

2014

# Policy on related party transactions

**COMPLIANCE WITH THE COMPANIES ACT, 2013 AND THE LISTING AGREEMENT**

PATEL ENGINEERING LIMITED Patel Estates, Jogeshwari, Mumbai

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## Introduction

Patel Engineering Limited ('the Company') has adopted this Policy, upon the recommendation of the Audit Committee and the said Policy is in compliance with the requirements of Section 188 of the Companies Act, 2013 and rules thereunder ('the Act') and Clause 49 of the Listing Agreement (as amended).

## Objective

This Policy is intended to ensure due and timely disclosure, identification, reporting and approval of transactions between the Company and its Related Parties as defined below, in compliance with the Act and Rules framed thereunder and the Listing Agreement as may be amended from time to time.

## Scope and Applicability

This policy shall apply to all new/modified related party transactions, as specified under the Act and the Listing Agreement with effect from October, 01, 2014.

No related party transaction may be entered into between the Company and its related parties except in accordance with the provisions of this Policy.

## Definitions

The following words shall have the meanings as provided in the policy, unless otherwise mentioned in the Act or the Listing Agreement:

<b>Audit Committee</b>	"Audit Committee or Committee" means the Audit Committee of the Board constituted under the provisions of Clause 49 of the Listing Agreement and Section 177 of the Act.
<b>Board</b>	"Board" means the Board of Directors of the Company as defined under the Act.
<b>Related Party</b>	"Related Party" means related party as defined under section 2(76) of the Act read with Clause 49 of the Listing Agreement.

### Related Party as per the Companies Act, 2013

"Related party", under Section 2(76) of the Companies Act, 2013 with reference to a company, 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 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 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;  
Further as per the Companies (Specification of definition details) Rules, 2014, 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.

### **Related Party as per the Listing Agreement**

An entity shall be considered as related to the Company if:

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

### **Related Party Transaction**

“Related Party Transaction” means transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged.

*A “transaction” with a related party shall be construed to include single transaction or a group of transactions in a contract.*

### **Policy**

“Policy or this Policy” means Policy on related party transactions of the Company.

### **Arm’s Length basis**

“Arm’s length basis” means a transaction between two related parties that is conducted, as if they were unrelated, so that there is no conflict of interest.

For determination of Arm’s length basis, guidance may be taken from the provisions of Domestic Transfer Pricing under the Income Tax Act, 1961.

### **Relative**

Relative means “relative” as defined under section 2(77) of the Act and Rules framed thereunder.

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;

A person shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely

- (1) Father (including step-father)
- (2) Mother (including the step-mother)
- (3) Son (including the step-son)
- (4) Son’s wife
- (5) Daughter
- (6) Daughter’s husband
- (7) Brother (including the step-brother)
- (8) Sister (including the step-sister)

**Key managerial personnel (KMP)** Key managerial personnel means whole-time key managerial personnel of the Company appointed under section 203 of the Act, which include:

- (i) Managing Director, or Chief Executive Officer or Manager and in their absence, a Whole-time director;
- (ii) Company Secretary; and
- (iii) Chief Financial Officer;

Words and expressions used and not defined in the Policy shall have the same meanings as assigned to them in the Act and/or the Listing Agreement.

### Related Party Transactions

Related party transaction is a transfer of resources, services or obligations between a company and a related party by way of any contract or arrangement, regardless of whether a price is charged.

In order to comply with the relevant provisions of the Act and the Listing Agreement and seeking requisite approvals, each related party transaction would be examined and categorized, as follows:

#### (A) Material Related Party Transaction (as per Listing Agreement)

A related party transaction shall be considered as 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*
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\*As per the audited financial statements of the preceding financial year.

#### (B) Significant Related Party Transaction (as per Section 188 of the Act)

Significant Related party transaction shall include any of the following transactions entered into between the Company and the related party, which exceed the thresholds as specified under the Act and Rules framed thereunder:

Nature of transactions	Limits
a) Sale, purchase or supply of any goods or materials	Exceeding ten per cent of the turnover of the Company or rupees one hundred crore, whichever is lower
b) Selling or otherwise disposing of, or buying, property of any kind	Exceeding ten per cent of the net worth of the Company or rupees one hundred crore, whichever is lower
c) Leasing of property of any kind;	Exceeding ten per cent of the net worth of the Company or ten percent of turnover of the Company or rupees one hundred crore, whichever is lower
d) Availing or rendering of any services	Exceeding ten per cent of the turnover of the Company or rupees fifty crore, whichever is lower
e) Appointment of any agent for purchase or sale of goods, materials, services or property	Refer (a), (b) and (d) above

<i>It is hereby clarified that the limits specified in sub-clauses (a) to (e) shall apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year</i>	
f)Such related party's appointment to any office or place of profit in the Company, its Subsidiary Company or Associate Company; and	Exceeding a monthly remuneration of two and half lakh rupees
g)Underwriting the subscription of any securities or derivatives thereof, of the Company	Exceeding one per cent of the net worth

*The turnover or net worth referred above shall be computed on the basis of the audited financial statements of the preceding financial year.*

Provided that if any related party which is in the ordinary course of business **and** on arm's length basis shall be not be considered as Significant related party transactions.

