

# **Mega Nirman & Industries Limited**

## **REVISED POLICY ON RELATED PARTY TRANSACTIONS**

### **1. PREAMBLE:**

Mega Nirman & Industries Limited (The Company) has always been committed to good corporate governance practices. As a matter of practice, the company follows Arm's length basis in transacting business with its related parties which are in the ordinary course of business.

The Board of Directors has adopted this policy upon recommendation of the Audit Committee. Related party transactions can present a potential or actual conflict of interest which may be against the best interest of the company and its shareholders. Considering the requirements for approval of related party transactions as prescribed under the Companies Act, 2013 ("Act") read with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, to be effective from 1<sup>st</sup> December, 2015 (hereinafter referred to as SEBI Regulations, 2015). Mega Nirman & Industries Limited has formulated revised guidelines for identification of related parties and for proper conduct and documentation of all related party transactions.

Moreover, Regulation 23(1) of SEBI Regulations, 2015 requires a listed company to formulate a policy on materiality of related party transactions and on dealing with related party transactions.

In the light of the above, Mega Nirman & Industries Limited has revised its Policy on Related Party Transactions ("Policy"). This Policy has been adopted by the Board of Directors of the Company based on recommendations of the Audit Committee. Going forward, the Audit Committee would review and amend the Policy, as and when required, subject to the approval of the Board.

### **2. OBJECTIVE OF THE POLICY :**

The objective of this Policy is to set out (a) the materiality thresholds for related party transactions and (b) the manner of dealing with the transactions between the Company and its related parties based on the Act, Regulation 23 of SEBI Regulations, 2015 and any other laws and regulations as may be applicable to the Company.

### **3. DEFINITIONS :**

- (a) "Act" shall mean the Companies Act, 2013 and the Rules framed there under, including any modifications, amendments, clarifications or re-enactment thereof.

(b) "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.

(c) "Associate company" means any other company, in which the 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 purpose of this clause, "significant influence" means Control of at least twenty per cent of total share capital, or of business decisions under an Agreement.

(d) "Audit Committee" means the Committee of the Board formed under Section 177 of the Act and Regulation 18 of SEBI Regulations, 2015.

(e) "Company" means Mega Nirman & Industries Limited.

(f) "Key Managerial Personnel" means Key Managerial Personnel of the Company in terms of the Companies Act, 2013 and the Rules made there under.

(g) "Material Related Party Transaction" means a material transaction as defined in Regulation 23(1) of SEBI Regulations, 2015 or any other law or regulation including any amendment or modification thereof, as may be applicable.

(h) "Related Party" means a person or an entity (i) which is a related party under Section 2(76) of the Companies Act, 2013;

Or

(ii) which is a related party under applicable accounting standards.

Related party under Section 2(76) of the Companies Act, 2013 and Rules made there under are as follows:

(i) a director or his relative;

(ii) 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 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) 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) such other persons as may be prescribed by the Central Government.
- (i) "Related Party Transaction" as per SERI Regulations, 2015 means a transfer of resources, services or obligations between the Company and a Related Party, regardless of whether a price is charged. A 'transaction' with related party shall be construed to include a single transaction or a group of transactions in the contract.

As per Section 188 of the Act, the following are related party transactions:

- (i) sale, purchase or supply of any goods or materials;
- (ii) selling or otherwise disposing of or buying, property of any kind;
- (iii) leasing of property of any kind;
- (iv) availing or rendering of any services;
- (v) appointment of any agent for purchase or sale of goods, materials, services or property,
- (vi) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
- (vii) underwriting the subscription of any securities or derivatives thereof, of the company;
- (j) "Relative" with reference to any person means anyone who is related to another, if-
  - (i) they are members of Hindu Undivided Family;
  - (ii) they are husband and wife; or
  - (iii) one person is related to the other person as:
    - (a) Father (including step-father)
    - (b) Mother (including step-mother)
    - (c) Son (including step-son)
    - (d) Son's wife
    - (e) Daughter
    - (f) Daughter's husband
    - (g) Brother (including step-brother)
    - (h) Sister (including step-sister)
- (k) "Subsidiary" 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 share capital either at its own or together with one or more of its subsidiary companies.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, the SEBI Regulations, 2015, Securities Contracts Regulation Act or any other applicable law or regulation.

