



## POLYCAB INDIA LIMITED - PROCUREMENT POLICY

## **1. Preamble**

This Procurement Policy ("Policy") of the Company lays down the procurement process that needs to be adopted and implemented at corporate office and each Unit of PIL. It defines the major procurement processes that each Unit must have or establish, including description of the actual transformation activities which happen within each process, the inputs received and outputs generated, the extent of IT enablement, process owners, and process performance metrics.

## **2. Purpose**

The purpose of this Policy is to ensure that all Units implement a consistent procurement process that is inherently robust and comparable with recognised prudent and best practices, is fit-for-purpose for the Company, enables management by process rather than management by people, is transparent and objective, and facilitates proactive management of risks through a sound system of embedded control mechanisms.

## **3. Scope and Applicability**

This policy only covers purchases of raw materials, spares and maintenance services for operations and does not cover the following:

- Major capital expenditure items such as machinery etc.
- Items of relatively immaterial amounts such as stationary.
- Occasional goods and services identified and approved by Unit Management.
- Specialized services such as auditing, legal, consulting or tax advisory services.

## **4. Categories of Procurement**

Procurement to be done in 3 categories

- a) Contract Centrally and Buy Centrally
- b) Contract Centrally and Buy Locally
- c) Contract Locally and Buy Locally

## **5. Overview of Procurement Process**

PIL is one of the lowest cost producers of Cables and related products in India. A purchasing process which strengthens this strategic objective is important to plan and produce the best quality products with the lowest possible cost eventually leading to a competitive price to our customers.

The overall objective of these process guidelines is to streamline purchasing procedures to reduce our costs of procurement and at the same time build strong relationships with our vendors to mutual benefit. Such relationships are not only critical to the success of the purchase function but to the overall objective of being one of the least cost producers of Cables. In addition these guidelines enable processing purchase orders in a responsive, accurate and efficient manner, to make disbursements in a timely manner while maintaining the financial interests of the company and to record and account for all transactions in an appropriate manner.

## **6. Procurement Sub-Processes**

The defined and prescribed sub-processes that the corporate office and each Unit must implement as detailed in the Procurement Process Guidelines. The definition and description is based on recognized best practices and is relevant for the business operations of the Company. However, in implementing these sub-processes, units may need to customize these to their specific needs, provided such customization does not undermine the basic principles behind these processes as outlined in the process descriptions.

## **7. Vendor Evaluation**

- Process objectives  
Vendor evaluation is based on objective, approved and verifiable criteria; and considers the techno-commercial capability, financial position, reputation and past experience with the vendor
- Process owner  
Head of Purchasing (interfacing with Production, Maintenance, R&D/Technical, Quality, Finance)

Detailed Process description is provided in the Procurement Process Guidelines as annexed herewith with Policy.

## **8. Procurement Planning & Requisitioning**

- Process objectives  
Procurement plans are based on production plans, consumption norms and desired inventory levels. Material requisitions are authorized by senior plant management based on established reorder levels or other similar criteria, e.g., physical verification or reorder systems
- Process owner  
Head of Production/ Head of Maintenance (interfaces with Production Planning, Stores, Purchase, Central Purchase and R&D/Technical)

Detailed Process description is provided in the Procurement Process Guidelines as annexed herewith with Policy.

## **9. Procurement Pricing & Negotiations**

- Process objectives  
Materials are procured from approved vendors that offer the lowest price for the desired specifications, quality and delivery schedule
- Process owner  
Head of Purchase with discussions/approvals (Production, Finance, Management)

Detailed Process description is provided in the Procurement Process Guidelines as annexed herewith with Policy.

## **10. Purchase Order Processing**

- Process objectives  
Purchases are made from approved vendors at approved prices based on authorized purchase orders which in turn are prepared from authorized material requisitions.
- Process owner  
Head of Purchase in discussions with (Production, Finance and IT)

Detailed Process description is provided in the Procurement Process Guidelines as annexed herewith with Policy.

## **11. Receiving (Including Quality Control)**

- Process objectives  
All goods received are recorded only when accepted after quality control approval; rejected goods are separately identified and vendor is promptly informed.
- Process owner  
Head of Stores (Quality, Purchase Finance and IT)

Detailed Process description is provided in the Procurement Process Guidelines as annexed herewith with Policy.

## **12. Accounts Payable, Disbursement & Claims**

- Process objectives: Accounts payable are recorded only when goods have been received and accepted and invoice has been raised by the vendor which is in accordance with the purchase order price, eligible rebates/discounts and accepted quantity; disbursements are made on a timely basis in accordance with the agreement/credit period with the respective vendors and any claims are appropriately adjusted
- Process owner: CFO (Purchase, Stores and Production)

Detailed Process description is provided in the Procurement Process Guidelines as annexed herewith with Policy.

**The detailed Procurement Process Guidelines (as annexed) forms an integral part of this Policy.**

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# Procurement Process

## Guidelines

Sandeep Bhargava

## 1. Background

This document lays down the procurement process that needs to be adopted and implemented at Corporate office and each Unit of PWPL. It defines the major procurement processes that each Unit must have or establish, including description of the actual transformation activities which happen within each process, the inputs received and outputs generated, the extent of IT enablement, process owners, and process performance metrics.

The purpose of this document is to ensure that all Units implement a consistent procurement process that is inherently robust and comparable with recognised prudent and best practices, is fit-for-purpose for the Company, enables management by process rather than management by people, is transparent and objective, and facilitates proactive management of risks through a sound system of embedded control mechanisms.

