INDOSTAR

DIVIDEND DISTRIBUTION POLICY

(Version: V4)

INDOSTAR	**Dividend Distribution Policy**

Policy Name	
Policy Approval authority	Risk Management Committee/Board of Directors
Policy Owner	Company Secretary and Compliance Officer
Policy Implementation Authority	Company Secretary and Compliance Officer Finance Head
Version	Version V4
Issue Date	29 April 2024
Review Date	29 April 2024

Relevant Act/Rules/Regulations
*Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 ("**SBR Master Direction**")* *Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations, 2015* *The Companies Act, 2013*

VERSION CONTROL

Version Control Number	Author	Approval Date	Date Effective	Version Description
V1	SVP – Jitendra Bhati	31 October 2018	31 October 2018	-
V2	SVP – Jitendra Bhati	4 February 2021	4 February 2021	Amendment to incorporate reference of compulsorily convertible preference shares issue by the Company
V3	SVP – Jitendra Bhati	12 August 2021	01 April 2022	Amendment to incorporate requirements of RBI Circular on Declaration of dividends by NBFCs
V4	Chief Compliance Officer	29 April 2024	29 April 2024	Amendment to align with the provisions of *Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions,*

I. INTRODUCTION AND OBJECTIVE

In terms of regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "**Listing Regulations**"), the top 1000 (One Thousand) listed companies, based on market capitalization (calculated as on 31st March of every financial year), are required to formulate a dividend distribution policy, and the same is to be disclosed on the website of the listed entity and a web-link is to be provided in their annual reports. IndoStar Capital Finance Limited (the "**Company**"), in compliance with the requirements of regulation 43A of Listing Regulations, the directions under the 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 ("**SBR Master Directions**"), and as part of good corporate governance, has adopted this dividend distribution policy ("**Policy**"), *inter-alia,* to elaborate on the parameters to be considered by the board of directors of the Company ("**Board**") before declaring/ recommending any dividend to its shareholders, keeping in view the Company's policy of meeting the long term capital requirement(s) from internal cash accruals and appropriately rewarding shareholders of the Company. The Board may, at their discretion deviate from the parameters listed in the Policy.

II. ELIGIBILITY

A. The Company shall consider declaration/ recommendation of dividend only if the following minimum prudential norms are complied with:

Sr. No.	Parameter	Requirement
1.	Capital adequacy	The Company shall have met the Reserve Bank of India's minimum capital requirement (including leverage ratio wherever applicable), including requirement of Tier I and Tier II capital, for each of the last 3 (three) financial years, including the financial year for which the dividend is proposed.
2	Net non-performing asset ("**NPA**")	The net NPA ratio of the Company shall be less than 6% (six percent) in each of the last 3 (three) years, including as at the close of the financial year for which dividend is proposed to be declared.
3	Other criteria	a. The Company has complied with the provisions of section 45-IC of the Reserve Bank of India Act, 1934. b. The Company shall be compliant with the prevailing regulations/ guidelines issued by the Reserve Bank of India. The Reserve Bank of India has not placed any explicit restrictions on declaration of dividend.

B. In the event that criteria with respect to applicable capital adequacy ratio (including leverage ratio, wherever applicable) requirements, and/ or net NPA ratio requirement as stated above, for each of the 3 (three) financial years, are not met, the Company shall still be eligible to declare dividend, subject to a cap of 10% (ten percent) on the dividend payout ratio, provided that the Company complies with both of the following conditions:
   (i) The Company meets the applicable minimum capital requirement (including leverage ratio wherever applicable), as per the SBR Master Directions, in the financial year for which it proposes to pay dividend, and
   (ii) The Company has net NPA of less than 4% (four percent) as at the close of the said financial year.

