

SURAT TEXTILE MILLS LIMITED

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

1. Background:

Section 188 of the Companies Act, 2013 read with Companies (Meetings of Board and its Powers) Rules, 2014 provides the detailed mechanism for dealing with Related Party Transaction's ("RPT's") of a Company. Further, it provides for certain compliance requirements such as Board approval and Shareholder's approval in specific circumstances. In addition, Section 177 of the Companies Act, 2013 read with Companies (Meetings of Board and its Powers) Rules, 2014 provides for approval of the Audit Committee for RPT's.

Securities and Exchange Board of India (SEBI) has also amended Clause 49 of the Listing Agreement ("Revised Clause 49") which is effective from 1st October 2014. The Revised Clause 49, in addition to the approvals required for RPT's, also provides that the company shall formulate a policy on materiality of related party transactions and also on dealing with related party transactions.

Keeping in view the above mentioned compliance requirements provided in Companies Act, 2013 read with related rules issued thereon and Revised Clause 49 of the Listing Agreement, including any amendment thereof, the Board of Directors of Surat Textile Mills Limited ("STML" or "the Company"), acting upon the recommendations of the Audit Committee of the Board, has approved and adopted the following policy on Materiality of Related Party Transaction's and dealing with Related Party Transaction's.

2. Objective of the policy

The objective of this Policy is to set out (a) the materiality thresholds for related party transactions and; (b) the manner of dealing with the transactions between the Company and its related parties based on the Act, Clause 49 of the Listing Agreement and any other laws and regulations as may be applicable to the Company.

3. Definitions

"Arm's length transaction ('ALP')" means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

"Related Party", with reference to a Company, shall have the same meaning as defined in Section 2(76) of the Companies Act, 2013 and Clause 49 of the Listing Agreement

“Related Party Transaction” (RPT) means –

- for the purpose of the Act, specified transaction mentioned in clause (a) to (g) of sub-section 1 of Section 188;
- for the purpose of RC 49, any transaction involving any Related Party which 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.

Words and expressions used and not defined in this Policy, but defined in the Act or any Rules framed thereunder or the Securities and Exchange Board of India Act, 1992 and Rules and Regulations framed thereunder or in the Clause 49 of the Equity Listing Agreement or the Accounting Standards shall have the meanings assigned to them in these regulations.

4. Materiality thresholds

Clause 49 of the Listing Agreement requires a company to provide materiality thresholds for transactions beyond which the shareholders' approval will be required by way of a special resolution. The Company has fixed its materiality threshold at 10% of the annual consolidated turnover of the Company as per last audited financial statements of the company for the purpose of Clause 49(VII)(C) of the Listing Agreement.

5. Manner of dealing with Related Party Transactions:

i) Identification of Related Parties:

STML has formulated guidelines for identification and updating the list of related parties as prescribed under Section 2(76) of the Act read with the Rules framed there under and Clause 49 of the Listing Agreement.

ii) Identification of Related Party Transactions:

STML has formulated guidelines for identification of related party transactions in accordance with Section 188 of the Act and Clause 49 of the Listing Agreement. STML has also formulated guidelines for determining whether the transaction is in the ordinary course of business and at arm's length basis and for this purpose, the Company seeks external professional opinion, if necessary.

iii) Arm's length evaluation:

The Act or Rules framed thereunder or Clause 49, require that the transactions between Related Parties be conducted at Arm's length. However, Arm's length transaction has been defined under Explanation (b) of Section 188 of the Act as the transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

In the absence of any guidance, Transfer pricing guidelines under the Income Tax Act, 1961, may be used for determining the appropriate method for determining arm's length price.

There may be certain transactions which do not need an arm's length evaluation or documentation under the Income-tax Act 1961. In such cases also, it is considered appropriate if the principles of Transfer pricing guidelines under the Income Tax Act, 1961 are used.

In situations, where it is not appropriate to determine the arm's length price through the methods prescribed by the Income-tax Act, 1961, reliance can be placed on expert valuation obtained from an external agency.

iv) Procedure for approval of Related Party Transactions:

a) Approval of the Audit Committee:

All Related Party Transactions would require prior approval of the Audit Committee. However, the Company may obtain omnibus approval from the Audit Committee for such transactions, subject to compliances with the following conditions:

- 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.
- The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company.
- The 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.

However, in case of Related Party Transactions, which cannot be foreseen and where the above details are not available, the Audit Committee may grant omnibus approval provided the value does not exceed Rs.1 Crore per transaction.

- The Audit Committee shall review, at least on a quarterly basis, the details of Related Party Transactions entered into by the Company pursuant to each of the omnibus approval given.

- Such omnibus approval shall be valid for a period of one year and shall require fresh approvals after the expiry of one year.
- Any Director / KMP having potential interest in any Related Party Transaction shall not participate in discussions and voting on the approval of the Related Party Transaction.

The approval of the Audit Committee can be granted by way of circular resolution subject to the provisions of the Act. Any such approval must be ratified by the Audit Committee / Board at its next meeting.

