Dividend policy will help assess companies better

But don't lose out on companies which are ploughing back their profits for growth; have a balanced portfolio

ILLUSTRATION: BINAY SINHA

JOYDEEP GHOSH

Retail (small) investors should be happy with the Securities and Exchange Board of India's recent decision that India's top 500 companies, by market value, will have to frame a dividend distribution policy and disclose it on their websites.

Both investors and fund managers would be glad with this decision because it gives them a good handle into the company's intent versus actual execution. A Balasubramanian, chief executive officer, Birla SunLife Mutual Funds says: "Such a policy can help in overall assessment of the management quality and be a parameter in the selection criteria. It is, therefore, quite logical to encourage all companies to have such policy and also monitor them from the commitment versus delivery point of view. In other words, intent versus implementation through practice."

What is interesting to note is that direct investors in stocks have not benefited too much from the dividend payout of India's top 20 companies (in terms of dividend paid). In 2015-16, these 20 companies paid as much as ₹95,275 crore as dividend. Out of this, direct investors in their stocks made just ₹4,446 crore. Some dividend income also came back to retail investors from their mutual fund and insurance policy investments. That is, mutual funds received ₹2,722 crore and insurance companies got ₹7,168 crore as dividend income.

Promoters enjoyed the majority of the dividend largesse at ₹51,806 crore. Institutions, including foreign and local and non-promoters corporate players, garnered ₹23,559 crore.

Against this backdrop, the market regulator's decision seems to be encouraging many investment analysts. According to Deven Choksey, managing director, K R Choksey Securities: "From a company's perspective, this is a good move to set accountability standards. Investors would also get direction about a company with a good and consistent record of paying dividends. And the level of confidence in these companies goes up substantially."

TOP DIVIDEND-PAYING COMPANIES

	DPS* (₹)	Dividend amt (₹ cr)	Promoters (stake in %)	Retail (stake in %)	Institutions (stake in %)#
Coal India	27.4	17,306.8	79.7	1.8	18.5
Hind Zinc	27.8	11,746.4	64.9	2.3	3.3
TCS	43.5	8,571.4	73.4	4.2	22.3
ONGC	8.5	7,272.2	68.9	13.6	17.5
ITC	8.5	6,840.1	-	10.1	90.0
Infosys	24.3	5,570.1	12.8	10.5	76.8
NMDC	11.0	4,361.2	80.0	2.1	17.9
Hind Unilever	16.0	3,462.3	67.2	13.8	19.0
Reliance Ind	10.5	3,402.4	45.2	15.7	39.1
IOCL	14.0	3,399.1	58.6	4.8	36.5

*Dividend per share, #Includes total foreign, institutions and non-promoter corporate holdings

What does it mean for retail investors? High dividend-paying companies are great for retail investors, primarily because of two reasons — one, given its regular paying nature, it gives comfort to an investor who is fixated on regular income instruments such as fixed deposits or small savings schemes. Two, unlike some of the other fixed return instruments, dividend income is tax free in the hands of the investor.

According to Balasubramanian, the dividend policy of companies reflects on the management commitment to the business and sharing of the profit with shareholders. If there is high cash in the balance sheet which is not ploughed back or given to shareholders and instead is used to make treasury gains, the company's valuation would be adversely impacted. "Any such policy as part of the best practice and good governance structure, would help in driving minority shareholders conviction in the ownership of such companies. Many a times, it helps in boosting the valuation too as an indirect benefit to shareholders," adds Balasubramanian.

However, as Hemant Rustagi, CEO, WiseInvest points out, high dividend-paying companies are good for the portfolio but it does not mean that companies that are ploughing back their profits into business are bad. "High dividend-paying companies are considered more stable but someone looking for higher returns will have to take that additional risk in growth companies," adds Rustagi. The focus, therefore, also has to be on the management and other crucial parameters before investing in direct stocks.

