

RELATED PARTY TRANSACTIONS POLICY

Details of Adoption / Amendments to the Policy

| Policy Adoption / Change effective Date | Particulars of the Adoption / Change | Board Approval Date | Version of Policy |
|--|---|--------------------------------|--------------------------|
| 1 st October, 2014 | Adoption of Policy | 1 st October, 2014 | Original |
| 3 rd August, 2017 | Regulation 23 of the SEBI (LODR) Regulations, 2015 (hereinafter Listing Regulations) | 3 rd August, 2017 | V-1 |
| 22 nd October, 2019 | Pursuant to the amendments in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, from time to time | 22 nd October, 2019 | V-2 |
| 1 st April, 2022 | Pursuant to SEBI Circular No. SEBI/HO/CFD/CMD1/CIR/P/2021/662 dated 22 nd November, 2021 | 1 st February, 2022 | V-3 |

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 (hereinafter referred to as “the Act”) and the requirements of Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter ‘Listing Regulations’) 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. The Company is required to disclose the transactions with Related Parties in compliance with the Listing Regulations, Act and Accounting Standards.

3. Definitions

“**Act**” means Companies Act, 2013 read with rules framed thereunder, as amended from time to time.

“**Accounting Standards**” means Indian Accounting Standards as issued by Institute of Chartered Accountants of India.

“**Arm’s Length Transactions**” means a transaction between two Related Parties that is conducted as if they were unrelated.

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

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

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

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

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

“Listing Regulations” means the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.

“Material Related Party Transaction”

As per Listing Regulations, 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.”

Notwithstanding the above, a transaction involving payments made to a Related Party with respect to brand usage or royalty shall be considered Material Related Party Transaction(s), if such Related Party Transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed 5% (five percent) of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.

Material Modifications in Related Party Transactions:

Material Modification means 10% of change over the material related party transaction as defined in the SEBI Regulations. The Audit Committee is empowered to make necessary amendment relating to such percentage, as and when deem necessary.

“Policy” means Related Party Transaction Policy

“Related Party” means means a related party as defined under the Act and/or Listing Regulations and Indian Accounting Standards.

“Related Party Transaction”

means a transaction involving a transfer of resources, services or obligations between:

- (i) a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or
 - (ii) a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, with effect from April 1, 2023;
- regardless of whether a price is charged and a “transaction” with a related party shall be construed to include a single transaction or a group of transactions in a contract:

Provided that the following shall not be a related party transaction:

- (a) the issue of specified securities on a preferential basis, subject to compliance of the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
- (b) the following corporate actions by the listed entity which are uniformly applicable/offered to all shareholders in proportion to their shareholding:

- i. payment of dividend;
- ii. sub-division or consolidation of securities;
- iii. issuance of securities by way of a rights issue or a bonus issue; and
- iv. buy-back of securities.

(c) acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same alongwith the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the Board:

“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)

The above definitions shall be read as provided in the amended provisions, if any, of the Act, Listing Regulations or any other law or regulation and such change will not be considered as change in this Policy.

Any term(s) not defined in the Policy shall have the same meaning as assigned to such term(s) in the Act and / or the Listing Regulations or any other applicable law or regulation.

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 Procedure for Approval relating to Related Party Transactions

4.2.1 All Related Party Transactions and subsequent material modifications shall require prior approval of the Audit Committee of the listed entity and only the members of the audit committee, who are independent directors, shall approve related party transactions.

(a) a related party transaction to which the subsidiary of company is a party but the Company is not a party, shall require prior approval of the audit committee of the Company 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 consolidated turnover, as per the last audited financial statements of the Company;

(b) with effect from April 1, 2023, a related party transaction to which the subsidiary of a Company is a party but the Company is not a party, shall require prior approval of the audit committee of the Company 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 of the Company;

(c) prior approval of the audit committee of the Company shall not be required for a related party transaction to which the listed subsidiary of the Company is a party but the Company is not a party, if Regulation 23 and sub-regulation (2) of Regulation 15 of these regulations are applicable to such listed subsidiary of the Company.

Explanation: For related party transactions of unlisted subsidiaries of a listed subsidiary as referred to in (d) above, the prior approval of the audit committee of the listed subsidiary shall suffice.

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 financial year and shall require fresh approvals after the expiry of such financial 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 and subsequent material modifications as defined by the audit committee under sub-regulation (2) shall require prior approval of the shareholders through resolution and the Related Parties shall abstain from voting on such resolutions. For related party transactions of unlisted subsidiaries of a listed subsidiary as referred above, the prior approval of the shareholders of the listed subsidiary shall suffice.

4.2.3 In compliance with the Listing Regulations, prior approval of the Audit Committee as per para 4.2.1 and approval of the shareholders as per para 4.2.2 shall not be required for any transactions entered into between two Government Companies and any transactions to be entered into by the Company with its wholly owned subsidiary and transactions entered into between two wholly-owned subsidiaries of the listed holding company, 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 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 excuse 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 Regulations.
- (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 Indian Accounting Standard.

7. Related Party Transactions not approved under this Policy

Prior approval of the Audit Committee for the following transactions with the related parties are not sought as the value of the transaction(s) cannot be projected / ascertained.

- (i) sales return,
- (ii) Elecon Engineering Company Limited Employees Group Gratuity Fund,
- (iii) Elecon Engineering Company Limited Employees Superannuation Scheme,
- (iv) dividend receipt and
- (v) dividend payment

The said transactions will be updated to the Audit Committee as and when respective transaction is entered into. Such a transaction(s) shall not be deemed to violate this policy, or be invalid or unenforceable.

A Related Party Transaction entered into without approval of the Committee shall be brought to the notice of the Audit Committee as promptly as reasonably practical after it is entered into. Such a transaction(s) shall not be deemed to violate this policy, or be invalid or unenforceable so long as post facto approval is obtained.

This policy came into effect from 1st October, 2014, the subsequent modification/amendment to the Policy shall be effective from such date as provided in the Act and/or Listing Regulations, 2015.

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