

## **DIVIDEND DISTRIBUTION POLICY**

### **INTRODUCTION**

Normally Companies do not distribute entire profit earned amongst the shareholders. Part of profit is ploughed back as retained earnings and only Part of the profit gets distributed to the shareholders. The part that is distributed is the **dividend**. Dividends are declared at the Annual General Meeting of the shareholders based on the recommendation of the Board of Directors of the Company.

Dividend policy of a company is the strategy followed to decide the amount of **dividends** and the timing of the payments. There are various factors that frame a dividend policy of the company. Availability of better investment opportunities, estimated volatility of future earnings, tax considerations, financial flexibility, legal restrictions, profitability, stability of dividend payout and retained earnings, liquidity and cash flows, investment variables and financial variables, financial leverage, last year/s dividend, regulations, industry growth rate and capital investment needs.

### **DIVIDEND DISTRIBUTION POLICY OF LIC HOUSING FINANCE LIMITED**

The Board of Directors (the “Board”) of LIC Housing Finance Limited (the “Company”) has to adopt the Dividend Distribution Policy (the “Policy”) of the Company as required in terms of Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the “Listing Regulations”).

### **EFFECTIVE DATE**

The Policy shall become effective from the date of its adoption by the Board i.e. 16.01.2017.

### **PURPOSE:**

The Securities and Exchange Board of India (“SEBI”) vide its Notification dated July 08, 2016 has amended the Listing Regulations by inserting Regulation 43A in order to make it mandatory to have a Dividend Distribution Policy in place, by the top five hundred listed companies based on their market capitalization calculated as on the 31st day of March of every year. The Company being one of the top five hundred listed companies as per the market capitalization as on the last day of the immediately preceding financial year, the Board of the Company recognizes the need to lay down a broad framework for considering decisions by the Board of the Company, with regard to distribution of dividend to its shareholders and/ or retaining or plough back of its profits. The Policy also sets out the circumstances and different factors for consideration by the Board at the time of taking such decisions of distribution or of retention of profits, in the interest of providing transparency to the shareholders.

### **OBJECTIVES:**

Objective of Dividend Distribution policy of the Company would be to define policy and procedures in relation to the calculation, declaration, and settlement of dividend and time period within which dividend payments would be made to its shareholders. There are various financial parameters, external and internal factors which are considered in forming the Dividend Distribution Policy for the Company.

To ensure that the Company has sufficient distributable profits and / or general reserves, as determined by a review of the Company's audited financial statements, prior to any declaration and / or payment of dividend.

Declaration of dividend on the basis of parameters in addition to the elements of this Policy or resulting in amendment of any element or the Policy will be regarded as deviation. Any such deviation on elements of this Policy in extraordinary circumstances, when deemed necessary in the interests of the Company, along with the rationale will be disclosed in the Annual Report by the Board of Directors.

The Policy reflects the intent of the Company to reward its shareholders by sharing a portion of its profits after retaining sufficient funds for growth of the Company. The Company shall pursue this Policy, to pay, subject to the circumstances and factors enlisted hereon, progressive dividend, which shall be consistent with the performance of the Company over the years.

**SCOPE, LAW AND REGULATIONS IN RESPECT OF DIVIDEND PAYMENT:**

The declaration and payment of dividend shall be governed by various provisions of the Companies Act, 2013 and most importantly chapter - VIII i.e. from section 123 to 127 deals with "*Declaration and payment of dividend*", The Companies (Declaration and Payment of Dividend) Rules, 2014 ; Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001; SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015; section 27 of Security Contract Regulation Act, 1956; Income-tax Act, 1961; Secretarial Standards on Dividend (SS-3); NHB Guidelines / Circulars / Notifications, FEMA 1999, SEBI Guidelines / Circulars etc. as amended from time to time and to the extent applicable.

The Company will adhere to the provisions of Law as stated in above para, as amended from time to time and to the extent applicable.

The policy set out herein generally relates to final Dividend, certain principles also apply to Interim Dividend declared by the Board of Directors, as stated hereinafter.

