

Aarti Surfactants Limited



Policy on Materiality of
Related Party Transaction(s)
and dealing with Related
Party Transaction(s)



Compliance Department

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Effective from : April 01, 2020

Review periodicity : Need Base / Once in Three Year`

1. BACKGROUND

The Companies Act, 2013 read with Companies (Meetings of Board and its Powers) Rules, 2014 and Corporate Governance norms prescribed under the Listing Regulations together provide the detailed mechanism for dealing with Related Party Transactions and mandate the Company to formulate a policy on materiality of related party transactions and also on dealing with such transactions.

Keeping in view the above mentioned compliance requirements, the Board of Directors of Aarti Surfactants Limited (hereinafter referred as 'Aarti' or 'Company'), acting upon the recommendations of the Audit Committee of the Company, has adopted/modified/amended this Policy on materiality of Related Party Transactions and dealing with those.

All Related Party Transactions as defined in this Policy shall be subject to review in accordance with the procedures set forth below.

This Policy applies to transactions between the Company and one or more of its Related Parties. It provides a framework for governance and reporting of Related Party Transactions including material transactions.

2. OBJECTIVE

This Policy is intended to ensure due and timely identification, approval, disclosure and reporting of transactions between the Company and any of its Related Parties in compliance with the applicable laws and regulations as may be amended from time to time.

The provisions of this Policy are designed to govern the approval process and disclosure requirements to ensure transparency in the conduct of Related Party Transactions in the best interest of the Company and its shareholders and to comply with the statutory provisions in this regard.

3. GOVERNING LAW & GUIDELINES

This Policy has been framed in alignment with the prevailing provisions of;

1. Section 188 and other corresponding provisions of the Companies Act, 2013,
2. Rule 15 of Companies (Meetings of Board and its Powers) Rules, 2014,
3. Regulation 23 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015
4. Indian Accounting Standard- 24, and
5. Resolutions passed in the Meetings of Board or Committee thereof pertaining to Related Party Transactions.

4. DEFINITION AND INTERPRETATION

DEFINITION:

- 4.1 "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.

4.2 “Arm’s Length Price”: means a price which is applied or proposed to be applied in a Transaction between two unrelated persons

4.3 “Associate”: shall mean any entity which is an associate under sub-section (6) of section 2 of the Companies Act, 2013 or under the applicable accounting standards

4.4 “Control” means the right to appoint the 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. *(Section 2 (27) of Companies Act, 2013)*

In addition to above definition as per IndAs 110 a person / entity/ Body Corporate/ Company is said to control the Company when it is exposed, or has rights, to variable returns from its involvement with the Company and has the ability to affect those returns through its power over the Company.

4.5 “Key Managerial Personnel” or KMP means –

- (i) the Chief Executive Officer or the managing director;
- (ii) the company secretary;
- (iii) the whole-time director;
- (iv) the Chief Financial Officer;
- (v) ¹ [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 under Section 2 (51) of the Companies Act, 2013.

4.6 “Key management personnel” means Key Managerial Personnel who have an authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. *(IND As -24)*

4.7 “Joint venture” is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. *(As per IND As 28 and explanation to Section 2(6) of Companies Act, 2013)*

4.8 “Material Related Party Transaction” : means a transaction / transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds the annual consolidated turnover as mentioned below of the company as per the last audited financial statements of the company :

- 5 % in case of transactions involving payments made with respect to brand usage or royalty;
- 10 % (ten percent) in case of any other transactions.

4.9 “Ordinary Course of Business”: means unless otherwise specified in the Companies Act 2013 or rules made thereunder, the transactions of the Company with the related party shall be considered to be carried out in ‘Ordinary Course of Business’, if the transaction

¹ Inserted by Companies (Amendment) Act,2017

is carried out to attain business objectives set out in the 'Main Object Clause' and / or 'objects incidental or ancillary to attain the main objects' of the Memorandum of Association of the Company. However, for determining the nature of particular transaction in subject, the Finance & Investment Committee of the Board of Directors of the Company shall determine after taking into consideration various factors which shall include; past Precedent, Periodicity, Frequency, uniformity, predictability and consistency of that transaction in future.

