

1. Preamble

The Board of Directors (the "Board") of Elgi Equipments Limited (the "Company"), has adopted the following policy and procedures with regard to Related Party Transactions as below. This policy is effective from 1st October, 2014 and has been adopted pursuant to The Companies Act, 2013 (the "Act") and Clause 49 of the Listing Agreement. The Audit Committee will review and may amend this policy from time to time.

This policy will be applicable to the Company. This policy is to regulate transactions between the Company and its Related Parties based on the applicable laws and regulations.

2. Purpose

This policy is intended to ensure a system of approval and reporting of transactions between the Company and its Related Parties. Such transactions are appropriate only if they are in the best interest of the Company and its shareholders. The Company is required to disclose each year in its Financial Statements certain transactions between the Company and Related Parties as well as policies concerning transactions with Related Parties.

3. Definitions

"Arms Length Basis" means that the price for 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 Arms Length Basis, guidance may be taken from the provisions of Transfer Pricing under The Income Tax Act, 1961.

"Audit Committee or Committee" means Committee of Board of Directors of the Company constituted under provisions of Listing agreement and the Act.

"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.

" Director/S" means a Director/s of the Company

"Key Managerial Personnel" means key managerial personnel as defined under The Companies Act, 2013 and includes

- (i) Managing Director, or Chief Executive Officer or manager and in their absence, a whole time Director;
- (ii) Company Secretary; and
- (iii) Chief Financial Officer

“Material Related Party Transaction” means a transaction with a Related Party :-

- a.** if the transaction / transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company; or
- b.** if the transaction/s involvesale, purchase or supply of any goods or materials, whether directly or through any agent and wherein the amount involved exceeds ten per cent. of the turnover of the Company or Rupees Hundred crore, whichever is lower; or
- c.** if the transaction/s involve Selling or otherwise disposing of or buying property of any kind, directly or through any agent and where the amount involved exceeds ten percent of the net worth of the company or Rupees Hundred crore, whichever is lower; or
- d.** if the transaction/s involve leasing of property of any kind and the amount involved exceeds ten percent of net worth of the Company or ten per cent. of turnover of the Company or Rupees One Hundred crore; or
- e.** if the transaction/s involve availing and rendering of any kind of services, directly or through appointment of agent and which involves amount exceeding ten per cent of the turnover of the Company or Rupees Fifty Crore, whichever is lower; or
- f.** if the transaction involves appointment of any person in the office or any place of profit in the Company, its subsidiary or associate company at a monthly remuneration exceeding Rupees Two lakh Fifty Thousand; or
- g)** that involves a remuneration for underwriting of subscription of any securities or derivatives of the Company exceeding one percent of net worth of the Company.

“Policy” means this Related Party Transactions Policy.

“Promoter” shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2004

“Related Party” means a related party as defined in Clause 49 of the Listing Agreement which is as follows:

1. A person or a close member of that person's family is related to the Company if that person:

a. is a related party under Section 2(76) of the Act which 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 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 under 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 ;

or

(ix) such entity is a related party under the applicable accounting standards; or

(x) a Director or key Managerial Personnel of the holding company or his Relative with reference to a company, shall be deemed to be a Related Party.

“Related Party Transaction” means any transaction directly or indirectly involving any Related Party which is a transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged. A transaction with a Related Party shall be construed to include single transaction or a group of transactions in a contract.

“Relative” means relative as defined under the Act and includes any one who is related to another, if –

- a. i. They are members of a Hindu undivided family ;
- ii. They are husband and wife ; or
- iii. Father (including step-father)

- iv. Mother (including step-mother)
- v. Son (including step-son)
- vi. Son's wife
- vii. Daughter
- viii. Daughter's husband
- ix. Brother (including step-brother)
- x. Sister (including step-sister)

4. Policy

All Related Party Transactions must be reported to the Audit Committee and referred for approval by the Audit Committee in accordance with this Policy. However, 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. Audit Committee , after obtaining approval of the Board, shall lay down the criteria for granting the 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. The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company. The criteria, when laid down, shall form part of and be attached to this Policy as an annexure.
- b. Such omnibus approval shall specify (i) the name of the Related Party, nature of transaction, nature and period of transaction, (ii) maximum amount of transaction that can be entered into; (iii) the indicative base price/current contracted price and the formula for variation in the price, if any; and (iv) such other conditions as the Audit Committee may deem fit.
- c. 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.
- d. Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

4.1 Identification of Related Parties

- a) Key Managerial Personnel(s) and Directors of the Company shall provide the names of the Related Party(s) in so far as it relates to them;**
- b) Chief Financial Officer shall identify and provide details of Related Party(s) of the Company.**
- c) Company Secretary shall identify details of Related Party(s), covered**

under the definition of Promoter(s).

