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**IiAS: Dividend and buy-back study 2020**

**60 companies can incrementally return almost Rs. 886 billion to shareholders**

*Cash hoarding continues to plague the Indian corporate sector. In our fifth annual study on companies that can pay more, IiAS estimates, based on FY19 financials, that 60 of the S&P BSE 500 companies can, conservatively, return Rs.886 bn of surplus cash to their shareholders; which is just about one-third of their aggregate on-balance-sheet cash on 31 March 2019.*

Over the years, IiAS has been rallying against cash hoarding in Indian companies and asking boards to critically reevaluate their capital allocation policy. Our consistent advocacy even led to SEBI asking the top 500<sup>[1]</sup> companies to publish a [dividend distribution policy](#), in the hope that this will compel boards to think about the use of surplus cash<sup>[2]</sup>. While several boards have taken a hard look at the need for cash conservation, there is room for more to be done.

IiAS study, based on FY19 financials, concludes that 60 of the S&P BSE 500 companies can incrementally distribute Rs. 886 bn to their shareholders. Key conclusions of the study are:

- Of the 60 companies, just five companies aggregate over 50% of the total incremental distributable cash of Rs. 886 billion (Exhibit 1).
- Of our list of 60 companies, almost one-third are MNCs.
- The excess cash, if distributed by these 60 companies, translates to a median dividend yield to 3.8%, significantly higher than the current 1.1%. There are six companies where the excess cash translates into an additional dividend yield of more than 15%. These are listed in Exhibit 3.
- The 60 companies can return a median of 52% of their total cash to shareholders. There are ten companies that can distribute over 75% of their 31 March 2019 on-balance-sheet cash (Exhibit 4).

**Exhibit 1: Five companies alone can distribute over Rs. 463 bn**

#	Company	Rs. bn.	Rs. per share
1	Infosys Limited	155.7	36.6
2	ITC Limited <sup>[3]</sup>	137.5	11.2
3	Wipro Limited	83.8	14.7
4	TCS Limited	48.9	13.0
5	SBI Life Insurance Co. Limited	37.3	37.3

Source: ACE Equity, IiAS analysis

**Exhibit 2: MNC companies (Top 10) likely to pay higher dividends from FY21 onwards, due to abolition of DDT**

#	Company	Aggregate cash (Rs. bn.)	Rs. per share
1	Glaxosmithkline Consumer Healthcare Limited	20.5	486.8
2	Oracle Financial Services Software Limited	16.9	196.7
3	Pfizer Limited	15.1	329.1
4	Hindustan Unilever Limited	11.0	5.1
5	ACC Limited	10.3	55.0
6	Abbott India Limited	9.9	466.1
7	Nestle India Limited	9.7	101.1
8	Ambuja Cements Limited	9.7	4.9
9	Honeywell Automation India Limited	8.7	985.3
10	Bata India Limited	6.5	50.7

Source: ACE Equity, IiAS analysis

**How much is Rs. 886 bn?**~ **128%** of FY21 budget allocation to Healthcare~ **98%** of the GoI's disinvestment target through listing of LIC~ **90%** of monthly FY20 GST collections~ **22%** of the GoI's FY21 capital spending target~ **18%** of FY19 post-tax profits of S&P BSE 500 companies~ **11%** of India's FY21 estimated fiscal deficit

- The consolidated PAT for these 60 companies increased by 13.4% over FY18, while the profit after tax for the BSE 500 companies in aggregate increased by 0.3%. While the 60 companies have outperformed the index (based on profitability), almost half of these companies reported a decline in the FY19 return on equity (ROE), compared to the previous year: this should compel their boards to review capital allocation and return some of the excess cash to shareholders.

This year the number of companies with excess cash reduced from 75 to 60, while the absolute quantum of excess cash dropped from Rs.1,081 bn to Rs. 886 bn this year. Profitable companies with surplus cash reported lower free cash flows in FY19 - a result of slower operating cash flows coupled with increase in capital expenditure, especially by state-owned enterprises.

