



McNally Bharat Engineering Co. Ltd.

**Policy on Material
Subsidiary**

I. Introduction

Regulation 24 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 extends certain principle of corporate governance to material subsidiaries of listed companies.

The Board of Directors (the "Board") of McNally Bharat Engineering Company Limited (the "Company") has adopted the following policy and procedures with regard to determination of Material Subsidiaries as defined below.

This Policy is in terms of the said Regulation 24 read with Regulation 16(c) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended.

II. Objective

This Policy is framed in accordance with the requirement of Regulation 24 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended and is intended to ensure governance of material subsidiary companies.

III. Definition

1. **"Act"** means Companies Act, 2013 & rules made thereunder.
2. **"Holding Company"** in relation to one or more other companies, means a company of which such companies are subsidiaries companies.
3. **"Subsidiary Company" or "Subsidiary"** in relation to any other company (that is to say the holding company), means a company in which the holding company
 - i. Controls* the composition of the Board of Directors; or
 - ii. Exercises or controls more than one half of the total voting power either at its own or together with one or more of its subsidiary companies;

Explanation- For the purpose of this definition,-

- a. A company shall be deemed to be a subsidiary company of the holding company even if the control referred to in clause (i) or (ii) above is of another subsidiary company of the holding company;
 - b. The composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
 - c. The expression "company" includes any body corporate;
4. **"layer"** in relation to a holding company means its subsidiary or subsidiaries;
 5. **"Insolvency Code"** means the Insolvency and Bankruptcy Code, 2016 [No. 31 of 2016]"

*The term "control" shall have the same meaning as assigned to it under the SEBI (Substantial Acquisitions of Shares & Takeover) Regulations, 2011.

6. **"Audit Committee or Committee"** means **"Audit Committee"** constituted by the Board of Directors of the Company, from time to time.
7. **"Board of Director" or "Board"** means the Board of Directors of McNally Bharat Engineering Company Limited, as constituted from time to time.
8. **"Company"** means a company incorporated under the Companies Act, 2013 or under any previous company law.
9. **"Policy"** means Policy on Material Subsidiary.
10. **"Material Subsidiary"** means a subsidiary, whose income or net worth exceeds 10% of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.
11. **"Significant transaction or arrangement"** shall mean any individual transaction or arrangement that exceeds or is likely to exceed 10% of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the unlisted subsidiary for the immediately preceding accounting year.
12. **"Independent Director"** means a director of the Company, not being a whole time director and who is neither a promoter nor belongs to the promoter group of the Company and who satisfies other criteria for independence under the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended.

IV. POLICY

- i. A subsidiary shall be a Material Subsidiary, if any of the following conditions are satisfied:
 - a) A subsidiary, in which the investment of the Company or the proposed investment of the Company, exceeds 10% of its consolidated net worth as per the audited balance sheet of the previous accounting year; or
 - b) A subsidiary which has generated 10% of the consolidated income of the Company during the previous accounting year;
- ii. At least one Independent Director of the Company shall be a director on the Board of the Material Non-Listed Subsidiary Company, whether incorporated in India or not.

Explanation - For the purposes of appointment of an Independent Director of the Company on the Board of an unlisted material subsidiary, the term "material subsidiary" shall mean a subsidiary, whose income or net worth exceeds

twenty percent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.

- iii. The Audit Committee of the Board of the Company shall review the financial statements, in particular, the investments made by the unlisted Subsidiary on an annual basis.
- iv. The Minutes of the meetings of the Board of Directors of the unlisted Subsidiary shall be placed before the Board of the Company on a quarterly basis.
- v. The management shall on a quarterly basis bring to the attention of the Board of Directors of the Company, a statement of all Significant Transactions and Arrangements entered into by the unlisted Subsidiary.
- vi. The Company, without the prior approval of the members by special resolution as prescribed under Regulation 24 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, shall not:
 - a) Dispose shares in the Material Subsidiary that reduces its shareholding (either on its own or together with other subsidiaries) to less than 50%; or
 - b) Cease the exercise of control over the Material Subsidiary; or
 - c) Sell, dispose of or lease the assets amounting to more than 20% of the assets of the Material Subsidiary on an aggregate basis during a financial year;

Except in cases where such divestment, sale, disposal, lease as the case may be is made under a scheme of arrangement duly approved by the Court /Tribunal or under a resolution plan duly approved under section 31 of the Insolvency Code and such an event is disclosed to the recognized stock exchanges within one day of the resolution plan being approved.

- vii. Where a listed entity has a listed subsidiary, which is itself a holding company, the above provisions shall apply to the listed subsidiary in so far as its subsidiaries are concerned.
- viii. Indian Material unlisted subsidiaries shall undertake secretarial audit and shall annex with its annual report, a secretarial audit report, given by a company secretary in practice, in such form as may be specified with effect from the year ended March 31, 2019.

V. DISCLOSURE

This Policy on determining Material Subsidiary shall be disclosed on the website of the Company and a web link thereto shall be provided in the Annual Report of the Company.

VI. COMPLIANCE BY STEP DOWN SUBSIDIARIES

Where a company has a listed subsidiary which is itself a holding company, this policy shall apply to the listed subsidiary insofar as its subsidiaries are concerned.

VII. MISCELLANEOUS

The Board of Directors of the Company may, subject to applicable laws, is entitled to amend, suspend or rescind this Policy at any time. Any difficulties or ambiguities in the Policy will be resolved by the Board of Directors in line with the broad intent of the Policy. The Board may also establish further rules and procedures, from time to time, to give effect to the intent of this Policy and further the objective of good corporate governance.

Any words used in this policy but not defined herein shall have the same meaning ascribed to it in the Companies Act, 2013 or Rules made thereunder, SEBI Act or Rules and Regulations made thereunder, Listing Agreement or any other relevant legislation / law applicable to the Company.
