

VOLTAS LIMITED

REVISED POLICY ON RELATED PARTY TRANSACTIONS

1. SCOPE AND PURPOSE OF THE POLICY:

Related Party transactions can present a potential or actual conflict of interest which may be against the best interest of the Company and its shareholders. Considering the requirements for approval of related party transactions as prescribed under the Companies Act, 2013 (“**Act**”) read with the Rules framed thereunder and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time (hereinafter referred to as SEBI Listing Regulations, 2015), Voltas Limited has formulated revised guidelines for identification of related parties and for proper conduct and documentation of all related party transactions.

Moreover, Regulation 23(1) of SEBI Listing Regulations, 2015, requires a listed company to formulate a policy on materiality of related party transactions and for dealing with related party transactions.

In the light of the above, Voltas Limited has revised its Policy on Related Party Transactions (“Policy”). This Policy has been adopted by the Board of Directors of the Company and going forward, the Board would review the Policy atleast once in every three years and amend the same, if so required.

In case of any inconsistency in the Policy and the SEBI Listing Regulations, as may be amended from time to time, the provisions of the SEBI Listing Regulations would prevail.

2. ABOUT THE COMPANY:

Voltas is India's largest air conditioning company, and one of the world's premier engineering solutions providers and project specialists.

Founded in India in 1954, Voltas Limited offers engineering solutions for a wide spectrum of industries in areas such as heating, ventilation and air conditioning, refrigeration, electro-mechanical projects, textile machinery, mining and construction equipment, water management & treatment, cold chain solutions, building management systems and indoor air quality.

Over the years, Voltas has built up a substantial reputation and is actively engaged in turnkey projects in fields such as

- electro-mechanical works comprising HVAC, electrical systems for buildings, plumbing, fire fighting, ELV and specialized systems, building security and other utilities.
- electrical power projects.
- environmental and water pollution control, pumping stations and water supply and water and waste water treatment projects.

Voltas possesses adequate capability in the manufacture of room/split air conditioners, industrial air conditioning and refrigeration equipment, water coolers, commercial refrigerators, visicoolers and freezers, mining and construction equipment. All these products bear the stamp of state-of-the-art plant, machinery and processes.

Voltas' sales and service operations cover:

- in-house manufactured products, including air conditioning equipment and unitary cooling products.
- products of principals represented, including textile machinery and mining and construction equipment.
- The Company demonstrates its specialised engineering expertise, as well as its extensive network for global sourcing.

3. 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, Regulation 23 of SEBI Listing Regulations, 2015 and any other laws and regulations as may be applicable to the Company.

4. DEFINITIONS:

- (a) **“Act”** shall mean the Companies Act, 2013 and the Rules framed thereunder, including any modifications, amendments, clarifications or re-enactment thereof.

- (b) **“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.
- (c) **“Audit Committee”** means the Committee of the Board formed under Section 177 of the Act and Regulation 18 of SEBI Regulations, 2015.
- (d) **“Company”** means Voltas Limited.
- (e) **“Key Managerial Personnel”** means Key Managerial Personnel of the Company in terms of the Companies Act, 2013 and the Rules made thereunder.
- (f) **“Material Related Party Transaction”** means a material transaction as defined in Regulation 23(1) of SEBI Listing Regulations, 2015 or any other law or regulation including any amendment or modification thereof, as may be applicable.
- (g) **“Related Party”** means a person or an entity
 - (i) **which is a related party under Section 2(76) of the Companies Act, 2013 and Regulation 2(1)(zb) of SEBI Listing Regulations, 2015.**
 - (ii) which is a related party under applicable accounting standards.

Related party under Section 2(76) of the Companies Act, 2013 and Rules made thereunder are as follows:

- (i) a director or his relative;
- (ii) a key managerial personnel or his relative;
- (iii) a firm, in which a director; manager or his relative is a partner;
- (iv) a private company in which a director or manager or his relative is a member or director;
- (v) a public company in which a director or manager is a director and holds along with his relatives, more than two per cent of its paid up share capital;
- (vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
- (vii) any person on whose advice, directions or instructions a director or manager is accustomed to act;

Provided that nothing in (vi) and (vii) above shall apply to the advice, directions or instructions given in a professional capacity.

