How to Screen for Sustainable Dividend Stocks in Palakkad

Understanding the Basics of Dividend Stock Screening

Building a portfolio of dividend-paying stocks can provide a steady income stream, but not all dividends are created equal. A dividend stock screener helps you filter through thousands of companies to find those that consistently pay and grow their dividends. The key is to look beyond the initial yield and focus on sustainability. Without a proper screen, you might end up with stocks that cut their payouts when the market turns, leaving you with less income and a lower share price. A systematic approach helps you avoid that trap.

Before you start, you need to decide what matters most to you. Some investors prioritise high current income, while others want dividend growth that keeps pace with inflation. Your personal goals and risk tolerance will shape the filters you apply. For example, if you are nearing retirement, you might favour stocks with a long history of stable payments. If you are still building wealth, you might look for companies that reinvest heavily but still offer a modest, growing dividend. Either way, a good screener lets you set your own criteria and narrow the field to a manageable list of candidates.

Step 1: Set Your Minimum Dividend Yield

The dividend yield is the annual dividend payment divided by the share price. It gives you a quick sense of how much cash you can expect relative to your investment. A yield that is too low might not meet your income needs, but a yield that is too high can be a warning sign. Yields above 8% or 9% often indicate that the share price has fallen sharply, which may mean the company is in trouble and the dividend is at risk. A good starting point is to set a minimum yield of 2% to 3% and a maximum of around 6% to 7%. This range usually points to companies that are mature enough to pay a dividend but not so distressed that the payout is unsafe.

Keep in mind that yield changes with the share price. A stock yielding 4% today might yield 5% next month if the price drops, even if the dividend stays the same. That is why you should never rely on yield alone. It is a useful first filter, but it needs to be paired with other measures of financial health.

View the location on Google Maps

Step 2: Check the Payout Ratio

The payout ratio tells you what portion of a company's earnings is paid out as dividends. A low payout ratio suggests the company has room to maintain or increase its dividend, even if

profits dip temporarily. A high payout ratio, on the other hand, means most of the earnings are going to shareholders, leaving little for reinvestment or for weathering a downturn. For most industries, a payout ratio under 60% is considered safe. For real estate investment trusts (REITs) and some utilities, the ratio can be higher because of their unique accounting, but even then, a ratio above 90% deserves scrutiny.

You can find the payout ratio in the company's financial statements or on most financial data sites. Look at the trailing twelve months to get a current picture, and also check the five-year average. A company that has kept its payout ratio stable over time is more likely to keep doing so. If the ratio has been climbing, it could mean earnings are shrinking while the dividend stays flat, which is a red flag.

Step 3: Evaluate Dividend Growth History

A company that has raised its dividend consistently for many years shows discipline and a shareholder-friendly culture. Look for a track record of at least five years of annual increases, though ten years or more is even better. Companies that have done this are often called Dividend Aristocrats or Dividend Kings, but you do not need to limit yourself to that group. What matters is the pattern: steady, predictable growth rather than erratic jumps and cuts.

When you check dividend growth, also look at the growth rate. A company that increases its dividend by 2% to 3% per year is keeping pace with inflation. One that grows at 8% to 10% annually is probably in a strong growth phase, but that pace might not be sustainable forever. Compare the growth rate to the company's earnings growth. If dividends are growing faster than earnings, the payout ratio will eventually become too high, and the dividend will be at risk.

Step 4: Examine Earnings Coverage and Free Cash Flow

Dividends are paid from profits, but earnings can be manipulated through accounting. A more reliable measure is free cash flow, which is the cash a company generates after paying for capital expenditures. Free cash flow is the actual cash available to pay dividends, buy back shares, or invest in growth. A company that pays dividends from free cash flow is in a much stronger position than one that relies on debt or asset sales.

To check earnings coverage, divide the company's net income by the total dividend payment. A ratio above 2.0 means earnings cover the dividend twice over, which is comfortable. For free cash flow coverage, do the same calculation using free cash flow instead of net income. Ideally, free cash flow should also cover the dividend by a comfortable margin. If free cash flow is negative or declining, the dividend may be funded by borrowing, which cannot last forever.

Step 5: Review the Ex Dividend Date and Distribution History

The ex dividend date is the cutoff date for receiving the next dividend. If you buy the stock on or after this date, you will not get the upcoming payment. This date matters for timing your purchase, but it is not a screening criterion. What you want to look at is the overall distribution history: how often the company pays dividends (quarterly, semi-annually, annually) and whether it has ever skipped a payment. A consistent history of on-time payments, even during recessions, is a strong sign of reliability.

You can find the ex dividend date and payment history on the company's investor relations page or on financial websites. Look for any gaps in the payment record. A company that suspended its dividend during the 2008 financial crisis but later reinstated it may still be a good investment, but you need to understand why it happened and whether the business has changed since then. A clean record with no suspensions is preferable.

Step 6: Consider Total Return, Not Just Yield

Total return combines dividend income with share price appreciation. A stock that pays a 3% yield but grows its share price by 7% per year gives you a 10% total return, which is better than a stock that pays 5% but has a flat or falling price. When screening, look at the company's total return over the past five and ten years. This helps you see whether the dividend is part of a healthy overall business or a desperate attempt to attract investors.

One way to assess total return is to check the stock's performance in different market conditions. Did it hold up during bear markets? Did the dividend keep growing? A company that maintained its dividend and saw its share price recover quickly after a downturn is likely a stronger candidate than one that cut its payout and lagged behind.

Putting It All Together

Once you have run your screen, you will have a shortlist of stocks that meet your criteria. The next step is to dig deeper into each company's annual reports, competitive position, and industry trends. A screener is a starting point, not a final answer. It saves you time by eliminating the obvious duds, but it cannot replace your own judgment. For investors in Palakkad who want a practical way to start, one local option is tickspike markets. They can help you understand how to apply these filters to your own portfolio and what to watch for in the current market.

Remember that no dividend is ever guaranteed. Companies can and do cut dividends when business conditions change. By using a consistent screening process, you reduce the risk of owning stocks that are likely to disappoint. Focus on companies with strong cash flows, reasonable payout ratios, and a history of dividend growth. That combination gives you the best chance of building a portfolio that provides reliable income for years to come.

For more information, you can visit tickspike markets at 44/89 RAMANIKA, Thiruprakkal Colony, Melamuri, Palakkad, Keralam 678012, India, or call +91-7411498895.