Tata Capital Financial Services Limited

Dividend Distribution Policy

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Summary of Version History

Policy prepared by	Chief Financial Officer & Company Secretary
Policy approved by	Board of Directors
Date of Approval	September 9, 2022

Tata Capital Financial Services Limited

Dividend Distribution Policy

Objective

The Dividend Distribution Policy ("Policy") establishes the criteria to be considered by the Board of Directors for recommending / declaring dividend on equity shares of Tata Capital Financial Services Limited ("the Company").

Parameters to be considered before recommending / declaring dividend

The Board of Directors shall *inter alia* consider the following criteria before recommending / declaring dividend:

i. ***Statutory and Regulatory Guidelines/Policies***
The Company shall declare dividend only after ensuring compliance with the pertinent regulations and directives/guidelines issued by the Reserve Bank of India ("RBI") including guidelines on Declaration of dividends by Non-Banking Financial Companies ("NBFCs") ("RBI Guidelines"), provisions of the Companies Act 2013 and rules made thereunder and any other regulations (collectively referred as "applicable regulations") as may be applicable from time to time.

ii. ***Board Oversight***
The Board of Directors shall take into account the following aspects:

a) Financial Performance of the Company;
b) Shareholder expectations;
c) Long term growth plans of the Company and capital requirements;
d) Supervisory findings of RBI on divergence in classification and provisioning for Non-Performing Assets ("NPAs");
e) Auditors' Report to the Financial Statements;
f) Regulatory compliances, as may be applicable from time to time and as detailed in following paragraphs.

iii. ***RBI Guidelines on Declaration of dividends by NBFCs***
As mandated by RBI Guidelines on Declaration of dividends by NBFCs, the Board shall recommend / declare dividend if the Company meets the following minimum prudential requirements:

a) Capital Adequacy Ratio (CRAR):
The Company shall maintain a minimum capital ratio on an ongoing basis consisting of Tier-I and Tier-II Capital which shall not be less than 15% of its aggregated risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items.

At any point of time, Tier-I Capital shall not be less than 10%.

b) Net NPA:
The net NPA ratio shall be less than 6% in each of the last three years, including as at the close of the financial year for which dividend is proposed to be declared.

c) Other criteria:
- The Company shall comply with the provisions of Section 45 IC of the Reserve Bank of India Act, 1934.
- RBI shall not have placed any explicit restrictions on declaration of dividend.

d) Dividend Pay-out Ratio:
The Dividend Pay-out Ratio shall be subject to a limit of 50%.

The Dividend Pay-out Ratio is the ratio between the amount of the dividend payable and the net profit as per the 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 eligible for inclusion in Tier-I Capital.

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 Pay-out Ratio.

iv. Dividend can by recommended / declared based on the audited / un-audited financials of the Company subject to maximum dividend payout ratio as stipulated under the RBI Guidelines.

v. In addition to the above, the Board of Directors may consider the following parameters before recommending / declaring dividend:

Financial parameters and other internal factors
- Net worth, net owned funds and accumulated reserves;
- Profits of the current period;
- Profitability outlook for the current year;
- Return on assets and return on equity;
- Asset quality;
- Compliance with terms and covenants in any agreement entered into by the Company with its lenders/debenture trustees.

External Factors
- Macroeconomic conditions;
- Competitive landscape;
- Taxation provisions;
- Government policies.

Circumstances under which shareholders may not expect dividend

The Board may not recommend any dividend if one or more of the above criterion for recommendation of dividend is not fulfilled by the Company, including any regulatory restriction placed on the Company on declaration of dividend, or if the Board is of the opinion that it would be prudent to conserve capital for growth or other exigencies, which shall be stated by the Board.

Utilization of Retained Earnings

Retained earnings shall be utilised in accordance with prevailing regulatory requirements; creating reserves for specific objectives; 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.

The Company shall endeavour to utilise retained earnings in a manner that shall be beneficial to both the interests of the Company and its shareholders.

Parameters for various classes of shares

Currently, the Company has only one class of shares - Equity Shares.

Conflict in Policy

In the event of a conflict between the Policy and the extant applicable regulations, the regulations shall prevail.

Amendments

In case of any amendment(s), clarification(s), circular(s), etc. issued by the relevant authorities, not being consistent with the provisions laid down under the Policy, then such amendment(s), clarification(s), circular(s), etc. shall prevail upon the provisions hereunder and the Policy shall stand amended accordingly from the effective date as laid down under such amendment(s), clarification(s), circular(s), etc.

Review of Policy

The Board of Directors shall review the Dividend Distribution Policy of the Company annually.