

DIVIDEND DISTRIBUTION POLICY

Approved by the Board of Directors at its meeting held on May 12, 2022

1. Background

The Dividend Distribution Policy is formulated in accordance with Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation, 2015 for distribution of dividends. This policy applies to every part of Five-Star Business Finance Limited (“**Company**”) business and functions.

2. Objective

The objective of this Policy is to lay down the criteria and parameters that are to be considered by the Board of Directors of the Company while deciding on the declaration of Dividend from time to time. This Policy is applicable to dividend declared/recommended on the equity shares of the Company, including interim dividend and final dividend and does not cover dividend on preference shares, if any, where the rate of dividend is governed by the terms of the issue of preference shares or any other form of dividend.

3. Parameters to be considered for declaration of Dividend

The Board of Directors may declare interim dividend. The Board may/recommend final dividend for consideration of shareholders of the Company after the approval of the annual audited accounts.

The Company would ensure to strike the right balance between the quantum of the dividend paid and amount of profits retained in the business for various purposes. The Board of Directors will have regards to this policy while declaring/recommending dividends on behalf of the Company. Through this policy, the Company would strive to maintain a consistent approach to dividend payout plans.

The Board of Directors of the Company will consider the following parameters while recommending / declaring Dividend:

3.1. Financial Parameters / Internal Factors:

1. Standalone / net operating profit after tax;
2. Operating cash flow of the Company for the year.
3. Liquidity position, aggregate Debt of the Company (both standalone and consolidated), debt service coverage position, etc.
4. Loan repayment and Working capital requirements;
5. Capital expenditure requirements;
6. Resources required for funding acquisitions, mergers and / or new businesses;
7. Cash flow required for meeting tax demands and other contingencies;
8. Regulatory (and growth requirement of) Capital Adequacy;
9. Regulatory (and growth requirement of) Solvency;
10. Trend of dividends paid in the past years;
11. Dividend receipt from subsidiaries;
12. Any windfall, extra-ordinary or abnormal gains made by the Company and
13. Any other factor not explicitly covered above but which is likely to have a significant impact on the Company.

3.2. External Factors:

1. Prevailing legal requirements, regulatory restrictions laid down under the applicable laws including tax laws and changes made in accounting standards;
2. Dividend pay-out ratios of companies in the same industry.
3. Any other factor that has a significant influence / impact on the Company's working / financial position of the Company

Further, in line with RBI notification RBI/2021-22/59 DOR.ACC.REC.No.23/21.02.067/2021-22 dated June 24, 2021, the Company shall also consider the following factors before declaring dividend.

- a. Supervisory findings of the Reserve Bank on divergence in classification and provisioning for Non-Performing Assets (NPAs)
- b. Qualifications in the Auditors' Report to the financial statements
- c. Long term growth plans of the Company

Further, the company shall also ensure that the following conditions as stipulated in the RBI notification stated above are ensured before dividend is declared.

1. The Company should have met the applicable regulatory capital requirement for each of the last three financial years including the financial year for which the dividend is proposed.
2. The net NPA ratio shall be less than 6 per cent in each of the last three years, including as at the close of the financial year for which dividend is proposed to be declared.
3. The Company shall comply with the provisions of Section 45 IC of the Reserve Bank of India Act, 1934. Also, the Company shall be compliant with the prevailing regulations/ guidelines issued by the Reserve Bank and the Reserve Bank shall not have placed any explicit restrictions on declaration of dividend.
4. If the conditions stipulated under points 1 to 3 are met for the last 3 financial years, the Dividend Payout Ratio (amount of the dividend payable in a year and the net profit as per the audited financial statements for the financial year for which the dividend is proposed) shall not cross 50% for a financial year.
5. If the conditions stipulated under points 1 to 3 are not met for the last 3 financial years and the company meets the applicable capital adequacy requirement in the financial year for which it proposes to pay dividend and has net NPA of less than 4 per cent as at the close of the financial year, the maximum dividend payout ratio shall be capped at 10%.

The Board of Directors may additionally recommend special dividend in special circumstances.

4. Circumstances under which the shareholders may not expect Dividend

The shareholders of the Company may not expect Dividend under the following circumstances:

- 4.1 In the event of inadequacy of profits or whenever the Company has incurred losses;

- 4.2 Significant cash flow requirements towards higher working capital requirements /tax demands / or others, adversely impacting free cash flows;
- 4.3 An impending / ongoing Capital expenditure program or any acquisitions or investment in joint ventures requiring significant allocation of capital;
- 4.4 Allocation of cash required for buy-back of securities and
- 4.5 Any of the above referred internal or external factors restraining the Company from considering dividend.
- 4.6 In any other circumstances where the Board, in its judgment, determines the declaration of dividends to not be in the best interests of the Company and the Shareholders.

5. Utilization of retained earnings

The Company may declare Dividend out of the profits of the Company for the year or out of the profits of any previous year or years or out of the free reserves available for distribution of Dividend, after having due regard to the parameters laid down in this policy. Any covenants laid down by the lenders with respect to dividend declaration shall also be considered before dividend is declared. Profits retained in the business will be invested in the business / operations of the Company and may be used for augmenting working capital, repayment of borrowings, funding capital expenditure / acquisition(s) and for all other corporate purposes.

6. Parameters to be adopted with regard to various classes of shares

At present, the authorized, issued, subscribed and paid-up share capital of the Company comprises only of equity shares.

Currently, the Company has issued one class of equity shares with equal voting rights. As and when the Company issues different class of shares, the Board of Directors may suitably amend this policy.

7. Procedure

- 7.1 The dividend proposal placed before the Board for consideration shall be in terms of this policy.
- 7.2 The Company shall ensure compliance of provisions of applicable Laws and this policy in relation to Dividend declared by the Company.

8. Disclosure

The Company shall make appropriate disclosures as required under the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015, as amended from time to time.