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SCIENCE OF ALPHA FROM SAFETY




## Omni Super Dividend

# Dividends are Divine in a ZIRP World

Generating Higher Income with Investment Grade Equity - AAA rated companies

Enhance Safety, Enhance Returns

# Dividends are Divine in a ZIRP World

## Generating Higher Income with Investment Grade Equity - AAA rated companies

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*"Do you know the only thing that gives me pleasure? It's to see my dividends coming in."*

*John D. Rockefeller, Top 10 richest people of all time*

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*"One can increase investment income by investing in the Omni Super Dividend Portfolio of fundamentally strong, investment grade companies"*

## Summary


- In tandem with the ZIRP-world RBI has kept interest rates low resulting in fixed income instruments such as bank FDs, GSecs, Corporate bonds, Debt funds, etc. yielding low returns leaving income-dependent investors searching for yields.
- Contrary to the typical investor chasing yields in securities of low-rated companies or complex and opaque structured products, the Scientific Investor looks for fundamental safety—rather than illusory, contractual safety—combined with high yields across the securities spectrum ranging from senior secured debt to preference shares and equities.
- Across the securities spectrum, Scientific Investing enhances returns by focusing on the highest-yielding security issued by fundamentally strong companies.
- Scientific Investing delivers an opportunity to increase investment income in the Omni Super Dividend Portfolio of fundamentally strong AAA-rated companies, i.e., investment grade equity, which have significantly higher dividend yields compared to fixed income instruments.
- The principal risk of this portfolio is that it is an equity portfolio and hence carries all the risks of equity investing.
- Another risk is that the dividend pay-outs are not contractually assured as in fixed income instruments.
- Mitigating this pay-out risk is a Government of India, DIPAM guideline which makes it likely that dividend pay-outs will be maintained at a certain level.
- This is a unique opportunity to generate higher income at nearly 8% in a ZIRP-world while also having the potential of capital growth over the long-term; albeit with equity risks.

## Fixed Income Returns in a ZIRP World: ZERO, ZIP, ZILCH, NADA…Nothing! (Or Nearly Nothing)

The interest rates that banks can currently earn on their central bank deposits in various jurisdictions are as follows:

| Region | Central Bank | Interest Rate |
|---|---|---|
| USA | Federal Reserve | 0.25% |
| EU | European Central Bank (ECB) | -0.5% |
| Japan | Bank of Japan | 0.1% |
| UK | Bank of England | 0.1% |
| India | Reserve Bank of India | 3.35% |

Exhibit 1: Central Bank interest rates across the world – Jan 2021. Source: OmniScience Research

The above is labelled as ZIRP (Zero Interest Rate Policy), NIRP (Negative Interest Rate Policy), or LIRP (Low Interest Rate Policy) depending on the situation.

In a ZIRP world an investor gets nearly nothing on their fixed income portfolio. Even in a LIRP country like India, while the nominal returns appear to be positive, the real returns, i.e., returns net of inflation are negative or zero.

The RBI data shows that the weighted average term deposit rate is in the range of 4.9%-5.5%. This means that depositors in Indian banks, on average, are getting less than 5.5% on their deposits. (Source: RBI data on current lending/deposit rates on 5-Feb-2021)

The Government of India 364-days T-bills are providing less than 3.74% while the 5-year bonds are providing 5.5% and the 10-year bonds are providing 6.1% or less. (Source: RBI data on current market trends on 5-Feb-2021)

Bank fixed deposits, corporate fixed deposits and corporate bonds of highly rated companies do not provide much higher interest rates either.

As one can see in the figure below, bank fixed deposits across various banks are mostly in the range of 2.5% to 5.5%, except for the small finance banks with 6.75% on the higher side.

| Bank | Fixed Deposit Interest Rates |
|---|---|
| ICICI Bank | 2.5%-5.5% |
| HDFC Bank | 2.5%-5.5% |
| Kotak Mahindra Bank | 2.5%-4.75% |
| SBI | 2.9%-5.4% |
| Bank of Baroda | 2.8%-5.25% |
| Punjab National Bank | 3.0%-5.3% |
| AU Small Finance Bank | 3.75% - 6.75% |
| Ujjivan Small Finance Bank | 3.05% - 6.50% |

