

POLICY ON DEALING WITH RELATED PARTY TRANSACTIONS

JANUARY 2017

HDFC Credila Financial Services Private Limited

Regd. Office: B 301, Citi Point, Next to Kohinoor Continental, Andheri-Kurla Road,
Andheri (East), Mumbai - 400 059.

CIN: U67190MH2006PTC159411

Reviewing Authority:	Audit Committee of Directors of the Company
Approving Authority:	Board of Directors of the Company
Original Issue Date:	March 30, 2015
Policy Making Body:	Executive Management
Version No.:	2.0 January 16,2017
Effective Date:	March 31, 2015
Review Cycle:	Annually or as recommended by the Audit Committee

About the Company:

HDFC Credila Financial Services Private Limited (hereinafter referred to as 'the Company') is a Non Deposit accepting Systemically Important Non-Banking Finance Company (NBFCs-ND-SI) registered with the Reserve Bank of India.

Scope and Purpose:

During the course of its business, the Company enters into transactions with various entities. Some of the transactions are deemed to be 'Related Party Transactions' as per the Accounting Standards on Related Party Disclosures (AS 18), as notified by the Companies (Accounting Standards) Rules, 2006 and such transactions were duly disclosed in the Annual Reports of the Company.

However, the Companies Act, 2013, the Rules framed thereunder provide for detailed provisions on Related Party Transactions.

This Policy on dealing with Related Party Transactions is framed as per the Revised Regulatory Framework for NBFCs dated November 10, 2014 and is intended to ensure proper approval and reporting of the concerned transactions between the Company and its Related Parties.

In view of the above, pursuant to the review and recommendations of the Audit Committee of Directors at its meeting held on March 30, 2015, the Board of Directors of the Company (**Board**) approved this Policy at its meeting held on March 30, 2015 on matters relating to dealing with Related Party Transactions, as set out below.

Clarifications, Amendments and Updates:

As the Audit Committee of Directors of the Company is entrusted with the task of reviewing and approving transactions with Related Parties or any subsequent modifications thereof, it shall be the reviewing authority with respect to this Policy and shall recommend this Policy or amendments thereof for the approval of the Board.

The Audit Committee of the Company shall have the authority, either singly or jointly, to issue such guidance and clarifications as may be deemed necessary for the implementation of this Policy. They are also authorized to delegate such powers as may be considered necessary and appropriate for effective administration and enforcement of this Policy to any officer(s) of the Company.

This Policy may be amended, pursuant to the recommendation of the Audit Committee and subject to the approval of the Board.

The Audit Committee shall review this Policy at such interval as it may deem necessary and recommend the changes, if any, to this Policy for the approval of the Board of Directors of the Company.

All words and expressions used herein shall have the same meaning as assigned to them in the Companies Act, 2013, and/or Rules framed thereunder, as amended, from time to time.

PART - B

DEFINITIONS

Arm's Length Transaction

Explanation (b) to Section 188(1) of the Companies Act, 2013 defines an "arm's length transaction" to mean *a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.*

Associate Company

In terms of Section 2(6) of the Companies Act, 2013 "Associate Company" in relation to another company, means *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.*

For the purposes of this term 'Associate Company', "*significant influence*" means control of at least twenty per cent of total share capital, or of business decisions under an agreement.

Audit Committee

The term "Audit Committee" means the committee of Board of Directors the Co constituted in accordance with the provisions of Companies Act, 2013 and Rules made thereunder.

Related Party

The term Related Party has been defined under Section 2(76) of the Companies Act, 2013 as follows-

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 is a member or director;*
- v. a public company in which a director or manager is a director and holds along with his*
- vi. relatives, more than 2% of its paid-up share capital;*
- vii. 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;*
- viii. 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;

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;

such other person as may be prescribed;

Rule 3 of the Companies (Specification of definitions details) Rules, 2014, provides that a director or key managerial personnel of the holding company or his relative with reference to a company shall also be deemed to be a related party.

Accounting Standard:

As per Standard 10.1 of Accounting Standard 18 (AS 18) pertaining to Related Party Disclosures notified by the Companies (Accounting Standards) Rules, 2006, a Related Party is defined as follows -

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.

In view of the above definition, AS 18 further defines the terms 'control' and 'significant influence' as follows -

Control -

- a) ownership, directly or indirectly, of more than one half of the voting power of an enterprise, or*
- b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or*
- c) a substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of the enterprise.*

Significant Influence -

Participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies.

Related Party Transaction

Related Party Transaction means 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:

Relative

In terms of Section 2(77) of the Companies Act, 2013 read with the Companies (Specification of definitions details) Rules, 2014 a person is said to be a relative of another, if

- a) They are members of a Hindu undivided family;
- b) They are husband and wife;
- c) Father (including step-father);
- d) Mother (including step-mother);
- e) Son (including step-son);
- f) Son's wife;
- g) Daughter;
- h) Daughter's husband;
- i) Brother (including step-brother); or Sister (including step-sister).

