



**Spandana Sphoorty Financial Limited**

**Policy on Materiality of Related Party Transactions  
And  
Procedure for dealing with Related Party Transactions  
Date of Implementation: 14<sup>th</sup> June, 2018**

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**Preamble:**

This policy is intended to ensure proper approval and reporting of transactions between the Spandana Sphoorty Financial Limited (SSFL) and its related parties (RPT).

**Objective:**

Section 188 of the Companies Act, 2013 read with Companies (Meetings of Board and its Powers) Rules, 2014 provides the detailed mechanism for dealing with Related Parties Transactions of the Company by way of Audit Committee approval, Board approval and Shareholder's approval in specific circumstances.

This Policy provides the criteria for determining the materiality of Related Party Transactions.

The objective of this Policy is to ensure proper approvals & reporting of the transactions between SSFL and its Related Parties in compliance of provisions of the Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations") and any other applicable statutory provisions for the time being in force, in this regard.

**DEFINITIONS:**

1. **Arm's Length transaction:** means a transaction between two related parties that is conducted as if they are unrelated, so that there is no conflict of interest, as defined in Explanation (b) to Section 188 (1) of the Companies Act, 2013.
2. **Associate Company:** As per Section 2(6) of the Companies Act, 2013, Associate Company, 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.

Explanation – For the purposes of this clause, "significant influence" means control of at least twenty per cent of total share capital, or of business decisions under an agreement.

3. **Audit Committee:** means "Audit Committee" constituted by the Board of Directors of the Company under the provisions of Listing agreement and Companies Act, 2013, from time to time.
4. **Board:** means Board of Directors of Spandana Sphoorty Financial Limited.
5. **Company:** means "The KCP Limited".
6. **Key Managerial Personnel's (KMPs)** – in relation to a company, means
  - (i) the Chief Executive Officer or the managing director or the manager;
  - (ii) the company secretary;
  - (iii) the whole-time director;
  - (iv) the Chief Financial Officer. And
  - (v) such other officer as may be prescribed under Companies Act, 2013.

7. **Related Party:** An entity shall be considered as related to the Company if:

- (i) such entity is a related party as defined under Section 2(76) of the Companies Act, 2013; or
- (ii) such entity is a related party under the applicable accounting standard(s).

Related Party under Section 2(76) of the Companies Act, 2013

**Related Party 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 or 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) any body 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 company 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;
- (ix) A Director (other than Independent Director) or Key Managerial Personnel (KMP) of the holding company of such company or his relative.

The Accounting Standard 18 defines related party as “parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and / or operating decisions.

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” The Accounting Standard 18 deals only with related party relationships described below:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);

- (b) associates and joint ventures of the reporting enterprise and the investing party or venture in respect of which the reporting enterprise is an associate or a joint venture;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;
- (d) key management personnel and relatives of such personnel; and
- (e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

In the context of this Standard, the following are deemed not to be related parties:

- two companies simply because they have a director in common notwithstanding para 3 (d) or 3 (e) above. a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise
- transacts a significant volume of business merely by virtue of the resulting economic dependence; and the parties listed below, in the course of their normal dealings with an enterprise by virtue only of those dealings.

(i) Providers of finance; (ii) Trade unions; (iii) Public utilities; (iv) Government departments and government agencies including government sponsored bodies No disclosure is required in the financial statements of state-controlled enterprises as regards related party relationships with other state-controlled enterprises and transactions with such enterprises. State-controlled enterprise means an enterprise which is under the control of the Central Government and/or any State Government(s).

**9. Related Party Transaction:** Section 188 of the Companies Act, 2013 encompasses all contracts or arrangements with a Related Party with respect to:-

- (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.

Further, as per the Listing Regulations, , "related party transaction" means a transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged. Further, a "transaction" with a related party shall be construed to include single transaction or a group of transactions in a contract.

