

# HINDUSTAN AUTO FINANCE LIMITED

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## **POLICY ON RELATED PARTY TRANSACTIONS**

### **1. SCOPE AND PURPOSE OF THE POLICY**

Related party transactions can present a potential or actual conflict of interest which may be against the best interest of the Company and its shareholders. Considering the requirements for approval of related party transactions as prescribed under the Companies Act, 2013 ("Act") read with the rules framed there under and Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations"), "Hindustan Auto Finance Limited" ("Company") has formulated this policy for identification of related parties and the proper conduct and documentation of all related party transactions.

Also, Regulation 23(1) of the SEBI Listing Regulations requires the Company to formulate a policy on materiality of related party transactions and dealing with related party transactions.

In light of the above, the Company has framed this Policy on materiality of related party transactions and dealing with related party transactions ("Policy"). This Policy has been adopted by the Board of Directors of the Company based on recommendations of Audit Committee.

### **2. OBJECTIVE OF THE POLICY**

The Objective of the Policy is to set out (a) the materiality thresholds for related party transactions; and (b) the manner of dealing with the transactions between the Company and its related parties based on the Act, Regulation 23 of the SEBI Listing Regulations and any other laws and regulations as may be applicable to the Company.

### **3. DEFINITIONS**

**"Act"** means the Companies Act, 2013;

**"Audit Committee"** means Committee of Board of Directors of the Company constituted as Audit Committee under provisions of the SEBI Listing Regulations and the Companies Act, 2013;

**"Arms Length Transactions"** means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest;

**"Company"** means Hindustan Auto Finance Limited;

**"Key Managerial Personnel"** or **"KMP"** shall have the meaning as defined in the Companies Act 2013

**"Ordinary course of business"** means the usual transactions, customs and practices undertaken by the Company to conduct its business operations and activities which the Company can undertake as per Memorandum & Articles of Association. The Board and Audit Committee may lay down the principles for determining ordinary course of business in accordance with the statutory requirements and other industry practices and guidelines;

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“Regulation 23” means the Regulation 23 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

“**Related party**” have the meaning as defined in Section 2(76) of the Act and Regulation 2(1)(zb) of the SEBI Listing Regulations;

“**Relative**” with reference to a Director or KMP mean persons as defined in Section 2(77) of the Act and rules prescribed there under;

“**Related party Transactions**” have the meaning as defined under Regulation 2(1)(zc) of the SEBI Listing Regulations;

“**Material Related Party Transactions**” means a transaction with a related party if the transaction/transactions to be entered into individually or taken together with previous transactions during the financial year, exceeds 10% (ten percent) of the annual consolidated turnover of the Company as per the last audited financial statement of the Company or Rs. 25 Cr. whichever is less.

However, a transaction involving payments made to a related party with respect to brand usage or royalty shall be considered as material related party transaction if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed five percent of the annual consolidated turnover of the Company as per the last audited financial statements of the listed entity or Rs. 5 Crores, whichever is less.

“**Material Modification to Related Party Transaction**” means the following:

(i) In case the modification is resulting into a change of more than 25% in the amount of the transaction originally approved;

Any other term not defined herein shall have the same meaning as defined in the Act, SEBI Listing Regulations or any other applicable law or regulation.

## 4. MANNER OF DEALING WITH RELATED PARTY TRANSACTION

### Identification of Related Parties

Each director and Key Managerial Personnel is responsible for providing disclosure to the Company/Board or Audit Committee regarding the list of relatives, entities considered as related parties in accordance with provisions of the Act and SEBI Listing regulations.

### Identification of Related Party transactions

Each director and Key Managerial Personnel shall be responsible for providing information/notice to the Company/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. The Company strongly prefers to receive such notice of any potential Related Party

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Transaction well in advance so that the Audit Committee/Board has adequate time to obtain and review information about the proposed transaction. The Company shall further determine whether the transaction is in the ordinary course of business and at arm's length basis and for this purpose, the Company will seek external expert opinion, if and wherever necessary.

## 5. PROCEDURE FOR APPROVAL OF RELATED PARTY TRANSACTION

### APPROVAL OF THE AUDIT COMMITTEE

#### A. Information to be placed before the Audit Committee for approval of RPTs

The following information shall be placed for review of the audit committee for approval of a proposed RPT:

