

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
- 4th amendment: February 02, 2021, with the approval of the Board of Directors
- 5th amendment: February 04, 2022, with the approval of the Board of Directors
- 6th amendment: February 07, 2023, 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 shall apply to all related party transactions of Thermax Group entities (hereinafter referred to as “Thermax Group entities”). All Thermax Group entities are required to adhere to this policy while entering the related party transactions.

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), Regulation 2 (zc) and Regulation 23 of the SEBI (LODR) Regulations, 2015.

The Company Secretary shall at all the times maintain a data base of the Company's Related Parties, containing names of companies, individuals, firms etc. identified on the basis of declaration made by the Directors and KMP from time to time. The list of related parties shall be updated as and when necessary and shall be reviewed on quarterly basis.

The list of related parties and any amendment thereto will be circulated to all the Divisions and subsidiaries once in every quarter.

Prior to transacting with a related party (other than WOS), concerned finance controller will send the detail of proposed contract, basis of pricing and other supporting documents to Company secretary for the approval of the Audit committee.

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

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

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 *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.

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.

As per section 2(76) of the Act, “related party”, with reference to a company, means:

- I. a director or his relative;
- II. a key managerial personnel or his relative;
- III. a firm, in which a director, manager or his relative is a partner;
- IV. a private company in which a director or manager or his relative is a member or director;
- V. a public company in which a director or manager is a director and holds along with his relatives, more than two per cent. of its paid-up share capital;
- VI. any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
- VII. any person on whose advice, directions or instructions a director or manager is accustomed to act
- VIII. any body corporate which is—
- IX. a holding, subsidiary or an associate company of such company; or
- X. a subsidiary of a holding company to which it is also a subsidiary;
- XI. an investing company or the venturer of the company;
- XII. a director other than independent director or key managerial personnel of the holding company or his relative with reference to a company, shall be deemed to be a related party.

Related party as per SEBI LODR shall also include any persons or entities forming part of promoter or promoter group of the listed entity.

Any person/entity holding equity shares of 10% or more w.e.f. 1 April 2023 in the listed entity, either directly or on a beneficial interest basis (as defined in section 89 of Companies Act, 2013) at any time during the immediately preceding financial year:

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 rupees one thousand crore or ten per cent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower.

Procedure for Approval of Related Party Transactions

1. Approval of the Audit Committee

- 1.1 Prior approval of the Audit Committee (of Thermax Limited) will be required for all related party transactions (and subsequent material modifications) 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 Material modification shall mean, change in price, quantity or key terms that will impact profitability or cash flow by more than 20% of the earlier approved transaction.
- 1.3 Only those members of the audit committee, who are independent directors, shall approve related party transactions.
- 1.4 A related party transaction to which the subsidiary of a listed entity is a party but the listed entity is not a party, shall require prior approval of the audit committee of Thermax Limited if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds ten per cent of the annual standalone turnover, as per the last audited financial statements of the subsidiary.
- 1.5 Prior approval of the audit committee of Thermax Limited shall not be required for a related party transaction to which the listed subsidiary is a party but the listed entity is not a party, if regulation 23 and sub-regulation (2) of regulation 15 of these regulations are applicable to such listed subsidiary.
- 1.6 The above provisions shall not apply to transactions entered into between two wholly-owned subsidiaries of the listed holding company, whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.
- 1.7 The Audit Committee shall review, at least quarterly, the transactions entered into pursuant to omnibus approvals.
- 1.8 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.

1.9 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 maximum of one financial year.

1.10 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.

1.11 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.

1.12 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 exceeding lower of 10% of the last available audited annual consolidated turnover of the Thermax Group or INR 1,000 crores will require prior approval of shareholders.
- 3.2 All material related party transactions and subsequent material modifications shall require prior approval of the shareholders through resolution and no related party shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not.
- 3.3 Material modifications shall mean change in key price or terms and conditions that results in change by 20% to profit or cash flow of the transaction.
- 3.4 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 **five percent** of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.
- 3.5 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% | | |

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| 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.

- 3.6 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 to the stock exchanges disclosures of related party transactions in the format as specified by SEBI from time to time, and publish the same on its website. The company shall make such disclosures every six months on the date of publication of its standalone and consolidated financial results with effect from April 1, 2023.

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.

Last Amended by the Board of Directors on February 7, 2023

Annexure 1: Prior Approval of Audit Committee/Omnibus Approval

[illegible]

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