Exhibit 2: Bank Fixed Deposit interest rates – Feb 2, 2021. Source: myloancare.in, OmniScience Research

Some, corporate fixed deposits offer similar or higher interest rates. However, corporate FDs are riskier than bank FDs since they are not regulated by RBI norms, nor are they covered by the DICGC (Deposit Insurance and Credit Guarantee

Corporation) insurance. Further, corporate FD opportunities are available from a limited number of companies at any given point of time and, typically, have a long lock-in period. Contrary to bank FDs which one can exit with a reduction in the holding period interest rates, corporate FDs cannot be redeemed easily before the term is over. Effectively, there is no liquidity. Further, recent & detailed financial information for deeper analysis of the company's financial position is difficult to access. Also, due to limited number of opportunities available at any point of time, it is difficult to create a properly diversified portfolio.

Listed corporate bonds are also available which provide more liquidity than corporate deposits. For estimating the currently available corporate bonds yields, we use the Nifty corporate bond indexes. The data is shown in the table below:

| Corporate Bonds (As of 31 Jan 2021) | Avg. Yield | Avg. Maturity (Years) |
|---|---|---|
| NIFTY AAA Ultra Short Duration Bond Index | 3.86% | 0.37 |
| NIFTY AAA Short Duration Bond Index | 4.69% | 2.26 |
| NIFTY AAA Medium Duration Bond Index | 5.49% | 4.00 |
| NIFTY AAA Long duration Bond Index | 6.73% | 12.61 |

Exhibit 3: Corporate Bond Index yields and maturities. Source: Nifty Corporate Bond Index Factsheet.

It can be seen in the table above that the bond yields are in the range of 3.86% for ultra-short duration of a few months to 6.73% for 10 years or more.

*In summary, most of the safe fixed income instruments, Government of India securities (T-bills and T-bonds), bank fixed deposits, and AAA corporate bonds provide yields which are less than 5.5% for periods of less than 5 years.*

## How can one generate higher income in such an environment?

Benjamin Graham, as quoted in one of our earlier articles, mentions that

> *"The theoretically correct procedure for bond investment is first to select a company meeting every test of strength and soundness, and then to purchase its highest yielding obligation, which would usually mean its junior rather than its first-lien bonds."*

We will explore if there is a way of using this piece of wisdom from the *Great-Guru-of-the-Great Investor*[1] to generate higher returns while not trading-off safety too much, or possibly, even enhancing safety.

A company can issue a number of securities with the secured senior bonds at the top followed by unsecured bonds (junior bonds), preference shares and then, at the bottom, equity shares.

The idea at the heart of Graham's advice is to search for companies which can service their debt safely. In such a situation, once the safety of a company has been ascertained, one should buy the bonds which have the highest yield; the seniority of the structure is not relevant. The reasoning behind this is that if the company is not safe then even its senior-most, secured bond cannot be thought of as safe. And if the company is safe from bankruptcy risk, then even its junior-most bond is safe, which, typically, yields the highest.

We can go one step further and if the equity yield is higher, then one can invest in equities as suggested in our article in Mint, "What makes some equity qualify as 'investment grade'?"

[1] Benjamin Graham was the guru of Warren Buffett at Columbia University and later employed him at his investment firm.

Distinct from the aforesaid article where our objective was from a wealth-creation perspective over the long-term, the objective of this report is to explore ways of generating high current income while also creating wealth over the long term. For this objective we need the *investment grade equity* mentioned in the article, but the yield is defined as the "dividend yield" of the stock rather than the "equity yield".

We can frame our objective as finding strong and safe companies from a fundamental perspective which are also available at a high dividend yield. For this purpose, we can apply the Scientific Investing framework.

## Applying the Scientific Investing Process for Income Generation

With the above objective, we start our search across the more than 2000 companies listed on BSE and NSE. We apply our well-known Scientific Investing Process which zeroes in on companies which can *survive & thrive* under most circumstances. These are companies which can survive unfavourable situations, such as, the Covid-19 lockdowns or the Global Financial Crisis. These companies can thrive under normal economic circumstances and economic booms.

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### ***OmniInsight***

***"Most market participants chase alpha but get risks, while one could chase safety and get alpha".***

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The Scientific Investing philosophy is based on the above OmniInsight.

