

THERMAX GROUP

Related Party Policy

POLICY FOR CONSIDERATION AND APPROVAL OF RELATED PARTY TRANSACTIONS

Effective Date: Effective from October 1, 2014

Amendments:

- 1st amendment: January 29, 2016, with the approval of the Board of Directors
- 2nd amendment: May 22, 2019, with the approval of the Board of Directors
- 3rd amendment: February 04, 2020, 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.

Transaction Philosophy

The Group is agnostic as to whether transactions with related parties (including other Group entities) should be preferred or not. Other things being equal, such a transaction would be preferred. However, the Group discourages transactions with related parties if they are less advantageous than if done with third parties.

Applicability

This policy shall apply to all related party transactions by Thermax Group entities including branches and representative offices (hereinafter referred to as “Thermax Group entities”). All Thermax Group entities must comply with this policy.

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 Regulation 2 (zb) and Regulation 2 (zc) of the SEBI (LODR) Regulations, 2015.

The Company Secretary of Thermax Ltd. shall maintain a data base of Related Parties, entity-wise, based on declarations made by Directors and KMP's. The list of related parties shall be updated immediately on any change occurring.

The list of related parties and any amendment thereto will be circulated to all the Divisions and subsidiaries once in every quarter. Every entity must identify the recipient of this information and put in place a system for the immediate dissemination of the information to all persons authorized to contract.

Prior to transacting with a related party (other than those between Thermax Ltd. and any of its wholly owned subsidiaries, if done at arm's length and in the ordinary course of business), the concerned finance controller will send the details of the proposed contract, basis of pricing & key contract terms with other supporting documents to Thermax Ltd.'s Company Secretary for seeking approval of the Audit committee. .

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

Generally related party transactions are to be undertaken on arm's length terms.

While determining “**ordinary course of business**” the concerned executive will refer to the Guidelines issued by Institute of Chartered Accountants of India (<https://kb.icai.org/pdfs/PDFFile5b276aa5914f66.84936033.pdf>), the principles laid down by various courts and the provisions of the Companies Act and the Rules framed there under. The ordinary course of business broadly means the usual transactions, customs and practices of a business the company is engaged in and of the specific company concerned.

In its guidance, the Institute of Chartered Accountants of India has included the following *examples* as 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 an 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.

The Companies Act's 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 Standard Operating Procedure (SOP) 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 respects. Immaterial variations between the pricing and terms of related party transactions with comparative transactions will be overlooked.

3. Determination of Materiality of Related Party Transactions. (Applicable only to Thermax Limited)

Material Related Party Transactions will be identified in accordance with Regulation 23 of SEBI (LODR) Regulations, 2015.

As per aforesaid regulation a transaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds **ten percent** of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

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 between the holding company and its wholly owned subsidiaries if they are in the ordinary course of business and on arm's length terms.
- 1.2 The Audit Committee shall review, at least quarterly, the transactions entered into pursuant to omnibus approvals.
- 1.3 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.

- 1.4 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 interests of the company.
 - c. Where the specific details of an anticipated transaction are not available, the Audit Committee may grant omnibus approval to such a transaction up to a limit of Rs. 1 crore per transaction.
 - d. Omnibus approvals shall be valid for a maximum of one financial year.
- 1.5 All related party transactions entered into, including those with subsidiary companies, will be placed before the Audit Committee at least quarterly as per format attached (Refer Annexure II) for its information.
- 1.6 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 preference 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 and that they are in the ordinary course of business.
- 1.7 The Audit Committee will have the discretion to refer any matter relating to related party transactions 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 Prior approval of the Board would be required for transacting with any one related party, post reaching the materiality threshold. When the first such transaction is put up for approval, a summary of the previous transactions done without board approval, because they were below the materiality threshold, shall be listed for the board's information.
- 2.3 All related party transactions will be intimated to all independent directors after approval by the Audit Committee or Board.
- 2.4 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 third party - related party during a financial year aggregating to over 10% of the last available audited annual consolidated turnover of the Thermax Group will require prior approval of shareholders.
- 3.2 All material related party transactions shall require approval of the shareholders through resolution and no related party shall vote on such resolutions whether the entity is a related party to the particular transaction or not.
- 3.3 Transaction involving payments made to a related party with respect to **brand usage or royalty** shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed **two percent** of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.
- 3.4 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%			

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%			
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			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.

- 3.5 The turnover or net worth shall be on the basis of the last available company's audited financial statements.

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 as required by section 177 of the Companies Act, 2013.

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.

4.4 The Company shall submit within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges and publish the same on its website.

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	Period of transaction	maximum amount of transaction proposed to be entered into;	Maximum value per transaction in Rs. Lakh	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

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 in Rs. Lakh	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.