the Spirit of Innovation

DIVGI TORQTRANSFER SYSTEMS LIMITED

DIVIDEND DISTRIBUTION POLICY

Document Control

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1) PREAMBLE:

This Dividend Distribution Policy is made pursuant to the applicable provisions of Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended (hereinafter referred to as the “Regulations”). The Board of Directors of Divgi TorqTransfer Systems Limited (the “Company”), herein after referred as “the Board”, has approved the Dividend Distribution Policy of the Company (“the Policy”) and shall disclose the same on a voluntary basis in the annual reports and on the website of the Company.

This Policy sets out the general parameters adopted by the Company for declaration of dividend for guidance purposes.

2) SCOPE AND OBJECTIVE:

This Policy seeks to lay down a broad framework for the distribution of dividend by the Company whilst appropriately balancing the need of the Company to retain resources for the Company's growth & sustainability. Through this policy, the Company also endeavours to maintain fairness and consistency while considering distributing dividend to the shareholders.

The Policy sets out the circumstances and different factors for consideration by the Board at the time of taking a decision on distribution or retention of profits, in the interest of providing transparency to the shareholders.

The Policy is not an alternative to the decision of the Board for recommending dividend, which is made every year after taking into consideration all the relevant circumstances enumerated hereunder or other factors as may be considered relevant by the Board.

3) STATUTORY REQUIREMENTS:

This policy on dividend distribution shall be in accordance with the provisions of the Companies Act, 2013, read with applicable rules framed thereunder, as may be in force for the time being ("Act") and the Regulations

4) DEFINITIONS:

1. **"Act"** shall mean the Companies Act, 2013 including the Companies (Declaration and Payment of Dividend) Rules, 2014, as amended from time to time.

2. **“Board"** or **"Board of Directors"** shall mean Board of Directors of the Company.

3. **"Company”** shall mean "Divgi TorqTransfer Systems Limited" or "Divgi-TTS".

4. **“Dividend”** includes any interim dividend as defined under the Companies Act, 2013.

5. **“Free Reserves"** shall means such reserves which, as per the latest audited balance sheet of a Company, are available for distribution as dividend:
   Provided that —

   i. any amount representing unrealized gains, notional gains or revaluation of assets, whether shown as reserves or otherwise, or any change in carrying amount of an asset or of a liability recognized in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value, shall not be treated as free reserves.',

6. **"Policy"** or "this Policy" shall mean the Dividend Distribution Policy.

7. **“Regulations”** shall means the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.

5) STATUTORY PROVISIONS RELATING TO DISTRIBUTION OF DIVIDEND:

In accordance with the provisions of the Act, dividend shall be declared or paid only:

A. Out of distributable profits of current year or previous financial years:

(i) Current financial year's profit after tax of standalone financial statement as per applicable Accounting Standards:

(a) after providing for depreciation in accordance with Act ; and

(b) after transferring to reserves such amount as may be prescribed or as may be otherwise considered appropriate by the Board at its discretion; OR

(ii) Profits for any previous financial year(s):

(a) after providing for depreciation in accordance with Act; and

(b) remaining undistributed; OR

(iii) A combination of (i) & (ii) above;

B. Out of free reserves - in the event of inadequacy/ absence of profits

In the event of inadequacy or absence of profits in any year, Company may declare dividend out of free reserves, subject to fulfilment of conditions specified under the Act.

C. Company may, in certain cases, declare dividend using a combination of A and B above.

6) PARAMETERS TO BE CONSIDERED WHILE RECOMMENDING/ DECLARING DIVIDEND:

6.1 Financial Parameters

6.1.1 **Magnitude of current year's earnings of the Company:** Since dividend is directly linked with the availability of earning over the long haul, the magnitude of earnings will significantly impact the dividend declaration decisions of the Company.

6.1.2 **Operating cash flow of the Company:** If the Company 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. The Board will consider the same before its decision whether to declare dividend or retain its profits.

6.1.3 **Return on invested capital:** The efficiency with which the Company uses its capital.

6.1.4 **Cost of borrowings:** The Board will analyze the requirement of necessary funds considering the long term or short term projects proposed to be undertaken by the Company and the viability of the raising funds from alternative sources vis-a-vis plough back its own funds.

6.1.5 **Obligations to lenders:** The Company should be able to repay its debt obligations without much difficulty over a reasonable period of time. Considering the volume of such obligations and time period of repayment, the decision of dividend declaration shall be taken.

6.1.6 **Inadequacy of profits:** If during any financial year, the Board determines that the profits of the Company are inadequate, the Board may decide not to declare dividends for that financial year.

6.1.7 **Post dividend EPS :** The post dividend EPS can have strong impact on the funds of the Company, thus, impacting the overall operations on day-to-day basis and therefore, affects the profits and can impact the decision for dividend declaration during a particular year.

6.1.8 **Future Capital Expenditure requirement of the Company:**

a) Growth plans, both organic and inorganic

b) Capital restructuring, Debt reduction, Capitalisation of shares

c) Crystallization of contingent liabilities of the Company, Profit earned under the Consolidated Financial Statement and the Cash Flows

d) Current and projected Cash Balance and Company's working capital requirements.

e) Covenants in loan agreements, Debt servicing obligations and Debt maturity profile.

6.1.9 Other factors like Accumulated reserves including retained earnings, mandatory transfer of profits earned to specific reserves, such as Debenture Redemption Reserve, etc., past dividend trends, rate of dividend, EPS and payout ratio, etc.

6.2 **Proposals for major capital expenditures**

The Board may also take into consideration the need for replacement of capital assets, expansion and modernization or augmentation of capital asset including any major sustenance, improvement and growth proposals.