The process begins with the full investible universe of Indian stocks. We focus on the largest 1000 companies. The first step is to eliminate the Capital Destroyers, which are companies with weak business operations and weak balance sheets. These companies are likely to destroy shareholder capital and we do not deem them fit for investments; these are definitely NOT investment grade equities!

The second step is eliminating the Capital Eroders, which are companies without persistent competitive advantages. These companies reinvest the shareholder's equity capital at low returns and thus erode the capital of the shareholders over a period of time. The longer one holds such companies the higher the capital erosion.

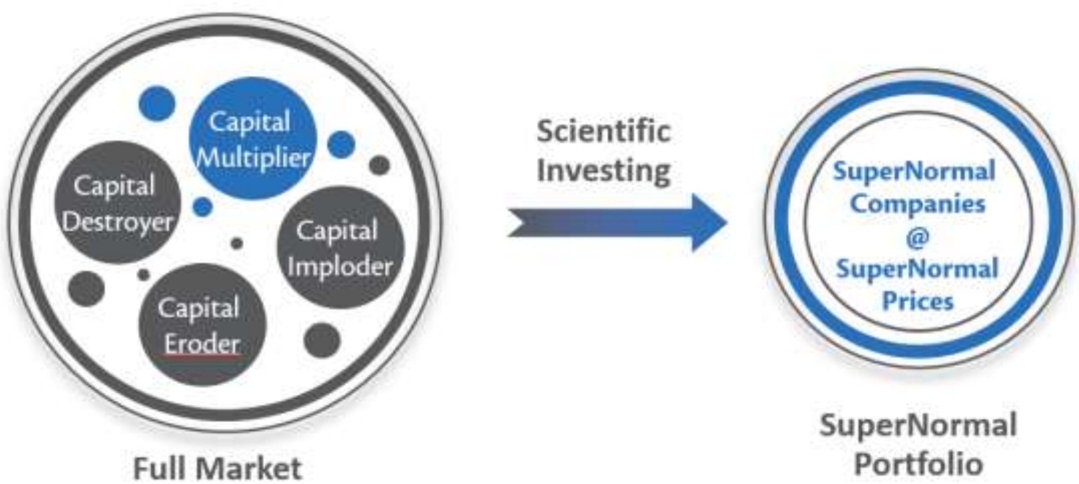


Exhibit 4: Scientific Investing Framework. Source: OmniScience Capital Research

The third step is eliminating the Capital Imploders, which are companies that are highly overvalued. These companies are priced to perfection by Mr. Market. If all the extremely optimistic assumptions about the company's future growth and cash flows come true, then the company is priced fairly to deliver "market returns" over the long term. However, if anything goes wrong then the share price of the company is likely to crash significantly imploding the portfolio.

Now we are left with Capital Multipliers, which are companies which have strong balance sheets with significant financial resources to fund future growth, persistent competitive advantages with strong cash flows which can be reinvested for future growth or distributed to shareholders, large growth opportunities in the form of large and, possibly, growing TAMs (total addressable markets). What differentiates these companies from the typical Capital Imploder is that the Capital Multipliers are priced at a significant discount to their intrinsic values.

For our objective of high-income generation, we look for companies within this Capital Multiplier pool. We focus on companies within this pool which are high dividend yielders.

We term these companies SuperNormal Companies—for their superior fundamentals compared to the market—at SuperNormal Dividends Yields—for their superior dividend yields compared to the market. We call this portfolio of SuperNormal Companies at SuperNormal Dividend Yields, Omni Super Dividends.

## DIPAM Policy

According to its website, the Department of Investment and Public Asset Management (DIPAM), Government of India (GoI),*"... deals with all matters relating to management of Central Government investments in equity including disinvestment of equity in Central Public Sector Undertakings."* (source: https://www.dipam.gov.in/dipam/)

This includes framing the dividend policy of companies where the GoI is a shareholder. Within this context DIPAM has issued guidelines for capital management of CPSEs (Central Public Sector Enterprises).

