

# ELECON ENGINEERING COMPANY LIMITED

## THE NOMINATION AND REMUNERATION POLICY

### Introduction

In accordance with terms of Section 178 of the Companies Act, 2013 and Clause 49 of the Listing Agreement, entered into by the Company with Stock Exchanges, as amended from time to time, this policy on nomination and remuneration of Directors, Key Managerial Personnel (KMP), Senior Management and other employees of the Company has been formulated by the Nomination and Remuneration Committee of the Company and approved by the Board of Directors vide its resolution dated February 3, 2015. This policy shall act as a guideline for determining, inter-alia, qualifications, positive attributes and independence of a Director, matters relating to the remuneration, appointment, removal and evaluation of performance of the Directors, Key Managerial Personnel, Senior Management and other employees. The key features of this Company's policy shall be included in the Board's Report

### Definitions

In this Policy unless the context otherwise requires:

- (1) **"Act"** means Companies Act, 2013 and rules thereunder.
- (2) **"Company"** means "Elecon Engineering Company Limited".
- (3) **"Board of Directors"** or **"Board"**, in relation to the Company, means the collective body of the directors of the Company.
- (4) **"Independent Director"** means a director referred to in Section 149 (6) of the Companies Act, 2013.
- (5) **"Key Managerial Personnel"** (KMP) means
  - i) Chief Executive Officer or the Managing Director or the Manager,
  - ii) Company Secretary,
  - iii) Whole-time Director,
  - iv) Chief Financial Officer and
  - v) Such other officer as may be prescribed.
- (6) **"Committee"** means Nomination and Remuneration Committee of the Company as constituted or reconstituted by the Board in accordance with the provisions of Section 178 of the Companies Act, 2013 and the Listing Agreement
- (7) **"Policy"** means, "Nomination and Remuneration Policy."
- (8) **"Remuneration"** means any money or its equivalent given or passed to any person for services rendered by him and includes perquisites as defined under the Income-tax Act, 1961.

- (9) **“Senior Management”** means personnel of the Company who are members of its core management team excluding Board of Directors. This would include all members of management one level below the executive directors, including all the functional heads.
- (10) **“Ministry”** means the Ministry of Corporate Affairs.
- (11) **“Regulations”** refers to and comprise of Companies Act, 2013, The Companies (Meeting of Board and its Powers) Rules, 2014, The Companies (Appointment and Qualification of Directors) Rules, 2014, The Companies (Appointment and Remuneration of Managerial personnel) Rules, 2014, The Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, Listing Agreement and such other rules and provisions as applicable to the matters dealt in by this Policy.
- (12) **“Employees’ Stock Option”** means the option given to the directors, officers or employees of a company or of its holding company or subsidiary company or companies, if any, which gives such directors, officers or employees, the benefit or right to purchase, or to subscribe for, the shares of the company at a future date at a pre-determined price.

## **Objective**

The policy is framed to ensure that a balanced fit is maintained between the level and composition of remuneration paid to the directors, key managerial personnel and senior management which is reasonable and sufficient enough to attract, retain and motivate them.

## **Membership / Composition**

The Nomination and Remuneration Committee shall consist of a minimum 3 non-executive directors, majority of them being independent.

Membership of the Committee shall be disclosed in the Annual Report.

## **CHAIRMAN**

- a) Chairman of the Committee shall be an Independent Director.
- b) Chairperson of the Company may be appointed as a member of the Committee but shall not be a Chairman of the Committee.
- c) In the absence of the Chairman, the members of the Committee present at the meeting shall choose one amongst them to act as Chairman.
- d) Chairman of the Nomination and Remuneration Committee meeting could be present at the Annual General Meeting or may nominate some other member to answer the shareholders’ queries.

## **QUORUM**

Minimum two (2) members shall constitute a quorum for the Committee meeting.

## COMMITTEE MEMBERS' INTERESTS

- a) A member of the Committee is not entitled to be present when his or her own remuneration is discussed at a meeting or when his or her performance is being evaluated.
- b) The Committee may invite such executives, as it considers appropriate, to be present at the meetings of the Committee.

## VOTING

- a) Matters arising for determination at Committee meetings shall be decided by a majority of votes of Members present and voting and any such decision shall for all purposes be deemed a decision of the Committee.
- b) In the case of equality of votes, the Chairman of the meeting will have a casting vote.

