

# DIVIDEND ADVANTAGE

Investors who prefer safety to high returns in stock investment can look at high dividend-yield stocks for sure-shot success

KUMAR SHANKAR ROY

**H**IGH dividend yield stocks offer a safe haven for investors who prefer safety to high returns. Even if the market remains volatile, going ahead, an investor can still get a decent return on investment on good dividend-yielding stocks. There are companies that pay dividend consistently no matter in which direction the stocks are moving. In a weak market, such stocks can offer higher yield on investment.

CLSA said in a recent report that dividend-yield strategies have done significantly better in emerging Asian markets compared with matured markets. India, a low-yield market, has seen the best performance since 2000, which means investors have taken dividend yield as a signal to quality of earnings.

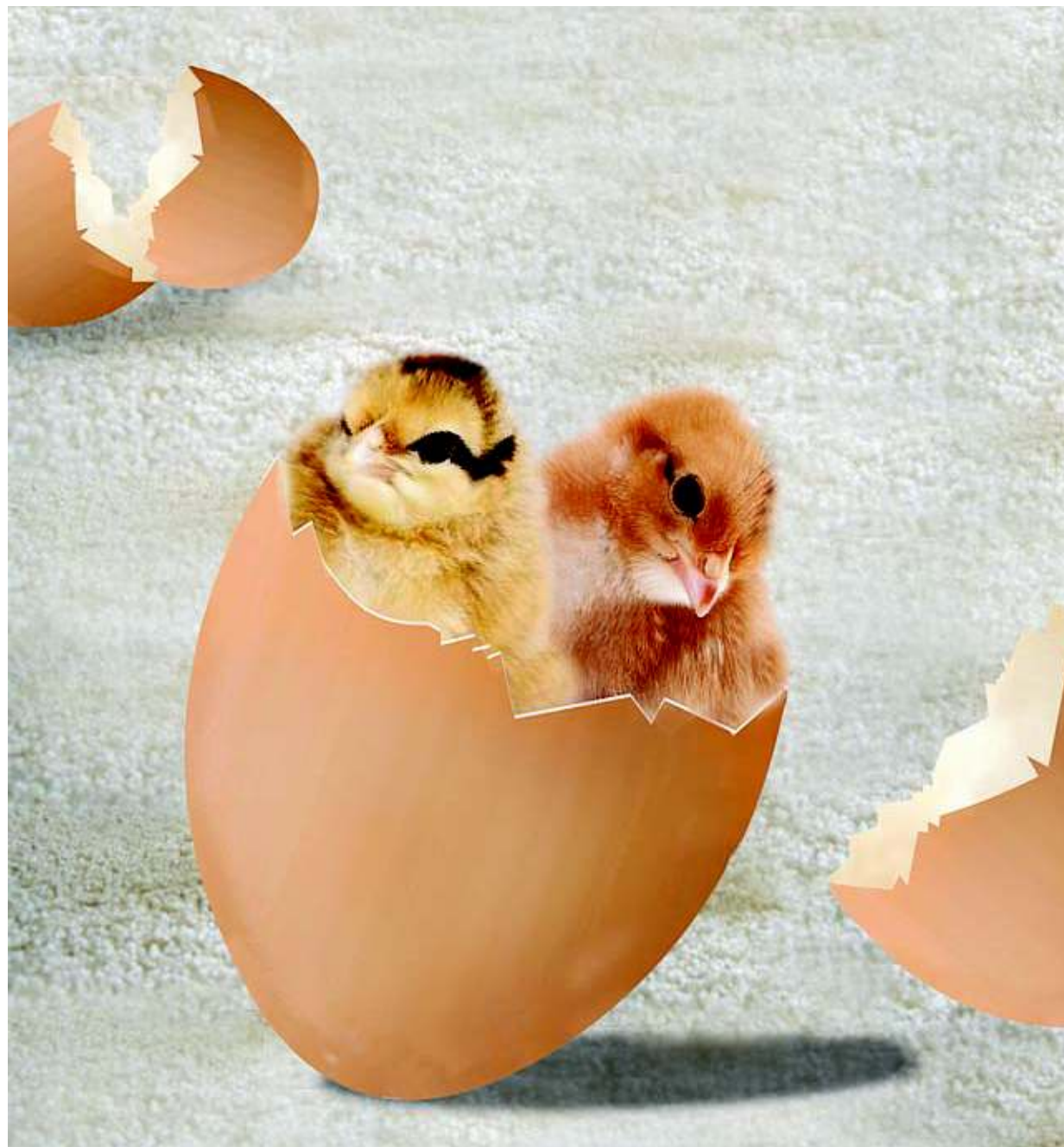
Market experts say high dividend-paying companies are very capital efficient, have high cash generation and good dividend payout ratios. If such companies were bought at the right valuations, they can offer a very healthy mix of capital growth along with a good dividend yield kicker.

