BERAR FINANCE LIMITED

DIVIDEND DISTRIBUTION POLICY

RECORD OF REVIEW:

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I. PREAMBLE:

Dividend is the payment made by a Company to its shareholders, usually in the form of distribution of its profits. The profits earned by the Company can either be retained in business or used for acquisitions, expansion or diversification, or it can be distributed to the shareholders. The Company may choose to retain a part of its profits and distribute the balance among its shareholders as dividend. This Policy aims to reconcile between all these needs. This Policy is in accordance with the notification No. RBI/2021 22/59DOR.ACC.REC.No.23/ 21.02.067/2021-22 dated June 24, 2021 issued by Reserve Bank of India ("RBI").

II. OBJECTIVE:

The objective of this Policy is to ensure a regular dividend income for the shareholders and long term capital appreciation for all shareholders of the Company. The Company would ensure to strike the right balance between the quantum of dividend paid and amount of profits retained in the business for various purposes. The Board of Directors will refer to the Policy while declaring/ recommending dividend on equity shares of the Company and does not cover dividend on preference shares, if any, where the rate of dividend is governed by the terms of the issue of preference shares or any other form of dividend.

This Policy also stipulates the process for recommendation/ declaration of dividend and its pay-out by the Company in accordance with the provisions of the Companies Act, 2013, guidelines issued by RBI from time to time and other rules, regulations etc. as applicable to the Company.

III. DEFINITIONS

a. **"Act"** means the Companies Act, 2013 and rules made thereunder [including any amendments or re-enactments thereof]

b. **"Applicable laws"** shall mean to include Companies Act 2013 and rules made thereunder, [including any amendments or re-enactments thereof], Rules/guidelines/notifications/circulars issued by Reserve bank of India and any other regulation, rules, acts, guidelines as may be applicable to the distribution of dividend.

c. **"Board"** or **"Board of Directors"** shall mean Board of Directors of the Company, as constituted from time to time.

d. **"Company"** shall mean Berar Finance Limited.

e. **"Dividend"** includes any interim dividend; which is in conformity with Section 2(35) of the Companies Act, 2013 read with Companies (Declaration and Payment of Dividend) Rules, 2014.

f. **"Financial year"** shall mean the period starting from 1st day of April and ending on the 31st day of March every year.

g. **"Free reserves"** shall mean the free reserves as defined under Section 2 (43) of the Act.

IV. CATEGORY OF DIVIDENDS:

The Act provides for two forms of Dividend- Final and Interim. The Board shall have the absolute power to declare interim dividend during the financial year, as and when it considers it fit. Normally, the Board will endeavour to declare an interim dividend after finalization of quarterly financial accounts. The Board may declare interim dividend based on profits of the Company, one or more times in a financial year as and when considered appropriate, in line with this Policy. After the annual accounts are prepared, the Board may recommend final dividend to the shareholders for their approval in the Annual General Meeting of the Company.

V. RECOMMENDATION / DECLARATION OF DIVIDEND:

Subject to the provisions of the Companies Act, the Board shall recommend/declare/ pay the Dividend only out of-

i) Current financial year's profit:
  a) after providing for depreciation in accordance with law;
  b) after transferring to reserves such amount as may be prescribed under the Companies Act or applicable law, regulations, norms or as may be otherwise considered appropriate by the Board at its discretion.

ii) The profits for any previous financial year(s):
  a) after providing for depreciation in accordance with law;
  b) remaining undistributed; or

iii) out of i) & ii) both.

iv) out of free reserves in the manner permissible under the Companies Act.

VI. FACTORS TO BE CONSIDERED WHILE DECLARING DIVIDEND:

The decision regarding dividend is a crucial decision as it determines the amount of profit to be distributed among shareholders and amount of profit to be retained in business. The Board will endeavour to take a decision with an objective to enhance shareholders wealth and market value of the shares. However, the decision regarding dividend is subject to several factors and hence any optimal Policy in this regard may be far from obvious. The Board considers a stable dividend to constitute an important element of the Company's investment attractiveness and shareholder return. The Company's primary need is to maintain sufficient resources and financial flexibility to meet financial and operational requirements. The Company continually seeks ways to create shareholder value through both commercial and financial strategies, which may include both organic and inorganic development as well as the Company's capital management practices.

The shareholders of the Company may not expect dividend for a financial year(s) in the circumstances of challenging/sluggish market conditions, tough liquidity position, losses or inadequate profits.

The Company will ensure that the eligibility criteria prescribed by the regulatory authorities under the applicable laws are met including the following minimum prudential requirement for declaration of dividend prescribed by RBI.

Sl. No.	Parameter	Requirement
1.	Capital Adequacy Ratio ("CAR")	The Company should have met the following regulatory capital requirement for each of the last three financial years including the financial year for which the dividend is proposed: • Minimum capital ratio consisting of Tier I and Tier II capital of not less than 15 percent of aggregate risk weighted assets on balance sheet and of risk adjusted value of off- balance sheet items. • The Tier I capital at any point of time, shall not be less 10 per cent.
2.	Net NPA	The net NPA ratio shall be less than 6 per cent in each of the last three financial 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 which requires creation of

		reserve fund and transfer therein a sum not less than twenty per cent of net profit every financial year as disclosed in the profit and loss account and before any dividend is declared. The Company shall be compliant with the prevailing regulations/guidelines issued by RBI. The RBI shall not have placed any explicit restrictions on declaration of dividend.

