



Brief Notes –Declaration of Interim Dividend

Applicability : Listed Entities

Compliances : SEBI (LODR) Reg. 2015 & Companies Act, 2013 and rules made thereunder

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Meaning of 'Term' mentioned in this assignment

1. **Section** refers to 'Companies Act, 2013'.
2. **Rule** refers to 'Companies (Declaration and Payment of Dividend) Rules, 2014.
3. **Regulation** refers to 'SEBI ((Listing Obligations and Disclosure Requirements) Regulations, 2015'.
4. **Para** refers to 'Guidance note on Secretarial Standard-3-Dividend' [SS-3].
5. **SS-1** refers to 'Secretarial Standard-1 on Board Meeting' [SS-1].

Note: Adherence to SS-3 is not mandatory, however it is recommendatory.

S. No	Nature of Compliance	Timeline	Applicable provisions
1.	<p><u>Dividend Distribution Policy:</u></p> <p>Dividend Distribution Policy shall be placed on website of the Company and a web-link shall also be provided in its annual reports.</p> <p>[Top 1000 listed entities based on market capitalization]</p>	Within 2 working days	Reg. 43A read with Reg. 46(2)(y)
2.	<p><u>Sources may be used for declaration of Interim Dividend:</u></p> <ol style="list-style-type: none"> 1) Dividend shall be declared only out of the profits of that financial year after providing depreciation or out of profits of previous financial year or years arrived after providing deprecation. 2) Money provided by the Central Government or State Government for the payment of Dividend. 3) Transfer such appropriate percentage of its profit to reserve before declaration of dividend. 4) Dividend can be declared from the general reserves only. 	Before Board Meeting	Sec. 123 (1)
3.	<p><u>Conditions to be complied for declaration of Interim Dividend:</u></p> <ol style="list-style-type: none"> 1) The Board of Directors of a company may declare interim dividend during any financial year or at any time during the period from closure of financial year till holding of the annual general meeting out of the surplus in the profit and loss account or out of profits of the financial year for which such interim dividend is sought to be declared or out 	Before Board Meeting	Sec. 123 (3) read with Rule 3

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	<p>of profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend.</p> <p>2) If company has incurred loss during the current financial year upto the end of the quarter immediately preceding the date of declaration of Interim Dividend –</p> <p>a) Rate of Interim Dividend shall be less than or equal to average dividend declared during the immediate preceding 3 financial year.</p> <p>b) The total amount to be drawn from such accumulated profits shall not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.</p> <p>c) The amount so drawn shall first be utilised to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.</p> <p>d) The balance of reserves after such withdrawal shall not fall below fifteen per cent of its paid up share capital as appearing in the latest audited financial statement.</p>		
4.	<p><u>Convening of Board Meeting:</u></p> <p>a) Interim Dividend shall be declared at the meeting of the Board – no Resolution by Circulation (RBC) allowed.</p> <p>b) Audit Committee shall first consider the Interim Financial Statement and recommend it to the Board.</p>		Reg. 30 read with Schedule III and Para 2.3 of Guidance note on SS-3

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5.	<u>Issuance of Notice & Agenda:</u> Issuance of Notice & Agenda to Directors & Special Invitee, if any, for approval of financial results and declaration of interim dividend.	At least 07 days before date of the meeting.	Sec. 173(3) read with SS-1
6.	<u>Intimation of Closure of Trading Window:</u> The Compliance officer shall intimate regarding closure of trading window to the Stock Exchanges. [Pdf and XBRL mode]	At the time of issuing notice of board meeting.	Reg. 9(1) read with Sch. B (4)
7.	<u>Prior intimation of Board Meeting:</u> Prior intimation of the Board Meeting scheduled for the purpose of declaration of Interim Dividend to the Stock Exchange(s). [Pdf and XBRL mode]	At least 02 working days in advance excluding the date of the intimation and date of the board meeting.	Reg. 29(1) and (2)
8.	<u>Intimation of Record Date:</u> Intimation of the record date fixed for the purpose of payment of Interim Dividend to the Stock Exchange(s). [Pdf and XBRL mode]	At least 07 working days in advance excluding the date of the intimation and the record date.	Reg. 42(1) and (2)
9.	<u>Declaration of Interim dividend:</u> The Company shall declare and disclose the dividend on per share basis only.	At least 05 working days (excluding the date of intimation and the record date) before the record date fixed.	Reg. 42 (3) read with Reg. 43
10.	<u>Outcome of Board Meeting:</u>	Within 30 minutes of conclusion of board Meeting	Reg. 30(6) read with sub part (4) of part A of Schedule III

