

# **DEEPAK FERTILISERS AND PETROCHEMICALS CORPORATION LIMITED**

## **Policy on Materiality of Related Party Transactions**

### **1. Background**

Regulation 23 (1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI Listing Regulations, 2015) requires the Company to formulate a policy on materiality of related party transactions and on dealing with related party transactions including clear threshold limits duly approved by the board of directors. The provisions of the Companies Act, 2013 read with rules made thereunder and the SEBI Listing Regulations, 2015 have laid down comprehensive provisions for identification, approval and disclosure of related party transactions.

Accordingly, the Company has framed this policy on materiality of related party transactions,

### **2. Preamble**

The Board of Directors of the Deepak Fertilisers And Petrochemicals Corporation Limited (“DFPCL/Company”) has adopted the following Policy and procedure with regard to Related Party Transactions (“RPT”). The policy envisages the procedure governing RPT’s required to be followed by Company to ensure compliance with the Law and Regulation. The Audit committee will review the same from time to time and propose the amendment required in the policy to the Board of Directors.

### **3. Purpose**

This Policy aims to ensure compliance of the applicable provisions of the Companies Act, 2013 & Rules made there under (“the Act”), Indian Accounting Standard (IND AS) 24 and the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 (“Listing Regulations”), as amended or re-enacted from time to time and which relate to the identification of the Related Parties and governance & approval of the Related Party Transactions, wherever required.

### **4. Policy**

In supersession of the existing policy, the policy on Materiality of Related Party Transactions is accordingly revised.

### **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 Committee of Board of Directors of the Company constituted under provisions of Regulation 18 of the SEBI Listing Regulations, 2015 and Section 177 of the Companies Act, 2013.

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

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

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

- i. Managing Director or Executive Director or Chief Executive Officer or Manager;
- ii. Whole-time Director;
- iii. Company Secretary;
- iv. Chief Financial Officer and
- v. such other officer as may be prescribed

**“Material Related Party Transaction”** 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 10% of the annual consolidated turnover of the Company as per the last audited financial statements of the Committee.

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 two percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

**“Ordinary course of business”** means routine businesses of the Company and usual transactions and practices of Business and would include activities which are incidental to or related to the businesses of the Company.

**“Policy”** means Policy on Materiality of Related Party Transaction.

**“Related Party”** means related party as defined in Regulation 2 (1) (zb) of the SEBI Listing Regulations, 2015 which is as follows:

**“Related party” means** a related party as defined under sub-section (76) of

section 2 of the Companies Act, 2013 or under the applicable accounting standards:

Provided that any person or entity belonging to the promoter or promoter group of the listed entity and holding 20% or more of shareholding in the listed entity shall be deemed to be a related party.

**“Related Party Transaction”** means any related party transaction as defined in Regulation 2 (1) (zc) of the SEBI Listing Regulations, 2015 which is as below:

“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:

**“Relative as per Section 2 (77) of the Companies Act, 2013”**, with reference to any person, means 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;

**“Thresholds Limits”** are the financial limits for Transaction(s) with Related Party (s) in the ordinary course of Business and on an arm’s length basis and which are set out in to this policy and that are to be reviewed by the Board of Directors once in three years.

##### ***5. Identification of Potential Related Party Transactions***

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 or her or his or her Relative, including any additional information about the transaction that the Board/Audit Committee may reasonably request. Board/Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.

Each Director and Key Managerial Personnel shall make an annual declaration of

list of related parties, as defined above, to the Company on the last of the month ending before the financial year and this declaration shall be placed before the Audit Committee and the Board of Directors at their first meeting held at the succeeding financial year. Any change in the list of related parties shall be intimated by the Directors and Key Managerial Personnel by way of a fresh declaration to the Company within 7 days of such change.

The Company strongly prefers to receive such 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.

#### **6. Prohibitions related to Related Party Transactions**

All Related Party Transactions shall require prior approval of Audit Committee. Such approval may also be obtained through circular resolution. Further, all Material Related Party Transactions shall require approval of the Board as well as shareholders through ordinary resolution and no Related Parties shall vote to approve such resolutions whether the entity is a related party to a particular transaction or not.

Provided consent of the Board and the Shareholders would be taken in respect of all RPTs, except in the following cases:

1. Where the transactions are entered into by the Company in its ordinary course of business and are on arms' length basis; or
2. Payments made with respect to brand usage or royalty where the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, do not exceed two percent of the annual consolidated turnover as per the last audited financial statements of the company.
3. Where the transactions to be entered into individually or taken together with previous transactions during a financial year do not exceed ten percent (10%) of the annual consolidated turnover of the company as per the last audited financial statements of the Company.

