Dividend Distribution Policy of NLC India Limited
(formerly Neyveli Lignite Corporation Limited)

1) **Back Ground**

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 top five hundred listed entities based on market capitalization (calculated as on March 31 of every financial year) to formulate a dividend distribution policy which shall be disclosed in their Annual Report and on their websites. Considering the fact that NLC India Ltd is amongst the top 500 listed entities as per the criteria as at 31.03.2016, the dividend distribution policy has been formulated.

The Intent of the policy is to broadly specify the following parameters:

- the circumstances under which the shareholders of the listed entities may or may not expect dividend
- the financial parameters that shall be considered while declaring dividend
- internal and external factors that shall be considered for declaration of dividend
- policy as to how the retained earnings shall be utilized
- parameters that shall be adopted with regard to various classes of shares and
- Any other parameter

2) **Effective date**

The policy shall become effective from the date of its adoption by the Board i.e. 20.03.2017.

3) **Policy Framework**

The policy is framed broadly in line with the provisions of Companies Act, 2013 and also taking into consideration, guidelines on "Capital Restructuring of Central Public Sector Enterprises" issued by Dept of Investment and Public Asset Management (DIPAM), Ministry of Finance, Dept of Public Enterprises, SEBI and other guidelines, to the extent applicable. The policy shall deem to cover the amendments if any, issued by any of the regulatory authorities and / or Govt of India from time to time.

4) **Objective of the policy**

Considering the provisions of the amended Regulation 43 A of Listing Obligation and Disclosure Requirements of SEBI Regulations, 2015, the Board of NLC India had decided to draw a defined policy with regard to decision for distribution of dividend to its shareholders and / or retaining the profit. The policy covers the timing, factors, financial parameters shall be considered for taking such decisions of declaration of dividend or of retention of profits, to bring the transparency with the shareholders of NLC India.

Policy shall not apply to:

- Determination and deciding dividend on preference shares, if any to be issued by the NLC India in a later date, as the same will be as per the terms of issue approved by the shareholders of the NLC India.
- Distribution of dividend in kind i.e. by issue of fully or partly paid bonus shares or other securities subject to applicable laws.
- Distribution of cash as an alternative to payment of dividend by way of buy back of shares.

5) The circumstances under which the shareholders of the NLC India may or may not expect dividend

Decision regarding dividend seeks to balance the dual objective of rewarding the shareholders through dividend and retain profit to fund the growth plan of the company.

The company can be reasonably expected to continue declaring dividend in future as well unless the Company is restrained to declare profits due to insufficient profits or non-availability of sufficient funds.

Further, though the company endeavours to declare dividend as per the guidelines issued by DIPAM, Govt of India as specified under clause 5.3 and 5.4, the company may however propose lower dividend after analysis of various financial parameters, cash flow position, funds required for future growth and after approval of concerned Dept of Govt of India.

6) The financial parameters that shall be considered while declaring/recommending dividend

Being a Central Public Sector Enterprise (CPSE), the NLC India has to comply the guidelines dated 27th May, 2016 and 19th Dec 2016 on "Capital Restructuring of Central Public Sector Enterprises" issued by DIPAM mandating every CPSE to pay a minimum annual dividend of 30% of PAT or 5 % of Net-worth, whichever is higher subject to the maximum dividend permissible under the extant provisions. Nonetheless, CPSE are expected to pay the maximum dividend permissible under the Act under which CPSE has been set up, unless lower dividend proposed to be paid is justified on a case to case basis after the analysis of the following aspect:

- Net-worth of the CPSE and its capacity to borrow
- Long- term borrowing

- CAPEX / Business Expansion needs
- Retention of profit for further leveraging in line with the Capex needs: and
- Cash and bank balances

7) Internal and external factors that shall be considered for declaration of dividend

a. Internal Factors

i. Cash Flow:

In the event, NLC India cannot generate adequate operating cash flow; it may need to rely on outside funding to meet its financial obligations and sometimes to run the day–to–day operations. In such circumstances, the Board will consider these factors before its decision whether to declare the dividend or retain its profit.

ii. CAPEX plan:

Declaration of dividend will also depend on CAPEX plan of the company. Deployment of internal resources to meet the committed CAPEX will be taken into account.

