

POONAWALLA HOUSING FINANCE LIMITED
(Formerly Magma Housing Finance Limited)

To ensure that all transactions with Related Parties shall be subject to this policy and approval or ratification in accordance with Applicable Law.

Policy on Related Party Transactions

Effective Date: 31.01.2022

Approval Date: 31.01.2022

Version No.: 3.0

Approved By: Board of Directors

Policy Owner : Chief Financial Officer

This document is confidential in nature and supersedes all the Policy on Related Party Transactions existing in the Company, and should be read in conjunction with the most recent policies and procedures documented.

The Board of Directors (the “Board”) of Poonawalla Housing Finance Limited (Formerly Magma Housing Finance Limited) (the “Company”) had originally adopted this Policy on Related Party Transactions (“Policy”) as required under the erstwhile Housing Finance Companies – Corporate Governance (National Housing Bank) Directions, 2016 issued by National Housing Bank vide Notification No. NHB.HFC.CG-DIR.1/MD&CEO/2016 dated 9 February, 2017 (‘Direction’) and Companies Act, 2013 (‘the Act’). Thereafter, the policy is updated as and when required to accommodate amendments introduced in the Applicable Law.

EFFECTIVE DATE

This Policy is effective from the date of its adoption by the Board or such other date as may be prescribed by the Board. The Board may prescribe different effective date(s) for different provisions of this Policy.

SCOPE AND PURPOSE

The Companies Act, 2013 (‘Act’) read with the Rules framed thereunder and Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 (RBI Directions) and amendments thereto, contain detailed provisions on Related Party Transactions.

This Policy has been framed as per the requirements of the Act and RBI Directions and is intended to ensure proper approval and reporting of the transactions between the Company and its Related Parties. This Policy also ensures adequate systems and procedures to address potential conflict of interest and compliance with the provisions of the Act and RBI Directions.

The Board recognizes that certain transactions present a heightened risk of conflict of interest or the perception thereof. Therefore, any dealings with a Related Party must be conducted in such a way that no preferential treatment is given and adequate disclosures and/or permissions are made/ sought as required under Applicable Laws and as per the applicable policies of the Company. Therefore, the Board has adopted this Policy to ensure that all Related Party Transactions are subject to this Policy and approval or ratification in accordance with Applicable Laws. This Policy contains the policies and procedures governing the review, determination of materiality, approval and reporting of such Related Party Transactions.

DEFINITIONS

1. **“Act”** means Companies Act, 2013 including amendments, re-enactments, modifications, notifications, circulars and orders from time to time
2. **“Audit Committee or Committee”** means Committee of Board of Directors of the Company formed under section 177 of the Act and the RBI Directions.
3. **“Applicable Laws”** means the Act, the rules made thereunder and amendments thereto, Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 (“RBI Directions”) and amendments thereto, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and amendment thereto (“LODR Regulations”) to the extent applicable, applicable accounting standards issued by the Institute of Chartered Accountant of India or any other legislative authority entrusted with the task of issuing such accounting standards and includes any other statute, law,

standards, regulations or other governmental instruction relating to Related Party Transactions, as may be in effect from time to time.

4. **“Company Secretary”** means a Company Secretary as defined in clause (c) of sub section (1) of Section 2 of the Company Secretaries Act, 1980 duly appointed by the Company to perform various act.
5. **“Compliance Officer”** means the Company Secretary of the Company or such Compliance Officer identified by the Board for the purpose of LODR Regulations.
6. **“Holding company”** means a holding company as defined in sub-section (46) of section 2 of the Act.
7. **“Key Managerial Personnel”** in relation to the Company means:
 - I. the chief executive officer or the managing director or the manager;
 - II. the company secretary;
 - III. whole-time director;
 - IV. the chief financial officer;
 - 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; and
 - VI. such other person as may be prescribed from time to time.
8. **“Material Related Party Transactions”** mean such Related Party Transaction(s) where the transaction to be entered into individually or taken together with previous Related Party transaction(s) during a financial year, which exceeds the threshold limits as specified under Sec 188 of the Act read with Rule 15(3) of Companies (Meetings of Board and its Powers) Rules, 2014 and LODR Regulations to the extent applicable as amended from time to time.
9. **“RBI Direction”** means Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 issued by Reserve Bank of India vide Notification No. RBI/2020-21/73 DOR.FIN.HFC.CC.No.120/03.10.136/2020-21 dated 17 February, 2021 including any amendment thereof.
10. **“Relative(s)”** shall have the same meaning as assigned to it under Section 2(77) of the Act and the Rules made thereunder and Regulation 2(1)(zd) of the LODR Regulations.
11. **“Related Party”** means any person who is
 - i. a related party under Section 2(76) of the Companies Act, 2013 read with rules issued thereunder;
 - ii. a related party under the applicable accounting standards; or
 - iii. any person or entity forming a part of the promoter or promoter group of the Company;
 - iv. any person or any entity, holding equity shares during anytime in the preceding financial year, either directly or on a beneficial interest basis, as provided under section 89 of the Act amounting to
 - a. 20% or more with effect from 1st April, 2022; or
 - b. 10% or more, with effect from April 1, 2023
 - v. any other person or entity covered under Applicable Laws.
12. **“Related Party Transaction(s)”** means a transaction involving a transfer of resources, services or obligations between:

