

An Appraisal of Dividend Policy of the Selected Textile Companies of Bangladesh

Submitted To

**Professor Dr. Tanbir Ahmed Chowdhury
Dean, FBE & Chairperson
Department of Business Administration
East West University**

Submitted By

**Pritom Kumar Jalan
ID-[2011-1-10-229]**

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A PROJECT PAPER

ON

**An Appraisal of Dividend Policy of the Selected Textile Companies
of Bangladesh**

LETTER OF TRANSMITTAL

December 18, 2014

Professor Dr. Tanbir Ahmed Chowdhury
Dean, FBE & Chairperson
Department of Business Administration.
East West University.

Subject: Project paper on “An Appraisal of Dividend Policy of the Selected Textile Companies of Bangladesh”.

Sir,

Here is the report you asked me to prepare and submit as a part of our Academic curriculum. I have been assigned to prepare a project on “*An Appraisal of Dividend Policy of the Selected Textile Companies of Bangladesh*” based on the annual reports of 2009 to 2013. Basically this report focuses on the dividend policy of textile industry in Bangladesh. It is a great pleasure for me to submit this paper.

I have tried my best to make it a good one within given time. Any sort of suggestion regarding this paper would be gladly appreciated and I would be gratified if this paper serves its purposes.

For any of your further queries please contact with me at pritom_jalan@yahoo.com

Sincerely,

*Pritom Kumar
18-12-2014*

Pritom Kumar Jalan

ID: 2011-1-10-229.

Acknowledgement

This report is the result of many people's contributions and help. At this moment I want to thank those people who extended their help providing suggestions and advices.

Special thanks goes to my honorable project coordinator:

Professor Dr. Tanbir Ahmed Chowdhury

Dean, FBE & Chairperson

Department of Business Administration.

East West University.

Who helped me giving tips, suggestions and valuable advices regarding the report. He is also credited for his excellent advising methods in this course. I also want to thank those writers whose books helped me to prepare this valuable report. And also thanks Rahim Textile Mills Limited, Apex spinning & Knitting Mills Limited, Square textiles Limited, Dacca Dyeing & Manufacturing Co. Ltd., and Desh Garments Limited to provide important information's. I also give show gratitude to Dhaka stock exchange for giving me valuable information to prepare this report.

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Executive summary

Appraise the dividend policy, identify the problems of its dividend policy, and suggest remedial action for improvement of the dividend policy of selected textile Companies. Here we have the data from 2009-2013. We have net income, dividend, EPS, retained earnings.

Growth in net income is even more important than sales because net income tells the investor how much money is left over after all of the operating costs are subtracted from sales.

Dividend payout ratio was in increasing trend for most of the companies but in sometimes the dividend payout ratio was decreasing trend because of net income negative growth rate.

Most of the companies declared cash dividend. And Square Textiles Limited declares both stock and cash dividend in every year to their shareholders. On the other hand, some companies also declared stock and cash dividend but not in every five years.

From 2009 to 2013, EPS is increasing and decreasing respectively. It is fluctuating in this time period. EPS was not same in those years. Even the EPS was decreased. So the growth of EPS was also negative in the particular years. The growth of Earning per share is decreasing each year, which is not good for both the firm and for the shareholders. The following years the EPS is consolidated.

Chapter 01

INTRODUCTION

Bangladesh is a developing country; the importance of corporate finance is growing very slightly in our country. One of the important aspects of a corporation is its "Dividend Policy" that affects the financial structure of a firm, flow of funds, liquidity, price of stocks, and shareholder's satisfaction and so forth. This paper attempts to determine how the textile industry in Bangladesh uses its dividend policy to increase the value of the firm and the impact of dividend policy on its stock price. I tried to illustrate and analyze net income, earning per share, cash dividend, stock dividend, dividend payout ratio and right share for empirical analysis of dividend distribution of textile industry in Bangladesh. The expectations of dividends by shareholders helps them determine the share value, therefore, dividend policy is a significant decision taken by the financial managers of any company.

Dividend Policy is concerned with taking a decision regarding paying cash in the present or paying an increased dividend at a later stage. The firm could also pay in the form of stock dividends which unlike cash dividends do not provide liquidity to the investor; however, it ensures capital gains to the stockholders. The expectations of dividends by shareholders helps them determine the share value, therefore, dividend policy is a significant decision taken by the financial managers of any company.

By studying this report we are able to commend regarding dividend policy and practice of textile industry in Bangladesh. In this report I tried to describe several concept of dividend policy (dividend theory, types). Besides, we also accumulate knowledge of several textile industries in Bangladesh. This report also tries to explore several indicators those are used to measure a company wealth and these indicators help investors to make right decisions to invest in good company.

At the end of the report I tried to identify problems associate with dividend policy and theory. I also tried to provide a number of suggestions to resolve dividend problems which may a company could take to attract investors and make them wealthy rather than other company in the industry.

1.1 Origin of the Study

East West University and supervisor of project (BUS-498) give the responsibility of preparing a report on “dividend policy of textile industry in Bangladesh” by assigning it during the ending of B.B.A. program. This report is required as a part of fulfilling the curriculum of B.B.A. program. I have given my best effort to appropriately apply my potentiality and theoretical knowledge to make the report reliable and information worthy. Hopefully my sincere effort will be regarded as successful if this dissertation fulfills the objective of the B.B.A. program.

1.2 Objective of the Study

The objective of this report is to pin point several factors _

- ❖ To present an overview of financial position of selected textile companies.
- ❖ To appraise the dividend policy of “Rahim Textile Mills Limited, Apex spinning & Knitting Mills Limited, Square textiles Limited, Dacca Dyeing & Manufacturing Co. Ltd., and Desh Garments Limited”.
- ❖ To identify the problems of dividend policy of the selected textile companies.
- ❖ To suggest remedial measures for the development of the selected textile companies.

1.3 Scope and Methodology

This report is developed to analyze the dividend policy and theory of “Rahim Textile Mills Limited, Apex spinning & Knitting Mills Limited, Square textiles Limited, Dacca Dyeing & Manufacturing Co. Ltd., and Desh Garments Limited”. At the same time we also know a number of concept regarding dividend fundamentals. We also pile up knowledge such as, functions, activities and services performing by above mention companies.

To conduct this report the information collects from various sources. Five years data used to conduct this report (2009 to 2013) and mostly collected from annual report of respected companies.

The report uses secondary data to analyses the dividend policy of “Rahim Textile Mills Limited, Apex Spinning & Knitting Mills Limited, Square Textiles Ltd, Dacca dyeing & manufacturing Co. Ltd, Desh Garments Limited”. Mostly data are collected from annual reports. And also company websites and stock exchange plays a good role to collect information. Discussion with

experts was another source of information to conduct the report. I could not use questionnaire and direct consultation with company as sources of primary information because of some constraints that is why this project is totally based on secondary information.

1.4 Limitation of the study

To make this report widely acceptable and lucrative I was facing quite a lot of barriers. Those barriers or limitations are given below:

- ❖ Some information was withheld to retain the confidentiality of the organization.
- ❖ The time span was not sufficient enough to learn all the activities of the organization properly.
- ❖ Lack of co-operation from the data source.
- ❖ Project is for academic purpose that is why time period is short.

Chapter: 02

COMPANY PROFILES

Here some of the information of the selected textile companies are provided. In this section I am trying to introduce company operations, products, key personnel and most specifically company financial situation.

2.1 Rahim Textile Mills Limited

Rahim Textile Mills Limited a public limited company, started commercial operation in 1987 with dyeing, printing and finishing unit. The company has pioneered the printing of Viscose, Stretch Poplin, all categories of knit fabric and other textile products. The products of the processing mill conform to the International standard. The company's Senior Management Team consists of a group of highly qualified and very well trained professionals who run the units with extreme efficiency, optimizing productivity, minimizing loss and wastages and dealing with all personnel in the lawful manner. The 7,500 strong workforces have given loyal support to the growth of the company. They are extremely dedicated and are very easily trainable adapting to new technologies and opportunities.

Company Vision

We view businesses as a means to the materials and social well being of the investors, employees and society at large. Leading to accretion of wealth through financial and moral gains as a part of the process of the human civilization.

Company Mission

Our mission is to produce and provide world class textile and garments products and services and position the country in the higher value segments in the international market.

Company Products

- ❖ Woven Solid Dyed Fabrics like Cotton Poplin, Stretch Poplin, Cotton Twill, Stretch Twill, Canvas and Sheeting, Voile, TC, Polyester, etc.

- ❖ Woven Printed Fabrics like Cotton Poplin, Stretch Poplin, Cotton Twill, Stretch Twill, Canvas and Sheeting, Voile, TC, Polyester, etc.
- ❖ Knit Printed Fabrics like Cotton, CVC, Lycra, Polyester, etc.

Major buyers and country

Buyers	Country	Buyers	Country
C&A	Germany	K-Mart	New Zealand
H&M	Sweden	M&S	UK
Zara	Spain	KIK	Germany
Matalan	UK	NKD	Germany
Lindex	Sweden	Avon	USA
Tesco	Hong Kong	Decathlon	France

2.2 Apex Spinning & Knitting Mills Limited

Apex Spinning & Knitting Mills Limited is a complete vertically integrated factory, where yarn to finished garment is produced under one roof. The factory produces and exports some 1.3 million pcs of garments every month to North America, Europe and the South East Asia. Apex Spinning and Knitting Mills Limited (ASKML) was incorporated in 1990 as a public limited company and listed with our national stock exchanges, which are Dhaka Stock Exchange, and Chittagong Stock Exchange. The company was initially formed for processing and export of knit garments, however subsequently, state of the art plant and equipment was added for handling all kinds of knitted fabrics and now ASKML is a leading manufacturer and exporter of all kinds of textiles knitted garments.

Company quality philosophy

We believe that only by after providing our Customers with the Services and Products specified at the requested time, and in the stated manner, we can claim to be a Quality Conscious Company, and expect our Customer's continued patronage. Therefore we as a Company must at all times ensure that we all participate in producing our products in accordance with our customer's requirements. Apex has an enviable reputation as an international garment

manufacturer and our reputation is based on a simple but unwavering philosophy that runs through every aspect of our business.

Quality is everything, and for that we continue to maintain compliance standard for our consumer markets in the European Union and North America, and that has been our philosophy. To ensure quality our own Quality Assurance Department (QAD), under the leadership of a highly experienced quality manager and a team of well-trained quality inspectors are operating the QAD independently from the production team. They are submit their reports directly & only to the upper key management personal. The QAD works very hard to ensure the desired quality standards using the most sophisticated and modern laboratory equipments. Color fastness, shrinkages are maintained to the world standard.

Company products

- Polo shirts
- Tee shirts
- Sweat shirts
- Fleece shirts
- Jogging pants

2.3 Square Textiles Limited

Square Textiles Ltd. started its journey by establishing the first unit in 1997. One year later the second unit was established. Square Textile is a subsidiary company of Square Group .The Company was incorporated as a public limited company in the year of 1994. The operation was started in 1997.It was enlisted in Dhaka Stock Exchange & Chittagong Stock Exchange in 2002. Within a very short time of span the company achieved some significance success. Square Textile receives Oeko-Tex standard100 and ISO-9002 certificates in the year 2000. Authorized capital of the company is tk. 1000 million. It's paid- up capital is tk. 251.90 million. 1,223 employees are working in this organization. The business lines of Square Textiles Limited are

manufacturing and marketing of yarn. The factory is located in Saradaganj, Kashimpur, Gazipur, Bangladesh. Its office is located at Uttara in Dhaka.

Company mission

The mission statement of Square Textiles Limited is “Our mission is realization of vision through maximum production of goods and services strictly on ethical and moral standards at minimum costs to the society ensuring optimum benefits to the shareholders and other stakeholders.” This mission is envisioned by the concept of business which ensures well being of the investors, stakeholders, employees and members of the society which will create new wealth in the form of goods and services.

Key products/services

As stated earlier the business line of the company is manufacturing and marketing of yarn.

It manufactures:

- 100% Cotton Ring Span Yarn For Hosiery.
- 100% Cotton OE Rotor Yarn for Hosiery.
- Knit Fabrics for 100% export oriented readymade Garments Industry.

It also performs the following services:

- Dying & Post Mercerization.
- Fabric Dying.

2.4 Dacca Dyeing & Manufacturing Co. Ltd

The Dacca Dyeing & Manufacturing Company Limited was incorporated on 31.12.1963 as a public limited company with an authorized capital of Tk.1.25 crore divided into 12.50 lac shares of Tk.10.00 each. The Company was nationalized in 1972 and again returned back to previous shareholders in 1977. The Company is taken over by the present sponsors on 8th August 1995 by share transfer. Subsequently, the authorized capital was increased on July 26, 1996 to TU 00.00 crore, comprising 10.00 crore ordinary shares of Tk.10.00 each. As on 30.06.2008 the paid-up

capital of the Company had stood at Tk. 23.00 crore comprising 2.30 crore ordinary shares of Tk. 10.00 each that includes 30.00 lac bonus shares of Tk 10.00 each.

Company Vision

To maintain market leadership of Home Textile for providing product and integrated services with special focus on creating value for our buyers, shareholders, employees and communities.

Company Mission

To achieve corporate vision with special focus on creating values by:

- Partnering with buyers / client to understand and fulfill their needs through a diverse range of products and services.
- Maximizing shareholder's value through strong performance.
- Rewording employees to effectively developing buyers /clients relationship.
- Serving diligently our communities with integrity and pride.

