

SHRENUJ & COMPANY LIMITED



SHRENUJ

HERITAGE • INNOVATION • PASSION

POLICY ON RELATED PARTY TRANSACTIONS

VERSION: 2.0

DATE: October 29, 2014

1. BACKGROUND:

Shrenuj & Company Limited (“the Company”) is engaged in sourcing, manufacturing, and processing, which involves cutting, polishing and selling precious gemstones and metals such as diamonds, other precious stones, diamond studded gold, silver and platinum jewellery.

Shrenuj Group has presence in 15 countries across the globe including US, South Africa, Dubai, Antwerp, Botswana, China, Hong Kong, etc. 2 subsidiaries in India and 6 outside India and 15 step down overseas subsidiaries.

2. OBJECTIVE:

The Companies Act, 2013 and rules made there under contains provisions related to Corporate Governance and related party transactions. In addition to those provisions, a listed entity shall also follow the rules and regulations made by Security Exchange Board of India. The Security Exchange Board of India has notified and published new Corporate Governance norms by amending the existing Clause 49 of the Equity Listing Agreement for better transparency and to protect the interest of the investors. The said amendment have been notified and published by Security Exchange Board of India vide its Circular No. CIR / CFD / POLICY CELL / 2 / 2014 dated April 17, 2014 and amendments to clause 49 of Equity Listing Agreement as published vide the Circular No.CIR/CFD/POLICY CELL/7/2014 dated September 15, 2014.

As per Accounting Standard 18 Related Party transactions and outstanding balances with other entities in a group are disclosed in Company’s financial statements. Intra-group related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

While complying with the said Corporate Governance norms and accounting standards, the Company has decided to draft this ‘Policy on Related Party Transactions’, which is one of the mandatory requirements for the listed entities.

3. SCOPE:

This policy shall be applied in:

- a. Identifying related parties, updating and maintaining the database of such persons/entities;
- b. Identifying the ordinary course of business and Arms' Length transactions in relation to the Company and such persons/entity;
- c. Identifying related party transactions;
- d. Obtaining approvals before entering into any transactions with such persons/entities;
- e. Documenting the Arms' Length pricing of transactions and
- f. Determining the disclosures to be made about those transactions.

4. DEFINITIONS:

A. "Related Party Transactions":

The term Related Party Transactions shall have the same meaning as provided under provisions of Section 2(76), 2(77) and Section 188 of Companies Act, 2013, Clause 49 (VII) of Listing Agreement and Accounting Standard 18.

The **Section 2(76) of Companies Act, 2013** defines "**Related Party**" as:

"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 is a member or director;
- (v) a public company in which a director or manager is a director or 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;
- (vii) any person on 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 –

- A. a holding, subsidiary or an associate company of such company; or
 - B. a subsidiary of a holding company to which it is also a subsidiary;
- (ix) such other person as may be prescribed;

The **Section 2(77)** of **Companies Act, 2013** defines “**Relative**” as:

“Relative” with reference to any person means, any person who is related to another, if –

- i. they are members of HUF;
- ii. they are husband and wife; or
- iii. One person is related to other in following manner;
 - Father (includes step-father)
 - Mother (includes step-mother)
 - Son (includes step-son)
 - Son’s wife
 - Daughter
 - Daughter’s husband
 - Brother (including step-brother)
 - Sister (including step-sister)

The **Section 188 (1)** of **Companies Act, 2013** includes the following transactions, which are covered within the purview of the *Related Party Transactions*:

1. No Company shall, except with the consent of the Board of Directors given by a resolution in a meeting of the Board and subject to such other terms and conditions as may be prescribed, enter into any contract or arrangement with a related party with respect to –
 - 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;

Provided that no contract or arrangement, or transactions exceeding such sums, as prescribed, shall be entered into except with the prior approval of the Company by a special resolution:

Provided further that no member of the Company shall vote on such special resolution, to approve any contract or arrangement which may be entered into by the Company, if such member is a related party:

Provided also that nothing in this sub-section shall apply to any transactions entered into by the Company in its ordinary course of business other than transactions which are not on an arm's length basis.