Tax benefit on dividend income: If you are paid dividend by the company, the dividend distribution tax is 15 per cent. But it is paid by the company to the tax authorities before the dividend is paid to investors. However, Budget 2016-17 has a new provision — if an individual earns more than ₹10 lakh in dividend income, there will be an additional tax of 10 per cent. In comparison, returns from fixed deposits are added to your income and taxed, as per the income-tax bracket. While Section 80C gives tax benefits for investing in some of these instruments, the benefit is only at the investing stage, the returns are taxed. For example: If you are investing ₹30,000 in a five-year fixed deposit and are in the top income tax bracket (30 per cent plus cess), the initial benefit would be ₹10,000 but the interest income will be taxed.

High dividend-paying company and mutual fund scheme aren't same: Remember this, whereas a regular dividend-paying company shows that its prospects are good and the management is willing to share its profits with the investors, the same does not apply for mutual funds. In fact, a good dividend-paying company may be rewarded by rise in its share price but in case of a mutual fund scheme paying dividends, its net asset value (NAV) goes down commensurately. "Only people who are seeking regular income should invest in such schemes that give regular dividends because the investor is only getting part of the rise in NAV," adds Rustagi.

Most fund houses use this strategy to attract investors and create a positive perception. Sometimes, in an overheated market, fund managers prefer to book regular profits and distribute as it helps reduce the risk for investors if the market corrects suddenly.

Postpone your property purchase till May 2017

FRANKLY SPEAKING

HARSH ROONGTA

My client, Shankar, recently spoke to me about a large investment he was proposing to make in an under-construction property. He wanted to know whether it is worthwhile to postpone his purchase till the implementation of the recently notified Real Estate Regulation and Development Act 2016 (RERA).

Shankar understands the high risk nature of investing in under-construction property but likes the returns that he has managed to get in the past when he sold out as soon as the property was ready for possession. His considerably large portfolio is heavily weighted (80 per cent plus) in favour of under-construction property. He has turned cautious in recent years as several of his investment projects are stuck in long delays with no exit possibilities. He, therefore, wants to know about RERA.

RERA will operationalise by May 1, 2017, across all states in India. It is expected to reduce the risks of investing in under-construction properties once implemented.

Investment in under construction property has two main risks:

Developer-specific risk

- The developer may sell the same flat twice to different parties
- Risk of malpractices such as long delay in implementation due to funding crunch, demand for additional charges under various pretexts, cutting corners on promised carpet area, changing the plans, charging for parking and common areas, etc.
- One-sided contracts such as asking for high interest, say, 21 per cent even for one day's delay in payment

Once the new real estate Act is implemented, developers won't be able to cheat you

Regulatory risk

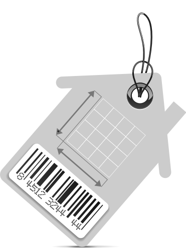
This is the risk of delay in getting various regulatory approvals or withdrawal of approvals already in place leading to delay in implementation of the project. The buyer gets no compensation and hence the cost of this risk falls on him.

The skills of investors like Shankar lay in identifying those projects where they were confident that the developer could manage the regulatory risk and also in making sure that the developer had a reputation for reasonable treatment of buyers on the other risks mentioned above. If the call was right, the benefit lay in the appreciation in property prices which occur naturally as the property is delivered to final users. If the call was wrong (as it was in recent years) there were not only poor or negative returns but the money was also stuck indefinitely with no scope for cutting losses and liquidating the investment.

While much will depend on how it is implemented on the ground, there is no question that developer-specific risk will be reduced to a great extent after RERA is implemented due to the transparent and even-handed playing field created by the law and the enforcement mechanism provided. RERA will also shift the cost of regulatory risk to the developer's account as he will have to pay compensation for delay in delivery. All this reduction of risk is likely to be available only on property purchases made after a project is registered under RERA. Irrespective of what the real estate industry is saying, property prices are unlikely to rise in the next year before the law is implemented. In fact, property prices may rise a few quarters after the law is implemented as the market players realise that the risks have actually dropped.

Whether you are an investor or an end user, it makes sense to postpone your purchase till projects are registered under the new law. Ignore these suggestions if you are considering a ready-to-move-in property, as that is not covered by RERA.

