

DEEPAK SPINNERS LIMITED

Regd. Office : 121, Industrial Area, Baddi, Tehsil Nalagarh, Distt Solan, Himachal Pradesh 173 205.

POLICY ON RELATED PARTY TRANSACTIONS (Effective from 1st October 2014)

1. INTRODUCTION

This policy regarding the review and approval of Related Party Transactions has been adopted by the Company's Board of Directors on 13.11.2014, upon the recommendations of the Audit Committee in order to set forth the materiality threshold and the manner of dealing with Related Party Transactions, to ensure compliance with requirements of the Companies Act, 2013 and Clause 49 of the Listing Agreement with the Stock Exchanges. The Audit Committee will review the same from time to time and recommend to the Board of Directors, the amendments, if any, required in the Policy.

This Policy applies to transactions between the Company and one or more of its Related Parties. It provides a framework for governance and reporting of Related Party Transactions.

2. OBJECTIVE

This policy is intended to ensure due and timely identification, approval, disclosure and reporting of transactions between the Company and any of its Related Parties in compliance with the applicable laws and regulations as may be amended from time to time.

The provisions of this Policy are designed to govern the approval process and disclosure requirements to ensure transparency in the conduct of Related Party Transactions in the best interest of the Company and its shareholders and to comply with the statutory provisions in this regard.

3. DEFINITIONS

- 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.
- 2. 'ACT'** means the Companies Act, 2013 and the rules and regulations notified thereunder.
- 3. 'AUDIT COMMITTEE'** means the Committee of the Board constituted from time to time under the provisions of Clause 49 of the Listing Agreement and Section 177 of the Companies Act, 2013.

- 4. 'BOARD'** means the Board of Directors of Deepak Spinners Limited, as constituted and defined under the Companies Act, 2013.
- 5. 'Control'** shall have the same meaning as defined in paragraph 10 of the Accounting Standard 18.
- 6. Key Managerial Personnel (KMP)** - means "Key managerial personnel" as defined under the Companies Act, 2013 and paragraph 10 of the Accounting Standard 10 and includes —
- (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 as may be prescribed.
- 7. 'LISTING AGREEMENT'** means the listing agreement entered into by the Company with the stock exchanges as amended from time to time.
- 8. 'MATERIAL RELATED PARTY TRANSACTION'** means a Related Party Transaction which individually or taken together with previous transactions during the financial year, exceeds **ten percent** of the annual consolidated turnover of the Company as per the last audited financial statements of the Company or such limits as may be prescribed either in the Companies Act, 2013 or the Listing Agreement whichever is stricter from time to time.
- 9. 'POLICY'** means Related Party Transaction Policy.
- 10. 'RELATED PARTY'** means related party as defined in Clause 49 of the Listing Agreement as amended from time to time, which is as follows-
- 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.
- 11. 'RELATIVE'** - means a relative as defined in paragraph 10 of Accounting Standard 18 and as per Section 2(77) of the Companies Act, 2013 , 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 –
 - 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

11. "RELATED PARTY TRANSACTION" means a transfer of resources, services or obligations between a Company and a related party regardless of whether a price is charged and includes -

- 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) 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.

10. 'TRANSACTION' with a related party shall be construed to include a single transaction or a group of transactions.

The terms **Director, Chief Financial Officer, Company Secretary** shall have the same meaning as assigned under the Companies Act, 2013.

4. POLICY

All transactions with the Related Parties must be reported by the Company to the Audit Committee. The Audit Committee shall review and approve all Related Party Transactions in accordance with this Policy.

In the case of regular / repetitive transactions which are in the normal course of business of the Company, the Committee may grant standing pre - approval / omnibus approval, details whereof are given in a separate section of this Policy.

In exceptional cases, where a prior approval is not taken due to an inadvertent omission or due to unforeseen circumstances, the Committee may ratify the transactions in accordance with this Policy.

Related Party Transactions Approval Matrix

- a) No transaction with a Related Party shall be entered into by the Company unless it is approved by the appropriate authority. The table below lists the approval matrix applicable to such transactions.

Nature of Transactions	Approving Authority	Rationale
All Transactions with Related Parties	Audit Committee	Requirement under Section 177 of the Act and the Listing Agreement
Related Party Transactions as defined under Section 188 (1) of the Act, which are not in the ordinary course of business OR not at arm's length	Board of Directors and shareholders of the Company by way of Special Resolution	Requirement under Section 188 of the Act read with Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014
All Material Related Party Transactions (regardless of whether they are in the ordinary course and/or on arm's length terms)	Board of Directors and shareholders of the Company by way of Special Resolution	Requirement under the Listing Agreement

- b) All entities falling under the definition of related parties shall abstain from voting in General Meeting, irrespective of whether the entity is a party to the particular transaction or not.

