

Name of the Department issuing the Circular	Subject Matter	Approved by
Secretary's Department	Policy on Materiality of Related Party Transactions (RPTs) and Dealing with RPTs	Board of Directors at its Meeting held on February 11, 2017

Circular No. 2017/02/CS/07

February 15, 2017

Re: Policy on Materiality of Related Party Transactions (RPTs) and Dealing with RPTs.

The Board of Directors at the Meeting held on February 11, 2017 approved the Policy on Materiality of Related Party Transactions (RPTs) and Dealing with RPTs.

2. The Policy on Materiality of Related Part Transactions (RPTs) and Dealing with RPTs is effective from **February 11, 2017.**
3. All the concerned officers of the Company are requested to take note of it.
4. The Policy on Related Party Transactions (RPTs) and Dealing with RPTs is enclosed herewith as Annexure.

Sd/-

(Rupa Sarkar)

Company Secretary

Encl: Annexure

Policy on Materiality of Related Party Transactions (RPTs) and Dealing with RPTs

In terms of Regulation 23 (1) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and also provisions of the Companies Act, 2013.

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Introduction

This Policy deals with Materiality of Related Party Transactions (RPTs) and dealing with the Related Party Transactions in terms of the Regulation 23 (1) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the Regulations) and the Companies Act, 2013.

Definitions

“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.

“Audit Committee or Committee” means “Audit Committee” constituted by the Board of Directors of the Company, from time to time, under provisions of the Companies Act 2013 and the Regulations.

“Board of Director” or “Board” means the Board of Directors of IFCI Limited, as constituted from time to time.

“Company” means IFCI Limited.

“Government Company” means any company in which not less than fifty one percent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

“Independent Director” means a director of the Company, as appointed in terms of Section 149 of the Companies Act 2013 and who also qualifies as Independent Director in terms of the Regulations.

“Key Managerial Personnel” in relation to a company, means—

- (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; and

(v) Such other officer of the Company as may be prescribed by the Ministry of Corporate Affairs (MCA) from time to time.

“Material Transaction” as per the Regulations and Companies Act, 2013

(a) If the transaction / transactions to be entered into individually or taken together with previous transactions to be entered individually or to be taken together with previous transactions during a financial year, exceeds 10% of the **Annual Consolidated Turnover** of IFCI as per the last audited financial statements of the Company.

(b) As per Rule 15(3) of the Companies (Meetings of Board and its Powers) Rules, 2014, as amended from time to time, relating to the threshold limits for determining the materiality of transaction (s).

“Policy” means Policy on materiality of Related Party Transactions and dealing with Related Party Transactions.

“Regulations” means Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

“Related Party” as per Companies Act 2013 & Rules made thereunder, Accounting Standard and the Regulations:

(A) As per the provisions of Companies Act, 2013 read with applicable Rules made thereunder:

With reference to the 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 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 2% 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;

A director (other than an independent 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.

(B) As per the provisions of Accounting Standard:

Related Party / 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.

(C) "Related Party" as per Regulation 2(zb) of the Regulations:

Shall be considered as related to IFCI if:

- i. Such entity is a related party under section 2(76) of the Companies Act 2013, as applicable from time to time. OR
- ii. Such entity is a Related Party under the applicable accounting standards, as applicable from time to time.

“Relative”, with reference to any person, means anyone who is related to another, if—

they are members of a Hindu Undivided Family;
they are husband and wife; or
one person is related to the other in such manner as may be prescribed

List of relatives is as prescribed under Rule 4 of the Companies (Specification of Definitions Details) Rules, 2014, as amended from time to time:-

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 Transactions” A Related Party Transaction is transfer of resources, services or obligations between IFCI and a related party, regardless of whether a price is charged.

Explanation: A “transaction” with a Related Party shall be construed to include single transaction or a group of transactions in a contract.

“Control” as per Companies Act 2013 & Rules made thereunder, Accounting Standard and the Regulations:

(A) With reference to the provisions of the Companies Act, 2013

Control shall include the right to appoint majority of the Directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders’ agreements or voting agreements or in any other manner.

