

SRM Energy Limited
Related Party Transaction and Arm's Length Pricing Policy
Version No 1.0

Preamble:

- 1.1 SRM Energy Limited. Directly / through its subsidiary/ies (collectively called SRM Energy Limited Group) has diversified business interests in power and energy generation.
- 1.2 As a part of its compliance to the Companies Act 2013, SRM Energy Limited is considering formally documenting its policy and procedures with regard to Related Party Transactions and Arms Length Pricing of those transactions to be effective from 14th November, 2014.
- 1.3 The formally documented policy and any amendment thereof will be implemented after the same is duly approved by the Audit Committee and the Board of Directors of the Company.

2. Purpose of the Policy:

2.1 The primary purpose of this policy is to ensure a proper identification, approval process and reporting of transactions between company and its related parties as required in compliance with the requirements of Section 188 of the Companies Act, 2013 and its Rules and Regulations and also in terms of the Regulations 23 (1) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, where the company is required to formulate a policy on materiality of related party transactions and also on dealing with Related Party Transactions with a 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.

3. Definitions:

3.1 For the purpose of this Policy the Company has adopted the following definitions:-

3.1.1 Related Party:

A) AS DEFINED BY COMPANIES ACT 2013 UNDER SECTION 2(76):

“Related Party”, with reference to a company, mean:

- (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 per cent. 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;
- (viii) Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;
- (ix) any company 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;
- (x) such other person as may be prescribed under the relevant law, rules and regulations;

B) AS PER LISTING REGULATIONS

Related Party” means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards:

Provided that any person or entity belonging to the promoter or promoter group of the listed entity and holding 20% or more of shareholding in the listed entity 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 recognised stock exchange(s);

C) AS DEFINED BY INDIAN ACCOUNTING STANDARD (IND AS) 24

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.

3.1.2 Relative:

As defined by Companies Act 2013 under section 2(77):

“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 such manner as may be prescribed;

As prescribed in Companies Rules, 2014, list of relatives are:

- Father (including step-father)
- Mother (including the step-mother)
- Son (including the step-son)
- Son’s wife
- Daughter
- Daughter’s husband
- Brother (including the step-brother)
- Sister (including the step-sister)

B) AS DEFINED IN LISTING REGULATIONS:

“Relative” shall mean “relative” as defined in section 2(77) of the Companies Act, 2013 and rules prescribed there under.

3.1.3 Related Party Transactions (RPT)

A) AS DEFINED UNDER SECTION 188 OF COMPANIES ACT, 2013:

Except with the consent of the Board of Directors given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, no company shall enter into any contract or arrangement 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, and
- (g) underwriting the subscription of any securities or derivatives thereof, of the company

Notwithstanding the foregoing, the following shall not be deemed Related Party Transactions:

- a) Any transaction which is in the ordinary course of business and on an arms' length basis as determined in terms of this Policy.
- b) Any other exception which is consistent with the Applicable Laws, including any rules or regulations made thereunder.

B. AS PER LISTING REGULATIONS

A related party transaction is a transfer of resources, services or obligations between a company and a Related Party, regardless of whether a price is charged

A "transaction" with a related party shall be construed to include single transaction or a group of transactions in a contract.

Provided that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s);

“Material Related Party Transactions”

a. Under the Companies Act, 2013

Sr. No.	Transaction or contract or arrangements for	*Limits for the time being in force (as per Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014)
1	Sale, purchases or supply of any goods or materials, directly or through appointment of agent	Lower amongst the following: <ul style="list-style-type: none"> (i) exceeding 10% of the turnover of the company ; or (ii) Rs. 100 crore For the transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.
2	Selling or otherwise disposing of, or buying property of any kind, directly or through appointment of agent	Lower amongst the following: <ul style="list-style-type: none"> (i) exceeding 10% of the turnover of the company ; or (ii) Rs. 100 crore

		For the transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.
3	Leasing of property of any kind	Lower amongst the following: (i) exceeding 10% of the turnover of the company ; or (ii) Rs. 100 crore For the transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.
4	Availing or rendering of any services, directly or through appointment of agent	Lower amongst the following: (i) exceeding 10% of the turnover of the company ; or (ii) Rs. 50 crore For the transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.
5	For appointment to any office or place of profit in the Company, its Subsidiary Company or Associate Company	Where monthly remuneration exceeds Rs. 2,50,000
6	Remuneration for underwriting the subscription of any securities or derivatives thereof, of the Company	For amount exceeding 1% of Net Worth of the Company
7	<p><i>* shall be considered as amended from time to time in line with the amendment in Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014 by the Central Government.</i></p> <p><i>Annual turnover and net worth referred above shall be computed as per audited financial statements for the preceding financial year.</i></p>	

b. As per Listing Regulations

A Related Party Transaction shall be considered material if such transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.

