

**MUKESH BABU FINANCIAL
SERVICES LIMITED**

Policy on dealing with Related Party Transactions

I. Background

Mukesh Babu Financial Services Limited (“the Company”) is governed, amongst others, by the rules and regulations framed by Securities Exchange Board of India (“SEBI”). SEBI has mandated every listed company to formulate a policy on materiality of Related Party Transactions and also on dealing with Related Party Transactions.

Accordingly, the Company has formulated this policy (Policy) on dealing with Related Party Transactions. This Policy regulates all transactions between the Company and its Related Parties (as defined below).

The Policy will be reviewed at least once every three years and is subject to amendments recommended by the Audit Committee from time to time.

The Board of the Company has adopted this updated Policy at the Meeting of the Board held on 28th January, 2022 and This amended existing provisions pertaining to ‘Related Party’ and ‘Related Party Transactions’ vide notification of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2021 shall come into force from 1st April, 2022 and remaining from 1st April, 2023 respectively.

II. Purpose

The Objective of this Policy is to ensure proper approval, disclosure and reporting of transactions entered or to be entered between the Company and any of its Related Parties.

III. Scope & Inclusion

This policy sets definition of materiality of related party transactions and dealing with related party transactions.

IV. Definitions

“Arm’s length basis”: In terms of the Companies Act, 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.

A transaction with a related party will be considered to be on

arm's length basis if the key terms, including pricing of the transaction, taken as a whole, are comparable with those of similar transactions if they would have been undertaken with unrelated parties.

It may be noted that this policy framework, including the definitions above, is meant solely for the purposes of compliance with related party transaction requirements under Companies Act, 2013 and Regulation 23 of the Securities and Exchanges Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015.

The above terms may have different connotations for other purposes like disclosures in the financial statements, which are governed by applicable regulations, accounting standards, regulatory guidelines etc.

“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.

“Joint venture” means a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

“Material modifications” shall mean and include any modification to an existing related party transaction having variance of 20% of the existing limit as sanctioned by the Audit Committee / Board / Shareholders, as the case may be.

“Material related party transaction” as per Regulation 23 means a transaction/transactions with a related party to be entered into individually or taken together with previous transactions during a financial year, that exceeds Rs.1,000 Crores or 10% of the annual consolidated turnover of the Company as per the last audited financial statement of the Company, whichever is lower.

“Related party” has been defined in the Companies Act, 2013 as amended, in Accounting Standard 18 ('AS 18') and in Regulation 23.

Definitions as per the respective regulations are given below; for the purposes of this policy, definitions as amended from time to time, shall be considered.

Under the Companies Act:

As per section 2 (76) of the Act, 'related party' with reference to a company means:

- i. a director or his relative.

Section 2(77) of the Act defines 'relative' as one who is related to another if:

- a) they are members of a Hindu Undivided Family (HUF);
or
- b) they are husband and wife; or
- c) one person is related to the other as father (including step-father), mother (including step-mother), son (including step-son), son's wife, daughter, daughter's husband, brother (including step-brother), sister (including step-sister)

- ii. a key managerial personnel (KMP) or his relative.

In terms of section 2(51) of the Act, 'KMP' in relation to a company means:

1. the Chief Executive Officer or the managing director or the manager
2. the Company Secretary;
3. the Whole-Time Director;
4. the Chief Financial Officer;
5. such other Officer, not more than one level below the directors who is in whole- time employment, designated as key managerial personnel by the Board; and
6. such other Officer as may be prescribed

- iii. a firm, in which a director, manager or his relative is a partner.

In terms of section 2(53) of the Act, 'manager' means an individual who, subject to the superintendence, control and direction of the Board of Directors, has the management of the whole, or substantially the whole, of

the affairs of a company, and includes a director or any other person occupying the position of a manager, by whatever name called, whether under a contract of service or not;

- 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 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;
- viii. any body corporate which is a holding, subsidiary or an associate company of such company; or a subsidiary of a holding company to which it is also a subsidiary; or an investing company or the venturer of the company;
- ix. a director other than an independent director or key managerial personnel of the holding company or his relative with reference to a company (as per Companies (Meetings of Board and its Powers) Rules, 2014).

Under AS 18:

Related party relationships are described under AS 18, as follows:

- i. 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);
- ii. 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;
- iii. 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;

- iv. key management personnel and relatives of such personnel;
- v. enterprises over which any person described in (3) or (4) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

Under 2(1)(zb) of the Listing Regulations:

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 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 20% or more; or
 - ii. of 10% 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 recognised stock exchanges.

“Related party transaction”: A related party transaction means a transaction involving a transfer of resources, services or obligations between:

- (i) the Company or any of its subsidiaries on one hand and a related party of the Company or any of its subsidiaries on the other hand; or
- (ii) the Company or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the Company or any of its subsidiaries, with effect from April 1, 2023;

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.

However, the following shall not be a related party transaction:

- a) the issue of specified securities on a preferential basis, subject to compliance of the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
- b) the following corporate actions by the listed entity which are uniformly applicable/ offered to all shareholders in proportion to their shareholding:
 - i. payment of dividend;
 - ii. subdivision or consolidation of securities;
 - iii. issuance of securities by way of a rights issue or a bonus issue; and
 - iv. buy-back of securities.
- c) acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every 6th (sixth months) to the stock exchange(s), in the format as specified by the Board.

“Significant influence” means control of at least twenty per cent of total share capital, or of business decisions under an agreement.

“Subsidiary company” or **“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 share capital either at its own or together with one or more of its subsidiary companies.

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation—for the purposes of this clause:

- i. 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
- ii. 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;
- iii. the expression “company” includes any body corporate;
- iv. “layer” in relation to a holding company means its subsidiary or subsidiaries;

“Total share capital” means the aggregate of the paid-up equity share capital and convertible preference share capital.