The Board, while considering the proposals for dividend, will also take into account the supervisory findings, if any, of the RBI on divergence in classification and provisioning for Non-Performing Assets (NPAs) and qualifications, if any, in the Auditors' Report to the financial statements of the Company or emphasis of matter by the statutory auditor that indicates an overstatement of net profit. In case the net profit for the relevant period includes any exceptional and/or extra-ordinary profits/ income, the net profit shall be suitably adjusted to exclude such extra-ordinary items for computing dividend pay-out ratio.

The decision regarding recommendation/declaration of dividend will depend upon various external and internal factors including the following:

➢ **<u>External Factors</u>:-**

- **State of Economy-** in case of uncertain or recessionary economic and business conditions, the Board will endeavour to retain larger part of profits to build up reserves to absorb future shocks.

- **Capital Markets-** when the markets are favourable, dividend pay-out can be liberal. However, in case of unfavourable market conditions, Board may resort to a conservative dividend pay-out in order to conserve cash outflows.

- **Statutory and Contractual Restrictions-** The Board needs to keep in mind the restrictions imposed under the Companies Act and any other laws, the regulatory developments with regard to declaration of dividend, the Company's contractual obligations under the loan agreements / debenture trust deed and other agreements, documents, writings limiting / putting restrictions on dividend pay-out.

➢ **<u>Internal Factors</u>:-**

Apart from the various external factors aforementioned, the Board will take into account various internal factors while recommending / declaring Dividend, which inter alia will include-

<u>Other factors</u>;

(i) Profits earned during the year;
(ii) Present and future capital requirements of the existing businesses; / capital expenditures and the Company's debt position;
(iii) Business Acquisitions opportunities;
(iv) Expansion/ Modernization of existing businesses; / growth opportunities available to the Company;
(v) Additional investments in subsidiaries/associates of the Company;
(vi) Fresh investments into external businesses;
(vii) Cash flow from operations;
(viii) Cost of raising funds;
(ix) Providing for unforeseen events and contingencies with financial implication; and

Any other factor as deemed fit by the Board.

VII. PROCEDURE:

- The dividend proposal placed before the Board for consideration shall be in terms of this Policy.

- The Company shall ensure compliance of provisions of applicable Laws, Regulations/ Guidelines and this Policy in relation to Dividend declared by the Company.

- In case of interim dividend, the Board shall consider the position as of the previous quarter end and also the estimates for the balance period of the financial year under stress scenario and evaluate regulatory compliance thereof.

The Company stands committed to deliver sustainable value to all its stakeholders. The Company will strive to distribute an optimal and appropriate level of the profits earned by it in business with the shareholders' funds in the form of dividend. As explained in the earlier part of this Policy, determining the dividend pay-out is dependent upon several factors, both internal to a business and external to it. Taking into consideration the aforementioned factors the Board may consider maintaining a Dividend Pay-out ratio in the range of 10-20% of the profits after tax (PAT), subject to applicable regulations. However, the Board may amend the pay-out range, whenever considered appropriate by it, keeping in mind the aforesaid factors having a bearing on the dividend pay-out decision, subject to maximum dividend payout ratio of 50%. However, if the Company does not meet the applicable prudential requirement as mentioned in Para VI relating to CAR and NPA as mentioned above, may be eligible to declare dividend, subject to a cap of 10 percent on the dividend payout ratio, provided the Company complies with the following conditions:

(a) meets the applicable CAR requirement in the financial year for which it proposes to pay dividend; and
(b) has net NPA of less than 4 per cent as at the close of the 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 if any for inclusion in Tier 1 capital.

VIII. MANNER OF PAYMENT OF DIVIDEND:

The Company shall use any of the electronic mode of payment facility approved by the Reserve Bank for the payment of the dividends. Where it is not possible to use electronic mode of payment, 'payable-at-par' warrants or Cheque will be issued to the eligible shareholders.

IX. TRANSFER OF UNPAID / UNCLAIMED DIVIDEND AND EQUITY SHARES TO INVESTOR EDUCATION AND PROTECTION FUND (IEPF) :

As per section 124(5) of the Companies Act, 2013, the dividend which remains unpaid /unclaimed for a period of 7 years from the date of transfer to unpaid dividend account shall be transferred by the Company to Investor Education and Protection Fund ("IEPF").

As per section 124(6) of the Companies Act, 2013, all shares in respect of which dividend has not been paid or claimed for seven consecutive years or more shall be transferred by the company in the name of IEPF.

X. UTILISATION OF RETAINED EARNINGS:

The Retained earnings strengthen the Company's net owned funds. It will further help in maintaining CAR for Non-Banking Financial Companies (NBFCs) in the growth phase. The Board from time to time will decide utilization of the retained earnings depending upon various factors including organic/ inorganic growth strategies of the Company, market competition, creating long term shareholder value etc.

The Board will ensure judicious balancing of these factors in the interest of the Company and its stakeholders.

XI. DISCLOSURE AND REPORTING:

The Company shall report details of dividend declared during the financial year to RBI in the prescribed format within the stipulated timeline.

XII. REVIEW:

The Policy will be reviewed by the Board periodically for additions, deletions, changes or alterations in the parameters, process of recommendation/declaration/ pay-out of dividend considered in the policy and in line with changes in regulations as applicable to the Company.

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