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Caring and Sharing

Profiles of the top six listed companies that have paid the best dividends in the past decade. By K.R. BALASUBRAMANYAM and MAHESH NAYAK

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Ask the average Indian about the best investment in the country and chances are he will say real estate or gold. Traditionally, Indians have never rushed to jam the "buy" button in stock markets – and with good reason. Indian markets are highly volatile, and although the country's main index, the Bombay Stock Exchange (BSE), has more than trebled in the past decade, dividend payouts by companies are nowhere near as impressive.

A *Business Today* study of more than 6,000 stocks came up with a startling finding: only six of these companies have paid dividends of more than 30 per cent of their net profit in the past decade, as well as outperformed the benchmark index for eight of those 10 years. The six that made the list – Colgate-Palmolive, Hawkins Cookers, Emami, Eicher, HDFC and GRUH Finance – are all high-growth companies. And they have been liberal with dividend payouts.

Research shows one-fifth of the BSE 500 Index companies share more than 30 per cent of their profits with investors. But that still masks another truth: Indian companies are, in general, far from generous in paying dividends to shareholders. Not surprisingly, dividend-rich companies are a huge draw with investors. Our study showed companies that have paid over 30 per cent dividends accounted for 41 per cent of the market capitalisation in the last financial year compared with 27 per cent in 2008/09.

Perhaps the Indian government could take a cue from Brazil and Chile, which have made it mandatory to pay dividends to shareholders. Compulsory dividends could draw risk-averse domestic investors back into the equity market – and thereby also help cash-strapped companies in the country raise money for business.

Sharing Generously

Percentage of net profit the top six dividend payers shelled out

Company	FY 2010	FY 2011	FY 2012	FY 2013
Colgate-Palmolive (India) Ltd	64.26	74.32	76.15	**76.70**
Hawkins Cookers Ltd	57.41	66.57	70.31	**62.03**
Emami Ltd	71.69	42.23	78.24	**37.40**
Eicher Motors Ltd*	49.64	39.28	34.68	**37.30**
HDFC Ltd	36.39	37.77	39.43	**39.95**
GRUH Finance Ltd	32.73	42.36	37.41	**30.77**

* Financial year is December ending

Source: CMIE Prowess

Making Investors Smile

PORTRAITS BY SANTOSH

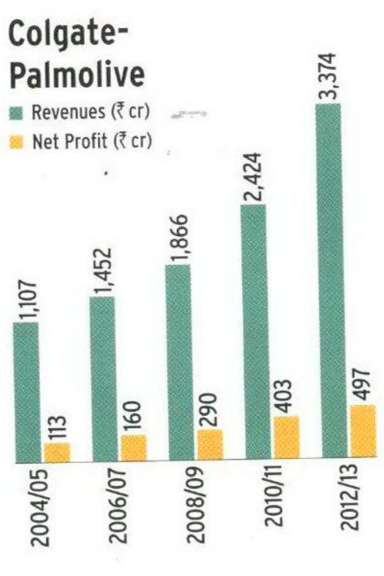
Colgate-Palmolive (India) Ltd
MD: Prabha Parameswaran
MARKET CAP: **₹16,665 cr#**

Colgate-Palmolive's stock may be underperforming its peers with competition nipping at its heels, but analysts are not worried. The company is still the top oral care brand in India with 55 per cent market share since 1998 – and doesn't look like it is going to lose the top spot any time soon. "When a new player enters the market, it is for him to prove his ability to survive and grow, and not the leader," says Nikhil Vora, Managing Director and Head of Research at IDFC Securities, who has a "buy" recommendation on the stock. "I will not be worried for Colgate, as it's not only growing consistently but has also been scaling the business without increasing the size of its balance sheet."

Shareholders certainly have a big smile on their faces. Colgate has a strong track record of delivering value with consistent growth: net sales have grown at an annual rate of 16 per cent for the past five years, earnings per share are up at an annual 19 per cent over the past 10 years and dividend per share has risen at an annual rate of 21 per cent in the last decade.

That is not the only reason investors are in clover. Since its initial public offering in 1978, Colgate has given its shareholders a compound annual return of 27 per cent. So, if someone invested ₹1,000 at ₹126.8 per share 10 years ago, his investment, including dividends, would be up more than 10 times to nearly ₹13,000 today with the share price now above ₹1,200. "The reason the company has been able to deliver is because of its use of technology to create products that continue to improve the quality of life for our consumers wherever they live," says a company spokesman.