- d) The details of Related Party(s) so received under clause (a), (b) and (c) hereinabove shall be updated on annual basis by the person(s) responsible for providing such details and any changes during the year shall be promptly intimated to the Company Secretary,
- e) The Company Secretary shall conduct a census of Related Party(s) based on the details so provided and as available with the Company; in order to facilitate compliance.
- f) The Company Secretary shall update Related Party Register whenever necessary and review the Related Party Register at least once a year to confirm the information provided in the previous year or to communicate any changes.

4.2 Identification of Potential Related Party Transactions

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

Such notice of any potential Related Party Transaction shall be provided well in advance so that the Audit Committee/Board has adequate time to obtain and review information about the proposed transaction.

4.3 Prohibitions related to Related Party Transactions

All Related Party Transactions shall be on an Arm's Length Basis only.

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

Further, all Material Related Party Transactions shall require approval of the shareholders through special resolution and the Related Parties shall abstain from voting on such resolutions.

4.4 The criteria to determine whether a Related Party Transaction is in ordinary course of business:

There is no definition of the term 'ordinary course of business' under the Act and the Companies Rules, 2013 ('Rules'). Accordingly, the meaning of the expression 'ordinary course of business' has to be construed in common parlance. The Black Law Dictionary, 7th Edition, defines 'course of business' as normal routine in managing a trade or business. It also states that 'course of business' is also termed as ordinary course of business, regular course of business, ordinary course, regular course. Para A25 and A38 of the Standard on Auditing 550 on Related Parties, specify the parameters to identify transactions which might be considered as outside entity's ordinary course of business, such as:

- (a) Whether the transactions are overly complex;
- (b) Has unusual terms of trade, such as unusual price, interest rates, guarantees and repayment terms;
- (c) Lacks an apparent logical business reason for its occurrence;
- (d) Involves previously unidentified related parties;
- (e) Transaction is processed in an unusual manner.

In view of the above, following criteria that shall be applied to determine as to whether the proposed transaction can be said to be in the 'ordinary course of business' or not:

- (a) Whether the activity is normal or otherwise unremarkable – These are activities undertaken by the enterprise as a part of its normal business. As per Accounting Standard 5 on 'Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policy', related activities in which the enterprise engages in furtherance of, incidental to, or arising from, would also be considered ordinary activities;
- (b) Frequency of the Activity – The more frequent an activity the more it would be considered to be normal or ordinary;
- (c) Regularity of an activity – This would relate to the predictability of the activity. An activity might not be frequent in nature but it could be predictable and that would make it ordinary;
- (d) Activity meeting objectives – Where an activity is carried out to meet the objectives of the business it would be considered to be normal;
- (e) Resources committed to the activity – If there are certain resources are dedicated to a particular activity then the activity would be considered ordinary. If the resources involved are significant and material then it is more likely that the activity is ordinary.

Thus, the transactions which are normally and routinely entered in managing a trade or business could be regarded as transactions entered into in the 'ordinary course of business'.

4.5 The criteria to determine whether the proposed RPTs have been entered into at a price that satisfies the "Arm's Length" test

Explanation (b) of Sub-section (1) of Section 188 of the Act defines the expression "arm's length transaction" as a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest. However, there is no methodology provided in the Act and Rules for evaluating and benchmarking the RPTs with a transaction/price with an unrelated party. The concept of arm's length price between Related Party/s is present under the IT Act and the IT Rules. In fact, Section 92C of the IT Act prescribes six methods for determining whether the transaction between two or more AEs is at 'arm's length' price, which are listed down as follows:

- a. Comparable Uncontrolled Price method
- b. Resale Price Method
- c. Cost Plus Method
- d. Profit Split Method
- e. Transactional Net Margin Method
- f. Such other method as may be prescribed by the Board (Rule 10AB)

The methodology that has been adopted in the past and accepted by the Income tax authorities can be used for determining the arm's length price of the transaction. Thus, in absence of mechanism under the Act and Rules, one may resort to the Transfer Pricing methodologies prescribed under the IT Act ('Indian TP Regulations') and any past precedence with the statutory authorities for benchmarking whether the RPTs entered into by the Company are at arm's length.

