

**THERMAX GROUP**

**Related Party Policy**

## **POLICY FOR CONSIDERATION AND APPROVAL OF RELATED PARTY TRANSACTIONS**

**Effective Date: Effective from October 1, 2014**

### **Amendments:**

- 1<sup>st</sup> amendment: January 29, 2016, with the approval of the Board of Directors

### **Reference:**

Section 188 of the Companies Act 2013 (the Act) and the Rules made thereunder and Regulation 23 of the SEBI (Listing Obligations and disclosure Requirements) Regulations, 2015 (the Regulations) for dealing with related party transactions.

### **Scope and Purpose of the Policy**

The objective of this policy is to regulate transactions between the company and its related parties as determined, based on the Act, the Regulations and any other laws and regulation for the time being in force applicable to the Company. Any amendment in the Act, Regulations and other laws shall prevail over this Policy.

### **Applicability**

This policy is applicable to Thermax Limited viz. a viz. its related parties. The subsidiary companies and joint venture companies may develop their own policies considering each one's nature of operations.

### **Manner of dealing with Related Party Transactions**

#### **1. Identification of related parties and related party transactions**

Related parties and related party transactions will be identified in accordance with Section 2(76) and other provisions of the Act, and the Regulations.

#### **2. Determination of “ordinary course of business” and “arms length”**

The Company will ensure that related party transactions are undertaken at arm's length.

While determining “ordinary course of business” the Company will refer to the Guidelines issued by ICAI, the principles put down by various courts and provisions of the Act and Rules framed there under, the ordinary course of business will broadly mean the usual transactions, customs and practices of a business and of the company.

In its guidance, the Institute of Chartered Accountants of India has included the following as examples of transactions considered outside an entity's normal (or ordinary) course of business:

- Complex equity transactions, such as corporate restructurings or acquisitions.
- Transactions with offshore entities in jurisdictions with weak corporate laws.
- The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged.
- Sales transactions with unusually large discounts or returns.
- Transactions with circular arrangements, for example, sales with a commitment to repurchase.
- Transactions under contracts whose terms are changed before expiry.

The courts have laid down the following principles in regard to transactions which can be treated as being in the ordinary course of business:

- The objects of the company permit such activity or activities.
- It is a historical practice and there is a pattern of frequency.
- The transaction has a connection with the normal business carried on by the company.
- The income if any, earned from such activity/transaction is assessed as business income in the company's books of account and hence, is a business activity.
- It is a common commercial practice.

Section 188 (1) sub clause (b) to the explanation states – Arm's length transaction means a transaction between two related parties that is conducted as if they were unrelated. The Company has laid down a framework to assess whether a transaction with a related party is done at arm's length and the company adopts generally accepted practices and principles in determining whether the transaction is at arm's length.

Where it is not possible to obtain comparable transaction information because of variations in commercial or technical terms, appropriate adjustments should be made to the best available comparable transactions to arrive at an arm's length price and terms for the related party transaction involved.

Related party transactions should be at arm's length in all material respect. Immaterial variations between the pricing and terms of related party transactions with comparative transactions will be overlooked.

### **Procedure for Approval of Related Party Transactions**

#### **1. Approval of the Audit Committee**

- 1.1. Prior approval of the Audit Committee will be required for all related party transactions except for transactions entered into, between the holding company and its wholly owned subsidiaries.
- 1.2. Approval of the Audit Committee will be required for all other related party transactions.
- 1.3. The Audit Committee may grant omnibus approval for transactions (except for transactions in respect of selling and disposing of the undertaking of the company) with related parties which are repetitive in nature based on the criteria approved by the Board of Directors of the Company.

