



**ART HOUSING FINANCE (INDIA) LIMITED
DEPARTMENT NAME: SECRETARIAL & LEGAL
RELATED PARTY TRANSACTIONS POLICY**

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Related Party Transactions Policy

1) INTRODUCTION AND SCOPE

ART Housing Finance (India) Limited (hereinafter referred to the “**Company**”) recognizes that Related Party Transactions can present potential or actual conflict of interest which may be against the best interest of the Company and its stakeholders.

Section 188 of the Companies Act, 2013 read with Companies (Meetings of Board and its Powers) Rules, 2014 provides the detailed mechanism for dealing with Related Parties Transactions of the Company by way of Audit Committee approval, Board approval and Shareholder’s approval in specific circumstances.

This Policy provides the criteria for determining the materiality of Related Party Transactions.

The objective of this Policy is to ensure proper regulation of transactions between the Company and its Related Parties in compliance with the provisions pertaining to Related Party Transactions in the **Companies Act, 2013** (the “**Act**”), the Rules made thereunder and the applicable provisions of the “**Housing Finance Companies - Corporate Governance (National Housing Bank) Directions, 2016**” (“**NHB Directions**”) and any other applicable statutory provisions for the time being in force, in this regard.

2) DEFINITIONS

- 2.1 “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, and the term ‘arm’s length’ shall be construed accordingly;
- 2.2 “Audit Committee”** means the Committee constituted by the Board of Directors of the Company in accordance with the Section 177 of the Companies Act, 2013 read with the rules framed thereunder (“**Act**”);
- 2.3 “Director”** means a person as defined in Section 2(34) of the Act;
- 2.4 “Key Managerial Personnel” (KMP)** shall mean the officers/employees of the Company as defined in Section 2(51) of the Act;
- 2.5 “Ordinary course of business”** 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 as per Memorandum & Articles of Association. The Board and Audit Committee may lay down principles for determining ordinary course of business in accordance with statutory requirements and other industry practices and guidelines;
- 2.6 “Relative”** with reference to a Director or KMP means the person as defined in Section 2(77) of the Act and rules prescribed thereunder. Currently, the following are considered relatives of an individual:
- i)** Members of Hindu undivided family;
 - ii)** Husband or wife;
 - iii)** Father (including step-father);
 - iv)** Mother (including step-mother);
 - v)** Daughter;
 - vi)** Daughter’s husband;
 - vii)** Son (including step-son);
 - viii)** Son’s wife;

- ix) Brother (including step-brother);
- x) Sister (including step-sister)

2.7 “Related Party”: An entity shall be considered as related to the Company if:

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

Related Party under Section 2(76) of the Companies Act, 2013 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 or his relative is a member or director;
- v) a public company in which a director or manager is a director and/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 clause (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 (>20% or control of business decisions under an agreement) of such company; or
 - (b) a subsidiary of a holding company to which it is also a subsidiary;
- ix) a Director (other than Independent Director) or key managerial personnel of the holding company or his relative with reference to the company.

The Accounting Standard 18 defines related party as “parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and / or operating decisions.”

2.8 “Related party transaction” Section 188 of the Companies Act, 2013 encompasses all contracts or arrangements with a Related Party with respect to:-

- 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) 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

A transaction shall be construed to include a single transaction or a group of transactions in a contract.

The Accounting Standard 18 defines related party transaction as “a transfer of resources or obligations between related parties, regardless of whether or not a price is charged.”

2.9 “Material Related Party Transactions” - A transaction with a 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, **exceeds ten percent of the annual consolidated turnover of the Company** as per the last audited financial statements of the company.

2.10 Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013.

3) REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS

3.1 Approval of the Audit Committee

Every related party transaction shall be approved by the Audit Committee (“Committee”) as required in terms of the provisions of the Companies Act, 2013 and the Directions. To review a Related Party Transaction that requires approval of the Committee, all relevant material information of the Related Party Transaction, including the terms of the transaction, business purpose of the transaction, benefits to the Company and to the Related Party, and any other relevant matters will be provided to the Committee.

