

**Related Party Transactions Policy
(April 1, 2019 onwards)**

SHARDUL SECURITIES LIMITED

I. Background

The Companies Act, 2013 (**'Companies Act' or 'the Act'**) has introduced sections 177 and 188, which contain provisions regarding related party transactions. These sections, along with the relevant Rules framed under the Companies Act, have introduced certain compliance and approval requirements regarding the related party transactions. Further, Regulation 23 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015 (**Regulation 23**) has also introduced certain approval requirements regarding the related party transactions. Regulation 23 requires the listed companies to formulate a policy on dealing with related party transactions.

Accordingly, Shardul Securities Limited (**the Company**) has adopted the following policy with regard to related party transactions. Effective April 1, 2019, the Policy has been revised to incorporate the amendments in Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015. The Policy will be reviewed at least once in three years.

II. Definitions

"Arm's length basis"

In terms of the Companies Act, 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.

A transaction with a related party will be considered to be on arm's length basis if the key terms, including pricing of the transaction, taken as a whole, are comparable with those of similar transactions if they would have been undertaken with unrelated parties.

It may be noted that this policy framework, including the definitions above, is meant solely for the purposes of compliance with related party transaction requirements under Companies Act, 2013 and Regulation 23.

"Associate company"

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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.

“Joint venture”

It means a joint arrangement whereby the parties that have joint control of the arrangement have rights to net assets of the arrangement.

“Material related party transaction”

As per Regulation 23 means a transaction with a related party if the transaction/transactions to be entered into individually or taken together with previous transactions during a financial year, exceed ten percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.

Transaction(s) 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 two percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.

“Ordinary course of business”

It includes but not limited to a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions. The ordinary course of business covers the usual transactions, customs and practices related to the business.

The following factors are indicative of a transaction being in the ordinary course of business:

- i. The transaction is normal or otherwise unremarkable for the business.
- ii. The transaction is frequent/regular.
- iii. The transaction is a source of income for the business.
- iv. Transactions that are part of the standard industry practice, even though the Company may not have done it in the past.

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These are not exhaustive criteria and the Company will have to assess each transaction considering its specific nature and circumstances.

“Relative”, with reference to any person, means any one who is related to another, if –

[As per Section 2(77) of Act read with Rule 4 of Companies (Specification of definition details) Rules, 2014 and Regulation 2(1)(zd) of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015]

- (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:

Provided that the term “Father” includes step-father.

(2) Mother:

Provided that the term “Mother” includes the step-mother.

(3) Son:

Provided that the term “Son” includes the step-son.

(4) Son’s wife.

(5) Daughter.

(6) Daughter’s husband.

(7) Brother:

Provided that the term “Brother” includes the step-brother;

(8) Sister:

Provided that the term “Sister” includes the step-sister.

“Related party” with reference to the Company means:

[As per Section 2(76) read with Regulation 2(1)(zb)]

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- i. a director or his relative;
- ii. a key managerial personnel (KMP) 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 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 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 venturer of the company;

The “investing company or the venturer 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.

- ix. a director other than an independent director or key managerial personnel of the holding company or his relative with reference to a company (as per Companies (Meetings of Board and its Powers) Rules, 2014);
- x. any person or entity belonging to the promoter or promoter group of the listed entity and holding 20% or more of shareholding in the listed entity.

“Related party transaction” [(Regulation 2(1) (zc)]

A related party transaction is a transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged.

“Subsidiary company” or “subsidiary”

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In relation to any other company (that is to say the holding company), means a company in which the holding company:

- (i) controls the composition of the Board of Directors; or
- (ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation - For the purposes of this clause:

(a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company

(b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;

(c) the expression "company" includes any body corporate;

(d) "layer" in relation to a holding company means its subsidiary or subsidiaries;

"Significant influence"

It means control of at least twenty per cent of total voting power, or control of or participation in business decisions under an agreement.

"Turnover"

It has been defined as the aggregate value of the realisation of amount made from sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year. Accordingly, for the Company, the 'turnover' is considered as the 'Total Income', i.e., total of interest income and other income.

III. Approval of related party transactions

A. Audit Committee

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All the transactions which are identified as related party transactions should be preapproved by the Audit Committee before entering into such transaction. The Audit Committee shall consider all relevant factors while deliberating the related party transactions for its approval.

Any member of the Committee who has any interest in any related party transaction shall not vote to approve the related party transaction. A related party transaction which is

- (i) not in the ordinary course of business, or
- (ii) not at arm's length price,

would require approval of the Board of Directors or of shareholders as discussed subsequently.

The Audit Committee may grant omnibus approval for related party transactions which are repetitive in nature and subject to certain criteria/conditions as required under Regulation 23 and Companies Rules, 2014 and such other conditions as it may consider necessary in line with this policy and in the interest of the Company. Such omnibus approval shall be valid for one financial year.

However, the approval of the Audit Committee is not required for a transaction, other than a transaction referred to in section 188, between the Company and its wholly-owned subsidiary company.

The Audit Committee may not approve a transaction but may make appropriate recommendations to the Board.

A transaction, amounting upto ₹ 10.0 million, entered by a director, key managerial personnel or any other officer of the Company, on whose directions or instructions the Board of Directors or director(s) are accustomed to act, without obtaining approval of the Audit Committee would be voidable at the option of the Audit Committee, unless it has been ratified by the Audit Committee within three months from the date of the transaction.

Audit Committee shall review, on a quarterly basis, the details of related party transactions entered into by the Company pursuant to the omnibus approval. In connection with any review of a related party transaction, the Committee has authority to modify or waive any procedural requirements of this policy.

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A related party transaction entered into by the Company, which is not under the omnibus approval or otherwise pre-approved by the Committee, will be placed before the Committee for ratification.

B. Board of Directors

In case any related party transactions are referred by the Company to the Board for its approval due to the transaction being (i) not in the ordinary course of business, or (ii) not at an arm's length price, or (iii) a transaction not approved but recommended by the Audit Committee, the Board will consider such factors as, nature of the transaction, material terms, the manner of determining the pricing and the business rationale for entering into such transaction. On such consideration, the Board may approve the transaction or may require such modifications to transaction terms as it deems appropriate under the circumstances. Any member of the Board who has any interest in any related party transaction shall not vote to approve the related party transaction.

C. Shareholders

- If a related party transaction is a material transaction as per Regulation 23, it shall require shareholder's approval through resolution and no related parties shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not.
- If a related party transactions is not in the ordinary course of business, or not at arm's length price and exceeds certain thresholds prescribed under the Companies Act, 2013, it shall require shareholders' approval by a resolution. In such a case, any member who is a related party having interest in the transaction for which resolution being proposed, shall not vote on such resolution passed for approving related party transaction.

However the shareholders' approval is not required for the transactions entered into between the Company and its wholly-owned subsidiaries whose accounts are consolidated with the Company and placed before the shareholders at the general meeting.

III. Reporting of related party transactions

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Every contract or arrangement, which is required to be approved by the Board/shareholders 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. The details of material transactions with related parties will be included in the corporate governance reports which are required to be submitted to the stock exchanges on a quarterly basis. The details of related party transactions on a consolidated basis would be submitted, to the stock exchanges and published on the Company website on a half-yearly basis, within 30 days from the publication of the Company financial results. The transactions with any person or entity belonging to the promoter/promoter group of the Company and having shareholding of 10% or more in the Company would be disclosed in the annual report.

IV. Amendment in Law

This Policy will be reviewed by the Board of Directors at least once every three years and updated accordingly. Any subsequent amendment/modification in the Listing Regulation and/or applicable laws in this regard shall automatically apply to this Policy.