PART - C

TERMS OF THE POLICY

1. All RPTs shall require prior approval of the Audit Committee. However, the Audit Committee may grant omnibus approval for RPTs proposed to be entered into by the Company subject to the following conditions :
 - (i) The Audit Committee shall lay down the criteria for granting the omnibus approval in line with the policy on Related Party Transactions of the Company in respect of transactions which are repetitive in nature
 - (ii) The Audit Committee satisfies itself about the need for such omnibus approval and that such approval is in the interest of the Company
 - (iii) Such omnibus approval shall specify (i) the name/s of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into, (ii) the indicative base price/ current contracted price and the formula for variation in the price if any and (iii) 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 Crore per transaction
 - (iv) 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
 - (v) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year"
2. If the intended RPT is not in the Ordinary Course of Business and/or not on an Arm's Length basis such RPT shall require Board approval.

3. If in the opinion of the Audit Committee, the intended RPT is not in the Ordinary Course of Business and/or not on an Arm's Length basis and exceeding the threshold prescribed by Companies Act, 2013 and rules made thereunder or is a material RPT it shall advise the Board of Directors to seek prior approval of the Shareholders of the Company by a Special Resolution for such RPT. However, Shareholders approval shall not be required for Material RPTs entered into between the Company and its wholly owned subsidiary whose accounts are consolidated with that of the Company and placed before the shareholders at the general meeting for approval

Role of the Board of Directors and the Audit Committee :

- (a) The Board of Directors will approve/amend the RPT Framework from time to time for RPTs. The Board of Directors will be responsible to provide overall direction and monitor the RPT regime in the Company from time to time
- (b) The Audit Committee shall test each RPTs on materiality, arm's length and ordinary course of business. The Audit Committee will be responsible for overall monitoring and supervision of the RPT regime in the Company

GOVERNANCE STRUCTURE

1. Identification of Related Party Transactions

Related Party Transactions are required to undergo a detailed analysis before arriving at a conclusion as to its impact as well as the course of action with regard to the approval requirements from the concerned bodies. The Companies Act, 2013 and Rules made thereunder have laid down procedures for dealing with Related Party Transactions.

In terms of Section 188 (1) of the Companies Act, 2013, the Company cannot enter into any contract or arrangement with a Related Party, without the consent of the Board with respect to the following contracts/ arrangements viz.

- 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.

In relation to the above, the expression "office or place of profit" has been explained to mean any office or place—

- (a) *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;*

- (b) *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.

(iii) In terms of the third proviso to Section 188(1) of the Companies Act, 2013, the consent of the Board and the shareholders of the Company will not be required in case any of the aforementioned transactions entered into by the Company are in the ordinary course of business and on an arm's length basis.

(iv) The Company has established internal procedures wherein the relevant details of Related Parties are collated based on the disclosures received. This list shall be shared with the concerned departments for their information and necessary compliances as stated in this Policy.

(v) The Related Party list shall be updated periodically and shall be reviewed at least once a year, as on 1st April every year.

(vi) For the purpose of implementing the provisions of this Policy, the Company shall provide the Audit Committee timely and relevant information as stated under point 4 below with regard to the Related Party Transactions.

(vii) The Audit Committee shall confirm to the Board whether the Related Party Transactions entered into by the Company during the period under consideration were on an arm's length basis and in the ordinary course of its business.

2. Ascertaining whether Related Party Transactions are on an Arm's Length Basis

The tests for ascertaining arm's length relationship in case of contracts / arrangements that may be entered into by the Company with related parties could be on the following lines -

- (a) The contracts/ arrangements are entered into with related parties, at such prices/ discounts/premiums and on such terms which are offered to un-related parties of similar category/ profile, if available.
- (b) The contracts/ arrangements have been commercially negotiated.
- (c) The pricing is arrived at as per the guidelines that may be issued by the Ministry of Corporate Affairs, Government of India/ Income Tax Act, 1961, Securities and Exchange Board of India as applicable to any of the contract/ arrangements contemplated under the Companies Act, 2013, or Rules framed thereunder.
- (d) The payments to group companies are made in the manner and at such rates prevalent in the market for similar category of goods and services and similar category/ profile of customers.
- (e) Any modification to the original contract/ arrangements is substantially on the same price/discount/ premium and on such terms, as offered to un-related parties of similar category/ profile.
- (f) Such other criteria as may be issued by the Institute of Chartered Accountants of India or any other statutory/ regulatory authority.

3. Ascertaining whether Related Party Transactions are in the Ordinary Course of Business

- (a) In order to decide whether or not a contract or arrangement is being entered by the Company is in its ordinary course, the Company shall consider whether such contract/ arrangement is germane to attainment of the main objects as set out in its Memorandum of Association or such other activities as may be permitted, from time to time by Reserve Bank of India, the principal regulator of the Company.
- (b) The Company shall also consider whether the transaction contemplated under the proposed contract or arrangement is either similar to contracts or arrangements which have been undertaken in the past, or, in the event that such transaction is being undertaken for the first time, whether the Company intends to carry out similar transactions in the future.
- (c) Further, whether the transaction value is within the reasonable range for similar types of other transactions, will also be an important consideration. An exceptionally large value transaction should invite closer scrutiny.
- (d) These are not exhaustive criteria and the Company will have to assess each transaction considering its specific nature and circumstances. In case of any confusion, final decision will be taken by the Managing Director.

PART - E

DISSEMINATION OF INFORMATION

The Company shall disclose this Policy wherever it is required by the applicable laws.

The Company shall also make relevant disclosures in its Annual Report and maintain such registers as required under the provisions of the Companies Act, 2013, and Rules made thereunder.