

## **POLICY ON MATERIALITY AND DEALING WITH RELATED PARTY TRANSACTIONS:**

### **Introduction:**

This policy is prepared and adopted by the Board of Directors of Prabhat Dairy Limited ('the Company') to ensure effective good corporate governance and specifically in accordance with the provisions of Listing Agreement with stock exchanges and in lines of Section 188 as per Companies Act, 2013 dealing with Related Party Transactions.

This policy will be applicable to the Company. This policy is to regulate transactions between the Company and its Related Parties based on the laws and regulations applicable on the Company, in order to ensure the transparency and procedural fairness of Related Party Transactions.

### **Purpose:**

The Company recognizes that Related Party Transactions can present potential or actual conflicts of interest and may raise questions about whether such transactions are fair and on arm's length basis. The Company has so far been in compliance with various laws and regulations in this regard and ensured that such transactions are in the best interest of the company and shareholders. Therefore, this policy on Related Party Transactions has been formulated as required by Section 188 of Companies Act, 2013 and Listing Agreement with Stock Exchanges.

This Policy may be amended at any time and is subject to:-

- a) Amendments to the Companies Act, 2013,
- b) Further guidance from SEBI,
- c) Consequential actions taken by the Board of Directors or the Audit Committee of the Company,
- e) Such other law, rules and regulations as may be applicable to the Company.

This policy applies to any Related Party Transaction, unless the transaction is exempt.

This Policy aims to chart out procedures to ensure that the transactions with related parties are fair. This Policy intends to ensure the transparency of approval process and disclosure requirements to ensure fairness in the conduct of related party transactions, in terms of the applicable laws. This Policy shall supplement the Company's other policies in force that may be applicable to or involve transactions with related parties.

**Definitions:**

“Act” shall mean the Companies Act, 2013 and the Rules framed thereunder, including any modifications, amendments, clarifications or re-enactment thereof.

“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.

“Associate Company” means any other company, in which the 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 Committee of the Board of Directors of the Company constituted under the provisions of the Listing Agreement and the Companies Act, 2013.

“Board” means the Board of Directors of the Company.

“Company” means Prabhat Dairy Limited.

“Control” shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 as amended from time to time.

“Key Managerial Personnel” means key managerial personnel as defined under the Companies Act, 2013 and includes:

- (1) Managing Director, or Chief Executive Officer or manager and in their absence, a whole-time Director;
- (2) Company Secretary; and
- (3) Chief Financial Officer.

“Related Party Transactions” means any transaction directly or indirectly involving any Related Party which is a transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged or not. It refers to transactions / contracts / arrangements between the Company and its related parties which fall under one or more of the following headings:

**1. As per Section 188 of the Companies Act, 2013:**

- (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) Such 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.

**2. As per Listing Agreement:**

Related Party transaction means a 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.

**3. As per Accounting Standard 18 (AS 18):**

- (i) Transfer of Research and development;
- (ii) License agreements;
- (iii) Finance (including loans and equity contribution in cash or kind)
- (iv) Guarantee and collaterals
- (v) Management contracts including for deputation of employees

**4. From the transfer pricing perspective:** The related parties as defined under the Income Tax Act, 1961 shall also be determined by the legal / finance team in accordance with the relevant sections of the Act.

Explanation - A "transaction" with a related party shall be construed to include single transaction or a group of transactions in a contract

"Material Related Party Transactions" 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, exceeds ten percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.

"Policy" means Policy on Materiality and dealing with Related Party Transactions.

"Related Party" means related party as defined in the Listing Agreement which is as follows:

A 'related party' is a person or entity that is related to the Company. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party, directly or indirectly, in making financial and / or operating decisions and includes the following:

1. A person or a close member of that person's family is related to a Company if that person:

- (a) is a related party under section 2(76) of the Companies Act, 2013 which are as follows:
- (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 and holds along with his relatives, more than two percent 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 under 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-
    - (i) a holding, subsidiary or an associate company of such company;
    - or
    - (ii) a subsidiary of a holding company to which it is also a subsidiary.
  - (ix) director or key managerial personnel of the holding company or his relative with reference to a company; or

(b) has control or joint control or significant influence over the Company; or

(c) is a key managerial personnel of the company or of a parent of the company;

2. An entity is related to a Company if any of the following conditions applies:
- (i) the entity is a related party under section 2(76) of the Companies Act, 2013; or
  - (ii) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); or
  - (iii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); or
  - (iv) both entities are joint ventures of the same third party; or
  - (v) one entity is a joint venture of a third entity and the other entity is a associate of the third entity; or
  - (vi) the entity is a post – employment benefit plan for the benefit of employees of either the company or an entity related to the company. If the company is itself such a plan, the sponsoring employers are also related to the company; or
  - (vii) the entity is controlled or jointly controlled by a person identified in (1).
  - (viii) A person identified in (1)(b) has significant influence over the entity (or of a parent of the entity).