Based on the study conducted comparing the Transactions of the Company with the similar Transactions with the Comparable Companies, the Transactional Net Margin Method would normally be the most appropriate method to benchmark the RPTs of the Company.

The following are the broad categories of Related Party Transactions:

1. Sale, purchase or supply of goods or materials ;
2. Selling or otherwise disposing of, or buying property of any kind;
3. Leasing of property of any kind;
4. Availing or rendering of any services;
5. Appointment of any agent for purchase or sale of goods, materials, services or property;

6. The concerned Related Party's appointment to any office or place of profit in the Company, its subsidiary company or associate company; and
7. Underwriting the subscription of any securities or derivatives

4.6 Review and Approval of Related Party Transactions

At the beginning of every financial year, the Company shall place before the Audit Committee the list of Related Party Transactions that the Company may enter into for that financial year and an omnibus approval for the same be obtained. At every quarterly scheduled meeting of the Audit Committee that is convened to consider the financial results for the last quarter, the list of Related Party Transactions for the last quarter will be placed for ratification.

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

To review a Related Party Transaction, the Audit Committee will be provided with all relevant material information of the Related Party Transaction, including 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 determining whether to approve a Related Party Transaction, the Audit 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/or on Arms Length Basis (as far as possible) to the Company and would apply on the same basis if the transaction did not involve a Related Party;
- ✓ 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;
- ✓ Whether the Related Party Transaction would affect the independence of an independent Director;
- ✓ Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- ✓ Whether the Company was notified about the Related Party Transaction before its commencement and if not, why pre-approval was not sought and whether subsequent ratification is allowed and would be detrimental to the Company;

- ✓ Whether the pricing mechanism, payment terms, terms on overdues, warranty, and other commercial and legal terms are in line with this policy; 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 Audit 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 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.

Related Party Transactions not approved under this Policy

In the event the Company becomes aware of a Related Party Transaction with a Related Party that has not been approved under this Policy prior to its consummation, 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, 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 Audit Committee under this Policy, 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, immediate discontinuation or rescission of the transaction. In connection with any review of a Related Party Transaction, the Audit Committee has authority to modify or waive any procedural requirements of this Policy.

Provided however that if any Related Party Transaction that has been entered into without the Audit Committee's and the Board of Directors' approval has not been ratified by the Board of Directors and/or the Audit Committee and/or the shareholders of the Company (if relevant) by a special resolution in a general meeting , within three months of entering into any contract in respect of the same by any Director or

employee of the Company, then the contract or arrangement shall be voidable at the option of the Board of Directors.

This Policy will be communicated to all concerned employees of the Company and to all Related Parties.

ANNEXURE-1

**Criteria For Granting Omnibus Approval For Related Party Transactions
Approved by the Board at its meeting held on 5-2-2016**

- A. Omnibus approval for a Related Party Transaction shall be granted by the Audit Committee only if the following criteria is met:
- i. Maximum value of transactions, in aggregate, which can be allowed – Rs. 650 Crores
 - ii. Maximum value per transaction which can be allowed- Rs. 1 Crore.
 - iii. Extent and manner of disclosures to be made to the audit committee at the time of seeking omnibus approval- The following shall be revealed to the audit committee at the time of seeking omnibus approval:-
 - a. Whether the Related Party with whom the transaction is proposed is a reputed in their respective field ; and
 - b. Whether the supplies of the Related Party are critical for the Company's manufacturing requirements; and
 - c. Whether the Related Party has reasonable quality systems in place and is known to consistently supplying material of good quality as per industry standards; and
 - d. Whether the Related Party has not or is not known to defaulted/default on payments, timely supplies, quality and consistency for a continuous period of three years; and
 - e. If the Related Party is a supplier, the credit terms are as per Company's norms.
 - f. Whether any Director is interested in the transaction?
 - iv. The audit committee will review on a quarterly basis each of the Related Party Transactions entered into by the Company pursuant to each of the omnibus approval made.
 - v. The following transactions cannot be subject to omnibus approval of the audit committee:-
 - a. Material Related Party Transaction/s

Notwithstanding the foregoing, where the need of Related Party Transactions which cannot be foreseen and aforesaid and/or other relevant details are un available ,

Audit Committee may grant omnibus approval for such transactions, subject to their value not exceeding Rupees One Crore per transaction.

