

DIVIDEND DISTRIBUTION POLICY

Introduction:

The Board of Directors (the “Board”) of Elecon Engineering Company Limited (the “Company”) at its meeting held on 27th May, 2021 has adopted this formal Dividend Distribution Policy (the “Policy”) as required by Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the “Listing Regulations”) to provide the shareholders with effective visibility and predictability in the payouts to the shareholders of the Company from the surplus cash or profit made by the Company in any of the Financial Year.

Objective:

The objective of the Policy is to set standard procedures/guidelines to be followed by the Board of Directors in deciding/recommending the amount of dividend (interim or final) per share. A dividend policy decides proportion of dividend and retained earnings. The Dividend Distribution Policy of the Company aims to reward its shareholders by sharing a portion of the profits/earnings, while also ensuring that enough funds are retained for future prospects of the Company. This policy also aims to ensure dividend incomes to the shareholders and long term capital appreciation for all stakeholders of the Company.

The Policy shall not apply to:

- Determination and declaring dividend on preference shares as the same will be as per the terms of issue approved by the shareholders;
- Distribution of dividend in kind, i.e. by issue of fully or partly paid bonus shares or other securities, subject to applicable law;
- Distribution of cash as an alternative to payment of dividend by way of buyback of equity shares.

Parameter for Dividend Distribution:

While determining the nature and quantum of the dividend payout, including amending the suggested payout range as above, the Board would take into account the following factors:

1. Internal Factors:

- a) Profitability: Dividend decision will be taken having regard to the profitability of the Company on a standalone basis.
- b) Free Cash Flow: Availability of free cash flow has a direct bearing on amounts to be distributed to shareholders via dividends as the Company is required to meet all its business obligations before distributing profits.
- c) Growth Plans: Growth plans of the Company and the associated capital expenditure may necessitate the Company to preserve its funds generation to be deployed for

the planned growth/expansion opportunities within the desired leverage. The Board would take into consideration internal funds generation to be earmarked for the proposed growth plans prior to making decision on dividend distribution.

- d) Working Capital Management: The current working capital management system within the Company also impacts the decision of dividend declaration.
- e) Investment Opportunities: Dividend decisions shall be made in the light of timing of investment opportunities available with the Company.
- f) Any other factor not explicitly covered above but which is likely to have a significant impact on the Company.

2. External Factors:

- a) Taxation and other regulatory concern:

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) Product/ market expansion plan:

The Company's growth oriented decision to conserve cash in the Company for future expansion plan impacts shareholders expectation for the long run which shall have to be considered by the Board before considering the decision of recommendation of dividend.

- c) Macroeconomic conditions:

Considering the state of economy in the Country, the policy decisions that may be formulated by the Government and other similar conditions prevailing in the international 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 absorb unforeseen circumstances.

Any other factor which has a significant influence/impact on the Company's working/financial position.

Apart from the above, the Board also considers past dividend history and sense of shareholders' expectations while determining the rate of dividend. The Board may additionally recommend special dividend in special circumstances. The Board may consider not declaring dividend or may recommend a lower payout for a given financial year, after analysing the prospective opportunities and threats or in the event of challenging circumstances such as regulatory and financial environment. In such event, the Board will provide rationale in the Annual Report.

Circumstances under which shareholders may or may not expect dividend:

Some conceivable circumstances under which shareholders may or may not expect a dividend are: adverse market conditions and business uncertainty, inadequacy of profits earned during the fiscal year, inadequacy of cash balance, large forthcoming capital requirements which are best funded through internal accruals, changing government regulations, etc.

Even under such circumstances, the Board may, at its discretion, and subject to applicable rules, choose to recommend a dividend out of the Company's free reserves.

Utilization of retained earnings:

Subject to the provisions of the applicable laws, the Company may declare dividend out of profits of the Company for the year or out of the profit of previous year or out of free reserves available for distribution of dividend, after having due regard to the parameters laid down in the Policy.

