



Veritas Finance Private
Limited – Dividend
Distribution policy

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VERITAS FINANCE PRIVATE LIMITED

DIVIDEND DISTRIBUTION POLICY

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PREAMBLE

Veritas Finance Private Limited (CIN:U65923TN2015PTC100328) ("the Company") is a Company incorporated under the provisions of the Companies Act, 2013 on 30 April 2015. The Company has received the Certificate of Registration dated 15 October 2015 from the Reserve Bank of India ("RBI") to carry on the business of Non-Banking Finance Company without accepting public deposits ("NBFC-ND-SI"). During the financial year 2018-19, the Company listed its non-convertible debentures on the Bombay Stock Exchange ("BSE").

The Company is engaged in extending credit to micro and small enterprises typically self-employed business. The Company follows the cash flow based credit assessment with suitable adaptations for each type of business, where the loans are given for business expansion, working capital, purchase of assets, construction of houses etc.

OBJECTIVES OF THE POLICY

The purpose of the Dividend Distribution policy is to set guidelines for Veritas finance Private limited, to decide how much it will pay out to shareholders in Dividend.

The purpose of this policy is to describe the factors, timing and amount to be considered for Interim and Final dividend. Dividends are declared at the Annual General Meeting of the shareholders based on the recommendation by the Board. The Board may recommend dividends, at its discretion, to be paid to shareholder. The Board may also declare interim dividends.

The Dividend Distribution policy framed in this regard is to act as a reference guide for making necessary decisions and carrying out pay out if any based on the due process.

The Company is deeply committed to driving superior value creation for all its stakeholders. The focus will continue to be on sustainable returns, through an appropriate capital strategy for both medium term and long term value creation. Accordingly, the Board would continue to adopt a progressive and dynamic dividend policy, ensuring the immediate as well as long term needs of the business.

While adopting this policy, VFPL reiterates its commitment to its shareholders to maximize shareholders value, which will be represented as Dividend pay-out Ratio or the percentage of earnings paid to shares in dividends, as calculated as:

- Yearly Dividend per share/ Earnings per share
- Dividend / Net Income

The company has issued shares of both Equity and preference Shares. Parameters for Dividend payments in respect of shares will be as per the respective terms of issue and in accordance with the applicable provisions of the Act, rules and, regulations and will be determined, as and when the company decides to issue of shares

If the Board proposes to declare any dividend on Shares, the holders of the Equity and Preference series shall be paid, out of the dividend proposed to be declared, in the Relevant

Proportion (based on the number of outstanding Series, in preference and priority to the payment of dividend in respect of all other Shares.

REGULATORY FRAMEWORK

RESERVE BANK OF INDIA MASTER DIRECTIONS – NON BANKING FINANCIAL COMPANY

The Company shall comply with statutory requirements relating to declaration and payment of dividend. The dividend declaration/pay-out shall be within the specific and general prudential limits fixed by RBI and in conformity with the provisions of the NBFC guidelines, Companies Act 2013 and other applicable laws and guidelines that are issued by the regulators like Reserve Bank of India, Securities Exchange Board of India or any other such body from time to time and Article of Association of the company.

In order to infuse greater transparency and uniformity in practice of declaration of Dividend by NBFCs, RBI has been decided to prescribe guidelines on distribution of dividend by NBFCs. NBFCs may declare dividend, subject to compliance with the guidelines laid down as eligibility criteria, CRAR requirements , NPA % and other Criteria. Reserve Bank of India (RBI) has released the Draft Circular on Declaration of Dividend by NBFCs on 09 December 2020.

COMPANIES ACT, 2013

The declaration and payment of dividend are governed by various provisions of the Companies Act, 2013 and most importantly chapter - VIII 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;

OTHER ACTS / STANDARDS / GUIDELINES

- Section 27 of Security Contract Regulation Act, 1956;
- Income Tax Act, 1961;
- Secretarial Standards on Dividend (SS-3)
- SEBI Guidelines/Circulars etc. as amended from time to time and to the extent applicable.