**(C)Other Related Party Transactions**

Other **Related Party Transactions** shall mean any other related party transactions which are not included in (A) and (B) above.

**Disclosure of Related Party and Potential Related Party transactions**

Every director and Key managerial personnel shall

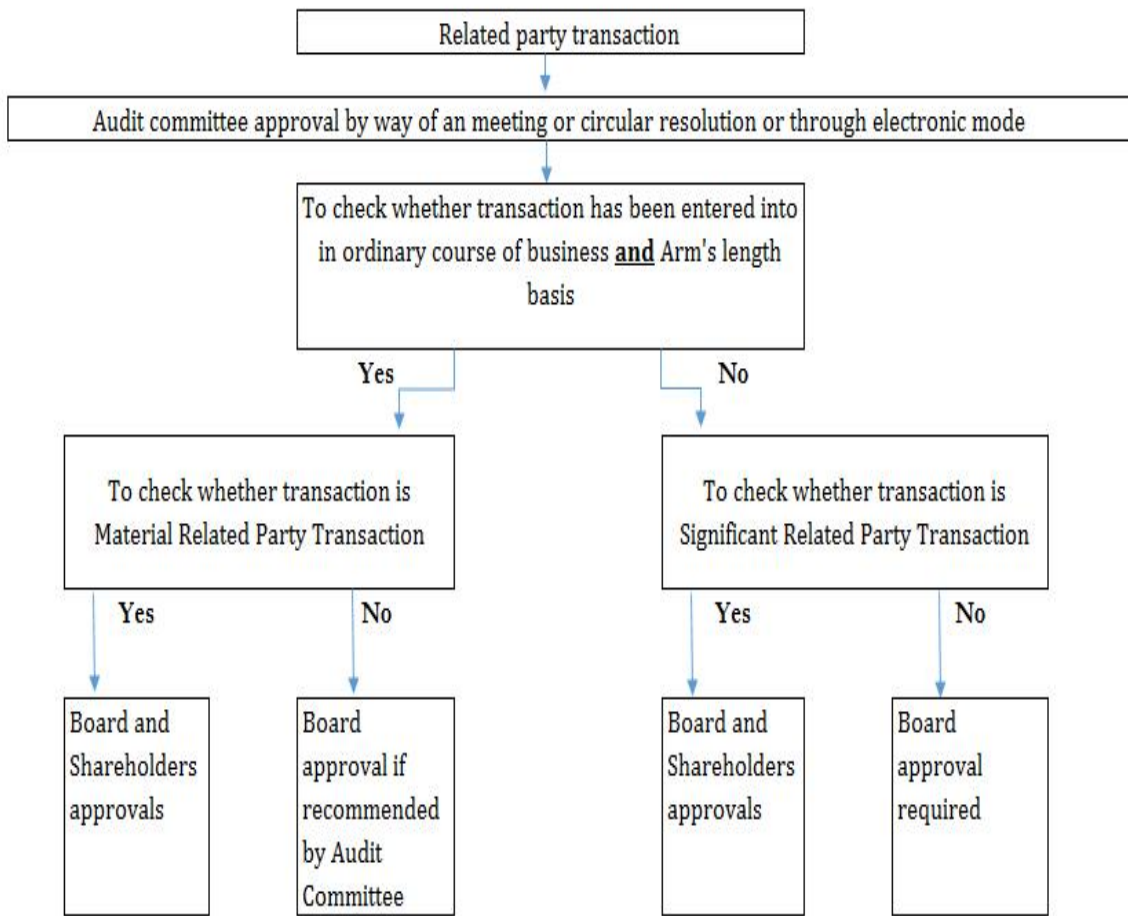
- a) at the first meeting of the Board in which he participates as a director and;
- b) thereafter at the first meeting of the Board in every financial year or;
- c) whenever there is any change in the disclosures already made, then at the first Board meeting held after such change ;

disclose his concern or interest in any Company or companies or body corporates, firms, or other association of individuals which shall include the shareholding, in the prescribed form.

Each director and Key Managerial Personnel is responsible for providing notice to the Company of any potential related party transaction involving him/her or his or her relative, and disclose such additional information about the transaction, as may be required to be placed before the Audit Committee and the Board.

The Company prefers to receive such notice of any potential related party transaction well in advance so that, the Audit Committee has adequate time to obtain and review information about the proposed transaction.

