

This Policy will regulate the process of dividend declaration and its payout by the Company in accordance with the provisions of Companies Act, read with the applicable Rules framed thereunder.

Poonawalla Fincorp Limited

Dividend Distribution Policy

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A. PURPOSE AND OBJECTIVES

The Securities and Exchange Board of India (“SEBI”) vide its Notification dated May 05, 2021 has amended the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI Listing Regulations”) by inserting Regulation 43A in order to make it mandatory to have a Dividend Distribution Policy in place by the top one thousand listed companies based on their market capitalization calculated as on the 31st day of March of every year. Considering the provisions of the aforesaid Regulation 43A, the Board of Directors (the “Board”) of the Company recognizes the need to lay down a broad framework with regard to distribution of dividend to the shareholders and/ or retaining its profits. The Policy also sets out the circumstances and different factors for consideration by the Board at the time of taking such decisions of distribution or retention of profits in the interest of shareholders.

In accordance with the provisions of Regulation 43A of SEBI Listing Regulations, the Board of Directors (the “Board”) of Poonawalla Fincorp Limited (hereinafter referred as “PFL’ / the ‘Company’) recognizes the need to lay down a broad framework with regard to distribution of dividend to the shareholders and/ or retaining its profits. The Policy also sets out the circumstances and different factors for consideration by the Board at the time of taking such decisions of distribution or retention of profits in the interest of shareholders.

The Policy reflects the intent of the Company to reward the Shareholders by sharing a portion of its profits after retaining sufficient funds for the Company’s growth, to meet its long-term objectives & other purposes. The Company shall pursue this Policy, to pay, subject to the circumstances and factors enlisted hereon, progressive dividend, which shall be consistent with the performance of the Company over the years and also comparable with the peers in industry.

Any term(s) and, or expression(s) not defined in this policy shall have the same meaning as defined in the applicable provisions of the Companies Act, 2013 (“the Act”), SEBI Listing Regulations, the Securities Contracts (Regulation) Act, 1956the RBI Master Direction- (Non-Banking Financial Company- Scale Based Regulation) Directions, 2023 (“Directions”) and other applicable laws and, or regulations.

B. FACTORS RELEVANT FOR DECISION OF DIVIDEND PAYOUT

The Board shall consider the following, while taking decisions of a dividend payout during a particular year:-

Statutory requirements

The Company shall observe the relevant statutory requirements including those with respect to mandatory transfer of a certain portion of profits to any specific reserve such as Debenture Redemption Reserve, Capital Redemption Reserve and Statutory Reserve as may be required by the Act or other Statutory Authorities, which may be applicable to the Company at the time of taking decision with regard to dividend declaration.

Dividend will be declared out of the current year's Profit after Tax of the Company. Only in exceptional circumstances including but not limited to loss after tax in any particular financial year, the Board may consider utilizing retained earnings for declaration of dividends, subject to applicable legal provisions.

Other comprehensive income' (as per applicable accounting standards) which mainly comprises of unrealized gains/losses will not be considered for the purpose of declaration of dividend.

The Board of Directors shall, while considering the proposals for dividend, take into account the following aspects:

- a) Supervisory findings of the Reserve Bank on divergence in classification and provisioning for Non-Performing Assets (NPAs).
- b) Qualifications in the Auditors' Report to the financial statements; and
- c) Long term growth plans of the company.

The Board shall ensure that the total dividend payout ratio does not exceed the ceiling limit of 50% for the financial year.

Eligibility criteria for declaration of dividend

The Company shall comply with the following minimum prudential requirements to be eligible to declare dividend:

Sl. No.	Parameter	Minimum Prudential Requirements
1.	Capital Adequacy	The Company shall have met the applicable regulatory capital requirement i.e. 15% of Risk Weighted Asset under Tier I and Tier II Capital and 10% under Tier I capital (refer Annex I) for each of the last three financial years including the financial year for which the dividend is proposed.
2.	Net NPA	The net NPA ratio shall be less than 6 per cent in each of the last three years, including as at the close of the financial year for which dividend is proposed to be declared.
3.	Other criteria	The Company shall comply with the provisions of Section 45 IC of the Reserve Bank of India Act, 1934. The Company shall be compliant with the prevailing regulations/ guidelines issued by the Reserve Bank. The Reserve Bank shall not have placed any explicit restrictions on declaration of dividend.