The relevant document is, "Guidelines on Capital Restructuring of Central Public Sector Enterprises (CPSEs)", OM (Office Memorandum) No. 5//2/2016-policy dated 27th May, 2016. Para 5, sub-para 5.2, of this document states:

> *In supersession of earlier guidelines, every CPSE would pay a minimum annual dividend of 30% of PAT or 5% of the net-worth, whichever is higher subject to the maximum dividend permitted under the extant legal provision.*

Further, a more recent document, "Advisory regarding Consistent Dividend Policy by CPSEs", OM No. 5/2/2020-policy dated 9th November, 2020, states:

> *CPSEs are advised to strive paying higher dividends taking into account relevant factors like profitability, Capex requirements with due leveraging, cash/reserves and networth.*

It goes on to state:

> *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.*

This can be summarized as follows:

- Dividends have to be paid at the rate of 30% of PAT or 5% of Net Worth, whichever is higher.

- Preferably, the dividends should be as high as possible within their legal and business constraints, higher than the above minimum guidelines.
- Dividends should be paid consistently throughout the year on a quarterly basis as far as possible.

These guidelines are designed to make the amount and timing of the minimum dividend pay-out more predictable and in line with international, developed market policies for high-dividend paying companies. The boards of these companies try to provide predictability to dividend pay-outs so that income-seeking and income-dependent entities, such as, pension funds, endowments, trusts, retirees etc. can invest in these companies expecting some level of certainty about the dividend income to be received.

## DIPAM Yield

Based on the above policy, one can calculate a "DIPAM Yield". The DIPAM yield can be calculated as follows:

DIPAM Yield = $\frac{Max(30\% \times PAT, 5\% \times Net\ Worth)}{Market\ Capitalization}$

Based on this one can estimate the DIPAM Yield of a company. This number could be different from the "Dividend Yield" of a company. The "Dividend Yield" of a company is based on the actual dividends paid out in the trailing twelve months (TTM).

Dividend Yield = $\frac{Dividend\ in\ Rupees\ paid\ out\ TTM}{Market\ Capitalization}$

The DIPAM Yield is the minimum yield one can expect from the company. It is possible that the company actually pays out much higher dividends.

*One should bear in mind that under exceptional cases, under certain constraints, it is possible that company might not be able to pay out the dividends as per DIPAM guidelines.*

## Introduction to the Omni Super Dividends Portfolio

The earlier discussed Scientific Investing process leads us to a SuperNormal portfolio of 8 companies—the Omni Super Dividends. In the following sections we introduce this portfolio and its important characteristics.

## Omni Super Dividends: The Final Picks

We do not name the companies here, but rather focus on their important characteristics. In the following table we have shown the main business of the companies and their Dividend Yield and DIPAM Yields.

| Company | Industry | Div. yield | DIPAM Yield |
|---|---|---:|---:|
| Company 1 | Thermal Power & Mining | 13.7% | 9.2% |
| Company 2 | Coal Mining | 9.1% | 6.1% |
| Company 3 | Affordable Housing Finance | 7.4% | 7.2% |
| Company 4 | Power Trading | 9.1% | 12.4% |
| Company 5 | Power NBFC | 8.0% | 7.4% |
| Company 6 | Power NBFC | 8.3% | 9.3% |
| Company 7 | Hydro Power | 8.8% | 6.3% |
| Company 8 | Hydro Power | 6.3% | 7.1% |
| **Omni Super Dividend** | **Power, Power Finance, Mining & Housing Finance** | **8.0%** | **8.9%** |

Exhibit 5: Omni Super Dividends Industries, DIPAM & Div. Yields – Jan 25, 2021. Source: OmniScience Capital Research

## Know Your Companies

We can see a brief description of the business of these companies and the respective sectors they belong to.

| Company | Description | Sector |
|---|---|---|
| Company 1 | Power Generation and Lignite Mining. Operating 3 power stations and 4 mines, and 6 new expansion projects | Utilities |
| Company 2 | Largest Coal producing co. in the world; operates 82 mining areas across 8 states. | Energy |
| Company 3 | Provides long term finance for construction of affordable houses; undertakes setting up of the new or satellite towns and industrial enterprises | Financials |
| Company 4 | Involved in trading of electricity and offers power trading solutions. It offers business solutions for generators, utilities, cross border solutions, project financing, and energy efficiency and consultancy | Energy |
| Company 5 | It finances and promotes rural electrification projects all over the country; provides financial assistance to SEBs, State Government Depts & Rural Electric Cooperatives for rural electrification projects | Financials |
| Company 6 | Provides financial assistance to the power sector | Financials |
| Company 7 | Operates in Thermal Power segment. The Company is implementing power projects in various states in India and neighbouring countries, including Nepal and Bhutan | Utilities |
| Company 8 | The Company is engaged in electric power generation by hydroelectric power plants. | Utilities |