## TERM

Term of the Committee shall be continued unless terminated by the Board of Directors.

## **Applicability**

This Policy is applicable to:

1. Directors viz. Executive, Non-executive and Independent
2. Key Managerial Personnel
3. Senior Management Personnel
4. Other Employees of the Company

## **Effective Date**

This policy shall be operational with immediate effect after its adoption and approval by the Board of Directors at its meeting held on 3rd February, 2015.

## **Role / Duties**

The Nomination and Remuneration Committee is responsible for:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, with the objective to diversify the Board;
- identifying individuals suitably qualified to be appointed as the KMPs or in the senior management of the Company;
- recommending to the Board on the selection of individuals nominated for directorship;

- making recommendations to the Board on the remuneration payable to the Directors/ KMPs/Senior Officials so appointed/reappointed;
- assessing the independence of independent directors;
- such other key issues/matters as may be referred by the Board or as may be necessary in view of the Listing Agreement and provision of the Companies Act 2013 and Rules thereunder.
- to make recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Company subject to the provision of the law and their service contract;
- ensure that level and composition of remuneration is reasonable and sufficient, relationship of remuneration to performance is clear and meets appropriate performance benchmarks;
- to devise a policy on Board diversity;
- to develop a succession plan for the Board and to regularly review the plan;

## **EVALUATION**

The Committee shall carry out evaluation of performance of every Director, KMP and Senior Management Personnel at regular interval (yearly).

The following criteria may assist in determining how effective the performances of the Directors/KMPs/Senior officials have been:

- Leadership & stewardship abilities
- contributing to clearly define corporate objectives & plans
- Communication of expectations & concerns clearly with subordinates
- obtain adequate, relevant & timely information from external sources.
- review & approval achievement of strategic and operational plans, objectives, budgets
- regular monitoring of corporate results against projections
- identify, monitor & mitigate significant corporate risks
- assess policies, structures & procedures
- direct, monitor & evaluate KMPs, senior officials
- review management's succession plan
- effective meetings
- assuring appropriate board size, composition, independence, structure
- clearly defining roles & monitoring activities of committees
- review of corporation's ethical conduct

Evaluation on the aforesaid parameters will be conducted by the Independent Directors for each of the Executive/Non-Independent Directors in a separate meeting of the Independent Directors.

The Executive Director/Non-Independent Directors along with the Independent Directors will evaluate/assess each of the Independent Directors on the aforesaid parameters. Only the Independent Director being evaluated will not participate in the said evaluation discussion.

## **APPOINTMENT OF DIRECTORS/KMPS/SENIOR OFFICIALS**

- Enhancing the competencies of the Board and attracting as well as retaining talented employees for role of KMP/a level below KMP are the basis for the Nomination and Remuneration Committee to select a candidate for appointment to the Board. When recommending a candidate for appointment, the Nomination and Remuneration Committee has regard to:
  - assessing the appointee against a range of criteria which includes but not be limited to qualifications, skills, regional and industry experience, background and other qualities required to operate successfully in the position, with due regard for the benefits from diversifying the Board;
  - the extent to which the appointee is likely to contribute to the overall effectiveness of the Board, work constructively with the existing directors and enhance the efficiencies of the Company;
  - the skills and experience that the appointee brings to the role of KMP/Senior Official and how an appointee will enhance the skill sets and experience of the Board as a whole;
  - the nature of existing positions held by the appointee including directorships or other relationships and the impact they may have on the appointee's ability to exercise independent judgment;
  
- Personal specifications for Directors
  1. Qualification
    - Degree holder in relevant disciplines (e.g. management, accountancy, legal); or
    - Recognised specialist
  
  2. Experience
    - Experience of management in a diverse organisation
    - Experience in accounting and finance, administration, corporate and strategic planning or fund management
    - Demonstrable ability to work effectively with a Board of Directors

3. Skills
  - Excellent interpersonal, communication and representational skills
  - Demonstrable leadership skills
  - Extensive team building and management skills
  - Strong influencing and negotiating skills
  - Having continuous professional development to refresh knowledge and skills
4. Abilities and Attributes
  - Commitment to high standards of ethics, personal integrity and probity
  - Commitment to the promotion of equal opportunities, community cohesion and health and safety in the workplace
5. Political inclinations and opinions.
6. Other Specifications as under:
  - Degree holder in relevant disciplines;
  - Experience of management in a diverse organization;
  - Excellent interpersonal, communication and representational skills;
  - Demonstrable leadership skills;
  - Commitment to high standards of ethics, personal integrity and probity;
  - Commitment to the promotion of equal opportunities, community cohesion and health and safety in the workplace;
  - Having continuous professional development to refresh knowledge and skills.