“Relative” means a relative as defined under the Companies Act, 2013 and includes anyone who is related to another, if –

- (i) they are members of a Hindu Undivided Family;
- (ii) they are husband and wife; or
- (iii) father (including step – father)
- (iv) mother (including step- mother)
- (v) son (including step son)
- (vi) son’s wife
- (vii) daughter
- (viii) daughter’s husband
- (ix) brother (including step brother)
- (x) sister (including step sister)

"Senior Management" shall mean personnel of the company who are members of its core management team (excluding the Board of Directors). This would also include all members of management one level below the executive directors including all functional heads.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, the Listing Agreement, Securities Contracts Regulation Act or any other applicable law or regulation.

**Identification:**

Related parties and related party transactions shall be identified by the senior management considering the provisions of the Companies Act, 2013 including the rules promulgated thereunder, Listing Agreement with stock exchanges, Accounting Standard 18, Income Tax Act, 1961 or any other applicable law for the time being in force.

**Responsibility of Directors and KMPs :**

1. In accordance with the section 189(2) of the Companies Act, 2013, all directors and key managerial personnel shall, within a period of thirty days of his appointment, or relinquishment of his office, as the case may be, disclose to the company the particulars relating to his concern or interest in the other associations/entities in Form MBP-1.
2. In accordance with the section 184(1) of the Companies Act, 2013, all Directors shall inform the Company of their interest (including interest of their Relatives) in other companies, firms or concerns at the first meeting of Board of every financial year and any change in such interest during the year in Form MBP-1.

3. In addition, all Directors and KMPs shall provide notice to the Company Secretary of any potential Related Party Transaction involving him/her or his or her relative, including any additional information about the transaction that the Audit Committee may request.
4. The Board shall record the disclosure of interest and the Audit Committee will determine whether the transaction is in the ordinary course of business and on an arm's length basis.

**Timeline:**

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

**Determination of "Ordinary Course of business" and "arms length":**

The Company will ensure that all related party transactions are undertaken at arm's length.

While the Ordinary Course of business is not defined under the Companies Act, 2013 and/or the Listing Agreement, the Company for determining "ordinary course of business" will refer to the Guidelines issued by ICAI, the principles put down by various courts and provisions of the Act and Rules framed thereunder, the ordinary course of business will broadly mean the usual transactions, customs, and practices of a business and of the Company.

In its guidance, the Institute of Chartered Accountants of India has included the following as examples of transactions considered outside an entity's normal (or ordinary) course of business:

1. complex equity transactions, such as corporate restructurings or acquisitions.
2. Transactions with offshore entities in jurisdictions with weak corporate laws.
3. The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged.
4. Sales transactions with unusually large discounts or returns.
5. transactions with circular arrangements, for examples, sales with a commitment to repurchase.
6. transactions under contracts whose terms are changed before expiry.

The Courts have laid down the following principles in regard to transactions which can be treated as being in the ordinary course of business:

1. the objects of the Company permit such activity or activities
2. It is a historical practice and there is a pattern of frequency (and not an isolated transaction).
3. The transaction has a connection with the normal business carried on by the company.

4. The income, if any earned from such activity / transaction is assessed as business income in the company's books of account and hence, is a business activity.
5. It is a common commercial practice.

The Company may seek external professional opinion, if necessary for determining whether a transaction with a related party is in the ordinary course of business or not.

Section 188 (1) sub clause (b) to the explanation states – Arms' length transaction means a transaction between two related parties that is conducted as if they were unrelated. The Company has laid down a framework to assess whether a transaction with a related party is done at arms' length and the company adopts generally accepted practices and principles in determining whether the transaction is at arms' length.

Where it is not possible to obtain comparable transaction information because of variation in commercial or technical terms, appropriate adjustments should be made to the best available comparable transactions to arrive at an arms' length price and terms for the related party transaction involved.

Related party transactions should be at arms' length in all material respect. Immaterial variations between the pricing and terms of related party transactions with comparative transactions will be overlooked.

#### **Procedure for approval of Related Party Transactions:**

##### **1. Approval of the Audit Committee:**

Prior approval of the Audit Committee will be required for all related party transactions except for transactions entered into, between the holding company and its wholly owned subsidiaries. However, transactions between holding company and its wholly owned subsidiaries will be placed before the Audit Committee quarterly.

