

## **AARTI PHARMALABS LIMITED**

### **DIVIDEND DISTRIBUTION POLICY**

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## **1. INTRODUCTION**

Regulation 43A of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 ('Listing Regulations') as amended by SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021, the top one thousand listed entities based on market capitalization (calculated as on March 31 of every financial year) shall formulate a Dividend Distribution Policy ('Policy'). As a result, Aarti Pharmalabs Limited ('APL'/ 'the Company') is required to frame the policy.

## **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 and to keep a check that the same is not done beyond the scope of the applicable Statutory Laws.

## **3. PREAMBLE**

Dividend is the payment made by a Company to its shareholders, usually in the form of distribution of its profits. The profits earned by the Company can either be retained in business and/or used for acquisitions, expansion or diversification, reduction of debt, or it can be distributed to the shareholders. The Company may choose to retain a part of its profits and distribute the balance among its shareholders as dividend. This Policy aims to reconcile between all these needs.

## **4. DEFINITIONS**

- "Financial Year" shall have the same meaning as defined under Section 2(41) of the Companies Act, 2013 and any amendments thereto.
- "Dividend" includes interim Dividend.
- "Board of Directors" means the collective body of Directors of the Company.
- "Company" shall have the same meaning as defined under Section 2(20) of the Companies Act, 2013 and any amendments thereto.
- "PAT" shall mean Profit after tax and Deferred Tax

## **5. PARAMETERS FOR DISTRIBUTION OF DIVIDEND**

**5.1 The circumstances under which the shareholders of the listed entities may expect dividend:**

The Dividend can be declared to the shareholders in the following cases:

- a. The Board may declare Dividend when there are profits in the Company in the current year after providing for Depreciation in accordance to the provisions of Schedule II of the Companies Act, 2013 and transferring such percentage of its profits for that Financial Year as it may consider appropriate to the reserves of the Company;
- b. The Board may declare Dividend when there are undistributed Profits in the Company in any previous Financial Years after providing for Depreciation in accordance to the provisions of Schedule II of the Companies Act, 2013 and transferring such percentage of its profits for that Financial Year as it may consider appropriate to the reserves of the Company;
- c. Dividend can be declared in case of both (i) and (ii) mentioned above;
- d. The Board may declare Dividend when In case of inadequacy or absence of Profits in any Financial year, Company may propose to declare dividend out of the accumulated profits after complying with the Provisions of the Companies Act, 2013;
- e. The Board may declare an Interim Dividend in any Financial Year from the surplus in Profit and Loss of the Financial Year in which it is sought to be declared;

## **5.2 The financial parameters that shall be considered while declaring dividend:**

The Company would ensure to strike the right balance between the quantum of dividend paid and amount of profits retained in the business for various purposes. The Board of Directors will refer to the policy while declaring/ recommending dividends on behalf of the Company. The Board may consider the following Financial Parameters for declaring the Dividend:

- a. PAT for the Current Year
- b. PAT for Previous Year
- c. Retained Earnings
- d. Reserves and Surplus
- e. Present and proposed level of gearing and plan for optimizing the leverages;
- f. Prevailing working capital cycle and the expected changes in the same resulting into requirement of further cash- flows for managing the same;
- g. Expected outlay on various projects in pipeline;
- h. Overall liquidity situation and Bank line availability, prevailing both internally and externally;
- i. Considering various financial parameters, the Company may elect to, generally, declare dividends (including dividend tax) considering the payouts of about 15% to 30% of the Net Profits after Tax.

### **5.3 Internal and External factors that shall be considered for declaration of dividend:**

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. The Board of Directors will endeavour to take a decision with an objective to enhance shareholders wealth and market value of the shares. However, the decision regarding pay- out is subject to several factors and hence, any optimal policy in this regard may be far from obvious.

#### **External Factors:**

- a. In case of uncertain or recessionary economic and business conditions, Board will endeavor to retain a larger part of profits to build up reserves to absorb future shocks.
- b. Prevailing legal requirements, regulatory restrictions laid down under the applicable laws including tax laws and changes made in accounting laws;
- c. The Board shall keep in mind the Goodwill and Company's duration of its existence while declaring the Dividend declaration capacity.
- d. Stability of Earnings;
- e. Dividend pay-out ratios of companies in the same industry.
- f. Any other factor that has a significant influence / impact on the Company's working / financial position of the Company

#### **Internal Factors:**

Apart from the various external factors aforementioned, the Board will take into account various internal factors while declaring Dividend, which inter alia will include:

- a. Profits earned during the year;
  - b. Present & future Capital requirements of the existing businesses;
  - c. Business Acquisitions;
  - d. Expansion/ Modernization of existing businesses;
  - e. Additional investments in subsidiaries/associates of the Company;
  - f. Fresh investments into external businesses;
  - g. Changes in working Capital;
  - h. Availability of Bank Finance for Funding Company's requirement;
  - i. Trend of dividends paid in the past years
- Any other factor not explicitly covered above but which is likely to have a significant impact on the Company

## **6. CIRCUMSTANCES UNDER WHICH THE SHAREHOLDERS MAY NOT EXPECT DIVIDEND:**

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

- 6.1 In the event of inadequacy of profits or whenever the Company has incurred losses;
- 6.2 Significant cash flow requirements towards higher working capital requirements / tax demands / or others , adversely impacting free cash flows;
- 6.3 An impending / ongoing capital expenditure program or any acquisitions or investment in joint ventures requiring significant allocation of capital;
- 6.4 Any of the above referred internal or external factors restraining the Company from considering dividend;

## **7. POLICY AS TO HOW THE RETAINED EARNINGS SHALL BE UTILIZED:**

Retained earnings is an equity account that comprises the balance of a company's earnings accumulated over time that remains "retained" or undistributed. Net profit (PAT) figures that can be viewed in companies profit and loss accounts can serve two purpose. Either it can be distributed among shareholders or it can be transferred to balance sheet as retained earnings.

When profits are retained, company use this fund to gain competitive advantage. The competitive advantage can be achieved by increasing sales or by increasing profit margin. To improve sales or margins company shall either expand its capacity or modernize its facility to make it more productive. For both expansion and modernization's plans companies need Funds.

The Board of directors may even declare dividends, Declaration of Dividend leads to reduction in the retained earnings and the cash balance is reduced.

The following are the purposes for which the retained earnings may be used:

- Save Money:
  - Set aside cash for expected future expenses
  - Set aside cash for unexpected future expenses
- Spend Money:
  - Invest into fixed assets (capital expenditures)
  - Invest into current assets
  - Research and develop new products & processes

Pay salaries/ bonuses to executives and other employees

Pay down debt

Acquire another company

License intellectual property, such as patent rights

Expand the market for your products

Make investments that are profitable

- Buyback
- Dividend

## **8. PARAMETERS THAT SHALL BE ADOPTED WITH REGARD TO VARIOUS CLASSES OF SHARES:**

As of now, the Company has only Equity shares. The Company has not issued any other classes of Shares. Further in case of issue, the same parameters shall be taken into consideration for the other class of shares as which shall be taken into consideration for Equity shares.

## **9. GENERAL RULES**

9.1 This Policy would be subject to revision/amendment in accordance with the guidelines as may be issued by the 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.

9.2 The Company reserves its right to alter, modify, add, delete or amend any of the provisions of this Policy.

9.3 In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant authorities, not being consistent with the provisions laid down under this Policy, then such amendment(s), clarification(s), circular(s) 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(s), etc.