**Trading Window:** In terms of regulation 2(1)(n) of SEBI (Prohibition of Insider Trading) Regulations, 2015, declaration of dividends (interim or final) shall be treated as "Unpublished Price Sensitive Information" hence company shall comply with norms / compliances of trading window read with company's Insider Trading Policy viz. Code of internal procedures and conduct for regulating, monitoring and reporting of trading by insiders pursuant to regulation 9(1) and Schedule B of the SEBI (Prohibition of Insider Trading) Regulations, 2015.

**Secretarial Standards:** The Company will comply with Secretarial Standards as and when the Secretarial Standards are notified enforced by the Ministry of Corporate Affairs.

**Right / Title to dividends:** It shall be governed by Section 27 of Security Contract Regulation Act, 1956 and other applicable laws, rules and regulation as amended and enforced from time to time.

**The Policy shall not apply to:**

Determination and declaring dividend on preference shares if any, issued in future as the same will be as per the terms of issue approved by the shareholders;

Distribution of dividend in kind, i.e. by issue of fully or partly paid bonus shares or other securities, subject to applicable law;

Distribution of cash as an alternative to payment of dividend by way of buyback of equity shares.

However, the Board reserves the right to modify this policy to accommodate the preference shares or make a separate policy for preference shares in accordance with applicable provisions of the law as stated in above para as and when it deems fit and necessary.

## **I. GENERAL TERMS**

The general considerations of the Company for taking decisions with regard to dividend payout or retention of profits shall be as following:

The management would discuss and recommend to the Board on dividend payment, considering the circumstances or factors but not limited to the following:

- a) Future expansion plans;
- b) Profit earned during the current financial year;
- c) Overall financial conditions;
- d) Cost of raising funds from alternative sources;
- e) Applicable taxes; (including dividend distribution tax / tax deductible at source on dividend (TDS) as the case may be)
- f) Money market conditions;
- g) Macro-economic situations, etc.
- h) Investor's expectation and other relevant factors.
- i) Carry forward losses, if any.

The dividends are declared at the Annual General Meeting of the Company, based on recommendations of the Board.

### **Free Reserves:**

The word "Free reserves" has been defined under Section 2(43) of Companies Act, 2013 to mean such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend. However the following shall not be treated as free reserves any amount representing unrealized gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or any change in carrying amount of an asset or of a liability recognized in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value, shall not be treated as free reserves.

Clause 2(1)(l) of the NHB Directions, 2010 defines "Free reserves" to include the balance in the share premium account, capital and debenture redemption reserves and any other reserve shown or published in the balance sheet of the company and created through an allocation of profits, not being (1) a reserve created for repayment of any future liability or for depreciation in assets or for bad debt or (2) a reserve created by revaluation of the assets of the company;

### **Interim dividend:**

The Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss account and/or out of profits of the financial year in which such interim dividend is sought to be declared. In case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years in terms of Section 123(3) of Companies Act, 2013.

**Final Dividend:**

It is declared by the members at an Annual General Meeting as “Ordinary Business” in terms of Section 102(2)(ii) of the Companies Act, 2013 only if recommended by the Board of Directors and at a rate not more than what is recommended by the directors in accordance with the Articles of Association of a company.

**Powers to SEBI:**

Since, the company is listed on the bourses, Section 24 of the Companies Act, 2013 confers on SEBI, the power of administration of the provisions pertaining to non-payment of dividend. In any other case, the powers remain vested in Central Government.

**Dividend Payout Ratio:**

The dividend payout ratio measures the percentage of Net Profit After Tax (PAT) that is distributed to shareholders in the form of dividends during the year. In other words, this ratio shows the portion of profits, the company decides to keep to fund operations and the portion of profits that is distributed amongst its shareholders. It is calculated by dividing the proposed dividend (excluding taxes on dividend) by the Profit after tax and depreciation.

