

A Study on the Investment Performance of High Dividend Yield Stocks With Reference To Nifty

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Abstract: Investors invest in stock markets to make profits. Low risk investors always look for ways in investing their capital in stable stocks which pay high dividend and those which do not depreciate over time eroding the capital invested. This very idea makes an investor to move forward in investing in high yield stocks. The term yield describes the amount in cash (in percentage terms) that returns to the owners of a security, in the form of interest or dividends received from the security. Due to volatility in the stock markets investors look for stocks paying higher dividends and dividend yield stocks typically do not witness significant up moves or downfalls, offering some cushion against market volatility. The research aims at proving that all high yield stocks are not stable and total return on portfolio after including the dividends does not appreciate considerably. During the period from 2011 – 2015, majority of the high yield stock prices have fallen down inspite of market being bullish. This shows that there is a huge gap between the index Nifty and the high yield stocks.

Keywords: High yield stocks, dividend, Nifty.

JEL Classification: G10, G11.

Date of Submission: 19-12-2017

Date of acceptance: 16-01-2018

I. Introduction

Companies distribute a portion of their profits as dividends, while retaining the remaining portion to reinvest in the business. Dividends are paid out to the shareholders of a company. Dividend yield is the financial ratio that measures the quantum of cash dividends paid out to share holders relative to the market value per share. In the current near-zero interest rate environments, dividend-yield investing allows investors to reallocate their portfolios to higher yielding equities, thereby increasing current income and building a sustainable income source. Investors are understandably reallocating their portfolios from lower yielding bonds to higher yielding equities. But in selecting equities with a high dividend yield, investors should be aware of the risk of concentrating their portfolios in low-quality companies (Vitali Kalesnik Engin Kose Chris Brightman). Dividends are the main source of stock returns *Arnott, Robert D (2003)*. Factors like the industry a company operates in, its growth potential, substitutes that could be potential threats to a company's products/services, etc., need to be considered. Investing in the highest-yielding stocks is a highly profitable strategy when viewed from a multi-country perspective *Keppler, A. Michael (1991)*. Outperformance returns appear to arise from value factors rather than as a result of dividend yield. The value factor, not the yield factor, was responsible for the excess performance over the period *Fisher, G. S.(2013)*. Even though regular payers consistently paid higher dividends than did other firms, on average, Indian firms became less likely to pay dividends by the close of the century. Dividend-paying companies were likely to be larger and more profitable than nonpaying companies, though growth opportunities do not seem to have significantly influenced the dividend policies of Indian firms. *Reddy, Y. S., & Rath, S. (2005)*. Effect of a firms dividend policy on the current price of its shares is ,matter of considerable importance, not only to the corporate officials who must set the policy but investors planning portfolios and to economist seeking to understand and appraise the functioning of the capital markets *Merton H. Miller and Franco Modiglian (1961)*. There is a positive relationship between dividend payment and market share prices and confirms that there are some other exogenous and endogenous variables other than dividend payout that are responsible for the movement of share prices on the Nigerian Stock Exchange. *Ordu Monday Matthew ,Enekwe, Chinedu Innocent and Anyanwaokoro, Mike (2014)*. In India 10 of the top 15 dividend yield companies belong to the public sector. These include NMDC, IFCI, Coal India, Syndicate Bank, National Aluminium, Oil India Limited (OIL) and ONGC Oracle Financial Services Software, Cairn India, Karnataka Bank and Vedanta are other companies in this list. Experts, however, advise to tread cautiously with respect to commodity companies, given the pressure on commodity prices in India as well as globally, which could keep profits under pressure. Oracle Financial tops the list; it paid special dividend in FY15, which boosted its dividend-yield ratio. Going forward, analysts were divided on its prospects. Equities have out-performed other investment asset classes over the long-term in India as well as globally. With growing maturity, retail Investors in India have begun to realize this and also take into strides the short-term volatility of this asset class. Better

regulatory environment and improved corporate governance have also helped to bring more investors to Equities. Companies that have the highest yield may be due to depressed share prices. In many cases, a depressed share price could be due to a company's weakening fundamentals and business model.