Notwithstanding the above, 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 last audited financial statements of the Company.

“Subsidiary Company” shall have the same meaning as specified under section 2(87) of the Companies Act, 2013.

“Wholly Owned Subsidiary” When a company holds 100% of shares of another company, the other company is called a Wholly Owned Subsidiary of the company..

4. DETERMINING “ORDINARY COURSE OF BUSINESS”:

“In the Ordinary Course of Business” means all such acts and transactions undertaken by the Company, including, but not limited to sale or purchase of goods, property or services, leases, transfers, providing of guarantees or collaterals, in the normal routine in managing trade or business and is permitted by the objects clause of the Memorandum of Association of the Company. The Company should take into account the frequency of the activity and its continuity carried out in a normal organised manner for determining what is in the ordinary course of business.

5. ARMS LENGTH

As defined by Companies Act 2013 under section 188, 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 Related Party with whom the Related Party Transaction is undertaken must have been selected using the same screening / selection criteria / underwriting standards and procedures as may be applicable in case of an unaffiliated party.

The Company shall produce evidence to the satisfaction of the Audit Committee for complying with the said procedure, as and when applicable as required.

6. PROCESS OF IMPLEMENTATION OF THE POLICY ON RELATED PARTY TRANSACTIONS:

6.1 Identification of RPT

The Company shall determine whether a potential transaction with a Related Person constitutes a “Related Person Transaction” / RPT requiring review under this Policy (including whether the Related Person has a material interest). It needs to take into consideration various aspects for assessing a Related Party Transaction (RPT). For this, following points can be considered relevant:

- o Parameters for determining arm's length pricing in a related party transaction
- o Parameters for determining ordinary course of business
- o Nature of relationship with the related party
- o Business reasons for entering into RPT
- o Commercial reasonableness of the terms of RPT including transactions entered on a urgent or time sensitive basis
- o Materiality of RPT to the Company.
- o Whether the terms of RPT are fair and on the same basis as would apply if the transaction did not involve a Related Party Transactions
- o Conflict of interest of the Related Party participating in the RPT.

6.2 Ordinary Course of Business

The assessment of whether a transaction is in ordinary course of business is very subjective, judgmental and can vary on case-to-case basis. Variety of factors like size and volume of transactions, arms-length, frequency, purpose, etc, should be considered to make this assessment. Hence, for the purpose of the Policy the Company adopts the perceived understanding of the legislations that ordinary course of business will cover the usual transactions, customs and practices of a business and of a company. The following document can be referred to justify ordinary course of business:

- Scope provided by objects of the Company; if necessary the objects of the related party may also be referred to
- Activity of the Company.
- Standard Business Agreements.

Parameters for determining Ordinary course of business:

- o Regularity / frequency of the activity/ transaction
- o Uniformity and consistency of the activity
- o Involvement of own resources in the activity

6.3 Parameters for determining Arm's Length Pricing in a Related Party Transaction:

Following parameters can be considered for determining Arm's Length Transaction:

- o Nature and term of business association
 - ☐☐ Exclusive basis
 - ☐☐ Repetitive or a sporadic intervention
 - ☐☐ If association is newly formed, the benefits of preferring a related party over any other third party
- o Performing due diligence exercise of the capabilities of the related party
- o Rating the related party like it would have been done for a third party vendor/ customer

- o Ordinary course of Business (as defined above)
- o Comparison of contractual terms of dealings with related party and those of non related party. E.g.: Pricing terms, Supply Terms etc.
- o Third party quotations
- o Valuation report
- o Documents related to negotiations
- o Standard rate contracts

6.4 Mechanism for approval

6.4.1 TRANSACTIONS WHICH ARE ON ARM'S LENGTH BASIS AND ARE IN ORDINARY COURSE OF BUSINESS

- (a) Prior approval of Audit Committee.
- (b) Prior approval of shareholders by way of ordinary resolution if such RPTs are "Material Related Party Transactions" as per Listing Regulations as defined above, provided if such regulation is applicable to the Company.