4.1 IDENTIFICATION OF RELATED PARTY TRANSACTIONS

Every Director and Key Managerial Personnel will be responsible for providing a declaration containing the following information to the Company Secretary on an annual basis:

1. Names of his / her Relatives;
2. Partnership firms in which he / she or his / her Relative is a partner;
3. Private Companies in which he / she is a member or Director;
4. Public Companies in which he / she is a Director and holds along with his/her Relatives more than 2% of paid up share capital;
5. Any Body Corporate whose Board of Directors, Managing Director or Manager is accustomed to act in accordance with his / her advice, directions or instructions; and
6. Persons on whose advice, directions or instructions, he / she is accustomed to act (other than advice, directions or instructions obtained from a person in professional capacity).

Every Director and the Key Managerial Personnel will also be responsible to update the Company Secretary of any changes in the above relationships, directorships, holdings, interests and / or controls immediately on him / her becoming aware of such changes.

The Company Secretary shall be responsible to maintain an updated database of information pertaining to Related Parties. The functional / business heads / Chief Financial Officer /Company Secretary/ shall have access to the updated database.

Every Director, Key Managerial Personnel, Functional / Business heads / Chief Financial Officer will be responsible for providing prior Notice to the Company Secretary of any **potential Related Party Transaction**, involving him/her or his/her relative. They will also be responsible for providing additional information about the transaction that the Board / Committee may request, for being placed before the Committee and the Board. It will be preferable to receive such notice of any potential Related Party Transaction well in advance so that the Audit Committee / Board has adequate time to obtain and review information about the proposed transaction.

The Company Secretary in consultation with the Chief Financial Officer may refer any potential related party transaction to any external legal/transfer pricing expert and the outcome or opinion of such exercise shall be brought to the notice of the Audit Committee. Based on this Notice, the Company Secretary will take it up for necessary approvals under this Policy.

4.2 REVIEW AND APPROVAL OF RELATED PARTY TRANSACTION

All Related Party Transactions shall be subject to the prior approval of the Audit Committee whether at a meeting or by resolution by circulation or through electronic

mode. A member of the Committee who (if) has a potential interest in any Related Party Transaction will not remain present at the meeting or abstain from discussion and voting on such Related Party Transaction and shall not be counted in determining the presence of a quorum when such Transaction is considered.

4.2.1 CONSIDERATION BY THE COMMITTEE IN APPROVING THE PROPOSED TRANSACTIONS

While considering any transaction, the Committee shall take into account all relevant facts and circumstances including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and to the Related Party, and any other relevant matters.

Prior to the approval, the Committee shall, *inter-alia*, consider the following factors to the extent relevant to the transaction:

- a. Whether the terms of the Related Party Transaction are in the ordinary course of the Company's business and are on an arm's length basis;
- b. The business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- c. Whether the Related Party Transaction includes any potential reputational risks that may arise as a result of or in connection with the proposed Transaction; and
- d. Whether the Related Party Transaction would affect the independence or present a conflict of interest for any Director or Key Managerial Personnel of the Company, taking into account the size of the transaction, the overall financial position of the Director, Key Managerial Personnel or other Related Party, the direct or indirect nature of the Director's interest, Key Managerial Personnel's or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Committee deems relevant.

4.2.2 Determining whether a transaction is in the ordinary course of business operations

Related Party Transactions that are part of regular operative activities, and connected financial activities, of any organization in similar business and size shall be considered to be in the ordinary course of business operations.

Following are some of the criteria that may be considered for determining whether the transaction is in the ordinary course of business:

- ❖ **Nature:** Whether the scope of the transaction is generally consistent with the Company's business activities and whether the Company enters into, or can enter into, similar transactions with a third party.
- ❖ **Frequency:** Whether the transaction is of a nature regularly carried out by the Company, is an important indication that classifies the transaction to be within the Company's ordinary course of business operations.

- ❖ **Size of transaction:** Whether the transaction value is within the reasonable range for similar types of other transactions. An exceptionally large value transaction should invite closer scrutiny.

These are not exhaustive criteria and the Company will assess each transaction considering its specific nature and circumstances.

4.2.3 Determining whether a transaction is at arm's length

As per section 188 (1) of the 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.

In addition to evaluating whether the transaction results in a conflict of interest on the basis of the transfer pricing report or any other document determining the market value of the consideration of the transaction, the Company should also consider the additional tests such as those listed below:

- whether the transaction is commercially negotiated;
- whether the transaction is necessary for business opportunities for growing new or existing markets; and
- any other matters the Company considers relevant.

4.2.4 APPROVAL BY CIRCULAR RESOLUTION OF THE COMMITTEE

In the event the Company Management determines that it is impractical or undesirable to wait until a meeting of the Committee to enter into a Related Party Transaction, such transaction may be approved by the Committee by way of circular resolution in accordance with this Policy and statutory provisions for the time being in force. Any such approval must be ratified by the Committee at its next scheduled meeting.

