

## Remuneration Policy

### 1. Preamble

This Remuneration Policy provides the framework for remuneration of members of the Board of Directors, Key Managerial Personnel, Senior Management and other employees of Avon Mercantile Limited.

This Policy is guided by the principles and objectives as enumerated in Section 178 of the Companies Act, 2013 and regulation 19 read with Part D of Schedule II of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**SEBI LODR Regulations**”) to ensure reasonableness and sufficiency of remuneration to attract, retain and motivate competent resources, a clear relationship of remuneration to performance and a balance between rewarding short and long-term performance of the Company.

This Policy is also to align with the RBI Scale Based Regulations and RBI circular on guidelines on compensation of KMP and senior management in NBFCs to align the remuneration / compensation packages with prudent risk and ensure that all statutory mandates and the rules and directions issued under them are fully complied with.

The Board shall constitute a Nomination and Remuneration Committee (NRC) comprising of a minimum of three members with an Independent Director as the Chairperson of the Committee. The NRC shall have the constitution, powers, functions and duties as laid down in section 178 of the Companies Act, 2013 and the Listing Regulations. NRC will be responsible for review and implementation of Remuneration policy of the Company. The NRC shall ensure that compensation levels are supported by the need to retain earnings of the Company and the need to maintain adequate capital based on the Internal Capital Adequacy Assessment Process. NRC may also ensure ‘fit and proper’ status of proposed/existing directors and that there is no conflict of interest in appointment of directors on Board of the company, KMPs and senior management.



## **2. Remuneration of Non-Executive Directors**

- 2.1. Non-Executive Directors ("NEDs") will be paid remuneration by way of Sitting Fees and Commission. The remuneration/ commission/ compensation to the NEDs will be decided by the Board in accordance with this policy and subject to applicable conditions of SEBI LODR Regulations.

As approved by the shareholders at the shareholders meeting, Commission will be paid at a rate computed in accordance with Section 198 of the Companies Act, 2013. The Commission to be paid will be restricted to a fixed sum within the above limit annually on the basis of their tenure in office during the financial year.

- 2.2. The payment of the Commission to the NEDs will be placed before the Board every year for its consideration and approval. The sitting fee payable to the NEDs for attending the Board and NRC meetings will be fixed, subject to the statutory ceiling. The fee will be reviewed periodically and aligned to comparable best in class companies.
- 2.3. Keeping with evolving trends in industries and considering the time and efforts spent by specific NEDs, the practice of paying differential commission will be considered by the Board.
- 2.4. Independent Directors will not be eligible to receive stock options under the employee stock option scheme/plan ("**ESOP**") of the Company.
- 2.5. Where the annual remuneration payable to a single Non-Executive Director exceeds 50% of the total annual remuneration payable to Non-Executive Directors, the approval of the shareholders in the manner specified in applicable laws/ regulations shall be obtained.

## **3. Remuneration of Executive Director**

- 3.1 The compensation paid to the Executive Directors (including Managing Director) will be within the scale approved by the shareholders. The elements of the total compensation, approved by the NRC will be within the overall limits specified under the Companies Act, 2013.
- 3.2 The fees or compensation payable to an Executive Director who is a Promoter or member of Promoter Group, shall be subject to the approval of shareholders in the manner prescribed under the applicable regulations, if the annual remuneration payable to such Executive Director exceeds the threshold limits as specified in applicable regulations, and the approval so granted shall be valid till the expiry of the term of such Director.

For the purpose of this policy, the terms '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.

- 3.3 The elements of compensation of the Executive Director include the elements as described in 4 below.

3.4 The NRC will determine the annual variable pay compensation in the form of annual incentive and annual increment for the Executive Director based on Company's and individual's performance as against the pre-agreed objectives for the year.

3.4 The Executive Directors, except a promoter director, will also be eligible for ESOPs as per the ESOP scheme/plan in force from time to time. Grants under the ESOP scheme/plan shall be approved by the NRC.

3.5 In case of inadequacy of profit in any financial year, the remuneration payable to the Executive Director shall be further subject to the relevant provisions of the Companies Act.

3.6 Executive Directors will not be paid sitting fees for any Board/ Committee meetings attended by them.

#### **4. Remuneration to Key Managerial Personnel / Senior Management / Other Employees**

Senior Management for the purpose of this Code shall mean personnel of the Company who are members of its core management team excluding Board of Directors including members of management one level below the Chief Executive Officer/Managing Director/Whole Time Director/Manager including any Functional Head. The Chief Executive Officer/Manager/ Executive Directors/ Company Secretary and Chief Financial Officer of the Company shall be deemed to be Senior Management.

