



असीमित ऊर्जा, अनन्त संभावनाएं
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Rural Electrification Corporation Limited

Dividend Distribution Policy

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1. Abbreviations and full form

| Abbreviation | Full Form |
|--------------------------------|--|
| CRAR | Capital to Risk Weighted Assets Ratio |
| DIPAM | Department of Investment and Public Asset Management |
| DPE | Department of Public Enterprises |
| IFC | Infrastructure Finance Company |
| MoF | Ministry of Finance |
| NBFC | Non-Banking Financial Company |
| NSE | National Stock Exchange of India Limited |
| PAT | Profit After Tax |
| RBI | Reserve Bank of India |
| REC | Rural Electrification Corporation Limited |
| SEBI | Securities and Exchange Board of India |
| SEBI (LODR) Regulations | SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 |

2. Background

As per Regulation 43A of SEBI (LODR) Regulations, 2015, the top five hundred listed entities based on market capitalization (calculated as on March 31 of every financial year) shall formulate a dividend distribution policy which shall be disclosed in their annual reports and on their websites. Further, the listed entities other than top five hundred listed entities based on market capitalization may disclose their dividend distribution policies on a voluntary basis in their annual reports and on their websites. Considering the fact that REC is amongst the top 500 listed entities as per the criteria, its ranking as per NSE being 105th as at 31st March 2016, the dividend distribution policy has been formulated.

The intent of the policy is to broadly specify the external and internal factors including financial parameters that shall be considered while declaring dividend and the circumstances under which the shareholders of the Company may or may not expect dividend, etc. The policy has been framed broadly in line with the provisions of the Companies Act and also taking into consideration, guidelines issued by MoF/ SEBI/ DPE/ DIPAM and other guidelines, to the extent applicable.

3. Factors considered while declaring Dividend

The dividend pay-out decision of the Company depends upon the following external and internal factors-

3.1 External Factors

3.1.1 Economic Environment

In case of uncertain or recessionary economic and business conditions, the Company will endeavor to retain larger part of profits to build up reserves to absorb future shocks.

3.1.2 Capital Markets

In the times of favorable markets, dividend pay-out can be liberal. However, in case of unfavorable market conditions where the availability of credit is restricted, the Company may resort to a conservative dividend pay-out in order to conserve cash outflows.

3.1.3 Statutory Provisions and Guidelines

The Company will keep in mind the restrictions imposed by Companies Act with regard to declaration of dividend. Further, being a Government Company, the Company shall also consider the guidelines in force in respect of dividend declaration as issued from time to time by the Govt. of India.

3.2 Internal Factors

The Company considers various financial parameters before considering the declaration of dividend. as below

3.2.1 Profit Earned during the year

As per Section 123 of the Companies Act, 2013, no dividend shall be declared or paid by a company for any financial year except out of the profits of the company for that year or out of profits of the company for any previous financial year/years arrived at after providing for depreciation in accordance with the provisions of the Act.

3.2.2 Capital to Risk-weighted Assets Ratio

Being an IFC, REC is required to maintain a CRAR of 15% (with a minimum Tier I Capital of 10%). Accordingly, the expected figure for CRAR is also taken into consideration while declaring dividend so that it does not breach the prescribed figure.

3.2.3 Net Worth of the Company

As per the extant guidelines issued by DIPAM, Govt. of India, 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. Being a Govt. Company, REC is also required to comply with these guidelines or any subsequent modification thereto as may be issued from time to time.

Apart from the above financial parameters, the Company may also consider various other internal factors, which inter alia include:

- Present & future capital requirements of the existing businesses;
- Additional investments in subsidiaries/associates of the Company;
- Any other factor as deemed fit.

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

The decision regarding dividend pay-out is a crucial decision as it determines the amount of profit to be distributed among shareholders of the Company and the amount of profit to be retained in business. The decision seeks to balance the dual objectives of appropriately rewarding shareholders through dividends and retaining profits in order to maintain a healthy capital adequacy ratio to support future growth.

The Company has been consistently paying out dividends to its shareholders and can be reasonably expected to continue declaring in future as well unless the Company is restrained to declare profits due to insufficient profits or non-availability of sufficient capital to meet the minimum capital requirements prescribed by RBI or any of the external or internal factors listed above.

Further, though the Company endeavors to declare the dividend as per the guidelines issued by DIPAM, Govt. of India as specified under the Clause 3.2.3, however, the Company may propose lower dividend after analysis of various financial parameters, cash flow position and funds required for future growth and after the approval of the Administrative Ministry.

5. Utilization of Retained Earnings

The Company is engaged into financing the power sector and the retained earnings are deployed in the long-term infrastructure loan assets. The profits being retained in the business shall be continued to be deployed in infrastructure loans and thus contributing to the growth to the business and operations of the Company. The Company stands committed to deliver sustainable value to all its stakeholders.

6. Parameters to be adopted with regard to various classes of shares

The holders of the equity shares of the Company, as on the record date, are entitled to receive dividends. Since the Company has issued only one class of equity shares with equal voting rights, all the members of the Company are entitled to receive the same amount of dividend per share. The policy shall be suitably revisited at the time of issue of any new class of shares depending upon the nature and guidelines thereof.

7. Modifications/ deviations to the policy

CMD is authorized to approve any minor modifications/ deviations to the policy and will be the competent authority for any interpretation regarding the policy.