While assessing a proposal put up before the Audit Committee / Board for approval, the Audit Committee / Board may review one or more or all of the following documents / seek one or more or all of the following information, as the case may be, from the management in order to determine if the transaction is in the ordinary course of business and at arm's length or not:

- Nature of the transaction, i.e. details of 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;
- Key terms (such as price and other commercial compensation contemplated under the arrangement) of the proposed transaction, including value and quantum;
- Key covenants (non-commercial) as per the draft of the proposed agreement / contract to be entered into for such transaction;
- Special terms covered / to be covered in separate letters or undertakings or any other special or sub-arrangement forming part of a composite transaction;
- Benchmarking information that may have a bearing on the arm's length basis analysis, such as:
 - market analysis, research report, industry trends, business strategies, financial forecasts, etc.;
 - third party comparables, valuation reports, price publications including stock exchange and commodity market quotations;
 - management assessment of pricing terms and business justification for the proposed transaction;
 - comparative analysis, if any, of other such transaction entered into by the Company.

The above list is only indicative in nature and depending upon the facts of the case, one or more or all or some other information may be called for / reviewed to determine if the transaction is in the ordinary course of business and at arm's length.

Further, the Audit Committee / Board may seek external professional opinion, if required.

b) Approval of the Board of Directors:

In terms of the provisions of Section 188 of the Act, all kinds of transactions specified therein and which are not in the ordinary course of business and at arm's length basis, shall be placed before the Board for its approval. Further, if the Audit Committee determines that a particular Related Party Transaction should be brought before the Board, then the Board shall consider and approve the same.

The agenda of the Board Meeting at which approval for Related Party Transactions is sought shall disclose the necessary details as required under the Act and the Equity Listing Agreement. Any Director / KMP having potential interest in any Related Party Transaction shall not participate in discussions and voting.

c) Approval of the Shareholders of the Company:

- Transactions with Related Party, which are in the ordinary course of business and at arm's length basis, do not require shareholders' approval in terms of Section 188 of the Act, however in absence of similar exemption in Clause 49 all kinds of transactions specified under Section 188 of the Act though in the ordinary course of business and at arm's length basis and exceeding the thresholds laid down under the Act and Clause 49, as amended from time to time, shall be placed before the shareholders for their approval by way of a Special Resolution.
- All kinds of transactions specified under Section 188 of the Act, which (a) are not in the ordinary course of business and / or at arm's length basis; or (b) exceed the thresholds laid down under the Act and Clause 49, as amended from time to time, shall be placed before the shareholders for their approval by way of a Special Resolution.
- Clause 49(VII)(E) of the Equity Listing Agreement provides that the requirement for seeking shareholders' approval shall not be applicable to transactions between the Company and its wholly owned subsidiaries whose accounts are consolidated with the Company. However in absence of similar exemption under the Act such transactions between the Company and its subsidiaries too would be placed before the shareholders of the Company for their approval provided they meet the materiality thresholds in terms of the Policy read with the Act and Clause 49, as amended.

In addition to the above, all kinds of transactions specified under Section 188 of the Act which (a) are not in the ordinary course of business and at arm's length basis; and (b) exceed the thresholds laid down in Companies (Meetings of Board and its Powers) Rules, 2014 are placed before the shareholders for its approval.

None of the Related Parties shall be entitled to vote on a resolution relating to material Related Party Transaction in the shareholders' meeting.

6. Disclosure Requirements:

- i) Every Related Party Transaction prescribed in Section 188(1) of the Act shall be disclosed in the Board's report along with the justification for entering into such transaction.
- ii) Details of all Related Party Transactions meeting the materiality threshold as given in the Policy shall be disclosed on a quarterly basis along with the compliance report on corporate governance to the stock exchanges.
- iii) The Company shall disclose the Policy on its website and a web link shall be provided in the Annual Report.

7. Related Party Transactions not approved under this Policy:

In the event the Company becomes aware of a transaction with a related party that has not been approved in accordance with this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all of 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 failure of the internal control systems, 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, discontinuation of the transaction or seeking the approval of the shareholders, payment of compensation for the loss suffered by the related party etc. In connection with any review/approval of a related party transaction, the Audit Committee has authority to modify or waive any procedural requirements of this Policy.

Amendments

The Board may, subject to applicable laws, amend any provision(s) or substitute any of the provision(s) with the new provision(s) or replace the Policy entirely with a new Policy, based on the recommendation(s) of Audit Committee.

The Board may also establish further rules and procedures, from time to time, to give effect to this Policy.

Scope Limitation

In the event of any conflict between the provisions of this Policy and of the Listing Agreement / Companies Act, 2013 or any other statutory enactments, rules, the provisions of such Listing Agreement / Companies Act, 2013 or statutory enactments, rules shall prevail over this Policy.

Dissemination of Policy

This Policy shall be disseminated to all functional and operational heads and other concerned persons of the Company and shall be hosted on the intra-net and website of the Company and web link thereto shall be provided in the annual report of the Company.