Apart from the above financial parameters, the Board of NLC India may also consider various other internal factors, which inter- alia include:

- Additional investments in subsidiaries/associates of the company
- Any other factors as deemed fit.

b. External Factors

i. Economic Environment :

In the event of uncertain or recessionary economic, business and industry conditions, NLC India will endeavour to retain larger part of profits to build up the reserve to sustain future up downs.

ii. Taxation and other regulatory concern:

Dividend distribution tax as required by tax regulation or any restrictions on payment of dividend by virtue of any regulation, as may be applicable to the company, at the time of declaration of dividend and its impact on the finances of the NLC India.

iii. Macro-economic Conditions :

The policy decisions that may be formulated by the Government of India which may have a bearing on or affect the business of the NLC India, the Board may consider retaining a larger part of profits to have sufficient reserves to absorb unforeseen circumstances.

iv. Cost of Borrowing :

The Board will analyse the long term and /or short term fund requirement considering the viability of the options in terms of cost of raising the same from external sources or through ploughing back its own funds.

Regulatory Norms prescribed by the Ministries, Central/State Regulators such as Central Electricity Regulatory Commission (CERC), State Electricity Regulatory Commissions (SERCs) and other statutory bodies may affect the margin and in turn affect dividend pay out.

The company may consider retaining a larger part of profit to have sufficient reserves to absorb unforeseen circumstances arising out of the economic scenario prevailing in the country and abroad which may have bearing on the industry and company.

8) Policy as to how the retained earnings shall be utilized

Profits being retained shall be deployed in expanding the business and thus contribute to the growth of the business and operations of the NLC India.

Utilisation of retained earnings shall also be governed by the following parameters:

- The objects of the NLC India as detailed in Memorandum of Association
- Strategic and long terms requirements of the NLC India
- Future power asset installation/acquisition and Development of lignite and coal block development.
- Diversification plan
- Non fund based needs of the company and its subsidiaries and joint ventures
- Govt guidelines with regard to buy-back of shares, issue of bonus shares etc.
- Any other criteria which Board may consider appropriate

9) Parameters that shall be adopted with regard to various classes of shares

NLC India has presently only one class of shares i.e. equity shares. Since the company has issued only one class of equity shares with equal voting rights, all the shareholders of the company are entitled to receive the same amount of dividend per share. As and when it proposes to issue any other class of shares, the policy shall be modified accordingly.

10) Manner and timelines for Dividend Payout.

a. Interim Dividend(s)

The Board may consider declaration of Interim dividend(s) on the basis of last quarterly approved accounts during the financial year at the time of Board meeting and also the profit projections for the remaining part of the year. The payment of the dividend shall be as per the applicable provisions of The Companies Act, 2013. In case no final dividend is declared for any year, the interim dividend if any paid during the year, will be regarded as the final dividend for the said year in the annual general meeting.

b. Final Dividend

Recommendation of final dividend, if any, shall be done by the Board, usually in the Board Meeting that considers and approves the financial statements, subject to the approval of the shareholders of the Company. The dividend as recommended by the Board shall be declared at the annual general meeting of the company. The payment of the dividend shall be as per the applicable provisions of the Companies Act, 2013.

11) Amendment

CMD is authorised to make modifications in the policy especially to comply with the Govt directives, if any, and will also be the Competent Authority for any interpretation regarding the policy.

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<u>Glossary</u>

CAPEX	Capital Expenditure
CERC	Central Electricity Regulatory Commission
CMD	Chairman and Managing Director
CPSE	Central Public Sector Enterprise
DIPAM	Department of Investment and Public Asset Management
SEBI	Securities and Exchange Board of India
SERC	State Electricity Regulatory Commission

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