



SCAN STEELS LIMITED

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



POLICY ON RELATED PARTY TRANSACTIONS

Pursuant to Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and as amended from time to time

A. SCOPE AND PURPOSE OF THE POLICY

Related party transactions can present a potential or actual conflict of interest which may be against the best interest of the company and its shareholders. Considering the requirements for approval of related party transactions as prescribed under the Companies Act, 2013 (“**Act**”) read with the Rules framed there under and Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, **Scan Steels Limited** (“**SSL**” or “**the Company**”) has formulated guidelines for identification of related parties and the proper conduct and documentation of all related party transactions.

The Ministry of Corporate Affairs (MCA) has notified the sections of the Companies Act, 2013 (the Act) and Rules thereunder effective from April 1, 2014. In accordance with section 188(1) of the Companies Act, 2013 which is effective from April 1, 2014, the company shall not enter into a transaction with a related party (as defined vide clause 76 of section 2 of the Act), except with the consent of the Board of Directors of the Company with respect to the following:

- (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.

Provided that the above shall not apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.



Under section 188 of the Companies Act and the Rules framed thereunder, the prior approval of the Company, through a resolution, is required for related party transactions which are not in the ordinary course of business or not on an arm's length basis, if the contract or arrangement with related party exceeds certain threshold limits, as given in Rule 15 of Companies (Meetings of Board and its Powers) Rules, 2014..

Also, Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 requires a company to formulate a policy on materiality of related party transactions and dealing with related party transactions.

In light of the above, SSL has framed this Policy on Related Party Transactions ("**Policy**"). This Policy has been adopted by the Board of Directors of the Company based on recommendations of the Audit Committee. Going forward, the Audit Committee would review and amend the Policy, as and when required, subject to adoption by the Board.

B. ABOUT THE COMPANY

The Scan Group is renowned name in Iron and Steel Industry backed by 20 glorious years of experience in steel making. It is self sufficient in all most all aspects of steel making with own Sponge Iron Plants, Induction Furnace, Rolling Mills, Billet-Caster, & Power Plant AND having multi-location manufacturing facilities and the various plants comprises of: DRI unit, Steel Melting Shop, TMT Rolling mills, Captive power plant, Coal Washery.

Scan Steels Limited is the flagship company of "Scan Group" of industries and represents integrated Steel Plant located at Rajgangpur, Odisha near Rourkels and other factory is in Bellary (Karnataka).

C. OBJECTIVE OF THE POLICY

The objective of this Policy is to set out (a) the materiality thresholds for related party transactions and; (b) the manner of dealing with the transactions between the Company and its related parties based on the Act, Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and any other laws and regulations as may be applicable to the Company.



D. DEFINITIONS

“Act” means the Companies Act, 2013

“Company” means Scan Steels Limited

“Relative” with reference to a Director or KMP means persons as defined in Section 2(77) of the Act and rules prescribed there under

“Arm’s length transaction (‘ALP’)” means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

“Ordinary course of business” means the usual transactions, customs and practices undertaken by the Company to conduct its business operations and activities and includes all such activities which the company can undertake as per Memorandum & Articles of Association. The Board and Audit Committee may lay down the principles for determining ordinary course of business in accordance with the statutory requirements and other industry practices and guidelines.

“Related Party”, with reference to a Company, shall have the same meaning as defined in Section 2(76) of the Companies Act, 2013 and Regulation 23 and Regulation 2(1)(zb) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, 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 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 holding, subsidiary or an associate company of such company;
 - a subsidiary of a holding company to which it is also a subsidiary; or



“Provided that any person or entity belonging to the promoter or promoter group of the Company and holding 20% or more of shareholding in the Company shall be deemed to be a related party.”

“Related Party Transaction” (RPT) have the meaning as defined under Regulation 2(1)(zc) of the Securities and Exchange Board Of India (Listing Obligations And Disclosure Requirements) Regulations, 2015, as amended

- ✓ for the purpose of the Act, specified transaction mentioned in clause (a) to (g) of sub-section 1 of Section 188;
- ✓ for the purpose of Regulation 23, any transaction 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.