6.3 **Agreements with lending institutions/ Bondholders/Debenture Trustees**

The decision of dividend pay-out shall also be affected by the restrictions and covenants contained in the agreements as may be entered into with the lenders of the Companyfrom time to time.

6.4 **Statutory requirements**

The Company shall observe the relevant statutory requirements including those withrespect to mandatory transfer of a certain portion of profits to any specific reserve such as Debenture Redemption Reserve, Capital Redemption Reserve etc. as provided in the Companies Act, 2013, which may be applicable to the Company at the time of taking decision with regard to dividend declaration or retention of profit.

7) FACTORS THAT MAY AFFECT DIVIDEND PAYOUT:

A. EXTERNAL FACTORS

- **Macroeconomic conditions:** Considering the current and future outlook of the economy of the Country, the policy decisions that may be formulated by the Government and other similar conditions prevailing in the global market which may have a bearing on or affect the business of the Company, the management may consider retaining a larger part of the profits to have sufficient reserves to meet the exigency during unforeseen circumstances.

- **Cost of raising funds from alternative sources:** If the cost of raising funds to pursue its planned growth and expansion plans is significantly higher, the management may consider retaining a larger part of the profits to have sufficient funds to meet the capital expenditure plan.

- **Taxation and other regulatory provisions**: Dividend distribution tax or any tax deduction at source as required by applicable tax regulations in India, as may be applicable at the time of declaration of dividend. Any restrictions on payment of dividends by virtue of any regulation as may be applicable to the Company at the time of declaration of dividend.

B. INTERNAL FACTORS

- The Company's long term growth strategy which requires to conserve cash in the Company to execute the growth plan.
- The liquidity position of the company including its working capital requirements and debt servicing obligations
- The trend of the performance/ reputation of the Company that has been during the past years determine the expectation of the shareholders.

8) <u>CIRCUMSTANCES UNDER WHICH THE SHAREHOLDERS OF THE COMPANY MAY OR MAY NOT EXPECT DIVIDEND:</u>

The decision regarding dividend pay-out is a crucial decision as it determines the amount of profit to be distributed among shareholders and amount of profit to be retained in business. Hence, subject to the discretion of the Board of Directors, the shareholders of the Company may expect dividend only if the Company is having surplus funds after providing for all the expenses, depreciation, etc., and after complying with the statutory requirements under the Act.

The shareholders of the Company may not expect dividend in the following circumstances, subject to the discretion of the Board of Directors:

- the Company has inadequacy of profits or incurs losses for the Financial Year;
- the Company undertakes / proposes to undertake a significant expansion project requiring higher allocation of capital; • the Company undertakes / proposes to undertake any acquisitions or joint arrangements requiring significant allocation of capital.
- the Company has significantly higher working capital requirement affecting free cash flow.

- the Company proposes to utilize surplus cash for buy- back of securities; the Company is prohibited to recommend/ declare dividend by any regulatory body.

The Board may also not recommend a dividend on considering any compelling factors/ parameters mentioned in point 6 above.

9) POLICY AS TO HOW THE RETAINED EARNINGS WILL BE UTILIZED:

i. The Board may retain its earnings in order to make better use of the available funds andincrease the value of the stakeholders in the long run.

ii. The decision of utilization of the retained earnings of the Company shall be based on the following factors:
    - Long term strategic plans
    - Augmentation/ Increase in production capacity
    - Market expansion plan
    - Product expansion plan
    - Modernization plan
    - Diversification of business
    - Replacement of capital assets
    - Balancing the Capital Structure by de-leveraging the company
      Other such criteria as the Board may deem fit from time to time.

10. MANNER AND TIMELINES FOR DIVIDEND PAYOUT:

The Company may declare dividends for a year, usually payable for a financial year at the time when the Board considers and recommends the Annual Financial Statements, which is called final dividend. The Board of Directors shall have the power to recommend final dividend to the shareholders for their approval in the Annual General Meeting of the Company.

Dividend for every financial year shall be decided by Board considering various statutory requirements, financial performance of the company and other internal and external factors enumerated earlier in the policy

The Board of Directors may declare interim dividend during the financial year, between two Annual General Meetings as and when they consider it fit.

11. SPECIFIC CLAUSE WITH REGARD TO DIVIDEND ON DIFFERENT CLASSES OF SHARES:

The payment of dividend shall be based on the respective rights attached to each class of shares as per their terms of issue. Parameters for dividend payments in respect of any other class of shares will be as per the respective terms of issue and in accordance with the applicable regulations and will be determined, if and when the Company decides to issue other classes of shares.

12. POLICY REVIEW AND AMENDMENTS:

In the event of the Policy being inconsistent with any new regulatory provision, such regulatory provision shall prevail upon the corresponding provision of this Policy and the Policy shall be construed to be amended accordingly from the effective date of such provision.

The Company reserves its right to alter, modify, add, delete or amend any or all of the provisions of the Policy as it may deem fit or in accordance with the guidelines and regulations as may be issued by Securities and Exchange Board of India, or any other regulatory authority. The change in the policy shall, however, be disclosed along with the justification thereof on the Company's website and in the ensuing annual report of the Company in accordance with the extant regulatory provisions.

In the event of any conflict between the provisions of this Policy and of the Act or Listing Regulations or any other statutory enactments, rules, the provisions of such Act or Listing Regulations or statutory enactments, rules shall prevail over this Policy. Any subsequent amendment/modification in the Listing Regulations, Act and/or applicable laws in this regard shall automatically apply to this Policy.