II. Research Methodology

2.1 Statement of problems

To Study the Investment Performance of High dividend Yield Stocks with reference to Nifty.

2.2 Research Objective:

Primary Objective:

To analyze return of high dividend yield stocks and to compare with nifty returns

Secondary Objective:

- To identify the high dividend yield stocks in NIFTY
- To analyze the return of high yield stock.
- To analyze the nifty index returns.

2.3 Source of data:

Secondary data collected from:-

- NSE website
- Money control
- Yahoo finance

2.4 Population & Period of research:

Nifty 50 and Next 50 companies five years data was collected from Jan 2011 to Dec 2015. Top ten high yield stocks were selected as sample. Sample size is 10.

III. Research Analysis

Framework of analysis:

Portfolio worth of Rs.10,00,000 is assumed with Rs.1,00,000 investment in each stock.

To calculate,

- Dividend yield% = (Dividend per share/Market price per share) *100
- No of shares = Investment value/Market price per share
- Stock value = (Market price*no of shares purchased)
- Dividend Value = (Face value of a share*dividend declared %)*no of shares
- Total value = Stock value + Dividend value
- Growth of the portfolio or the stock value of the shares and nifty index value = $\left[\frac{\text{Current year value} - \text{Previous year value}}{\text{Previous year value}}\right] * 100$.

Table 3.1: Top yield companies in NSE

Top 10 performing companies					
Company Name	Symbol	Dividend %	Market Price	Dividend per share	Dividend yield %
Oracle Financial Services Software Ltd.	OFSS	13300%	3554.05	665	18.71
Coal India Ltd.	COALINDI	207%	295.45	26.7	9.02
NMDC Ltd.	NMDC	8555	101.5	8.55	8.42
Oil India Ltd.	OIL	200%	315.45	20	6.34
Rural Electrification Corporation Ltd.	RECLTD	107%	169.5	10.7	6.31
Cairn India Ltd.	CAIRN	90%	155.4	9	5.79
Canara Bank	CANBK	105%	192.05	10.5	5.47
Power Finance Corporation Ltd.	PFC	91%	172	9.1	5.29
Bank of India	BANKINDI	50%	97.05	5	5.15
Infosys Ltd.	INFY	1190%	1187.5	59.5	5.01

Table 3.2: Calculation of Total value of OFSS stock.

Face Value: 5 Share price 2348 No. of shares – 43

	Share Price (Rs.)	Stock value (Rs.)	Dividend Declared %	Dividend Value	Dividend yield %	Total (Rs.)
Aug-11	2139	91098.81	0.00%	0.00	0.00%	91098.81
Aug-12	2570	109454.86	0.00%	0.00	0.00%	109454.86
Aug-13	2960.05	126066.87	0.00%	0.00	0.00%	126066.87
Aug-14	3260	138841.57	0.00%	0.00	0.00%	138841.57
Aug-15	4022	171294.72	13300.00%	28321.98	18.71%	199616.70

Inference: Stock value total is Rs.1,99,616.70 for the investment of Rs. 1,00,000, almost it has grown 100% in 5 years with dividend, which was declared only in the 5th year by the company

Table 3.3: Calculation of Total value of NMDC stock.

Face Value: 1 Share price 282 No. of shares – 354

	Share Price (Rs.)	Stock Value (Rs.)	Dividend Declared %	Dividend Value	Dividend yield %	Total (Rs.)
Aug-11	242.05	85711.756	430.00%	1522.663	1.96%	87234.42
Aug-12	185.85	65810.907	550.00%	1947.592	3.33%	67758.5
Aug-13	98.1	34737.96	900.00%	3186.969	5.64%	37924.93
Aug-14	169	59844.193	850.00%	3009.915	5.86%	62854.11
Aug-15	102.4	36260.623	855.00%	3027.62	8.42%	39288.24

Inference: NMDC stock value of investment has gone down from Rs.1,00,000 to Rs.39,288.24 i.e. 60.7% reduction in the investment value.