DEFINITIONS

- a) “Act” means the Companies Act, 2013 and rules made thereunder [including any amendments or re-enactments thereof]
- b) “Applicable laws” shall mean to include Companies Act 2013 and rules made thereunder, [including any amendments or re-enactments thereof], Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, [including any amendments or re-enactments thereof], Rules/guidelines/notifications/circulars issued by Reserve Bank of India and any other regulation, rules, acts, guidelines as may be applicable to the distribution of dividend.
- c) “Board” or “Board of Directors” shall mean Board of Directors of the Company, as constituted from time to time.
- d) “Company” shall mean Veritas Finance Private Limited (VFPL).
- e) "Dividend" includes any interim dividend; which is in conformity with Section 2(35) of the Companies Act, 2013 read with Companies (Declaration and Payment of Dividend) Rules, 2014.
- f) “Financial year” shall mean the period starting from 1st day of April and ending on the 31st day of March every year,
- g) “Free reserves” shall mean the free reserves as defined under Section 2 (43) of the Act.

FACTORS TO BE CONSIDERED BEFORE DECLARING DIVIDEND:**a. Internal Factors:**

The Board shall consider the below mentioned financial parameters for the purpose of recommendation/declaration of dividend:

- i. Regulatory capital requirement projected for next two fiscals as per latest business plan
- ii. Future capital expenditure plans
- iii. Profits earned during the financial year
- iv. Cost of raising funds from alternate sources
- v. Cash flow position
- vi. Post Dividend Trend
- vii. Liquidity position, aggregate Debt of the Company, debt service coverage position, etc.
- viii. Loan repayment and Working capital requirements;
- ix. Regulatory (and growth requirement of) Capital Adequacy
- x. Regulatory (and growth requirement of) Solvency
- xi. Trend of dividends paid in the past years; if any
- xii. Any windfall, extra-ordinary or abnormal gains made by the Company
- xiii. Applicable taxes including tax on dividend and
- xiv. Any other factor not explicitly covered above but which is likely to have a significant impact on the Company.

b. External Factors:

The Board shall also consider the below mentioned external factors at the time of taking a decision w.r.t recommendation/declaration of dividend:

- i. Applicable laws and Regulations including taxation laws.
- ii. Prevailing legal requirements, regulatory restrictions laid down under the applicable laws including tax laws and changes made in accounting standards
- iii. Economic conditions
- iv. Prevalent market practices
- v. Dividend pay-out ratios of companies in the same industry.
- vi. Any other factor that has a significant influence / impact on the Company's working / financial position of the Company

DECLARATION OF DIVIDEND

Dividend shall be declared or paid only out of –

a) Current year's Profit

- After providing for depreciation in accordance with the law and
- After transferring to reserve such amount of profits may be prescribed.

- b) Profits for any previous financial year(s)
 - After providing for depreciation in accordance with the law and
 - Remaining undistributed
- c) Both Current year and previous year profits
- d) Dividend when losses – Before declaring any dividend
 - The losses if any, of any previous years must be set off
 - Against the profit of the Company for the current financial year or previous year
- e) Dividend out of reserves
 - If the Board decided to declare the dividend out of reserves, then it shall follow the provision of the Companies Act, 2013 and relevant rules thereof .

CIRCUMSTANCES UNDER WHICH THE SHAREHOLDERS MAY NOT EXPECT DIVIDEND

The decision to recommend/declare the dividend by the Board of Directors shall primarily depend on the factors listed out above. 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. However, the shareholders of the Company may not expect Dividend under the following circumstances:

1. In the event of inadequacy of profits or whenever the Company has incurred losses;
2. Significant cash flow requirements towards higher working capital requirements / tax demands / or others, adversely impacting free cash flows;
3. An impending / ongoing Capital expenditure program or any acquisitions or investment in joint ventures requiring significant allocation of capital, if any;
4. Allocation of cash required for buy-back of securities, if any and
5. In the event of a growth opportunity where the Company may be required to allocate a significant amount of capital for further business expansion;
6. Any of the above referred internal or external factors restraining the Company from considering dividend.