“Materiality of Related Party Transactions” A transaction as per Regulation 23 with a related party shall be considered material 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.

In case of payment to a Related Party for brand usage or royalty the materiality threshold will be 5% (Five percent) of the annual consolidated turnover of the Company as per the last audited financial statements of the Company “

A **"transaction"** with a related party shall be construed to include single transaction or a group of transactions in a contract.

“Turnover” has been defined under section 2(91) of the Companies Act as “the aggregate value of the realisation of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year”.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 or any other applicable law or regulation and as amended from time to time.



E. MATERIALITY THRESHOLDS

Regulation 23 of the SEBI Listing Regulations requires a company to provide materiality thresholds for transactions beyond which approval of the shareholders through resolution will be required. None of the related parties of a company shall vote to approve on such resolution irrespective of whether the entity is a related party to the particular transaction or not (RP's can cast only negative vote to reject the shareholders resolution on material RPT).

Provided that approval from shareholders will not be required for Material Related Party Transaction in respect of a resolution plan approved under section 31 of the Insolvency and Bankruptcy Code (IBC) 2016, subject to the event being disclosed to recognized stock exchange within one day of the resolution plan being approved.

As per regulation 23 of the SEBI Listing Regulations erstwhile Clause 49 of Listing agreement, Company in the ordinary course of its business may enter into contracts or arrangements with its related parties on arm's length basis for Purchase/ Sale of Raw Material and Finished Goods for an aggregate amount not exceeding the limit around `200 cr. every financial year.

F. MANNER OF DEALING WITH RELATED PARTY TRANSACTIONS

a) Identification of related parties

SSL has formulated guidelines for identification and updating the list of related parties as prescribed under Section 2(76) of the Act read with the Rules framed there under and Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

b) Identification of related party transactions

SSL has formulated guidelines for identification of related party transactions in accordance with Section 188 of the Act and Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. SSL 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 seeks external professional opinion, if necessary



c) Procedure for approval of related party transactions

□ Approval of the Audit Committee

All related party transactions require prior approval of the Audit Committee.

The Board may authorize the Audit Committee to grant omnibus approval for related party transactions.

Omnibus approval

The Company may obtain omnibus approval from the Audit Committee for such transactions, subject to compliances with the following conditions:

- The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the company;
- The omnibus approval shall provide -
 - (i) the name/s of the related party, nature of transaction, period of transaction, 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 (for ex: +/- 5%) and
 - (iii) such other conditions as the Audit Committee may deem fit.

However, in case of related party transactions which cannot be foreseen and where the above details are not available, Audit Committee may grant omnibus approval provided the value does not exceed Rs.1 crore per transaction;

- 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;
- Such omnibus approval shall be valid for a period of one year and shall require fresh approvals after the expiry of one year.



While assessing a proposal put up before the Audit Committee / Board for approval, the Audit Committee / Board may review the following documents / seek the following information from the management in order to determine if the transaction is in the ordinary course of business and at arm's length or not:

- ❖ Nature of the transaction i.e. details of goods or property to be acquired / transferred or services to be rendered / availed – including description of functions to be performed, risks to be assumed and assets to be employed under the proposed transaction;
- ❖ Key terms (such as price and other commercial compensation contemplated under the arrangement) of the proposed transaction, including value and quantum;
- ❖ Key covenants (non-commercial) as per the draft of the proposed agreement/ contract to be entered into for such transaction;
- ❖ Special terms covered / to be covered in separate letters or undertakings or any other special or sub arrangement forming part of a composite transaction;
- ❖ Benchmarking information that may have a bearing on the arm's length basis analysis, such as:
 - ✓ market analysis, research report, industry trends, business strategies, financial forecasts, etc.;
 - ✓ third party comparables, valuation reports, price publications including stock exchange and commodity market quotations;
 - ✓ management assessment of pricing terms and business justification for the proposed transaction;
 - ✓ Comparative analysis, if any, of other such transaction entered into by the company.



