F. No 5/2/2020-Policy
Government of India
Ministry of Finance
Department of Investment and Public Asset Management
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OFFICE MEMORANDUM

New Delhi
9th November, 2020

Subject: Advisory regarding Consistent Dividend Policy by CPSEs

Para 5 of the Guidelines on Capital Restructuring of CPSEs issued by this Department vide OM No. 5/2/2016-policy dated 27th May, 2016 (copy enclosed) prescribes that CPSEs would pay a minimum annual dividend of 30% of PAT or 5% of networth, whichever is higher. It has, however, been observed that many CPSEs usually consider only paying minimum dividend as per Guidelines. CPSEs are advised to strive paying higher dividends taking into account relevant factors like profitability, Capex requirements with due leveraging, cash/reserves and networth.

2. It has further been observed that most CPSEs pay interim dividend in February/March of the year concerned. Such bunching of interim dividend payouts by CPSEs in February-March may compete with their cash availability for year- end payments to suppliers as well as towards advance tax. In view of this, the CPSEs, especially companies that pay relatively higher dividend (100% dividend or Rs 10 per share as the case may be) may consider paying interim dividend every quarter after quarterly results. Other CPSEs may consider paying interim dividend usually on half-yearly basis. Only companies which do not have possibility of dividend payout as per the minimum prescribed are advised to pay interim dividend annually during October/November each year based on projected PAT, with the declaration of second quarter (Q2) results. Further, all CPSEs should consider paying at least 90 % of projected annual dividend, in one or more instalments as explained above, as Interim dividend. The final dividend of last FY may be paid soon after the AGM is over in

September of every year in cases where interim dividend has not [redacted] been paid out fully during the last FY and there is a balance to be paid out as final dividend .

3. A predictable and staggered dividend regime would enable CPSEs to avoid end-loading of annual payments by freeing up resources payable during the last quarter. A consistent dividend policy would also help revive investor interest and improve market sentiment for CPSE stocks, as predictability in regular/Quarterly dividend payments would attract quality investors to CPSE stocks and retain them in the hope of a future dividend. Government would also get predictable and periodic dividends as interim dividends before the BE is firmed up.

4. In view of the above, CPSEs are requested to follow a consistent dividend policy as suggested above.

5. This issues with the approval of the Competent Authority.

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To

1. CMDs of CPSEs (as per list)
2. Financial Advisers of Administrative Ministries/Departments (as per list)