6.4.2 TRANSACTIONS WHICH ARE EITHER NOT ON ARM'S LENGTH BASIS AND / OR NOT IN ORDINARY COURSE OF BUSINESS

- (a) Prior approval of Audit Committee.
- (b) Prior approval of Board of Directors.
- (c) Prior approval of shareholders by way of ordinary resolution if such RPTs are "Material Related Party Transactions" as defined above.

6.4.3 OMNIBUS APPROVAL BY AUDIT COMMITTEE

The Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the Company subject to the following conditions:

- a) The Audit Committee shall lay down the criteria for granting the omnibus approval in line with this Policy and such approval shall be applicable in respect of transactions which are repetitive in nature.
- b) The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company;
- c) Such omnibus approval shall specify:
 - the name/s of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into;
 - the indicative base price / current contracted price and the formula for variation in the price if any; and
 - such other conditions as the Audit Committee may deem fit.
- d) Provided that where the need for Related Party Transaction cannot be foreseen and aforesaid details are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs.1 crore per transaction.

- e) 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.
- f) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approval after the expiry of one year.

6.5 Procedure to be followed for Related Party Transactions

- a) The Compliance officer shall identify the related party (ies), as applicable from time to time on quarterly basis and circulate the same to all the departments of the company.
- b) The Director/KMP/Related Party shall bring to the notice of Compliance Officer of any transactions to be entered by the related party with the company.
- c) The concerned departments shall approach Compliance Officer before entering into any transactions with Related Party(ies) along with the details of the transactions to be entered.
- d) After receipt of the notice, the compliance officer shall make sure that the transactions to be entered is as per the policy on RPTs approved by the Board and also verify the approval sought for such transaction by the Audit Committee /Board/Shareholders, as applicable.
- e) If the transaction to be entered is already approved by the Audit Committee/ Board/Shareholder, as applicable and if it is within the limit of approval then the compliance officer shall inform the respective department of the same and allow the transaction to proceed.
- f) If the transaction proposed to be entered with related party is not already approved by the Audit Committee /Board /Shareholders then the Compliance officer shall take necessary steps for prior approval of the transactions.
- g) Any RPTs approved by the Audit Committee/Board/Shareholders shall be informed to all the departments specifying the limit of approval.

6.6 Voting

In determining whether to approve or ratify a Related Party Transactions, the Committee/ Board, as the case may be, shall take into account among other factors it deems appropriate, whether the Related Party Transactions is in ordinary course of business of the Company and on arms length basis and the extent of the related party's interest in the transaction. For this purpose, the Audit Committee/ Board as the case may be, are entitled to seek the assistance of any employee of the Company or one or more independent experts or external professional advisors of its choice at the expense of the Company.

- a) If any director of the Company is interested in any contract or arrangement with a related party, such director cannot be present at the board meeting of the Company during discussion in the matter.
- b) Related parties shall abstain from voting on resolutions approving related party transactions irrespective of whether the entity is a related party to the particular transaction or not.
- c) Where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a special resolution in the general meeting under sub-section (1) of section 188 and if it is not 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, 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.

7. DISCLOSURES:

The statute governing an enterprise often requires disclosure in financial statements of transactions with certain categories of related parties, considering the fiduciary nature of their relationship with the enterprise.

A) Disclosures required under different regulations are stated below:

a) Companies Act, 2013:

As per section 134, there shall be attached to statements laid before a company in general meeting, a report by its Board of Directors, which shall include, among others, particulars of contracts or arrangements with related parties referred to in sub-section (1) of section 188 in the prescribed form.

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

b) Listing Regulations, SEBI:

The Annual Report of the Company shall also contain the disclosures on related parties as required under the Listing Regulations.

Details of all Material Related Party Transactions shall be disclosed quarterly along with the Company's Compliance Report on Corporate Governance, in accordance with the Listing Regulations as amended from time to time.

A list of Related Party Transactions, if any, should be presented before the Audit Committee or Board of Directors or Shareholders for their required approval. The same can be attached as an Annexure to the Policy as and when approved.

The Company shall submit within 30 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 annual results to the stock exchanges and publish the same on its website.]

8. AMENDMENT:

This Policy shall stand amended in terms of the Companies Act, 2013, the rules made there under including the Companies (Meetings of Board and its Powers) Rules, 2014, and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time. In the event of any conflict between this Policy and the Applicable Law, the Applicable Law

shall prevail. The Board or the AuditCommittee, as authorised by the Board, may review and amend this Policyfrom time to time. Any amendment to this Policy shall be in writing.

01st April, 2019

Effective Date