Analysts are optimistic about Colgate's future. The company has held its own even after consumer goods giant Hindustan Unilever (HUL) entered the market with the Pepsodent brand. "Colgate's strong growth doesn't require it to alter the way it does business despite new entrants in the market," says Vora. "With per capita consumption expected to increase, the next five to seven years' business looks good for the company." Shareholders certainly won't stop smiling at that.



Under No Pressure

Hawkins Cookers Ltd
Vice-Chairman & CEO:
Subhadip Dutta Choudhury
MARKET CAP: **₹892 cr#**

When 45-year-old Subhadip Dutta Choudhury took charge as Executive Director-Marketing, Hawkins Cookers (Hawkins), in 2004, he had to buy a certain number of company shares at ₹18 each. "There is a rule in the company that all executive directors have to be shareholders of the company before joining the board," says Dutta Choudhury, now Vice Chairman and CEO of the company.

Today, Dutta Choudhury could well be sitting on a gold mine: Hawkins shares are trading around ₹1,700. "When I invested at ₹18, the company used to give a dividend of one rupee. Today, we give a dividend of ₹50 per share," he says.

Hawkins is India's leading pressure cooker maker and its impressive performance is one reason why it

Subhadip Dutta Choudhury

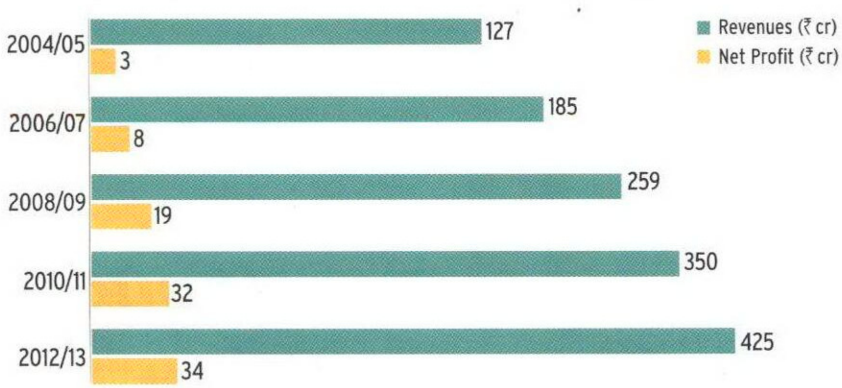
has been able to share good dividends with its shareholders. The company's net profit has leapt from ₹1 crore to ₹34 crore in the past 10 years, while revenues have shot up from ₹115 crore in 2003/2004 to ₹425 crore in 2012/13. Its stock has beaten the Sensex eight times in the past 10 years, while the average dividend payout in the past five financial years stands at a hefty 62 per cent.

So, what prompts the company to pay such liberal dividends year after year? "There is no policy per se on giving dividends. We keep aside whatever we require for investment and for a rainy day, and the rest we distribute among our shareholders," says Dutta Choudhury. He gives most of the credit for Hawkins's success to its consumers and the company's after sales service. "We have grown with the Indian consumer. Our secret is that we are honest with the consumer in terms of quality, pricing, features and even in our advertisements. Our products are value for money," he says

Dutta Choudhury knows Hawkins' products are priced more steeply than those of other local brands. But he says the company's quality control is head and shoulders above the competition. Hawkins has never recalled any product from the market due to quality issues. "There have been instances where a product has failed 100 times internally. But we rectified this before we put it on the market. Due to our rigorous testing mechanism, we have no recalls," he says. The company controls around 25 per cent of the pressure cooker market and around 11 per cent of the market in cookware.

Some fund managers, however, feel the company is not tapping its full potential. They say it is not leveraging the Hawkins brand effectively in the cookware segment. But given its dividend payout record, shareholders are unlikely to be too worried.

Hawkins Cookers



Fair & Handsome Payouts

Emami Ltd

CEO, Finance: Naresh H. Bhansali

MARKET CAP: **₹9,265 cr#**

When Kolkata-based consumer goods giant Emami Ltd had a public offer of five million shares at a price of ₹70 per share in 2005, investors reached out at lightning speed. The stock was oversubscribed 36 times. Today, the share has crossed ₹400, delivering more than 15 times returns to those who invested in the IPO.