This policy only covers purchases of raw materials, spares and maintenance services for operations and does not cover the following:

- Major capital expenditure items such as machinery etc.
- Items of relatively immaterial amounts such as stationary.
- Occasional goods and services identified and approved by Unit Management.
- Specialized services such as auditing, legal, consulting or tax advisory services

It is imperative and advisable for management to both be aware of this process and adopt and implement it within their respective Units, with immediate effect. While the terms or documentation referred to in this process may vary from Unit to Unit, the underlying principles and objectives set forth must be duly maintained. It shall be the responsibility of the Unit Head to ensure compliance with this process and the Unit Head will be held accountable for the performance of this process. All Unit Heads must confirm implementation of this process to the CEO and Members of Board .

This process has the mandate and support of the Chairman and the Company Audit Committee. The Internal Assurance department will independently and periodically monitor implementation of and compliance with the process as part of their audit plan, review effectiveness of managing risks within the process, make recommendations for improvement and report to the CEO and to the Audit Committee.

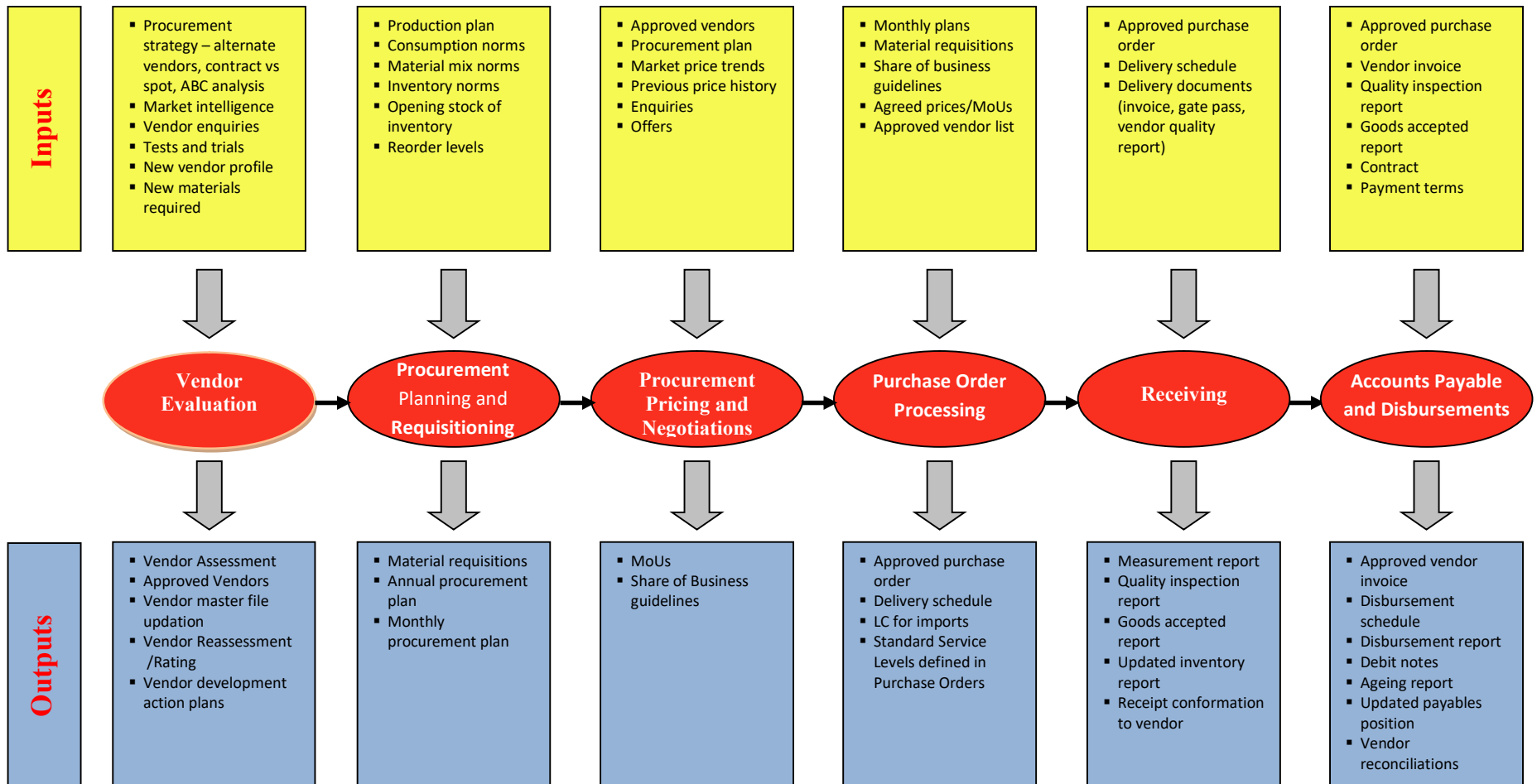
## 2. Overview of Procurement Process

PWPL is one of the lowest cost producers of Cables and related products in India. A purchasing process which strengthens this strategic objective is important to plan and produce the best quality products with the lowest possible cost eventually leading to a competitive price to our customers.

The overall objective of these process guidelines is to streamline purchasing procedures to reduce our costs of procurement and at the same time build strong relationships with our vendors to mutual benefit. Such relationships are not only critical to the success of the purchase function but to the overall objective of being one of the least cost producers of Cables. In addition these guidelines enable processing purchase orders in a responsive, accurate and efficient manner, to make disbursements in a timely manner while maintaining the financial interests of the company and to record and account for all transactions in an appropriate manner.

