

## Dividend Distribution Policy of NTPC Limited

### Background

SEBI vide its notification dated 08.07.2016 has inserted regulation 43A in the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 which requires top five hundred listed entities based on market capitalization (calculated as on March 31 of every financial year) to formulate a dividend distribution policy which shall be disclosed in their annual reports and on their websites. Considering the fact that NTPC is amongst the top 500 listed entities as per the criteria as at 31<sup>st</sup> March 2016, the dividend distribution policy has been formulated.

The intent of the policy is to broadly specify the following parameters:

- A. the circumstances under which the shareholders may or may not expect dividend;
- B. the financial parameters that shall be considered while declaring dividend;
- C. internal and external factors that shall be considered for declaration of dividend;
- D. policy as to how the retained earnings shall be utilized; and
- E. parameters that shall be adopted with regard to various classes of shares.

### Policy Framework

The policy has been framed broadly in line with the provisions of the Companies Act and also taking into consideration, guidelines on "Capital Restructuring of Central Public Sector Enterprises" issued by Department of Investment and Public Asset Management (DIPAM), Ministry of Finance, Department of Public Enterprises, SEBI and other guidelines, to the extent applicable.

### Objectives of the Policy

- ✓ The Dividend Policy is aimed at increasing the Company's fundamental value ensuring an annual dividend payout based on the amount of profit to be distributed among shareholders of the company after balancing the requirement of deployment of internal accruals for its sustenance and growth plans.
- ✓ The Company is committed to deliver sustainable value to all its stakeholders.
- ✓ NTPC has been consistently paying dividends and this trend is expected to continue in future as well unless the company is constrained to declare dividend due to any of the factors listed ahead.

### A. Circumstances under which the shareholders of the Company may or may not expect dividend

Dividend is declared at the Annual General Meeting of the shareholders based on the recommendation by the Board. The Board may recommend dividend, at its discretion, to be paid to our members. The Board may also declare interim dividend. Generally, the factors that may be considered by the Board before making any recommendations for the dividend include, but are not limited to, future capital expenditure plans, profits earned during the financial year, cost of raising funds from alternate sources, cash flow position and applicable taxes including tax on dividend, subject to the guidelines issued

by Government. The decision regarding dividend pay-out is a crucial decision as it balances the amount of profit to be distributed among shareholders of the company with the requirement of deployment of internal accruals for its sustenance and growth plans.

## **B. Financial Parameters that shall be considered while declaring dividend**

Being a Central Public Sector Enterprise the Company endeavors to declare the dividend as per the guidelines on "Capital Restructuring of Central Public Sector Enterprises" issued by DIPAM, Govt. of India on 27.05.2016, mandating every CPSE to pay a minimum annual dividend of 30% of PAT or 5% of the net-worth, whichever is higher subject to the maximum dividend permissible under the extant legal provisions. Nonetheless, CPSEs are expected to pay the maximum dividend permissible under the Act under which a CPSE has been set up, unless lower dividend proposed to be paid is justified on a case to case basis at the level of Administrative Ministry/Department after considering the following financial parameters:

- (i) Capacity to borrow;
- (ii) Long-term borrowings;
- (iii) CAPEX/Business Expansion needs;
- (iv) Retention of profit for further leveraging in line with the CAPEX needs; and
- (v) Cash and bank balance.

## **C. Internal and External factors that shall be considered for declaration of dividend**

### **C.1 Internal Factors**

#### **C.1.1 CAPEX Plan**

Declaration of dividend will depend on the CAPEX plan of the company. Deployment of internal resources to meet the committed CAPEX may affect the dividend payout.

#### **C.1.2 Free Cash Flows**

For ascertaining the dividend payout, free cash flows available to the company will be considered after providing for Internal Resource Requirement for CAPEX, Repayment of Long-Term borrowings and Increase in Working Capital Requirement.

### **C.2 External Factors**

#### **C.2.1 Economic Environment**

In case of uncertain or recessionary economic and business conditions, the Company will endeavor to retain larger part of profits to build up reserves to sustain future up downs.



### **C.2.2 Regulatory Norms**

Regulatory norms prescribed by the Central/State Regulators such as Central Electricity Regulatory Commission (CERC), State Electricity Regulatory Commissions (SERCs), Pollution Control Boards etc. may affect our margins and in turn affect the dividend payout.

### **C.2.3 Statutory Provisions and Guidelines**

The Company will adhere to the restrictions imposed by Companies Act with regard to declaration of dividend. Further, being a Government Company, the Company shall also consider the guidelines in force in respect of dividend declaration as issued from time to time by the Govt. of India or by any other statutory bodies.

### **D. Utilization of Retained Earnings**

The retained earnings will be deployed in line with the objects of the company as detailed in the Articles of Association of the company. The profits being retained in the business shall be continued to be deployed in setting up of power plants and other objects as detailed in the Articles of Association of the company approved by the Board of the company from time to time and thus contributing to the growth of the business and operations of the Company.

### **E. Parameters to be adopted with regard to various classes of shares**

The holders of the equity shares of the Company, as on the record date, are entitled to receive dividends. Since the Company has issued only one class of equity shares with equal voting rights, all the members of the Company are entitled to receive the same amount of dividend per share. The policy shall be suitably revisited at the time of issue of any new class of shares depending upon the nature and guidelines thereof.

### **Other provisions**

This policy is approved by the Company's Board of Directors.

All changes and amendments to this policy shall be made following a decision passed by the Company's Board of Directors. This policy will be reviewed every three years or as Company's Board of Directors may deem fit from time to time.

If as a result of changes to the laws of the land, any individual clause of this policy contradicts such change, the policy shall be applied in the part that does not contradict the laws in force.

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