



# **POLICY ON RELATED PARTY TRANSACTIONS**

**Version 1.0**

## 1. **PREFACE**

In terms of Section 188 of the Companies Act, 2013 read with rules made thereunder and in compliance with the Guidelines on Corporate Governance issued by the National Housing Bank vide Circular No. NHB(ND)/DRS/REG/MC-07/2017 dated July 1, 2017, the Board of Directors (the "Board") of Vastu Housing Finance Corporation Limited (the "Company"), on the basis of recommendations of the Audit Committee Members framed and adopted the Related Party Transaction Policy ["Policy" or "this Policy"] which defines and lays down the procedures with regard to Related Party Transactions. This policy aims to regulate transactions between the Company and its Related Parties, based on the laws and regulations applicable to the Company.

## 2. **POLICY OBJECTIVE**

The objective of this Policy is to regulate transactions with related parties and ensure transparency between them. It sets out the materiality thresholds for related party transactions and the manner of dealing with such transactions in accordance with the provisions of Companies Act, 2013.

## 3. **DEFINITIONS**

- (a) "**Act**" means the Companies Act, 2013 and rules made thereunder and includes any amendment(s)/ modification(s) thereof.
- (b) "**Arms' Length Transaction**" means transaction between two related or affiliated parties that is conducted as if they were unrelated, so that there is no question of conflict of interest.
- (c) "**Audit Committee/Committee**" means Committee of Board of Directors of the Company constituted as per the provisions of Companies Act, 2013.
- (d) "**Company**" means "Vastu Housing Finance Corporation Limited";
- (e) "**Key Managerial Personnel**" or "**KMP**" means persons as defined in the Act and as appointed in the employment of the Company.
- (f) "**Material Related Party Transaction(s)**" means transaction(s) with the related party(ies) entered into individually or taken together with previous transactions during a financial year, is exceeding ten percent of the annual consolidated turnover of the Company, as per the last audited financial statements of the company."
- (g) "**Policy**" means this Policy on Related Party Transactions.
- (h) "**Related Party**" as defined under sub-section (76) of Section 2 of the Companies Act, 2013 or under the applicable accounting standards.

As per Section 2(76) of the Companies Act, 2013, Related Party 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 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 [Except advice, directions or instructions given in a professional capacity];
- vii. any person on whose advice, directions or instructions a director or manager is accustomed to act [Except advice, directions or instructions given in a professional capacity];
- viii. any body corporate which is holding, subsidiary or an associate company of such company; or a subsidiary of a holding company to which it is also a subsidiary; or an investing company or the venture of the Company.  
Explanation – For the purpose of this clause, “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.

(i) **“Relative”** as per section 2 (77) of the Companies Act, 2013, with reference to any person, shall be deemed to be relative of another, if he or she is related to another in the following manner, namely: -

- i. Father, including step-father.
- ii. Mother, including step-mother
- iii. Son, including step-son
- iv. Son’s wife
- v. Daughter
- vi. Daughter’s husband
- vii. Brother, including step-brother
- viii. Sister, including step-sister
- ix. are members of a Hindu Undivided Family
- x. they are Husband and wife

(j) **“Related Party Transaction”** shall mean:

- Transfer of resources, services or obligations between the Company and a related party, 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;
- contracts or arrangements entered into with related party for:
  - 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.

*Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013 or any other applicable law or regulation(s).*

#### **4. TERMS OF THE POLICY**

- 4.1 All the Related Party Transactions proposed to be entered by the Company shall require prior approval of the Audit Committee including the transactions to be entered in the ordinary course of business. The Audit Committee shall recommend the Related Party Transaction(s) for the approval of Board of Directors/ Shareholders as per the terms of this policy and the applicable provisions/ regulations of Companies Act, 2013.
- 4.2 The Related Party Transactions entered into in the ordinary course of business and transacted at arms' length shall not require approval of the Board of Directors.
- 4.3 All the Material Related Party Transaction and Related Party Transactions as defined under Section 188 (1) of the Act, exceeding the threshold limits prescribed under Rule 15(3) of the Companies (Meetings of Board and its Powers) Rules, 2014, as detailed under Clause 4.4. below, shall require prior approval of the Audit Committee, Board of Directors and Shareholders of the Company by way of an Ordinary resolution.
- 4.4 Transactions as prescribed under Rule 15(3) of the Companies (Meeting of Board and its Powers) Rules, 2014, includes the transactions/ contracts/ arrangements as follows:
- a. Contracts or arrangements with respect to clauses (a) to (e) of Section 188 (1) of 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 ten percent or more of the turnover of the company or rupees one hundred crore, whichever is lower - For clauses (a) and (e) respectively;
    - ii. Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent, amounting to ten percent or more of net worth of the company or rupees one hundred crore, whichever is lower – For clauses (b) and (e) respectively;
    - iii. Leasing of property of any kind amounting to ten percent or more of the net worth of the company or ten percent or more of turnover of the company or rupees one hundred crore, whichever is lower For clause (c);

- iv. Availing or rendering of any services, directly or through appointment of agent, amounting to ten percent or more of the turnover of the company or rupees fifty crore, whichever is lower, -For clauses (d) and (e) respectively.

