



AVANSE FINANCIAL SERVICES LIMITED

DIVIDEND DISTRIBUTION POLICY

VERSION CONTROL

Version	Date of Adoption	Change reference	Owner	Approving Authority
1	April 30, 2024	Adoption of Policy	Secretarial	Board of Directors

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1. PREAMBLE

Pursuant to the provisions of Regulation 43A of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended (the “**Listing Regulations**”), it is mandatory to have a Dividend Distribution Policy in place by the top one thousand listed companies based on the market capitalisation calculated as on March 31, every financial year. Being a Non-Banking Finance Company, the Company is also required to comply with the applicable provisions for declaration of dividend as prescribed under the Reserve Bank of India’s Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023, as amended from time to time, and such other directions, guidelines or notifications issued by the Reserve Bank of India from time to time (the “**RBI Guidelines**”)

The board of directors (the “**Board**”) of Avanse Financial Services Limited (the “**Company**”) has adopted and formulated Dividend Distribution Policy, in compliance with the Listing Regulations.

2. DEFINITIONS

The terms referred to in this policy (“**Policy**”) will have the same meaning as defined under the Companies Act, 2013 (the “**Act**”) and the rules made there under and the Listing Regulations and the RBI Guidelines.

3. EFFECTIVE DATE

The Policy will come into effect on its adoption by the Board.

4. OBJECT

The object of this Policy is to establish the parameters to be considered by the Board before declaring or recommending dividend. The Policy aims to strike an optimum balance between rewarding shareholders through dividend and ensuring that sufficient funds are retained for the growth of the Company.

5. SCOPE

The Policy covers the following:

a. Dividend to Equity Shareholders of the Company:

The Dividend will be distributed equally among all the equity shareholders based on their shareholding on the record date. Parameters for dividend payments in respect of any other class of shares will be as per the respective terms of issue and in accordance with the applicable regulations and will be determined, if and when the Company decides to issue other classes of shares.

b. Interim Dividend:

Interim Dividend(s), if any, shall be declared by the Board.

In case no final dividend is declared for any particular financial year, interim dividend paid during that year, if any shall be regarded as final dividend for the year in the Annual General Meeting (“**AGM**”).

c. **Final Dividend:**

Recommendation, if any, shall be made by the Board, usually in the Board meeting that considers and approves the annual financial statements, subject to approval of the shareholders of the Company.

The dividend as recommended by the Board shall be approved/declared in the AGM of the Company.

6. PARAMETERS TO BE CONSIDERED

The Board shall consider following parameters, factors and circumstances before declaring or recommending dividend:

- a. **Statutory Requirements:** The Board shall comply with the provisions of the Companies Act, 2013 and rules framed thereunder and the RBI Guidelines while considering, approving and making payment of any dividend, which shall, *inter alia*, include the following:

Proposal for dividend shall be considered only when the Company meets the following minimum prudential requirements viz:

- (i) the Company shall have met the minimum capital requirements (including leverage ratio wherever applicable) prescribed under the RBI Guidelines in each of the last three financial years including the financial year for which the dividend is proposed.
- (ii) The net NPA ratio of the Company is less than six percent in each of the last three years, including as at the close of the financial year for which dividend is proposed to be declared.
- (iii) The Company has complied with the provisions of section 45-IC of the RBI Act, 1934.
- (iv) The Company is in compliant with the prevailing regulations / guidelines issued by RBI and the RBI has not placed any explicit restrictions on declaration of dividend.

The Company can declare a dividend upto dividend payout ratio of 50 percent if the Company meets the aforesaid criteria.