**II.PARAMETERS TO BE CONSIDERED FOR DECLARATION OF DIVIDEND PAY-OUT**

The Board shall consider the following, while taking decisions of a dividend payout during a particular year:

1. Dividend shall be declared or paid only out of:

I. Current period profit

- a) after providing for depreciation in accordance with law;
- b) after transferring to reserves such amount of profits as may prescribed under National Housing Bank Act, 1987, Companies Act, 2013 and the rules made thereunder, Income-tax Act, 1961 or under any other laws or statutes.

II. The profit from any previous financial year(s)

- a) after providing for depreciation in accordance with law; and
- b) out of the amount available for dividend that remains undistributed after prescribed appropriations have been made; or

III. Out of I or II or both

2. Before declaring any dividend, the losses, if any, of any previous year(s) must be set off against the profit of the Company for the current year or previous year.

3. In terms of third proviso of Section 123(1)(b) of the Companies Act, 2013 no dividend shall be declared or paid by a company from its reserves other than free reserves.

**III. OTHER FINANCIAL PARAMETERS**

In addition to the aforesaid parameters such as realized profits, the decision of dividend payout or retention of profits shall also be based on the following:

1. Income and profitability parameters:

- I. Net Interest Income (NII);
- II. Profit Before Tax (PBT) and Profit After Tax (PAT);

- III. Return on Assets (RoA);
- IV. Return on Equity (RoE);
- V. Earnings Per Share (EPS);
- VI. Profit growth targets and market expectations.

2. Capitalization level parameters:
  - I. Net Owned Funds (NOF);
  - II. Capital Risk Adequacy Ratio (CRAR), Tier I capital and Tier II capital;
  - III. Gross leverage and net leverage.
3. Portfolio quality parameters:
  - I. Absolute values of gross NPA and net NPA
  - II. Gross NPA and net NPA as percentage of loan assets
  - III. Provisioning levels and provision coverage
  - IV. Change in regulatory provisioning requirements
  - V. Outlook on portfolio quality

#### **IV. FACTORS THAT MAY AFFECT DIVIDEND PAYOUT**

##### **A. External Factors**

###### ***Taxation and other regulatory concern***

- Dividend distribution tax or any tax deduction at source as required by applicable tax regulations in India, as may be applicable at the time of declaration of dividend.
- Any restrictions on payment of dividends by virtue of any regulation as may be applicable to the Company at the time of declaration of dividend.

###### ***Product/ market expansion plan***

The Company's growth oriented decision to conserve cash in the Company for future expansion plan impacts shareholders expectation for the long run, which shall have to be considered by the Board before taking dividend decision.

###### ***Macroeconomic conditions***

Considering the state of economy in the country, the policy decisions that may be formulated by the Government / regulator and other similar conditions prevailing in the market which may have a bearing on or affect the business of the Company, the management may consider retaining a larger part of the profits to have sufficient reserves to absorb unforeseen circumstances.

Various macroeconomic factors like GDP growth rate, inflation rate, government policies (especially related to housing), industry specific factors like demand for housing, real estate scenario, etc. would be considered by the Company in finalizing the dividend payment for the financial year.

##### **B. Internal Factors**

The Board and Management may decide to utilize its profit for

- i. Business expansion and growth;
- ii. Capital expenditure;
- iii. Up gradation of technology and physical infrastructure;
- iv. Creation of contingency fund;
- v. Acquisition of brands and businesses;

Growth outlook for the housing sector and competition intensity may result in margin pressures and result in need to shore up equity capital levels to strengthen operational leverage.

Present liquidity scenario and outlook for the same is the most important fact for any finance company. The Company being in the lending business, it relies on its ability to raise funds efficiently to undertake its lending activities. If the liquidity scenario is poor or if the outlook is adverse, then the Company may choose to hold back dividend pay-outs to shore up equity capital levels.

Being in financial sector, the Company is subject to operational risk, fraud risk, regulatory risk, and legal risk. Incidence of substantial loss from these risks may impact dividend pay-outs.

