

## THE NOMINATION AND REMUNERATION POLICY

(As recommended by the Nomination and Remuneration Committee and approved by the Board)

### I. PHILOSOPHY:

The Company strongly believes that the system of Corporate Governance protects the interest of all the stakeholders by inculcating transparent business operations and accountability from management towards fulfilling the consistently high standard of Corporate Governance in all facets of the Company's operations.

The Company is committed to provide employment to all eligible applicants on the principles of equality without any discrimination.

The employees have to strictly follow code of ethics and the management practices a zero tolerance for the same.

### II. OBJECTIVE:

- To strike the right balance in the composition of the Board of Directors by ensuring experts from different spectrum of the existing and / or future business environment are co-opted on the Board to help the Company achieve its objectives, aspirations and growth potential.
- To implement a transparent process of determining remuneration at Board and Senior Management level of the Company that would strengthen confidence of stakeholders in the Company and its management and help in creation of long - term value for them.
- To strike appropriate balance between the elements comprising the remuneration so as to attract and retain potential high performing candidates for critical position in the Company for attaining continual growth in business.
- To ensure a direct relationship with the Key Result Areas and individual achievements considering short as well as long term performance objectives appropriate to the working of the Company and its goals.

### III. COVERAGE:

#### A. Policy on Board Diversity and Term of Appointment of Independent Directors:

The Board of Directors shall comprise of persons who have expertise in the areas of business that the Company operates in and of such persons having expertise to help the Company to diversify its business at the appropriate times.

The Nomination and Remuneration Committee of the Board shall recommend persons with the requisite expertise to the Board of Directors for co-option on the Board, at its discretion.

The Independent Directors shall be appointed for two terms as follows:

- a. Existing or new Independent Directors below the age of 70, for one term of 5 consecutive years;

- b. Existing or new Independent Directors above the age of 70, for one term of such number of years as may be required for the said Independent Director to be 75 years of age;
- c. Existing Independent Directors between the age of 74 – 75 years, for one term of 2 consecutive years;
- d. New Independent Directors not falling under a to c above, for the first term of 5 consecutive years and for a second term of five consecutive years, subject to the result of the evaluation of their performance and also subject to the approval of the shareholders in the general meeting.

**B. Guidelines of determining remuneration of:**

- i. Whole-time Directors including Managing Director
- ii. Non Executive Directors
- iii. Key Managerial Personnel
- iv. Senior Management Personnel

**IV. REMUNERATION OF DIRECTORS, KEY MANAGERIAL PERSONNEL AND SENIOR MANAGEMENT PERSONNEL**

**A. DIRECTORS**

- i. Whole-time Directors including Managing Director:

The Board of Directors of the Company shall decide the remuneration of Whole-time Directors including Managing Director on the basis of recommendation from Nomination and Remuneration Committee (N&RC) subject to the overall limits provided under the Companies Act, 2013 and Rules made thereunder, including any amendments, modifications and re-enactments thereto ('the Act') and in compliance with the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, (Listing Regulations), including any amendments, modifications and re-enactments thereto, as applicable from time to time. The remuneration shall be approved by the shareholders of the Company, as and when required.

The Company shall enter into a contract with every Whole-time Directors including Managing Director, which will set out the terms and conditions of the appointment. The contract shall be recommended by the N&RC approved by the Board. The contract shall be maximum for such tenure as may be provided in the Act subject to such approvals as may be required.

The Board may vary any terms and conditions of the contract subject to such approvals, as may be required under the Act.

Every notice sent to the shareholder for seeking their approval for appointment / re-appointment / remuneration of the Whole-time Directors including Managing Director shall contain the gist of terms and conditions of the contract.

The remuneration components shall include *inter alia*:

- a. Fixed salary:

Each Whole-time Director including Managing Director shall be paid fixed salary consisting of basic salary and such allowances and perquisites as may be decided by the Board, on the recommendation of the N&RC.

OPTION 1: The revision in the salary may be annually done and shall be determined by the Board as per the appraisal of the performance of each Whole-time Director including Managing Director by the Board, subject to overall limit approved by the shareholders.

