

LOYAL TEXTILE MILLS LIMITED

POLICY ON MATERIALITY AND

DEALING WITH

RELATED PARTY TRANSACTIONS

Version 1.0

**Amended and approved by the Board at its meeting held on
February 12, 2025.**

1. Preamble

Loyal Textile Mills Limited (hereinafter referred to as 'the Company') recognises that transactions between the Company and one or more of its Related Parties (more particularly referred to as 'Related Party Transactions' and defined hereinafter) present a risk of actual or potential conflicts of interest.

With a view to ensure that the Related Party Transactions are in the best interest of the Company and its shareholders, the Board of Directors (the 'Board') of the Company has adopted this Policy on Related Party Transactions (the/this 'Policy') in line with the requirements of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosures Requirements) (hereinafter referred to as SEBI LODR).

1.1 Objective of the Policy

The Board of the Company, after considering the recommendation of the Audit Committee, has adopted the Policy and associated procedures with regard to the review, approval and reporting of Related Party Transactions. The Audit Committee may review and amend this Policy, from time to time, subject to approval of the Board. 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 in this Policy and this Policy shall stand amended accordingly from the effective date as laid down under such amendment (s), clarification (s), circular (s) etc. The objective of this Policy is to ensure that proper reporting, approval and disclosure processes are in place for all transactions between the Company and its Related Parties in accordance with the Applicable Law.

2. DEFINITIONS

2.1 Applicable Law

'Applicable Law' means the Companies Act, 2013 (the Act) and the Rules prescribed thereunder, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and includes any other statute, law, standards, regulations or other governmental instruction relating to Related Party Transactions.

2.2 Arm's Length Basis

'Arm's Length Basis' means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest. For determining Arm's Length Basis, guidance may be taken from the transfer pricing provisions under the Income Tax Act, 1961.

2.3 Associate

'Associate' means a company as defined under section 2(6) of the Act, or under the Applicable Accounting Standards.

2.4 Audit Committee

'Audit Committee' means the Audit Committee of the Board constituted pursuant to the provisions of Section 177 of the Act read with Rules referred therein and SEBI LODR.

2.5 Body Corporate

'Body Corporate' means an entity as defined in Section 2(11) of the Act.

2.6 Director

'Director' means a person as defined in Section 2(34) of the Act.

2.7 Employees

Employees' mean the employees and office-bearers of the Company, including but not limited to Whole-Time Directors.

2.8 Key Managerial Personnel

'Key Managerial Personnel' mean the officers of the Company as defined in Section 2(51) of the Act and Rules prescribed thereunder.

2.9 Ordinary Course of Business

'Ordinary Course of Business' means all such acts and transactions undertaken by the Company in the normal routine to conduct its business operations and activities and includes all such activities which the Company can undertake as per the Objects clause of the Memorandum of Association of the Company. The Company should take into account the frequency of the activity and its continuity carried out in a normal organised manner for determining what is in the Ordinary Course Business.

2.10 Material Modification

"Material Modification" shall mean an amendment to the terms of a transaction / agreement / commitment with / to a Related Party, the effect of which will be an increase over the approved limit for a transaction, by an amount more than Rs. 10 (Ten) Crore in a financial year or 10% (ten per cent) of the approved limit, whichever is higher.

Provided that material modifications shall be deemed to include the following, without application of the above criteria:

- a) In case of a loan or deposit or any other means of funding, any deviation in the objects or purposes for which the loan or deposit was given or funding was made or received;
- b) In case of any other transaction or agreement, any amendment which will have an effect of:
 - (i) deferring the consummation of such transaction or agreement by a period beyond one year from the existing approved term / period; or
 - (ii) renewing or extending the term of the transaction or agreement for a period exceeding one year of its existing approved term / period.

2.11 Material Related Party Transaction

'Material Related Party Transaction' means a transaction with a Related Party if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year exceeds Rs.1000 crore or 10 % of the annual consolidated turnover of the Company as per its latest audited financial statements, whichever is lower or such other limits as may be prescribed in SEBI LODR.

However, 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 Company as per the last audited financial statements.

2.12 Promoter and Promoter Group

'Promoter' and 'Promoter Group' shall have the meaning assigned to it under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 or any amendment thereof.