- a. 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
- b. 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.

The transaction shall *inter-alia* include the following:

- i. purchases or sales of goods or materials (finished or unfinished);
- ii. purchases or sales of property of any kind;
- iii. rendering or receiving of services;
- iv. leasing of property of any kind;
- v. appointment of any agent for purchase or sale of goods, materials, services or properties;
- vi. appointment of such related party to any office or place of profit in the Company, or its subsidiary or associate company;
- vii. underwriting the subscription of any securities or derivatives thereof, of the company;
- viii. Such other transactions as per Applicable Law.

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

- i. Any transaction that involves providing of compensation to a Director or Key Managerial Personnel, in accordance with the provisions of the Act, in connection with his or her duties to the Company or any of its holding Company, subsidiaries or associates, including the reimbursement of reasonable 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, including but not limited to –
 - a. payment of dividend;
 - b. subdivision or consolidation of securities;
 - c. issuance of securities by way of a rights issue or a bonus issue; and
 - d. buy-back of securities.
- iii. Any other exception which is inconsistent with the Applicable Laws, including any rules or regulations made thereunder.

All terms not defined herein shall take their meaning from the Applicable Laws.

POLICY STATEMENT

A. Procedures for approval and review of Related Party Transactions

"Compliance with regard to approval and review of Related Party Transactions pursuant to this Policy, shall be limited to the transactions which are entered into with a related party as defined in this Policy."

1. All Related Party Transactions or changes therein must be reported to the Company Secretary and shall be referred for approval by the Audit Committee, as may be required in accordance with this Policy including those transactions proposed to be entered in the ordinary course of its business and on arm's length basis. Any subsequent modification thereto, shall require approval of Audit Committee.
2. Related Party Transactions that are not in ordinary course of business but on arm's length basis cannot be entered into by the Company unless approved by Audit Committee. Where such Related Party Transactions fall under Section 188 (1) of the Act, the Audit Committee shall recommend the transaction for approval of the Board.
3. Related Party Transactions that are not on arm's length basis, irrespective whether those are covered under Section 188 or not, should be placed by the Audit Committee, along with its recommendations, to the Board for appropriate action.
4. For the ease of carrying out transactions/ contracts/ arrangements, the Audit Committee may grant omnibus approvals to certain transactions based on the following criteria:
 - a. Frequency of the transactions in the last 2 years;
 - b. Value of transaction undertaken with an associate, Holding and subsidiary Companies, for every financial year shall not exceed Rs. 25 Crores and with Company other than associate, Holding and subsidiary Companies shall not exceed Rs. 1 Crore.
 - c. Extent and manner of disclosures that can be made to the Audit Committee at the time of seeking omnibus approval;
 - i. All the transaction placed for omnibus approval shall be in the ordinary course of business;
 - ii. All the transaction shall be at Arms' length basis;
 - iii. Projected growth rate in the business with the Related Party in the financial year for which omnibus approval is sought;
 - iv. Contractual terms offered by/to third parties for similar transactions;
 - v. Contractual terms with such Related Parties, for instance, floor and cap on the pricing, credit terms, escalation in costs, quality checks etc.
 - II. Review of transactions: All Related Party Transaction entered into by the Company pursuant to each of the omnibus approval made shall be reviewed by the Audit Committee on quarterly basis.
 - III. Where the Audit Committee is not convinced on the need for granting omnibus approvals, the Audit Committee may reject the proposal placed before it with reasonable explanation for the same. Notwithstanding the generality of foregoing, Audit Committee shall not grant omnibus approval for following transactions:
 - a. Transactions which are not in ordinary course of business or not on arm's length basis;
 - b. Transactions in respect of selling or disposing of the undertaking of the Company;
 - c. Transactions which are not in the interest of the Company;
 - d. Such other transactions specified under Applicable Law from time to time.