#### **V. CIRCUMSTANCES UNDER WHICH DIVIDEND PAYOUT MAY OR MAY NOT BE EXPECTED**

The Board shall consider the factors provided above under Para II, III and IV, before determination of any dividend payout after analyzing the prospective opportunities and threats, viability of the options of dividend payout or retention etc. The decision of dividend payout shall, majorly be based on the aforesaid factors considering the balanced interest of the shareholders and the Company.

#### **VI. DECLARATION OF DIVIDEND IN THE EVENT OF INADEQUACY OR ABSENCE OF PROFITS IN ANY YEAR**

**Declaration of dividend out of accumulated profits:** In terms of second proviso to section 123(1) of the Companies Act, 2013 where, owing to inadequacy or absence of profits in any financial year, any company proposes to declare dividend, out of the *accumulated profits* earned by it in previous years and transferred by the company to the reserves, such declaration of dividend shall not be made except in accordance with the Companies (Declaration and Payment of Dividend) Rules, 2014.

In terms of Rule 3 of the Companies (Declaration and Payment of Dividend) Rules, 2014 as amended from time to time, in the event of inadequacy or absence of profits in any year, the company may declare dividend out of free reserves subject to the fulfillment of the following conditions, namely:—

(1) The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it, in the three years immediately preceding that year:

Provided that this sub-rule shall not apply to a company, which has not declared any dividend in each of the three preceding financial year.

(2) The total amount to be drawn from such accumulated profits shall not exceed one tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.

(3) The amount so drawn shall first be utilised to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.

(4) The balance of reserves after such withdrawal shall not fall below fifteen per cent of its paid up share capital as appearing in the latest audited financial statement.

(5) No company shall declare dividend unless carried over previous losses and depreciation not provided in previous year are set off against profit of the company of the current year, the loss or depreciation, in previous years is set off against the profit of the company for the year for which dividend is declared or paid.

#### **VII. MANNER OF DIVIDEND PAYOUT**

The discussion below is a summary of the process of declaration and payment of dividends, and is subject to applicable regulations:

### **In case of final dividends**

1. Recommendation, if any, shall be done 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.
2. The dividend as recommended by the Board shall be approved / declared at the annual general meeting of the Company.
3. The payment of dividends shall be made within 30 days from the date of declaration, to the shareholders entitled to receive the dividend as per the record date / book closure period pursuant to the applicable law/regulations.
4. In terms of Regulations 29(1) and (2) of the Listing Regulations, an intimation of at least 2 working days (excluding the date of intimation and date of meeting of the Board) is required to be given to the stock exchanges, prior to the meeting of the Board at which the recommendation of final dividend is to be considered.
5. In terms of Regulation 30, of the Listing Regulations, the outcome of the meeting shall be intimated, online, immediately to the Stock Exchanges within 30 minutes of the closure of the board meeting.
6. In terms of Regulation 43(1) of the Listing Regulations, the Company shall declare and disclose the dividend on per share basis only.
7. In terms of Regulation 42(3) of the Listing Regulations, the Company shall recommend or declare all dividend at least five working days (excluding the date of intimation and the record date) before the record date fixed for the purpose.
8. In terms of Section 123(5) of the Companies Act (**Dividend to be paid to Registered Shareholders**), no dividend shall be paid by a company in respect of any share therein except to the registered shareholder of such share or to his order or to his banker and shall not be payable except in cash. Provided that nothing in this sub-section shall be deemed to prohibit the capitalization of profits or reserves of a company for the purpose of issuing fully paid-up bonus shares or paying up any amount for the time being unpaid on any shares held by the members of the company.
9. Any dividend payable (**Mode of payment of dividend**) in cash shall be paid by using any of the electronic mode of payment facility approved by the Reserve Bank of India. Provided that where it is not possible to use electronic mode of payment, 'payable-at-par' warrants or demand draft / pay order may be issued and the dividend amount exceeds Rs.1500/-, the 'payable-at-par' warrants or cheques shall be sent by speed post/ registered post.

For the above purpose, a separate bank account of the Company in the name and style of `LIC Housing Finance Limited - Dividend – cum - unpaid Dividend A/c – ---' would be opened with any Nationalised / Scheduled Bank / Private Bank.