2.13 Related Party: -

Section 2(76) of the Companies Act, 2013-

“Related party” with reference to a company, mean

- (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 or his relative is a member or director;
- (v) a public company in which a director or manager 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;

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

“Related Party” means a related party as defined under sub - section (76) of Section 2 of the Companies Act, 2013 or under the applicable accounting standards.

Provided that:

- (a) any person or entity forming a part of the promoter or promoter group of the listed entity; or
- (b) any person or any entity, holding equity shares:
 - (i) of twenty per cent or more; or
 - (ii) of ten per cent or more, with effect from April 1, 2023 in the listed entity either directly or on a beneficial interest basis as provided under section 89 of the Companies Act, 2013 at any time, during the immediate preceding financial year 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).

Accounting Standard

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the ‘reporting entity’).

An entity is related to a reporting entity if one entity is an associate or joint venture of the other entity.

2.14 Related Party Transactions

'Related Party Transactions' means such transactions directly or indirectly involving any Related Party as referred in Section 177 and 188 of the Act and Rules prescribed thereunder or Regulation 2(zc) of the SEBI LODR including any amendment or modification thereof, as may be applicable.

As per section 188 of the Companies Act, 2013 except with consent of the Board of Directors given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, no company shall enter into any contract or arrangement with a related party with respect to:

- (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.

Above transactions require previous approval of Shareholders of the Company, if the transaction exceeds respective threshold limits as prescribed under Rule 15(3) of the Companies (Meeting of Board and its Powers) Rules, 2014.

Provided also that nothing in this sub-section shall apply to any transactions entered into by the company in its ordinary course of business other than transaction which are not on arm's length basis.

In line with Regulation 2(zc) of the SEBI LODR, a Related Party Transaction means involving a transfer of resources, services or obligations regardless of whether a price is charged between the Company or any of its subsidiaries on one hand and a related party of the Company or any of its subsidiaries on the other hand.

Related Party Transactions shall be construed to include a single transaction or a group of transactions in a contract.

2.15 SEBI LODR

SEBI LODR' means the regulations as contained in the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) including any amendment or modification thereof.

2.16 Senior Management

"Senior management" shall mean the officers and personnel of the listed entity who are members of its core management team, excluding the Board of Directors, and shall also comprise all the members of the management one level below the Chief Executive Officer or Managing Director or Whole Time Director or Manager (including Chief Executive Officer and Manager, in case they are not part of the Board of Directors) and shall specifically include the functional heads, by whatever name called and the persons identified and designated as key managerial personnel, other than the board of directors, by the listed entity .

2.17 Subsidiary

'Subsidiary' means a company as defined in Section 2(87) of the Act read with relevant Rules prescribed thereunder.

Any other term not defined herein shall have the same meaning as defined in the Act, the SEBI LODR, Securities Contracts (Regulation) Act, 1956 or any other applicable Law or Regulation in force.

3. RELATED PARTY TRANSACTIONS UNDER THE POLICY

Transactions covered under this policy includes any contract or arrangement with a related party with respect to transactions defined as —Related Party Transaction under Section 188 of the Companies Act, 2013 and Regulation 23 (1) of the Listing Regulations.

3.1 Any transfer of resources, services or obligations between the Company and a Related Party, would get covered as a 'Related Party Transaction', whether or not, there is an element of consideration or price.

3.2 Approval Process

3.2.1 Approval of the Audit Committee

- a. All Related Party Transactions and subsequent material modifications of the listed company require the prior approval of the Audit Committee of the listed entity.
 - b. A related party transaction, to which the subsidiary company of the listed entity is a party but the listed entity is not a party shall require the approval of Audit Committee of the listed entity if the value of such transaction, whether entered into individually or taken together with previous transactions during a financial year, exceeds threshold limits as stated in sub clause (c) to second proviso to Regulation 23 (2) of SEBI LODR Regulations.
 - c. Matters relating to the approval of Related Party Transactions shall be considered and approved by only the Independent Directors of the Audit Committee.
1. The Audit Committee may review the following information for approval of the proposed Related Party Transaction:
- a. Type, material terms and particulars of the proposed transaction;
 - b. Name of the related party and its relationship with the Company or its subsidiary, including nature of its concern or interest (financial or otherwise);
 - c. Tenure of the proposed transaction (particular tenure to be specified);
 - d. Value of the proposed transaction;
 - e. The percentage of the Company's annual consolidated turnover, for the immediately preceding financial year, that is represented by the value of the proposed transaction (and for a RPT involving a subsidiary, such percentage calculated on the basis of the subsidiary's annual turnover on a standalone basis shall be additionally provided);
 - f. If the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the listed entity or its subsidiary:
 - i. details of the source of funds in connection with the proposed transaction;
 - ii. where any financial indebtedness is incurred to make or give loans, inter-corporate deposits, advances or investments,
 - a. nature of indebtedness;
 - b. cost of funds; and