4.2.5 STANDING PRE-APPROVAL / OMNIBUS APPROVAL BY THE COMMITTEE

In the case of regular / repetitive transactions which are in the normal course of business of the Company, the Committee may grant standing pre-approval / omnibus approval. While granting the approval, the Audit Committee shall satisfy itself of the need for the omnibus approval and that same is in the interest of the Company. The Audit Committee may grant omnibus approval for Related Party Transactions subject to the following conditions –

- i) The Audit Committee shall lay down the criteria for granting the omnibus approval in line with the instant policy and such approval shall be applicable in respect of transactions which are repetitive in nature.
- ii) It shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the company.

- iii) Such omnibus approval shall specify –
 - (a) Name of the related party
 - (b) Nature of the transaction
 - (c) Period of the transaction
 - (d) Maximum amount of the transactions that can be entered into
 - (e) Indicative base price / current contracted price and formula for variation in price, if any
 - (f) Such other conditions as the Audit Committee may deem fit.
- iv) The Audit Committee shall review atleast on a quarterly basis, the details of the Related Party Transactions entered into by the Company pursuant to each of the omnibus approval given.
- v) The omnibus approval shall be valid for a period of one year and fresh approval shall be obtained after the expiry of one year.

Such transactions will be deemed to be pre-approved and may not require any further approval of the Audit Committee for each specific transaction.

Further, where the need of the related party transaction cannot be foreseen and all prescribed details are not available, Committee may grant omnibus approval subject to the value per transaction not exceeding Rs.1,00,00,000/- (Rupees One Crore only). The details of such transaction shall be reported at the next meeting of the Audit Committee for ratification.

4.2.6 APPROVAL BY THE BOARD

If the Committee determines that a Related Party Transaction should be brought before the Board, or if the Board in any case elects to review any such matter or it is mandatory under any law for Board to approve the Related Party Transaction, then the Board shall consider and approve the Related Party

Transaction at a meeting and the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances.

4.2.7 APPROVAL OF MATERIAL RELATED PARTY TRANSACTIONS

All Material Related Party Transactions shall require approval of the shareholders through special resolution and all entities falling under the definition of related parties shall abstain from voting in General Meeting, irrespective of whether the entity is a party to the particular transaction or not.

4.2.8 TRANSACTIONS NOT IN ORDINARY COURSE OF BUSINESS OR NOT AT ARM'S LENGTH

All Related Party Transactions in excess of the limits prescribed under the Companies Act, 2013, which are not in the Ordinary Course of Business or not at Arms' Length shall also require the prior approval of the shareholders through special resolution and the Related Parties shall abstain from voting on such resolution.

4.2.9 EXEMPTIONS

Notwithstanding the foregoing, the following Related Party transactions shall not require approval of Audit Committee or Shareholders :-

- (i) Any transaction that involves the providing of compensation to a director or Key Managerial Personnel in connection with his or her duties to the Company or any of its subsidiaries or associates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business and travel expenses incurred in the ordinary course of business.
- (ii) Any transaction in which the Related Party's interest arises solely from ownership of securities issued by the Company and all holders of such securities receive the same benefits pro rata as the Related Party.
- (iii) Related Party disclosure requirements as laid down in this Policy do not apply in circumstances where providing such disclosures would conflict with the Company's duty of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.

4.2.10 RELATED PARTY TRANSACTIONS NOT PREVIOUSLY APPROVED

In the event the Company becomes aware of a Related Party Transaction that has not been approved or ratified under this Policy, the transaction shall be placed as promptly as practicable before the Committee or Board or the Shareholders as may be required in accordance with this Policy for review and ratification.

The Committee or the Board or the Shareholders shall consider all relevant facts and circumstances respecting such transaction and shall evaluate all options available to the Company, including but not limited to ratification, revision, or termination of such

transaction, and the Company shall take such action as the Committee deems appropriate under the circumstances.

A Related Party Transaction entered into without approval under this Policy shall not be deemed to violate this Policy, or to be invalid or unenforceable, so long as the transaction is approved or ratified as soon as reasonably practical after the Company becomes aware of such transaction.

5. DISCLOSURE AND REPORTING OF RELATED PARTY TRANSACTIONS

Every Related Party Transaction entered into by the Company shall be referred to in the Board's report to the shareholders along with justification for entering into such transaction. The Company Secretary and the Chief Financial Officer shall be, responsible for such disclosure. The Company Secretary shall also make necessary entries in the Register of Contracts required to be maintained under the Companies Act, 2013.

6. SCOPE LIMITATION

In the event of any conflict between the provisions of this Policy and of the Listing Agreement / Companies Act, 2013 or any other statutory enactments, rules, the provisions of such Listing Agreement / Companies Act, 2013 or statutory enactments, rules shall prevail over this Policy.

7. DISSEMINATION OF POLICY

Either this Policy or the important provisions of this policy shall be disseminated to all functional and operational employees and other concerned persons of the Company and shall be hosted on the intra-net and website of the Company and web link thereto shall be provided in the annual report of the Company.

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