(B) With reference to the provisions of Accounting Standard

Control is – (a) ownership, directly or indirectly, of more than one half of the voting power of an enterprise, or

(b) Control of the composition of the Board of Directors in the case of a Company or of the composition of the corresponding governing body in case of any other enterprise, or

(c) a substantial interest in voting and the power to direct, by statute or agreement, the financial and/or operating policies of the enterprise.

(C) With reference to the provisions of the Regulations

Control shall have the same meaning as assigned to it under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 {Takeover Regulation}.

In terms the Takeover Regulations, Control includes the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly

or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner:

Provided that a director or officer of a target company shall not be considered to be in control over such target company, merely by virtue of holding such position;

“Joint Venture” - A contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

Dealing with Related Party Transactions

A. Approvals

I. Approval by Audit Committee

1. All Related Party Transactions (RPTs) (including any subsequent modifications thereof) shall require prior approval of the Audit Committee of Directors.
2. The Audit Committee of Directors may grant **omnibus approval** for the RPTs proposed to be entered into by the Company

The Conditions for granting Omnibus approval are as under:

All related party transactions shall require approval of the Audit Committee and the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the Company subject to the following conditions, namely:-

(1) 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, on quarterly basis or 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 subjected 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 include the following: -

- (a) name of the related parties;
- (b) nature and duration of the transactions;
- (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 the aforesaid details are not available, audit committee may make omnibus approval for such transactions subject to their value not exceeding ₹1 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 as the Audit Committee may deem fit.

II. Approval by Board of Directors

Except with the consent of the Board of Directors given ***by a resolution at a meeting of the Board***, IFCI shall not enter into any contract or arrangement with a related party with respect to—

- (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 nothing of the above shall apply to any transactions entered into by IFCI in its ordinary course of business other than transactions which are not on an arm's length basis.

Explanation —

the expression "**office or place of profit**" means any office or place—

Where such office or place is held by a director, if the director holding it receives from IFCI 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;

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 IFCI anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

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.

III. Approval by Shareholders

1. Except with the prior approval of the company by a special/ordinary resolution, as may be specified under the Companies Act, 2013 or the Regulations, IFCI shall not enter into a transaction(s), where the transaction(s) to be entered into,—

(a) as contracts or arrangements with respect to clauses (a) to (e) of sub-section (1) of section 188 of the Companies Act 2013, with criteria as mentioned below -

(i) Sale, purchase or supply of any goods or materials, directly or through appointment of agent, amounting to 10% or more of the turnover of the company or Rs.100 crores, whichever is lower, 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 agent, amounting to 10% or more of net worth of the company or Rs.100 crores, whichever is lower, 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 net worth of the company or 10% or more of turnover of the company or Rs.100 crores, whichever is lower, as mentioned in clause (c) of sub-section (1) of section 188;

(iv) availing or rendering of any services, directly or through appointment of agent, amounting to 10% or more of the turnover of the company or Rs.50 crores, whichever is lower, as mentioned in clause (d) and clause (e) respectively of sub-section (1) of section 188:

Explanation.—It is hereby clarified that the limits specified in sub-clauses (i) to (iv), as above, shall apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.

(b) Is for appointment to any office or place of profit in the Company, its subsidiary company or associate company at a monthly remuneration exceeding Rs.2.5 lakh as mentioned in clause (f) of subsection (1) of section 188; or

(c) Is for remuneration for underwriting the subscription of any securities or derivatives thereof of the company exceeding 1% 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 computed on the basis of the Audited Financial Statement of the preceding financial year.

(2) In case of a wholly owned subsidiary, the special resolution passed by the IFCI shall be sufficient for the purpose of entering into the transactions between the wholly owned subsidiary and IFCI.

2. All the related parties shall abstain from voting on such resolutions.

3. No Member of IFCI shall vote on such Special/Ordinary Resolution (as the case may be), to approve any contract or arrangement which may be entered into by the Company, if such member is a related party.

Proviso:

The above clauses II and III, w.r.t the Approval of Board and Shareholder's, respectively will not be applicable in the following cases:

1. Transactions entered into between 2 Government Companies.
2. 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.

Identification of Potential Related Party Transactions

Identification of Potential Related Party Transactions

- i. Each Director and Key Managerial Personnel shall be responsible for giving notice to the Company about any potential RPTs, where he/she may be interested.