Company Achievements

The Dacca Dyeing is the pioneer and one of the successful venture in home textile sector of the country and the Recipient of the President Award for quality export in 1969-70, 1977-78 and the Prestigious International Award in 1980. The Dacca Dyeing is an ISO 9001-2000 certified company issued by Moody International. The scopes of certificate are manufacturer and exporter of home textile products i.e. bed - -4, *linen, table linen and terry items*. *The Dacca Dyeing also is an Oeko-Tex Standard 100 certified company.*

2.5 Desh Garments Limited

Desh Garments Ltd. (established 27th December 1977) was the first export oriented ready-made garment industry in Bangladesh. It was set-up in joint venture with Daewoo of South Korea. At its time of inception, Desh was the single largest and most modern garment-manufacturing unit in the sub-continent.

The import and introduction of garments technology itself is credited to Desh Garments Ltd. In 1978, Desh Garments sent 130 workers and management trainees to be trained at Daewoo's state-

of-the-art garment factories in South Korea. The 130 Desh-selected trainees returned home after a six-month training period to form the nucleus of the Ready Made Garment sector's technology and its core human resource base. Desh Garment is seen as having given re-birth to the garments industry. It is a unique example of a company establishing an industry and against all odds. Despite severe national foreign exchange constraints and bureaucratic obstacles Desh became a very successful and competitive producer in the international market.

Business area

Despite having diversified into other activities, Desh Group's core business continues to be apparel manufacturing. Desh Garments Ltd., also the first public limited company in the garment sector and listed and actively traded in the Dhaka Stock Exchange, continues to be the Group's flagship company and a source of pride for the management. In the future, given the changes that will take place in the International economy in general and the apparel manufacturing industry specifically.

Company Achievements

Desh Garments Ltd. was a twice recipient of the President's National Award and Grand Prix for Commercial Quality 1988 in Europe, for highest export earnings for two consecutive years with annual exports of 5 million pieces. Desh Garments was also Bangladesh's highest U.S. and Canadian quota holder for several years. Desh Garments Ltd. has always had an impeccable reputation throughout the industry for their consensus based management approach and early adaptation of decentralized corporate management structure.

Company's commitment towards buyers

- ❖ Conformance to the requirements and punctual delivery
- ❖ Unparallel rapid responding time to our clients.
- ❖ Internal product development and designing department.
- ❖ Sourcing of all materials behalf of our customers.
- ❖ Certified testing standards from international bodies.
- ❖ Customer orientation.

Chapter 03

AN APPRAISAL OF DIVIDEND POLICY OF SELECTED TEXTILE COMPANIES OF BANGLADESH

3.1 An Overview of Dividend Fundamentals

Once a company makes a profit, they must decide on what to do with those profits. They could continue to retain the profits within the company, or they could pay out the profits to the owners of the firm in the form of dividends. Once the company decides on whether to pay dividends, they may establish a somewhat permanent dividend policy, which may in turn impact on investors and perceptions of the company in the financial markets. What they decide depends on the situation of the company now and in the future. It also depends on the preferences of investors and potential investors.

Dividends

Dividends are payments made to stockholders from a firm's earnings, whether those earnings were generated in the current period or in previous periods. Dividends may affect capital structure,

- Retaining earnings increases common equity relative to debt.
- Financing with retained earnings is cheaper than issuing new common equity.

Whatever the Dividend Policy, optimal dividend or stable dividend, there must be a consistent dividend policy which has impact on investors and perceptions of the company in the financial markets. It also has impact on the preferences of investors and potential investors.

There are various theories that try to explain the relationship of a firm's dividend policy and common stock value.

Dividend Irrelevance Theory

This theory purports that a firm's dividend policy has no effect on either its value or its cost of capital. Investors value dividends and capital gains equally.

Optimal Dividend Policy

Proponents believe that there is a dividend policy that strikes a balance between current dividends and future growth that maximizes the firm's stock price.

Dividend Relevance Theory

The value of a firm is affected by its dividend policy. The optimal dividend policy is the one that maximizes the firm's value. Having a Dividend Policy just cannot be irrelevant in today's world. For today, having a consistent and somewhat permanent Dividend Policy is absolutely desirable for any corporation.

Types of Dividend policy

Dividend policy refers to the policy chalked out by companies regarding the amount it would pay to their shareholders as dividend. With profit making comes the question of utilizing the profit gainfully. The companies have two options with them:

- They can retain these profits within the company
- They can pay these profits in the form of dividends to their shareholders

The dividend policy to be adopted by the company is based on these two options. Once this is sorted out, a permanent dividend policy can be put into place. These policies shape the attitude of the investors and the financial market in general towards the concerned company. The policies are decided according to the current and future financial positions of the company. The preference and orientation of the investors are also taken into account.

The dividend policy acts as a signal for investors for gauging the future earning possibilities as expected by the management of the company. The dividend policies are directed towards attracting investors to their company. This is termed as the clientele effect. The firms that hold back free cash flows are lesser in value than those firms, which allow free cash flows and pay dividends from them. There are quite a few impediments to companies paying dividends to their shareholders. Some of these constraints are as follows _

- Consideration of taxes
- Consideration of returns
- Contractual constraints
- Cash flow constraints
- Legal constraints

The dividend policy of a company has a relation with its common stock value. The Dividend Irrelevance Theory propounds that the dividend policy of a firm has no direct bearing on the cost of its capital or its value. The Dividend Relevance Theory, on the other hand, expostulates that the value of the firm is affected by its dividend policy. The Optimal Dividend Policy helps in increasing the value of the firm to the maximum.

A Dividend Reinvestment Plan (DRIP) provides the investor the opportunity to reinvest dividends obtained from the company back into the company. The firm can repurchase the existent shares or it may issue new shares.

- Constant Dollar Dividend Policy
- Constant Payout Ratio
- Regular with Extras

Constant Dollar Dividend Policy

Under the constant dollar dividend policy firm pays the same amount of dividend every year. It is also known as sticky dividend policy.

When we talk about absolute amount of dividend that indicates magnitude of dividend, it does not have any impact on share price.

Constant Payout Ratio

When a firm follows this type of policy then the payout ratio of the firm remains the same. Dividend will fluctuate only because of change in earnings. This is also known as stable dividend policy. There is steady progression of dividend in times of growth of the firm.

Regular with Extras

Residual dividend or regular with extras is given from the extra amount of earnings which is available after investment.

Types of dividend

- Home-made dividend

Investors can replicate their desired income stream by buying & selling shares. So it can be said that dividend policy is irrelevant.

- Stock dividend

Stock dividend means recapitalization of your reserves into paid-up capital. Cash is required to pay a cash dividend or engage in a stock repurchase. When cash is not available, a company can pay a stock dividend. A stock dividend is where a fractional share is paid for each share outstanding. For example, a 20% stock dividend is where one new share is issued for every five shares outstanding. Is this good for the stockholders?

Assume a company has earnings of \$1,000,000 and has 100,000 shares of stock outstanding. This yields an EPS of \$10. If the price/earnings multiple is ten times, then the stock will be selling for \$100 per share.

Now suppose the firm pays a 20% stock dividend. The earnings will still be \$1,000,000 but there will now be 120,000 shares outstanding and the new EPS will be \$8.33. Since the risk and future prospects of the firm have not changed, the price/earnings multiple should remain 10 times earnings and the stock price will be \$83.33 per share.

What is the effect on the stockholder? Suppose the stockholder owned 100 shares before the stock dividend. At a market price of \$100 per share, the stockholder's wealth is \$10,000 (100 shares * \$100/share = \$10,000). After the stock dividend, the stockholder has 120 shares valued at \$83.33 per share which is the same \$10,000 in total wealth (120 shares * \$83.33/share = \$10,000) and the shareholder is no better off. The stock dividend dilutes earnings per share and stock price but has no effect on the value of the firm or the wealth of the stockholders. The lesson is that wealth cannot be created simply by passing out pieces of paper.

Determinants of dividend (argumental)

Based on the special separated equity management structure of the listed companies in China & using a sample of listed companies with distributed dividend in 2003 & 2004, results show that shareholders of non-circulating stock get a high return rate by cash dividend, and shareholders obtain a high short term return rate by stock dividends. A firm's dividend policy will depend upon its past growth rate, future growth rate, systematic risk, the percentage of common stocks held by insiders, and the number of common stockholders.

Dividend policy of the company depends upon the company's share market price and company future plans such as; future expansion plans and capital required for other business activities.

The bird-in-hand theory (a pre-Miller-Modigliani theory) asserts that in a world of uncertainty and information asymmetry dividends are valued differently to retained earnings (capital gains). Because of uncertainty of future cash flow, investors will often tend to prefer dividends to retained earnings. As a result, a higher payout ratio will reduce the required rate of return (cost of capital), and hence increase the value of the firm (see, for example Gordon, 1959). This argument has been widely criticized and has not received strong empirical support.

Another closely related theory is the clientele effects hypothesis. According to this argument, investors may be attracted to the types of stocks that match their consumption/savings preferences. That is, if dividend income is taxed at a higher rate than capital gains, investors (or clienteles) in high tax brackets may prefer non-dividend or low-dividend paying stocks, and vice versa. Also, the presence of transaction costs may create certain clienteles.

1. Dividends serve as a bonding mechanism to reduce agency problems:

The agency hypothesis of dividends predicts that dividend payments can be used as a mechanism to alleviate agency problems. For this two variables are used: number of shareholders & percentage of a firm's common stock held by insiders.

2. Dividends as a signaling device:

The information content of dividends (signaling) hypothesis predicts that dividends can be used to signal firm's future prospects and only good-quality firms can use such a device. In general, investors tend to invest in securities that are better known in the market, that is, with less information asymmetries.

3. Firm growth and investment opportunities are negatively associated with dividend payouts:

Firms with high growth and investment opportunities will need the internally generated funds to finance those investments, and thus tend to pay little or no dividends. This prediction is consistent with the pecking order hypothesis 2 proposed by Myers and Majluf (1984). Accordingly, we expect the firm's growth and investment opportunities, as measured by market-to-book ratio (MBR), to be negatively related to dividends payouts.

Moreover, mature companies are likely to be in their low-growth phase with less investment opportunities (see Barclay et al., 1995, and Grullon et al. 2002). These companies do not have the incentives to build-up reserves as a result of low growth and few capital expenditures, which enable them to follow a liberal dividend policy. On the contrary, new or young companies need to build-up reserves to face their rapid growth and financing requirements. Hence, they retain most of their earnings and pay low or no dividends.

4. The firm size is positively associated with dividend payouts:

A large firm typically has better access to capital markets and finds it easier to raise funds with lower cost and fewer constraints compared to a small firm. This suggests that the dependence on internal funding decreases as firm size increases. Therefore, *ceteris paribus, large firms are more likely to afford paying higher dividends to shareholders.*

5. The firm debt is negatively associated with dividend payouts:

When a firm acquires debt financing it commits itself to fixed financial charges embodied in interest payments and the principal amount, and failure to meet these obligations may lead the firm into liquidation. The risk associated with high degrees of financial leverage may therefore result in low dividend payments because, *ceteris paribus*, firms need to maintain their internal cash flow to pay their obligations rather than distributing the cash to shareholders.

6. There is a positive relationship between a firm's profitability and dividend payouts:

The decision to pay dividends starts with profits. Therefore, it is logical to consider profitability as a threshold factor, and the level of profitability as one of the most important factors that may influence firms' dividend decisions.

The pecking order hypothesis may provide an explanation for the relationship between profitability and dividends. That is, taking into account the costs of issuing debt and equity financing, less profitable firms will not find it optimal to pay dividends, *ceteris paribus*. On the other hand, highly profitable firms are more able to pay dividends and to generate internal funds (*retained earnings*) to finance investments.

7. The relative tax disadvantage of dividends induces lower dividend payouts:

The tax-preference theory proposed that companies should retain rather than distribute their income because of the preferential tax treatment of capital gains versus dividends.

Several effects on dividend

- Signaling effect of dividend

A cut in dividends generally hurts a stock's price because it sends a signal to stockholders that management's outlook for the future is that the company cannot continue to pay the dividend. Most companies therefore start off with a low dividend and only increase it when they feel that the earnings prospects have improved sufficiently to allow for maintaining a higher dividend. Many companies will even borrow money in a bad year in order to avoid cutting the dividends.

- Clientele Effect

The market price is influenced by dividends through what is called the "clientele" effect. That is, some investors *want* dividends (such as retirees and pension funds) while others do not want dividends (wealthy individuals) but would prefer capital gains (which are taxed at a lower rate and deferred).

- **Informational Content of Dividend Policy**

Dividend policy is thought to convey information to shareholders about a firm's future prospects as perceived by management. As previously mentioned, a cut in dividends is often interpreted as management's view that the outlook for earnings was insufficient to sustain the previous level of dividends that the firm had paid. Similarly, an increase in dividends is often interpreted to mean that management views the firm's future prospects positively enough to believe that a higher level of dividends can be maintained into the future. Exceptions to these interpretations abound, however. In a recent situation, a company that was in financial difficulties actually eliminated dividends and its stock price rose. This undoubtedly reflected the fact that the investing public knew that the company was in trouble and viewed the elimination of dividends as a means of stemming the hemorrhaging of cash that was occurring and giving management more opportunity to "save" the company.