While determining whether to approve a Related Party Transaction, the Audit Committee may consider the following factors, among others, to the extent relevant to the Related Party Transaction:

- a) Whether the terms of the Related Party Transaction are fair and on arm’s length basis to the Company and would apply on the same basis if the transaction did not involve a Related Party;
- b) 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;
- c) Whether the Related Party Transaction would affect the independence of an independent director;
- d) Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- e) 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
- f) 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/ Committee deems relevant.

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

- a) The Audit Committee shall satisfy itself on the need for omnibus approval and whether such approval is in the interest of the Company;
- b) The omnibus approval shall contain the details of the transactions which may be entered into between Related Parties and the Company, 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, the Audit Committee may make omnibus approval for such transactions subject to their value not exceeding INR 1 crore per transaction.
- c) Omnibus approval shall be valid for a period not exceeding 1 (One) financial year and shall require fresh approval after the expiry of such financial year;
- d) Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the Company;

Related Party Transactions will be referred regularly in the meeting of the Audit Committee for review /noting and/ or approval as above. Any member of the Committee who has a potential interest in any Related Party Transaction will recuse himself or herself and abstain from discussion and/ or voting on the approval of the Related Party Transaction.

3.2 Approval of the Board

The Board of Directors of the Company shall be required to approve such related party transactions as are required to be approved by it in terms of Companies Act, 2013, that are referred to it by the Audit Committee for its approval.

3.3 Approval of the Shareholders of the Company

All Material Related Party Transactions shall require approval of shareholders of the Company through resolution (unless it is exempted pursuant to the provisions of the Act) and the related parties of the Company shall not vote to approve such resolution(s). All related party transactions [other than transactions between the 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 'arm's length' and which cross the threshold limits prescribed under the Companies Act, 2013, shall also require the approval of shareholders 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 not vote to approve such resolution(s).

4) IDENTIFICATION OF RELATED PARTY AND RELATED PARTY TRANSACTIONS (RPT)

- 4.1 For identification of the Related Parties, a list containing RPT will be prepared and updated based on intimations received from the Directors or KMPs or any changes in shareholding structure. The updated RPT List will be referred by the Company for monitoring of the transactions and ensuring compliance.
- 4.2 Each director and KMP will be responsible for providing notice to the Board or Audit Committee of any potential RPT transaction involving him/ her or his/ her Relative,

including any additional reasonable information about the transaction that the Board or the Audit Committee may request. Based on the information provided, the Board/ Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy. Audit Committee may determine the procedure to be followed for declaration as well as compilation and circulation of comprehensive list of related parties.

- 4.3 All RPT for the relevant period will be placed for approval/ noting/ ratification by the Board of Directors/ the Audit Committee in accordance with this Policy. Such proposals should have 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/or in terms of the transfer pricing norms prescribed under the Income Tax Act, 1961 (if applicable) and any other matter, as may be required.

5) DISCLOSURE OF RELATED PARTY TRANSACTIONS

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 shareholders of the Company along with justification for entering into such contract or arrangement.

6) RESTRICTIONS WITH RESPECT TO RELATED PARTY TRANSACTIONS

- 6.1 All transactions should comply with the relevant rules and regulations of the National Housing Bank.
- 6.2 Each RPT should go through the approval process as prescribed under the Section 188 of Companies Act, 2013, as applicable from time to time.
- 6.3 The following transactions would require an ordinary resolution by the general body of the Company, with those related parties who are parties to the contract or arrangement abstaining from voting:
- i) Sale, purchase or supply of any goods or materials (directly or through agent) amounting to 10% or more of the annual turnover;
 - ii) Selling or otherwise disposing of, or buying, property of any kind (directly or through agent) amounting to 10% or more of net worth;
 - iii) Leasing of property of any kind amounting to 10% or more of net worth or 10% or more of turnover;
 - iv) Availing or rendering of any services (directly or through agent) amounting to 10% or more of the turnover;
 - v) Appointment to any office or place of profit in the Company, its subsidiary company or associate company with remuneration exceeding Rs.250,000 per month;
 - vi) Underwriting the subscription of any securities of the company or derivatives thereof with remuneration exceeding 1% of net worth.