Table 3.4: Calculation of Total value of OIL stock.

Face Value: 10 Share price 1408 No. of shares – 71

	Share Price (Rs.)	Stock Value (Rs.)	Dividend Declared %	Dividend Value	Dividend yield %	Total (Rs.)
Aug-11	1317.1	93547.356	195.00%	1384.992	2.70%	94932.35
Aug-12	495.25	58439.5	400.00%	2841.01	3.80%	61280.51
Aug-13	517	61006	300.00%	2130.757	5.70%	63136.76
Aug-14	560	66080	215.00%	2537	4.10%	68617
Aug-15	430	50740	200.00%	2360	6.34%	53100

Inference: The value of investment has gone down from Rs.1,00,000 to Rs.53,100 i.e. 46.9% reduction in the investment value. In the year 2014 company has declared bonus share in the ratio of 3:2.

Table 3.5: Calculation of Total value of COAL INDIA stock.

Face Value: 10 Share price 317 No. of shares – 318

	Share Price (Rs.)	Stock value(Rs.)	Dividend Declared%	Dividend Value	Dividend yield %	Total (Rs.)
Aug-11	391.5	124088.75	39.00%	1236.133	1.30%	125324.9
Aug-12	357	113153.72	100.00%	3169.572	2.82%	116323.3
Aug-13	280	88748.019	140.00%	4437.401	4.83%	93185.42
Aug-14	367.7	116545.17	290.00%	9191.759	7.56%	125736.9
Aug-15	441	139778.13	207.00%	6561.014	9.02%	146339.1

Inference: COALINDIA stock, the value of investment has been appreciated by 46% i.e. from

Rs.1,00,000 to Rs.1,46,339 and company had declared dividend each year.

Table 3.6: Calculation of Total value of CAIRN stock.

Face Value: 10 Share price 336 No. of shares – 298

	Share	Stock	Dividend	Dividend value	Dividend	Total (Rs.)
Aug-11	310	92399.404	0.00%	0	0.00%	92399.4
Aug-12	331.25	98733.234	50.00%	1490.313	1.57%	100223.5
Aug-13	305	90909.091	125.00%	3725.782	3.86%	94634.87
Aug-14	314.9	93859.911	115.00%	3427.72	4.79%	97287.63
Aug-15	172	51266.766	90.00%	2682.563	5.79%	53949.33

Inference: CAIRN value of investment has been depreciated by 46.05% and dividend has been declared every year except in 2011.

Table 3.7: Calculation of Total value of REC LTD stock.

Face Value: 10 Share price 333 No. of shares – 300

	Share Price (Rs.)	Stock value(Rs.)	Dividend Declared%	Dividend Value	Dividend yield %	Total (Rs.)
Aug-11	210.25	70083.333	75.00%	2500	2.40%	72583.33
Aug-12	188.4	62800	75.00%	2500	3.60%	65300
Aug-13	159	53000	82.50%	2750	4.00%	55750
Aug-14	302.9	100966.67	95.00%	3166.667	4.90%	104133.3
Aug-15	237.7	79233.333	107.00%	3566.667	6.31%	82800

Inference: RECLTD with the face value of 10 and dividend declared in each year, company investment value has been depreciated by 17.2% from 2011 to 2015.

Table 3.8: Calculation of Total value of CANBK stock.

Face Value: 10 Share price 663 No. of shares – 151

	Share Price (Rs.)	Stock Value (Rs.)	Dividend Declared%	Dividend Value	Dividend yield %	Total (Rs.)
Aug-11	466	70265.38	110.00%	1658.625	1.90%	71924
Aug-12	368	55488.54	110.00%	1658.625	2.20%	57147.17
Aug-13	276.7	41721.954	130.00%	1960.193	3.00%	43682.15
Aug-14	395.7	59665.259	110.00%	1658.625	3.40%	61323.88
Aug-15	276	41616.405	105.00%	1583.233	5.47%	43199.64

Inference: CANBK stock has good track record of declaring dividend, but the investment value has been depreciated by 56.80% i.e. from Rs.1,00,000 to Rs.43,199.