A divergent view of dividend increases and decreases relates to the investment opportunities of the firm. While some may perceive an increase in dividends as revealing "good news" about the future prospects of a company, it may also signal the fact that the firm has a paucity of good investment opportunities (i.e., cannot earn stockholders' required rate of return) and is thus paying out surplus funds to investors. That, in turn, implies a slowdown in the future rate of growth of the firm and of its dividend paying capacity. Thus, changes in dividend policy can result in mixed signals to investors regarding the future of the company.

- **Dividend Behavior**

Companies in different industries/sectors have different payout ratios. Some industries have high payout ratios, while others have low payout ratios. High-growth firms tend to adopt a low payout policy, and vice versa. Most companies appear to increase dividend payout ratio gradually in the direction of some target ratio.

If target ratio is set too high and earnings fluctuate, then frequent recourse to external financing may be necessary in order to maintain dividend, thereby incurring unnecessary issue costs. The greater the variability of earnings, the lower should be the target payout ratio, and the lower the speed of adjustment towards that target.

3.2 Net Income

Net income is calculated by taking revenues and adjusting for the cost of doing business, depreciation, interest, taxes and other expenses. This number is found on a company's income statement and is an important measure of how profitable the company is over a period of time. The measure is also used to calculate earnings per share.

Table 1: Trends of Net Income of Rahim Textile Mills Limited

Year	Net income(Tk)	Growth (%)
2008-2009	9,178,000	-11.97
2009-2010	2,092,761	-77.20
2010-2011	7,652,000	265.64
2011-2012	4,418,000	-42.26
2012-2013	12,795,000	189.61

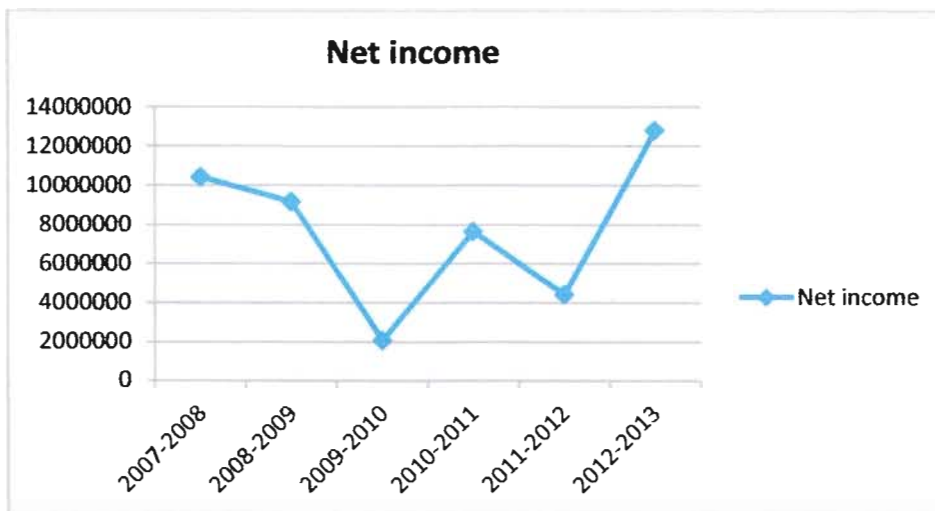


Figure 1: Trends of Net income of Rahim Textile Mills Limited

From the above data we can said, the net income trend of rahim textile mills is upward and downward stream. The company made significant profit in the year of 2008-2009 (TK9,178,000). On the other hand company made lowest profit in the year of 2009-2010 (TK. 2,092,761). The overall, net income scenario is good.

Table 2: Trends of Net Income of Apex Spinning & Knitting Mills Limited

Year	Net income(Tk)	Growth(%)
2008-2009	13,118,000	
2009-2010	13,815,000	5.31
2010-2011	13,528,000	-2.08
2011-2012	16,827,000	24.39
2012-2013	18,487,000	9.87
2013-2014	18,796,000	1.67

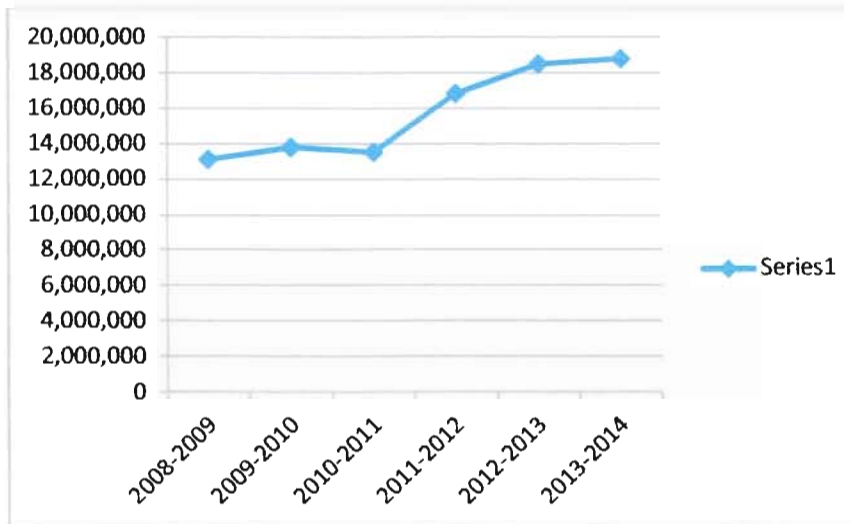


Figure 2: Trends of Net income of Apex Spinning & Knitting Mills Limited

The net income of Apex Spinning & Knitting Mills Limited in the year 2010-2011 is less than 2009-2010. And in 2011-2012 it is much higher than before and also increases in the next following years. But the growth is lower than 2011-2012. Growth is much lower in 2013-2014 than 2012-2013.

Table 3: Trends of Net Income of Square Textiles Limited

Year	Net income(Tk)	Growth (%)
2013	587,782,036	1.16
2012	581,038,264	-6.31
2011	620,177,854	9.81
2010	564,769,143	116.69
2009	260,634,002	10.19

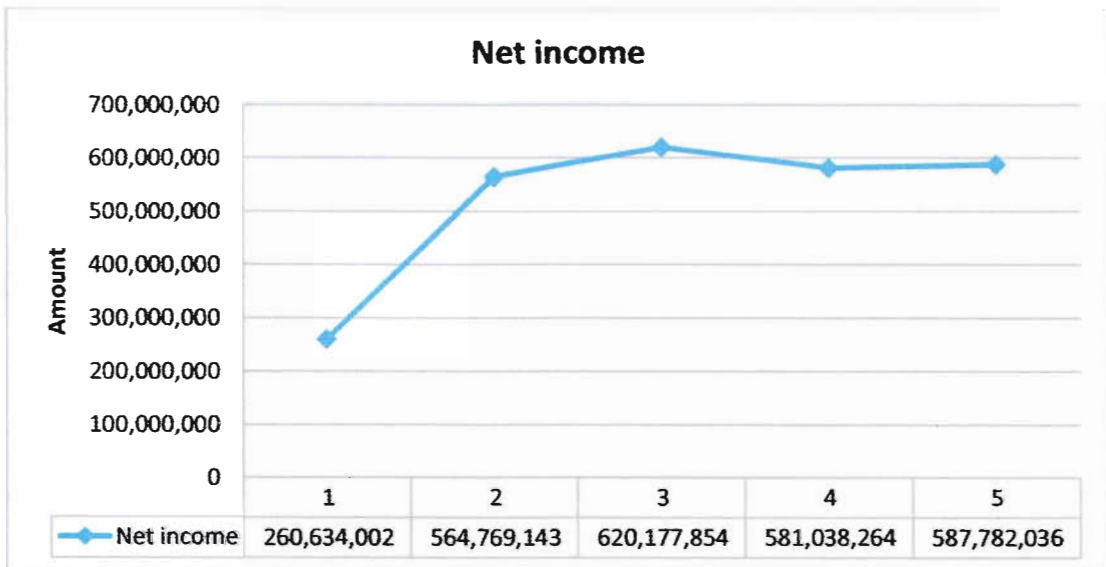


Figure 3: Trends of Net Income of Square Textiles Limited

Growth in net income is even more important than sales because net income tells the investor how much money is left over after all of the operating costs are subtracted from sales. From the above table, Square Textiles Limited faces a significant net income (620,177,854) in the year 2011. But, after that the company faces negative growth in net income in the year 2012. But in 2013, Square Textiles Limited come back to positive growth rate of net income but it's not near to other year growth rate. We can see, the abnormal growth rate of net income take place in the year of 2010 (116.69).

Table 4: Trends of Net Income of Dacca Dyeing & Manufacturing Co. Ltd

Year	Net Income (tk in Millions)	Growth (%)
2009	29.42	
2010	54.71	85.96
2011	81.19	48.40
2012	70.51	-13.15
2013	70.51	0

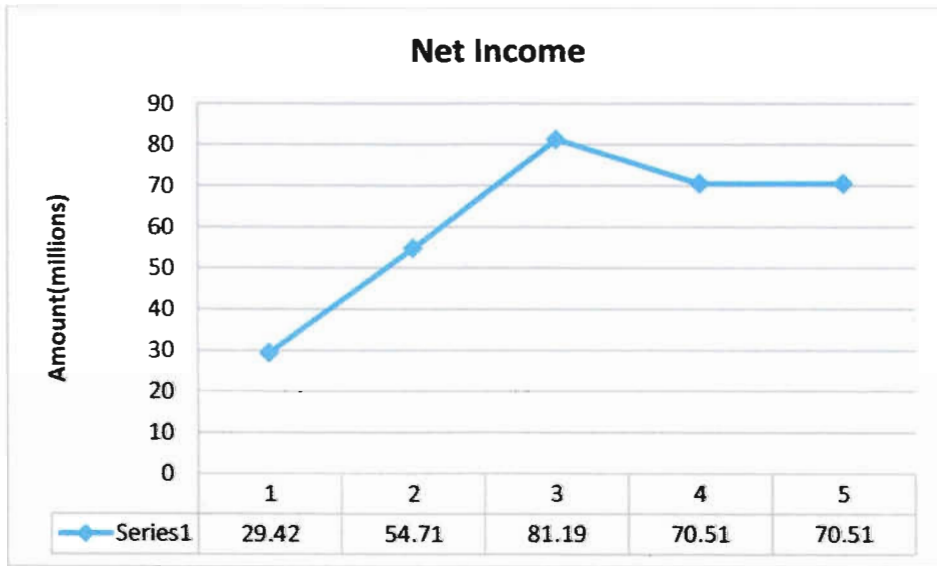


Figure 4: Trends of Net income of Dacca Dyeing

From the above table, Dacca Dyeing faces a significant net income in the year 2011. But, after that the company faces negative growth in net income in the year 2012 and 2013 (tk70.51 million and 66.59 million respectively).

Table 5: Trends of Net Income of Desh Garments Limited

Year	Net income(Tk)	Growth (%)
2008-2009	595,816	69.33
2009-2010	762,615	28
2010-2011	1,048,039	37.43
2011-2012	2,414,396	130.37
2012-2013	2,962,873	22.72

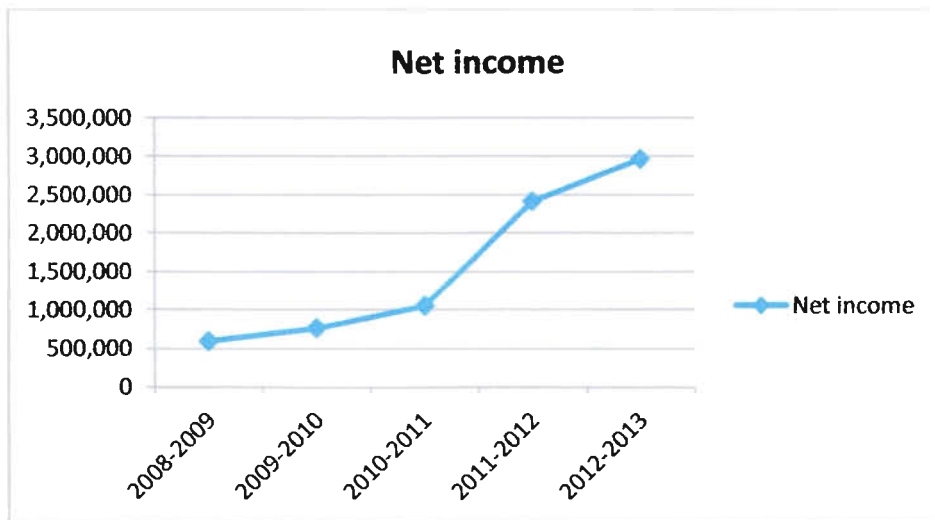


Figure 5: Trends of Net income of Desh Garments Limited

The company's overall net income performance is very nice. The company did not make any net losses through 2009 to 2013 which is a good signal for potential and existing customers. On the other hand, the company's net income increases over time.

3.3 Retained Earnings

Net income is divided into two parts. One is dividend and another is retained earnings. Retained Earnings is the percentage of net income which is not paid out as dividends, but to be reinvested in its core business or to pay debt. It is recorded under shareholders' equity on the balance sheet.

