

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

[Modified with reference to the Sixth Amendment to the SEBI LODR Regulations dated 9<sup>th</sup> November, 2021 and SEBI Circular No. SEBI/HO/CFD/CMD1/CIR/P/2021/662 dated 22<sup>nd</sup> November, effective from April 1, 2022 unless otherwise specified]

### 1. **INTRODUCTION:**

The Board of Directors ("Board") of Lakhotia Polyesters (India) Limited ("Company") has adopted the following policy and procedures with regard to Related Party Transactions as defined below. This policy will be effective with immediate effect. This policy is formulated to regulate transactions between the Company and its Related Parties based on the applicable laws and regulations and also provides for materiality of related party transactions

### 2. **OBJECTIVES:**

This policy is largely framed based on SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as the SEBI (LODR) Regulations, 2015 and is primarily intended to ensure the governance and reporting of transactions between the Company and its Related Parties.

### 3. **DEFINITIONS:**

- a. "Act" shall mean the Companies Act, 2013 and the Rules framed thereunder, including any modifications, clarifications, circulars or re-enactment thereof.
- b. "Audit Committee" means "Audit Committee" constituted by the Board of Directors of the Company under provisions of SEBI (LODR) Regulations, 2015 and Companies Act, 2013, from time to time.
- c. "Board of Directors" or "Board" means the Board of Directors of Lakhotia Polyesters (India) Limited as constituted from time to time.
- d. "Key Managerial Personnel" or "Key Management Personnel" means Key Managerial Personnel as defined under the Companies Act, 2013 and the Rules made thereunder.
- e. "Policy" means this policy.
- f. "Related Party" means related party as defined under Section 2(76) of the Companies Act, 2013 and the rules framed thereunder or under the applicable accounting standards.  
The following shall also be treated as the Related Party;
  - all persons or entities forming part of promoter or promoter group irrespective of their shareholding;
  - any person/entity holding equity shares in the listed entity, as below,
    - either directly or on a beneficial interest basis at any time during the immediately preceding financial year: i. to the extent of 20 % or more
    - to the extent of 10% or more w.e.f. April 1, 2023
- g. "Related Party Transaction" means transaction in the nature of contract involving transfer of materials, resources, services or obligations between a listed company and a related party, regardless of whether a price is charged for such transaction.
- h. "Material Related Party Transaction" in terms of SEBI LODR means a transaction to be entered into with a Related Party, individually or taken together with previous transactions during a financial year:
  - (i) In case of transactions involving payments made with respect to brand usage or royalty, if it exceeds 5% of the annual consolidated turnover of the Company as per its last audited financial statements;
  - (ii) In case of any other transaction(s), if the amount [exceeds Rs 1,000 crores or] 10% (ten percent) of the annual consolidated turnover of the Company as per its last audited financial statements, [whichever is lower].