**Exhibit 3: Companies where the excess cash translates into an additional dividend yield of more than 15%**

#	Company	%
1	SBI Life Insurance Company Limited	38
2	MOIL Limited	37
3	Engineers India Limited	18
4	Persistent Systems Limited	17
5	Rites Limited	15
6	Care Ratings Limited	15

Source: ACE Equity, IiAS analysis

**Exhibit 4: Companies that can distribute over 75% of their 31 March 2019 on-balance-sheet cash**

#	Company	%
1	Oracle Financial Services Software Limited	99
2	Just Dial Limited	92
3	Multi Commodity Exchange of India Limited	88
4	Astrazeneca Pharma India Limited	85
5	TCNS Clothing Company Limited	84
6	La Opala RG Limited	83
7	Bajaj Consumer Care Limited	82
8	Godfrey Philips India Limited	79
9	Pfizer Limited	79
10	Bata India Limited	78

Source: ACE Equity, IiAS analysis

The Finance Bill 2020 proposes to remove the Dividend Distribution Tax (DDT) and dividends henceforth will be taxable in the hands of shareholders. While the proposed amendment may work out beneficial for certain retail shareholder in the lower tax brackets, the effective tax rate can be as high as 42.7% for individuals with income of over Rs. 5.0 cr. On the other hand, companies will bear buyback tax of 20% (effective rate of 23.3%), which was introduced in the Finance Act 2019, if they decide to return surplus cash through the buyback route.

**Exhibit 5: The impact of IiAS 2019 study (which was based on FY18 financial statements)**

In its 2019 dividend study (based on FY18 financials), IiAS had identified 75 companies that could pay incremental dividends of Rs. 1,081 bn. Our FY19 study had the following impact:

- Out of 75 companies, 52 companies increased dividends in absolute amounts in FY19.
- Of the 52 companies that increased dividend, 33 companies also increased their dividend payout ratio.
- 25 of the BSE 500 companies undertook buybacks between 1 April 2018 and 31 March 2019. Almost one-third of these companies were part of the companies with excess cash in FY19 study.

**Select examples from the 2019 study**

- The analysis estimated Wipro had excess cash of Rs. 109.2 bn. In August 2019, Wipro announced a buyback of Rs. 105.0 bn.
- It was estimated that Nestle India could distribute excess cash of Rs. 190.5 per share. In CY19, Nestle stepped up its dividend to Rs. 281 per share (including a special dividend of Rs. 180) compared to Rs. 115 per share distributed in CY18.

IiAS believes companies strategy on whether to choose buyback or dividend as a route to return cash to shareholders will likely depend upon the ownership structure. The abolition of DDT augurs well for MNCs, as the foreign parent entity can claim credit for the corporate taxes paid in India on dividends in their home jurisdictions. On the other hand, family-owned companies may accelerate dividends before the next fiscal, to escape paying dividend taxes in personal capacities. Even so, IiAS believes companies' dividend policy must not be driven by personal taxation requirements of controlling shareholders – instead, it must be driven by thoughtful capital allocation policies that result in predictability of corporate behavior.

While we recognize that companies need to maintain liquidity for organic and inorganic growth, the question is how much cash is reasonable to hold. Excess cash on the books has led some companies to make risky acquisitions. In another case, the excess cash was encumbered, which investors did not realize until the company defaulted on debt. Therefore, returning cash to shareholders is a testimony of the quality of a company's earnings and will result in more efficient use of capital.

*Footnotes:*

*[1]: SEBI regulations mandate the top 500 companies by market capitalization to articulate a dividend distribution policy*

*[2]: All references to cash and/or cash balances includes cash and bank balances, cash equivalents, and liquid investments.*

*[3]: There is a civil suit filed by ITC Limited against IiAS and two of its employees, in the Calcutta High Court, alleging defamation in relation to its 2017 AGM voting advisory and a report issued by IiAS on succession planning at ITC. ITC has claimed purported damages aggregating Rs. 10bn. The suit is being contested by IiAS and its two employees and is presently pending before the court.*