Table 6: Trends of Retained Earnings of Rahim Textile Mills Limited

Year	Dividend (Tk)	Retained Earnings(Tk)	Growth(%)
2009-2010	5,41,350	15,51,411	
2010-2011	27,30,000	49,22,213	217.27
2011-2012	20,02,000	1,80,83,829	267.39
2012-2013	55,05,500	2,73,09,191	51.01

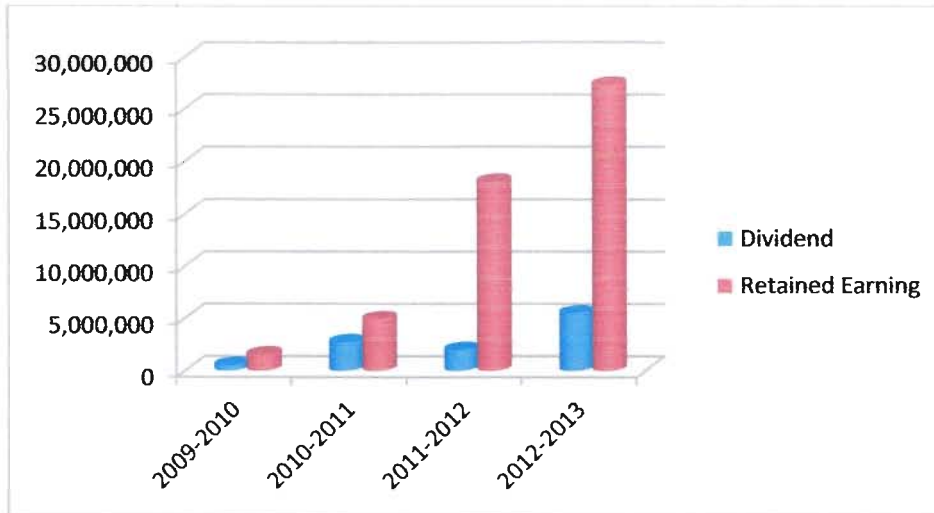


Figure 6: Trends of Retained Earnings of Rahim Textile Mills Limited

From above data we can see, the growth of retained earnings of Rahim Textile Mills Limited are positive in all the years. The growth of retained earnings in 2011-2012 is higher than in 2010-2011, but in 2012-2013 the growth is very much lower than before.

Table 7: Trends of Retained Earnings of Apex Spinning & Knitting Mills Limited

Year	Dividend(Tk)	Retained Earnings(Tk)	Growth(%)
2009-2010	12,600,000	164,718,478	
2010-2011	12,600,000	173,141,756	5.11
2011-2012	12,600,000	177,368,064	2.44
2012-2013	15,120,000	180,735,465	1.90
2013-2014	15,120,000	174,982,127	-3.18



Figure 7: Trends of Retained Earnings of Apex Spinning & Knitting Mills Limited

The company provided same amount of dividend from 2009-2010 to 2011-2012 (Tk12,600,000), and also same amount in 2012-2013 and 2013 2014 (Tk15,120,000). But company’s growth of retained earnings is decreasing consistently. Eventually it was negative in the year 2013-2014.

Table 8: Trends of Retained Earnings of Square Textiles Limited

Year	Dividend(Tk)	Retained Earnings(Tk)	Growth(%)
2009	218,810,564	41,823,438	221.38
2010	292,217,980	272,551,163	551.67
2011	350,661,575	269,516,279	-1.11
2012	385,727,734	195,310,530	-27.53
2013	403,260,81	184,521,223	-5.52



Figure 8: Trends of Retained earnings of Square Textiles Limited

In this graph I observed that the company decreases the retained earnings and increase its dividend up to the year 2011, because the company faces a positive growth rate in its net earnings. But in 2012 the company faces a negative growth rate in their net earnings. So they decrease their dividend.

Table 9: Trends of Retained Earnings of Dacca Dyeing & Manufacturing Co. Ltd

Year	Retained earnings(Tk)	Growth(%)
2009	1.42	
2010	0.71	-50
2011	0.55	-23
2012	0.3532	-36
2013	1.11032	214



Figure 9: Trends of Retained earnings of Dacca Dyeing & Manufacturing Co. Ltd

In this graph we can see that the company decreases the retained earnings and increase its dividend up to the year 2011, because the company faces a positive growth rate in its net earnings. But in 2012 Dacca Dyeing face a negative growth rate in their net earnings. So they decrease their dividend and increase the percentage of retained earning up to 214%.

Table 10: Trends of Retained Earnings of Desh Garments Limited

Year	Dividend(Tk)	Retained Earnings(Tk)	Growth(%)
2008-2009	565,440	30,376	
2009-2010	706,800	55,815	83.75
2010-2011	989,520	58,519	4.84
2011-2012	989,520	58,519	0
2012-2013	2,359,000	603,871	931.923

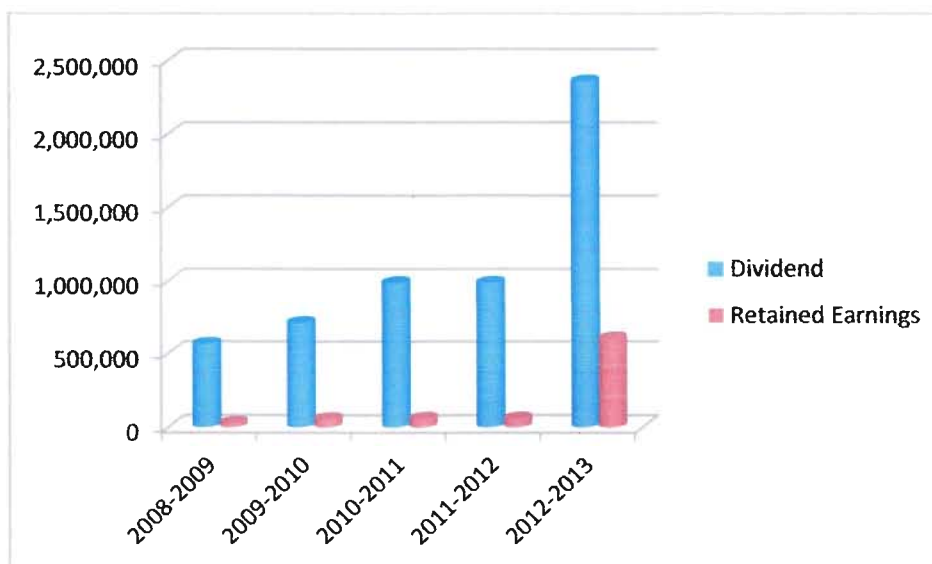


Figure 10: Trends of Retained earnings of Desh Garments Limited

The above chart shows us the retained earnings are increasing over year. The company paid fixed percentage (7%) of dividend to their shareholders and that is why retained earnings are increasing with the increasing of net income.

3.4 Cash and Stock Dividend

Table 11: Trends of Cash and Stock Dividend of Rahim Textile Mills Limited

Year	Cash Dividend (Tk Per shares)	Growth(%)	Stock Dividend (No of shares in 100)	Growth(%)
2008-2009	17.5		No	
2009-2010	5	-71.43	No	
2010-2011	15	200	10	
2011-2012	No	No	25	150
2012-2013	No	No	10	-60

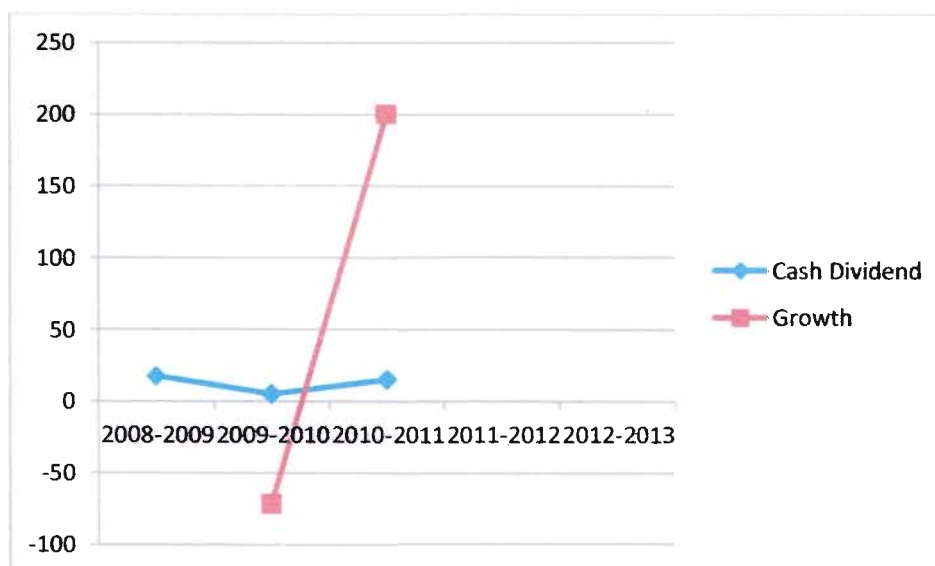


Figure 11: Trends of Trends of Cash Dividend of Rahim Textile Mills Limited

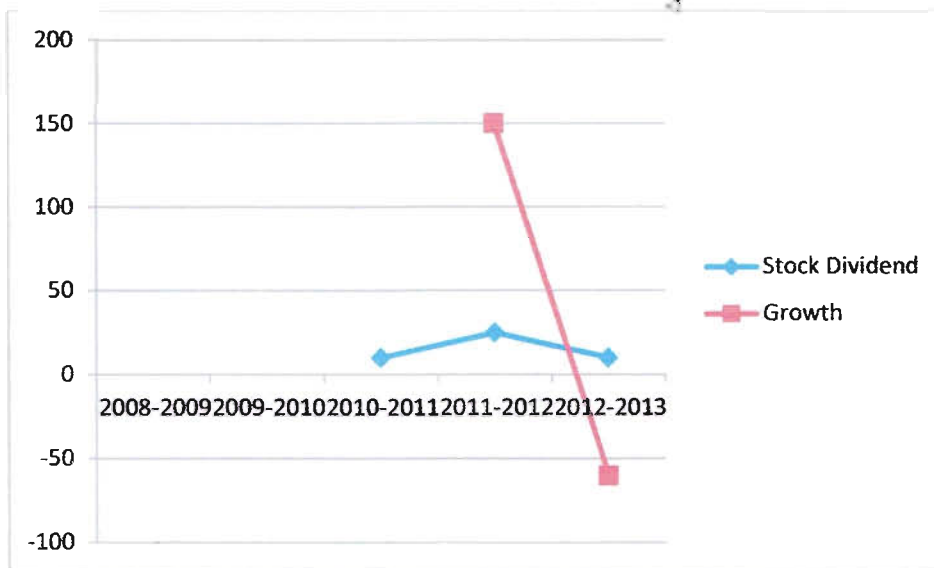


Figure 12: Trends of Trends of Stock Dividend of Rahim Textile Mills Limited

We can see from above table the company declared cash dividend in 2009 to 2011. We also see the cash dividend was decreasing over time and at the end the company did not offer any cash dividend in 2012 to 2013 to their shareholders. The company did not offer cash dividend because of increasing reinvestment. The firm's growth prospective may be good in future. On the other hand, the firm offer stock dividend in 2011 to 2013 and the stock dividend growth are increasing year after year. They offer stock dividend because of their cash position is decreasing or to reduce tax expenses of their shareholders. In 2011 the company offer both stock and cash dividend to shareholders.

Table 12: Trends of Cash and stock dividend of Apex Spinning &Knitting Mills Limited

Year	Cash Dividend(Tk)	Growth(%)	Stock Dividend
2009-2010	12,600,000		No
2010-2011	12,600,000	0	No
2011-2012	12,600,000	0	No
2012-2013	15,120,000	20	No
2013-2014	15,120,000	0	No

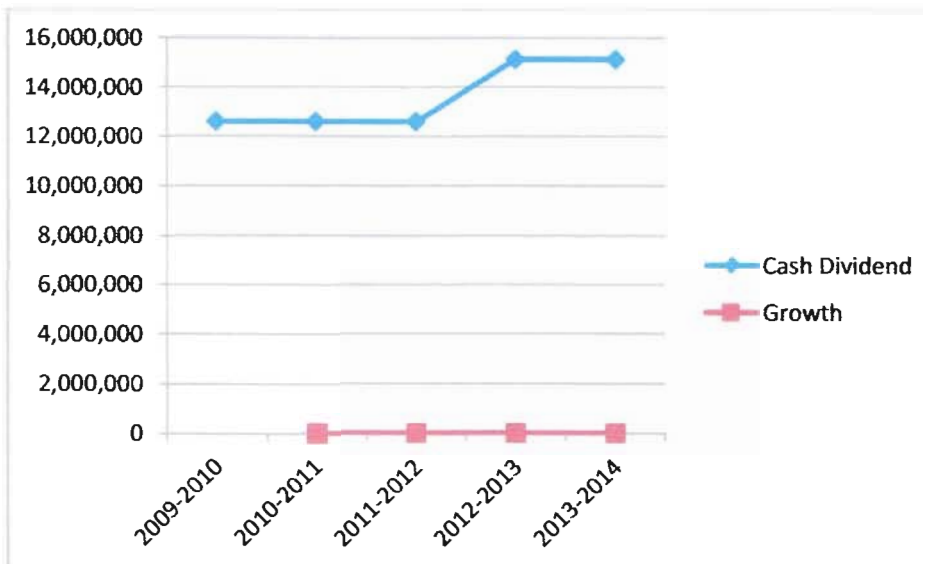


Figure 13: Trends of Trends of Cash Dividend of Apex Spinning & Knitting Mills Limited

We can see that the cash dividend of the company was stable in 2009-2010, 2010-2011, and 2011-2012. Then cash dividend increases in the following years. The company still does not declare any stock dividend.

