

# HeidelbergCement India Limited

## POLICY ON RELATED PARTY TRANSACTIONS

### 1. Preamble

The Board of Directors (the “**Board**”) of HeidelbergCement India Limited (the “**Company**” or “**HCIL**”), adopts the following Policy with regard to Related Party Transactions (RPT) as defined below, in compliance with the requirements of Section 188 of the Companies Act 2013 (the “**Act**”) and Rules made thereunder and Clause 49 of the Listing Agreement entered into with the Stock Exchanges (as amended from time to time) in order to ensure the transparency and procedural fairness of such transactions. The Policy lays down the key principles that will govern RPT and spells out the procedures that will be followed when RPT are to be entered into. The Policy shall be read with the Framework for RPT which has been adopted as a separate document. The Board will update the policy in the light of any subsequent modifications, amendments or re-enactment to the Act and/or to the Listing Agreement.

### 2. Purpose

This policy is intended to ensure high standards of corporate governance at HCIL by overcoming the potential conflict of interest that RPT are likely to create. It provides the assurance that the RPT are being regulated by the Board in the best interests of HCIL and all its stakeholders by laying down the procedure for the proper review, approval and reporting of transactions, between the Company and any of its related parties.

Provisions of this policy are designed to govern the transparency of the approval processes and disclosure requirements to ensure fairness in Related Party Transactions, in compliance with the applicable laws.

### 3. Definitions

“**Audit Committee**” means the Committee of the Board of Directors of HCIL constituted under Section 177 of the Companies Act, 2013 and clause 49 of Listing Agreement.

“**Board**” means Board of Directors of HCIL.

“**Framework**” means the document by that name adopted by the Board that forms an integral part of this Policy and provides the basis for determining Arm’s Length Price (ALP) for all transactions which are proposed to be entered into with the Related Parties as defined under the RPT policy of the Company.

“**Key Managerial Personnel**” has the same meaning as under Section 203 of the Companies Act, 2013.

“**Material Related Party Transaction**” means a transaction with a Related Party entered into individually or taken together with previous transactions during a financial year that exceeds the threshold limit prescribed under Clause 49(VII)(C) of the Listing Agreement.

“**Related Party**”: An entity shall be considered as related to HCIL if:

- (i) such entity is a related party under Section 2(76)<sup>1</sup> of the Companies Act, 2013; or
- (ii) such entity is a related party under the applicable accounting standard<sup>2</sup>.

“**Related Party Transaction**” means transactions/contracts/arrangements between HCIL and its Related Parties in accordance with the Companies Act, 2013 and Revised Clause 49 of the Listing Agreement.

“**Relative**” means relative as defined under the Companies Act, 2013.

“**Arm’s Length Basis**” means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

#### **4. Procedure**

All Related Party Transactions must be reported to the Audit Committee and referred for the prior approval of the Audit Committee and also of the Board and shareholders, where applicable, in accordance with this policy.

##### **4.1 Identification of Potential Related Party Transactions**

Each Director and Key Managerial Personnel is responsible for providing advance notice to the Board or Audit Committee of any potential Related Party Transaction involving him or her or his or her dependent Relatives, including any additional information about the transaction that the Board/Audit Committee may request. The Board/Audit Committee will determine whether the transaction constitutes a Related Party Transaction requiring compliance with this policy.

##### **4.2 Approval of Related Party Transactions**

All Related Party Transactions shall require prior approval of the Audit Committee. However, the Audit Committee may grant omnibus approval for

Related Party Transactions proposed to be entered into by the Company provided the conditions as mentioned in Clause 4.4 of this policy are satisfied.<sup>1</sup>

All Related Party Transactions which are neither in the ordinary course of business nor at arm's length price require prior Board approval. Additionally, shareholder approval shall be required if the transaction value exceeds the thresholds given for the prescribed transactions under the Companies Act, 2013 or the transaction is a Material Related Party Transaction. No shareholder of the Company if such a shareholder is a Related Party shall vote on any such special resolution.

#### **4.3 Procedure to be followed for approval of Related Party Transactions**

To review and approve a Related Party Transaction, the Audit Committee will be provided with all relevant material information of the Related Party Transaction, including the following:

- Name of related party and details explaining nature of relationship;
- Nature of transaction and material terms thereof including the value, if any;
- Business rationale for the Company to enter into the Related Party Transaction – the need and benefit test;
- Terms of the Related Party Transaction along with comparison with third party comparable quotes to determine whether the transaction is on an Arm's Length Basis;

Any member of the Committee who has a potential interest in any Related Party Transaction shall recuse himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction.

If the Audit Committee determines that a Related Party Transaction should be placed before the Board for review / approval, or if the Board in any case elects to review any such matter or it is mandatory under any law for the Board to approve the Related Party Transaction, the considerations set forth above shall apply to the Board's review and approval of the matter.

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<sup>1</sup> Text of Section 2(76) of the Companies Act, 2013 is enclosed as Annexure I.

<sup>2</sup> Relevant text of Accounting Standard (AS 18) is enclosed as Annexure II.

