

## **Dividend payout policy**

Dividend is the return, which the shareholders of a company expect on their investment. Distribution of dividend by a company and Housing Finance Company (HFC) depends upon various factors such as company's future business plans, regulatory requirements pertaining to dividend payout ratio, capital adequacy position of company and mandatory reserve stipulations among others under various statutes and guidelines. This Policy documents the guidelines on payment of dividends, and sets out the key considerations for arriving at the dividend payment decision. The Board will have the flexibility to determine the level of dividend based on the considerations laid out in the Policy and other relevant developments.

### **Statutory guidelines**

The Company being a HFC is registered with the National Housing Bank Act, 1987 (NHB Act) and regulated by Reserve Bank of India (RBI). Dividend payout is guided by the provisions of 'Declaration of dividends by NBFCs' guideline issued by RBI dated June 24, 2021, in addition to the provisions of the Companies Act, 2013 and Income Tax Act, 1961. Following are the brief provisions governing the declaration of dividend and payment by the Company:

#### **1. National Housing Bank Act, 1987**

Section 29 C of the NHB Act requires every HFC to maintain a Reserve Fund and every year transfer a minimum amount, as percentage (at present 20 percentage) of its net profit of the respective year before declaration of any dividend.

The withdrawal/appropriation from the Reserve Fund is permitted only for the purposes as notified by NHB from time to time. All such withdrawal/appropriation are required to be reported to NHB within time limit specified by NHB/prior permission would be obtained wherever applicable. The Company may transfer more than minimum amount stated in the NHB Act.

#### **2. RBI guidelines**

As per the provisions of the 'Declaration of dividends by NBFCs' guidelines, HFCs are permitted to declare dividend subject to fulfilling of the eligibility and dividend payout ratios as follows:

- a) Eligibility criteria for declaration of dividend
  - HFCs should have regulatory minimum CRAR for each of last three financial years including the financial year for which dividend is proposed

- net NPA ratio should be less than 6% in each of last three financial years including as at the close of the financial year for which dividend is proposed to be declared
  - compliance with section 29 C of the NHB Act, 1987
  - no explicit restriction on the Company by RBI/NHB on declaration of dividend
- b) Dividend payout ratio
- upto 50% of the net profit as per the audited financial statements for the financial year for which the dividend is proposed
  - dividend will include interim dividend, if any, paid during the year
  - any exceptional/extraordinary items to be excluded from the net profit
  - audit qualification, if any, on overstatement of profit also need to be excluded from the net profit
- c) Payout where eligibility criteria, as listed above in point (a), is not fulfilled in each of the last three financial years
- minimum CRAR to be fulfilled for the financial year for which dividend is proposed to be declared
  - net NPA ratio should be less than 4% for the financial year for which dividend is proposed to be declared
  - dividend payout restricted to maximum 10%, if above two criteria are fulfilled
- d) Other aspects
- Board to consider supervisory findings by the RBI/NHB on divergence in asset classification and provisioning, qualifications by the auditors and long term growth plans of the Company while approving dividend proposal
  - Dividend declared needs to be reported within a fortnight to the Department of Supervision of NHB in the prescribed format

### **3. Companies Act, 2013**

To declare and payment of dividend out of profits, company has to follow rules and process prescribed in Companies Act, 2013, which are as given below.

- a) company should not declare and pay dividend for any financial year except out of the profits for that year arrived at after providing for depreciation as per schedule II of Companies Act, 2013, or out of the profits for any previous financial year or years arrived at after providing for depreciation as per schedule II of Companies Act, 2013.
- b) company may, before the declaration of any dividend in any financial year may transfer such percentage of its profits for that financial year as it may consider appropriate to reserves.
- c) company will not declare and pay dividend from its reserves other than free reserves.
- d) company, in case of owing to inadequacy or absence of profits in any financial year, proposes to declare dividend out of the accumulated profits earned by it in previous years

and transferred by the company to the reserves, such declaration of dividend shall not be made except in accordance with the rules as prescribed by Companies Act, 2013.

- e) company while computing profits, shall not consider any amount representing unrealised gains, notional gains or revaluation of assets and any change in carrying amount of an asset or of a liability on measurement of the asset or the liability at fair value.
- f) the amount of the dividend, including interim dividend, shall be deposited in a separate account with a scheduled bank within five days from the date of declaration of such dividend.
- g) in case company has declared dividend but did not pay it or remains unclaimed, Company has to follow prescribed norms of Companies Act, 2013 related to transfer of such amount in separate account. If money transferred to separate bank account remains unpaid for a period of seven years from the date of such transfer, the company has to transfer the amount to the Investor Education and Protection Fund.

#### **4. Income Tax Act, 1961**

As per the provisions of the Income Tax Act, 1961, effective April 1, 2020, the Company before making any payment of dividend to its shareholders, is liable to deduct tax at source from such dividend amount, at such rate as may be prescribed under the provisions of the Income Tax Act, 1961. Such tax deducted at source shall be paid within prescribed due date from the end of the month in which such dividend is paid. Further, credit of such tax deducted at source on dividend amount shall be available to the shareholders of the Company.

#### **Compliance philosophy**

The declaration of the dividend would be governed by the following principles: -

- a) Business plans and growth strategy and the resultant capital requirement of the Company.
- b) Payment of all statutory dues and obligations payable under various laws applicable to the Company.
- c) Preparation of the audited financial statements as per provisions of the applicable Ind AS, guidelines issued by the Institute of Chartered Accountants of India, the Companies Act, 2013, RBI guidelines and the NHB Act, 1987.

#### **Monitoring**

The Board of Directors of the Company would ensure compliance with the provisions stated aforesaid before declaration of the dividend.