OPTION 2: The salary shall remain fixed for the term of the Whole-time Director including Managing Director.

b. Commission:

The Board may approve payment of commission subject to the provisions of the Act. The amount of commission to be paid to each of the Whole-time Directors including Managing Director ~~Director(s)~~ shall be as recommended by the N&RC on the basis of performance evaluation carried out in respect of such Whole-time Directors including Managing Director under Section 178 of the Act and the Listing Regulations.

c. Non-monetary benefits:

Whole-time Directors including Managing Director / may be entitled to club membership, company vehicle with driver, petrol reimbursement, vehicle maintenance, telephone, fax, internet at residence, reimbursement of mobile phone bill, fully furnished accommodation (in case of use of own residential property for accommodation, house rent allowance shall be paid), furnishings, reimbursement of house maintenance expenditure, reimbursement of gas, electricity bill, water and other utilities and repairs at residence, reimbursement of medical expenditure, including domestic hospitalization expenses for self and family and leave travel assistance.

Whole-time Directors including Managing Director may also be entitled to personal accident insurance, group accident insurance coverage, medical insurance coverage, term insurance etc. or any other benefit as per Company policy.

d. Stock options:

Whole-time Directors including Managing Director except Promoter Directors may be granted stock options as may be approved by the Board, if they are eligible as per the existing or any scheme of stock options by the Company.

e. Compensation for loss of office may be paid as may be approved by the Board subject to the provisions of Section 202 of the Act.

f. Separation / Retirement benefits:

Whole-time Directors including Managing Director shall be eligible to the following perquisites which shall be included in the computation of the ceiling on remuneration provided in the Act:

- (a) Contribution to provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income tax Act, 1961 or any amendment thereof;
- (b) Gratuity payable at a rate not exceeding half a month's salary for each completed years of service and
- (c) Encashment of leave at the end of the tenure.

In case of loss or inadequacy of profits of the Company, the aforesaid perquisites shall not be included in computation of the ceiling on remuneration provided in the Act.

**i. Non-Executive Directors:**

The Company shall issue a letter of engagement or appointment to every Non-Executive Director.

The components of payment of remuneration to Non-Executive Directors shall include:

a. Sitting fees :

Sitting fees shall be paid for the Board and / or any Committee meetings attended by the Directors. Different amount of sitting fees may be paid for different types of meetings.

Sitting fees shall be over and above the limits prescribed in the Act for payment of remuneration but shall not exceed the amount as may be prescribed in the Rules for independent and non-independent directors.

The disclosure of the payment of sitting fees for all types of meetings shall be made in the Annual Report of the Company.

Committees shall include Audit Committee, Nomination and Remuneration Committee, Share Transfer cum Shareholders'/ Investors' Grievance and Stakeholders' Relationship Committee, Corporate Social Responsibility Committee or such other committees as may be constituted by the Board from time to time.

b. Commission

The Board may approve payment of commission subject to the provisions of the Act. The amount of commission to be paid to each of the Non-Executive Director(s) shall be as recommended by the N&RC on the basis of performance evaluation carried out in respect of such Non-Executive Director(s) under Section 178 of the Act and pursuant to the provisions of the Listing Regulations.

c. Stock Options:

Independent Directors and Promoter Directors shall not be entitled for stock options of the Company.

N&RC may recommend issue of stock options to other Directors which may be granted by the Board subject to the compliance of the provisions of relevant laws.

d. Professional fees:

Non Independent Directors may be paid fees for services of professional nature, if in the opinion of N&RC, the Director possesses the requisite qualification for the practice of the profession. The following professionals shall be deemed to be possessing requisite qualification and the N&RC is not required to give their opinion, if the Director is any of the following professional and renders his services to the Company in that capacity:

- (a) Journalist
- (b) Editor of a magazine but not the publisher or the proprietor
- (c) Man of letters writing numerous articles
- (d) Author
- (e) Engineer
- (f) Architect
- (g) Solicitor
- (h) Stock broker
- (i) Film actor
- (j) Optician
- (k) Commission Agent
- (l) Auctioneer, valuer or an estate agent
- (m) Chartered Accountant
- (n) Advocate

Such professional fees shall not be considered as remuneration for the purpose of Act.

**EXCESS REMUNERATION:**

The Board of Directors may decide to remunerate the Director(s) beyond the overall limits provided under the Act, subject to compliance of provisions in this regard including obtaining approval of Central Government, if required, owing to loss incurred by the Company or inadequacy of profits and situation entails providing such remuneration.

**WAIVING OF EXCESS REMUNERATION:**

Any remuneration or sitting fees paid, whether directly or indirectly, to any Director whether Executive or not beyond the limits prescribed under the Act and for which approval of the shareholders or Central Government is not obtained, if required to be obtained, the same shall be refunded to the Company and until such sum is refunded, hold it in trust for the Company.