- i. **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. For determination of Arm's Length basis, guidance may be taken from provisions of Transfer Pricing under Income Tax Act, 1961
  - j. **"Material Modification"** in terms of SEBI LODR means any modification(s) in the pricing, quantity or overall transaction value having a variance of 20% (twenty percent) or more, in the relevant previously approved related party transaction
  - k. **"Relatives"**: With reference to any person, means anyone who is related to another, if – i. they are members of a Hindu Undivided Family; ii. they are husband and wife; or iii. one person is related to the other in such manner as may be prescribed, which is as follows: (a) Father (including step-father) (b) Mother (including step-mother) (c) Son (including step-son) (d) Son's wife (e) Daughter (f) Daughter's husband (g) Brother (including step-brother) (h) Sister (including step-sister)
  - l. **"Associate Company"** means any other Company, in which the Company has a significant influence, but which is not a Subsidiary Company of the Company having such influence and includes a joint venture company.
4. **POLICY:**
- All Related Party Transactions must be reported to the Audit Committee for its approval prior to initiation of actual transaction in accordance with this Policy.
- a. **Identification of Potential Related Party Transactions:**
    - Each director and Key Managerial Personnel are responsible for providing Notice to the Company Secretary of any potential Related Party Transaction involving him/her or his or her relative, including any additional information about the transaction that the Board/ Audit Committee may request, for being placed before the Audit Committee and the Board.
    - The Board shall record the disclosure of interest and the Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.
    - The Company has to receive such notice of any potential Related Party Transaction well in advance so that the Audit Committee has adequate time to obtain and review information about the proposed transaction.
  - b. **Review of Related Party Transactions:**
    - Every Related Party Transactions shall be subject to the prior approval of the Audit Committee whether at a meeting or by resolution by way of circulation. Any member of the Committee who has a potential interest in any Related Party Transaction will abstain from discussion and voting on the approval of the Related Party Transaction.
    - To review a Related Party Transaction, the Committee will be provided with all relevant material information of the Related Party Transaction including name(s) of the related party, the nature of transaction, the terms of the transaction, the business purpose of the transaction, the benefits to the Company and to the Related Party, and any other relevant matters.
  - c. **Considerations for Approval of Related Party Transactions:**  
In determining whether to approve a Related Party Transaction, the Committee will consider the following factors, among others, to the extent relevant to the Related Party Transaction:

- Whether the terms of the Related Party Transaction are fair and on arm's length basis to the Company and would apply on the same basis if the transaction did not involve a Related Party;
- Whether there are any undue compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- Whether the Related Party Transaction would affect the independence of the directors/KMP;
- Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- Where the ratification of the Related Party Transaction is allowed by law and is sought from the Committee, the reason for not obtaining the prior approval of the Committee and the relevance of business urgency and whether subsequent ratification would be detrimental to the Company; and
- Whether the Related Party transaction would present an improper conflict of interest for any director or Key Managerial Personnel of the Company, taking into account the size of the transaction, the overall financial position of the director, Executive Officer or other Related Party, the direct or indirect nature of the director's, Key Managerial Personnel's or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Board/Committee deems relevant.

If the Committee determines that a Related Party Transaction should be brought before the Board, 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 Board shall consider and approve the Related Party Transaction at a meeting /resolution by circulation and 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.

If a Related Party Transaction will be ongoing, the Audit Committee may establish guidelines for the management to follow in its ongoing dealings with the Related Party. Thereafter, the Committee shall periodically review and assess ongoing relationships with the Related Party.

Any material amendment, renewal or extension of a transaction, arrangement or relationship previously reviewed under this Policy shall also be subject to subsequent review under this Policy.

**d. Review and approval of Related Party Transaction:**

➤ **Audit Committee**

- Every Related Party Transaction and subsequent Material Modifications shall be subject to the prior approval of the Audit Committee. [Members of the audit committee, who are independent directors, shall only approve related party transactions].
- The Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the Company subject to compliance of the conditions contained in the Companies Act, 2013 and SEBI LODR as amended from time to time. The omnibus approval shall specify the following:
  - Name of the related party
  - Nature of the transaction
  - Period of the transaction

- Maximum amount of the transactions that can be entered into
  - Indicative base price / current contracted price and formula for variation in price, if any
  - Such other conditions as the Audit Committee may deem fit
- The Committee shall also satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company.
- If any additional Related Party Transaction is to be entered by the Company post omnibus approval granted by the Audit Committee, then the Company shall present such transaction before the Audit Committee in its next meeting for its prior approval.
- The audit committee shall also review the status of long-term (more than one year) or recurring RPTs on an annual basis.]
- Prior approval of the Audit committee shall be required for Related Party Transaction where Company's subsidiary is a party but 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 10% of the consolidated turnover of the Company, as per the last audited financial statements of the Company:
- With effect from April 1, 2023, a related party transaction to which the Company's subsidiary 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 ten per cent of the annual standalone turnover, as per the last audited financial statements of such subsidiary.

