Dividend policy has significant influence on corporate finance. On this policy depends the amount of retained earnings a company can generate to meet its future fund requirements which again will influence the decision on tapping of funds from other source. The company at its initial stage of growth has very small profit and therefore, cannot generate enough funds for distribution as reasonable dividend and has therefore to retain the earnings with itself. With the passage of time, as the company grows larger it makes enough profit all of which again cannot be distributed as dividend and part has to be retained for future use which will contribute to the maintenance or, may be, improvement of dividend to be paid by the company. It is in such cases dividend policy plays a very important role to determine the amount to be distributed and the amount to be retained in the business. This paper has sought to bring about a relationship between dividend and retention and to find the 'golden mean' path that can be followed. Special reference has been made to
sterling tea companies which had certain peculiarities so far as dividend and retention policies are concerned.

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