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	<p>The company shall disclose the outcome of the Board Meeting to Stock Exchanges and the intimation shall also include the date on which such Dividend shall be paid or Dividend warrant shall be despatched.</p> <p>[Pdf and XBRL mode]</p>		
11.	<p><u>Amount to be deposited in separate Bank Account:</u></p> <p>Amount of Interim dividend shall be deposited in a separate bank account opened with scheduled bank. Payment of Dividend to be rounded off to the nearest rupee.</p> <p>[A Government Company in which the entire paid up share capital is held by the CG or SG(s) or jointly by both or by one or more Government Company.]</p>	Within 5 days of Board Meeting (declaration)	Sec-123 (4) read with Para 5.1 Guidance note on SS-3
12.	<p><u>Payment of Interim Dividend:</u></p> <p>Members who desire that their Dividends be credited directly to their bank account may request the company to do so by giving a 'Dividend Mandate'.</p> <p>This authorises the company to pay Dividend directly to the bank account of the Member. Where a Member gives a mandate to the company for payment of Dividend to an intermediary, the company should act accordingly.</p> <p>In respect of shares held in dematerialised form, the Members should provide mandates for this purpose to their Depository Participants.</p> <p>[The intervening holidays, if any, falling during such period shall be included.]</p>	Within 30 days of Board Meeting (declaration)	Sec 124 (1) read with Para 5.1 of Guidance note on SS-3

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13.	<p><u>Dividend to be paid in cash and not in kind:</u></p> <p>Dividend payable in cash may be paid through payable at par cheque or warrant or in any electronic mode of payment approved by the Reserve Bank of India.</p> <p>If amount payable as dividend exceeds one thousand and five hundred rupees, the 'payable-at-par' warrants or cheques shall be sent by speed post.</p>	Within 30 days of Board Meeting (declaration)	Sec 124 (1) read with Para 5.3 of Guidance note on SS-3 and Reg. 12
14.	<p><u>Disclosure in Financial Results:</u></p> <p>The listed entity shall disclose dividends paid or recommended for the year, including interim dividends.</p>	Annual Financial Results	Reg. 33(1)(e) read with Part A (J) of Schedule IV

Point to be Noted

1. 2nd proviso to Section 123(1) shall not apply to not apply in which the entire paid up share capital is held by the Central Government, or by any State Government or Governments or by the Central Government and one or more State Governments:-

“Provided further that where, owing to inadequacy or absence of profits in any financial year, any company proposes to declare dividend out of the accumulated profits earned by it in previous years and transferred by the company to the free reserves, such declaration of dividend shall not be made except in accordance with such rules as may be prescribed in this behalf.” **[Ref: MCA Notification dated 05.06.2015]**

2. Section 124(4) shall not apply to not apply in which the entire paid up share capital is held by the Central Government, or by any State Government or Governments or by the Central Government and one or more State Governments:-

“(4) The amount of the dividend, including interim dividend, shall be deposited in a scheduled bank in a separate account within five days from the date of declaration of such dividend.” [Ref: MCA Notification dated 05.06.2015]

3. The word ‘payment’ implies the act of posting of Dividend warrants or cheques as provided under the law irrespective of whether the Member concerned has received it or not. Once a Dividend warrant is posted by the company to the address of the registered Member, Dividend is deemed to have been paid within the meaning of Section 123(5) of the Companies Act, 2013). **[Hanuman Prasad Gupta v. Hiralal (1970) 4 (S.C)]. [Ref: Para 5.3 of Guidance note on SS-3]**

4. A listed company should, while ascertaining the bank account details from the Member, advise him to submit an original cancelled cheque pertaining to his bank account bearing his name thereon, failing which he need to submit copy of bank passbook/ statement attested by his Bank. [SEBI Circular SEBI/HO/ MIRSD/DOP1/CIR/P/2018/73 dated April 20, 2018]. **[Ref: Para 5.3 of Guidance note on SS-3]**