The writer is a Sebi-registered investment advisor



BUDGET: ₹2.5-3 crore

Realty check

Business Standard brings you a snapshot of average current rates and unit sizes in localities that offer property in the price range of ₹2.5-3 crore. If you are looking at buying real estate, an idea about prevailing rates would come in handy

	Avg price (₹/sq ft)	Avg unit size (sq ft)
HYDERABAD		
Banjara Hills	10,303	2,504
Hi-tech City	6,500	4,070
Begumpet	6,616	4,012
PUNE		
Baner	9,215	3,008
Sinhagadh Road	8,650	2,900
Karve Nagar	14,500	1,851
KOLKATA		
Topsia	9,100	2,940
EM Bypass (SE)	5,900	4,442
EM Bypass (NE)	10,500	2,700
JAIPUR		
Shyam Nagar	9,000	3,200
C Scheme	10,167	2,754
Vaishali Nagar	6,950	3,618

Note:
- Ticket price range considered for the above data points is between ₹2.5 crore and ₹3 crore
- All the data points discussed in the above table refer to the primary market only
- Above residential data set comprises residential apartments only
- Above residential data are representative of organised real estate developers only
- The top performing micromarkets based on sales during last year (Apr-2015 to Mar-2016) is represented on the above table
- Data points are updated till Mar 2016

Source: PropEquity

Readers' Corner

GENERAL INSURANCE

Rakesh Jain, chief executive officer, Reliance General Insurance, answers your questions

RAKESH JAIN

I have not made a claim on my motor insurance in the past five years. If I buy a new car, can I use the no-claims bonus that has accumulated in my policy?

Yes you can, as the no-claims bonus follows the fortune of the insured and not the vehicle. The new vehicle can be substituted on the policy to avail the benefit, provided the class of vehicle is the same.

Is there any mandatory insurance for shop owners?

It is not mandatory for shop owners to take insurance. However, owners who handle specified hazardous materials (as defined by law) have to take public liability insurance policy. Nevertheless it's advisable to take shopkeeper insurance which under its multiple sections provides coverage for damage to shop and its contents caused by fire , theft, etc.

If I purchase a family health insurance policy in the city where I work, will it cover my wife and kids who are in another city?

Yes, if your wife and kid have been covered under the insurance policy then it would cover them even if they are in another city. However, some health insurance plans may have some restrictions/conditions for room rent and co-pay. These depend on the city — metro or non-metro. If you are covered under any such kind of a health insurance plan then you will have to be cautious that you are complying with it and are eligible for claim payment.

What is covered under home insurance? Can I claim damages to electronic appliances under home insurance?

The basic cover under home insurance is for fire and allied perils for the building (structure) and contents, specifically for contents you can also add protection against burglary and house breaking.

In addition, electrical and mechanical appliances can be covered for accidental damage and breakdown. Claim can be made if the specific electronic appliance has been declared and included under the home policy.

Currently there are several home policies available in the market which also cover a wide range of sections, like employer's compensation for domestic servant, liability towards third party, personal accident for residents, coverage against loss or damage to plate glass fixed at home, etc.

The views expressed are expert's own. Send your queries to yourmoney@bsmail.in

CASE STUDY

Business Standard analyses one family's finances and suggests a way forward

THE PUROHITs

Prashant (44), Kiran (46), Kriti (5)

RESIDE IN	NET ANNUAL INCOME	RATING
Mumbai	₹41.40 lakh	8/10

STATUS & GOALS

Prashant works as vice-president (sales) with a fast-moving consumer goods company, while his wife, Kiran, is a director at a knowledge process outsourcing. They want to plan for their daughter's education and marriage, followed by retirement

Basic expenses (₹)	Per month (₹)	Annual (₹)
Household and lifestyle	68,000	8,16,000
Home loan	69,849	8,38,192
Car loan	10,624	1,27,482
Insurance premium	11,750	1,41,000
Daughter's education	10,000	1,20,000
Vacation	15,000	1,80,000
Total	**1,85,223**	**22,22,674**

Monthly income: ₹3,45,000 Net monthly surplus: ₹1,59,777

GOALS

FUNDING DAUGHTER'S HIGHER EDUCATION (2029-2034) (Annual inflation considered 9 per cent)

Present value: **₹60 lakh** | Future value: **₹2.30 crore**

FUNDING DAUGHTER'S MARRIAGE (2036) (Annual inflation considered 10 per cent)