MANNER OF DECLARATION AND PAYMENT OF DIVIDEND**Process for approval of Payment of Final Dividend:**

Board to recommend quantum of final dividend payable to shareholders in its meeting in line with applicable laws and rules prescribed thereof, based on the profits arrived at as per the audited financial statements and post Shareholders approval for Dividend in the Annual General Meeting, the same shall be paid to the eligible shareholders within stipulated timelines as per applicable laws.

Process for approval of Payment of Interim Dividend:

Board may declare Interim Dividend, one or more times in a financial year, at its complete discretion in line with applicable laws and rules prescribed thereof, out of the surplus in the profit and loss account or out of profits of the financial year for which such interim dividend is sought to be declared or out of profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend.

The Board shall consider the financial results of the Company for the period for which Interim Dividend is to be declared and shall be satisfied that the financial position of the Company justifies and supports the declaration of such Dividend.

The financial results shall take into account the following:

- a) Depreciation for the full year;
- b) Tax on profits of the Company including deferred tax for full year;
- c) Other anticipated losses for the Financial Year;
- d) Dividend that would be required to be paid at the fixed rate on preference shares;
- e) The Losses incurred, if any, during the current financial year up to the end of the quarter, immediately preceding the date of declaration of Interim Dividend;

DISCLOSURE

The Company shall make appropriate disclosures as required under the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015 and applicable laws.

Draft Matrix and Scenarios

As per the draft RBI circular, the matrix and scenarios are given below,

Category	CRAR	Net NPA ratio			
		Zero	More than Zero but less than 2%	From 2 % to less than 4%	From 4 % to less than 6 %
		Range of Dividend Pay-out Ratio			
A	20% or more for each of the last 3 years including the current accounting year	Up to 50%	Up to 45%	Up to 35%	Up to 25%
B	18% to less than 20% for each of the last 3 years including the current accounting year	Up to 45%	Up to 40%	Up to 30%	Up to 20%
C	15% to less than 18% for each of the last 3 years including the current accounting year	Up to 40%	Up to 35%	Up to 25%	Up to 15%
D	15% or more only in the accounting year for which dividend is to be declared	Up to 15%		Up to 10%	Nil

Based on the above matrix suggested, it would have been as follows for FY 2019-20:

CRAR			Net NPA ratio as on 31st March 2020	Category	Maximum dividend pay-out ratio (%)
FY 2019-20	FY 2018-19	FY 2017-18			
48.02%	48.04%	59.28%	1.29%	A	Up to 45%

For FY 2020-21, the various scenarios are as follows:

Scenarios	CRAR			Net NPA ratio (please refer Scenarios column)	Category	Maximum dividend pay-out ratio (%)
	FY 2020-21	FY 2019- 20	FY 2018- 19			
1. Assuming NPA continues to be within 2% based on the un-audited FS for the period ended 30 th November '20	> 20% (Expected to remain above 20% as on 31 st March 2021)	48.02%	48.04%	Up to 2%	A	Up to 45%
2. Assuming NPA to increase above 2% but remaining below 4%	> 20% (Expected to remain above 20% as on 31 st March 2021)	48.02%	48.04%	>2% < 4%	A	Up to 35%
3. Assuming NPA to increase above 4% but remaining below 6%	> 20% (Expected to remain above 20% as on 31 st March 2021)	48.02%	48.04%	>4% < 6%	A	Up to 25%
4. Assuming NPA to increase above 6%	> 20% (Expected to remain above 20% as on 31 st March 2021)	48.02%	48.04%	>6%	-	Nil
5. Assuming 100% of the NPAs are either provided for in full or written-off in the year-end to have Nil Net NPA.	> 20% (Expected to remain above 20% as on 31 st March 2021)	48.02%	48.04%	Nil	A	Up to 50%

POLICY CHANGES AND EXCEPTIONS

The policy requirements may be modified at the discretion of the Management.

This Policy would be subject to revision/amendment in accordance with the guidelines as may be issued by Ministry of Corporate Affairs, Securities Exchange Board of India or such other regulatory authority as may be authorized, from time to time, on the subject matter.

Exceptions to provisions not requiring Board approval in this policy will require approval from Managing Director.