Table 13: Trends of Cash and Stock Dividend of Square Textiles Limited

Year	Cash Dividend (Tk Per Share)	Growth(%)	Stock Dividend (No. of Shares in 100)	Growth(%)
2009	1.6	-11.11	15	-25
2010	1.6	0	20	33.33
2011	1.6	0	20	0
2012	1.8	12.5	15	-25
2013	2	11.11	10	-33.33

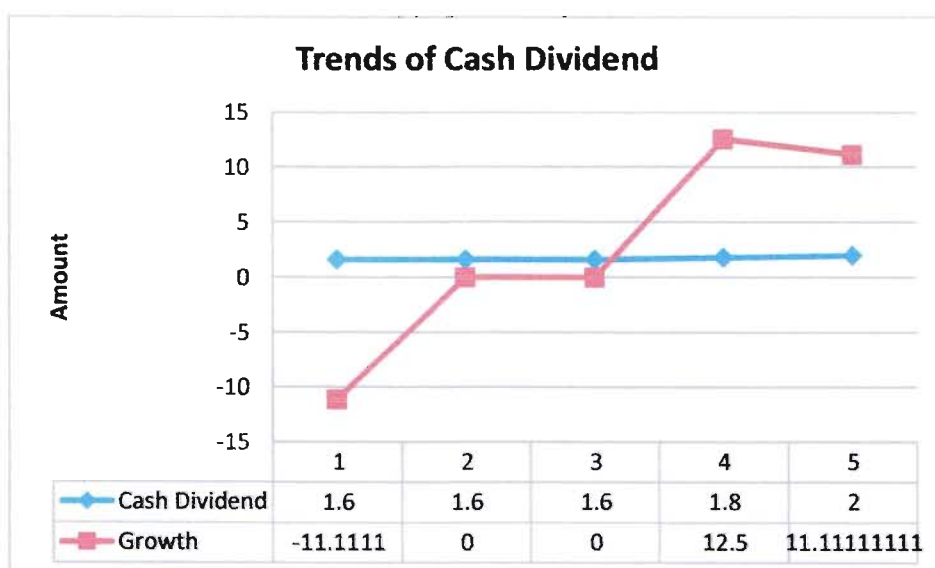


Figure 14: Trends of Trends of Cash Dividend of Square Textiles Limited

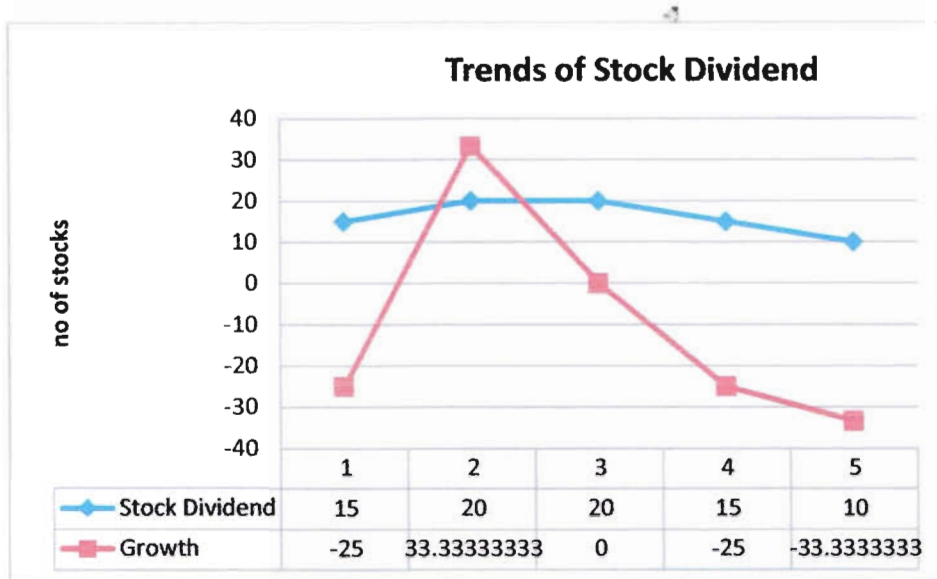


Figure 15: Trends of Trends of Stock Dividend of Square Textiles Limited

Square Textiles Limited declared cash and stock dividend in every year in 2009-2013. The company's cash dividend is increasing trend. But in 2009 to 2011 the cash dividend (1.60) was remain same. The company's highest cash dividend among five years is 2 per shares and lowest is 1.60.on the other hand, the company's stock dividend is varying in different year. The highest cash dividend was in 2011 and 2010 (20%).

Table 14: Trends of Cash and Stock Dividend of Dacca Dying Manufacturing Limited

Year	Cash Dividend (%)	Stock Dividend (%)	Growth(%)
2009	10%		
2010	-----	12	
2011	-----	16	33
2012	-----	12	-25
2013	-----	10	-17

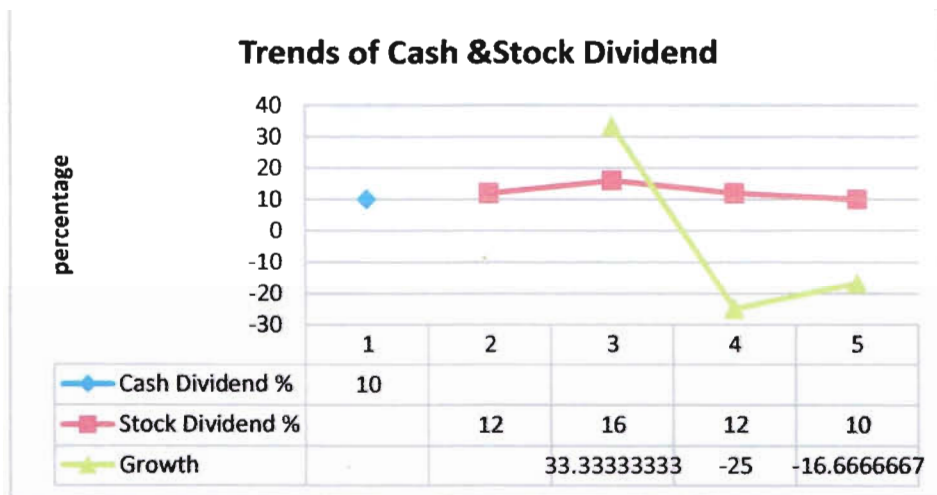


Figure 16: Trends of Trends of Stock Dividend of Square Textiles Limited

In 2009 the company declared cash dividend 10%. Then the following years the company didn't declare any cash dividend because they don't have enough profit to give cash dividend and their growth of net income become negative in the following years. The company's cash position is inadequate for paying out cash dividends. So they pay their shareholders in stock dividend. In 2010 to 2013, the company gives stock dividend because their growth rate of net income becomes negative. So by giving stock dividend the company increases its liquidity. There is also a reason for giving stock dividend that is reduce the tax expense from the income of common stockholders.

Table 15: Trends of Cash and Stock Dividend of Desh Garments Limited

Year	Cash Dividend	Growth(%)
2008-2009	4	-20
2009-2010	5	25
2010-2011	7	40
2011-2012	7	0
2012-2013	7	0

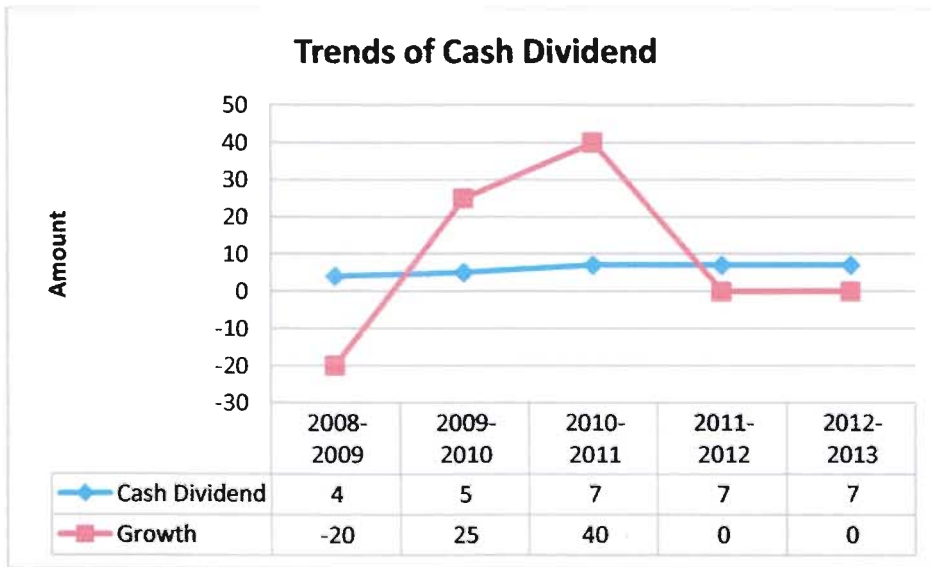


Figure 17: Trends of Trends of Cash Dividend of Desh Garments Limited

The company cash dividend in every year. A fixed amount (7%) of cash dividend was declaring in every year. On the other hand, the company did not offer any stock dividend to their shareholders.

3.5 Earnings Per Share (EPS)

An Earnings per Share (EPS) is the amount of money earned by a company expressed in per share.

Table 16: Trends of EPS of Rahim Textiles Limited

Year	EPS(Tk per share)	Growth(%)
2008-2009	50.43	
2009-2010	11.5	-77.20
2010-2011	42.05	265.65
2011-2012	0.51	-98.79
2012-2013	5.81	46.09

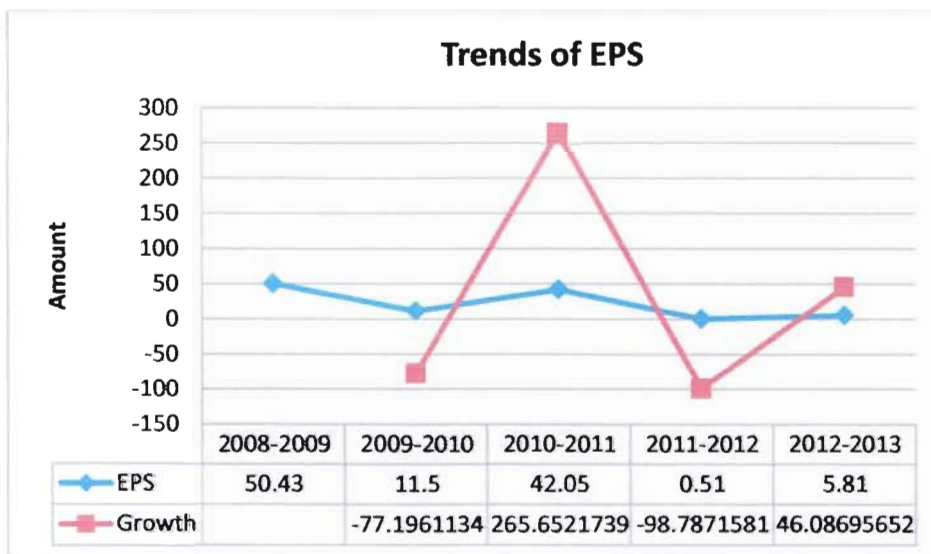


Figure 18: Trends of Trends of EPS of Rahim Textile Mills Limited

The company's EPS is very much fluctuating. The highest EPS was in 2008-2009 and the lowest was in 2011-2012. Because of the fluctuation the growth of EPS are negatives in 2009-2010 and 2011-2012. They have higher EPS growth in 2010-2011. However, the company should reduce fluctuations in their EPS.

Table 17: Trends of EPS of Apex Spinning & Knitting Mills Limited

Year	EPS (Tk per share)	Growth(%)
2009-2010	16.45	
2010-2011	16.11	-2.07
2011-2012	2	-87.59
2012-2013	2.2	10
2013-2014	2.24	1.82

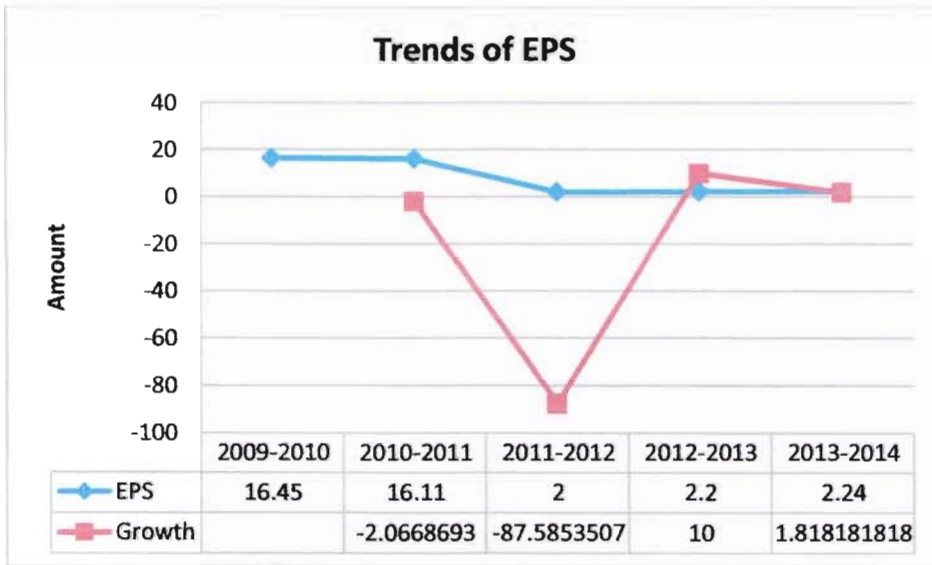


Figure 19: Trends of Trends of EPS of Apex Spinning & Knitting Mills Limited

In the financial year 2009-2010 the EPS was Tk 16.45, and in 2010-2011 it was Tk 16.11 which is little bit lower than before. But after that EPS goes down rapidly. In 2011-2012 it was only Tk 2. And again after that it starts to goes up in following years.

