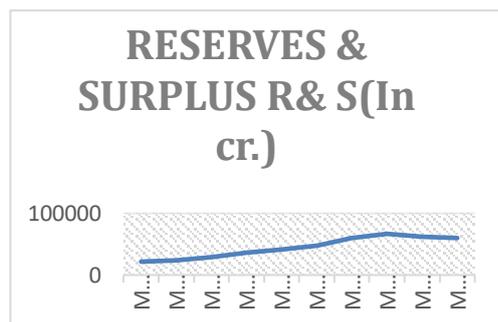
Table No:5

Profit after Tax

Table No: 4

MONTH/YEAR	PAT(in Cr.)
Mar-10	5803
Mar-11	6443
Mar-12	8470
Mar-13	9116
Mar-14	10194
Mar-15	12164
Mar-16	13693
Mar-17	13818
Mar-18	16155
Mar-19	14702

MONTH/YEAR	R&S(In cr.)
Mar-10	21749
Mar-11	24214
Mar-12	29470
Mar-13	35772
Mar-14	41806
Mar-15	47494
Mar-16	59934
Mar-17	66869
Mar-18	62410
Mar-19	60533



Graph No:5

INTERPRETATION:

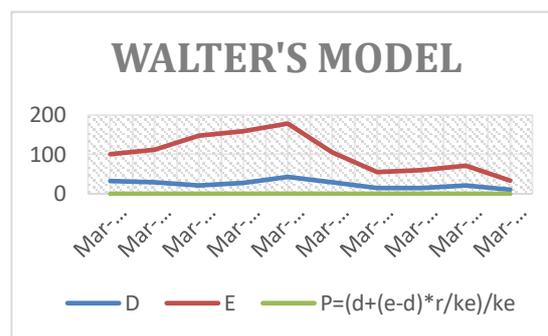
Reserves and surplus for the above graph and table is a very good example for the consistence growth due to which the table and graph are also looking very neat. It has shown a consistence increase in its performance year by year and in the year 2017 it has shown a tremendous performance, but after 2017 it has decreased for next years

WALTER'S MODEL

Table No:6

Cost of capital=158.3; r=20

MONTH/YEAR	D	E	$P=(d+(e-d)*r/ke)/ke$
Mar-10	32	101.1	0.26
Mar-11	30	112.26	0.26
Mar-12	22	147.51	0.24
Mar-13	27	158.76	0.28
Mar-14	43	178.39	0.38
Mar-15	29.5	105.91	0.25
Mar-16	14.25	55.26	0.12
Mar-17	14.75	60.16	0.13
Mar-18	20.5	71.28	0.17
Mar-19	10.5	33.66	0.08



Graph No:6

INTERPRETATION

The price of a share by using Walter's model has been decreased from year by year, because the assumption for this model is absentism of taxes. Walter model is very low in year of 2019..

Dividend Summary of Infosys

For the year ending March 2019 Infosys has declared an equity dividend of 430.00% amounting to Rs 21.5 per share. At the current share price of Rs 767.85 this results in a dividend yield of 2.8%.

The company has a good dividend track report and has consistently declared dividends for the last 5 years.

Anno uncem ent Date	Effec tive Date	Div ide nd Ty pe	Di vid en d (%)	Remarks
11-10-2019	23-10-2019	Inte rim	160	Rs.8.0000 per share(160%)Interim Dividend
12-04-2019	13-06-2019	Fin al	210	Rs.10.5000 per share(210%)Final Dividend
11-01-2019	24-01-2019	Spe cial	80	Rs.4.0000 per share(80%)Special Dividend