DETERMINATION OF ARMS LENGTH PRICE FOR RELATED PARTY TRANSACTIONS

Name of the Related Party	Nature of relationship	Nature of transactions with the Related party
ATS Elgi Limited	Subsidiary	a) Purchase of sheets for making pressure vessels, receipt of rent for the building rent out, Sharing of common expenses and sale of compressors and Receiving of loans for working capital b) Purchase of garage equipments for trading in Srilanka through the branch established there.
Adison Precisions Instrument mfg Co Ltd	Subsidiary	Payment of rent for the land and building obtained on lease
Elgi Equipments Australia Pty Ltd	Subsidiary	Sale of Compressors and Components, lending for working capital
Elgi Compressors (Zhejiang) Ltd	Subsidiary	Sale of Compressors and Components and lending for working capital and for funding losses
Elgi Compressors Shanghai Trading Ltd	Subsidiary	Sale of Compressors and Components
PT Elgi Equipments Indonesia	Subsidiary	Sale of Compressors and Components
Elgi Gulf FZE	Subsidiary	Sale of Compressors and Components
Elgi Compressors Italy SRL	Subsidiary	Advance against equity
Rotair SPA	Subsidiary	Sale of Compressors and Components
SAS Belair	Subsidiary	Sale of Compressors and Components and lending for funding losses
Elgi Compressores Brasil Do Exp.E.Imp Ltde	Subsidiary	Sale of Compressors and Components and lending for funding losses

This is electronic approved documents, Hence physical signature not required

Elgi Compressors USA Inc	Subsidiary	Sale of Compressors and Components and lending for funding losses
Elgi Sauer Compressors Ltd	Associate / JV	Sale of Compressors and components, rent receipts, availment of services and sharing of common expenses
Harjeet Singh Wahan	Director	Consultation fee for setting up processes
Ellargi & Co	Partnership firm in which Director is a partner	Purchase of fuel and lubricants
LGB Fuel Systems Private Limited	A Private Company in which a Director is a Director	Purchase of filter elements
Festo Controls Private limited	A Private Company in which a Director is a Director	Purchase of Regulators and tubings
Ergo Designs Private Limited	A Private company in which a Directors Relative is a member	Availing Industrial design services
L.G.Balakrishnan & Bros Limited	A public company in which a Director is a Director and holds more than 2% along with his relatives	Sale of Compressors and Components
LGB Forge Limited	A public company in which a Director is a Director and holds more than 2% along with his relatives	Purchase and Sale of rods

Elgi Rubber Company Limited	A public company in which a Director is a Director and holds more than 2% along with his relatives	Availing Maintenance services for the Windmill owned by Elgi Equipments
Elgi Ultra Industries Limited	A public company in which a Director is a Director and holds more than 2% along with his relatives	Purchase of Horns and Wipers and receiving and paying rent
LG Balakrishnan & Bros	Associate / Firm in which Company holds 98%	Payment of rent for the land and building obtained on lease
Magna Electro Castings Ltd	AS 18 - Related Party - A Company in which a Director is a Director	Purchase of castings
Pricol Travels Ltd	AS 18 - Related Party - A Company in which a relative of a Director is a Director	Availing Travel booking services

The transactions listed from Sl. No. 1 to 25 (except 1.b) are integral part of the business of manufacture and sale of compressors and hence, the entity level approach is followed for verifying whether the transactions are at arm's length. In entity level approach, all the transactions which are integral part of the main business of the entity are combined and verified for their compliance with the arm's length principle instead of verifying each of the transactions individually (which is called transactional approach).

After analysing the appropriateness of various methods prescribed in the Income Tax Rules, Transactional Net Margin Method (TNMM) is considered to be the most appropriate method for establishing the Arms length price.

As per the Study conducted by Ernst & Young, the percentage of Operating profit on Operating cost is considered to be the PLI i.e Profit Level Indicator under TNMM.

Since Elgi's operating margin is higher than the arithmetic mean of comparable companies, the transactions of the Company with the related parties are considered to be at arm's length.

In respect of Trading in automotive equipments of ATS Elgi via Srilanka branch, cited in 1.b), Resale Price Method (RPM) (with Gross profit/Sales as the PLI) has been determined as the appropriate PLI for determining the Arms length price.

Since Elgi's gross margin is more than the arithmetic mean of margins of comparable companies, the transactions are considered to be at arm's length.