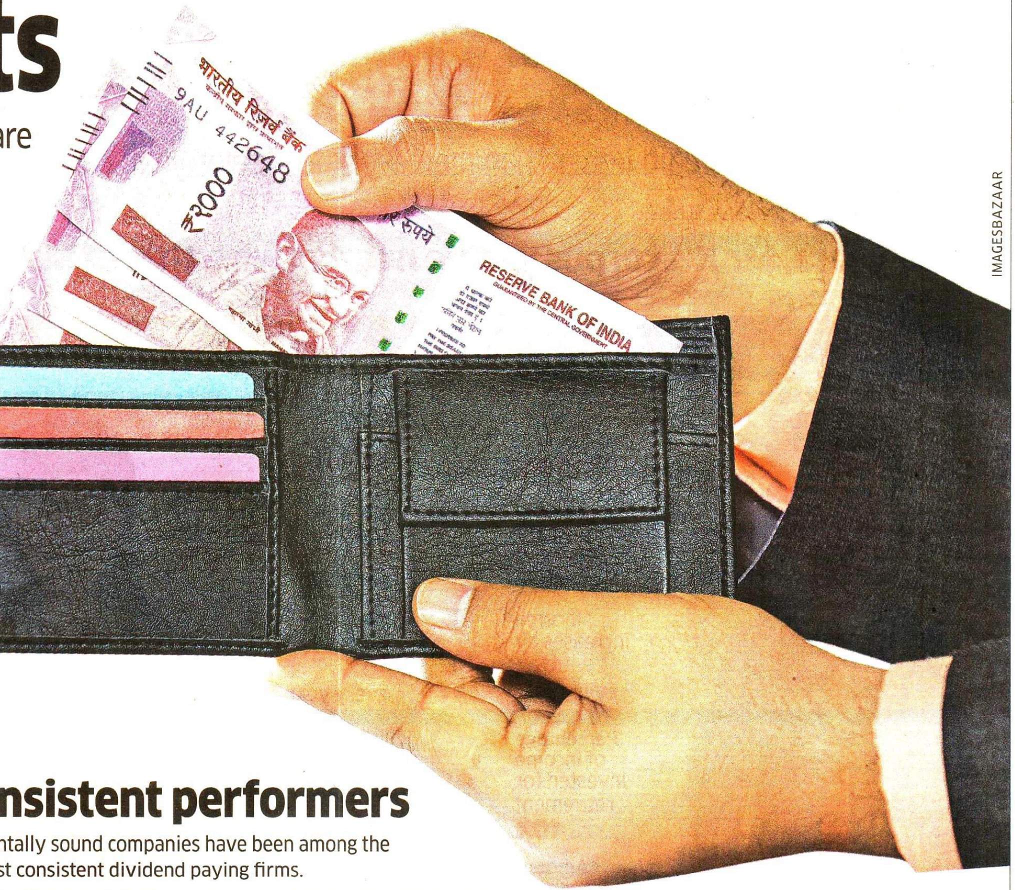
Dividend stocks can be good investments

Besides offering periodic income, they are also safer bets in a volatile market.

by **Sameer Bhardwaj**



The consistent performers

These fundamentally sound companies have been among the highest and most consistent dividend paying firms.

Company	Dividend yield (%)	*1-YR GROWTH %		ANALYSTS' VIEWS		
		Sales	PAT	Buy	Hold	Sell
Coal India	**7.43**	3.6	-23.0	23	5	3
Hindustan Petroleum Corporation	**6.56**	16.05	11.25	21	7	9
Indian Oil Corporation	**5.69**	16.64	14.13	27	5	4
NMDC	**4.31**	41.61	26.63	13	4	5
Oracle Fin. Services Software	**3.99**	1.47	3.98	3	1	2
BSE200 Average	**1.18**					

*GROWTH IN 2017 COMPARED TO 2016. DATA AS ON 9 MAY SOURCE: ACE EQUITY

To safeguard stock portfolios from the risks of volatility, investors can consider investing in dividend-paying stocks. As it is usually the big, well-established companies that make regular dividend payouts, these stocks are relatively safer. "There exists a positive relationship between improving corporate governance and the propensity to pay dividends. Companies that pay periodic dividends are perceived by the investing community as safer investment bets," says Jinesh Gopani, Head, Equity, Axis Mutual Fund.

