

L&T FINANCE LIMITED
DIVIDEND DISTRIBUTION POLICY

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VERSION CONTROL

Version	Date of adoption	Change Reference	Owner	Approving Authority
1.	October 2021	-	Accounts & Secretarial	Board of Directors

1. BACKGROUND AND PURPOSE:

The policy on distribution of dividend (“the Policy”) lays down the process for distribution/declaration of dividend by the Company in accordance with the provisions of the Companies Act, 2013 (“the Act”) and the Rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force), guidelines issued by Reserve Bank of India dated June 24, 2021 (“RBI guidelines”) for declaration of dividends by Non-Banking Financial Companies (“NBFC’s”) and other applicable provisions, as may be prescribed by various regulators from time to time. The purpose of the Policy is to endeavour to strike a balance between the quantum of dividend distributed/declared and amount of profits retained in the business for various purposes.

2. CATEGORY OF DIVIDEND:

In accordance with RBI guidelines, dividend includes only final dividend. The Board of Directors (“the Board”) shall have the power to recommend a final dividend to the shareholders for their approval in the General Meeting of the Company.

3. DECLARATION OF DIVIDEND - FINANCIAL PARAMETERS:

Dividend shall be declared or paid only out of profits or out of such amounts as may be specified under the Act and Rules made thereunder, guidelines issued by RBI and other applicable laws and as per maximum dividend payout ratio provided under RBI guidelines.

Additionally, the declaration of dividend will be impacted by the factors mentioned below.

4. FACTORS TO BE CONSIDERED WHILE DECLARING DIVIDEND:

The decision regarding dividend pay-out is a crucial decision as it determines the amount of profit to be distributed among the shareholders and amount of profit to be retained in the business. The Board will endeavor to take a decision with an objective to enhance shareholders wealth and market value of the shares but at the same time ensuring that sufficient funds are available to the Company to carry on its business. The decision to declare any sum as dividend in a company also depends upon certain external and internal factors. Some of these are stated below and these will be considered at the time of declaration of dividend (please note these are illustrative and not an exhaustive list):

a) External Factors:

- Legal requirements, regulatory conditions or restrictions laid down under the applicable laws including tax laws prevailing at the time of declaration of dividend.
- Economic environment and market conditions prevalent at the time of declaration of dividend i.e. when the markets are favorable, the dividend pay-out could be liberal vis-à-vis in case of unfavorable market conditions, where the dividend pay-out could be conservative to ensure conservation of cash outflows.
- Business cycles.
- Prevailing inflation rate.
- Industry outlook for the future years.
- Dividend pay-out ratios of companies in the same industry.
- 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.

b) Internal Factors:

Apart from the various external factors, the Board shall take into account various internal factors including the financial parameters while declaring dividend, which inter alia will include-

- Business growth of the Company in a particular year vis-a-vis previous years.
- Profits earned during the year.
- Extent of stability and magnitude of Company's earnings will directly influence the dividend declaration. Thus, the dividend is directly linked with the availability of the earnings (including accumulated earnings) with the Company.
- Present and future capital requirements of the business (example – day to day requirements, funding of business acquisitions, investment in new business/initiatives, etc).
- Fresh investments in the subsidiaries/associates of the Company, if any, by way of loans or subscription to their securities.
- Cash flow required to meet contingencies.
- Borrowings outstanding.
- Trends of declaration of dividends in the past.
- Liquidity and return ratios.
- Any other factor as may be deemed fit by the Board.

5. CIRCUMSTANCES UNDER WHICH THE SHAREHOLDERS MAY OR MAY NOT EXPECT DIVIDEND:

The circumstances under which shareholders may not expect dividend / when the dividend will not be declared by the Company shall include, but are not limited to the following:

- Whenever there is a higher working capital requirement, including for making loans to its subsidiary / associate companies or subscribing to the securities of such companies, adversely impacting free cash flow.
- Whenever the Company undertakes any acquisitions or enters into joint ventures requiring significant allocation of capital.
- Whenever there is uncertainty of earnings / profitability arising out of events which have an adverse impact on the industry / economy.
- Whenever the Company proposes to utilise surplus cash for buy-back of securities.
- Whenever the Company has incurred losses or there is inadequacy of profits.
- Due to operation of any other law in force.

6. UTILIZATION OF RETAINED EARNINGS:

The profits earned by the Company can either be retained for business purposes i.e. acquisitions, expansion or diversification, or for maintaining adequate liquidity levels or it can be distributed to the shareholders. The Company will endeavor to strike a right balance between the quantum of dividend declared/ paid and amount of profits retained in the business. Thus, the Board has the discretion to retain a part of its profits and distribute the balance among its shareholders as dividend in accordance with the Act and RBI guidelines.

7. PARAMETERS ADOPTED WITH REGARD TO VARIOUS CLASSES OF SHARES:

The Authorised Share Capital of the Company may be divided into equity share and Preference shares.

The Company shall first declare dividend on preference shares, if any, at the rate of dividend fixed at the time of issuance of the preference shares and thereafter, the dividend would be declared on equity shares.

As and when the Company issues other kind of shares, the Board and/or any Committee(s) may suitably amend this Policy.

8. DISCLOSURE IN CASE OF DEVIATION, IF ANY:

Declaration of dividend on the basis of parameters other than those stated in this Policy or resulting in amendment of any element stated in this Policy will be regarded as deviation. Any such deviation, when deemed to be necessary in the interest of the Company, in extraordinary circumstances, shall be disclosed in the Company's Annual Report along with the rationale thereof.

9. REVIEW / REVISION OF POLICY:

If at any point, a conflict of interpretation / information between the Policy and any regulations, rules, guidelines, notification, clarifications, circulars, master circulars/ directions issued by relevant authorities ("Regulatory Provisions") arises, then interpretation of the Regulatory Provisions shall prevail.

In case of any amendment(s) and/or clarification(s) to the Regulatory Provisions, the Policy shall stand amended accordingly from the effective date specified as per the Regulatory Provisions. The Board and/or its Committee reserve(s) the right to alter, modify, add, delete or amend any of the provisions of the Policy.