Policy for determining 'material' subsidiaries

1. The Materiality Threshold:

A subsidiary is classified as **"Material"** if it meets either of the following criteria based on the audited financial statements of the immediately preceding accounting year:

- **Turnover Criteria:** Its turnover exceeds **10%** of the consolidated turnover of the listed entity and its subsidiaries.
- **Net Worth Criteria:** Its net worth exceeds **10%** of the consolidated net worth of the listed entity and its subsidiaries.

2. Governance Requirements for Material Subsidiaries:

Once a subsidiary is identified as material, the following regulatory requirements apply:

Board Representation

- At least **one Independent Director** from the listed parent company must be a director on the board of an **unlisted material subsidiary** (whether incorporated in India or abroad).
- **Special Threshold:** For this specific requirement of appointing an Independent Director, the materiality threshold is higher—the subsidiary's turnover or net worth must exceed **20%** of the consolidated figures.

Secretarial Audit

- Every material unlisted subsidiary incorporated in India must undergo a **Secretarial Audit** by a practicing Company Secretary. This report must be annexed to the annual report of the listed parent company.

Disposal of Shares or Assets

- **Special Resolution Required:** A listed entity cannot reduce its shareholding in a material subsidiary to less than **50%** or cease control without a special resolution from its shareholders.

- **Asset Disposal:** Selling or leasing assets amounting to more than **20%** of the material subsidiary's total assets (on an aggregate basis during a financial year) requires prior shareholder approval via special resolution.
    - *Exemption (2026):* Transactions between two wholly-owned subsidiaries are generally exempt from this requirement.

3. Policy Implementation Framework

Your formal policy should typically include the following sections to meet exchange expectations:

Section	**Key Content**
Objective	To identify material subsidiaries and establish a governance framework.
Identification	Annual review by the Board/Audit Committee after the finalization of annual accounts.
Significant Transactions	Defining "significant" as any transaction exceeding **10%** of the unlisted subsidiary's total revenues, expenses, assets, or liabilities.
Disclosures	The policy must be disclosed on the company's website and a web link provided in the Annual Report/Board's Report.