



India Nippon Electricals Ltd

POLICY ON MATERIALITY OF RELATED PARTY TRANSACTIONS AND DEALING WITH RELATED PARTIES

Preamble:

India Nippon Electricals Limited (INEL / “the company”) in the course of carrying on its manufacturing activity, enters into transaction with one or more Related Parties (hereinafter referred as Related Party Transactions) and recognizes that there is a risk / potential risk of conflict of interest.

With a view to ensure that the Related Party Transactions are entered in the best interest of the Company and its shareholders, the Board of Directors (the “Board”) of the Company has adopted this Policy, as recommended by the Audit Committee, to govern the Related Party Transactions (the / this “Policy”), which is in line with the requirements of Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations).

This policy is also in conformance with the Company’s Code of Conduct for Business and ethics which provides that all directors and senior management personnel are required to disclose all potential or actual conflict of interest, which may be against the interest of the Company and take actions to eliminate such conflict if so required. This policy shall be with effect from 30th May, 2019.

1. Objective

- 1.1 This policy is formulated, in accordance with the requirement of Listing Regulations with an objective to ensure proper review, approval and reporting of RPTs between the Company and its Related Parties.
- 1.2 In addition, the policy provides for the Company to define the materiality of RPT and for the consideration of such transactions only if they are in the best interest of the Company and its shareholders. The Company is required to disclose the Policy on dealing with RPTs in its Financial Statements / website.

2. Definitions

- 2.1 “**Applicable Law**” means the Companies Act, 2013 (“the Act”) and the Rules prescribed thereunder, the Listing Regulations and includes any other statute, law, standards, regulations or other governmental instruction relating to Related Party Transactions.
- 2.2 “**Audit Committee**” means the **Audit & Risk Management Committee** of the Board of Directors of the Company constituted under provisions of Listing Regulations and Companies Act, 2013.



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- 2.3 **“Arm’s Length Price”** for a transaction means the Price at which the transaction would have been entered into by two unrelated entities in an uninfluenced manner. For determining Arm’s Length Price, guidance may be taken from the transfer pricing provisions under the Income-tax Act, 1961.
- 2.4 **“Associate Company”** means a company as defined under section 2(6) of the Act, and accounting standards notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time.
- 2.5 **“Key Managerial Personnel”** or **“KMP”** shall have the meaning as defined in Section 2(51) of the Companies Act, 2013 and the rules made thereunder.
- 2.6 **Material Related Party Transaction** means a transaction with a related party if the transaction/transactions entered into individually or taken together with previous transactions during a financial year, exceeds 10% (ten percent) of the annual consolidated turnover of the company as per the last audited financial statements. Provided however that, 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 2% (two percent) of the annual consolidated turnover of the listed entity as per the last audited financial statements.
- 2.7 **“Ordinary Course of Business”** means transactions that are:
- Necessary, normal and incidental to the business,
 - The objects of the company permit such activity,
 - There is a historical practice and pattern of frequency (not an isolated transaction), and
 - Has connection with the normal business carried on by the company.
- 2.8 **“Related Party”** means an entity which is:
- A related party under Section 2 (76) of the Companies Act, 2013 or
 - A related party under the applicable accounting standards.
- 2.9 **“Related Party Transaction”** means any contract or arrangement (including transfer of resources, services or obligations between the company and a Related Party regardless of whether a price is charged) as envisaged as a related party transaction under section 188 of the Companies Act, 2013 and Listing Regulations executed with the Stock Exchanges.



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- 2.10 **“Relative”** means relative as defined under the Companies Act 2013.
- 2.11 **“Transaction”** shall be construed to include single transaction or a group of transactions in a contract.
- 2.12 Words and expressions used in this policy shall have the same meanings respectively assigned to them in the following acts/ regulations / rules:
- The Companies Act, 2013 or the rules framed thereunder
 - Listing Regulations
 - Securities Contracts (Regulation) Act, 1956
 - SEBI Act, 1992, SEBI (Issue of Capital and Disclosure Requirements) Regulations, SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, SEBI (Prohibition of Insider Trading) Regulations, 2015.

