

RELATED PARTY TRANSACTIONS

POLICY

OF

SOMANY CERAMICS LIMITED

(Revised on 31st March, 2022)

Preamble

Somany Ceramics Limited (“SCL” or “**The Company**”) has always been committed to best corporate governance practices and this policy on Related Party Transactions (“**the RPT Policy**”) is prepared for ensuring compliance with the provisions of the Companies Act, 2013(the “**Act**”), SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 [“**SEBI LODR**”], the Indian Accounting Standard (Ind AS) as amended from time to time and other applicable laws.

To ensure the compliance of above Laws & Regulations the Company had adopted the RPT policy on 16th October, 2014 and further modified the same on 24th January, 2017. Further, the provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 was amended by Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2021 notified on 9th November, 2021 and a Circular dated 22nd November, 2022, issued by Securities and Exchange Board of India (“SEBI”). Some of the provisions of the above said amendments are effective from April 1, 2022 and some of them are effective from April 1, 2023. Accordingly, the Audit Committee and Board of Directors of the Company in their meetings held on 31st March, 2022 have approved and adopted a revised Policy on Related Party Transaction, which is in consonance with the aforesaid amendments.

The objective of this policy is to regulate transactions between the Company and its Related Parties based on the laws and regulations applicable to the Company from time to time.

Purpose of the Policy

The broad purpose of this policy is to ensure due and proper compliance with the applicable statutory provisions and to fortify that proper procedure is defined and followed for approval / ratification and reporting of transactions, if any, as applicable, between the Company and any of its Related Parties. This RPT Policy also define materiality of related party transactions and manner in which the related party transactions will be dealt with. The provisions of this Policy are designed to govern the transparency of approval process and disclosures requirements as to accord fairness in the treatment of related party transactions. The purpose of this RPT policy is to identify and approve such related party transactions that are in line with applicable laws and regulations and in the best interest of the Company/its shareholders.

Implementation

This Policy shall be effective in respect to the transactions that took place on or after 01st April,2022.

Salient features of the Policy

1. Definitions

- a) “**Act**” means the Companies Act, 2013 read with the rules & regulations notified thereunder, as amended from time to time.
- b) “**Applicable Law**” means the Companies Act, 2013 and the rules made thereunder, the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations,2015(including any modifications/re-enactments thereof) and includes any other statute, law, standards, circulars, notifications, regulations or other governmental instruction relating to Related Party Transactions.

- c) **“Arm’s Length Transaction”** means a transaction among two related parties that is conducted as if they were unrelated, so that there is no conflict of interest. Guidelines on determination of Basis of Arm’s Length Price is provided as **Annexure-I** to its policy.
- d) **“Associate Company”** means an entity as defined under section 2(6) of the Act read with Regulation 2(1)(b) of SEBI (LODR).
- e) **“Audit Committee or Committee”** means Committee of Board of Directors of the Company constituted under provisions of SEBI (LODR) & the Act.
- f) **“Board”** means Board of Directors of the Company.
- g) **“Key Managerial Personnel”** means key managerial personnel as defined under the Companies Act, 2013.
- h) **“Material Related Party Transaction”**: Material Related Party Transaction is defined as per different statutes as follows:

As per Companies Act, 2013

Sl.	Nature of Transactions	Materiality as per the Act
1	Renting/Leasing of property	10% or more of the turnover
2	Purchase/sale of property	10% or more of the net worth
3	Purchase/sale of material, goods etc.	10% or more of the turnover
4	Availing/Rending Services directly or through appointment of agent,	10% or more of the turnover
5	Appointment of related party to an office or place of profit in Company, its subsidiary or associate company	Monthly remuneration exceeding Rs. 2,50,000/-
6	Remuneration for under writing the subscription of any securities or derivatives thereof of the company	Exceeding 1% of the net worth

Note :

- *Net worth and turnover would be as per audited financial statements of the preceding financial year.*
- *Transactions to be taken individually or together with previous transactions during a financial year.*

As per SEBI (LODR), 2015

Sl.	Nature of Transactions	Materiality as per SEBI LODR*
1	Usage of Brand and payment of royalty thereof	All transactions with one party exceeding 5% of the annual consolidated turnover of the Company as per the last audited financial statements of the Company,
2	Any other transaction	All the transactions entered into with the party exceeds Rs. 1000 Crore or 10 % of the annual consolidated turnover of the Company as per the last audited financial statements of the Company, whichever is lower.

