

# **Khushbu Auto Finance Limited**

## **RELATED PARTY TRANSACTIONS POLICY**



## **TABLE OF CONTENTS**

<b>No.</b>	<b>Particulars</b>	<b>Page No.</b>
I	Introduction	3
II	Objective	3
III	Key Principles	3
IV	Definitions	3
V	Identification of Potential Related Party Transactions	7
VI	Review and Approval of Related Party Transactions	7
VII	Approval of the Audit Committee	8
VIII	Approval of the Board of Directors	9
IX	Approval of the Members of the Company	9
X	Disclosure of Related Party Transactions in Board's Report	9
XI	Related Party Transactions not approved under this Policy	10
XII	Review	10

## RELATED PARTY TRANSACTIONS POLICY

### I. INTRODUCTION

**Khushbu Auto Finance Limited** ("the Company") is registered with the Reserve Bank of India as Non-Banking Financial Company not accepting public deposits. This policy regarding the review and approval of Related Party Transactions has been formulated in compliance with the Companies Act 2013, Reserve Bank of India Act 1934, Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 and other applicable laws meant to lay down principles that will guide the transactions among related parties. The policy further sets forth the procedures for dealing with Related Party Transactions including the process for their review, approval and ratification as permitted.

### II. OBJECTIVE

The Policy governs the transactions with the Related Parties keeping in view the potential or actual conflict of interest which may arise upon the transactions entered into by the Company with the Related Parties and whether such transactions are consistent with the interest of the Company and its members.

### III. KEY PRINCIPLES

- (a) Identification, Review of Related Party Transactions
- (b) Broad Parameters to Assess: Ordinary Course of Business
- (c) Broad Parameters to Assess: Arm's Length
- (d) Materiality Thresholds for Related Party Transactions

### IV. DEFINITIONS

- a. "**Act**" means Companies Act, 2013 including amendments, re-enactments, modifications, notifications, circulars, and orders from time to time.
- b. "**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 purpose of this clause -

- 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;

- c. **“Audit Committee” or “Committee”** means a committee constituted by the Board of Directors of the Company in accordance with Section 177 of the Companies Act, 2013 read with rules framed thereunder.
- d. **“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.
- e. **“Office or place of profit”** means any office or place—
- (i) where such office or place is held by a director, if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;
- (ii) where such office or place is held by an individual other than a director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;
- f. **“Board”** means Board of Directors of the Company.
- g. **“Company Secretary”** means a person who is appointed by the Company to perform the functions of the Company Secretary under provisions of the Companies Act, 2013.
- h. **“Key Managerial Personnel (KMP)”** shall mean Key Managerial Personnel as defined under the Companies Act, 2013 and includes:
- 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;
- v. 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
- vi. such other officer as may be prescribed.
- i. **“Investing company or the venture of a company”** means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.
- j. **“Related Party”** shall mean such person as defined in Section 2 (76) of the Companies Act, 2013, as amended from time to time.

Pursuant to Section 2(76) of the Companies Act, 2013, **“Related Party”** with reference to a company, means—

- a director or his relative;
- a key managerial personnel or his relative;
- a firm, in which a director, manager or his relative is a partner;
- a private company in which a director or manager or his relative is a member or director;

- a public company in which a director and manager is a director and holds along with his relatives, more than two per cent of its paid-up share capital;
- 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;
- 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;

- any body corporate which is –
  - (A) a holding, subsidiary or an associate company of such company;
  - (B) a subsidiary of a holding company to which it is also a subsidiary; or
  - (C) an investing company or the venture of the company;

**k. Related Party Transaction” (‘RPT’)** means all the transactions between the Company on one hand and one or more related party/ parties on the other hand including contracts, arrangements and transactions as envisaged in Section 188(1) of the Companies Act, 2013

As per Section 188 of the Companies Act, 2013, read with the Companies (Meetings of Board and its Powers) Rules, 2014, the following transactions will be considered as Related Party 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.

