



Sun Pharma Advanced Research Company Limited

- **Dividend Distribution Policy**
(in terms of Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015)

1. OBJECTIVES AND SCOPE:

The Board of Directors (the “Board”) of the Sun Pharma Advanced Research Company Limited (the “Company”) recognizes the need to lay down a broad framework for considering decisions by the Board of the Company, with regard to distribution of dividend to its shareholders and/ or retaining or plough back of its profits.

The Policy sets out the circumstances and different factors for consideration by the Board at the time of taking such decisions of distribution or of retention of profits, in the interest of providing transparency to the shareholders. The Policy is not an ‘alternative’ but a ‘Guide’ to the decision of the Board for recommending dividend, which may be made after taking into consideration all the relevant circumstances enumerated hereunder and such other factors as may be decided as relevant by the Board.

Declaration of dividend on the basis of parameters outside the elements of this Policy resulting in amendment of any element or the Policy will be regarded as deviation. While recommendation of Dividend shall always be guided by this Policy, in extraordinary circumstances, the Board shall have complete liberty to recommend dividend in deviation to this policy, if so deemed necessary in the best interests of the Company and its stakeholders.

The Policy reflects the intent of the Company to reward its shareholders by sharing a portion of its profits after adjusting for accumulated losses, if any, and also retaining sufficient funds for future growth of the Company. The Company intends to pay, subject to the circumstances and factors enlisted hereon, dividend, which shall be consistent with the performance of the Company over the years.

Subject to the considerations as provided in the Policy, the Board shall determine the dividend payout in a particular year after taking into consideration the operating and financial performance of the Company, the advice of executive management including the CFO, and other relevant factors.

The Policy shall not apply to:

- Determination and declaring dividend on preference shares, if any.
- Distribution of dividend in kind, i.e. by issue of bonus shares or other securities.
- Buyback of securities.

2. RELEVANT REGULATIONS

The Securities and Exchange Board of India (“SEBI”) vide its Notification dated July 08, 2016 has amended the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the “Listing Regulations”) by inserting Regulation 43A in order to make it mandatory to have a Dividend Distribution Policy in place by the top five hundred listed companies based on their market capitalisation calculated as on the 31st day of March of every year. The Company, being one of the top five hundred listed Companies in India on the basis of market capitalisation, requires to comply with the requirements of Regulation 43A.

3. EFFECTIVE DATE

The Policy shall become effective from the date of its adoption by the Board i.e. 28th October, 2016.

4. CATEGORY OF DIVIDENDS

The Board of Directors shall have the power to recommend final dividend to the shareholders for their approval in the Annual General Meeting of the Company. Subject to compliance with the provisions of Companies Act, 2013 including the Rules made thereunder and other relevant regulations, if any, the Board of Directors shall also have the absolute power to declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared, as and when they consider it fit. Interim Dividend may be paid in order to supplement the annual dividend or in exceptional circumstances.

5. PAYMENT OF DIVIDEND FROM RESERVES

Dividend shall normally be declared from the profit earned by the Company during the relevant financial year after adjusting for accumulated losses & unabsorbed depreciation, if any and out of the carried forward profits not transferred to any reserves. However, under special circumstances, Dividend may be declared out of the accumulated profits earned by it in previous years and transferred by it to the free reserves, subject to compliance with the requirements of the relevant provisions of the Companies Act, 2013 including the Rules made thereunder.

6. CIRCUMSTANCES TO BE CONSIDERED WHILE DETERMINING DIVIDEND PAYOUT

The Board shall consider the circumstances provided below before determination of any dividend payout after analyzing the prospective opportunities and threats, viability of the options of dividend payout or retention etc. The decision of dividend payout shall, majorly be based on the aforesaid factors considering the balanced interest of the stakeholders and the business requirement of the Company.

- **Accumulated Losses, if any**

The profits earned by the Company during any financial year shall be first utilized to set off the accumulated losses/ unabsorbed depreciation, if any of the Company from the previous financial years.

- **Operating cash flow of the Company**

The Board will consider the impact of proposed dividend on the operating cash flow of the Company and shall satisfy itself of its adequacy before taking a decision on whether to declare dividend or retain its profits.

- **Transfer to Reserves and other Statutory Requirements**

The Board shall examine the implication of relevant statutory requirements including payment of Dividend Distribution Tax, transfer of a certain portion of profits to Reserves etc., if applicable, on the financials of the Company at the time of taking decision with regard to dividend declaration or retention of profit.

- **Covenants with lenders/ Debenture Trustees, if any**

The decision of dividend pay-out shall also be subject to compliance with covenants contained in any agreement entered into by the Company with the Lenders/ Debenture Trustee's, from time to time, if any.