Figure 1 (on the next page) provides a high-level snapshot of the how the Procurement process flows and outlines the major sub-processes that need to be created within it. These include:

Sub-process	Process Objective
Vendor evaluation	<ul style="list-style-type: none"> <li>Vendor evaluation is based on objective, approved and verifiable criteria; and considers the techno-commercial capability, financial position, reputation and past experience with the vendor.</li> </ul>
Procurement planning and requisitioning	<ul style="list-style-type: none"> <li>Procurement plans are based on production plans, consumption norms and desired inventory levels. Material requisitions are authorised by senior plant management based on established re-order levels or other similar criteria, eg, physical verification or reorder systems</li> </ul>
Procurement pricing and negotiations	<ul style="list-style-type: none"> <li>Materials are procured from approved vendors that offer the lowest price for the desired specifications, quality and delivery schedule</li> </ul>
Purchase Order Processing	<ul style="list-style-type: none"> <li>Purchases are made from approved vendors at approved prices based on authorized purchase orders which in turn are prepared from authorized material requisitions.</li> </ul>
Receiving (including quality control)	<ul style="list-style-type: none"> <li>All goods received are recorded only when accepted after quality control approval; rejected goods are separately identified and vendor is promptly informed.</li> </ul>

**Figure 1: Procurement**

### 3. Procurement Sub-Processes

The following define and describe, separately, the key procurement sub-processes that the Corporate Office and each Unit must implement. As indicated, this definition and description is based on recognized best practices and is relevant for the business operations of the Company. However, in implementing these sub-processes, units may need to customize these to their specific needs, provided such customization does not undermine the basic principles behind these processes as outlined in the following process descriptions.

Each process has been described in terms of the following elements:

<b>Sub-process</b>	<b>Objective</b>
Process objective	Describes the purpose for establishing the process and the risk that is intended to be mitigated
Process owner	Establishes who is accountable for the effective operation of the process
Process description	Describes in detail the sequence of activities and transformations that need to take place, including : <ul style="list-style-type: none"> <li>- What are the inputs to the process and how do these link with other processes</li> <li>- What activities must occur within the process</li> <li>- What is the sequence of these activities</li> <li>- Who is responsible for doing the activities</li> <li>- Who is responsible for reviewing the activities</li> <li>- What is the level of IT enablement that needs to happen</li> <li>- What are the outputs of the process and how do these link with other processes</li> </ul>
Process performance	Describes the process key performance indicators, defines measurable performance metrics and specifies the MIS that needs to be generated and reviewed

The process described below assumes a baseline minimum level of IT infrastructure, such as a procurement planning, purchase order system, price stores ledger and a purchase accounting system. In other areas, the process describes the activities for both IT enabled and manual environments.

The key process participants have been referred to with their generic roles (eg Head of Purchase, Head of Production, CFO, etc). In some of the larger Units, and consequently with greater degree of decentralization, empowerment and automation, the designation / departments of the people performing these roles may be different, or these may be automated. Similarly for consolidated Company-wide procurement, the Central Purchasing Team may be involved and liaise closely with the Unit purchase teams. However, the underlying principle of segregation of duties, both through different functional involvements (production, purchase, stores, finance, IT) and review/oversight mechanisms (person reviewing is independent of the person initiating the action) must be preserved at all times.

In addition, each Unit is advised to develop (or as appropriate modify and amend) a 'delegation of power' charter for their respective Units which needs to define the various individuals/roles that need to be involved in the authorisation and approval of key decisions and transactions, both routine and exceptional. Such delegation should be based on appropriate level of expertise available and need for control. However, under no circumstances (except for min-max items or items where stores are requisitioning authority) should automatic purchasing power be delegated to any non-Purchase department officials. Furthermore, delegation should also include a threshold limit above which Corporate office and/or Director / PWPL Board approval also needs to be obtained. The



overall delegation of power should then be discussed and agreed with Corporate and followed on an ongoing basis.

### 3.1 VENDOR EVALUATION

#### Process objectives

Vendor evaluation is based on objective, approved and verifiable criteria; and considers the techno-commercial capability, financial position, reputation and past experience with the vendor

#### Process owner

Head of Purchasing (interfacing with Production, Maintenance, R&D/Technical, Quality, Finance)

#### Process description

1. For every new/first-time vendor (including subcontractors for maintenance /labour services), Purchase should gather information on vendor's business operations, product range, quality accreditation, financial worth, market reputation etc. The information should be obtained directly from vendor and other market sources and appended to the new vendor evaluation form to be filled out.
2. If the new / existing vendor/contractor is an ex-employee or relative of a current employee, the matter should be informed to unit CEO / Director and their approval should be in place before awarding any business.
3. R&D/Technical department should visit the vendor or obtain product samples to assess their technical capabilities and conduct tests on product samples. A trial order must be placed on the vendor and feedback should be obtained from Production/Maintenance on the performance of the material/spares/service supplied by the vendor. Finance should assess the corporate structure, financial statements, financial worth and stability of the vendor and their resource availability to fund the working capital requirements for the orders placed by Units and how much credit can they offer. Purchase should assess what is the vendor's track record of servicing other steel/large manufacturers and what is their market reputation for quality, price and delivery performance. Each department assessing the vendor must submit a report to Purchase indicating how they rate the vendor based on the parameters they are evaluating on a scale of 1-5
4. Based on this detailed analysis and feedback, Purchase should complete a standardised new vendor evaluation form. The evaluation form should include all the parameters that the various departments have assessed and rated. Each parameter should be assigned a standard weight (based on the relevant importance of that parameter to the Unit) and these weights may be material specific (ie for some materials quality is the most important parameter while for some others it may be price). Based on the weights and individual ratings, a weighted average vendor score should be arrived at. The vendor score will determine whether the vendor should be approved, put on further trial or rejected. The parameters, weights and scoring ranges should be pre-defined by the Management Team and reviewed on a periodic basis.
5. Once the vendor evaluation is done, the Head of Purchase approve vendor evaluations. For vendors accepted, IT should update the vendor master file so that these vendors are now reflected on the approved list such that every time an order has to be placed by Purchase, enquiries are raised on all vendors in vendor master list for that given material.
6. Purchase should continually develop new and alternates vendors for all items procured, especially where the items procured are tailored to the Unit's technical specifications or have long development lead times or high switch-over costs. As a rule, Purchase should endeavour to develop at least three vendors for all critical (A Class) items based on ABC analysis and at least two vendors for other items. Purchase orders should then be shared/split between these

alternate vendors to mitigate the risk of over reliance on a particular vendor which may have an adverse impact on the Units' bargaining power