Conditions for declaration of dividend in case of non fulfilment of prudential requirements

If the Company does not meet the applicable regulatory capital ratio (including leverage ratio wherever applicable) requirements and/ or the net NPA ratio requirement as above, for each of the last three financial years, it may be eligible to declare dividend, subject to a cap of 10 percent on the dividend payout ratio, provided it complies with the following conditions:

1. meets the applicable capital adequacy requirement in the financial year for which it proposes to pay dividend; and
2. has net NPA of less than 4 per cent as at the close of the said financial year.

Agreements with lending institutions/ debenture trustees

The decision of dividend payout shall also be affected by the restrictions and covenants contained, if any, in the agreements as may be entered into with the lenders of the Company from time to time.

Proposals for major capital expenditures etc.

In addition to ploughing back of earnings on account of depreciation, the Board may also take into consideration the need for replacement of capital assets, expansion, modernization and automation or augmentation of capital stock, including any major capital expenditure proposals.

Extent of realized profits calculated as per the applicable Accounting Standard

The extent of realized profits out of its profits calculated as per applicable Accounting Standards during the respective financial years including IND AS as and when applicable, affects the Board's decision of determination of dividend for a particular year. The Board is required to consider such factors before taking any dividend or retention decision.

Expectations of major stakeholders, including small shareholders

The Board, while considering the decision of dividend payout or retention of a certain amount or entire profits of the Company, shall, as far as possible, consider the expectations of the major stakeholders including the retail shareholders of the Company who generally expects for a regular dividend payout.

Dividend payout of previous years

The percentage of dividend payout of the last 3 years should be considered for determining dividend payout for the current year.

Other Financial Parameters

In addition to the aforesaid parameters such as realized profits and proposed major capital expenditures, the decision of dividend payout or retention of profits shall also be based on the following-

Operating cash flow of the Company

If the Company cannot generate adequate operating cash flow, it may need to rely on outside funding to meet its financial obligations and sometimes to run the day-to-day operations. The Board will consider the same before its decision whether to declare dividend or retain its profits.

Capital Risk-weighted Assets Ratio (CRAR)

PFL being an NBFC is required to maintain a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than 15 percent of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items.

Further, the Tier I capital, at any point of time, shall not be less than 10 percent. The company shall have met the applicable regulatory capital requirement for each of the last three financial years including the financial year for which the dividend is proposed.

Accordingly, the expected CRAR shall be taken into consideration while declaring dividend so that it does not breach the prescribed limit.

Return on Capital

The efficiency with which the Company uses its capital will impact the decision of dividend declaration.

Magnitude of earnings of the Company

Since dividend is directly linked with the availability of earnings over the long haul, the magnitude of earnings will significantly impact the dividend declaration decisions of the Company.

Cost of borrowings

The Board will analyze the requirement of necessary funds considering the long term or short term plans proposed to be undertaken by the Company and the viability of the options in terms of cost of raising necessary funds from outsiders such as bankers, lending institutions or by issuance of debt securities or plough back its own funds.

Obligations to creditors

The Company should be able to repay its debt obligations without much difficulty over a reasonable period of time. Considering the volume of such obligations and time period of repayment, the decision of dividend declaration shall be taken.

Inadequacy of profits

If during any financial year, the Board determines that the profits of the Company are inadequate, the Board may decide not to declare dividends for that financial year.

C. FACTORS THAT MAY AFFECT DIVIDEND PAYOUT

External Factors

Taxation and other regulatory concern

- Dividend distribution tax or any tax deduction at source as required by applicable tax regulations in India, as may be applicable at the time of declaration of dividend.
- Any restrictions on payment of dividends by virtue of any regulation as may be applicable to the Company at the time of declaration of dividend.

Macroeconomic conditions

Considering the state of economy in the Country, the policy decisions that may be formulated by the Government and other similar conditions prevailing in the international market which may have a bearing on or affect the business of the Company, the management may consider retaining a larger part of the profits to have sufficient reserves to absorb unforeseen circumstances.

Technological Environment

Any significant change in the business or technological environment resulting in the Company making significant investments to effect the necessary changes to its business model. Any changes in the competitive environment requiring significant investment.

Internal Factors

Product/ market expansion plan

The Company's growth oriented decision to conserve cash in the Company for future expansion plan impacts shareholders expectation for the long run which shall have to consider by the Board before taking dividend decision.

Past performance of the Company

The trend of the performance of the Company during the past years determines the expectation of the shareholders.

Working capital management in the Company

The current working capital management system within the Company also impacts the decision of dividend declaration.

