



**KENNAMETAL INDIA LIMITED**

**POLICY ON MATERIALITY OF RELATED PARTY TRANSACTIONS  
AND ON DEALING WITH RELATED PARTY TRANSACTIONS**

**Amended and effective February 3, 2022**

## **1. Preamble**

Kennametal India Limited (the “**Company**” or “**KIL**”) recognizes that Related Party Transactions (as defined below) can present potential or actual conflicts of interest and may raise questions about whether such transactions are consistent with the Company’s and its stockholders’ best interests. Therefore, this policy on Materiality of Related Party Transaction and on dealing with Related Party Transactions (“**Policy**”) has been adopted by the Company’s Board of Directors in order to set forth the procedures under which certain transactions must be reviewed and approved or ratified.

This Policy has been amended by the Board at its meeting held on February 3, 2022 in compliance with SEBI (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2021 dated November 9, 2021.

The Audit Committee and Board of Directors of the Company will review this policy at least once every three years and amend the same accordingly.

This Policy will be applicable to the Company to regulate transactions among the Company and its Related Parties based on the applicable laws and regulations.

## **2. Purpose**

This Policy is framed as per requirement of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended from time to time) (the “SEBI Listing Regulations”) and intended to ensure the proper 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 the Financial Statements certain transactions between the Company and Related Parties as well as policies concerning transactions with Related Parties.

## **3. Definitions**

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

**3.2 “Associate Company”** in relation to another Company, means a Company in which that other Company has a significant influence, but which is not a Subsidiary Company of the Company having such influence and includes a Joint Venture Company as per sub-section (6) of Section 2 of the Companies Act, 2013.

*For the purpose of this clause, “Significant Influence” means control of at least 20% (twenty percent) of total voting power, or control of or participation in business decisions under an agreement.*

*“Joint venture” means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement;*

**3.3 “Audit Committee or Committee”** means Committee of Board of Directors of the Company constituted under the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended from time to time) and the Companies Act, 2013.

**3.4 “Board”** means Board of Directors of the Company.

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

**3.6 “Holding Company”** in relation to one or more Companies means a Company of which such Companies are Subsidiary Companies as per sub-section (46) of Section 2 of the Companies Act, 2013.

**3.7 “Key Managerial Personnel”** means key managerial personnel as defined under the Companies Act, 2013 and includes:

- Managing Director, or Chief Executive Officer or Manager and in their absence, a Whole - time Director;
- Company Secretary and
- Chief Financial Officer

**3.8 “Material Modification”** means modification to an existing related party transaction having variance of 20% of the existing limit as sanctioned by the Audit Committee / Board / Shareholders, as the case may be.

**3.9 “Material Related Party Transaction”** shall have the same meaning as defined in Regulation 23 of the SEBI Listing Regulations from time to time which as per the extant Regulation means the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds Rupees One Thousand Crore or Ten per cent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower.”

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 five percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

**3.10 “Ordinary course of business” shall mean and include-**

- Transactions that are entered in the normal and usual course of business and are identical to the business of the company.
- Transactions that is reasonable in the context of the business of the company.
- Transactions that are part of the standard industry practice.
- Meets any other parameters /criteria as decided by the Board/Audit Committee.

**3.11 “Policy”** means policy on Materiality of Related Party Transaction and on dealing with Related Party Transactions.

**3.12 “Related Party”** shall have the same meaning as defined under Section 2(76) of the Companies Act, 2013 and Regulation 2(1)(zb) of the SEBI Listing Regulations from time to time:

*As per extant Regulation, 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.*

*Provided further that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s).*

**As per section 2(76) of the Companies Act, 2013 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 1[or his relative] is a member or director;
- v. a public company in which a director or manager 2[and holds] is a director or 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 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;
- (C) an investing company or the venturer of the company;"

*Explanation.—For the purpose of this clause, “the investing company or the venturer of a company” means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.*

ix. such other person as may be prescribed;

**3.13“Related Party Transaction** shall have the meaning as defined under Regulation 2(1)(zc) of the SEBI Listing Regulations or as envisaged in Section 188(1) of the Companies Act, 2013 from time to time.

As per extant Regulation Related Party Transaction means a transfer of resources, services or obligations between a listed entity and a related party, regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract:

Provided that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s).

