

KIRLOSKAR PNEUMATIC COMPANY LIMITED
POLICY ON MATERIALITY OF RELATED PARTY TRANSACTIONS
AND DEALING WITH RELATED PARTY TRANSACTIONS

I. INTRODUCTION

The Government of India, Ministry of Corporate Affairs has made the provisions of section 188 and 189 of the Companies Act, 2013 (the “Act”) relating to Transactions with related parties applicable effective April 1, 2014 as applicable to the Company.

Securities and Exchange Board of India (SEBI) vide its circular No. CIR/CFD/POLICY CELL/2/2014 dated April 17, 2014 has mandated all listed companies to form policy on materiality of related party transactions and also on dealing with related party transactions. Further, on September 15, 2014, SEBI vide its Circular No. CIR/CFD/ POLICY CELL/7/2014 has amended the provisions of the above circular dated April 17, 2014 to make them in line with the provisions of the Companies Act, 2013.

SEBI has notified Listing Regulations, on 2nd September 2015 effective from 1 December 2015. Pursuant to these Regulations the Policy is amended in accordance with the Regulation 23. Accordingly, this Policy will be treated as the Policy under the said Regulation also, with effect from 1 December 2015. Further, on November 9, 2021, SEBI vide its Notification No. SEBI/LAD-NRO/GN/2021/55 has amended the provisions vide SEBI (LODR) (Sixth Amendment) Regulations, 2021 effective from April 1, 2022.

Kirloskar Pneumatic Company Limited (“KPCL” or the “Company”) is a Company within the meaning of section 2(20) of the Companies Act, 2013 and is engaged in the manufacturing of various types of Compressors, Gears and Pinions. During the course of business and attaining its objectives, KPCL may enter into transactions with its related parties.

The Board of Directors of the Company has adopted this Policy on Materiality of related party transactions and Dealing with Related party transactions initially as required under Clause 49 of the Listing Agreement and thereafter as required under Regulation 23 of the SEBI (Listing Obligations and Disclosure requirement) Regulation, 2015 and amendments thereof (“Regulations”).

This Policy will be applicable to the Company with effect from April 1, 2022.

This policy is applicable to transaction or contract between the Company and a ‘Related Party’.

II. DEFINITIONS

1. **“Arm’s length transaction”** as defined under Section 188 (1) of the Companies Act, 2013, shall mean a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.
2. **“Key Managerial Personnel” (KMP)**, in relation to a company, means—
 - i. the Chief Executive Officer or the managing director or the manager;
 - ii. the whole-time director;
 - iii. the Chief Financial Officer; and
 - iv. the company secretary;
 - v. such other officer as may be prescribed;
3. **“Materiality of Related Party Transactions”** means :
 - i. a transaction / transactions to be entered into individually or taken together with previous transactions during a financial year with related party exceed/s Rs. One thousand crore or 10% of the annual consolidated turnover of the Company as per the last audited financial statements of the Company, whichever is lower; and
 - ii. a transaction involving payments made to a related party with respect to brand usage or royalty to be entered into individually or taken together with previous transactions during a financial year which exceed five percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.
4. **“Related Party”** shall have the same meaning as assigned to it in the Companies Act, 2013 and the Regulations, as may be amended from time to time.
5. **“Related Party Transaction (RPT)”** shall have the same meaning as assigned to it in the Act and the Regulations, as may be amended from time to time.
6. **“Senior Leadership Team”** means an employee, one level below the Managing Director / Executive Director, which includes but is not limited to Heads of Business Units.
7. **“Subsequent Material Modification”** means at the subsequent stage, a price of the Related Party Transaction either increased or decreased by 50% of the original value unless such Related Party Transaction entered into at such revised price is at arm’s length.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, the Regulations, the Securities Contract Regulation Act

or any other law or regulation as applicable to the Company.

III. APPROVAL REQUIREMENTS

A. Audit Committee:

1. All RPT and subsequent modifications shall require prior approval of the Audit Committee and the Board of Directors of the Company. The approval of the Audit Committee may be granted by way of a Circular Resolution.

