

Strategy : i-LENS screener

CPSE index – Highest dividend yield with improving prospects of ‘dividend per share’

i-LENS is our screening framework for critical factors related to economy / sectors / stocks

Research Analyst:

Vinod Karki

vinod.karki@icicisecurities.com
+91 22 6637 7586

Research Analyst:

Siddharth Gupta, CFA

siddharth.gupta@icicisecurities.com
+91 22 2277 7607

Dividend per share of CPSE stocks to improve over FY20-23

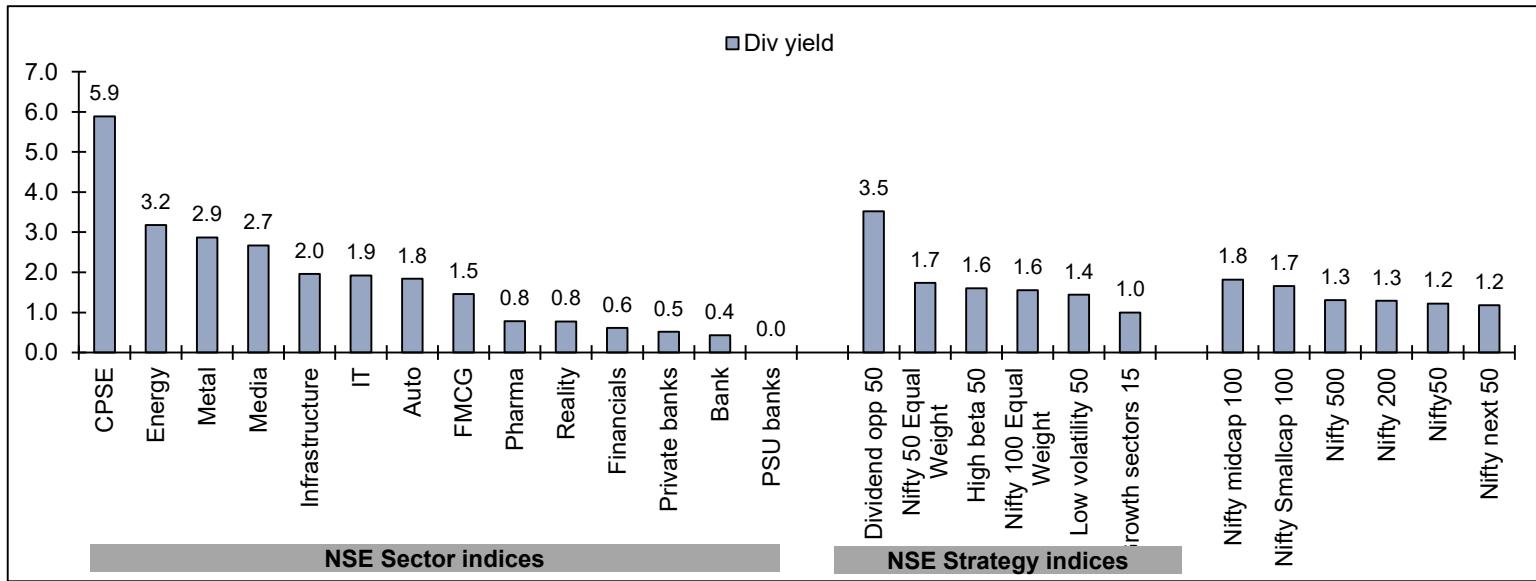
- As an addendum to our earlier note on dividend yield strategy ([link](#)) which indicated that ; (a) the CPSE index has the highest dividend yield of ~ 6% amongst all benchmark indices and (b) the current environment of negative real interest rate is positive for dividend yield stocks, we dived deeper into the prospects for dividend payout from CPSE stocks.
- Based on consensus forecasts for CPSE index stocks (where available) it is apparent that the dividend per share for most CPSE stocks are expected to rise over FY20-23. The rise in DPS is supported by rising EPS and FCFO over the same period.

