

RELATED PARTY TRANSACTIONS

The Company recognizes that Related Party Transactions as defined in Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time (Listing Regulations) and in section 2(76) of the Companies Act, 2013 (“the Act”) read with Section 188 may give rise to an actual or potential conflict of interest thereby raising the question whether or not such transactions are in the best interests of the Company and its members as a whole.

The Audit Committee of the Board of Directors of the Company (“the Board”) is required by Section 177(4) of the Act to approve all transactions of the Company with related parties (“RPT’s”).

REQUIREMENT OF FORMULATING A POLICY

Part I of this Policy on dealing with RPT’s and determining their materiality is formulated in compliance with Regulation 23 of Listing Regulations in terms of the Listing Agreement entered into by the Company with stock exchanges on which its shares are currently listed as amended by the Securities and Exchange Board of India’s (SEBI) Notification dated May 09, 2018 . It is intended to ensure timely identification of an RPT, its salient terms and provisions, approval process, disclosure and reporting thereof to ensure transparency in the conduct of RPT’s, so that there is no conflict of interest.

The Board of Directors of the Company (“the Board”) has adopted this Policy with respect to RPT’s on the recommendation of the Audit Committee. The Audit Committee is empowered to review and recommend amendments to this Policy as may be considered necessary from time to time. All amendments to this Policy as may be recommended by the Audit Committee would be subject to the Board’s approval.

Part II deals with RPT’s as envisaged and covered by the applicable provisions of the Act and the applicable Rules framed thereunder.

PART I

Regulation 23 of Listing Regulations deals with the provisions relating to Related Party Transactions required to be complied with by the Company.

Regulation 23 Listing Regulations has been further revised by Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018 duly notified by SEBI on 9th May, 2018, With effect from 1st April, 2019(“the Revised Regulation-23”).

Apart from being required to comply with the revised Regulation 23, the Company is also obliged to simultaneously comply with the applicable provisions relating to RPTs contained in the Act read with the applicable Rules made thereunder.

These are dealt in Part II of this Policy

What is a RPT ?

As per the revised Regulation 23, a RPT is a transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged.

A transaction with a related party shall be construed to include a single transaction or a group of transactions in a contract.

Who is a ‘related party’ ?

An entity shall be considered as related to the Company if :

- (i) such entity is a related party as defined in Section 2(76) of the Act; or
- (ii) such entity is a related party under the applicable Indian accounting standards issued by the Institute of Chartered Accountants.

Provided that any person or entity belonging to the promoter or promoter group of the Company and holding 20% or more of shareholding in the Company shall be deemed to be a Related Party.

Section 2(76) defines a ‘related party’, with reference to the Company, to mean –

- (i) a director or his relative;
- (ii) a key managerial personnel or his relative;
- (iii) a firm, in which a director, manager or his relative is his partner;
- (iv) a private company in which a director or manager or his relative is a member or director;
- (v) a public company in which a director or manager is a director and holds along with his relatives, more than two per cent of its paid-up share capital;
- (vi) anybody corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
- (vii) any person on whose advice, directions or instructions a director or manager is accustomed to act;

Provided that nothing in (vi) and (vii) above shall apply to the advice, directions or instructions given in a professional capacity;

- (viii) anybody corporate which is –
 - (A) a holding, subsidiary or an associate company of such company; or
 - (B) a subsidiary of a holding company to which it is also a subsidiary;

(C) An investing company or the venture of the Company

(iX) a director (other than an independent director) or key managerial personnel of the holding company or his relative with reference to a company, shall be deemed to be a related party.

As per Indian Accounting Standard 24 (“INDAS24”) “related parties” are :-

The following terms are used in this Standard with the meanings specified:

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the ‘reporting entity’).

(a) A person or a close member of that person’s family is related to a reporting entity if that person:

(i) has control or joint control of the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity including:

- (a) that person's children, spouse or domestic partner, brother, sister, father and mother;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

Compensation includes all employee benefits (as defined in Ind AS 19, Employee Benefits) including employee benefits to which Ind AS 102, Sharebased Payments, applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:

- (a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

- (b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

- (c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;

- (d) termination benefits; and

- (e) share-based payment.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Government refers to government, government agencies and similar bodies whether local, national or international.