Exhibit 6: Omni Super Dividends company sectors and business description. Source: OmniScience Capital Research

## Growth Opportunity

In the following table we provide the orderbook or the estimate of the Total Addressable Market (TAM) for these companies. This is the opportunity size available to these companies. It is clear that the opportunity size in all cases is quite vast.

| Company | **Industry** | Order Book/ Opportunity | Rationale |
|---|---|---|---|
| Company 1 | Thermal Power & Mining | Rs. 1.3 Lakh Cr | Planned capex by 2025 |
| Company 2 | Coal Mining | Rs. 2.5 Lakh Cr | Investment plan on clean coal tech & diversification |
| Company 3 | Affordable Housing Finance | Rs. 40 Lakh Cr | Demand for 40mn units |
| Company 4 | Power Trading | Rs. 30,000 Cr | 60% growth in power demand by 2030 (IEA) |
| Company 5 | Power NBFC | Rs. 24 Lakh Cr | NIP proposed infra spending on energy |
| Company 6 | Power NBFC | Rs. 24 Lakh Cr | NIP proposed infra spending on energy |
| Company 7 | Hydro Power | Rs. 35,000 Cr | Planned capex by 2025 |
| Company 8 | Hydro Power | Rs. 2 Lakh Cr | Planned capex by 2030 |

Exhibit 7: Omni Super Dividends companies growth opportunity. Source: OmniScience Capital Research

# Are these SuperNormal Companies at SuperNormal Prices?

While Scientific Investing framework has selected these companies based on their superior fundamentals and financials, we do further due diligence from various angles to verify if these are SuperNormal Companies.

## Company Ratings & Rating Rationale

In the following table we provide the ratings of these companies and their rating rationales. All companies are rated AAA/A1+. AAA the strongest long-term rating and A1+ is the strongest short-term rating. *This independently reinforces our analysis based o**n Scientific Investing that these are "SuperNormal Companies".***

| Company | Rating | Rating Agency | Rating Rationale |
|---|---|---|---|
| Company 1 | AAA/Stable | Crisil | Business risk profile: Strong given efficient operations & fuel security (nodal agency for lignite mining in India). Financial risk profile: Strong, driven by conservative gearing and healthy liquidity. |
| Company 2 | AAA/Stable | Crisil | Company will maintain its dominant position in the domestic coal industry over the medium term, driven by strong capital structure and surplus liquidity. |
| Company 3 | AAA/Stable | ICRA | Nodal agency for the implementation of Government policies in the high-priority sectors of social housing & urban infrastructure. Comfortable capitalisation level, diversified borrowing profile & good financial flexibility |
| Company 4 | A1+ | Crisil | Leadership position in the power-trading market in India, healthy relationships with customers and market linkages because of track record, and robust financial risk profile |
| Company 5 | AAA/Stable | Crisil | Strategic importance to the GoI, key role in financing the Indian power sector and sov. ownership. Strong market position and adequate capitalisation and resource profile |
| Company 6 | AAA/Stable | Crisil | Strategic importance in implementation of the government's power sector policies. Sov. Ownership, dominant position, adequate resources & capitalization |
| Company 7 | AA+/Stable | Crisil | Stability of cashflow, efficient operations, a regulated tariff structure and comfortable debt protection metrics. Strategic importance to, and support from government |
| Company 8 | AAA/Stable | India Ratings | Regulated Operations Ensure Long-term Cash Flow Visibility, Healthy Incentive Income to Continue, comfortable leverage, adequate liquidity and GoI support. |

Exhibit 8: Omni Super Dividends companies Credit Ratings and rationale. Source: Rating Rationale documents of the respective rating agencies, OmniScience Capital Research

## What are the Persistent Competitive Advantages (or Moats) that make these companies SuperNormal?

In the following table we have highlighted the principal factor which provides the companies with a persistent competitive advantage.