Company name	Price	Mcap	Nov end weight	PAT (Rs mn)				FCFO (Rs mn)				DPS (Rs)				Median ROE (%)
				FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	
Power Grid	192	1,006,558	21.1	108,112	113,959	128,780	139,002	112,669	172,202	225,953	142,513	10.0	11.4	13.2	15.0	17.4
NTPC	95	937,015	19.7	101,128	129,948	149,100	163,752	-27,506	53,148	93,086	134,738	3.15	5.43	6.35	7.44	11.2
Coal India	126	773,731	17.0	167,142	121,373	142,770	157,143	18,906	56,099	151,597	160,084	12.0	12.1	14.2	16.1	36.6
ONGC	79	987,552	18.5	199,356	86,122	157,209	200,244	197,086	-31,546	46,680	99,617	5.00	2.30	4.40	4.90	6.2
BEL	111	270,706	8.6	17,938	16,939	20,542	22,037	18,559	7,635	12,290	12,734	2.80	2.81	3.37	3.59	17.6
NMDC	96	295,162	5.7	35,733	38,135	38,969	40,106	1,191	25,308	14,692	12,159	5.29	5.10	5.45	5.53	13.1
Oil India	96	104,266	2.2	25,841	10,382	17,412	20,212	33,869	-9,126	-3,235	3,076	10.60	3.39	5.55	6.75	6.5
NHPC	21	215,466	3.5	33,247	29,467	31,125	33,608	-14,406	2,134	-23,451	17,828	1.18	1.60	1.63	1.80	9.2