7. Once the above rule has been adhered to, for every new vendor, Purchase should apply the qualification criteria that the price quoted/expected by the new vendor for like product less than or equal to the price offered by incumbents and/or the cost per tonne of liquid steel produced using material supplied by the new vendor is less than or equal to the cost per tonne using material supplied by incumbent suppliers
8. A central database of all PWPL group Companies current and past vendors should be maintained with details of performance and reasons for discontinued business, and the new vendor should be verified against that database. Where the vendor already has dealings with another PWPL Company Unit, their performance at that Unit must be a consideration for evaluation. Similarly, where a vendor is re-initiating transactions, previous performance and reasons for discontinuation should be considered when filling the evaluation form.
9. Purchase team should conduct a periodic reassessment (at least annually) of vendors who account for 80% or more across the different categories of items. This reassessment should consider factors such as volume/value of business, share of business, quality of material supplied and rejections/claims made, price charged and payment terms offered, delivery performance, etc. The factors should be weighted based upon their relative importance as per a pre-defined criteria developed by Unit Management Team. The remaining vendors should be assessed on an ongoing basis at least once every three years.
10. The assessment should be done by the Purchase department (which has information on price, discounts/ rebates and payment terms extended) in liaison with Production/Maintenance (which uses the material/spare/service), Quality (which inspects the material), Stores (which receives the material) and Finance (which pays for the material as per agreed payment terms).
11. All vendors should be rated as accepted, rejected and need improvement categories. Head of Purchase should sign the vendor reassessment ratings. These assessments must also be communicated to the all procurement teams and to responsible staff of PWPL's central database. Where the vendor is rejected, the Purchase team should inform the vendors about discontinuing business with them (with reasons) and these vendors should be removed from the vendor master list by IT.
12. An improvement action plan should be established for vendors that are graded into 'needs improvement' but where it does not appear to be appropriate to discontinue the business. The targets of the action plan are set by Purchase and the relevant department and are discussed with representatives of the vendor. These should be detailed, precise, and achievable and provide a defined timeframe. The outcome and the agreements of this discussion must be documented. The adherence to this agreement must be followed up regularly, latest at the next vendor assessment.
13. Purchase department should continually strive to consolidate the supplier base and reduce the number of transactions to improve efficiency, reduce costs and build mutually beneficial relationships. This is should involved regularly reviewing the supplier base with an endeavour to obtain at least 80% of purchase value from not more than 20% of total suppliers and to also consolidate the total supplier base. Management should also stratify the supplier base based on relevant bargaining power and ensure that over a period of time the Unit enjoys the bargaining power for the majority of its purchases. Where the Unit does enjoy relative bargaining power vis-à-vis its suppliers, it should then institute measures to improve efficiency and reduce transaction costs. These could include setting dates of receipts and payments (e.g. receipts and payments only on certain days of the week/dates of the month).

Process performance (data either from IT system or if few customers, maintained manually and included as part of MIS for Unit management and for information to Corporate Office)

- |  |  |
|--|--|
| i. Number of new vendors accepted without evaluation | iv. Vendor delivery performance        |
| ii. Number of existing vendors not assessed          | v. Percentage of rejections per vendor |
|  | vi. Number of claims made per          |

- iii. Number of instances where an improvement action plan was not established although the assessment scale indicated 'needs improvement'
- vi. Number of approved suppliers per material type
- vii. Vendor pricing/commercial terms

## 3.2 PROCUREMENT PLANNING & REQUISITIONING

### Process objectives

Procurement plans are based on production plans, consumption norms and desired inventory levels. Material requisitions are authorized by senior plant management based on established reorder levels or other similar criteria, e.g., physical verification or reorder systems

### Process owner

Head of Production/ Head of Maintenance (interfaces with Production Planning, Stores, Purchase, Central Purchase and R&D/Technical)

### Process description (Raw Materials)

1. Once the production plan for the year has been finalised by SCM department (based on discussions with Marketing and the Sales plan), Production should translate the production plan into a procurement plan for all raw materials (eg Copper, Aluminium, Steel, etc).
2. SCM should prepare a system generated annual Materials Requirement plan based on actual opening stock, requirements for the month based on expected production plan and material consumption norms per ton of Cables (which also consider normal production and yield losses) and desired closing stock based on minimum inventory norms.
3. Consumption and inventory norms should be available on the system as standards. The R&D / Technical department should provide the consumption norms and inventory norms should be based on ABC classification of all raw materials consumed (considering factors such as value and procurement lead time). Production plan should be retrieved from the production planning system and the opening stock information retrieved from the Stores Ledger. However, only the quantity/volume information from the Price Stores Ledger should be made available. In a non-system environment, information should be obtained from Production Planning, R&D/Technical and Stores departments, as appropriate
4. The Head of Production & SCM should sign-off and approve the annual raw material production plan and send it to the Head of Purchasing to identify vendors and negotiate annual contracts
5. On a monthly basis, a category/item-wise monthly procurement plan should be prepared based on the firm production plan for the month from Production Planning, defined consumption norms and actual opening and target closing stock requirements from Stores. This monthly plan should also be approved by Head of Production & SCM or other designate senior person and sent to Purchasing for them to place the delivery schedule on the vendor with whom an annual contract is in existence or negotiating purchase contracts for items where the market does not provide long-term contracts. Where the monthly plan is system generated, it should have a serial control by which it can be tracked.
6. Similarly, for MROs and services, Maintenance should prepare the annual preventive maintenance plan and then translate it into a procurement plan for spares and services. This plans should be signed-off and approved by the Head of Maintenance
7. For high turnover or long lead-time spares, Maintenance should define minimum and maximum inventory norms, and the moment the stock levels in Stores fall below the minimum level, a serially controlled requisition is generated (automated or manual but in standardised format), signed by Maintenance (per defined authorisation limits) and sent to Purchase for ordering spares to replenish stocks to desired levels
8. Production/Maintenance and Purchasing should meet annually for items on annual contract and monthly for items procured on a month-by-month basis to review the procurement plan and assess if the desired quantities are likely to be available at favourable prices (based on requirements, market trends and previous history of requirements variability, consumption pattern and price/delivery performance) and to finalise procurement plan or jointly amend it as

appropriate. Both the Unit Head of Production/Maintenance and the Head of Purchase should sign-off the agreed procurement plan, and send it to CEO and CFO for information.

