

# **KARVY FINANCIAL SERVICES LIMITED**

## **RELATED PARTY TRANSACTIONS POLICY**

## 1. Scope

This policy provides a procedure to ensure that all transactions by and between a Related Party (as defined below) and Karvy Financial Services Limited and its associates/affiliates (collectively the "Company") are properly identified and reviewed to ensure that Related Party Transactions (as defined below) are properly approved and disclosed in accordance with applicable law.

## 2. Reason for the Policy

The Board of Directors of the Company has determined that, Related Party Transactions require separate evaluation as such transactions may result in additional compensation to a Related Party, which could result in an improper benefit to a Related Party (or the perception of an improper benefit to a Related Party). In order to properly identify, review and disclose Related Party Transactions, the Company shall follow the procedures outlined in this policy in connection with all Related Party Transactions.

## 3. Policy

All proposed Related Party Transactions will be reviewed and approved by the Audit Committee and disclosed by the Company as required under applicable law.

## 4. Definitions

**4.1. 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.

**4.2. Net worth** means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

**4.3. Office or place of profit** means any office or place-

- i. where such office or place is held by a director, if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

- ii. where such office or place is held by an individual other than a director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise.

**4.4. Registered valuer:** means registered valuer under chapter XVII of the Companies Act, 2013.

**4.5. Related Party:** with reference 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 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:  
 Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;
- (viii) any company 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;
- (ix) a director or key managerial personnel of the holding company or his relative with reference to a company, shall be deemed to be a related party.

**4.6. 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) A person shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely
  1. Father: provided that the term “Father” includes step-father
  2. Mother: provided that the term “Mother” includes the step-mother
  3. Son: provided that the term “Son” includes the step-son

4. Son's wife
5. Daughter
6. Daughter's husband
7. Brother: provided that the term "Brother" includes the step-brother
8. Sister: provided that the term "Sister" includes the step-sister

**4.7. Turnover** means the aggregate value of the realisation of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year.

#### **5. Related Party Transaction (RPT)**

A transaction or series of transactions between the Company and any Related Party, other than the following transactions will tantamount to a related party transaction:

- (1) In which all employees of the Company may participate or pursuant to reimbursement or other policies applicable to all employees
- (2) Involving compensation for services rendered to the Company as an employee whether cash or equity related and
- (3) Relating to directors' remuneration including sitting fee arrangements approved by the Board of Directors.

#### **6. Procedure**

All proposed RPTs shall be submitted to the Audit Committee of the Board by management for approval. Audit Committee will review the RPT to ensure a conflict of interest does not exist or that an improper valuation of such transaction is not made and that all information necessary to disclose such Related Party Transaction is properly documented.

Accordingly, management shall present all Related Party Transactions to the Audit Committee for its approval prior to the Company entering into such a transaction. A Related Party Transaction may only be approved if, upon review of all material terms of the transaction, the Audit Committee determines the transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party.

The Audit Committee shall after reviewing the RPTs listed at clause 7.1. (a) to (g), recommend the same for approval of the Board, if required, and in case Board approval is not required as per clause 7.3, the Audit Committee shall approve such transactions.

A Related Party Transaction entered into without pre-approval shall not be deemed to violate this Policy, or be invalid or unenforceable, so long as the transaction is brought to the Audit Committee as promptly as reasonably practical after it is entered into but in any case within three months from the date it is entered into.

In the event of transactions involving a Related Party who is a member of the Audit Committee, the transaction must be approved by the disinterested members who constitute a majority of disinterested members of the Audit Committee. Any extensions or changes to approved Related Party Transactions must be approved by the Audit Committee.

All Related Party Transactions will be disclosed in filings made by the Company to the extent required by the Companies Act, 2013 and rules made thereunder.

## **7. Approval of Board and Shareholders for certain RPTs**

### **7.1. Approval of Board**

Prior approval of the Board of Directors by way of a resolution at a duly convened meeting (*not by way of circular resolution*) is required to 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, its subsidiary company or associate company; and
- (g) underwriting the subscription of any securities or derivatives thereof, of the company:

### **7.2. Approval of Members**

In addition to the Board approval, prior approval of members by way of a special resolution is required with regard to the RPTs listed under clause 7.1. (a) to (g) in the following circumstances:

Where the value of the transaction (RPT) falls under any of the below mentioned threshold limits:

SI No	**RELATED PARTY TRANSACTIONS	THRESHOLD LIMIT
1	Sale, purchase or supply of any goods or materials directly or through appointment of agents [Clause 7.1. (a) and (e)]	> 10% annual turnover or Rs.100 cr whichever is lower. #
2	Selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agents [Clause 7.1. (b) and (e)]	> 10% net worth or Rs.100 cr whichever is lower. #
3	Leasing of property of any kind [Clause 7.1. (c)]	> 10% net worth or >10% of the turnover or Rs.100 cr, whichever is lower. #
4	Availing or rendering of any services directly or through appointment of agents [Clause 7.1. (d) and (e)]	>10% of the turnover or Rs.50 cr, whichever is lower.#
5	Appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration [Clause 7.1. (f)]	> Rs. 2.5 lakhs
6	Remuneration for underwriting the subscription of any securities or derivatives thereof of the company [Clause 7.1. (g)]	> 1% net worth #

# Turnover or Net Worth shall be on the basis of the Audited Financial Statement of the preceding financial year

\*\*All transactions which are placed for shareholders approval as per clause 7.2 shall be considered as material transactions.

