

Policy on Related Party Transactions

(I) Background

- IL&FS Financial Services Limited (“IL&FS”) is registered with the Reserve Bank of India as a Systemically Important Non-Deposit taking Non-Banking Finance Company (NBFC).
- Pursuant to the application filed by the Union of India (the “UOI”) under Sections 241 and 242 of the Companies Act, 2013 (as amended) and rules thereunder (the “Companies Act”), the Hon’ble National Company Law Tribunal, Mumbai bench (the “NCLT”), by way of an order dated October 1, 2018 (“**October 1, 2018 Order**”), superseded the erstwhile board of directors. The new Board of Directors of IFIN was reconstituted pursuant to the NCLT order dated October 9, 2018. The new Board since its constitution has been working towards Resolution of IL&FS and its Group Companies, including IFIN.
- In line with the mandate provided to the New Board, the resolution process of the IL&FS group Companies has been initiated. The Hon’ble NCLAT approved the resolution framework vide its order dated March 12, 2020.
- The New Board of Directors (the “Board”) of IFIN has adopted guidelines and procedures with regard to Related Party Transactions (“RPT”). The guideline aims to regulate transactions between the Company and its Related Parties within the framework of the applicable law and its Resolution Framework and process.

(II) Objective

- The Companies Act, 2013 read with the Companies (Meeting of Board and its Powers) Rules, 2014 (the Act) introduced specific provisions relating to Related Party Transactions (RPTs).
- In terms of Regulation 23 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (including any amendment(s)/ modification(s) thereof), and Section 188 of the Companies Act, 2013 read with rules made thereunder (including any amendment(s)/ modification(s) thereof), a policy needs to be formulated on materiality of Related Party Transactions and on dealing with Related Party Transactions.
- The objective of this Policy is to regulate transactions with related parties and intended to ensure the proper approval and reporting of transactions between the Company and its Related Parties. Such transactions are appropriate only if they are in the best interest of the Company.

- The Audit Committee /Board of Directors of the Company will review and, if required, amend this Policy from time to time and such amended Policy shall also be in conformity with the provisions of the Companies Act 2013, including the Rules made thereunder, Indian Accounting Standard (Ind AS) 24 and the SEBI LODR Regulations and also, within the Resolution process which is for IL&FS and its Group entities.

(III) Definitions:

- (1) “Board” means the Board of Directors of the Company, as constituted from time to time
- (2) “Audit Committee or Committee” means the Audit Committee of the Board of Directors of the Company
- (3) “Ordinary Course of Business (OCB)” The Act has not provided a definition of this term. However, all types of payments, services availed and/or rendered to Related Parties for a period preceding three years or more should be considered as in OCB
- (4) “Arm’s Length Transaction (AL)” means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest
- (5) “Key Managerial Personnel” means any person as defined in Section 2(51) of the Companies Act, 2013.
 - The Chief Executive Officer or the Managing Director or the Manager;
 - The Company Secretary;
 - Whole-time Director;
 - The Chief Financial Officer and
 - Such other officers as may be prescribed by the Government.
- (6) “Related Party Transaction” means the transfer of resources, services or obligations between Company and Related Party, regardless of whether a price is charged, and “transaction” with a related party shall be construed to include a single transaction or a group of transaction in a contract shall include the following:
 - Purchases, sales, or supply of property and other assets;
 - Selling or otherwise disposing of, or buying property of any kind, directly or through the appointment of an agent
 - Availing or rendering of any services;
 - Leasing of property of any kind;
 - Appointment of any agent for the purchase or sale of goods, materials, services, or property

- Transfers under finance arrangements (including loans and equity contributions in cash or kind);
- Provision of guarantees or collateral;
- Agency arrangements, management contacts;
- Deputation/secondment of employees in group Companies;
- Settlement of liabilities on behalf of the entity or by the entity on behalf of another party.
- Grant or absorbing expenses on behalf of group entities
- Incurring expenses on behalf of group entities and seeking reimbursement

In addition to the above, the following transactions between the related parties shall also be considered as related party transactions

- Deposits & Advances,
- Investments,
- Non-fund Commitment,
- Receipt/Payment of Security deposit
- Payment or receipt of Dividend, interest, and any other returns related to approval accorded for making any investment/loans etc.
- Purchase and Sale of fixed Assets

- (7) “Related Party” shall mean Related Party as defined in (a) sub-Section (76) of Section 2 of the Act, (b) Regulation 2(1) (zb) of the Listing Regulations (c) Indian Accounting Standard (Ind-AS) 24 as notified by the Central Government

An extract of the relevant definitions under Section 2(76) of the Act and Indian Accounting Standard – 24 (which is the relevant accounting standard in this regard) is outlined in Annexure-A.

