# Dividend Distribution Policy

## 1. PREAMBLE

1.1. The Dividend Distribution Policy (hereinafter referred to as the "**Policy**") have been developed in accordance with the extant provisions of the Companies Act, 2013 (the "Act") and SEBI regulations.

1.2. The Board of Directors (the "Board") of PNB Gilts Limited (the "Company") has adopted the Policy of the Company as required in terms of Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "Listing Regulations") in its meeting held on June 22, 2021. This policy has been further amended on August 10, 2021.

1.3. Under Section 2(35) of the Act, "Dividend" includes any interim dividend. In common parlance, "dividend" means the profit of a company, which is not retained in the business and is distributed among the shareholders in proportion to the amount paid-up on the shares held by them. In case of listed companies, Section 24 of the Act confers on SEBI, the power of administration of the provisions pertaining to non-payment of dividend.

## 2. EFFECTIVE DATE

The Policy shall become effective from the date of its approval by the Board i.e. August 10, 2021.

## 3. PURPOSE, OBJECTIVES AND SCOPE

3.1 The Securities and Exchange Board of India ("SEBI") has mandated the top 1000 listed companies based on their market capitalization calculated as on the 31st day of March of every year w.e.f. May 05, 2021, to have a Dividend Distribution Policy in place.

3.2 As the Company is one of the top 1000 companies as on 31st March 2021, the Board has laid down a broad framework for distribution of dividend to its shareholders and/ or retaining or plough back of 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 of retention of profits, in the interest of providing transparency to the shareholders.

3.3 Declaration of dividend on the basis of parameters in addition to the elements of this Policy or resulting in amendment of any element or the Policy will be regarded as deviation. Any such deviation from the elements of this Policy, in extraordinary circumstances, when deemed necessary in the interests of the Company, along with the rationale will be disclosed in the Annual Report by the Board.

3.4 The Policy reflects the intent of the Company to reward its shareholders by sharing a portion of its profits after retaining sufficient funds for growth of the Company while keeping in view the regulatory and statutory requirements. The Company shall pursue this Policy, to pay, subject to the circumstances and factors enlisted hereon, dividend in accordance with the performance of the Company during a financial year.

3.5 Dividends will generally be recommended by the Board once a year, after the announcement of the full year results and before the Annual General Meeting (AGM) of the shareholders, as may be permitted by the Act and RBI directions/Regulations etc. The Board may also declare interim dividends as may be permitted by the Act and RBI directions/Regulations etc.

## 4. ELIGIBILITY CRITERIA FOR DECLARATION OF DIVIDEND:

4.1 The Company, being an RBI authorised Standalone Primary Dealer (SPD) and NBFC, is required to adhere to the RBI's Master Direction – Standalone Primary Dealers (Reserve Bank) Directions, 2016 dated 30.08.2016, as amended ('**Master Directions'**) and RBI circular No. DOR.ACC.REC.No.23/21.02.067/2021-22 dated June 24, 2021 ('**Guidelines'**) in addition to the provisions of the Act. At present, RBI directions and guidelines state that an NBFC and Primary Dealer (PD) should comply with following guidelines for dividend declaration:

1. The proposed dividend should be payable out of the current year's profits.

2. In case the profit for the relevant period includes any exceptional/ extra-ordinary profits/ income and/ 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.

3. Compliance with the regulations on transfer of profits to statutory reserves and the regulatory guidelines relating to provisioning and valuation of securities, etc.

4. The Capital to Risk Weighted Assets Ratio ('**CRAR'**) should be atleast 20% for the financial year (all the four quarters) for which dividend is proposed.

5. The maximum dividend payout ratio shall be 60% (Dividend payout ratio should be calculated as a percentage of dividend payable in a year (excluding dividend tax) to net profit as per the audited financial statements for the financial year for which the dividend is proposed).

6. 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.

## 5. PARAMETERS AND FACTORS FOR DIVIDEND DECLARATION/RECOMMENDATION:

5.1 While determining the nature and quantum of the dividend payout, including amending the suggested payout range as above, the Board may take into account the following factors:

a. <u>Financial Parameters to be considered before recommending / declaring the dividend :</u>

- Capital Adequacy Ratio/ CRAR
- Supervisory findings of RBI,
- Auditors' qualifications pertaining to the statement of accounts,
- Current year's earnings from which dividend is to be paid
- Cash flow position of the Company and the cost of borrowings
- Adequacy of Profits of the year for which dividend is to be declared
- Post Dividend EPS
- Accumulated reserves
- Statutory requirements like transfer to statutory reserve fund etc.

