

Nirlon Limited's Related Party Transaction (**RPT**) Policy

(Effective from March 29,2016)\*

**I. Background, Introduction of LODR, 2015 by the SEBI, Amendment & Adoption of the Policy**

i. Background

The Board of Directors ("**the Board**") of Nirlon Limited ("**the Company**" or "**NL**") , adopted the Related Party Transaction (**RPT**) Policy and procedures with regard to Related Party Transaction/s on October 1, 2014 in order to comply with section 188 of the Companies Act, 2013, and the amended Clause 49 of the Listing Agreement.

ii. Introduction of LODR, 2015 by SEBI

SEBI introduced Listing Obligations & Disclosure Requirements Regulations, 2015 (**LODR, 2015**) effective from December 1, 2015. LODR,2015 provide, interalia, various regulations, annexures and schedules and all listed companies are required to comply with the provisions of the LODR, 2015. With the introduction of the LODR, 2015, the BSE Listing Agreement comes to an end.

iii. Amendment to the RPT policy

The LODR, 2015 do provide specific regulation with regard to RPT and hence, the Policy originally adopted by the Board is required to be amended suitably by deleting the reference of clause 49 of the BSE Listing Agreement as the same is repealed.

iv. Adoption of the RPT Policy

The Directors on March 29, 2016 approved the revised RPT Policy in compliance with the Act and LODR, 2015.

## **II. Objectives**

a. The RPT Policy is in accordance with the requirement of Regulation 23 of the LODR, 2015 and Section 188 of the Companies Act, 2013, and is intended to ensure the proper approval and reporting of transaction/s between the Company and its Related Parties.

b. The Company is required to disclose each year in the Financial Statements applicable transaction/s between the Company and Related Parties, as well as policies concerning transaction/s with Related Parties. Such transactions are appropriate only if they are in the best interest of the Company and its shareholders.

## **III. Definitions**

- i. **“Audit Committee”/“AC”** means existing Committee of Independent directors of the Company and any reconstitution thereof from time to time in accordance with the Act and the LODR,2015;
- ii. **“Applicable Accounting Standard”** means existing Accounting Standards 18 / AS18 as provided by the Institute of Chartered Accountants of India (ICAI), or any other applicable standard as may be laid down for the same from time to time;
- iii. **“Board”** means Board of Directors of the Company from time to time;
- iv. **“Control”** shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and AS-18 and any modification and amendment thereto;
- v. **“Key Managerial Personnel”** means a person defined in section 2 (51) of the Act, and shall include :-
  1. Executive Director;
  2. Company Secretary; and
  3. Chief Financial Officer.
- vi. **“SEBI (LODR) Regulations, 2015”/“LODR,2015”** means Listing Obligations and Disclosure Requirements Regulations, 2015 as notified by the Securities and Exchange Board of India on September 2, 2015 effective from December 1, 2015, and any modification and amendment thereto;
- vii. **“Senior Management”** mean personnel of the Company who are members of its core management team excluding the Board of Directors. This would also include Vice Presidents, Head of Departments, General Managers and employees up to the rank of Senior Managers;

- viii. **“Material Related Party Transaction”** means a transaction with a related party if the transaction/s to be entered into individually, or taken together with previous transactions during a financial year, **exceeds ten (10) %** of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity;
  - ix. **“Policy”** means the Related Party Transaction Policy;
  - x. **“Related Party”** means related party as defined under sub-regulation (zb) of Regulation 2 of the LODR,2015 as defined :-  
**‘Related Party’** means a related party as defined under sub-section (76) of section 2 of the Act, or under the applicable Accounting Standards and it includes:-
    - 1. A person or close member of that person’s family is related to a Company, if that person:
      - a. is a related party under Section 2(76) of the Act, which are as follows: -
        - 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 2 (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 under whose advice, directions or instructions a director or manager is accustomed to act.
- Provided that** nothing in above 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. such other person as may be prescribed;
  - b. has control or joint control or significant influence over the Company ; or
  - c. is a Key Managerial Personnel of the Company or of a parent of the Company;
- 2. An entity is related to a company if any of the following conditions apply:

- a. The entity is a related party under Section 2(76) of the Act; or
  - b. The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); or
  - c. 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); or
  - d. Both entities are joint ventures of the same third party; or
  - e. One entity is a joint venture of a third entity and the other entity is an associate of the third entity; or
  - f. The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company. If the company is itself such a plan, sponsoring employers are also related to the company; or
  - g. The entity is controlled or jointly controlled by a person identified in (1);
  - h. A person defined in (1)(b) as significant influence over the entity ( or of a parent of the entity)
- xii. **"Related Party Transaction"** related party as defined under sub-regulation (zc) of Regulation 2 of the LODR means transfer of resources, services or obligations between a listed entity and a related party, regardless of whether a price is charged and a transaction with a related party shall be construed to include a single transaction or a group of transactions in a contract.
- xiii. **"Relative"** means relative as defined under the Act, and includes anyone who is related to another, if:-
- a. They are members of a Hindu Undivided Family (**HUF**);
  - b. They are husband and wife; or
  - c. Father (including step-father)
  - d. Mother (including step-mother)
  - e. Son (including step-son)
  - f. Son's wife
  - g. Daughter
  - h. Daughter's husband
  - i. Brother (including step-brother)
  - j. Sister (including step-sister)
- xiv. **"Act"** means Companies Act, 2013 any modifications and/ or re-enactment thereof.
- xv. **"Regulation"**, means Regulation 23 of the LODR,2015 and any modification and amendment thereto.
- xvi. **"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.