Source: Capitaline, Bloomberg, I-Sec Research

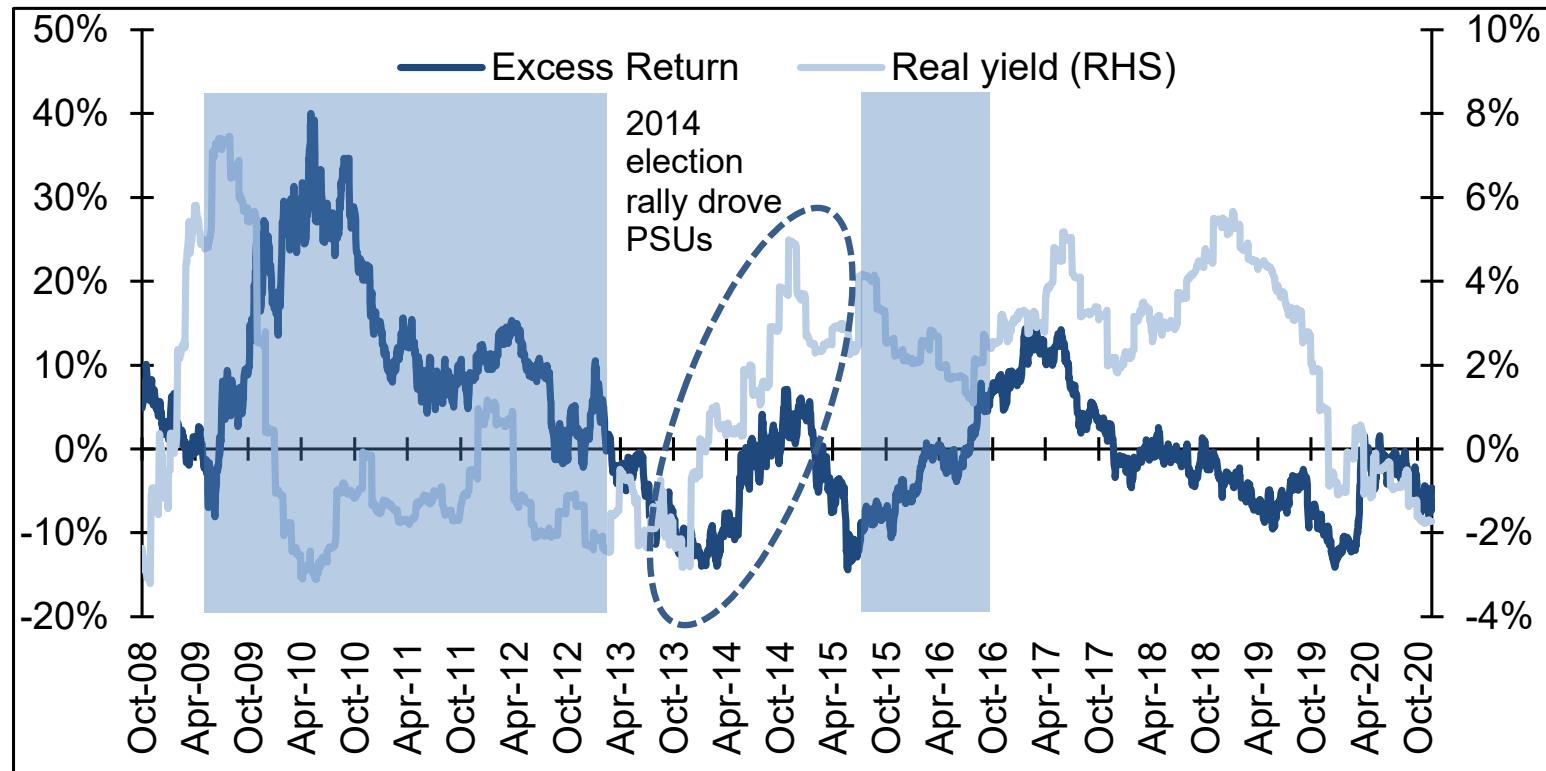
Top Dividend yield Indices

Dividend yields across sectors, strategies and equity size class



Source: Niftyindices.com , Capitaline, Bloomberg, I-Sec Research

High dividend yield stocks have performed better in a falling real interest rate environment

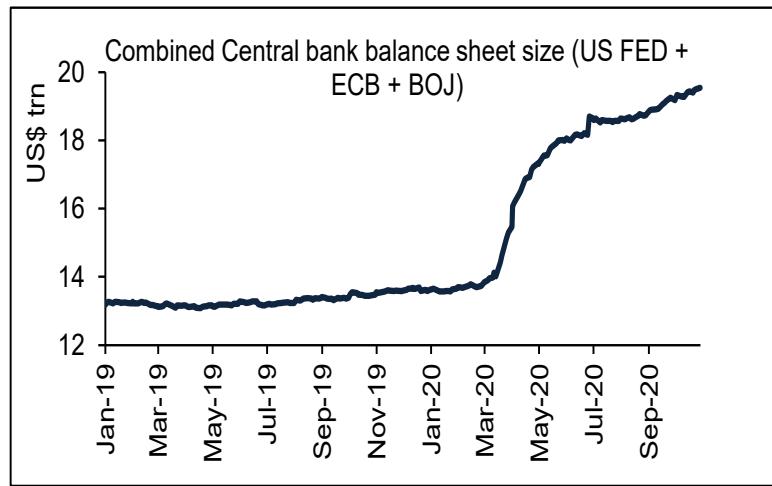


Note: excess return is the difference between one year return from Nifty Dividend opportunities and Nifty50 Index