Further, the Company, through its Registrar & Share Transfer Agent (RTA) shall maintain bank details of their investors (a) for investors holding securities in dematerialized mode, by downloading the same from the system of depositories. (b) for investors holding securities in physical mode, by updating bank details of the investors at their end]. The Company/RTA shall mandatorily print the bank account details of the investors on such payment instruments and in cases where the bank details of investors are not available, the listed entity shall mandatorily print the address of the investor on such payment instructions.

10. Dividend distribution tax / tax deductible at source on dividend will be deducted & paid as per the applicable laws, as amended from time to time.

11. A company which fails to comply with the provisions of Sections 73 (Prohibition on acceptance of deposits from public) and Section 74 (Repayment of deposits, etc., accepted before commencement of this Act) of the Companies Act, 2013 shall not, so long as such failure / default continues, declare any dividend on its equity shares in terms of Section 123(6).

12. Right of dividend to be held in abeyance pending registration of transfer of shares, shall be governed in terms of Section 126(a) of the Companies Act, 2013 as amended from time to time.

13. The Company shall determine the date of closure of the register of members and the share transfer register of the company as per requirements of Section 91 of the Companies Act, 2013 read with Regulation 42 of the Listing Regulations. The Company shall give notice in advance of atleast seven working days (excluding the date of intimation and the record date) to stock exchange(s) of record date specifying the purpose of the record date. The date of commencement of closure of the transfer books should not be on a day following a holiday.

14. The Company shall give atleast a 7 days prior notice by advertisement, stating the dates of closure of its transfer books / record date, at least once in a vernacular newspaper in the principal vernacular language having a wide circulation in the district in which the registered office of the company is situated and atleast once in English language in an English newspaper circulating in the district and has wide circulation in the place where the registered office is located and publish the Notice on the website of the Company in terms of Rule 10 of the Companies (Management and Administration) Rules, 2014.

15. The time gap between two book closure and record date would be at least SEBI time limit days in terms of Regulation 42(4) of the Listing Regulations.

16. A cheque or warrant for payment of Dividend would be valid for three months from the date thereof and, where such cheque or warrant remains unpaid after this initial period of validity, a fresh instrument by way of demand draft / pay order would be issued which would have a validity of three months.

17. The Company would issue a fresh demand draft or pay order or electronic transfer of funds, in lieu thereof, within 30 days of the receipt of a request for revalidation.

18. A duplicate Dividend warrant would be issued only after the expiry of the validity of the Dividend warrant and the reconciliation of the paid amounts thereof. In case the original instrument is not tendered to the company, a duplicate warrant would be issued only after obtaining requisite indemnity / declaration from the Shareholder. Where the amount of dividend

warrant exceeds a sum of Rs.5000/- the indemnity / declaration shall be obtained from the shareholder on a non-judicial stamp paper of Rs.100/-.

19. In the case of defaced, torn or decrepit or error crept-in while printing, if any, on the Dividend warrants, a duplicate warrant may be issued before the expiry of the validity period of the Dividend warrant on surrender to the company of such defaced, torn, decrepit warrant or the warrant with printing error.

20. Particulars of every Dividend warrant issued as aforesaid should be entered in a Register of Duplicate Dividend Warrants, indicating the name of the member to whom the Dividend warrant is issued, the number and amount of the Dividend warrant in lieu of which the duplicate warrant is issued, the date of issue of such duplicate warrant and the reason for issuing duplicate warrant.

#### **In case of interim dividend**

1. Interim dividend, if any, shall be declared by the Board.

2. Before declaring interim dividend, the Board shall consider the financial position of the Company that enables the payment of such dividend.

3. The payment of dividends shall be made within 30 days from the date of declaration to the shareholders entitled to receive the dividend on record date/book closure period pursuant to the applicable law.

4, 5, 6, 7,.....20 of above para i.e. **In case of final dividend under VII Manner of Dividend Payout** is also applicable to Interim Dividend.