Provided that prior approval of the audit committee of the Company shall not be required for Related Party Transaction where a listed subsidiary of the Company is a party but the Company is not a party, if regulation 23 and 15 (2) of SEBI LODR are applicable to such listed subsidiary.

- The Audit Committee shall also review the statement of related party transactions on quarterly basis as submitted by management as per its terms of reference.
- Any member of the Committee who has a potential interest in any Related Party Transaction shall abstain from discussion and voting on the approval of the Related Party Transaction.
- To review a Related Party Transaction, the Committee shall be provided with the necessary information [as prescribed under the Companies Act, 2013 and/or the SEBI Listing Regulations, from time to time], to the extent relevant, with respect to actual or potential Related Party Transactions.
- The Audit Committee shall recommend the Related Party Transactions for approval of Board of Directors / Shareholders as per terms of policy.

#### ➤ **Approval of the Board and the Shareholders**

- All Related Party Transactions which are not in the ordinary course of business or not at the arm's length price shall require prior approval of the Board of Directors of the Company.
- Where any director is interested in any Related Party Transaction, such director will abstain from discussion and voting on the subject matter of the resolution relating to such Transaction.
- Further, all related party transactions [which are not in the ordinary course of business or not at the arm's length price and are] exceeding threshold limits prescribed in the Act as per Annexure 1 shall also require prior approval of shareholders of the Company by way of Ordinary Resolution and [all entities

falling under the definition of Related Parties shall not vote to approve the relevant transaction, irrespective of whether the entity is a party to the particular transaction or not.]

- Further, the information as prescribed under the Companies Act, 2013 and/or the SEBI Listing Regulations, from time to time shall be provided in the Notice to the shareholders for consideration of Related Party Transactions.
- All the Material Related Party Transactions and subsequent Material Modifications] shall require prior approval of the Board and shareholders through Ordinary Resolution and [no Related Party shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not.]

Provided that prior approval of shareholders of the Company shall not be required for Related Party Transactions where listed subsidiary is a party but the Company is not a party, if regulation 23 and 15 (2) of SEBI LODR are applicable to such listed subsidiary.

Provided that the aforesaid requirements shall not apply in respect of a 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.

Provided that the Material Related Transactions entered into by the Company with its wholly owned subsidiary(ies) whose accounts are consolidated with the company and placed before the shareholders at the general meeting for approval shall not require approval of the shareholders.

Provided that the provisions pertaining to - • Prior approval of the Audit Committee for all Related Party Transactions; • Omnibus approval for Related Party Transactions; and • Prior approval of shareholders for Material Related Party Transactions and subsequent Material Modifications shall not be applicable when the transactions are 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.

**e. Decision regarding transaction in ordinary course of business and on arm's length basis:**

- The Audit Committee or the Board shall, in respect of the related party transactions referred to them for approval, shall after considering the materials placed before them, judge if the transaction is the ordinary course of business or at arm's length basis.
- In case the Audit Committee is not able to arrive at such a decision, the same shall be referred to the Board, which shall decide if the transaction is the ordinary course of business or at arm's length basis.
- In case the Board is not able to arrive at such a decision, the same shall be decided by the Independent Directors, whose decision shall be final.

**f. Materiality of Related Party Transactions:**

- A transaction with a related party shall be considered to material if the transaction/transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds the ten percent of the annual consolidated turnover of the Company as per the last audited financial statements of the company.

- Any transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed five percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.
- This policy to determine the material related party transactions shall be reviewed by the board of directors at least once every three years and updated accordingly.

5. **EXCEPTIONS:**

Notwithstanding the foregoing, the following Related Party Transactions shall not require specific approval of the Audit Committee:

- (a) Any transactions, which are at arm's length and in ordinary course of business, 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.
- (b) Any transaction involving the providing of compensation to a director or Key Managerial Personnel in connection with his/her duties to the Company including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business, and in line with the terms of Appointment
- (c) 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.
- (d) Transactions arising out of corporate restructuring, compromises, arrangements and amalgamations dealt with under specific provisions of the Companies Act, 2013, will not attract the requirements of Section 188 of the Companies Act, 2013. (MCA vide General Circular No. 30/2014 dated July 17, 2014).