Present value: **₹25 lakh** | Future value: **₹1.68 crore**

RETIREMENT AT THE AGE OF 65 (2037) (Annual inflation considered 7 per cent)

Present annual expense: **₹10.24 lakh** | Future annual expense: **₹42.40 lakh** | Corpus required: **₹7.15 crore**

Assets	₹	Liabilities	₹
Savings account	2,16,000	Home loan	65,00,000
Liquid funds	3,12,000	Car loan	3,74,000
PPF	4,86,000		
Insurance cash value	4,31,000		
Equity mutual funds	65,43,000		
Shares	11,53,000		
Self-occupied property	2,25,00,000		
Invested property	1,75,00,000		
	4,91,41,000		**68,74,000**
Net worth	**4,22,67,000**		

FINDINGS

EMERGENCY FUND: A little under three months of expenses maintained in savings account and liquid funds for emergency

LIFE INSURANCE: Prashant and Kiran are covered for ₹21 lakh and ₹9 lakh, respectively, through traditional insurance policies

HEALTH INSURANCE: Prashant's employer provides ₹3 lakh floater cover for the family. Additionally, they have a ₹15-lakh family floater policy

INVESTMENTS: Investments indicate aggressive risk profile, as most investments are in property (67 per cent) and equity (30 per cent)

LIABILITIES: They are currently servicing a home loan on their invested property with an outstanding loan of ₹65 lakh and a car loan outstanding of ₹3.74 lakh

RECOMMENDATIONS

EMERGENCY FUND: The current balances in savings account and liquid funds are adequate

LIFE INSURANCE: Prashant needs to take a life cover of ₹1.50 crore while Kiran needs a cover of ₹75 lakh. A suitable online term will cost ₹50,000 approximately

HEALTH INSURANCE: Their present health cover is adequate

ACCIDENT INSURANCE: Both need to take an accidental cover of ₹1 crore with a TTD of ₹15 lakh. The premium for this will be approximately ₹32,000

PLANNING FOR GOALS

FUNDING DAUGHTER'S HIGHER EDUCATION (2029-2034): The couple needs to invest ₹47,000 per month in balanced funds for 18 years to achieve this goal

Annual rate of return assumed: 11 per cent in balanced funds

DAUGHTER'S MARRIAGE FUNDING (2036): They need to invest ₹17,000 per month for 20 years in a portfolio of large and multicap mutual funds for this goal

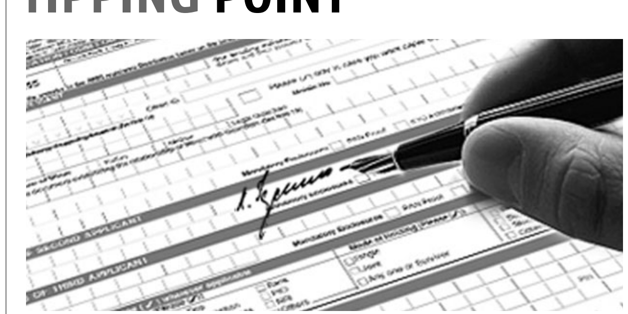
Annual rate of return assumed: 12 per cent in large-, multi-cap funds

RETIREMENT AT AGE 65 (2037): Prashant's public provident fund (PPF) will be worth ₹1 crore at retirement considering an annual investment of ₹1.5 lakh. The shares and mutual funds will be worth ₹2.2 crore and ₹16.5 crore, respectively, considering the existing SIPs of ₹75,000 per month till retirement. Their invested property will be worth ₹8.8 crore

Rate of return assumed: Eight per cent on PPF/ Prop, 12 per cent on mutual funds portfolio, 15 per cent in shares

Plan by Steven Fernandes, certified financial planner, chief planner, Proficient Financial Planners

TIPPING POINT



What can you do if a mutual fund house or an insurance company rejects your service request due to a signature mismatch?

You can approach your bank and ask bank officials to attest your signature. This can be submitted to the fund house or insurance company for processing your request.

What are the documents that you would need?

Bank officials will seek proof of identity, PAN card, and other supporting documents. The official will then attest the signature by putting the official seal to validate it. The financial company, however, can also ask for more legal documents such as an affidavit, depending on their compliance procedure.