The **Clause 49 (VII) of Listing Agreement** defines “**Related Party Transaction**” as:

- A. A related party transaction is a transfer of resources or services or obligations between a company and a related party, regardless of whether a price is charged or not;
Explanation: A “transaction” with a related party shall be construed to include single transaction or a group of transactions in a contract.
- B. for the purpose of clause 49 (VII), an entity shall be considered as related to the company if:
 - i. Such entity is a related party under section 2(76) of the Companies Act, 2013; or
 - ii. Such entity is a related party under applicable accounting standards.

An **Indian Accounting Standard -18** defines “**Related Party Transactions**” as:

The Company shall required to maintain the standards in reporting related party relationships and the transactions made in related parties. The requirements of these standards shall be applicable to the financial statements of the Company as also to consolidated financial statements presented by it:

These standards apply and deals only to related party relationships described in pints no. a. to e. herein below:

- a. enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);

- b. associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;
- c. individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;
- d. key management personnel and relatives of such personnel; and
- e. enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and
- f. enterprises that have a member of key management in common with the reporting enterprise.

In the context of this Standard, the following are deemed not to be related parties:

- a. two companies simply because they have a director in common, notwithstanding paragraph 3(d) or (e) above (unless the director is able to affect the policies of both companies in their mutual dealings);
- b. a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business merely by virtue of the resulting economic dependence; and
- c. the parties listed below, in the course of their normal dealings with an enterprise by virtue only of those dealings (although they may circumscribe the freedom of action of the enterprise or participate in its decision-making process):
 - (i) providers of finance;
 - (ii) trade unions;
 - (iii) public utilities;
 - (iv) government departments and government agencies including government sponsored bodies.
- d. Contribution made by the Company to an approved charitable organization of which a related party is a trustee, provided that the contribution given do not exceed Rs.1 Crore in any financial year.

The definition of Related Party Transactions, for the purpose of this policy, is inclusive one to include all the definitions given hereinabove, i.e. under the provisions of Companies Act, 2013 and rules made thereunder; Clause 49 (VII) of Listing Agreement and Accounting Standard – 18 and the same will be used to determine the Related Party Transactions.

B. “Arms’ Length Transactions”:

Unless otherwise mentioned specifically, all the Related Party Transactions carried out or made between the parties shall be ‘*Arms Length Transactions*’ and transactions carried out in an ‘*Ordinary Course of Business*’. An *Arms Length Transactions* shall mean the transactions carried out between the Related Parties as if they are not related to each other avoiding the ‘Conflict of Interest’.

- (a) The transactions carried on between the Company and the related party on similar terms and conditions as of unrelated party, including the price, and
- (b) Such price charged for the transactions to a related party has in no case been influenced by the relationship and meets the criteria prescribed in Transfer Pricing Guidelines under the Income Tax Act, 1961.

C. “Material Transactions”:

Related party transactions shall be considered material if the transactions to be entered into with related party individually or taken together with previous transactions during the financial year exceeds:

- a. 10% of the Annual Consolidated Turnover of the Company as per the last audited financial statements of the Company.

D. “Ordinary Course of Business”:

The term “Ordinary Course of Business” shall mean and include:

- (i) the usual transactions, customs and practices carried on generally in the Gems & Jewellery Industry and also by the Company as well, however it shall not include the following transactions:
 - a. Complex equity transactions such as corporate restructuring or acquisitions, merger de-merger and amalgamation,
 - b. Sales transactions with unreasonably large discounts or returns,
 - c. Transactions under contracts, whose terms are changed before expiry having material adverse impact on the Company.
- (ii) In regards to above point following transaction shall inter alia be deemed to have been made in the ordinary course of business:
 - a. Any transactions covered in the Main Objects or the objects incidental to attainment of the main objects as envisaged in the Memorandum and Articles of Associations of the Company,

- b. Any transactions which is usually carried on by any Gems and Jewellery Company within India or Overseas.
- c. Any transaction which has been done by the Company frequently in last three years,
- d. Any transactions done with a related party on a similar basis as of a third party.
- e. Any transaction or activity that is necessary, normal, regular and incidental to the business and involves significant amount of money by allocating resources which generates income for the Company.