**including material modifications thereof*

Note: Transactions to be taken individually or together with previous transactions during a financial year.

Annual Consolidated turnover is to be taken as per last audited consolidated financial statements of the Company.

- i) **“Material Modification”** means amendment in existing terms of an approved transaction triggering any of the following conditions whether individually or in aggregate:
 - a) Change in aggregate transaction value of Related Party Transaction beyond 20%.
 - b) Extension in duration of Related Party Transaction contract beyond a period of 12 months.
 - c) Such other factors as may be decided by the Audit Committee while granting approval to any related party transaction.
- j) **“SEBI(LODR)”** means SEBI (Listing Obligations & Disclosure) Requirements, Regulations 2015.
- k) **“Omnibus Approval”** means a consolidated/standing approval given by the Committee in respect of transaction(s) which are repetitive in nature.
- l) **“Ordinary Course of Business”** may include the usual transactions, customs and practices of the company, or transactions permitted by the Object Clause in the Memorandum of Association of the Company.
- m) **“Relative”** means relative as defined under the Act & SEBI (LODR).
- n) **“Related Party”** means Related Party as defined under:
 - a) Section 2(76) of the Act read with Rules made thereunder;
 - b) Regulation 2(zb) of SEBI LODR read with proviso provided thereunder;
 - c) Such other person as may be notified from time to time under the Act or SEBI LODR or Accounting Standard.
- o) **“Related Party Transaction”** means;
 - 1) Transaction(s) involving transfer of resources, services or obligations between:
 - (i) SCL or any of its subsidiaries on one hand and a related party of SCL or any of its subsidiaries on the other hand; or
 - (ii) SCL or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of SCL or any of its subsidiaries, with effect from April 1, 2023; regardless of whether a price is charged and
 - 2) a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract.
Provided that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s);
 - 3) Transaction(s) covered under Section 188 of the Act and the Rules framed thereunder;

- 4) Such other transaction as may be notified from time to time under the Act or SEBI LODR or Accounting Standards.
- p) “**Transaction**” with related party shall be construed to include a single transaction or a group of transactions.
- q) “**Subsidiary**” means a subsidiary as defined under Regulation 2(zm) of SEBI LODR read with Section 2(87) of the Act.

Any term not defined in this policy shall have the same meaning as given in the Act and rules made thereunder and /or SEBI LODR. Likewise, reference in this Policy to Indian Accounting Standards shall be deemed to refer to the contemporaneous Indian Accounting Standards as may be applicable to the Company.

Disclosure by Directors and KMPs and Identification of RPTs

- I. Every director and KMP upon his/her appointment and thereafter at the beginning of the financial year shall provide information by way of written notice to the Company regarding his/ her concern or interest in other entities with specific concern to parties which may be considered as Related Party to the Company and shall also provide the list of Relatives which are regarded as Related Party as per this Policy. Directors/KMP are also required to provide the information regarding their engagement with other entity during the financial year which may be regarded as Related Party according to this policy. Every Director/KMP shall at the first meeting of the Board in which he/she participates as a Director/KMP 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/her concern or interest, directly/indirectly in any company or companies or bodies corporate, firms, or other association of individuals which shall include the shareholding in **FormMBP-1**.

Further, it shall be the duty of Directors/KMP to disclose to the Committee/Board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the Company/its subsidiary(ies).

Audit Committee will determine whether a transaction does, in fact, constitute a Related Party Transaction requiring compliance with this Policy. The Directors and KMPs will ensure that their notice of any potential Related Party Transaction is delivered well in advance so that the Audit Committee has adequate time to obtain and review information about the proposed transaction.

The CFO or persons responsible for Accounts & Finance function of the Company/its subsidiary(ies) shall be responsible for identifying Related Party(ies) as per applicable Accounting Standards and reporting of such Related Party(ies).

2. Related Party Transactions Approval Process:

I. Prior approval process by Audit Committee

- I. Except otherwise provided hereunder, prior approval of the Audit Committee would be required for the following transactions (irrespective of being in the ordinary course of business or at arm's length basis) in accordance with this Policy unless the approval is exempted pursuant to the provisions of applicable law:
 - All RPTs and subsequent modifications including material modifications therein.
 - RPTs to which the subsidiary of the Company is a party, but the Company is not a party if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds threshold of:
 - a. 10 per cent of the annual consolidated turnover in accordance with the last audited financial statements of SCL (effective from 1 April 2022).
 - b. 10 per cent of the annual standalone turnover in accordance with the last audited financial statements of the subsidiary (effective from 1 April 2023).