These limits shall however, apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.

- b. Contracts or arrangements with respect to clause (f) of Section 188 (1) wherein a related party's appointment to any office or place of profit in the Company, its subsidiary company or associate company is at a monthly remuneration exceeding two and a half lakh rupees.
- c. Contracts or arrangements with respect to clause (g) of Section 188 (1) wherein such related party receives a remuneration for underwriting the subscription of any securities or derivatives thereof, of the Company exceeding one percent of the net worth of the Company.

## **5. PROCEDURE FOR APPROVAL OF RELATED PARTY TRANSACTIONS:**

### **Review and approval of Related Party Transactions by Audit Committee Members**

- a. Audit Committee shall review all the potential/proposed Related Party Transactions, to ensure that no conflict of interest exists and shall evaluate it from the perspective of Arms' Length Pricing.
- b. Any member of the Audit Committee who has an interest in the proposed transaction under discussion shall abstain from voting on the approval of the said Related Party Transaction.
- c. Audit Committee shall have all the rights to call for information/documents in order to understand the scope of the proposed related party transactions and devise an effective control system for the verification of supporting documents.
- d. The Audit Committee shall be provided with the following information and details pertaining to each proposed related party transactions/ contracts –
  - i. The name of the related party and nature of relationship;
  - ii. The nature and duration of the transaction / contract or arrangement;
  - iii. The material terms of the transaction/contract or arrangement including the value and / or the maximum amount for which the same is proposed to be entered into;
  - iv. Any advance paid or received for the transaction / contract or arrangement, if any;
  - v. The manner of determining the pricing and other commercial terms, both included as part of transaction / contract and not considered as part of the same;
  - vi. Whether all factors relevant to the contract have been considered, if not, the details of factors not considered;
  - vii. The rationale for not considering the relevant factors; and

- viii. Any other information relevant or important for the Committee to take a decision on the proposed transaction.
- e. The Audit Committee shall while reviewing the Related Party Transaction, consider all the relevant information/ facts submitted to it, including but not limited to the:
  - (a) commercial or business reasonableness of the terms of the subject transaction so as to analyse that transaction is on an arms' length basis, benchmarking the same with the information and /or drawing reference to the information that may have a bearing on the arms' length analysis. e.g.: industry trends, certificate from an independent auditor, valuation reports, third party comparable, publications or quotations. etc.;
  - (b) availability and / or the opportunity cost of the alternate transactions;
  - (c) materiality and interest (direct/ indirect) of the related party in the subject transaction;
  - (d) actual or apparent conflict of interest of the Related Party;
  - (e) if the Related party is an Independent Director then the Audit Committee shall also consider the impact of the said Related Party Transaction on the Director's independence.
- f. Upon completion of its review of the transaction, the Audit Committee may decide to approve with or without amendment / modification the proposed related party transaction.
- g. In case of a related party transaction, other than transactions referred to in section 188 of the Act, and where Audit Committee does not approve the transaction, it shall make its recommendation to the Board.
- h. The Audit Committee, if considers it appropriate, can also propose modification(s) in the approved related party transaction subsequently.
- i. The aforementioned provisions shall not apply to a transaction, other than a transaction referred to in Section 188 of the Act, between a holding company and its wholly owned subsidiary company

### **Omnibus Approval of Related Party Transactions**

The Audit Committee may grant omnibus approval, pertaining to the transactions in the ordinary course of business, transactions for support service/ sharing of services with Associates Companies, Sub Lease of Office Premises or Office Sharing arrangement with Associate Companies or any other transactions or arrangements as it may deem appropriate, being proposed to be entered into on an Arms' Length basis, subject to the following conditions:

- a. 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:
  - (i) maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year,
  - (ii) the maximum value per transaction which can be allowed,

- (iii) extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval,
  - (iv) review, 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,
  - (v) transactions which cannot be subject to the omnibus approval by the Audit Committee.
- b. The Audit Committee shall grant omnibus approval in line with this policy and provisions of the Act and such approval shall be applicable in respect of transactions which are repetitive (in past or in future) in nature.
- c. The Audit Committee shall consider the justification for the need of omnibus approval, satisfy itself in respect of the need for such omnibus approval and that such approval is in the interest of the company;
- d. Such omnibus approval shall specify:
- (i) the name of the related party(ies), 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 information relevant or important for the Audit Committee to take a decision on the proposed transaction;

However, 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.