4.1. The Company's total compensation for Key Managerial Personnel as defined under the Companies Act, 2013 / Senior Management / other employees will comprise of:

- fixed compensation
- variable compensation in the form of annual incentive
- benefits
- work related facilities and, perquisites and loans & advances in accordance with their service conditions
- such other benefits/perquisites as may be periodically determined relevant by the HR policies of the Company.

4.2. In addition, select senior executives will be eligible for long-term incentive plan in the form of ESOPs, as per the ESOP scheme/plan in force from time to time. Grants under the ESOP scheme/plan will be approved by the NRC.

4.3. The compensation of Key Managerial Personnel and senior management shall recognize all relevant factors including adherence to statutory requirements and industry practices. The compensation packages may comprise of fixed and variable pay components aligned effectively with prudent risk taking to ensure that compensation is adjusted for all types of risks, the compensation outcomes are symmetric with risk outcomes, compensation pay-outs are sensitive to the time horizon of the risks, and the mix of cash, equity and other forms of compensation are consistent with risk alignment.

4.4. The performance measures and their relation to remuneration packages shall be clearly defined at the beginning of the performance measurement period to ensure that the employees perceive the incentive mechanism.

4.5. The NRC shall recommend to the Board, all remuneration / compensation, in whatever form, payable to KMP and Senior Management.

**Principles of Fixed Pay structures:**

4.6. Fixed compensation will be determined on the basis of size and scope of the job typically as reflected by the level or grade of the job, trends in the market value of the job and the skills, experience and performance of the employee. Fixed compensation will include Basic Salary, Housing Allowance, Leave Travel Allowance, cash allowance, perquisites and contributions towards superannuation/retiral benefits, reimbursable perquisites and monetary equivalent of benefits of non-monetary nature etc. and/or as may be determined by NRC from time to time.

4.7. Based on the grade and seniority of employees, Benefits for employees include:

4.5.1. Health-Related

4.5.2. Health (hospitalization) insurance

4.5.3. Accident and Life insurance

4.5.4. Retirement-Related

4.5.5. Contribution to a Superannuation Fund (in addition to statutory benefits such as Provident Fund account, Gratuity, etc.)

4.8. Employees will also be eligible for work related facilities and perquisites as may be determined through human resources policies issued from time to time based on the Grade of the employee.

**Principles of variable Pay Structures:**

4.9. The proportion of variable pay in total compensation shall commensurate with the role and prudent risk taking profile of KMPs/ senior management

4.10. The Annual Incentive (variable pay) of executives will be linked directly to the performance of the relevant employee, business unit and the Company in accordance with the Employees Incentive Scheme of the Company as formulated from time to time.

4.11. A formal annual performance management process will be applicable to all employees, including senior executives and Key Management Personnel. Annual increases in fixed and variable compensation of individual executives will be directly linked to the performance ratings of individual employee.

4.11.1. Overall compensation shall be subject to periodic reviews which takes into account data from compensation surveys conducted by specialist firms, as well as factors such as affordability based on the Company's performance and the economic environment.

4.11.2. Employees may be eligible for ESOPs as per the ESOP scheme/plan approved

by the Shareholders and in force from time to time. The objective of the ESOP scheme/plan will be to reward employees for their contribution to the long term growth and profitability of the Company by providing a platform to share the value they create for the Company.

4.11.3. **Deferred Variable Pay:** The Board of the Company upon recommendation of NRC may decide the quantum/portion of variable pay (cash and non-cash components) that will be subject to deferral to senior employees and KMPs based on the time horizon of the risks.

4.11.4. Employees may be eligible for severance payments in accordance with the termination clause in their employment agreement subject to applicable regulatory requirements.

KMPs and Senior management engaged in financial control, risk management, compliance and internal audit will be compensated independent of the business areas and shall commensurate with their key role in the company. Accordingly, such KMP and employees will have higher proportion of fixed compensation.

#### **Malus / Claw back provisions:**

Claw back provisions for deferred variable pay may be invoked by the Board based on the recommendation of NRC upon happening of any of the following events within a period of 3 Years.

- Employee integrity issues linked to a pecuniary fraud / serious misconduct
- Convicted of POSH complaint
- Convicted of any criminal complaint in relation to a fraud in the Company

#### **5. Committee members interest**

5.1. The NRC may invite such executives, as it considers appropriate, to be present at the meetings of the NRC.

#### **6. Adoption, Changes and Disclosure of Information**

6.1. This Remuneration Policy and any changes thereof will be approved by the Board of Directors as may be deemed necessary by the Board.

6.2. The policy may be reviewed at such intervals as the Board or N&R Committee may deem necessary.

6.3. Such disclosures of this Remuneration Policy as may be required under the Companies Act, 2013 and SEBI LODR Regulations may be made.

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