

# **ELECON ENGINEERING COMPANY LIMITED**

## **RELATED PARTY TRANSACTION POLICY**

### **1. Preamble**

The Board of Directors (the “Board”) of Elecon Engineering Company Limited (the “Company”), has adopted following policy and procedures with regard to Related Party Transactions as defined below. The Board of Directors will approve amendments to the policy based on the recommendations of the Audit Committee of the Company.

This policy will be applicable to the Company to regulate the transactions between the Company and its Related Parties.

### **2. Purpose**

This policy is framed as per the provisions of the Companies Act, 2013 and the requirements of Clause 49 of the Listing Agreement entered into by the Company with the Stock Exchanges and intends to ensure proper approval, reporting and disclosure of transactions between the Company and its Related Parties. Such transactions are appropriate only if they are in the best interest of the Company and its shareholders. Every year, the Company is required to disclose the transactions between the Company and Related Parties in terms of Accounting Standard 18 in the Financial Statements as well as the policies concerning transactions with Related Parties in the Directors’ Report.

### **3. Definitions**

**“Audit Committee or Committee”** means Committee of Board of Directors of the Company constituted under the provisions of Listing Agreement and / or the Companies Act, 2013.

**“Board”** means Board of Directors of the Company.

**“Control”** shall have the same meaning as defined in Sec. 2(27) of the Companies Act, 2013.

**“Director”** means a Director on the Board of Directors of the Company.

**“Key Managerial Personnel”** means key managerial personnel as defined under the Companies Act, 2013 and includes:

- (i) Managing Director, or Chief Executive Officer or Manager or Whole-time Director;
- (ii) Company Secretary and
- (iii) Chief Financial Officer

## **“Material Related Party Transaction”**

A transaction with a related party shall be considered material if the transaction / transactions to be entered into individually or taken together with previous transactions during a financial year, exceed ten percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company."

**“Policy”** means Related Party Transaction Policy.

**“Related Party”** means related party for the purpose of Clause 49 (VII) of the Listing Agreement which is as follows:

For Listed Companies an entity shall be considered as related to the company if:

- i. such entity is a related party under Section 2(76) of the Companies Act,2013; or
- ii. such entity is a related party under the applicable accounting standards."

**“Related Party Transaction”** means any transaction directly or indirectly involving any Related Party which is a transfer of resources, services or obligations between the company and a related party, regardless of whether a price is charged or not.

"Explanation: A "transaction" with a related party shall be construed to include single transaction or a group of transactions in a contract."

**“Relative”** means relative as defined under the Companies Act, 2013 and includes anyone who is related to another, if –

- i. They are members of a Hindu Undivided Family;
- ii. They are husband and wife; or
- iii. Father (including step-father)
- iv. Mother (including step-mother)
- v. Son (including step-son)
- vi. Son’s wife
- vii. Daughter
- viii. Daughter’s husband
- ix. Brother (including step-brother)
- x. Sister (including step-sister)

## **4. Policy**

### **4.1 Identification of Potential Related Party Transactions**

Each Director and Key Managerial Personnel are responsible for providing notice to the Board or Audit Committee of any potential Related Party Transaction involving him or her or his or her Relative, including any additional information about the transaction that the Board/Audit Committee may reasonably request. The Board/Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.

The Company strongly prefers to receive such notice of any potential Related Party Transaction well in advance so that the Audit Committee/Board has adequate time to obtain and review information about the proposed transaction.

#### **4.2 Prohibitions relating to Related Party Transactions**

4.2.1 All Related Party Transactions shall require prior approval of the Audit Committee. However, the Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the Company subject to the following conditions:

- a. The Audit Committee shall lay down the criteria for granting the omnibus approval in line with the policy on Related Party Transactions of the Company and such approval shall be applicable in respect of transactions which are repetitive in nature.
- b. The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company.
- c. Such omnibus approval shall specify (i) the name(s) of the related party(ies), nature of transaction, period of transaction, maximum amount of transaction that can be entered into, (ii) the indicative base price / current contracted price and the formula for variation in the price, if any, and (iii) such other conditions as the Audit Committee may deem fit;

Provided that where the need for Related Party Transaction cannot be foreseen and aforesaid details are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs.1 crore per transaction.

- d. The Audit Committee shall review, at least on a quarterly basis, the details of RPTs entered into by the Company pursuant to each of the omnibus approval given.
- e. Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

Prior approval of the Audit Committee as aforesaid shall not be required to any related party transaction entered into by the Company in its ordinary course of business other than transactions which are not on an arm's length basis. "In the ordinary course of business" means all such acts and transactions undertaken by the Company, including but not limited to sale or purchase of goods, property or services, leases, transfers, providing of guarantees or collaterals, in the normal routine in managing trade or business and is not a standalone transaction. The Company shall take into account the frequency of the activity and its continuity carried out in a normal organised manner for determination of what is in the ordinary course of business.

4.2.2 Further, all Material Related Party Transactions shall require approval of the shareholders through special resolution and the Related Parties shall abstain from voting on such resolutions.

