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THE ECONOMIC TIMES

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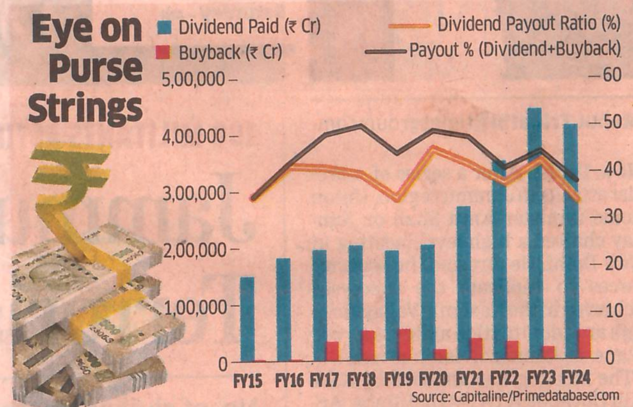
BALANCING ACT

With Greater Capex Comes Lower Dividend



Payout as proportion of earnings lowest in 10 years in FY24

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Mumbai: India Inc was less generous with dividends in FY24 than in previous 9 years amid an increase in capital expenditure with average capacity utilisation exceeding the long-term average. The dividend payout ratio was 34% in FY24, down from 43% in FY23 and 37% in FY22. Including buybacks, the payout was 38% in FY24 compared with 44% in FY23 or 41% in FY22.

The dividend payout ratio is the proportion of a company's earnings paid to shareholders as dividends. This payout tends to be lower in times when companies spend more on expansion. Companies with a high cash flow in mature industries tend to have higher dividend payout ratios. About 1,300 companies paid ₹4.15 lakh crore in dividends in FY24, compared with their standalone net profit of ₹12.24 lakh crore. Additionally, 41 companies spent around ₹50,750 crore on share buybacks in FY24. The dividends paid in FY23 amounted to ₹4.44 lakh crore, while money spent on share buybacks was ₹21,500 crore.

According to analysts, investments in several new projects are gaining momentum, with companies allocating more funds toward expansion.

"After a long time, there is an uptick in capital expansion across many industries in India," said Gaurav Dua, head of capital market strategy, Sharekhan.

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What Top 15 Groups Paid

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"Consequently, it is not surprising to see a decline in dividend outgo as the money would be required to fund the expansion," Dua said.

The top 15 industry houses in India paid an average of 43% of their profits as dividends in FY24, significantly lower than the 75% and 44% paid in the prior two fiscal years. The Tata Group led the list with a dividend payment of ₹32,000 crore, though this was 38% less than the previous year. Tata Consultancy Services (TCS) paid ₹42,090 crore in dividends in FY23 against ₹26,426 crore in FY24. Shiv Nadar's HCL Group paid ₹14,120 core in FY24, higher than ₹13,035 crore in FY23.

Anil Agarwal's Vedanta group paid around ₹11,000 crore in FY24, marking an 84% decrease from the previous year's dividends of ₹69,997 crore. The payout ratio of the Mahindra and Bajaj groups dropped marginally in FY24. On the other hand, those of the Bharti Group, Aditya Birla Group, Sun Pharma, Hinduja Group and Torrent rose substantially.

"With the stock market creating enormous wealth over the last year, many promoters, instead of giving dividends, allocated more funds for capital expenditure," said G Chokkalingam, founder and CEO, Equinomics Research. "Additionally, some large companies rewarded shareholders through buybacks instead of dividends in FY24."

At a recent NCAER event, chief economic advisor V Anantha Nageswaran noted a drawing down of surplus by the private sector, indicating a recovery in private capex. Private investment proposals sanctioned by banks rose by nearly ₹1 lakh crore to ₹3 lakh crore in FY24, according to India Ratings and Research.