

MORARKA FINANCE LIMITED
POLICY ON RELATED PARTY TRANSACTIONS

(Amended as on 29.04.2022)

The Companies Act, 2013 and Regulation 23 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015 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.

The Board of Directors of Morarka Finance Limited ("the Board") has adopted following Policy and procedures with regard to Materiality of Related Party Transactions and dealing with Related Party Transactions of the Company with effect from 1st April, 2022.

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 formulate a Policy on materiality of Related Party Transactions and also on dealing with Related Party Transactions including clear threshold limits duly approved by the Board of Directors. The regulation requires that the audit committee of Company shall define "material modifications" and disclose it as part of the policy on materiality of related party transactions and on dealing with related party transactions.*
- 2) To get intimated about the relations to all the person considering its approval,*
- 3) To enlarge the competition,*
- 4) To get intimated the various government department and determine, "whether any notional/ undisclosed profit or transaction is not involved".*

As per Regulation 2(zb) of the Listing Regulations, a related party means:

a) A 'related party' as defined under Section 2(76) of the 2013 Act and the applicable accounting standards or Ind AS,

b) Any person or entity forming part of the 'promoter' or promoter group' of the listed entity (effective from 1 April 2022)

c) Any person or any entity, holding equity shares in the listed entity either directly or on a beneficial interest basis as prescribed under Section 89 the Companies Act, 2013 Act at any time during the immediately preceding financial year:

i. 20 per cent or more, or (effective from 1 April, 2022)

ii. 10 per cent or more (effective from 1 April, 2023).

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.

As per Regulation 2(zc) of the Listing Regulations, Related party transactions means a transaction involving a transfer of resources, services or obligations between:

(i) a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or (with effect from April 1, 2022);

(ii) a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, (with effect from April 1, 2023);

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:

Provided that the following shall not be a related party transaction:

(a) issue of specified securities on a preferential basis, under the SEBI (ICDR) Regulations, 2018;

(b) payment of dividend; subdivision or consolidation of securities; issuance of securities by way of a rights issue or a bonus issue; and buy-back of securities.

(c) acceptance of FDs by banks/NBFCs at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the Board.

d. Units issued by mutual funds which are listed on a recognised stock exchange. (Effective 1 April, 2022)

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

Materiality Threshold

In accordance with Regulation 23 of the Listing Regulations, w.e.f. 01/04/2022 a transaction with a related party shall be considered material, if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds rupees one thousand crore or ten per cent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company, whichever is lower or such other limit as may be specified in the applicable Regulation as amended from time to time.

Notwithstanding the above, a transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed five percent (or such other limit as may be specified in the applicable Regulation as amended from time to time) of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.

Material Modification

The Audit Committee defines what will constitute material modification on various factors considering the nature of the business and transactions executed by it. Some of such factors whether individually or in aggregate, has been defined as follows:

- change in overall transaction value of any related party transaction beyond 20% of the approved amount;*
- extension in duration of any related party transaction contract beyond a period of 24 months from the agreed tenure;*
- change in the gross annual/half yearly/quarterly/monthly turnover of the Company beyond 20% percentage of the immediately preceding period;*
- such other criteria as may be prescribed by the Audit Committee on case-to-case basis.*

Further, prior approvals of the audit committee, board and shareholders will be required before any material modification is made to an RPT.

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.

REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS

i) Audit Committee

a) Every Related Party Transaction and subsequent Material Modifications shall be subject to the prior approval of the Audit Committee whether at a meeting or by resolution by way of circulation. Provided that only those members of the audit committee, who are independent directors, shall approve related party transactions.

b) However, the Audit Committee may grant omnibus approval for recurring transactions with related parties, in compliance with requirements of the Act and the SEBI Listing Regulations. The Audit Committee shall review / note on a quarterly basis the details of such Related Party Transactions entered pursuant to each of the omnibus approval given. The omnibus approval shall be valid for a period of one year. Where the need for related party transaction cannot be foreseen and the aforesaid details are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.

The omnibus approval shall specify:

(i) the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into,

(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

c) Such transactions will be deemed to be pre-approved and may not require any further approval of the Audit Committee for each specific transaction unless the price, value or material terms of the contract or arrangement have been varied/amended. Any proposed variations/amendments to these factors shall require a prior approval of the Audit Committee.

d) The audit committee 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.

ii) Board of Directors & Shareholders

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 prior approval of the Board of Directors.

Provided the transactions as prescribed below shall be further recommend by the Board of Directors for the prior approval of the Shareholders of the Company by way of Resolution.

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 10 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 10% 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.

As per Regulation 23(4) of the Listing Regulations all material related party transactions and subsequent material modifications as defined by the audit committee shall require prior approval of the shareholders through resolution. No related party shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not.

If a Related Party Transaction is entered into by the Company without prior approval, the same shall be reviewed by the Audit Committee. The Audit Committee shall consider all of the relevant facts and circumstances regarding the Related Party Transactions, and shall evaluate all options available to the Company, including ratification by it or recommending the Board for their ratification or seeking approval of Shareholders, revision or termination of the Related Party Transactions as per the applicability of the relevant provisions of the law.

Exemption from obtaining approval provided under the Listing Regulations

Following transactions are exempted from the requirement of obtaining the Audit Committee/Board of Directors/ Shareholders approval:

- (a) transactions entered into between two government companies;*
- (b) 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;*
- (c) transactions entered into between two wholly-owned subsidiaries of the listed holding company, whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.*

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, including following:

- (a) the issue of specified securities on a preferential basis, subject to compliance of the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;*
- (b) the following corporate actions by the Company which are uniformly applicable/offered to all shareholders in proportion to their shareholding:*
 - i. payment of dividend;*
 - ii. subdivision or consolidation of securities;*
 - iii. issuance of securities by way of a rights issue or a bonus issue; and*
 - iv. buy-back of securities.*

However, an approval of Audit Committee and Board of Directors/ Shareholders (to the extent applicable), as the case may be will be required for above listed transaction as per the Companies Act, 2013 read with the Rules made thereunder.

TRANSACTIONS BETWEEN HOLDING AND SUBSIDIARY COMPANY

- *With effect from April 1, 2023, a related party transaction to which the subsidiary of a listed entity is a party but the listed entity is not a party, shall require prior approval of the audit committee of the listed entity if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year, exceeds ten per cent of the annual standalone turnover, as per the last audited financial statements of the subsidiary;*
- *Prior approval of the audit committee, Board/ Shareholders of the listed entity shall not be required for a related party transaction to which the listed subsidiary is a party but the listed entity is not a party, if regulation 23 and sub-regulation (2) of regulation 15 of these regulations are applicable to such listed subsidiary.*
Explanation: For related party transactions of unlisted subsidiaries of a listed subsidiary as referred to in (d) above, the prior approval of the audit committee of the listed subsidiary shall suffice.
- *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.*

DISCLOSURE REQUIREMENTS

- *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.*
- *Details of all material transactions with related parties shall be disclosed quarterly along with the compliance report on corporate governance.*
- *The Company shall disclose related party transactions every six months to the Stock Exchanges within 15 days (w.e.f. 01/04/2022) from the date of publication of its standalone and consolidated financial results in the prescribed format, and simultaneously publish the same on its website.*
- *Provided further that the Company shall make such disclosures every six months on the date of publication of its standalone and consolidated financial results with effect from April 1, 2023.*

REVIEW OF THE POLICY

This Policy shall be reviewed by the Board as and when any changes are to be incorporated in the Policy due to change in applicable law or at least once in every three years and updated accordingly based on the recommendations of the Audit Committee.