

Mutual Fund Category Analysis

July 14, 2012

Dividend Yield Category: The consistent performer among Diversified Equity Categories!

Overview: Mutual fund schemes which invest primarily in high dividend yield stocks outperformed other diversified equity categories over long term thanks to the inherent nature of the scheme in generating regular cash inflows coupled with lower volatility in all market conditions. The defensiveness of correcting less in falling market scenarios helped the category to register higher returns consistently over periods; however the category appreciates lesser during market rallies compared to other diversified equity schemes.

Unique features of High Dividend Yield Stocks:

Stocks that pay out a high dividend in terms of rupees in relation to their share price are referred to as high dividend yield stocks.

These companies have stable businesses and having a history of consistent profitability. Well-established companies tend to payout a higher percentage of their profits as dividend than their younger, growth-oriented peers. Moreover, larger players have a more consistent dividend history.

In case of a market crash, the share price of these companies is likely to fall less as compared to growth stocks, thus making them comparatively low-risk defensive stocks.

They continue to pay regular dividends irrespective of the volatility and movement in the broader markets. These companies have the potential for capital appreciation (medium to long-term) once the markets recover. So, one can expect to earn a decent recurring income and capital gains over time.

The dividend payouts usually depend on a company's stability of earnings as well as possible outlook for the company and industry. When a company earns profits, it has to decide how much share of profit it wants to fork out to its shareholders. The rest can then be either retained or re-invested in the company's operations.

Usually a fast growing company that spends a larger share of its cash in growing its business won't be able to pay good dividends. Whereas a company that has a stable business and growing at an above average rate, would probably pay a good dividend.

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Protection in downturn: Dividend yield schemes tend to offer some kind of protection in falling market scenarios. These schemes focus on the cash generated by the business, which mostly leads to stable returns even in volatile markets. Since dividend yield on a stock is inversely related to the price, the fund managers of the schemes prefer to look at stocks with higher dividend yields, which will be more attractive and generate stable dividend income during bearish market conditions. The built-in self correcting mechanism by dividend yield stocks balances the assets which helps the schemes to generate stable returns. When the market goes up and stock prices are higher, the dividend yields automatically fall. On the other hand, when markets are falling and stock prices are also low, dividend yields rise. Further, the category displays lower volatility due to its lesser degree of capital appreciation due to the investments in the value stocks which lower the chances of more downward correction in falling markets.

In a nutshell, the dividend yield stocks can provide a cushion in the form of a stable dividend income during bear phases, while they can generate capital appreciation in the bull phases. So, investors with any kind of risk appetite can consider investing in the top performing schemes from the category which is shown in the below table.

Top performing schemes from Dividend Yield category:

Scheme Name	Latest Corpus (Rs Crs)	Expense Ratio(%)	Dividend Yield (%)	Trailing Return (%)				Rolling Return (%)				Standard Deviation
				6 Month	1 Year	3 Year	5 Year	6 Month	1 Year	3 Year	5 Year	
Birla Sun Life Dividend Yield Plus (G)	1224	2.02	3.14	12.43	-2.45	19.21	12.06	14.32	-2.13	17.84	12.23	0.86
ING Dividend Yield Fund (G)	92	2.50	4.69	9.36	-3.15	20.50	12.18	10.13	-3.47	18.81	12.34	0.97
Tata Dividend Yield Fund (G)	297	2.35	2.51	11.65	-1.09	20.68	11.42	14.35	-0.61	19.05	11.47	0.90
UTI-Dividend Yield Fund (G)	3713	1.83	2.85	9.44	-2.92	16.72	11.88	10.46	-3.04	15.02	11.84	0.98
Category Average of Dividend Yield Funds	-	2.31	3.46	11.95	-3.49	17.50	9.39	13.80	-3.49	15.72	9.45	0.97
Category Average of Large Cap Funds	-	2.17	1.98	11.45	-4.68	11.11	4.45	12.95	-5.11	8.79	4.44	1.10
Category Average of Mid & Small Cap Funds	-	2.24	2.07	16.71	-3.09	16.79	4.36	18.87	-2.97	14.57	4.02	1.00
Category Average of Multi Cap Funds	-	2.29	1.91	11.04	-5.80	10.87	3.31	12.61	-5.88	9.07	3.28	1.10
BSE 100	-	-	1.64	10.94	-6.23	9.33	3.51	-	-	-	-	-
BSE 200	-	-	1.62	11.41	-6.86	9.55	3.30	-	-	-	-	-
S&P CNX 500	-	-	1.54	11.90	-6.95	9.28	2.78	-	-	-	-	-

Note: Trailing returns up to 1 year are absolute and over 1 year are CAGR. NAV Value as on 11 July 2012.

