



Cash Rich PSU's

The Dividend Candidates

**Cash Rich PSU's –  
The Dividend Candidates**

## PSU's Dividend/ Buyback

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### Government turning towards PSU's cash for the increasing funds requirement

- Fiscal deficit—the gap between the government's revenue and expenditure—stood at Rs 6.48 lakh crore at the end of November, '18 (data released by the Controller General of Accounts) accounting for 114.8 % of the budgeted estimate of Rs 6.24 lakh crore for FY18-19
- The government had set a fiscal deficit target of Rs. 6.24 lakh crore or 3.3% of GDP. But given the current financial trends, the deficit is likely to be breached
- There is high probability of government pushing the cash-rich PSUs to pay higher dividends and/ or buyback shares using their cash reserves so as to help meet its budget deficit
- NHPC, Oil India, BHEL, NALCO, NLC, Cochin Shipyard, KIOCL and ONGC have already announced buyback and could fetch the government a portion of funds required

### Opportunity for the Investors

- IOC recently announced buyback of Rs 4,440 cr and interim dividend of Rs 6,550 cr (ex dividend date: 25 dec'18), the stock was trading at Rs 137 on the day when dividend was announced, yielding 5% return to investor from dividend. Investors would earn additional benefits by participating in buyback, open date for which is yet to be announced
- Coal India and RITES have also announced interim dividend and final dividend could be expected to give higher than historical dividend yield
- We feel government would still need more funds to bridge its deficit and would be banking on the remaining cash-rich PSU's
- We have shortlisted few cash-rich PSU's as potential candidates to announce dividends or Buybacks in near future, this offers a potent opportunity for investors amid this highly volatile market

## Methodology

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### For Stock Selection

- Step1: We have analyzed 65 PSU companies in our universe of study and shortlisted 20 top PSU's in order of their FY18 cash & bank balance in the books constituting 89% of Cash available to PSU's taken in the universe
- Step2: We then eliminated PSU's with over Rs 10,000 crore of debt
- Step3: Next we assumed 50% of the cash as payout and selected PSU's with over 6% cash dividend yield at current market capitalization as on December 24, 2018
- Step4: Analyzed the stocks on parameters such as market cap, historical dividend yield, debt-equity, capex plans etc. to come up with final 7 PSU's as potential candidates for higher dividends and/or offer buybacks
- Since majority of our selected PSU's have government stake more than 75%, We expect a higher dividend payment and carried out our scenario analysis on the assumption of dividend payments, however we do not rule out probability of buyback offer

### For Scenario Analysis of potential Candidates

- Step1: We have assumed Cash payout ratio of each company ranging from 20% to 70% and plotted a scenario
- Step2: Calculated tentative dividend per share as per payout ratio and deducted the same from investment amount (CMP) to arrive at net investment value in the stock post dividend
- Step3: Calculated estimated return for 5% +/- and 10% +/- price movement post dividend
- The investor would be in the money (profitable) as long as the stock trades at the price (ex-dividend) as shown in the scenario analysis in green colour

## Universe of Study

### Cash Rich PSU's – The Dividend Candidates

#### Company Name (Top 20)

Coal India

B H E L

Hindustan Aeronautics

NMDC

O N G C

Ircon International

NTPC

SJVN

RITES

Cochin Shipyard

Oil India

NHPC Ltd

GAIL (India)

National Aluminium

Engineers India

NBCC

Power Grid Corporation

MOIL

Container Corporation

KIOCL

#### Company Name

BPCL

S C I

Petronet LNG

Bharat Electron

M R P L

Orissa Minerals

Indraprastha Gas

Balmer Lawrie

Gujarat State Petronet

I O C L

PTC India

NLC India

Bharat Dynamics

S A I L

ITI

I T D C

HMT

Mishra Dhatu Nig

Tide Water Oil

MMTC

Gujarat Gas

Guj Alkalies

M T N L

#### Company Name

HPCL

Hindustan Organic Chemicals

S T C

Mahanagar Gas

Andrew Yule &amp; Co

Dredging Corporation

G S F C

F A C T

Gujarat Industries Power

G M D C

Punjab Alkalies

Madras Fertilizers

T N Newsprint

Scooters India

G N F C

Hind.Copper

National Fertilizer

C P C L

Nitta Gelatin

R C F

BEML

Andhra Petrochem

## Potential Candidates

### Cash Rich PSU's – The Dividend Candidates

Company	Cash Balance (FY18) (Rs Cr)	Total Debt (In Rs Cr)	Dividend yield (FY18) (%)	Debt/Equity ratio (x)	Govt. Stake (%)	Cash to be received by govt. * (Rs cr.)	Potential return* (50% cash payout)
Coal India	31,475	1,531	6.68	0.08	78	12,326	10%
Hindustan Aeronautics	6,546	864	4.16	0.07	90	2,945	12%
NMDC	5,461	500	4.58	0.02	72	1,978	9%
RITES	3,596	48	1.28	0.03	87	1,571	33%
Engineers India	2,537	0	2.21	0.00	52	660	16%
NBCC	2,482	0	0.53	0.00	74	915	13%
MOIL	2,139	0	1.79	0.00	66	703	25%
<b>Total (Rs cr.)</b>	<b>54,235</b>	<b>2,943</b>				<b>21,097</b>	

\* Our assumption that PSU's would utilize 50% of their FY18 cash & bank balance to pay dividends Source: Axis Securities Ltd, Company, Capitaline.