**As per section 188 of the Companies Act, 2013 related party transaction with reference to a company, means:**

- a. sale, purchase or supply of any goods or materials;
- b. selling or otherwise disposing of, or buying, property of any kind;
- c. leasing of property of any kind;
- d. availing or rendering of any services;
- e. appointment of any agent for purchase or sale of goods, materials, services or property;
- f. such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
- g. underwriting the subscription of any securities or derivatives thereof, of the company:

**3.14 "Relative"** in relation to a Related Party shall have the same meaning assigned to in Section 2(77) of the Companies Act, 2013 from time to time. As per extant provisions of the Companies Act, 2013. Relative includes:

- i. they are members of a Hindu Undivided Family;
- ii. they are husband and wife; or
- iii. one person is related to the other as below:
  - Father: Provided that the term "Father" includes step-father.
  - Mother: Provided that the term "Mother" includes the step-mother.
  - Son: Provided that the term "Son" includes the step-son.
  - Son's wife.
  - Daughter.
  - Daughter's husband.
  - Brother: Provided that the term "Brother" includes the step-brother;
  - Sister: Provided that the term "Sister" includes the step-sister.

**3.15 "Transaction"** shall be construed to include single transaction or a group of transactions in a contract.

**3.16** Any other terms not defined herein shall have the same meaning as defined in the Companies Act, 2013, the SEBI Listing Regulations or any other applicable law or Regulation as amended from time to time.

#### **4. Materiality Thresholds:**

Regulation 23 of the SEBI Listing Regulations requires the Company to provide materiality thresholds for transactions beyond which the Shareholders' approval will be required by way of a resolution.

The Company has fixed its materiality threshold to the transaction(s) which when entered into individually or taken together with previous transactions during a financial year, exceeds Rupees One Thousand Crore or 10 (ten) per cent of the annual consolidated turnover as per the last audited financial statements, whichever is lower.

## **5. Policy**

All Related Party Transactions and subsequent material modification must be reported to the Audit Committee and referred for prior approval by the Committee in accordance with this Policy and as per the provisions of the SEBI Listing Regulations.

### **5.1 Identification of Related Party**

Each Director and Key Managerial Personal is responsible for providing notice to the Board or Audit Committee regarding persons and entities to be considered as “Related Party” by virtue of his/her being Director/KMP in the entity or holding certain shareholding percentage. Such notice shall be provided to the company at the time of appointment and also at the time of first board meeting in every financial year and whenever there is any change in the disclosures already made.

### **5.2 Identification of Related Party Transactions**

The Company has formulated guidelines for identification of related party transactions in accordance with Section 188 of the Companies Act, 2013 and as per the SEBI Listing Regulations. The Company has also formulated guidelines for determining whether the transaction is in the Ordinary Course of Business and at arm’s length basis and for this purpose, the Company may seek external professional opinion, if required.

### **5.3 Prohibitions related to Related Party Transactions**

All Related Party Transactions and subsequent material modification(s), if any, shall require prior approval of Audit Committee and shall be approved by only those members of the Audit Committee, who are Independent Directors.

Further, all Material Related Party Transactions and subsequent material modification shall require prior approval of the Shareholders and no Related Party shall vote to approve such resolutions whether the entity is a Related Party to the particular transaction or not.

## **6. Review and Approval of Related Party Transactions**

All related party transactions and subsequent material modifications must be reported to the Audit Committee for its prior approval in accordance with this Policy. The Committee shall review the transaction and report the same for approval of the Board and shareholders, if required, in accordance with this Policy.

### **6.1 Approval of Audit Committee**

- ❖ All Related Party Transactions and subsequent material modifications shall require prior approval of the Audit Committee under this Policy. Any member of the committee who has potential interest in any related party transaction will abstain from discussion and voting on the approval of the related party transaction.
- ❖ Audit Committee shall have all rights to call for information/documents in order to understand the scope of the proposed related party transactions.

- ❖ The Audit Committee may grant omnibus approval for the proposed Related Party Transaction subject to the following conditions:
  - a) The Audit Committee shall lay down 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 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 the following: (i) Name(s) of the Related Party (ii) Nature of the transaction (iii) Period of transaction (iv) Maximum amount of transaction that can be entered into (v) The indicative base price/current contracted price and the formula for variation in the price, if any, and (vi) 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 (one) crore per transaction;
  - e) 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;
  - 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.