5. The Listing Regulations provide that a listed company shall mandatorily print the bank account details of the shareholders on Dividend warrants and in cases where the bank details of shareholders are not available, it shall mandatorily print the address of the shareholder on such payment instructions. **[Ref: Para 5.3 of Guidance note on SS-3]**

6. In case of a Nidhi company, where the Dividend payable to a Member is one hundred rupees or less, it shall be sufficient compliance if the declaration of Dividend is announced in the local language in one local newspaper of wide circulation and announcement of the said declaration is also displayed on the notice board of the Nidhis for at least three months. **[MCA exemption notification dated 5th June 2015]**
7. A cheque or warrant for payment of Dividend shall be valid for a period of three months from the date of issue. **[Ref: RBI Circular DBOD.AML BC.No.47/14.01.001/2011-12 and Para 5.4 of Guidance note on SS-3]**
8. Where such cheque or warrant remains unpaid after the initial period of validity, a fresh instrument shall be issued in lieu thereof, within fifteen days of the receipt of a valid request in this regard and such instrument shall also have a validity of three months from the date of its issue.

Companies should ensure that the Dividend warrant is payable at par and that the initial validity of the Dividend warrant is three months, as it generally takes time for the Members to encash Dividend warrants. Further, if the cheque or warrant is revalidated, its validity should be for a period of three months.

Particulars of every fresh cheque or warrant issued by the company shall be entered in a Register of Dividend Warrants kept for the purpose indicating the name of the person to whom the instrument is issued, the number and amount of such instrument and the date of issue. **[Ref: Para 5.4 of Guidance note on SS-3]**
9. A duplicate Dividend cheque or warrant shall be issued only after obtaining requisite indemnity/ declaration from the concerned Member and after ascertaining the encashment status of the original Dividend cheque or warrant. **[Ref: Para 5.5 of Guidance note on SS-3]**
10. Particulars of every duplicate Dividend cheque or warrant issued as aforesaid shall be entered in a Register of Duplicate Dividend Warrants kept for the purpose, indicating the name of the person to whom the instrument is issued, the number and amount of the instrument in lieu of which the duplicate instrument is issued and the number & date of issue of such duplicate instrument. **[Ref: Para 5.5 of Guidance note on SS-3]**
11. Dividend shall be paid proportionately on the paid-up value of shares. A company may, if so authorised by its articles, pay Dividends in proportion to the amount paid-up on each share. **[Ref: Section 51 of Companies Act, 2013 & Para 5.7 of Guidance note on SS-3]**
12. Calls in arrears and any other sum due from a Member in relation to the shares of the company may be adjusted against Dividend payable to the Member.

In the case of listed companies, calls in arrears or any other sum due from a Member in relation to the shares of the company, may be adjusted against the Dividend payable to him after giving such notice, as may be required.

In the case of other companies, if the Articles so provide, any other sums due from a Member, in a capacity other than as a Member, may also be adjusted against the Dividend payable to him.

In terms of the proviso to Section 127 of the Act, where Dividend has been lawfully adjusted by the company against any sum due to it from the shareholder, there is no contravention of the said Section. **[Ref: Para 5.8 of Guidance note on SS-3]**

13. If the amount is to be paid in advance of calls on any shares, a listed company shall stipulate that such amount may carry interest but shall not confer a right to Dividend or to participate in profits. Further, a listed company shall not issue shares in any manner which may confer on any person, superior rights as to voting or Dividend vis-à-vis the rights on equity shares that are already listed. **[Ref: Reg. 41(2) & (3) read with Para 5.8 of Guidance note on SS-3]**

Example: Mr. John is a debtor as well as Member of X Ltd., a public listed company. X Ltd. declares Dividend of Rs. 5000 on the shares owned by Mr. John and proposes to adjust the said amount against the debt of Rs. 10,000 due from Mr. John. In the given case, X Ltd. may adjust the amount of Dividend only against calls in arrears or any other sums due from Mr. John in the capacity of a Member and not otherwise. Therefore, the amount due from Mr. John in the capacity of trade debtor will not be adjusted and the company need to pay Dividend amount to Mr. John.