However, it is important to avoid the value traps here. A quick look at Capitaline data shows there are companies such as Merck, Hero Honda, Balmer Lawrie, GIC Housing, Stovec Industries, HPCL, Hawkin Cookers, Oriental Bank of Commerce, ACC, Corporation Bank, CRISIL, Aventis Pharma, J&K Bank, State Bank of Bikaner and Bharat Bijlee, which have current dividend yield of over 2.5 per cent and have paid dividends continuously for the past three years.

Experts say investors should pay more attention to consistency rather than absolute amount. For example, some companies may give one-off high dividend in a particular year, but that level of payout may not be maintained over the next few years.

For instance, Patni Computers gave a dividend of Rs 63 for FY2011 as the erstwhile promoters wanted to clean out the cash chest before selling it to iGATE. Patni had paid Rs 3 dividend in the two years before that.

“Generally, multinational companies from FMCG and pharmaceutical sectors pay high dividends as there remains little scope for expansion in these fields. Also, such dividend payouts serve as a way to pay a



Pranaki Paul

proportion of the income back to the parent company abroad,” said Sudip Bandyopadhyay, managing director and CEO of Destimoney.

That does not necessarily mean all FMCG and pharma companies give high dividends. A longer view over the past three years shows consistency in terms of payout in stocks like Hero Honda (FY11 – Rs 105, FY10 – Rs 110 and FY09 – Rs 20), Infosys Technologies (FY11 – Rs 60, FY10 – Rs 25 and FY09 – Rs 23.5), Hawkins Cookers (FY11 – Rs 40, FY10 – Rs 40 and FY09 – Rs 20), Bajaj Holdings

(FY11 – Rs 35, FY10 – Rs 30 and FY09 – Rs 10), among others.

Over the past five years, there have been just eight companies (most recently listed), which have paid dividends continuously. However, their current dividend yields stand at less than 2 per cent, which makes them unattractive.

Stocks such as J&K Bank (3 per cent), Bharat Bijlee (3 per cent), Nippo Batteries (4.6 per cent), State Bank of Bikaner (3 per cent), Bank of Baroda (2 per cent) and Tata Investment Corporation (2.3 per

cent) have given out double-digit dividend over the past three financial years. These stocks have dividend yields of more than 2 per cent at present.

In a falling market, dividend-paying companies outdo other stocks as well as benchmark indices, as investors throng to them for ‘assured’ returns. With the Sensex ending the financial year ended March with only 11 per cent gains, most high dividend-paying companies of the year did well.

The top 50 dividend-paying firms

## Strike it rich

Some of the high dividend yield stocks and their current stock price. A dividend yield above 4 is considered attractive

Company	Dividend yield	LTP (Rs)
Merck	15.54	602
HCL Infosystems	7.25	105.45
Hero Honda Motors	5.92	1,858.8
CPCL	5.14	233.6
Hinduja Global	5.01	394.1
Mangalam Cement	4.85	118
Balmer Lawrie	4.73	590.3
Nippo Batteries	4.61	435
HEG	4.31	232
Clariant Chemicals	4.24	707.5

Source: Capitaline Neo, BSE

## Market experts say investors should pay more attention to consistency in dividend payment than absolute amount

cent and 30 of the top 50 managed to register smaller losses in stock prices compared with Sensex.

While these are anecdotal data, investors betting on consistent dividend payers will have better chances of beating other similar stocks.

Market experts said one should also look at fundamentals and future prospects of a company. “If a company is in a cyclical business (such as sugar, commodities) with the cycle near its peak, it may mean dividend payouts can get reduced in the medium term. If a company has aggressive growth/M&A plans, it may need cash for these initiatives and may want to conserve cash,” said Dipen Shah, senior vice-president (private client group research) at Kotak Securities.

It’s also necessary to be mindful of seemingly small and trivial, yet very important thing like the ex-dividend dates (when dividend payments are over) of stocks.

“Very often I have seen investors selling high-dividend yield stocks before they go ex-dividend along with the dividend they would be paying out. Theoretically, markets are supposed to be efficient and, therefore, the stock should fall by a level equivalent to the dividend paid when it goes ex-dividend. But collecting and accumulating dividends in a growing business does pay well in the medium to long term,” said Bhupinder Sethi, co-head of equity at Tata Mutual Fund. ■

kumarsroy@mydigitalfc.com