| Company | **Industry** | PCA |
|---|---|---|
| Company 1 | Thermal Power & Mining | Control on input cost and supply security as the nodal agency for lignite mining in India. Major power supplier to the southern states. |
| Company 2 | Coal Mining | Largest coal miner in the world. Enjoys near-monopoly status with 85% domestic coal production and possesses 48% of India's proven reserves in its command area. |
| Company 3 | Affordable Housing Finance | Nodal agency in affordable housing and urban infra planning & financing |
| Company 4 | Power Trading | Largest market maker rationalizing the supply-demand mismatches in the Indian power sector. It covers all the state utilities as well as some power utilities in the neighbouring countries |
| Company 5 | Power NBFC | Nodal agency for Power Financing in India for “Electricity for All” via SAUBHAGYA, DDUGJY & UDAY |
| Company 6 | Power NBFC | Nodal agency for financing of IPDS, UMPPs and ITPs in India and the largest NBFC with around 20% market share. |
| Company 7 | Hydro Power | Specialist hydro electric utility for northern part of India as well as neighbouring Himalayan countries. Also has expertise in thermal, solar and wind power generation. |
| Company 8 | Hydro Power | Largest hydroelectric utility in India with expertise in execution of projects in difficult terrain. |

Exhibit 9: Omni Super Dividends companies summary of persistent competitive advantage factors. Source: OmniScience Capital Research

## Superior Fundamentals of the SuperNormal Companies

We can see that most of these companies have strong ROEs. In a few cases the ROE looks relatively low, but one has to keep in mind the large work-in-progress happening in these companies. This means that there is a non-operational, non-revenue generating portion of assets. When adjusted for that the RoEs of most of these companies will reflect their PCAs.

Similarly, the interest coverage for all these companies is quite high. Companies with high Asset to Equity are all finance companies. For these companies the Asset to Equity numbers are quite reasonable.

For the non-financials the cash to asset ratio is also quite high for most companies. This signifies the high liquidity these companies enjoy. Further, the EBIT (non-financials) or EBT (financials) margins are also quite high. The seemingly low margin is only for the trading company. But it is high as far as trading is concerned.

| Company | **Industry** | RoE | Debt to Equity/ Assets to Equity | Interest Coverage | Cash/ Assets | EBIT/EBT Margin |
|---|---|---|---|---|---|---|
| Company 1 | Thermal Power & Mining | 11.1% | 2.1 | 3.5 | 0.0% | 37.6% |
| Company 2 | Coal Mining | 56.3% | 0.2 | 59.0 | 18.1% | 20.9% |
| Company 3 | Affordable Housing Finance | 10.6% | 6.2 | 6.1 | NA | 24.2% |
| Company 4 | Power Trading* | 8.8% | 5.0 | 40.6 | 7.6% | 3.3% |
| Company 5 | Power NBFC | 16.2% | 9.8 | 16.4 | NA | 24.5% |
| Company 6 | Power NBFC | 19.1% | 7.9 | 12.8 | NA | 25.4% |
| Company 7 | Hydro Power | 12.2% | 0.2 | 6.4 | 14.2% | 65.0% |
| Company 8 | Hydro Power | 8.3% | 0.8 | 3.9 | 1.8% | 38.7% |

Exhibit 10: Omni Super Dividends companies fundamentals as of Q2 2020-21. Source: OmniScience Capital Research, Third party data sources and company filings. *on standalone basis.

## Are these companies available at SuperNormal Prices?

Once the SuperNormality of a company is established, the most important question for a Scientific Investor is whether it is available at a significant discount to intrinsic value, i.e. at a SuperNormal Price. The valuation ratios shown in the table below will reinforce that indeed the companies are available at SuperNormal Prices.

| Company | **Industry** | PE | PBV | PC | PS |
|---|---|---|---|---|---|
| Company 1 | Thermal Power & Mining | 5.68 | 0.49 | 2.73 | 0.75 |
| Company 2 | Coal Mining | 6.04 | 2.5 | 4.77 | 0.85 |
| Company 3 | Affordable Housing Finance | 6.59 | 0.68 | 6.38 | 3.39 |
| Company 4 | Power Trading | 4.76 | 0.36 | 3.81 | 0.10 |
| Company 5 | Power NBFC | 4.47 | 0.94 | 4.39 | 3.12 |
| Company 6 | Power NBFC | 2.83 | 0.57 | 3.34 | 1.62 |
| Company 7 | Hydro Power | 6.88 | 0.83 | 5.38 | 4.32 |
| Company 8 | Hydro Power | 9.29 | 0.70 | 5.63 | 2.43 |

Exhibit 11: Omni Super Dividends companies valuation metrics as of Jan 25, 2021. Source: OmniScience Capital Research, Third party data sources and company filings.