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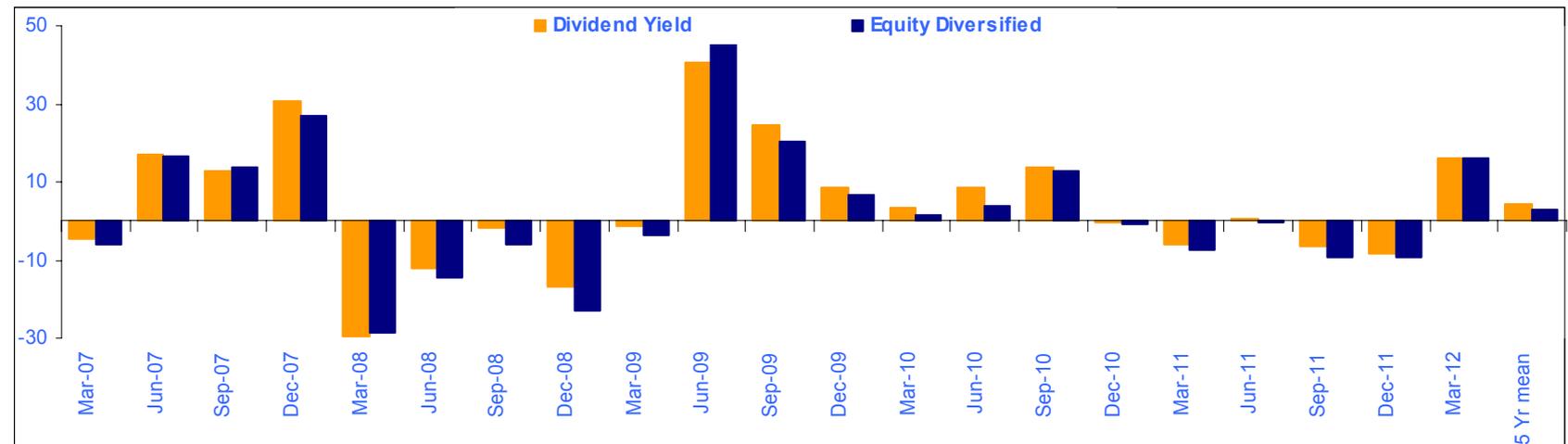
SIP performance (XIRR%) by equity diversified categories in various time frames:

Category	1 Year	2 Year	3 Year	4 Year	5 Year
Dividend Yield	7.83	0.26	4.90	13.88	11.99
Large Cap	7.09	-2.28	0.38	6.49	4.60
Mid Cap	9.76	-0.89	2.19	10.74	6.73
Multi Cap	5.97	-2.73	0.48	6.37	3.70

Note: Final value as on July 11, 2012. Monthly instalment amount is Rs. 10,000.

The above table reveals the better performance of the Dividend Yield category in comparison to other Equity Diversified categories. The table lists out the staggered investments of SIP returns by the categories in the various times such as one, two, three, four and five years. Barring the last one year period, the Dividend Yield Category outperformed others with considerable margin.

Quarterly performance of Equity Diversified and Dividend Yield categories in last five year periods:



It can be observed from the above diagram that the category -Dividend Yield showed outperformance against Equity Diversified Schemes especially during downturn and volatile periods. Underperformance by the category in some bullish periods is minimal.

