

Welspun Captive Power Generation Limited

POLICY ON TRANSACTIONS WITH THE RELATED PARTIES

Object:

This policy is intended to ensure the proper approval and reporting of transactions between the Company and the Related Parties. Such transactions are appropriate only if they are in the interest of the Company and the stockholders. The Company is required to disclose in the Annual Report, the transactions between the Company and Related Parties. In addition, the Audit Committee and the Board will review any Related Party Transactions involving non-employee directors as part of the annual determination of their independence.

This Policy is in addition to the provisions dealing with conflicts of interest in the Company's Code of Conduct for the Board of Directors and Sr. Management.

The Committee / Board will review and may amend this policy from time to time.

Definitions:

The terms "Arm's Length Transaction", "Related Party" or "Related Parties", "Relative" and "Related Party Transaction" shall have the same meaning as assigned to them under the Companies Act, 2013 as well as SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015 ("SEBI LODR"). The term "Material Related Party Transaction(s)" shall have the same meaning as assigned to it under Regulation 23(4) of SEBI LODR.

Notwithstanding the foregoing, the following shall not be deemed Related Party Transactions:

- (a) Any transaction that involves the providing of compensation to a director or Key Managerial Personnel in connection with his or her duties to the Company or any of its subsidiaries or affiliates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business in compliance with the Companies Act, 2013 and the rules made thereunder;
- (b) Indemnification and advancement of expenses made pursuant to the Company's Articles of Association;
- (c) Contributions by the Company or its subsidiaries or any of its affiliates to a charitable organization, foundation or university (including Welspun Foundation for Health & Knowledge) registered with the Charity Commissioner at which a Related Party is a trustee, director, or employee, provided that the contribution does not exceed the 2% of the Company's profits as computed under Section 135 of the Companies Act, 2013;

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- (d) Any transaction, other than Material Related Party Transaction, entered into by the Company in its ordinary course of business other than transactions which are not on an arm's length basis.

Identification of Potential Related Party Transactions:

Each director, nominee for director and Key Managerial Personnel is responsible for providing written notice to the Board of Directors of any potential Material Related Party Transaction involving him or her or his or her Relative(s), including any additional information about the transaction that the Board may reasonably request. The Board after discussion among themselves and if required in consultation with the outside counsel, as appropriate, will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this Policy.

In addition, each director, nominee for director and Key Managerial Personnel is required to provide a declaration in connection with the annual disclosure that asks about themselves, their Relatives and any current or past pecuniary interests.

The Company strongly prefers to receive such notice of any potential Material Related Party Transaction well in advance so that the Chief Financial Officer/ Head of Finance has adequate time to obtain and review information about the proposed transaction and to refer it to the appropriate approval authority. Ratification of a Related Party Transaction after its commencement or even its completion may be appropriate in some circumstances, however.

Review and Approval of Related Party Transactions:

All Related Party Transactions must be reported to the Chief Financial Officer/ Head of Finance and referred for approval or ratification by the Audit Committee and the Board of Directors of the Company.

Related Party Transactions will be referred to the Audit Committee and the Board for review and approval or ratification.

All Material Related Party Transactions, even if the same are at arm's length and are in the ordinary course of business will be referred to the Audit Committee and the Board for review and approval or ratification and the shareholders for approval of the shareholders through special resolution with the related parties abstaining from voting on such resolutions.

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Any member of the Audit Committee and / or the Board who has a potential interest in any Related Party Transaction will recuse himself or herself and abstain from participating in the meeting, but may participate in all or a portion of the Committee's / Board's discussions of the Related Party Transaction, if requested by the Chair of the Committee/ Board.

To review a Related Party Transaction, the Audit Committee / Board 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 or ratify a Related Party Transaction, the Audit Committee / Board 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 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 impair the independence of an otherwise independent director or nominee for director;
- 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 would be detrimental to the Company; and
- Whether the Related Party Transaction would present an improper conflict of interest for any director, nominee for director or Key Managerial Personnel of the Company.

In any case where the Audit Committee and / or the Board determines not to ratify a Related Party Transaction that has been commenced without approval, the Audit Committee / Board as the case may be may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction, or modification of the transaction to make it acceptable for ratification.

Omnibus Approval

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The Audit Committee and the Board of Directors of the Company 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 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.
- b. The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the company;
- c. Such omnibus approval shall specify:
 - (i) the name/s of the related party,
 - (ii) nature of transaction,
 - (iii) period of transaction,
 - (iv) maximum amount of transaction that can be entered into,
 - (v) the indicative base price / current contracted price and
 - (vi) the formula for variation in the price if any and
 - (vii) such other conditions as the Audit Committee may deem fit;
- d. Provided that where the need for Related Party Transaction cannot be foreseen and aforesaid details are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs.1 Crore per transaction.
- e. Audit Committee shall review, atleast on a quarterly basis, the details of related party transactions 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.