A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by a government.

The terms 'control' and 'investment entity', 'joint control' and 'significant influence' are defined in Ind AS 110, Ind AS 111, Joint Arrangements, and Ind AS 28, Investments in Associates and Joint Ventures, respectively and are used in this Standard with the meanings specified in those Ind ASs.

The Company shall formulate a policy on materiality of related party transactions and on dealing with related party transactions including clear threshold limits duly approved by the Board and such Policy shall be reviewed by the Board at least once every three years and updated accordingly.

A transaction between the Company and a related party is to be considered as **material** if the transaction to be entered into individually or taken together with previous transactions during a financial year, exceeds ten per cent of the annual consolidated turnover of the Company as per its last audited financial statements.

Notwithstanding the above, a transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed two percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

All RPTs, whether material or not, will however require the prior approval of the Audit Committee of the Board.

However, in order to obviate difficulties that may be encountered by the Company in obtaining prior approval of the Audit Committee to RPTs that are needed to be entered into by it from time to time, owing, inter alia, to the repetitive nature of transactions to be entered into or when the need for RTP's cannot be foreseen in advance, the Audit Committee has been empowered under Regulation 23 of Listing Regulations to grant **Omnibus Approval** for such RPTs, subject to the following conditions:

- (A) the criteria for granting such **Omnibus Approval** is laid down by the Audit Committee in line with the Policy in Part I and such approval shall be applicable in respect of transactions which are repetitive in nature.
- (B) The Audit Committee has satisfied itself as to the need for such **Omnibus Approval** and that grant of such approval is in the interest of the Company.
- (C) The **Omnibus Approval** given by the Audit Committee shall specify the following:
 - (i) the name/s of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into;
 - (ii) the indicative base price/current contracted price and the formula for variation in the price, if any; and
 - (iii) such other conditions as the Audit Committee may deem fit.

HOWEVER where the need for an RPT cannot be foreseen and the details in (i), (ii) and (iii) above are not available, the Audit Committee is empowered by to grant **Omnibus Approval** for such transactions subject to their value not exceeding Rs.1 crore per transaction.

(D) The Audit Committee is required to review, at least on a quarterly basis, the details of RPTs entered into by the Company pursuant to each **Omnibus Approval** given.

(E) All such **Omnibus Approvals** shall be valid for a period not exceeding one year and shall require fresh approval after the expiry of one year.

Where the Audit Committee has satisfied itself as to the need for granting an **Omnibus Approval** and that grant of such **Omnibus Approval** would be in the interest of the Company, such **Omnibus Approval** may hence be of two types, namely,

(A) an **Omnibus Approval** specifying the name of the related parties, the nature, period and the maximum amount of the transaction that can be entered into, the indicative base price/current contracted price and the formula for variation in price, if any and such other conditions as the Audit Committee may deem fit.

OR

(B) an **Omnibus Approval** for RPTs subject to their value not exceeding Rs.1 core per transaction, where the need for the RPT cannot be foreseen and the details mentioned in (A) above are not available.

CRITERIA TO BE CONSIDERED BY AUDIT COMMITTEE FOR GRANTING APPROVAL TO AN RPT

- The rationale and necessity for entering into such an RPT.
- Whether any compelling business or commercial reasons or justification exist for the Company to enter into the RPT and the availability, if any, of similar transactions between the Company and unrelated counterparties or between two unrelated parties about the same time.
- Whether the terms and provisions of the RPT, viewed in their totality, are fair and the transaction is at arm's length, that is to say, whether it is similar to a transaction conducted as if between two unrelated parties, so that there is no conflict of interest.
- Whether any special or unusual benefits, rights or privileges are extended or given to the related party by the Company which would normally not feature in a similar transaction, were it to be entered into by the Company with an unrelated party or between two unrelated parties.
- Whether the consideration/compensation to be paid to the related party under or pursuant to the transaction is, or can be regarded as being, commensurate with the obligations undertaken by such related party, and/or the scope of services provided by it thereunder.
- Whether the transaction is unreasonably or unfairly weighted in favour of the related party vis-a-vis of price, terms of credit and payment, interest payable or in any other manner or gives rise, or is likely to give rise, to any conflict of interest.
- Whether the RPT will or is likely to, affect the independence of judgment of any of the independent Directors on the Board.
- Whether the RPT is likely to give rise in any manner to a conflict of interest and duty for any Director or Key Managerial Personnel of the Company.