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### Potential Candidates

#### Coal India

##### Stock Data

CMP (as of 27 Dec 2018)	Rs 242
No. of shares	621 cr
Market cap (Rs)	Rs 1,50,249 cr
52 week high/low (Rs)	Rs 317/228
Avg. daily vol. (6 mths)	109,762
Bloomberg code	COAL IN
Reuters code	COAL BO

- Coal India limited (CIL), the largest coal-producing company in the world, has the highest Cash reserve among companies in our universe amounting to Rs 31,475 cr (FY18).
- CIL's reported PAT of Rs 7,020cr for FY18 and its revenue has grown at 11% CAGR over FY16-18.
- Coal India has already approved an interim dividend of Rs 4,500 cr which is ~ 14% of CIL's cash reserves. Interim dividend per share comes to Rs 7.25; Government being the promoter holds 486.17 cr shares (78.32 % stake in the company); the government would receive Rs 3,525 cr, while LIC will get Rs 464 crore through its holding. At CMP the stock has yielded 3% to individual investors for the interim dividend.
- With the amount of net cash reserves (Cash reserves less debt) held by CIL and government's pressing requirement to bridge the budget deficit, we do not rule out possibility of further dividend or buyback in near future before end of FY19.
- Given below is the matrix which shows profitability to the investor at various cash payout assumptions and price movements in ex-dividend scenario. At current market price and 50% cash payout (our assumption), the stock would yield 10 % return to the retail investors at CMP. We would suggest the investor to exit the trade post dividend receipt or buyback exercise taking home the dividend (or buyback proceeds). The investor would be in the money (profitable) as long as the stock trades at the price (ex-dividend) within the scenario shown in green colour.

#### Return Analysis (%)

Share price post dividend	Cash Payout					
	20%	30%	40%	50%	60%	70%
266	14%	16%	18%	20%	23%	25%
254	9%	11%	13%	15%	18%	20%
242	4%	6%	8%	10%	13%	15%
230	(1%)	1%	3%	5%	8%	10%
218	(6%)	(4%)	(2%)	0%	3%	5%

Source: Axis Securities Ltd, Capitaline.

## Cash Rich PSU's – The Dividend Candidates

### Potential Candidates

#### ITES

##### Stock Data

CMP (as of 27 Dec 2018)	Rs 276
No. of shares	20 cr
Market cap (Rs)	Rs 5,520 cr
52 week high/low (Rs)	Rs 326/ 190
Avg. daily vol. (6 mths)	47,481
Bloomberg code	RITE IN
Reuters code	RITS.BO

- RITES Limited, established in 1974, is a multi-disciplinary consultancy organization in the fields of transport, infrastructure and related technologies has the cash & bank balance of Rs 3,596 cr as per FY18 balance sheet. RITES's revenue/EBITDA/PAT has grown at a CAGR of 17%/8%/11% over FY16-18. It has already announced interim dividend of Rs 4.75 per share and final dividend would extract healthy cash payouts.

##### Return Analysis (%)

Share price post dividend	Cash Payout					
	20%	30%	40%	50%	60%	70%
304	23%	30%	36%	43%	49%	56%
290	18%	25%	31%	38%	44%	51%
276	13%	20%	26%	33%	39%	46%
262	8%	15%	21%	28%	34%	41%
248	3%	10%	16%	23%	29%	36%

Source: Axis Securities Ltd, Capitaline.

#### Engineers India

##### Stock Data

CMP (as of 27 Dec 2018)	Rs 126
No. of shares	63 cr
Market cap (Rs)	Rs 7,940 cr
52 week high/low (Rs)	Rs 206/ 100
Avg. daily vol. (6 mths)	7,2676
Bloomberg code	ENGR IN
Reuters code	ENGI.BO

- Engineers India Limited (EIL), provides engineering consultancy and EPC services principally focused on the oil & gas and petrochemical industries. It has the cash & bank balance of Rs 2,537 cr as per FY18 balance sheet. EIL 's revenue/EBITDA/PAT has grown at a CAGR of 9%/43%/17% over FY16-18.