Table 3.9: Calculation of Total value of PFC stock.

Face Value: 10 Share price 314 No. of shares – 318

	Share Price (Rs.)	Stock Value (Rs.)	Dividend Declared%	Dividend Value	Dividend yield%	Total (Rs.)
Aug-11	185.3	58947.034	50.00%	1590.584	1.70%	60537.62
Aug-12	173.85	55304.597	60.00%	1908.7	3.10%	57213.3
Aug-13	110	34992.842	70.00%	2226.817	3.80%	37219.66
Aug-14	265.45	84444.091	90.00%	2863.051	5.90%	87307.14
Aug-15	246.15	78304.438	91.00%	2894.862	5.29%	81199.

Inference: PFC stock investment value has been reduced by 18.80% .

Table 3.10: Calculation of Total value of BANKINDIA stock.

Face Value: 10 Share price 445 No. of shares – 225

	Share price	Stock value	Dividend Declared%	Dividend Value	Dividend yield %	Total
Aug-11	390	87620.759	70.00%	1572.68	1.60%	89193.44
Aug-12	296.3	66569.31	70.00%	1572.68	1.80%	68141.99
Aug-13	186.5	41900.696	100.00%	2246.686	3.10%	44147.38
Aug-14	270	60660.526	50.00%	1123.343	2.10%	61783.87
Aug-15	163.95	36834.419	50.00%	1123.343	5.15%	37957.76

Inference: BANKINDIA stock investment value has been reduced by 62.04% in 5 years.

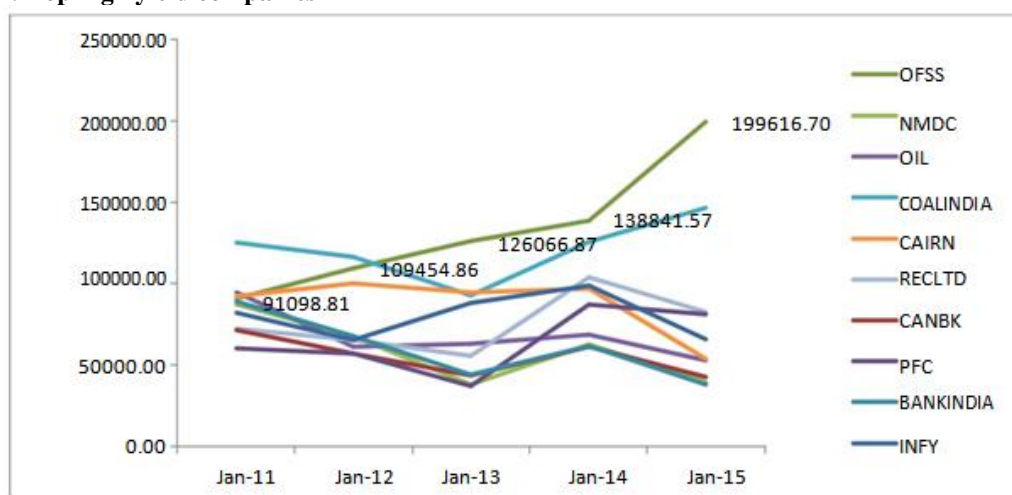
Table 3.11: Calculation of Total value of INFY stock.

Face Value: 5 Share price 3444 No. of shares – 29

	Share price	Stock value	Dividend Declared%	Dividend Value	Dividend yield %	Total
Aug-11	2780.1	80722.997	1200.00%	1742.16	1.27%	82465.16
Aug-12	2215	64314.75	940.00%	1364.692	1.60%	65679.44
Aug-13	2988	86759.582	840.00%	1219.512	1.30%	87979.09
Aug-14	3350	97270.616	1260.00%	1829.268	1.85%	99099.88
Aug-15	1079	62582	1190.00%	3451	5.05%	66033

Inference: INFY stock investment value has been reduced by 33.97% in 5 years. In 2015 company has declared bonus share.