#### **4. MATERIALITY THRESHOLDS:**

Regulation 23(1) of SEBI Regulations, 2015 requires a company to provide materiality thresholds for transactions beyond which the shareholders' approval will be required by way of an Ordinary Resolution. Voltas has fixed its materiality

threshold at 10% of

the annual consolidated turnover as per last audited financial statements of the Company, which is in line with the limits presently prescribed in SEBI Regulations, 2015. Accordingly, all transactions with 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, exceed 10% of the annual consolidated turnover of the Company, based on the last audited financial statements.

## **5. MANNER OF DEALING WITH RELATED PARTY TRANSACTIONS**

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- (a) Identification of related parties Voltas Limited has and shall identify and update the list of related parties as prescribed under Section 2(76) of the Act read with the Rules framed there under and Regulation 2(zb) of SEBI Regulations, 2015.
- (b) Identification of related party transactions Voltas Limited has and shall identify related party transactions in accordance with Section 188 of the Act and SEBI Regulations, 2015. Voltas Limited has also formulated certain criteria for determining whether the transaction is in the ordinary course of business and at arm's length basis and for this purpose, the Company shall seek external professional opinion, if necessary. While 'Ordinary Course of Business' (OCB) has not been defined in the Companies Act, 2013 and/or SEBI Regulations, 2015, OCB means the usual transactions, customs and practices undertaken by the

Company to conduct its business operations and activities and includes all such activities which the Company can undertake if:

- i. the Objects clause of Memorandum of Association of the Company permits such activity; or
  - ii. it is a historical practice and there is a pattern of frequency (and not an isolated transaction); or
  - iii. it has a connection with the normal business carried on by the Company;
- Or
- iv. the income, if any, earned from such activity/transaction is assessed as business income in the Company's books of accounts and hence, is a 'business activity'; and
  - v. it is a common commercial practice.

(c) Arm's length price - Principle A related party transaction should be priced at a level at which unrelated parties would undertake 'similar' transactions under 'similar' conditions.

(d) Procedure for approval of related party transactions

- Approval of the Audit Committee All related party transactions require prior approval of the Audit Committee. However, the Company may obtain omnibus approval from the Audit Committee for such transactions, subject to compliances with the following conditions:

- ❖ The Audit Committee shall lay down the criteria for granting the omnibus approval in line with the Policy and such approval shall be applicable in respect of repetitive transactions;
- ❖ The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the company;
- ❖ The omnibus approval shall provide details of:
  - 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 (for ex: +/- 5%), and
- iii. such other conditions as the Audit Committee may deem fit.
 

However, in case of related party transactions which cannot be foreseen and where the above details are not available, Audit Committee may grant omnibus approval provided the value does not exceed Rs.1 crore per transaction;

  - ❖ The 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;
  - ❖ Such omnibus approval shall be valid for a period of one year and shall require fresh approval after the expiry of one year.

While assessing a proposal put up before the Audit Committee / Board for approval, the Audit Committee / Board may review the following documents / seek the following information from the Management in order to determine if the transaction is in the ordinary course of business and at arm's length or not:

1. Nature of the transaction i.e. details of goods or property to be acquired / transferred or services to be rendered / availed — including description of functions to be performed, risks to be assumed and assets to be employed under the proposed transaction;
2. Key terms (such as price and other commercial compensation contemplated under the arrangement) of the proposed transaction, including value and quantum;
3. Key covenants (non-commercial) as per the draft of the proposed agreement/ contract to be entered into for such transaction;
4. Special terms covered / to be covered in separate letters or undertakings or any other special or sub arrangement forming part of a composite transaction;
5. Benchmarking information that may have a bearing on the arm's length basis analysis, such as:
  - ❖ market analysis, research report, industry trends, business strategies, financial forecasts, etc.;
  - ❖ third party comparables, valuation reports, price publications including stock exchange and commodity market quotations;
  - ❖ management assessment of pricing terms and business justification for the proposed transaction;

- ❖ comparative analysis, if any, of other such transactions entered into by the company.