## SuperNormal Companies at SuperNormal Yields

Here we summarize all the important information about the Omni Super Dividend Portfolio. In summary, this portfolio has dividend yields ranging from 6.3% to 13.7% and DIPAM yields ranging from 6.1% to 12.4%.

All of them are top rated, i.e AAA or A1+. Further, their bond yields (YTM: Yield-To-Maturity) are also provided, where available. It is clear that the dividend yields are much higher than the respective bond yields. *Our original concept of focusing on the highest yielding security of a safe company is hereby verified.*

Further, this is a portfolio with high expected growth rates as per our estimates.

| Company | **Industry** | Dividend yield | DIPAM Yield | YTM% of Bonds at LTP | Rating | Expected Growth Rate |
|---|---|---|---|---|---|---|
| Company 1 | Thermal Power & Mining | 13.7% | 9.2% | 3.6% | AAA/Stable | 15% |
| Company 2 | Coal Mining | 9.1% | 6.1% | NA | AAA/Stable | 7% |
| Company 3 | Affordable Housing Finance | 7.4% | 7.2% | 5.1% | AAA/Stable | 10% |
| Company 4 | Power Trading | 9.1% | 12.4% | NA | A1+ | 7% |
| Company 5 | Power NBFC | 8.0% | 7.4% | 5.1% | AAA/Stable | 10% |
| Company 6 | Power NBFC | 8.3% | 9.3% | 6.0% | AAA/Stable | 10% |
| Company 7 | Hydro Power | 8.8% | 6.3% | NA | AA+/Stable | 15% |
| Company 8 | Hydro Power | 6.3% | 7.1% | 4.6% | AAA/Stable | 10% |
| **Omni Super Dividend** | **Power, Power Finance, Mining & Housing Finance** | **8.0%** | **8.9%** | 4.8% | AAA/Stable | 10% |

Exhibit 12: Omni Super Dividends companies div. and DIPAM yield of equity and yield to maturity of respective bonds as of Jan 25, 2021 and respective expected growth rates. Source: OmniScience Capital Research, Third party data sources and company filings.

## Omni Super Dividend Risks

The following chart shows where we think this portfolio fits in relation to other relevant asset classes. While it is riskier than mutual funds, it is much safer than investing in single stocks.

On the income yield, it has a much higher yield compared to all these asset classes. While there are numerous risks one is exposed to while investing, one should bear in mind at least the following important risks:

- Capital or Equity risk, i.e., the principal invested fluctuates with the market pricing of the shares. There is no guarantee of principal as compared to bank fixed deposits and government bonds or even other fixed income instruments.
- Income risk, i.e., the risk of not receiving income or receiving inadequate income. While the DIPAM guidelines on dividend policy try to provide predictability to the dividend payments, it is possible that companies might not be able to pay out the dividends as per the policy due to other constraints. Further, even within the policy it is possible that the net worth or profits of these companies are damaged and the pay-outs cannot be made or are much lower than estimated.