- e. Audit Committee shall review, on a quarterly basis, the details of Related Party Transactions entered into by the Company pursuant to each of the omnibus approvals given.
- f. Such omnibus approvals shall be valid for a period not exceeding one Financial Year and shall require fresh approval after the expiry of such Financial Year.
- g. Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the company.

### **Review and approval of Related Party Transactions by Board of Directors**

- a. In case the Audit Committee determines that the Related Party Transaction requires the approval of the Board of Directors or Shareholders as per the terms of this policy and applicable regulatory provisions then it shall refer the said Related Party Transaction to the Board of Directors for its approval along with all the relevant information/ documents pertaining to the same.
- b. The Board shall review the Related Party Transaction and recommendations of the Audit Committee, if any, and shall have the authority to call for such additional information as it may deem appropriate and may approve with or without modification(s) or reject the proposed related party transaction as per the terms of this policy and other applicable regulatory provisions.

- c. In case, the Board determines that the Related Party Transaction requires approval of the shareholders as per the terms of this policy and applicable regulatory provisions then it shall refer the said Related Party Transaction to the shareholders for its approval along with all the relevant information/ documents pertaining to the same, as per the appropriate regulatory provisions.
- d. Approval of the Audit Committee /Board of Directors shall be required in case of any subsequent amendment/modification/renewal, in the terms of the earlier approved Related Party Transaction, as the case may be.
- e. Approval of the Board is not required for any transaction(s) entered into by the Company in its ordinary course of business other than transactions which are not on an arm's length basis.

**6. DISCLOSURES:**

- a. Every Director of a Company who is in any way, whether directly or indirectly, concerned or interested in a contract or arrangement or proposed contract or arrangement entered into or to be entered into—
  - i. With a 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
  - ii. With a firm or other entity in which, such director is a partner, owner or member, as the case may be,  
shall disclose the nature of his concern or interest at the meeting of the Board in which the contract or arrangement is discussed and shall not participate in such meeting:

Provided that where any director who is not so concerned or interested at the time of entering into such contract or arrangement, he shall, if he becomes concerned or interested after the contract or arrangement is entered into, disclose his concern or interest forthwith when he becomes concerned or interested or at the first meeting of the Board held after he becomes so concerned or interested.

- b. Each Director, Key Managerial Personnel shall be required to disclose to the Audit Committee any potential Related Party Transaction(s) proposed to be entered into by them or their relatives.
- c. The Related Party Transaction entered into with the related party/ies shall be disclosed in the Director's Report / Annual Report as per the disclosure requirement(s) of the Companies Act, 2013.
- d. Material Transactions exceeding the threshold limits as prescribed under Rule 15(3) of the Companies (Meetings of Board and its Powers) Rules, 2014 shall be disclosed under "Details of material contracts or arrangements or transactions at arms' length" in Form no. AOC-2 as a part of the Directors Report, as prescribed under Companies Act, 2013.
- e. The particulars of all the Related Party Transaction entered into with the approval of the Audit Committee / Board of Directors / Shareholders shall be entered into the Register of Contracts or Arrangements in which Directors are interested, maintained by the Company as per the provisions of the Companies Act, 2013 and rules framed thereunder.



- f. All entities falling under the definition of related parties shall abstain from participation and voting at the Board Meeting or at Annual General Meeting irrespective of whether the entity is a party to the particular transaction/ contract / arrangement or not.
- g. This Policy shall be uploaded on the website of the Company and a web link thereto shall be provided in the Annual Report.
- h. Quarterly/periodical updates shall be provided to the Audit Committee members on the related party transactions entered by the Company.

#### **7. RATIFICATION:**

Any related party transaction entered into by a director or officer of the Company for an amount not exceeding one crore rupees without obtaining approval of the Audit Committee and it is not ratified by the Audit Committee within 3 months from the date of transaction(s), then such transaction(s) shall be voidable at the option of the Audit Committee and if the related party transaction entered into by a director or authorised by any other director, the director(s) concerned shall indemnify the Company against any loss incurred by it.

If any contract or arrangement is entered into by a director or any other employee of the Company, without obtaining the consent of the Board or approval by a resolution in the general meeting as per the provisions of Section 188 (1) of the Companies Act, 2013 and if it is not ratified by the Board and/or by the shareholders at a meeting, as the case may be, 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 Board or, as the case may be of the shareholders and if the contract or arrangement is with a related party to any director, or is authorised by any other director, the directors concerned shall indemnify the company against any loss incurred by it.

#### **8. AMENDMENTS:**

- The Audit Committee shall periodically review, propose modifications/ amendments, if deemed necessary, to this policy which shall be subject to the approval of the Board of Directors.
- In the event of any conflict between the provisions of this Policy, Act or any other statutory enactments/rules/laws, the provisions of such Act/Regulations or any other statutory enactments/rules/laws would prevail over this Policy.