- Whether the RPT would or is likely to give rise to any potential reputational risk for the Company and/or its Directors.
- Any other aspects or factors that may be relevant or material in the opinion of the Committee.

All material RPTs, (whether or not they are entered into by the Company in the ordinary course of its business and are also arms length transaction) shall also require the approval of the shareholders of the Company in general meeting by a resolution, and the related parties shall not vote to approve the relevant transaction on such resolution irrespective of whether they are a party to the particular transaction or not.

The Statement of Material Facts annexed to the Notice issued by the Company convening a general meeting for seeking approval of its Shareholders to a **material RPT** as aforesaid shall contain the following details, namely:

- Name of the Related Party;
- Name of Director or his relatives or Key Management Personnel or his relatives;
- Nature of the relationship;
- Material terms, monetary value and particulars of contract or arrangement;
- Other relevant or important information which would help the shareholders to take a decision.

The aforesaid requirement that all RPTs shall require prior approval of the Audit Committee and that all **material RPTs** shall also require the approval of the shareholders of the Company in general meeting by a resolution, will however **NOT** apply to transactions entered into between the Company and its wholly owned subsidiary whose accounts are consolidated with the Company and placed before the shareholders for approval at the general meeting.

PART II

The Audit Committee of the Board is required by Section 177(4) of the Act to approve transactions of the Company with related parties and any subsequent modifications thereto.

The Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed;

in case of transaction, other than transactions referred to in section 188, and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board:

in case any transaction involving any amount not exceeding one crore rupees is entered into by a director or officer of the company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorised by any other director, the director concerned shall indemnify the company against any loss incurred by it:

the provisions of this clause shall not apply to a transaction, other than a transaction referred to in section 188, between a holding company and its wholly owned subsidiary company.

The criteria to be considered by the Audit Committee for granting approval to an RPT would be the same as set out in Part I of the Policy.

A 'related party' has been defined in section 2(76) of the Act. The definition of related party in section 2(76) has been set out in extension Part I of the policy.

Some of the other key terms used in the definition of ‘related party’ in section 2(76) are defined for convenient reference in the attached **Annexure**.

Once the counterparty to a proposed contract or arrangement that the Company proposes to enter into is a related party as defined in Section 2(76) of the Act, it becomes necessary to ascertain if it is an RPT covered by Section 188(1) (a) to (g) of the Act read with Rule 15(3) of the Companies (Meetings of Board and its Powers) Rules, 2014 (“the Rules”) as amended from time to time. If it is so, then consent of the Board given by a resolution at a meeting of the Board (and not by circulation) would require to be obtained by the Company prior to entering into it. This would be in addition to the prior approval of the Audit Committee to the proposed RPT required by the amended revised Regulation 23.

Section 188(1) of the Act only applies to any contract or arrangement between the Company and a related party which is with respect to a transaction listed in items (a) to (g) thereof, unless where such transaction is (i) entered into by the Company in its ordinary course of business and (ii) the transaction is an arm’s length transaction, that is to say; a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest. (Refer Explanation (b) to Section 188(1).

no contract or arrangement, in the case of a company having a paid-up share capital of not less than such amount, or transactions not exceeding such sums, as may be prescribed, shall be entered into except with the prior approval of the company by a resolution:

no member of the company shall vote on such resolution, to approve any contract or arrangement which may be entered into by the company, if such member is a related party:

nothing contained in the second proviso shall apply to a company in which ninety per cent. or more members, in number, are relatives of promoters or are related parties:

nothing in this sub-section shall apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

the requirement of passing the resolution under first proviso shall not be applicable for transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval:

However, if the above mentioned twin requirements are not satisfied, then, the prior consent of the Board by a resolution passed at a meeting of the Board (and not by resolution by circulation) would be necessary before the contract or arrangement is at all entered into. Also, the prior approval of the shareholders of the Company by a resolution would be necessary where the contract or arrangement to be entered into by the Company with a related party is with respect to a contract or arrangement covered by items (a) to (g) of Section 188(1) read with Rule 15(3)(ii).