If the Company does not meet the applicable capital ratio (including leverage ratio wherever applicable) requirements and / or the net NPA ratio requirement as stated above, for each of the last three financial years, then the Company can declare dividend, subject to a cap of 10 percent of the dividend payout ratio, provided the Company has complied with the following conditions:

- A. The Company has met the applicable minimum capital requirement (including leverage ratio wherever applicable), as per RBI Guidelines, in the financial year for which it proposes to pay dividend, and

B. The Company has net NPA of less than four percent as at the close of the said financial year.

“dividend payout ratio” means 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. Proposed dividend shall include both dividend on equity shares and compulsory convertible preference shares eligible for inclusion in Tier 1 capital. In case the net profit for the relevant period includes any exceptional and/or extra-ordinary 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.

b. **Internal Factors:** The Board shall consider following internal factors:

1. Company’s Liquidity position including its present and expected obligations.
2. Profits of the Company.
3. Present and Future Capital expenditure plans of the Company including organic / inorganic growth opportunities.
4. Financial commitments with respect to the outstanding borrowings and interest thereon.
5. Financial requirement for business expansion and/or diversification, acquisition etc. of new businesses.
6. Past dividend trend of the Company and the Industry.
7. Cost of borrowings.
8. Other corporate action options (For example, Bonus issue, Buy back of shares).
9. Any other relevant or material factor as may be deemed fit by the Board.

c. **External Factors:** The Board shall consider following external factors:

1. State of economy and capital markets.
2. Applicable taxes including dividend distribution tax.
3. Regulatory Changes: Introduction of new or changes in existing tax or regulatory requirements (including dividend distribution tax) having significant impact on the Company’s operations or finances.
4. Any other relevant or material factor as may be deemed fit by the Board.

7. **CIRCUMSTANCES UNDER WHICH THE SHAREHOLDERS MAY NOT EXPECT DIVIDEND**

The Company may be restrained to declare dividends in following circumstances:

- a. **Inadequate profits:** If during any financial year, the profits of the Company are not adequate, the Board may decide not to recommend any dividend for that year.

- b. Dividend not to be declared out of reserves: As a rule, dividend for any particular financial year shall be recommended or paid out of the Profit of that financial year and the Board shall not declare or recommend any dividend out of the reserves, except for reasons to be expressly laid down. Any decision in this regard shall be reflected in the Annual Report and website of the Company while declaring/ recommending dividend.

It is hereby clarified that absence of any of the above circumstances shall not be construed as an obligation on the part of the Company to declare dividend.

8. ENTITLEMENT AND TIMELINES FOR DIVIDEND PAYMENTS

- a. Entitlement: The dividend shall be paid to the shareholders entitled to receive dividend on the record date / book closure date as per applicable laws.
- b. Timelines: The payment of dividend shall be made within the time prescribed under the Act or the rules made there under. Presently, dividend is to be paid within 30 days from the date of declaration by the Board in case of Interim Dividend and within 30 days from the declaration by the shareholders in the AGM in case of Final Dividend.

9. MANNER OF UTILISATION OF RETAINED EARNINGS

The retained earnings shall be deployed in line with and in furtherance of the objects of the Company as detailed in Memorandum of Association of the Company. The Company shall endeavour to utilize its retained earnings in a manner which shall be beneficial to the interest of the Company and also its shareholders. The decision of utilization of the retained earning shall be based on the factors like strategic and long term plans of the Company, future equity acquisitions, diversification opportunities or any other criteria that may be considered relevant by the Board in this regard.

10. DISCLOSURE

The Policy shall be disclosed on the Company's website and a web link thereto shall be provided in the annual report of the Company.

11. AMENDMENT

The Board is, subject to applicable laws, entitled to amend, suspend or rescind this Policy at any time. Any difficulties or ambiguities in the Policy will be resolved by the Board in line with the broad intent of the Policy. The Board may also establish further rules and procedures, from time to time, to give effect to the intent of this Policy.

In the event of any conflict between the provisions of this Policy and the applicable laws, the applicable laws in force from time to time shall prevail over this Policy.

Further, if and when any applicable laws concerning the subject matter of this Policy are promulgated, amended, enacted, re-enacted or modified, this Policy shall, unless otherwise prescribed, be deemed to be amended to take into account or to give effect to such promulgated, amended, enacted, re-enacted or modified applicable laws.