“Turnover” has been defined as the aggregate value of the realisation of amount made from sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year. Accordingly, for the Company, the ‘turnover’ will be considered as the ‘Total Income’.

“Ordinary Course of Business” includes but not limited to a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions. The ordinary course of business covers the usual transactions, customs and practices related to the business.

The following factors are indicative of a transaction being in the ordinary course of business:

- a. the transaction is normal or otherwise unremarkable for the business
- b. the transaction is frequent/regular
- c. the transaction is a source of income for the business
- d. the transactions that are part of the standard industry practice, even though the Company may not have done it in the past.

These are not exhaustive criteria and the Company will have to assess each transaction, considering its specific nature and circumstances. Some examples for Ordinary course of business are –

- i. expenses towards infrastructure sharing
- ii. investment transactions
- iii. banking transactions

V. Approval of related party transactions

A. Audit Committee

- i. All the transactions which are identified as related party transactions and subsequent material modification should be pre- approved by the Audit Committee before entering into such transaction. The Audit Committee shall consider all the relevant factors as provided in **Annexure A** to the policy while deliberating the related party transactions for its approval.
- ii. a related party transaction to which the subsidiary of the Company is a party but the 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 10% (ten per cent) of the annual consolidated turnover, as per the last audited financial statements of the Company;

- iii. with effect from April 1, 2023, a related party transaction to which the subsidiary of the Company is a party but the 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 10% (ten per cent) of the annual standalone turnover, as per the last audited financial statements of the subsidiary;
- iv. A related party transaction which is (i) not in the ordinary course of business, or (ii) not at arm's length price, would require approval of the Board of Directors or of shareholders as discussed subsequently.
- v. The Audit Committee may grant omnibus approval for related party transactions which are repetitive in nature and subject to certain criteria/conditions as required under Regulation 23 and Chapter XII, rule 6A of Companies (Meetings of Board and its Powers) Rules, 2014 and such other conditions as it may consider necessary in line with this policy and in the interest of the Company. Such omnibus approval shall be valid for one financial year.
- vi. A related party transaction entered into by the Company, which is not under the omnibus approval or otherwise pre-approved by the Committee, will be placed before the Committee for ratification.

B. Board of Directors

Under the Act, the consent of the board of directors is required, by a resolution at a meeting of the Board, for entering into related party transactions within the thresholds specified in Section 188 of the Act and which are (i) not in the ordinary course of business, or (ii) not at an arm's length price.

In case any related party transactions are referred by the Company to the Board for its approval, the Board will consider such factors as, nature of the transaction, material terms, the manner of determining the pricing and the business rationale for entering into such transaction. On such consideration, the Board may approve the transaction or may require such modifications to transaction terms as it

deems appropriate under the circumstances. Any member of the Board who has any interest in any related party transaction will rescue himself and abstain from discussion and voting on the approval of the related party transaction. The Company shall further disclose any conflict of interests to the Board for their management and control.

C. Shareholders

If a related party transaction is (i) a material transaction as per Regulation 23 and subsequent material modifications or (ii) not in the ordinary course of business, or not at arm's length price and exceeds certain thresholds prescribed under section 188 of the Act, it shall require prior approval of the shareholders through resolution by providing the disclosures as mentioned in **Annexure B** and no related party shall vote to approve such resolutions whether the entity, is a related party to the particular transaction or not.

However, transactions 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; do not require approval of shareholders.

VI. Reporting of Related Party Transactions

The Act, accounting standard 18 and Regulation 23 place the following reporting requirements on an entity, which are duly complied with by the Company till date:

- i. a note on transactions with related parties, along with the pricing justifications to be placed at the Audit Committee every quarter for its review, in compliance with the requirements of sections 177 and 188 of the Companies Act, 2013 as amended from time to time;
- ii. disclosure of related parties and transaction with related parties as per AS 18 in the notes to account forming part of Financials of the Company;
- iii. every contract or arrangement, which is required to be approved by the Board/shareholders under this Policy, to be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement;

- iv. the details of material transactions with related parties to be included in the corporate governance reports which are required to be submitted to the stock exchanges on a quarterly basis;
- v. reporting of details of material contracts or arrangements or transactions in Report of the Board shall contain the particulars of contracts or arrangements with related parties referred to in sub-section (1) of section 188 in the Form AOC-2 to be filed with registrar of companies. In this regard, since materiality has not been defined for this purpose under the Act, the same threshold limits will be used as defined under the Act for transactions requiring shareholders' approval;
- vi. make such disclosures every six months within fifteen days from the date of publication of its standalone and consolidated financial results to the stock exchanges, publish on the website or any other disclosure as specified under Regulation 23(9) SEBI (LODR) Regulations, 2015 ("LODR").

VII. Limitation and Amendment

In the event of any conflict between the provisions of this Policy and of the Act or Listing Regulations or any other statutory enactments, rules, the provisions of such Act or Listing Regulations or statutory enactments, rules shall prevail over this Policy. Any subsequent amendment / modification in the Listing Regulations or the Act or any other governing Act/Rules/Regulations or re-enactment, impacting the provisions of this Policy, shall automatically apply to this Policy and the relevant provision(s) of this Policy shall be deemed to be modified and/or amended to that extent, even if not incorporated in this Policy.)

Annexure A

(Disclosures to be placed before Audit Committee for approval for Related Party Transactions)

- 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

Annexure B

(Disclosures to be placed before Shareholders for approval for Related Party Transactions)

- a. A summary of the information provided by the management of the listed entity to the audit committee as specified above in Annexure A;
- 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 (f) above in Annexure A; (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.