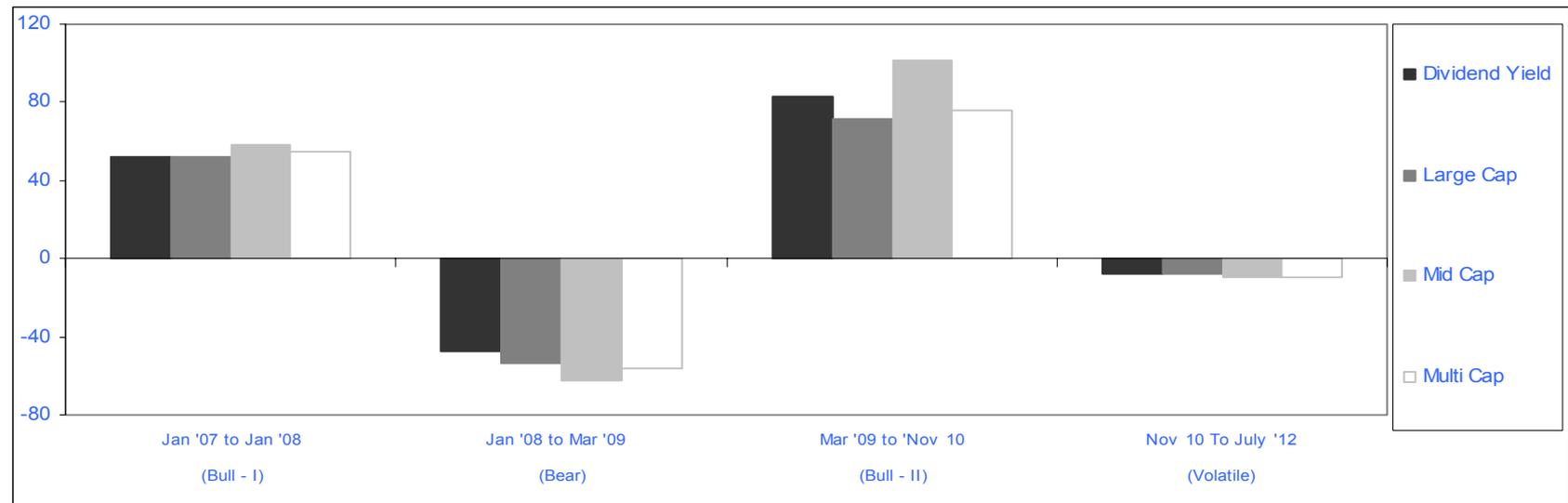
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The below chart further exhibits the performance of the mentioned categories in the various market cycles. Dividend yield category was the outperformer during the period of market downturn (bear period between January '08 to March '09) and the periods when market witnessed high volatility (the period between November '10 to till date). The outperformance during such periods portrays the efficiency of the category in withstanding the market turmoil well.

Further, the category managed to generate comparable returns during market rally as well. The performance during the period 'Bull Run - II' shows how fast the dividend yield schemes adapted to changed circumstance and participated in the market rally. During the period, though the category underperformed the Mid & Small Cap Category (that was the period where the medium sized companies witnessed huge rally), it outperformed Large cap and Multi cap schemes.