4.2.3 In compliance with the Listing Agreement, approval of the shareholders shall not be required for any transactions to be entered into by the Company with its wholly owned subsidiary whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval

4.2.4 If any transaction with Related Party(ies) is not in the ordinary course of business and/or not at arm's length, then all such transactions:

- a. will require prior approval of the Audit Committee;
- b. will require prior approval of the Board; and
- c. will require prior approval of the shareholders of the Company by special resolution if they exceed the threshold limits mentioned u/s 188 of the Act read with Rules.

4.2.5 All Related Party Transactions shall be reported to the Audit Committee and referred for approval by the Committee in accordance with this Policy.

### **4.3 Review and Approval of Related Party Transactions**

Related Party Transactions will be referred to the next regularly scheduled meeting of the Audit Committee for review and recommendation for approval to the Board of Directors.

Any member of the Audit Committee who has a potential interest in any Related Party Transaction will recuse himself or herself and abstains from discussion and voting on the recommendation / approval of the Related Party Transaction.

To review a Related Party Transaction, the Committee will be provided with all relevant material information of the Related Party Transaction, including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and any other relevant matters. In determining whether to approve a Related Party Transaction, the Committee will consider the following factors, among others, to the extent relevant to the Related Party Transaction:

- Whether the terms of the Related Party Transaction are fair and on arm's length basis to the Company and would apply on the same basis if the transaction did not involve a Related Party;
- Whether there are any compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- Whether the Related Party Transaction would affect the independence of an independent director;
- Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- Whether the Company was notified about the Related Party Transaction before its commencement and if not, why pre-approval was not sought and whether subsequent ratification is allowed and would be detrimental to the Company; and
- Whether the Related Party Transaction would present an improper conflict of interest for any Director or Key Managerial Personnel of the Company, taking into account the size of the transaction, the overall financial position of the Director, Executive Officer or other Related Party, the direct or indirect nature of the Director's, Key Managerial Personnel's or other Related Party's interest in the

transaction and the ongoing nature of any proposed relationship and any other factors the Board/Committee deems relevant.

If the Committee determines that a Related Party Transaction should be brought before the Board, or if the Board in any case elects to review any such matter or it is mandatory under any law for Board to approve the Related Party Transaction, then the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances.

Notwithstanding the foregoing, the following Related Party Transactions shall not require approval of Audit Committee or Shareholders:

- i. Any transaction that involves the providing of compensation to a Director or Key Managerial Personnel in connection with his or her duties to the Company or any of its subsidiaries or associates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.
- ii. Any transaction in which the Related Party's interest arises solely from ownership of securities issued by the Company and all holders of such securities receive the same benefits pro rata as the Related Party.

## **5. Determination of Arm's Length nature of the Related Party Transactions**

### (a) Price Determination

At the time of determination of the arm's length nature of price charged for the Related Party Transaction, the Audit Committee shall take into consideration following:

- (i) Permissible methods of arm's length pricing as per applicable law, including such premises where the benefits of same harbour is available under the applicable law.
- (ii) For the said purposes, the Audit Committee shall be entitled to rely on professional opinion in this regard, if necessary.

### (b) Underwriting and Screening of Arm's Length Related Party Transactions

- (i) A Related Party with whom the Related Party Transaction is undertaken must have been selected using the same screening/selection criteria/understanding standards and procedures as may be applicable in case of an unaffiliated party.
- (ii) The Chief Financial Officer shall produce evidence to the satisfaction of the Audit Committee for having applied the said procedure.

### (c) Related Party Transactions limits:

- (i) The Related Party Transaction must be within the limit of the lower of following transaction limits with respect to any Related Party:
  1. Limits on Material Related Party Transactions and
  2. Expected transaction volumes based on past transactions with Related Parties using linear rate of growth as evidenced by past data.

- (ii) Credit limits extended to the Related Party must be usual as for unaffiliated parties.

## **6. Disclosures**

- (a) The Company is required to disclose Related Party Transactions in the Directors' Report.
- (b) Details of all Material Related Party Transactions shall be disclosed quarterly along with the Company's Compliance Report on Corporate Governance, in accordance with the Listing Agreement.
- (c) The Company is also required to disclose this policy on its website
- (d) The Company shall keep one or more registers giving separately the particulars of all contracts or arrangements with any Related Party.
- (e) The financial statements should contain disclosures relating to Related Parties as required by Accounting Standard 18.

## **7. Related Party Transactions not approved under this Policy**

In the event the Company becomes aware of a Related Party Transaction with a Related Party that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all of the relevant facts and circumstances regarding the Related Party Transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of the Related Party Transaction. The Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Committee under this Policy, and shall take any such action it deems appropriate.

In case of any transaction, the Audit Committee determines not to ratify a Related Party Transaction that has been commenced without approval, the Audit Committee, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction.

In connection with any review of a Related Party Transaction, the Audit Committee has authority to recommend modification or waiver of any procedural requirements of this Policy to the Board of Directors within the provisions of the Companies Act, 2013 and the Listing Agreement.

This Policy will be communicated to all operational employees and other concerned persons of the Company.

This policy shall come into effect from 1<sup>st</sup> October, 2014 and shall remain in force until otherwise amended or withdrawn or replaced, in accordance with the provisions of the Companies Act, 2013 and the Listing Agreement.

Nothing in this policy shall override any provisions of law made in respect of any matter stated in this policy.