



AVANA ELECTROSYSTEMS LIMITED

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<p>POLICY ON IDENTIFICATION OF MATERIAL CREDITORS, GROUP COMPANIES AND MATERIAL LITIGATIONS</p>
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A. INTRODUCTION

This Policy has been formulated to define the materiality for identification of outstanding material litigation, identification of group companies and outstanding dues to material creditors in respect of *AVANA ELECTROSYSTEMS LIMITED* (the "**Company**"), pursuant to the disclosure requirements under Schedule VI of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as may be amended from time to time ("**SEBI ICDR Regulations**"), which states that the policy of materiality should be disclosed in the Offer Document. This Policy on materiality is solely from the perspective of disclosure requirements with respect to the Offer Documents and should not be applied towards any other purpose.

B. APPLICABILITY AND OBJECTIVE

This policy shall be called the 'Policy on Identification of Material Creditors, Group Companies and Material Litigations' ("**Materiality Policy**").

The Board of Directors of the Company ("**Board**") has at their meeting held on 2nd September, 2025, discussed and approved this Materiality Policy. This Materiality Policy shall be effective from the date of approval of this Materiality Policy by the Board.

The Company has adopted this Materiality Policy for identification and determination of: (i) material creditors; (ii) group companies and (iii) material litigations pursuant to the provisions of SEBI ICDR Regulations, details of which shall be disclosed in the Offer Documents.

In this Materiality 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, Delhi ("**RoC**") and 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 Materiality Policy shall have the same meanings ascribed to such terms in the Offer Documents.

In this Materiality Policy, unless the context otherwise requires:

- (i) Words denoting the singular shall include the plural and vice versa;
- (ii) References to the words "include" or "including" shall be construed without limitation.

C. DEFINITIONS

"**Act**" means the Companies Act, 2013, rules framed there under and any amendments thereto.

"**Board of Directors**" or "**Board**" means collective body of directors of the Company or its Committee.

"**Company**" wherever occurs in the policy shall mean *AVANA ELECTROSYSTEMS LIMITED*.

“Related Party” have the meaning as defined in Section 2(76) of Companies Act, 2013 and Regulation 2(1)(zb) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”).

"Related Party Transaction" shall have the meaning as defined under Regulation 2(1)(zc) of the Listing Regulations.

Any term not defined herein shall have the same meaning as ascribed to it under the Companies Act, 2013, Listing Agreement, Listing Regulations framed by the Securities Exchange Board of India or any other applicable law.

D. POLICY PERTAINING TO THE IDENTIFICATION OF MATERIAL CREDITORS, GROUP COMPANIES AND MATERIAL LITIGATIONS

The Materiality Policy with respect to the identification of the material creditors shall be as follows:

Identification of Material Creditors

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 defined by the Board of Directors of the Company and as disclosed in the Offer Document, disclosure for such creditors which include the consolidated number of creditors and the aggregate amount involved;
- (ii) Consolidated information on outstanding dues to micro, small and medium enterprises and other creditors, separately giving details of number of cases and amount involved; and
- (iii) Complete details about outstanding dues to material creditors along with the name and amount involved for each such material creditor shall be disclosed on the website of the Company with a web link thereto in the Offer Documents.

Policy on materiality:

For identification of material creditors, in terms of point (i) above, a creditor of the Company shall be considered to be material for the purpose of disclosure in the Offer Documents and the website of the Company, if amount due to such creditor exceeds 5% of the total consolidated trade payables of the Company as per the latest audited restated financial statements of the Company, as disclosed in the Offer Documents.

Disclosures in the Offer Documents regarding material creditors, micro, small or medium enterprises and other creditors

- (i) For creditors identified as material based on the above-mentioned criteria (“Material Creditors”), the total number of Material Creditors and consolidated amounts due to such Material Creditors will be made in the Offer Documents.

- (ii) For outstanding dues to micro, small and medium enterprises (“MSMEs”), the disclosure will be based on information available with the Company regarding the status of the creditors as MSMEs as defined under Section 2 of the Micro, Small and Medium Enterprises Development Act, 2006, as amended, as has been relied upon by the statutory auditors in preparing their audit report. Information for such identified MSMEs creditors shall be provided in the Offer Documents in the following manner:

- Consolidated amounts due to such MSME creditors; and
- Aggregate number of such MSME creditors

As of the date of the latest restated financial statements included in the Offer Document.

- (iii) Complete details about outstanding overdues to the material creditors along with the name and amount involved for each such material creditor shall be disclosed on the website of our Company with a web link in the Offer Documents.

Identification of Group Companies

Requirement:

The policy with respect to the identification of the Group Companies of our Company shall be as follows:

As per Regulation 2(1)(t) of the SEBI ICDR Regulations, Group Companies shall include *“such companies (other than promoter(s) and subsidiary(ies)) with which there were related party transactions, during the period for which financial information is disclosed, as covered under the applicable accounting standards, and also other companies as considered material by the board of the issuer”*.

Policy on Identification of Group Companies:

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

- a. such companies (other than promoter) and subsidiary(ies)) with which the relevant issuer Company had related party transactions during the period for which financial information is disclosed, as covered under applicable accounting standards, and
- b. any other companies considered material by the Board of Directors of the relevant issuer company.

