Dividend Policy

1. Context:

1.1 In July 2016, SEBI has inserted Regulation 43A with respect to Dividend Distribution Policy in Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, whereby the top 500 listed entities based on market capitalization (calculated as on 31st March of every financial year) are required to formulate a dividend distribution policy which shall be disclosed in their annual reports and on their websites and the dividend distribution policy shall also include certain stated parameters. Tata Power being one of the top 500 Companies needs to frame such policy as per the SEBI regulations.

2. Background:

2.1 The Company's overarching objective is to strike the right balance between adequately rewarding shareholders through dividend and providing enough funds to drive future growth both organic and inorganic to maximize long term sustainable shareholder value.

2.2 In order to be compliant with various statutes, the Company has to appropriate the following out of PAT earned each financial year:

- Transfer to Debenture Redemption Reserves as per guidelines stated in Companies Act.
- Transfer to Contingencies Reserve as per Electricity Act.
- Servicing of Unsecured Perpetual Securities
- Transfer to General Reserves
- Dividend Distribution to shareholders including dividend distribution tax
- Any adjustments to Other Comprehensive Income (OCI) as per Ind AS guidelines

2.3 Each financial year end, the Company management viz. the CFO in consultation with MD & CEO recommends the amount to be declared as dividend to the Board along with all relevant workings, ratios, payouts, trends etc. As per the existing laws and rules, Interim dividends are confirmed by the shareholders and final dividends recommended by the Directors to shareholders for approval at the Annual General Meeting of the Company.

[a] **Circumstances under which the shareholders of the listed entities may or may not expect dividend:**

For the purposes of dividend distribution, the Company's shareholders may expect the following broad criteria to be followed by the Company -

- Dividends may be expected from the Company only after all required appropriations have been made and the resultant profit after the appropriations is positive and sufficient distribution of dividends as per the parameters - financial or otherwise mentioned below in point no (b)
- A lower dividend may be proposed in the years that the Company has not made sufficient profits.
- Any dividend arising from negative profits would not be expected to be made up through plough back from the Company's accumulated Reserves. However in exceptional cases, considering the reasons for which the profits the negative for the year, the Board may recommend dividends out of accumulated profits.

[b] **Financial Parameters would ideally include:**

- Distributable profits adequacy after appropriating to all Reserves and making all adjustments but before providing for dividends and tax thereon.
- Special adjustments (upsides / downsides) which have affected the profits for the year in consideration.
- Historical trend of dividend declared rate per share for past 10 years
- Total payout of dividend and dividend tax on the same in Rs. Crs.
- Payout ratio on PAT and Distributable profits
- Earnings per share on distributable profits
- Cash availability for paying the proposed dividend

[c] **Internal and External factors to be viewed:**

- Profits projected for the ensuing financial year
- Consolidated profits of Tata Power group
- State of the economy
- Change in rules, regulations and compliances
- Restrictions under applicable laws including tax laws
- Working capital needs of the Company
- Projects in hand and support required to complete the projects from Parent Company
- Adequacy of the Company's current and projected Cash flows and strain on the existing cash reserves on account of declaration of dividends.
- Dividend pay-out ratios of the Companies in same Industry
- Debt reduction plans of the Company
- Securities buy-back plan if any
- Mode of funding of the dividends proposed to be declared and cost of borrowings / internal accruals.
- Necessity to maintain adequate Reserves for future Contingencies which have not yet materialized and are thus not currently accounted for.

[d] **Utilisation of Retained Earnings:**

- Prime objective of retained earnings is to use it judiciously and invest either in existing projects of the Company, modernization not funded by consumers, new projects or growth areas approved by the Board, retiring high cost debt etc.
- The Company, on behalf of the shareholders, shall strive to grow its retained earnings at a rate which would be higher than the risk free rate of return that can be earned alternatively.
- The Company would also check its retained earnings vis-a-vis the debt-equity profile and ROE levels for the long-term investors of the Company.
- Based on the Company's projected Investment Opportunity balance, compared with the existing and projected debt-equity structure as well as the cost of external borrowings, the enhanced or reduced retained earnings need would be ascertained and the funds would be accordingly deployed for the same.

[e] **Parameters that shall be adopted with regard to various classes of shares:**

- Any current or future preference treatment shares, as per the rights mentioned therein, would be accorded preferential dividend distribution.
- Balance distribution would be effected by the Company for the equity share component.
- As and when Company issues other kind of shares, the Board may suitably amend this policy.

[f] **Others:**

- This policy may be disclosed as per Regulations applicable.
- This policy may be subject to revision/amendment as per MCA / SEBI guidelines issued from time to time.
- Company may modify the policy by adding, deleting or altering some provisions as deemed fit.
- If revision/amendments are not consistent with the existing practice followed then such revision/amendments will super cede and the provisions will be modified accordingly.
- The Company proposes to limit the distribution of dividend in the range of 30% to 60% of distributable profits unless this policy is reviewed by the board again.
- Any payout of Dividend below 20% of distributable profits and above 60% would need be specifically approved by the board as an exception to the policy.

Subsidiary Companies - Draft Dividend Policy

Subsidiary Companies may consider the following aspects whilst dealing with their surplus profits and determining the best possible use for the same:

Investments made by Parent Company in the Subsidiary have been approved based on IRR and cash flows reflected in the financial model used for investment approvals.

As a majority shareholder, the Parent Company would be concerned about mode of distribution of the surplus cash earned by the Subsidiaries particularly because dividend is the only way to get returns on the investments made in that subsidiary.

Subsequent to the initial investment in the subsidiary, any capex, growth or diversification plan of the Subsidiaries need to be placed to Tata Power Board for approval as per current practice due to the immediate decision required on providing equity funding and in some cases support to lenders.

The Parent Company's Board would convey to the Subsidiary concerned, its ability (or otherwise) to support the requirements keeping in mind the overall leverage ratios and the specific equity raising plans at the parent level. It could also advise other suggested modes of funding the requirements.

Subsidiary Companies are expected to be familiar with the overall strategy set by the parent company and align itself to the strategic intent.

All Subsidiaries/JV are expected to follow the principle of maximising the dividend payout unless specific purpose for retaining the funds is identified and agreed to with the Parent in its capacity as shareholder.

As far as foreign Subsidiaries of the parent Company are concerned, the Parent Company Board would play the role of advising the concerned Subsidiary of the usage of surplus funds of course the basic principles underlying remaining the same as above.