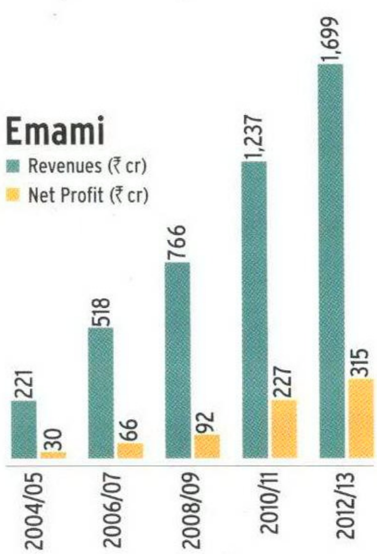
The stock's mindboggling rise isn't the only reason Emami shareholders are smiling. The company has also paid phenomenal dividends over the years. With its stock outperforming the Sensex nine times in the past 10 years, Emami has paid an average dividend of 55 per cent of net profit in the last five years.

The Emami brand was born in the mid-1970s when childhood friends R.S. Agarwal and R.S. Goenka left high-profile jobs to start their own business. Today, the company sells more than 250 consumer brands. Five of them – Navratna Oil,

Boroplus cream, Mentho Plus, Zandu Balm, and Fair & Handsome – account for 72 per cent of its revenues. "It has been our policy to give away surplus profits to shareholders," says Naresh H. Bhansali, CEO, Finance, Strategy and Business Development. "Even after paying such huge dividends, we have ₹300 crore on our balance sheet to use for any acquisition opportunity."

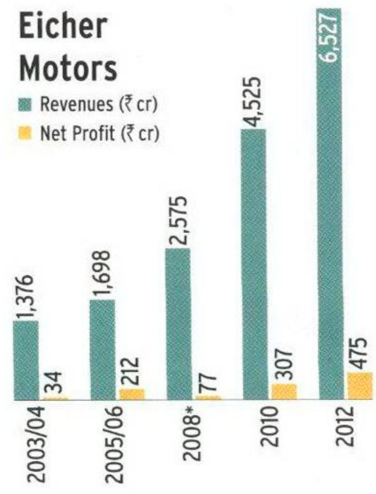
Emami is doing well because of its strategy of launching niche products in segments where multinational corporations have no presence, says Aniruddha Joshi, analyst at Anand Rathi Institutional Research. He believes the company's power brands are likely to grow at more than 15 per cent a year between 2012/13 and 2014/15.

Consumer goods companies are generally known to pay big dividends because they are not capital-intensive. But they spend a good chunk of their revenues on research and development, branding and distribution. Despite such investments, Emami's cash flows have been good because it is an established brand. "An FMCG company uses its surplus cash to either pay dividends or for acquisitions. Our policy is to reward shareholders," says Bhansali.



In Top Gear

Eicher Motors Ltd
MD: Siddhartha Lal
MARKET CAP: **₹8,626 cr#**



* Annualised (Reporting period changed from March ending to December ending)

It makes one of the most iconic motorcycle brands in India: the Royal Enfield which has been in the market since 1901. And it has a joint venture with Volvo for commercial vehicles which has done well. The combination of bike and commercial vehicles has put Eicher Motors on a high growth path and helping it emerge as one of the top dividend paymasters in India.

Eicher has paid an average dividend of 39 per cent of net profit in the last five years while the stock has beaten the Sensex eight times in 10 years. "The demand for our motorcycles has continued to outpace supply," says Siddhartha Lal, Managing Director and CEO, Eicher Motors. "Our second phase of expansion will increase production capacity to 250,000 motorcycles in 2014."

Analysts, too, are optimistic because of the company's financial record. Eicher's stock has been hovering around ₹3,300 and has held its own despite a slump in the commercial vehicles market. It has more than doubled from around ₹1,300 two years ago – and analysts don't expect it to go into reverse gear soon. "Once the recovery starts, Eicher will grow at a faster pace. The new Enfield production facility in Tamil Nadu will reduce the waiting period, and add to revenues," says Rohan Korde, analyst with Anand Rathi Research.

Eicher is run by Lal's family and relatives who own a 55 per cent stake. "We are pursuing all our plans, investing in every aspect of commercial vehicles - building infrastructure and creating a robust pipeline of products that will be launched starting this year," says Lal.