- ii. In case of any potential RPTs which is being proposed to be entered (including any proposed modifications) by IFCI with its Subsidiaries / Associated/ Joint Ventures, the Head of the Subsidiaries and Associates Department shall be responsible to intimate details of such potential RPTs for seeking approval of the Audit Committee of Directors.

Pre-requisites for entering into Potential Related Party Transactions

A. Audit Committee / Board Level Pre-requisites

IFCI shall enter into any contract or arrangement with a related party subject to the following conditions, namely:-

The agenda of the Board/ Audit Committee Meeting, as the case may be, at which the resolution is proposed to be moved shall disclose-

The name of the related party and nature of relationship;

The nature, duration of the contract and particulars of the contract or arrangement;

The material terms of the contract or arrangement including the value, if any;

Any advance paid or received for the contract or arrangement, if any;

The manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;

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

Any other information relevant or important for the Board to take a decision on the proposed transaction.

Where any director is interested in any contract or arrangement with a related party, such director shall not be present at the meeting during discussions on the subject matter of the resolution relating to such contract or arrangement.

B. Shareholders' Level Pre-requisites

For approval of the shareholders, a notice calling the General Meeting will be sent along with the explanatory statement to the Shareholders.

The explanatory statement to be annexed to the notice of a General Meeting convened for approval of the RPTs shall contain the following particulars, namely:—

Name of the Related Party;

Name of the Director or Key Managerial Personnel who is related, if any;

Nature of relationship;

Nature, material terms, monetary value and particulars of the contract or arrangement;

Any other information relevant or important for the members to take a decision on the proposed resolution.

Disclosure Requirements

A Disclosure by Board of Directors, KMP and Senior Management

Every **Director** shall at the first Meeting of the Board in which he participates as a Director and thereafter at the first Meeting of the Board in every Financial Year or 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 bodies corporate, firms, or other association of individuals which shall include the shareholding.

Every **KMP** shall disclose to the Board of Directors, whether they, directly, indirectly, or on behalf of third parties, have a material interest in any transaction or matter directly affecting IFCI.

Every **Member of Senior Management** shall make disclosures to the Board of Directors relating to all material, financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the listed entity at large.

Explanation.- For the purpose of above,

“conflict of interest” relates to dealing in the shares of listed entity, commercial dealings with bodies, which have shareholding of management and their relatives etc.

“senior management” shall mean officers/personnel of the listed entity who are members of its core management team excluding board of directors and normally this shall comprise all members of management one level below the executive directors, including all functional heads.

B Disclosure in Corporate Governance Report

Details of all Material Transactions with Related Parties shall be disclosed quarterly alongwith the compliance report on Corporate Governance to be submitted to the Stock Exchanges where the securities of IFCI are listed.

C Disclosure on Website of IFCI Limited

IFCI shall disclose the Policy on dealing with Related Party Transactions on its website and a web-link shall be provided in the Annual Report of IFCI.

D Disclosure in Board's Report

Every contract or arrangement entered into by IFCI requiring Board's and Company's approval shall be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement.

Consequence of Non-Approval / Violations of the Provisions of related Party Transactions

Non-approval of Related Party Transactions/ Violation of provisions related to Related Party Transactions

- i. Where any contract or arrangement is entered into by a director or a KMP, without obtaining the consent of the Board or approval by a special resolution in the general meeting as required and if it is not 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, such contract or arrangement shall be voidable at the option of the Audit Committee / Board and if the contract or arrangement is with a related party to any director or a KMP, or is authorised by any other director, the directors concerned shall indemnify the company against any loss incurred by it.
- ii. Without prejudice to anything contained in the above para, it shall be open to IFCI to proceed against a director or a KMP any other employee who had entered into such contract or arrangement in contravention of the provisions of this section for recovery of any loss sustained by it as a result of such contract or arrangement.
- iii. Any director or a KMP of IFCI, who had entered into or authorized the contract or arrangement in violation of the provisions of section 188 of the Companies Act 2013, in relation to RPTs may be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees, or with both, in case of conviction.