6. **DEVIATIONS:**

In the event the Company becomes aware of a transaction with a Related Party that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Committee. The 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 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 failure of the internal control systems, and shall take any such action it deems appropriate. In any case, where the Committee determines not to ratify a Related Party Transaction that has been commenced without approval, the 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 of a Related Party Transaction, the Committee has authority to modify or waive any procedural requirements of this Policy. This Policy will be communicated to all operational employees and other concerned persons of the Company and shall be placed on the website of the Company at [www.lakhotiapolty.in](http://www.lakhotiapolty.in)

7. **DISCLOSURE:**

All Related Party transactions are to be disclosed in applicable filings as required by the Securities and Exchange Board of India (SEBI) Act as amended, and regulations made thereunder, the Directors Report on an annual basis and also as part of the financial statements of the Company. Furthermore, any material Related Party transaction will be disclosed to the full Board of Directors. The details of all transactions with related parties shall be submitted on

a consolidated basis, in the format specified in the relevant accounting standards, half yearly to the stock exchanges and the same shall be published on the Company's website.

8. **AMENDMENTS AND UPDATES:**

The Audit Committee periodically shall review this Policy and may recommend amendments to this Policy from time to time as it deems appropriate. In addition to guidelines for ongoing Related Party Transactions, the Audit Committee may, as it deems appropriate and reasonable, establish from time-to-time guidelines regarding the review of other Related Party transactions. The Board shall have the power to amend any of the provisions of this Policy, substitute any of the provisions with a new provision or replace this Policy entirely with a new Policy.

9. **INTERPRETATION**

Any words used in this policy but not defined herein shall have the same meaning ascribed to it in the Companies Act, 2013 or Rules made thereunder, SEBI Act or Rules and Regulations made thereunder, SEBI (LODR) Regulations, 2015, Accounting Standards or any other relevant legislations / laws applicable to the Company. In case of any dispute or difference upon the meaning/interpretation of any word or provision in this Policy, the same shall be referred to the Audit Committee and the decision of the Audit Committee in such a case shall be final. In interpreting such term / provision, the Audit Committee may seek the help of any of the officers of the Company or an outside expert as it deems fit. In case of any ambiguity or need for clarification with respect to the Policy, the Company should refer applicable provisions of Companies Act, 2013, SEBI (LODR) Regulations and any other applicable law and the related laws shall supersede the policy.

[ As recommended by the Audit Committee of the Board of Directors at its Meeting held on February 14, 2022 and approved and adopted by the Board of Directors of the Company at its Meeting held on February 14, 2022 by replacing the existing policy]

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## ANNEXURE - 1

Transactions that, require prior approval of Shareholders of the Company, as prescribed under rule 15(3) of the Companies (Meeting of Board and its Powers) Rules, 2014, includes the transactions/contracts/ arrangements as follows:

All contracts or arrangements with respect to clauses (a) to (e) of sub-section (1) of Section 188, with criteria as mentioned below:

- Sale, purchase or supply of any goods or material, directly or through appointment of agent, amounting to ten percent or more of the turnover of the company, as mentioned in clause (a) and clause (e) respectively of subsection (1) of section 188;
- Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent, amounting to ten percent or more of net worth of the company as mentioned in clause (b) and clause (e) respectively of subsection (1) of section 188;
- Leasing of property any kind amounting to ten per cent or more of the turnover of the company, as mentioned in clause (c) of sub-section (1) of section 188;
- Availing or rendering of any services, directly or through appointment of agent, amounting to ten percent or more of the turnover of the company as mentioned in clause (d) and clause (e) respectively of sub-section (1) of section 188:

These limits shall however, apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.

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