##### Return Analysis (%)

Share price post dividend	Cash Payout					
	20%	30%	40%	50%	60%	70%
138	16%	20%	23%	26%	29%	32%
132	11%	15%	18%	21%	24%	27%
126	6%	10%	13%	16%	19%	22%
119	1%	5%	8%	11%	14%	17%
113	(4%)	0%	3%	6%	9%	12%

Source: Axis Securities Ltd, Capitaline.

## Cash Rich PSU's – The Dividend Candidates

### Potential Candidates

#### Hindustan Aeronautics

##### Stock Data

CMP (as of 27 Dec 2018)	Rs 784
No. of shares	33 cr
Market cap (Rs)	Rs 26,216 cr
52 week high/low (Rs)	Rs 1,184/740
Avg. daily vol. (6 mths)	1,170
Bloomberg code	HNAL IN
Reuters code	HIAE.BO

- Hindustan Aeronautics Limited (HAL), is a aerospace and defence company headquartered in Bangalore, India, is governed under the management of the Indian Ministry of Defence and has the cash & bank balance of Rs 6,546 cr as per FY18 balance sheet. HAL's revenue/EBITDA/PAT has grown at a CAGR of 5%/19%/2% over FY16-18.

##### Return Analysis (%)

Share price post dividend	Cash Payout					
	20%	30%	40%	50%	60%	70%
862	15%	17%	20%	22%	25%	27%
823	10%	12%	15%	17%	20%	22%
784	5%	7%	10%	12%	15%	17%
745	0%	2%	5%	7%	10%	12%
706	(5%)	(3%)	0%	2%	5%	7%

Source: Axis Securities Ltd, Capitaline.

#### NMDC

##### Stock Data

CMP (as of 27 Dec 2018)	Rs 93
No. of shares	316 cr
Market cap (Rs)	Rs 29,266 cr
52 week high/low (Rs)	Rs 162/ 86
Avg. daily vol. (6 mths)	76,221
Bloomberg code	NMDC IN
Reuters code	NMDC.BO

- NMDC Limited, a mineral producer and India's single largest iron ore producer has the cash & bank balance of Rs 5,461 cr as per FY18 balance sheet. NMDC's revenue/EBITDA/PAT has grown at a CAGR of 34%/52%/22% over FY16-18.

##### Return Analysis (%)

Share price post dividend	Cash Payout					
	20%	30%	40%	50%	60%	70%
102	14%	16%	17%	19%	21%	23%
97	9%	11%	12%	14%	16%	18%
93	4%	6%	7%	9%	11%	13%
88	(1%)	1%	2%	4%	6%	8%
83	(6%)	(4%)	(3%)	(1%)	1%	3%

Source: Axis Securities Ltd, Capitaline.



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### Potential Candidates

#### NBCC

##### Stock Data

CMP (as of 27 Dec 2018)	Rs 54
No. of shares	180cr
Market cap (Rs)	Rs 9747 cr
52 week high/low (Rs)	Rs 128/ 47
Avg. daily vol. (6 mths)	186381
Bloomberg code	NBCC IN
Reuters code	NBCC.BO

- NBCC (India) Limited, a blue-chip Government of India Enterprise under the Ministry of Housing and Urban Affairs, is leader in construction sector. It has cash & bank balance of Rs 2,482 cr as per FY18 balance sheet. NBCC's revenue/EBITDA/PAT has grown at a CAGR of 9%/16%/11% over FY16-18.

##### Return Analysis (%)

Share price post dividend	Cash Payout					
	20%	30%	40%	50%	60%	70%
60	15%	18%	20%	23%	25%	28%
57	10%	13%	15%	18%	20%	23%
54	5%	8%	10%	13%	15%	18%
51	0%	3%	5%	8%	10%	13%
49	(5%)	(2%)	0%	3%	5%	8%

Source: Axis Securities Ltd, Capitaline.

#### MOIL

##### Stock Data

CMP (as of 27 Dec 2018)	Rs 164
No. of shares	26cr
Market cap (Rs)	Rs 4225cr
52 week high/low (Rs)	Rs 261/ 154
Avg. daily vol. (6 mths)	10527
Bloomberg code	MOIL IN
Reuters code	MOIL.BO

- MOIL Limited, a manganese-ore mining company headquartered in Nagpur, India, is the largest producer of manganese iron ore in India with about 45% of the market share. It has the cash & bank balance of Rs 2,139 cr as per FY18 balance sheet. MOIL's revenue/EBITDA/PAT has grown at a CAGR of 44%/174%/55% over FY16-18.

##### Return Analysis (%)

Share price post dividend	Cash Payout					
	20%	30%	40%	50%	60%	70%
180	20%	25%	30%	35%	40%	45%
172	15%	20%	25%	30%	35%	40%
164	10%	15%	20%	25%	30%	35%
156	5%	10%	15%	20%	25%	30%
148	0%	5%	10%	15%	20%	25%

Source: Axis Securities Ltd, Capitaline.

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<b>BUY</b>	More than 10%
<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%
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