SHAKTHI KNITTING LIMITED

DIVIDEND DISTRIBUTION POLICY

The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Regulations”) require the top 500 listed companies (by market capitalization) to disclose a Dividend Distribution Policy in the annual report and on the company’s website. Although there is no statutory requirement, the Board of Directors (“Board”) of Shakthi knitting limited has voluntarily adopted this Dividend Distribution Policy to comply with these requirements.

This Policy will regulate the process of dividend declaration and its pay-out by the Company in accordance with the provisions of Companies Act, read with the applicable Rules framed there under, as may be in force for the time being (“Companies Act”).

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 or used for expansion or diversification, 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.

The dividend pay-out of a Company is driven by several factors. Some Companies pay a lower dividend. The idea is to retain profits and invest it for part financing the modernization. On the other hand, some companies prefer paying higher dividend. In such cases the Companies will have to look for mobilization of funds from new investments.

The objective of this policy is to ensure the right balance between the dividend paid and amount of profits retained in the business for various purposes.

Category of Dividends

The Companies Act provides for two forms of Dividend - Interim & Final.

Interim Dividend

The Board of Directors shall have the absolute power to declare interim dividend during the financial year, as and when they consider it fit.

This form of dividend can be declared by the Board of Directors one or more times in a financial year as may be deemed fit. The Board of Directors of the Company can declare interim dividend, as and when considered appropriate, in line with this policy. Normally, the Board could consider declaring interim dividend after finalization of quarterly (or half yearly) financial accounts including exceptional items.

Final Dividend

The Final dividend is announced for the financial year after the annual accounts are prepared. The Board of Directors of the Company has the power to recommend the payment of Final Dividend to the shareholders in a general meeting. The declaration of Final dividend shall be included in the ordinary business items that are required to be transacted at the Annual General Meeting.

The Board has to recommend the quantum of final dividend payable to shareholders in its meeting in line with this Policy based on the profits arrived at as per the audited financial statements. The shareholders have to approve the dividend payment in Annual General Meeting. Final dividend can be declared only once after the end of the financial year.

Declaration of Dividend

Subject to the provisions of the Companies Act, Dividend shall be declared or paid only out of-

i) Current financial year's profit:

a) after providing for depreciation in accordance with law;

b) after transferring to reserves such amount as may be prescribed or as may be otherwise considered appropriate by the Board at its discretion.

ii) The profits for any previous financial year(s):

a) after providing for depreciation in accordance with law;

b) remaining undistributed; or

iii) Out of i) & ii) both.

In computing the above, the Board may at its discretion, subject to provisions of the law, exclude any or all of (i) extraordinary charges (ii) exceptional charges (iii) one off charges on account of change in law or rules or accounting policies or accounting standards (iv) provisions or write offs on account of impairment in investments (long term or short term) or resulting from change in accounting policies or accounting standards.

Factors to be considered while declaring 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 endeavor 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.

The Dividend pay-out decision of any company depends upon certain external and internal factors-

External Factors:-

State of Economy- in case of uncertain or recessionary economic and business conditions, Board will endeavor to retain larger part of profits to build up reserves to absorb future shocks.

Statutory Restrictions -The Board will keep in mind the restrictions imposed by Companies Act with regard to declaration of dividend.

Financial/Internal Factors:-

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

i) Profits earned during the year;

ii) Present and future Capital requirements of the existing businesses;

iii) Expansion/ Modernization of existing businesses;

iv) Brand/ Business Acquisitions;

v) Cash flow position of the company;

vi) Cost of raising funds from alternate sources;

vii) Additional investments in subsidiaries/associates of the Company;

viii) Fresh investments into external businesses;

ix) Repayment of loan;

x) Restrictions in debt agreements.

xi) Any other factor as deemed fit by the Board.

Circumstances under which the shareholders may or may not expect Dividend:

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

a. Whenever it undertakes or proposes to undertake a significant expansion project requiring higher allocation of capital;

b. Significantly higher working capital requirements adversely impacting free cash flow;

c. Whenever it undertakes any acquisitions or joint ventures requiring significant allocation of capital;

d. Whenever it proposes to utilise surplus cash for buy-back of securities; or

e. In the event of inadequacy of profits or whenever the Company has incurred losses.

f. In case of extraordinary circumstances / events.

Utilization of retained earnings:

The decision on utilization of the retained earnings of the Company shall be based on the following factors:

a) Increase the production capacity

b) Implementing new projects

c) Modernization of existing plant

d) Long term strategic plans

e) Replacement of capital assets

f) Borrowed funds- outstanding, requirements & cost

g) Dividend payment

h) Such other criteria's as the Board may deem fit from time to time.

Parameters adopted with regard to various classes of shares:

Presently, the Authorised Share Capital of the Company is divided into equity share of Rs. 10 each. 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.

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(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.
