

SBFC FINANCE LIMITED

POLICY ON MATERIALITY OF RELATED PARTY TRANSACTIONS AND DEALING WITH RELATED PARTY TRANSACTIONS

Date: 12 July, 2023

I. OBJECTIVE

Section 188 of the Companies Act, 2013, as amended and the rules notified thereunder (the “**Companies Act**”) and Regulation 23 of the Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations, 2015, as amended (the “**SEBI LODR Regulations**”), require companies to have enhanced transparency and due process for approval of related party transactions. Pursuant thereto, the Company has formulated this policy on materiality of related party transactions and also on dealing with related party transactions (the “**Policy**”).

II. DEFINITIONS

- (a) “**Arm’s Length Transaction**” shall mean a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.
- (b) “**Audit Committee**” means Audit Committee constituted by the Board of Directors of Company, from time to time, under Section 177 of the Companies Act, 2013 and Regulation 18 of SEBI LODR Regulations.
- (c) “**Board or Board of Directors**” shall mean board of directors of Company.
- (d) “**Companies Act**” means Companies Act, 2013, as amended and the rules notified thereunder.
- (e) “**Company**” shall mean SBFC Finance Limited
- (f) “**Key Managerial Personnel**” shall mean key managerial personnel as defined under the Companies Act and includes:
 - (i) Managing Director or Chief Executive Officer or Manager;
 - (ii) Whole Time Director;
 - (iii) Chief Financial Officer;
 - (iv) Company Secretary;
 - (v) such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and
 - (vi) such other officer as may be prescribed.
- (g) “**Material Modifications**” shall mean material modifications to related party transactions, having a variance of 10 % of the existing limit or Rs. 5 Crores, whichever is lower.
- (h) “**Related Party(ies)**” shall have the same meaning as assigned to in the Companies Act or under the applicable accounting standards.

Provided that:

- (a) any person or entity forming a part of the promoter or promoter group of the Company; or
- (b) any person or any entity, holding equity shares (i) of 10% or in the Company either directly or on a beneficial interest basis as provided under Section 89 of the Companies Act, at any time, during the immediate preceding financial year, shall be deemed to be a related party.

Provided further that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s).

- (i) **“Related Party Transaction”** shall mean 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.
- (j) **“Relative”** shall mean such person as defined in Section 2(77) of the Companies Act.
- (k) **“Ordinary Course of Business”** shall mean a transaction which is:
- (i) Carried out in the normal course of business envisaged in accordance with the Memorandum of Association of the Company, as amended from time to time;
 - (ii) Carried out historically with a pattern of frequency;
 - (iii) Common commercial or established trade practice;
 - (iv) Carried out for the business purpose irrespective of its frequency;
 - (v) The income, if any, earned from such activity/ transaction is assessed as business income in the Company’s books of accounts and hence is a business activity;
- (l) **“Subsidiary(ies)”** shall mean a subsidiary(ies) as defined under the Companies Act, as amended to time.
- (m) **“Unlisted Subsidiary(ies)”** means Subsidiary(ies) of the Company whose securities are not listed on any recognized stock exchanges.

III. MATERIALITY THRESHOLD

Transactions between the Company and Related Parties shall be entered into in the manner that is compliant with the applicable provisions of the Companies Act and SEBI LODR Regulations.

Materiality threshold:

The following transactions with the Related Party(ies) shall be treated as “Material”:

- any transaction(s) to be entered into individually or taken together with previous transactions during a financial year which exceeds Rs. 1,000 crore or 10% of the annual consolidated turnover of the Company as per the last consolidated audited financial statements of the Company, whichever is lower, or such sum as may be prescribed under the Companies Act or SEBI LODR Regulations, as amended from time to time;
- any transaction involving payments to a related party with respect to brand usage or royalty entered into individually or taken together with previous transactions during a financial year which exceeds 5% of the annual consolidated turnover of the Company as per the last audited consolidated financial statements of the Company or such sum as may be prescribed under the Companies Act or SEBI LODR Regulations, as amended from time to time.

IV. REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS

The Company shall not enter into any Related Party Transaction unless it is approved by the appropriate authority. The table below lists the approval matrix applicable to such transactions:

Nature of Transaction	Authority
All transactions with Related Parties and subsequent Material Modifications	Audit Committee
Related Party Transactions as defined under Section 188(1) of the Companies Act, which are not in the Ordinary Course of Business (OR) not at arm’s length	Board
Related Party Transactions meeting the materiality thresholds (regardless of whether they are in the ordinary course and/or on arm’s length basis)	Board and Shareholders*

* subsequent Material Modifications to the Related Party Transactions would require prior approval of the shareholders