Table 18: Trends of EPS of Square Textiles Limited

Year	EPS (Tk per share)	Growth(%)
2009	1.94	-3.96
2010	4.2	116.49
2011	4.72	12.38
2012	4.38	-7.20
2013	4.37	-0.23

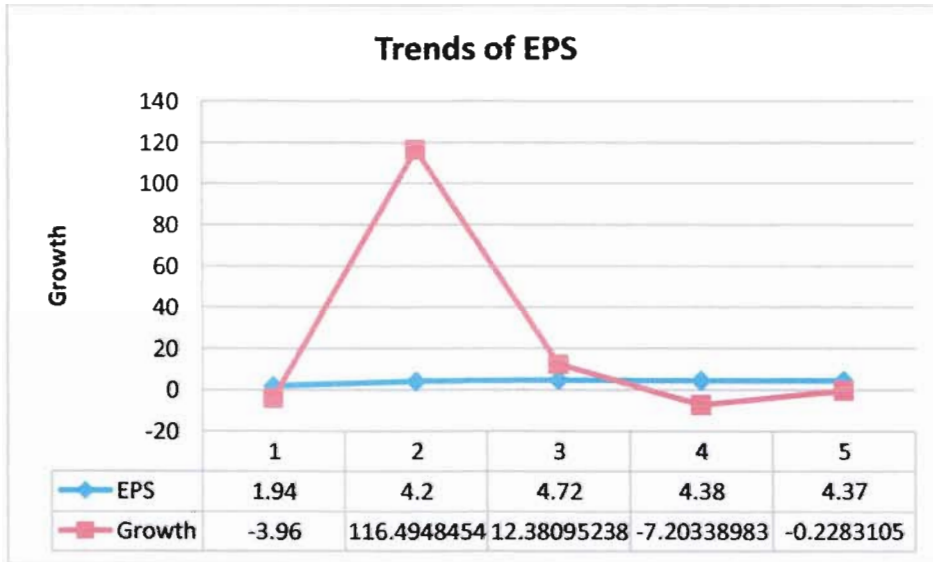


Figure 20: Trends of Trends of EPS of Square Textiles Limited

The above table gives us information regarding EPS of Square Textiles Limited. We can see the EPS are both increasing and decreasing pattern. It fluctuated over time and that is why the growth rate of EPS is somewhere negative. Decreasing of EPS is not good signal for both shareholders as well as for the company.

Table 19: Trends of EPS of Dacca Dyeing & Manufacturing Co. Ltd

YEAR	EPS (Tk per share)	GROWTH (%)
2009	1.05	
2010	1.34	28
2011	1.61	20
2012	1.21	-25
2013	1.02	-16

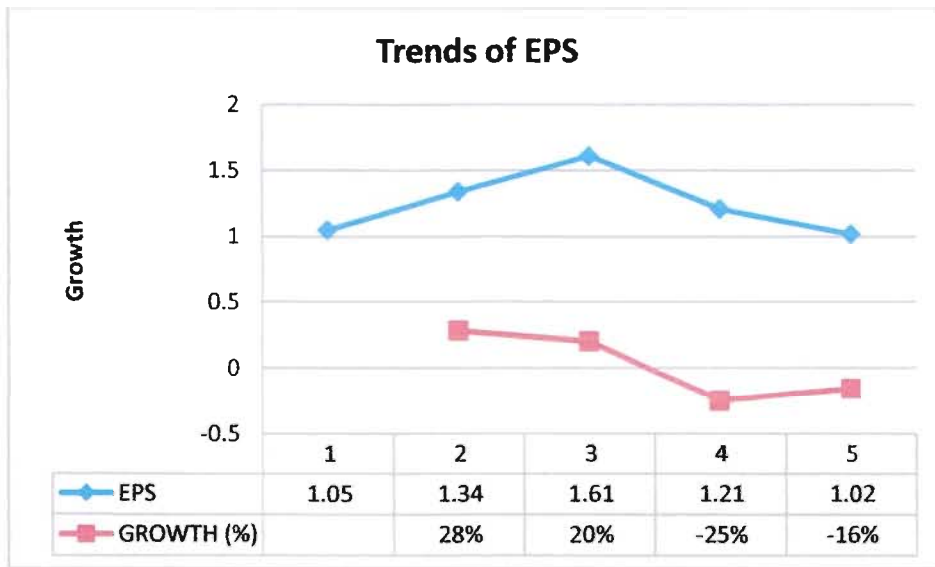


Figure 21: Trends of Trends of EPS of Dacca Dyeing & Manufacturing Co. Ltd

Above table provides the information of EPS of Dacca dyeing in different years. It shows that from 2009 to 2013, EPS is increasing and decreasing respectively. It is fluctuating in this time period. EPS was not same in those years. Even the EPS was decreased. So the growth of EPS was also negative in the particular years. From the above chart, we can see that the growth of Earning per share is decreasing each year, which is not good for both the firm and for the shareholders. The following years the EPS is consolidated.

Table 20: Trends of EPS of Desh Garments Limited

Year	EPS (Tk per share)	Growth(%)
2008-2009	1.77	-30.59
2009-2010	2.26	27.68
2010-2011	3.11	37.61
2011-2012	0.72	-76.85
2012-2013	0.88	22.22

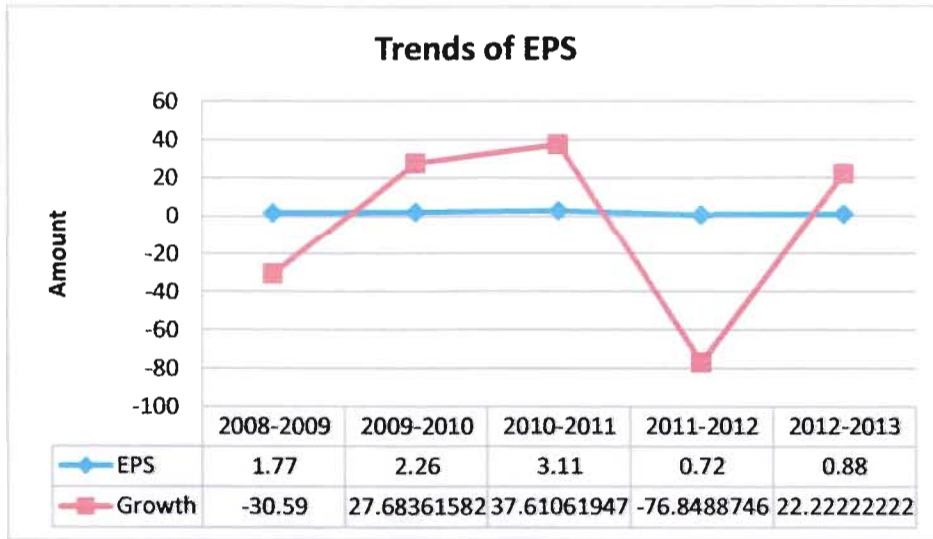


Figure 22: Trends of Trends of EPS of Desh Garments Limited

From the chart we observed that, the EPS of this company is decreasing trend. That means the company's shareholders wealth is decreasing over time. The EPS was in 2011 (3.11) on the other hand the lowest EPS was in 2010 (.72) which was very poor in compare to others. The company should increase its EPS.

3.6 Dividend Payout Ratio.

The dividend payout ratio shows the amount of dividends paid to stockholders relative to the amount of total net income of a company. The amount that is not paid out in dividends to stockholders is held by the company for growth. The amount that is kept by the company is called retained earnings.

Table 21: Trends of Dividend payout ratio of Rahim Textile Mills Limited

Year	Net Income(Tk)	Dividend(Tk)	Dividend ratio(%)	payout
2009-2010	2,092,761	5,41,350		25.87
2010-2011	7,652,000	27,30,000		35.68
2011-2012	4,418,000	20,02,000		45.31
2012-2013	12,795,000	55,05,500		43.03

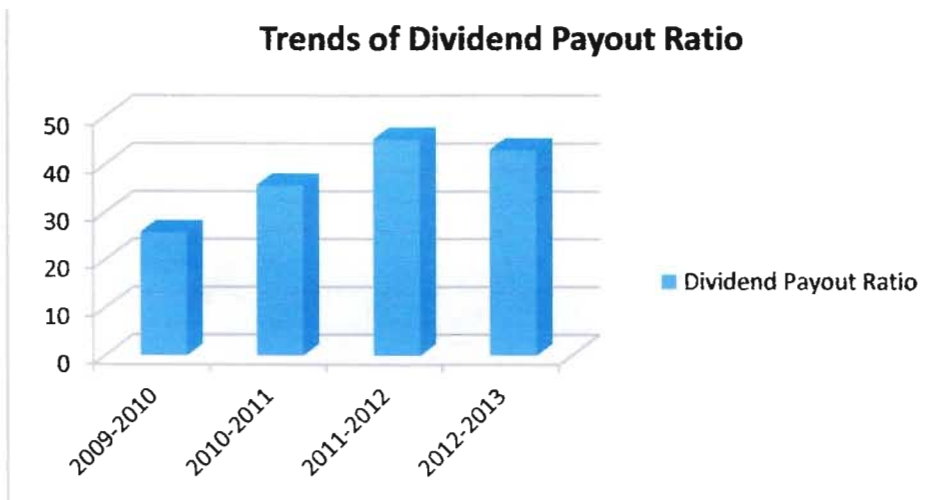


Figure 23: Trends of Trends of Dividend payout ratio of Rahim Textile Mills Limited

From above data we observed that, the dividend payout ratios are different that means the company provide different dividend in different year. In the year of 2011-2012 the dividend payout ratio is very high (45.31%).

Table 22: Trends of Dividend payout Ratios of Apex Spinning & Knitting Mills Limited

Year	Net Income(Tk)	Dividend(Tk)	Dividend Payout Ratio(%)
2009-2010	13,815,000	12,600,000	91
2010-2011	13,528,000	12,600,000	93
2011-2012	16,827,000	12,600,000	75
2012-2013	18,487,000	15,120,000	82
2013-2014	18,796,000	15,120,000	80

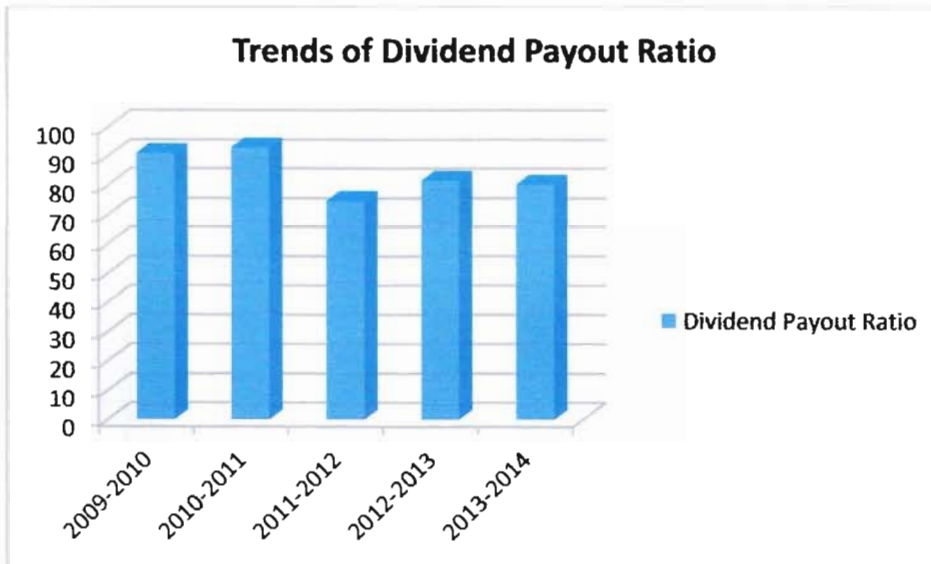


Figure 24: Trends of Trends of Dividend payout Ratio of Apex Spinning & Knitting Mills Limited

The company's dividend payout ratio is fluctuated. From 2009-2010 to 2010-2011 it was increasing, and then it was decreasing because in 2012-2013 company earned higher net income but distributed less dividend. After that they provide higher dividend than before that's why the dividend payout ratio is higher after 2012-2013.