#### **4.4 Omnibus approval for Related Party Transactions**

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

- (i) The transaction is repetitive in nature;
- (ii) Such approval is in the interest of the Company; and
- (iii) All the relevant material information as outlined in Clause 4.3 of this policy has been provided to the Audit Committee for evaluation and approval.

Such omnibus approval shall specify: (i) the name(s) of the related party, nature of transaction, period of transaction and 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.

Provided that where the need for Related Party Transaction cannot be foreseen and aforesaid details are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding MINR 10 per transaction.

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

Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

#### **5. Related Party Transactions not approved under this policy or in the past by the Audit Committee**

In the event the Company becomes aware of a Related Party Transaction that has not been approved under this policy prior to its consummation or was never approved in the past by the Audit Committee prior to issuance of this policy, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all 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 Committee under this policy, and shall take any such action it deems appropriate, including advising the Board or management of the Company to take such necessary action.

In any case, where the Audit Committee decides not to ratify a Related Party Transaction that has been commenced without approval, it may, as appropriate, direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction.

## **6. Determination of Arm's Length Price**

The arm's length principle and the transfer pricing methodologies prescribed under the Indian Income Tax Act, 1961 as well as associated domestic and international guidance shall be referred to determine arm's length price relating to all Related Party Transactions.

While considering the arm's length nature of the transaction(s), the Audit Committee / Board of Directors shall refer to the "Framework on Related Party Transactions (RPT)" as framed under this Policy to assess and determine Arm's Length Price (ALP) for the transactions.

## **7. Disclosures**

HCIL will make adequate disclosures with respect to the Related Party Transactions as under:

- (i) All Material Related Party Transactions will be disclosed to Stock Exchanges on a quarterly basis along with the compliance report on corporate governance consistent with clause 49 of the Listing Agreement.
- (ii) HCIL will disclose this policy on its website and a web link thereto shall be provided in the Annual Report.
- (iii) Particulars of contracts or arrangements entered into with Related Parties along with the relevant justifications shall also be disclosed in the Directors' Report in accordance with the Companies Act, 2013.

## **8. Registers**

The Company shall maintain a register giving the particulars of all contracts or arrangements to which this policy applies and such register shall be placed/taken note of before the meeting of the Board of Directors and signed by all the Directors present at the meeting.

## **9. Amendments**

This policy may be amended by the Board of Directors at any point of time.

## **10. Annual Review**

The Audit Committee and Board of Directors will review this Policy and the Framework annually after the close of the financial year and update or revise them as may be required.

Section 2 (76): “related party”, with reference to a company, means—

- (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 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 percent 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 sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

- (viii) any company 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;
- (ix) such other person as may be prescribed;

Accounting Standard (AS) 18 defines a “related party” as under:

1. Related party - parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.
2. Control – (a) ownership, directly or indirectly, of more than one-half of the voting power of an enterprise, or  
  
(b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or  
  
(c) a substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of the enterprise.
3. Significant influence - participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies.

## **HeidelbergCement India Ltd.**

### **Framework for Related Party Transactions**

This Framework on Related Party Transactions forms an integral part of the “Policy on Related Party Transactions” (hereinafter referred to as “RPT Policy”) of HeidelbergCement India Ltd. and should be read along with the same to assess and finalize the basis of determining Arm’s Length Price for all transactions which are proposed to be entered into with the Related Parties as defined under the RPT policy of the Company.

While considering the arm’s length nature of the transaction, the Audit Committee / Board of Directors shall consider the facts and circumstances as are applicable at the time of entering into the transaction with the Related Party. The Committee / Board shall take into consideration that subsequent events (i.e., events occurring after the initial transactions) like evolving business strategies / short-term commercial decisions to improve / sustain market share, utilization of surplus capacity available, changing market dynamics, local competitive scenario, economic / regulatory conditions affecting the global / domestic industry, etc., may impact profitability but may not have a bearing on the otherwise arm’s length nature of the transaction.

Based on the nature of the transaction undertaken by the Company with the Related Parties and the applicable market conditions, the Company has identified and laid down principles for determining Arm’s Length Price considering the Transfer Pricing methodologies prescribed under the applicable Indian Tax Laws and the guidance available under the other Domestic and International laws.

The principles for determining Arm’s Length Price have been listed in Annexure 1 and the Transfer Pricing Methodologies as are in force currently under the Indian Tax Laws have been provided as Annexure 2 of this Framework.