5. Identification of Related Parties:

- (a) Each Director, Key Managerial Personnel whenever wishes to enter into a related party transactions with the Company involving either him/her or his/her relative, shall give a notice to the Company along with all relevant details and documents.
- (b) Notice of any related party transactions, referred above shall be given well in advance so that the Company has adequate time to obtain additional information or documents about the proposed related party transactions, if necessary, which is required to be placed before the Audit Committee to enable it to approve the said transactions.
- (c) Every Director, Key Managerial Personnel shall also make Annual Disclosures as required under Section 184(1) of the Companies Act, 2013 read with rule 9(1) of Companies (Meetings of Board and its Powers) Rules, 2014 in form MBP-1.
- (d) Every Director and Key Managerial Personnel shall also promptly intimate any change in the annual disclosures mentioned above.

6. Approvals required for Related Party Transactions:

Approval by Audit Committee:

- (a) The Company shall not enter into any related party transactions with any related party without prior approval of the Audit Committee. 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:
 - I. The Audit Committee shall lay down the criteria for granting the omnibus approval in line with the Policy on Related Party Transactions of the Company and such approval shall be applicable in respect of transactions which are repetitive in nature;
 - II. The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company;

- III. such omnibus approval shall specify (i) the name/s of the related party, 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 conditions as the Audit committee may deem fit;
Provided that 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;
 - IV. Audit Committee shall review, at least on a quarterly basis, the details of RPTs entered into by the Company pursuant to each of the omnibus approvals given;
 - V. Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approval after the expiry of one year.
- (b) The Notices referred in point no.5 (a) above received by the Company from the Directors, Key Managerial Personnel shall be forwarded to the Company Secretary with a direction to convene the meeting of the Audit Committee
- (c) The Company Secretary shall convene the meeting of Audit Committee as directed, and shall place all relevant information/documents relating to the proposed related party transactions before the Audit Committee, which inter alia shall include :
- I. The name of the related party and nature of relationship;
 - II. The nature and duration of the Contract and particulars of the Contract or arrangement;
 - III. The material terms of the Contract or an agreement including the value, if any;
 - IV. Any advance paid or received for a contract or arrangement, if any;
 - V. The manner of determining the pricing and other commercial terms, both included as part of contract and not considered as a part of the contract;
 - VI. Whether all factors relevant to the contract have been considered, if not, the details of factors not considered with rationale for not considering those factors; and
 - VII. Any other information relevant or important for the Audit Committee and/or Board to take decision on proposed transaction.
- (d) If any member of the Audit Committee is interested in any related party transactions with a related party, such member shall not be present at the Audit Committee Meeting neither during the discussions on subject matter nor at the time of voting on the resolution relating to such related party transaction.

Approval of the Board:

- (a) The following related party transactions shall be placed before the Board of Directors for approval, after the approval of the Audit Committee:
 - (i) Transactions not in arm's length
 - (ii) Transactions not in ordinary course of business
 - (iii) Material related party transactions
- (b) Board of Directors shall consider the information/documents placed before it and either approve or reject the proposed related party transactions.
- (c) The Board of Directors shall also obtain an approval of Shareholders by way of Special Resolution for approval of related party transactions.
- (d) In case of approval is proposed to be sought through postal ballot or general meeting, the Board of Directors shall approve the notice and the Explanatory Statement [including the particulars mentioned in rule 15 of Companies (Meetings of Board and its Powers) Rules, 2014] of the same.
- (e) An Interested Director shall not remain present during the discussion on such related party agreement or contract.

Approval of the Shareholders:

- (a) No transaction, contract or arrangement shall be carried out or entered into with a related party, without the prior approval of shareholders by way of Special Resolution.
- (b) No related party shall vote on special resolutions relating to any related party transactions.

Explanation: Provided that sub-clause 49 (VII) (D) and (E) shall not be applicable in the following cases:

- i. Transactions entered into between two government companies;
- ii. Transactions entered into between holding company and its wholly owned subsidiary company whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

Explanation to (i): For the purpose of clause 49 (VII), "Government company" shall have the same meaning as defined in section 2(45) of Companies Act, 2013.