- a. Type, material terms and particulars of the proposed transaction;
- b. Name of the related party and its relationship with the listed entity or its subsidiary, including nature of its concern or interest (financial or otherwise);
- c. Tenure of the proposed transaction (particular tenure shall be specified);
- d. Value of the proposed transaction;
- e. The percentage of the listed entity's annual consolidated turnover, for the immediately preceding financial year, that is represented by the value of the proposed transaction (and for a RPT involving a subsidiary, such percentage calculated on the basis of the subsidiary's annual turnover on a standalone basis shall be additionally provided)
- f. If the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the listed entity or its subsidiary:
  - i) details of the source of funds in connection with the proposed transaction;
  - ii) where any financial indebtedness is incurred to make or give loans, inter-corporate deposits, advances or investments, nature of indebtedness; • cost of funds; and • tenure; •
  - iii) applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured or unsecured; if secured, the nature of security; and
  - iv) the purpose for which the funds will be utilized by the ultimate beneficiary of such funds pursuant to the RPT.
- g. Justification as to why the RPT is in the interest of the listed entity;
- h. A copy of the valuation or other external party report, if any such report has been relied upon;
- i. Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT on a voluntary basis;
- j. Any other information that may be relevant

The audit committee shall also review the status of long-term (more than one year) or recurring RPTs on an annual basis.

#### B. Transaction Requiring Approval of Audit Committee

All related party transactions and subsequent Material Modifications to same shall require prior approval of the Audit Committee except such transactions which are exempt from such approval requirement. Provided further that:-

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(i) a related party transaction to which the subsidiary of the Company is a party but Company is not a party, shall require prior approval of the audit committee of the Company if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds ten per cent of the annual consolidated turnover, as per the last audited financial statements of the Company.

(ii) With effect from April 1, 2023, a related party transaction to which the subsidiary of a listed entity is a party but the listed entity is not a party, shall require prior approval of the audit committee of the listed entity if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year, exceeds ten per cent of the annual standalone turnover, as per the last audited financial statements of the subsidiary;

(iii) Prior approval of the audit committee of the listed entity shall not be required for a related party transaction to which the listed subsidiary is a party but the listed entity is not a party, if regulation 23 and sub-regulation (2) of regulation 15 of these regulations are applicable to such listed subsidiary.

## **C. Omnibus Approval of Audit Committee**

The Company may obtain omnibus approval from the Audit Committee for such related party transactions, subject to compliances with the following conditions:

a. The Audit Committee shall, after obtaining approval of the Board of Directors, specify the criteria for granting the omnibus approval in line with the Policy and such approval which shall include the following namely:

- i. Maximum value of transaction, in aggregate, which can be allowed under the omnibus route in a year;
- ii. The maximum value per transaction which can be allowed;
- iii. Extent and manner of disclosures to be made to the audit committee at the time of seeking omnibus approval;
- iv. Review, at such intervals as the Audit Committee may deem fit, related party transaction entered into by the company pursuant to each omnibus approval made;
- v. Transactions which cannot be subject to the omnibus approval by the Audit Committee

b. The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, namely:-

- i. Repetitiveness of the transactions (in past or in future);
- ii. Justification for the need of omnibus approval

c. The Audit Committee shall satisfy itself regarding the need for such omnibus approval for transactions of repetitive nature and that such approval is in the Interest of the Company;

d. The omnibus approval shall provide details of (i) the name/s of the related party, nature of transaction, period of transaction, maximum aggregated value of the particular type of transaction that can be entered into, (ii) basis of arriving at 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.

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Provided that where the need for related party transactions cannot be foreseen and above details are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding rupees 1 crore per transaction.

e. The Audit Committee shall review, at least on a quarterly basis, the aggregated value and other details of related party transactions transacted into by the company pursuant to the omnibus approval given;

f. Such omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approval after expiry of such financial year;

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

h. Any other conditions as the Audit Committee may deem fit

In compliance to the approval of the Board of Directors, the Audit Committee of the Company has specified following criteria for granting omnibus approval:

i. The maximum value of the transactions, in aggregate, which can be allowed under omnibus route in a year will be 25% of the annual consolidated turnover of the company as per last audited financial statements;

j. The maximum value per transaction which can be approved under omnibus route will be the same as per the definition of Material Related Party Transaction;

k. While assessing a proposal put up before the Audit Committee/Board for approval, the Audit Committee /Board may review the following documents/seek the following information from the management in order to determine if the transaction is in the ordinary course of business and at arm's length or not:

i. Nature of the transaction i.e. details of goods or property to be acquired/transferred or services to be rendered/availed-including description of functions to be performed, risks to be assumed and assets to be employed under the proposed transaction;

ii. Key terms (such as price and other commercial compensation contemplated under the arrangement) of the proposed transaction, including value and quantum;

iii. Key covenants (non-commercial) as per the draft of the proposed agreement/contract to be entered into for such transaction;

iv. Special terms covered/to be covered in separate letters or undertakings or any other special or sub arrangement forming part of a composite transaction;

v. Benchmarking information that may have a bearing on the arm's length basis analysis, such as :

•Market analysis, research report, industry trends, business strategies, financial forecasts, etc.;

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- Third party comparable, valuation reports, price publications including stock exchange and commodity market quotations;

\*Management assessment of pricing terms and business justification for the proposed transaction;

- Comparative analysis, if any, of other such transaction entered into by the Company.