Amount of dividend:

The Company shall endeavour to maintain a reasonable dividend payout ratio subject to:

- a) Capital needs of the Company;
- b) Positive operating cash flows; and
- c) Other financial parameters enumerated herein above.

Provisions with regard to dividend:

a) Payment of dividend: Subject to the provisions of the Act and SEBI Regulations and Memorandum and Articles of Association of the Company and the terms & conditions of the issue of securities by the Company, the Company may pay dividend in proportion to the amount paid up on each share.

b) Transfer to the reserves: The Company may, before declaration of any dividend in any financial year, transfer such percentage of its profit for that financial year as it may consider appropriate to the reserves of the Company in accordance with the relevant provisions of the Act.

Declaration of Dividend in case of inadequacy or absence of profits in any financial year:

Subject to the relevant provisions of the Act, in the event of inadequacy or absence of profits in any year, the Company may declare dividend out of free reserves subject to the fulfilment of the following conditions, namely:-

- a) The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year.

- b) The total amount to be drawn from such accumulated profits shall not exceed one tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.
- c) The amount so drawn shall first be utilized to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.
- d) The balance of reserves after such withdrawal shall not fall below fifteen percent of its paid up share capital as appearing in the latest audited financial statement.

The amount of the dividend, including interim dividend, shall be deposited in a scheduled bank in a separate account **within five days** from the date of declaration of such dividend.

Interim Dividend:

The Board of Directors may declare Interim Dividend at its absolute discretion in line with this Policy, based on profits arrived at as per quarterly (or half- yearly) financial statements. Provided that in case the Company has incurred loss during the current financial year upto the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividend declared by the Company during the immediately preceding three financial years. In case no final dividend is declared, interim dividend paid during the year, if any will be regarded as final dividend in the Annual General Meeting.

Payment of Final Dividend:

Subject to approval of shareholders in Annual General Meeting, the Board of the Company may recommend quantum of final dividend payable to shareholders in its meeting in line with this Policy, based on the aforesaid parameters arrived at as per the audited financial statements.

Form and Mode of Dividend:

The dividend shall be paid only in cash form by bankers' cheque or dividend warrant or through use of any electronic mode of payment facility approved by the Reserve Bank of India from time to time.

Prior Intimation of Dividend:

The Company shall give prior intimation (at least two working days in advance, excluding the date of the intimation and date of meeting) to stock exchange(s) about the Board Meeting in which the declaration/recommendation of dividend will be considered.

Record Date or Date of closure of transfer books:

The Company shall intimate/announce (at least seven working days in advance, excluding the date of the intimation and the record date/dates of closure of its transfer books) the record date/dates of closure of its transfer books to the stock exchange(s) for the purpose of declaration of dividend.

Disclosures:

The Dividend Distribution Policy shall be disclosed on the Company's website & a web-link thereto shall be provided in the Annual Report. The information on dividends paid in the last 5 years is provided in the Annual Report.

General:

- a) This Policy would be subject to revision/amendment in accordance with the guidelines as may be issued by Ministry of Corporate Affairs, Securities Exchange Board of India or such other regulatory authority as may be authorized, from time to time, on the subject matter.
- b) The Company reserves its right to alter, modify, add, delete or amend any of the provisions of this Policy.
- c) In case of any amendment(s), clarification(s), circular etc. issued by the relevant authorities, not being consistent with the provisions laid down under this Policy, then such amendment(s), clarification(s), circular etc. shall prevail upon the provisions hereunder and this Policy shall stand amended accordingly from the effective date as laid down under such amendment(s), clarification(s), circular etc.

Disclaimer: This Policy has been prepared for the purpose of SEBI Regulations. The above Policy does not constitute a commitment regarding the future dividends of the Company, but only represents a general guidance regarding dividend policy. The statement of the Policy does not in any way restrict the right of the Board to use its discretion in the recommendation of the dividend to be distributed in the year and the Board reserves the right to depart from the policy as and when circumstances so warrant.
