

# **THE STATE TRADING CORPORATION OF INDIA LIMITED**

## **RELATED PARTY TRANSACTIONS POLICY**

### **(Policy on Materiality of Related Party Transactions and dealings with Related Party Transactions)**

#### **1. PREFACE**

The State Trading Corporation of India Limited has adopted the Related Party Transactions Policy as contained herein. This policy has been framed as per requirements of Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the Companies Act, 2013.

#### **2. PURPOSE**

This policy seeks to regulate transactions between the Company and its Related Parties based on the applicable laws, rules and regulations and shall supplement Company's other policies/ procedures/ practices/ Delegation of Powers etc. which require approval of the Transactions/ Contracts/ Arrangement in specified manner and by specified authority. If there are more than one set of requirements due to application of multiple laws and regulations, the endeavor will be based on the compliance principle which would meet the higher governance standards.

#### **3. DEFINITIONS**

**“Act”** shall mean the Companies Act, 2013 and the Rules framed thereunder, including any modifications, clarifications, circulars or re-enactment thereof.

**“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 as defined in Section 188 (1) of the Companies Act, 2013.

**“Associate Company”** in relation to another Company means Company as defined in Section 2(6) of the Companies Act, 2013 i.e.

A Company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

*Explanation – “significant influence” means control of at least twenty per cent of total share capital, or of business decisions under an agreement.*

**“Audit Committee”** means the Audit Committee of the Board constituted from time to time under the Regulation 18 of Listing Regulations and Section 177 of the Companies Act, 2013.

**“Board”** means the Board of Directors of The State Trading Corporation of India Limited, as constituted from time to time.

**“Company”** means “The State Trading Corporation of India Limited”

**“Key Managerial Personnel”** means Key Managerial Personnel (KMP) as defined in Section 2(51) of the Companies Act, 2013 i.e.

- (i) the Chief Executive Officer or Managing Director or Manager;
- (ii) the Company Secretary;
- (iii) the Whole-time Director;
- (iv) the Chief Financial Officer; and
- (v) such other officer as may be prescribed

**“Listing Agreement”** means the equity listing agreement of the Company with the relevant stock exchanges.

**“Listing Regulations”** means Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

**“Material Related Party Transaction”** means a Material Related Party Transaction as defined in Regulation 23(1) of the Listing Regulations i.e.

Transaction with a related party shall be considered material if the transaction / transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated turnover of the company as per the last audited financial statements of the company.

<sup>1</sup>[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 listed entity as per the last audited financial statements of the company]

**“Ordinary Course of Business”** includes but not limited to a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions. In law, the ordinary course of business covers the usual transactions, customs and practices of a certain business and of a certain firm. Indicative factors for determining the term ordinary course of business will be based on whether the transaction:

- (i) is normal or otherwise remarkable for particular business (i.e. features in system, processes, advertising, staff training, etc.)
- (ii) is frequent and regular
- (iii) involves significant amounts of money
- (iv) is a source of income for business
- (v) involves significant allocation of resources
- (vi) is involved in a service or product that is offered to customers

**“Related Party”** - an entity shall be considered as related to the Company as defined in the Regulation 2(1) (zb) of the Listing Regulations according to which an entity is a related party.

- (i) as defined under Section 2(76) of the Companies Act, 2013; or
- (ii) as defined under the applicable Accounting Standards.

As per Section 2(76) of the Companies Act, 2013, Related Party 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 2% 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:
- (viii) Provided that nothing in sub -clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity.
- (vii) 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;
- (x) A Director (other than Independent Director) or KMP of the holding company of such company or his relative.

The Accounting Standard 18, inter-alia, defines that “parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and / or operating decisions.”

**“Related Party Transaction” (RPT)** means all transactions between the Company on one hand and one or more Related Party(ies) on the other hand including contracts, arrangements and transactions as envisaged in Section

188(1) of the Companies Act, 2013 and/or Regulation 2(1) (zc) of the Listing Regulations.

According to Section 188 (1) of the Act, a Related Party Transaction shall include 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;

Further, as per Regulations 2(1) (zc) of the listing Regulations, a 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.

**“Relative”** means a relative as defined in Section 2(77) of the Companies Act, 2013.

**“Subsidiary Company”** means subsidiary company as defined in Section 2(87) of the Companies Act, 2013.

**“Transaction”** with a Related Party shall be construed to include a single transaction or a group of transactions.

Any other word(s) included in this policy and not defined herein shall have the same meaning as defined under Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

## 4. THE POLICY

### 4.1 Approval(s) Required for Related Party Transactions

As required under Regulation 23(2) of the Listing Regulations, all Related Party Transactions shall require prior approval of the Audit Committee.

Further, in accordance with Section 188(1) of the Companies Act, 2013, consent of the Board given by a resolution at a meeting will be required for entering into any contract or arrangement with a Related Party except when the transaction is entered into in ordinary course of business and is on arm's length basis.

Further, all material Related Party Transactions shall require approval of the Shareholders by way of ordinary resolution and <sup>2</sup>[no related party shall vote to approve] such resolutions whether the entity is a related party to the particular transaction or not.

#### **Exemptions from Shareholders approval:**

- (i) Contracts or arrangements entered into by one Government Company with any other Government Company.
- (ii) 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.