Company shall not, in any case, waive the recovery of any such sum unless specific permission is obtained from Central Government for waiving such excess payment.

## **B. KEY MANAGERIAL PERSONNEL AND SENIOR MANAGEMENT PERSONNEL (SMP)**

Key Managerial Personnel (KMP) means Chief Executive Officer, Chief Financial Officer and Company Secretary.

<sup>1</sup>Senior Management Personnel (SMP) means Officers / Personnel who are members of core management team of the Company excluding Board of Directors and shall comprise all members of management one level below the Chief Executive Officer / Managing Director / Whole Time Director / Manager, including Chief Executive Officer / Manager, in case they are not part of the Board and shall specifically include Company Secretary and Chief Financial Officer.

The Company shall issue an appointment letter to every KMP and SMP to be signed by the reporting Whole-time Directors including Managing Director. The letter shall detail the expectation from the role, remuneration package and other terms and conditions.

The remuneration components payable to KMP / SMP may be:

a. Fixed salary:

Each KMP / SMP shall be paid fixed salary consisting of basic salary and such allowances and perquisites as per service rules of the Company. The band of the salary shall be determined according to the industry standards, market conditions, scale of Company's business relating to the position, educational qualification parameters and personal experience in the industry as detailed in the service rules of the Company and such other factors as may be prescribed therein.

The same shall be reviewed annually based on the Company's annual appraisal policy.

b. Variable pay:

Variable pay to every KMP shall be as per the responsibility of the position, organisation and individual performance.

The variable pay shall be payable at the end of financial year based on absolute and relative performance evaluation of the Company as well as individual. The weightage of the same will be decided by the N&RC in each case before the beginning of the each financial year.

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<sup>1</sup> Inserted, pursuant to the amendment in the SEBI (Listing Obligations and Disclosure Requirements) Regulation 2015, with effect from 1 April 2019:

c. Non-monetary benefits:

Non-monetary benefits to KMP / SMP may include club membership, company vehicle with driver, petrol reimbursement, vehicle maintenance, telephone, fax, internet at residence, reimbursement of mobile phone bill, fully furnished accommodation (in case of use of own residential property for accommodation, house rent allowance shall be paid), furnishings, reimbursement of house maintenance expenditure, reimbursement of gas, electricity bill, water and other utilities and repairs at residence, reimbursement of medical expenditure for self and family and leave travel assistance.

KMP may be entitled to personal accident insurance, group accident insurance coverage, medical insurance coverage, term insurance etc. as per Company policy.

d. Stock options:

To motivate executives to pursue long term growth and objectives of the Company, the Whole-time Directors including Managing Director may nominate KMP for receiving stock options on the basis of the eligibility criterion of any scheme of stock options declared by the Company.

e. Separation / Retirement benefits:

Separation / retirement benefits as per Company policy which shall include contribution to provident fund, superannuation, gratuity and leave encashment.

#### **DIRECTORS AND OFFICERS LIABILITY INSURANCE:**

The Company may take Directors and Officers liability insurance or such insurance of like nature for indemnifying any of the Directors or its KMP against any liability in respect of any negligence, default, misfeasance, breach of duty or trust for which they may be guilty in relation to the Company, the premium paid on such insurance shall not be treated as part of remuneration payable to such personnel. Provided that if such person is proved to be guilty, the premium paid shall be treated as part of remuneration.

#### **CONSULTANTS AND ADVISORS:**

The N&RC may take services of such consultants and advisors as may be required to assist in determination of optimum remuneration structure and evaluation of the same for the Company's Directors and senior management and shall have the authority to approve the fees payable to such consultants and advisors.

The N&RC shall have access to data of the Company relating to annual operating plan, management and leadership programs, employee survey, initiatives, operational reviews for purpose of undertaking their terms of reference and providing such recommendations as are required under the policy and take such assistance from Whole-time Directors including Managing Director as may be required for assessing the effectiveness and performance of any employee covered under the policy.



## **AMENDMENT**

Based on the recommendation of the N&RC, the Board reserves its right to amend or modify this Policy in whole or in part, at any time, when it deems appropriate or in accordance with any amendment to the applicable provisions of the Companies Act, 2013, including Rules thereof and / or the provisions of the Listing Regulations.

**For and on behalf of the Board of Directors  
of Kirloskar Industries Limited**

**Sd/-  
Director**

**Sd/-  
Director**

**Place: Pune**

**Date: 22 January 2019**