On the other hand, if the twin requirements at (a) and (b) above are satisfied, then the entire section 188(1) would not apply to the contract or arrangement between the Company and the related party, even though it is and RPT covered under items (a) to (g) thereof.

Consequently, neither the consent of the Board as envisaged in sub-section(1) of Section 188 nor the prior approval of the shareholders of the Company by a resolution as envisaged by

the first proviso in sub-section(1) of section 188 read with Rule 15(3)(ii) of the Rules would be necessary.

Where the Company is required to obtain the prior consent of its Board of Directors by a resolution at a meeting of the Board, pursuant to section 188(1) of the Act read with Rule 15(3) of the Rules, the Agenda of the Board meeting at which the resolution granting consent is proposed to be moved shall disclose the following, namely –

- (a) the name of the related party and nature of relationship;
- (b) the nature, duration of the contract and particulars of the contract or arrangement;
- (c) the material terms of the contract or arrangement including the value, if any;
- (d) any advance paid or received for the contract or arrangement, if any;
- (e) the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
- (f) whether all factors relevant to the contract have even considered, if not, the details of factors not considered with the rationale for not considering those factors; and
- (g) any other information relevant or important for the Board to take a decision on the proposed transaction.

Where any director is interested in any contract or arrangement with a related party, such director shall not be present at the meeting during discussions on the subject matter of the resolution relating to such contract or arrangement.

When a transaction entered into by the Company with a related party can be said to be in its ordinary course of business for purposes of Section 188(1)?

Meaning of ‘ordinary course of business’

Black’s Law Dictionary describes “ordinary course of business” as follows:

- The transaction of business according to the usages and customs of the commercial world generally or of the particular community or (in some cases) of the particular individual whose acts are under consideration.
- The normal routine in managing a trade or business.
- Whether a particular act done is in the course of business or not is really a question of fact and that must be determined according to the evidence led and the circumstances of the case. It must be found as to whether the particular act has any connection with the normal business that the company is carrying on and whether it is so related to the business of the company that it can be considered to be performed in the ordinary course of the business of that company.
- In deciding whether a particular transaction is one, which took place in the ordinary course of business or not, it has been held in several decisions that a stray or casual transaction by a person not possessing the licence would not amount to a transaction done in the ordinary course of business...stray or casual act cannot be called an act done in the ordinary course of business.
- Expression ‘in the ordinary course of business’ means in the ordinary course of a professional avocation or current routine of business which was usually followed by the person whose declaration it is sought to be introduced.

- To regard an activity as business there must be a course of dealings, either actually continued or contemplated to be continued with a profit motive, and not for sport or pleasure. Whether a person carries on business in a particular commodity must depend upon the volume, frequency, continuity and regularity of transactions of purchase and sale in a class of goods and the transactions must ordinarily be entered into with a profit motive.
- The expression “usual course of business” is also found in certain sections of some Acts. These expressions are not statutorily defined in any one of these Acts, but there can be no doubt that they all indicate and imply uniformity of dealings, a certain degree of routine in business practice.
- ...the question to be considered is whether the contract was entered into by the respondent in the usual course of his business...That the respondent has been carrying on business in the production and supply of limestone is amply established. The record shows that he had been supplying limestone and dolomite to the from about the year 1920 and that the contracts of 1935 were entered into only in the carrying on of that business...The contract was made in settlement of the rights under those contracts. It is to be noted that under the agreement under which he received a sum of Rs.2,50,000, he also secured a contract for the supply of limestone for a period of 12 years. On these facts, it is impossible to come to any conclusion other than that the contract in question was entered into by the respondent in the ordinary course of his business.

- The expression “statement made in the ordinary course of business” means a statement made during the course not of any particular transaction of an exceptional kind, but of business or professional employment in which the deceased was ordinarily and habitually engaged.