III. PARAMETERS TO BE CONSIDERED FOR DECLARING/ RECOMMENDING DIVIDEND

a. Financial parameters / Internal factors:

The Board, while considering the proposals for dividend, shall take into account each of the following aspects:

- Profits earned during the financial year, accumulated reserves and distributable profits;
- Working capital and capital expenditure requirements;
- Financial commitments with respect to the borrowings undertaken/ proposed to be undertaken and interest thereon;
- Financial requirements for business expansion and/ or diversification and long-term growth plans of the Company;
- Capital requirements for maintenance of appropriate capital adequacy ratio;
- Supervisory findings of the Reserve Bank of India on divergence in classification and provisioning for NPAs;
- Qualifications, if any, in the auditors' report to the financial statements;
- Provisioning for financial implications arising out of unforeseen events and/ or contingencies;
- Past dividend declaration trend of the Company;
- Additional investment requirement in subsidiaries of the Company;
- Such other factors and/ or material events which the Board may consider relevant.

b. External factors:

- Legal requirements/ regulatory restrictions;
- Macro-economic environment;
- Cost of borrowing and covenants, if any, with lenders;
- Business outlook for the future years;
- Government policies;
- Prevalent market practices.

c. Circumstances under which the shareholders of the Company may or may not expect dividend

While the decision to declare/ recommend dividend shall primarily be dependent on the parameters mentioned above, the shareholders of the Company may not expect dividend in the following circumstances, subject to discretion of the Board:

- Proposed expansion/ diversification plans requiring higher capital allocation;
- Decision to undertake any acquisitions, amalgamation, merger, joint ventures, etc. which requires significant capital outflow;
- Requirement of higher working capital to support business and operations of the Company;
- Proposal for corporate action requiring significant capital outflow such as buy-back of securities;
- In the event of loss or inadequacy of profit or cash flow available for distribution;
- Such other circumstances which the Board may consider relevant.

d. Utilization of retained earnings:

The Company would utilise retained earnings in a manner which is in the interest of the Company and its stakeholders. Retained earnings of the Company may be utilised for the following:

- Implementation of expansion/ diversification plans;
- To meet capital requirement for maintenance of appropriate capital adequacy ratio;
- Support business/ operational requirements of the Company;
- Such other events which the Board may consider relevant.

e. Parameters to be considered for dividend to various classes of shares:

Currently, the Company has issued only 1 (one) class of equity shares which rank *pari-passu* with respect to voting and dividend rights. In the event of the Company issuing any other class(es) of equity shares, this Policy shall be updated to include parameters to be considered while declaring dividend to such class(es) of shares. Further, the Company has issued compulsory convertible preference shares ("**CCPS**") which rank senior and superior to equity shares of the Company with respect to dividend distribution.

The parameters mentioned above shall be applicable in connection with equity shares of the Company. Parameters for dividend distribution in respect of CCPS will be as per terms of issue of CCPS.

IV. DIVIDEND PAY-OUT RATIO AND FREQUENCY

In the event that the Company is eligible to declare and distribute dividend as per paragraph II above, the dividend payout ratio in connection with equity shares shall usually range from 5% (five percent) to 10% (ten percent) of the post-tax distributable profits of the Company as on the end of financial year immediately preceding the financial year in which the dividend is being declared. The Board will normally declare dividend twice a year (interim and final) within this range, in compliance with the provisions of the Companies Act, 2013 and the guidelines/ directions/ order issued by Reserve Bank of India.

Further, the quantum of dividend for a financial year shall be subject to the following:

- Maximum dividend payout ratio shall be 50% (fifty percent) or 10% (ten percent), as may be applicable.

- 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.

- Proposed dividend shall include both dividend on equity shares and CCPS 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 pay-out ratio.

- The total dividend proposed for the financial year does not exceed the ceilings specified by the Reserve Bank of India.

V. DISCLOSURES

The Policy shall be disclosed on the website of the Company and web-link of the same shall be provided in the annual report.

VI. REVIEW OF POLICY

This Policy shall be reviewed and modified as and when may be required, and shall be placed before the Board for approval. In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity, or within the timelines stipulated by such regulatory authority, if any. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.