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

Provided further that 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.

Provided also that 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.

Provided also that 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.

Provided also that 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.

Explanation - In this sub-section

(a) the expression "office or place of profit" means any office or place—

(i) where such office or place is held by a director, if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

(ii) where such office or place is held by an individual other than a director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

(b) the expression "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.

I. **"Relative"** shall mean such person as defined in Section 2 (77) of the Companies Act, 2013, as amended from time to time.

Pursuant to Section 2(77) of the Companies Act, 2013 and Rule 4 of Companies (Specification of definition details) Rules, 2014, 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;
- iii. Father (includes step-father)
- iv. Mother (includes step-mother)
- v. Son (includes the step-son)
- vi. Son's wife
- vii. Daughter
- viii. Daughter's husband
- ix. Brother (includes the step-brother)
- x. Sister (includes the step-sister)

- m. **“Ordinary course of Business”** for the purpose will cover the business of Khushbu Auto Finance Limited and usual transactions, customs and practices of the business and would include activities to be carried out incidental to or to facilitate the business of Khushbu Auto Finance Limited and usual or customary to the Company and/or providing the necessary support (financial or otherwise) to the subsidiaries.
- n. **“Materiality threshold”** shall mean to include the transaction or transactions entered into by the company where the transaction entered into as contracts or arrangements with respect to below transactions.
- (i) sale, purchase or supply of any goods or material, directly or through appointment of agent, amounting to 10% or more of the turnover of the company.
  - (ii) selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent, amounting to 10% or more of net worth of the company.
  - (iii) leasing of property any kind amounting to 10% or more of the turnover of the company.
  - (iv) availing or rendering of any services, directly or through appointment of agent, amounting to 10% or more of the turnover of the company.

#### **V. IDENTIFICATION OF POTENTIAL RELATED PARTY TRANSACTIONS**

The Secretarial Team shall update the Reference List on the basis of intimations received from the Directors / KMPs or changes in corporate or investment structure, as informed from time to time. The names / details of all Related Parties identified shall be consolidated, as a Reference List. This Reference List and subsequent updates, as prepared by the Secretarial Team, shall be shared with all Business Heads / Functional Heads, for compliance at their end. All Related Party Transactions for the period shall be reported by the Controllership team to the Company Secretary / Person Authorised by Board who shall place the same for approval / noting / ratification by the Audit Committee, in accordance with this Policy. To review a Related Party Transaction, the Board / Audit Committee will be provided with all the relevant information pertaining to the Related Party Transaction, including the name of the related party, the nature of the relationship, nature of the transaction, whether the transaction is in the ‘Ordinary Course of Business’, whether the transaction is at ‘Arm’s Length’ and any other matter, as may be required. The process and controls with respect to identification monitoring of Related Parties and execution of Related Party Transactions would be vis-à-vis an appropriate Framework, as approved by the Board, Audit Committee and Management, instituted for compliance with this Policy. For assessing whether the transaction is in the Ordinary Course of Business and Arm’s Length, Clause IV(m) of this Policy shall be referred to.

#### **VI. REVIEW AND APPROVAL OF THE RELATED PARTY TRANSACTIONS**

Where the transaction is between the Holding Company and the Wholly Owned Subsidiaries whose accounts are consolidated with the Holding Company and placed before the Members at the general meeting for approval, no approval of Audit Committee and Members is required.

In compliance and as provided in Sections 177 and 188 of the Companies Act, 2013, the following process is put in place.

## **VII. APPROVAL OF THE AUDIT COMMITTEE**

Related Party Transactions shall be approved by the Audit Committee, as may be required in terms of the provisions of the Companies Act, 2013 and the Regulations thereof to review a related party transaction which requires approval of the Audit Committee, the Audit Committee will be provided with all relevant material information to assist it in deciding whether or not to approve the transaction.

