

# IOT Utkal Energy Services Limited

## POLICY ON MATERIALITY OF RELATED PARTY TRANSACTIONS

### A. BACKGROUND

Section 188 of the Companies Act, 2013 read with Companies (Meetings of Board and its Powers) Rules, 2014 provides for the detailed mechanism for dealing with Related Party Transaction's ("RPT's") of a Company. Further, it provides for certain compliance requirements such as Board approval and Shareholder's approval in specific circumstances. In addition, Section 177 of the Companies Act, 2013 read with Companies (Meetings of Board and its Powers) Rules, 2014 provides for approval of the Audit Committee for RPT's.

In addition, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 provide that a listed entity shall formulate a policy on materiality of Related Party Transactions (RPT) and on dealing with RPTs including clear threshold limits duly approved by the Board of Directors and such policy shall be reviewed by the Board of Directors at least once every three years and updated accordingly.

Keeping in view the above mentioned compliance requirements provided in Companies Act, 2013 read with related rules issued thereon and the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, including any amendment thereof, the Board of Directors of IOT Utkal Energy Services Limited ("IOTUL" or "the Company"), based on the recommendations of the Audit Committee of the Board, has approved and adopted the following Policy on Materiality of Related Party Transaction's and dealing with Related Party Transaction's.

### B. PURPOSE

This policy is to define the approval mechanism and reporting of transactions between the Company and its related parties. It may be modified pursuant to the amendment in the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as may become applicable from time to time.

### C. DEFINITIONS

1. **Act** – Act means the Companies Act, 2013 and the Rules made thereunder as amended from time to time;
2. **Arm's Length Transaction or Transaction on Arms Length Basis-** The transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.
3. **Audit Committee or Committee** - The Committee of the Board of Directors of the Company constituted in terms of the SEBI LODR Regulations and the Act;
4. **"Board"** means the Board of Directors of the Company;

5. **Key Managerial Personnel's (KMPs)** - in relation to a company, means-

- (i) the Chief Executive Officer or 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 whole time employment, designated as key managerial personnel by the Board;
- (vi) such other officer as may be prescribed under Companies Act, 2013.

6. **Ordinary Course of Business** - includes, but not limited to, activities that are necessary, normal, and incidental to the business.

7. **Material Related Party Transactions**

- a. In accordance with SEBI (LODR), material related party transactions means any related party transaction / transactions, to be entered into individually or taken together with previous transactions during a financial year, which exceeds 10% of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.
- b. In accordance with Section 188 of the Companies Act, 2013 read with Companies (Meetings of Board and its Powers) Rules, 2014, Material Related Party Transaction means the Transactions which are not on arms length basis and/or are not in the Ordinary Course of Business and which exceed the limits provided herein below.

Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014 stipulates the following limits for Related Party Transactions beyond which the prior approval of Shareholders through a Resolution is required.

Transactions Covered	Transaction Value
sale, purchase or supply of any goods or materials directly or through appointment of agents	Amounting to 10% more of Turnover
selling or otherwise disposing off or buying, property of any kind directly or through appointment of agents	Amounting to 10% or more of the Net Worth
leasing of property of any kind	Amounting to 10% more of Turnover
availing or rendering of any services directly or through appointment of agents	Amounting to 10% more of Turnover
such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company	At a monthly remuneration exceeding Rs. 2.5 Lakh

Remuneration for underwriting the subscription of any securities or derivatives thereof, of the company	exceeding 1% of Net Worth
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**Explanation:**

1. The above limits shall apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.
2. The Turnover or Net Worth referred above shall be on the basis of the Audited Financial Statement of the preceding financial year.

8. **Related Party** - In accordance with Section 2(76) of the Companies Act, 2013, Related Party in relation to a company 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 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:

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;
- (C) an investing company or the venture of the company;

(ix) A Director (other than Independent Director) or KMP of the holding company of such company or his relative.