3. General Guideline

- 3.1 All Related Party Transactions must be reported and subjected to prior approval by the Audit Committee. The Audit Committee shall consider all factors, that it considers relevant, while approving the related party transaction.
- 3.2 RPT which is not entered into in the ordinary course of business or which is not at arm's length shall require the approval of the Board of Directors / shareholders as discussed in this policy.
- 3.3 All Material Related Party Transactions shall require approval of the shareholders vide an ordinary resolution and all the Related Parties of the Company shall abstain from voting to approve such resolutions irrespective of whether they are interested in that particular Material Related Party Transaction. Materiality thresholds shall be as defined in the definition part of this policy.
- 3.4 Transactions entered into between the Company and a wholly owned subsidiary of the Company where-
- (i) The accounts of the subsidiary are consolidated with the Company and
 - (ii) Approved by the shareholders at a general meeting
- shall not require approval of either Audit Committee or the shareholders.

4. Identification of RPT

- 4.1 Each Director and KMP shall promptly notify the Audit Committee of any material interest that such person or relative of such person had, has or may have in a RPT, by



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providing notice to the Board or Audit Committee of any potential RPT involving him or her or his or her Relative together with additional information about the RPT that the Board or Audit Committee reasonably request.

- 4.2 The Company prefers that notice of any RPT be given well in advance, so that the Audit Committee / the Board has adequate time to obtain and review information about the proposed RPT.
- 4.3 The Compliance Officer shall maintain an updated list of Related Parties both from the declaration of Directors/ KMPs and from the list of Companies/ body corporates which shall be otherwise treated as related under the Act and Indian Accounting Standards.
- 4.4 The Board / Audit Committee shall determine whether a transaction does, in fact, constitute a RPT requiring compliance with this Policy;
- 4.5 The Company shall seek external professional opinion, if necessary, to determine whether the transaction is in the ordinary course of business and at arm's length basis;
- 4.6 A contract or arrangement entered into by the Company without disclosure or with participation by a Director or Key Managerial Personnel who is concerned or interested in any way, directly or indirectly, in the contract or arrangement, shall be voidable at the option of the Company.

5. Review and approval (including omni-bus approval) of RPTs

- 5.1 All RPTs shall require prior approval of Audit Committee. In case of transactions that are subject to a written contract, the Audit Committee shall approve the contract and any amendments thereto and the transactions shall be treated as pre-approved as far as the transactions were carried out in line with the terms of the contract.
- 5.2 In case of transactions that are not subject to a written contract, the Audit Committee shall grant prior approval through omni-bus approval route on annual basis, which shall be reviewed every quarter. Transactions with new Related Parties or new transactions with existing related parties that were not covered under the annual omni-bus approval shall be subject to specific prior approval of the Audit Committee.
- 5.3 In both the cases as in Clause 5.1 and 5.2, the Audit Committee, shall be provided with all relevant material information of the RPT, including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and to the Related Party, and any other relevant matter. The information provided shall specifically cover the following:
 - The name of the Related Party and nature of relationship
 - The nature, duration of the contract and particulars of the contract or arrangement;



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- The material terms of the contract or arrangement including the value, if any;
 - Any advance paid or received for the contract or arrangement, if any;
 - The manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
 - All facts relevant to be considered in a contract and if the factors were not considered while finalising the contract, the details of factors not considered with the rationale for not considering those factors;
 - Details/ justification to establish that the transaction is in arm's length and ordinary course of business; and
 - Any other information relevant or important.
- 5.4 If the Audit Committee, after review of the above feels that the specific RPT needs to be approved by the Board, the same shall be recommended by the Audit Committee for Board approval.
- 5.5 The Audit Committee, with the consent of the Board, shall specify the following criteria for Omni-bus approvals (which shall be reviewed every three years):
- maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;
 - the maximum value per transaction which can be allowed;
 - extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval;
 - review, at such intervals as the Audit Committee may deem fit, related party transaction entered into by the company pursuant to each of the omnibus approval made;
 - transactions which cannot be subject to the omnibus approval by the Audit Committee.
- 5.6 The Audit Committee shall be required to specify in the Omnibus Approval:
- Names of the Related Party, nature, period of transaction and maximum amount of the proposed RPT;
 - The indicative base price / current contracted price and the formula for variation in the price if any;
 - Such other conditions as the Audit Committee may deem fit;



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- In the event of the need for a class of RPTs cannot be foreseen or the details specified in (i) to (iii) above are not available, the Audit Committee may grant Omnibus approval for such RPTs provided each transaction does not exceed 1,00,00,000/- (Rupees one crore).
- 5.7 The Audit Committee shall grant omnibus approval for only such class of transaction which are repetitive in nature and if such approval is in the interest of the company.
- 5.8 Audit Committee shall review, the details of actual RPTs entered into by the Company pursuant to each of the Omnibus Approvals on a quarterly basis.
- 5.9 The Omnibus Approvals shall be valid for a period not exceeding one year and shall require fresh approvals from the Audit Committee after the expiry of one year or the end of the financial year, whichever is earlier.
- 5.10 Based on business exigencies, the management may seek approval of the audit committee vide circular resolution, so as to comply with obtaining prior approval of related party transactions.
- 5.11 Any member of the Audit Committee who has an interest in any RPT shall recuse himself or herself and abstain from discussion and voting to approve such RPTs.