- (viii) Any body corporate which is –
 - (a) a holding, subsidiary or an associate company of such company; or
 - (b) a subsidiary of a holding company to which it is also a subsidiary; or
 - (c) an investing company or the venturer of the Company.
- (ix) such other person as may be prescribed by Central Government.

‘Related Party’ under Regulation 2(1)(zb) of the SEBI Listing Regulations, 2015, means a related party s defined under Section 2(76) of the Companies Act, 2013 or under the applicable accounting standards:

Provided that any person or entity belonging to the promoter or promoter group of the listed entity and holding 20% or more of shareholding in the listed entity shall be deemed to be a related party.

- (h) **“Related Party Transaction”** as per Regulation 2(zc) of SEBI Listing Regulations, 2015 means a transfer of resources, services or obligations between the Company and a Related Party, regardless of whether a price is charged. A ‘transaction’ with related party shall be construed to include a single transaction or a group of transactions in the contract.

As per Section 188 of the Act, the following are related party transactions:

- (i) sale, purchase or supply of any goods or materials;
 - (ii) selling or otherwise disposing of, or buying, property of any kind;
 - (iii) leasing of property of any kind;
 - (iv) availing or rendering of any services;
 - (v) appointment of any agent for purchase or sale of goods, materials, services or property;
 - (vi) such related party’s appointment to any office or place of profit in the company, its subsidiary company or associate company; and
 - (vii) underwriting the subscription of any securities or derivatives thereof, of the company.
- (i) **“Relative”** with reference to any person as defined in Section 2(77) of the Act means any one who is related to another, if-
 - (i) they are members of Hindu Undivided Family;
 - (ii) they are husband and wife; or
 - (iii) one person is related to the other person as:

- (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)
- (j) **“Subsidiary”** means a company as defined in Section 2(87) of the Act, in which the holding company –
- (i) controls the composition of the Board of Directors; or
 - (ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, the SEBI Listing Regulations, 2015, Securities Contracts (Regulation) Act or any other applicable law or regulation.

5. MATERIALITY THRESHOLDS:

- (a) Regulation 23(1) of SEBI Listing Regulations, 2015 requires a company to provide materiality thresholds for transactions beyond which the shareholders' approval will be required by way of an Ordinary Resolution. Voltas has fixed its materiality threshold at 10% of the annual consolidated turnover as per last audited financial statements of the Company, which is in line with the limits presently prescribed in Regulation 23(4) of SEBI Listing Regulations, 2015. Accordingly, all transactions with related party shall be considered material if the transaction/transactions to be entered into individually or taken together with previous transactions during a financial year, exceed 10% of the annual consolidated turnover of the Company, based on the last audited financial statements.
- (b) **Notwithstanding the above, a 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 2% of the annual consolidated turnover of the Company as per last audited financial statements of the Company for the purpose of Regulation 23(4) of SEBI Listing Regulations.**

6. MANNER OF DEALING WITH RELATED PARTY TRANSACTIONS:

(a) Identification of related parties

Voltas Limited has adopted a process 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 Regulation 2(1)(zb) of SEBI Listing Regulations, 2015.

(b) Identification of related party transactions

Voltas Limited has adopted a process for identification of related party transactions in accordance with Section 188 of the Act and Regulation 2(1)(zc) of SEBI Listing Regulations, 2015. Voltas Limited has also formulated certain criteria for determining whether the transaction is in the ordinary course of business and at arm's length basis and for this purpose, the Company shall seek external professional opinion, if necessary. While 'Ordinary Course of Business' (OCB) has not been defined in the Companies Act, 2013 and/or in SEBI Listing Regulations, 2015, OCB means the usual transactions, customs and practices undertaken by the Company to conduct its business operations and activities and includes all such activities which the Company can undertake if :

- (i) the Objects clause of Memorandum of Association of the Company permits such activity; or
- (ii) it is a historical practice and there is a pattern of frequency (and not an isolated transaction); or
- (iii) it has a connection with the normal business carried on by the Company; or
- (iv) the income, if any, earned from such activity/transaction is assessed as business income in the Company's books of accounts and hence, is a 'business activity'; and
- (v) it is a common commercial practice.