Notwithstanding the above, approval of the Board & shareholders would be necessary, where the transaction(s) with a related party exceed the following higher threshold limits as per Regulation 23 of the SEBI Listing Regulations, 2015:

<b>Sr. No.</b>	<b>Description</b>	<b>Threshold limits</b>
1	Sale, purchase or supply of any goods or materials, directly or through appointment of agent	Up to 10% of the annual Consolidated turnover of the Company as per last audited financial statements of the Company
2	Selling or otherwise disposing of or buying property / fixed assets of any kind, directly or through appointment of agent.	Up to 10% of the annual Consolidated turnover of the Company as per last audited financial statements of the Company
3	Leasing of property of any kind	Up to 10% of the annual Consolidated turnover of the Company as per last audited financial statements of the Company

4	Availing or rendering of any services, directly or through appointment of agent.	Up to 10% of the annual Consolidated turnover of the Company as per last audited financial statements of the Company
5	Related party's appointment to any office or place of profit in the company, its subsidiary or associate Company.	Remuneration shall be in accordance with the Company policy and applicable provisions of the Companies Act and SEBI Listing Regulations, 2015

\* Since Smartchem Technologies Limited (STL) is a wholly owned subsidiary company, transactions with STL are exempted.

Provided that the aforesaid thresholds limits shall be reviewed by the Board of Directors once every three years.

However, the Company would also follow the provisions of the Companies Act, 2013 in respect of Related Party Transactions and the Rules framed thereunder.

### ***7. Omnibus Approval by the Audit Committee***

All Related Party Transactions shall require 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:

- a. Such approval shall be applicable in respect of transactions which are repetitive in nature.
- b. The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the company;
- c. Such transactions are entered in the Ordinary Course of Business and are at Arm's length Basis;
- d. 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.

- e. 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 approval given.
- f. Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

### ***8. Review and Approval of Related Party Transactions***

Related Party Transactions will be referred to the next regularly scheduled meeting of Audit Committee for review and approval. Any member of the Committee or the Directors of the Board who has a potential interest in any Related Party Transaction shall not be present at the meeting during discussions on the subject matter and shall recuse himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction.

To review a Related Party Transaction, the Committee will be provided with all relevant material information of the Related Party Transaction, including the terms of the transaction, the business rationale of the transaction, justification on arms' length / in the ordinary course of business and the benefits to the Company and to the Related Party, and any other relevant matters like:

- The name of the related party and nature of relationship;
- The nature, duration of the contract and particulars of the contract or arrangement;
- The material terms of the contract or arrangement including the value, if any;
- Any advance paid or received for the contract or arrangement, if any;
- The manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract.
- 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
- Any other information relevant or important for the Board to take a decision on the proposed transaction.

In determining whether to approve a Related Party Transaction, the Committee will consider the following factors, among others, to the extent relevant to the Related Party Transaction:

- Whether the terms of the Related Party Transaction are in ordinary course of business **and on arms length basis** to the Company and would apply on the same basis if the transaction did not involve a Related Party;
- Whether there are any business reasons / rationale for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- Whether the Related Party Transaction would **affect the independence of an independent Director**;
- Whether the proposed transaction includes **any potential reputational risk issues** that may arise as a result of or in connection with the proposed

transaction;

- Whether the Company was notified about the Related Party Transaction before its commencement and if not, why pre-approval was not sought and whether subsequent ratification is allowed and would be detrimental to the Company; and
- 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.
- If the Committee determines that a Related Party Transaction should be brought before the Board, or if the Board in any case elects to review any such matter or it is mandatory under any law for Board to approve the Related Party Transaction, then the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances.

#### **9. *Registers & Disclosures***

The Company shall keep and maintain a register, maintained physically or electronically, as may be decided by the Board of Directors, giving separately the particulars of all contracts or arrangements to which this policy applies and such register is placed/taken note of before the meeting of the Board of directors.

Every director or key managerial personnel shall, within a period of thirty days of his appointment, or relinquishment of his office in other Companies, as the case may be, disclose to the Company the particulars relating to his/her concern or interest in the other associations which are required to be included in the register maintained.

The register to be kept under this section 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 authorized by the Board for the purpose.

#### **10. *Disclosure***

Every Related Party Transactions or contract or arrangement entered shall be disclosed in the following manner:

- i. Every Contract or arrangement entered under sub-section (1) of Section 188 of the Companies Act, 2013 shall be referred in the Board's report to the shareholders along with the justification for entering into such contract or arrangement;
- ii. Details of all material transactions with related parties shall be disclosed quarterly along with the compliance report on corporate governance; and
- iii. The Company shall disclose the policy on dealing with Materiality of Related Party Transactions on its website and also a web link thereto shall be provided in the Annual Report.
- iv. 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.

### ***11. Review of the Policy***

This Policy shall be reviewed by the Board of Directors at least once every three years and *updated accordingly*.

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