

SHANTHI GEARS LIMITED

POLICY ON RELATED PARTY TRANSACTIONS

1. Preamble

Shanthi Gears Limited (“Company”) recognises that Related Party Transactions (as defined below) can present potential or actual conflicts of interest and may raise questions about whether such transactions are consistent with the Company’s interests. Therefore, this Policy regarding the review and approval of Related Party Transactions has been adopted by the Company’s Board of Directors, as recommended by the Audit Committee, in order to set forth the procedures under which certain transactions must be reviewed and approved or ratified.

This Policy is to regulate transactions between the Company and its Related Parties based on the applicable laws and regulations applicable on the Company.

The Board of Directors of the Company will review and, if required, amend this Policy from time to time and such amended Policy shall also be in conformity with the provisions of the Companies Act 2013, including the Rules made thereunder and the SEBI LODR Regulations and must be approved in the manner as may be decided by the Board of Directors.

2. Purpose

This Policy is framed as per requirement of the SEBI LODR Regulations entered into by the Company with the Stock Exchanges and intended to ensure the proper approval and reporting 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.

3. Definitions

- a) “Audit Committee or Committee” means the Audit Committee of Board of Directors of the Company;
- b) “Board” means the Board of Directors of the Company, as constituted from time to time;
- c) “Key Managerial Personnel” or “KMP” means the managerial personnel as defined under Section 2(51) of the Companies Act, 2013:

- d) “Policy” means this Related Party Transactions Policy;
- e) ‘Promoter’ and ‘Promoter Group’ shall have the meaning assigned to it under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 or any amendment thereof;
- f) “Related Party” means a related party as defined in Section 2(76) of the Companies Act, 2013 or under the applicable Accounting Standards as amended from time to time;

Further, for the purposes of this policy, the term Related Party includes any person or entity belonging to the Promoter or Promoter Group of the Company and holding 20% or more of shareholding in the Company.

- g) “Related Party Transaction” means 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.

- h) “Material Related Party Transaction” means a transaction with a related party if the transaction/transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds Rs.25 Crores or ten percent of the consolidated annual turnover of the Company as per the last audited financial statements of the Company, whichever is lower;

In addition to this, any transaction involving payments made to a Related Party with respect to brand usage or royalty shall be considered material if the transaction/transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds two per cent of the annual consolidated turnover of the Company as per the last Audited Financial Statements;

- i) “Relative” means a relative as defined in Section 2(77) of the Companies Act, 2013.
- j) “SEBI LODR Regulations” means the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time.

4. Policy

All Related Party Transactions shall require prior approval of the Audit Committee unless otherwise specifically exempted in accordance with this Policy.

a) **Identification of Potential Related Party and Transactions**

Every Director and Key Managerial Personnel is responsible for providing notice to the Board or the Audit Committee of the list of Related Parties as covered under Section 2(76) of the Companies Act, 2013 as well as the applicable Accounting Standards. This list of Related Parties shall be updated on an annual basis and further changes informed as soon as possible. The list of Related Parties shall be modified at the time of appointment to office of any person who may be considered to be a Related Party or a Related Party relationship coming into being; and the list of Related Parties shall be updated and provided to the Board/Audit Committee at the first meeting of the Board held in every financial year, subject to immediate intimation of any modification/variation to the list so provided to the Company. Each Director as well as KMP shall inform in advance the Company 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 and if yes, such transaction will require compliance with this Policy.

b) **Prohibitions relating to Related Party Transactions**

Subject to the omnibus approval process under Regulation 23(3) of the SEBI LODR Regulations, all Related Party Transactions shall require prior approval of Audit Committee.

All Related Party Transactions which are not in ordinary course of business or not at per arm's length or both, and all Related Party Transactions specified under Section 188(1) of the Companies Act, shall require prior approval of the Board.

Further, all Material Related Party Transactions shall require approval of the shareholders through a resolution and the Related Parties shall **not vote** to approve such resolutions whether the entity is a Related Party to the particular transaction or not.

The following transactions will also require prior approval of the shareholders through a resolution if they are not in ordinary course of business or not on arm's length basis

and voting restrictions for this purpose would be governed by the Companies Act, 2013 as amended from time to time:

- i. Sale, purchase or supply of 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;
- ii. Selling or disposing or purchasing of property of any kind, directly or through appointment of an agent, amounting to 10% or more of the net worth of the Company or Rs.100 crores, whichever is lower;
- iii. Leasing of property of any kind amounting to 10% or more of the net worth of the Company or 10% of the turnover of the Company or Rs.100 crores, whichever is lower;
- iv. Availing or rendering of any services, directly or through appointment of an agent amounting to 10% or more of the turnover of the Company or Rs.50 crores, whichever is lower;
- v. Appointment to any office or place of profit in the Company, its subsidiary company or associate company at a monthly remuneration exceeding Rs.2,50,000/-.
- vi. Remuneration for underwriting the subscription of any securities or derivatives of the Company exceeding 1% of the net worth of the Company.

The Turnover/Net worth referred in this clause shall be computed on the basis of audited financial statement of the Company in the preceding financial year.

The limits specified in sub-clause (i) to (iv) above shall apply for the transaction(s) during a financial year, either individually or taken together.

c) **Review and Approval of Related Party Transactions**

Subject to the omnibus approval process under Regulation 23(3) of the SEBI LODR Regulations, Related Party Transactions will be reported to the Audit Committee for review and approval. Any member of the Committee having direct or indirect interest in any Related Party Transaction will not participate in the meeting during the discussion and voting on the approval of the Related Party Transaction(s).