4.10 "Related party", with reference to a company, means—

- a. a director or his relative;
- b. a key managerial personnel or his relative;
- c. a firm, in which a director or his relative is a partner;
- d. a private company in which a director or his relative is a member or director;
- e. a public company in which a director is a director and holds along with his relatives, more than two per cent of its paid-up share capital;
- f. any body corporate whose Board of Directors, managing director is accustomed to act in accordance with the advice, directions or instructions of a director;
- g. any person on whose advice, directions or instructions a director is accustomed to act:
(Provided that nothing in sub-clauses (f) and (g) shall apply to the advice, directions or instructions given in a professional capacity);
- h. ² [any body corporate which is—
 - i. a holding, subsidiary including fellow Subsidiary or an associate company of such company;
 - ii. a subsidiary of a holding company to which it is also a subsidiary;
or
 - iii. an investing company or the venturer 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.

- i. 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.
- j. ³ [any person or entity belonging to the promoter or promoter group of the Company and holding 20% or more of shareholding in the Company shall be deemed to be a related party]
- k. Any body corporate in which a director alone or in association with any other director, holds more than two per cent shareholding of that body corporate, or is a promoter, Chief Executive Officer of that body corporate.

² Substituted by the Companies (Amendment) Act,2017 for the following –
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;

³ Inserted by the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018, w.e.f. 1.4.2019

In Addition to above as per Ind As 24 Related Parties to include the following –

- l) Any person or a ⁴[close member of that person's family] who:
 - i. has control or joint control of the Company;
 - ii. has significant influence over the Company; or
 - iii. is a member of the key management personnel of the Company or of a parent of the Company;
- m) An entity –
 - i. which is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
 - ii. controlled or jointly controlled by a person identified in (L);
 - iii. in which person identified in l (i) has significant influence or is a member of the key management personnel of the entity (or of a parent of the entity);
 - iv. or any member of a group of which it is a part, providing key management personnel services to the Company or to the parent of the Company.
- n) An entity related to Company if –
 - i) Both entities are joint ventures of the same third party;
 - ii) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

4.11 “Related party transaction”: means a transfer of resources, services or obligations between a listed entity 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.

4.12 “Relative”: means relative as defined under the Companies Act, 2013 and includes anyone who is related to another in any of the following manner:

- a. members of a Hindu Undivided Family;
- b. husband and wife;
- c. father (including step-father);
- d. mother (including step-mother);
- e. son (including step-son);
- f. son’s wife;
- g. daughter;
- h. daughter’s husband;
- i. brother (including step-brother); or
- j. sister (including step-sister)

⁴ *Close members of the family of a person* are those family members who may be expected to influence, or be influenced by, that person in their dealings with the Company including :

- a) that person’s children, spouse or domestic partner, brother, sister, father and mother;
- b) children of that person’s spouse or domestic partner; and
- c) Dependants of that person or that person’s spouse or domestic partner

4.13 “Specified Related Party Transactions”: means the following transactions with Related Parties **which are not in the ordinary course of business of the Company or which are in the ordinary course of business but not at arm’s length:**

- a. 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 ⁵ [~~Rs. 100 crores, whichever is lower;~~]; or
- b. selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agent, amounting to 10% or more of the Net Worth of the Company or ⁶ [~~Rs. 100 crores, whichever is lower;]~~ or
- c. Leasing of property any kind amounting to ⁷ [~~ten percent or more of the net worth of company or]~~ ten per cent or more of turnover of the company [~~or rupees one hundred crore, whichever is lower;~~]; or
- d. 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 ⁸ [~~Rs. 50 crores, whichever is lower;~~]; or

(The limit specified in clause (a) to (d) shall apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year)

- e. appointment to any office or place of profit in the Company, its subsidiary company or Associate Company at a monthly remuneration exceeding two and half lakh rupees; or
- f. remuneration for underwriting the subscription of any securities or derivatives hereof, of the Company exceeding 1% of the Net Worth.