**7.3.** Neither approval of Board of Directors under clause 7.1 nor of Members under clause 7.2 is required, if the transaction with related party is entered into by the Company in its ordinary course of business and on arm's length basis.

## **8. Non Cash Transactions**

**8.1.** Prior approval of members of the Company is required to enter into an arrangement by which—

(a) a director of the company or its holding, subsidiary or associate company or a person connected with him acquires or is to acquire assets for consideration other than cash, from the company; or

(b) the company acquires or is to acquire assets for consideration other than cash, from such director or person so connected,

**8.2.** The assets involved in the above arrangements shall be valued by a registered valuer.

## **9. Guidelines**

### **9.1. Ordinary Course of business**

Whether an activity is in “ordinary course of business” will depend on the particular business. It is ultimately a question of judgment, which takes into account certain factors. For most businesses, it will be obvious whether an activity they carry on is in their “ordinary course of business”. For example, it is in the ordinary course of business for most retail banks to accept deposits from the public. Some businesses may, however, find it difficult to interpret this phrase. For example, a business that carries out an activity rarely, or in a very limited capacity, or only on certain occasions, it may be unsure whether that activity is in its ordinary course of business. If it is unsure whether an activity which it carries on is in the “ordinary course of business”, one should consider whether the activity:

- is normal or otherwise unremarkable for your particular business (i.e. features in your systems, processes, advertising, staff training etc)
- is frequent
- is regular
- involves significant amounts of money
- is a source of income for the company business
- involves significant allocation of resources
- is involved in a service or product that is offered to customers.

The extent to which each factor accurately describes the activity in your business should be considered. Each factor is not definitive by itself; instead, all factors should be taken into consideration. Together, they will indicate whether the activity is in your ordinary course of business.

For example, the company may carry on an activity that is insignificant in scale or extent but it still may be in the ordinary course of business if it is carried out frequently and it features prominently in the company's advertising and staff manuals.

If, after considering these factors, there is still a lack of clarity, professional legal advice to be sought.

### **Activity considered normal or otherwise unremarkable**

Activities that are very unusual for a business, given its history and normal operations, are less likely to be considered "ordinary". Various aspects of a business or operation may help with this analysis. For example, if an activity features in the company's staff manual and training, or if the company has a prescribed procedure for it, it is more likely to be in your ordinary course of business. Likewise, if you advertise the activity, it is more likely to be in your ordinary course of business.

### **Frequency of the activity**

As with all factors set out in this guideline, whether an activity occurs frequently will require an assessment of the activity in the context of the business of the company. The more frequent is the activity over a period of time, the more likely it is to be an ordinary part of your business.

### **Regularity of the activity**

How regularly the company carries out the activity is also a relevant factor. *Regular* in this sense means predictable, uniformly occurring and consistent. The more *regular* an activity, the more likely it is to be in the ordinary course of the company's business.

For the avoidance of doubt, regularity in this context is closely related to frequency. However, they are distinct considerations: an activity that is carried out on the 4<sup>th</sup> of April each year is regular but not frequent.

### **Financial scale of the activity**

The amount of money involved in an activity, proportional to the rest of the company's business, is also relevant. The more money it involves, the more likely it is to be in the ordinary course of the company's business.

To assess this factor, it is suggested to take a period of time and consider the money involved in the activity. Please consider both transaction values and the revenue the company's business derives from it. This averaging will give a more accurate indication of the nature of the activity in

your business. (For the avoidance of doubt, low-value activities may still be an ordinary part of your business, depending on the other factors outlined in this guideline.)

### **Activity generates revenue**

A related, although separate, factor is whether the activity is involved in the generation of revenue. An activity is more likely to be in the ordinary course of business if it is carried out with the intention of generating revenue.

### **Resources committed to the activity**

The more resources an activity consumes, the more likely it is to be in the ordinary course of business. Resources could mean staff time, capital expenditure and/or any other input. Once again, it is suggested to take a period of time and consider the resources you commit to the activity in question.

For example, if there is a staff member who is permanently involved in a particular activity, it is very likely this activity is an ordinary part of the company business.

### **Activity involved in offering to customers**

If an activity is involved in the offering of a product or service to customers or third parties, it is much more likely to be considered in the ordinary course of business.