9. Actual procurement should be regularly compared vis-à-vis the procurement plan and variances analysed and formally reported as part of MIS. In addition, the volume/value of any excess inventory (over the established inventory norms) or slow/non-moving inventory should be traced and circulates to senior management on a regular basis.

Process performance (data either from IT system or if few customers, maintained manually and included as part of MIS for Unit management and for information to Corporate Office)

- |   |   |
|---|---|
| i. Number of amendments in procurement planning | iv. Variance between approved procurement plan and actual procurement |
| ii. Number of items not included in plan        | v. Number of revisions to the plan                                    |
| iii. Number of stockouts                        | vi. Number of emergency procurements                                  |
|   | vii. Excess, slow and non-moving inventory                            |

### 3.3 PROCUREMENT PRICING & NEGOTIATIONS

#### Process objectives

Materials are procured from approved vendors that offer the lowest price for the desired specifications, quality and delivery schedule

#### Process owner

Head of Purchase with discussions/approvals (Production, Finance, Management)

#### Process description

1. Once Purchase agrees the annual procurement plan (or in some cases, monthly procurement plan) with Production/Maintenance, it raises an enquiry on vendors asking them to quote prices for supplying the desired quantities of different material/providing the desired maintenance service.
2. The enquires must be made in a standardised vendor enquiry form with details of material specification, planned quantity, expected delivery schedule, desired payment terms, etc and a date by which vendors must respond with their price quotation, payment terms and validity of the offer. The enquiry form must clearly specify that all offers must be received in writing (including by electronic mail)
3. The enquiries must be sent to all vendors who are on the approved vendor list for that item of material. Any deviation must be approved in writing by the Head of Purchase. Similarly any enquiries to vendor who are not on the approved list must also be approved in writing by the Head of Purchase.
4. Once the price offers have been received from various vendors, Purchase should complete an analysis sheet (standardised format which has pre-populated list of all approved vendors for the item being procured) that compares the quotation from various vendors including price, payment terms, discounts/rebates (volume or prompt payment), capacity to meet requirements, consumption based procurement (ie consignment stock) etc. Purchasing should also include on this analysis sheet, the average price prevailing in the market (gathered from trade journals or market intelligence), price at which last few purchases were made, landed price for importing the material and the budget price used for annual budgeting processes. In comparing various offers and negotiations, the impact of factors such as payment terms discounts/rebates, capacity to deliver must be quantified and included to determine best offer. For maintenance and other technical services, inputs/involvement of the Maintenance department should be sought to ensure that the service being offered meets the requirements of the Unit.
5. This analysis should be sent along with all supporting documents, including offers to the Head of Purchase for his review, who then instructs in writing on the analysis sheet/initiates negotiations with prospective vendors.
6. The negotiations with various prospective vendors must be fully documented (either via written communication or a meeting or on the phone the purchasing person involved in negotiations must maintain formal minutes of such negotiations) and sent to Head of Purchase. Where required, inputs/involvement of Finance should be obtained on areas such as impact of payment terms on the cash flow position of the Unit (eg Letter of Credit or Cash against Documents, and number of days of credit).
7. Leading practice suggests that for non-standardised/custom items or which have long development lead-times or where switching costs are high, the total procurement should be shared between at least two vendors to insure against the risk of total reliance on a single vendor. Based on offer terms and negotiations, Head of Purchase should shortlist the best two vendors and determine how the order should be shared between them and in what proportion. These should then be discussed and agreed with the Director and documented
8. For all non-standardised/custom items or where switching costs are high, if the decision is to place the entire order with a single vendor, this must be approved in writing by the Director.

9. Once the best offers have been negotiated and share of business determined, a Memorandum of Understanding (MoU), or equivalent document, is executed in writing with the selected vendors, and signed by the Head of Purchase. The MoU should cover all key elements such as price, quantity, rebates/discounts, delivery terms, documentation requirements, payment terms, claims resolution process, offer validity, etc). The MoU quantity reflects the Share of Business determination and this MoU then forms the basis for the contract or purchase order (*refer purchase order processing section*). Standard MoU templates should be available on the system and serially controlled
10. For all items that are procured centrally, Unit Purchasing department must forward the annual requirements to the Central Purchasing Team who select and negotiate with vendors for Group-wide procurement. Depending on the nature of the item, either Central procurement enter into a contract with the vendor (agreeing the price and the quantity) with Unit Purchasing then providing monthly delivery schedules, or Central Purchasing provide information on negotiated prices and committed quantities to Unit Purchase which in turn raise the purchase order on the vendor

Process performance (data either from IT system or if few customers, maintained manually and included as part of MIS for Unit management and for information to Corporate Office)

- |  |  |
|--|--|
| i. Procurement cost vs budget  | iv. Price differential between dual sources  |
| ii. Purchase price variances across suppliers and over time, for a given material  | v. Percentage of procurement without competitive tendering or offers from more than one supplier |
| iii. Proportion of single vs dual sourcing –volume and value (for non-standardised/custom items or where switching costs are high) | vi. Vendor discounts as a percentage of purchase value   |

### 3.4 PURCHASE ORDER PROCESSING

#### Process objectives

Purchases are made from approved vendors at approved prices based on authorized purchase orders which in turn are prepared from authorized material requisitions.