- (i) Audit Committee to be provided with all relevant information for review which includes:
  - (a) terms of the transaction;
  - (b) business purpose of the transaction; and
  - (c) any other relevant matters;
  - (d) guidance will be sought under the guidelines for transfer pricing as per the Income Tax Act, 1961
  - (e) Whether the transaction affects the independence of any independent director;
  - (f) 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;
  - (g) whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;

- (h) whether prior approval of the Company was taken for the transaction; if prior approval was not taken, can the transaction be ratified; would such ratification be detrimental to the Company;
  - (i) 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.
  - (j) The Audit Committee has to ensure that adequate deliberations are held before approving related party transactions and assure themselves that the same are in the interest of the Company.
- (ii) The Audit Committee may grant omnibus approval for a proposed related party transaction subject to the following conditions:
1. the Audit Committee shall, after obtaining the approval of the Board of Directors, lay down the criteria for granting the omnibus approval in line with the Policy for Related Party Transactions of the Company and such approval shall be applicable in respect of transactions which are repetitive in nature (in past or in future); the format for seeking prior approval of the Audit Committee is attached as Annexure – 1.
  2. the Audit Committee shall satisfy itself regarding the need for such omnibus approval and that the said approval is in the interest of the Company.
  3. Such omnibus approval shall be valid for a period not exceeding one financial year.
  4. The omnibus approval shall specify the following:
    - (a) name of the related parties;
    - (b) nature and duration of the transaction;
    - (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 aforesaid details are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rupees One Crore per transaction.
  5. The Audit Committee shall not grant omnibus approval for transactions in respect of selling or disposing of the undertaking of the Company.
  6. The 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.



- (iii) All related party transactions including those with subsidiary companies will be placed before the Audit Committee at least quarterly as per format attached as Annexure – 2..
- (iv) It is not the responsibility of the Audit Committee to determine if there is need to do a transaction with a related party. The selection of a related party in reference to others is at the discretion of the management and / or the Board of Directors. The Audit Committee's responsibility is to satisfy itself that the terms of such transactions are at arm's length.
- (v) The Audit Committee will have the discretion to refer any matter relating to the related party transaction(s) to the Board for its opinion.

## **2. Approval of the Audit Committee by circular resolution:**

In an unforeseen event where a Related Party Transaction needs to be entered due to business exigencies between two Audit Committee meetings, the Audit Committee may approve such Related Party Transaction by passing a resolution by circulation, after satisfying itself that such transaction is in the interest of the Company.

## **3. Approval of the Board of Directors:**

As per the provisions of Section 188 of the Act, all related party transactions specified under the said section and which are not in the ordinary course of business or are not at arm's length are required to be placed before the Board for its approval. The Board must be provided the information as per the format prescribed in Annexure - 3.

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.

All related party transactions will be intimated to all independent directors after approval by the Audit Committee or Board.

Transactions intended to be placed before the shareholders for their approval shall first be considered by the Board.

## **4. Approval of the Shareholders of the Company:**

1. All transactions with a single related party aggregating to over 10% of the last annual consolidated turnover of Prabhat Dairy Limited will require prior approval of shareholders through ordinary resolution.

2. In addition to the above, the following transactions which are not in the ordinary course of business or are not at arm’s length shall require such approval by Ordinary resolution:

Nature of Transaction	Amount exceeding the following Minimum threshold requiring Shareholder Approval		
	Annual Turnover	Networth	
Sale, purchase or supply of any goods or material directly or through appointment of agents	25%		
Selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agent		10%	
Leasing of property of any kind	10%	10%	
Availing or rendering of any services directly or through appointment of agent		10%	
Appointment to any office or place of profit in the company, its subsidiary companies or associate companies at a monthly remuneration			Rs. 2.5 lakh per month remuneration
Remuneration for underwriting the subscription of any security or derivatives thereof of the Company		1%	

The turnover or networth shall be on the basis of the Company’s audited financial statements for the preceding financial year.

Provided, all persons falling under the definition of related party shall abstain from voting at the general meeting irrespective of whether the entity is a party to the particular transaction or not.

**Disclosures and Reporting:**

1. Details of all related party transactions during each quarter shall be placed in the Audit Committee.
2. Details of all material transactions with related parties are to be disclosed quarterly along with the compliance report on corporate governance.

3. The Company shall disclose the contract or arrangement entered into with the Related Party in the Board Report to the shareholders alongwith the justification for entering into such contract or arrangement.
4. This Policy shall be communicated to all concerned employees and other persons of the Company at all locations for implementation and reporting.
5. 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.