Explanations:

- ✓ *The limits specified in sub-clauses (i) to (iv) shall apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.*

- ✓ *The Turnover or Net Worth shall be based on the Audited Financial Statement of the preceding financial year.*
- ✓ *The requirement of passing an ordinary resolution at the general meeting of the Company would not be applicable in the case of transactions entered between a holding company and its wholly owned subsidiary, provided the accounts of the subsidiary are consolidated by the holding company and are placed before the shareholders of the holding company for their approval.*
- ✓ *In case of a wholly owned subsidiary, the resolution passed by the holding company shall be sufficient for the purpose of entering into the transactions between the wholly owned subsidiary and the holding company.*

6.4 Where any contract or arrangement, which is considered as a related party transaction exclusively as per Companies Act, 2013, is entered into by a Director or any other employee, without obtaining the consent of Audit Committee or the Board or the shareholders of the Company, such transaction shall be ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into.

In case such transaction is not ratified within the specified period, 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 authorized by any other director, the directors concerned shall indemnify the company against any loss incurred by it.

6.5 Additionally, other related party transactions prescribed under the Accounting Standards issued by the ICAI shall be presented to the Audit Committee for its review and noting.

7) BROAD PARAMETERS TO ASSESS “ORDINARY COURSE OF BUSINESS”

The Company will adopt a reasonable approach/ methodology to demonstrate ‘Ordinary Course of Business’ which will, inter alia, include the nature of the transaction, the frequency/ regularity/ length of time the Company is engaged in such transaction, whether such transaction/ action is consistent with the past practices and whether it was done/ taken in the ordinary course of day-to-day operations of such company, common commercial practice i.e. customarily taken, in the ordinary course of the normal day-to-day operations of other companies that is in the same / similar line of business.

8) BROAD PARAMETERS TO ASSESS “ARM’S LENGTH”

For any transaction to be considered at Arm’s Length Pricing, the transaction should be conducted between two related parties as if the parties were unrelated, so that there is no conflict of interest i.e. Arm’s Length Pricing is the condition or the fact that the two related parties transact as independent (un-related) parties and on an equal footing from one or more of the following aspects viz. nature of goods/ services, risk assumed, assets/ resources employed, key terms/ covenants.

9) EXEMPTIONS FROM APPROVAL

Notwithstanding the foregoing, but subject to the provisions of the applicable laws from time to time, this policy shall not apply to the following Related Party Transactions shall not require approval of Audit Committee or Shareholders:

- a) Transactions entered into between the Company and its wholly owned subsidiary whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval.
- b) 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.
- c) 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.

10) RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY

In the event the Management of the Company becomes aware of any Related Party Transactions that has not been approved under this policy, the matter shall be reviewed by the Audit Committee. Audit Committee may consider all relevant facts and circumstances regarding the Related Party Transactions and may evaluate all the options available with the Company.

Audit Committee may also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Committee under this Policy and may take any such action it deems appropriate.

11) COMMUNICATION OF THIS POLICY

The relevant aspects of this Policy will be communicated to all the directors and concerned employees/ officials of the Company.

12) POLICY REVIEW

The Board of Directors of the Company may subject to applicable laws is entitled to amend, suspend or rescind this Policy at any time. Any difficulties or ambiguities in the Policy will be resolved by the Board of Directors in line with the broad intent of the Policy. The Board may also establish further rules and procedures, from time to time, to give effect to the intent of this Policy.

In the event of any conflict between the provisions of this policy and of the applicable law dealing with the related party transactions, such applicable law in force from time to time shall prevail over this policy.