#### **IV. Constitution of the Committee**

1. Presently, the AC consists of four (4) Independent Non-Executive Directors including one (1) woman director, which together constitutes more than 50% of the Board Members;
2. The Chairman of the AC is, and shall be an Independent Non Executive Director, and shall be a member of the AC;
3. Minimum two (2) members present in person shall constitute a quorum for the Committee meeting;
4. The Company Secretary of the Company shall act as the Secretary of the Committee;

#### **V. Scope**

All Related Party Transactions must be reported to the AC and referred for approval by the AC in accordance with the RPT Policy.

#### **(A) Section 188 of the Act lays down that:-**

1. Except with the consent of the Board of Directors given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, the Company shall not enter into any contract or arrangement with a related party with respect to:-
  - a. Sale, purchase or supply of any goods or materials not exceeding twenty five (25) % of the annual turnover;
  - b. Selling or otherwise disposing of, or buying, property of any kind not exceeding ten (10) % of the net worth;
  - c. Leasing of property of any kind not exceeding ten (10) % of the net worth or not exceeding ten (10) % of turnover;
  - d. Availing or rendering of any services not exceeding ten (10) % of the net worth;
  - e. Appointment of any agent for purchase or sale of goods, materials, services or property not exceeding ten (10) % of the net worth;
  - f. Such related party's appointment to any office or place of profit in the Company, its subsidiary company or associate company, at a monthly remuneration not exceeding of Rupees 2,50,000/-;
  - g. Underwriting the subscription of any securities or derivatives thereof, of the Company not exceeding one (1) % of the net worth;

**It is provided that** in case of a company whose paid up equity share capital is in excess of Rs.10.00 Crore or for transactions sums exceeding the above limits {A 1 (a to g)} , then such a company can enter into

contract or arrangement with a related party only with the prior approval of the Company by a special resolution.

- (B) No member of the Company shall vote on such special resolution, to approve any contract or arrangement which may be entered into by the Company, if such member is a related party;
- (C) This Policy shall not affect 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.
  - 2. Every contract or arrangement entered into under this Policy shall be referred to in the Board's Report to the shareholders along with the justification for entering into such contract or arrangement;
  - 3. It is also clarified that where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board, or approval by a special resolution in the general meeting under this Policy and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within 3(three) months from the date on which such contract or arrangement was entered into, 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 authorised by any other director, the directors concerned shall indemnify the Company against any loss incurred by it;
  - 4. Any director or any other employee of the Company, who had entered into or authorised the contract or arrangement in violation of the provisions of this Policy shall be punishable with imprisonment for a term which may extend to one (1) year, or with a fine which shall not be less than Rs.25,000/-(Rupees twenty-five thousand) but which may extend to Rs.5,00,000/- (Rupees five lakh), or with both.

#### **VI. Disclosure of Interest by Directors**

1. Every director shall at the first meeting of the Board in which he/ she 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, disclose his/ her concern or interest in any company or companies or bodies corporate, firms, or other association of individuals which shall include the shareholding, in such manner as may be prescribed;
2. Every director of the Company who is in any way, whether directly or indirectly, concerned or interested in a contract or arrangement or proposed contract or arrangement entered into or to be entered into:-
  - a. with a body corporate in which such director or such director in association with any other director, holds more than 2 ( two)

- % Shareholding of that body corporate, or is a promoter, manager, Chief Executive Officer of that body corporate; or
- b. with a firm or other entity in which such director is a partner, owner or member, as the case may be, shall disclose the nature of his/her concern or interest at the meeting of the Board in which the contract or arrangement is discussed and shall not participate in such meeting;

**Provided that** where any director who is not so concerned or interested at the time of entering into such contract or arrangement, he/she shall, if he/she becomes concerned or interested after the contract or arrangement is entered into, disclose his/her concern or interest forthwith when he/she becomes concerned or interested or at the first meeting of the Board held after he/she becomes so concerned or interested.

3. A contract or arrangement entered into by the Company without disclosure under clause (VI)(2) or with participation by a director who is concerned or interested in any way, directly or indirectly, in the contract or arrangement, shall be voidable at the option of the Company;
4. If a director of the Company contravenes the provisions of clause (VI)(1) or (VI)(2), such director shall be punishable with imprisonment for a term which may extend to 1 (one) year or with a fine which shall not be less than Rs.50,000/- (Rupees fifty thousand only) but which may extend to Rs. 1,00,000/- (Rupees one lakh only) , or with both;
5. Nothing in this RPT Policy:-
  - a. shall be taken to prejudice the operation of any rule of law restricting a director of a company from having any concern or interest in any contract or arrangement with the Company;
  - b. shall apply to any contract or arrangement entered into or to be entered into between two companies where any of the directors of the one company or two or more of them together holds or hold not more than 2 (two) % of the paid-up share capital in the other company.

