

Dividend Distribution Policy- NHPC Limited

1.0 Background:

SEBI vide its notification dated 08.07.2016 has inserted regulation 43A in the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 which requires the following:

1. The top five hundred listed entities based on market capitalisation (calculated as on 31st March of every financial year) shall formulate a dividend distribution policy which shall be disclosed in their annual reports and on their websites.
2. The dividend distribution policy shall include the following parameters:
 - a. The circumstances under which the shareholders of the listed entities may or may not expect dividend:
 - b. the financial parameters that shall be considered while declaring dividend;
 - c. internal and external factors that shall be considered for declaration of dividend;
 - d. policy as to how the retained earnings shall be utilized; and
 - e. Parameters that shall be adopted with regard to various classes of shares.

Keeping in view the above parameters, the Dividend Distribution Policy of the company has been framed.

2.0 This Policy shall be known as NHPC Dividend Distribution Policy (the “Policy”).

3.0 The Policy shall be effective from the date of its adoption by the Board i.e. **30.05.2017**

4.0 Policy Outline:

The basis of the policy framework is largely in line with the provisions of the Companies Act, guidelines on “Capital Restructuring of Central Public Sector Enterprises” issued by Department of Investment and Public Asset Management (DIPAM), Ministry of Finance, Department of Public Enterprises, SEBI (LODR) Regulation 2015 and other guidelines, to the extent applicable in context with payment of dividend. The Policy shows the intent of the Company to share a portion of its profits to the owners of the company.

5.0 **Important terms:**

- ❖ **Dividend:** Profit of a company, which is not retained in the business and is distributed among the shareholders in proportion to the amount paid – up on the shares held by them. In simple terms it refers to return on investment that shareholders get from the company's net profits.
- ❖ **Net Worth:** Aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium amount
- ❖ **Profit After Tax (PAT):** The net amount earned by a business after all taxation related expenses have been deducted.
- ❖ **Retained Profit:** Profit generated by a business that are not distributed to shareholders as dividends but are either reinvested in the business or kept as a reserve for specific objectives (such as to pay off a debt or purchase a capital asset).
- ❖ **Dividend Payout ratio:** Percentage of business earning paid as dividends to shareholders. It indicates how well the firm's earning support dividend payments. Lower this percentage, more secure the dividend payment. Considering guideline of DIPAM on Dividend, NHPC has to pay dividend of 5% of the Net worth of the company and accordingly the dividend pay-out ratio will remain approximately in the range of 60% - 80% of the net profit (PAT).
- ❖ **Dividend Yield:** A financial ratio that indicates how much a company pays out in dividends each year relative to its share price.
- ❖ **Price Earnings (PE) ratio:** It shows what the market is willing to pay for a stock based on its current earnings.
- ❖ **Price to Book (PB) ratio:** This ratio is used to compare a stock's market value to its book value.
- ❖ **Market Capitalization:** It means aggregate valuation of the company based on market price & total outstanding shares.

6.0 The Policy shall not apply to:

- Dividend on preference shares, if any to be issued by the company;
- 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.

7.0 Objectives of the Policy:

The Dividend Policy has been framed keeping in mind the following objectives:

- **Fundamental Value of Company:** Dividend Distribution Policy has significant impact on the value of Company. The policy aims at increasing the Company's fundamental value by ensuring sustainable dividend payout ratio with due consideration of the requirement of the retained earnings.
- **Growth Plan:** Dividend Distribution policy is a financing decision and leads to cash outflows and also leads to decrease in availability of cash for financing of profitable projects. If sufficient funds are not available, a firm has to depend on external financing. Therefore the dividend policy needs to be devised in such a manner that prospective projects may be financed through appropriate mix of debt and retained earnings.
- **Stable Rate of Return:** Fluctuation in the rate of return adversely affects the market price of shares. Therefore the dividend policy aims at ensuring consistent dividend payout trend in future until the company is constrained to declare dividend due to any of the internal or external factors.

8.0 Circumstances under which the shareholders of the Company may or may not expect dividend:

The dividend distribution policy of the Company is adopted by the Board of Directors and regulates the balance between the net profit of the Company and the profit of the Company which is distributed as dividends. Dividend is a portion of net profits of the company distributed among the shareholders as per prevailing applicable laws & guidelines. Dividend is declared at the Annual General Meeting of the shareholders based on the recommendation by the Board. The Board may

recommend dividends, considering relevant law and other factors into consideration, to be paid to the members. The Board may also declare interim dividends.