- c. tenure;
 - iii. applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured or unsecured; if secured, the nature of security; and
 - iv. the purpose for which the funds will be utilized by the ultimate beneficiary of such funds pursuant to the Related Party Transaction.
 - g. Justification as to why the Related Party Transaction is in the interest of the listed entity;
 - h. A copy of the valuation or other external party report, if any such report has been relied upon;
 - i. Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT on a voluntary basis;
 - j. Any other information that may be relevant.
2. The Audit Committee may grant omnibus approval for the proposed Related Party Transaction entered by the listed company or its subsidiary subject to the following conditions as per Section 177 of Companies Act, 2013 and Regulation 23 of SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015.
3. The Audit Committee shall also undertake an evaluation of the Related Party Transaction in terms of it being in the ordinary course or arm's length basis line with Section 188 of the Companies Act, 2013. If that evaluation indicates that the Related Party Transaction would require further approval of the Board, or if the Board in any case considers to review any such matter, the Audit Committee shall report the Related Party Transaction, together with a summary of material facts, to the Board for its review/approval as the case may be.
4. The Audit Committee shall also review the status of long-term (more than one year) or recurring RPTs on an annual basis.

3.2.2 Approval of the Board

Related Party Transactions referred under Section 188(1)(a) to (g) of the Act that which are not in the ordinary course of business or at arm's length basis require the prior approval of the Board.

3.2.3. Approval of the shareholders

- a. All Material Related Party transactions and subsequent material modifications require the prior approval of the shareholders.
- b. Related Party Transactions referred under Section 188 of the Act that which are not in the ordinary course of business or not at arm's length basis which exceed the thresholds laid down in Companies (Meetings of Board and its Powers) Rules, 2014 requires the approval of the shareholders.

For this purpose, no related party shall vote to approve the relevant resolution irrespective of whether the entity is a related party to the particular transaction or not.

The notice that is sent to the shareholders seeking approval for any proposed Related Party Transaction shall contain the information as stated in the relevant provisions of the Companies Act, 2013 read with the rules.

3.3 Related Party Transactions not approved under this Policy - Ratification of Related Party Transactions

The members of the Audit Committee, who are independent directors, may ratify related party transactions within three months from the date of the transaction or in the immediate next meeting of the audit committee, whichever is earlier, subject to the following conditions:

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- a) the value of the ratified transaction(s) with a related party, whether entered into individually or taken together, during a financial year shall not exceed rupees one crore.
- b) the transaction is not material in terms of the provisions of sub regulation (1) of Regulation 23
- c) rationale for inability to seek prior approval for the transaction shall be placed before the audit committee at the time of seeking ratification.
- d) the details of ratification shall be disclosed along with the disclosures of related party transactions in terms of the provisions of sub- regulation (9) of Regulation 23.
- e) any other condition as specified by the audit committee.

Provided that failure to seek ratification of the audit committee shall render the transaction voidable at the option of the audit committee and if the transaction is with a related party to any director, or is authorized by any other director, the director(s) concerned shall indemnify the listed entity against any loss incurred by it

3.4 Related Party Transactions not requiring Approval:

The following transactions shall not require separate approval under this Policy:

- i. any transaction to which the listed subsidiary is a party but the listed entity is not a related party, if regulation 23 and sub- regulation (2) of Regulation 15 of Sebi Lodr Regulations are applicable to such listed subsidiary.
- ii. remuneration and sitting fees paid by the listed entity or its subsidiary to its director, key managerial personnel or senior management, except who is part of the promoter or promoter group, provided that the same is not material in terms of sub- regulation (1) of Regulation 23.
- iii. the following corporate actions which are uniformly applicable/offered to all shareholders in proportion to their shareholding:
 - (a) payment of dividend;
 - (b) subdivision or consolidation of securities;
 - (c) issuance of securities by way of a rights issue or a bonus issue;
 - (d) buy-back of securities.
- iv. the issue of specified securities on a preferential basis, subject to compliance of the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018
- v. retail purchases from any listed entity or its subsidiary by its director or its employees, without establishing a business relationship and at the terms which are uniformly applicable/offered to all employees/ directors.
- vi. any transaction entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval;
- vii. 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 general meeting for approval;

4. DISCLOSURE BY DIRECTORS/ KEY MANAGERIAL PERSONNEL

- Each Director and Key Managerial Personnel of the Company shall promptly notify the Company / Company Secretary of any potential Related Party Transaction involving him or her or his or her relatives, including any additional information about the transaction that the Company Secretary of the Company shall reasonably request.
- Every Director or Key Managerial Personnel of the Company who is in any way, whether directly or indirectly, concerned or interested in a contract or arrangement or proposed contract or arrangement entered into or to be entered into shall disclose the nature of his concern or interest at the meeting of the Board in which the contract or arrangement is discussed and shall not participate in or exercise influence over any such meeting.
- Where any Director or Key Managerial Personnel, who is not so concerned or interested at the time of entering into such contract or arrangement, he/she shall, if he/she becomes concerned or interested after the contract or arrangement is entered into, disclose his/her concern or interest forthwith when he/she becomes concerned or interested or at the first meeting of the Board held after he/she becomes so concerned or interested.
- In addition, each Director or Key Managerial Personnel is required to make disclosures of the entities in which they or their Relatives are or are deemed to be interested, in the prescribed format under Applicable Law.

5. GUIDING PRINCIPLES FOR REVIEW OF RELATED PARTY TRANSACTIONS

5.1 Overall

To review a Related Party Transaction, the Board or Audit Committee shall be provided with all the relevant information pertaining to the Related Party Transaction, including the terms of the transaction, the purpose and potential benefits to the Company of the transaction and any other information regarding the Related Party Transaction or the Related Party in the context of the proposed transaction, as may be considered material by the Audit Committee or Board or shareholders and as may be applicable in the light of circumstances of a particular transaction.

In determining whether approval needs to be accorded to a Related Party Transaction, the Board or Audit Committee shall consider the following factors:

- 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 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 interest of the Director, Key Managerial Personnel or other Related Party, the direct or indirect nature of the Director, Key Managerial Personnel or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Board or Audit Committee deem fit to consider.

The Audit Committee or Board, in its sole discretion, may impose such conditions as it deems appropriate on the Company or the Related Party in connection with approval of the Related Party Transaction. Further, the Audit Committee or Board reserves the authority to modify or waive any procedural requirements of this Policy.

5.2 Guidelines on Determination of Arm's length nature of the Related Party Transactions

1. Any single transaction with Related Party in excess of Rs.5 Crore be principally informed to the Audit Committee members indicating the salient features of the transaction and how the transaction is at 'Arm's Length'.

At the time of determining the Arm's Length Basis of price charged for the Related Party Transaction, the Audit Committee shall inter- alia take into consideration the following:

- i. Permissible methods of Arm's Length pricing as per Applicable Law including such prices where the benefits of safe harbour is available under Applicable Law.
- ii. For the said purposes the Audit Committee is entitled to rely on professional opinion in this regard.

The Company relies on professionals and experts in the field of Company Law, Accounting and Taxation to review, certify and report on transactions, including those with Related Parties.

2. The management of the Company should ensure periodically that all transactions with Related Parties – be they on a single source basis or otherwise – are on an 'Arm's Length' basis.

6. DISCLOSURES

- The Company shall disclose this Policy on its website and a web link thereto shall be provided in the Annual Report.
- The Company shall submit the requisite disclosures to the Stock Exchanges as prescribed under SEBI LODR from time to time.
- The Company shall keep one or more registers giving separately the particulars of all contracts or arrangements with any Related Party.

In case of any subsequent changes in the provisions of the Companies Act or any other regulations, including the SEBI LODR Regulations, which makes any of the provisions in the Policy inconsistent with the Companies Act or such other regulations, such provisions of the Companies Act or such other regulations would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law.