Additionally, the audit committee's approval by the Company would not be required if the listed subsidiary, if any, is subject to compliance with Regulation 23 and Regulation 15(2) of the Listing Regulations (as mentioned herein this document). Furthermore, for RPTs of unlisted subsidiaries of a listed subsidiary, the prior approval of the audit committee of the listed subsidiary shall suffice.

- II. Any member of the Committee who has a potential interest in any Related Party Transaction will recuse him / herself and abstain from discussion and voting on the approval of the Related Party Transaction. Only those members of the Committee, who are Independent Directors, shall approve Related Party Transactions.
- III. Before approving any transaction with related parties, the Committee shall ensure that Chief Financial Officer has certified that the existing / proposed transaction(s) are on arms' length basis and in ordinary course of business and that all the necessary information/documents were available as per the prevailing Company policy.
- IV. All the contracts/ arrangements prescribed under Section 188(1) of the Companies Act, 2013 and within the threshold limits prescribed under Rule 15 (3) of Companies (Meetings of Board and its Powers) Rules, 2014, as amended from time to time which are not in the ordinary course of business of the Company or on an arm's length basis shall, in addition to the prior approval of the Audit Committee, also require prior approval of the Board of Directors of the Company.

The Committee shall consider the following factors while deliberating the Related Party Transactions for its approval:

- 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, as may be applicable);
- 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,
 - nature of indebtedness;
 - cost of funds; and
 - 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 the 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

Omnibus Approval by Audit Committee:

In the case of frequent / regular / repetitive transactions which are in the normal course of business of the Company, the Committee may grant standing pre-approval /omnibus approval. While granting the omnibus approval the Audit Committee shall satisfy itself of the need for the omnibus approval for transactions of repetitive nature and that such approval is in the interest of the Company. The omnibus approval shall specify the following:

- a. Name of the related party
- b. Nature of the transaction
- c. Period of the transaction
- d. Maximum amount of the transactions that can be entered into
- e. Indicative base price / current contracted price and formula for variation in price, if any
- f. 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, Audit Committee may grant omnibus approval for such transactions subject to the value per transaction not exceeding Rs. 1.00 Crore and maximum value of all transaction in aggregate Rs. 25.00 Crores or such higher amount as may be prescribed from time to time by the Act or Listing Regulations. The details of such transaction shall be reported to the Audit Committee for review on quarterly basis.

Such omnibus approvals shall be valid for a period not exceeding one financial year and shall require fresh approvals after the expiry of such financial year. The Committee shall review status of long-term or recurring Related Party Transaction on a financial year basis.

II. Prior Approval by Board of Directors:

The following Related Party Transactions shall require the approval of Board:

- 1) All Related Party Transactions falling under Section 188 of the Act, which are not in the ordinary course of business and /or at arm's length basis, where prior approval is not obtained, the same shall be ratified within 3 months from the date on which such contract or arrangement was entered into.
- 2) Where approval of the Board of Directors is required for any Related Party Transaction 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 Related Party Transaction, 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.
- 3) Any member of the Board who has any potential interest in any Related Party Transaction will recuse himself and abstain from discussion and voting on the approval of the Related Party Transaction.

III. Prior Approval by the Shareholders

The following Related Party Transactions shall require prior approval of shareholders:

- I. All Material Related Party Transactions and subsequent material modifications under SEBI LODR shall require prior approval of the shareholders through resolution and no related party shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not.
- II. Such Related Party Transactions which are either not on arm's length or not in the ordinary course of business and requires the approval of shareholders of the Company under Section 188 of the Act or which have specifically been recommended by the Board for shareholders' approval.

However, prior approval of the shareholders would not be required if the transaction is entered into by a listed subsidiary of SCL, and the subsidiary is subject to compliance with Regulation 23 and Regulation 15(2) of the SEBI (LODR). Furthermore, for RPTs of unlisted subsidiaries of the listed subsidiary, prior approval of the shareholders of the listed subsidiary shall suffice.

IV. Related Party Transactions not approved under this Policy

- I. If a Related Party Transaction is entered into by the Company without being approved under this Policy, the same shall be reviewed by the respective approving authority of such transaction. The respective authorities shall evaluate the transaction and may decide such action as it may

consider appropriate including ratification, revision or termination of the Related Party Transaction.