9. **Related Party Transactions** - In accordance with Section 188 of the Companies Act, 2013, Related Party Transactions include the following transactions between the related parties:

- sale, purchase or supply of any goods or materials;
- selling or otherwise disposing of, or buying, property of any kind;
- leasing of property of any kind;
- availing or rendering of any services;

- appointment of any agent for purchase or sale of goods, materials, services or property;
- such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
- Underwriting the subscription of any securities or derivatives thereof, of the company.

10. **Relatives** - In accordance with Section 2 (77) of the Companies Act, 2013 read with related rules issued thereon including any statutory modification, amendment thereof from time to time, Relative 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 in the following manner, namely: -

- (a) Father: Provided that the term "Father" includes step-father.
- (b) Mother: Provided that the term "Mother" includes the step-mother.
- (c) Son: Provided that the term "Son" includes the step-son.
- (d) Son's wife.
- (e) Daughter.
- (f) Daughter's husband.
- (g) Brother: Provided that the term "Brother" includes the step-brother;
- (h) Sister: Provided that the term "Sister" includes the step-sister;

11. **SEBI LODR Regulations** – The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended.

12. **Subsidiary Company** - The term Subsidiary Company shall have the same meaning as specified under Companies Act, 2013 including any statutory modification and amendment thereof as may be issued from time to time.

#### **D. PROCEDURE**

1. In line with the provisions of Section 177 of the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, the Audit Committee of the Company shall review and approve all Related Party Transactions existing on the date of this Policy or proposed to be entered into by the Company.
2. Omnibus Approval - Audit Committee may grant omnibus approval for Related Party Transactions provided it is satisfied that there is a need to grant such approval in the interest of the Company. Such approval may be granted by Audit Committee for the proposed transaction subject to the following:
  - i) Transactions are repetitive in nature;
  - ii) Sufficient disclosure shall be made to the Audit Committee, including 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 and
  - f. such other conditions as the Audit Committee may deem fit.
- iii) In case any of such transaction being considered to be a Material Related Party transaction, audit committee shall recommend to the Board for its approval and to seek approval from Shareholders of the Company.
3. In case, the above details mentioned in Point 2 are not available or need for Related Party Transaction cannot be foreseen, Audit Committee may consider to grant omnibus approval for any transaction or transactions, subject to the maximum value of Rs.1 crore per transaction.
- In case such transaction exceeds the threshold limit of Rs. 1 Crore and the Company proposes to continue the omnibus approval of the Audit Committee for said transaction, in such scenario, to continue the said transaction, the necessary disclosures/ information shall be placed before the Audit Committee and the Audit Committee shall evaluate such transaction in light of the above mentioned criteria's for Omnibus approval of Audit Committee.
4. 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. Further, such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.
5. Details to be provided to the Audit Committee - In accordance with Companies Act, 2013 read with related rules issued thereon and the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 including any statutory modification and amendment thereof, with respect to Related Party Transactions following information, to the extent relevant, shall be presented to the Audit Committee:
- a. Type, material terms and particulars of the proposed transaction;
  - b. Name of the related party and its relationship with the Company 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 Company'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 Company 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 Company;
  - 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.
6. The audit committee shall also review the status of long-term (more than one year) or recurring RPTs on an annual basis.
  7. The Audit Committee shall also review and approve any subsequent modification of transactions of the Company with Related Parties.
  8. Approval of Board / Shareholders - In accordance with the provisions of Section 188 of the Companies Act, 2013 the Board of Directors and shareholders of the Company shall accord prior approval for the following RPTs:

All Related Party Transactions which are either not on arm's length basis or not in the Ordinary Course of Business shall be recommended by the Audit Committee for the approval of the Board of Directors. The Board of Directors shall further recommend the same for the approval of the Shareholders by way of Special Resolution of the Company, in case the said transaction is a Material Related Party Transaction as provided under Clause C.7.