**Relatives:** In accordance with Section 2 (77) of the Companies Act, 2013 relative 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) A person shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely:-
- (a) Father: Provided that the term "Father" includes step-father.
  - (b) Mother: Provided that the term "Mother" includes the step-mother.
  - (c) Son: Provided that the term "Son" includes the step-son.
  - (d) Son's wife.
  - (e) Daughter.
  - (f) Daughter's husband.
  - (g) Brother: Provided that the term "Brother" includes the step-brother;
  - (h) Sister: Provided that the term "Sister" includes the step-sister;

**Material Related Party Transactions** - A transaction with a related party shall be considered 'material' if the transaction / transactions to be entered into individually or taken together with previous transactions during a financial year, **exceeds ten percent of the annual consolidated turnover of the Company** as per the last audited financial statements of the company.

#### **PROCEDURE:**

The Company shall enter into any contract(s) or arrangement(s) or transaction(s) with a Related Party only after seeking prior approvals of the following:-

1. **Audit Committee:** All Related Party Transactions, whether entered on arm's length basis or not, shall require **prior** approval of the Audit committee either by circulation or at a meeting. The Audit Committee may also grant omnibus approval for Related Party Transactions proposed to be entered into by the Company subject to the following conditions:
  - a) The Audit Committee shall, after obtaining approval of the Board of Directors, lay down the criteria while granting omnibus approval and such approval shall be applicable in respect of transactions which are repetitive in nature.
  - b) The Audit Committee shall satisfy itself the need for such omnibus approval for transactions of repetitive nature and that such approval is in the interest of the Company;
  - c) The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, viz.:-
    - i. Repetitiveness of the transactions (in past or in future),
    - ii. Justification for the need of omnibus approval.
  - d) Such omnibus approval shall specify:-

- (i) the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that can be entered into, in aggregate in a year, maximum value per transaction which is allowed,
- (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 Related Party Transaction cannot be foreseen and aforesaid details are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding ` 1 crore per transaction.

- e) Audit Committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the company pursuant to each of the omnibus approval given.
- f) Such omnibus approvals shall be valid for a period not exceeding one financial year and shall require fresh approval after the expiry of such financial year.
- g) Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the Company.

## ii. Board of Directors:

All Related Party Transactions, which are proposed to be entered by the Company

- (i) other than in ordinary course of business; and /or
- (ii) other than on arm's length basis, shall require **prior** approval of the Board of Directors of the Company, by means of passing of resolution at a meeting of the Board.

Where any Director is interested in any Related Party Transaction, such Director will abstain from discussion and voting on the resolution relating to such transaction.

### A. Details to be provided to the Audit Committee-

With respect to Related Party Transactions requiring approval of the Audit Committee, the following information, to the extent relevant, shall be presented to the Audit Committee:

- A general description of the transaction(s), including the material terms and conditions.
- The name of the Related Party and the basis on which such person or entity is a Related Party.
- Name of director or KMP who is related.
- Period of transaction

- Maximum amount of transaction that can be entered into
  - The Related Party's interest in the transaction(s), including the Related Party's position or relationship with, or ownership of, any entity that is a party to or has an interest in the transaction(s).
  - The indicative base price / current contracted price and the formula for variation in the price if any
  - Any other material information regarding the transaction(s) or the Related Party's interest in the transaction(s).
- B. Ordinary Course of business- Ordinary Course of Business includes but not limited to a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions.**
- C. Arm's length transactions - The Audit Committee shall consider the following, while determining the transaction on arm's length basis:**  
 "The transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest"
- D. Each director/KMP who is a Related Party with respect to a particular Related Party Transaction shall disclose all material information to the Audit Committee/Board of Directors concerning such Related Party Transaction and his or her interest in such transaction.**
- E. The Audit Committee shall also review and approve any modification, renewal or extension of any Related Party Transaction.**
- F. The Audit Committee shall periodically review this Policy and may recommend amendments to this Policy to the Board from time to time as it deems appropriate.**
- G. This Policy is intended to augment and work in conjunction with other Company policies having any code of conduct, code of ethics and/or conflict of interest provisions.**