However, the Company may take Omnibus approval for continuing Related Party Transactions based on the decision of the Audit Committee or Board, as the case may be, from time to time.

5. Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the best interest of the Company.
6. The Omnibus Approval shall specify the following:
 - i. the name/s of the related party;
 - ii. nature of transaction;
 - iii. period of transaction;
 - iv. maximum amount of transaction in aggregate and per transaction that can be entered into with Related Party;
 - v. the indicative base price / current contracted price;
 - vi. the formula for deviation in the price, if any;
 - vii. such other conditions as the Audit Committee may deem fit;
7. 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.
8. Further any such approvals shall be valid for one financial year only in which omnibus approval of the Audit Committee is granted.
9. Audit Committee shall grant omnibus approval for Related Party Transaction at the last meeting of every preceding financial year for which omnibus approval is to be granted and such omnibus approvals shall be valid for one financial year.
10. Transactions between holding company and its wholly owned subsidiary will be governed by criteria above unless exempted under the Applicable Laws.
11. The Audit Committee will undertake quarterly evaluation of the Related Party Transactions. If that evaluation indicates that the Related Party Transaction would require the approval of the Board, or if the Board in any case elects to review any such matter, the Audit Committee will report the Related Party Transaction, together with a summary of material facts, to the Board for its approval.
12. Related Party Transactions which are executed pursuant to the omnibus approval shall be quarterly placed before the Audit Committee/Board for its review.
13. If a Related Party Transaction is of ongoing nature, the Board / Audit Committee may establish guidelines for the Company's management to follow in its ongoing dealings with the Related Party. The Audit Committee of the Board, on at least an annual basis, shall review and assess on-going relationships with such Related Party to ensure that they are in compliance with the Applicable Laws and this Policy and that the Related Party Transaction remains appropriate.
14. If the Board is of the view that the Related Party Transaction needs to be approved at a general meeting of the shareholders by way of a resolution pursuant to Applicable Laws, the same shall be put up for approval by the shareholders of the Company. The Board shall ensure that in accordance with Applicable Laws, Related Parties shall not vote in favour on any such resolution put to vote by the shareholders of the Company, irrespective of whether the said Related Party is a party to the said Related Party Transaction which is being put to vote.

15. Where, owing to exigencies, Related Party Transactions have been entered into without being placed for approval by the Audit Committee, reasoned explanation for the same must be received to the satisfaction of the Audit Committee. The Audit Committee may ratify such transactions or may put forth the transactions before the Board along with its recommendations within 3 months from the date of entering into such transaction, and the Board may either ratify such transactions or seek to avoid the same. The Audit Committee recommendations may also include appropriate measures authorising such transactions without approval of the Audit Committee.
16. If the Company has entered into a Related Party Transaction without the approval of the Board / general meeting, as may be required, then the said Related Party Transaction shall be ratified at the Board meeting / general meeting, within 3 months of entering in the Related Party Transaction, as the case may be.
17. In any case where either the Audit Committee/Board/General Meeting determines not to ratify a Related Party Transaction that has been commenced without approval, the Committee or Board or the general meeting, as the case may be, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction, or modification of the transaction to make it acceptable for ratification.
18. In case any transaction involving any amount not exceeding Rs. 1 crore is entered into by a director or officer of the Company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within 3 (three) months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorised by any other director, the director concerned shall indemnify the Company against any loss incurred by it:

Provided that the above provisions shall not apply to a transaction, other than a transaction referred to in section 188 of the Act, between a holding company and its wholly owned subsidiary company.
19. No Director or Key Managerial Personnel shall participate in any discussion or approval of a Related Party Transaction for which he or she is a Related Party, and the Director/Key Managerial Personnel shall provide all material information concerning the Related Party Transaction to the Audit Committee/Board.
20. Audit Committee/Board may review any Related Party Transactions involving Independent Directors as part of the annual determination of their independence.
21. Nothing in this Policy shall override any provisions of Applicable Laws made in respect of any matter stated in this Policy.
22. Management team shall formulate a defined procedure for identification/ monitoring/ approval of Related Party Transaction.

B. Standards for Review

A Related Party Transaction reviewed under this Policy will be considered, approved or ratified if it is authorized by the Audit Committee / Board, as applicable, in accordance with the standards set forth in this Policy after full disclosure of the Related Party's interests in the transaction.