**Review and approval of Related Party Transactions**



**Significant and Material Related Party Transactions**

All significant and material related party transactions shall require the approval of the Shareholders through special resolution as per the Listing Agreement and the Act and the rules made thereunder and the parties related to such transaction shall abstain from voting on such resolution.

## **Approval process**

### **Audit Committee Approval Process**

All related party transactions shall require the prior approval of the Audit committee whether at a meeting or by resolution by circulation or through electronic mode. A member of the Committee who is interested in any related party transaction shall not be present at the meeting during discussion on the subject matter of the resolution relating to such contract or arrangement.

The agenda to the Audit committee meeting shall contain a list of the related party transactions (Significant, Material or Others) for consideration and approval. Refer Annex-1 for the details to be included in the agenda.

The Audit committee shall consider the following factors among others to determine whether any related party transaction shall be approved or ratified:

1. Whether the related party transaction is proposed to be entered into (or was entered into) on terms no less favourable to the Company, than terms that could have been reached with an unrelated third party;
2. The purpose of, and the potential benefits to the Company of such transaction;
3. Whether the related party transaction would affect the independence of an independent director;
4. 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 direct or indirect nature of the director's or KMPs or their relatives' interest in the transaction, the ongoing nature of any proposed relationship and any other factors the committee deems relevant;
5. Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction.

### **Board Approval Process**

- 1) The agenda to the Board meeting shall contain details as mentioned in Annex-1;
- 2) Where any director is interested in any Significant/Material related party transaction, such director shall not be present at the meeting during discussions, on the subject matter of the resolution relating to such contract or arrangement;
- 3) The Board shall consider and if thought fit, approve the Significant/Material related party transactions and refer the same to the Shareholders approval by way of a special resolution;
- 4) The approval of Board has to be obtained at a duly convened meeting of the Board where the directors may participate either in person or through video conferencing or other audio visual means.

### **Shareholder Approval process**

- 1) Significant/Material related party transactions as approved by the Board shall require the prior approval of the Shareholders by way of a special resolution. The notice of the general meeting shall contain such information as may be specified under the Act or rules framed thereunder;
- 2) Related party shall abstain from voting on such resolution;
- 3) Where the related party transaction is between the Company and its wholly-owned subsidiary, a special resolution by the Shareholders of the Company shall be sufficient approval for entering into the transaction.



### **Related Party Transactions not approved under this Policy**

In the event, the Company becomes aware of any transaction with Related Party that was not entered into in line with this policy, the same shall be reported to the Audit committee in the next meeting. The Committee shall consider all relevant facts and circumstances regarding such related party transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of such related party transaction. The Committee, may also examine the facts and circumstances pertaining to the failure of reporting such related party transaction under this Policy.

In case, the Committee decides not to ratify any such related party transaction, the Committee may direct to seek approvals of the Board and/or the Shareholders, as it may deem appropriate.

### **Omnibus Approval by Audit committee**

In case of business exigency and operational convenience, the Audit Committee may 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 lay down the criteria for granting the omnibus approval in line with the policy on Related party transactions of the Company 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 and that such approval is in the interest of the Company;
- c. Such omnibus approval shall specify (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 and (iii) such other conditions as the Audit Committee may deem fit;

Provided that where the need for Related party transaction cannot be foreseen and aforesaid details are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs.1 crore per transaction.

- d. Audit Committee shall review, atleast on a quarterly basis, the details of related party transactions entered into by the Company pursuant to each of the omnibus approval given;
- e. Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

### **Related Party Transaction which do not require approval**

Notwithstanding the foregoing, any transaction relating to compensation to a director or Key managerial personnel in connection with his duties to the Company including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business, shall not require the approval under this Policy as their terms of appointment/remuneration are dealt under specific provisions of the Act.

**Disclosures**

1. Significant related party transactions are to be disclosed in Board's Report along with justification for entering into such related party transactions;
2. Details of all material transactions with related parties shall be disclosed to the stock exchange on quarterly basis along with the compliance report on corporate governance under the Listing Agreement;
3. The Company shall disclose the policy on dealing with related party transactions on its website and a web link thereto shall be provided in the Annual report.

**Conclusion**

The Audit committee shall have authority to modify or waive any procedural requirements of this policy.

In the event of any conflict between the provisions of this Policy and provisions of the Listing Agreement or the Act and Rules framed thereunder or any other applicable laws for the time being in force, the later shall prevail over the Policy.

This Policy or the relevant provisions of this policy shall be disseminated to all concerned employees of the Company and shall also be uploaded on the intra-net and website of the Company and web link thereto shall be provided in the Annual Report of the Company.

The policy shall be amended as required from time to time in case of any changes in the Revised Listing agreement or/and the Act and the rules made thereunder.

**Annex-1**

**Details to be contained in the Agenda of Audit Committee / the Board Meeting**

The agenda of the Audit Committee / Board meeting at which the resolution is proposed to be moved shall disclose-

- (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.