6. Criteria for approving RPTs

In determining whether to approve a RPT, the Audit Committee shall consider the following factors, among others, to the extent relevant to the RPT:

- 6.1 Whether the RPT is entered into in the ordinary course of business?
- 6.2 Whether the terms of the RPT are fair and on 'arms length basis' to the Company and would apply on the same basis if the transaction did not involve a Related Party. For arriving at the above, the Audit Committee / Board of Directors may draw reference / take guidance from the Transfer Pricing Regulations;
- 6.3 The Audit Committee may review the necessary documents / seek information from the management like nature of the transaction i.e. details of the goods or property to be acquired / transferred or services to be rendered / availed including description of functions to be performed, risks to be assumed and assets to be employed under the proposed transaction;
- 6.4 Whether there are any compelling business reasons for the Company to enter into the RPT and the nature of alternative transactions, if any;
- 6.5 Whether the RPT would affect the independence of an independent director;
- 6.6 Whether the proposed RPT includes any potential reputational risk issues that may arise as a result of or in connection with the proposed RPT;



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- 6.7 Whether subsequent ratification of the proposed RPT is allowed and would be detrimental to the Company;
- 6.8 Whether the RPT would present an improper conflict of interest for any director or KMP of the Company, taking into account the size of the transaction, the overall financial position of the director, KMP or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Audit Committee deems relevant;
- 6.9 If the Audit Committee determines that a RPT 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 RPT, 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.

7. Approval of the Board of Directors of the Company

As per the provisions of Section 188 of the Act, all kinds of transactions specified under the said Section and which are not in the ordinary course of business or at arm's length basis are placed before the Board for its approval. In addition to the above the following kinds of transactions with related parties are also placed before the Board for its approval:

- 7.1 Transactions which may be in the ordinary course of business and at arm's length basis, but which are determined by the Board from time to time (i.e. value threshold and / or other parameters) to require Board approval in addition to Audit Committee approval;
- 7.2 Transactions in respect of which the Audit Committee is unable to determine whether or not they are in the ordinary course of business and/or at arm's length basis and decides to refer the same to the Board for approval;
- 7.3 Transactions which are in the ordinary course of business and at arm's length basis, but which in Audit Committee's view requires Board approval;
- 7.4 Transactions meeting the materiality thresholds laid down in this policy, which are intended to be placed before the shareholders for approval;

8. RPT that does not require approval

- 8.1 Any transaction that involves the payment of compensation to a director or KMP 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.



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- 8.2 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.
- 8.3 Transactions that have been approved by the Board under the specific provisions of the Act, e.g. inter-corporate deposits, borrowings, investments with or in wholly owned subsidiaries or other Related Parties;
- 8.4 Transactions involving corporate restructuring, such as buy-back of shares, capital reduction, merger, demerger, approved by the Board and carried out in accordance with the specific provisions of the Act or the Listing Regulations;
- 8.5 Contribution to Corporate Social Responsibility and bonafide charitable and other funds, subject to approval of Corporate Social Responsibility Committee/ Board and within the overall limits approved by the Corporate Social Responsibility Committee/ Board;

9. Disclosures

The Company shall disclose, in the Board's report, transactions prescribed in Section 188 (1) of the Act with related parties, which are not in ordinary course of business or arm's length basis along with the justification for entering into such transaction.

10. Conflicts

In the event of any conflict between the provisions of this Policy and of the Act or Listing Regulations or any other statutory enactments, rules, the provisions of such Act or Listing Regulations or statutory enactments, rules shall prevail over this Policy.

11. Amendments & Review

- 11.1 This Policy may be amended by the Board at any time and is subject to the (i) amendments to the Companies Act, 2013 and (ii) further guidelines from the SEBI.
- 11.2 The thresholds of materiality shall be reviewed once in three years by the Audit Committee/ Board.

Policy approved on 23rd March 2015.

First amendment approved on 30th May 2019.