- (8) “Material Related Party Transactions” Materiality of the Related Party Transactions is ascertained as per the thresholds prescribed under Section 188 of the Companies Act read with rules made thereunder or subsequent amendments thereto and thresholds prescribed under Regulation 23 (1) and 23 (1A) of the SEBI Listing Regulations as provided below:

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 the following thresholds:

- In case of transactions involving payments made with respect to brand usage or royalty, if it exceeds 5% of the annual consolidated turnover of the Company as per its last audited financial statements;
- In case of any other transaction(s), if the amount exceeds 10% (ten percent) of the annual consolidated turnover of the Company as per its last audited financial statements.

- (9) “SEBI Listing Regulations” shall mean SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018 or any further statutory modification(s)/ amendment(s) thereof.
- (10) “Policy” means Related Party Transaction Policy. *Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, SEBI Listing Regulations or any other applicable law or regulation(s).*

(IV) Significant Development and IL&FS Group Resolution

- (1) Based on the petition of the Union of India, the NCLT vide its order dated October 1, 2018, superseded the erstwhile Board.
- (2) Since taking charge the New Board has initiated various measures to achieve the resolution of the IL&FS Group, including, asset monetization, liquidity management (including the solvency analysis and entity categorisation as well as cash build-up), and cost optimization measures; and debt restructuring efforts.
- (3) Further, the resolution of the entities in the IL&FS Group is being conducted under the supervision of Justice (Retd.) D.K. Jain, appointed by the Hon’ble NCLAT to oversee the resolution process for the IL&FS Group in terms of the orders passed by the Hon’ble NCLAT on February 4, 2019, and February 11, 2019.
- (4) The IL&FS Group resolution framework (“Resolution Framework”) has been approved by the Hon’ble National Company Law Appellate Tribunal (“NCLAT”) vide order dated March 12, 2020.
- (5) The focus of the New Board has been on maintaining the ‘Going Concern’ status of the IL&FS Group and the New Board is also focused on multiple resolution initiatives including expediting recoveries of loans and investments made/provided by the Company.

(V) Mechanism for determining Ordinary course of business and Arm’s length basis:

All transactions or activities that are necessary, normal, and incidental to the business of the Company invariably including the resolution and monetization shall be deemed to be in the ordinary course of business.

- (1) ‘Ordinary course of business’ (OCB), Transactions with related parties will be considered in the ordinary course if they are entered in pursuance of the business objective of the Company and necessary for Company’s operations or related financial activities, including the fixed assets transactions and pursuant to the objects of the Company.

(2) ‘Arm’s Length’ (AL):

- (a) The expression “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.
- (b) Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The onus to prove that the particular transaction is on an arm’s length basis is on the Company. The ordinary course of business means the Company regularly carries on business or regularly trades in such field. Arm’s length basis means the transactions should be independent and are being done on the same terms and conditions as if done with some unrelated party.

In other words;

- Terms will be treated as on an ‘Arm’s Length Basis’ if the commercial and key terms are comparable and are not materially different from similar transactions with non-related parties considering all the aspects of the transactions such as quality, realizations, other terms of the contract, etc.
- In case the Company is not doing similar transactions with any other non-related party, terms for similar transactions between other non-related parties of similar standing can be considered to establish an ‘arm’s length basis’.
- Other methods prescribed for this purpose under any law can also be considered for establishing this principle. If no comparable quote is available, it is presumed to be at Arm’s length unless there is contrary to prove otherwise.

(VI) **IFIN activities with its related parties:**

The Company is under a resolution framework as approved by the Hon’ble NCLAT vide its order dated March 12, 2020. The entire resolution is being carried out to maximise value for its lenders.

