



POWER FINANCE CORPORATION LIMITED

POLICY ON RELATED PARTY TRANSACTIONS

The Policy on Related Party Transactions has been framed in accordance with the applicable provisions of Companies Act, 2013 and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”) as amended.

APPLICABILITY

This Policy shall be applicable to Related Party Transactions between Power Finance Corporation Limited (PFC) and its Related Parties.

DEFINITIONS

- a) **“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) **“Board of Directors”** or **“Board”** means the collective body of the Directors of the Company.
- c) **“Company”** means Power Finance Corporation Limited
- d) **“Material Related Party Transactions”**: a transaction with a related party shall be considered material if the transaction / transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated turnover of the company as per the latest available consolidated annual audited financial statements of the company.

Further, 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 company as per the latest available consolidated annual audited financial statements of the company.

- e) **“Government Company”** means a government company as defined under the Companies Act, 2013.
- f) **“Policy”** means Related Party Transactions Policy of the Company.
- g) **“Related Party”** means a person or an entity:
 - A. which is a related party under Section 2 (76) of the Companies Act, 2013; or
 - B. which is a related party under the applicable accounting standards
 - C. belonging to the promoter or promoter group of the listed entity and holding 20% or more of shareholding in the listed entity.

A. As per Section 2 (76) of the Companies Act 2013 and rules made thereunder, Related Party, with reference to a company, has been defined as-

- (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) 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 Body corporate 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; or
- (c) a investing company or the venture of the Company

Explanation: Investing Company or the venture of the Company means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.

(ix) such other person as may be prescribed.

B. Related Parties under the applicable *Indian Accounting Standard (IND AS) 24* are as follows:

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(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.

- Note:*
- i. *For further details reference may be made to IND AS-24 'Related Party Disclosures'*
 - ii. *Any subsequent modification/announcement/accounting standard/ interpretation issued in this regard shall be deemed to be automatically incorporated and may be referred.*
 - iii. *The Compliance requirements under the said IND AS 24 do not fall within the scope of this Policy.*

h) **“Related Party Transactions” (RPT):** It is a transfer of resources, services or obligations between a company and a related party, regardless, of whether a price is charged and inter alia include all contracts or arrangements 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.

i) **“Relatives”**, 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) one person is related to the other person as:
 - (a) Father (including step- father)
 - (b) Mother (including step- mother)
 - (c) Son (including step- son)
 - (d) Son's wife
 - (e) Daughter
 - (f) Daughter's husband
 - (g) Brother (including step- brother)
 - (h) Sister (including step- sister)

j) **“Transaction”:** A transaction with a related party shall be construed to include single transaction or a group of transactions in a contract.

All the words and expressions used in this Policy, unless defined herein, shall have meaning respectively assigned to them under the Companies Act, 2013 and the Rules, Notifications and Circulars made / issued thereunder, Listing Regulations and applicable Accounting Standard(s) as amended, from time to time.

APPROVAL OF RELATED PARTY TRANSACTIONS

Audit Committee

All Related Party Transactions (including any subsequent modification) shall need to have prior approval of the Audit Committee.

However, approval of audit committee shall not be required if the transaction is 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 and is other than a transaction referred to in Section 188 of the Companies Act, 2013.

The Audit Committee may, after satisfying itself the need for omnibus approval and that such approval is in the interest of the company, grant omnibus approval for Related Party Transactions which are repetitive in nature, in ordinary course of business and on arm's length basis.

The omnibus approval shall be valid for a period not exceeding one year from the date of approval and shall require fresh approval after the expiry of said one year.

The approval shall specify the following:

- a) Name(s) of the related party.
- b) Nature of transaction.
- c) Period of transaction.
- d) Maximum amount of transaction that can be entered into
- e) The indicative base price/current contracted price and the formula for variation in the price, if any.
- f) Any other condition as the Audit Committee may deem fit

Provided that where the need for the Related Party Transactions cannot be foreseen and complete details as at a) to e) above are not available, the Audit Committee may grant omnibus approval for such transaction subject to their value not exceeding ₹1 crore per transaction.

The 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.

In case of a transaction, other than transaction referred to in Section 188, and where the Audit Committee does not approve the transaction, it shall make its recommendations to the Board.

Board of Directors

- (a) All Related Party Transactions except Related Party Transactions in the ordinary course of business and at arm's length basis shall be submitted for the approval of the Board of Directors at a duly convened meeting.
- (b) All transaction, other than transaction referred to in Section 188, and where the Audit Committee does not approve the transaction, it shall make its recommendations to the Board.
- (c) Related Party Transactions, requiring the approval of the shareholders, shall be submitted for consideration of the Board at a duly convened meeting.

The agenda of the Board meeting seeking approval of RPT shall disclose-

- (a) the name of the related party and 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.

Shareholders

All Material Related Party Transactions and Related Party Transactions beyond the following limits prescribed under rule 15(3) of the Companies (Meetings of Board & its Powers) Rules, 2014, shall be submitted together with recommendations of the Board, to PFC shareholders for prior approval by means of an ordinary resolution.

(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 ₹100 crore whichever is lower
(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 ₹100 crore whichever is lower
(c)	leasing of property of any kind;	Amounting to 10% or more of the net worth of the company or 10% of the turnover of the company or ₹100 crore whichever is lower
(d)	availing or rendering of any services, directly or through appointment of agent;	Amounting to 10% or more of the turnover of the company or ₹50 crore whichever is lower
(The limits shall apply for transaction or transactions to be entered into individually or taken together with the previous transactions during a FY)		
(e)	such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company	Monthly remuneration exceeding ₹2.5 lakh
(f)	underwriting the subscription of any securities or derivatives thereof, of the company	Exceeding 1% of the net worth of the company

(The turnover or net worth shall be computed on the basis of the latest available annual audited financial statements of the company)

However, approval of shareholders shall not be required if the transaction is entered into between:

- i) 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.
- ii) two government companies;

The explanatory statement to be annexed to the notice of a general meeting seeking approval of RPT from shareholders shall contain the following particulars namely:-

- (a) name of the related party ;
- (b) name of the director or key managerial personnel who is related, if any;
- (c) nature of relationship;
- (d) nature, material terms, monetary value and particulars of the contract or arrangement;

- (e) any other information relevant or important for the members to take a decision on the proposed resolution.

ALL ENTITIES FALLING UNDER THE DEFINITION OF RELATED PARTIES SHALL NOT VOTE TO APPROVE RELEVANT TRANSACTION IRRESPECTIVE OF WHETHER THE ENTITY IS A PARTY TO THE PARTICULAR TRANSACTION OR NOT.

DISCLOSURES

The concerned units shall on a quarterly basis, prepare a summary of all related party transactions entered into during the quarter and submit the same, along with the copy of requisite approvals obtained, to Company Secretary within 7 days from the close of each quarter.

All disclosures pertaining to Related Party Transactions required under the Companies Act and Listing Regulations shall be made accordingly.

LIMITATION

In the event of any conflict between the provisions of this Policy and of the Listing Regulations/Companies Act, 2013 or any other statutory enactments, rules, then, the provisions of the Companies Act, 2013 and Rules made thereunder/ Listing Regulations or other statutory enactments, rules, as the case may be, shall prevail over this Policy and shall be adhered to accordingly by all concerned.

POLICY REVIEW

This policy may be reviewed by the Board of Directors at least once in every three years and updated due to change in regulations, if any or as may be felt appropriate.