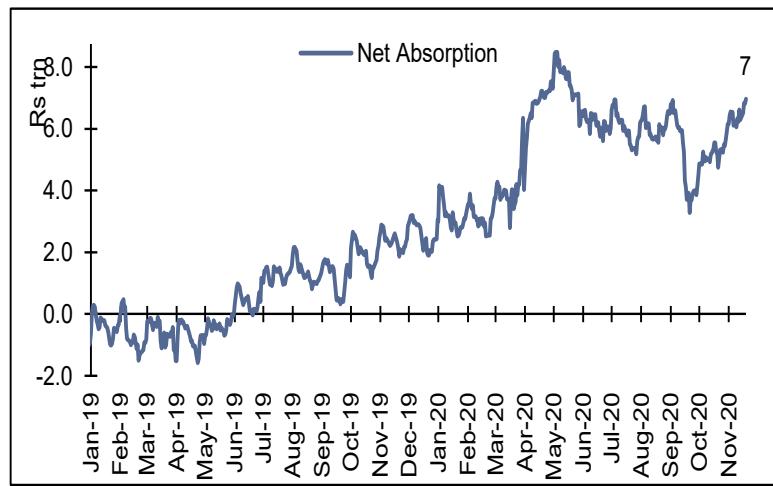
Source: Bloomberg, I-Sec Research

Falling fixed income yields and global surge in liquidity

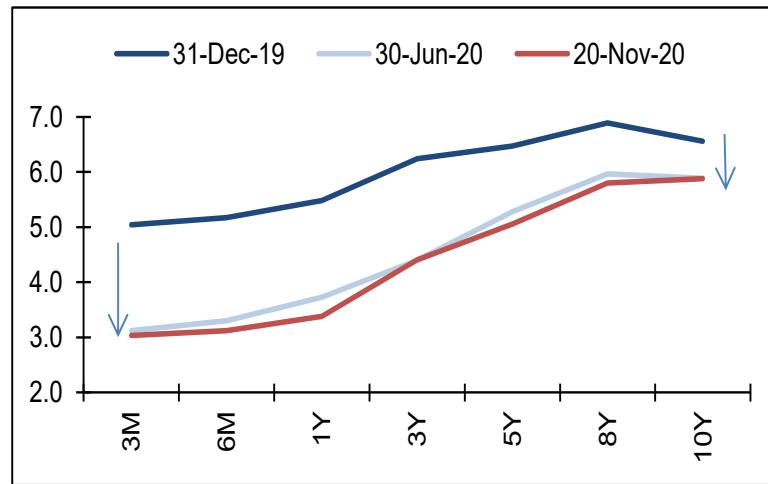
Rising global monetary easing



Higher domestic liquidity

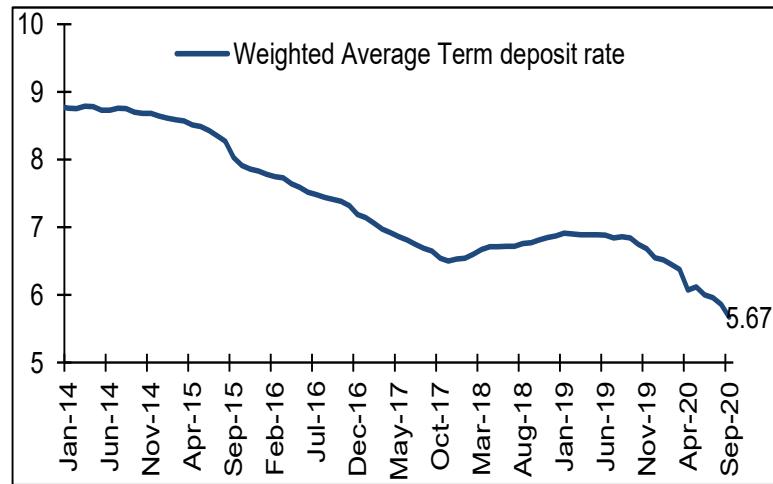


Fall in bond yields sharper at the short end



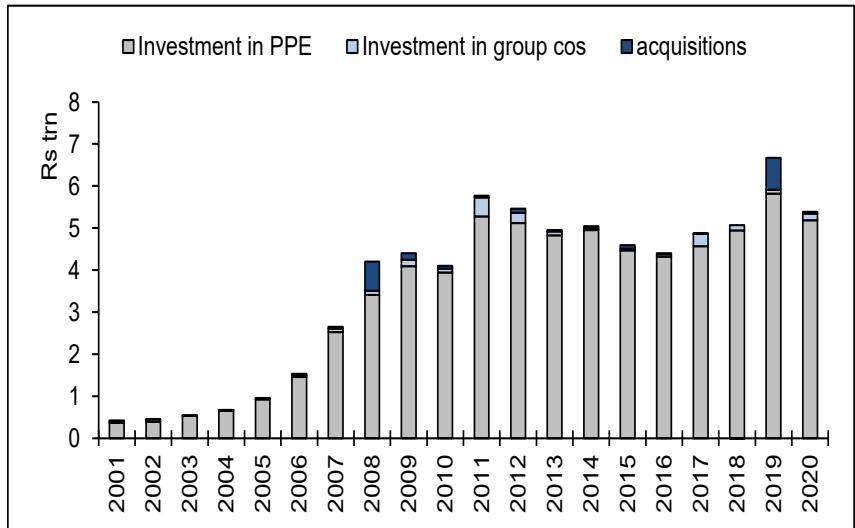