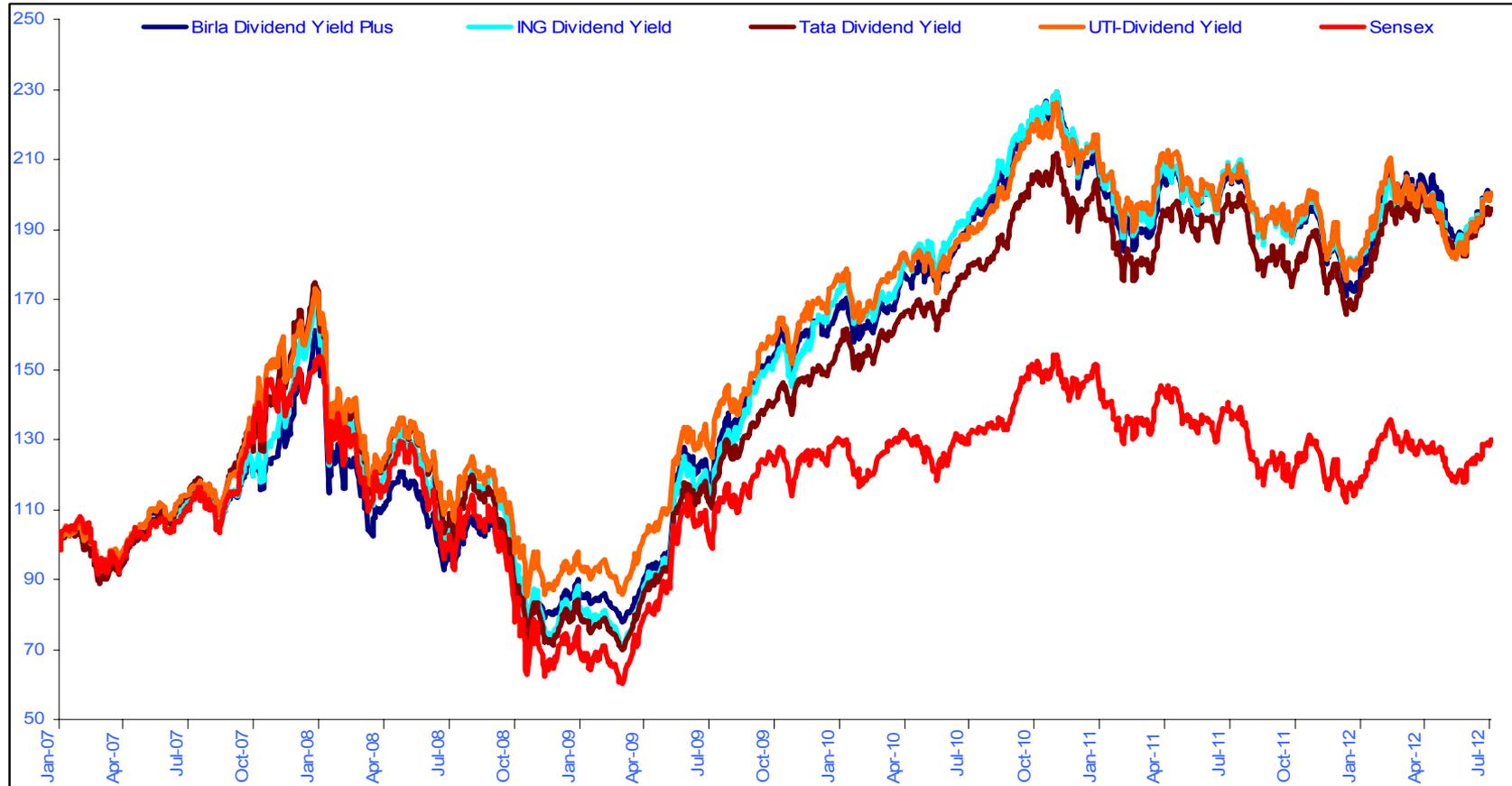
Interestingly, the Dividend Yield category witnessed spectacular returns since early 2008 though the schemes in the category had been launched from 2003 itself. The better performance has been attributable to the efficient calls as well as better utilization of the opportunities which arose on the dividend yields front.



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Relative performance of best performing schemes from Dividend Yield category:



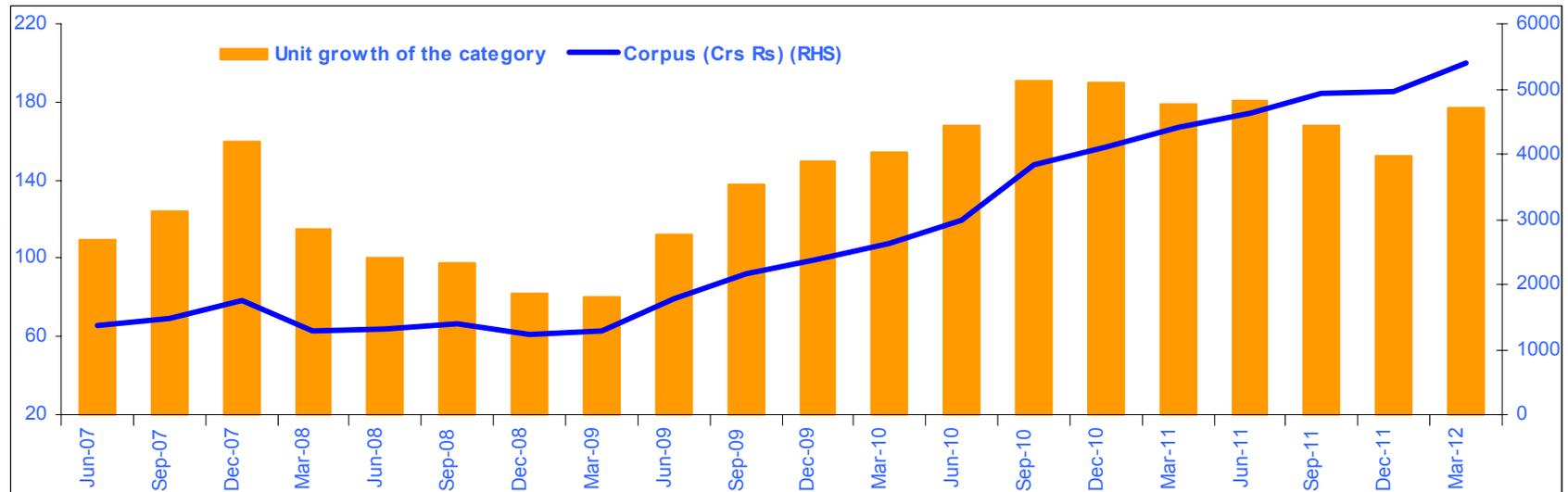
Note: Rebased to 100.

Birla Sun Life Dividend Yield Plus, ING Dividend Yield, Tata Dividend Yield and UTI-Dividend Yield are the best performing schemes among eight schemes in the Dividend Yield category. IIFL CNX Dividend Opportunities Index Fund is a new entrant in this category which is a passively managed scheme tracking the benchmark of CNX Dividend Opportunities Index.

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NAV growth Vs. Corpus growth of Dividend Yield category:



Note: Unit growth rebased to 100.

Though the category witnessed showing better performance since 2008, it got investors attention after September 2010, the above chart shows. It is observed from the chart saying that the corpus of the category grew irrespective of the market conditions after 2010 as the category saw considerable inflows from investors side.

Portfolio: As far as overall portfolios of dividend yield schemes (latest data as of March 2012) are concerned, more weightage has been given to large cap stocks. The category as a whole gradually increased their exposure in large cap stocks from mid cap spectrum over last one year period given the present market condition. ING Dividend Yield and UTI-Dividend Yield are the schemes allocating maximum assets into large cap as they held 85% and 79% of assets respectively. Birla Sun Life Dividend Yield Plus and Principal Dividend Yield are the two schemes which allocated considerable assets close to 44% into mid and small cap front (as per the latest portfolio). They are moderate on churning portfolios as the average turnover ratio showed at 74%. ICICI bank, Infosys and ITC are the preferred stocks by the category as they held Rs. 262 crore, Rs. 237 crore and Rs. 220 crore respectively.

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Investing trend in rising dividend yield stocks by Dividend Yield schemes:

Following is a list of stocks that witnessed an increase in their PAT in two periods i.e. FY12 compared to FY11 and FY11 compared to FY10. These companies also show an increase in dividend payouts over these two periods. They are steadily growing companies likely to provide better than market returns in the coming quarters. Dividend Yield category also allocated their assets in some of the companies in the list.