**Principles for determining Arm's Length Price with Related Parties**

S. No.	Nature of transaction	Scenario 1 Third Party Quotes are Available	Scenario 2 Third Party Quotes are Not Available
<b>1</b>	<b>Goods</b>		
1.1	Sale of Clinker/Cement / Semi-finished goods.	Comparable Uncontrolled Price Method – Quotation from third parties	<p><b>Reason</b> – market or logistic conditions/Capacity constraints. Quantity/Tenure of the proposal to be considered while evaluating the scenarios.</p> <p><b>Arm's Length price</b> based on Cost Plus Method: Actual Variable Cost of manufacturing plus appropriate margin based on comparable uncontrolled transactions. In case comparable transactions are not available, a minimum margin of 5% will be considered appropriate for such transactions. Any expense incurred for sale/dispatch of material will also be recovered on actual basis.</p>
1.2	Purchase of Raw Materials/Semi-finished goods	Comparable Uncontrolled Price Method – Quotation from third parties	<p><b>Reason</b> – market or logistic conditions/Capacity constraints. Quantity/Tenure of the proposal to be considered while evaluating the scenarios.</p> <p><b>Arm's Length price</b> based on Resale price Method: Sale price shall be reduced by expenses incurred in connection with the purchase of the goods, expenses incurred for further manufacturing/ bringing the goods for sale minus appropriate margin based on comparable uncontrolled transactions. In case comparable transactions are not available, a minimum margin of 5% will be considered appropriate for such transactions. Any expense incurred by the Related Party pertaining to the sale of material will be reimbursed on actual basis.</p>
1.3	Sale/Purchase of Other goods/materials	Comparable Uncontrolled Price Method – Quotation from third parties	
<b>2</b>	<b>Services</b>		
2.1	Technical Know-how fees		<p><b>Reason</b> – Confidentiality and alignment with HC Group processes.</p> <p><b>Arm's Length price</b> based on Transaction Net Margin Method: Benchmark with comparable transactions undertaken by other Indian companies engaged in manufacturing sector.</p>
2.2	SAP and IT support services	Comparable Uncontrolled Price Method – Quotation from third parties	<p><b>Reason</b> – Confidentiality and alignment with HC Group processes.</p> <p><b>Arm's Length price</b> based on Cost Plus Method: Allocation of direct/indirect costs (based on applicable allocation keys) with comparable mark up to the one applied in comparable uncontrolled transactions. In case comparable transactions are not available, a mark-up of 5% will be considered appropriate for such transactions.</p>
2.3	Management services Charge Back		<p><b>Reason</b> – Confidentiality and alignment with HC Group processes.</p> <p><b>Arm's Length price</b> based on Cost Plus Method : Allocation of direct/indirect costs (based on applicable allocation keys) with comparable mark up to the one applied in comparable uncontrolled transactions. In case comparable transactions are not available, a mark-up of 5% will be considered appropriate for such transactions.</p>

**Principles for determining Arm's Length Price with Related Parties**

S.No.	Nature of transactions	Third Party Quotes are Available	Third Party Quotes are Not Available
2.4	Assignment cost (Receipt or providing of services)		<b>Reason</b> – Confidentiality and alignment with HC Group processes. <b>Arm's Length price</b> based on Cost Plus Method: Allocation of direct / indirect costs (based on actual) with comparable mark up to the one applied in comparable uncontrolled transactions. In case comparable transactions are not available, a mark-up of 5% will be considered appropriate for such transactions.
2.5	Others	Comparable Uncontrolled Price Method – Quotation from third parties	<b>Reason</b> – Confidentiality and alignment with HC Group processes. <b>Arm's Length price</b> based on Transaction Net Margin Method OR Cost Plus Method as mentioned above based on the nature of the transaction.
<b>3</b>	<b>Financial transactions</b>		
3.1	Interest on External Commercial Borrowings	Comparable Uncontrolled Price Method – Quotation from third parties / comparison with applicable benchmark rates / and in accordance with extant RBI regulations	
3.2	Interest on Non-Convertible Debentures	Comparable Uncontrolled Price Method – Quotation from third parties / comparison with applicable benchmark rates	
3.3	Interest on loan given	Comparable Uncontrolled Price Method – Quotation from third parties / comparison with applicable benchmark rates	
3.4	Corporate Guarantee charges	Comparable Uncontrolled Price Method – Quotation from third parties / comparison with applicable benchmark rates	
3.5	Others	Comparable Uncontrolled Price Method – Quotation from third parties / comparison with applicable benchmark rates	<b>Reason</b> – Confidentiality and alignment with HC Group processes. <b>Arm's Length price</b> based on Transaction Net Margin Method OR Cost Plus Method as mentioned above based on the nature of the transaction.

*Notes:*

- a) *Arm Length's Price to be determined at the time of the execution of the contract or renewal of the same.*
- b) *All the relevant elements of the transaction should be considered while choosing the Transfer Pricing method in order to reflect as much as possible the Arm's Length Principle.*
- c) *Reimbursements of payroll costs to be made on a cost-to-cost basis.*
- d) *Taxes, if any, will be additional.*
- e) *Audit Committee reserves the right to amend or modify principles of any service/goods or include new service/goods as and when required depending upon the market conditions and necessity of the transaction for the Company.*

**Transfer Pricing Methodologies prescribed under the Indian Income Tax Act, 1961 for determination of Arm's Length Price ( ALP ) for Related Party Transactions**

Section 92C together with Rule 10B and Rule 10AB of the Indian Income Tax Act, 1961 provides that the computation of ALP in relation to an International Transaction or Specified Domestic Transaction (SDT) shall be determined by using any of the following methods:

1. Comparable Uncontrolled Price method
2. Resale Price Method
3. Cost Plus Method
4. Profit split method
5. Transactional Net Margin Method
6. Any other method as provided in Rule 10AB