

Carnation Industries Limited

POLICY ON MATERIALITY OF AND DEALING WITH RELATED PARTY TRANSACTIONS

As revised and approved by the Board of Directors on 29th May, 2019

Objective

The Board of Directors (the “Board”) of Carnation Industries Limited (the “Company” or “CIL”), has adopted this Policy on Related Party Transactions as required in terms of Regulation 23(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, including any amendment or modification thereof, as may be applicable, (hereinafter also referred to as Listing Regulations) and also to comply with the provisions of Section 188 of the Companies Act, 2013.

This Policy shall regulate transactions between the Company and its Related Parties based on the applicable laws and regulations applicable on the Company and also lay down mechanism for identification, approval, review and reporting of such transactions. Provisions of this policy are designed to govern the transparency of approval process and disclosures requirements to ensure fairness in the conduct of related party transactions, in terms of the applicable laws.

The Policy on Related Party Transactions shall be mandatorily reviewed by the board of directors at least once every three years. However, it can /may be amended at any time and is subject to any further change in the Listing Regulations or the Companies Act, 2013 (the Act) or rules/regulations made thereunder.

1. Definitions

“Audit Committee (Committee)” means Committee of Board of Directors of the Company constituted under provisions of the Listing Regulations as well as the Companies Act, 2013.

“Board” means Board of Directors of the Company

“Control” shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

“Key Managerial Personnel” means key managerial personnel as defined under the Companies Act, 2013

“Material Related Party Transaction” shall mean the following

Transactions with a Related Party:

Nature of Transactions	Limit for qualifying as Material Related Party Transaction
1. Sale, purchase or supply of any goods or materials, directly or through appointment of agent.	Exceeding 10% of the turnover or Rs. 100 crore, whichever is lower
2. Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent.	Exceeding 10% of the net worth or Rs. 100 crore, whichever is lower
3. Leasing of property of any kind.	Exceeding 10% of the turnover or 10% of the net worth, or Rs. 100 crore whichever is lower
4. Availing or rendering of any services, directly or through appointment of agent	Exceeding 10% of the turnover or Rs. 50 crore, whichever is lower
5. Appointment of any related party to any office or place of profit in the Company, its subsidiary company or associate company.	Monthly remuneration exceeding two and half lakh rupees
6. Underwriting the subscription of any securities or derivatives thereof, of the Company	Remuneration exceeding 1% of net worth
7. Payments made with respect to brand usage or royalty	<u>Exceeding 2% of the</u> annual consolidated turnover of the Company
8. Any other transaction with related parties, other than those covered above, resulting in transfer of resources, obligations or services	<u>Exceeding 10% of the</u> annual consolidated turnover of the Company
<p>Note:</p> <p>a. the limits specified in points (1) to (4) and point (7) & (8) shall apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.</p> <p>b. the turnover or net worth referred in the above points shall be computed on the basis of the audited financial statement of the preceding financial year</p>	

Further, transaction with a related party shall be construed to include single transaction or a group of transactions in a contract.

“Policy” means this Policy on Related Party Transactions.

“Related Party” means a related party as defined under the Companies Act, 2013 or under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time.

“Related Party Transaction” ‘shall mean such transactions as specified under Section 188 of the Companies Act, 2013 or Rules made thereunder and Regulation 2(1)(zc) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 including any amendment or modification thereof, as may be applicable.

“Relative” means relative as defined under section 2(77) of the Companies Act, 2013 and Rules prescribed thereunder.

“Arms 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.

2. Policy

All Related Party Transactions must be identified and reported to the Audit Committee and also to Directors and shareholders, wherever necessary, for their approval. The said transactions shall be disclosed in accordance with the requirements of the Companies Act, 2013 and the Listing Regulations.

4.1 Identification of Potential Related Party transactions

Each director and Key Managerial Personnel is responsible for providing notice of disclosure of interest under section 184 of the Companies Act 2013 alongwith list of relatives to the Company. The Company shall ensure that no transaction is entered into with any entity/individual disclosed by the director/ KMP or any other related party without necessary approvals.

4.2 Procedure to be adopted for Related Party Transactions

APPROVAL OF AUDIT COMMITTEE

All Related Party Transactions shall require prior approval of the Audit Committee.

The Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the company subject to the following conditions:

- a. The Audit Committee shall laydown the criteria for granting 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 satisfies itself the need for such omnibus approval and that such approval is in the interest of the Company;
- c. Such omnibus approval shall specify the following:
 - Name(s) of the Related Party;
 - Nature of the transaction;
 - Period of transaction;
 - Maximum amount of transaction that can be entered into;
 - The indicative base price/current contracted price and the formula for variation in the price, if any, and;
 - Such other conditions as the Audit Committee may deem fit.
- d. In such cases where the need for Related Party Transaction cannot be foreseen and details as required above are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs. 1.00 crore per transaction;
- e. 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;
- f. Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

The Audit Committee will have the discretion to recommend/refer any matter relating to the Related Party Transaction to the Board for the approval.

APPROVAL OF BOARD OF DIRECTORS

All Related Party Transactions as specified in Section 188 of Companies Act, 2013 shall be approved by the Board of Directors of the Company. However this provision will not apply to the transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

All Material Related Party Transactions as defined above, shall be approved by the Board of Directors of the Company.

APPROVAL OF SHAREHOLDERS

All material related party transactions as defined above shall be approved by the Shareholders and “related parties” shall not vote to approve such resolution whether the entity is a related party to the particular transaction or not.

The requirement specified above 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.

4.3 Factors to be considered while granting approval to Related Party Transactions

The Audit Committee / Board will consider the following factors, among others, to the extent relevant to the Related Party Transactions while granting its approval:

- a. Whether the terms of the Related Party Transaction are fair and on arms-length basis to the Company and would apply on the same basis if the transaction did not involve a Related Party;
- b. Whether there are any compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- c. Whether the Related Party Transaction would affect the independence of an independent director;
- d. Whether the transaction qualifies to be a transaction in ordinary course of business;
- e. Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- f. 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 terms and size of the transaction, the purpose and timing of the transaction, the overall financial position of

the director 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.

4.4 Review & monitoring of Related Party Transactions:

The Audit Committee may review and monitor a Related Party Transaction taking into account 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. In connection with any review of a Related Party Transaction, the Committee has authority to modify or waive any procedural requirements of this Policy, subject to compliance with the requirements of the Companies Act, 2013 and Listing Regulations.

4.5 Following transactions not to be considered as Related Party Transactions:

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

- a. Any transaction that involves the providing of compensation in connection with his or her duties to the Company, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.
- b. Reimbursement made of expenses incurred by a Related Party for business purpose of the Company, or Reimbursement received for expenses incurred by the Company on behalf of a Related Party.
- c. Reimbursement of pre-incorporation expenses incurred by or on behalf of a Related Party.
- d. 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.
- e. Any other exception which is consistent with the Applicable Laws, including any rules or regulations made thereunder, and does not require prior approval by the Audit Committee.
- f. 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.

5. 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 under this Policy, 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 by it or recommend the same to the Board for its ratification or for seeking approval of Shareholders or for 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 shall take any such action it deems appropriate.

6. Existing Related Party Transactions:

This policy shall operate prospectively and all the agreements which have been entered before the effective date of this policy and are in accordance with the then prevailing laws shall be valid and effective. However, procedure under clause 4.2 mentioned above is to be followed in case of any material related party transactions which has been already approved and is likely to continue to be operational beyond March 2015.

This Policy will be communicated to all Directors, KMPs, operational employees and other concerned persons of the Company and the definition/provisions of the policy herein shall be deemed to have been amended to the extent of any alterations in laws/ statutes by virtue of an amendment.

Registers & Disclosures

Registers

The Company shall keep and maintain a register, maintained physically or electronically, as may be decided by the Board of Directors, giving separately the particulars of all contracts or arrangements covered under Section 184(2) and 188 of the Companies Act, 2013 and such register is placed before the meeting of the Board of Directors and taken note of.

Every Director shall at the first meeting of the Board in every financial year disclose his concern or interest in any company or companies or bodies corporate, firms, or other association of individuals which are required to be included in the register maintained.

Every Director or key managerial personnel shall, within a period of thirty days of his appointment, or relinquishment of his office in other Companies, as the

case may be, disclose to the Company the particulars relating to his/her concern or interest in in any company or companies or bodies corporate, firms, or other association of individuals which are required to be included in the register maintained.

Disclosures

1. Details of all material transactions with related parties are to be disclosed quarterly along with the compliance report on corporate governance.
2. The Company shall disclose the contract or arrangements entered into with the Related Party in the Board Report to the shareholders along with the justification for entering into such contract or arrangement.
3. The Company shall disclose this policy relating to Related Party Transactions on its website with reference thereto in the Annual Report.
4. The Company shall submit within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis to the stock exchanges and also publish the same on its website.