b. <u>Internal factors</u>

- The Company's growth strategy which requires conserving cash in the Company to execute the growth plan.
- Liquidity position of the company including its working capital requirements and debt servicing obligations
- The trend of the performance/ reputation of the Company that has been during the past years determine the expectation of the shareholders.
- Supervisory findings of the RBI on divergence in classification and provisioning for Non-Performing Assets (NPAs).
- Qualifications in the Auditors' Report to the financial statements.
- Long term growth plans of the Company.
- Any other relevant factors that the Board may deem fit to consider before declaring dividend.

c. <u>External Factors:</u>

- Macroeconomic conditions: Considering the current and future outlook of Indian economy, the policy decisions that may be formulated by the RBI/Government and other similar conditions prevailing in the global market which may have a bearing on or affect the business of the Company, the Board may consider retaining a larger part of the profits to have sufficient reserves to meet the exigency during unforeseen circumstances.
- Cost of raising funds from alternative sources: If the cost of raising funds to pursue its planned growth and expansion plans is significantly higher, the Board may consider retaining a larger part of the profits to have sufficient funds to meet the capital expenditure plan.

- Changes in the Taxation provisions, Government policies and industry specific rulings & other regulatory provisions.
- Any other relevant factors that the Board may deem fit to consider before declaring Dividend.

## 6. CIRCUMSTANCES UNDER WHICH THE SHAREHOLDERS MAY OR MAY NOT EXPECT DIVIDEND

6.1 The Board shall consider the factors provided above under Clause 5 before determination of any dividend payout after analyzing the prospective opportunities and threats, viability of the options of dividend payout or retention, etc.

6.2 The decision of dividend payout shall, majorly be based on the aforesaid factors considering the balanced interest of the shareholders and the Company.

## 7. UTILIZATION OF RETAINED EARNINGS

7.1 The Board of Directors of the Company may after consideration of the factors as stated above recommend/declare dividend out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of Section 123(2) of the Companies Act, 2013, or out of the profits of the company for any previous financial year or years arrived at after providing for depreciation in accordance with the provisions of Section 123(2) and remaining undistributed, or out of both.

Provided that in computing profits 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 shall be excluded. Provided that the company may, before the declaration of any dividend in any financial year, transfer such percentage of its profits for that financial year as it may consider appropriate to the reserves of the company.

Provided further that where, owing to inadequacy or absence of profits in any financial year, the company proposes to declare dividend out of the accumulated profits earned by it in previous years and transferred by the company to the free reserves, such declaration of dividend shall not be made except in accordance with provisions of the Companies Act, 2013 and the rules as may be prescribed in this behalf.

Provided also that no dividend shall be declared or paid by the company from its reserves other than free reserves.

Provided also that the company shall not declare dividend unless carried over previous losses and depreciation not provided in previous year or years are set off against profit of the company for the current year.

7.2 Retained earnings shall be utilized in accordance with the regulatory requirements, creating reserves for specific objectives, fortifying the balance sheet against contingencies, generating higher returns for shareholders through reinvestment of profits for future growth and expansion and any other specific purpose as approved by the Board of Directors of the Company from time to time.

7.3 The Company shall endeavour to utilize retained earnings in a manner that shall be beneficial to both, the interests of the Company and its stakeholders in the long run.

7.4 The decision of utilization of the retained earnings of the Company shall, inter-alia, be based on the following factors:

- Long term strategic and expansion plans.
- Diversification of business
- Replacement of capital assets
- Balancing the Capital Structure by de-leveraging the company
- Other such criteria as the Board may deem fit from time to time.

## 8. PROVISIONS IN REGARD TO VARIOUS CLASSES OF SHARES

8.1 The Company has only one class of equity shareholders and does not have any issued preference share capital. However, in case the Company issues different class of equity shares any point in time, the factors and parameters for declaration of dividend to different class of shares of the Company shall be same as covered above.

8.2 The payment of dividend shall be based on the respective rights attached to each class of shares as per their terms of issue.

8.3 Dividend when declared shall be first paid to the holders of preference shares, shareholders of the Company, if any, as per the terms and conditions of their issue.

## 9. DISCLOSURE AND REVIEW OF POLICY

9.1 The policy will be available on the Company's website www.pnbgilts.com and the link to the policy will be given in the Company's annual report.

9.2 This policy may be reviewed periodically by the Board. The Board is authorized to change/amend this policy from time to time at its sole discretion and/or in pursuance of any amendments made in the Act, SEBI and other Regulations, etc. Such amended Policy shall be periodically placed before the Board for adoption immediately after such changes.

9.3 In the event of any conflict between this Policy and the statutory provisions contained in the Act and Listing Regulations, the RBI Master Directions/guidelines, then the statutory provisions shall prevail.

9.4 As per the Master Directions/ guidelines, the Company shall report details of dividend declared during the accounting year as per the pro forma prescribed in the said Directions along with the Board resolution passed for declaration of dividend to RBI. The report shall be furnished within a fortnight of payment of dividend.