- (a) **Approval of the Audit Committee**

- (i) All Related Party Transactions and subsequent Material Modifications shall be placed before Audit Committee for its prior approval, as required under the provisions of the Companies Act and SEBI LODR Regulations. Only members of the Audit Committee of the Company, who are independent directors, shall approve Related Party Transactions.
- (ii) The Company shall provide all information, as mandated by SEBI under its circular dated November 22, 2021 (as may be modified from time to time), for review by the Audit Committee for the purposes of approval of a proposed Related Party Transactions.
- (iii) A Related Party Transaction involving a Unlisted Subsidiary and listed Subsidiary, if any (to whom Regulation 23 does not apply) but not the Company itself, shall require prior approval of the Audit Committee of the Company, if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds 10% of the annual standalone turnover, as per the last audited financial statements of the Company
- (iv) However, the Company may obtain omnibus approval from the Audit Committee for such transactions, subject to compliance with the following conditions:
- The Audit Committee shall lay down the criteria for granting the omnibus approval in line with this Policy and such approval shall be applicable in respect of transactions which are repetitive in nature;
 - The Audit Committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the Company;
 - The omnibus approval shall specify:
 - the name(s) of the related party(ies), nature of transaction(s), period(s) of transaction(s), maximum amount(s) of transaction(s) that shall be entered into;
 - the indicative base price/ current contracted price and the formula for variation in the price, if any; and
 - such other conditions as the Audit Committee may deem fit.
- (v) 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 Rs. 1,00,00,000 (Rupees one crore) per transaction.
- (vi) The Audit Committee shall review, at least on a quarterly basis, the details of the Related Party Transactions entered into by the Company pursuant to each of the omnibus approvals given.
- (vii) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.
- (viii) In case any transaction involving any amount not exceeding Rs. 1,00,00,000 (Rupees one crore) is entered into by a Director or Officer of the Company without obtaining the approval of the Audit Committee, such transactions can be ratified by the Audit Committee within three months from the date of such transaction. Upon failure of such ratification, the transaction shall be voidable at the option of the Audit Committee and if such transaction is with a related party to any Director or is authorised by any other Director, the Director concerned shall indemnify the Company against any loss incurred by it.

- (ix) In case of a transaction, other than transactions referred to in Section 188 of the Companies Act and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board.
- (x) Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertakings of the Company.

(b) Approval of the Board

All transactions specified under Section 188 of the Companies Act, which are not in the Ordinary Course of Business and/ or not on arm's length basis, would mandatorily be required to be placed before the Board for its consideration and approval.

In addition to the above, the following kinds of transactions with Related Parties shall also be placed before the Board for its approval:

- (i) Transactions in respect of which the Audit Committee is unable to determine whether or not they are in the Ordinary Course of Business and/ or arm's length basis and decides to refer the same to the Board for its consideration and approval;
- (ii) Transactions which are in the Ordinary Course of Business and at arm's length basis, but for which in the Audit Committee's view require Board's approval;
- (iii) Transactions meeting the materiality threshold laid down in this Policy which is intended to be placed before the Shareholders for approval;
- (iv) Transactions in respect of selling or disposing of the undertaking of the Company;
- (v) Transactions which are not repetitive in nature.

(c) Approval of the Shareholders

- (i) All the transactions with Related Parties meeting the materiality threshold, laid down in this Policy, shall be placed before the Shareholders for approval.
- (ii) All kinds of transactions specified under Section 188 of the Companies Act which exceeds the thresholds laid down in Companies (Meetings of Board and its Powers) Rules, 2014 shall be placed before the Shareholders for its approval.
- (iii) In addition to the requirements of the Companies Act, the Company shall provide all information, as mandated by SEBI under its circular dated November 22, 2021 (as may be modified from time to time), for review by the shareholders for the purposes of approval of a proposed Related Party Transactions.

Where obtaining of prior approval is not possible, the transactions if entered into by a Director or any other employee, shall be subject to ratification within three months from the date on which such contract or arrangement was entered into. If not ratified, it shall be voidable at the option 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.

V. RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY

In the event the Company becomes aware of any Transaction with a Related Party that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Committee shall consider all the relevant facts and circumstances regarding the Related Party Transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of the said Related Party Transaction. The Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Committee under this Policy and failure of the internal control systems and shall take any such action it deems appropriate.

In any case, where the Committee determines not to ratify a Related Party Transaction that has been commenced without appropriate approval, the Committee, 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 Audit Committee shall have the authority to modify or waive any procedural requirements of this Policy.

VI. TRANSACTIONS WHICH DO NOT REQUIRE APPROVAL

The following Related Party Transactions shall not require prior approval of Audit Committee or Board or Shareholders, unless the Companies Act require otherwise:

- (a) Any transaction(s) between the Company and its wholly owned subsidiary(ies) whose accounts are consolidated with the accounts of the Company and placed before the Shareholders at the general meeting for approval.
- (b) Any transaction that involves payment 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.

VII. DISCLOSURE

- (a) The Company shall disclose, in the Board's report, transactions prescribed in Section 188(1) of the Companies Act with the Related Parties, which are not in Ordinary Course of Business or not at arm's length basis along with the justification for entering into such transaction.
- (b) The details of Material Related Party Transactions will be included in the corporate governance reports which are required to be submitted to the stock exchanges on a quarterly basis. Further, the Company shall disclose this Policy on its website and a web link thereto shall be provided in the annual report of the Company.
- (c) The Company shall submit within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of Related Party Transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the Stock Exchanges and publish the same on its website.
- (d) The Company shall submit to the stock exchanges disclosures of Related Party Transactions in the format as specified by SEBI from time to time, and publish the same on its website at www.sbfsc.com. The Company shall make such disclosures every 6 months (in the format prescribed by SEBI under its circular dated November 22, 2021) on date of publication of its standalone and consolidated financial results.

VIII. CONFLICT IN POLICY

In the event of any conflict between the provisions of this Policy and the SEBI regulations or the Companies Act or any other statutory enactments, rules, the provisions of such SEBI regulations or the Companies Act or statutory enactments, statutory provisions shall prevail over this Policy.

IX. AMENDMENT

Any subsequent amendment/ modification in the Companies Act, SEBI LODR Regulations and/or other applicable laws in this regard shall automatically apply to the Policy.

X. REVIEW

This Policy shall be reviewed by the Board at least once every three years or within a lesser time period as the Board may deem fit.