The major activities with related parties are listed below:

- (i) Payment of parking charges for the usage of parking places within the IL&FS premises;

- (ii) Payment towards rent, electricity, etc on actual cost incurred by the Company for the premises being shared on lease rental;
- (iii) Recovery/ Payment of manpower cost on deputation. This covers services rendered, costs for executives, and any other cost recovery towards working partly or fully on group Companies;
- (iv) Depository and Custody charges for facilities availed from the Group Company.

These are all transactions or activities that are necessary, normal, and incidental to the business of the Company which shall be deemed to be in the ordinary course of business

The following are considered to be rendered on an Arm's length basis, (i) Sharing costs under a common pool arrangement (Cost sharing agreement); (ii) Receiving and rendering services (e.g. management, consultancy, outsourcing, etc.), and (iii) Any other transactions for which costs have been shared with the other Group Companies.

(VII) RPTs Framework Process: The process for RPTs would be as follows:

- (1) All RPTs irrespective of whether they are in the ordinary course of business or at arm's length basis shall be placed before the Audit Committee for approval of the Audit Committee.
- (2) The Internal Auditors of the Company shall review all RPTs approved by the Audit Committee/Board of Directors on a periodic basis and present an Internal Audit Report to the Audit Committee/Board which includes their review and observations.
- (3) Disclosure requirements under provisions of the Act as regards Directors' Report of the Company should be complied with.
- (4) The Management of the Company shall ensure compliance with Related Party Transactions Policy of the Company.

(VIII) Ratification Approval of the Audit Committee:

In the event, the management determines that there is an urgent need for executing a fresh/new Related Party Contract/ Transaction and it is impractical or undesirable to wait until the next meeting of the Audit Committee to enter into a Related Party Transaction, such transaction may be approved by the Audit Committee by way of ratification in accordance with this Policy and statutory provisions for the time being in force.

The Audit Committee may grant ratification approval in every quarterly reporting of such related party transaction/contract.

(IX) Omnibus Approval of Related Party Transactions

The Audit Committee may grant omnibus approval for RPTs proposed to be entered into by the Company, subject to the following conditions:-

- (1) The Audit Committee shall grant omnibus approval in line with this policy and such approval shall be applicable in respect of transactions which are repetitive in nature;
- (2) The Audit Committee shall satisfy itself in respect of the need for such omnibus approval and that such approval is in the interest of the Company;
- (3) The Audit Committee shall review, on a quarterly/periodic basis, the details of Related Party Transactions entered into by the Company pursuant to each of the omnibus approvals given;
- (4) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

(X) Related Party Transactions not previously approved

- (1) If prior approval of the Audit Committee for entering into a Related Party Transaction is not feasible, then the Related Party Transaction shall be ratified by the Audit Committee, if required, as promptly as practicable and preferably within 3 months of entering into the Related Party Transaction.
- (2) The Committee shall consider all relevant facts and circumstances respecting such transaction and shall evaluate all options available to the Company, including but not limited to ratification, revision, or termination of such transaction, and the Company shall take such action as the Committee deems appropriate under the circumstances.
- (3) In determining whether to approve or ratify a Related Party Transaction, the Audit Committee will consider whether the Related Party Transaction is on reasonable terms having regard to the circumstances of the case. The Audit Committee will also take into account the extent of the Related Party's interest in the transaction.

(XI) Review and Approval of Related Party Transactions by Audit Committee Members:

- (1) All RPT transactions irrespective of the value of transactions whether they are in the ordinary course of business or at an arm's length basis will require approval of the Audit Committee.
- (2) Generally, all RPTs would be in the ordinary course of business and at arm's length price. The Audit Committee may advise to take all or any transaction as it may deem fit to the Board of Directors once in a financial year or as may be necessitated.
- (3) The IL&FS and its group Companies including IFIN are under resolution to maximise recovery for lenders as approved by the Hon'ble National Company Law Appellate Tribunal ("NCLAT") vide order dated March 12, 2020.
- (4) In view of the above, the determination of Material Related Party Transactions based on the Turnover or Net Worth criteria as per the threshold limit prescribed under the Act and SEBI Listing Regulations is not feasible. Accordingly, as stated above all RPT will be taken to the Audit Committee irrespective of any percentage of turnover or net worth. Also, as a result, it will not be taken to Shareholders as the entire focus is on debt resolution in the best interest of lenders.