Graph 1: Top high yield companies



The analysis shows that the high yield companies' investment returns are low. Even though the companies declared high percentage of dividend the value of investment has depreciated. Above tables and the graph shows that all top dividend yield companies investment value has declined except OFSS share.

Table 3.12: NIFTY index value

Symbol	Nifty
Aug-11	5525.5
Aug-12	5220.7
Aug-13	5776.9
Aug-14	7662.5
Aug-15	8510.6

Table 3.13: Comparison of Nifty index and portfolio value

	NIFTY INDEX VALUE	Percentage change in Nifty value	Total portfolio Value in Rs.	Percentage change in Total portfolio Value,
Aug-11	5525.5	-10.55%	867689	-13.23%
Aug-12	5220.7	-15.49%	768518	-23.14%
Aug-13	5776.9	-6.9%	683722	-31.62%
Aug-14	7662.5	24.04%	906982	-9.3%
Aug-15	8510.6	37.76%	803480	-19.65%

To calculate the change in % of index value and portfolio value

- Base value for year 2011 is 6177
- Base value for year 2011 portfolio value is Rs.10,00,000

Inference: The above table shows that the portfolio value has declined. The maximum loss was in the year 2013. Compared to the value of portfolio, nifty index value shows an appreciation in value upto 37%. Investment in nifty futures would have given better returns than high yield stocks.

Statistical Analysis: Portfolio value with dividend and without dividend.

Null hypothesis: There is no significant difference between the value of portfolio without dividend and portfolio with dividend.

Alternative hypothesis: There is a significant difference between the value of portfolio without dividend and portfolio with dividend.

Condition: If t Stat value is greater than critical value, then the null hypothesis is rejected.

Alpha: 0.05

Table 3.14: T-test

t-Test: Paired Two Sample for Means		
	Portfolio without dividend	Portfolio with dividend
Mean	800507.8	802839.879
Variance	7727588928	7662358005
Observations	60	60
Pearson Correlation	0.994857829	
Hypothesized Mean Difference	0	
Df	59	
t Stat	-2.028850373	
P(T<=t) one-tail	0.023496955	
t Critical one-tail	1.671093032	
P(T<=t) two-tail	0.046993909	
t Critical two-tail	2.000995378	

Conclusion: The null hypothesis is accepted as the t-stat (-2.028850373) is lesser than the critical value (1.671093032)

From the statistical analysis it is proved that there is no change in the values of portfolio with and without dividend.

IV. Discussion and Conclusion

Investors invest in high yield dividend stocks to save their funds from eroding and to get reasonable amount of return as dividend. The research has found that high yield dividend stocks value depreciated leading to losses upto 31% taking into account the dividend amount. Generally low risk investors invest in these stocks. High dividend yield stocks performance is found to be extremely less compared to the market performance. Nifty index value has increased to 37% in 5 years and portfolio value has decreased 31% in 5 years. All top dividend yield companies investment value has declined except OFSS stock. This proves that majority of the stock prices in the portfolio has declined depreciating the total value of portfolio from Rs.10,00,000 to Rs.8,03,480. So, aggressive investors should not create a portfolio with high yield dividend stocks as capital gains are not possible. Risk averse investors should avoid investing in these stocks as the capital invested is not secured and the total value invested has reduced giving losses. Moreover there is not much difference seen in the value of portfolio with dividend and the value of portfolio without dividend. The research further proves that during the period of study nifty index has appreciated considerably showing that the stocks in the portfolio are not moving with the index nifty. During the period from 2011 – 2015, majority of the high yield stock prices have fallen down inspite of market being bullish. This shows that there is a huge gap between the index Nifty and the high yield stocks. Investment in nifty futures would have given better returns than high yield stocks. The research has proved that all high yield stocks are not stable and total return on portfolio including dividends does not appreciate.

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Dr.P.A.Mary Auxilia "A Study on the Investment Performance of High Dividend Yield Stocks With Reference To Nifty." *IOSR Journal of Economics and Finance (IOSR-JEF)* , vol. 9, no. 1, 2018, pp. 67-74.