Source: Bloomberg, CEIC, RBI, I-Sec Research

Declining yields from Bank FDs

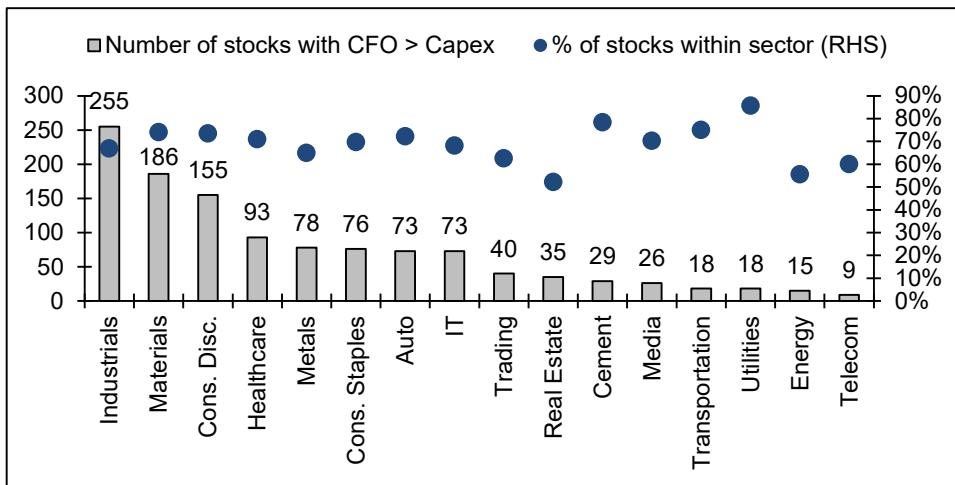


Postponement of capex spending and improved balance sheet strength of India Inc. will allow higher dividend payment/buybacks in the near term

Private capex stagnating and COVID-19 has resulted in further postponement while cash flow generation has been robust