Provided that

- a. a related party transaction and subsequent material modification thereto where the subsidiary, if any, of the 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 10% of the annual consolidated turnover, as per the last audited financial statements of the Company;
- b. with effect from the date notified by SEBI or any other Regulation, a related party transaction and subsequent material modification thereto where the subsidiary. If any, of the 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 50% of the annual standalone turnover, as per the last audited financial statements of the Subsidiary;
- c. Prior approval of the Audit Committee of the Company shall not be required for a related party transaction to which the listed subsidiary, if any, is a party but the Company is not a party, if Regulation 23 and sub-regulation (2) of Regulation 15 of the Regulations are applicable to such listed subsidiary.
- d. For related party transactions of unlisted subsidiaries of a listed subsidiary as referred (c) above, the prior approval of the Audit Committee of the listed subsidiary shall suffice.
- e. Prior approval of the Audit Committee of the Company shall not be required for a related party transaction(s) entered into between a holding company and its wholly owned subsidiaries whose accounts are consolidated with the Company and placed before the shareholders at the General meeting for approval.
- f. Prior approval of the Audit Committee of the Company shall not be required for a related party transaction(s) entered into between two-wholly owned subsidiaries, if any, of the Company,

whose accounts are consolidated with the Company and placed before the shareholders at the General meeting for approval.

- g. Prior approval of the Audit Committee of the Company shall not be required for subsequent modification to transaction with related parties which are only covered under Regulations which is not a material modification.

Further the Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered in to 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, 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 one financial year.

B. Board of Directors:

If the Audit Committee determines that the proposed Related Party Transaction is not in ordinary course of business and / or not on Arm's length basis, the Board shall consider following factors while deliberating Related Party Transactions for its approval:

- a) Whether proposed Related Party Transaction is within threshold as

- specified under Point no. (C) of this Policy.
- b) Justification for entering into proposed Related Party Transaction.
 - c) Any other factor which the Board deems relevant.

C. Shareholders:

Following transactions with related party transaction will require the approval of Shareholders by a resolution

- a. The Act and Rules thereof:

In case of following type of Related Party Transactions which are not in ordinary course of business and not on arm's length basis and which also exceeds threshold limits as given hereunder will require the approval of shareholders by a special resolution.

Sr. No.	Category of transaction	Threshold
1	Sale, Purchase or supply of goods or materials	10% or more of the turnover of the Company.
2	Selling or otherwise disposing of, or buying, property of any kind	10% or more of the net worth of the Company
3	Leasing of property of any kind	10% or more of the turnover of the Company
4	Availing or rendering of any service	10% or more of the turnover of the Company.
5	Such Related party's appointment to any office or place of profit in the company, subsidiary company or associate company	At a monthly remuneration exceeding Rs. 2.5 Lakh
6	Underwriting the subscription of any securities or derivatives thereof, of the Company	1% of net worth

(The Turnover or Net Worth referred above shall be computed on the basis of Audited Financial Statements of the preceding Financial Year.)

b. The Regulations:

All Material Related Party Transactions after considering the effect of modifications, if any, and subsequent material modifications will require the prior approval of shareholders through resolution

Provided that prior approval of the shareholders of the Company shall not be required for:

- a. a related party transaction to which the listed subsidiary is a party but the Company is not a party, if Regulation 23 and Sub-Regulation (2) of Regulation 15 of the Regulations are applicable to such listed subsidiary;
- b. a related party transaction entered into a holding company and its wholly owned subsidiary whose accounts are consolidated with the Company and placed before the shareholders at the General meeting for approval;
- c. a related party transaction entered into between two wholly-owned subsidiaries of the Company whose accounts are consolidated with the Company and placed before the shareholders at the General meeting for approval.

Provided further that for related party transactions of unlisted subsidiaries of a listed subsidiary, the prior approval of the shareholders of the listed subsidiary shall suffice.

IV. PROCEDURE

1. Every Director / KMP of the Company shall at the beginning of the financial year provide information about his / her (including relatives) nature of interest or concern as prescribed under the Companies Act, 2013, to the Company. Thereafter, any changes therein need to be informed to the Company promptly.
2. The director / KMP concerned shall not participate in the discussion on the RPT placed before the Audit Committee / Board, nor shall he / she vote on the resolution relating to the RPT. Only those members of the Audit Committee, who are independent directors, shall approve related party transactions.
3. No member of the Company shall vote on any type of resolution, to approve any Related Party Transaction, if such member is a Related Party.

