

**POLICY ON
RELATED PARTY TRANSACTIONS
&
MATERIALITY**



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1. Introduction

The Securities and Exchange Board of India (“SEBI”) issued the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as the ‘SEBI LODR Regulations, 2015’) on September 02, 2015, effective from December 01, 2015, with an aim to consolidate and streamline the provisions of listing agreements thereby ensuring better enforceability.

This Policy deals with Materiality of Related Party Transactions (RPTs) and dealing with the Related Party Transactions in terms of the Regulation 23(1) and 30 of the SEBI LODR Regulations, 2015 and the Companies Act, 2013.

The Board of Directors of Penna Cement Industries Limited (“the Company”), on recommendation of the Audit Committee, has adopted this Policy on November 14, 2015 to regulate transactions of the Company by Related Parties in compliance with various applicable laws, including under the Companies Act, 2013 and the SEBI LODR Regulations, 2015, prescribed for related party transactions.

2. Definition

2.1 Associate Company: Associate Company in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

2.2 Audit Committee or Committee: A Committee constituted by the Board of Directors of the Company, from time to time, under provisions of the Companies Act 2013 and the Regulations.

2.3 Board of Director or Board: Means the Board of Directors of Penna Cement Industries Limited, as constituted from time to time.

2.4 Independent Director: A director of the Company, as appointed in terms of Section 149 of the Companies Act, 2013 and who also qualifies as Independent Director in terms of the Regulations.

2.5 Related Party: A Related Party shall have the same meaning as defined under the Act.

2.6 Related Party Transaction (“RPT”): A Related Party Transaction is a transfer of resources, services or obligations between a company and a Related Party, regardless of whether a price is charged. A transaction with a related party shall be construed to include single transaction or a group of transactions in a contract.

2.7 Materiality: The materiality of any RPT will be ascertained as per the thresholds prescribed under the Act and the Listing Regulations.

2.8 Arm’s Length Basis: RPT will be treated to be on ‘Arm’s Length Basis’ if the key terms, taken as a whole, are comparable with those of similar transactions if they would have been undertaken with non-related parties.

2.9 Ordinary Course of Business: RPT will be considered in ordinary course if they are entered in the normal course of the business pursuant to the objects of the Company as per the charter documents of the Company.

3. Objective

The key objectives of this policy are as under

- i. Ensure due and timely identification, approval, disclosure and reporting of transactions between the Company and any of its Related Parties in compliance with the applicable laws and regulations as may be amended from time to time.
- ii. Identify outstanding balances, including commitments, between the Company and its related parties
- iii. Determine the disclosures to be made about those items.
- iv. Ensure that the Company's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.
- v. Govern the approval process and disclosure requirements to ensure transparency in the conduct of Related Party Transactions in the best interest of the Company and to comply with the statutory provisions in this regard.

4. Applicability

The policy document applies to reporting related party relationships and transactions between a reporting enterprise, i.e. the Company and its related parties. This policy shall be applicable to transactions undertaken with:-

- i. Board of Directors & their Relatives;
- ii. Key Managerial Personnel (KMP) of the Company & their Relatives; and
- iii. Related Parties

5. Identification of Related Party Transaction

The Company shall consider any transaction with a related party as material if the transaction to be entered into individually or taken together with previous transactions during a financial year, exceeds 5% percent of the annual turnover and as per the last audited financial statements.

Every Whole Time Director and Key Managerial Personnel will be responsible for providing a declaration to the Company Secretary containing the following information on an annual basis:

- i. Names of his / her Relatives;
- ii. Partnership firms in which he / she or his / her Relative is a partner;
- iii. Private Companies in which he/ she is a member or Director;

- iv. Public Companies in which he/she is a Director and holds along with his/her Relatives more than 2% of paid up share capital;
- v. Any Body Corporate whose Board of Directors, Managing Director or Manager is accustomed to act in accordance with his / her advice, directions or instructions; and
- vi. Persons on whose advice, directions or instructions, he / she is accustomed to act (other than advice, directions or instructions obtained from a person in professional capacity).

Every Whole-time Director and the Key Managerial Personnel will also be responsible to update the management of any changes in the above relationships, directorships, holdings, interests and/ or controls immediately on him / her becoming aware of such changes.

The Company Secretary and or Secretarial Department shall prepare and maintain the database of Related Parties on the basis of aforesaid information / declaration including any revisions therein. Internal auditors / Statutory Auditor shall verify the process of ascertaining the Related Parties and their correct recording / listing in register of Contracts / arrangement etc. as per the Section 189 of the Companies Act, 2013 and Rules thereof as well as their classification regarding whether they are on arm's length basis.

The aforesaid list shall be circulated to the Board, Department Heads and the Auditors.

6. Dealing with Related Party Transactions

6.1 Approval by Audit Committee

- i. All Related Party Transactions (RPTs) (including any subsequent modifications thereof) shall require prior approval of the Audit Committee of Directors.
- ii. The Audit Committee of Directors may grant omnibus approval for the RPTs proposed to be entered into by the Company

The Conditions for granting Omnibus approval are as under:

All related party transactions shall require approval of the Audit Committee and the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the Company subject to the following conditions, namely:-

1. The Audit Committee shall, after obtaining approval of the Board of Directors, specify the criteria for making the omnibus approval which shall include the following, namely:-
 - (i) maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;
 - (ii) the maximum value per transaction which can be allowed;
 - (iii) extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval;

- (iv) review, on quarterly basis or 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;
- (v) transactions which cannot be subjected to the omnibus approval by the Audit Committee.

