



POLICY ON RELATED PARTY TRANSACTIONS

(Pursuant to Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015)

➤ **Background:**

The Board of Directors (the “Board”) of Emmbi Industries Limited (“the Company”) has adopted the Related Party Transactions Policy, pursuant to the provisions of Companies Act, 2013 and Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”).

➤ **Definitions:**

“**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.

“**Audit Committee or Committee**” means the committee of the Board of the Company constituted in accordance with provisions of the Listing Regulations and the Companies Act, 2013.

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

“**Key Managerial Personnel**” means key managerial personnel as defined under the Companies Act, 2013.

“**Material Modification**” means any change in the value of transaction exceeding 20% of the value of the original transaction with the related party already approved by the Audit Committee / Board / Shareholders.

“**Material Related Party Transaction**” means a material transaction with a Related Party as provided in the explanation under Regulation 23 of the Listing Regulations which read as under:

Regulation 23(1) *inter-alia* provides that:

“a transaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds rupees one thousand crore or ten per cent of the annual consolidated turnover of the Company as per the last audited financial statements of the listed entity, whichever is lower.”

Regulation 23(1A) *inter-alia* provides that:

“notwithstanding the above, a transaction 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 five percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the Company.”

“Ordinary course of business” means a transaction as may be so determined based on the guiding principles set down under Annexure A, which may be amended from time to time in accordance with the statutory requirements and other industry practices and guidelines.

“Policy” means this Related Party Transaction Policy.

“Related Party” means a related party as defined under Regulation 2(1)(zb) of Listing Regulations, under section 2(76) of the Companies Act, 2013 or under the applicable accounting standards, read with amendments issued from time to time.

“Related Party Transaction” means a related party transaction as defined under Regulation 2(1)(zc) of the Listing Regulations and section 188 of the Companies Act, 2013, read with amendments issued from time to time.

“Relative” with reference to a director or a Key Managerial Personnel means persons defined under Section 2(77) of the Companies Act read with amendments issued from time to time.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, the Listing Regulations as amended from time to time or any other applicable law or regulation.

➤ **Policy:**

Material Thresholds:

The Board has, in accordance with the Listing Regulations, determined that a transaction with a related party shall be considered as material if the transaction to be entered into individually or taken together with previous transactions during a financial year exceeds:

- a) rupees one thousand crore or ten per cent of the annual consolidated turnover as per the last audited financial statements, whichever is lower.
- b) five percent of annual consolidated turnover as per the last audited financial statements in case of a transaction involving payment with respect to brand usage or royalty.

The above threshold limit shall be reviewed by the Board every three years or as per any amendments prescribed under the Companies Act, 2013 or Listing Regulations, as the case may be.

Periodic identification of Related Parties:

Related parties shall be identified under the Companies Act, 2013 and the Listing Regulations, as amended from time to time.

The Secretarial Department of the Company shall request information that may be required for inclusion in the list of Related Parties from all the

Directors and Key Managerial Personnel of the Company.

Each Director and Key Managerial Personnel of the Company shall be required to inform the Secretarial Department of the Company of any change in the information previously provided on the list of Related Parties of the Company.

Each Director and Key Managerial Personnel is responsible for providing notice to the Board or Audit Committee of any potential Related Party Transaction involving him / her or his / her relative, including any additional information about the transaction that the Board / Audit Committee may reasonably request.

The list of identified Related Parties will be tagged and updated in the accounting system regularly and also periodically sent out to those officials of the Company that might be in the position to conduct or know the possible conduct of Related Party Transactions.

Approvals for transactions with related parties:

Before undertaking any transaction, it must be examined by the Company whether such transaction qualifies as a Related Party Transaction, requiring compliance with this Policy. The Company Secretary, in consultation with such other concerned persons, as appropriate, shall determine whether a transaction does, in fact, constitute a Related Party Transaction, as the case may be.

Approval of Audit Committee:

All related party transactions and subsequent material modifications shall require prior approval of Audit Committee in terms of Regulation 23 (2) of the Listing Regulations.

The related party transactions shall only be approved by the members of the Audit Committee who are independent directors.

The Company may also obtain omnibus approval from the Audit Committee for such transactions, subject to compliances set out in Regulation 23 (3) of the Listing Regulations.

Approval of the Board:

All related party transactions which are not in the Ordinary course of business or qualify as an Arm's Length Transaction will be put up for prior approval of the Board.

Approval of the Shareholders:

All material related party transaction and subsequent material modifications shall be placed for prior approval of the shareholders in terms of Regulation 23(4) of the Listing Regulations.

Voting requirements:

Before approving any Related Party Transaction, the Chief Financial Officer must express a reasoned opinion on the Company's interest in carrying out the transaction and on the benefits and substantive fairness of the related terms. In determining whether to approve or ratify a Related Party Transaction, the Audit Committee / Board, as the case may be, shall take into account, other factors, as may be deemed appropriate, whether the Related Party Transaction is in the Ordinary course of business of the Company and whether it qualifies as an Arm's Length Transaction and the extent of the Related Party's interest in the transaction.

The term Ordinary course of business has been elaborated in 'Annexure A' to this Policy. For this purpose, the Audit Committee / Board, as the case may be, is entitled to seek the assistance of any employee of the Company or one or more independent experts of its choice at the expense of the Company.

Any member of the Audit Committee who has a potential interest in any Related Party Transaction will abstain from any discussions or voting on such proposals.