## Annexure A: Companies that can pay more dividends: Results of IiAS analysis (Rs.mn)

Sr.No.	Company Name	PAT >=500	Free Cash Flow > 0	Debt/Networth <=1	Debt/EBITDA <=3	Cash & Equivalents > PAT	TTM Growth >=-20%	(a) = Cash & Equivalents - Consolidated debt - 50% of Contingent Liabilities - FY18 Final Dividend - Qualitative Adjustments > 500	Final Excess Cash = Lower of (a) or 50% of standalone Networkth	Final Excess Cash per share (Rs.)
1	Abbott India Ltd.	4,503	5,036	0.0	0.0	Yes	17%	15,040	9,904	466.10
2	ACC Ltd.	15,103	6,203	0.0	0.0	Yes	21%	10,320	10,320	54.96
3	Akzo Nobel India Ltd.	2,110	974	0.0	0.0	Yes	12%	954	954	20.94
4	Ambuja Cements Ltd.	29,602	6,347	0.0	0.0	Yes	8%	9,668	9,668	4.87
5	Astrazeneca Pharma India Ltd.	545	366	0.0	0.0	Yes	37%	1,469	1,469	58.75
6	Avanti Feeds Ltd.	3,064	1,596	0.0	0.0	Yes	33%	5,436	5,311	38.98
7	Bajaj Auto Ltd.	45,779	23,787	0.0	0.0	Yes	6%	33,923	33,923	117.23
8	Bajaj Consumer Care Ltd.	2,216	1,666	0.1	0.1	Yes	5%	2,167	2,167	14.69
9	Bata India Ltd.	3,290	2,629	0.0	0.0	Yes	10%	6,519	6,519	50.72
10	Care Ratings Ltd.	1,381	824	0.0	0.0	Yes	-16%	3,876	2,641	89.66
11	Castrol India Ltd.	7,084	4,715	0.0	0.0	Yes	8%	2,090	2,090	2.11
12	Cummins India Ltd.	6,500	2,751	0.1	0.3	Yes	-10%	1,066	1,066	3.85
13	Delta Corp Ltd.	1,964	702	0.0	0.0	Yes	-2%	2,459	2,459	9.08
14	Dr. Lal Pathlabs Ltd.	2,005	1,768	0.0	0.0	Yes	16%	5,564	4,514	54.16
15	Eicher Motors Ltd.	19,619	7,855	0.0	0.1	Yes	0%	37,565	35,339	1,295.28
16	Engineers India Ltd.	3,729	5,167	0.0	0.0	Yes	2%	19,412	11,379	18.01
17	FDC Ltd.	1,718	696	0.0	0.0	Yes	12%	3,317	3,317	19.02
18	Finolex Cables Ltd.	3,071	1,098	0.0	0.0	Yes	6%	5,807	5,807	37.97
19	Glaxosmithkline Consumer Healthcare Ltd.	9,828	6,384	0.0	0.0	Yes	12%	34,438	20,474	486.82

Sr.No.	Company Name	PAT >=500	Free Cash Flow > 0	Debt/Networth <=1	Debt/EBITDA <=3	Cash & Equivalents > PAT	TTM Growth >=-20%	(a) = Cash & Equivalents - Consolidated debt - 50% of Contingent Liabilities - FY18 Final Dividend - Qualitative Adjustments > 500	Final Excess Cash = Lower of (a) or 50% of standalone Network	Final Excess Cash per share (Rs.)
20	Glaxosmithkline Pharmaceuticals Ltd. <sup>[1]</sup>	4,454	1,561	0.0	0.0	Yes	100%	3,790	3,790	22.37
21	Godfrey Phillips India Ltd.	2,598	2,328	0.0	0.1	Yes	43%	8,622	8,622	165.82
22	Grindwell Norton Ltd.	1,687	176	0.0	0.0	Yes	7%	753	753	6.80
23	Gujarat Pipavav Port Ltd.	2,056	2,681	0.0	0.0	Yes	11%	2,304	2,304	4.77
24	HDFC Life Insurance Co Ltd.	12,779	98,249	0.0	0.0	Yes	5%	2,84,959	28,291	14.02
25	Hindustan Unilever Ltd.	60,600	50,460	0.0	0.0	Yes	9%	11,030	11,030	5.10
26	Honeywell Automation India Ltd.	3,588	2,886	0.0	0.0	Yes	13%	10,781	8,711	985.25
27	ICICI Prudential Life Insurance Company Ltd.	11,389	1,12,700	0.0	0.0	Yes	0%	2,26,323	34,261	23.86
28	ICICI Securities Ltd.	4,907	22,685	0.4	0.6	Yes	-3%	25,775	5,037	15.64
29	Indian Energy Exchange Ltd.	1,650	1,347	0.0	0.0	Yes	2%	5,005	1,849	6.12
30	Indraprastha Gas Ltd.	7,551	4,764	0.0	0.0	Yes	30%	5,366	5,366	7.67
31	Infosys Ltd.	1,54,100	1,16,220	0.0	0.0	Yes	0%	1,55,666	1,55,666	35.90
32	ITC Ltd. <sup>[2]</sup>	1,28,242	94,599	0.0	0.0	Yes	11%	1,37,515	1,37,515	11.22
33	JB Chemicals & Pharmaceuticals Ltd.	1,940	1,521	0.0	0.1	Yes	34%	1,494	1,494	18.62
34	Jubilant FoodWorks Ltd.	3,180	2,600	0.0	0.0	Yes	-1%	1,488	1,488	11.28
35	Just Dial Ltd.	2,069	2,599	0.0	0.0	Yes	23%	3,439	3,439	53.11
36	L&T Technology Services Ltd.	7,684	6,330	0.0	0.1	Yes	10%	3,447	3,447	33.14

