

Valuations, dividend yields draw investors to PSU counters

CLIFFORD ALVARES
Mumbai, 10 December

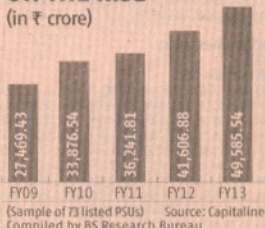
With the government likely to announce special dividends from cash-rich public sector undertakings (PSUs), investors are again focusing on these entities. In the past three months, the BSE PSU index surged 16.8 per cent, compared with the Sensex's 12.5 per cent rise.

A combination of steady dividend increases and attractive valuations is the primary reason behind investors' newfound appetite for PSUs. Through the past five years, PSUs have been seeing steady increase in dividend payouts, despite the slacking economy. Last financial year, PSUs paid ₹49,585 crore as dividend to shareholders, 80 per cent more than the ₹27,469 crore in 2008-09.

Vikas Gupta, executive vice-president, Arthveda Fund Management, says, "We have been bullish on PSU stocks for some time, as many of these are heavily

PSU DIVIDENDS ON THE RISE

(in ₹ crore)



(Sample of 73 listed PSUs) Source: Capitaline
Compiled by BS Research Bureau

SURGING HIGHER

PSU stocks are the flavour of the season



VALUATION MATRIX FAVOURS PSU STOCKS

PSU	Cash balance	Debt-equity ratio	Price-earnings	Dividend yield (%)
Coal India	62,236.00	0.03	11.04	4.82
NMDC	21,025.75	0.00	10.04	4.90
Oil India	12,136.66	0.03	8.44	6.24
BHEL	7,845.05	0.06	6.51	3.15
Bharat Elect.	5,330.51	0.00	9.81	2.12
Nalco	3,504.38	0.00	13.66	3.37
Container Corp.	2,945.95	0.01	15.79	1.60
MOIL	2,276.78	0.00	9.54	2.30
Engineers India	1,890.84	0.00	9.66	3.58
NBCC	1,537.76	0.00	8.05	2.55

Balances as on FY 13, Trailing 12M PE
Compiled by BS Research Bureau

Source: Capitaline

undervalued and sitting on piles of cash. The government is likely to give addi-

tional dividend. Not all of it will be distributed but it will certainly drive the dividend

yields of a few companies even higher."

Rajat Rajgharia, head of research, Motilal Oswal, says, "We have been positive on PSUs but investors have not made money in the last many years. There are many good PSUs, with good businesses and attractive valuations, but lack of clarity on policies is affecting those."

Therefore, experts feel investors will have to wait longer for sizable returns. "There's room for re-rating but it's a patient game," Rajgharia says.

Says Gupta: "Investing in PSU stocks is a no-brainer, at least for many zero-debt companies. Investors can get a steady cash flow from dividends which, net of taxes, can be better than fixed deposits."

On Power Grid Corporation's recent follow-on offering, Gupta says, "It's good the issue was oversubscribed, but it was also an arbitrage opportunity. It's not only a good sign for PSUs but equities in general."