#### **VIII. MANNER OF UTILISATION OF RETAINED EARNINGS**

The Board may retain its earnings in order to make better use of the available funds and increase the value of the stakeholders in the long run. The decision of utilization of the retained earnings of the Company shall be based on the following factors:

- Market expansion plan;
- Diversification of business;
- Long term strategic plans;
- Other such criteria as the Board may deem fit from time to time.
- To maintain adequate liquidity levels, the Company may also invest a part of the retained earnings in liquid mutual funds, bonds, non-convertible debentures, pass through certificates and other securities.
- Up gradation and introduction of new technology.
- Regulatory requirement of maintaining / increasing Capital Adequacy Ratio.

#### **IX. PARAMETERS FOR VARIOUS CLASSES OF SHARES**

1. The factors and parameters for declaration of dividend to different class of shares (**though at present there is only one**) of the Company shall be same as covered above.

2. The payment of dividend shall be based on the respective rights attached to each class of shares (**though at present there is only one**) as per their terms of issue.

3. The dividends shall be paid out of the Company's distributable profits and/or general reserves, and shall be allocated among shareholders on a pro-rata basis according to the number of each type and class of shares held.

4. Dividend when declared shall be first paid to the preference shareholders of the Company **(though at present there is none)** as per the terms and conditions of the issue.

#### **X. UNPAID OR UNCLAIMED DIVIDEND TO BE TRANSFERRED TO INVESTOR EDUCATION PROTECTION FUND (IEPF)**

**Transfer to IEPF after 7 years:** Any money transferred to the unpaid dividend account of a company in pursuance of Section 124 which remains unpaid or unclaimed for a period of seven years from the date of such transfer shall be transferred by the company to the Investor Education and Protection Fund established (IEPF) u/s 125(1) of Act and the company shall file a statement in "Form DIV-5" to the Authority constituted under the Act to administer the fund and such authority shall issue a receipt to the company as evidence of such transfer. [Section 124(5)].

**Shares shall also be transferred to IEPF:** In terms of section 124(6) of the Companies Act, 2013, all shares in respect of which dividend has not been claimed/ remained unpaid for seven consecutive years or more shall be transferred in the name of IEPF alongwith a statement containing such details as may be prescribed. If any person who has a claim on such shares and/or dividend can lodge his claim with IEPF in such manner as may be prescribed.

**Manner in which unclaimed dividend to be transferred to IEPF:** The Company shall deposit the unclaimed dividend amount after lapse of 7 years to IEPF within the prescribed period, in the prescribed mode maintain the particulars of unpaid dividend transferred to IEPF for a period of 8 years from the date of such transfer.

In terms of Regulation 43(2) of the Listing Regulations, the listed entity shall not forfeit unclaimed dividends before the claim becomes barred by law and such forfeiture, if effected, shall be annulled in appropriate cases.

**Display of details in the web site:** The Company shall upload the details of unpaid and unclaimed dividend transferred to IEPF in the company's website in PDF format, year wise.

**ROC filing after 7 years:** The Company shall file with the ROC one copy of the challan evidencing deposit of the amount to the Fund in Form-1 in terms of Rule 3 (ii)(b) of Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001, as amended from time to time.

#### **XI. REVIEW**

Dividend Policy shall be reviewed at least once a year. The revised policy shall be put up to the Board for approval.

#### **XII. AMENDMENT**

To the extent any change/amendment is required as per any applicable law, the Managing Director & CEO of the Company shall be authorised to review and amend the Policy, to give effect to any such changes / amendments. Such amended policy shall be periodically placed before the Board for ratification immediately after such changes.

#### **XIII. Synopsis**

The management upon compliance to all the rules, guidelines, and regulations as applicable from time to time while recommending to the Board of Directors the rate of dividend (exclusive of the dividend distribution tax / including tax deductible at source on dividend, as the case may be as per the Finance Act from time to time) would also take into account dividend declared during the three preceding years.

Nonetheless, the Board reserves the right not to declare dividend or decide any rate of dividend, for a particular year owing to certain regulatory restrictions, if any, during the year, capital conservation prudence, or other exigencies which shall be stated by the Board.