Sr.No.	Company Name	PAT >=500	Free Cash Flow > 0	Debt/Networth <=1	Debt/EBITDA <=3	Cash & Equivalents > PAT	TTM Growth >=-20%	(a) = Cash & Equivalents - Consolidated debt - 50% of Contingent Liabilities - FY18 Final Dividend - Qualitative Adjustments > 500	Final Excess Cash = Lower of (a) or 50% of standalone Network	Final Excess Cash per share (Rs.)
37	La Opala RG Ltd.	740	345	0.0	0.0	Yes	12%	1,976	1,976	17.80
38	Larsen & Toubro Infotech Ltd.	15,155	12,420	0.0	0.0	Yes	1%	11,185	11,185	64.46
39	Mahanagar Gas Ltd.	5,464	3,222	0.0	0.0	Yes	32%	5,203	5,203	52.67
40	Mahindra Logistics Ltd.	867	413	0.1	0.3	Yes	-15%	630	630	8.82
41	Mindtree Ltd.	7,541	4,597	0.0	0.0	Yes	-18%	3,779	3,779	23.01
42	MOIL Ltd.	4,793	2,155	0.0	0.0	Yes	-8%	15,754	15,414	59.83
43	Multi Commodity Exchange Of India Ltd.	1,458	2,292	0.0	0.0	Yes	46%	7,474	7,314	143.42
44	Nestle India Ltd.	16,069	18,897	0.0	0.0	Yes	14%	9,747	9,747	101.10
45	Oracle Financial Services Software Ltd.	13,859	13,032	0.0	0.0	Yes	1%	16,876	16,876	196.74
46	Persistent Systems Ltd.	3,517	3,801	0.0	0.0	Yes	3%	9,138	9,138	115.49
47	Pfizer Ltd.	4,291	1,247	0.0	0.0	Yes	19%	17,208	15,057	329.12
48	Pidilite Industries Ltd.	9,248	5,910	0.0	0.1	Yes	10%	3,533	3,533	6.95
49	Procter & Gamble Hygiene & Health Care Ltd.	4,191	4,102	0.0	0.0	Yes	-2%	2,162	2,162	66.61
50	Rites Ltd.	4,816	70	0.0	0.1	Yes	29%	30,489	11,919	47.68
51	Sanofi India Ltd.	3,806	3,169	0.0	0.0	Yes	4%	4,331	4,331	188.07
52	SBI Life Insurance Company Ltd.	13,268	1,33,317	0.0	0.0	Yes	-8%	3,33,730	37,301	37.30
53	SKF India Ltd.	3,358	1,398	0.1	0.2	Yes	-1%	3,369	3,369	68.14

Sr.No.	Company Name	PAT >=500	Free Cash Flow > 0	Debt/Networth <=1	Debt/EBITDA <=3	Cash & Equivalents > PAT	TTM Growth >=-20%	(a) = Cash & Equivalents - Consolidated debt - 50% of Contingent Liabilities - FY18 Final Dividend - Qualitative Adjustments > 500	Final Excess Cash = Lower of (a) or 50% of standalone Network	Final Excess Cash per share (Rs.)
54	Tata Consultancy Services Ltd.	3,15,620	2,34,840	0.0	0.0	Yes	9%	48,947	48,947	13.04
55	Tata Elxsi Ltd.	2,900	1,836	0.0	0.0	Yes	-19%	3,863	3,863	62.03
56	TCNS Clothing Co Ltd.	1,314	662	0.0	0.0	Yes	-18%	1,352	1,352	22.05
57	TV Today Network Ltd.	1,314	63	0.0	0.0	Yes	3%	1,896	1,896	31.78
58	Vaibhav Global Ltd.	1,542	1,839	0.1	0.3	Yes	3%	1,039	1,039	31.82
59	VST Industries Ltd.	2,268	2,644	0.0	0.0	Yes	15%	3,955	3,320	215.01
60	Wipro Ltd.	90,222	1,21,578	0.2	0.8	Yes	10%	83,836	83,836	13.89

