

DIVIDEND POLICY

I. RATIONALE FOR THE POLICY

Hero FinCorp Limited (the “**Company**”) is a non-banking financial company registered with the Reserve Bank of India with a diversified product portfolio. In the two-wheeler segment, the Company has focused on customers who are left out of the banking network for reasons like limited documentation, limited credit history etc. The Company believes that credit worthiness can be evaluated by employing innovative methods such as taking into account the subjective knowledge gathered from customer visits, background checks, etc. The Company provides a bouquet of other financial products including used car financing, loyalty personal loan, inventory funding, loan against property, loans to SMEs and emerging corporates.

With respect to apportioning share of profit to its shareholders, the Company endeavours to be fair and consistent with its strategy, approach and decision. The management of the Company draws the conclusion of distributing dividends after taking into account a multitude of legal and financial parameters including long-term earning capabilities, growth prospects, opportunity costs, applicable laws and statutory covenants.

Key considerations for the dividend decision are the Company’s historical financial performance, future financial outlook, strategic business needs including expansion plans, acquisitions plans, medium term investments, capital expenditure needs and dividend payout practice.

II. OBJECTIVE

This dividend policy (“**Policy**”) establishes the principles to ascertain the amounts that can be distributed to the Shareholders as Dividend by the Company as well as enable the Company strike balance between pay-out and retained earnings, in order to address future needs of the Company.

This Policy aims to ensure that the Company makes rational decision with regard to the amount to be distributed to the shareholders as dividend after retaining sufficient funds for the Company’s growth, to meet its long-term objective and other purposes. It lays down various parameters which shall be considered by the Board of Directors of the Company before recommendation/declaration of dividend to its shareholders.

III. 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, rules/ guidelines/ notifications/ circulars issued by the Reserve Bank of India and any other acts, rules, regulations, guidelines as may be applicable to the distribution of Dividend.
- c. “**Board**” or “**Board of Directors**” shall mean the board of directors of the Company, as constituted from time to time.
- d. “**Company**” shall mean Hero FinCorp Limited.
- 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. **“Capital to Risk Assets Ratio”** shall mean the percentage of capital funds to risk weighted assets / exposures of the Company, calculated in accordance with Applicable Law.
- g. **“Equity Shares”** shall mean equity shares of the Company, having a face value of Rs. 10 (Rs, Rupees Ten) each.
- h. **“Financial year”** shall mean the period starting from 1st day of April and ending on the 31st day of March every year.
- i. **“Free reserves”** shall mean the free reserves as defined under Section 2(43) of the Act.
- j. **“CCPS”** means the compulsorily convertible preference shares issued by the Company to certain investors.
- k. **“Shareholder”** shall mean any person holding Equity Shares or preference shares in the Company.

IV. FACTORS FOR RECOMMENDATION/DECLARATION OF DIVIDEND

As in the past, subject to the provisions of the applicable law, the Company’s Dividend payout will be determined based on available financial resources, investment requirements and taking into account optimal Shareholder return. While determining the nature and quantum of the Dividend payout, the Board would take into account the following factors:

Internal Factors (Financial Parameters):

- i. Profitable growth of the Company and specifically, profits earned during the financial year as compared with:
 - a. Previous years; and
 - b. Internal budgets
- ii. Cash flow position of the Company,
- iii. Accumulated reserves,
- iv. Capital to Risk Assets Ratio (Capital Adequacy Ratio),
- v. Transfer to Statutory Reserves as per the Reserve Bank of India Act, 1934,
- vi. Transfer to Debenture Redemption Reserve,
- vii. Earnings stability,
- viii. Future cash requirements for organic growth/expansion and/or for inorganic growth,
- ix. Current and future leverage and, under exceptional circumstances, the amount of contingent liabilities,
- x. Deployment of funds in short term marketable investments,
- xi. Long term investments,
- xii. Capital expenditure(s), and
- xiii. The ratio of debt to equity (at net debt and gross debt level).

External Factors:

- i. Business cycles,
- ii. Economic environment,
- iii. Cost of external financing,
- iv. Applicable taxes,
- v. Industry outlook for the future years,

- vi. Inflation rate, and
- vii. Changes in the Government policies, industry specific rulings and regulatory provisions.

Apart from the above, the Board also considers past dividend history and sense of shareholders' expectations while determining the rate of Dividend.

V. MANNER OF UTILISATION OF RETAINED EARNINGS

The retained earnings of the Company may be used in any of the following ways:

- i. Capital expenditure for working capital,
- ii. Organic and/ or inorganic growth.

VI. GENERAL

The Company shall consider the following conditions in relation to declaration / distribution of Dividends:

- (a) The Company shall be consistent and stable in its Dividend pay-out practice, smoothening out the stream of Dividends paid to its shareholders.
- (b) The Company shall keep sufficient financial flexibility to fund future growth prospects and maximize corporate value in the long run.
- (c) The Company to declare/distribute Dividends at an annual frequency, along with extra Dividend, if and when financials/internal/external factors so permit.
- (d) If the financial position, internal and external factors, and laws so permit, the Company may declare/distribute interim Dividend. This may also be done after the Board has considered the interim financial statements, and at any time before the closure of the Financial Year.
- (e) The Company, may in future issue equity shares with differential rights or preference shares or any other class of shares, in which case, the Dividend or Interim Dividend so declared on all or anyone or more of the classes of such shares, shall be consistent with covenants of the Dividend Policy and rights and privileges associated with such new issuances.
- (f) The Company shall use any of the electronic modes of payment approved by the Reserve Bank of India for the payment Dividends. Also, where it is not possible to use electronic mode of payment, 'payable-at-par' warrants or cheques may be issued.

VII. REVIEW

The Board of Directors shall have the right to modify, amend or change any or all clauses of this Policy in accordance with the provisions of the Applicable laws and the terms of any agreements that it may have executed with its Shareholders.

In case of any amendment(s), clarification(s), circular(s) etc. issued under any Applicable laws, which is not consistent with any of the provisions of this Policy, then such amendment(s), clarification(s), circular(s) etc. shall prevail upon the provisions hereunder and this Policy shall be deemed to be amended accordingly from the effective date as laid down under such amendment(s), clarification(s), circular(s) etc.

VIII. DIVIDEND DECLARATIONS

Notwithstanding anything contained to the contrary in this Policy or any other agreement entered into or that may be entered into by the Company:

- a. The Company shall declare Dividend on the CCPS in accordance with the terms of this Policy, Applicable laws, and the agreement(s) entered into inter alia amongst the Company and the holder of the CCPS (including in relation to the dividend rate specified in such agreement(s)).

- b. The Company shall not declare or distribute any Dividend to any other Shareholder, unless Dividend is first declared and distributed with respect to the CCPS in accordance with the provisions of the Act, Applicable laws and the agreement(s) entered into inter alia amongst the Company and the holder of the CCPS; and
- c. With respect to equity shareholders, the Board shall maintain a dividend payout ratio of up to 25% (Twenty Five Per cent) of the residual amount of the annual standalone profits after tax (PAT) of the Company on a Financial Year basis after Dividend has been declared and paid on the CCPS in accordance with this Policy & Applicable laws.