4.14 “Transaction” : with a Related Party shall be construed to include any contract or arrangement or transaction, whether single or as a group of transactions and for the purpose of applying thresholds laid down in this Policy, it shall include previous transactions during the financial year with the Related Party.

4.15 “Annual Turnover”: means the gross amount of revenue recognised in the profit and loss account from the sale, supply, or distribution of goods or on account of services rendered, or both, by a company during a preceding financial year.

INTERPRETATION:

Any term not defined in the Policy shall have the same meaning assigned to it under the Companies Act, 2013 or the Listing Regulations / SEBI Guidelines or relevant Indian Accounting Standards and preference should be given to the meaning assigned to such term under the Companies Act, 2013 and the Listing Regulations or Indian Accounting Standards as compared to other source of interpretation.

⁵ Omitted by the Companies (Meetings of Board and its Powers) Second Amendment Rules, 2019 dated 18th November, 2019

⁶ Omitted by the Companies (Meetings of Board and its Powers) Second Amendment Rules, 2019 dated 8th November, 2019

⁷ Omitted by the Companies (Meetings of Board and its Powers) Second Amendment Rules, 2019 dated 8th November, 2019

⁸ Omitted by the Companies (Meetings of Board and its Powers) Second Amendment Rules, 2019 dated 18th November, 2019

The Policy has been framed to maintain highest standard of corporate governance and therefore interpretation of any matter in this Policy should be consistent with the objectives for introducing such requirements in the Companies Act, 2013 and the Listing Regulations.

5. RELATED PARTY TRANSACTIONS POLICY

5.1 Identification of 'Related Party

Every Director and KMP is responsible to declare/ disclose to the Company immediately upon any change in the status of his/ her Interest or Concern in any person or entity, that may cause him to be regarded as Related Party of the Company in accordance with this Policy, on account of his being director or KMP of the Company. Such declaration shall include disclosure of his (and his relative's) Concern or Interest in any company or companies or bodies corporate, firms or Association of Persons, which shall include the shareholding, directorship, membership, partnership, Promotership, Manager, CEO etc.

The Company Secretary and Chief Financial Officer jointly shall identify persons or entities that would be regarded as Related Parties on account of their relationship as per point number 4.10 of this Policy on a quarterly basis based on the information available with them or after making enquiries as may be necessary.

Company Secretary / Chief Financial Officer will be responsible for preparing and maintaining database of information pertaining to Related Parties. The database shall be updated whenever necessary and shall be reviewed quarterly by the Company Secretary and Chief Financial Officer.

On the basis of the database appropriate mechanism within the organisation will be set up to assess Related Party Transaction / Specified Related Party Transactions / Material Related Party Transactions/ Transactions in the ordinary course of business which are not on arm's length basis/Transactions which are not in the ordinary course of business.

The functional / business heads / Chief Financial Officer /Company Secretary/ shall have access to the mechanism and updated database.

5.2 Identification of potential 'Related Party Transaction'

Every Functional / Business heads on the basis of the access provided to the mechanism and database of Related Party shall be responsible for providing prior notice to the Company Secretary of any potential Related Party Transaction.

After receipt of the notice, the company Secretary shall make sure that the transactions to be entered is as per the policy on Related Party Transaction(s) approved by the Board and also verify the approval sought for such transaction by the Audit Committee /Board/ Shareholders, as applicable.

If the transaction to be entered is –

- a) Already approved by the Audit Committee/ Board/Shareholder, as applicable and if it is within the limit of approval then the Company Secretary shall inform the respective Functional Head/ Business Head of the same and allow the transaction to proceed.
- b) Not already approved by the Audit Committee /Board /Shareholders then the Compliance officer shall take necessary steps for prior approval of the transactions.

Any Related Party Transaction(s) approved by the Audit Committee / Board/ Shareholders shall be informed to the concerned departments specifying the limit of approval.

Notice of all RPT(s) shall be given well in advance to the Board/Audit Committee along with adequate information as prescribed to be disclosed under the applicable law to enable the Board/Audit Committee to consider, review and approve the transaction(s).

