WELSPUN ENTERPRISES LIMITED
(Formerly known as Welspun Projects Limited)
RELATED PARTY TRANSACTIONS POLICY

Whenever the Company is required to enter into a transaction with a related party (as defined under Section 2(76) of the Companies Act, 2013), the management shall observe the following:

1. If the transaction is in ordinary course of business and at an arm's length, the management may go ahead and execute the transaction.

   For determining whether a proposed transaction is in ordinary course of business, it shall apply the following tests:

Tests for Ordinary course:

I. If the Company has need of material or services and the related party is in the business of supplying the required material/ rendering services.

II. If the Company supplies or renders its own products or services in the manner in which it does in normal business.

III. If the Company sells an asset(s) (of not exceeding 5 % (in aggregate on annual basis) of the book value of the total assets as at the latest audited financial statement) which is not required by it for its business.

IV. If the Company purchases an asset(s) (of not exceeding 10 % (in aggregate on annual basis) of the book value of the total assets as at the latest audited financial statement) required by it for its business.

V. If services are commonly required and the sharing of charges is based on its share of the total volume of services.

VI. If material is useful to the Company as well as related party/ies and for availing economy, it is beneficial to be ordered by the Company.

VII. If the Company has done a similar transaction with the same related party in last two years, then such transaction shall be in ordinary course of business.

For determining whether a proposed transaction is at an arm's length, it shall apply the following tests:

I. 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 international / Domestic transaction and the uncontrolled transaction. This adjusted price is taken to be the arm's length price in relation to the international / domestic transaction between the associated enterprises. The key criteria determining comparability of an international / domestic transaction with an uncontrolled transaction have been discussed below below.

II. <u>Resale Price Method (hereinafter referred to as 'RPM")</u>

This method is to be applied when a property purchased or services obtained from an associated enterprise is resold to an unrelated enterprise. 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 enterprise 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 transactions being compared and/ or between the enterprises entering into such transactions, to arrive at an arm's length price.

III. <u>Cost Plus Method (hereinafter referred to as 'CPM')</u>

CPM is used in respect of the transfer of goods, intangible property or service provided by one AE 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 enterprise 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 international transaction and the uncontrolled transaction or the enterprises 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.

IV. <u>Profit Split Method (hereinafter referred to as 'PSM')</u>

This method may be used in international transactions involving transfer of unique intangibles or in multiple transactions amongst AEs, 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 AEs from all interrelated transactions are determined. The relative contribution of each AE is evaluated on the basis of the functions performed, the assets utilized, risks assumed, etc. The combined net profits are then split amongst the AEs 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 international transaction. Alternatively, the combined net profits may be first partially allocated to each AE to provide it with an appropriate basic return and the residual net profit should then be split amongst the AEs in proportion of their relative contribution.

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

Under this method, the net profit margin realized by an AE from an international transaction is computed in relation to a particular factor such as costs incurred, sales, assets utilized, etc. The net profit margin realized by the assessee or an unrelated enterprise from a comparable uncontrolled transaction is computed having regard to the same factor and adjustments are made to the net profit margin to take into account the differences between the international transaction and the uncontrolled transaction. The net profit margin realized by the AE is established in conformity with the net profit margin of the uncontrolled transaction to arrive at the arm's length price.

VI. Other Methods as prescribed by the CBDT

The CBDT vide notification dated 23 May 2012, by inserting new Rule 10AB, 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. This amendment would apply to assessment year 2012-13 and subsequent years.

Notwithstanding the above, if the material required to be purchased by the Company for the purpose of business of the Company, is being produced by a related party and the price to be charged by the related party is not at variance of more than 5 % with the price for the supply made / agreed to be made by the related party to third party within 30 days prior to the transaction with the related party, such proposed transaction will be considered in ordinary course as well as at an arm's length.

Notwithstanding the above, if a related party has to award a contract on Engineering, Procurement and Construction (EPC) basis and the contract price offered to the Company is not at variance of more than 5% of the contract price quoted by the bidding parties, the proposed contract shall be treated in ordinary course of business as well as at an arm's length.

Notwithstanding the above, if similar transaction bench marks for inter company transactions are available in past two years and the same are applied to the transaction in question, then that will be treated at an arm's length.

"Material modification" *means any subsequent change to an existing RPT, having variance of 10% of the existing limit or Rs.10 Crore whichever is higher.*

Provided further that any modification to the transactions / agreements entered into

a) *between the Company and its wholly owned subsidiary;*
b) *transactions entered into between two wholly-owned subsidiaries of the Company, whose accounts are consolidated with the Company and placed before the shareholders at the annual general meeting for approval,*

shall be excluded from the applicability of above definition.

The CFO 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.

If the proposed transaction does not meet the criteria mentioned above, the management shall submit it for approval of the Audit Committee and Board of Directors of the Company. Such transactions shall be then executed only after complying with applicable legal requirements.

At every Audit Committee Meeting the CFO of the Company will certify to the Committee that the transactions entered into in the calendar quarter ended prior to the date are in ordinary course of business and at an arm's length in terms of the aforesaid policy.

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