SR No	Company Name	Held by Dividend Yield Category (march '12)			CMP as of 270612	BV	Equity		PAT			EPS	Dividend Per Share(Rs.)			Pay Out Ratio			PE	P/BV	Dividend yield
		Market Value (Cr)	Shares	No of schemes held			FY12	FY12	FY12	FY11	FY10		FY12	FY11	FY10	FY12	FY11	FY10			
1	ApcoTex Industri	-	-	-	151.7	133.7	5.2	10	11.5	10.7	8.3	22.1	8.0	7.0	5.0	36.4%	34.1%	31.3%	6.9	1.1	5.3%
2	Asian Paints	1.4	4299	2	3776.2	286.5	95.9	10	988.7	843.2	835.6	103.1	40.0	32.0	27.0	38.8%	36.4%	31.0%	36.6	13.2	1.1%
3	Bajaj Corp	-	-	-	119.1	29.0	14.8	1	120.1	84.1	83.9	8.1	4.0	9.5	0.0	49.1%	33.3%	0.0%	14.6	4.1	3.4%
4	Ballarpur Inds.	28.7	11189208	1	20.5	40.5	131.1	2	212.7	197.0	168.3	3.2	0.6	0.5	0.5	18.5%	16.6%	16.5%	6.3	0.5	2.9%
5	Can Fin Homes	-	-	-	106.1	169.6	20.5	10	43.8	42.0	39.2	21.4	3.0	2.5	2.0	14.0%	12.2%	10.5%	5.0	0.6	2.8%
6	Dena Bank	1.4	157488	1	96.3	122.6	350.1	10	803.1	611.6	511.3	24.1	3.0	2.2	2.0	13.1%	12.0%	11.2%	4.0	0.8	3.1%
7	Divi's Lab.	2.4	31400	1	991.3	160.6	26.6	2	533.3	429.3	340.3	40.2	13.0	10.0	6.0	32.4%	30.9%	23.3%	24.7	6.2	1.3%
8	HDFC Bank	-	-	-	549.0	128.4	469.3	2	5247.0	3992.5	3003.7	22.5	4.3	16.5	12.0	19.2%	19.2%	18.3%	24.4	4.3	0.8%
9	Hind.Zinc	-	-	-	118.5	63.6	845.1	2	5526.0	4900.5	4041.4	13.1	2.4	1.0	6.0	18.4%	8.6%	6.3%	9.1	1.9	2.0%
10	Hinduja Ventures	1.1	30008	1	351.3	357.1	20.6	10	100.5	86.6	60.7	48.9	15.0	12.5	0.0	30.7%	29.7%	0.0%	7.2	1.0	4.3%
11	IDBI Bank	6.5	617382	2	92.5	137.0	1278.4	10	2013.1	1563.5	1020.5	20.3	3.5	3.5	3.0	22.2%	22.0%	21.3%	4.6	0.7	3.8%
12	Innoventive Ind.	-	-	-	116.0	75.4	59.6	10	80.3	62.4	29.5	13.9	3.0	2.0	0.0	22.3%	13.2%	0.0%	8.4	1.5	2.6%
13	Jamna Auto Inds.	-	-	-	132.2	41.9	39.4	10	42.2	37.2	11.0	10.7	3.5	2.0	0.0	32.7%	21.1%	0.0%	12.3	3.2	2.6%
14	Jindal Steel	-	-	-	430.0	196.6	93.5	1	3964.9	3753.9	3573.0	42.4	1.6	1.5	1.3	3.8%	3.7%	3.3%	10.1	2.2	0.4%
15	Kansai Nerolac	7.8	86306	1	926.8	197.3	53.9	10	215.9	206.0	165.5	40.1	11.0	10.0	15.0	27.5%	26.2%	24.4%	23.1	4.7	1.2%
16	Karur Vysya Bank	15.8	422939	1	420.7	252.6	107.2	10	501.7	415.6	336.0	46.8	14.0	12.0	12.0	29.9%	27.3%	19.4%	9.0	1.7	3.3%
17	Kirloskar Indus.	-	-	-	290.3	611.8	9.7	10	67.5	55.3	38.7	69.5	4.0	2.5	1.5	5.8%	4.4%	3.8%	4.2	0.5	1.4%
18	Kotak Mah. Bank	-	-	-	570.7	173.8	370.3	5	1832.2	1566.7	1307.0	24.8	0.6	0.5	0.9	2.4%	2.4%	2.3%	23.0	3.3	0.1%
19	KPIT Infosys.	-	-	-	115.5	40.8	35.6	2	145.4	94.6	85.7	8.2	0.7	0.7	0.7	8.6%	6.5%	6.4%	14.1	2.8	0.6%
20	Lak. Vilas Bank	-	-	-	81.2	90.1	97.5	10	107.0	101.1	30.7	11.0	3.5	2.5	0.6	31.9%	24.1%	19.1%	7.4	0.9	4.3%
21	M & M	63.1	901180	3	692.6	273.2	294.5	5	3126.7	3079.7	2478.6	53.2	12.5	11.5	9.5	23.5%	21.9%	21.7%	13.0	2.5	1.8%
22	M & M Financial	-	-	-	635.4	291.6	102.7	10	643.5	492.8	355.8	62.7	14.0	10.0	7.5	22.3%	20.6%	20.2%	10.1	2.2	2.2%
23	Mahindra Life.	-	-	-	322.3	282.9	40.8	10	119.1	108.2	78.5	29.2	6.0	5.0	3.5	20.6%	18.9%	18.2%	11.1	1.1	1.9%
24	Manappuram Fin.	-	-	-	33.0	28.3	168.2	2	591.5	282.7	119.7	7.1	1.5	0.6	2.5	21.3%	8.6%	7.1%	4.7	1.2	4.5%
25	McLeod Russel	2.3	84855	2	292.8	108.4	54.7	5	287.9	246.5	230.9	26.3	6.0	5.0	4.0	22.8%	22.2%	19.0%	11.1	2.7	2.0%