If any director of the Company is interested in any contract or arrangement with a Related Party, such director cannot be present at the Audit Committee / Board meeting of the Company, during discussions in the matter.

Ordinary Course of Business and Arm's Length Price:

Arm's length pricing in respect of all Related Party Transactions shall be determined in accordance with the policy memos adopted by the Board for specified Related Party Transactions, where such memos have been prepared.

All proposed Related Party Transactions may be assessed as to whether they are in the Ordinary course of business by reference to the Company's Note on 'Determination of Ordinary Course of Business', as approved by the Audit Committee.

Disclosure and reporting:

Details of the Related Party Transactions during the quarter shall be disclosed in the Audit Committee and Board meeting.

The Company shall submit to the stock exchange disclosure of related party transactions in the format specified by SEBI, from time to time, and publish the same on its website.

In case the Company has issued high value debt securities then it shall submit such disclosure along with its standalone financial results for the half year.

The Company shall make such disclosure every six months within fifteen days from the date of publication of its standalone financial results.

From 1st April, 2023, the Company shall make such disclosures every six months on the date of publication of its standalone financial results.

Director's report shall contain details of Related Party Transactions as required under the Companies Act, 2013.

The Annual Report shall contain details of Related Party Transactions as required under the Companies Act, 2013 and Schedule V of the Listing Regulations.

Review of the Policy:

The adequacy of this Policy shall be reviewed and reassessed by the Audit Committee periodically and appropriate recommendations shall be made to the Board to update the Policy based on the changes that may be brought about due to any regulatory amendments or otherwise.

The policy shall be reviewed by the Board of Directors at least once every three years including threshold limits specified therein and updated accordingly.

DETERMINATION OF ORDINARY COURSE OF BUSINESS

Background:

Section 188(1) of the Companies Act, 2013 ("Companies Act") states that a company shall not enter into any contract or arrangement, as specified therein, with a related party which is not in the ordinary course of business and which is not at arm's length, without the consent of the board of directors given by a resolution at the meeting of the board of directors. In case the Company has a paid-up share capital exceeding the amount as may be prescribed or the value of the specified transaction exceeds the prescribed thresholds under the Companies Act read with the rules made thereunder, it will also be put up for prior approval of the Shareholders through special resolutions.

Accordingly, for transactions meeting both the criteria in the third proviso to section 188(1) of the Companies Act, viz. transactions that are entered in the Ordinary course of business and amount to an Arms' Length Transaction, the provisions of Section 188(1) of the Companies Act would not apply. Whilst the framework policy defined by us defines an Arm's Length Transaction, the Policy does not articulate what would be deemed as ordinary course of business for the Company.

What is Ordinary course of Business?

The phrase 'ordinary course of business' is not defined under the Companies Act or the rules prescribed thereunder. An assessment of whether a transaction is in 'ordinary course of business' may be very subjective, judgmental and can vary on case-to-case basis. The purpose of making such assessment is to determine whether the transaction is usual or customary to the Company and / or its line of business.

The Company would, therefore, be required to exercise its judgment to conclude whether a transaction which the Company enters into can be considered to be in the ordinary course of its business.

For example, a car manufacturing company selling car to its group company would easily be deemed as a transaction that has been entered into by the company in its ordinary course of business.

Transactions that may be considered outside a company's normal course of business:

International Standard on Auditing ("ISA") 550- 'Related Parties' has listed certain illustrative (not exhaustive) examples of the same:

- a) Complex equity transaction, such as corporate restructurings or acquisitions.
- b) Transactions with offshore entities in jurisdictions with weak corporate laws.
- c) The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged.

- d) Transactions with circular arrangements, for example, sales with a commitment to repurchase; and
- e) Transactions under contracts whose terms are changed before expiry.

Tests for determining whether a contract/ activity falls within the ordinary course of business:

The courts have *inter alia* laid down the following principles in this regard:

- a) the objects of the company permit such activity.
- b) it is a historical practice and there is a pattern of frequency (and not an isolated transaction).
- c) it has a connection with the normal business carried on by the company.
- d) 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'; and
- e) It is a common commercial practice.

Key factors which the management of the Company may consider in making its assessment for ordinary course of business of the Company:

i. Whether the transaction is covered in its Memorandum of Association:

If the transaction is covered in the objects clause of the Memorandum of Association then it is likely to be in ordinary course of business of the company.

ii. Whether a transaction is usual or unusual:

Although a Company would be outsourcing its IT processes for the first time, if that is a norm in the industry in which it operates the transaction is not unusual. Hence, whilst deciding the usualness or otherwise of a transaction, one should not restrict oneself only to the company and its past history; rather, a wider perspective covering line of business.

iii. Frequency:

If a transaction occurs frequently over a period of time, the more likely it is to be an ordinary part of the business. However, the inverse of this does not necessarily hold true.

iv. Business purpose of the transaction and whether transaction is done on similar basis with other third parties:

The Company would consider transactions to be in the ordinary course of business which include those that form part of the revenue from operations, the costs of goods / products sold and the normal expenses incurred for operating the business uninterruptedly or part of capital asset like replacement / maintenance of fixed assets (considering the business rationale and without any complicated terms and conditions

as compared to transactions with independent third parties)

A transaction proposed to be disclosed as part of other income or other expenses, exceptional or extraordinary may generally be assessed on a case to case basis as to whether they could be considered to be in the ordinary course of business.

v. Size and volume of transaction.

The materiality of the transaction in terms of its value may be considered.