14. No Dividend shall bear interest against the company except in case of default in payment of Dividend or despatch of Dividend warrant/ cheque within the prescribed period. **[Para 5.9 of Guidance note on SS-3]**

However, no default shall be deemed to have been committed, if –

- (a) the Dividend could not be paid by reason of the operation of any law;
- (b) a Shareholder has given directions to the company regarding the payment of Dividend and those directions cannot be complied with and the same has been communicated to the concerned Shareholder;
- (c) there is a dispute regarding the right to receive the Dividend;
- (d) the Dividend has been lawfully adjusted by the company against any sum due to it from the Shareholder; or
- (e) for any other reason, the failure to pay the Dividend or to post the cheque or warrant within the prescribed period was not due to any default on the part of the company. **[Ref: [Ref: Para 5.9 of SS-3 and Regulation 88 of Table F of Schedule I]**

15. **A listed company**, should ensure such **reconciliation through its Share Registrar and the Dividend banker on a fortnightly basis** during the initial validity of the Dividend warrants and thereafter on a **quarterly basis till transfer of funds to the Investor Education and Protection Fund**. **[Ref: Section II, Serial no. 12 of SEBI Master Circular no. SEBI/HO/MIRSD/POD-1/P/CIR/2023/70 dated May 17, 2023 and Para 6.1 of Guidance note on SS-3]**

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16. **In case of a Nidhi Company**, any Dividend payable in cash may be paid by crediting the same to the account of the member, if the Dividend is not claimed within 30 days from the date of declaration of the Dividend. [Ref: MCA exemption notification dated 5th June 2015]
17. Dividend, once declared, becomes a debt and shall not be revoked. Dividend when proposed does not become a debt. The right of Members to claim Dividend arises only after the Dividend is declared either by the company in an Annual General Meeting or, in the case of Interim Dividend, by the Directors in a Board Meeting. Until and unless it is so declared, no Member has any claim against the company in respect thereof, even though the company may have sufficient profits [Ref: **Bacha F. Guzdar v Commissioner of Income Tax 1955 AIR SC 740**]

Members cannot compel the company by any process of law to declare Dividend. [Ref: **C.W. Spencer v. ITO, (1957) 27 Comp. Cases 15, 25 (Mad)**]

A Dividend once declared becomes a debt due to the Members and hence cannot be revoked. It gives rise to an enforceable obligation or creates a debt enforceable immediately or in the future.

Link of Circular/Notification mentioned under this assignment

1. Exemption to Govt. Companies-MCA Notification dated 05.06.2015

<https://www.mca.gov.in/bin/ebook/dms/getdocument?doc=Nzc0Ng==&docCategory=Notifications&type=open>

2. Exemption to Nidhi Companies-MCA Notification dated 05.06.2015

<https://www.mca.gov.in/bin/ebook/dms/getdocument?doc=NzY1Mw==&docCategory=Notifications&type=open>

3. SEBI Master Circular dated 17.05.2023

https://www.sebi.gov.in/legal/master-circulars/may-2023/master-circular-for-registrars-to-an-issue-and-share-transfer agents_71271.html

4. BSE Circular- Prior Intimation- dated 27.01.2023

<https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20230127-37>

5. NSE Circular- Prior Intimation- dated 27.01.2023

https://nsearchives.nseindia.com/web/sites/default/files/inline-files/Circular%20Filing%20of%20announcements%20in%20XBRL%20format%20on%20NSE%20Electronic%20Application%20Processing%20System%20%28NEAPS%29%20platform._0.pdf

6. BSE Circular- Closure of Trading Window- dated 08.12.2023

<https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20231208-34>

7. NSE Circular- Closure of Trading Window- dated 08.12.2023

<https://nsearchives.nseindia.com/web/sites/default/files/inline-files/NSE%20Circular-%20Filing%20of%20Announcements%20pertaining%20to%20Loss%20and%20Duplicate%20Share%20Certificate%2C%20Trading%20Window%2C%20CIRP%20in%20XBRL%20format%20on%20NEAPS%201.pdf>

Thank you so much for your continuous support & best wishes for future

Shree Radhe Krishna...

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