What is an arm’s length transaction for purposes of Section 188(1)?

- The primary objective of the Act is to avoid a conflict of interest. The Act however does not prescribe rules, approach or methodology for determining whether a transaction is an arm’s length transaction. Therefore, a reference to the provisions on arm’s length transactions in the Income Tax Act, 1961 and the rules made thereunder may provide guidance as to whether a transaction was entered into on an arm’s length basis.
- Section 92C of the Income Tax Act, 1961 read with Rule 10B of the Income Tax Rules provides that the arm’s length price in relation to an international transaction or specified domestic transaction is to be determined by any of the following methods, namely:
 - a. comparable uncontrolled price method;
 - b. resale price method;
 - c. cost plus method;
 - d. profit split method;
 - e. transactional net margin method; and
 - f. such other method as may be prescribed by the Board.

- Further, Rule 10AB of the Income Tax Rules provides “for the purposes of clause (f) of sub-section(1) of section 92C, the other method for determination of the arm’s length price in relation to an international transaction or a specified domestic transaction shall be any method which takes into account the price which has been charged or paid, or would have been charged or paid for the same or similar uncontrolled transaction, with or between non-associated enterprises, under similar circumstances, considering all the relevant facts.

DISCLOSURES

- 1 Every Director will disclose his concern or interest in any company or companies or bodies corporate, firms, or other association of individuals which will include the shareholding, at the first meeting of the Board in which he participates as a Director and thereafter at the first meeting of the Board in every financial year or whenever there is any change in the disclosures already made, then at the first Board meeting held after such change, in form MBP-1.
- 2 The Company will maintain a register of all contracts and arrangements with Related Parties in form MBP-4 in the manner prescribed in the Companies Act and the rules thereunder.
- 3 The particulars of contracts or arrangement with Related Parties will be disclosed in the Directors' report in form AOC-2, in the manner prescribed in the Companies Act and the rules thereunder.
- 4 Appropriate disclosures as required under the Act and Listing Regulations shall be made in its Annual Return, Boards' Report and at such other places and to the Stock Exchanges on which equity shares of the Company are listed and such other authority as may be prescribed under the Act and Listing Regulation.
- 5 The listed entity shall submit within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges and publish the same on its website.”

The amendment shall come into force with effect from the half year ending March 31, 2019.

ANNEXURE

DEFINITIONS

i. Relative – section 2(77)

Relative has been defined to mean anyone who is related to another, if:

- they are members of a Hindu Undivided Family;
- they are husband and wife
- father including step father
- mother including stepmother
- son including stepson
- son's wife
- daughter
- daughter's husband
- brother including stepbrother
- sister including stepsister

ii. **Key Managerial Personnel – section 2(51)**

In relation to a Company, means -

- the Chief Executive Officer or the managing director or the manager;
- the company secretary;
- the whole-time director;
- the Chief Financial Officer;
- such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and
- such other officer as may be prescribed;

iii. Manager – section 2(53)

An individual who, subject to the superintendence, control and direction of the Board of Directors, has the management of the whole, or substantially the whole, of the affairs of a company, and includes a director or any other person occupying the position of a manager, by whatever name called, whether under a contract of service or not.

iv. Holding Company – section 2(46)

In relation to one or more other companies, means a company of which such companies are subsidiary companies.

For the purposes of this clause, the expression "company" includes anybody corporate;

v. Subsidiary Company or Subsidiary – section 2(87)

In relation to any other company, that is to say, the Holding company, means a company in which the holding company;

- (i) controls the composition of the Board of Directors; or
- (ii) exercises or controls more than one-half of the Total voting power
 - either at its own; or
 - together with one or more of its subsidiary companies

Explanation:

- a. a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

b. the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company, by exercise of some power exercisable by it at its discretion, can appoint or remove all or a majority of the directors;

c. the expression "company" includes anybody corporate;

vi. Associate Company – section 2(6)

In relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

(a) the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement;

(b) the expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement;

vii. Control – section 2(27)

"control" shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner.

Place: Mumbai

Date: 1st April, 2019

(Adun Saraban)
Managing Director