(c) Arm's length price - Principle

A related party transaction should be priced at a level at which unrelated parties would undertake 'similar' transactions under 'similar' conditions.

(d) Procedure for approval of related party transactions

• Approval of the Audit Committee

All related party transactions 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 and such approval shall be applicable in respect of repetitive transactions;
- 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 provide details of:
 - (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 (for ex: +/- 5%), 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, 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 approval after the expiry of one year, i.e. for each financial year.

While assessing a proposal put up before the Audit Committee / Board for approval, the Audit Committee / Board may review the following documents / seek the following information 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.

As per Section 177 of the Act, the requirement of seeking Audit Committee approval shall not be applicable to transactions, other than a transaction referred to in Section 188 of the Act, between the Company and its wholly-owned subsidiary/ies.

Further, as per Regulation 23(5) of the SEBI Listing Regulations, the requirement of seeking Audit Committee approval shall not be applicable to transactions between the Company and its wholly owned subsidiary/ies whose accounts are consolidated with the Company.

- Approval of the Board of Directors of the Company

As per the provisions of Section 188 of the Act, all kinds of transactions specified under the said Section and which are not in the ordinary course of business and at arm's length basis, would be placed before the Board for its approval.

In addition to the above, the following kinds of transactions with related parties would also be placed before the Board for its approval:

- Transactions which may be in the ordinary course of business and at arm's length basis, but which are as per the policy determined by the Board from time to time (i.e. value threshold and/or other parameters) require Board approval in addition to Audit Committee approval;
 - Transactions in respect of which the Audit Committee is unable to determine whether or not they are in the ordinary course of business and/or at arm's length basis and decides to refer the same to the Board for approval;
 - Transactions which are in the ordinary course of business and at arm's length basis, but which in Audit Committee's view requires Board approval;
 - Transactions which are viewed to be in the ordinary course of business and at arm's length basis by the Management, but which are also tabled to the Board for its approval from an improved governance perspective; and
 - Transactions beyond the materiality threshold limit laid down under Clause 5 of the Policy (10% of annual consolidated turnover), which are intended to be placed before the shareholders for approval.
- Approval of the Shareholders of the Company
All transactions with related parties beyond the materiality threshold limit, laid down in Clause 5 of the Policy, would be placed before the shareholders for approval, irrespective of the fact whether the transaction, contract or arrangement is in the ordinary course of business or at arm's length.

For this purpose, all entities falling under the definition of related parties shall abstain from voting to approve the transaction irrespective of whether the entity is a party to the particular transaction or not.

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 threshold limits laid down in Companies (Meetings of Board and its Powers) Rules, 2014, as amended from time to time, would be placed before the shareholders for their approval.

The Companies (Amendment) Act, 2015 and Regulation 23(5) of the SEBI Listing Regulations, 2015 provides exemption for seeking shareholders approval (by Ordinary Resolution) for related party transactions between Voltas Limited and its wholly-owned subsidiaries whose accounts are consolidated and placed before the Shareholders at a General Meeting for approval. Presently, accounts of all wholly-owned subsidiaries are consolidated and Voltas Consolidated Financial Statements are placed before the Shareholders for adoption/approval at the Annual General Meeting.

7. DISCLOSURES

Voltas Limited shall disclose, in the Board's report, transactions prescribed in Section 188(1) of the Act with related parties, which are not in ordinary course of business or arm's length basis along with the justification for entering into such transaction.

In addition to the above, Voltas Limited shall also provide details of all related party transactions meeting the materiality threshold (laid down in Clause 5 of the Policy above) on a quarterly basis in the Compliance Report on Corporate Governance submitted to the Stock Exchanges.

The Company shall also submit within 30 days from the date of publication of half-yearly financial results, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results, to the Stock Exchanges and publish the same on its website.

The Company shall disclose the Policy on dealing with Related Party Transactions on its website, pursuant to Regulation 46(2) of SEBI Listing Regulations, 2015.

8. 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 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.

9. EFFECTIVE DATE:

The Revised Policy as approved by the Board of Directors at its Meeting held on 27th March, 2019 shall be effective from 1st April, 2019.