

SHEELA FOAM LIMITED – MATERIALITY POLICY

1. Introduction

This policy (“**Policy**”) has been formulated to define the materiality policy for identification of group companies, litigation and outstanding dues to creditors in respect of Sheela Foam Limited (“**Company**”), pursuant to the disclosure requirements under Schedule VIII of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 (as amended from time to time) (“**SEBI ICDR Regulations**”), which states that the policy of materiality should be disclosed in the offer document.

2. Applicability

- 2.1 The board of directors of the Company (“**Board**”) has, at their meeting held on June 7, 2016, discussed and approved this Policy. This Policy shall be effective from the date of approval of policy by the Board.
- 2.2 In this Policy, the term “**Offer Documents**” shall mean the draft red herring prospectus, the red herring prospectus and the prospectus to be filed by the Company in connection with the proposed initial public offering of its equity shares with the Securities and Exchange Board of India, Registrar of Companies, National Capital Territory of Delhi and Haryana and/or stock exchanges where the equity shares of the Company are proposed to be listed, as applicable.

All other capitalised terms not specifically defined in this Policy shall have the same meanings ascribed to such terms in the Offer Documents.

3. Identification of ‘Material’ Group Companies

3.1 Requirement

As per the requirements of the SEBI ICDR Regulations, the term “Group companies”, wherever they occur, shall include such companies as covered under the applicable accounting standards (i.e. Accounting Standard 18 issued by the Institute of Chartered Accountants of India (“**AS 18**”)) and also any other companies as considered material by the board of the Company. The policy on materiality, as below, shall be disclosed in the Offer Documents.

3.2 Policy on materiality

For the purpose of disclosure in the Offer Documents, a company shall be considered material and will be disclosed as a “Group Company” in the Offer Documents, if

- (i) such company forms part of the Promoter Group, and the Company has entered into one or more transactions with such company in the previous audited fiscal year cumulatively exceeding 10.00% of the total consolidated revenue of the Company of such audited fiscal year; and/ or
- (ii) companies which, subsequent to the date of the last audited consolidated financial statements of the Company, would require disclosure in the consolidated financial statements of the Company for subsequent periods as entities covered under AS 18 in addition to/ other than those companies covered under AS 18 in the consolidated financial statements of the Company included in the Offer Documents.

For avoidance of doubt, it is clarified that direct or indirect subsidiaries of the Company and the corporate promoter of the Company shall not be considered as ‘Group Companies’ for the purpose of disclosure in the Offer Documents.

4. Identification of ‘Material’ Litigation (excluding criminal proceedings, statutory/regulatory actions and taxation matters)

4.1 Requirement

As per the requirements of SEBI ICDR Regulations, the Company shall disclose all the following types of litigations involving the Company/ its directors/ promoters/ group companies/ subsidiaries:

- (i) All criminal proceedings;
- (ii) All actions by statutory / regulatory authorities;
- (iii) Taxation proceedings – Separate disclosures regarding claims related to direct and indirect taxes, in a consolidated manner giving details of number of cases and total amount; and
- (iv) Other pending litigations – As per the policy of materiality defined by the Board and disclosed in the Offer Documents.

4.2 Policy on materiality

Other than litigations mentioned in paragraphs 4.1(i) and 4.2(ii) above, any other pending litigation involving the Company, its directors, promoters, group companies and subsidiaries shall be considered “material’ for the purpose of disclosure in the Offer Documents if:

- (i) the monetary amount of claim by or against the Company, its directors, promoters, group companies and subsidiaries in any such pending matter(s) is in excess of 1.00% of the profit after taxes of the Company as per the last audited consolidated financial statements of the Company for a full financial year included in the Offer Documents, or ` 5.00 million, whichever is lower, or
- (ii) any such litigation which is material from the perspective of Company’s business, operations, prospects or reputation.

It is clarified that apart from as set forth in this paragraph 4, the sections on outstanding litigation in the Offer Documents will also include disclosures as specified in the Companies Act, 2013.

5. Identification of ‘Material’ Outstanding dues to Creditors

5.1 Requirement

As per the requirements of SEBI ICDR Regulations, the Company shall make relevant disclosures in the Offer Documents for outstanding dues to creditors:

- (i) Based on the policy on materiality of the Board, and as disclosed in the Offer Document, disclosure for such creditors;
- (ii) Consolidated information on outstanding dues to small scale undertakings and other creditors, separately giving details of number of cases and amount involved; and
- (iii) Complete details about outstanding dues to creditors as per (i) and (ii) above shall be disclosed on the webpage of the Company with a web link thereto in the Offer Documents.

5.2 Policy on materiality

For identification of material creditors, any creditor of the Company shall be considered to be material for the purpose of disclosure in the Offer Documents, if the amount due to any one of them exceeds 5.00% of consolidated trade payables as per the last consolidated financial statements of the Company included in the Offer Documents.

5.3 *Disclosures in offer document regarding creditors and Small Scale Enterprises*

- (i) For creditors identified as material based on the abovementioned policy, consolidated amounts due to such material creditors would be made in the Offer Documents.
- (ii) For outstanding dues to any party which is a small scale undertaking (“SSI”) or a micro, small or a medium enterprise (“MSME”), the disclosure will be based on information available with the Company regarding status of the suppliers as defined under Section 2 of the Micro, Small and Medium Enterprises Development Act, 2006, as amended, as has been relied upon by its statutory auditors. Consolidated information for such identified SSIs, MSMEs and other creditors shall be provided in the Offer Documents in the following manner:
 - a. consolidated amounts due to such entities and
 - b. aggregate number of entities.

The Company shall make relevant disclosure before its Audit Committee/ Board as required by the applicable law from time to time.

6. **General**

This Policy shall be subject to review/changes as may be deemed necessary and in accordance with regulatory amendments from time to time.