In 2016-17, 740 companies collectively paid ₹1.46 lakh crore in dividends. The oil and gas sector led the pack, distributing ₹28,883 crore in dividends. With annual corporate results for 2017-18 due, what kind of dividends can we expect? "The banking sector is likely to give lower dividend payouts and PSU banks may skip dividends altogether this year. However, in most sectors the dividend payments will be as good or even better than last year," says R. Sreesankar, Head, Institutional Equities, Prabhudas Lilladher. "IT sector dividend payouts are likely to increase as companies struggle to find opportunities for organic growth and investors raise concerns on large cash balances. However, financials, manufacturing and consumer discretionary segments are likely to see significant growth opportunities and may look to retain a larger portion of their earnings to fund growth," says Gopani.

If you are interested in investing in dividend-paying stocks, you need to look at their dividend yield. It is calculated by dividing dividend per share (DPS) by the stock's market price. For example, if a company has declared a dividend of ₹4 per share and the market price of the stock is ₹125, the dividend yield of the stock works out to 3.2%. This means an investor earns ₹3,200 through dividends for every ₹1 lakh invested in the stock.

However, it could be misleading to select a stock only on the basis of its current dividend yield. One needs to opt for fundamentally strong dividend paying companies. "Consistency of dividend payments, non-cyclical business, stability in profits, lower debt or debt free capital structure are signs of fundamentally strong dividend paying companies," says Rakesh Tarwar, Research Head, Reliance Securities. Fundamentally strong dividend-paying companies also safeguard investors form the risks of market volatility—dividends cushion and arrest the stock price fall during the volatile market phases. Reduction in stock price increases the dividend yield which makes the stock attractive and increases its demand.

Opt for fundamentally sound, dividend paying stocks. Don't go just by current dividend yield.

Here are five BSE200 companies with high dividend yields which have paid regular dividends in the past three years (2014-15 to 2016-17):

Coal India

It's a state-owned Maharatna coal mining company that produces around 84% of India's coal. According to a report by Bloomberg Intelligence, expanding output and price hikes will spur Coal India's revenue growth in 2017-2018. The report estimates that 9% average coal-price rise in January will boost sales by almost $70 million (₹475 crore) a year. Also, e-auctions, which usually bring in higher prices, will improve the company's gross margins.

Hindustan Petroleum Corp

A public sector undertaking (PSU) with Navratna status, Hindustan Petroleum is an integrated refinery and oil marketing company. According to a report by Crisil Ratings, the high capacity utilisation of refineries will help the company maintain its operational efficiency. The company is expected to improve its gross refining margins in future helped by modernisation and capacity expansion.

Indian Oil Corporation

This Maharatna PSU is engaged in refining, pipeline transportation and marketing of petroleum products, research and development, exploration and production, and marketing of natural gas and petrochemicals. Petrochemical complex in Paradip, Odisha and commissioning and ramp up of 15 metric tonnes per annum (mtpa) refinery project will help the company maintain strong operating efficiency going forward.

NMDC

It is engaged in the exploration and production of iron ore and plans to expand its geographical footprint to key mining industries. According to a research report by Firstcall Research, the government's objective of raising India's steel production to 300 mtpa by 2024-2025 will be the primary growth driver for NMDC in particular and the iron ore and steel industry in general.

Oracle Fin. Services Software

The company is a global leader in the banking software segment with approximately 1,300 customers across 150 countries. Its services include core banking, analytics, digital, and risk and compliance. The company is the best player in the IT services/product segment due to its brand appeal, leadership position, wider product offerings and large dividends, says a research report by Emkay.

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