

IIFL Finance Limited - Dividend Distribution Policy

Purpose & Scope

IIFL Finance Limited has in place Board approved dividend policy covering the Company and the Subsidiaries as adopted on March 01, 2011. SEBI has recently mandated vide Notification dated July 08, 2016 that top 500 Companies (in terms of market capitalization) need to have a Dividend Distribution Policy in place.

Accordingly, this policy is to put into place the norms for the determination and declaration of dividend on equity capital by IIFL Finance Limited and its subsidiaries. While considering distribution and payment of dividend, the Company will ensure compliance with all the applicable provisions of the law including provisions of the Companies Act, SEBI, RBI, NHB and Income Tax Rules and Regulations etc related thereto.

Factors/ parameters that would be considered while declaring Dividend

I. The financial parameters that shall be considered while declaring dividend

While considering the total dividend at Holding Company and at each of the Subsidiaries the following will be taken into account:

- a. The business plan and actual performance, the capital requirements, free cash flow, debt equity ratio (considering new capital, ESOPs, retained earnings, minimum net worth requirements as per respective regulatory requirements etc.)
- b. Adequacy of profits including the accumulated balance in Profit & Loss account and
- c. Taxes on dividend.

The Board may consider a higher distribution with adequate justification or on special occasions.

II. The circumstances under which the shareholders:

- i. May expect dividend:
 - a. Surplus in Profit & loss (P&L) Statement
 - b. Profits in any Financial Year are more than 10% of the equity capital of the Company
- ii. May not expect dividend:
 - a. If there are losses as per P&L Statement (including accumulated balance in P&L account)
 - b. Profit in the any Financial Year is less than 10% of the equity capital.
 - c. If the total income from business/PAT from its ordinary activities in any Financial Year declines by more than 75% from the previous year.



d. If the business is seriously affected and visibility is uncertain.

III. Internal and external factors that shall be considered for declaration of dividend:

i. Internal Factors:

a. Projected investment in business/new business

b. Projected investments in Subsidiaries/Associates in the year and next year.

c. Networth/Capital adequacy as required under respective Regulatory requirements.

ii. External Factors:-

i. State of Economy/Industry/business

ii. Statutory Taxes/levies – Changes in income tax rates, DDT etc

IV. The retained earnings shall be utilized for:

i. Proposed Capital expenditure

ii. Investments/acquisitions

iii. General corporate purposes including contingencies

iv. Capital restructuring

V. Parameters that shall be adopted with regard to various classes of shares:

The Company has only one class of equity shareholders at present.

Periodicity of distribution

On a yearly basis, the Holding and Subsidiary Companies may distribute by way of Interim Dividend/s a substantial portion of the total dividend of the Company. The balance portion will be declared by way of final dividend considering the full year's accounts and will be paid after the approval of shareholders at the Annual General Meeting of the Company.

Disclosures

a. This policy will be made available on the Company's website.

b. The policy will also be disclosed in the Company's annual report

Pursuant to RBI Direction DOR.ACC.REC.No.23.21.02.067/2021-22 dated June 24, 2021 the following direction are being included in the existing dividend policy of the company -

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

(a) Supervisory findings of the Reserve Bank (National Housing Bank (NHB) for HFCs) 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 NBFC.

The Board shall ensure that the total dividend proposed for the financial year does not exceed the ceilings specified in the guidelines prescribed by RBI.

Eligibility criteria

2. Company will comply with the following minimum prudential requirements to be eligible to declare dividend:

Table 1: Declaration of Dividend: Minimum Prudential Requirements

S.No.	Parameter	Requirement
<u>1</u>	Capital Adequacy	(a)NBFCs (other than Standalone Primary Dealers) shall have met the applicable regulatory capital requirement as per Annex I for each of the last three financial years including the financial year for which the dividend is proposed. (b)Standalone Primary Dealers (SPDs) should have maintained a minimum CRAR of 20 per cent for the financial year (all the four quarters) for which dividend is proposed.
<u>2</u>	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.
<u>3</u>	Other criteria	(a) NBFCs shall comply with the provisions of Section 45 IC of the Reserve Bank of India Act, 1934. (b) NBFCs shall be compliant with the prevailing regulations/guidelines issued by the Reserve Bank. The Reserve Bank or the NHB (for HFCs) shall not have placed any explicit restrictions on declaration of dividend.

Quantum of Dividend Payable

3. NBFCs eligible to declare dividend as per paragraph 2 above, may pay dividend, subject to the following:

(a) 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.

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

(c) In case the net profit for the relevant period includes any exceptional and/or extraordinary 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.

(d) The ceilings on dividend payout ratios for NBFCs eligible to declare dividend are as under:

Table 2: Ceilings on Dividend Payout Ratio

Sl. No.	Type of NBFC	Maximum Dividend Payout Ratio (percentage)
<u>1</u>	NBFCs that do not accept public funds and do not have any customer interface	No ceiling specified
<u>2</u>	Core Investment Company	60
<u>3</u>	Standalone Primary Dealers	60
<u>4</u>	Other NBFCs	50

(e) The Reserve Bank shall not entertain any request for ad-hoc dispensation on declaration of dividend.

4. A NBFC (other than SPD) which does not meet the applicable prudential requirement prescribed in Paragraph 2 above for each of the last three financial years, may be eligible to declare dividend, subject to a cap of 10 percent on the dividend payout ratio, provided the NBFC complies with the following conditions:

(a) meets the applicable capital adequacy 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.

Reporting System

5. NBFC-D, NBFC-ND-SI, HFC & CIC declaring dividend shall report details of dividend declared during the financial year as per the format prescribed in Annex 2. The report shall be furnished within a fortnight after declaration of dividend to the Regional Office of the Department of Supervision of the Reserve Bank/ Department of Supervision of NHB, under whose jurisdiction it is registered.

Amendments to the Policy

The Board shall review and amend this Policy as and when required. Any subsequent amendment/modification in the regulation and/or other applicable laws in this regard shall automatically apply to this policy.

Annex 1: Applicable regulatory capital requirements as at the date of issuance of the circular (Refer paragraph 2 of Policy)

The table below enumerates the applicable capital requirements for Systemically important (NBFC-NDSI) as applicable on the date of the issuance of the circular. These are subject to change in future and therefore while declaring dividend, the requirements applicable to the period under consideration need to be considered.

Sl. No.	NBFC category	Capital requirements	Reference
2.	Deposit taking (NBFC-D) and Systemically important (NBFC-NDSI) (includes all IFCs but excluding MFI and NBFC-Infrastructure Debt Funds (IDF))	(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 (other than NBFC-MFI and IDF-NBFC), at any point of time, shall not be less 10 per cent (c) Applicable NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 percent or more of their financial assets) shall maintain a minimum Tier I capital of 12 percent.	Paragraph 6 of Master Direction - Non-Banking Financial Company Systemically Important NonDeposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

Annex 2 : Reporting format for NBFCs/HFCs declaring dividend

(Refer paragraph 5 of policy, to be furnished within a fortnight after declaration of dividend to the Regional Office of the Department of Supervision of the Reserve Bank/ Department of Supervision of National Housing Bank, under whose jurisdiction the NBFC is registered.)

Details of dividend declared during the financial year

Name of the NBFC – _____

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