The Audit Committee may grant omnibus approval for related party transactions which are repetitive in nature subject to the following conditions:

The Audit Committee shall, after obtaining approval of the Board of Directors, specify the criteria for making the omnibus approval which shall include the following, namely:

- (a) maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;
  - (b) the maximum value per transaction which can be allowed;
  - (c) extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval;
  - (d) review, at such intervals as the Audit Committee may deem fit, related party transaction entered into by the company pursuant to each of the omnibus approval made;
  - (e) transactions which cannot be subject to the omnibus approval by the Audit Committee.
- (2) The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, namely:
- (a) repetitiveness of the transactions (in past or in future);
  - (b) justification for the need of omnibus approval.
- (3) The Audit Committee shall satisfy itself on the need for omnibus approval for transactions of repetitive nature and that such approval is in the interest of the company.
- (4) The omnibus approval shall contain or indicate the following:
- (a) name of the related parties
  - (b) nature and duration of the transaction
  - (c) maximum amount of transaction that can be entered into



- (d) the indicative base price or current contracted price and the formula for variation in the price, if any; and
- (e) any other information relevant or important for the Audit Committee to take a decision on the proposed transaction:

Provided that where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may make omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.

- (5) Omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approval after the expiry of such financial year.
- (6) Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the company.
- (7) Any other conditions the Audit Committee may deem fit.

The Audit Committee shall periodically review the details of the related party transactions entered into by the Company pursuant to each of the omnibus approval.

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

#### **VIII. APPROVAL OF THE BOARD OF DIRECTORS**

The Related Party Transactions provided under Section 188 of the Companies Act, 2013 which are not in ordinary course of business or on arm's length basis need to be placed before the Board of Directors in their meeting for their approval.

#### **IX. APPROVAL OF THE MEMBERS OF THE COMPANY**

All related party transactions [other than transactions between the holding company and its wholly-owned subsidiary(ies)] in terms of Section 188 of the Companies Act, 2013 which are not in the ordinary course of business and / or are not at 'arms' length' and which cross the threshold limits prescribed under Companies Act, 2013, shall also require the approval of members of the Company through a resolution and the related parties of the Company who are related parties in context of the contract or arrangement, shall abstain from voting on such resolution(s).

#### **X. DISCLOSURE OF RELATED PARTY TRANSACTIONS IN BOARD'S REPORT**

Every contract or arrangement entered into under Section 188(1) of the Companies Act, 2013, shall be referred to in the Board's report to the Members of the Company along with justification for entering into such contract or arrangement.

## **XI. RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY**

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, this transaction should be ratified by the Audit Committee within three months from the date of the transaction. In case this transaction 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 authorized by any other director, the director concerned shall indemnify the Company against any loss incurred by it.

Where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board or approval of members of the Company in the general meeting, it shall be ratified by the Board or, as the case may be, by the members of the Company at a meeting within three months from the date on which such contract or arrangement was entered. If it is not ratified by the Board or, as the case may be, by the members of the Company at a meeting within 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 or, as the case may be, of the members of the Company 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.

In any case, where the Committee / Board determines not to ratify a related party transaction that has been commenced without approval, the Committee / Board, 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 Committee / Board have authority to modify or waive any procedural requirements of this Policy which are not statutory.

The Company may proceed against a Director or any other employee who had entered into such contract or arrangement in contravention of the Policy for recovery of any loss sustained by the Company as a result of such contract or arrangement and shall take any such action, it may deem fit

## **XII. REVIEW OF POLICY**

This Policy shall be reviewed as and when considered necessary by the Board.

In case any amendments, clarifications, circulars, and guidelines, not being consistent with the provisions laid down under this Policy, then the provisions of such amendments, clarifications, circulars and the guidelines shall prevail upon the provisions hereunder and this Policy shall stand amended accordingly effective from the date as laid down under such amendments, clarifications, circulars and guidelines.