D. CIRCUMSTANCES UNDER WHICH DIVIDEND PAYOUT MAY OR MAY NOT BE EXPECTED

The Board shall consider the factors as provided above, before determination of any dividend payout after analyzing the prospective opportunities and threats, viability of the options of dividend payout or retention etc. The decision of dividend payout shall, majorly be based on the aforesaid factors considering the balanced interest of the shareholders and the Company.

E. DIVIDEND PAYOUT

The Company stands committed to deliver sustainable value to all its stakeholders. As explained in the earlier part of this Policy, determining the dividend payout is dependent upon several factors, both internal to a business and external to it. The Board shall maintain a total dividend pay-out ratio in accordance with the regulatory requirement.

The ceiling on maximum dividend payout ratio to declare dividend is 50% in any financial year.

The Dividend Payout Ratio is the ratio between the amount of the dividend payable in a year and the net profit as per the audited financial statements for the financial year for which the dividend is proposed.

Proposed dividend shall include both dividend on equity shares and compulsorily convertible preference shares eligible for inclusion in Tier 1 Capital.

In case the net profit for the relevant period includes any exceptional and/or extra-ordinary profits/ income or the financial statements are qualified (including 'emphasis of matter') by the statutory auditor that indicates an overstatement of net profit, the same shall be reduced from net profits while determining the Dividend Payout Ratio.

F. MANNER OF UTILISATION OF RETAINED EARNINGS

The Board may retain its earnings in order to make better use of the available funds and increase the value of the stakeholders in the long run. The decision of utilization of the retained earnings of the Company shall be based on the following factors:

- Market and Product expansion plan;
- Automation and Modernization plan;
- Diversification of business;
- Long term strategic plans;
- Replacement of capital assets;
- Where the cost of debt is expensive;
- Other such criteria as the Board may deem fit from time to time.

G. PARAMETERS ADOPTED WITH REGARD TO VARIOUS CLASSES OF SHARES

- i) The holders of the equity shares of the Company, as on the record date, are entitled to receive dividends. Since the Company has issued only one class of equity shares with equal voting rights, all the members of the Company are entitled to receive the same amount of dividend per share.
- ii) The Policy shall not apply to determination and declaration of dividend on preference shares except compulsorily convertible preference shares, as the same will be governed as per the terms of issue approved by the Board and the shareholders of the Company.
- iii) In case of compulsorily convertible preference shares, the declaration of dividend will be governed as per the terms of issue approved by the Board and the shareholders of the Company, subject to the same not being conflicting to the applicable provisions of law, Regulation 43A of the SEBI Listing Regulations and the Circular.
- iv) The Policy shall be suitably amended at the time of issue of any new class of shares depending upon the nature and guidelines thereof.

H. DISCLOSURES

This policy should be disclosed on the website of the company and a web-link shall also be provided in its annual report.

If the Company proposes to declare dividend in addition to the parameters mentioned in this Policy or proposes to change such additional parameters, it shall disclose such changes along with the rationale for the same in its annual report and on its website subject to the same being in compliance with the applicable laws.

I. REPORTING SYSTEM

The report (as per Annexure-2) shall be furnished by the Company within a fortnight after declaration of dividend to the Regional Office of the Department of Supervision of the Reserve Bank.

J. AMENDMENT

To the extent any change/amendment is required in terms of any applicable law, the Audit Committee shall be authorised to review the Policy and recommend any changes to the Board for its approval. Till the time such amended policy is approved and adopted, this Policy shall be read in such a manner so as to give effect to the amendments.

Annexure 1

Sl no.	Capital requirements	Reference
1	a) Every applicable NBFC shall maintain a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than 15 percent of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items (b) The Tier I capital in respect of applicable NBFCs, at any point of time, shall not be less 10 per cent .	Paragraph 81 of Master Direction- (Non- Banking Financial Company- Scale Based Regulation) Directions, 2023.

Annexure 2

Company declaring dividend shall report details of dividend declared during the financial year as per the following format prescribed in Annex IX of Master Direction- (Non- Banking Financial Company- Scale Based Regulation) Directions, 2023 on Declaration of dividends by NBFCs:

Details of dividend declared during the financial year-___

Name of the company -___

Accounting period #	Net profit for the accounting period (₹ crore)	Rate of dividend (per cent)	Amount of dividend (₹ crore)	Dividend Pay-out ratio (per cent)

quarter or half year or year ended ----- as the case may be