## **VII. Procedure to be followed by Directors**

### **1. Disclosures**

- 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.

## **2. Identification of Potential Related Party Transaction/s**

Each director, Key Managerial Personnel and Senior Management are responsible for providing notice to the Board or AC of any potential Related Party Transaction involving him or her or his or her Relative, including any additional information about the transaction that the Board / AC may reasonably request. The Board / AC will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with the RPT Policy.

The Company strongly prefers to receive such notice of any potential Related Party Transaction well in advance so that the Board/AC has adequate time to obtain and review information about the proposed transaction.

## **3. Prohibitions related to Related Party Transaction/s**

All Related Party Transactions shall require prior approval of Board/AC.

Further, all Material Related Party Transactions shall require approval of the shareholders through a special resolution, and the Related Parties shall abstain from voting on such resolutions.

## **4. Review and Approval of Related Party Transaction**

Related Party Transaction/s will be referred to the next regularly scheduled meeting of AC / Board for review and approval. Any member of the AC / Board who has a potential interest in any Related Party Transaction will abstain himself /herself and also refrain from discussion and voting on the approval of the Related Party Transaction.

To review a Related Party Transaction, the AC / Board will be provided with all relevant material information of the Related Party Transaction, including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and to the Related Party, and any other relevant matters. In determining whether to approve a Related Party Transaction, the AC / Board will consider the following factors, among others, to the extent relevant to the Related Party Transaction:

- Whether the terms of the Related Party Transaction are fair and on an arms length basis to the Company and would apply on



the same basis if the transaction did not involve a Related Party;

Whether there are any compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;

- Whether the Related Party Transaction would affect the independence of an independent director;
- Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- Whether the Company was notified about the Related Party Transaction before its commencement and if not, why pre-approval was not sought and whether subsequent ratification is allowed and would be detrimental to the Company; and
- Whether the Related Party Transaction would present an improper conflict of interest for any director or Key Managerial Personnel of the Company, taking into account the size of the transaction, the overall financial position of the director, Executive Officer or other Related Party, the direct or indirect nature of the director's, Key Managerial Personnel's or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Board / AC deems relevant.

If the AC determines that a Related Party Transaction should be brought before the Board, or if the Board in any case elects to review any such matter or it is mandatory under any law for the Board to approve the Related Party Transaction/s, the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances.

***Notwithstanding the foregoing, the following Related Party Transactions shall not require approval of AC/Board, or Shareholders:***

- i. 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.
- ii. 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.

It is clarified that the AC may grant omnibus approval for Related Party transactions proposed to be entered into by the listed entity

subject to the following conditions:-

- a. the AC shall lay down the criteria for granting the omnibus approval in line with the Policy on Related Party transactions of the listed entity and such approval shall be applicable in respect of transactions which are repetitive in nature;
- b. the AC shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity.

The omnibus approval shall specify:

1. the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into,
2. the indicative base price / current contracted price and the formula for variation in the price if any; and
3. such other conditions as the AC may deem fit.

**Provided that** where the need for a Related Party transaction cannot be foreseen and aforesaid details are not available, the AC may grant omnibus approval for such transactions subject to their value not exceeding Rs. one (1) crore per transaction.

The AC shall review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given.

Such omnibus approvals shall be valid for a period not exceeding one year and shall require a fresh approvals after the expiry of one (1) year.

#### **VIII. Related Party Transactions not approved under the RTP Policy**

In the event the Company becomes aware of a Related Party Transaction with a Related Party that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the AC. The AC shall consider all of the 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 AC shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the AC under the RPT Policy, and shall take any such action it deems appropriate.

In any case, where the AC determines not to ratify a Related Party Transaction that has been commenced without approval, the AC, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction. In connection with any review of a Related Party Transaction, the AC has authority to modify or waive any procedural requirements of the RPT Policy.

This RPT Policy will be communicated to all operational employees and other concerned persons of the Company.

**IX. Power to Remove Difficulties**

If any difficulties arise in giving effect to the provisions of the RPT Policy, the Chairman of the AC, in consultation with the Board, may by an order make such provisions as it appears to be necessary or expedient for removing the difficulty by suitably amending/modifying such provisions, and such amendment/modification shall be displayed on the website of the Company.

This is always provided that such amendment/ modification shall in no event be inconsistent with the provision of the Act/ Regulation.

**X. Overriding Effects**

The RPT Policy will not override the Act and/ or the Regulation. Any amendment and/or modification to the Act /the Regulation shall prevail over the RPT Policy.

Any provision contained in the RPT Policy to the extent to which it is inconsistent or repugnant to the provisions of the Act /the Regulation shall become or be void, as the case may be.

**\* POST INTRODUCTION OF LODR, 2015 BY THE SEBI**