If the transaction requires prior approval of the Board under Section 188(1) of the Companies Act, 2013, then the same shall also be obtained.

The Audit Committee/Board shall be provided with the material facts of such Related Party Transactions and the Audit Committee/Board will determine whether to approve

such Related Party Transactions or not. For this purpose, the Audit Committee / Board, as the case may be, will be entitled to seek the assistance of any employee of the Company or one or more independent experts of its choice at the expense of the Company.

In assessing a Related Party Transaction, the Audit Committee shall consider such factors as it deems appropriate, including without limitation –

- i. the business reasons for the Company to enter into the Related Party Transaction;
- ii. the commercial reasonableness of the terms of the Related Party Transaction;
- iii. the materiality of the Related Party Transaction to the Company;
- iv. whether the terms of the Related Party Transaction are fair to the Company and on the same basis as would apply if the transaction did not involve a Related Party;
- v. the extent of the Related Party's interest in the Related Party Transaction;
- vi. abuse of position on account of conflict of interest and non-arm's length dealings which are beneficial to the Related Party but detrimental to the other stakeholders.

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.

As per its terms of reference under Section 177 of the Companies Act, 2013, such transactions with Related Parties will be reviewed by the Audit Committee on a quarterly basis as stated in clause 5 of this Policy.

The clauses in this policy pertaining to:

- approval of the Audit Committee in respect of all Related Party Transactions (other than a transaction referred to in Section 188 of the Companies Act, 2013)
 - omnibus approval granted by the Audit Committee for Related Party Transactions; and
 - approval of the shareholders in respect of Material Related Party Transactions
- shall not apply to transactions entered into between the Company and its wholly owned subsidiary whose accounts are consolidated with the Company and placed before the shareholders at the General Meeting for approval.

Mechanism for determining Ordinary course of business and Arm's length basis:

All transactions or activities that are necessary, normal and incidental to the business of the Company shall be deemed to be in the ordinary course of business. These may also be common practices and customs of commercial transactions.

To decide whether an activity which is carried on by the business is in the 'ordinary course of business', the following factors may be considered:

- a. Whether the activity is covered in the objects clause of the Memorandum of Association.
- b. Whether the activity is in furtherance of the business.
- c. Whether the activity is normal or otherwise routine for the particular business (i.e. activities like advertising, staff training, etc.).
- d. Whether the activity is repetitive/frequent.
- e. Whether the income, if any, earned from such activity/transaction is treated as business income in the company's books of account.
- f. Whether the transactions are common in the particular industry.
- g. Whether there is any historical practice to conduct such activities.
- h. The financial scale of the activity with regard to the operations of the business.
- i. Revenue generated by the activity.
- j. Resources committed to the activity.

The above list is not exhaustive.

"Arms' 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. In this regard, the following guidelines can be used for determining the arms' length basis:

- whether the terms of the transaction are fair and would apply on the same basis if the transaction did not involve a Related Party;
- whether there are any compelling business reasons to enter into the transaction and the nature of alternative transactions, if any;
- whether the transaction would affect the independence of an independent director;

- whether the transaction poses any consequential potential reputational risk issues;
- whether the transaction would present an improper conflict of interest for any director or KMP, taking into account the size of the transaction, the overall financial position of the director/KMP or other Related Party, the direct or indirect nature of the directors', KMPs', or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship.

For determining the arms' length pricing, the Transfer Pricing guidelines issued by the relevant authorities under the provisions of Income-Tax Act 1961 may be used to determine this criteria on a case-to-case basis.

5. Omnibus approval

Criteria and the need for granting omnibus approval

- a) The Audit Committee may, in the best interests of the Company and to ensure smooth operations, grant omnibus approval for Related Party Transactions, proposed to be entered into by the Company which are repetitive in nature and which are routine and incidental to the general operations of the Company, subject to such criteria/conditions as it may deem fit, further taking into account the justification for needing an omnibus approval. Such approval shall be valid for a period not exceeding one year and shall specify the following:
 - i. The name(s) of the Related Party;
 - ii. The nature of the transaction, period of transaction, maximum amount of transaction that can be entered into &
 - iii. The indicative base price/current contract price and the formula for variation in the price, if any.
- b) The Audit Committee may specify any additional conditions for such determination, as it may deem fit.
- c) The Audit Committee may also grant omnibus approval, without the above details, for unforeseen transaction subject to a value not exceeding Rs.1 crore per transaction.
- d) Such Omnibus approvals shall be valid for a maximum period of one year.
- e) The Audit Committee shall review the details of Related Party Transactions entered into by the Company pursuant to such Omnibus approvals, on a quarterly basis.

6. 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 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 Audit 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 its approval, the 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 modify or waive any procedural requirements of this Policy.

In cases where the Board and / or shareholders' approval is required for a Related Party Transaction but such approval has not been obtained, and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such Related Party Transaction was entered into, such Related Party Transaction shall be voidable at the option of the Board.

6. Policy Review

In case of any subsequent changes in the provisions of the Companies Act or any other regulations, including the SEBI LODR Regulations, which makes any of the provisions in the Policy inconsistent with the Companies Act or such other regulations, such provisions of the Companies Act or such other regulations would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law.

This Policy shall be reviewed by the Audit Committee/Board at least once in every three years. Any changes or modification on the Policy as recommended by the Audit Committee would be presented for approval of the Board. The Board can from time to time authorise Directors to make changes in the Policy due to regulatory or legal requirement and such changes made to be brought to the attention of the Board at the first meeting following the amendment.

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