Table 23: Trends of Dividend payout Ratio for Square Textiles Limited

Year	Net Income(Tk)	Dividend(Tk)	Dividend Payout Ratio(%)
2009	260,634,002	218,810,564	83.95
2010	564,769,143	292,217,980	51.74
2011	620,177,854	350,661,575	56.54
2012	581,038,264	385,727,734	66.39
2013	587,782,036	40,326,081	6.86

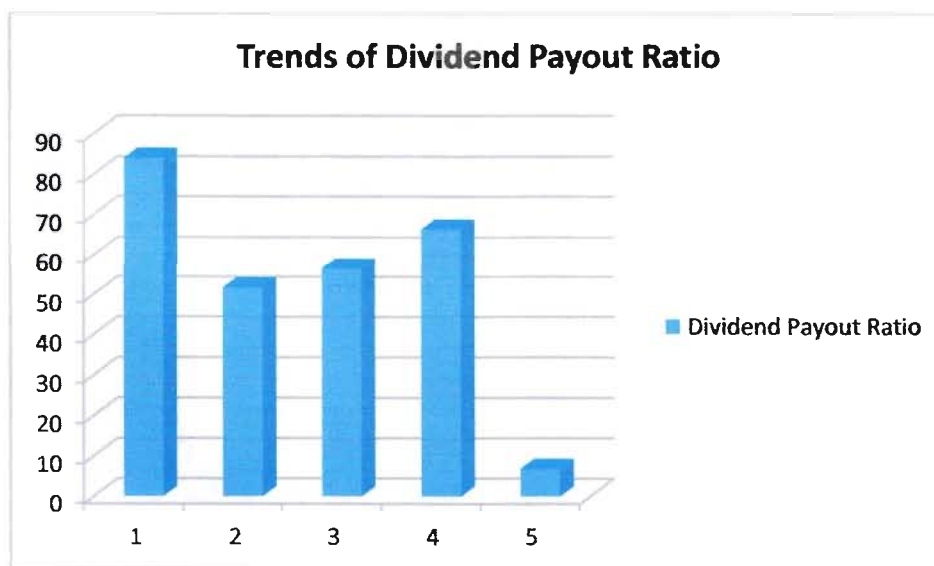


Figure 25: Trends of Trends of Dividend Payout Ratio of Square Textiles Limited

From 2010 to 2012 (47.14%, 51.52%, 69.95%, respectably) dividend payout ratio was in increasing trend. But in 2009 the ratio was 77.45% which is more than other years. The reason behind this the net income was low in compare to other years and the dividend was high because of numbers of share outstanding.

Table 24: Trends of Dividend Payout Ratio of Dacca Dyeing & Manufacturing Co. Ltd

Year	Net Income (TK in millions)	Dividend (TK In Millions)	Dividend Payout Ratio(%)
2009	29.42	28	95
2010	54.71	54	95
2011	81.19	80.64	99
2012	70.51	70.1568	99
2013	66.59	65.47968	98

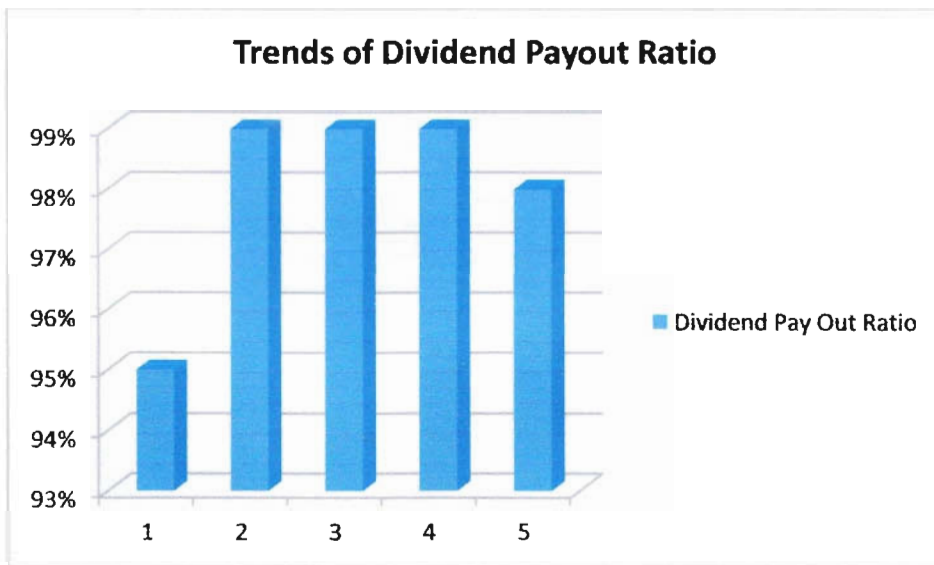


Figure 26: Trends of Trends of Dividend payout ratio of Dacca Dyeing & Manufacturing Co. Ltd

From 2009 to 2012 (95%, 99%, 99%, 99%, respectively) dividend payout ratio was in increasing trend. But in 2013 the ratio was lower than before. The reason can be that, in 2010 the company faces a high net income. So they observed this and increase the dividend payout ratio. But in 2012 they observed a negative growth rate in net income. So in 2013 they decrease the dividend payout ratio (98%).

Table 25: Trends of Dividend Payout Ratio of Desh Garments Limited

Year	Net Income(Tk)	Dividend(Tk)	Dividend Payout Ratio(%)
2008-2009	595,816	565,440	94.90
2009-2010	762,615	706,800	92.68
2010-2011	1,048,039	989,520	94.42
2011-2012	2,414,396	989,520	40.98
2012-2013	2,962,873	2,359,000	79.62

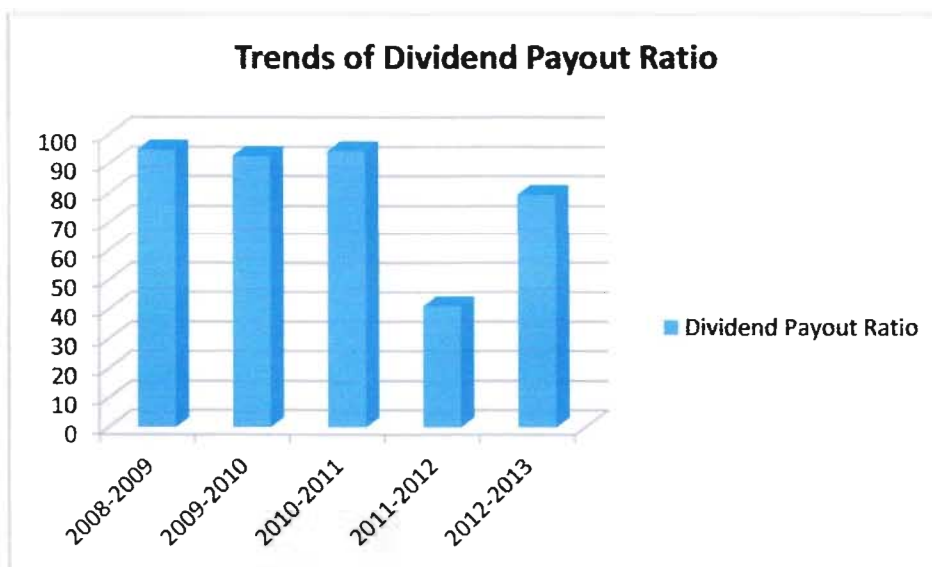


Figure 27: Trends of Trends of Dividend payout ratio of Desh Garments Limited

The dividend payout ratio of Desh Garments Limited is content (7%) from 2009-2013. It means that whatever net profit generates by Desh garments among them 7% of net income will be distribute to its shareholders.

3.7 Price Earnings Ratio (P/E Ratio)

Price/Earnings or P/E ratio is the ratio of a company's share price to its earnings per share. It tells whether the share price of a company is fairly valued, undervalued or overvalued. Current share price is obtained from secondary markets like DSE, CSE, etc. while EPS is calculated as (net income minus preferred dividends)/weighted average number of shares outstanding.

Table 26: Trends of P/E ratio for Rahim Textile Mills Limited

Year	Share Price(Tk)	EPS(Tk)	P/E Ratio(%)
2008-2009	776.09	50.43	15.39
2009-2010	784.62	11.5	68.23
2010-2011	810.48	42.05	19.27
2011-2012	73.88	0.51	144.86
2012-2013	70.85	5.81	12.19

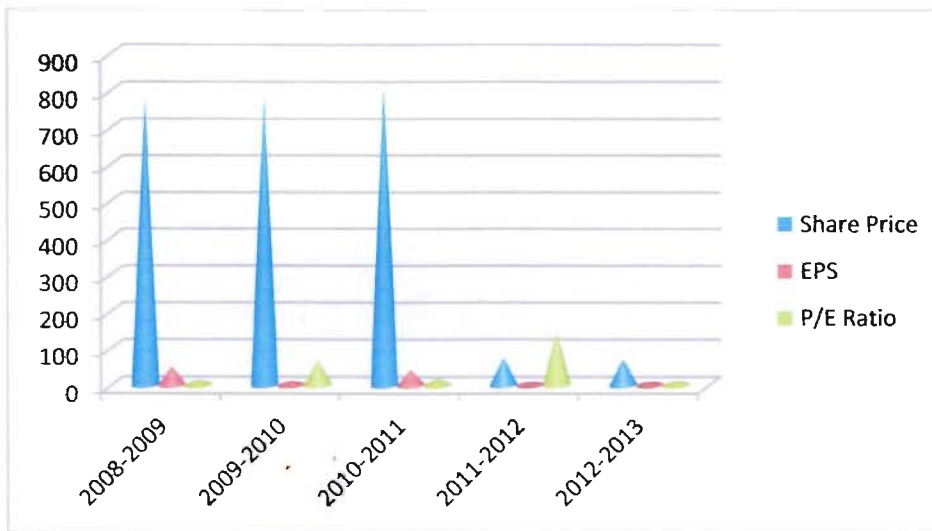


Figure 28: Trends of Trends of P/E ratio for Rahim Textile Mills Limited

We can see that, the company P/E ratios were high in 2010 and 2012. After that the company reduce P/E ratio. In 2010 and 2012 the company generated more income for their investors.

Table 27: Trends of P/E ratio of Apex Spinning & Knitting Mills Limited

Year	Share Price(Tk)	EPS(tk)	P/E Ratio(%)
2009-2010	790	16.45	48.02
2010-2011	2036	16.11	126.38
2011-2012	103.01	2	51.51
2012-2013	56	2.2	25.45
2013-2014	96.67	2.24	43.16

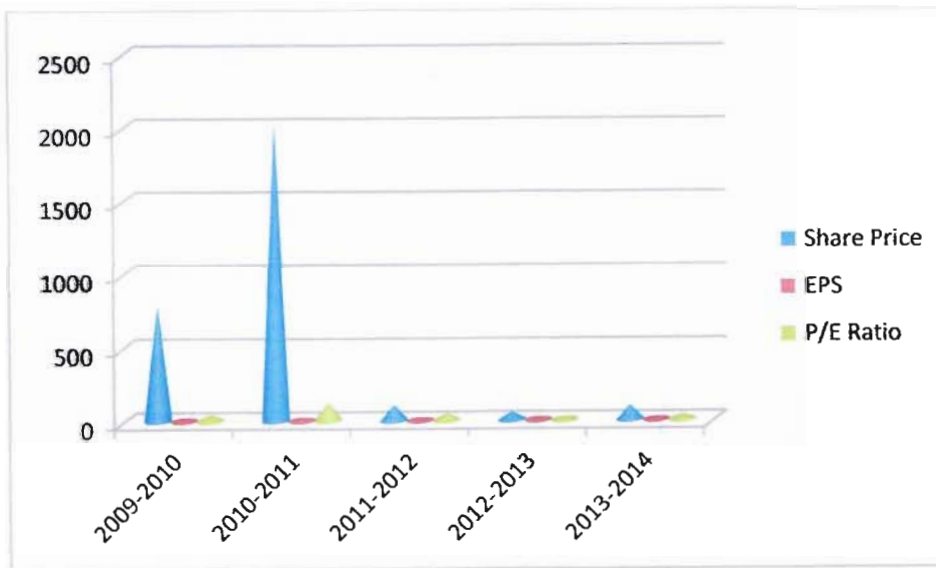


Figure 29: Trends of Trends of P/E Ratio of Apex Spinning & Knitting Mills Limited

From the above table we can see that the P/E Ratio is higher in the year 2010-2011 because in this year the price of share is much higher than before. We can also see that the share price is very much fluctuating. But it is a matter of joy that the EPS is consecutively growing, which leads to fluctuated P/E Ratio.

Table 28: Trends of P/E ratio of Square Textiles Limited

Year	Share Price(Tk)	EPS(Tk)	P/E Ratio(%)
2009	111.54	1.94	57.49
2010	209.8	4.2	49.95
2011	111.2	4.72	23.56
2012	102.8	4.38	23.47
2013	90.4	4.37	20.69

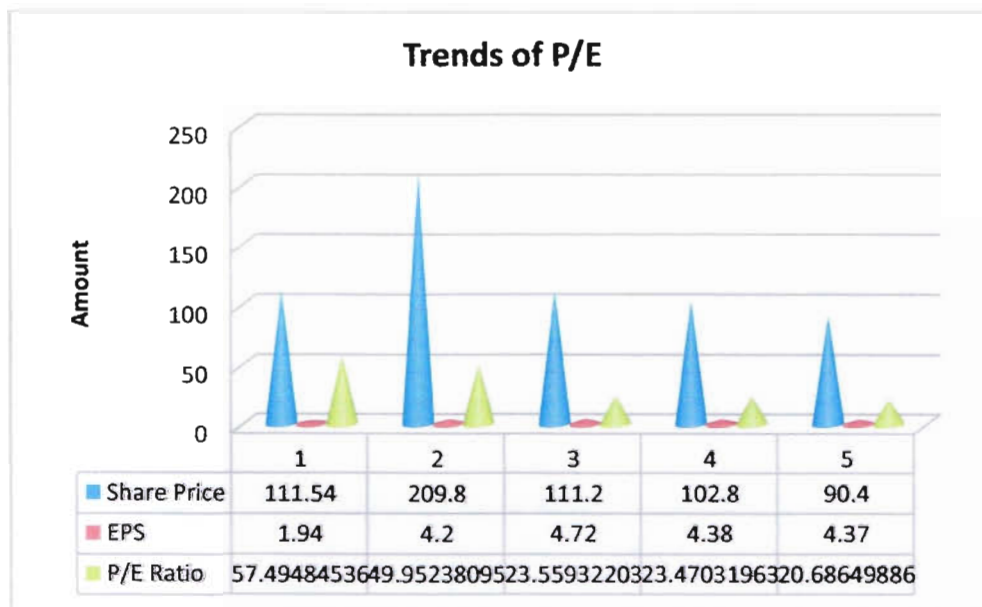


Figure 30: Trends of Trends of P/E Ratio of Square Textiles Limited

From the above table shows that in 2009 P/E ratio is higher because EPS is lower. Then P/E ratio decrease due to increase in EPS which is good for the corporation.