**Related Party transactions not approved under this Policy:**

1. In the event the Company becomes aware of any Related Party Transaction that has not been approved or ratified under this Policy, the transaction shall be placed as promptly as practical before the Committee or Board or the Shareholders as may be required in accordance with this Policy for review and ratification.
2. The Committee or the Board or the Shareholders shall consider all relevant facts and circumstances respecting such transaction and shall evaluate all options available to the Company, including but not limited to ratification, revision, or termination of such transaction, and the Company shall take such action as the Committee deems appropriate under the circumstances.
3. In any case, where the Committee or Board or Shareholders determines not to ratify a Related Party Transaction that has been commenced without approval, the Committee or Board or Shareholders, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction. In connection with any review of a Related Party Transaction, the Committee or Board or Shareholders has authority to modify or waive any procedural requirements of this Policy.
4. The Audit Committee may require further approval of the Board or Shareholders and or the payment of compensation for the loss suffered by the related party.
5. It shall be open to the company to proceed against a director or any other employee who had entered into such contract or arrangement in contravention of the provisions of the Policy and the provisions of the Act for recovery of any loss sustained by it as a result of such contract or arrangement.

**Exemptions:**

The following transactions with related party shall be exempted from seeking requisite approvals of the Audit Committee / Board / Shareholders:

1. If any transaction with a related party is in ordinary course of business and arms length basis.
2. Transactions entered into between the Company and its wholly owned subsidiary companies whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval.
3. Any transaction that involves the providing of compensation to a director or key managerial personnel in connection with his or her duties towards 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.
4. 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.

#### **Maintenance of Registers:**

The Company shall keep and maintain a register, either physically or electronically giving separately the particulars of all contacts or arrangements to which section 188 of the Companies Act, 2013 applies. If section 188(1) is not applicable because of the exception under the third proviso to section 188(1) i.e. transaction with related party at arms' length basis and in the ordinary course of business, the requirement regarding entries in the Register under section 189 of the Companies Act, 2013 would not apply and hence no entries in the register would be necessary. However, if the said transaction gets covered under the transfer pricing norms as per the guidelines on transfer pricing under the Income Tax Act, 1961, the company shall maintain the required records as prescribed under the Income Tax Act, 1961.

The Company shall maintain the aforesaid Register at the registered office of the Company and provide extracts from such register to a member of the Company on his request, within seven days from the date on which such request is made upon the payment of such fee as may be specified in the Articles of Association of the Company but not exceeding Rs. 10/- per page.

The Register as aforesaid shall also be produced at the commencement of every Annual General Meeting of the Company and shall remain open and accessible during the continuance of the meeting to any person having the right to attend the meeting.

The Register shall be preserved permanently and shall be kept in the custody of the Company Secretary / chief Financial Officer of the Company or any other person authorised by the Board for the purpose.

**Amendment:**

The Board of Directors reserves the power to review and amend this Policy from time to time. Any exceptions to the Policy on Related Party Transactions must be consistent with the Companies Act, 2013, including the Rules promulgated thereunder and the Listing Agreement.

**Prior Period Contracts / Arrangements:**

All existing material related party contracts or arrangements entered prior to December 1, 2015 and which may continue beyond such date shall be placed for approval of the shareholders in the first General Meeting subsequent to December 1, 2015.

### Annexure 1

#### Prior Approval of Audit Committee / Omnibus Approval

Sr. No.	Name of the Related Party	Nature of Transaction	Indicative terms* including base price, standard terms, the maximum value per transaction and maximum aggregate of all transactions	Justification for Omnibus Approval	Relevant Clause in RPT Policy

### Annexure – 2

#### Related Party Transactions to be placed before the Audit Committee

Sr. No.	Name of the Related Party	Nature of duration of the contract or arrangement	Amount	Material terms* of the contract including price	The manner of determining the pricing and other commercial Terms	Any other relevant information pertaining to the contract

\*Credit period, discounts, taxes, warranties / guarantees, penalties & bonuses, interest rate (simple / compound), security, advance payments, withholding amounts and other terms that have a bearing.

**Annexure – 3**

**Information to Board on proposed Related Party Transactions**

<b>Sr. No.</b>	<b>Particulars</b>	<b>Details</b>
1	The name of the related party and nature of relationship	
2	The nature, duration of the contract and particulars of the contract or arrangement	
3	The material terms of the contract or arrangement including the value, if any	
4	Any advance paid or received for the contract or arrangement, if any	
5	The manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract	
6	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	
7	Any other information relevant or important for the Board to take a decision on the proposed transaction	

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