Factors that may be considered by the Board before making any recommendations for the dividend include, but are not limited to, future capital expenditure plans, profits earned during the financial year, cost of raising funds from alternate sources, cash flow position and applicable taxes including tax on dividend, subject to the guidelines issued by Government in this regard. These factors need to be considered while deciding dividend payout.

9.0 Financial Parameters that shall be considered while declaring dividend:

As per DIPAM Guideline on Capital Restricting of Central Public Sector Enterprises (CPSE's) issued by DIPAM, Govt. of India on 27.05.2016, every CPSE would pay a minimum annual dividend of 30% of PAT or 5% of the net-worth, whichever is higher subject to the maximum dividend permissible under the extant legal provisions. Nonetheless, CPSEs are expected to pay the maximum dividend permissible under the Act under which a CPSE has been set up, unless lower dividend proposed to be paid is justified after the analysis of the following aspects on a case to case basis at the level of Administrative Ministry/Department.

- (i) Net-Worth of the CPSE and its Capacity to borrow;
- (ii) Long-term borrowings;
- (iii) CAPEX/Business Expansion needs;
- (iv) Retention of profit for further leveraging in line with the CAPEX needs; and
- (v) Cash and bank balance.

9.1 Dividend Policy:

Dividend for the financial year shall be decided by the Board of Directors considering various statutory requirements, financial performance of the company and other internal and external factors enumerated in the policy. However, broadly the dividend payment by NHPC shall be in line with the ibid DIPAM guidelines i.e. 30% of PAT or 5% of net-worth, whichever is higher.

9.2 Manner and timelines for Dividend Payout:

(a) Interim dividend(s):

- I. Interim dividend(s), if any, shall be declared by the Board of Directors. Normally, interim dividend is declared in the third/fourth quarter of the relevant financial year.
- II. The payment of interim dividend, if declared, shall be made within 30 days from the date of declaration to the shareholders entitled to receive the dividend on the record date as per the applicable laws.

(b) Final dividend:

- I. Recommendation for final dividend, if any, shall be done by the Board of Directors and shall be subject to approval of the shareholders of the Company in Annual General Meeting.
- II. The payment of dividends shall be made within 30 days from the date of declaration to the shareholders entitled to receive the dividend on the record date/book closure period as per the applicable law.
- III. In case no final dividend is declared, interim dividend paid during the year, if any, will be regarded as final dividend in the annual general meeting.

10.0 Internal and External factors that shall be considered for declaration of dividend:

Internal factors includes CAPEX plan and free cash available to the Company. External factors include economic conditions, Regulatory norms applicable to the company, applicable statutory provisions & the guidelines issued by the Govt. of India or other statutory bodies from time to time. These factors will be considered while deciding the quantum of dividend.

11.0 Manner of Utilisation of Retained Earnings:

The retained earnings is utilised primarily for the growth prospect of the company for the maximisation of the shareholder's fund. The company shall take following factors into consideration for the utilisation of the retained earnings:

- i. Short term and long term plans of the Company.
- ii. Diversification opportunities.
- iii. Government guidelines with regard to issue of bonus, buy-back etc.
- iv. Any other criteria which the Board of Directors may consider appropriate.

12.0 Parameters to be adopted with regard to various classes of shares:

The decision to pay (declare) dividends is taken by the Board of Directors/ shareholders at the AGM of the Company. Under this decision, the size of dividends per shares of each category (type) is determined. Since the Company has only one class of equity share with equal voting right, all the members of the Company are entitled for the same amount of dividend per share.

13.0 Other Provisions:

The Policy needs to be approved by the Board of Directors of the Company and the Board of Directors have right to carry out any changes in the policy. The policy will be reviewed every three years or as Company's Board of Directors may deem fit from time to time.

If as a result of changes to the laws of the land, any individual clause of this policy contradicts such change, the policy shall be applied in the part that does not contradict the law in force.

In case, the quantum of dividend so declared happens to be less than Rs.0.50 to a shareholder then the shareholder will get minimum dividend of Rs.1. Further, the payment of dividend is subject to rounding off the amount of dividend in terms of Companies (Central Governments) General Rules & Forms Amendment Rules, 2014.

14.0 Informing the Shareholders of Dividend Distribution Policy:

Dividend Distribution Policy to be made available in the annual report of the company & to be disclosed on the website of the company also.

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