#### Process owner

Head of Purchase in discussions with (Production, Finance and IT)

#### Process description

1. Once the price negotiation with the vendor (or contractor for maintenance services) has been completed and the MoU signed, Purchase should raise the purchase order/enter into a contract with the vendor. Where the order is to be backed by a Letter of Credit, Purchase should send the requisite information on the vendor, order quantity, price and delivery schedule, payment terms, etc to Finance to enable them to open a Letter of Credit with the Unit's Bank.
2. Contract/Purchase order formats/templates should be available on the system with basic information and standard terms and conditions pre-populated. These standard forms/templates should be pre-approved by the Finance and Legal departments to protect the commercial interests of the Unit (including consideration of lessons learnt from previous experiences). Some specific clauses that need to be incorporated as part of the standard sales contract include the following:
  - a. Unit should be able to seek replacement in case of wrong or excessive purchases, within a period of six months (to reduce non-moving and obsolete items and blockage of funds)
  - b. The Unit to identify key contract workmen and the contractor required to ensure that these workmen will not be replaced without prior consent of designated Unit officials
  - c. All contractors are mandatory required to sign a formal confidentiality agreement in order to mitigate against the risk of any leakage of confidential company information
3. Purchase should prepare the purchase order based on the annual/monthly procurement plan prepared by Production, or in ad hoc cases the material requisition note, and the MoU (where these base documents are system generated, these should be retrieved via their unique serial number so that the relevant fields in the purchase order can be automatically filled). Purchase orders should be serially controlled and have a unique reference number
4. Each Unit should have established purchase order authorisation limits assigned by value. However, it should be ensured at all times that there are at least two people (at different levels) signing each purchase order, that as far as possible the person preparing the purchase order is not an authorised signatory (ie it is reviewed and approved by someone else), and that above a certain pre-determined value or for certain critical items, designated member of the Finance team should also sign the purchase orders. In addition, all 'Buyers' to be rotated on at pre-determined intervals within the organisation into other functions and vice versa
5. Where specialist and non-standard long-term contracts (with legal clauses and commitments) are executed (eg, maintenance services, etc), these should be prepared jointly by Purchase and Finance and signed by both the Unit Head of Purchase and the Unit CFO. These should also be reviewed by in-house Legal Counsel in all such cases. Any long term contract with no termination clause or long notice period must be reviewed and approved by the Unit Board CCO / COO/CEO/Director
6. Once purchase orders or contracts have been prepared and approved, these should be sent to the vendor with a requirement that the vendor confirm receipt and acceptance of the purchase order/delivery schedule in writing. Copies of the purchase orders should also be sent to Stores



and Finance (or in automated environment purchase order access should be made available to them).

7. Where purchase orders or contracts only confirm rates and planned procurement quantities and delivery schedules are sent on a monthly basis to confirm actual quantities required, once Production provides firm monthly requirements, Purchase should prepare a system generated and serially controlled delivery schedule. The delivery schedule should have reference to the purchase order and all delivery schedules against a purchase order can be tracked using a unique purchase order prefix/suffix. The delivery schedule must again be approved in accordance with purchase order authorisation limits and sent to vendor with copies to Stores and Finance
8. Where there are variations between the purchase order/delivery schedule quantity and the annual procurement plan/monthly procurement plan/material requisition, the variations and reasons thereof should be discussed and recommended jointly by the Unit Heads of Production and Purchase in an exception report to the Unit COO/CCO/CEO for authorisation. For raw materials this should be tracked on an item-by-item basis, and for maintenance items on a group basis.
9. In the event that a Purchase order or delivery schedule is amended (due to any discrepancy), the amendment has to be authorised in writing by the Unit Head of Purchase/CCO and can only be initiated in the system by the Unit Head of IT. Such amendments should be tracked by a unique prefix/suffix to reflect that this is an amendment to an earlier purchase order/delivery schedule and both Stores and Finance should be informed of such amendments. The previous purchase order or delivery schedule should be closed but retained on the system for reference.
10. For all raw materials, once a purchase order has been fully serviced or its validity expires, it should be closed in the system before a new purchase order is raised. To ensure this, the system should not accept a new purchase order for a certain material type provided there is an existing purchase order already in the system which has not been closed
11. A regular review of all 'transactional' purchase orders for raw materials (all purchase orders other than annual contracts or other term-specific purchase orders) should be carried out and all open purchase orders should automatically closed in the system at the end of each month. Any exceptions should be approved in writing by the Unit Head of Purchase and Unit CFO and then executed by Unit Head of IT
12. A benchmark cycle-time (in days) for the material purchase order processing cycle from receipt at of annual/monthly requirements and MoUs to when the purchase orders/delivery schedules are prepared, approved and sent to vendors, must be established and actual performance measured against it.

Process performance (data either from IT system or if few customers, maintained manually and included as part of MIS for Unit management and for information to Corporate Office)

- |  |   |
|--|---|
| i. Percentage of stock-outs                                      | v. Number of amended/cancelled POs  |
| ii. Total amount of purchases per purchasing department employee | vi. Elapsed time between requisitioning and purchase order /delivery schedule preparation |
| iii. Number of special (emergency/ad hoc) POs                    |   |
| iv. Percentage of purchases made under contract less than a year |   |

### 3.5 RECEIVING (INCLUDING QUALITY CONTROL)

#### Process objectives

All goods received are recorded only when accepted after quality control approval; rejected goods are separately identified and vendor is promptly informed.