- 1.4 The audit Committee shall review, at least on a quarterly basis the details of related party transactions entered into by the Company pursuant to each of the omnibus approval.
- 1.5 The Committee has to ensure that adequate deliberations are held before approving related party transactions and assure themselves that the same are in the interests of the company.
- 1.6 The Audit Committee may grant omnibus approval for a proposed related party transaction subject to the following conditions:
- a. The Audit Committee shall lay down the criteria for granting omnibus approval in line with the criteria specified by the board and the Policy for Related Party Transactions of the company and such approval shall be applicable to transactions which are repetitive in nature; the format for seeking prior approval of the audit committee is attached. (Refer Annexure - I)
  - b. The Audit Committee shall satisfy itself of the need for such omnibus approval and that the said approval is in the interest of the company.
  - c. Where the need for related party transaction cannot be foreseen and the specific details of the transaction are not available, the Audit Committee may make omnibus approval for such transactions upto a limit of Rs. 1 crore per transaction.
  - d. Such omnibus approval shall be valid for a maximum one financial year and will require fresh approval after expiry of the financial year.
- 1.7 All related party transactions, including those with subsidiary companies, will be placed before the Audit Committee at least quarterly as per format attached (Refer Annexure II).
- 1.8 It is not the responsibility of the Audit Committee to determine if there is need to do a transaction with a related party. The selection of a related party in reference to others is at the discretion of the management and/or the board of directors. The Audit Committee's responsibility is to satisfy itself that the terms of such transactions are at arm's length.
- 1.9 The Audit Committee will have the discretion to refer any matter relating to the related party transaction(s) to the board for its opinion.

## **2. Approval of the Board of Directors**

- 2.1 As per the provisions of Section 188 of the Act, all related party transactions specified under the said section and which are not in the ordinary course of business or are not at arm's length are required to be placed before the Board for its approval.
- 2.2 All related party transactions will be intimated to all independent directors after approval by the Audit Committee or Board.
- 2.3 Transactions intended to be placed before the shareholders for their approval shall first be considered by the Board.

### 3. Approval of the Shareholders of the Company

- 3.1 All transactions with a single related party during a financial year aggregating to over 10% of the last annual consolidated turnover of the Thermax Group will require prior approval of shareholders through resolution.
- 3.2 In addition to the above, the following transactions which are not in the ordinary course of business or are not at arm's length shall require approval by shareholders by way of a resolution.

Details of transactions to be entered individually or taken together during a financial year	Minimum threshold requiring Shareholder Approval			
	Annual Turnover exceeding	Net Worth exceeding	Value of transaction(s) exceeding	Criteria
Sale, purchase or supply of any goods or material directly or through appointment of agent	10%		Rs. 100 crores	whichever is lower
Selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agent		10%	Rs.100 crores	whichever is lower
Leasing of property of any kind	10%	10%	Or Rs.100 crores	whichever is lower
Availing or rendering of any services directly or through appointment of agent		10%	Rs 50 crores	whichever is lower
Appointment to any office or place of profit in the company, its subsidiary companies or associate companies at a monthly remuneration			Remuneration Rs. 2.5 Lac per month	
Remuneration for underwriting the subscription of any security or derivatives thereof of the company		1%		

The approval of shareholders will not be required for transactions entered into between the holding company and its wholly owned subsidiaries.

- 3.3 The turnover or net worth shall be on the basis of the company's audited financial statements for the preceding financial year.

**4. Disclosures and Reporting**

4.1 Details of related party transactions during each quarter shall be placed in the Audit Committee for approval, review or noting as the case may be.

4.2 The Directors report shall contain details of related party transactions as required under the Act.

4.3 This policy shall be communicated to all concerned employees and related parties of the company for implementation and reporting.

**5. Related Party Transaction not approved under this Policy**

5.1 Any transaction carried out without appropriate approval of the Audit Committee in accordance with this policy will be reviewed by it.

5.2 The Audit Committee shall examine the facts and circumstances pertaining to failure to report and any failure of the systems. The Committee shall take such action as it deems appropriate, including ratification, revision or termination of the concerned related party transaction.

5.3 The Audit Committee may require further approval of the Board or Shareholders and or the payment of compensation for the loss suffered by the related party.

**Annexure 1: Prior Approval of Audit Committee/Omnibus Approval**

Sr. No.	Name of the Related Party	Nature and duration of Transaction	maximum amount of transaction proposed to be entered into;	the indicative base price or current contracted price and the formula for variation in the price, if any	any other information relevant or important for the Audit Committee to take a decision on the proposed transaction

**Annexure -2 Related Party Transactions to be placed before Audit Committee**

Sr. No.	Name of the Related Party	Nature of duration of the contract or Arrangement	Amount	Material terms* of the contract including price	The manner of determining the pricing and other commercial Terms	Any other relevant information pertaining to the contract

\* Credit period, discounts, taxes, warranties/guarantees, penalties& bonuses, interest rate (simple/compound), security, advance payments, withholding amounts, and other terms that have a bearing.