While Regulation 23(5) of SEBI Regulations, 2015 provides that the requirement for seeking approval of the Audit Committee shall not be applicable to transactions between MNIL and its wholly owned subsidiary/ies whose accounts are consolidated with MNIL and placed before the Shareholders at a General Meeting, no such exemption has been provided under the Companies Act, 2013.

- Approval of the Board of Directors of the Company As per the provisions of Section 188 of the Act, all kinds of transactions specified under the said Section and which are not in the ordinary course of business and at arm's length basis, would be placed before the Board for its approval.

In addition to the above, the following kinds of transactions with related parties would also be placed before the Board for its approval:

- ❖ Transactions which may be in the ordinary course of business and at arm's length basis, but which are as per the policy determined by the Board from time to time (i.e. value threshold and/or other parameters) require Board approval in addition to Audit Committee approval;
- ❖ Transactions in respect of which the Audit Committee is unable to determine whether or not they are in the ordinary course of business and/or at arm's length basis and decides to refer the same to the Board for approval;
- ❖ Transactions which are in the ordinary course of business and at arm's length basis, but which in Audit Committee's view requires Board approval; and
- ❖ Transactions beyond the materiality threshold limit laid down under Clause 5 of the Policy (10% of annual consolidated turnover), which are intended to be placed before the shareholders for approval.

- Approval of the Shareholders of the Company All transactions with related parties beyond the materiality threshold limit, laid down in Clause 5 of the Policy, would be placed before the shareholders for approval, irrespective of the fact whether the transaction, contract or arrangement is in the ordinary course of business or at arm's length.

For this purpose, 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.

In addition to the above, all kinds of transactions specified under Section 188 of the Act which

- a) are not in the ordinary course of business and at arm's length basis; and
- b) exceed the threshold limits laid down in Companies (Meetings of Board and its Powers) Rules, 2014, would be placed before the shareholders for their approval.

## **6. DISCLOSURES:**

Mega Nirman & Industries Limited shall disclose, in the Board's report, transactions prescribed in Section 188(1) of the Act with related parties, which are not in ordinary course of business or arm's length basis along with the justification for entering into such transaction.

In addition to the above, Mega Nirman & Industries Limited shall also provide details of all related party transactions meeting the materiality threshold (laid down in Clause 5 of the Policy above) on a quarterly basis in the Compliance Report on Corporate Governance submitted to the Stock Exchanges.

The Company shall disclose the Policy on dealing with Related Party Transactions on its website, pursuant to Regulation 46(2) of SEBI Regulations, 2015.

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

In the event the Company becomes aware of a transaction with a related party that has not been approved in accordance with this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all relevant facts and circumstances regarding the related party transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of the related party transaction. The Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such related party transaction to the Audit Committee under this Policy and failure of the internal control systems, and shall take any such action it deems appropriate.

In any case, where the Audit Committee determines not to ratify a related party transaction that has been commenced without approval, the Audit Committee, as appropriate, may direct additional actions including, but not limited to, discontinuation of the transaction or seeking the approval of the shareholders, payment of compensation for the loss suffered by the related party, etc. In connection with any review/approval of a related party transaction, the Audit Committee has authority to modify or waive any procedural requirements of this Policy.

## **8. EFFECTIVE DATE:**

The Policy as approved by the Board of Directors shall be effective from 1<sup>st</sup> December, 2015.