5.3 Policy on Dealing with Related Party Transactions

5.3.1 Approval of Audit Committee :

All Related Party Transactions shall require prior approval of the Audit Committee except 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. However, the Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the Company subject to the following conditions:

- a. The audit committee shall lay down the criteria for granting the omnibus approval in line with the policy and such approval shall be applicable in respect of transactions which are repetitive in nature
- b. The audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the Company
- c. Such omnibus approval shall specify/ contain /indicate the following:
 - i. the name(s) of the related party, nature of transaction, duration/period of transaction, maximum amount of transactions that shall be entered into,
 - ii. the indicative base price / current contracted price and the formula for variation in the price if any ; (for example, +/- 5%); and
 - iii. such other conditions as the audit committee may deem fit

[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 rupees 1(one) Crore per transaction.]
- d. Audit Committee shall review, at least on a quarterly basis, the details of Related Party Transactions entered into by the Company pursuant to each of the omnibus approval given.
- e. Such omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approvals after the expiry of such financial year.
- f. Related Party Transactions, approved by the Audit Committee under its omnibus approval, will be presented to and be noted by the Board.

Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the company.

⁹ [For transaction, other than transactions referred to in section 188 of Companies Act, 2013/ Specified Transactions where Audit Committee does not approve the transaction, it shall make its recommendations to the Board].

5.3.2 Approval of Board of Directors of the Company

If the transactions with the related parties are in the ordinary course of business and at arm's length, approval of Board of Directors of the Company will not be required; nevertheless, every contract or arrangement in respect of such transactions shall be referred to in the Board's report to the shareholders along with justification for entering into such contract or arrangement. However, if any of the transactions is **not in the ordinary course of business** or is in the ordinary course of business but **not at arm's length or is a Material Related Party Transaction**, then approval of the Board of Directors will be required by way of resolution passed at a meeting of the Board (and shareholders, in line with paragraph 5.3.3, as the case may be) and also subject to the following conditions:

The agenda of the board meeting at which the resolution is proposed to be moved shall disclose:

- a. the name of the Related Party and the nature of relationship;
- b. the nature, duration of the contract and particulars of the contract or arrangement;
- c. the material terms of the contract or arrangement including the value, if any;
- d. any advance paid or received for the contract or arrangement, if any;
- e. the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
- f. 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
- g. 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.

5.3.3 Approval of the Shareholders of the Company

All **Material Related Party Transactions** will require prior approval of the shareholders of the Company by way of a resolution and ¹⁰ [no related party shall vote to approve such resolutions] whether the entity is a related party to the particular transaction or not. However, Transactions entered into between a holding company and its wholly owned subsidiary – even if they are Material

⁹ Inserted by The Companies (Amendment) Act, 2017:- Amendment Effective from 7th May 2018

¹⁰ Substituted for the words "the related parties shall abstain from voting on" by the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018.

Related Party Transactions – will not require prior approval of the shareholders if the accounts of the wholly owned subsidiary are consolidated with the holding company and placed before the shareholders at the general meeting for approval.

All **Specified Related Party Transactions** (i.e., Transactions that **are not in the ordinary course of business** of the Company or which are in the ordinary course of business **but not at arm's length**) will require prior approval of the shareholders of the Company by way of a resolution and the Related Parties shall not vote on such resolution, irrespective of whether or not such Related Parties are parties to a particular transaction.

5.4 Prior Period Contracts, Arrangements & Agreements

Contracts that had been entered into by the Company, after complying with the provisions of Section 297 of the Companies Act, 1956, which had already come into effect before the commencement of Section 188 of the Companies Act, 2013, will not require fresh approval till the expiry of the original term of such contracts. Thus, if any modification in such contract is made on or after 1st April, 2014, the requirements under section 188 will have to be complied with to the extent they are relevant.

5.5 Dealing with Related Party Transactions - not in line with this Policy

5.5.1 ¹¹ [In case transaction involving any amount not exceeding one crore rupees is entered into by a director or officer of the company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the 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.]

