

MORARKA FINANCE LIMITED
POLICY ON RELATED PARTY TRANSACTIONS

(Amended as on 14.02.2020 as per MCA circular dated 18.11.2019)

The Companies Act, 2013 cast certain obligations in terms of compliances to be observed in relation to related party transactions. Basic purpose of regulations of related party provisions in the Companies Act, 2013 (hereinafter referred to as 'the Act') is that no company or its directors should take undue benefit of relationship for their personal gain.

Objectivity:-

Some of the reasons behind making the provision for the disclosure and/ or approval for any kind of transactions with related party are as follows:-

- 1) To get intimated about the relations to all the person considering its approval,*
- 2) To enlarge the competition,*
- 3) To get intimated the various government department and determine, "whether any notional/ undisclosed profit or transaction is not involved".*

*Section 2(76) "**related party**", with reference to a company, means—*

- (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 a partner;*
- (iv) a private company in which a director or manager is a member or director;*
- (v) a public company in which a director or manager is a director or 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 sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

(viii) any body 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 a company

(ix) such other person as may be prescribed;

As per Rule 3 of Companies (Specification of Definition details) Rules, 2014, following person shall be deemed to be a related party:

1. Director or KMP of the Holding Company
2. Relative of Director or KMP of the Holding Company

Section 2(77) “relative”, with reference to any person, means anyone who is related to another, if—

(i) they are members of a Hindu Undivided Family;

(ii) they are husband and wife; or

(iii) one person is related to the other in such manner as may be prescribed;

Besides above, the following are considered relative(s) including the step relationship

Father,

Mother,

Son

Son’s wife

Daughter

Daughter’s husband

Brother

Sister

As per rule 2 (e) of Companies (Meetings of Board and its Powers) Rules, 2014. "Related party" means a 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 section 184(1) every director is required to disclose his interest in other Companies, firms and also to disclose his shareholding above 2% in such company in form MBP-1. Further, as per section 184(2) every director who is interested directly or indirectly has to give disclosure in respect of contract or arrangement with body corporate in which such director or such director in association with any other director, holds more than two per cent shareholding of that body corporate, or is a promoter, manager, Chief Executive Officer of that body corporate, or with a firm or other entity in which such director is a partner, owner or member, as the case may be.

Related party transactions

The related party under Companies Act, 2013 covers following transactions:

- (a) sale, purchase or supply of any goods or materials*
- (b) Selling or otherwise disposing of, or buying, property of any kind;*
- (c) Leasing of property of any kind*
- (d) Availing or rendering of any services;*
- (e) Appointment of any agent for purchase or sale of goods, materials, services or property;*
- (f) Such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and*
- (g) Underwriting the subscription of any securities or derivatives thereof, of the company*

Consent of Board of Directors through a specific resolution is required for entering into the transaction.

As per rule 15 of Companies (Meetings of Board and its Powers) Rules, 2014 notified w.e.f. 1st April 2014, the Agenda of Board Meeting should disclose the following points specifically:

- (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 been 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-

As per provisions of first proviso to sub-section (1) of section 188, except with the prior approval of the company by a resolution-

- (i) A company shall not enter into a transaction or transactions, where the transaction or transactions to be entered into -*

- (a) As contracts or arrangements with respect to clauses (a) to (e) of sub-section (1) of section 188 with criteria, as mentioned below -*

- (i) sale, purchase or supply of any goods or materials directly or through appointment of agents amounting to ten percent or more of the turnover of the company, as mentioned in clause (a) and clause (e) respectively of sub-section (1) of section 188;*

- (ii) Selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agents amounting to ten percent or more of net worth of the company as mentioned in clause (b) and clause (e) respectively of sub-section (1) of section 188;*

- (iii) leasing of property of any kind amounting to ten percent or more of the turnover of the Company, as mentioned in clause (c) of sub-section (1) of section 188;*

- (iv) *Availing or rendering of any services directly or through appointment of agents amounting to ten percent or more of the turnover of the company, as mentioned in clause (d) and clause (e) of sub-section (1) of section 188;*
- (b) *appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration exceeding two and half lakh rupees as mentioned in clause (f) of sub-section (1) of section 188; or*
- (c) *Remuneration for underwriting the subscription of any securities or derivatives thereof of the company exceeding one percent of the net worth as mentioned in clause (g) of sub-section (1) of section 188.*

Explanation. – (1) The Turnover or Net Worth referred in the above sub-rules shall be on the basis of the Audited Financial Statement of the preceding financial year.

TRANSACTIONS ON ARM'S LENGTH BASIS

Transactions which are made in the ordinary course of business on arm's length basis are exempted from compliances u/s 188 & relevant rules thereunder.

“Arm's length transaction” means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

Arm's length basis means the transactions should be independent and is being done on same terms and conditions as if done with some unrelated party.

TRANSACTIONS BETWEEN HOLDING AND WHOLLY OWNED SUBSIDIARY COMPANY

As per rule 15(2) of Companies (Meetings of Board and its Powers) Rules, 2014, in case the Holding Company passes the special resolution in respect of related party transaction with its wholly owned subsidiary company, then it shall be sufficient compliance. Sub-rule (2) is reproduced below:

(2) In case of wholly owned subsidiary, the resolution passed by the holding company shall be sufficient for the purpose of entering into the transactions between wholly owned subsidiary and holding company.

DISCLOSURE IN BOARD REPORT

Pursuant to the provisions of Section 134(3)(h) of the Act, the Company is also required to disclose the particulars of contract or arrangement with related parties in the Board of Director's report.

POLICY

- 1. All transactions between related parties should be at arm's length pricing.*
- 2. All such transactions must be disclosed & taken on record & approved in the first Board meeting held immediately after such transaction.*
- 3. All such transactions must be recorded in the Register of contract.*
- 4. Wherever necessary, approvals of shareholders must be obtained in the immediately following General Meeting.*
- 5. Interested Director should not participate in matters related to related party transactions.*
- 6. There should be sufficient quorum of non-interested directors for according approval to related party transactions.*
- 7. Wherever possible, comparative quotes may be obtained from one or more supplier or service provider to establish arm's length transaction.*
- 8. The policy is subject to review as per requirements & needs considering changes which may take place in the provisions of the Act & the rules in future.*