16-10-2018	25-10-2018	Interim	140	Rs.7.0000 per share(140%)Interim Dividend
12-04-2018	14-06-2018	Final	410	Rs.20.5000 per share(410%)Final Dividend
13-04-2018	14-06-2018	Special	200	Rs.10.0000 per share(200%)Special Dividend
10-10-2017	31-10-2017	Interim	260	Rs.13.0000 per share(260%)Interim Dividend & Buy Back of shares
13-04-2017	01-06-2017	Final	295	Rs.14.7500 per share(295%)Final Dividend.
16-09-2016	21-10-2016	Interim	220	Rs.11.0000 per share(220%)Interim Dividend
15-04-2016	09-06-2016	Final	285	Rs.14.2500 per share(285%)Final Dividend
15-09-2015	16-10-2015	Interim	200	Rs.10.0000 per share(200%)Interim Dividend
24-04-2015	15-06-2015	Final	590	Rs.29.5000 per share(590%)Final Dividend (equivalent to Rs. 14.75/- per share after 1:1 bonus issue)
28-08-2014	16-10-2014	Interim	600	Rs.30.0000 per share(600%)Interim Dividend
15-04-2014	29-05-2014	Final	860	Rs.43.0000 per share(860%)Final Dividend
26-09-2013	17-10-2013	Interim	400	Rs.20.0000 per share(400%)Interim Dividend

12-04-2013	30-05-2013	Final	540	Rs.27.0000 per share(540%)Final Dividend
24-09-2012	18-10-2012	Interim	300	Rs.15.0000 per share(300%)Interim Dividend
13-04-2012	24-05-2012	Final	640	Rs. 22.00 per share (440%) Final Dividend & Rs.10.00 per share (200%) Special Dividend
22-09-2011	20-10-2011	Interim	300	-
15-04-2011	26-05-2011	Final	400	-
29-09-2010	21-10-2010	Interim	800	Rs.10.00 per share(200%)Interim Dividend & Rs.30.00 per share(600%)Special Dividend.
13-04-2010	26-05-2010	Final	300	-
22-09-2009	15-10-2009	Interim		

5.0 - FINDINGS, SUGGESTIONS & CONCLUSION

5.1 – FINDINGS

1. The Earning per share in the year 2014 was 178.39 which was highest among the historical prices till the sample period. From the next immediate year onwards, it's going on constantly decreasing as we can see in the above table year by year. EPS of Infosys in year of 2019 was 33.66.
2. Dividend per share in the year 2010 it was 32 and in the next immediate year it suddenly decreased to 30 and from there

it's slowly the improvement started year by year and in the year 2014 it went 43, which is highest among all the years. And for the next years there was drastical change it fell down to 10.5.

3. DPR for the first three years i.e. 2010-2013 decreases from 31.6 to 14.9. Dividend payout ratio was representing a very good graphical presentation from 2014 due to its constant increase in ratio year by year, though there was slight decrease situation in some years the impact is not there. The highest ratio was in the year 2019, 31.1.
4. For every business profit is the ultimate motto to run a business, coming to profit after tax for the above graph and table its constantly increasing year by year which is a very good sign and it was showing consistence increasing year by year till 2019
5. Reserves and surplus for the above graph and table is a very good example for the consistence growth due to which the table and graph are also looking very neat. It has shown a consistence increase in its performance year by year and in the year 2017 it has shown a tremendous performance, but after 2017 it has decreased for next years

5.2 - SUGGESTIONS

The following Suggestions are being provided to Infosys

Investors always prefer the dividend payment for Capital appreciation. Hence some amount of Dividend must be paid regularly. Unless the Payment will reduce the net worth of the industry.

The industry should improve the dividend per share.

The industry should follow stable dividend policy.

When the industry get the price earning highly, That industry will Grow.

Company must improve its liquidity position.

5.3 - CONCLUSION

Dividend decision refers to the policy that the management formulates in regard to earnings for distribution as dividends among shareholders.

Dividend decision determines the division of earnings between payments to shareholders and retained earnings.

The Dividend Decision, in [Corporate finance](#), is a decision made by the directors of a company about the amount and timing of any cash payments made to the company's stockholders. The Dividend Decision is an important part of the present day corporate world.

The Dividend decision is an important one for the firm as it may influence its [capital structure](#) and [stock price](#). In addition, the Dividend decision may determine the amount of taxation that stockholders pay.

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