Standing Tall

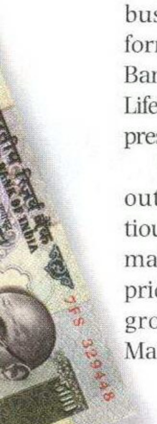
HDFC Ltd
VC & CEO: Keki Mistry
MARKET CAP: **₹108,097 cr#**

It's the darling of both shareholders and foreign institutional investors (FIIs). And it isn't hard to understand why. HDFC Ltd, India's largest housing finance company, has grown at a spectacular pace in the past 10 years. Its revenue has

jumped 12 times while profit is up six-and-a-half times.

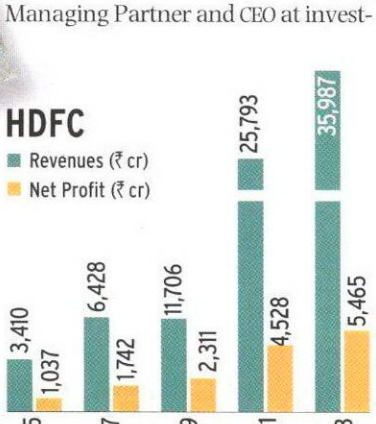
More money in the company's coffers naturally means shareholders are richer, too. If somebody had invested ₹1,000 in HDFC a decade ago, he would have 10 times the amount today. And dividend payouts have also been impressive. "In over 15 years we have never given less than 30 per cent dividend payout to our shareholders. In recent times, our efforts have been to give over 40 per cent dividend payout to our shareholders," says Keki Mistry, Vice Chairman and CEO of HDFC, in which FIIs own 74 per cent. "We have to strike the right balance in paying dividend and maintaining our return on equity (ROE). Our objective is to maintain high asset quality and the ROE has also to be kept in mind."

What is the secret behind HDFC's success? Spiralling property prices in the past 10 years have certainly helped. But HDFC's core financing business is not the only high performer. Subsidiaries such as HDFC Bank, HDFC Mutual Fund and HDFC Life have also contributed to the impressive performance of the company.



Despite the high dividend payouts, some analysts remain cautious. "The growth of HDFC has been mainly due to the rise in property prices and not because of volume growth," says Manish Bhandari, Managing Partner and CEO at investment advisory firm Vallum Capital Advisors. "So far so good. But the concerns are if prices correct from here, can volumes growth compensate for the fall in value? The answer is no and, therefore, there are concerns on how the company will be able to maintain its growth."

Things could turn out differently. For now, investors are certainly not complaining.



#All market cap figures as on August 30,2013

Sturdy Foundations

GRUH Finance Ltd
MD: Sudhin Choksey
MARKET CAP: **₹3,800 cr#**

Not many investors may have heard of GRUH Finance. It is neither a big consumer brand nor a blue chip stock. But for many small investors who put their money into this small Ahmedabad-based home loan company years ago, GRUH is better than any blue chip.

The company has paid a dividend of more than 30 per cent of its net profit in the past five years and its stock has beaten the Sensex eight times in 10 years. The company does not have any explicit dividend payment policy, but Managing Director Sudhin Choksey says its underlying philosophy is to share the cake generously with shareholders. "We have been paying between 35 and 38 per cent dividends for the last eight to 10 years," says Choksey, who has been steering the company since 1998, as CEO for the first two years and later as Managing Director. "One of the reasons we are doing well is our loan recoveries have been very good."

GRUH has done well on several other counts. As of end-June, its gross non-performing assets were just 0.46 per cent on its outstanding loan portfolio of ₹5,727 crore. In the last 10 years, the company's yearly loan disbursement has grown 10 times and net profit 11 times. Its EPS has jumped from ₹1 to ₹8.21. Analysts are bullish about its prospects. "The stock's valuations may be stretched, but I would still bet on GRUH as it can, over the next five years, grow at a compound annual growth rate of 25-30 per cent," says Nitin Jain, President (Retail Capital Markets) at Edelweiss Financial Services.

Choksey attributes much of the success to his company's unique business model – its loan products are customised because 97 per cent of clients are small borrowers. "We have options such as daily, weekly or monthly payments, and offer loans at both a variable and a fixed rate of interest. Half of GRUH's revenues come from places with a population of less than 50,000 people." ◆

RESEARCH INPUTS BY JYOTINDRA DUBEY