- II. In connection with any review of a Related Party Transaction, respective approving authority may modify or waive any procedural requirements of this Policy
- III. In cases where a transaction is not ratified by the respective approving authority at a meeting within 03 months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of such authority and if the contract or arrangement is with a Party Related to any Director / KMP, or is authorised by any other Director / KMP, the Director/KMP concerned shall indemnify the Company/its subsidiary(ies) against any loss incurred by it.

Nothing in this Policy shall override any provisions of law made in respect of any matter stated in this Policy.

V. Exemption from Prior Approval:

Notwithstanding the above mentioned, the following Related Party Transactions shall not entail any approval:

- 1) 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 as per SEBI (LODR) Regulations, 2015.
- 2) Transactions entered into between two wholly-owned subsidiaries of SCL, whose accounts are consolidated with SCL and placed before the shareholders at the general meeting for approval.
- 3) Resolution plan approved under Section 31 of the Insolvency Code, subject to the event being disclosed to the recognized stock exchanges within one day of the resolution plan being approved.
- 4) Facilities available or transaction entered into by the Company/its subsidiary(ies) with all employees in general.
- 5) RPTs that involve 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.
- 6) Any RPT 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.

- 7) Any other exception which is consistent with the Applicable Laws, including any rules or regulations made thereunder.

VI. Disclosures

The Company is required to disclose the Related Party Transaction as per Companies Act, 2013, applicable IND AS and SEBI (LODR) (as amended from time to time). This Policy shall be disclosed on the website of the Company.

VII. Policy Review

This Policy shall be reviewed by the Committee once in every three years and appropriate recommendations shall be made to the Board to update the Policy according. In case of any subsequent changes in the provisions of the SEBI Regulations or the Companies Act, 2013 and rules thereunder or other applicable law, the relevant amended provisions would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law.

VIII. Amendments

Though the Committee or Board shall have all the right to amend this Policy, however, this Policy may stand amended because of any regulatory amendments, clarifications etc. issued under the applicable laws. The amendment shall be deemed to be effective from the date on which such regulatory amendments, clarifications etc. comes into force. An appropriate recommendation shall be made to the Board to update the Policy accordingly.

Guidelines on Determination of Basis of Arm's Length Price

These are guidelines to employees on applying the arm's length principle. The guidance on arm's length principle is applicable to all transactions, both local and cross-border, between the Company and its related parties.

Arm's Length Basis

The arm's length principle requires the transaction with a related party to be made at similar terms & price under comparable conditions and circumstances as a transaction with an unrelated party. The application of arm's length principle involves the identification of comparable situation(s) or transaction(s) undertaken by unrelated parties against which the Related Party Transaction or margin is to be benchmarked. This step commonly known as "comparability analysis". It entails an analysis of the similarities and differences in the conditions and characteristics that are found in the Related Party Transaction with those in an unrelated party transaction.

The method as prescribed in Income Tax Act, 1961 as amended from time to time, may also be considered for determination of optimum Arm's Length price

Factors Affecting Comparability

a- Characteristics of Goods, Services or Intangible Properties under transactions

The specific characteristics of goods, services or intangible properties play a significant part in determining their values in the open market. For instance, a product with better quality and more features would fetch a higher selling price.

b- Analysis of Functions, Risks and Assets

Proposed pricing depends on functional characteristics of the assets used and risks assumed. For instance, an entity selling a product with warranty should earn a higher return compared to another entity selling the same product without the provision of warranty. Likewise, a product with a reputable branding is expected to fetch a higher return compared to that of a similar product without the branding.

c- Commercial and Economic Circumstances

Prices may vary across different markets even for transactions involving the same property or services. In order to make meaningful comparisons of prices or margins between entities/transactions, the markets and economic conditions in which the entities operate or where the transactions are undertaken should be comparable.

d- Government policies and regulations

Government policies and regulations such as price controls etc. may have an impact on prices and margins. Hence, the effects of these regulations should also be examined as part of the examination for comparability of the market and economic conditions.

e- Commercial parlance, customs and trade practices

Custom and trade practices in respect of particular transaction(s) are important in determining arm's length basis.

For example, interest free security deposits given in property lease transactions.

Concluding basis of Arm's length price

Based on comprehensive assessment of outcome of comparability analysis, significant similarities and differences between the transactions/entities in question and those to be benchmarked against, adjustments could be made for material differences identified.