## 10. DISCLAIMER

This document does not solicit investments in the Company's securities. Nor is it an assurance of guaranteed returns (in any form), for investments in the Company's equity shares.

**Change Log: -**

| **Section Heading** | **Earlier Provision** | **New Provision** | **Rationale** |
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| Eligibility Criteria for declaration of dividend | In case the profit for the relevant period includes any extraordinary income, the payout ratio shall be computed after excluding such extraordinary items for reckoning compliance with the prudential payout ratio ceiling | In case the profit for the relevant period includes any exceptional/ extra_ordinary profits/ income and/ or the financial statements are qualified (including 'emphasis of matter') by the statutory auditor that indicates an over/under statement of net profit, the same shall be reduced from net profits while determining the Dividend Payout Ratio. | Same has been done with a view to align the policy with RBI circular dtd. 24.06.2021 for NBFCs |
| Eligibility Criteria for declaration of dividend | The Capital to Risk Weighted Assets Ratio (CRAR) should be at least 15% in all four quarters of the previous year | The Capital to Risk Weighted Assets Ratio (CRAR) should be at least 20% in all four quarters of the previous year | Same has been done with a view to align the policy with RBI circular dtd. 24.06.2021 for NBFCs |
| Eligibility Criteria for declaration of dividend | If the CRAR is at or above the regulatory minimum of 15 per cent during all the four quarters of the previous year, but lower than 20 per cent in any of the four quarters, the dividend payout ratio (DPR) the dividend payout ratio should not exceed 33.3 per cent and if it is above 20 per cent during all four quarters the dividend payout ratio should not exceed 50 per cent. (Dividend payout ratio should be calculated as a percentage of dividend payable in a year (excluding dividend tax) to net profit during the year). | The maximum dividend payout ratio shall be 60% (Dividend payout ratio should be calculated as a percentage of dividend payable in a year (excluding dividend tax) to net profit as per the audited financial statements for the financial year for which the dividend is proposed). | Same has been done with a view to align the policy with RBI circular dtd. 24.06.2021 for NBFCs |
| Eligibility Criteria for declaration of dividend | - | 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. | Same has been done with a view to align the policy with RBI circular dtd. 24.06.2021 for NBFCs |
| Eligibility Criteria for declaration of dividend | In case there are special reasons or difficulties in strictly adhering to the guidelines, the Company shall approach RBI in advance, for an | - | Same has been done with a view to align the policy with RBI circular dtd. 24.06.2021 for NBFCs |

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| | appropriate ad hoc dispensation in this regard. | | |
| Eligibility Criteria for declaration of dividend | The Company, being an RBI authorised Standalone Primary Dealer (SPD) and NBFC, is required to adhere to the RBI's Master Direction – Standalone Primary Dealers (Reserve Bank) Directions, 2016 dated 30.08.2016, as amended ('Master Directions') in addition to the provisions of the Act. | The Company, being an RBI authorised Standalone Primary Dealer (SPD) and NBFC, is required to adhere to the RBI's Master Direction – Standalone Primary Dealers (Reserve Bank) Directions, 2016 dated 30.08.2016, as amended ('Master Directions') and RBI circular No. DOR.ACC.REC.No.23/21.02.067 /2021-22 dated June 24, 2021 ('Guidelines') in addition to the provisions of the Act. | Reference of RBI circular no. RBI circular No. DOR.ACC.REC.No.23/21.02.067 /2021-22 dated June 24, 2021, which was not given earlier, has been included. |
| **Utilisation of retained earnings** | **-** | The Board of Directors of the Company may after consideration of the factors as stated above recommend/ declare dividend out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of Section 123(2) of the Companies Act, 2013, or out of the profits of the company for any previous financial year or years arrived at after providing for depreciation in accordance with the provisions of Section 123(2) and remaining undistributed, or out of both.<br><br>Provided that in computing profits 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 shall be excluded. Provided that the company may, before the declaration of any dividend in any financial year, transfer such percentage of its profits for that financial year as it may consider appropriate to the reserves of the company.<br><br>Provided further that where, owing to inadequacy or absence of profits in any financial year, the company proposes to declare dividend out of | Provisions of Section 123 of Companies Act, 2013 added in policy, so as to have all provisions at one place |

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| | | the accumulated profits earned by it in previous years and transferred by the company to the free reserves, such declaration of dividend shall not be made except in accordance with provisions of the Companies Act, 2013 and the rules as may be prescribed in this behalf.<br><br>Provided also that no dividend shall be declared or paid by the company from its reserves other than free reserves.<br><br>Provided also that the company shall not declare dividend unless carried over previous losses and depreciation not provided in previous year or years are set off against profit of the company for the current year. | |