

THERMAX GROUP

Related Party Policy

POLICY FOR CONSIDERATION AND APPROVAL OF RELATED PARTY TRANSACTIONS

Effective Date: Effective from October 1, 2014

Reference:

Section 188 of the Companies Act 2013 (the Act) and Clause 49 of the Listing Agreement (LA) and Rules made there under for dealing with the 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, LA and any other laws and regulation for the time being in force applicable to the Company.

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 LA clause.

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.

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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

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. However, transactions between holding company and its wholly owned subsidiaries will be placed before the Audit Committee quarterly.

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.

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 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. Such omnibus approval shall be valid for a period not exceeding one year.

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).

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.

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

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.

All related party transactions will be intimated to all independent directors after approval by the Audit Committee or Board.

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

All transactions with a single related party aggregating to over 10% of the last annual consolidated turnover of the Thermax Group will require prior approval of shareholders through special resolution.

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 such approval by special resolution.

Nature of Transaction	Minimum threshold requiring Shareholder Approval		
	Annual Turnover	Net Worth	
Sale, purchase or supply of any goods or material	25%		
Selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agent		10%	
Leasing of property of any kind	10%	10%	
Availing or rendering of any services directly or through appointment of agent		10%	
Appointment to any office or place of profit in the company, its subsidiary companies or associate companies at a monthly remuneration			2.5 lakh per month remuneration
Remuneration for underwriting the subscription of any security or derivatives thereof of the company		1%	

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

Disclosures and Reporting

1. Details of related party transactions during each quarter shall be placed in the Audit Committee.
2. The Directors report shall contain details of related party transactions as required under the Act.

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3. This policy shall be communicated to all concerned employees and other persons of the company at all locations for implementation and reporting.

Related Party Transaction not approved under this Policy

1. Any transaction carried out without appropriate approval of the Audit Committee in accordance with this policy will be reviewed by it.
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.
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 of Transaction	Indicative terms*, including base price, standard terms, the maximum value per transaction and maximum aggregate of all transactions	Justification for Omnibus Approval	Relevant Clause in RPT Policy

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.