INTRODUCTION

BACKGROUND OF STUDY

Dividend is paid to the shareholders out of the distributable profit arising in the current year or out of retention from profits of previous years or from both. How much of the distributable profit will be paid as dividend and how much will be retained will depend on the dividend policy that a company follows, which has an important influence on the corporate finance.

ISSUES INVOLVED

In this paper an effort has been made to identify the influence of dividend policy on corporate finance and whether a relationship can be drawn between the dividend and retained earnings of a company. A special reference has been made to sterling tea companies to examine the particular factors peculiar to these groups of companies influencing their dividend policy.
METHODOLOGY

The established theories on dividend have been examined and an endeavour has been made to draw a conclusion from the application of these theories. Comparison has been made of dividend and share prices of thirty companies which are widely traded in the Stock Exchange and a basket has been formed of high, low and non dividend paying companies to make the comparison more meaningful. Comparison has also been made of ten sterling tea companies to show their distribution of dividend compared to their earnings.

Information regarding these companies have been made from primary and secondary sources and personal interviews have been conducted wherever necessary.

Based on information obtained these comparisons have been made through accounting ratios and statistical formulae.
SCHEME OF STUDY

The study has been divided into six chapters. Chapter I deals with the various sources of corporate finance and covers both short term and long term sources. Taking a cue from Chapter I, Chapter II moves on to retained earnings as a source of corporate finance. Retained earnings being an offshoot of the company's dividend policy, Chapter III deals with the factors influencing dividend policy while Chapter IV compares dividend policy with other sources of finance. An equilibrium point has been sought to be drawn amongst the various divergent views in Chapter V, which also contains a summary of the findings and conclusions. Chapter VI refers to sterling tea companies with the analysis of ten such companies with particular reference to their dividend distribution and earnings.