5.5.2 Where any specified Related party transaction or Material Related Party transaction is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a resolution in the general meeting 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 such transaction ¹²[it shall be voidable at the option of the Board or, as the case may be, of the shareholders] and if the transaction 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.

6. IMPLEMENTATION

¹¹ Inserted by The Companies (Amendment) Act, 2017.:- Amendment Effective from 7th May 2018

¹² Amendment pursuant to Companies (Amendment) Act,2017 effective from 9th February 2018

This Policy shall be deemed to have come into force from April 1, 2020 and shall remain in force unless amended or repealed.

The Management of the Company shall determine the procedure to be followed in order to comply with the Policy and the same will be communicated to all concerned employees and other persons concerned with the Company.

7. DISCLOSURE OF POLICY

Board's Report:

Every contract or arrangement entered with Related Parties to which Sub section (1) of Section 188 of the Companies Act 2013 is applicable shall be referred to in the Board's Report to the shareholders along with the justification for entering into such contract or arrangements.

Quarterly Report on Corporate Governance:

Details of all Material Related Party Transactions shall be disclosed quarterly along with the compliance report on corporate governance.

¹³ [Half yearly Disclosure to Stock Exchange]:

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.

Company's Website:

The Company shall disclose this Policy on its website and a web link thereto shall be provided in the Annual Report.

8. AMENDMENTS AND REVIEW

8.1 Statutory Updates

This Policy shall be considered as updated automatically, without any formal approval, to the extent it needs to be aligned with any change in law. An update thereon would be reported to the Audit Committee and Board of Directors.

8.2 Other updates

All major procedural updates, shall be effective only, if those are carried out after the review and approval of the Board of Directors through Audit Committee.

¹³ Inserted by the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018 .
Applicable w.e.f the half year ending March 31, 2019

8.3 ¹⁴**[Review]**

The policy shall be reviewed by the board of directors at least once every three years and updated accordingly.

The policy may be reviewed by the Board on need base as well.

9. OTHER NOTES

9.1 Applicability of procedural requirement will be determined at the time of entering into a contract / arrangement.

9.2 During pendency / duration of a contact or arrangement, if an unrelated party becomes, Related Party, this will be presumed merely a 'Change in Circumstances' and Transactions will continue to be considered as if they are with unrelated party until and unless there is any change in the terms and conditions of the respective contract / arrangement governing such Transaction.

¹⁴ Inserted by the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018, w.e.f. 1.4.2019.

MATRIX FOR APPROVAL OF RELATED PARTY TRANSACTION(S)

	Nature	Identified RPT	Approving Authority			Threshold	
			AC	BOD	Share-holders		
A	In Ordinary Course of Business + Arm's Length	All Related Party Transactions	√	×	×	(unless RPT is material)	AC Approval: Without any Limit BOD Approval: 1) Material RPT & 2) Noting of AC approved RPT Shareholder Approval: Material RPT
B	RPT: Not in ordinary course of Business and/or Not at Arm's Length Basis	Sale, purchase or supply of any goods or material	√	√	√		≥ 10% T/O
		Selling or otherwise disposing of or buying property of any kind	√	√	√		≥ 10% NW
		Leasing of property of any kind	√	√	√		≥ 10% TO
		Availing or rendering of any services	√	√	√		≥ 10% T/O
		Appointment of any agent for purchase or sale of goods, materials, services or property	√	√	√		≥ 10% T/O
		Such related party's appointment to any office or place of profit in the Company its subsidiary company or associate company	√	√	√		>250,000 pm
		Remuneration for Underwriting the subscription of securities of the Company	√	√	√		> 1 % NW
		NW=Net Worth T/O= Annual Turnover The Turnover or Net worth referred above shall be computed on the basis of the audited financial statements of the preceding financial year					
C	Material RPT	All material Related Party Transactions (individually or Taken together with any related party)	√	√	√		>10 % of Annual Consolidated T/O
		Transaction involving payments made with respect to brand usage or royalty	√	√	√		5 % of Annual Consolidated T/O