#### Process owner

Head of Stores (Quality, Purchase Finance and IT)

#### Process description

1. All purchase orders/delivery schedules raised must be on the system with 'read' access to Stores or in a manual environment, a copy of all POs/delivery schedules must be sent to Stores along with expected date when material expected and various documents that should accompany the delivery (eg invoice, bill of lading/transport receipt, vendor inspection/quality certification, etc)
2. Once material/spares are received at the Unit Gate, the details of the delivery should be recorded by Security and the wagon/truck should be directed to receiving stores. At receiving stores, Stores must check the documents to ensure that the material is against an approved purchase order raised by the Unit (purchase order reference should be on the transport documents) and that the purchase order is still valid. This information should either be available from the system (list of open POs) or a manual schedule from Purchase specifying purchase order number and expected delivery timescale. Where material is not covered by approved purchase order, Stores should inform Purchase and material can only move to the measurement stage if there is a written and signed authorisation from the Head of Purchase.
3. All material/spares received against an open purchase order should then be measured (weighed/counted) by Stores. The Stores personnel involved in weighing/counting must all be Unit employees rather than contracted personnel. Where truck or wagon sizes are standard, the weight of empty truck should be deducted from measured weight to arrive at weight of the raw material; in other cases the truck/wagon should be weighed twice –once full and once empty and difference taken as incoming weight. For items which are procured in pieces (eg spares), a count must be conducted (either in whole or via stratified random sampling). A measurement report should be prepared by Stores for all incoming material, either on the system (a database which records against each purchase order/delivery schedule, how much material is indicated in the transport document and how much has actually been weighed) or manually in a serially controlled measurement report. A copy of the measurement report should also be sent to the vendor indicating quantities that have been received and whether they are in accordance with the purchase order/delivery schedule. However, the measurement report should explicitly state that any material will only be accepted after it has been duly inspected by the Quality department and till such acceptance, the Unit bears no liability to the vendor
4. Once the material/spares are measured, it should be inspected for quality by the Quality department. The inspection should be either visual (to see any physical damage, dust particles, original packaging, etc) or laboratory (to test metallurgical properties eg moisture content, fines, etc) or both depending upon the impact on steel quality, value and volume of the material concerned. Quality tolerance levels should be pre-defined and quality tested against these. A quality inspection report should be prepared for all material received, either on the system (a database which records against each purchase order/delivery schedule, what percentage of the material is of specified quality) or manually in a serially controlled quality report
5. In cases, where the material/spares are measured or inspected by third parties, it should be ensured that such third parties are independent of the material vendors and that the Unit conducts periodic but random surprise audits of these third parties to assess their performance
6. Based on the material/spares measurement report and material/spares quality report, Store should prepare a consolidated inspection report that which states how much material/spares has

been received against the purchase order and how much of it is in accordance with the specifications laid out in the purchase order. This report should be system generated and serially controlled and sent to Purchase with a copy to Finance.

7. Stores should then prepare a system generated and serially controlled Goods Received Note which has details of the purchase order/delivery schedule and how much 'per specification' material/spares have been received against it. This material is then accepted within stores and the Goods Received Note forms the basis for updating the Stock records and together with the purchase order price, the Price Stores Ledger and Accounts Payable in the General ledger
8. For non-specification material/spares, once Purchase receives the inspection report from the Stores indicating that material (or part of it) is not as per ordered specification they should immediately discuss this matter with the vendor and resolve that either material is rejected and sent back to vendor, material is scrapped or that material is accepted at a lower price. Unit Head of Purchase should then inform Stores and Finance in writing on the course of action for non-specification material/spares
9. Where the Purchase instructs that the non-specification material/spares is not to be accepted and returned to the vendor, a system generated and serially controlled material return note must be prepared by Purchase and along with the rejected material sent back to the vendor. Access to/copies of these material return notes should be made available to Stores (so that material is allowed to return to vendor) and Finance (so that such quantities are not paid for even if reflected in vendor invoice)
10. Where the Purchase instructs that the non-specification material is not to be accepted and scrapped, a system generated and serially controlled material scrap note must be prepared by Purchase and sent back to the vendor. Access to/copies of these material return notes should be made available to Stores (so that material is allowed to be scrapped) and Finance (so that such quantities are not paid for even if reflected in vendor invoice)
11. Where Purchase instructs that the non-specification material/spare is to be accepted, a system generated and serially controlled Non-specification Goods Received Note must be prepared which has details of the purchase order/delivery schedule and how much 'non-specification' material has been received against it. This Goods Received Note for 'non-specification' material should have the same reference as the Goods Received Note for the 'per specification' material that is accepted but appropriately prefixed/suffixed to reflect it is 'non-specification'. This material is the accepted within stores but kept separately and the Non-specification Goods Received Note forms the basis for updating the Stock records .
12. Where acceptable quality material/spare is in excess of the purchase order/delivery schedule order quantity, the system must disallow acceptance of any excess material and an override can only be authorised in writing by the Head of Purchase and executed by the Head of IT.
13. A benchmark cycle-time (*in days*) for the material/spare receiving cycle from receipt at Stores to measurement and quality inspection to acceptance and updation of inventory records must be established and actual performance measured against it. Leading practice suggests that the benchmark cycle-time between receipt and inspection and between acceptance and updation of inventory should not exceed Two (2) working days in each instance.
14. For services, subcontractors should report at the gate upon arrival and departure and the time should be logged. Maintenance services need to distinguished between flexible (hourly) jobs and fixed jobs. For flexible jobs the hours worked must be captured on a timely basis. If an automated gate pass system is established eg a swipe-card system the time of arrival and departure should be captured and access should be granted to Maintenance so that they can approve the hours recorded (on the system) and then forwarded to Finance for updating the Accounts Payable. In a manual environment all subcontractors need to report to the Unit's authorised staff upon arrival and before departure. The attendance must be logged and authorised staff on a daily basis must sign the attendance sheet. The Unit Head of Maintenance approves a signature list for staff which is authorised to sign the attendance sheets. This approval list must be updated as and when changes occur and must be forwarded to Finance on a timely basis in order to check the subcontractor's invoice. Services for fixed service jobs must be reviewed and signed –off (standardised job completion forms must be used) by authorised Maintenance staff upon completion to assess whether they have been performed properly.