The notice sent to the shareholders seeking approval for any proposed Related Party Transactions 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 Company to the Audit Committee as specified in point 5 above;
- b. Justification for why the proposed transaction is in the interest of the Company;
- c. Where the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the Company or its subsidiary, the details specified under point 5(f) above;

- d. A statement that the valuation or other external report, if any, relied upon by the Company 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.

All entities falling under the definition of related parties shall abstain from voting at the shareholders meeting, irrespective of whether the entity is a party to the particular transaction or not.

Further, in accordance with Section 184 of the Companies Act, 2013 and all other applicable provisions, every director of a company who is in any way, whether directly or indirectly, concerned or interested in a contract or arrangement or proposed contract or arrangement entered into or to be entered into, shall disclose the nature of his concern or interest at the meeting of the Board in which the contract or arrangement is discussed and shall not participate in such meeting.

In accordance with Section 188 of the Companies Act, 2013 read with related rules issued thereon, the passing of resolution shall not be applicable for 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.

## **E. MECHANISM FOR APPROVAL FOR RELATED PARTY TRANSACTIONS**

### **a. TRANSACTIONS WHICH ARE ON ARM'S LENGTH BASIS AND ARE IN ORDINARY COURSE OF BUSINESS**

- Approval of Audit Committee for all transactions
- Board to take note of such transactions as recommended by Audit Committee
- Approval of shareholders by way of resolution only if the value of transactions exceeds the limits provided under Clause C.7 above.

### **b. TRANSACTIONS WHICH ARE EITHER NOT ON ARM'S LENGTH BASIS AND / OR NOT IN ORDINARY COURSE OF BUSINESS**

- Approval of Audit Committee for all transactions
- Approval of the Board for all transactions
- Approval of shareholders by way of resolution only if the value of transactions exceeds the limits provided under Clause C.7.

### **c. TRANSITIONAL PROVISIONS**

- All Transactions with Related Parties shall require approval of Audit Committee. The approval of the Board / Shareholders would be required in case the transaction exceeds the limits provided under Clause C.7.

- All existing material related party contracts or arrangements entered into prior to the date of notification of these regulations and which may continue beyond such date shall be placed for approval of the shareholders in the first General Meeting subsequent to notification of these regulations.

## **F. RATIFICATION OF THE RELATED PARTY TRANSACTIONS**

Where any contract or arrangement, which is considered as a Related Party Transaction exclusively as per Companies Act, 2013, is entered into by a director or any other employee, without obtaining the consent of Audit Committee or the Board or the shareholders of the Company, as the case may be, such transaction shall be ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into.

In case such transaction is not ratified within the specified period, such contract or arrangement shall be voidable at the option of the Board and if the contract or arrangement is with a Related Party to any Director, or is authorised by any other Director, the Directors concerned shall indemnify the Company against any loss incurred by it.

In the event of inadvertent omission to seek the approval of the Related Party Transaction in accordance with the Policy, the matter shall be reviewed by the Audit Committee.

Every Contract or arrangement entered with Related Parties with the approval of Board / Shareholders in line with sub-section (1) of Section 188 of the Companies Act 2013 and as provided under the policy, shall be referred to in the Board's Report to the shareholders along with the justification for entering into such contract or arrangements.

The Company shall submit to the stock exchange disclosures of related party transactions, within 30 days from the date of publication of its financial results for the half year, in the format and publish the same on its website.

The Company shall disclose this policy on dealing with Related Party Transactions on its website and a web link thereto shall be provided in the Annual Report.

## **G. MODIFICATIONS AND AMENDMENTS IN THE POLICY**

The Audit Committee will review and may amend this policy as may be required from time to time in accordance with the provisions of the Companies Act, 2013, rules made therein and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and any further amendments and notifications as may be made effective in this regard. Any subsequent notification, circular, guidelines or amendments under Companies Act, 2013 as may be issued from time to time shall be mutatis mutandis applicable without any further modification or amendment in this policy.

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