IndusInd Bank Limited

Dividend Distribution Policy

April 2017

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Distribution of Dividend by a Company depends upon various factors, such as Capital needed for business sustenance and growth, investment plans, impact on Debt – Equity Ratio, ability to improve the Return on Capital Employed, Regulatory requirements pertaining to Capital Adequacy of the company, and mandatory Reserves stipulations, among others.

Declaration of Dividend by a Banking Company is governed by provisions of the Companies Act, 2013 and the Rules made thereunder, as well as by the provisions of the Banking Regulation Act, 1949 and the Guidelines issued by the RBI from time to time.

Provisions of the Companies Act, 2013 and Rules thereunder

Section 123 to 127 of the Companies Act, 2013 mandates provisions with respect to declaration and payment of Dividend. Besides the statutory provisions, certain rules have been prescribed under the Companies (Declaration and payment of Dividend) Rules, 2014. In terms of provisions of Section 123 (1), Dividend is allowed to be declared or paid by a company for any financial year out of the profits of the Company for that year arrived at after providing for depreciation.

As per the Companies Act, 2013, in case of inadequacy or absence of profits in any year, a company is permitted to declare Dividend out of the accumulated profits earned by it in any previous financial years and transferred to Reserves, but such declaration of Dividend shall not exceed the average of the rates at which Dividend was declared by it in the three years immediately preceding that year.

However, under the Rules prescribed, no Company is allowed to declare Dividend unless carried over previous losses and depreciation not provided in previous year are set off against profit of the company of the current year.

Provisions of the Banking Regulation Act, 1949

The relevant provisions of the Banking Regulation Act, 1949 for declaration of Dividend are summarised below:

Section 15 of the Banking Regulation Act provides that the Banking Company shall not pay any Dividend on its shares until all its capitalised expenses have been completely written-off in addition to other provisions.

Section 17 of the Banking Regulation Act provides that the Bank shall transfer a sum equivalent to not less than twenty percent of the profit as disclosed in the Profit and Loss Account prepared under Section 29 to the Reserve Fund or Share Premium Account.

While Companies Act, 2013, permits declaration of Dividend out of reserves, there are restrictions under Banking Regulation Act, 1949 and payment of Dividend is not allowed out of past reserves.

Reserve Bank of India, vide their Circular No. RBI/2004-05/451 DBOD.NO.BP.BC.88/21.02.067/2004-05 dated May 4, 2005, have provided detailed guidelines on the eligibility criteria for declaration of Dividend out of current year's profit, Quantum of Dividend payable, Matrix of criteria for maximum permissible range of Dividend Payout Ratio and Reporting format for Banks declaring Dividend.

Eligibility criteria for declaration of Dividend

Only those banks which comply with the following minimum prudential requirements would be eligible to declare Dividends;

i. The Banks should have:

- CRAR of at least 9% for preceding two completed years and the accounting year for which it proposes to declare Dividend.

- Net NPA less than 7%.

In case any Bank does not meet the above CRAR norm, but is having CRAR of at least 9% of the Accounting Year for which it proposes to declare Dividend, it would be eligible to declare Dividend provided its Net NPA ratio is less than 5%.

i. The Bank should comply with the provisions of Section 15 and 17 of the Banking Regulation Act, 1949.

ii. The Bank should comply with the prevailing regulations / guidelines issued by RBI, including creating adequate provisions for impairment of assets and staff retirement benefits, transfer of profits to Statutory Reserves, etc.

iii. The proposed Dividend should be payable out of the current year's profit.

iv. The Reserve Bank should not have placed any explicit restrictions on the bank for declaration of Dividends.

In case any Bank does not meet the above eligibility criteria, no special dispensation shall be available from the Reserve Bank.

Quantum of Dividend payable

Banks, which fulfil the eligibility criteria set out at paragraph 3 above, may declare and pay Dividends, subject to the following;

i. The Dividend-Payout-Ratio shall not exceed 40% and shall be as per the matrix furnished.

Matrix of Criteria for maximum permissible range of Dividend Payout Ratio

Category	CRAR	Net NPA Ratio			
		Zero	More than 0 but less than 3%	From 3% to Less than 5%	From 5% to less than 7%
		Range of Dividend Payout-Ratio			
A	11% or more for each of the last 3 years	Up to 40	Up to 35	Up to 25	Up to 15
B	10% or more for each of the last 3 years	Up to 35	Up to 30	Up to 20	Up to 10
C	9% or more for each of the last 3 years	Up to 30	Up to 25	Up to 15	Up to 05
D	9% or more in the Current year	Up to 10		Up to 5	Nil

Notes:

Banks should have CRAR of at least 9% for preceding two completed years and the accounting year for which it proposes to declare Dividend and Net NPA less than 7% to be eligible to declare Dividends. In case any bank does not meet the above CRAR norm, but is having a CRAR of at least 9% for the Accounting Year for which it proposes to declare Dividend, it would be eligible to declare Dividend provided its Net NPA ratio is less than 5%.

[Dividend-Payout-Ratio shall be calculated as a percentage of 'Dividend payable in a year' (excluding Dividend Tax) to 'Net Profit during the year'.]

ii. In case the Profit for the relevant period includes any extra-ordinary profits / income, the payout ratio shall be computed after excluding such Extra-Ordinary Items for reckoning compliance with the prudential payout ratio.
iii. The Financial Statements pertaining to the financial year for which the bank is declaring a Dividend should be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the Dividend-Payout-Ratio.

In terms of the above guidelines, banks are allowed maximum permissible Dividend-Payout-Ratio of upto 40%.

Information on Dividends paid in the last five years including Dividend Yield and Payout Ratio will be made available on the Bank's website.

Policy Rationale

Our Bank has consistently shown a profit growth at 25-30% per year and the Business Plan has been formulated with a strategic intent to cover market share with profitability and in terms of branch network and customer base. While the profit growth is significantly higher than the overall banking industry, current market share of our Bank is about 1% of the banking system, and there is certainly a significant scope for expansion. Capital is one of the most essential drivers of growth, and in order to take care of expanded business as well as to meet requirements in light of Basel III Guidelines, it is always felt desirable to conserve the capital by placing a cap on Dividend Payouts and develop a Policy on declaration of Dividend accordingly.

Capital-raising is an intensive activity involving significant managerial bandwidth as well as considerable costs; a higher Dividend payout would lead to more frequent capital-raising.

Keeping in mind interest of the small shareholders, who prefer Dividend cash flows as well as plough-back of capital for the purpose of business, it is appropriate to link declaration of Dividend to total payout rather than rate of Dividend.

Having regard to the RBI guidelines, track record and various dimensions outlined above, the Bank considers a payout ratio of 14% - 17% of the Net Profit earned during the year. This cap is inclusive of taxes, if any, relating to distribution of Dividend.

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