Source: ACE Equity, IiAS Research

Note: Consolidated metrics have been used for PAT, Free Cash Flow, Debt, Networth, Cash and Cash Equivalents and TTM growth. To arrive at the excess cash number, all metrics are standalone metrics, except for consolidated debt, which has been deducted from standalone cash and cash equivalents to arrive at a more conservative excess cash number.

[1] - Glaxosmithkline Pharmaceuticals Ltd. reported a loss of Rs. 6.4 bn for Q3 FY20 on account of extra-ordinary loss due to portfolio optimization and voluntary recall of Zinetac. Therefore, the dividend payouts are likely to be impacted in the near future.

[2] - There is a civil suit filed by ITC Limited against IiAS and two of its employees, in the Calcutta High Court, alleging defamation in relation to its 2017 AGM voting advisory and a report issued by IiAS on succession planning at ITC. ITC has claimed purported damages aggregating Rs. 10bn. The suit is being contested by IiAS and its two employees and is presently pending before the court.



## Annexure B: Regulations on dividends

### SEBI's Dividend Policy

In July 2016, SEBI mandated the top 500 listed companies by market capitalization to formulate a dividend distribution policy. This policy should be disclosed in the respective companies' annual reports and on their websites. The policy should include:

1. the circumstances under which the shareholders of the listed entities may or may not expect dividend
2. the financial parameters that shall be considered while declaring dividend
3. internal and external factors that shall be considered for declaration of dividend
4. policy as to how the retained earnings shall be utilized
5. parameters that shall be adopted with regard to various classes of shares

Companies are required to make additional disclosures if they choose to use any other parameter or change the above parameters in framing their dividend policy.

To assist companies, IiAS has put together a [dividend distribution policy template](#) that can be used by companies as a guiding reference for drafting their dividend policies.

### Provisions of the Companies Act, 2013

Companies have, in the past, declared dividends despite having reported losses. This can be detrimental to the long-term interest of the company and its shareholders.

To avoid such practices, the Companies Act, 2013 states that in case a company wishes to declare an interim dividend in which it has made a loss up to the end of the quarter immediately preceding the date of declaration of interim dividend, the interim dividend rate declared shall not be higher than average rate of dividends declared during the immediately preceding three financial years.

In addition to the above, there are certain restrictions on dividend payments in the Companies Act, 2013. Section 123 of the Companies Act, 2013 states that dividend payments shall be made from:

- Profits of the company for that year arrived at after providing for depreciation
- Profits of the company for any previous financial year(s) after providing for depreciation
- Or, out of the money provided by the Central or State Government for the payment of dividend as per guarantees provided by that government.

The Act has stopped short from mandating companies to declare a certain percentage of dividends out of its profits in each financial year. For example, in markets like Brazil, the law requires that the bye-laws of a company mention minimum percentage of dividends from its net income that would be distributed to shareholders on an annual basis.

Given this, however, the law provides flexibility to companies in case they are unable to pay dividends in a certain year i.e. companies can request shareholders' approval if the payment of dividend may affect the financial position of a company. In such cases, the board informs the shareholders of its intent to either completely retain its net income or distribute a lower percentage of profits as dividends.

## Annexure C: Methodology

FILTER- BSE 500  
COMPANIES



261  
COMPANIES



124  
COMPANIES



60  
COMPANIES

We have used the following approach to identify companies in the BSE 500 index that can pay higher dividends based on FY19 data. It focuses on balance sheet measures which indicate cash hoarded over the years without any perceivable use. The approach also accounts for debt repayments, capital expenditure, contingent liabilities that may crystallize, without significantly depleting the net worth.