4. The Company Secretary / Secretarial Department shall circulate list of identified Related Parties to the Senior Leadership Team members by the first week of the month following the end of a quarter and immediately after any change in the list of Related Parties already circulated.

Prior to entering into any type of transaction with a Related Party, such transaction will be reported to the Company Secretary and Finance Department by Senior Leadership Team member along with all relevant documents like comparable quotations, invoices or other certificates and other factors justifying the transaction.

6. The Company Secretary and Finance Department to analyze in consultation with the Management and with outside consultant as may be appropriate, to determine whether the proposed transaction or relationship constitutes a Related Party Transaction and if the same requires any compliance under this Policy.
7. Once the transaction is identified as a Related Party Transaction, all relevant details of transactions will be placed before the Audit Committee for its prior approval.

The Audit Committee shall review the proposed Related Party Transaction considering such factors as it deems appropriate; including but not limited to the following:

- a) Type, material terms and particulars of the proposed transaction;
- b) Name of the related party and its relationship with the Company or its subsidiary, including nature of its concern or interest (financial or otherwise);
- c) Tenure of the proposed transaction (particular tenure shall be specified);
- d) Value of the proposed transaction:
- e) The percentage of the Company's annual consolidated turnover, for the immediately preceding financial year, that is represented by the value of the proposed transaction (and for a RPT involving a subsidiary, such percentage calculated on the basis of the subsidiary's annual turnover on a standalone basis shall be additionally provided)
- f) If the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the Company or its Subsidiary:
 - i. Details of the source of funds in connection with the proposed transaction;
 - ii. Where any financial indebtedness is incurred to make or give

- loans, inter-corporate deposits, advances or investments:
 - a. Nature of indebtedness;
 - b. Cost of funds; and c. Tenure
 - iii. Applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured or unsecured; if secured, the nature of security; and
 - iv. The purpose for which the funds will be utilized by the ultimate beneficiary of such funds pursuant to the RPT.
- g) Justification as to why RPT is in the interest of the Company;
- h) A copy of the valuation or other external party report, if any, such report has been relied upon;
- i) Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT on a voluntary basis;
- j) Any other information that may be relevant.
8. The Audit Committee shall also review the status of long-term (more than one year) or recurring RPTs on an annual basis.
- The Audit Committee shall approve or disapprove the RPT based on its review of aforesaid factors of transaction and provisions of this Policy.
9. In the event a RPT has not been previously approved under this Policy, the Company Secretary to promptly notify the Audit Committee and Board of Directors. The matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all relevant facts and circumstances regarding the RPT and shall evaluate all options available to the Company, including ratification, revision or termination of the said RPT. The Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such RPT to the Committee under this Policy, and shall take any such action as it deems appropriate.
10. The notice being sent to the shareholders seeking approval for any proposed RPT shall, in addition to the requirements under the Companies Act, 2013, include the following information as a part of the explanatory statement:

- a. A summary of the information provided by the management of the Company to the Audit Committee as specified in point no. 7 above.
- b. Justification for why the proposed transaction is in the interest of the Company;
- c. Where the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the Company or its subsidiary, the details specified under point 7(f) above;
- d. A statement that the valuation or other external report, if any, relied upon by the Company in relation to the proposed transaction will be

made available through the registered email address of the shareholders;

- e. Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT, on a voluntary basis.
- f. Any other information that may be relevant.

V. DISCLOSURE

1. All Material RPT shall be disclosed to the Stock Exchanges along with Compliance Report on Corporate Governance on a periodic basis as required under the Regulations.
2. All other disclosures in respect of Related Party Transactions to be complied as may be specified under Act including rules thereof and Regulations from time to time.

VI. AMENDMENT

The Board reserves its right to amend or modify this Policy in whole or in part, at any time, when it deems appropriate or in accordance with any amendment to the applicable provisions of the Act including Rules thereof and / or the provisions of the Regulations.

For Kirloskar Pneumatic Company Limited

s/d

Rahul C. Kirloskar
Executive Chairman

Place : Pune

Amended on October 27, 2015

Amended on January 23, 2020

Amended on January 28, 2022