Accordingly, for (a) above, all such companies (other than our Subsidiary) with which there were related party transactions during the periods covered in the Restated Financial Statement, as covered under the applicable accounting standards, shall be considered as Group Companies in terms of the SEBI (ICDR) Regulations. For the purpose of avoidance of doubt and pursuant to regulation 2(1)(t) of SEBI (ICDR) Regulations, 2018 it is clarified that our promoter Company, if any and the Subsidiary will not be considered as Group Companies.

For (b) above, our Board in its meeting and approved that such companies that are a part of the promoter group (as defined in the SEBI ICDR Regulations) with which there were transactions in the most recent financial year and stub period, if any, to be included in the Offer Documents (“Test Period”), which individually or in the aggregate, exceed 10% of the total Revenue from Operations of our Company for the Test Period, shall also be classified as group companies.

In terms of the SEBI (ICDR) Regulations and in terms of the policy of materiality defined by the Board of Directors of our Group Companies includes:

Those companies disclosed as having related party transactions in accordance with Accounting Standard (“AS 18”) or Indian Accounting Standard (“IND AS 24”) issued by the Institute of Chartered Accountants of India, as disclosed in the Restated Financial Statements (“**Restated Financial Statements**”) as included in Offer Documents and any Company identified as Group Company by Board of Directors as per the threshold under Companies Act 2013/ Any other Act.

Those companies that are a part of the promoter group (as defined in the SEBI ICDR Regulations) with which there were transactions in the most recent financial year and stub period, if any, to be included in the Offer Documents (“Test Period”), which individually or in the aggregate, exceed 10% of the total Revenue from Operations of our Company for the Test Period.

Identification of Material Litigation

Requirement:

- A.** As per the requirements of SEBI ICDR Regulations, the Company shall disclose the following classes of pending Litigations involving the issuer/ its directors/ promoters/ subsidiaries:
- (i) All criminal proceedings;
 - (ii) All actions by regulatory authorities and statutory authorities;
 - (iii) Disciplinary action including penalty imposed by SEBI or stock exchanges against the promoters in the last five financial years including outstanding action;
 - (iv) Claims related to direct and indirect taxes, in a consolidated manner, giving the number of cases and total amount;
 - (v) Other pending litigations based on lower of threshold criteria mentioned below—
 - (i) As per the policy of materiality defined by the board of directors of the issuer and disclosed in the Offer document; or
 - (ii) Litigation where the value or expected impact in terms of value, exceeds the lower of the following:
 - a. two percent of turnover, as per the latest annual restated consolidated financial statements of the issuer; or
 - b. two percent of net worth, as per the latest annual restated consolidated

- financial statements of the issuer, except in case the arithmetic value of the net worth is negative; or
- c. five percent of the average of absolute value of profit or loss after tax, as per the last three annual restated consolidated financial statements of the issuer.”
- B.** All criminal proceedings involving key managerial personnel and senior management of the issuer and also the actions by regulatory authorities and statutory authorities against such key managerial personnel and senior management of the issuer shall also be disclosed.
- C.** The Company shall also disclose such outstanding litigation involving the group companies which has a material impact (as determined by the Board) on the Company.

Policy of Materiality

- 1) Other than litigations mentioned in paragraphs A (i) to (iv) of Requirement, for the purpose of clause A(v)(i), any pending litigation involving the Company, its Directors, its Promoters, Subsidiary shall be considered as “Material Litigation” for the purpose of disclosure in the Offer Documents if;
- I. Litigation where the value or expected impact in terms of value, exceeds the lower of the following:**
- (a) two percent of turnover, as per the latest annual restated consolidated financial statements of the issuer; or**
- (b) two percent of net worth, as per the latest annual restated consolidated financial statements of the issuer, except in case the arithmetic value of the net worth is negative; or**
- (c) five percent of the average of absolute value of profit or loss after tax, as per the last three annual restated consolidated financial statements of the issuer; or**
- II.** such pending litigation is material from the perspective of Company’s business, operations, prospects or reputation like the following:
- outstanding proceedings initiated against the Company for economic offences;
 - defaults or non-payment of statutory dues by the Company;
 - material fraud against the Company in the last five years immediately preceding the year of this Offer Document;
 - inquiry, inspection or investigation initiated or conducted under the Companies Act 2013 or any previous companies’ law against the Company during the last five years immediately preceding the year of the Offer Document and if there were prosecutions filed (whether pending or not);
 - fines imposed or compounding of offences for the Company in the last five years immediately preceding the year of Offer Document;

- litigation or legal action against the Promoter by any ministry or Government department or statutory authority during the last five years immediately preceding the year of Offer Document;

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

- 2) Any outstanding litigation involving the group companies shall be considered to have a material impact on the Company if such outstanding litigation in terms of value, exceeds the net worth of such Group Company as per its latest audited financial statements.

E. AMENDMENT

The Executive Chairman of the Company in consultation with the Board of Directors shall have the power to amend any of the provisions of this Materiality Policy, substitute any of the provisions with a new provision or replace this Materiality Policy entirely with a new Policy. This Materiality Policy shall be subject to review/changes as may be deemed necessary and in accordance with regulatory amendments from time to time.

F. DISCLOSURE

The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 requires the same to be disclosed in its draft red herring prospectus/ red herring prospectus /prospectus of the company.

It is clarified that the above policy on materiality shall be without prejudice to any disclosure requirements, which may be prescribed by SEBI and / or such other governmental authority with respect to listed companies and that the above policy on materiality is solely from the perspective of disclosure requirements prescribed under the SEBI ICDR Regulations with respect to the Draft Offer Document and Offer Document and should not be applied towards any other purpose.