(XII) Disclosures

- (1) The Related Party Transaction entered into with the related party/ies shall be disclosed in the Directors' Report/Annual Report as per the disclosure requirement(s) of the Companies Act, 2013, SEBI Listing Regulations and Indian Accounting Standard (Ind AS).
- (2) Each Director and key Managerial Personnel shall be required to disclose to the Audit Committee any potential Related Party Transaction(s) proposed to be entered into by them or their relatives.
- (3) Periodical updates shall be provided to the Audit Committee members on all Related Party transactions of the Company with its related parties.

(XIII) Approvals and Amendment

The Audit Committee/ Board of Directors shall periodically review, and propose modifications/ amendments, if deemed necessary, to this policy.

(XIV) Review of the Policy

The Policy and its material threshold limits shall be reviewed and approved by the Audit Committee/the Board of Directors of the Company once every three years or as and when necessitated for best practices and updated accordingly.

(I) Under Companies Act: Section 2(76)

(1) A related party 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 or his relative is a member or director;
- (v) A public Company in which a director or manager is a director and holds along with his relatives, more than two percent of its paid-up share capital;
- (vi) Anybody 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 body corporate which is:

- (a) a holding, subsidiary or an associate Company of such Company;
- (b) a subsidiary of a holding Company to which it is also a subsidiary; or
- (c) an investing Company or the venturer of the Company.

(1) A director, other than an independent director, or key managerial personnel of the holding Company or his relative, shall be deemed to be a related party

(2) Associate Company in relation to another Company means a Company in which that other Company has a significant influence, but which is not a subsidiary Company of the Company having such influence and includes a joint venture Company.

Explanation —

- “significant influence” means control of at least twenty per cent of total share capital, or of business decisions under an agreement.
- ”Joint venture” means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

- (3) Holding Company, in relation to one or more other Companies, means a Company of which such Companies are subsidiary Companies.
- (4) (KMP) in relation to a Company, means
- (i) The Chief Executive Officer, the managing director or the manager;
 - (ii) The Company Secretary;
 - (iii) The whole-time director
 - (iv) The Chief Financial Officer; and
 - (v) such other officer, not more than one level below the directors who is in wholetime employment, designated as key managerial personnel by the Board and
 - (vi) Such other person as may be prescribed.
- (5) Subsidiary, in relation to any other Company (that is to say the holding Company), means a Company in which the holding Company :
- (i) controls the composition of the Board of Directors; or
 - (ii) exercises or controls more than one-half of the total voting power, either at its own or together with one or more of its subsidiary Companies.

Explanation—

- (a) A Company shall be deemed to be a subsidiary Company of the holding Company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary Company of the holding Company;
- (b) The composition of a Company's Board of Directors shall be deemed to be controlled by another Company if that other Company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
- (c) The expression "Company" includes anybody corporate.
- (d) The "layer" in relation to a holding Company means its subsidiary or subsidiaries;

(II) Ind AS 24

Ind AS 24 deals only with related party relationships described below:

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control of the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

- (b) An entity is related to a reporting entity if any of the following conditions applies:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary, and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

- (c) 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 entity including:
 - (i) that person's children, spouse or domestic partner, brother, sister, father, and mother;
 - (ii) children of that person's spouse or domestic partner; and
 - (iii) dependants of that person or that person's spouse or domestic partner.
- (d) Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
- (e) In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

The related party relationships described under Ind AS 24 are more comprehensive and substantially cover the relationships identified under the Companies Act.

(III) Under Listing Regulations :

As per Regulation 2(zb), an entity shall be considered as related to the Company:

- (i) if such entity is a related party under Section 2(76) of the Companies Act, 2013; or
- (ii) if such entity is a related party under the applicable accounting standards.

Provided that:

- (a) any person or entity forming a part of the promoter or promoter group of the listed entity; or
- (b) any person or any entity, holding equity shares:
 - (i) of twenty percent or more; or
 - (ii) of ten percent or more; with effect from April 1, 2023;

in the listed entity either directly or on a beneficial interest basis as provided under Section 89 of the Companies Act, 2013, 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 recognized stock exchange(s)