## **6.2 Approval of Board of Directors**

- ❖ 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 the Board to approve a Related Party Transaction, then the Board shall consider and approve the Related Party Transaction at a meeting and 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.
- ❖ All the related party transactions prescribed under Section 188 of the Companies Act, 2013, which are not in the ordinary course of business or not at Arm's Length Basis and all Material Related Party Transactions shall be brought before the Board and the Board shall consider and approve the related party transaction at a meeting.
- ❖ Any member of the Board who is interested or has potential interest (as mentioned under Section 184(2) of the Companies Act, 2013), in any related party transaction shall not be present at the meeting during discussions on the subject matter of the resolution relating to such related party transaction.

- ❖ If a Related Party Transaction will be ongoing, the Board of Directors may, in its discretion, establish guidelines for KIL's management to follow in its ongoing dealings with the Related Party. Thereafter, the Board of Directors shall periodically review and assess ongoing relationships with the Related Party to see that they are in compliance with the Board of Directors' guidelines.
- ❖ Where any director is interested in any contract or arrangement with a related party, such director shall abstain from the discussions on the subject matter of the resolution relating to such contract or arrangement

### 6.3 Approval of Shareholders

- ❖ All the Material Related Party Transactions and subsequent material modification shall require prior approval of the Shareholders and no Related Party shall vote to approve such resolutions whether the entity is a Related Party to the particular transaction or not.
- ❖ All the Transactions, other than the Material Related Party Transaction, with the related parties which are not in the Ordinary Course of Business and at Arms' Length shall, subject to the limits mentioned in Rule 15(3) of the Companies (Meeting of Board and its Power) Rules, 2014, also require the approval of the Shareholders and no Related Party shall vote to approve such resolutions whether the entity is a Related Party to the particular transaction or not.
- ❖ A related party transaction to which the subsidiary of the Company is a party but the Company itself is not a party to the transaction and if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds 10% (ten per cent) of the annual consolidated turnover then the prior approval of the shareholders of the Company will be obtained.
- ❖ Further, prior approval of the shareholders of a listed entity shall not be required for a related party transaction to which the listed subsidiary is a party, but the listed entity is not a party, if Regulation 23 and Regulation 15(2) of LODR are applicable to such listed subsidiary.  
*Explanation: For related party transactions of unlisted subsidiaries of a listed subsidiary as referred above, the prior approval of the shareholders of the listed subsidiary shall suffice.*
- ❖ In addition to the above, all kinds of transactions specified under Section 188 of the Companies Act, 2013 as mentioned below shall require approval of Shareholders if the transaction:
  - a. are not in the ordinary course of business or not at arm's length basis; and
  - b. exceeds the thresholds laid down in Companies (Meetings of Board and its Powers) Rules, 2014 (as amended from time to time).
- ❖ The approval of Audit Committee, Board of Directors and Shareholders of the Company for following related party transactions shall not be required:



- a. for transactions entered into between the holding company and its wholly owned subsidiaries.
- b. transactions entered into between two wholly-owned subsidiaries of the listed holding company, whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.
- c. No related party shall vote to approve the resolution whether the entity is a related party to the particular transaction or not.

### **7. 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 Committee. The 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 Committee under this Policy and shall take any such action it deems appropriate.

In any case, where the Committee determines not to ratify a Related Party Transaction that has been commenced without approval, the 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 Committee has authority to modify or waive any procedural requirements of this Policy.

### **8. Disclosure**

The related party transaction entered into with the related party/ies shall be disclosed in the Board's Report / Annual Report / Stock Exchange as per the disclosure requirement of the Companies Act, 2013 and the SEBI Listing Regulations (as amended from time to time). The Company shall disclose this Policy on its website and a weblink thereto shall be provided in the Annual Report. The Company shall submit its standalone and consolidated financial results on an half yearly basis, within stipulated timeframe as may be prescribed from time to time, 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.

### **9. Amendments to the Policy:**

- 9.1 The Board of Directors on its own and / or as per the recommendations of Audit Committee can amend this Policy, as and when deemed fit. Any or all provisions of this Policy would be subject to revision /amendment in accordance with the Rules, Regulations, Notifications etc. on the subject as may be issued by relevant statutory authorities, from time to time.
- 9.2 In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant authorities, not being consistent with the provisions laid down under this Policy, then such amendment(s), clarification(s), circular(s) etc. shall prevail upon the provisions hereunder and this Policy shall stand amended accordingly from the effective date as laid down under such amendment(s), clarification(s), circular(s) etc.

\*\*\*\*\*