2. The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, namely: -

- (i) repetitiveness of the transactions (in past or in future);
- (ii) justification for the need of omnibus approval.

3. The Audit Committee shall satisfy itself on the need for omnibus approval for transactions of repetitive nature and that such approval is in the interest of the Company.

4. The omnibus approval shall contain or include the following: -

- (i) name of the related parties;
- (ii) nature and duration of the transactions;
- (iii) maximum amount of transaction that can be entered into;
- (iv) the indicative base price or current contracted price and the formula for variation in the price, if any; and
- (v) any other information relevant or important for the Audit Committee to take a decision on the proposed transaction:

Provided that where the need for related party transaction cannot be foreseen and the aforesaid details are not available, audit committee may make omnibus approval for such transactions subject to their value not exceeding `1 crore per transaction.

5. Omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approval after the expiry of such financial year.

6. Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the Company.

7. Any other conditions as the Audit Committee may deem fit.

6.2 Approval by Board of Directors

Except with the consent of the Board of Directors given by a resolution at a meeting of the Board, the Company shall not enter into any contract or arrangement with a related party with respect to—

- a) Sale, purchase or supply of any goods or materials;

- b) Selling or otherwise disposing of, or buying, property of any kind;
- c) Leasing of property of any kind;
- d) Availing or rendering of any services;
- e) Appointment of any agent for purchase or sale of goods, materials, services or property;
- f) Such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
- g) Underwriting the subscription of any securities or derivatives thereof, of the company:

Provided that nothing of the above shall apply to any transactions entered into by the Company in its ordinary course of business other than transactions which are not on an arm's length basis.

The expression "arm's length transaction" means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

6.3 Approval by Shareholders

1. Except with the prior approval of the company by a special/ordinary resolution, as may be specified under the Companies Act, 2013 or the Regulations, IFCI shall not enter into a transaction(s), where the transaction(s) to be entered into,—

- (a) as contracts or arrangements with respect to clauses (a) to (e) of sub-section (1) of section 188 of the Companies Act 2013, with criteria as mentioned below -
 - (i) Sale, purchase or supply of any goods or materials, directly or through appointment of agent, amounting to 10% or more of the turnover of the company or Rs.100 crores, whichever is lower, as mentioned in clause (a) and clause (e) respectively of sub-section (1) of section 188;
 - (ii) Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent, amounting to 10% or more of net worth of the company or Rs.100 crores, whichever is lower, as mentioned in clause (b) and clause (e) respectively of sub-section (1) of section 188;
 - (iii) leasing of property of any kind amounting to 10% or more of the net worth of the company or 10% or more of turnover of the company or Rs.100 crores, whichever is lower, as mentioned in clause (c) of sub-section (1) of section 188;
 - (iv) availing or rendering of any services, directly or through appointment of agent, amounting to 10% or more of the turnover of the company or Rs.50 crores, whichever is lower, as mentioned in clause (d) and clause (e) respectively of sub-section (1) of section 188;

- (b) is for appointment to any office or place of profit in the Company, its subsidiary company or associate company at a monthly remuneration exceeding Rs.2.5 lakh as mentioned in clause (f) of subsection (1) of section 188; or
- (c) is for remuneration for underwriting the subscription of any securities or derivatives thereof of the company exceeding 1% of the net worth as mentioned in clause (g) of subsection (1) of section 188.

2.All the related parties shall abstain from voting on such resolutions.

3. No Member of the Company shall vote on such Special/Ordinary Resolution (as the case may be), to approve any contract or arrangement which may be entered into by the Company, if such member is a related party.

7. Related Party Transactions without the prior approval under this Policy

In the event the Company becomes aware of a Related Party Transaction 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 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 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 any case, where 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 of the transaction, seeking approval of the shareholders, payment of compensation for the loss suffered by the related party, etc.

In connection with any review of a Related Party Transaction, the Audit Committee has the final authority to modify or waive any procedural requirements of this Policy.

8. Exception

The provisions regarding approval of the Audit Committee, the Board of Directors and Shareholders/ Members will not be required in the transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

9. Disclosure Requirements

9.1 Disclosure by Board of Directors and KMP

Every Director shall at the first Meeting of the Board in which he participates as a Director and thereafter at the first Meeting of the Board in every Financial Year or whenever there is any change in the disclosures already made, then at the first Board Meeting held after such change, disclose his concern or interest in any company or companies or bodies corporate, firms, or other association of individuals which shall include the shareholding.

Every KMP shall disclose to the Board of Directors, whether they, directly, indirectly, or on behalf of third parties, have a material interest in any transaction or matter directly affecting the Company.

9.2 Disclosure in Corporate Governance Report

Details of all Material Transactions with Related Parties shall be disclosed quarterly along with the compliance report on Corporate Governance to be submitted to the Stock Exchange(s).

9.3 Disclosure in Board's Report

Every contract or arrangement entered into by the Company requiring Board's and Company's approval shall be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement.

9.4. Disclosure on Website

The Company shall disclose the Policy on dealing with Related Party Transactions on its website and a web-link shall be provided in the Annual Report.

10. Record Keeping

All documentation pertaining to the Related Party Disclosure including declaration from directors, registers maintained by Secretarial Department and such other records and evidence shall be maintained for a period of 8 years or such other period as specified by any other law in force, whichever is higher.

11. Review of Policy

This policy shall be subject to review and amendment by the Audit Committee of the Company as and when deemed necessary and in accordance with any regulatory amendments. All such changes will be updated on the website of the Company.