The approach followed was:

1. From the BSE 500 index we filtered out banks, general insurance companies, NBFCs and investment companies. This reduced the companies from 500 to 418.
2. We have considered only those companies that have a consolidated PAT of Rs.500 mn or more, and positive consolidated free cash flows in FY19. This reduces the total number of companies to 261.
3. High financial leverage impacts a company's earnings and cash flows and consequently its ability to pay out dividends. Given this, we have excluded companies that have a consolidated debt/equity ratio greater than 1X and a consolidated debt/EBITDA ratio of more than 3X. This reduces the list to 206 companies.
4. We have considered cash and bank balances, mutual fund units, quoted bonds and debentures as liquid investments, in order to estimate the liquid funds available with the company. As a buffer for contingencies, the cash and equivalents must exceed last year's consolidated PAT. This reduces the list to 124 companies.
5. We have considered each company's performance in the quarters post their respective financial year end. The trailing twelve months (TTM) PAT should not have fallen by more than 20% from the previous year end (typically FY19) PAT. This reduces the list to 112 companies.
6. In order to arrive at the excess cash number, we reduced from the standalone cash and equivalents, the consolidated debt, 3-year average capex, 50% of the contingent liabilities, the FY19 final dividend and other qualitative adjustments including buybacks, one-time expansions, acquisitions etc. For materiality, companies with excess cash less than Rs. 500 mn are dropped.
7. As a measure of conservatism, to ensure that the network is not significantly depleted, the excess cash number is capped at 50% of standalone network. This leaves us with 60 companies with excess cash of ~Rs. 886 billion.

***Qualitative adjustments made for companies listed below:***

<b>Sr.No.</b>	<b>Company Name</b>	<b>Event</b>	<b>Qualitative Adjustment (Rs. mn)</b>
1	Wipro Limited	In June 2019, Wipro Limited announced buyback of Rs. 105,000 mn	105,000
2	Eicher Motors Limited	In April 2019, Eicher Motors Limited announced a Capex of Rs. 7,000 mn	7,000
3	Nestle India Limited	In August 2019, Nestle India Limited announced a CapEx plan of Rs. 7,000 mn	7,000
4	Indraprashta Gas Limited	In August 2019, Indrapashta Gas Limited stated that it plans to invest Rs. 6,000 mn in various CNG plants	6,000
5	MOIL Limited	In November 2019, MOIL Limited announced a buyback of Rs. 3,083 mn	3,083
6	Jubilant Foodworks Limited	In October 2019, Jubilant Foodworks Limited announced to invest Rs. 2,500 mn for opening 120 new outlets	2,500
7	Tata Consultancy Services Limited	In June 2019, Tata Consultancy Services Limited announced that acquiring additional stake in its JV with Mitsubishi Corporation for a consideration of Rs. 2,262 mn	2,262
8	Persistent System Limited	In June 2019, Persistent Systems Limited completed a buyback of Rs. 2,248 mn.	2,248
9	Castrol Systems Limited	In January 2019, Castrol India Limited announced a brownfield Capex at Silvassa Plant over two years for Rs.1400 mn	1,400
10	JB Chemicals & Pharmaceuticals Limited	In November 2019, JB Chemicals & Pharmaceuticals Ltd announced a buyback of Rs. 1,300 mn	1,300
11	FDC Limited	In May 2019, FDC Limited completed a buyback amounting to Rs. 1,200 mn	1,200
12	Larsen & Toubro Infotech Limited	In July 2019, Larsen & Toubro Infotech Limited acquired a firm with a focus on artificial intelligence for Rs. 380 mn	380
13	Dr. Lal Pathlabs Limited	In April 2019, Dr. Lal Pathlabs Limited acquired Bawankar Pathology for Rs. 52 mn	52

Source: IiAS Research

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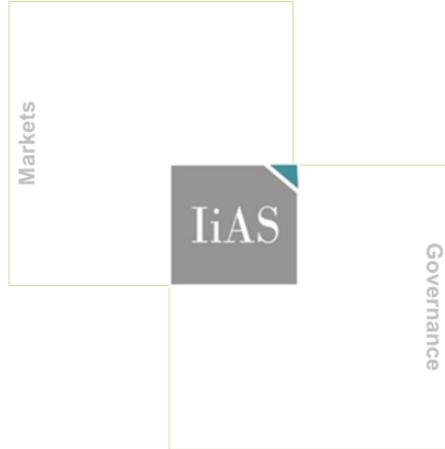
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