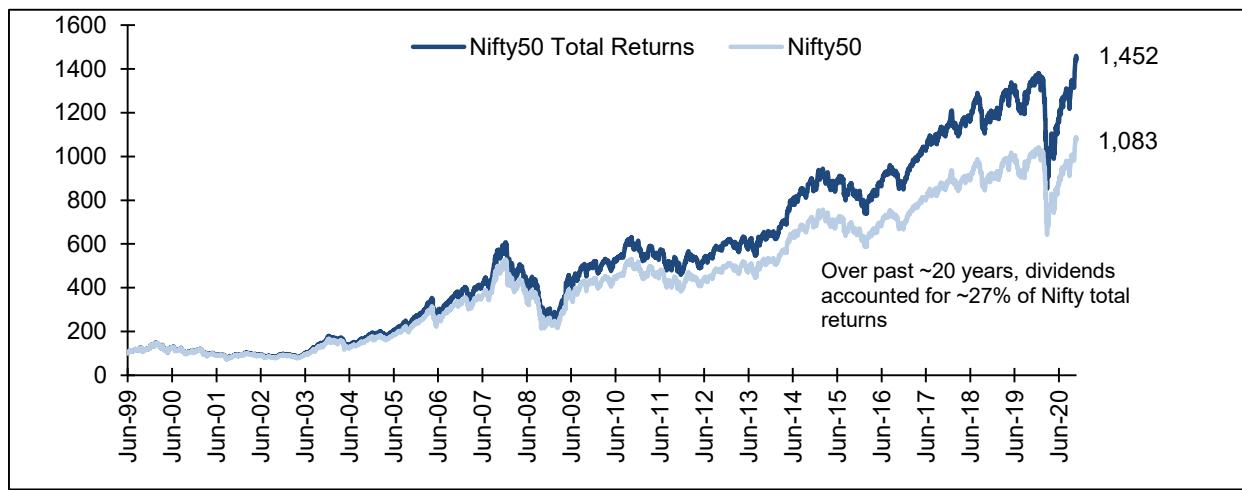
Particulars	Amount in Rs bn
Capex via cash spent in FY20	
Net cash spent towards asset purchases	5,383
GFA (FY19)	60,030
As a % of Gross Fixed Assets (FY19)	9.0%
Free cash flow generation in FY20	
Cash flow from operations (after adjusting for working capital changes)	8,844
Less: net cash spend towards capex in FY20	5,383
Free cash flow	3,461
Less: Interest payments	2,267
Excess cash generation	1.195



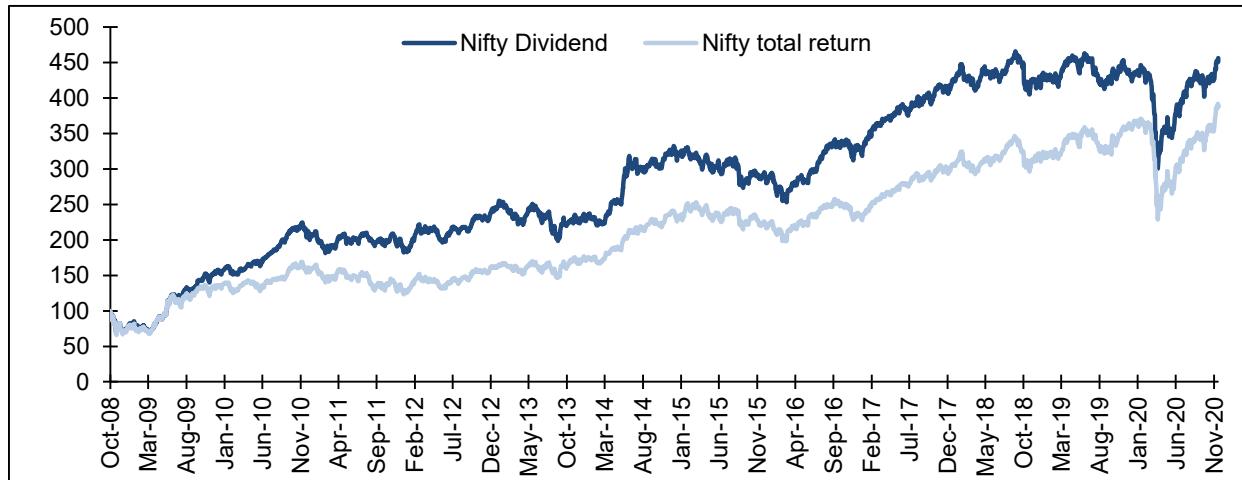
Source: Capitaline, I-Sec Research

Dividends contribute significantly to total returns of benchmark index over the long term

Nifty price and total return over time



Nifty dividend opportunities index has provided better returns than Nifty total return over time – bulk of the excess return came in FY10-12



Source: Bloomberg, I-Sec Research

Disclaimer

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