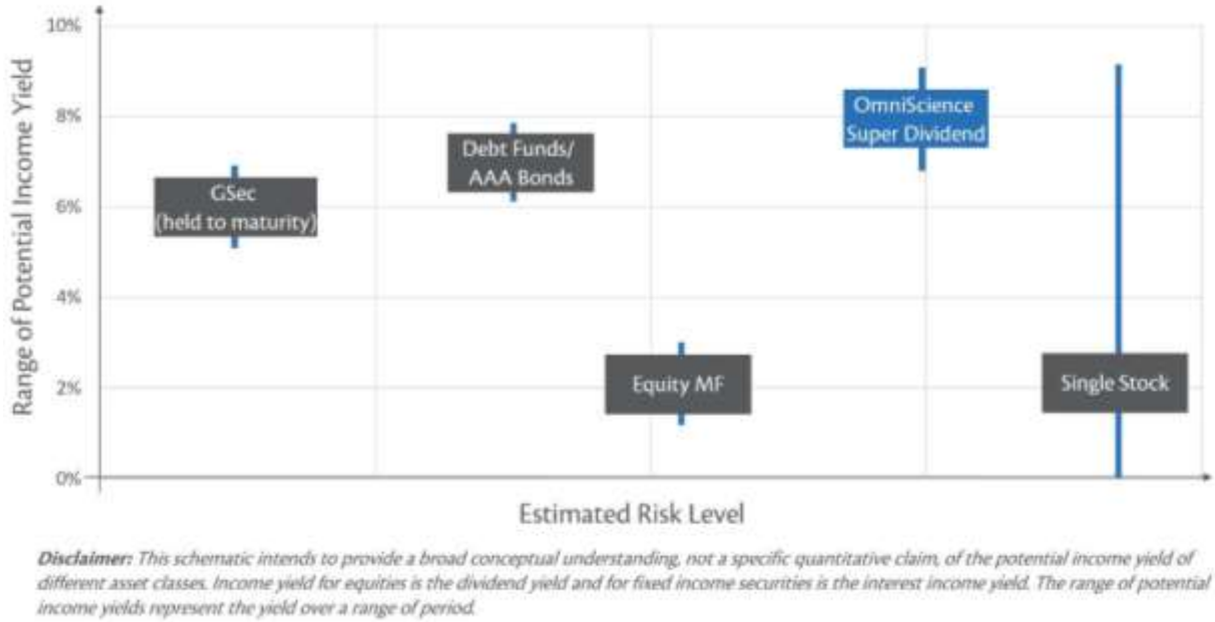


Exhibit 13: Omni Super Dividend and other asset classes income yield vs. estimated risk. Source: OmniScience Capital Research

## Conclusion

In this ZIRP world, it is difficult to find investments which provide significant income. Fixed income instruments offer fairly low yields, i.e., typically, below 6% for holding periods of less than 5 years.

We have suggested an alternative way of generating higher income via dividend paying Investment grade equity, i.e., SuperNormal Companies. We show that it is possible to create a SuperNormal Portfolio—the Omni Super Dividends—of SuperNormal Companies at SuperNormal Prices and SuperNormal Yields.

We think, this opportunity can be useful for investors who can tolerate some risks in some portion of their portfolios. The risk is compensated by much higher potential income. There is also the possibility of growth in principal over time.

Of course, the risks to both capital and income remain, as in any equity investment, and one should understand these before moving ahead.

Keep in mind that this is NOT investment advice and each investor's investment objectives, risk profile and risk tolerance are different. Without making a complete assessment of the product suitability to their risk profile and investment objectives, one cannot and should not decide on investing in anything, including this strategy.

# OmniInsight

*"Most market participants chase alpha but get risks, while one could chase safety and get alpha"*


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## About OmniScience Capital

A Global Investment Management firm focused on global equity investments empowered by its proprietary Scientific Investing philosophy.

OmniScience Capital is a joint initiative of Team OmniScience and the financial services conglomerate Asit C Mehta Group (35+ years, AUM: 3000 crores) to bring Scientific Investing to Indian and Global investors. Read more...

## Global Investment Focus

OmniScience's vision is to provide global investors with global opportunities via SuperNormal Portfolios for US, India and Transformative Technologies. Our Omni Supreme US and AIoT investment strategies help clients take exposure to US markets. Read more...

## Scientific Investing

Scientific Investing creates a SuperNormal Portfolio designed to survive and thrive through uncertainties, delivering optimal "Return on Safety". Read more...

## Investment Platform

Investors can explore and invest in OmniScience strategies on [omniscience.smallcase.com](omniscience.smallcase.com)

**Dr. Vikas V. Gupta**
CEO & Chief Investment Strategist

- Founder of OmniScience Capital & Inventor of Scientific Investing concept
- At an earlier firm he incubated the global equity vertical with US SEC license. The firm won international awards and rankings
  Former Professor/faculty at IIT Kharagpur & University of California and B.Tech (IIT Bombay), Masters and Doctorate, Columbia University, NY
- Columnist at Seeking Alpha, Mint, Moneycontrol, Economic Times

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- Co-founder OmniScience Capital & leads advisory services and manages US, India & Technology portfolios
- At an earlier firm he set up one of the first Indian US SEC registered global money managers on the Interactive Brokers platform
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