Process performance (data either from IT system or if few customers, maintained manually and included as part of MIS for Unit management and for information to Corporate Office)

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|---|--|
| <ul style="list-style-type: none"> <li>i. Vendor returns as a percentage of purchases</li> <li>ii. Number of instances where materials accepted are in excess of purchase order/delivery schedule quantity</li> <li>iii. Percentage of deliveries on time</li> <li>iv. Number of receipts not covered by purchase order or against cancelled Pos</li> </ul> | <ul style="list-style-type: none"> <li>v. Number of instances where material rejected by Quality subsequently accepted</li> <li>vi. Elapsed time from receipt to acceptance and inventory records updated</li> </ul> |
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### **3.6 ACCOUNTS PAYABLE, DISBURSEMENT & CLAIMS**

#### Process objectives

Accounts payable are recorded only when goods have been received and accepted and invoice has been raised by the vendor which is in accordance with the purchase order price, eligible rebates/discounts and accepted quantity; disbursements are made on a timely basis in accordance with the agreement/credit period with the respective vendors and any claims are appropriately adjusted

#### Process owner

CFO (Purchase, Stores and Production)

#### Process description

1. All contracts or purchase orders should explicitly state that invoices should be send directly to the Finance department and must quote the contract/purchase order and delivery schedule reference. Where the invoices accompany the material, these should be sent directly by Stores to Finance
2. Once Finance receives a vendor invoice, it should retrieve the purchase order and delivery schedule on the system and the quantities accepted against it (with reference to the Goods Received Notes). In a manual environment Finance should compare invoice price with the copy of the purchase order, and as applicable the Material Downgrade note (for non-specification material accepted at renegotiated lower prices) lying with Finance, and should compare the invoice quantity with entries in the stock ledger, copied of Goods Received Notes (and as applicable non-specification Goods Received Notes), or confirmation from Stores. Finance should also check the invoice for clerical accuracy and that any applicable discounts and rebates in the contract or purchase order have been included.
3. Where procurement is against Letter of Credit, Finance should ensure that it provides the Bank with whatever documentation is required to enable the transaction to be consummated.
4. For maintenance services, the quantity of hours worked must be checked for variable jobs. In an automated environment, this is done with the time logged in the system and approved by Maintenance, and in a manual environment the Maintenance signed and approved attendance sheet forms the basis. For fixed jobs, the approved job-completion form serves the basis. The Purchase orders are referred to for price or rates, as appropriate.
5. Once the invoice is checked, Finance should prepare an invoice acceptance approval schedule (standardised format on system) which includes details of invoice, payment terms (including

early payment rebates) and payment date, and send it to the CFO (or other designate invoice acceptance approval authority – approval limits to be explicitly defined) for signature. Once the invoice acceptance approval schedule is approved, it is sent to the disbursements department with instructions for payment on due date.

6. Where the vendor extends rebates for early payment, only the CFO can instruct in writing if and when early payment should be made
7. On due date (upon expiry of credit period or as per instructions from CFO for early payments), the disbursements department should prepare the payment cheque or bank instruction and send it along with the invoice and the duly signed invoice acceptance approval schedule to the CFO (or other designate payment approval authority – approval limits to be explicitly defined). Once the payment has been approved (either cheque signed or bank instruction document signed), payment is made to the vendor and accounts payable position updated on the system
8. As a rule, on-account payments should not be made unless authorised in writing by the CFO
9. Where material has been rejected in the operating facility after issue from stores, Production should inform Stores in writing. Stores should assess quantity of rejects and inform Purchase with copy to Finance. Purchase should then raise a claim note on the vendor (signed by Unit Head of Purchase) based on quantity intimation from stores and price as per purchase order and copy of claim must be sent to Finance
10. Upon receipt of claim note, Finance should prepare a debit note, get it signed by the CFO and send it to the vendor with copy to Purchase. Issue of debit notes should automatically update the accounts payable position
11. Where claims have been made before invoices have been received, Finance should ensure that once invoice is received that the vendor has adjusted for claims. If not, or where claims have been made after invoice has been received but before payment, Finance should inform the vendor and make the appropriate balance payment. Where claims have been made after invoices have been paid, debit notes should be adjusted for in subsequent payments to the vendor, and vendors appropriately intimated
12. On a regular basis, but at least once a year, Finance should request a statement of outstanding from the vendor and conduct reconciliations. All reconciling items should be identified, reviewed, discussed and resolved by Finance (with inputs from Purchase) directly with the vendor
13. Similarly, on a regular basis accounts payable ageing analysis should be carried out to ensure that payments are being made only after utilising the full available credit and any debit balances are being appropriately adjusted.
13. A benchmark cycle-time (in days) for invoice posting cycle from receipt of invoice to when it is approved must be established and actual performance measured against it.

Process performance (data either from IT system or if few customers, maintained manually and included as part of MIS for Unit management and for information to Corporate Office)

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|---|---|
| i. Value of purchases where payment made before expiry of credit period | iii. Days payables outstanding                        |
| ii. Age analysis of vendors along with debit balances due to them       | iv. Debit notes issued as a percentage of procurement |
|   | v. Invoice posting cycle time                         |

I acknowledge receipt of the document entitled "PWPL , Procurement Process"; I confirm that I have read and understood this document and that I will abide by its provisions and processes in handling the business of the company.

Exceptions to these processes and procedures, if any, for our PWPL unit that we cannot adhere to or abide by due to manual or data systems deficiencies, existing local law and residual administrative circumstances have been reported herein as an attachment to this signatory affirmation agreement to provide Head Purchase/CEO of the exceptions awareness and for management and the Office of Procurement Compliance for follow-up support and corrective action.

(please print)

Reviewed By	Approved By	Issued By
Sign : Name : Rashmikan Mehta	Sign : Name : Sandeep Bhargava	Sign : Name : Victor K. George