Audit Committee would also review transaction/s involving payments made to a related party with respect to brand usage or royalty, the maximum value of a transaction to be entered into with a related party, taken individually or taken together with previous transactions during a financial year, under the omnibus approval route, that would not exceed two percent of the annual turnover of the Company as per the last audited financial statements of the Company.

□ Approval of the Board of Directors of the Company

As per the provisions of Section 188 of the Act, all kinds of transactions specified under the said Section and which are not in the ordinary course of business and at arm's length basis, are placed before the Board for its approval.

In addition to the above, the following kinds of transactions with related parties are also placed before the Board for its approval:

- ❖ Transactions which may be in the ordinary course of business and at arm's length basis, but which are as per the policy determined by the Board from time to time (i.e. value threshold and/or other parameters) require Board approval in addition to Audit Committee approval;
- ❖ Transactions in respect of which the Audit Committee is unable to determine whether or not they are in the ordinary course of business and/or at arm's length basis and decides to refer the same to the Board for approval;
- ❖ Transactions which are in the ordinary course of business and at arm's length basis, but which in Audit Committee's view requires Board approval.
- ❖ Transactions meeting the materiality thresholds as laid down in Clause E of the Policy, which are intended to be placed before the shareholders for approval.



□ Approval of the Shareholders of the Company

All the transactions with related parties meeting the materiality thresholds, laid down in Clause E of the Policy, are placed before the shareholders for approval.

For this purpose, all entities falling under the definition of related parties shall abstain from voting irrespective of whether the entity is a party to the particular transaction or not.

Regulation 23 (5) provides that the requirement for seeking shareholders' approval shall not be applicable to transactions between SSL and its wholly owned subsidiary/ies whose accounts are consolidated with the Company but this clause is not applicable to company as it does not have any wholly owned subsidiary/ies .

In addition to the above, all kinds of transactions specified under Section 188 of the Act which (a) are not in the ordinary course of business and at arm's length basis; and (b) exceed the thresholds laid down under Companies Act, 2013 and/or in Companies (Meetings of Board and its Powers) Rules, 2014 are placed before the shareholders for its approval.

If a related party transaction is a material related party transactions as per Regulation 23 of SEBI (LODR) REG, 2015, it shall require shareholder's approval through resolution and no related parties shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not.

G. DISCLOSURES

Related party transactions which are not entered into at arms' length basis are required to be approved by the Board of Directors of the Company. SSL shall disclose, in the Board's report, transactions prescribed in Section 188(1) of the Act with related parties, which are not in ordinary course of business or arm's length basis along with the justification for entering into such transaction. For this purpose "Arm's 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.

SSL shall also disclose related party transactions in the Board of Directors Report which are entered into on arms' length basis.



The Company shall submit within 30 days from the date of publication of its standalone financial results for the half year, disclosures of related party transactions on a standalone basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges and publish the same on its website.

Company shall further, make Disclosures of transactions if any, with any person or entity belonging to the promoter/promoter group which hold(s) 10% or more shareholding in the Company, in the format prescribed in the relevant accounting standards for annual results in the Annual Report.

In addition to the above, SSL shall also provide details of all related party transactions meeting the materiality threshold (laid down in Clause E of the Policy above) included in the corporate governance reports on a quarterly basis to the stock exchanges.

Further, Regulation 23 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015 as amended by the LODR Amendment Regulation, 2018 clear threshold limits have been disclosed in this policy, which was duly approved by the board of directors.

To conclude every contract or arrangement, which is required to be approved by the Board/Shareholders under this Policy, shall be referred to in the Boards' report to the shareholders along with the justification for entering into such contract or arrangement.

H. 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 in accordance with 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 Audit 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 failure of the internal control systems, 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, discontinuation of the transaction or seeking the approval of the shareholders, payment of compensation for the loss suffered by the related party etc. In connection with any review/approval of a related party transaction, the Audit Committee has authority to modify or waive any procedural requirements of this Policy.

I. REVIEW OF POLICY

Policy will be reviewed by the Board atleast once in every 3 years and updated accordingly.
