

DIVIDEND DISTRIBUTION POLICY

HERO MOTOCORP LIMITED

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AN INTRODUCTION TO THE POLICY

Rationale for the Policy

Hero MotoCorp Limited (“the Company”) is in the business of development, manufacturing, marketing, sale and distribution of two-wheelers and its parts since 1984. The Company’s strategy is to build a robust product portfolio of mobility solutions across categories, explore growth opportunities in both domestic market and globally, aggressively expand reach to customers and ensure customer satisfaction. The Company strives to make positive contribution to society it operates in, through its sustainable and green manufacturing initiatives and its active social responsibility programmes.

With respect to apportioning a share of profit to its shareholders, the Company endeavours to be fair and consistent with its strategy, approach and decision. The management draws the conclusion of distributing dividends after taking into account a multitude of legal and financial parameters including long-term earning capabilities, growth prospects, opportunity costs, applicable laws and statutory covenants.

Key consideration for the dividend decision are the Company’s historical financial performance, future financial outlook, strategic business needs including expansion plans, acquisitions plans, medium term investments, capital expenditure needs, and dividend payout practice.

Objective of the Policy

The objective of the Dividend Distribution Policy (“the Policy”) of the Company is to define the various factors affecting the dividend decision, i.e.:

- › Defining internal and external factors impacting the dividend decision
- › Financial parameters affecting dividend decision
- › Circumstances leading to declaration of dividend or the lack of it
- › Defining dividend distribution payment form and method

PRINCIPLES GUIDING DIVIDEND DECISION

Internal Factors to be considered (if and when applicable)

Earnings' stability: The financial performance of the Company has an important bearing on the dividend policy. A stability of earnings builds our confidence in the company and inclines the Company to formulate a more consistent dividend policy than in circumstances or years of an uneven flow of income

Liquidity position: Availability of cash and sound financial position is also an important factor in dividend decisions. As dividend means huge cash outflow, the greater the funds and the liquidity of the firm, the better is its ability to pay dividend.

Future Funding Requirements: The Company believes in retaining a part of its profits for investing into business expansion and strengthening the Company's financial position in the future. A part of income is /may be reserved for investing in capital expenditure, research and development, expanding into new geographical markets or for increased requirements of working capital.

Fluctuations in Business Cycle: Business cycles exercise influence upon dividend Policy. Dividend policy is adjusted according to the business oscillations. In peak seasons of performance (operationally and financially), management creates reserves for contingencies and is pays out higher dividends. Adequate reserves help the Company through tough times / lean season / aggressive competitions and expansion phases, guiding the Company's decision accordingly.

Regularity and stability in Dividend Payment: The Company believes that dividend payout practice should be stable and consistent over long periods of time, thus creating predictability and visibility of cash flows for the shareholders. In past several years, the Company has been consistently paying high dividend to its shareholders, shall endeavor to follow the same pattern, unless any exceptional circumstances occur.

Contractual Obligations / Debt Repayments, if any: The Company shall take into consideration any contractual obligations / debt principal or interest payments, if and when they occur before distributing dividend to its shareholders.

External Factors to be considered

Legal Requirements: The Policy has been formed in keeping with the current framework / provisions of The Companies Act 2013 and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. While taking the dividend decision, any amendments in the same shall be taken into account as and when they occur, with respect to payment and distribution of dividend.

Government Policies: The earning capacity of an enterprise is hugely impacted by the changes in monetary, fiscal, industrial, labour, and other government policies. The dividend policy has to be modified or formulated accordingly, if such events occur.

Taxation Policy: Various taxes, including Dividend Distribution Tax, tax on dividend income or any other policy or amendments in prevailing rates and conditions can lead to reduction in the earnings of the companies or may affect its investors and accordingly shall be taken into account while taking the dividend decision.

Financial Parameters to be considered

The Company has been amongst the most consistent wealth creators rewarding its shareholders with high dividend payout over the last several years. The Company is debt-free and has a healthy level of reserves, a part of which is retained by the Company to provide for future projects and expansion.

The Company in all its future dividend decisions shall consider the below mentioned financial parameters:

- › Net Income attributable to Shareholders
- › Earnings growth
- › Liquidity Ratios
- › Financial Leverage Ratios (if and when debt occurs on the Company's financials)
- › Free Cash flows
- › Redeemable investments
- › Free Reserves
- › Cash Flow projections
- › Investment plans

COVENANTS OF THE DIVIDEND DECISION

- › The Company shall be consistent and stable in its dividend pay-out practice, smoothening out the stream of dividends paid to its shareholders.
- › The Company shall keep sufficient financial flexibility to fund future growth prospects and maximize corporate value in the long run.
- › The Company may declare/distribute dividend out of surplus in the profit and loss account and free reserves of the company to its shareholders.
- › The Company may reward shareholders in a number of ways. Cash dividends may be distributed to shareholders through regular or through extra (also referred to as special or irregular) dividends. The Company may issue bonus shares or stock splits, if it considers prudent to do so.
- › The Company prefers to declare / distribute dividends at an annual frequency, along with extra dividend, if and when financials / internal/ external factors so permit.
- › If the financial position, internal and external factors, and laws so permit, the Company may declare/distribute Interim Dividend. This may also be done after the Board has considered the Interim financial statements, and at any time before the closure of the financial year.
- › The Company, may in future issue equity shares with differential rights or preference shares or any other class of shares, in which case, the Dividend or Interim Dividend so declared on all or anyone or more of the classes of such shares, shall be consistent with covenants of the Dividend Policy and rights and privileges associated with such new issuances.
- › The Company shall use any of the electronic modes of payment approved by the Reserve Bank of India for the payment dividends. Also, where it is not possible to use electronic mode of payment, 'payable-at-par' warrants or cheques may be issued.
- › The Management/Board of Directors can modify/amend the policy depending on business need and external environment.