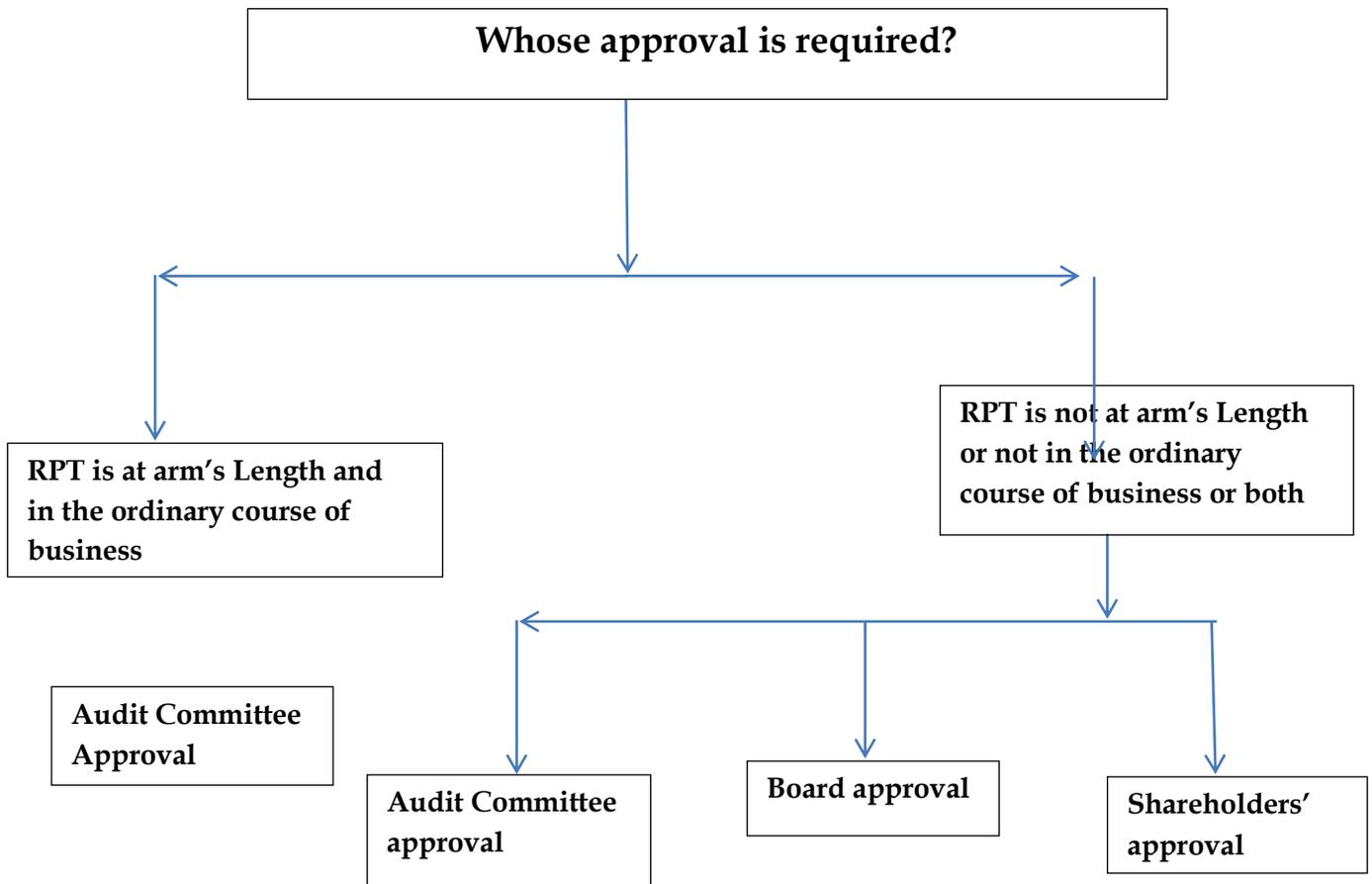
**APPROVAL OF BOARD OF DIRECTORS AND SHAREHOLDERS:**

In accordance with Section 188 of the Companies Act, 2013 and the Listing Regulations, the **Board of Directors and shareholders of the Company** shall accord prior approval for related party transactions, subject to the following:

- A. Board of Directors and Shareholders' approval in terms of Companies Act, 2013 -** All Related Party Transactions which are either not on arm's length basis or not in the Ordinary Course of Business shall be recommended by the Audit Committee for the approval of the Board of Directors. The Board of Directors shall further recommend the same for the approval of the Shareholders by way of resolution of the Company, in case the said transactions exceed the value of transactions as provided under Section 188 of the Companies Act, 2013.
- B. Board of Directors and Shareholders' approval in terms of Listing Agreement-**  
 In terms of Regulation 23 of the Listing Regulations, 2015, all material Related Party Transaction shall be recommended by the Board of Directors to the shareholders for their approval by way of resolution.

All entities falling under the definition of related parties shall abstain from voting irrespective of whether the entity is a party to the particular transaction or not.

**AUDIT COMMITTEE/BOARD/SHAREHOLDER APPROVAL MECHANISM FOR ENTERING INTO RELATED PARTY TRANSACTIONS**



#### **RATIFICATION OF THE RELATED PARTY TRANSACTIONS:**

Where any contract or arrangement, which is considered as a related party transaction exclusively as per Companies Act, 2013, is entered into by a Director or any other employee, without obtaining the consent of Audit Committee or the Board or the shareholders of the Company, such transaction shall be ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into.

In case such transaction is not ratified within the specified period, such contract or arrangement shall be voidable at the option of the Board and if the contract or arrangement is with a related party to any director, or is authorized by any other director, the directors concerned shall indemnify the company against any loss incurred by it.

#### **RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY:**

In the event the Management of the Company becomes aware of any Related Party Transactions that has not been approved under this policy, the matter shall be reviewed by the Audit Committee. Audit Committee may consider all of the relevant facts and circumstances regarding the Related Party Transactions and may evaluate all the options available with the Company.

Audit Committee may also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Committee under this Policy and may take any such action it deems appropriate.

#### **DISCLOSURE:**

Every Contract or arrangement entered with Related Parties to which Sub section (1) of Section 188 of the Companies Act 2013 is applicable shall be referred to in the Board's Report to the shareholders along with the justification for entering into such contract or arrangements. The disclosures required in terms of Companies Act, 2013 in **Form AOC - 2**.

Details of all Material Related Party Transactions shall be disclosed quarterly along with the compliance report on corporate governance.

The company shall disclose this policy on its website and a web link thereto shall be provided in the Annual Report.

#### **EXEMPTION FROM APPLICABILITY OF THE POLICY:**

Notwithstanding the foregoing, but subject to the provisions of the applicable laws from time to time, this policy shall not apply to the following Related Party Transactions shall not require approval of Audit Committee or Shareholders:

- (i) Transactions entered into between the Company and its wholly owned subsidiary whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval.
- (ii) Any transaction that involves the providing of compensation to a director or Key Managerial Personnel in connection with his or her duties to the Company or any of its subsidiaries or associates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.



(iii) Any transaction in which the Related Party's interest arises solely from ownership of securities issued by the Company and all holders of such securities receive the same benefits pro rata as the Related Party.

**POLICY REVIEW, ETC.:**

The Board of Directors of the Company may subject to applicable laws is entitled to amend, suspend or rescind this Policy at any time. Any difficulties or ambiguities in the Policy will be resolved by the Board of Directors in line with the broad intent of the Policy. The Board may also establish further rules and procedures, from time to time, to give effect to the intent of this Policy.

In the event of any conflict between the provisions of this policy and of the applicable law dealing with the related party transactions, such applicable law in force from time to time shall prevail over this policy.

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