## **REMUNERATION OF DIRECTORS, KEY MANAGERIAL PERSONNEL AND SENIOR MANAGEMENT**

The guiding principle is that the level and composition of remuneration shall be reasonable and sufficient to attract, retain and motivate Directors, Key Management Personnel and other senior officials. The Directors, Key Management Personnel and other senior official's salary shall be based "& determined on the individual person's responsibilities and performance and in accordance with the limits as prescribed statutorily, if any.

The Nominations & Remuneration Committee determines individual remuneration packages for Directors, KMPs and Senior Officials of the Company taking into account factors it deems relevant, including but not limited to market, business performance and practices in comparable companies, having due regard to financial and commercial health of the Company as well as prevailing laws and government/other guidelines. The Committee consults with the Chairman of the Board as it deems appropriate. Remuneration of the Chairman is recommended by the Committee to the Board of the Company.

(i) Remuneration:

a) Base Compensation (fixed salaries)

Must be competitive and reflective of the individual's role, responsibility and experience in relation to performance of day-to-day activities, usually reviewed on an annual basis; (includes salary, allowances and other statutory/non-statutory benefits which are normal part of remuneration package in line with market practices).

b) Variable salary:

The RNC may in its discretion structure any portion of remuneration to link rewards to corporate and individual performance, fulfilment of specified improvement targets or the attainment of certain financial or other objectives set by the Board. The amount payable is determined by the Committee, based on performance against pre-determined financial and non-financial metrics.

(ii) Statutory Requirements:

- Section 197(5) provides for remuneration by way of a fee to a director for attending meetings of the Board of Directors and Committee meetings or for any other purpose as may be decided by the Board.
  - Section 197(1) of the Companies Act, 2013 provides for the total managerial remuneration payable by the Company to its directors, including managing director and whole time director, and its manager in respect of any financial year shall not exceed eleven percent of the net profits of the Company computed in the manner laid down in Section 198 in the manner as prescribed under the Act.
  - The Company with the approval of the Shareholders and Central Government may authorise the payment of remuneration exceeding eleven percent of the net profits of the company, subject to the provisions of Schedule V.
  - The Company may with the approval of the shareholders authorise the payment of remuneration upto five percent of the net profits of the Company to its anyone Managing Director/Whole Time Director/Manager and ten percent in case of more than one such official.
  - The Company may pay remuneration to its directors, other than Managing Director and Whole Time Director upto one percent of the net profits of the Company, if there is a managing director or whole time director or manager and three percent of the net profits in any other case.
  - The net profits for the purpose of the above remuneration shall be computed in the manner referred to in Section 198 of the Companies Act, 2013.
- The Independent Directors shall not be entitled to any stock option and may receive remuneration by way of fee for attending meetings of the Board or Committee thereof or for any other purpose as may be decided by the Board and profit related commission as may be approved by the members. The sitting fee to the Independent Directors shall not be less than the sitting fee payable to other directors.

- The remuneration payable to the Directors shall be as per the Company's policy and shall be valued as per the Income Tax Rules.
- The remuneration payable to the Key Managerial Personnel and the Senior Management shall be as may be decided by the Board having regard to their experience, leadership abilities, initiative taking abilities and knowledge base.

## **REMOVAL**

The Committee may recommend, to the Board removal of a Director, KMP or Senior Management Personnel due to following reasons:

- Any disqualification
- Misconduct
- Breach of Contract or trust
- Conflict in interest

Such recommendation to the Board shall be with reasons recorded in writing.

## **OTHER GENERAL MATTERS**

The Committee shall ensure that -

1. The policy is in accordance with the Companies Act, 2013 and rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force);
2. The composition of the Board is in accordance with the Companies Act, 2013, and the rules made thereunder, and Listing Agreement as amended from time to time;
3. The Board of the Company may consciously consist of directors from expertise field as may be considered fit by the Committee which is essential and beneficial for the growth of the Company;
4. The level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully;
5. Relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
6. Remuneration to directors, KMPs and senior management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals;
7. The policy is disclosed in the Boards' Report.