## **APPROVAL OF BOARD OF DIRECTORS OF THE COMPANY**

As per the provision of Section 188 of the Act, all kinds of transactions specified under the said section and which are not in the ordinary course of business and not at arm's length basis, are placed before the Board for its approval.

In addition to the above, the following kinds of transactions with related parties are also placed before the Board for its approval.

- Transactions which may be in the ordinary course of business and at arm's length basis, but which are as per the policy determined by the Board from time to time (i.e. value threshold and/or other parameters) require Board approval in addition to Audit Committee approval;
- Transactions in respect of which the Audit Committee is unable to determine whether or not they are in the ordinary course of business and/or at arm's length basis and decides to refer the same to the Board for approval;
- Transactions which are in the ordinary course of business and at arm's length basis, but which in Audit Committee's view requires Board approval;
- Material Related Party Transactions which are intended to be placed before the shareholders for approval.

Any member of the Board who has any interest in any related party transaction will recuse himself and abstain from discussion and shall not vote to approve the related party transaction.

## **APPROVAL OF THE SHAREHOLDERS OF THE COMPANY:-**

### **A. Transactions Requiring Shareholder Approval**

All the Material Related Party Transactions and subsequent material modification shall require prior approval of shareholders. For this purpose, all entities falling under the definition of Related Parties shall not vote to approve the relevant transactions on such resolutions whether the entity is a party to the particular transaction or not.

In addition to the above, all kinds of transactions specified under Section 188 of the Act which

- (a) are not at Arm's Length or not in the ordinary course of business; and
- (b) exceed the thresholds laid down in Companies (Meeting of Board and its Power) Rules, 2014 shall be placed before the shareholders for its approval.

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## **B. Information to be provided to shareholders for consideration of RPTs**

The notice being sent to the shareholders seeking approval for any proposed RPT shall, in addition to the requirements under the Companies Act, 2013, include the following information as a part of the explanatory statement:

- a. A summary of the information provided by the management of the listed entity to the audit committee as specified in point 4 above;
- b. Justification for why the proposed transaction is in the interest of the listed entity;
- c. Where the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the listed entity or its subsidiary, the details specified under point 4(f) above; (The requirement of disclosing source of funds and cost of funds shall not be applicable to listed banks/NBFCs.)
- d. A statement that the valuation or other external report, if any, relied upon by the listed entity in relation to the proposed transaction will be made available through the registered email address of the shareholders;
- e. Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT, on a voluntary basis;
- f. Any other information that may be relevant.

## **EXCEPTIONS TO PRIOR APPROVAL**

Notwithstanding the foregoing, the following Related Party Transactions shall not require prior approval of Audit Committee or Shareholders, as may be applicable:

- i. Transactions entered into between the Company and its wholly owned subsidiary whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval
- ii. Any transaction that involves the providing of compensation to a director or Key Managerial Personnel in connection with his or her duties to the Company or any of its subsidiaries or associates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.
- iii. Any transaction in which the Related Party's interest arises solely from ownership of securities issued by the Company and all holders of such securities receive the same benefits pro rata as the Related Party.
- iv. Any transaction involving fees payable to the directors for attending the meetings of the Board or Committee of the Company within the limits prescribed under the Act and as already approved by the Board from time to time as per the applicable laws and other expenses connected to the same.



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## 6. RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY

In the event the Company becomes aware of a transaction with a related party that has not been approved in accordance with this policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all the relevant facts and circumstances regarding the related party transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of the related party transaction. The Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such related party transaction to the Audit Committee under this policy and the failure of internal control systems, and shall take any such action it deems appropriate.

In any case, where the Audit Committee determines not to ratify a related party transaction that has been commenced without approval, the Audit Committee, as appropriate, may direct additional actions including, but not limited to, discontinuation of the transaction or seeking the approval of the shareholders, payment of compensation by the defaulting person (as may be decided by the Audit Committee) to the related party or the Company as the case may be, etc. In connection with any review/approval of a related party transaction, the Audit Committee has authority to modify or waive any procedural requirements of this Policy.

## 7. DISCLOSURES

The Company shall disclose, in the Board's report, transactions prescribed in Section 188(1) of the Act with related parties, which are not in the ordinary course of business or not at arm's length basis along with the justification for entering into such transaction.

The Company shall also submit within thirty 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 the annual results to the stock exchanges and publish the same on its website.

## 8. REVIEW OF THE POLICY

The adequacy of this Policy shall be reviewed and reassessed by the Audit Committee periodically and appropriate recommendations shall be made to the Board to update the policy.

Such Policy shall be reviewed by Board of Directors at least once three years and updated accordingly.

In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant statutory authorities, not being consistent with the provisions laid down under this Policy, then such amendment(s), clarification(s), circular(s), etc. shall prevail upon the provisions in this Policy and this Policy shall stand amended accordingly.