The Audit Committee / Board will review all relevant information available to it about the Related Party Transaction. The Audit Committee / Board, as applicable, may approve / ratify / recommend to the shareholders, the Related Party Transaction only if the Audit Committee / Board, as applicable, determines in good faith that, under all of the circumstances, the transaction is fair as to the Company. The Audit Committee / Board, in its sole discretion, may impose such conditions as it deems appropriate on the Company or the Related Party in connection with approval of the Related Party Transaction.

C. Determination of Ordinary Course of Business

The transactions which are incurred by the Company in carrying the main object of the Company shall be treated as transaction in the Ordinary Course of business. For determining "Ordinary Course of Business", the Company shall consider all 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, which, are done on a routine basis and are not standalone transaction(s). The Company would take into account the frequency of such activity and its continuity, in a normal organised manner, while determining what is in the ordinary course of business. Further, the transaction should not be:

- A. any exceptional or extra-ordinary activity as per applicable accounting standards or financial reporting requirements.
- B. any sale or disposal of any undertaking of the Company, as defined in explanation (i) to clause (a) of sub-section (1) of section 180 of the Act.

In order to decide whether or not a contract or arrangement is being entered by the Company in its ordinary course of business, the Company shall consider whether the contract/arrangement is germane to attainment of main objects as set out in the Memorandum of Association.

D. Determination of Arms' length nature of the Related Party Transaction

a. Price Determination

At the time of determining the arms' length nature of price charged for the Related Party Transaction, the Audit Committee shall take into consideration the following:

- i. The contracts/ arrangements are entered into with Related Parties, are at such prices/ discounts/ premiums and on such terms which are offered to unrelated parties of similar category/ profile.
- ii. Permissible methods of arms' length pricing as per Applicable Laws including such prices where the benefits of safe harbour is available under Applicable Laws.
- iii. For the said purposes the Audit Committee shall be entitled to rely on professional opinion in this regard.

b. Underwriting and Screening of arms' length Related Party Transaction

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 unrelated party.

- c. Further, in order to determine the optimum arm's length price, the Company may also apply the most appropriate method from any of the following methods as prescribed under Section 92C(1) of the Income Tax Act, 1961 read with Rule 10B of the Income Tax Rules, 1962 –
 - a. Comparable Uncontrolled Price method (CUP method)
 - b. Resale Price Method
 - c. Cost Plus Method
 - d. Profit Split Method
 - e. Transactional Net Margin Method
 - f. Other Method as prescribed by the Central Board of Direct Taxes
- d. Such other criteria as may be issued under Applicable Law.

E. Identification of Potential Related Party Transactions

- a. The Company Secretary shall:
 - i. Identify and keep on record the Related Parties of the Company, along with their personal/company details.
 - ii. Update the record of Related Parties whenever necessary and shall be reviewed at least once a year, as on 1st April every year.
- b. Every Director/ Key Managerial Personnel of the Company or any of their relatives should not derive any undue personal benefit or advantage by virtue of their position or relationship with the Company.
- c. Each Director/Key Managerial Personnel is responsible for providing written notice to the Company through the Company Secretary at the time of appointment and till such period he/she is associated with the Company of any potential Related Party Transaction involving him or her or his or her relatives, including any additional information about the transaction that the Company Secretary may reasonably request. The Company Secretary in consultation with other members of management and with the members of the Audit Committee, as appropriate, will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this Policy.
- d. Every Director/Key Managerial Personnel of the 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 or exercise influence over any such meeting.
- e. Where any Director/Key Managerial Personnel, who is not so concerned or interested at the time of entering into such contract or arrangement, he shall, if he becomes concerned or interested after the contract or arrangement is entered into, disclose his concern or interest forthwith when he becomes concerned or interested or at the first meeting of the Board held after he becomes so concerned or interested.

- f. A contract or arrangement entered into by the Company without disclosure or with participation by a Director/Key Managerial Personnel who is concerned or interested in any way, directly or indirectly, in the contract or arrangement, shall be voidable at the option of the Board or of the shareholders, as the case may be 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.
- g. In addition, each Director/Key Managerial Personnel is required to file a disclosure statement in connection with the disclosures about their Relatives.

F. Disclosures

- a. The Company shall disclose related party Transactions in the Financial Statements and Annual Report of the Company in accordance with the Act, accounting standards, the RBI Directions and other applicable law.
- b. The Company shall also disclose the Policy on the website of the Company and in the Annual Report of the Company.
- c. The Company shall keep one or more registers as specified under Applicable Laws giving separately the particulars of all contracts or arrangements with any Related Party.

G. Operational Framework

The Company shall follow the operational framework for related party transactions annexed as **Annexure A**.