As per research carried out, stocks that increased their dividend payout annually averaged a return that was higher than stocks that paid a dividend but didn't increase that payout. Further Dividend-growers often deliver a smoother ride and are less volatile than other stocks. A growing dividend is also a valuable inflation hedge compared with the fixed payout of a bond. A firm with a history of rising dividend payouts you've probably found a well-run business with a competitive edge.

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Most common 15 stocks held by the schemes with value rank:

Company Name	Birla Dividend Yield Plus		BHP Paribas Dividend Yield		Escorts High Yield Equity		IIG Dividend Yield		Principal Dividend Yield		Tata Dividend Yield		UTI-Dividend Yield	
	Perc Hold	Rank	Perc Hold	Rank	Perc Hold	Rank	Perc Hold	Rank	Perc Hold	Rank	Perc Hold	Rank	Perc Hold	Rank
Oil & Natural Gas Corpn Ltd	3.04	3	1.64	31	-	-	1.68	21	1.92	24	2.35	12	2.73	10
Glaxosmithkline Pharma Ltd	1.30	31	1.77	29	-	-	2.78	12	0.99	44	1.16	34	3.00	8
Hindustan Petroleum Corp Ltd	1.90	13	1.01	38	-	-	1.58	23	2.18	14	1.89	21	0.43	45
ITC Ltd	3.86	1	3.99	2	-	-	5.71	3	3.56	4	-	-	4.45	4
Hero MotoCorp Ltd	2.99	4			-	-	2.04	17	2.87	8	2.17	14	3.49	6
NTPC Ltd	1.32	28	3.06	8	-	-	1.05	37	1.21	30	-	-	3.51	5
Bajaj Auto Ltd	2.72	5	2.70	12	-	-	0.98	38	2.00	20	-	-	2.64	12
Tata Chemicals Ltd	0.84	55	1.41	35	-	-	-	-	2.88	7	2.80	10	2.18	18
GAIL (India) Ltd	0.44	66	1.30	36	-	-	1.21	29	-	-	1.14	35	2.41	14
BPCL	2.27	8	-	-	-	-	2.92	10	1.01	39	3.00	7	1.46	29
Castrol India Ltd	2.17	10	3.49	4	-	-	1.12	34	1.22	29	2.76	11	-	-
Greaves Cotton Ltd	1.28	32	-	-	-	-	1.72	20	1.00	41	0.73	48	0.43	46
Infosys Ltd	2.32	7	-	-	-	-	6.94	1	-	-	5.13	2	5.07	3
State Bank of India	-	-	1.80	28	-	-	5.53	4	2.81	9	-	-	5.59	2
Tata Consultancy Services Ltd	1.89	14	-	-	-	-	3.77	7	0.95	48	-	-	3.15	7

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