# How investors stand to benefit from dividend payout policy

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Soon, the top 500 companies by market capitalisation will have to formulate a dividend distribution policy and make it public in their annual reports and on their websites. Here's how such a policy stands to benefit investors.

**Less ambiguity**

India Inc's dividend payouts have steadily increased over the last few years. For S&P BSE 500 companies, dividend payouts have outpaced net profit growth over the past five years. Median dividend payout ratio (dividend/net profit) increased to 24% in 2014-15 from 21% in 2009-10. Dividends, in absolute amounts, have grown at a compounded annual growth rate (CAGR) of 14%, while profits have grown at half that rate-7%, between 2009-10 and 2014-15. Despite this, at least 73 of the S&P BSE 500 companies could double the amount of dividend payouts, says a study by proxy advisory firm IiAS.

However, there are many companies that regularly earn profits but either don't pay dividend, or pay very low dividends, or are irregular in payouts. For instance, companies such as Gujarat Pipavav Port, Whirlpool of India and 3M India, have not paid dividends over the past three years (up to 2014-15), despite reporting profits for each of these years. On the contrary, some companies have doled out hefty dividends even after reporting losses during the year. Bajaj Electricals and Sun Pharmaceuticals paid dividends in 2014-15 despite losses.

Now, under mandatory disclosure, all companies will have to clearly outline their dividend distribution policy. "This will bring an element of predictability for investors as to what they can expect going forward," says Amit Tandon, Founder, IiAS, who has been advocating a clear dividend policy. Alok Churiwala, MD, Churiwala Securities, feels a transparent dividend distribution policy will allow investors to take more informed decisions. "An upfront dividend policy will go a long way in showing the company management's willingness to share profits with shareholders," adds Churiwala. While a company's track record of dividend payout can give investors some idea about the company's approach to dividend payouts, a formally worded policy provides greater clarity and enforces discipline among companies. "Companies will be forced to explain reasons for any deviation from the stated dividend policy," says Tandon.

Besides, companies will also be required to outline a policy on how the retained earnings will be utilised. Raamdeo Agrawal, Joint MD, Motilal Oswal Financial Services, says ,"The retention policy will reveal what a firm intends to do with the cash not returned to shareholders. This is perhaps more critical than the dividend policy itself." If a firm outlines some expansion opportunities as rationale for retaining earnings, instead of sharing profits with investors, it may be compelled to adhere to a timeline to execute the expansion or risk the wrath of shareholders and the market regulator.

what is mentioned in the policy, or proposes to change its dividend distribution policy, it will have to be disclosed along with the reasons for the change. For instance, a firm may be inclined to pursue a new, unforeseen opportunity for which it would need to plough back its profits into the business over the coming years, warranting a change in dividend policy. "A change in the policy could raise a red flag. But investors would now be in a position to understand the reason and act accordingly," says Churiwala.