Approvals necessary as per this policy are only with reference to entering into a transaction with Related Party and other approval(s) of Competent Authority including Board and/or Shareholders as the case may be shall be applicable as per Company's policies/ procedures/ practices/ Delegation of Powers, etc.

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<sup>2</sup>Insertion in place of *"the Related Parties shall abstain from voting on"* approved by the Board on 28.05.2019

Concerned Directors/KMPs/Heads of Divisions/Branches will be responsible for placing an agenda before the Audit Committee ***including on quarterly basis in case of omnibus approval*** and/or Board of Directors and/or shareholders, as the case may be, of all Related Party Transaction(s) requiring compliance with this policy.

4.2 Omnibus Approval as per Rule 6A of the Companies (Meeting of Board and its Powers) Second Amendment Rules, 2015 and the Listing Regulations

Audit Committee may grant the omnibus approval for Related Party Transactions subject to the following conditions:

- (i) The Audit Committee shall lay down, with the approval of Board, the criteria for granting the omnibus approval and such criteria shall include the following namely:-
  - (a) Maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;
  - (b) The maximum value per transaction which can be allowed;
  - (c) Extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval;
  - (d) Review, at such intervals as the Audit Committee may deem fit, related party transaction entered into by the company pursuant to each of the omnibus approval made;
  - (e) Transactions which cannot be subject to the omnibus approval by the Audit Committee.
- (ii) Such approval shall be applicable in respect of transactions which are repetitive in nature;
- (iii) The Audit Committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the best interest of the

Company.

- (iv) The Omnibus approval shall specify:
- (a) the name(s) of the Related Party, nature of transaction, period of transaction, maximum amount of transactions that can be entered into,
  - (b) the indicative base price or current contracted price and the formula for variation in the price, if any, and
  - (c) such other conditions as the Audit Committee may deem fit.

*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 ₹1.00 crore per transaction.*

- (v) The 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.
- (vi) The omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approval after the expiry of such financial year.
- (vii) Omnibus approval shall not be made for transaction in respect of selling or disposing of the undertaking of the Company.

(viii)

#### 4.3 Summary of the approval mechanism under the Listing Regulations and the Companies Act, 2013

<b>Details of Transaction(s)</b>	<b>Approving Authority</b>
All Related Party Transactions and any subsequent modification	Audit Committee
<b>RPTs</b> which are not in Ordinary Course of Business or not on arm's length basis or both (below threshold limits)	Board.
<b>Material RPTs</b> (above threshold limit)	Shareholders



### <sup>3</sup>[Threshold limits for seeking shareholders' approval

<b>S. No.</b>	<b>Specified RPT(s) u/s 188(1) of the Companies Act, 2013</b>	<b>Threshold limits for approval of Shareholders</b>
a)	sale, purchase or supply of any goods or materials	Exceeding 10% of the turnover of the Company or ₹100 crore, whichever is lower.
b)	selling or otherwise disposing of, or buying, property of any kind	Exceeding 10% of net worth of the Company or ₹100 crore, whichever is lower.
c)	leasing of property of any kind	Exceeding 10% of the net worth of the Company or 10% of turnover of the Company or ₹100 crore, whichever is lower.
d)	availing or rendering of any services	Services Exceeding 10% of the turnover of the company or ₹50 crore, whichever is lower.
e)	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 ₹2.50 lakhs
f)	underwriting the subscription of any securities or derivatives thereof, of the company	Exceeding 1% of the net worth

Note: The turnover or net worth referred in the above sub-rules shall be computed on the basis of the audited financial statement of the preceding financial year.]

#### **5. DATE OF EFFECT**

This policy will be applicable w.e.f. the date of its approval by the Board of Directors.

#### **6. AMENDMENTS**

This policy may be amended anytime with the approval of Chairman-cum-Managing Director. However replacement of this policy entirely with a new policy may be done with the approval of the Board.

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<sup>3</sup> Insertion approved by the Board on 28.05.2019

## **7. DISCLOSURES**

- a. Every contract or arrangement entered with Related Parties with the approval of Board / Shareholders in line with Section 188 of the Companies Act, 2013 shall be referred in the Board's Report to the shareholders along with the justification for entering into such contract or arrangements.
- b. Details of all Material Related Party Transactions shall be disclosed quarterly along with the compliance report on corporate governance to be submitted to stock exchanges.
- c. Name of all Related Parties & nature of relationships & details of all Related Party transactions should be disclosed in the financial statement as per applicable Accounting Standard.
- d. The Company shall keep one or more registers giving separately the particulars of all contracts or arrangements with any Related Party which require approval of the Board as per provision of the Companies Act, 2013.
- e. The Company shall disclose the policy on dealing with Related Party Transactions on its website and a web link thereto shall be provided in the Annual Report.

## **8. GENERAL**

Notwithstanding anything contained in this policy, the Company shall ensure compliance with any additional requirements as may be prescribed under any laws/regulations either existing or arising out of any amendment to such laws/regulations or otherwise and applicable to the Company, from time to time.

In the event of any conflict between the provisions of this Policy and of the Act or Listing Regulations or any other statutory enactments, rules, the provisions of such Act or Listing Agreement or statutory enactments, rules shall prevail over this Policy. Any subsequent amendment / modification in the Listing Regulations, Act and/or applicable laws in this regard shall automatically apply to this Policy.

**Note: This amended Policy was approved and adopted by the Board of Directors in its 629<sup>th</sup> meeting held on 28.05.2019**