Table 29: Trends of P/E ratio of Dacca Dyeing & Manufacturing Co. Ltd

Year	EPS(Tk)	P/E Ratio(%)
2009	1.05	51.66
2010	1.34	24.55
2011	1.61	35.78
2012	1.21	34.54
2013	1.02	29.8

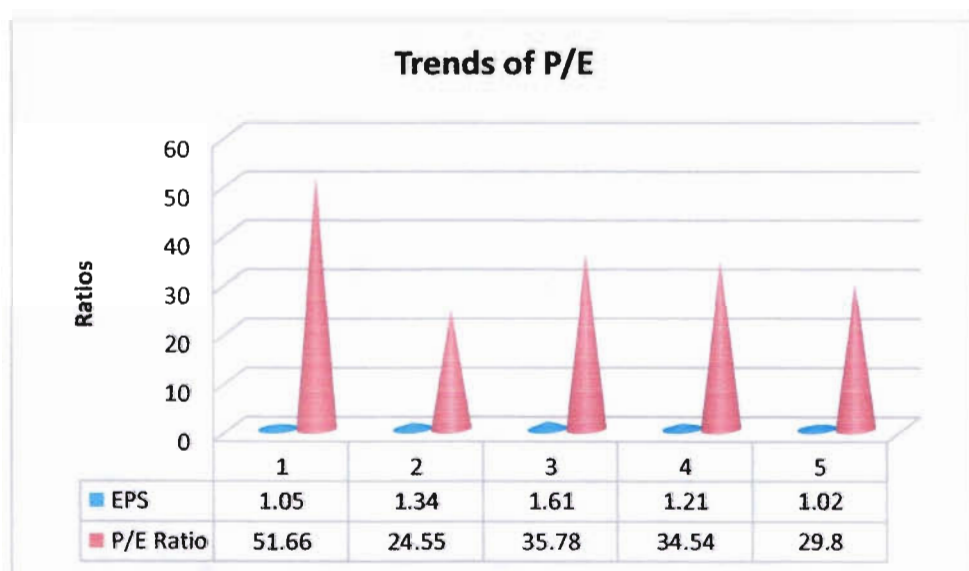


Figure 31: Trends of Trends of P/E Ratio of Dacca Dyeing & Manufacturing Co. Ltd

From the above table shows that in 2009 P/E ratio is higher because EPS is lower. Then P/E ratio is decreasing due to increase in EPS which is good for the corporation.

Table 30: Trends of P/E Ratio of Desh Garments Limited

Year	Share Price(Tk)	EPS(Tk)	P/E Ratio(%)
2008-2009	115.52	1.77	65.27
2009-2010	115.69	2.26	51.19
2010-2011	115.86	3.11	37.25
2011-2012	12	0.72	16.67
2012-2013	12.19	0.88	13.85

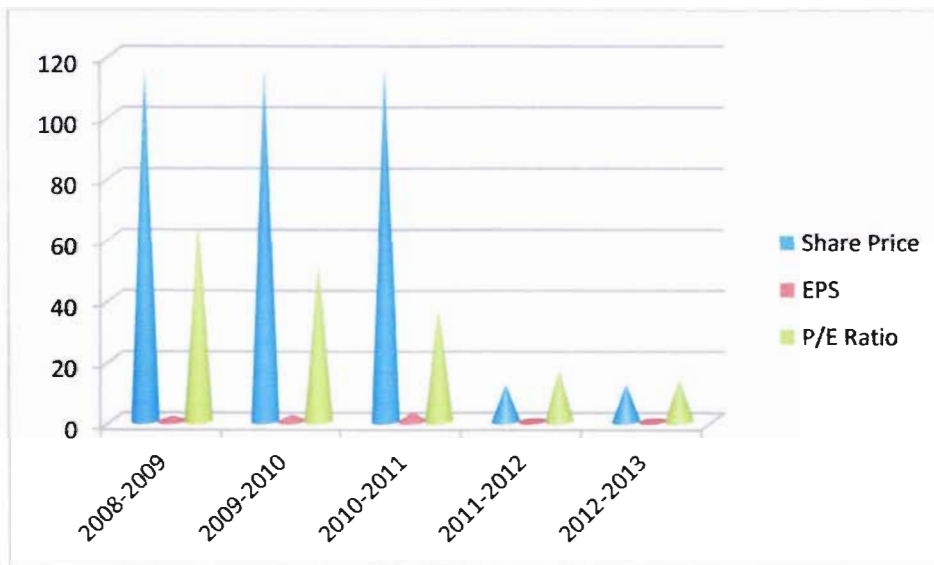


Figure 32: Trends of Trends of P/E Ratio of Desh Garments Limited

Form the above table we can say the P/E ratio is decreasing over year, which is good for firm operations. The highest P/E ratio was in 2011.

3.8 Appraisal of Dividend Theory and Policy Practiced by Companies.

The different dividend policies and theories are taken by selected textile companies are given below. As we know from chapter three the dividend Irrelevance theory is the value of a firm is unaffected by the distribution of dividends and is determined solely by the earning power and risk of its assets and that the manner in which it splits its earnings stream between dividends and internally retained funds does not affect this value. On the other hand, the dividend relevance theory is there is a direct relationship between a firm's dividend policy and its market value that means the dividend of a company is affected the company's value. So, there is a relationship between dividend and firm value.

Table 31: Dividend theory and policy practiced by Rahim textile mills limited

Year	Dividend Payout Ratios(%)	EPS(Tk per share)
2009-2010	25.87	11.5
2010-2011	35.68	42.05
2011-2012	45.31	0.51
2012-2013	43.03	5.81
Average	37.47	14.97

The table shows us that the company's average EPS is moderately high that means the company focuses on maximize shareholders wealth. On the other hand, the company's average dividend payout ratio is moderately low (37.47%) which make sense that the company distributes 37.47% of their net income as dividend and rest of the part invest in firm operations. Thus, the company follows dividend irrelevance theory. On the other hand, we see the dividend payout ratios are different over years which mean that the company follows low and extra dividend policy.

Table 32: Dividend theory and policy practiced by Apex Spinning & Knitting Mills Limited

Year	Dividend Payout Ratios(%)	EPS(Tk per share)
2009-2010	91.21	16.45
2010-2011	93.14	16.11
2011-2012	74.88	2
2012-2013	81.79	2.2
2013-2014	80.44	2.24
Average	84.29	7.8

The company's average EPS is moderately low (7.8) and the average dividend payout ratio is high. The average dividend payout ratio is 84.29% which means company pays on an average 84.29% of net income of it. As the company does not make shareholders wealth that means the company follows dividend relevance theory. This company is attractive to short term investors those are thinking current earnings are less risky rather long term earning.

Table 33: Dividend theory and policy practiced by Square Textiles Limited

Year	Dividend Payout Ratios(%)	EPS(Tk per share)
2009	83.95	1.94
2010	51.74	4.2
2011	56.54	4.72
2012	66.39	4.38
2013	6.86	4.37
Average	53.10	3.92

From above table we see the company's average EPS is very low (3.92) from 2009 to 2013. On the other hand, the company's average dividend payout ratio 53.10% that means the company distribute on average 53.10% of dividend of net income to their investors and rest of the part of the net income they hold as retained earnings that means the company follow dividend relevance theory. The short term inventors are like this company to make investment. We also see that the company provides different dividend payout ratios in different year that means the company follows low regular and extra dividend policy.

Table 34: Dividend theory and policy practiced by Dacca Dyeing & Manufacturing Co. Ltd

Year	Dividend Payout Ratios(%)	EPS(Tk per share)
2009	95	1.05
2010	99	1.34
2011	99	1.61
2012	99	1.21
2013	98	1.02
Average	98	1.25

The company's average dividend payout ratio is very high (98%) that means the company hold only 2% of their net income to invest in firm operations and remaining portion is declared as dividend. On the other hand, the average EPS is very low (1.25) which means that the company is not maximizing shareholders wealth. Thus the company follows dividend relevance theory.

Table 35: Dividend theory and policy practiced by Desh Garments Limited

Year	Dividend Payout Ratios(%)	EPS(Tk per share)
2008-2009	94.90	1.77
2009-2010	92.68	2.26
2010-2011	94.42	3.11
2011-2012	40.98	0.72
2012-2013	79.62	0.88
Average	80.52	1.75

Here the company's average dividend payout ratio is very high (80.52%), and the average EPS is moderately low (Tk 1.75). because of low average of EPS we can say that company does not maximize shareholders wealth, and company follows dividend relevance theory.

Chapter 04

PROBLEMS AND SUGGESTIONS

Until now, I have broadly discussed about the dividend policy of “Rahim Textile Mills Limited, Apex spinning & Knitting Mills Limited, Square textiles Limited, Dacca Dyeing & Manufacturing Co. Ltd., and Desh Garments Limited”. My aforementioned analysis tells that the companies pretty successful in recent years both in the operation of their business and in the conduction of their stocks in secondary market. However, there are a few issues that have been either overlooked or yet to be looked upon by the authority of the companies. As a result, I think their performance in the stock market has not yet fulfilled its expectation. Some of them are given below:

Rahim Textile Mills Limited

Rahim textile mills is in moderate situation but the company should increase EPS. On the other hand, the company’s EPS is reducing in radically which is bad signal for investors and for the company also. The company should increase EPS and reduce dividend payout ratio. That means the company should declare fewer dividends and reinvest more to their business operation. Other ratios are good for the company. The company should attract risk taker investor because the growth prospect of the company is bright in future.

Square Textiles Limited

The Square Textiles Limited EPS is very low in compare to other companies. The company should increase EPS to maximize shareholders wealth. Because, the ultimate philosophy of a company managers to maximize shareholders wealth. By increasing EPS square can attract more long term investors. Long term investors are risk taker. So, square textile could hold more retained earnings in future. On the other hand the company’s dividend payout ratios are very high, is an ultimate result of low retained earnings. Thus square should reduce dividend payout ratio and reinvest more in their operations because their performance till now is good.

Apex spinning & Knitting Mills Limited

The company's EPS is not that much good, but it is better than Desh, Dacca Dyeing, and Square. The company's top management should concern on net income rather net loss. The company should find out problem regarding their operations and sales also to make profit. Its net income is moderately low, but they retained more earnings, is suitable for the company for future investment in business expansion.

Dacca Dyeing & Manufacturing Co. Ltd

Dacca Dyeing & Manufacturing Co. Ltd is not good for long term investor because the EPS of the company is very low. Although, the company try to reduce fluctuation in EPS. On the other hand, the dividend payout ratio of the company was very high (98%). The company should reduce their dividend payout ratio and invest more in their firm operations. The company is good for the investor in this sense the company gives dividend on regular basis. A fall in EPS will certainly not be welcomed to these shareholders. Dacca Dyeing must make sure that in year 2014, they get back to a healthy EPS rate. It can be done through effective cash management system.

Desh Garments Limited

Desh Garments Limited follow constant dividend payout ratio. This is good for our stock market because our stock market is very much volatile. Constant dividend payout ratios help the investors to get a certain percentage of income if the company makes profit. On the other hand the problem with that, if the corporation make any loss then the company do not declare any dividend in that year. The EPS of the company is moderate.

Chapter: 05

CONCLUSIONS

Square textiles limited, Rahim textile mills limited, Desh Garments Limited, and Dacca Dyeing & Manufacturing Co. Ltd. is a trailblazer company in Bangladesh. Their performance over the years has proved their credentials to their customers and shareholders. Their ability to couple market performance with their financial strength has given them a unique position in the eyes of their shareholders. However, Rahim textile mills limited, Apex Spinning & Knitting Mills Limited, Square textiles limited, Dacca Dyeing and manufacturing Co. Ltd., and Desh Garments Limited must realize that they are operating business in an extremely volatile market. As a result, it is imperative that they should remain cautious while giving away their dividends to their shareholders in near future. From now on, they must evaluate the nature of the market and analyze their own business risk before declaring their dividends. Even though their dividend policy has been fruitful to both the company and its stockholders, they must not lose focus on the activity of the market they are operating in. Thus, these companies are comprises a strong financial department that will hopefully measure all these issues before giving away the next dividends.

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