- **Prudential & Strategic requirements**

The Board shall analyse the ongoing and prospective Research & Development projects and strategic decisions including need for replacement of capital assets, expansion and modernization etc., before recommending Dividend Pay-out for any financial year with an object to build a healthy reserve of retained earnings to augment long term strength and to build a pool of internally generated funds to provide long-term resources as well as resource-raising potential for the Company;

- **Expectations of major stakeholders, including small shareholders**

The Board, while considering the decision of dividend pay-out or retention of a certain amount or entire profits of the Company, shall, as far as possible, consider the expectations of the major stakeholders including the small shareholders of the Company who generally expects a regular dividend payout.

7. THE FINANCIAL PARAMETERS THAT SHALL BE CONSIDERED WHILE DECLARING/ RECOMMENDING DIVIDEND;

In addition to the circumstances covered under point 6 above, the Board shall, inter alia, consider the following financial parameters, while taking decisions of a dividend payout during a particular year-

- **Extent of realized profits**

The extent of 'realized profits' as against the profits calculated as per the applicable Accounting Standards, shall affect the Board's decision of determination of dividend for a particular financial year.

- **Return on invested capital**

The efficiency with which the Company uses its capital will impact the decision of dividend declaration.

- **Magnitude of earnings of the Company**

Since dividend is directly linked with the availability of earning over the long haul, the magnitude of earnings will significantly impact the dividend declaration decisions of the Company.

- **Cost of borrowings**

The Board will analyze the requirement of necessary funds considering the long term or short term projects proposed to be undertaken by the Company and the viability of the options in terms of cost of raising necessary funds from outsiders such as bankers, lending institutions or by issuance of debt securities or plough back its own funds.

- **Obligations to creditors**

The Company should be able to repay its debt obligations without much difficulty over a reasonable period of time. Considering the volume of such obligations and time period of repayment, the decision of dividend declaration shall be taken.

- **Adequacy of profits**

If during any financial year, the Board determines that the profits of the Company are inadequate, the Board may decide not to declare dividends for that financial year.

- **Post dividend Earning Per Share (EPS)**

The post dividend EPS can have strong impact on the funds of the Company, thus, impacting the overall operations on day-to-day basis and therefore, affects the profits and can impact the decision for dividend declaration during a particular year.

8. FACTORS THAT MAY AFFECT DIVIDEND PAYOUT

- **Internal Factors**

- ***Product/ Project 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 taking dividend decision.

- ***Stage of ongoing Projects***

The Company is a purely pharmaceutical Research Company. Accordingly, the amount of investment required to be made by it increases significantly as a project advances towards clinical study phase. Accordingly, the internal cash flow requirements of the Company shall be much higher as the proportion of the number of projects in the advanced research/ clinical study stage increases, in the overall portfolio of the Company. The Board will therefore give due consideration to the 'stage' of the projects in the pipeline before recommending/ declaring any dividend.

- ***General Working capital requirement***

In addition to the above, the general working capital requirement within the Company will also impact the decision of dividend declaration.

- ***Past performance/ reputation of the Company***

The trend of the performance/ reputation of the Company that has been during the past years determine the expectation of the shareholders.

- **External Factors**

- ***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, during uncertain or recessionary economic and business conditions, the Board may consider retaining a larger part of the profits to have sufficient reserves to absorb unforeseen circumstances.

- ***Capital Market***

When the markets are favorable, dividend pay-out can be liberal. However, in case of unfavorable Capital market conditions, Board may resort to a conservative dividend pay-out in order to conserve cash outflows.

- ***Statutory Restrictions***

The Board will keep in mind any restrictions on payment of dividends by virtue of any regulation or loan covenant, as may be applicable to the Company at the time of declaration of dividend.

- ***Tax implications***

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 shall have bearing on the quantum of Dividend declared by the Company.

9. RANGE OF DIVIDEND PAY-OUT

The Company is committed to deliver sustainable value to all its stakeholders. The Company strives to distribute an optimal and appropriate level of the profits earned by it in its business and investing activity, with the shareholders, in the form of dividend. As explained in the earlier part of this Policy, determining the dividend pay-out is dependent upon several factors, both internal to a business and external to it. Taking into consideration the aforementioned factors, the Board shall have absolute discretion to determine & recommend appropriate Dividend pay- out for the relevant financial year.

10.MANNER OF UTILISATION OF RETAINED EARNINGS

The Board may retain its earnings in order to make better utilisation of the available funds and increase the value of the stakeholders in the long run. The retained earnings of the Company may, inter alia, be utilized for the following purposes:

- To meet the working capital/ business needs of the Company
- To fund the project expansion plans of the Company;
- To fund the research expenditures of ongoing research projects specifically those in the advanced development stages
- Towards Replacement/ up-gradation /Modernization of equipment's & plants;
- Towards investment in long term/ short term strategic joint ventures &/or partnerships and/or subsidiary companies ;
- To fund new acquisitions & investments.
- Towards Diversification of business;
- Such other manner as the Board may deem fit from time to time.

11. REVIEW AND AMENDMENT

The Board may review and amend or modify this policy in whole or in part, at any time.