

PAHAL FINANCIAL SERVICES PRIVATE LIMITED

Dividend Distribution Policy

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DIVIDEND DECLARATION POLICY

Objective

The objective of this Dividend Distribution Policy is to define the guiding principles for the declaration and distribution of dividends by Pahal Financial Services Private Limited (“the Company”). The Policy aims to ensure a balanced approach to profit allocation—rewarding shareholders while retaining sufficient earnings to support the Company’s growth, maintain capital adequacy, and meet regulatory and operational requirements. It also seeks to promote transparency and consistency in the Company's dividend practices, aligned with its long-term value creation objectives.

This policy outlines the framework under which Pahal Financial Services Private Limited may declare dividends, in compliance with the RBI’s Master Direction on Scale-Based Regulation for NBFCs, 2023.

Scope

This policy applies to equity dividend declarations made by the Board of Directors of Pahal Financial Services Private Limited, classified as an NBFC-MFI under the appropriate layer (Base or Middle) of the RBI’s regulatory framework.

Key Principles

The Board of Directors shall consider the following before proposing or declaring any dividend:

- Supervisory findings of the Reserve Bank, especially related to divergence in classification or provisioning of NPAs.
- Qualifications in the Auditor’s Report on the financial statements.
- The Company’s long-term growth plans and capital requirements.

Eligibility Criteria for Declaration of Dividend

The Company may declare dividends only if it satisfies all the following prudential conditions:

1. Minimum Capital Adequacy / Leverage Compliance:

The Company must meet the minimum capital requirements, including the leverage ratio (if applicable), for each of the last three financial years, including the year for which dividend is proposed.

2. Net NPA Threshold:

The Company must maintain a Net NPA ratio of less than 6% in each of the last three financial years, including the financial year under consideration.

3. Transfer to Reserve Fund (Section 45-IC of RBI Act, 1934):

The Company must comply with the requirement of transferring 20% of net profit to the Reserve Fund before any dividend is declared.

4. Regulatory Compliance:

The Company shall be compliant with the prevailing regulations/ guidelines issued by the Reserve Bank. The Reserve Bank shall not have placed any explicit restrictions on declaration of dividend.

Dividend Payout Ceiling

The dividend payout will be subject to the following ceilings:

1. For Fully Eligible NBFCs (meeting all the above conditions):

- Maximum Dividend Payout Ratio: 50% of the net profit after tax for the relevant financial year.
- Exemption: NBFCs that do not accept public funds *and* have no customer interface are not subject to any cap on dividend payout.

2. For Partially Eligible NBFCs:

If the Company fails to meet the capital adequacy or NPA norms for all of the last three years, but meets the following for the year of dividend declaration:

- Capital adequacy norms (including leverage, if applicable), and
- Net NPA is less than 4%

Then the dividend may be declared up to 10% of the net profit after tax.

Compliance Reporting

NBFCs other than NBFCs in the Base Layer (NBFCs-BL) must report details of the dividend declared in the prescribed Annex IX format. The report shall be submitted within 15 days of dividend declaration to the Regional Office of the Department of Supervision, RBI.

General Provisions

- No dividend shall be paid out of reserves without satisfying the conditions prescribed under the Companies Act, 2013.
- The Board shall ensure that total dividends declared do not exceed ceilings laid down by RBI.
- No ad-hoc exemptions shall be requested from RBI, as the RBI has explicitly disallowed.

Disclosures

This policy shall be hosted on the Company's official website.

In the Annual Report, the Company shall disclose:

- The dividend payout ratio.
- A statement of compliance with RBI guidelines.
- Any deviation from this policy with justifications.

Review and Amendment

This policy shall be reviewed annually or earlier if required by changes in regulations, business requirements, or RBI directives. Any modifications shall be approved by the Board of Directors.