Explanation to (ii): For the purpose clause 49 (VII), all entities falling under the definition of the related parties shall abstain from voting irrespective of whether the entity is a party to the particular transaction or not.

7. Related Party Agreement/ Contract:

Approval of Related Party Transactions under Companies Act, 2013

	Whose approval is required	“Arm’s length transaction’ means a transactions between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.	
RPT is at arm’s Length and in the ordinary course of business		RPT is not at arm’s Length or not in the ordinary course of business or both	
Audit Committee approval	Audit Committee approval	Board approval	Shareholder’s approval
	Prior consent of the Board by a resolution at a Board meeting and compliance with prescribed conditions under rules	Prior approval of the shareholders of the Company required for transactions having value exceeding the prescribed limit.	

Details of contract/ arrangements/ transactions not on arm’s length basis and material contracts/ arrangements/ transactions shall be disclosed in the Board’s report.

- A. The Company shall not enter into a related party transaction/s except with prior approval of its shareholders by passing a special resolution, where such transaction/s to be entered into –
- a) as Contracts or arrangements in respect of clauses a. to e. of sub-section 1 of section 188 listed herein above but should be within the prescribed limit as set out herein below:

<u>Transactions Covered</u>	<u>Transaction Value</u>
Sale, purchase or supply of any goods or materials	> 25% of Annual Turnover
Selling or otherwise disposing of, or buying, property of any kind	> 10% of Net Worth
Leasing property of any kind	> 10% Turnover or Net Worth
Availing or rendering of any services	> 10% of Net Worth
Such Related Party's appointment to any office or place of profit in the Company, its subsidiary company or associate company	Monthly remuneration > ₹ 2.50 Lakhs
Underwriting the subscription of any securities or derivatives thereof of the Company	> 1% of Net Worth

Note: The turnover or the Net Worth criteria shall be considered from the Audited Financial Statement of the preceding financial year.

8. Disclosures:

Section 188 (2) of the Act to be included in disclosures, which states that all Related Party contracts and arrangements shall be referred to in Board's Report with its prior approval along with the justification for entering in to such contract or arrangement. The Company shall also take the approval on each of such Related Party Transaction from the Board and shall also get it approved in advance from the duly constituted Audit Committee of the Company.

As per Clause 49 of the Listing Agreement, all Related Party Transaction to be disclosed quarterly along with the compliance report on corporate governance. This policy shall be made available on the Company's web site and a web link thereto shall be provided in the Annual Report.

Disclosures under AS – 18:

Related party disclosure requirements as laid down in this Standard do not apply in circumstances where providing such disclosures would conflict with the reporting enterprise's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority. No disclosure is required in consolidated financial statements in respect of intra-group transactions. No disclosure is required in the financial statements of state-controlled enterprises as regards related party relationships with other state-controlled enterprises and transactions with such enterprises. Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.

If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:

- I. the name of the transacting related party;
- II. a description of the relationship between the parties;
- III. a description of the nature of transactions;
- IV. volume of the transactions either as an amount or as an appropriate proportion;
- V. any other elements of the related party transactions necessary for an understanding of the financial statements;
- VI. the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and
- VII. amounts written off or written back in the period in respect of debts due from or to related parties.

9. Indemnity:

Where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a Special 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 which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board and if the contract or arrangement is with a related party to authorize any director, or is authorized by any other director, the directors concerned shall indemnify the Company against any loss incurred by it.

10. Penalties:

The Company may proceed against the Director / Employee, who had entered into contract or arrangement in contravention of the provisions, for recovery of any loss sustained by result of such contract or arrangement. Such Director shall be disqualified for a period of Five years. In case of listed Company, such Director / employee may be punishable with imprisonment for a term up to One year and / or with a fine of ₹ 25,000/- to ₹ 5,00,000/-.

This policy shall be amended in accordance with the amendments made vide notifications / circulars as may be published in Official Gazette of India from time to time.