Tests to be applied for determining whether a Related Party Transactions is in the Ordinary Course or not:

For determining whether a proposed transaction with a Related Party is in ordinary course of business or not, the following tests shall be applied:

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- (a) If the Company has need of good(s) and /or services and the Related Party is in the business of supplying the said goods and / or rendering services;
- (b) If the Company supplies products of the category manufactured by it whether manufactured or outsourced or out of the existing inventory of raw material, stores, spares, consumables, finished or semi-finished goods which are not immediately required by the Company;
- (c) If the Company sells an asset (of not exceeding 2% of the book value of the total assets as at the latest audited financial statement) which is not required by it for its business, operations, project or capex;
- (d) If the Company purchases an asset (of not exceeding 5% of the book value of the total assets as at the latest audited financial statement) required by it for its business or operations, project or capex;
- (e) If services are commonly required and the sharing of charges is based on its share of availment of the total volume of services;

Tests to be applied for determining whether a Related Party Transactions is at Arm's Length or not:

A. Comparable Uncontrolled Price Method (hereinafter referred to as 'CUP Method')

CUP has been defined as a price charged by an entity to another independent entity in an uncontrolled transaction. In this method, the price charged or paid in a comparable uncontrolled transaction is identified and adjusted to account for the differences between the controlled transaction and the uncontrolled transaction. This adjusted price is taken to be the arm's length price in relation to the transaction between the Related Parties.

B. Resale Price Method (hereinafter referred to as 'RPM')

This method is to be applied when a property purchased or services obtained from a Related Party is resold to an unrelated party. In this case, the resale price of the goods is reduced by the expenditure and the normal gross profit margin that would have been incurred / earned by an unrelated party in a similar transaction. The price so arrived at is adjusted for any differences, including differences in accounting practices as well as the differences between the

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transactions being compared and/ or between the parties entering into such transactions, to arrive at an arm's length price.

C. Cost Plus Method (hereinafter referred to as 'CPM')

CPM is used in respect of the transfer of goods, intangible property or service provided by one Related Party to another. The gross profit mark-up arising from the provisions of same or similar property or services by an assessee or by an unrelated party in a comparable uncontrolled transaction is identified. The gross profit mark-up of the comparable uncontrolled transaction must be computed as per the same accounting norms as used by the assessee. This mark-up is adjusted to take into account the differences in the functions and other aspects of the controlled transaction and the uncontrolled transaction or the party entering into such transactions which could materially affect the mark-up in open market. The direct and indirect costs of production incurred in respect of the goods/intangible properties/services are increased by the adjusted gross profit mark-up to arrive at the arm's length price.

D. Profit Split Method (hereinafter referred to as 'PSM')

This method may be used in the transactions involving transfer of unique intangibles or in multiple transactions amongst Related Parties, where the transactions are so interrelated that they cannot be valued separately for the purpose of determining the arm's length price of any one transaction. Under this method the combined net profit of all Related Parties from all interrelated transactions are determined. The relative contribution of each Related Party is evaluated on the basis of the functions performed, the assets utilized, risks assumed, etc. The combined net profits are then split amongst the Related Parties in proportion of their relative contribution and this apportioned profit is taken into account to arrive at the arm's length price in relation to the transaction. Alternatively, the combined net profits may be first partially allocated to each Related Party to provide it with an appropriate basic return and the residual net profit should then be split amongst the Related Parties in proportion of their relative contribution.

E. Transactional Net Margin Method (hereinafter referred to as 'TNMM')

Under this method, the net profit margin realized by a Related Party from an transaction is computed in relation to a particular factor such as costs incurred, sales, assets utilized, etc. The net profit margin realized by a Company or an unrelated party from a comparable uncontrolled transaction is computed having

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regard to the same factor and adjustments are made to the net profit margin to take into account the differences between the controlled transaction and the uncontrolled transaction. The net profit margin realized by the Related Party is established in conformity with the net profit margin of the uncontrolled transaction to arrive at the arm's length price.

F. Other Methods including other methods as may be prescribed by the Central Board of Direct Taxes ("CBDT")

The CBDT vide notification dated May 23, 2012, by inserting new Rule 10AB in the Income Tax (Rules) 1962, has now prescribed "other method" for determination of arm's length price of an international transaction. As per the aforesaid new rule, the "other method" shall be any method which takes into account the price which:-

- has been charged or paid, or
- would have been charged or paid,

for the same or similar uncontrolled transaction with or between unrelated parties, under similar circumstances.

G. Any other method of determination of the arm's length price as may be prescribed by the CBDT, Ministry of Finance from time to time shall be deemed to incorporated herein in this Policy by reference.

Notwithstanding the above, if the goods produced by the Company is being purchased by a related party for the purpose of trading in it and the price to be charged to the Related Party is not at variance of more than 2% with the price for the supply made / agreed to be made to third unrelated party within 90 days prior to the proposed transaction with the Related Party, such proposed transaction will be considered in ordinary course as well as at an arm's length.

The CFO/ Head of Finance of the Company shall ensure that the Related Party Transactions entered into in ordinary course and at an arm's length are supported by requisite documentation to substantiate the compliance of policy. The note/s submitted to the Audit Committee and the Board seeking their approval/ratification will, inter alia, clearly state which tests have been applied while categorizing the RPTs as "in ordinary course of business" and "at arm's length".

At every Audit Committee Meeting, the CFO/ Head of Finance of the Company will certify to the Committee that the transactions entered into in the reporting quarter

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were in ordinary course of business and at arm's length in terms of the aforesaid policy and in other cases approval of the Audit Committee and the Board has been obtained or would be obtained.